

Financial Results Briefing for FY2019

The 96th period (Apr. 1st, 2019-Mar. 31, 2020)

May 20, 2020



PACIFIC INDUSTRIAL CO., LTD.

- 1. Financial Results for FY2019**
- 2. Approaches for the New Coronavirus**
- 3. Approaches for Mid-to-Long Term**

Caution in handling this document

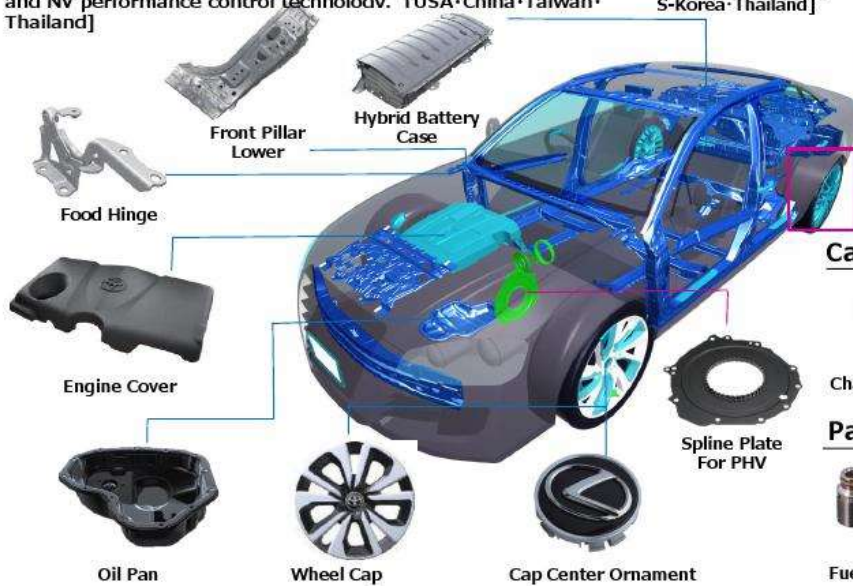
Future forecasts, including this document, were judged according to the current information. Actual financial results might be considerably different from the forecast mentioned here depending on the Japanese or international economic situation, business trends related to our company, and any risk or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

An Outline of Our Business and Main Products ³

Founded in 1930, Ranked as "A-Stable",
8 Plants in Japan, 18 Companies in 8 Countries

Stamping & Molding Products Business

We manufacture stamping products, which have the molding technology of ultra-high-tensile material that achieves both weight reduction and high rigidity, and resin products, which 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 that have multiple top share products in the world, TPMS products for tire pressure monitoring systems that are in increasing demand worldwide, and forging products. 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



Now, I will explain the outline of our business and main products.

We were founded in 1930 to manufacture valve cores in Japan. The Company was listed on the TSE Second Section in 1962, and listed on the First Section in 1970. Our JCR credit rating is A-Stable.

In Japan, we operate eight plants in the Chubu, Kyushu, and Tohoku regions. Overseas, we operate eight plants. We have 18 consolidated subsidiaries in Japan and overseas.

Our business is broadly divided into two areas. The first is the Stamping and Molding business, which consists of stamping products and resin products, and the Valve business, which consists of valves and TPMS products. We produce, sell, and develop the products shown in the slide.

The Stamping and Molding business accounts for about 70% of total sales. We deal mainly with the Toyota Group and with Honda, Suzuki, and Mitsubishi. Overseas, we have bases in the US, China, Taiwan, and Thailand.

The Valve business accounts for approximately 30% of total sales. In addition to the US, Belgium, China, Taiwan, South Korea, and Thailand plants, our overseas bases include Schrader SAS, which was acquired in 2018, and we hold the top share of the global tire valves market.

1-1 Consolidated Results

**Sales and Operating Income increased (Record high) ,
Parent company net income decreased due to extraordinary
losses, Forecast for FY2020 is undecided**

[million yen]

	2018	2019								
		Jan,2020 Announced	Results		Consolidated/No re-consolidated	Year-on-year rate		Announced Figure Level		
			Gain&Loss	%change		Gain&Loss	%change			
Sales	Record High 145,030	160,000	Record High 165,969	1.8	20,939	14.4%	5,969	3.7%		
Operating Income	Record High 10,307	10,000	Record High 10,511	2.0	204	2.0%	511	5.1%		
Ordinary Income	Record High 11,767	11,000	11,130	1.5	△637	△5.4%	130	1.2%		
※1 Parent Company Current Net Income	Record High 8,730	8,000	7,256	1.8	△1,473	△16.9%	△744	△9.3%		
Operating Profit Margin	7.1%	6.3%	6.3%	/	△0.8%	/	0.0%	/		
R O E	9.3%	—	7.5%	/	△1.8%	/	—	/		
R O A (Operating Income Base)	5.7%	—	5.2%	/	△0.5%	/	—	/		
Net Assts per Share	(yen) 1,590	—	1,614	/	24	/	—	/		

※ 1.It is the abbreviation of the official name: Net Income attributable to parent company shareholders.



I would like to explain the consolidated financial results for FY2019, our 96th fiscal year.

Automobile production by our major customers has generally been steady. In the fourth quarter, production began to decline due to the worldwide spread of the new coronavirus.

As a result, sales and operating income reached record highs, while ordinary income and net income declined. Consolidated net sales increased 14.4% YoY to JPY165.969 billion, a record high for the third consecutive year. This was due to expanded sales of ultra-high-tensile materials and increased sales volumes in the Stamping and Molding business, as well as the full-year inclusion of the results of Schrader SAS, which was acquired in August 2018 in the Valve business.

Operating income rose 2.0% to JPY10.511 billion, marking the second consecutive year of record-high income growth. Ordinary income declined 5.4% to JPY11.13 billion. Net income declined 16.9% to JPY7.256 billion, reflecting the posting of an extraordinary loss.

