

FY2020

Financial Results Briefing for 2Q

The 97th period : Cumulative Second Quarter
(Apr. 1st, 2020-Sept. 30th, 2020)

October 30, 2020



PACIFIC INDUSTRIAL CO., LTD.

2/31

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Caution in handling this document

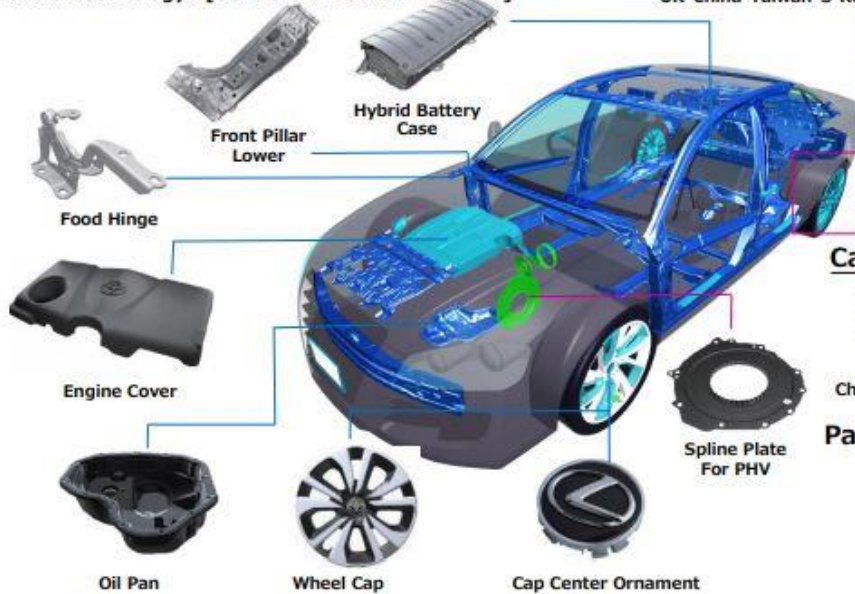
Future forecasts, including this document, were judged according to the current information. Actual financial results might be considerably different from the forecast mentioned here depending on the Japanese or international economic situation, business trends related to our company, and any risk or indefinite factors involved in fluctuation of exchange rates.

(No explanation)

Established in 1930, 90 years old in 2020

Stamping & Molding Products Business

We manufacture pressed products with ultra-high-tensile steel molding technology that achieves both weight reduction and high rigidity, and resin products that provide a variety of products with film decoration technology and NV performance control technology. [USA·China·Taiwan·Thailand]



Valve Products Business

It consists of valve products with multiple world top market share products, TPMS products, which are systems for monitoring tire pressure, and forging products, for which demand continues to increase worldwide. We also manufacture valves for the aircraft, industrial machinery and energy industries. [USA·France·Belgium·UK·China·Taiwan·S-Korea·Thailand]

Tire Valve Related



Car Air Conditioner Related



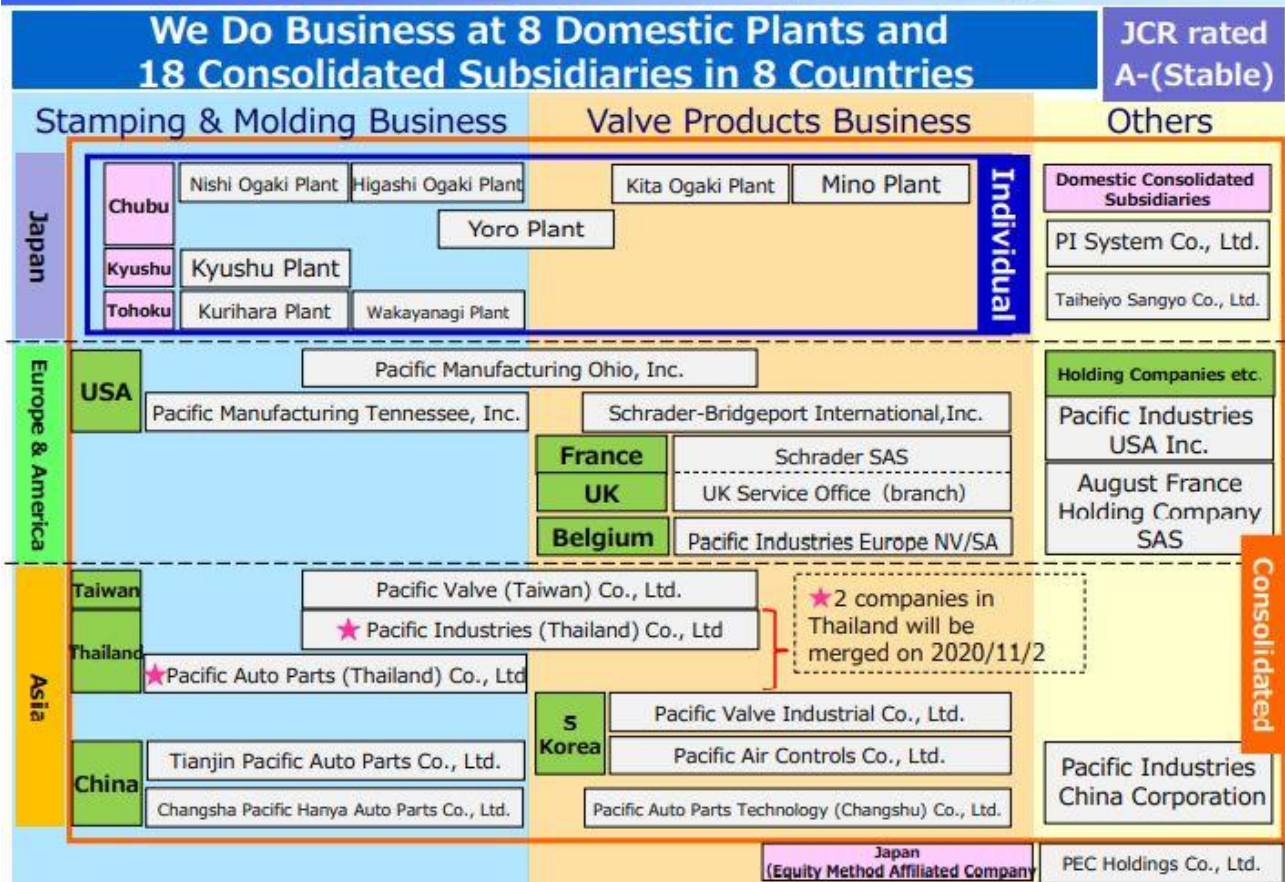
Parts for other than Automobiles



We were founded in 1930 with the domestic production of valve cores, and this year we celebrated our 90th anniversary. We now have the largest share of the global market for valve cores and tire valves.

We have produced and sold products, as shown here, in the Stamping and Molding Business, which consists of stamping products and molding products; and the Valve Business, which consists of valve products and TPMS products.

Outlines of Our Group Companies 4/31



Our Group operates eight domestic plants in the Chubu, Kyushu, and Tohoku areas. For overseas, with the acquisition of Schrader in 2018, we are expanding our business in eight countries, including France and the United Kingdom. The number of consolidated subsidiaries is currently 18.

