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Stakeholder Questions and Our Responses (April 2025 Plant Tour for Institutional Investors and Analysts)

On April 16, 2025, Sanoh Industrial Co., Ltd. hosted a plant tour for institutional investors and analysts at its Head Office Plant. Participants observed the production operations of our core automotive parts business, a liquid-cooling device of data center business, and production equipment of production solutions business. Below, we disclose a summary of the tour and representative questions by institutional investors and analysts after the tour, 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.

【Overview of the Plant Tour】

Date: April 16, 2025

Location: Head Office Plant, Koga-City, Ibaraki

Participants: 8 analysts, 3 fund managers, 1 sell-side sales representative

Hosts: COO Takeda, CFO Sasaki, Head and staff from the Production Division, Manager of Corporate Planning Division, Manager of Cooling System Business Promotion Division, Officer in charge of IR, IR staff

【Q&A Regarding the Automotive Parts Business】

Q1. What impact do you expect from U.S. President Trump's tariff policies? [Analyst]

A1. Given the export of materials from Japan to our U.S. facilities and imports from other regions into the United States, it is inevitable that our operations will be affected by tariffs. As of our preliminary estimate in March of this year, and assuming no countermeasures are taken, we anticipate a negative impact on operating profit of over JPY 1.0 billion for FY2025. We have already initiated discussions with automakers (hereinafter referred to as "OEMs") regarding price adjustments to offset these additional tariff costs. The feedback so far suggests that there is room for such cost pass-through to be accepted. We recognize the additional tariffs as uncontrollable costs and intend to mitigate the effects by passing them on through price adjustments.

Q2. Please provide an update on the progress and future outlook of "Sanoh Last Man Standing" strategy. [Analyst]

A2. Our automotive parts can largely be divided into two categories: vehicle piping that are located under the vehicle and engine-related parts located within the engine compartment. We are seeing steady results in both categories in some regions.

Progress in the Americas is particularly notable. We expanded our production network ahead of Japanese competitors and have built strong relationships with Japanese OEMs. Additionally, as some U.S. competitors are experiencing financial difficulties, we have been receiving increasing inquiries to take over their business. Industry consolidation is also underway — for example, a European competitor was acquired by a Canadian company involved in automotive plastic parts (announced in late November last year, with the transaction expected to close by June this year). The Canadian parent company is reportedly a private equity fund, and such funds tend to shift their portfolios toward businesses that are more favorably evaluated by public markets in preparation for potential IPOs. This could lead the acquired company to further focus on battery electric vehicle (BEV) components, increasing the likelihood that their internal combustion engine (ICE) business may be transferred to us. During a period of intensified EV shift, while many competitors curtailed investment in ICE-related production or closed

facilities, we held a view that although BEVs are appealing in specific markets, the global automotive landscape would not become 100% BEVs. Our continued commitment to the ICE business has translated into increased market share in both the Americas and Europe. In India — a market of growing interest to many competitors — we have already established 9 facilities and are building a strong position.

Although our automotive piping is not a high-ticket item, it has a low loss ratio and achieves a very high order success rate, as new inquiries tend to follow once trust is established with OEMs. Unlike many other segments of the automotive parts industry where competition is intense, this market has become increasingly oligopolistic, with very few new entrants expected. Given the presence of certain barriers to entry, we believe this business is well-positioned to generate stable cash flows over the long term.

Q3. Do I understand correctly that you are already receiving inquiries from the U.S. competitors' customers, while inquiries from European competitors' customers are expected to come later? Also, is your market share expected to increase from 25% to around 50%? [Analyst]

- A3. We are already receiving active inquiries in Europe as well, while in the Americas, we have seen a marked increase in interest from the Big Three U.S. OEMs with whom we previously had limited business. In terms of market share, our Mid-term Strategy and Target assumes a range of 30–40%. To grow by just 1 percentage point, we would need to start supplying parts for an additional 1 million vehicles annually, assuming global annual production of 100 million vehicles. This would require significant time and cost to expand our production capacity. For that reason, rather than focusing solely on increasing share, our priority is on profitability — we aim to fill open capacity with high-margin business.

