

Rebuilding Earning Power

Initiatives to Rebuild and Expand Earning Power Leveraging ROIC

In Mid Term Business Plan (2021-2023), the Bridgestone Group set ROIC (return on invested capital) as a new management KPI alongside the traditional metrics of adjusted operating profit margin and ROE (return on equity). In order to achieve the plan's target ROIC of 10% for 2023 and rebuild earning power, efforts are being made to enhance portfolio management with increased emphasis on capital costs, clarifying "what to do" and "what not to do" and promoting the adoption of this ROIC concept across the value chain.

The Bridgestone Group's Definition of ROIC

ROIC is a financial metric that measures how much profit a company generates in relation to capital invested in its business activities, enabling evaluation of return on investment and capital efficiency. The basic formula used by the Group to calculate ROIC is as follows.

$$\text{ROIC} = \frac{\text{Adjusted operating profit (after tax)}}{\text{Working capital + Non-current assets (Invested capital)}}$$

Adjusted operating profit (after tax): Fixed tax rate of 30%
 Working capital: Notes and accounts receivable and other assets + Inventories - Notes and accounts payable and other liabilities (FY-end balance)
 Non-current assets: Non-current assets excluding deferred tax assets (FY-end balance)

» Activities to Boost Awareness of ROIC

To promote the adoption of this ROIC concept and facilitate implementation of improvement activities, the Financial Strategy department at the global headquarters oversees global activities as the secretariat. In addition, ROIC ambassadors implement initiatives to enhance awareness of the concept that are tailored to each site. This helps drive autonomous improvement activities. There are currently around 70 ambassadors in Japan in total with one or two in each department. In addition to materials to boost understanding, the Group provides e-learning programs ranging from basic to advanced levels according to the level of understanding of participants, as well as training videos for on-site employees. Feature articles on ROIC are also published in the internal newsletter "Arrow" targeting individual employees. The Group will expand these initiatives globally.

As a concrete example of ROIC improvement initiatives at the operational level, the Tochigi Plant in Nasushiobara, Tochigi Prefecture reviewed the use of a powdered anti-adhesive agent in the process of stacking folded rubber sheets. The mess scattered powder makes was leading to poor work efficiency and yield. By switching to a paste-like material, the plant was able to reduce labor hours required for cleaning and improve productivity, resulting in a reduction in manufacturing costs. Such initiatives are actively communicated to frontline employees during morning meetings and breaks to promote awareness and engagement.

ROIC improvement activities like this are recognized with the newly established ROIC Award at the Bridgestone Global TQM (Total Quality Management) Conference. This encourages the sharing of best practices across the organization.

Moving forward, the Group will continue to promote activities to increase awareness and understanding of ROIC that are closely tied to each site, including level-specific education and the sharing of concrete best practices suited to each function.

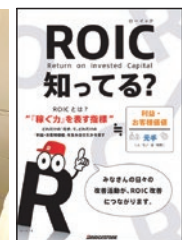


Jin Asano
 Supervisor of the mixing process at Tochigi Plant

We have been working on this project because we believe that manufacturing tires using the new anti-adhesive agent and technology will improve the work environment on-site, leading to a comfortable workplace with safety and peace of mind for all teammates. It will also improve ROIC by optimizing manufacturing costs. We will continue such improvement activities.



Training video for on-site employees



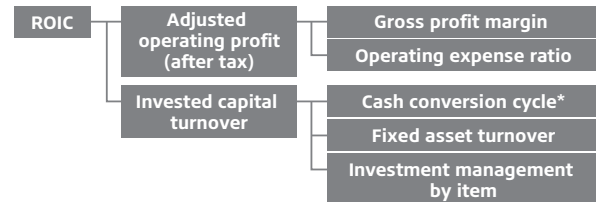
Poster to increase ROIC awareness

The advantages of leveraging ROIC as a management KPI are that it enables more robust profitability management and better improvement cycles on a portfolio basis as well as accurate evaluation of returns on a business or regional basis. In addition, a ROIC tree makes it possible to implement improvements at the operational level and align them with key performance indicators, leading to swift action.

Improvement Activities Leveraging a ROIC Tree

A ROIC tree helps break down and visualize KPIs from an operational perspective and connects Group targets with operational-level targets. Through the ROIC tree, the operational and corporate functions of each portfolio can work

together to improve ROIC across the value chain (end-to-end) rather than through individual or departmental optimization.



- Add new management items based on the ROIC tree
- Strengthen management at each production/sales entity level
- Manage investment of operational/strategic items separately

* Cash conversion cycle = Days of inventory outstanding + Days of sales outstanding
- Days of payables outstanding

» Business Actions to Enhance ROIC

In addition to building up best practices at the operational level, financial management activities are being implemented at the global headquarters and Strategic Business Units (SBUs). These activities include target setting and monitoring to drive ROIC improvement.

In each SBU, business actions are devised and run through a PDCA cycle not only to enhance profitability but also to optimize invested capital through budgeting and other processes with a focus on boosting ROIC. To improve the cash conversion cycle, the Group is looking at initiatives to increase the liquidity of accounts receivable, improve lead-times through local production for local consumption, and optimize payment periods. Additionally, efforts are being made to improve fixed asset turnover such as efficient utilization of existing tangible fixed assets, which includes office restructuring, comprehensive evaluation of individual investments and merger and acquisition opportunities, and regular review of investment securities.

Bridgestone's Global Business Support (GBS) division which includes procurement and supply chain management (SCM), works with each SBU to execute and monitor ROIC improvement activities for independently set business action objectives. Meanwhile, the Financial Strategy department at the global headquarters uses ROIC to evaluate profitability in each portfolio on a business and regional basis and issues warnings to SBUs as needed.

» Aiming to Further Boost ROIC

As a result of business actions and initiatives to raise awareness, ROIC increased to 9.4% in 2022, up from 5.1% in 2020 when the decision was made to introduce ROIC. ROIC of 10.5% is forecast for 2023, which would better the Group's target of

10% in Mid Term Business Plan (2021-2023). Under the 2030 Long Term Strategic Aspiration, the Group aims to boost ROIC to the 12% level amid continued efforts to reinforce the foundations of its financial strategy based on ROIC toward becoming a resilient "excellent" Bridgestone.



Members of the ROIC secretariat in the Financial Strategy Department

We would like to expand ROIC in a way that makes it a more familiar concept for employees and connect it to on-site activities. We will continue to support ROIC awareness activities and on-site improvement activities to improve ROIC, contributing to the enhancement of corporate value.