

TOYO TIRE Corporation
Consolidated Business Performance
for the Second Quarter of FY2022
(Presentation scripts)

Page2: Highlights of Financial Results for 2nd Quarter of FY2022

Thank you for your continued support.

Allow me to explain our consolidated financial results for the second quarter of FY2022 (2Q/FY2022), followed by our financial results forecast for FY2022 and then some topics.

First, I will provide you with the highlights of the financial results for 2Q/FY2022.

In the North American market, our main battleground, we recorded strong sales on the back of the recovery in capacity utilization as the last year's workforce shortage at the U.S. Plant was solved and robust demand that has continued since 1Q/FY2022.

As a result, operating income for 1H/FY2022 came in at 26.0 billion yen, almost on par with our previous forecast.

Ordinary income, which factors in all the effects of yen's depreciation not included in operating income under accounting standards, amounted to 38.5 billion yen, and profit attributable to owners of parent totaled 31.0 billion yen, both representing record highs for the first half.

Given these strong showings, we have made an upward revision to our previous full-year ordinary income forecast for FY2022 from 53.0 billion yen to 60.0 billion yen. We have also revised upward our full-year forecast for profit attributable to owners of parent from 38.5 billion yen to 53.0 billion yen, taking into account a gain on sale of investment securities that was announced last month. Both hit record highs for the company.

Accordingly, we will increase the dividend per share by 10 yen. With this, we now forecast the year-end payment to be 50 yen, up from the previous forecast of 40 yen, and the annual payment to be 80 yen, up from 70 yen.

Page3: Financial Results for 2nd Quarter of FY2022 (Jan-Jun)

Here you see the consolidated financial results for 1H/FY2022.

Net sales for 1H/FY2022 saw positive growth compared to the corresponding period of the previous year, but operating income decreased, primarily owing to hikes in raw materials and ocean freight costs.

We posted a forex gain of 13.1 billion yen, which was not included in operating income under non-operating income. As a result, we reported a substantial increase in ordinary income, with the forex impacts being fully factored in, as well as an uptick in ordinary income margin. Along with profit attributable to owners of parent, they all topped our records for the first half.

Page4: Analysis of Operating Income for 2nd Quarter of FY2022 (Jan-Jun) (vs 2021)

This graph shows the factors contributing to year-on-year changes in operating income for 1H/FY2022.

For the Tire Business, sales factors boosted the operating income by 26.6 billion yen, chiefly driven by strong demand in the North American market. The sum breaks down into minus 2.5 billion yen for volume effects and 29.1 billion yen for product price/mix effects, the latter of which includes minus 2.8 billion yen in unrealized profit in inventory.

Production cost pushed down operating income by 2.8 billion yen, which is primarily attributable to rising fuel costs.

The ongoing depreciation of the yen boosted operating income by 5.5 billion yen, while 14.2 billion yen in raw material costs, 13.3 billion yen in ocean freight costs, and 1.1 billion yen in the start-up of the Serbian Plant all worked against operating income.

As a result, operating income for 1H/FY2022 decreased by 1.0 billion yen year-on-year.

Page5: Analysis of Operating Income for 2nd Quarter of FY2022 (Jan-Jun)
(vs Previous Forecast)

This slide shows comparisons between the results and the previous forecast of operating income for 1H/FY2022 and the factors that caused the increases/decreases. Shown on the right is a similar analysis of ordinary income after factoring in the full forex impacts, which we believe is a more realistic indicator of our financial results.

I will begin with operating income. For the Tire Business, sales factors pushed up operating income by 2.1 billion yen, chiefly attributable to exports to Southeast Asian countries, whose product mix improved thanks to a successful brand switch from Silverstone to TOYO, as well as brisk demand in the North American market. The sum breaks down into minus 0.1 billion yen for volume effects and 2.2 billion yen for product price/mix effects, the latter of which includes minus 1.6 billion yen in unrealized profit in inventory.

As ocean freight costs for shipment to North America increased, operating income was mostly in line with the forecast, coming in at just 0.5 billion yen short.

With regards to ordinary income, we posted non-operating income of 12.5 billion yen, primarily owing to the forex gain of 13.1 billion yen due to the yen's depreciation, with the result that ordinary income surpassed its forecast by a large margin, reaching 38.5 billion yen.

Page6: Business Segments for 2nd Quarter of FY2022 (Jan-Jun)

This slide shows net sales and operating income for 1H/FY2022 by business segment.

