

Progress in Shared Value Creation Strategy TOTO WILL2030 -STAGE2 Initiatives-

This notice has been translated from the original notice in Japanese.
In the event of any discrepancy, the original in Japanese shall prevail.

Security Code: 5332

*TOTO WILL2030 was announced in April 2021.

<https://jp.toto.com/en/company/profile/philosophy/managementplan/>

TOTO LTD.
April 26, 2024

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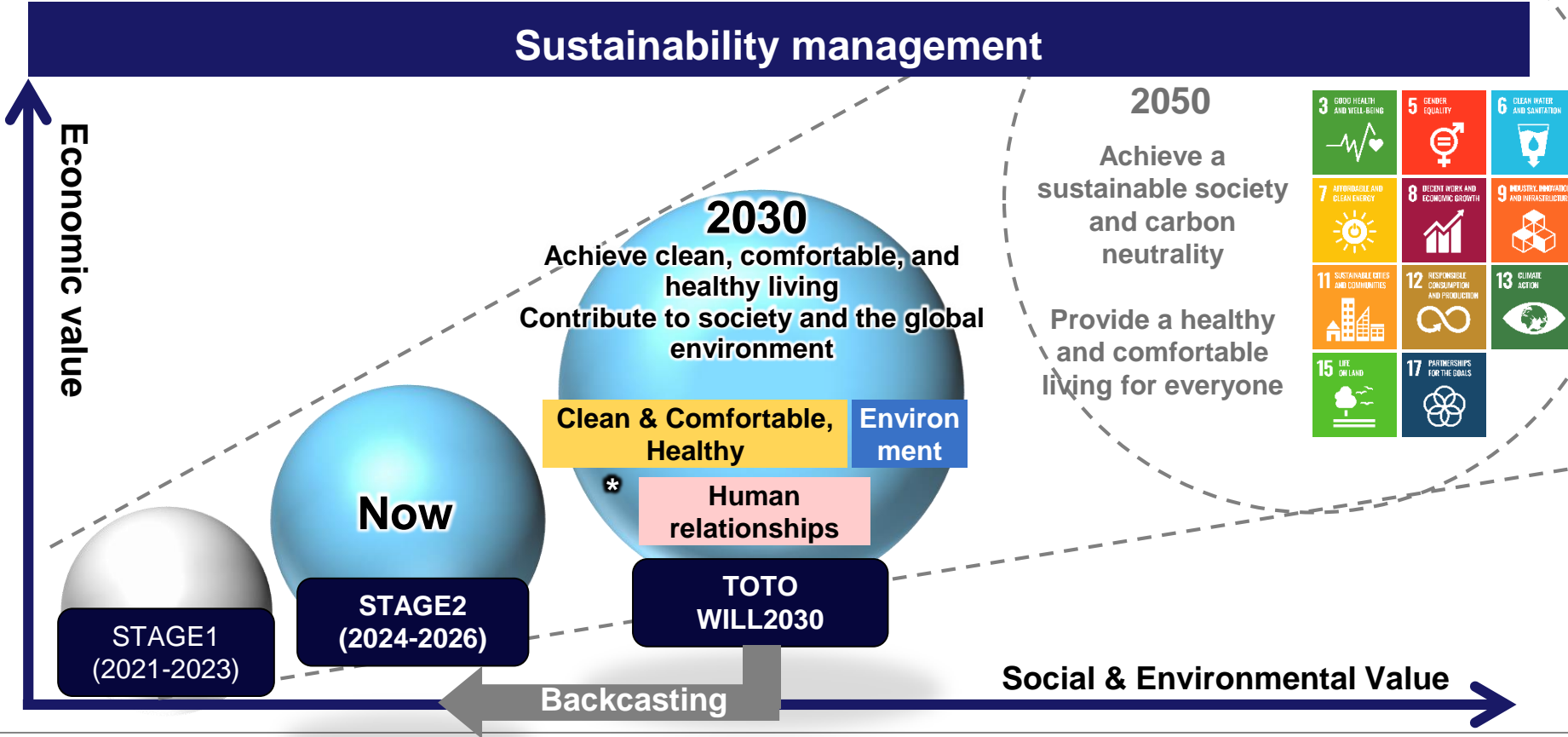
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1. TOTO WILL2030

Shared Value Creation Strategy TOTO WILL2030

WILL2030 is a management plan from a long-term perspective aimed at improving economic value and social & environmental value

Toward our 2030 vision, we are working to resolve issues to realize our three materialities*



2. STAGE1 Review

<Evaluation Criteria>

Achieved initial plan: ○

Not achieved initial plan, Exceeded FY2020 results: △

Not achieved initial plan, Not exceeded FY2020 results: ×

Financial and sustainability indicators, Result

WILL2030 (from 2021)