I would like to report on some of the changes we have made to our Group companies, like business integration in Thailand. On November 2, 2020, we will integrate the Valve and Molding Businesses established in 1990 and the Stamping and Molding Businesses, which began operations in 2018, with the aim of improving management efficiency.

There is no impact on consolidated results due to this integration.

Management in Covid-19 Pandemic

Measures against Covid-19 and gaining a foothold

- Thorough infection prevention
- Global countermeasures and cooperating with society, family, and local community
- Streamlined by cost/fixed cost reduction, using Web meetings, reforming the way of job process
- Maintaining production system, supply chain, and employment
- Production recovery, fund management

I would like to explain the state of management in the coronavirus crisis. As I mentioned earlier in May, we have emphasized efforts to deepen the bonds between employees and their families by thoroughly preventing infections, working closely with local communities while implementing global measures.

At the same time, we saw this opportunity, and in addition to thoroughly reducing costs, we utilized web conferencing and other methods to change the way we work and use time, and increased the speed to solidify our foundations and improve profitability.

With regard to our production system, we follow customer production fluctuations by maintaining employment and supply chains on a global basis.

In addition to these achievements, production and sales volumes recovered. As a result, we were able to recover the deficit in the first quarter in the second quarter.

We will continue to prevent infections and maintain production systems on a global basis and implement measures to recover production while managing funds.

1-1 2Q Consolidated Results

Became profitable in 2Q and cumulative due to improvement efforts and sales recovery

(million yen, %)

	Last 2Q Cumulative	2Q Cumulative						Year-on-year rate	
		7/29 Previous forecast	1Q results	2Q results	Cumulative results	Last forecast rate		Gain&Loss	%change
						Gain&Loss	%change		
Sales	Record High 32,765	58,500	23,838	40,989	64,827	6,327	+10.8	△17,937	△21.7
Operating Income	Record High 4,683 5.7%	△1,600 △2.7%	△2,249 △9.4%	3,111 7.6%	862 1.3%	2,462	—	△3,820	△81.6
Ordinary Income	4,935 6.0%	△1,000 △1.7%	△1,784 △7.5%	3,098 7.6%	1,313 2.0%	2,313	—	△3,622	△73.4
2Q Net Income	3,473 4.2%	△1,000 △1.7%	△1,299 △5.5%	2,242 5.5%	942 1.5%	1,942	—	△2,531	△72.9

- ✓Sales Sales recovered from the significantly decreased sales forecast
- ✓Operating Income +2.4 billion yen compared to the previous forecast due to improvement efforts and sales recovery

In the first quarter, despite efforts to improve costs due to the impact of the spread of the new coronavirus infections, automobile production by major customers declined significantly, resulting in a sharp decrease in both sales and profits.

In the second quarter of the fiscal year under review, automobile production began to gradually recover as we made progress in improving costs. Japan and the United States that are our main regions recovered to almost the same level as the same period of the previous fiscal year, and sales in China increased YoY.

As a result, consolidated net sales decreased by 21.7% YoY to JPY64.8 billion in the second quarter cumulative period.

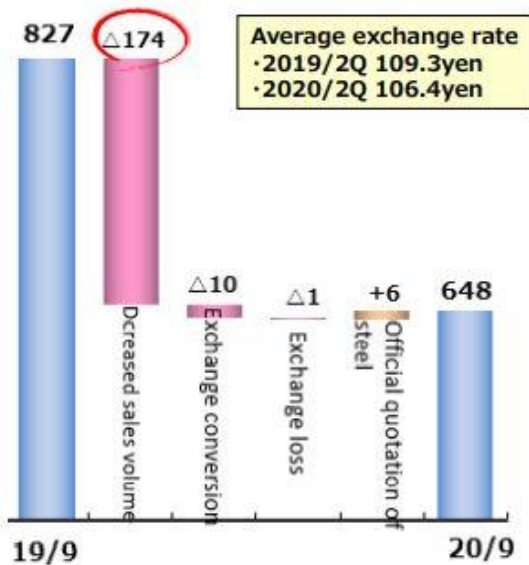
Although a loss was anticipated at the time of the announcement on July 29, operating income was JPY800 million, ordinary income was JPY1.3 billion, and quarterly net income was JPY900 million.

1-2 2Q Consolidated Causes of Fluctuation in Sales & Income

Despite a significant decrease in sales due to the impact of Covid-19, we reported a surplus by improving and reducing costs.

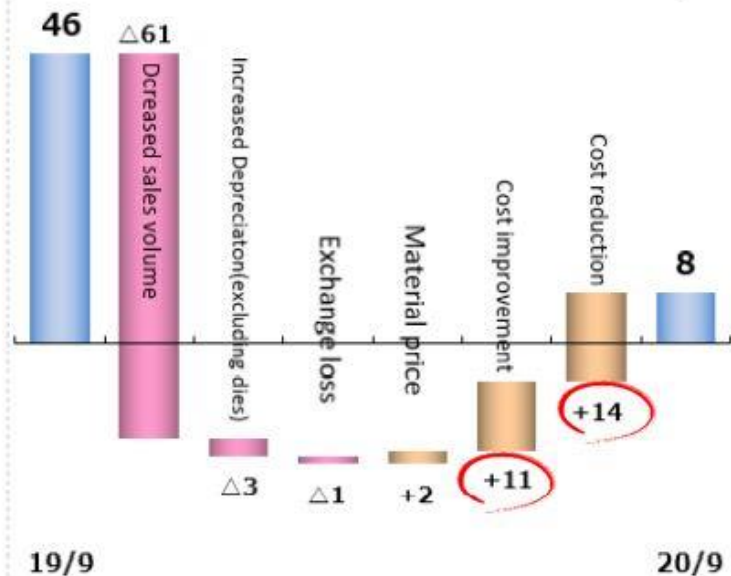
«FY2020 2Q vs FY2019 2Q»
Sales Δ 17.9 billion yen