Q4. Do you currently have any business with Chinese OEMs such as BYD? [Analyst]

- A4. While we have had opportunities for business with Chinese OEMs, we have refrained from aggressively pursuing them, as we determined that the business would not be profitable — largely due to highly unfavorable conditions, including the tendency to quickly switch suppliers based solely on price, regardless of quality advantages. Local suppliers, often small-scale, are currently serving Chinese OEMs, but they appear to be struggling with such arrangements. As a result, we are seeing increasing inquiries from these local suppliers for production equipment developed under our production solutions business.
- Meanwhile, in regions outside China such as Thailand, transaction conditions are generally more reasonable, and we are gradually starting to build relationships with Chinese OEMs in these areas.

Q5. When inquiries from competitors' customers lead to new supply opportunities, do you plan to deliver parts from your existing production sites and have customers bear the shipping costs? Or do you intend to establish small-scale facilities near customers, leveraging the automation know-how we observed during today's plant tour? What is your site strategy? [Analyst]

- A5. Due to the bulky nature of our products, which makes transportation inefficient, proximity to customers is essential. In Europe, however, we already have a well-distributed site network and sufficient capacity, especially compared to pre-pandemic levels. Therefore, we are generally planning to supply from existing production site. One of our strengths is the ability to establish production sites with minimal capital expenditure — no need for specialized factories, just sufficient warehouse space and production equipment. As such, we are not currently at a disadvantage due to lack of facilities.
- In the Americas, even before U.S. President Trump took office, when it was anticipated that tariff policies would be strengthened, some OEMs had already requested that we supply products from our production site in Mexico — despite the expectation of additional tariffs and shipping costs — citing high labor costs in the U.S. However, as the situation remains uncertain, we are closely monitoring the actions of OEMs in the region.

Q6. Are your products eligible for preferential tariffs under the USMCA (U.S.-Mexico-Canada Agreement)? [Analyst]

- A6. Yes, they are eligible for preferential tariff treatment under USMCA. However, in some cases, even if products are ultimately shipped to the United States, they are supplied to OEMs within Mexico. In such cases, tariffs are borne by the customer, and we may not be directly impacted.

Q7. We understand that the market share graph included in the business overview materials does not show data for local Chinese suppliers, likely due to the uncertain market environment in China. However, is there a possibility that these local suppliers, gaining strength behind the scenes, could have their products adopted by non-Chinese OEMs and eventually emerge as a threat to “Sanoh Last Man Standing” strategy? [Analyst]

A7. With regard to vehicle piping, we have visited several local suppliers in the course of selling production equipment externally. Based on our observations, they place a strong emphasis on cost and have issues in terms of quality, which leads us to believe that it would be difficult for them to expand overseas. On the other hand, for engine-related parts, we are seeing actual examples of these Chinese suppliers entering overseas markets and in some cases directly competing with us. Although they appear to be facing operational challenges abroad, Chinese companies are known for their rapid evolution. While we cannot rule out future threats, we do not currently consider them a material concern.

Q8. We recognize that the China segment is facing significant challenges, as Japanese OEMs are clearly struggling in the region. In individual IR meetings, we have heard that efforts are being made to address these issues. However, we believe that unless structural reforms continue, it will become increasingly difficult to maintain profitability. What are COO’s views on the future of China operations? [Fund Manager]

A8. We acknowledge that business conditions in China remain difficult in the medium to long term. If we no longer have expectations for the Chinese market, full withdrawal would be a possible option. However, China also holds potential for expanding our new businesses such as data center business and production solutions business. Therefore, we consider the region to be a candidate for transformation. As for our automotive parts business, the outlook for Japanese OEMs remains uncertain. We will continue negotiating with customers regarding production reduction compensation and price pass-through, with the understanding that we may ultimately withdraw if the losses persist.