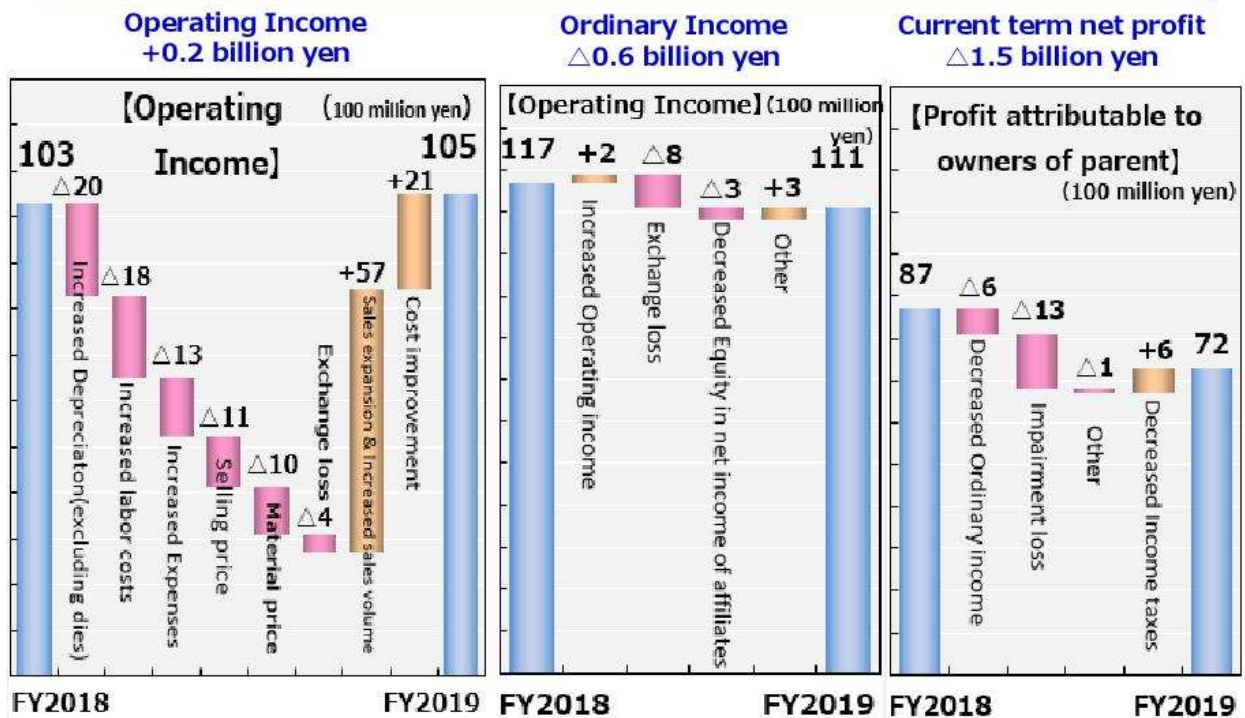
Next is the outlook for the next fiscal year.

Due to the spread of COVID-19, the business environment is becoming increasingly challenging due to fluctuations in production and sales plans of Japanese and overseas customers. Under these circumstances, it is currently difficult to calculate a reasonable and rational forecast of business performance, and therefore the forecast for the next fiscal year has not been determined. We would like to disclose the information as soon as it becomes possible to make a reasonable forecast.

1-2 Consolidated Sales & Profit Increase/Decrease Factors

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Sales Expansion of New Products and Increase in Sales Volume Contributed Significantly to the Increase in Sales and Profits



The following describes the factors behind the changes in each line profit for FY2019.

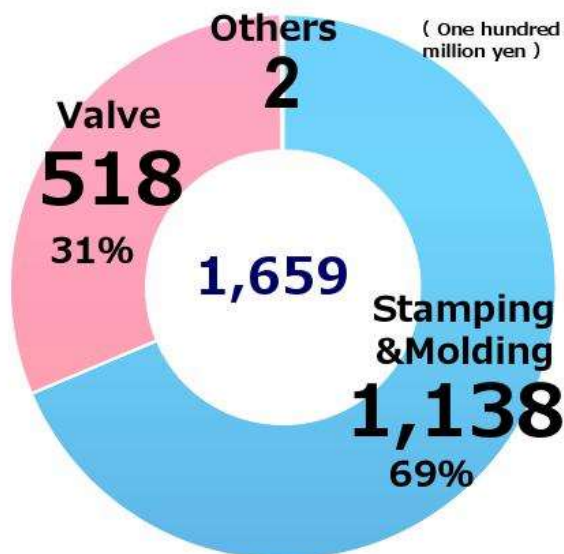
Operating income increased by JPY200 million to JPY10.5 billion. The positive factors were sales expansion and sales volume increase by JPY5.7 billion, and cost improvement by JPY2.1 billion. Negative factors include a JPY2 billion increase of depreciation and amortization, including amortization of goodwill, as well as increased labor costs and expenses, and lower selling prices.

Ordinary income decreased by JPY600 million, mainly due to a foreign exchange loss of JPY800 million.

Net income declined JPY1.5 billion due to JPY1.5 billion in extraordinary loss. This is mainly due to an impairment loss of JPY1.3 billion at our Chinese subsidiary.

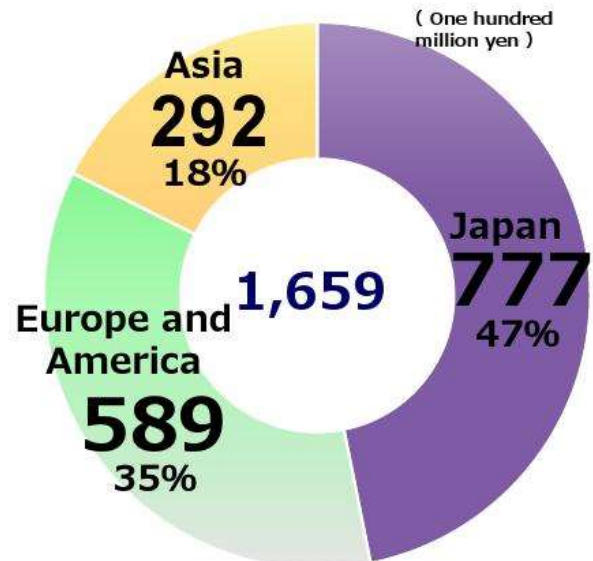
1-3 Consolidated Segments Sales for FY2019⁷

Sales by Business



【Stamping & Molding】 Stamping & molding products for automobiles
 【Valve】Tire valves, air conditioning valves, TPMS
 【Others】 Information, services