The Tire Business experienced a positive year-on-year sales growth thanks to brisk sales in the North American market, but saw its operating income decline owing to rising raw material and ocean freight costs.

The Automotive Parts Business, on the other hand, managed to maintain roughly the same level of sales as the previous year, despite the negative impact of reduced production by auto manufacturers due to the semiconductor shortage. Its operating loss widened as it was hit hard by soaring prices for raw materials, despite the ongoing efforts to improve the profit structure at each plant.

Page7: Geographic Area Segments for 2nd Quarter of FY2022 (Jan-Jun)

Here we have net sales and operating income for 1H/FY2022 by geographic area segment.

The North America Segment saw both net sales and operating income growing year-on-year. This increase was primarily attributable to strong sales of large-diameter tires for SUVs and pickup trucks, among other things, and price increase. Operating income before royalty payments to the Japan Segment, which reflects the segment's real profitability, recorded positive year-on-year growth.

For the Japan Segment, net sales edged down, and operating income decreased chiefly attributable to soaring raw material and ocean freight costs.

The Other Segment saw its business going well, as the smooth transition from the Silverstone brand to the TOYO brand in Southeast Asia helped to improve the product mix and aggressive efforts to sell priority products in each national market proved to be successful. As we recorded a non-recurring cost for starting up the Serbian Plant, however, the segment sales increased while the segment income decreased.

Page9: Financial Forecast for FY2022 (Jan-Dec)

Next is our latest forecast of the consolidated financial results for FY2022.

Given the benefits of the yen's depreciation and price increase, we have increased the previous forecast for net sales by 15.0 billion yen to 500.0 billion yen. While the operating income forecast remains unchanged at 50.0 billion yen, we have made an upward revision to the previous forecast for ordinary income by 7.0 billion yen to 60.0 billion yen as we posted the forex gain. Similarly, the previous forecast for profit attributable to owners of parent has been revised upward by 14.5 billion yen to 53.0 billion yen in anticipation of extraordinary income from the sale of investment securities scheduled for the second half of FY2022. These numbers for net sales, ordinary income, and profit attributable to owners of parent all represent the company's record highs.

We plan to pay an annual dividend per share of 80 yen, up 10 yen from the previous forecast, in line with the policy laid out in the Mid-term Business Plan, which represents a payout ratio of 30% or higher of the company's real profit, excluding non-recurring and extraordinary profit and loss, such as a gain on sale of investment securities.

We assume the yen will depreciate further from the previous forecast and expect the average exchange rates during FY2022 to be 128 yen against the U.S. dollar and 135 yen against the euro.

Page10: Analysis of Operating Income for FY2022 (Jan-Dec) (vs 2021)

This is a comparison between the latest full-year operating income forecast with the results in the previous year, complete with an analysis of increases and decreases by factor.

We expect sales factors to push up operating income for the Tires Business by 45.6 billion yen year-on-year, what with price increase in the North American market and elsewhere and improved product mix made possible by sales expansion of priority products.

The sum of 45.6 billion yen breaks down into 2.1 billion yen for volume effects and 43.5 billion yen for product price/mix effects, the latter of which includes minus 4.7 billion yen in effects of unrealized profit in inventory.

We expect raw material costs to lower operating income for this business by 30.6 billion yen, which is attributable to rising prices for petroleum products. Ocean freight costs are also expected to lower operating income by 23.5 billion yen due to higher fuel prices.

SGA expenses, on the other hand, are expected to negatively affect operating income for this business in the amount of 2.8 billion yen, chiefly attributable to increases in R&D costs, among others, while the forex factor should boost operating income by 14.4 billion yen due to the yen's depreciation. All in all, we expect operating income for this business to be down by 3.1 billion yen year-on-year.

Page11: Analysis of Operating Income for FY2022 (Jan-Dec) (vs Previous Forecast)

This is a comparison between the latest full-year operating income forecast with its previous forecast, complete with an analysis of increases and decreases by factor.

For the Tires Business, negative factors of higher raw material prices costing 3.0 billion yen and an increase in ocean freight cost of 1.0 billion yen, were more than offset by positive factors of reduced SGA expenses of 1.5 billion yen and the benefits of the yen's depreciation which added 3.6 billion yen, resulting in expected operating income for this business of 50.0 billion yen, which remains unchanged from the previous forecast.

