May. 8th, 2024

Pacific Industrial Co., Ltd.

Briefing for Fiscal Year 2023 Q & A

《2024 Full year Forecast》

Q1 : For the full year 2024, your company is forecasting lower sales and profits compared to the previous year. Please elaborate on the vehicle production volume of customers by region and business environment for your assumptions.

A1 : Regarding our main customer's vehicle production volume, we assume that the total production volume in 2024 will be almost flat from FY2023. By region, we expect a slight YoY increase in Japan and the U.S., and a slight decrease in Asia.

By segment, in the stamping and plastic molding business, sales of dies and molds are expected to decrease significantly. This is due to the fact that there are few new vehicle models to be launched in FY2024 due to customers' development schedules. On the other hand, product sales volume is expected to increase, and the combined effect on the sales volume is expected to be plus or minus zero. Regarding selling prices, in addition to policy price discounting, fluctuations in scrap prices and aluminum material prices at subsidiaries in the U.S. are expected to affect selling prices, resulting in a expected 2 billion yen decrease in sales and profit. Other major factors that will reduce profits include a 1.0 billion yen decrease due to increased labor costs, a 1.5 billion yen decrease due to increased expenses and property taxes associated with the start of operations at the new plant, a 1.4 billion yen decrease due to increased depreciation costs, and a cost improvement of about 3.0 billion yen as a factor that will increase profits. In total, operating income will decrease by 3.4 billion yen.

In the valve business, both sales and profits are expected to remain almost flat YoY with an increase of 1.3 billion yen YoY due to a decrease in depreciation expenses following the impairment of fixed assets in Korea and France subsidiary implemented in FY2023. However, we expect a decline in profit margin in the TPMS business. This is due to a shift from the mainstay E-type product to the low-priced G-type model. As we have been doing with E-type products, we will improve the purchasing method for ICs and batteries, which account for a large portion of the cost, and negotiate to pass on the higher component prices to the selling price, thereby improving profitability with the current forecast as the bottom line.

We expect that FY2024 will be a period of temporary stagnation. However, we will continue to invest in new plants and development centers for future growth.

Q2 : I would like to know the background behind the decrease in sales and profit in the Asia segment.

A2 : Last year, in conjunction with Mitsubishi motors corporation's withdrawal from the

Chinese market, our subsidiary in Changsha, China, also downsized its operations, and we recorded expenses related to this in FY2023. Although net sales will decrease in FY2024 due to lower production in China and other factors. However, since there will be no expenses recorded in 2023, sales will decrease and profits will increase compared to the previous year.

Q3 : Price pass-through is a key word in the industry as a whole. Is there a possibility that price pass-through, which has not been factored into the forecast for this fiscal year, will provide an opportunity for increased profits in the future?

A3 : Major customers have offered to bear the cost of labor cost increases at its suppliers, and we assume that this will cover the cost increase to a certain extent. In addition, since the cost of stamping materials is linked to the selling price, there is basically no gap between the cost and selling price. However, due to the contract between the U.S. subsidiary and the customer, there will be a slight delay in the reflection of material price changes in the selling price. In the valve business, we are promoting price pass-on, but brass material prices have remained high and are rising further. While Japanese customers tend to be relatively receptive to price pass-on, the situation for overseas customers is different. We will continue to focus on price pass-on of labor, energy, and material costs. Repeated price negotiations may lead to the risk of switching suppliers to other companies, so we will work cautiously while assessing the risks.

Q4 : How much upside potential is there in the earnings forecast?

A4 : The assumed volume in Japan is expected to increase by about 2% YoY. On the other hand, there is a situation where customers' production lines are partially suspended due to the recent Prius recall. We are taking a conservative view of profits, as price pass-on negotiations with overseas customers are still in progress. Negotiations with customers in the U.S. subsidiary are particularly important, and our sales department is focusing on polite conversations with customers to gain their understanding. We expect production volume in Japan and the U.S. to remain steady, but we are forecasting that production in China and Thailand may fall short of our initial plan. If business in Japan and the U.S. proceeds smoothly, we believe that we will be able to build a foundation for sales and profits for the entire Group. We will provide an explanation of our quarterly results when they are available and the situation becomes clearer.