KPI		FY2020 Result	FY2023 Initial Plan	FY2023 Result	Evaluation	
Financial Indicators	Net sales	Adjusted for new revenue recognition accounting standard 577.8 billion yen	690.0 billion yen	702.3 billion yen	○	
	Operating margin	6.9%	8.7%	6.1%	×	
	ROA	Operating profit/Total assets 6.5%	9.0%	5.6%	×	
	ROE	Net income/Shareholders' equity 7.7%	10.2%	7.8%	△	
	Overseas sales ratio (Housing equipment business)	25%	30%	29%	△	
Sustainability Indicators	Percentage of sustainable products	69%	73%	75%	○	
	Reduction in water consumption during product use	0.9 billion m ³	1.1 billion m ³	0.91 billion m ³	△	
	Total CO2 emissions from our business sites	357,000 t	294,000 t	256,000 t	○	
	Stakeholders' Satisfaction	Employee satisfaction	74 pt	76 pt	75.9 pt	△
		Showroom satisfaction	73 pt	75 pt	76.3 pt	○
		After-sales service satisfaction	92 pt	94 pt	94.2 pt	○

Unachieved profitability and efficiency in a difficult business environment

2. STAGE1 Review

Future direction

Outcomes

- Achieved strong results in the Americas with the start of widespread use of spray seats
=> **New record sales in 2023**
- Great progress in Advanced Ceramics business
(Established highly profitable structure)
=> **Operating margin 30% in 2023**



Accelerate based on outcomes
=> **New medium- to long-term growth drivers**

Main reasons for downturn

- Prolonged market slump in mainland China business, which had been an overseas growth driver
- A temporary increase in inventories in response to the delayed delivery of the COVID19 pandemic led to a deterioration in efficiency indicators affected by the sluggish market



Change the way to proceed and reinforce

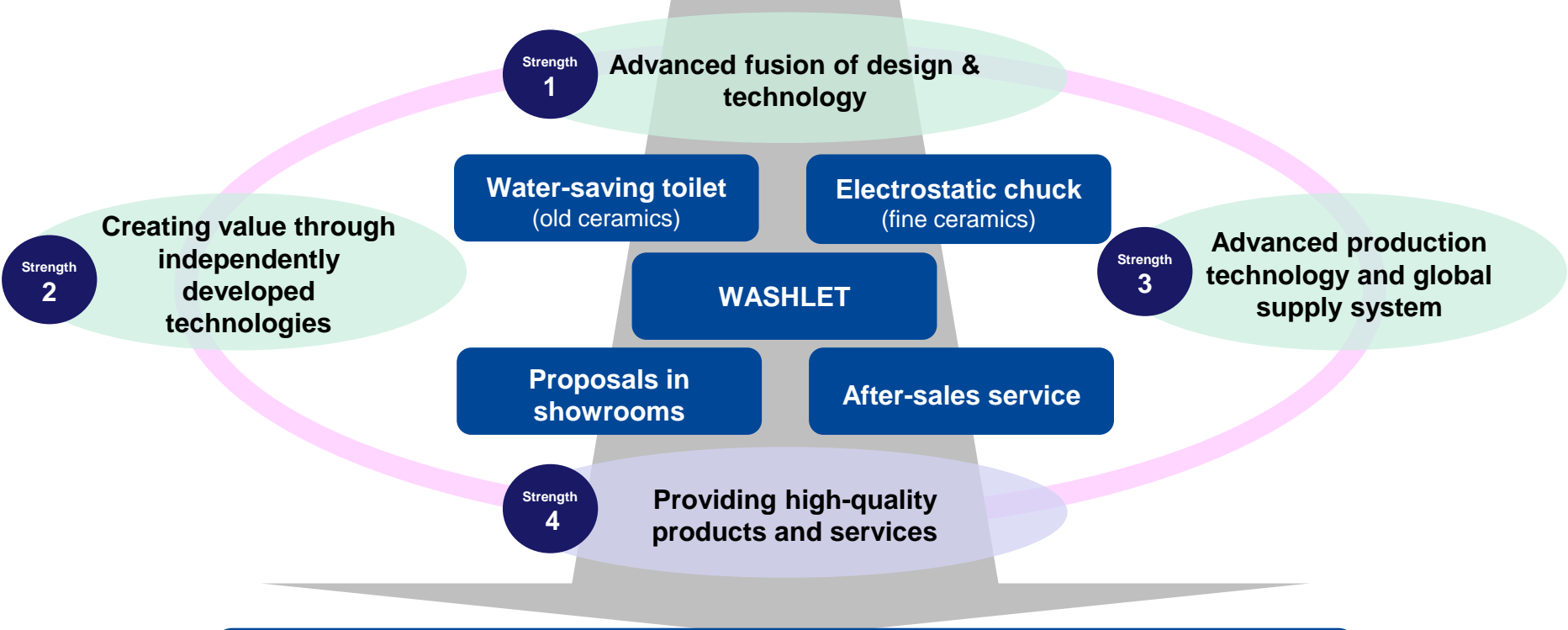


Improve profitability and efficiency toward 2030

3. Toward 2030

Value creation by leveraging strengths

Promote business in the global market with “Quality and Uniformity” as our company motto. Achieve numerous innovations and build competitive advantage and brand