Meanwhile, we have revised upward our previous forecast for ordinary income by 7.0 billion yen to 60.0 billion yen, as we expect the recording of forex gains under non-operating income.

Page12: Business Segments for FY2022 (Jan-Dec)

These numbers reflect the latest revisions to our full-year financial results forecast by business segment, shown on this slide.

Net sales for the Tires Business have been revised upward, given price increase and other factors, while the previous operating income forecast remains the same.

Net sales for the Automotive Parts Business have been revised downward as a recovery in production by OE customers has been slower than expected. Yet, we expect to maintain the previous forecast for operating loss through cost reductions and other measures.

Page13: Geographic Area Segments for FY2022 (Jan-Dec)

These numbers reflect the latest revisions to our full-year forecast for net sales and operating income by geographic area segment.

For the North America Segment, both net sales and operating income have been revised upward, given the status of production at the U.S. Plant, whose capacity utilization has recovered, and the effects of price increase, on top of the continuously large quantities of back orders in the U.S.

We expect operating income for the North America Segment, excluding royalty payments to the Japan Segment to increase year-on-year.

Page14: Changes in Tire Production (New Rubber Volume)

This slide shows the breakdown of rubber production volume by geographic area.

Global rubber production increased by 2% year-on-year in 1H/FY2022.

We will continue to increase capacity utilization at the U.S. Plant to produce tires at a level above that in the previous fiscal year.

The Serbian Plant became operational this July, as scheduled. I will come back to this later.

Page15: Changes in Tire Sales Quantity by Region (YoY)

This slide shows tire unit sales by geographic area. Each number represents a year-on-year change against the base 100 recorded a year earlier.

Global unit sales in 1H/FY2022 decreased by 4% year-on-year.

In the North American market, unit sales were up 7% year-on-year, as we successfully increased capacity utilization at the U.S. Plant and had other plants supply the North American market preferentially. In the category for WLTR (wide light truck tire) 20 inches or larger, in particular, we recorded a sizeable 11% increase from the previous fiscal year. We expect the full-year results to be also steady at a year-on-year growth of 12%.

Partly due to issues with logistics, we believe that supply to Russia will be difficult for some time to come. As such, we will maintain a strategy of increasing profit in a healthy manner for the European replacement market, rather than merely seeking quantities. We thus expect sales outside of Russia to surpass the previous year's levels.

For the OE market, we now expect unit sales to increase by 11% year-on-year. Previously, we were expecting a 20% increase, but we have since revised downward the forecast due to a slower-than-expected recovery in production by OE customers.

Page16: Price Changes in Major Raw Materials

This bar graph shows changes to key raw material prices over time and their impacts on our operating income.

In 1H/FY2022, operating income declined 14.2 billion yen year-on-year, mainly due to the rise in prices of petroleum products.

On a full-year basis, too, we expect operating income to decrease by 30.6 billion yen year-on-year, owing to a sharp rise in prices for petroleum products and other raw materials.

Page17: Changes in Capital Investment and in Depreciation

Here you see our capital expenditures and depreciation.

By the end of 1H/FY2022, we spent 20.8 billion yen on capital investment, which represents 34.7% of 59.9 billion yen, the amount assigned for the full year.

Also, by the end of 1H/FY2022, we posted 11.4 billion yen for depreciation.

Page18: Changes in Interest-Bearing Debt Balance and Capital Ratio

This slide shows the balance of our interest-bearing debts and the capital ratio for December 2018 to June 2022.

The balance of our interest-bearing debts as of June 30, 2022, the end of 1H/FY2022, increased by 16.5 billion yen year-on-year.

The capital ratio stood at 54.1%, the debt-equity ratio at 0.44, and the net debt-equity ratio at 0.28.

Page20: 1 - New Serbian Plant Went into Operation

Lastly, I'd like to talk about some of our recent topics.

The first topic is our new tire plant in the Republic of Serbia, which went into operation on July 27, as scheduled.

Three years have passed since we announced our plan on July 30, 2019, to establish a new plant in Serbia. We started production there half a year behind the initial schedule for January 2022 because the COVID-19 pandemic significantly disrupted it.

Nevertheless, despite this unforeseen situation, we launched the plant without any major accidents or critical problems. This would not have been possible without the kind support of the Serbian government and everyone involved with the construction of the plant and the many suggestions and valuable input from our investors and stakeholders.