unit : 100 million yen



«FY2020 2Q vs FY2019 2Q»
Operating Income Δ 3.8 billion yen

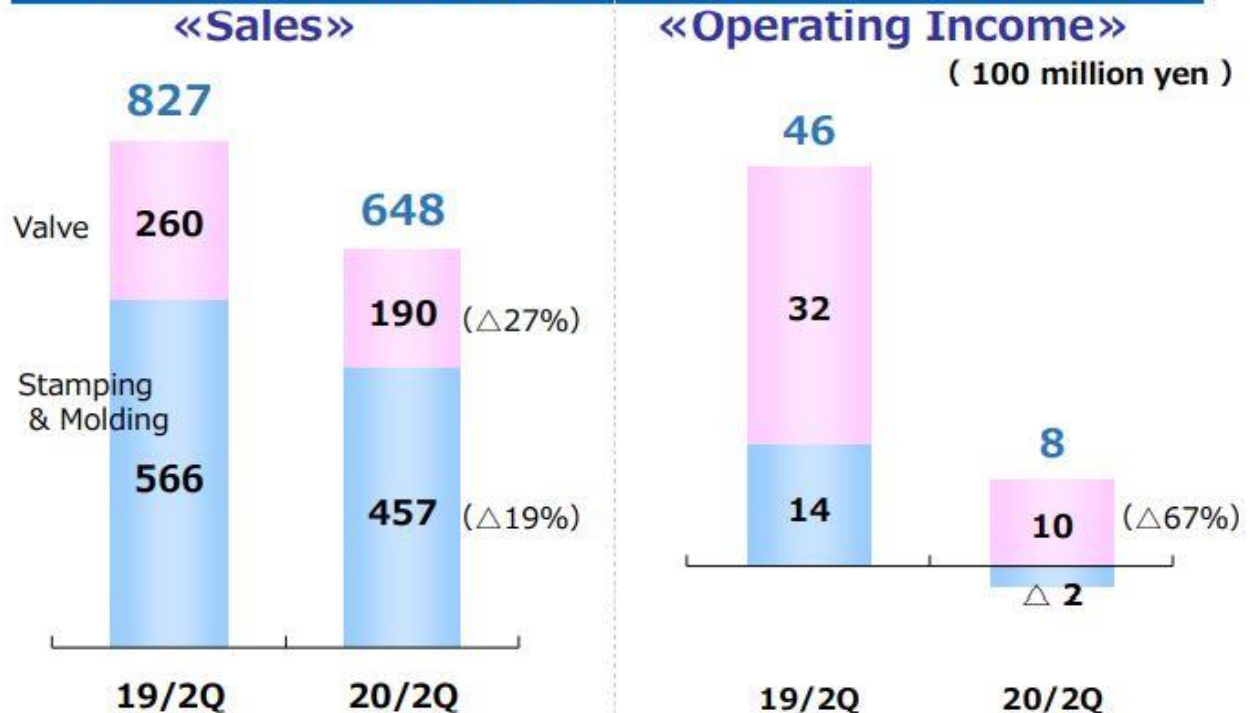
unit:100 million yen



Consolidated net sales decreased by JPY17.9 billion. In terms of operating income, despite a decrease of JPY6.1 billion by sales volume decrease, we made progress in cost improvement by thoroughly reviewing costs and changing the way we do business, and together with cost reductions, we achieved an effect of JPY2.5 billion, and secured a profit of JPY800 million.

1-3 2Q Consolidated Business Segments 9/31

The valve business reported a surplus, and the degree of deficit in the stamping & molding business decreased.



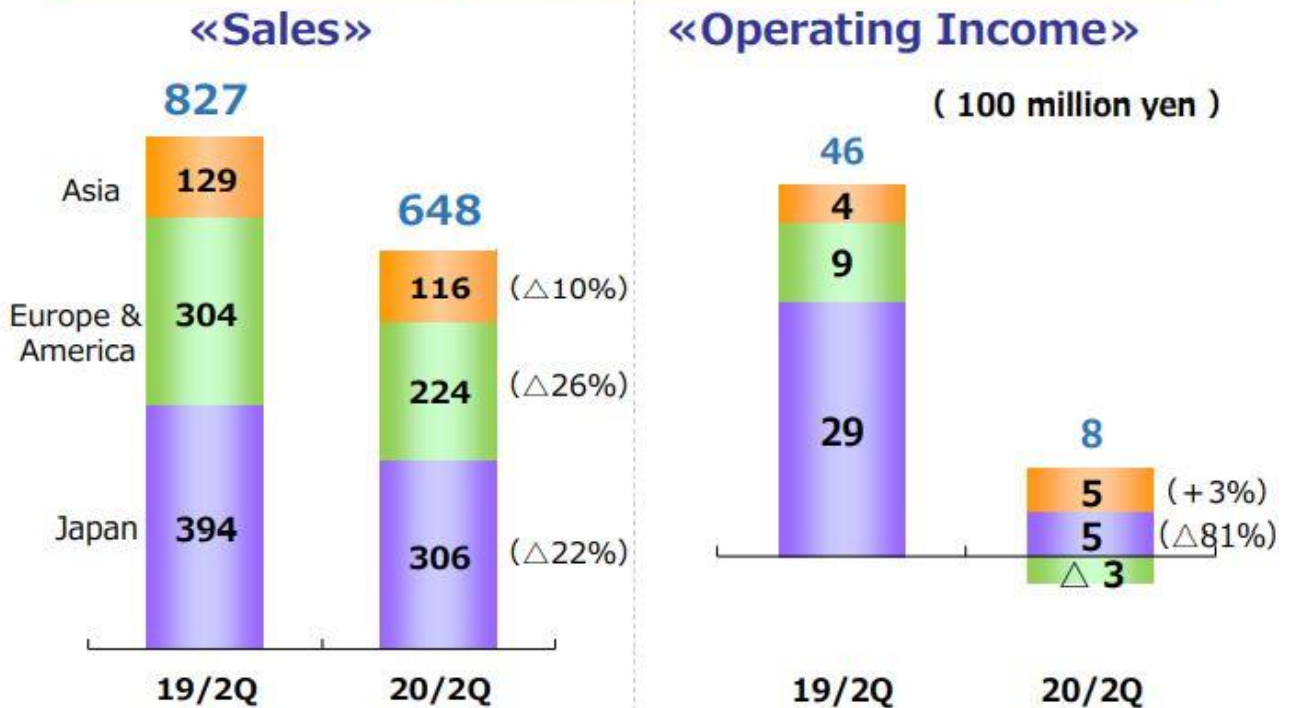
Net sales in the Stamping and Molding Business decreased by 19% YoY to JPY45.7 billion. In terms of profit and loss, although it returned to profitability in the second quarter, due to the results of improvements and the recovery in production by customers, it was not enough to cover the deficit in the first quarter, and the cumulative operating loss was JPY200 million.

Sales in the Valve Business decreased by 27% to JPY19 billion. In terms of profit and loss, the second quarter surplus covered the first quarter deficit, and although the cumulative total declined by 67% YoY, we secured a surplus of JPY1 billion.

1-4 2Q Consolidated Regional Segment

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Japan and Asia reported a surplus, and the degree of deficit in Europe & America decreased



Sales declined in Japan, Europe, the United States, and Asia due to the impact of a decline in automobile production in each region. In North America, sales decreased significantly due to the impact of the shutdown of customer production lines in the first quarter, et cetera, resulting in an operating loss of JPY300 million.

In Asia, despite the suspension of production in China in February and March, sales decreased only slightly to JPY11.6 billion, down 10%, and operating income increased by 3% to JPY500 million, mainly due to the rapid recovery of production by major customers.