Sales by Region



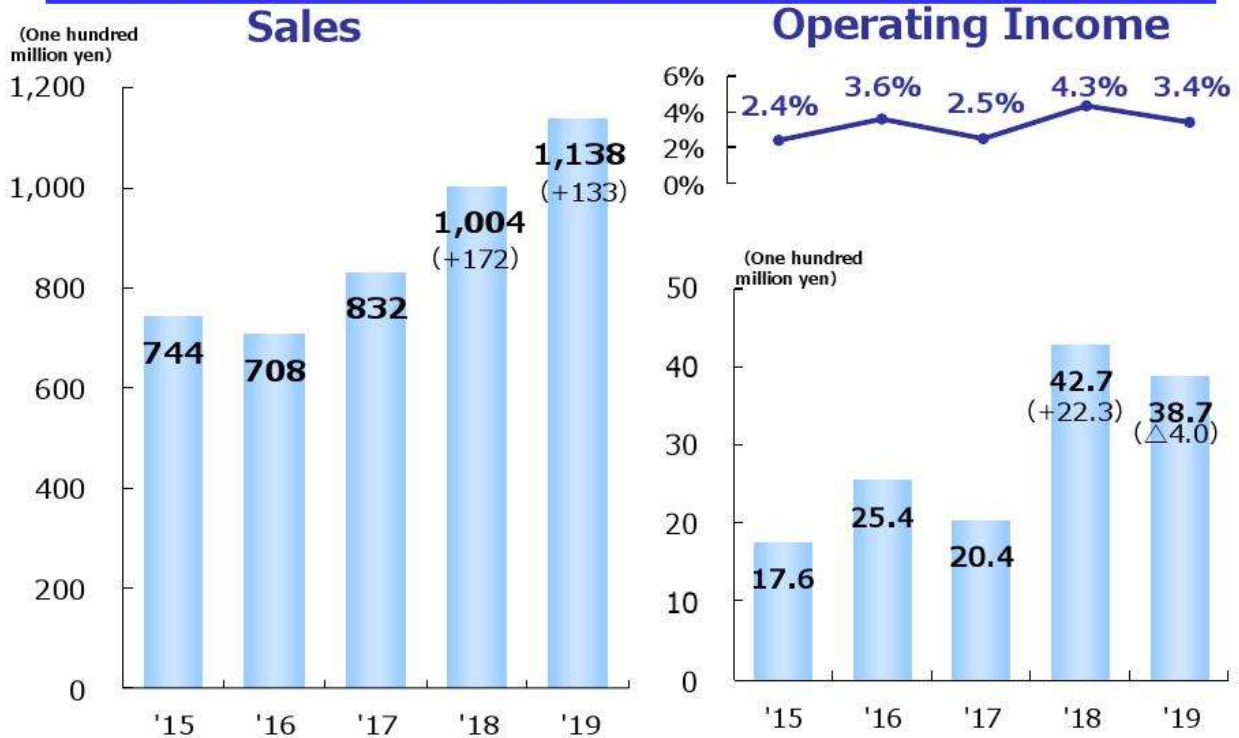
【Japan】 Chubu, Kyushu, and Tohoku
 【Europe and America】 U.S. France, Belgium
 【Asia】 Taiwan, S. Korea, Thailand, China

Next, I will explain the breakdown of sales by segment in FY2019.

By business segment, the Stamping and Molding business accounted for 70% of the total, or JPY113.8 billion, while the Valve business accounted for approximately 30% of the total, or JPY51.8 billion.

By region, Japan accounted for nearly 50% of the total at JPY77.7 billion, Europe and America for slightly above 30% at JPY58.9 billion, and Asia for nearly 20% at JPY29.2 billion.

**Sales Increased Due to New Product Sales,
Profit Decreased Due to the Increase in Depreciation, etc.**



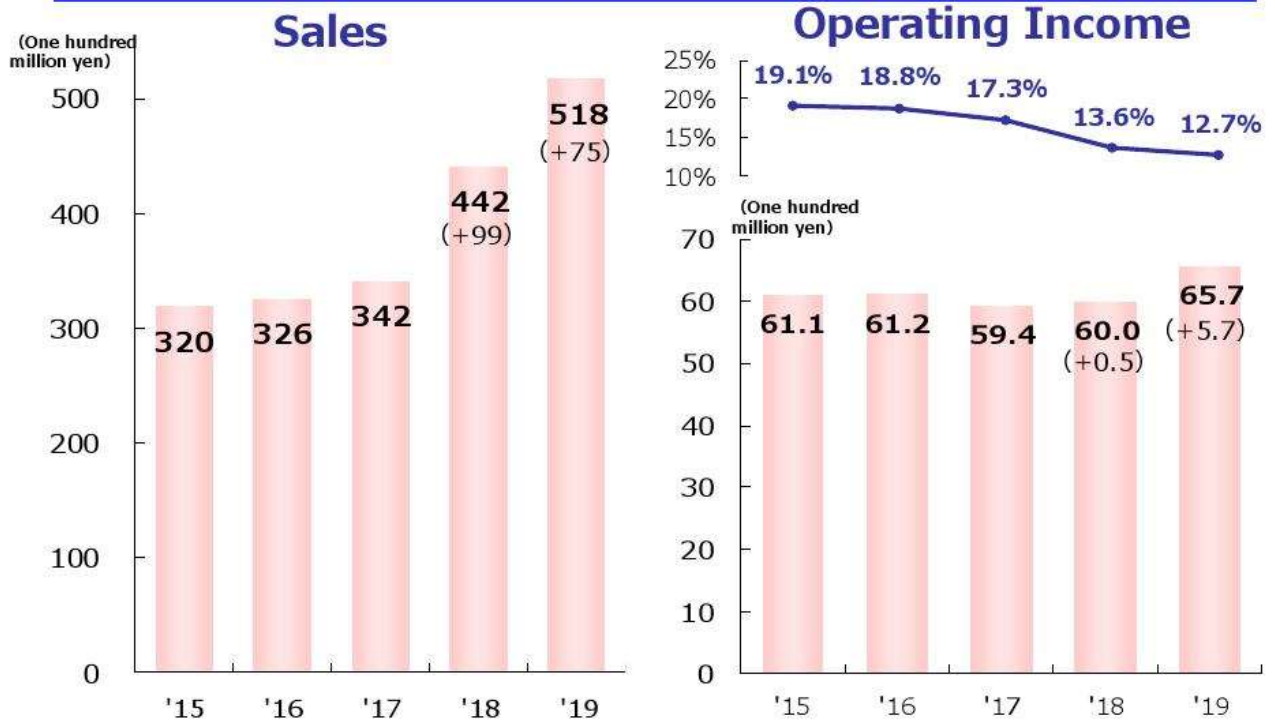
Next, I will talk about each business segment.