Q5 : In the analysis of factors that will increase or decrease profit in FY2024, there is no explanation for depreciation. is it correct to understand that there are positive and negative factors between the Stamping and plastic molding business and the valve business, which offset each other and are not shown in the figures?

A5 : As you understand. First, depreciation and amortization in the stamping and plastic molding business is expected to increase by 1.4 billion yen YoY due to the new plant etc. In the valve business, depreciation and amortization will decrease by 1.4 billion yen from the previous year due to the recording of impairment losses on fixed assets and goodwill in Korea and France Subsidiary in FY2023, resulting in a combined total of plus or minus zero.

《Mid-term Business Outlook》

Q6 : Please provide details on the scale and timing of sales of electric expansion valves since the new plant operation start in March 2025.

A6 : Electric expansion valves are used in BEVs, and PHEVs. The growth of BEVs has been changing since last fall, and we expect that our sales will be slightly behind the mid-term plan announced last year, but we expect sales to increase from 2025 to 2027. We have already started production in small quantities and have been receiving orders continuously since then. Since missing the appropriate investment timing will lead to lost opportunities, we have decided that it is necessary to build the plant at this slightly earlier time. We will continue to monitor market trends to see how much the market will expand, and we will plan capital investment at the optimal timing to match the increase in volume, while keeping abreast of production plans through communication with our customers.

Q7 : Regarding your company's performance after 2025, do you expect profits to grow again or do you expect no growth in profits after 2025? I'd like to know your outlook. In addition, if you expect profits to return to growth, at what approximate profit level?

A7 : While 2024 is expected to be a period of temporary stagnation, we expect earnings to recover from 2025 onward. In the plastic molding business, orders are also favorable. We are not worried about that, as customers' vehicle production plans are also expected to be at a high level. As for the new plant in the valve business, we expect sales to increase from 2026 to 2027. The new die plant investment is not intended to contribute to sales, but to improve forming technology for ultra-high tensile strength stamping materials and to ensure appropriate cost and quality in-house. The timing of the results of each investment will differ.

We would like you to understand that we are in an environment where we can make positive investments in all of our businesses: the stamping and plastic molding business, the valve business, and our new business. Overall, we expect our business performance to recover from 2025 onward, and especially for the new business, we expect the results to exceed our expectations.

《Changes in the Market Environment》

Q8 : It seems that Toyota Motor Corporation's sourcing policy for stamping parts for

BEVs is that they want to adopt good products. Are you aware that the order environment is changing in the Japanese market, where the emphasis has been on Toyota-affiliated suppliers?

A8 : We do not feel that there is any difference between ICE vehicles, HEV and BEV sourcing in terms of customer ordering policy. We recognize that they place orders with companies that have high technical capabilities as stamping suppliers and can communicate smoothly with customers.

In addition, we feel that the unit price per order for BEVs is favorable.

Q9 : Please tell us about the impact on your company of developments such as the adoption of GIGACAST and the integration of vehicle components.

A9 : We have information that GIGACAST will not be used in all BEV models, but will be deployed on a limited basis. In addition, since GIGACAST is targeted for vehicle underbody parts, whereas the parts we have orders for are mainly for vehicle upper body parts, we do not expect any significant impact. Competition may intensify as existing underbody order suppliers enter the upper parts market. However, if GIGACAST is deployed only for some flagship models of BEV, the overall impact will be limited.

（BEV：Battery Electric Vehicle、PHEV：Plug in Hybrid Electric Vehicle、
HEV：Hybrid Electric Vehicle、ICE vehicle：Internal Combustion Engine vehicle）