2-1 Full FY Consolidated Financial Forecast

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FY2020 results are expected to be in the black after 2Q

(million yen,%)

	'2019 Result	'2020 Previous Forecast	FY2020			Previous Forecast Rat		Year-on-year	
			First Half Result	Second Half Forecast	Full year Forecast	Gain&Loss	%change	Gain&Loss	%change
Sales	Record High 165,969	135,000	64,827	80,173	145,000	10,000	7.4%	△20,969	△12.6%
Operating income	Record High 10,511	2,000	862	5,138	6,000	4,000	200.0%	△4,511	△42.9%
Oedary Income	11,130	3,000	1,313	5,187	6,500	3,500	116.7%	△4,630	△41.6%
(2Q)Current Net Income	7,256	2,000	942	3,558	4,500	2,500	125.0%	△2,756	△38.0%
Sales Operating Income Ratio	6.3%	1.5%	1.3%	6.4%	4.1%	2.6%		△2.2%	
R O E	7.5%	2.0%	1.9%	7.2%	4.5%	2.5%		△3.0%	
R O A (Operating Income base)	5.2%	1.0%	0.8%	4.9%	2.9%	1.9%		△2.3%	
Net Assets per Share (円)	1,614	1,622	1,613	1,661	1,661	39	2.4%	47	2.9%

✓Sales

Sales in the second half is on the upswing

✓Operating Income

+4 billion yen compared to the previous forecast due to the continuous improvement and sales recovery

Full-year earnings forecasts have been revised upward due to the second quarter results exceeding those announced on July 29, as well as the anticipated recovery in customer production from the third quarter onward and continued improvement activities.

Net sales are expected to increase by JPY10 billion to JPY145 billion, operating income to increase by JPY4 billion to JPY6 billion, ordinary income to increase by JPY3.5 billion to JPY6.5 billion, and net income to increase by JPY2.5 billion to JPY4.5 billion.

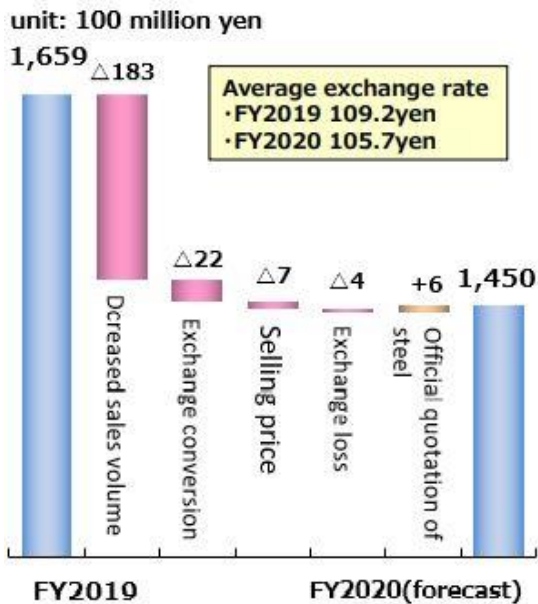
The exchange rate for the third quarter onward is set at JPY105 to the US Dollar.

2-2 Consolidated Causes of Fluctuation in Sales & Income

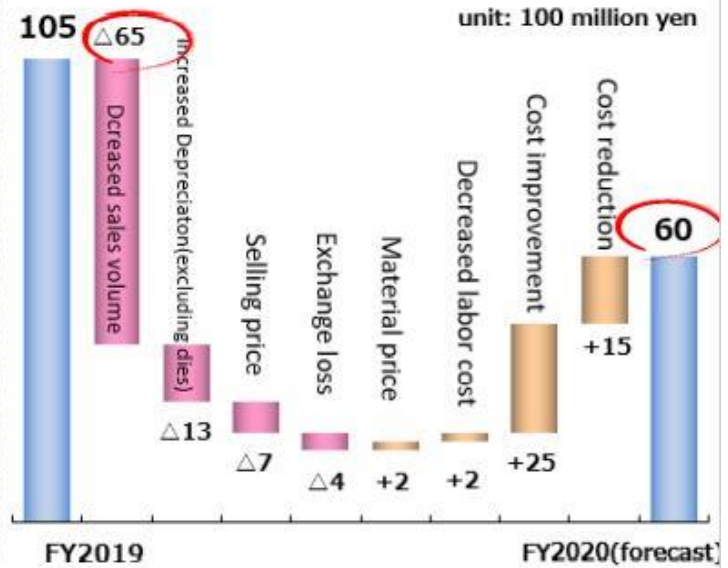
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Efforts to improve and sales recovery reported a surplus

«FY2020 forecast vs FY2019»
Sales ▲ 20.9 billion yen



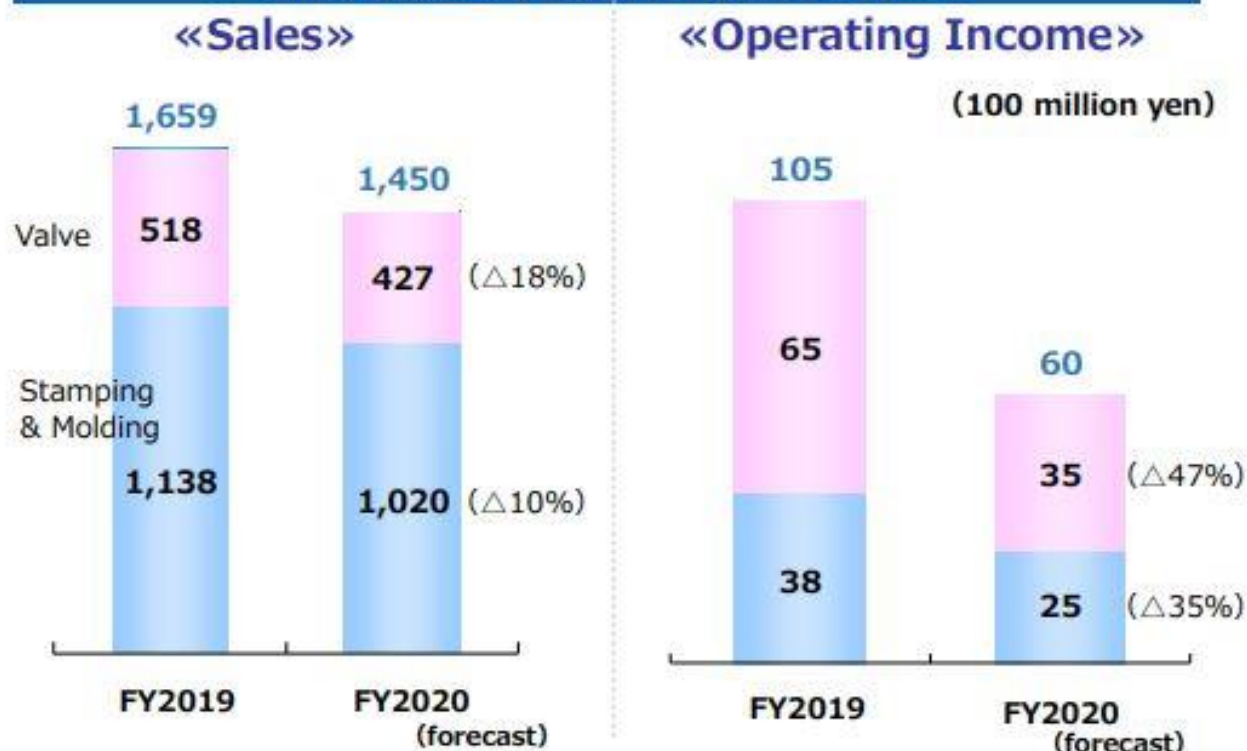
«FY2020 forecast vs FY2019»
Operating Income ▲ 4.5 billion yen



For the full fiscal year, both net sales and operating income will decrease significantly, due to a decrease in sales volume caused by the impact of the coronavirus. Nevertheless, we will continue to work to improve costs and reduce expenses.

