Nov.1st, 2024

Pacific Industrial Co., Ltd.

Briefing for Fiscal Year 2024 Second Quarter Q & A

《Full-year Forecast》

Q1: Please explain the background and the factors contributing to the revision of the full-year financial forecast compared to the previous announcement.

A1: The significant impact comes from adjusting the exchange rate assumption from 150 yen/$ to 145 yen/$, contributing to a revenue decrease of 2.2 billion yen, comprised of an exchange conversion decrease of 2 billion yen from subsidiaries and an export revenue decrease of 0.2 billion yen. Other revenue variances result from a decline in sales volumes. Due to changes in product mix, profits are expected to be impacted by approximately minus 0.1 billion yen. Toyota's vehicle production volume is forecasted to decrease by slightly more than 1%, with no major changes anticipated.

Q2: Regarding the planned significant recovery in the stamping and plastic molding business in the second half, what are the assumptions for Toyota’s vehicle production volumes, and what forecasts do you have for each region?

A2: We assume a 14% increase in Toyota’s vehicle production volumes in the second half compared to the first half, in regions where our main stamping bases are located—Japan, the U.S. of America, and China. Regionally, while steady growth is anticipated in Japan, a slight increase is forecast in the U.S. and China.

Q3: Please explain the reasons behind the forecasted decrease in profit for the valve business in the second half compared to the first half.

A3: The exchange rate assumption is set at 145 yen per dollar in the second half compared to 154 yen in the first half. Additionally, the transition from the traditional E-type to the new G-type in TPMS sales will further impact the product mix negatively, leading to an anticipated decrease in profits.

Q4: Please explain whether the progress of sales price passthrough has been reflected in the revision of the full-year financial forecast.

A4: We are in an environment where Toyota Motor Corporation, a major customer for our stamping and plastic molding business, is willing to listen carefully to our concerns about rising labor and energy costs in both Japan and the United States, and we believe we are able to pass on these increases to customers.

In the valve business, which involves a wide range of domestic and international customers, price passthrough negotiations can be challenging, and there are instances where price increases do not fully cover cost increases. Despite increasing IC and brass material prices causing a trend toward decreased profits, efforts in the first half aimed to pass on as much of these costs as possible. As repeated negotiations pose a risk of losing sales to other companies, we will continue to focus on negotiating price passthrough with both domestic and international customers in the second half, carefully evaluating the situation.

《Mid-term Forecast》

Q5: Please explain your growth plans for the coming years and the outlook for the external environment, including the view on fluctuations in depreciation expenses and order trends.

A5: In the stamping and plastic molding business, the new Higashi-Ogaki plant is expected to be near full operation next fiscal year, which will alleviate the burden of depreciation expenses. This year's temporary production halts due to certification issues and recalls in the U.S. impacted production. However, production is expected to stabilize and increase from the second half onward. In contrast, in the valve business, the deterioration in the TPMS product mix is expected to further reduce profit margins. Although the new electric expansion valve has been launched, substantial volume growth is not yet apparent.

We anticipate that while the stamping and plastic molding business will trend positively, the valve business may move in a negative direction. Regarding order trends, successful order acquisition until 2026 is expected in the stamping and plastic molding business, and in the valve business, the development of the new electric expansion valve is proceeding smoothly, fostering expectations for future order expansion. Sales and profit trends are significantly influenced by vehicle production volumes, but our forward-looking developments are progressing well. We have committed considerable capital investments in FY2023 and FY2024, and plan to continue at a high level in FY2025, positioning ourselves favorably for growth post-FY2026.

《Other》

Q6: With reports of plant closures and personnel reductions in other companies' Chinese operations, what are your strategies and thoughts on personnel management given the decline in production volumes in the Chinese market?

A6: Like other companies, we foresee challenging conditions in China due to increased competitiveness of local firms and intensified cost competition. Currently, we do not have plans for large-scale personnel reductions. Since the decrease in vehicle production volumes progresses gradually rather than abruptly, we are implementing ongoing strategies for personnel and routine cost management.