I am pleased to announce that the initial lot left the plant yesterday, August 9. Our plan is to produce about 400,000 tires in 2022, which will be supplied preferentially to the U.S., where we have a large quantity of back orders.

Then after that, we will ramp up capacity in stages, while steadily internalizing the cost competitiveness, which will allow us to reduce overall costs by 30% compared with our Sendai Plant. By September 2023, we aim to produce five million units per year and to start shipping to Europe. In so doing, we will accelerate the shift toward local production for local consumption in Japan and Malaysia, which are currently supplying Europe as well, so that we can pursue the creation of sustainable profit.

Page21: 2 - Initiatives that Underpin Robust Sales in the U.S.

The second topic I'd like to cover is our initiatives that underpin robust sales in the U.S.

At the last financial results announcement, we explained that the number of retail stores selling TOYO-branded products jumped more than seven times from 2018 to about 40,000, which built the foundation to expand profitability resiliently.

Since the start of the 2nd quarter, however, there have been concerns about the future course of the U.S. economy and its path to recovery. The outbreak of the Russia-Ukraine situation has triggered a steep rise in the consumer price index (CPI) and gasoline prices in the U.S.. This has prompted the Federal Reserve Board (FRB) to drastically increase the interest rate in a bid to curb rising inflation, which in turn might dampen consumer confidence.

The bar graph on the left shows the CPI and gasoline prices and unit sales of our WLTRs in the U.S. over the past five years. As you can see, even when commodity prices are on the rise, our WLTRs sell briskly.

Behind this was a well-planned marketing strategy: Special care was taken to differentiate each product from our two top brands of TOYO and NITTO, so they did not cannibalize each other in the WLTR segment. Also, we ensured that each product was presented uniquely, with the "competitive edge of differentiated products," which is laid out in our Mid-Term Business Plan, in mind.

Another reason for the solid sales of WLTRs is the high recognition of the durability and other features of our tires on the market, which was confirmed by their performance in some of the toughest races of the world. This was on top of the brand power, product lineup, and design excellence that have been cultivated through exchanges with many fans of TOYO- and NITTO-branded tires via SNSs, including Instagram, Facebook, and YouTube.

Toyo Tire chooses to offer unique products that meet users' specific tastes and preferences. In other words, we do not offer a comprehensive lineup, but instead, make our presence felt in niche market segments. By continuing to offer differentiated tires rather than commodity tires, we wish to make our North American business more resilient and robust, and immune to adverse changes in the external environment.

Page22: 3 - New Product Information for Japanese Market

These are our new products whose launch was announced after the start of the 2nd quarter.

“OPEN COUNTRY A/T III” has enjoyed high popularity in the North American market since its debut in February 2020. We launched this full-fledged all-terrain tire for SUVs in Japan this July.

This well-balanced tire is ideal for diverse weather and road surface conditions and comes with enhanced performance for snowy conditions.

Scheduled to be available this September, M937 is a studless tire exclusively for public transport buses. This brand-new tire features improved wear resistance designed to operate on narrower roads and other roads not normally seen on regular bus routes, as tires for such buses are often subject to heavy loads when starting at low speeds and making frequent stops and turns at intersections without traffic lights.

They both are highly unique and attractive, and we will strive to expand sales of these priority products.

Page23: 4 - Sustainability Management Policy : FY2022 1H Progress Report

I would like to talk about initiatives for materiality, which we performed in the first half in line with the TOYO TIRE Group Sustainability Policy we announced this past February.

For the sake of value creation, we aim to improve fuel efficiency with every new model by strengthening linkage between product planning and technology development.

To assist in this endeavor, we have established a new training system designed to enhance human capital that makes value creation possible.

In addition, to promote decarbonization of production, we use energy from renewable sources in Japan, and our Serbian plant is introducing an on-site solar power generation system.

For details of our recent activities in this regard, please use the URL on the slide to read our Sustainability Report.

Page24: Impact of Seismic Isolation Rubber Measures on Performance

Finally, I would like to explain the cost of replacing and renovating seismic isolation rubber.

In the three months that ended June, we recorded an extraordinary loss of 93 million yen.

As of June 30, construction work had started for 151 out of the 154 buildings subject to replacement or renovation. Of the total, the replacement was completed for 150 buildings. The cost of replacing and renovating the rubber has been determined by now for all the 154 buildings.

Closing

This concludes my presentation.

Thank you very much for your kind attention.

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Presenter: Takashi Shimizu, Representative Director, President and CEO)