2-3 Full year Consolidated Business Segment

Both businesses are expected to be in the black, although sales and profits will decrease



In the Stamping Business, net sales are expected to recover to the previous year's level in the second half. For the full fiscal year, net sales are forecast to decrease by 10% YoY to JPY102 billion.

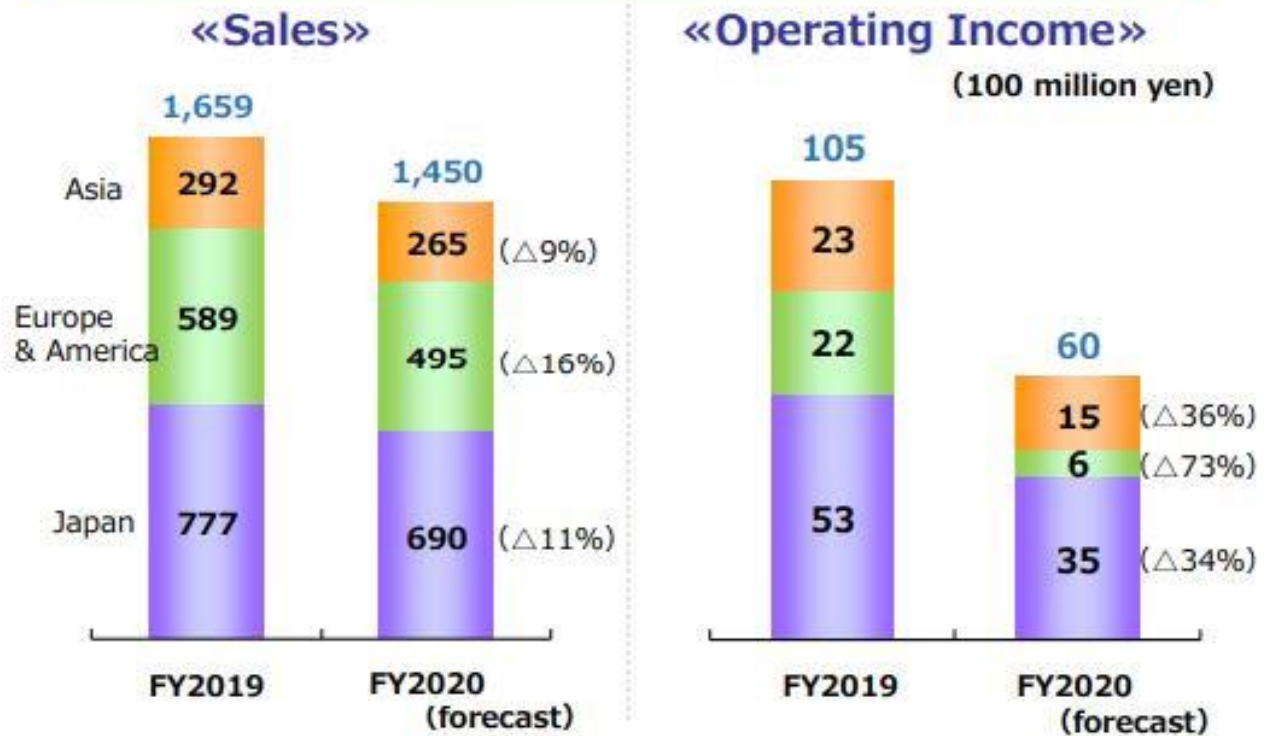
Operating income is expected to decrease by 35% YoY to JPY2.5 billion, reflecting cost reduction initiatives and efforts to reduce expenses, in spite of a decrease in income due to a decrease in sales and an increase in depreciation expenses.

Sales in the Valve Business fell by 18% to JPY42.7 billion. Despite efforts to reduce costs, operating income is expected to decrease by 47% to JPY3.5 billion, due to a decrease in sales volume and amortization of goodwill, et cetera.

2-4 Full year Consolidated Regional Segment

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Both businesses are expected to be in the black, although sales and profits in Japan, Europe, America and Asia will decrease



Although we are forced to lower sales and profits due to the impact of the first half of the fiscal year, the recovery in Europe and the United States is expected to lag behind that in Japan and Asia.

2-5 Returns for Stockholders

Paid 10 yen as an interim dividend

■ Annual Dividend

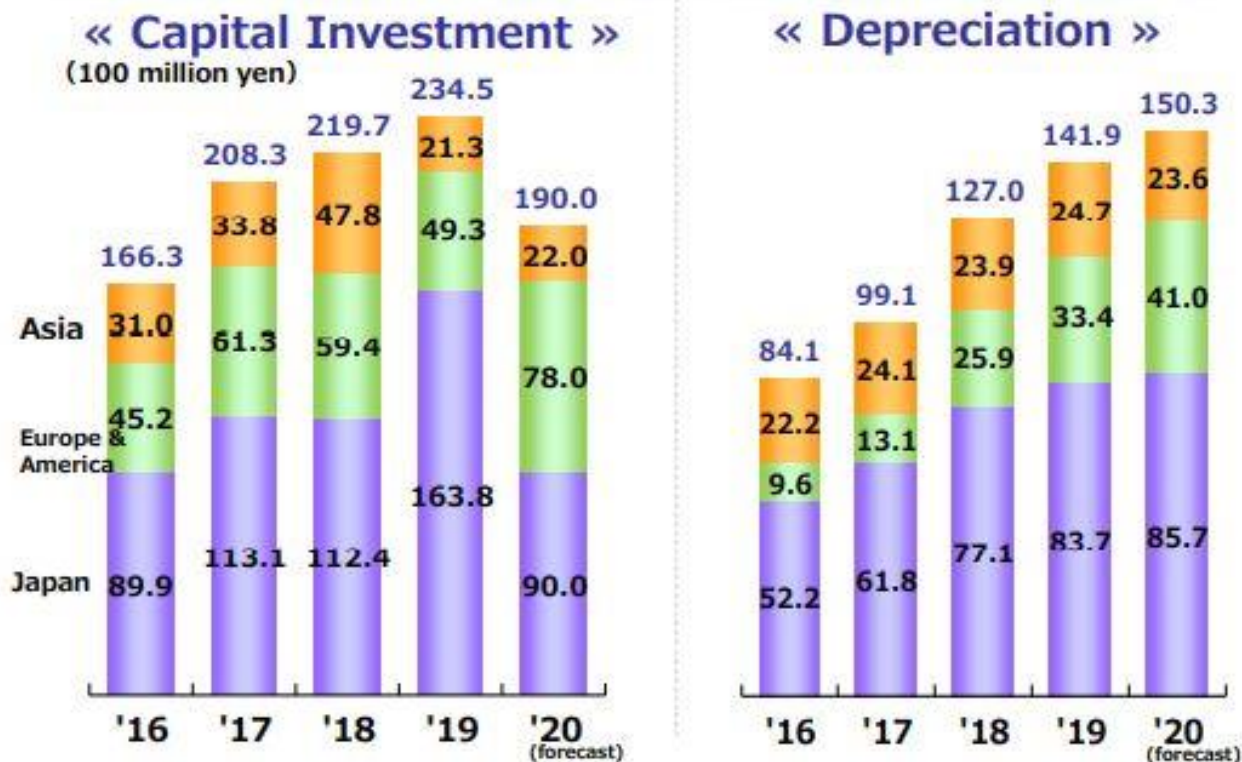
FY2020 plan Annual : 20yen (Mid-term : 10yen Term end : 10yen)



At a meeting of the Board of Directors held on October 28, the Company decided to pay an interim dividend of JPY10. We plan to pay a year-end dividend of JPY10 per share, as announced, for the current fiscal year. Together with the interim dividend of JPY10 per share, we plan to pay an annual dividend of JPY20.