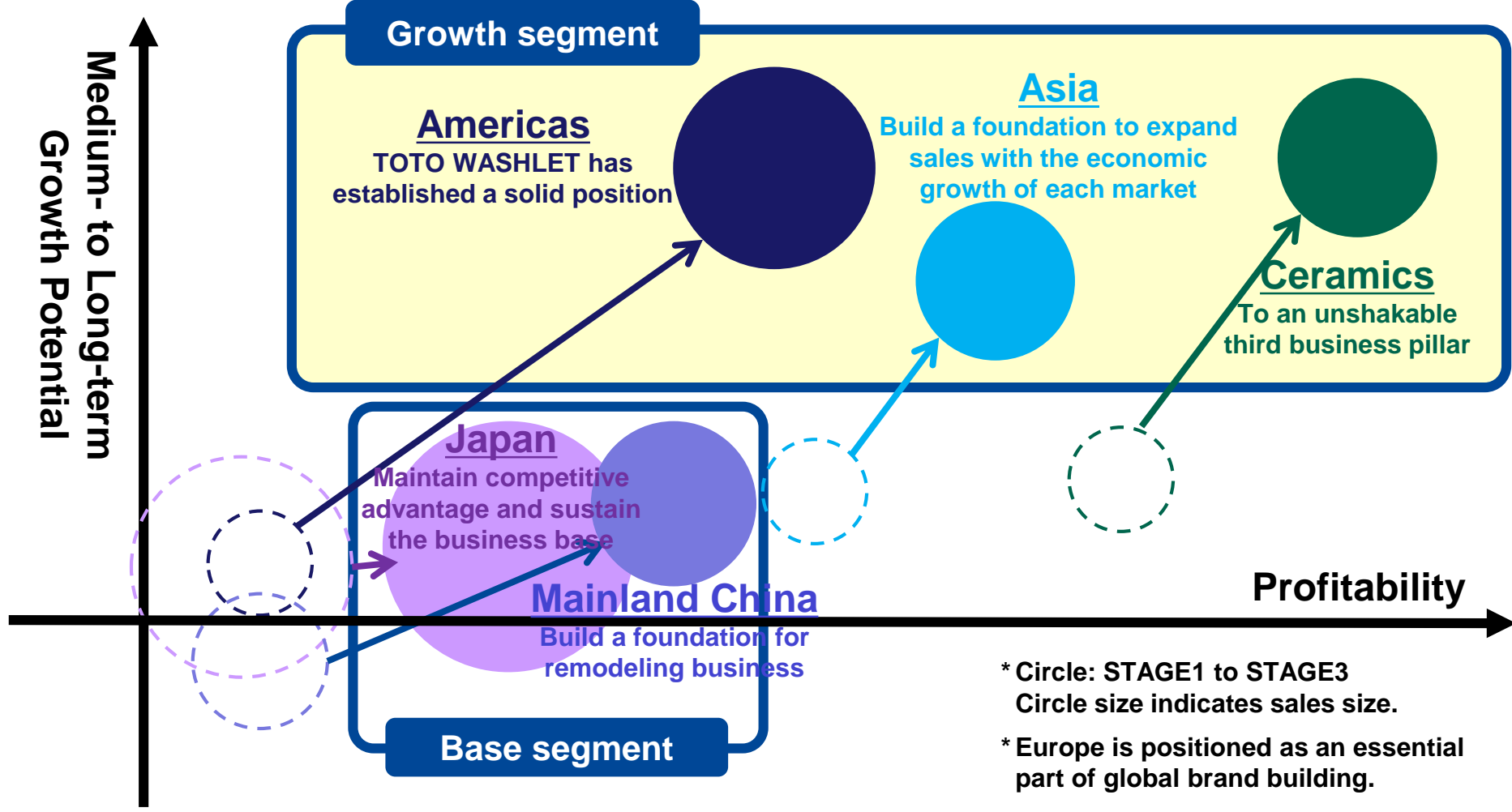


Grow segments by leveraging our strengths

Help to solve social and environmental issues

3. Toward 2030

Passion for growth toward 2030



TOTO will review growth segments in light of changing business environment and drive growth in three growth segments, while Japan and mainland China sustain the overall group sales.