Q9. While you’ve been cutting fixed costs through workforce reduction in China, are you also considering site consolidation? Do you expect losses to continue until around 2026 or 2027? [Fund Manager]

A9. We currently operate 5 major plants in China, but given the level of sales, there is surplus capacity. Since last year, we’ve reduced the workforce across China by more than half. Even so, profitability remains insufficient, and unless unit pricing reflects the drastic decline in volume, our cost-reduction efforts alone will not be enough to sustain operations. We aim to complete all necessary measures and return to profitability by the middle of FY2026.

Q10. Even as the shift toward BEVs progresses, brake piping is expected to remain in use under the current vehicle architecture. However, if technologies such as drive-by-wire — which controls vehicle movement through electric signals — and in-wheel motors — which place the motor within or near the wheel — become commercially viable, they could have a significant impact on your business. How do you view these developments? Also, could you share the current status of your product development efforts for BEVs? [Analyst]

A10. We recognize that by-wire technology poses an even greater threat to our business than BEVs. With by-wire steering already in use, we are closely monitoring developments by gathering information from OEMs. It should be noted that testing has only begun on a limited basis in some luxury models by certain OEMs. The development of brake-by-wire systems appears to be relatively delayed, and we believe it will still take time before such systems are applied to mass-market vehicles. As for in-wheel motors, we believe they are less feasible at present due to concerns about increased unsprung weight, which could degrade ride comfort. We fully recognize the importance of developing new products for BEVs, and we are currently focusing on the development of thermal components responsible for cooling management around the battery, inverter, and computer systems. We are in the process of engaging in prototype orders and joint development activities.

[Q&A Regarding the Data Center Business]

Q1. In the construction of data centers, is the cooling method for servers specified by the data center operators? [Analyst]

- A1. The cooling method is determined either when the data center operator selects the servers, or when the end-user companies that outsource data management to the data center operator make their own server selections. In the latter case, it is common for multiple server vendors to be used within a single data center. We have heard that, in such situations, data center operators often express a preference for standardizing server vendors.

Q2. Are your sales efforts mainly targeted at data center operators? [Analyst]

- A2. Yes, in connection with the construction of data centers, we proactively gather information on which company will operate the facility and what types of servers will be installed. We try to get ahead of these developments with early sales and proposal activities. In addition, regarding the modular components of server racks, which are part of our direct product offerings, we are currently engaged in sales and proposal activities, as well as joint development efforts, with downstream server manufacturers and liquid-cooling system providers.

Q3. Regarding the projected business revenue figures shown in your materials, we see notable growth in overseas sales of liquid-cooling devices in 2029 and 2030. We understand that direct liquid cooling has already been adopted in the U.S. for generative AI applications. Could you tell us which regions you are expecting to drive future sales growth? [Analyst]

- A3. On April 10 of this year, we disclosed that we had begun taking orders for general-purpose valve and connector components (<https://pdf.irpocket.com/C6584/Z6af/zHWz/nsUh.pdf>). Taking into account the expected ramp-up in sales of general-purpose components and module products starting in 2025, the anticipated growth of the liquid-cooling market—particularly in Japan, where the market is still in its early stages now—and our projected increase in market share, we expect an average annual growth rate of approximately 110%. As for regions, we anticipate strong growth in North America, China, Taiwan, and eventually India as well.

Q4. We assume that steel pipe manufacturers could potentially enter the market for valves and piping used in liquid-cooling modules. However, we have not seen any such developments as of now. Compared to typical steel pipe manufacturers, what technical capabilities or advantages does your company possess that have enabled you to enter the data center business? [Fund Manager]

- A4. While the valves themselves are made of stainless steel, which means that steel pipe manufacturers could technically produce the piping, the most critical challenge lies in ensuring leak-free sealing at the pipe ends when assembling the liquid-cooling modules. We are not aware of any companies in Japan entering this market, although we understand that some manufacturers in North America and Europe have done so. However, we have heard that many of them face considerable difficulties with sealing performance. The “leak-free” quality we have cultivated through our automotive parts business serves as a key strength and is considered a technological advantage that creates a barrier to entry for other companies.
- In addition, we have a long track record in the automotive industry of promoting the use of lightweight and flexible plastic tubes as alternatives to rubber hoses. This gives us a strong competitive edge in addressing the needs of data centers, where load-bearing concerns are critical. Our experience allows us to offer cooling systems that leverage the lightweight nature and shape-retention characteristics of resin tubing.