Sales in the Stamping and Molding business increased 13.3% to JPY113.8 billion due to the contribution of increased sales of new products.

Operating income decreased 9.4% to JPY3.87 billion due to an increase in depreciation and amortization, despite an increase in sales volume and an improvement in cost of sales.

1- 5 Business Segment : Valve Business

Sales & Profit Increased Due to the Full Year Consolidation of Schrader U.S. and France



In the Valve business, sales increased 17.1% to JPY51.8 billion, due to the full-year contribution of Schrader SAS, which we acquired in August 2018, and an increase in the volume of TPMS.

Operating income increased 9.5% to JPY6.57 billion, mainly due to a decrease in acquisition costs incurred in the previous fiscal year.

1-6 Regional Segment: Japan

Sales Increased. Profit Decreased Due to the Increase in Depreciation and Exchange Loss etc.

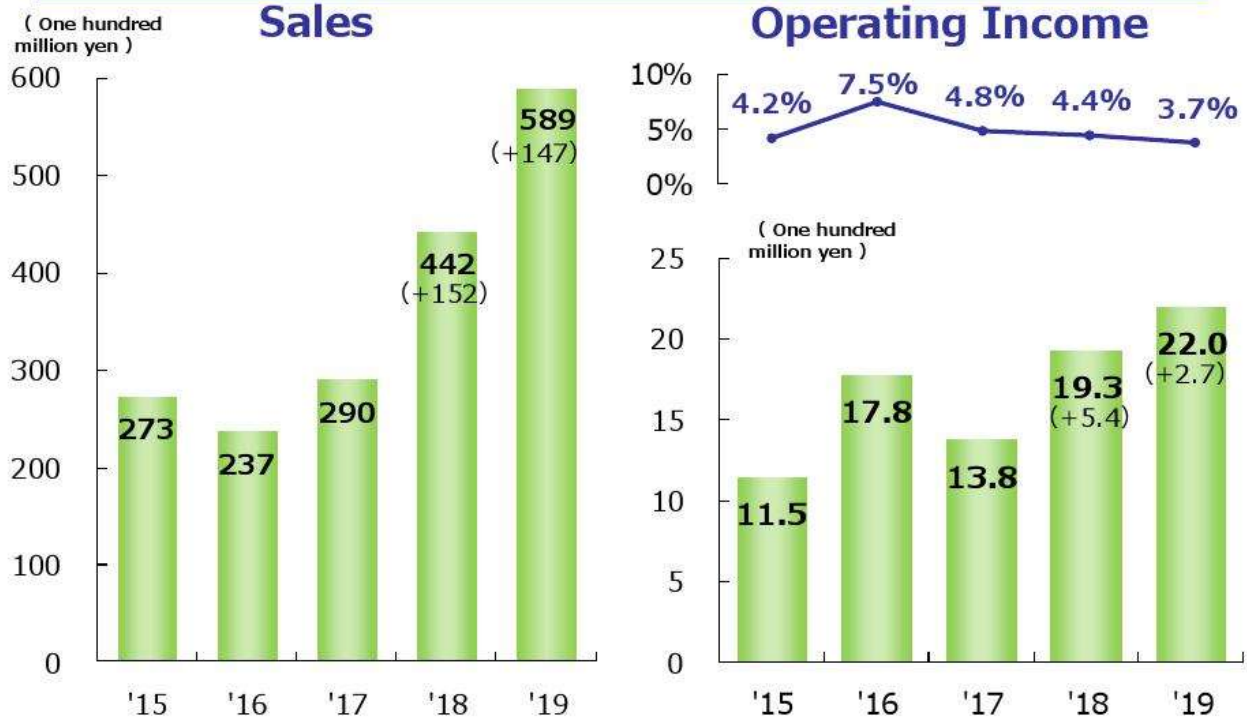


Next, I will talk about the regional segments.

Sales in Japan increased 9.7% to JPY77.7 billion, due to an increase in sales volume. Operating income decreased 6.7% to JPY5.3 billion, due to an increase in depreciation costs associated with strategic capital investment.

1-7 Regional Segment: Europe and America ¹¹

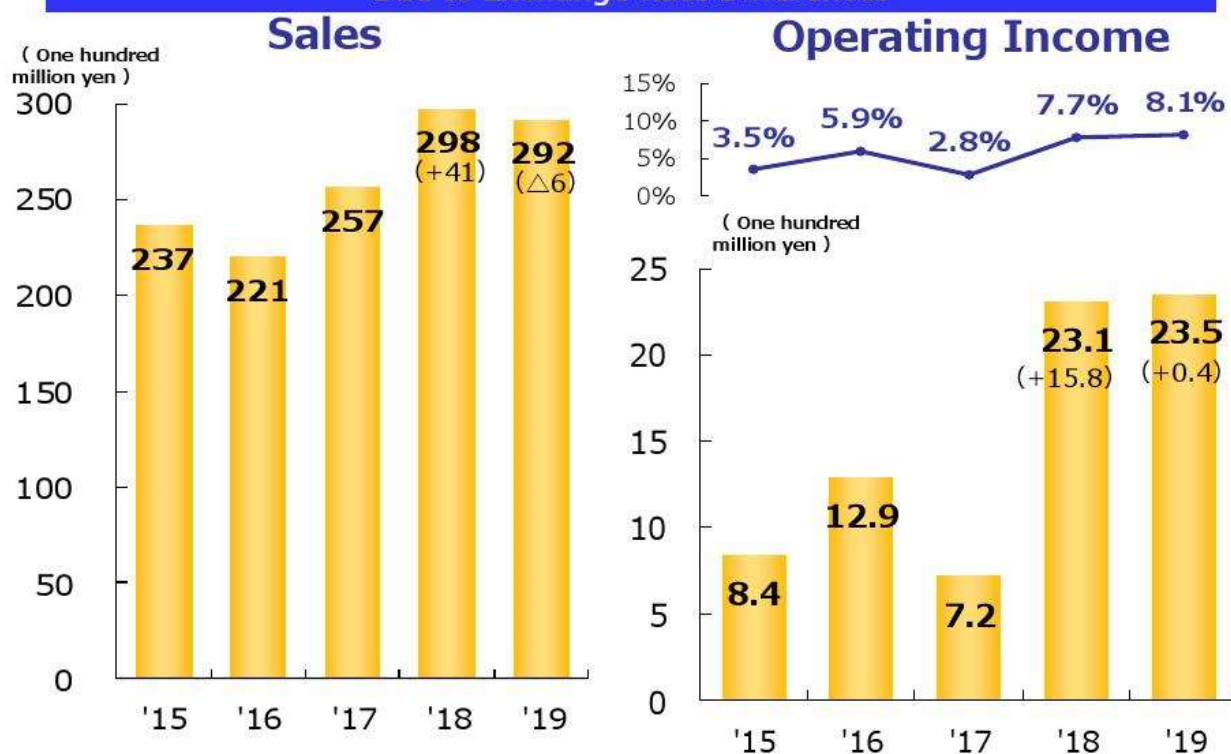
Sales & Profit Increased Due to the Full Year Consolidation of Schrader U.S. and France