3. Toward 2030

Goals for 2030

Net sales

Over 1 trillion yen

*900 billion yen at the time of WILL2030 announcement

Operating margin

Over 12%

*Over 10% at the time of WILL2030 announcement

Overseas sales ratio

Over 40%
(in housing equipment business)

*Over 50% at the time of WILL2030 announcement

ROA, ROE, and ROIC TOTO version

Over 12%
(WACC: 8-9%)

*New disclosure

Percentage of sustainable products

83%
(Products achieving environmental protections and clean, comfortable, and wellbeing lifestyles)

*Over 78% at the time of WILL2030 announcement

SBT1.5°C certification initiatives

CO2 Emission Reduction Targets (Compared to 2021)	At TOTO Business Sites	-47.5%
	During product use	-25%

*Certified in March 2024

4. STAGE2 Initiatives (2024-2026)

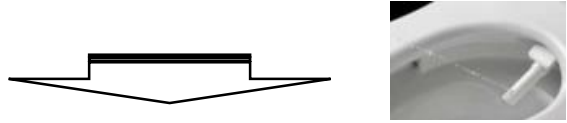
<Growth segment> Americas Housing Equipment Business

*CAGR: Compound Annual Growth Rate

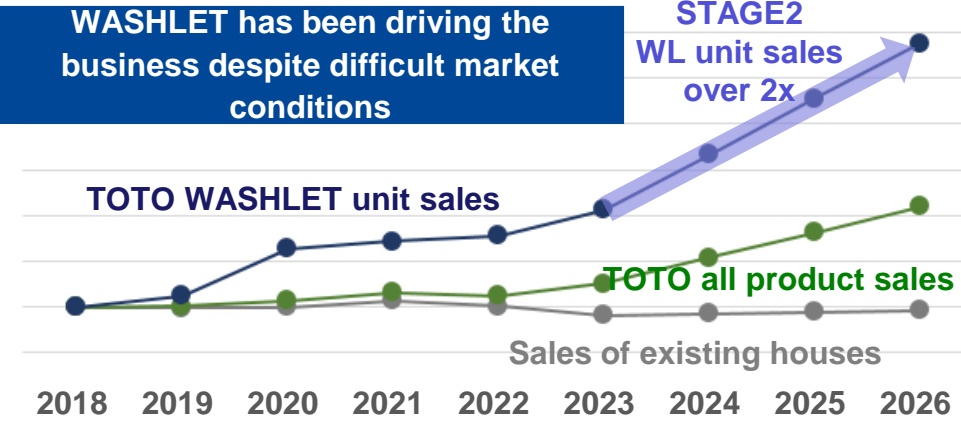
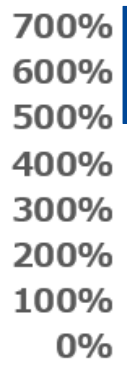
2030 TOTO WASHLET will establish a solid position

STAGE2 Sales CAGR +19%

The market for spray seats has entered a widespread phase and is expanding



Accelerate building customer contact points and stimulating demand centered on WASHLET



WASHLET (WL) sales expansion initiatives

How to buy	Buy with professional advice	Buy easily on the Web	Buy in the path of daily life
Where to Buy	<p>building material stores (Kitchen & Bath Shop)</p> <p>STAGE2 WL unit About 2.1x</p> <ul style="list-style-type: none"> Contact point maintenance in 63 major metropolitan areas => New showroom program applied 	<p>e-commerce</p> <p>STAGE2 WL unit about 2.5x</p> <ul style="list-style-type: none"> Secure high market share 	<p>Retail Chain Stores</p> <p>STAGE2 WL unit About 2.3x</p> <ul style="list-style-type: none"> Expand the number of stores displaying products Expand product lineup
After-sales service	<p>Expand onsite repair booths, improve service personnel skills, and reinforce support system</p>		

TOTO will promote building customer contact points and stimulating demand centered on WASHLET.

4. STAGE2 Initiatives (2024-2026)

<Growth segment> Asia Oceania Housing Equipment Business

2030 Build a foundation to expand sales with the economic growth of each market

STAGE2 Sales CAGR +16%

Customer targets are increasing as purchasing power improves



Increase proposals for high-quality water-saving toilets and WASHLET



Directly managed showroom in Vietnam



Product workshops in India

Initiatives in growing markets **STAGE2 Sales CAGR +24%**

Expand agency network and promote acquisition of well-known sites

Vietnam

⇒ Strengthen the distribution channel from the base by discovering and nurturing leading dealers network

India

⇒ Target the top 28 most populous cities, where 70% of the wealthy live
Accelerate new agency openings

Thailand

⇒ Increase value appeal in large store distribution and expand distribution network area

Other area

Taiwan region

Underpin the entire Asia business.
Strengthen harvesting of remodeling demand.