The dividend payout ratio for the full fiscal year is expected to be 26.9%.

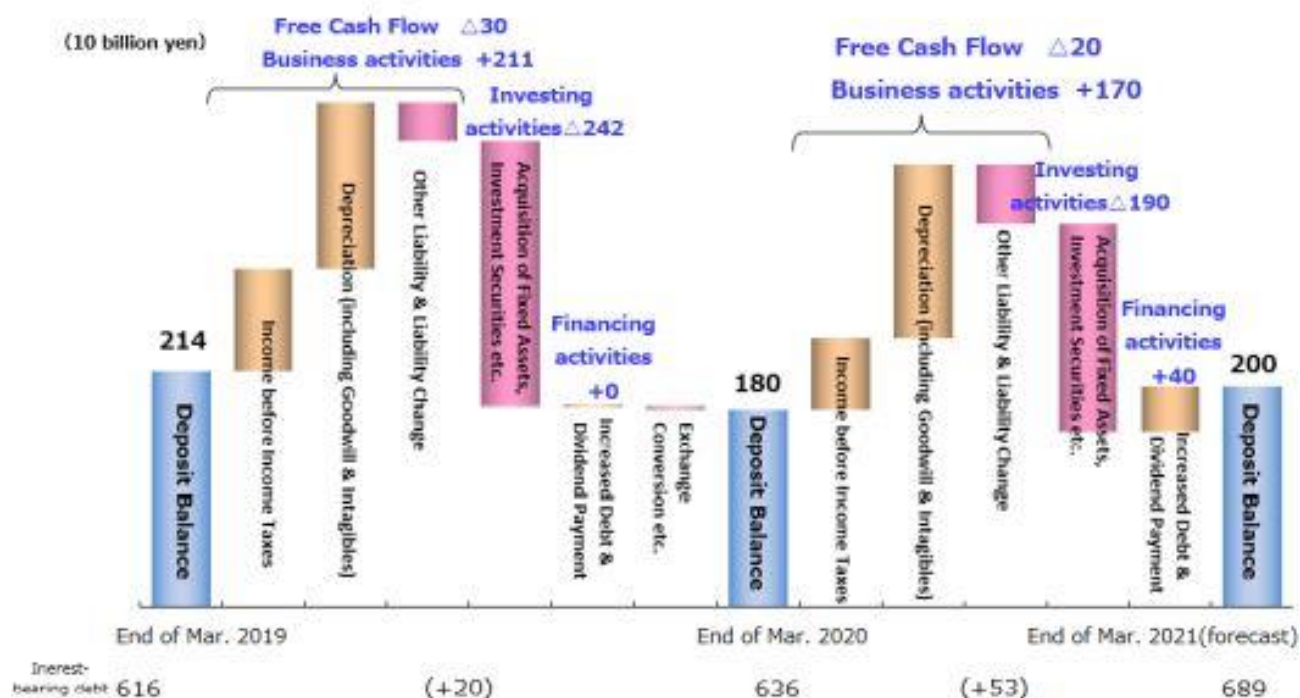
Carefully selected capital investment



While restraining capital investment for the full fiscal year, we will carefully select the necessary investments and plan to pay JPY19 billion. Depreciation is expected to be JPY15 billion, due in part to items have already been implemented from the previous year.

2-7 Consolidated Cash Flow

Secure necessary funds, continue investment



For the full fiscal year, free cash flow is expected to be negative JPY2 billion, but we expect to cover it with borrowings and have the balance of cash and deposits at the end of the fiscal year is expected to be JPY20 billion. Interest-bearing debt is expected to increase by JPY5.3 billion to JPY68.9 billion, due to short-term borrowings to secure working capital and long-term borrowings for capital investment.

With regard to fund demand, we are taking all possible measures by secure short-term borrowing limit and commitment lines while managing funds on a Group-wide basis.

3-1 Sustainability Management

Building sustainable society and working on SDGs

Long-term Vision PACIFIC GLOCAL VISION



We operate our businesses based on the medium-term management plan, OCEAN-22, under the long-term vision, PACIFIC GLOCAL VISION. We believe that it is our mission to contribute to the realization of a sustainable society and have so far positioned it as an important issue for CSR and ESG management and have incorporated it into a variety of activities.

In our sustainability management efforts, we have identified themes as four pillars linked to our long-term vision and SDGs themes that will focus on 15 materiality items.

With the four pillars of sustainability management, we first address the trust and fostering of stakeholders. In terms of technology, we decided to resolve social and customer issues through our products. We will promote the resolution of social issues, focusing on our existing domains, the automotive field. In addition, while working to minimize the environmental impact of our business activities, we will continue to respect human assets and work to enhance awareness of human resource development, women's active participation, diversity, work style reform, et cetera within the Company.

Going forward, the PACIFIC INDUSTRIAL Group as a whole will aim for sustainable growth by embodying targets and implementing initiatives for the themes and materiality.

3-2 Sustainability Management

Identifying 4 pillars of Sustainability and 15 Materialities

Pacific Glocal Vision :

A truly GLOCAL company that is worthy of stakeholders' trust, rooted in communities and able to co-exist and co-develop with them

■ Fostering trust with stakeholders

- Corporate ethics and compliance
- Responsible procurement
- Improvement in customer satisfaction
- Local community development



Donation of PCR test car



Pacific Glocal Vision :

A company that leverages its core technology and continuously provides new business, new products and new technologies toward a sustainable society

■ Solving social and customer issues through products

- Contribution to a sustainable mobility society and prosperous living
- Improving mobility safety
- Development of environment-conscious product



In accordance with our vision of becoming a truly “glocal” Company that is trusted by stakeholders, rooted in local communities, and can coexist and develop, we have identified materiality from the perspective of contributing to the development of local communities and society by valuing the relationships of trust we place with our stakeholders, including society, suppliers, customers, and local communities.

To commemorate the 90th anniversary of the Company’s foundation, we donated a PCR inspection car with a transporting function to Gifu Prefecture. We believe that it can be used effectively for the benefit of the region in the coronavirus crisis.

Next, we will contribute to sustainable mobility and affluent lifestyles by solving social and customer issues through our products and utilizing our proprietary technologies.

In particular, in the area we have been working on, we believe that we can contribute to the improvement of fuel efficiency, reduction of CO2 emissions, and reduction of environmental impact through the evolution of light weighting technologies.