Q5. Could you tell us which types of industries or companies you consider potential competitors? [Fund Manager]

- A5. Potential competitors include existing players in automotive piping, steel pipe manufacturers, and companies producing resin tubes. We also anticipate competition from some early-stage domestic firms and manufacturers in Taiwan and China.

Q6. We have seen various reports indicating that data center construction is beginning in Japan. Are you currently engaging in sales and proposal activities while competing with overseas manufacturers? [Fund Manager]

A6. We are in the process of gathering information and understanding the full landscape. We are already receiving inquiries from several companies that supply data center operators and are actively pursuing orders. While the activities of overseas manufacturers remain unclear, their cooling systems appear to be assembled by combining existing parts. From our perspective, having long been engaged in the production of high-quality automotive parts, such systems raise concerns in terms of quality. Leveraging the “leak-free” quality developed through our automotive parts business, we have begun offering integrated cooling systems that combine our proprietary components. This approach has steadily gained attention not only in Japan but also in North America, China, and Taiwan, as reflected by a growing number of inquiries.

Q7. As the processing capacity of AI servers continues to advance, there will be an increasing need to improve cooling efficiency. Alongside this trend, cooling systems may eventually become standardized as a de facto industry norm. For example, if your piping were to be adopted as a core component, production volumes could ramp up sharply. Would your current supply capacity be sufficient to meet such demand, or would additional capital investment be required going forward? [Analyst]

A7. In North America, there is a specification known as the Open Compute Project (OCP), which promotes the open-sourcing of data center and server hardware. We are currently preparing to ensure that our products conform to this standard.

One of our strengths is that even in the event of receiving large-volume orders, we can manufacture products using our existing facilities from the automotive parts business, eliminating the need for significant capital investment. We are also considering entering the market with complete system products that incorporate CDU (Coolant Distribution Units), and are examining this opportunity with a view toward projected revenue and investment recovery.

Q8. What is the lead time from order to delivery in the data center business? [Analyst]

A8. For general-purpose parts such as valves and connectors, delivery is typically within two weeks to one month. For modules, development and customer verification are required, so lead time from development to mass production is expected to be 1–2 years. Chinese and Taiwanese customers often demand shorter lead times of 3–6 months even for modules, but we have the resources to accommodate such timelines.

Q9. You mentioned considering entry into immersion cooling. How do you plan to leverage your existing technologies for this? [Analyst]

A9. Yes, we are exploring entry into the immersion cooling space through general-purpose parts such as valves and connectors. We have already engaged with several North American companies in this segment. Although we'll need to verify chemical resistance due to the special coolants used in immersion, early indications suggest our products are compatible. That said, immersion cooling is still limited to specific use cases such as crypto mining or government supercomputers, and we expect direct and indirect liquid cooling to remain the dominant methods in the near term.

Q10. Given the wide variety of server rack designs depending on the manufacturer, we assume that customization of the cooling systems is often required, which may present challenges in terms of profitability. While large-volume orders could bring the benefits of mass production, is there a risk that profitability may decline for smaller orders due to the lack of standardization? As this is a new business area, we assume your company is aiming for higher profitability than in the automotive parts business. Do you believe it will be realistically possible to maintain high profitability? [Fund Manager]

A10. Pursuing high profitability means offering standardized catalog products. However, custom piping layouts — one of the major pain points for customers — are where we can demonstrate our strengths. We aim to add value by offering total modular cooling solutions, including valves and connectors, tailored to customer needs. While customization involves more effort, we are carefully evaluating profitability on a case-by-case basis as we continue our sales and proposal activities.