Middle East

Strengthen the project sales activities.

TOTO will drive growth in three growth markets and underpin the entire Asia business by business in Taiwan region.

4. STAGE2 Initiatives (2024-2026)

<Growth segment> Advanced Ceramic Business

2030 To an unshakable third business pillar

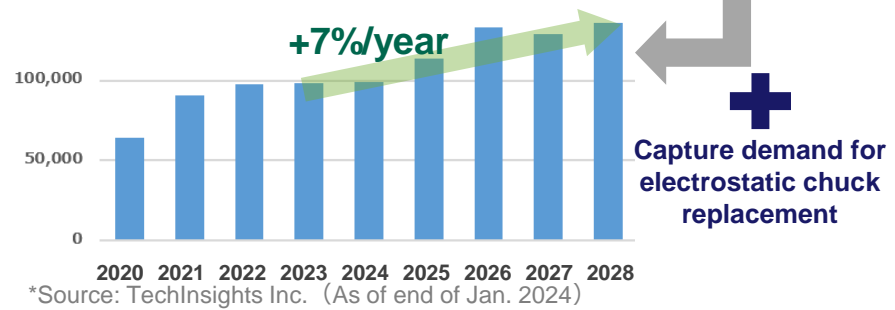
STAGE2 Sales CAGR +20%

Semiconductor market is expanding again toward 2030.
Semiconductor sophistication continues.



Move more responsively to growing markets and boost technological development for evolving semiconductors.

WFE (Wafer Fab Equipment) market forecast



Products and Sales

Application expansion through new technology challenges

Electrostatic chuck

Proposal for next-generation semiconductor manufacturing equipment

AD component

Structural component

Proposal for semiconductor exposure systems



Production

Visualization and immediate judgment through use of DX and AI

Data linkage throughout the value chain

Realization of on-demand production

Strengthen initiatives to improve productivity (smart factory)

Nakatsu factory

TOTO will respond to the competitive and rapidly changing semiconductor market by improving the provided value to customers.

4. STAGE2 Initiatives (2024-2026)

<Base segment>
Japan Housing Equipment Business

2030 Maintain competitive advantage and sustain the business base

Japan market maintains volume of 20+ years old stock homes and households in remodel-eligible age groups.

STAGE2
Operating profit margin
+1.3 pt



TOTO is evolving quality and quantity in our sales activities through the utilization of digital technology.



Promote profitability improvement

<Base segment>
Mainland China Housing Equipment Business

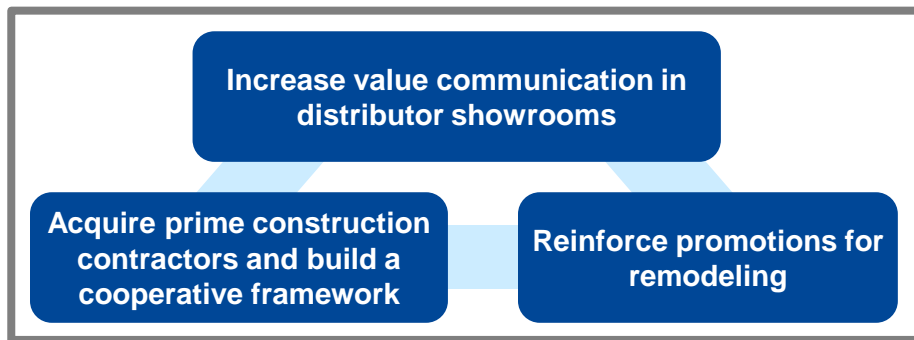
2030 Build a foundation for remodeling business

China market shows prolonged sluggishness in new construction demand. On the other hand, housing stock is abundant (over approximately 100 million housing units in Tier1 and New Tier1 cities).

STAGE2
Sales CAGR
+5%



TOTO is gearing up from new construction to remodeling. (Leveraging the remodeling business know-how cultivated in Japan over the past 30 years)