3-3 Sustainability Management

Identifying 4 pillars of Sustainability and 15 Materialities

Pacific Glocal Vision :

A company that leverages its core technology and continuously provides new business, new products and new technologies toward a sustainable society

■ Minimizing environmental load

- Mitigation of the climate change and adaptation
- Sustainable resources use
- Conservation of water resources



PACIFIC Environment Challenge 2050



Pacific Glocal Vision :

A company that values employees' new ideas and challenges and ensures they feel the harmonious balance between work and life

■ Respect and success of human resources

- Respect for human rights
- Stable employment and decent work
- The safety and the health of employees
- Development of human resources and Cultivation of culture we can challenge
- Diversity and inclusion



As an initiative toward a sustainable society, we have also identified materiality from the viewpoint of minimizing the environmental impact of our business activities.

As part of the PACIFIC Environmental Challenge 2050, we have set long-term targets for reducing CO2 emissions, waste emissions, and water consumption, and have begun working to achieve these targets. As a Company that conducts business globally along with the bounty of the global environment, we will work globally to realize a sustainable society.

In addition, we are a manufacturing Company, and respect for human assets and active participation are indispensable for sustainable growth. Manufacturing is based on our belief in human resource development, and we will promote the development of internal human resources and a corporate culture that enables us to take on challenges.

In particular, we are continuing to develop human resources at home and abroad through improvement activities, synergy activities with Schrader, and education at a learning center to learn about manufacturing, which we have been vigorously pursuing during the coronavirus crisis. We believe this will bear our efforts to enhance our business foundation and strengthen our competitiveness.

We aim to create an environment in which all employees can work enthusiastically, leverage diverse ideas, value new challenges, and contribute to society.

4-1 Changes in the External Environment and Mid-term Effort

Speed up strategic efforts

[once in a century transformation]

- CASE
- Progress in mobility society

[Societal Demand]

- SDGs
- ESG

Changes have been accelerated due to the impact of Covid-19

Market needs : Improvement of safety, environmental, and comfort performance

Our Policy

Technology development and base maintenance to meet industry trends and customer needs
Acceleration of development of new technologies, new materials, and new construction methods

Weight saving

**Sound/
Vibration proof**

EV

**New fields/
New products**

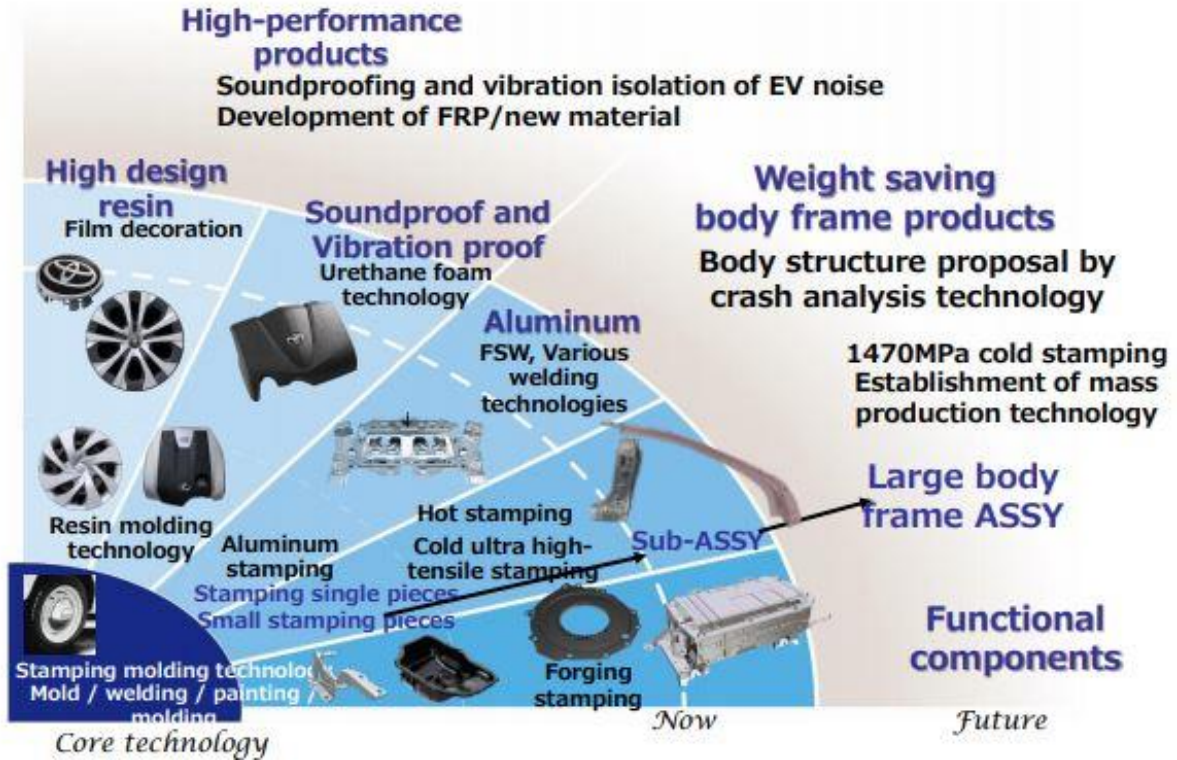
The automotive industry is in an era of major transformation that is said to occur once every 100 years. In addition to technological advances such as progress toward a mobility society and CASE, we need to respond to a variety of social demands, including SDGs I explained earlier.

We believe that changes in the external environment will accelerate further in the aftermath of the coronavirus crisis and we will need to revise our medium-term initiatives and add new initiatives. At present, we will continue to solidify the foundations of our efforts to improve costs and improve profitability by taking advantage of our learnings from the coronavirus crisis.

In addition to advancing existing technologies, we will work to create new technologies, products, and businesses.

4-2 Expansion of Stamping & Molding Technologies

Weight saving, Crash analysis, Soundproof and Vibration proof



In the Stamping Business domain, based on our know-how in die and process designs, we will advance weight reduction technologies such as ultra high-tensile stamping and aluminum forming, improve crash analysis technologies, and develop functional components such as battery cases and forging presses.

In the Molding Business domain, we will continue to develop technologies that contribute to soundproofing and vibration-proofing of EVs, in addition to providing highly designed products using film decoration technologies, and technologies such as soundproofing and vibration-proofing of engines using urethane foam molding technologies.

Structural proposal and Assembly area expansion

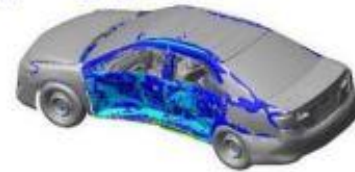
■ Strengthening body frame stamping products

Deepening of ultra-high-tensile stamping molding technology
→Further expanding the cold-molding areas .

