GMO

USONIAN JAPAN EQUITY TEAM

Concerns Regarding Pacific Industrial's Tender Offer Process and Valuation September 19, 2025

On September 8, Pacific Industrial's acquirer—led by the company's CEO, who is seeking shareholder approval to acquire 100% of the outstanding shares—announced that the Tender Offer Bid ("TOB") period would be extended by 10 business days. While Pacific Industrial continues to trade at nearly a 30% premium to the TOB price, the offer terms remain unchanged.

As long-term investors who have consistently supported Pacific Industrial, we have engaged directly with the company's management, its board, and CEO to express our concerns and seek clarity. We have requested transparency on the assumptions underlying the TOB price, including the calculation of the Weighted Average Cost of Capital ("WACC").

The company has declined to provide this information without signing a restrictive confidentiality agreement and leaving the broader market uninformed. We believe full disclosure is essential so that all shareholders can fairly evaluate the offer.

The market itself is signaling the inadequacy of the proposed price. The stock has consistently traded materially above the TOB level, and for good reasons. The TOB price is set below Pacific Industrial's book value (0.7x price-to-book), implying that the company will destroy, rather than create value—an assumption inconsistent with its strong businesses and strategic positioning. Pacific Industrial commands a 100% share of the domestic tire valve market, is among the global leaders in the TPMS industry, and is investing in ultra high-pressure stamping technology that will support growth through the EV transition. These high-quality businesses underscore that Pacific Industrial's fair value should clearly exceed its book value of JPY 2,901 per share (net of treasury shares).

We are equally concerned that the company's board has not undertaken a proactive market check. The company contends that establishing a 30-business day TOB period constitutes a form of "market check," but this notion ignores market realities and is a perspective we only hear in Japan. In practice, such a process does not provide third-party buyers with a fair opportunity to participate—particularly in the context of a management buyout ("MBO"), where the company's board does not engage in good-faith discussions with external parties during this period.

We are aware of credible strategic buyers and financial sponsors that would be eager to participate in this process if given a fair opportunity. Their involvement could bring fresh capital, perspectives, and long-term growth strategies. Given that the CEO and Board of Directors have put the company "in play," it is incumbent upon the Board to run a transparent process designed to maximize value of the company rather than facilitate a transfer of value to insiders.

This transaction is especially significant because it is the first MBO under the Tokyo Stock Exchange's revised listing and disclosure guidelines, effective July 2025. Historically, MBO prices in Japan have often been unreasonably low, contributing to persistent equity market discounts. It is therefore critical that this case reflect not only the letter but also the spirit of the new policies—ensuring that outcomes are fair, transparent, and aligned regulatory intent.

Sincerely,

Drew Edwards
Head of GMO Usonian Japan Equity

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