Sales in Europe and America increased 33.3% to JPY58.9 billion and operating income increased 14.4% to JPY2.2 billion, thanks to the contribution of the acquired Schrader SAS. I would like to mention that Schrader SAS's performance is trending at the same level as originally planned.

1-8 Regional Segment: Asia

Profit Slightly Increased Despite a Decrease in Sales
Due to Exchange Rate Differences

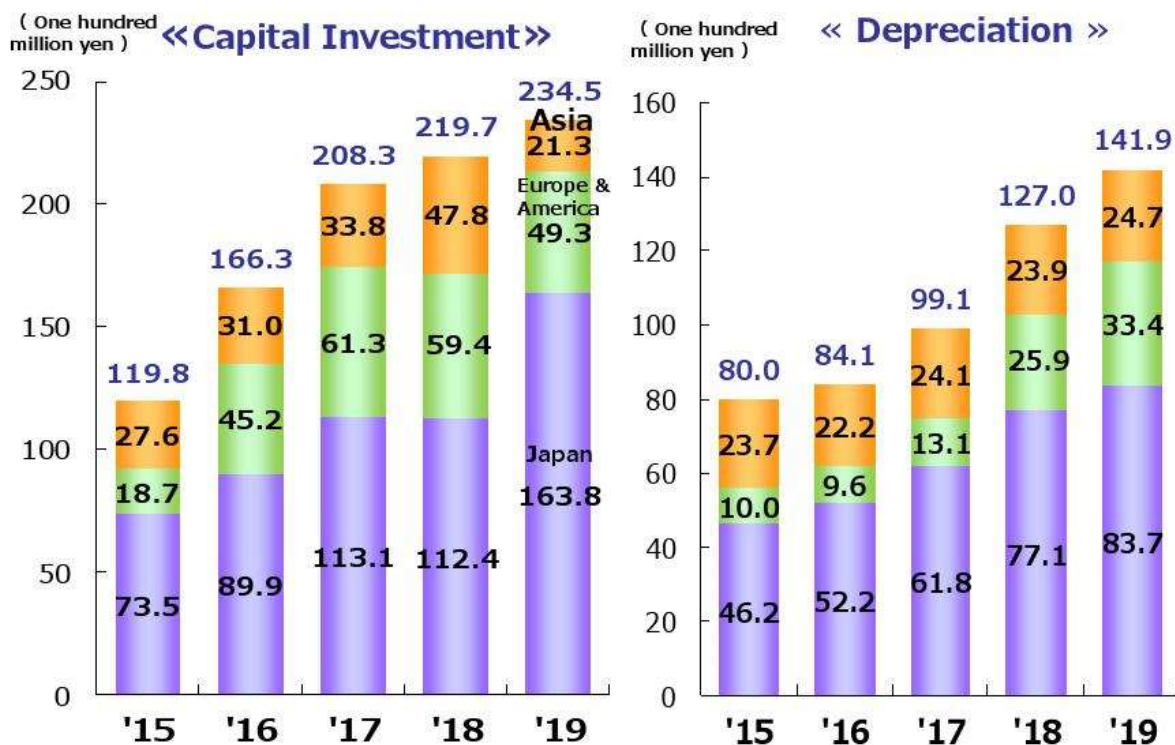


Sales in Asia decreased 2.2% to JPY29.2 billion, due mainly to foreign currency translation adjustments, but operating income increased 1.9% to JPY2.35 billion due mainly to cost reductions.

The fiscal year of the four Chinese companies close in December, so the impact of reduced production due to COVID-19 will not be felt during the fiscal year under review.

1-9 Consolidated Capital Investment/Depreciation ¹³

Increased Depreciation Due to Strategic Capital Investment



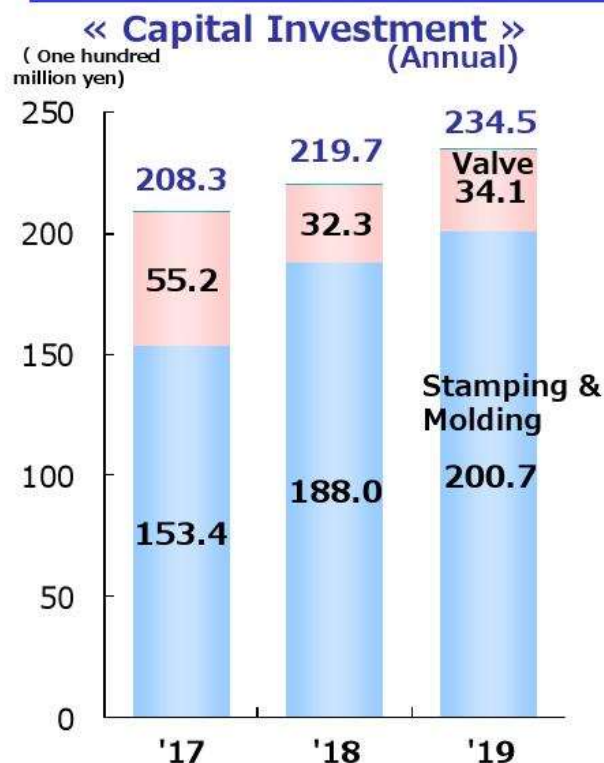
Next, I will explain capital investment and depreciation.

Capital investment increased by 7% from the previous fiscal year to JPY23.45 billion for the year under review. The breakdown shows that capital investment in Japan increased 45% to JPY16.38 billion, while the amount was JPY4.93 billion in Europe and America and JPY2.13 billion in Asia.

Consequently, depreciation and amortization increased 12% over the previous fiscal year, to JPY14.19 billion.