Deepening of crash analysis technology
→Proposal of the optimum structure of the body

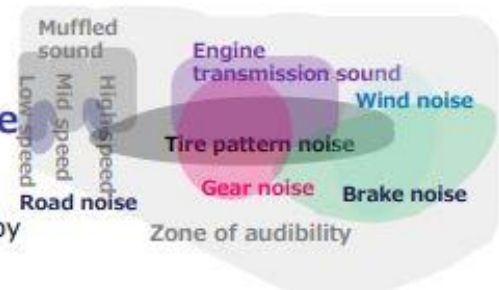
Expansion from small assemblies to medium-sized areas

→Received an order for large body frame ASSY components



■ Sound/Vibration proof against EV noise

- Expanding needs due to EV and European noise regulations
- Deepening urethane foam technology and expanding areas by developing new materials



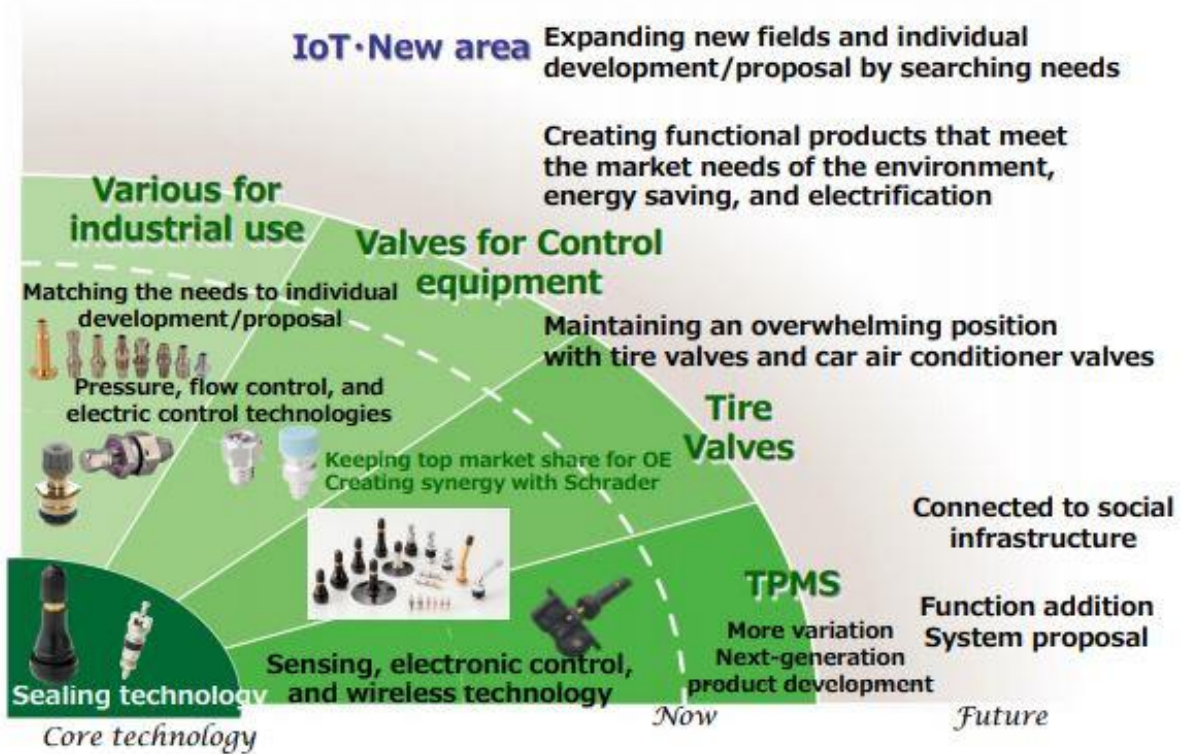
In the future, as vehicles become increasingly lighter, we will propose the development of optimal body design through the evolution of structural analysis technologies that consider the safety of collisions.

By expanding our business domains from upstream to downstream in body skeleton formation, we aim to advance from a Stamping manufacturer to a Body Shell manufacturer.

In the Molding Business, the need for soundproofing and vibration-proofing, which can respond to motor noise and various types of noise, is increasing further, due to the adoption of EVs. We will evolve soundproof product technology from the development stage of new materials.

4-4 Expansion of Valve Technologies

Sealing/Controlling technology



In the Valve Business, together with Schrader, we will provide products that leverage our sealing technology, such as our founding products, such as our valve cores, tire valves, valves for car air-conditioning, and industrial valves.

TPMS will continue to strengthen its competitiveness and expand its response to OEs, while promoting the development of variations for aftermarket, two-wheeled vehicles, and other applications.

4-5 As a Manufacturer Specializing in Valves 28/31

Maintaining an overwhelming position in tire valves and car air conditioner valves

■ Development of a heat-pump car air conditioner valves for EVs

Changes in power train



Insufficient heat source for heaters



Heat-pump air conditioners

→Control valve required for transition to heat pump air conditioner

■ Sales expansion for TPMS/Valve products

- Products for after market go on sale

North America: Nov. 2020~

■ Creating synergy with Schrader

- Strengthening manufacturing in quality, cost, productivity, etc.
- Collaboration for new products development and mutual sales



Due to changes in the powertrain caused by the use of EVs, car air-conditioning systems have adopted a heat pump method, requiring a new control valve. Leveraging the knowledge we have cultivated in valves for consumer electronics, we will propose the development of competitive products.

TPMS is globally subject to laws and regulations and we will strengthen sales of general-purpose transmitters for the aftermarket.

Schrader Business, which we integrated into our management in 2018, has been effective in terms of manufacturing, including improving quality, cost, and productivity. In addition, we will collaborate on new technologies and product development and expand sales to both customers with the aim of generating synergies.

4-6 Technology Development in New Fields ^{29/31}

Applying sensing and Wireless technology to Solution development

■ Applying monitoring & wireless technologies to the new product development

《 Applied areas 》

Environmental monitoring demand

Food production & transportation process



Frozen food



Refrigerated container

Medical goods transportation



Trucks



Medical goods /specimen

The livestock industry



■ Applying sensing technologies to safe/secure product development

- Charging cables with temperature monitoring for forklifts
- Server monitoring systems for data centers



We have been promoting product development initiatives in new fields by leveraging the core technologies cultivated in our existing businesses.

In Food Products and Pharmaceuticals, there is growing demand for monitoring, including stricter regulations on product management in the production and transportation processes, and in the Livestock industry, demand for livestock body management. We are developing device solutions that utilize sensing technologies and wireless technologies cultivated in TPMS.

As a developed product applying sensing technology, we will respond to the need to secure safety and security, such as a charging cable with a forklift ignition prevention thermostat function and a server abnormality monitoring system at a data center. We will work to accelerate development by capturing multifaceted needs that emerge as IoT and ICT evolve.

4-7 Sustainability Report

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■ Issued on Oct. 28th after enriching the contents and changing the name



- Materiality identification process
- Environment vision
- Globalizing information disclosure
- Enriching non-financial information

<https://www.pacific-ind.co.jp/csr/report/>

Finally, from the long-term management perspective that I explained today, we have renamed the CSR Report, which we have been publishing, to the Sustainability Report from the standpoint of pursuing the sustainability of society and businesses on a global basis. We improved its content and published it on October 28.

Under Pacific Glocal Vision, we will promote sustainability management by adding SDGs activities to the business development of the medium-term management plan OCEAN-22.

In addition, this report aims to globalize information disclosure and enhance the content of non-financial and other information. It is posted on our website, so we would like you to take a look at it by all means.

Finally, we aim to become a 100-year Company, and we sincerely want to contribute to the future.