

May 10th, 2023

Pacific Industrial Co., Ltd.

Financial Results for FY2022 and Mid-term Business Plan Briefing Q & A

《FY2023 Financial Forecast》

Q1 : As a premise for your financial forecast, what do you estimate the number of automobiles produced?

A1 : We assume that the production volume of major customers will increase by more than 10% in Japan, and slightly increase in the United States and China.

Q2 : Why is profit in Japan expected to decline in the forecast by region?

A2 : In Japan, we expect a decrease in profit in the valve business. The main factors are continuing high material prices and the appreciation of the yen. The exchange rate was 135 yen/\$ in 2022, but is expected to be 130 yen/\$ in 2023.

In addition, the depreciation of the yen against the euro last year had a significant negative impact on this term. This is because the purchase price of the ICs used in the TPMS will be determined based on the euro in the previous half of the year. We anticipate a decline in profits in Japan due to higher material costs in the valve business and negative profits due to exchange rate fluctuations.

Q3 : What is behind the increase in profits in Europe and the United States?

A3 : Pacific Manufacturing Tennessee, one of the stamping operations in the United States, saw its profitability decline in FY2022. This is due to factors such as production fluctuations caused by semiconductor shortages. We expect a recovery in Q4 FY2022 and a continued recovery in FY2023. In addition, the Schrader business is expected to recover production volumes and earnings in Europe and the United States.

Q4 : Comparing the 1st half and 2nd half of the FY2023 forecast, sales increase but profits remain flat. What is behind this?

A4 : Automobile production is expected to increase in the second half compared to the first half. The Higashi-Ogaki plant, which is currently under construction in Japan, will begin full-scale operations in the second half, resulting in an increase in expenses. Profits are expected to remain flat due to increased depreciation and production preparation costs. Since the plant will not be operated at full capacity at the beginning of its operation, we expect the burden of depreciation and amortization to be heavy.

《Mid-term Business Plan》

Q5 : Please explain the background to the declining profitability of the valve business and specific measures to improve it.

A5 : In the valve business, TPMS price is declining with each product model change, due in part to intensifying price competition with competitors. The new model G type was launched last year, and will increasingly replace older models. Profitability tends to decline as the production volume is small at the start of the start-up. We plan to proceed with cost improvement measures, such as replacing ICs, which are key components, with lower-priced products. However, since profitability will decline temporarily, profits in the valve business are expected to remain flat. However, we plan to expand new products such as electric expansion valves and other valves for electric vehicles toward 2030 to secure profitability. So I hope you can have high expectations of us.

Q6 : In the medium-term business plan, shareholder returns are 15 billion yen over four years. Do you plan to continue share buybacks in addition to dividends? Also, do you plan to control equity capital in order to achieve ROE of 8% or more?

A6 : The target dividend payout ratio is 30%, and the actual result is 27%. We expect that the total amount of dividends will increase as profits increase and the dividend payout ratio increases. We plan to continue share buybacks in the next year and beyond, and plan to pay dividends plus share buybacks of 15 billion yen. Based on the medium-term business plan up to FY2026 and financial simulations that include shareholder returns, ROE is planned to reach 8% in FY2026.

Q7 : How do you think the discussion of Toyota's new BEV platform and the adoption of the Giga press will affect your stamping business?

A7 : We are also proceeding with development by grasping medium- to long-term technological trends. As for the giga press, it is also a huge facility, and the manufactured products are also large. If it is adopted, I think that it will not be introduced by the parts supplier, but by the automobile manufacturer using it in-house. We are further improving our stamping technology for ultra-high-strength steel and promoting to expand sales beyond our main customers. Even if conventional vehicles with gasoline engine and HEVs are replaced by BEVs in the future, there will be no negative impact on the stamping business, and we believe that there will be new needs that can make use of stamping technology for ultra-high tensile strength material.