1-10 Strategic Capital Investment

Promoted Strategic Investment such as Ultra High Tensile, TPMS etc.



«Main Items»

■ Valve Business

Extending TPMS Line (USA·CN)
 SCHRADER Synergy Investment (USA·FR)
 Strengthening Forging Competence (JPN)
 Strengthening Aluminum Die-Casting Competence (KOR)

■ Stamping & Molding Business

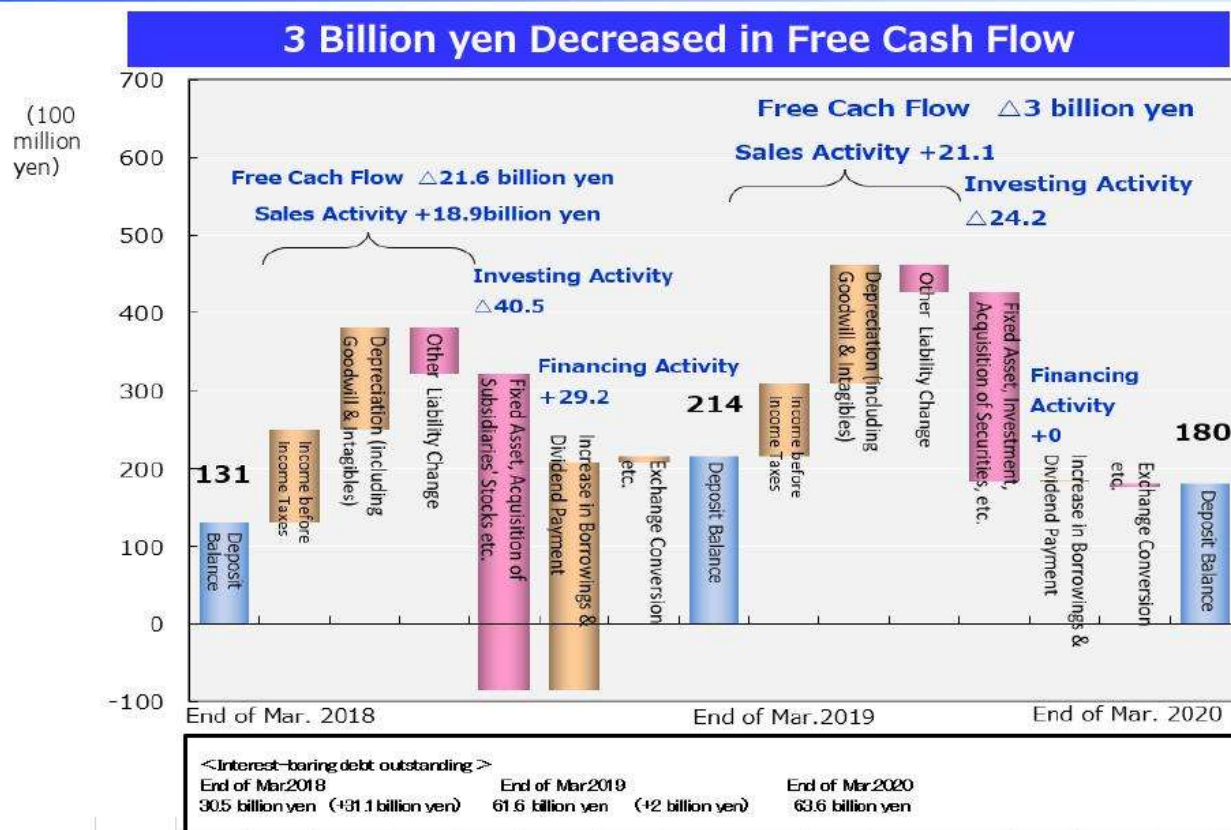
A Large-class Press for Cold ultra High Tensile (JPN·USA·CHN·TWN·THA)
 Hot Stamping (JPN·USA)
 and Other Investment for new Products

Next, I will explain the main contents of capital investment.

In the Valve Business, new TPMS lines were added in the US and China. We invested in synergies with Schrader SAS in the US and France. In Japan, we expanded our forging facilities, and in South Korea, we expanded our aluminum die casting competence.

In the Stamping and Molding business, we have built ultra-high-tensile stamping working lines in Japan and overseas. We have introduced large-class presses for cold ultra-high-tensile and hot stamps as a lineup in Japan, the United States, and Asia.

1-11 Consolidated Cash Flow



Consolidated cash flows for FY2019 include an inflow of JPY21.1 billion from operating activities and an outflow of JPY24.2 billion from investing activities, including capital investment. As a result, free cash flow was negative at JPY3 billion.

Financing activities funded JPY2 billion and paid JPY2.1 billion in dividends. As a result, the cash balance at the end of March 2020 was JPY18 billion, a JPY3.4 billion drop from the end of the previous fiscal year.

Interest-bearing liabilities increased by JPY2 billion to JPY63.6 billion.

1-12 Returns for Stockholders

A dividend payout ratio increased (Undecided for FY2020)

■ Annual Dividend

FY2019 plan Annual : 30yen (Mid-term : 16yen Term end : 14yen)

FY2020 plan Undecided



Next, I would like to talk about the dividend policy.

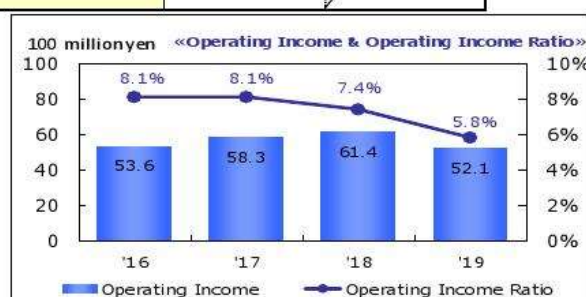
The Company pays dividends that are consistent, stable, and in line with business performance. With regard to the year-end dividend, as net income fell short of the previously announced guidance, the dividend amount was revised to JPY14 so that the annual dividend payout ratio will be at the same level as when the forecast was met. The annual dividend for the fiscal year under review will be JPY30, including the interim dividend of JPY16 already paid.

The dividend payout ratio will increase 2.2% to 25.0%. Dividends for FY2020 have not been announced because performance forecasts have not been determined yet.