Full-fledged efforts to stimulate demand for remodeling

5. Financial Strategy and Resource Allocation

Toward realizing management with cost of capital and stock price awareness

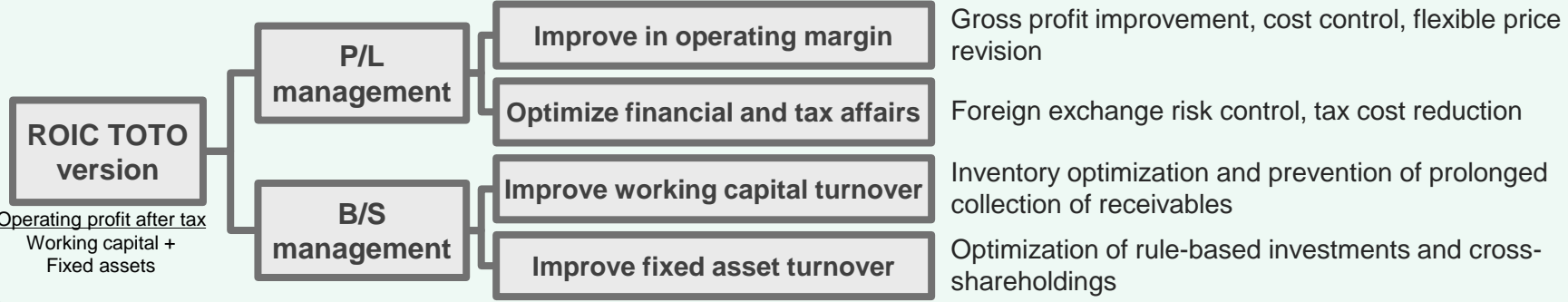
Management with cost of capital and stock price awareness



Quality of Profit (ROIC TOTO version)

Improving drivers

- Improve profitability by business segment in line with growth strategy
- Improve turnover ratio through inventory optimization, tighter rule in fixed asset investment, etc.



Quality of capital allocation

Capital allocation rule - Capital allocation with awareness of capital cost

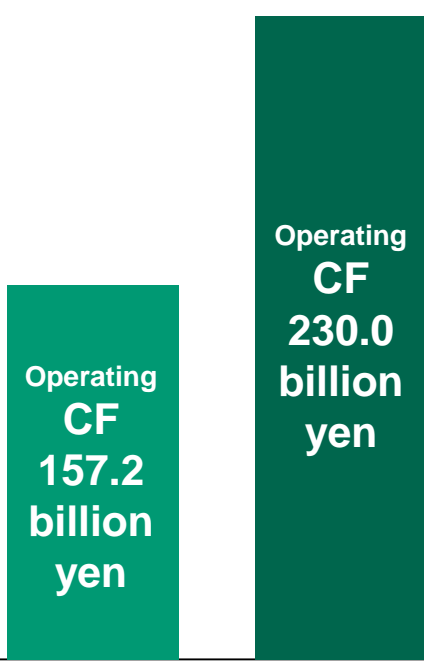
5. Financial Strategy and Resource Allocation

Capital allocation rule

- Proactively allocate cash to strategic investments for sustainable growth
- Deliver shareholder returns with a target payout ratio of 40% or more

Financial rule	Equity Ratio: Over 50%	Cash on hand: 1.5 months of monthly sales
	D/E Ratio: Below 0.5 times	

Cash generation



Capital allocation



- <Shareholder return>**
- Dividend payout ratio to be 40% or more, and increase or maintain dividend
 - Flexibly implement share buybacks after comprehensive consideration of cost of capital, stock price levels, and cash reserves

- <Strategic investment (capital investment)>**
- Strategically invest in growth segments
 - Improve management with hurdle rates above cost of capital

STAGE1
(2021-2023)

STAGE2
(2024-2026)

STAGE2
(2024-2026)

