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Company name: Sanoh Industrial Co., Ltd.
Representative: Genya Takeda, Director & President
(Code No: 6584)
Contact Person: Yasuo Matsumoto, Officer,
General Manager of General Affairs Headquarters
(Tel: 03-6879-2622)

Stakeholder Questions and Our Responses (Q3 FY2024 Financial Results)

Following the announcement of the Q3 FY2024 financial results on February 7, 2025, we held multiple individual meetings with institutional investors and analysts. Below, we disclose representative questions received during those meetings along with our responses.

This disclosure aims to enhance information sharing with stakeholders and uphold fair disclosure practices by presenting the questions and answers addressed during IR meetings and other briefings. Please note that certain content has been supplemented or revised for clarity and better understanding.

Q1. In the FY2024 Q3 financial results announcement, you revised your earnings forecast downward. Does this reflect a particularly difficult business environment?

A1. Similar to the second quarter, performance of each regional segment continues to show a clear divergence. While the Americas and Asia remain strong, business conditions are particularly challenging in China and Europe.
In China, Chinese domestic automakers are rapidly gaining market share, resulting in a significant decline in sales from our Japanese OEM customers, which has caused a notable shortfall from our initial plans. Although we have been implementing fixed cost reductions, including workforce adjustments since Q2, we are now expecting to recognize an impairment loss.
In Europe, challenges faced by certain automakers have been reported since around the summer of last year. As a result, operating rates during the summer vacation period declined more than usual, leading to sluggish sales. European automakers are firmly committed to a transition toward BEVs, with environmental regulations in mind. This strategy remains unchanged despite the recent trend—particularly in North America—toward a partial return to internal combustion engines. Under these conditions, we expect limited short-term improvement. Accordingly, due to the lack of substantial revenue prospects in the region, we have decided to book restructuring-related expenses in line with ongoing consolidation of production sites.

Q2. Please provide an estimate of the scale of the impairment loss you expect to recognize in China.

A2. While the exact amount is still being calculated, we currently expect the impairment to be between JPY 1.0 billion and JPY 2.0 billion. This impairment loss has already been factored into the full-year earnings forecast revised and disclosed on the same day as the Q3 financial results announcement.

Q3. Will the impairment loss in China and structural reforms in Europe lead to a recovery trend in FY2025?

A3. Although we anticipate continued challenging business conditions in FY2025, the situation differs by region. In China, customer demand remains uncertain. Moreover, given the low transport efficiency of our vehicle piping products, our operations are located close to customer sites, making it difficult to consolidate facilities. We will continue negotiating production volume guarantees and price pass-through while reducing fixed costs in proportion to declining sales, and closely monitoring customer trends. In Europe, structural reforms including workforce reductions are expected to continue through the summer of 2025. However, we foresee the beginning of a recovery trend thereafter.

Q4. What impact do you expect from U.S. President Trump's tariff policies?

A4. The Company has long operated production bases in Mexico and Canada to supply automotive parts to the United States, and as such, we are subject to the impact of U.S. President Trump's tariff policies. However, we believe it is unlikely that all automakers will relocate their production bases and supply chains entirely to the U.S., as some of our customers in North America continue to prefer deliveries from Mexico, even assuming tariffs are applied.
While it is difficult to pre-calculate the negative impact quantitatively, we recognize the additional tariffs as uncontrollable costs and intend to mitigate the effects by passing them on through price adjustments.
It should be noted that, since we initially bear the cost of tariffs and only negotiate price pass-through afterward, the results of these efforts are expected to be reflected in our P/L with a time lag.

Q5. Please provide an update on "Sanoh Last Man Standing" strategy to capture remaining market opportunities.

A5. In addition to markets such as the United Kingdom and Brazil, where we already serve as an exclusive supplier, we are now approaching near-total market share for Japanese automakers in the United States. Furthermore, we are seeing a steady increase in inquiries from the U.S. Big Three automakers, with whom we previously had minimal business, making the potential for market share expansion increasingly realistic.
We have also observed signs of industry restructuring. At the end of November last year, it was announced that a European competitor would be acquired by a Canadian company, with the transaction expected to close by June this year. The competitor in question has already shown a passive stance toward internal combustion engine-related business, and we have begun receiving inquiries from its existing customers. Should the acquirer continue shifting away from internal combustion engines following the acquisition, we believe that inquiries could increase.
While the extent of contribution to our earnings remains uncertain, we view these developments as a positive sign of progress.
Please note that in our automotive parts business, it typically takes approximately two years from receiving an inquiry to recognizing revenue. Therefore, increased interest in the U.S. and European markets is expected to begin contributing to our performance from FY2026 onward.

Q6. Do you have any updates on current negotiations for liquid-cooling devices for data centers?

A6. We have not yet secured any orders, and currently do not expect contributions to FY2024 earnings from this business. However, we are receiving a large number of inquiries from various industries and are actively pursuing sales and proposal activities with the goal of securing mass-production orders during the first half of FY2025.
At present, the ratio of inquiries from domestic and overseas customers is approximately 50:50. Should we secure any orders, we will provide timely disclosure to inform our stakeholders.

Q7. What level of energy savings can be expected from the adoption of your direct liquid cooling (DLC) and indirect liquid cooling (rear-door) devices?

A7. Based on our estimates, implementing direct liquid cooling (DLC) can reduce power consumption by approximately 40% compared to conventional air-based server cooling. Indirect liquid cooling (rear-door) offers an estimated 30% reduction. These solutions are well aligned with the energy-saving needs of data center operators. Depending on the scale of adoption, the systems are expected to reach breakeven within a few years.