1-13 <Reference> Individual Results

[million yen]

	2018	2019			
		Results	Year-on-year rate		
			Gain&Loss	%change	
Sales	Record High 83,562	Record High 89,901	6,338	7.6%	
Operating Income	Record High 6,146	5,212	△934	△15.2%	
Ordinary Income	Record High 7,871	7,370	△501	△6.4%	
Current Net Income	Record High 5,895	4,038	△1,856	△31.5%	
Dividend (per share)	33	30	△3	△9.1%	
Operating Profit Margin	7.4%	5.8%	△1.6%		
R O E	8.3%	5.5%	△2.8%		
R O A (Operating Income Base)	4.5%	3.4%	△1.1%		
Net Assts per Share	(円) 1,191	1,208	16		



Finally, please take a look at our individual results.

Sales increased 7.6% YoY to JPY89.901 billion, thanks to the acquisition of new sales. In terms of profits, operating income decreased 15.2%, to JPY5.212 billion, ordinary income decreased 6.4% to JPY7.37 billion, and net income decreased 31.5%, to JPY4.038 billion. A decline in profits resulted despite an increase in sales volumes and cost improvements, lower sales prices, higher labor costs and expenses due to the increase in sales volumes, and an increase in depreciation expenses due to aggressive capital investment.

That's all about our performance in FY2019.

Gaining a Solid Foothold GLOCALly by Preventing Being Infected and Maintaining Our Production System as a Top Priority

■ Preventing being infected

- Carrying out health management for employees and their families in Japan and overseas
- Implementing countermeasures to avoid 3C's

■ Maintaining employment & supply chain

- Maintaining employment by making use of leave system and public funds
- Communicating with suppliers

■ Production system adapted to changes

- Global mutual complement and reducing supply risk
- Simulation assuming the onset of COVID-19

Next, I will explain our efforts against COVID-19.

Based on a policy of establishing a GLOCAL foundation with top priority on preventing infection and maintaining manufacturing capabilities, we are conducting short and medium to long-term measures in cooperation with employees, families, customers, suppliers, and local communities in Japan and overseas.

As a measure to prevent infections with top priority on the health and safety of employees and their families, we are implementing health management initiatives both in Japan and overseas. In addition, we are taking measures to ensure social distance, such as teleworking and split operations, and to avoid the 3C's.

As initiatives to maintain employment and supply chains, we are protecting employment while utilizing leave systems in each region. At the same time, we are working to maintain supply chains through constant communication with suppliers.

Regarding the production system, we have suspended operations in each region under government regulations, and have adjusted production in line with a decline in customer demand. In addition, we are building a system that can respond flexibly to changes in production by customers, while confirming our inventory supplement system in Japan and overseas.

We are also in the process of preparing simulations, manuals for countermeasures, and equipment based on the scenario that infections occur within the Company.

Gaining a Solid Foothold GLOCALly by Preventing Being Infected and Maintaining Our Production System as a Top Priority

■ Taking future fund management into account

- Fund management by a whole group
- Setting a commitment line with banks

■ Cooperate with employees, their families, and local community GLOCALly

- Close cooperation with the government
- Formulate and thoroughly establish internal action guidelines and deepening the ties

In terms of financing, we are strengthening our Group-wide financial management, in light of the decline in sales due to the impact of COVID-19 and future economic trends. In addition to short-term borrowing facilities, we are setting a commitment line with banks to be prepared for declines in sales and working capital.

We are working closely with authorities around the world to maintain a production system while implementing thorough epidemic prevention measures. We are also driving GLOCAL efforts to deepen ties with employees, their families, and local communities.

On May 14, the declaration of emergency was lifted in some areas, and efforts for a new way of life are now underway. Nevertheless, in order to avoid the occurrence of the second wave, we will continue to respond with a sense of urgency with our internal and external epidemic prevention measures.

I will now conclude my talk on measures against COVID-19, and discuss the medium- to long-term strategic initiatives.

Acceleration & Prioritization

- **Cost reduction & Streamline**
- **Business structure reform**
- **Manufacturing is about
developing people**

We will speed up the most recent measures I explained earlier and strategically implement medium- to long-term measures reflecting improvements and reforms under these circumstances.

First, we are working to reduce costs and streamline operations. We are speeding up the process of reducing fixed costs, improving the cost structure, and curbing investment. We are now implementing reforms, such as personnel systems that match the volume of production, and reducing and reviewing nonessential jobs.

The second issue is business restructuring. With the once-in-a-century transformation of the automotive industry towards the mobility society taking place, we will develop new businesses in addition to our existing Stamping and Molding and Valve Businesses. We will deepen our core technologies, develop and build new technological domains, and establish a business structure that looks ahead to future growth.

Third, manufacturing is essentially about the development of people. We are a manufacturing company, and human resource growth is essential for sustainable growth. Through the recent COVID-19 crisis, we view the opportunity for existing ways of business to greatly change, and we are working to cultivate human resources through constant improvements. We will continue to cultivate next-generation talent both in Japan and overseas based on our belief that manufacturing is about developing people.

In order to maximize the effects of these efforts when production recovers, we will speed up our efforts with clear priorities.

We are planning to make a revision of the current medium-term management plan OCEAN-22 in light of responses to the COVID-19 crisis and upcoming medium-term strategies.

Next, I will explain our medium- to long-term business development.

Strengthening Molding Techniques and Structural Analysis Technology To a Higher Grade

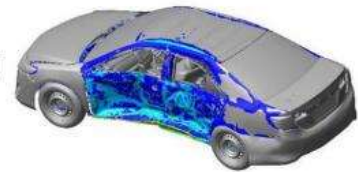
■ Expanding the forming area of weight reduction technology

- Developed cold forming and mass producing techniques for 1470MPa materials
- Expansion of hot stamping forming techniques
- Expansion of the utilization of Aluminum Friction Stir Welding (FSW)
(※)FSW : Friction Stir Welding
- Reducing the weight of resin parts around the engine



■ Developing of crash analysis technology

- Built a crash analysis model in the state of assembling
- Optimum structure & cost reduction



I will walk you through our efforts in the Stamping and Molding business.

Light weight is one key theme of next-generation automobiles, and we will further promote the use of ultra-high tensile steel that ensures formability, accuracy, and mass productivity in order to provide body shell parts with the highest level of strength and rigidity while reducing weight.

In addition to the evolution of cold forming and mass production technology for 1180MPa materials, we will accelerate the processing development of 1470MPa materials, including the expansion of hot stamping.