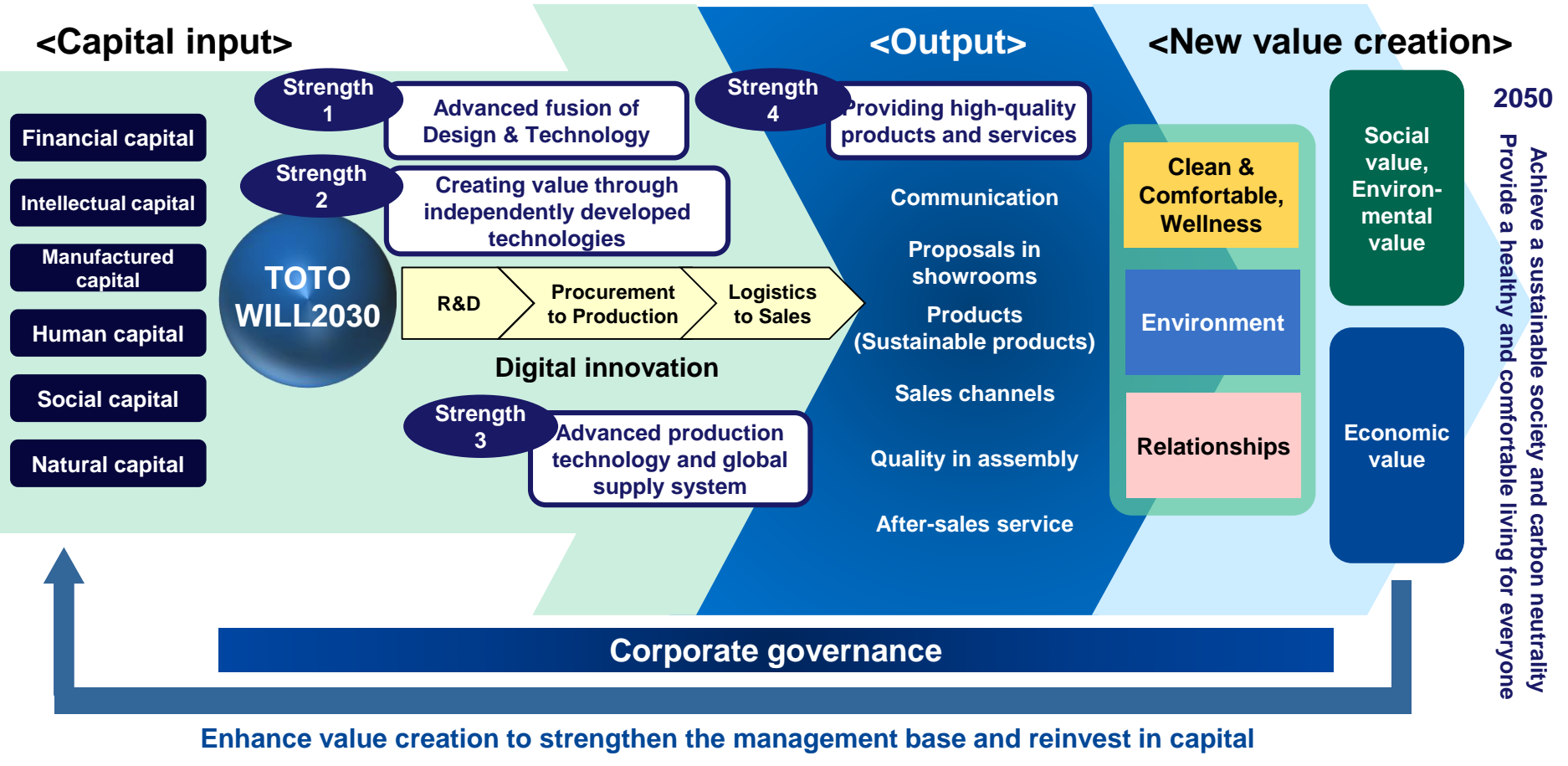
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TOTO

<References> Value Creation Model

Value creation model

Sustainability management



TOTO will create shared value that simultaneously realizes social, environmental, and economic values.

<References> STAGE2 Planned Value

Financial and sustainability indicators

WILL2030 (from 2021)

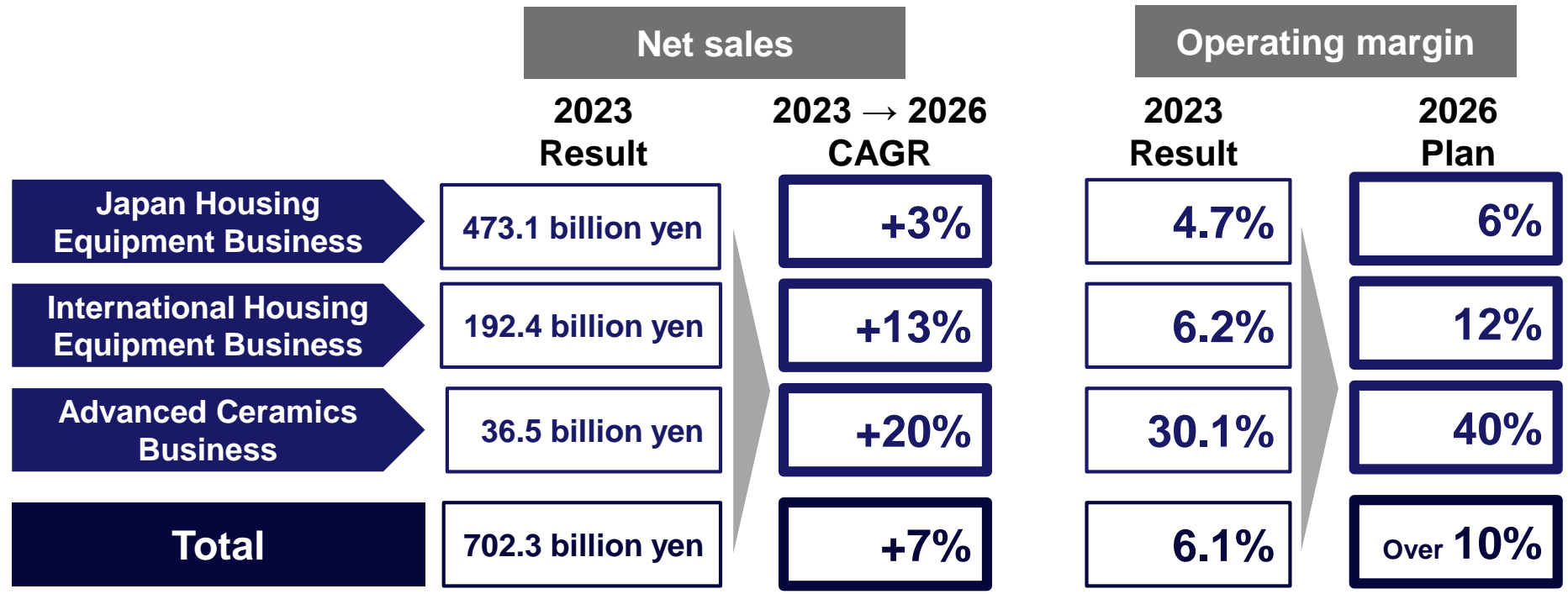
KPI		FY2020 Result	FY2023 Result	FY2026 Plan	FY2030 Plan	
Financial Indicators	Net sales	Adjusted for new revenue recognition accounting standard 577.8 billion yen	702.3 billion yen	850 billion yen	Over 1 trillion yen	
	Operating margin	6.9%	6.1%	Over 10%	Over 12%	
	ROA	Operating profit/Total assets 6.5%	5.6%	Over 10%	Over 12%	
	ROE	Net income/Shareholders' equity 7.7%	7.8%	Over 10%	Over 12%	
	ROIC TOTO version	Operating profit after tax Working capital + Fixed assets -	5.9%	Over 10%	Over 12%	
	Overseas sales ratio (Housing equipment business)	25%	29%	35%	Over 40%	
Sustainability Indicators	Percentage of sustainable products	69% *2	75% *2	80%	83%	
	Reduction in water consumption during product use *1	1 billion m ³	1 billion m ³	1.14 billion m ³	1.3 billion m ³	
	Total CO2 emissions from our business sites	Scope 1, 2 357,000 t	256,000 t	229,000 t	185,000 t	
	Stakeholders' Satisfaction	Employee satisfaction	74 pt	75.9 pt	77.4 pt	80 pt
		Showroom satisfaction	73 pt	76.3 pt	78.2 pt	80 pt
After-sales service satisfaction *3		92 pt	94.2 pt	94.8 pt	95 pt	

