

May 27th, 2020
Pacific Industrial Co., Ltd.

Q&A summary for the Financial Results Briefing for the Fiscal Year Ended March 2020

Q : I suppose the business result will be tough due to the impact of COVID-19. Please tell me Pacific's direction at present to the extent possible.

A : The stamping and molding business will be in proportion to Toyota's production volume. Valve business will be affected by global automobile production volume and sales volume of the after-sales markets, however, the impact of reduced production due to COVID-19 will appear later than that of stamping and molding business since it is a Tier2 business.

Q : What is the difference between coronavirus crisis this time and the global financial crisis in 2009?

A : The difference from the time of the global financial crisis, now we have a more global manufacturing footprint. At that time, our overseas sales were small. Now it accounts for more than 50%, so how to deal with the situation overseas has become a major issue. The other difference is that while the previous crisis was about the economy, this time it threatens human lives. Just because the demand has returned might not mean that our production system is ready. It will become a major issue if someone is infected. So, the big difference is that taking thorough measures to combat COVID-19.

Q : It may be surmised that the cost burden has become larger because the number of overseas bases has increased. Then, is it correct to think that the impact on cost may turn out to be even bigger than the financial crisis?

A : We are currently examining the trends of individual countries and companies.

Q : TPMS's Chinese installation rate has been rising to a certain extent, and the business climate is becoming harsher due to the impact of COVID-19, too. Please tell us about the outlook for the future, if possible.

A : Currently, our main customers are Toyota, Nissan, Subaru, and Hyundai, and we are looking to secure orders for upcoming models. We are also developing

new products.

Q : According to Toyota, although demand in China declined temporarily, there are comments that the pace of return is quick. Is it okay to simply keep this expectation about TPMS in China? Or, should we worry about recovery including the supply chain because the volume of mass production is large?

A : We recognize that Toyota's sales in China have recovered from April and have almost returned to full production in pre-corona conditions. We are also currently in the process of full production including the supply of parts from Japan. We anticipate an increase in sales volume, but since we had almost no production in February, it will affect on a fiscal year basis.

Q : About cash management, as the number of units produced declines, I assume some areas of investment might be suspended, but please give us guidance on your ideas regarding the level of investment and how to reduce costs. And please explain your policies on dividends, the size of commitment lines, and the level of your cash and deposits.

A : With regard to capital investments, FY2019 was the peak. Looking at the content of the investments, we will not stop all of them as many projects are already underway and construction has begun. However, we are currently making a major review on upcoming projects, and we might be able to reduce investments by about 20% compared to the FY2019 level. As for the dividends, the situation is still unpredictable, so we would like to discuss them separately once we gain more certainty. The balance of cash and deposit totaled JPY18 billion at the end of March, 2020. The impact of COVID-19 has led to high funding demand. As for the commitment line, we set JPY6billion. Apart from that, we already have short-term loan facilities at each bank and we will respond to future fund demands by combining these amounts.

Q : About synergies with Schrader, please explain what you have invested and its effects.

A : Schrader, a company we acquired, has two bases, in the US and France. As synergy activities, we are currently working to improve production sites, that can expect quick-acting. For example, multi-machine handling at the manufacturing site can save the number of workers. We are also making capital investments to promote in-house production of products that had been outsourced. We are

working on various things, not only at manufacturing sites, including sales and development, to pursue synergies.

What we consider is not to impose things unilaterally from the Japanese side, but rather to respect what the local members want to do, to make quick decisions and to maximize synergies as much as possible.

In FY2019, we were able to achieve synergies of more than JPY150 million in profit. From FY2020, we are working to achieve close to twice as much synergy and profit, although this also depends on the production volume.

Q : Toyota announced the guideline of production volume. How will the performance of your business be? I assume that there will be additional costs such as for securing space between workers in the manufacturing sites as part of countermeasures against COVID-19. Will marginal profit ratio change?

A : As for our business results, it is still unpredictable and there is a lot of variables, so I would appreciate it if we could explain again when we have more visibility into the situation. In terms of measures against COVID-19 at production sites, we are taking various measures to prevent the disruption of standard procedures. and we intend to maintain our marginal profit.

Q : I understand there is a gradual trend to shift design, the preceding process of stamping, which had used to be performed by OEMs, and the mid-scale assembly, the downstream processes, to stamping manufacturers, so, the scope of business of stamping manufacturers are expanding. Does this trend apply to your company due to COVID-19 effect?

A : Yes. We are working on structural reforms of the body while receiving various information from our customers. Our customers fully recognize our stance and development capabilities, and we are not stopping anything because of COVID-19. We are doing more preceding process, while also working on body weight reduction, particularly with the expansion of ultra-high-tensile and aluminum stamping etc. This trend will continue to make a greater contribution to customers' automobile manufacturing going forward.