In addition, we have improved material yields, reduced costs, and increased mass production of aluminum friction stir welding, or FSW, for further expansion.

As I explained in the main strategic investments, we have introduced large stamping machines and hot stamps at eight plants in Japan and overseas in conjunction with the expanding adoption of ultra-high-tensile, and are working to improve our supply system.

In resin technology, we are applying the technology to all-urethane engine covers through design and evaluation from the material development stage, including weight reduction development. Through thermal management analysis, we are developing soundproofing and vibration-proofing materials for engines.

In addition, we are advancing vehicle body structure analysis technology, as well as stamping forming and analysis technology. As a body shell manufacturer, we are building a collision analysis model in the sub-assembly state, as we aim to become a specialized manufacturer capable of proposing optimal and low-cost body structures.

3-3 Efforts in Valve Business

Creating Synergy with Schrader and Diversifying Technologies

■ Synergy activities

- Production : Sharing a cost reduction thoroughly
- Development : Accelerating development of new products
- Sales : Building business foundation by expanding sales channels



■ Forge stamping: Composite technology to increase strength and reduce weight

- Developed a new method combining sheet metal forming and cold forging

■ Die casting: Weight reduction and development of the variable product type

- Built an integrated manufacturing system for compressor parts

In the Valve business, we are working to accelerate the integration of management with Schrader, which we acquired in 2018.

With the aim of becoming the world's top manufacturer of valves, we are thoroughly sharing cost-reduction measures in production. On the development front, we are working to accelerate the development of new products and provide new product technologies to customers. In sales, we aim to establish a business foundation through the expansion of sales networks and raise our presence in the global market, leveraging the fact that the two companies' market coverage does not overlap. We will strengthen our competitiveness by mutually incorporating the advantages of each company.

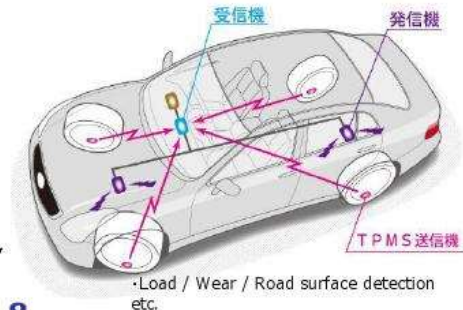
In the Forge Stamping business, we are developing, producing and supplying parts such as lightweight, thin-walled transmissions and hybrid parts using plate forging technology that combines the productivity of sheet metal forming with the high-precision technology of cold forging.

In our Aluminum Die Casting business in South Korea, we have built an integrated production line from die casting to cutting for parts for electric compressors for EVs and for parts processing for units, which have earned a reputation among customers for their high quality. We are also increasing our capital investment for further expansion.

Deepened Functions and Their Application

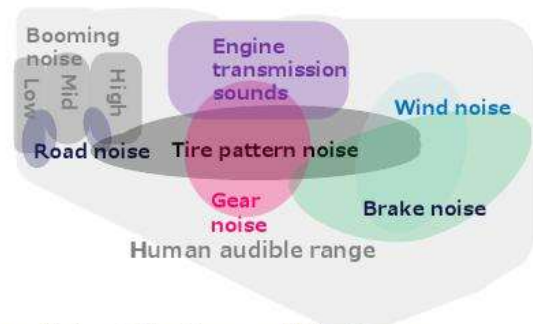
■ Deepening TPMS technology

- Next generation function and product development
- Application of sensing and wireless technology



■ Resin: Application of Soundproofing & anti-vibration technologies

- Deepening NVH technology
- EV motor noise and noise regulation in Europe



(※)NVH Performance : It is a performance that reduces Noise, Vibration and Harshness

We have long been deepening our existing technologies and applying them to new fields of technology. I can say that the ultra-high-tensile processing and TPMS technology are prime examples.

Today, in light of the mobility society and CASE era, we are looking to develop the functions of our core technologies, expand and deepen new technological domains, and reform the structure of our business.

As you know, the TPMS market is generally saturating, but its functions are becoming more developed. We will continue to develop next-generation products as we keep watching market trends.

We are also driving forward the development of functions and products that apply sensing and wireless technologies cultivated in TPMS.

With the shift from engines to EVs, we believe that the need for noise reduction and comfort will become even higher, with tighter regulations on motor noise and external noise.

With regard to polyurethane foam, which we have been developing from the material stage, we intend to enhance its performance and increase its applications through incorporating further production technologies and noise controlling capabilities.

Utilizing Big data

■ Prediction system for equipment and dies

- Analyzing load, deflection, vibration etc. by AI
- Predicting failure and production defects



Prediction System for Dies

■ Introducing image inspection system

- Automating and inlining visual inspection
- Utilizing inspection data (big data) for structural analysis



Image Inspection

Together with the development of such proprietary technologies, we are also working on the utilization of IoT and AI.

Big data generated from IoT and AI is a tool to innovate society and production structures in the future, and we are working to reduce costs, improve quality, and strengthen our business structure by utilizing it as the core of manufacturing.

As a component manufacturer, avoiding production stoppages related to the breakdown of stampings and dies is a crucial demand. We use big data to analyze and construct information on the load, deflection, vibration, and such of equipment and dies to prevent failures and product defects.

On the other hand, for stamping products and valve products, AI is being introduced and utilized to reduce the number of inspectors and improve quality in the visual inspection process. Regarding the visual inspections and issues like cracks in stamping products, we are working to collect basic information through AI in quality checks, and to use this information in structural analysis.

Brand Slogan
思いをこめて、あしたをつくる
~Passion in Creating Tomorrow~

PACIFIC GLOCAL VISION

- Aim to sustainable growth
- Manufacturing is about developing people
- Sharing with stakeholders



The image shows a grid of 17 Sustainable Development Goals (SDGs) icons, each with a number and a brief description in Japanese. The icons are arranged in a 4x4 grid with the last cell empty. The text 'SUSTAINABLE DEVELOPMENT GOALS' is written above the grid.

Finally, this year, we celebrate the 90th anniversary of our founding. As stated in PACIFIC GLOCAL VISION, we will continue to pursue sustainable management with emphasis on ESG-based management and SDGs in order to earn strength to become a 100-year-old company.

Although we are in a difficult period where an exit is not in view, we will move forward with the belief that manufacturing is about developing people. We are committed to sharing passion and information with our stakeholders towards the creation of new businesses under the slogan “Passion in Creating Tomorrow”.