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Stakeholder Questions and Our Responses (Q2 FY2025 Financial Results Briefing)

We disclose below the representative questions received and our responses at the Q2 FY2025 Financial Results Briefing for institutional investors and analysts held on Thursday, November 27, 2025. The materials and transcript of the briefing are available at the links below.

Briefing Materials: <https://pdf.irpocket.com/C6584/VowW/m7Sb/hgmg.pdf>

Transcript (Logmi Finance): <https://finance.logmi.jp/articles/383228>

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. Could you provide an overview of the newly launched projects in the Japan segment?

A1. While we are unable to disclose the customer's name, the project involved an order for service parts that we received at the beginning of the year. In response, we urgently established production equipment in-house and supplied not only the parts but also the equipment itself to the customer.

Such ad-hoc newly launched projects occur every few years, and we believe this reflects strong recognition of our capability to internally manufacture production equipment, as well as our ability to capture remaining market opportunities.

The contribution of this newly launched project to earnings is expected to continue through FY2025 Q3.

– Sasaki, Director & CFO

Q2. Why is the full-year earnings forecast not being revised despite recording an extraordinary income?

A2. As explained in the presentation, net income for the first half reached 2.979 billion yen, significantly exceeding the full-year forecast of 1.8 billion yen. However, considering ongoing negotiations with customers regarding the treatment of U.S. tariff policies from Q3 onward, as well as the planned industry consolidation in the China segment during this fiscal year, we have decided to maintain the current full-year forecast.

We will disclose updates promptly when appropriate.

– Sasaki, Director & CFO

Q3. The Trump tariffs seem to have started impacting the business from Q2. What was the actual impact amount?

A3. Due to the timing shift in the Americas segment, where Q1 covers January through March, the impact of U.S. tariff policies began in earnest in Q2. The estimated impact as of the end of Q2 is approximately 200 million yen. Because tariffs are paid when importing parts into the U.S., but recovered only when delivering finished products to customers, a timing mismatch arises that may temporarily affect earnings.

We will continue to apply price pass-through to customers as a fundamental policy and will minimize impact through optimization of procurement sources and production sites.

– Sasaki, Director & CFO

Q4. What is your outlook for the growth potential of the new businesses going forward?

A4. Despite starting from scratch last fiscal year, our new businesses are already generating tangible results, and we see strong momentum. Our primary focus areas—the Data Center and FA (Factory Automation)-related business—enable us to support industries through advanced technologies from the supply chain side.

Amid ongoing global supply chain challenges, our longstanding supplier capabilities and agile manufacturing expertise have been highly valued, leading to a significant increase in inquiries.

In the data center business, we have secured mass-production orders for components used in liquid cooling systems from multiple customers this fiscal year. We aim to further accelerate order acquisition globally through collaborations with various manufacturers. While we currently focus on component-level sales, our roadmap includes manufacturing CDUs (coolant distribution units) and offering high value-added, fully modularized system solutions that integrate CDUs, piping, manifolds, and other components. We therefore view this as a business domain with strong potential for continued growth.

In the production solutions business, global automation demand is rising due to wage inflation and logistics disruptions. We are receiving inquiries across many industries, not only automotive, and are building a proven track record. In addition to supplying standalone machining and assembly equipment, we also provide turnkey solutions including process layouts, after-sales service, and are developing IoT- and AI-enabled systems that are moving steadily toward commercialization.

Our wire condenser business in India continues to perform well, consistently delivering an operating margin of around 10%.

We will continue expanding new businesses toward achieving 50 billion yen in net sales, including the use of inorganic measures such as M&A.

– Takeda, Director, President & COO

Q5. As you plan to restructure the China segment in the second half, could you share as much as possible regarding potential downsizing or withdrawal, considering that personnel reductions are already underway?

A5-1. Our vehicle piping products have inherently low transport efficiency, requiring production sites near customers. We currently have around six local corporate entities in China, but given declining sales, workforce reductions have been implemented across sites since last year.

However, as quarterly sales continue to decrease and recovery sufficient to maintain all corporate entities is unlikely, we plan to execute restructuring—including the consolidation of sites—in the second half of the fiscal year.

– Sasaki, Director & CFO

A5-2. We entered China over 20 years ago following our Japanese OEMs. However, due to extremely stringent commercial terms imposed by Chinese OEMs, our operations continue to focus primarily on Japanese OEMs. The Chinese market has been highly volatile; over the past decade we have closed sites such as Chongqing and Shanghai while Tianjin has expanded. Currently, as Japanese OEMs face severe challenges, we too must close unprofitable facilities that are unable to generate profit and cash.

Nevertheless, China remains a highly important market where a full withdrawal would be premature. We position it as a region where we can experiment early with our global transformation initiatives. While we reduce assets in the automotive parts business, we see strong opportunities in the data center business where partnerships in China may allow us to achieve results faster than in Japan. The production solutions business is also pursuing partnerships to build a track record locally.

– Takeda, Director, President & COO

Q6. For the data center business, sales for the current fiscal year are only in the tens of millions of yen, with the next fiscal year expected to reach several hundred million yen. Against this backdrop, you have set a five-year sales target of 20–25 billion yen. Is this target based on current order trends?

A6. The 20–25 billion yen target is not based on current inquiries or orders. It is derived from market growth data, primarily driven by hyperscalers such as GAFA.

We set the target by estimating our attainable share within the market five years from now. More than half of the revenue is expected from overseas markets—particularly the U.S., China, Taiwan, and a growing Japan.

We will pursue the target through organic initiatives as well as inorganic measures, including partnerships, licensing, system sales, and after-sales services.

– Takeda, Director, President & COO

Q7. Honda is your largest customer. Has the impact of the recent semiconductor shortage been incorporated into your second-half forecast, and what is the expected quantitative impact?

- A7. Due to supply chain issues at a Dutch semiconductor manufacturer, production adjustments—especially in the U.S.—have occurred since October, with some lines shutting down one to two days per week. However, conditions are trending toward resolution, and the impact on us is limited to slightly over one month. This impact is not included in the second-half forecast. While initial assumptions reflected a 10% reduction in customer schedules due to U.S. tariffs, actual demand exceeded expectations after a brief dip in Q2. We believe the production adjustments remain within our current forecast range.
- Sasaki, Director & CFO

Q8. For the data center business, it is explained that achieving sales of 20–25 billion yen would allow for a certain high profit margin. When do you expect the data center business to meaningfully contribute to profits?

- A8. We have secured orders for liquid cooling solutions for Container-Type Data Centers. Although there remains the question of how to allocate fixed costs, the business is already generating positive profits, even if the absolute profit amount is still small. Unlike the intensely cost-competitive automotive industry, the data center industry allows us to secure healthy margins without accepting unprofitable orders. As the business scales, we are considering expansion of production sites. Given that the industry has not yet standardized data center specifications—including gigawatt-scale facilities and various configurations of CDUs installed in server racks, such as rack-mounted, in-row, and sidecar types—developing a general-purpose production process that minimizes fixed costs will be critical. Leveraging our manufacturing capabilities cultivated in the automotive parts business, we believe the data center market will remain highly profitable going forward.
- Takeda, Director, President & COO

Q9. Is the data center business already more profitable than the automotive parts business, and can it maintain these margins as sales expand?

- A9. Although fixed-cost allocation requires consideration, the data center business currently achieves higher profitability than the automotive parts business. While margins may not remain at current levels throughout the rapid scaling to over 20 billion yen in sales due to necessary upfront investments, we expect to maintain a solid level of profitability as revenue grows.
- Takeda, Director, President & COO