April 30, 2021
Pacific Industrial co., ltd.

Summary of Questions & Answers for Financial Results Briefing for Year Ending March 2021

《Results for FY2020》

Q : Please tell us the points of change from the previously announced values in the Q4 results for FY2020.

A : As for Q4, profit from the previously announced value is positive due to an increase in sales volume of 700 million yen, an additional 200 million yen for improvement, and a decrease in depreciation cost of 400 million yen due to investment restraint.

Q : Q4 and Q3 of the last fiscal year saw almost the same level of sales and profits. Operating profit margin is 6% to 7% as the result of the stamping business, but can we consider that is actual ability?

A : If there is a certain amount of product volume, the fixed cost gets diluted and profit margin will be high. The increased production volume of Toyota, our main customer, led to a decrease in fixed cost ratio, and in addition to that, we made significant improvements. Those resulted in a 7% of profit margin.

《Plan for FY2021》

Q : For the plan of FY2021, both sales and profits look very bearish because there are some deviations between the second half of FY2020. I would like to know more about each of these assumptions and the background.

A : This assumption is based on Toyota's production volume of 3.2 million units per year. We have made a slightly conservative assumption, considering the impact on current semiconductors and the impact on material suppliers.

For selling price, although there were almost no price revisions on Toyota's part in the first half of the previous fiscal year, this is because we have assumed that there will be annual price revisions as usual this fiscal year and due to the influence of scrap prices. In the previous fiscal year, the portion of the price revision that was recorded as positive due to the influence of scrap prices became negative in this fiscal year, so the difference in selling prices is large.

Expenses have increased by 2 billion yen, but the breakdown is that development costs are about 300 million yen, equipment maintenance costs

that were suppressed in the previous fiscal year are about 600 million yen, and expenses increase due to physical quantity increase is about 800 million yen. Depreciation expenses are expected to increase by 1.5 billion yen because we are investing more than depreciation. As a way of spending money, we would like to spend money on preventive maintenance and safety measures to create a workplace where employees can work safely and securely, in addition to making effective investments and recording development costs for the future by stabilizing current production more.

If it were not for the impact of automobile production and semiconductors from COVID-19, we believe that the volume of goods would be a little higher.

Q : The level of operating profit margin is 6% both in the result of previous year and the plan for this term as an annual average, but it fluctuates from 5% in the first half to 7% in the second half. Considering the current COVID-19 pandemic, what level do you consider to be your company's level of competence?

A : As for operating profit 6% for FY2021, as I mentioned earlier, expenses and depreciation will be added this fiscal year, so we think it may be a little higher. things that our company should strive to do basically is to minimize the increase in expenses as much as possible and to reduce the increase in labor costs. We are now planning for a cost improvement of JPY2.8 billion, which is almost the same level of improvement as in FY2020. With that cost improvement plus more, we will strive to control expenses and labor costs.

Q : In the market environment of the current fiscal year ending March 31, 2022, there is a global shortage of semiconductors and supply becoming tight. Also, I think the resin material has been dragging on for a long time, partly due to the series of cold spells in Texas during the winter. How much of a risk do you evaluate this? I believe that the price increase of materials will also have an impact on your performance.

A : Currently, our products are not affected by the shortage of semiconductors. I think the impact on future production for Toyota will be limited. For material procurement, at this point we don’t consider any impact on our company. We will be looking into the supply chain and alternatives, and we are going to prepare for stable procurement.

We have included a negative figure of JPY0.8 billion in material prices. This is due to the increase in the price of resin materials, brass and copper.

Q : When looking at the market environment for automobiles, I think that Toyota,

your major customer, continues to perform well and will be pulled up to some extent by that. How do you see this?

A : In terms of the global automotive market, Toyota, our main customer, is continuing to produce at a very stable and high level not only in Japan but also in China, the US and other countries. We believe that the stamping and molding business will be on an upward trend in 2021.

On the other hand, in the valve products business, since we have a lot of business outside Toyota, when we look at the data on the future production outlook on a global scale, we expect a slight decline. Due to the impact of semiconductors and other factors, and European manufacturers are seeing a downward trend in production. However, I have heard that supply and demand will recover after this summer, so I believe that things will recover in the second half of the year.

《Work for ultra-high tensile》

Q : As for mass-producing parts for the 1.5 giga of high-tensile materials in cold stamp, are you actually at the stage of mass production?

A : The 1.5 giga, or 1470 MPa material, which will be used in the mass production of the car models that will be launched this year, is going to be adapted. Therefore, we have completed the planning of the facilities and technology related to this project.

Q : From the perspective of LCA (Life Cycle Assessment), is the trend in the world shifting from hot stamping to cold high-tensile steel?

A : From the perspective of LCA, hot stamping uses a lot of energy, of course, so it is well known that cold stamping is superior. LCA discussions have been rising recently, and customers feel that they are shifting from hot to cold faster than ever before.

However, since hot stamping is superior to specific parts such as securing the shape, we have established a hot stamping line with the minimum investment required in Japan and the United States, and will proceed strategically developing technology centered on cold ultra-high tensile strength steel.

Q : Technically for the 1.5 giga materials, you say that your company is clearing the issue, but is the situation similar in other companies? Also, are there any changes in the way you collaborate within the group?

A : The 1.5 giga material will be used for the first time in the customer's vehicle, but I don't think we will be able to fully deploy the 1.5 giga material yet. Whether 1.5 giga material is adopted depends on the idea of the body shell of

the car type, but we think that 980 MPa material and 1180 MPa material will be mainly adopted, and 1.5 giga material will be adopted depending on the part. For specific parts, by using 1.5 giga material and thinning the material can contribute to weight reduction. The flow of using cold ultra-high-tensile steel where it is needed will speed up.

In terms of collaboration with customers, we have an additional server that can perform collision analysis and we are establishing evaluation methods within our company that allow us to take on the kind of work that our customers have been doing so far and satisfy them with components that are easier to make and perform better. In that sense, I think we can contribute more than ever to the future development of vehicles.

《Valve development》

Q : Please tell us how much the control valve business for heat pump type car air conditioners is contributing to sales and profits.

A : We have been doing a lot of development with car air-conditioning parts manufacturers that we have been doing business with not only in Japan but also in Europe and the United States. Right now, we are working on specific part design, functional evaluation, and performance evaluation. I think it will take about 3 years before it contributes to sales and profits.