*1: Reduction compared to the case of continued diffusion of products in 2005 *2: Estimated results under the same calculation conditions as in STAGE2

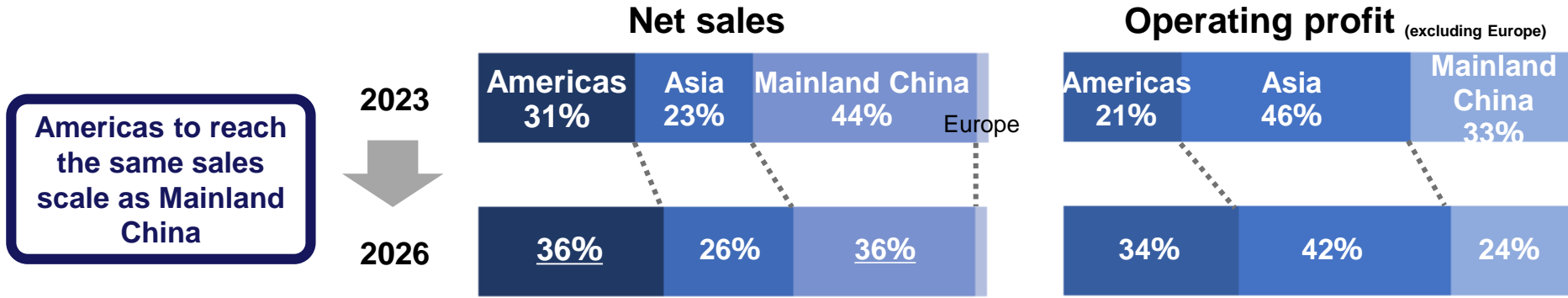
*3: Target Scope: Japan, Americas, Europe, Mainland China, Taiwan region, India, Thailand, Vietnam

<References> STAGE2 Planned Value

By segments: net sales, operating margin



*Composition within overseas business



<References> STAGE2 Investment Plan

Capital investment plan

Global strategic investment	<ul style="list-style-type: none">■ Product development & sales investments■ Environment & production efficiency related	72 billion yen
Advanced Ceramics strategic investment	<ul style="list-style-type: none">■ Product development & Production expansion	29 billion yen
Japan strategic investment	<ul style="list-style-type: none">■ Product development & sales investments■ Showroom related	32 billion yen
Infrastructure enhancement investment	<ul style="list-style-type: none">■ IT-related■ Other business infrastructure related	42 billion yen
Total		175 billion yen

TOTO plans to do capital investment of 175 billion yen over three years during STAGE2, focusing on growth areas.