Management Focusing on Capital Cost & ROIC

Utilization and Our Definition of ROIC

Alongside ROE as the traditional management metric, Bridgestone set ROIC that evaluates return on investment and capital efficiency as the most important management KPI in the 21MBP, and thus we are promoting management focusing on capital cost. ROIC is a financial metric that measures how much profit a company generates in relation to invested capital in its business activities. The basic formula used by Bridgestone to calculate ROIC is as follows.

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

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)
Noncurrent assets: Non-current assets excluding deferred tax assets (FY-end balance)

ROIC Improvement Activities

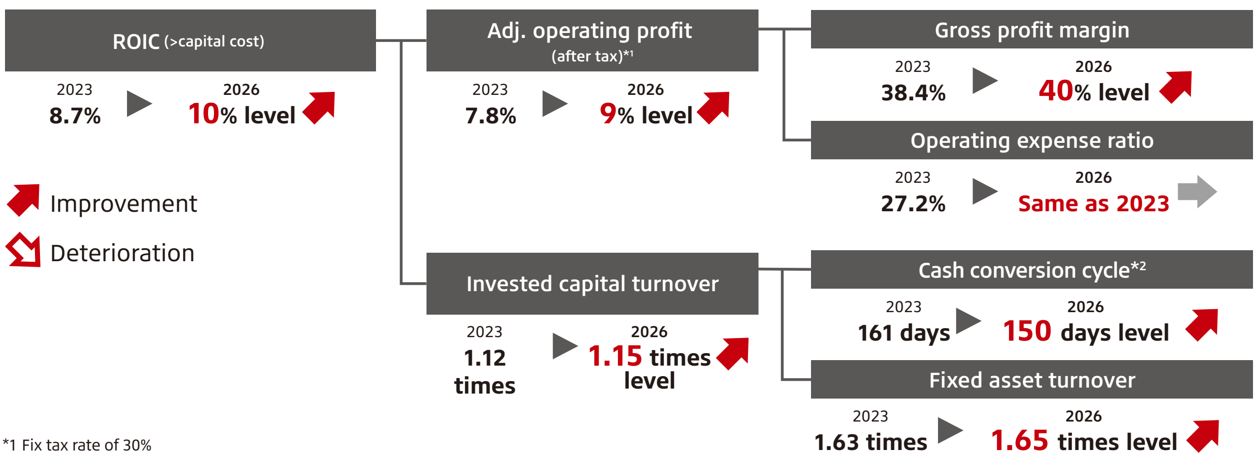
To promote the adoption of this ROIC concept at on-site level and facilitate the implementation of improvement activities, the Financial Strategy Division at the global headquarters oversees global activities as the secretariat. In line with this, we are initiating its implementation that values Bridgestone-like Genbutsu-Genba (respect for being on-site) approach, through sharing improvement case studies with ROIC ambassadors at TQM Conferences. In daily activities, we promote autonomous improvement activities at each site by focusing on both the numerator (profit) and denominator (asset) and setting management items based on the ROIC tree. In addition, with a view to establishing a structure for investment and resource allocation that focuses on capital cost, we have established Global M&A Executive Meeting and Global Investment Executive Meeting Committee. We have established a system to evaluate the certainty of returns based on ROIC by setting hurdle rates that take into account country and business risk, and discussing them with the global management team.

Results and Remaining Issues in ROIC Improvement Activities

As part of the 21MBP, we maintained our ROIC improvement activities using the ROIC tree, however failed to reach our global ROIC target of 10%. In the 24MBP, we will further reinforce the ROIC improvement activities as well as drive reinforcement of earning power across the entire value chain. By evaluating performance based on ROIC for each business and region and implementing the PDCA cycle, we aim to achieve the level of 10% of our ROIC target, which remains an issue from the 21MBP.

To achieve our goals, we are aiming for improvements in each management item of the ROIC tree. Regarding gross profit margin in the adjusted operating profit ratio, we are introducing Dan-Totsu products, expanding sales of premium tires, creating value by fusing "new premium" ENLITEN and BCMA, and further reduce deficit and unprofitable areas. In terms of operating expense ratio, we are continuing to reduce business costs through global SCM logistics transformation and steady on-site productivity improvement, in addition to thorough cost management. On the other hand, regarding the cash conversion cycle, which is a component of invested capital turnover ratio, we are enhancing inventory management to rapidly adapt to demand and sales fluctuations. For fixed asset turnover, we are executing the 2nd stage of rebuilding and further improving the efficiency of existing assets through periodic reviews of land, buildings, and strategic shareholdings.

● 24MBP Targets Leveraging the ROIC Tree



*1 Fix tax rate of 30%
*2 Cash Conversion Cycle (CCC) = Days of inventory outstanding + Days of sales outstanding − Days of payables outstanding