



THE PACK CORPORATION

Transcription of Briefing on Business Results for the Year Ended December 31, 2022 and the New Medium-Term Management Plan

March 2, 2023

Event Summary

[Company Name]	THE PACK CORPORATION
[Company ID]	3950
[Event Language]	JPN
[Event Type]	Briefing on business results and medium-term management plan
[Event Name]	Briefing on Business Results for the Year Ended December 31, 2022 and the New Medium-Term Management Plan
[Fiscal Period]	FY2022 4Q
[Date]	March 2, 2023
[Pages]	34
[Time]	13:30 – 14:24 (Total: 54 min., Presentation: 40 min., Q&A: 14 min.)
[Location]	Seminar Room 2, 2nd Floor, Kabutocho Heiwa Building, and online streaming
[Venue Area]	
[Number in Attendance]	
[Speakers]	2 President & CEO Hideaki Yamashita (hereinafter, “Yamashita”) Managing Director, Corporate Division Michihisa Fujii (hereinafter, “Fujii”)

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Presentation

Moderator: The scheduled time has arrived, so we will now commence The Pack Corporation's briefing on business results for the year ended December 31, 2022 and on the company's new Medium-Term Management Plan. Today's briefing is being conducted in a hybrid format; in addition to this venue, it is also being held online via live streaming.

To begin, I will introduce the two people here today from the company, President & CEO Hideaki Yamashita and Managing Director Michihisa Fujii, who heads the Corporate Division. They will be the speakers for the presentation. After their presentation, they will take questions from the audience. Thereafter, questions will be taken from people participating online. People participating via Zoom should raise their hand by pushing the button at the bottom of the screen.

A questionnaire form has been handed out to people here at the venue. Please fill it out when you have the opportunity and leave it on your desk when you exit the venue. People participating online are requested to fill out the questionnaire using the URL displayed after the live stream ends or using the URL included in the email that will be sent subsequently. Next, we will hear from Mr. Ouchi, the company's IR representative.

Ouchi: Today's briefing on business results for the year ended December 31, 2022 and on the new Medium-Term Management Plan will proceed based on the materials disclosed on the company's website on February 27. In order of the table of contents, Topics will be presented by President Yamashita; Business Results of the Year Ended December 31, 2022 and Forecasts of Business Results for the Year Ending December 31, 2023 will be presented by Mr. Fujii; and the New Medium-Term Management Plan will be presented by President Yamashita.

Regarding the reference materials, time has not been allotted to explain them, so we hope you will have the opportunity to review them yourselves. It should also be noted that the Accounting Standard for Revenue Recognition, etc., has been applied to the figures listed in these briefing materials from the start of the consolidated fiscal year ended December 31, 2022.

The standard has also been applied retroactively to figures for the fiscal year ended December 31, 2021. Please be aware that the standard has not been applied to figures for the fiscal year ended December 31, 2020 or to prior fiscal years.

Now, President Yamashita will begin his presentation on the Topics.

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Topics

Business results

- Alongside recovering consumer spending, overall business trends were positive.
 - Consumer spending increased at brick-and-mortar stores, and tourism and inbound demand also improved
- Sales were strong for packages for the e-commerce sector (mainly corrugated boxes and delivery bags) and packages for the food delivery and takeout market (mainly primary food containers).
 - Sector growth attributable to changing lifestyles in response to COVID-19 continued.

Market conditions and management policies

- Continuing trend toward reduced use of plastics and use of plastic alternatives
 - Develop and actively propose paper and other eco-friendly materials.
- Trend toward modifying packages practices to reduce CO₂ emissions and optimizing supply chains
 - Strengthen proposals to boost transport efficiency.
 - Respond to shift from overseas to domestic production.
- The downward trend in demand for external packages for disposable diapers is bottoming out. Demand for film packaging for food products and everyday use items is trending up.
 - Cultivate customers through eco-friendly proposals. Examples include waste material utilization and paper migration. Develop eco-friendly film packaging.
- The e-commerce sector continues to expand.
 - Increase sales on a sustained basis by formulating solutions and proposals for customers, including for labor and energy savings, and promote mechanization.

Medium- to long-term management strategies

- Formulated new Medium-Term Management Plan (FY2023 to FY2025)



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Yamashita: My name is Hideaki Yamashita, from The Pack Corporation. Thank you very much for taking time out of your busy schedules to attend here in person or via the live stream. I will begin by going over some topics related to our business results for the year ended December 31, 2022.

Regarding business results, consumer spending at brick-and-mortar stores increased, and tourism demand also improved. In addition, package sales increased for the e-commerce sector and food products market, which led to steady business results.

Next, regarding market conditions and management policies, the trend towards reduced use of plastics and the use of plastic alternatives continued alongside increasing environmental awareness, and this trend is expected to continue. We intend to develop and promote eco-friendly products, starting with paper materials.

The e-commerce sector and food products related markets are growth markets, and there is still a great deal of room for sales growth. We will continue working to increase sales by proposing eco-friendly products and solutions.

Regarding our next medium- to long-term strategy, we formulated a new Medium-Term Management Plan, which I will be explaining later on.

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Ouchi: Thank you for waiting. Business results for the fiscal year ended December 31, 2022 will now be presented by Mr. Fujii.

Summary of Business Results

Major increase in sales and profits thanks in part to improved consumer spending and economic activity

(Million yen)

	Year ended December 31, 2021	Year ended December 31, 2022	
	Actual	Actual	YoY change
Net sales	79,690	89,060	11.8%
Operating profit	4,144	5,972	44.1%
Ordinary profit	4,422	6,353	43.6%
Profit attributable to owners of parent	2,824	4,058	43.7%

- ◆ Consumer spending grew as more people ventured out following the lifting of restrictions.
- ◆ Sales grew thanks to the development and expanded sales of eco-friendly products, as well as to an increase in orders driven by solutions proposals.
- ◆ While costs increased, operating profits recorded major growth thanks to increased sales volumes and higher average sale prices.

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Fujii: Good afternoon, everyone. My name is Michihisa Fujii, and I head up the Corporate Division. I will now review our business results. Let's begin with the summary. Sales and profits increased substantially thanks in part to improved consumer spending and economic activity. Net sales increased ¥9.3 billion, or 11.8%, year-on-year to ¥89.06 billion. Operating profit increased ¥1.8 billion, or 44.1%, to ¥5.972 billion. Net sales has recovered to 93.3% of fiscal 2019 levels, which was before the COVID-19 pandemic, and operating profit has recovered to 88.2% of fiscal 2019 levels. Business results are being greatly impacted by the recovery in consumer spending, but the strategies and policies in our medium-term plan have been making steady progress as well. The fact that development and increased sales of eco-friendly products and increased orders from solution proposals are paying dividends can also be viewed as positive.

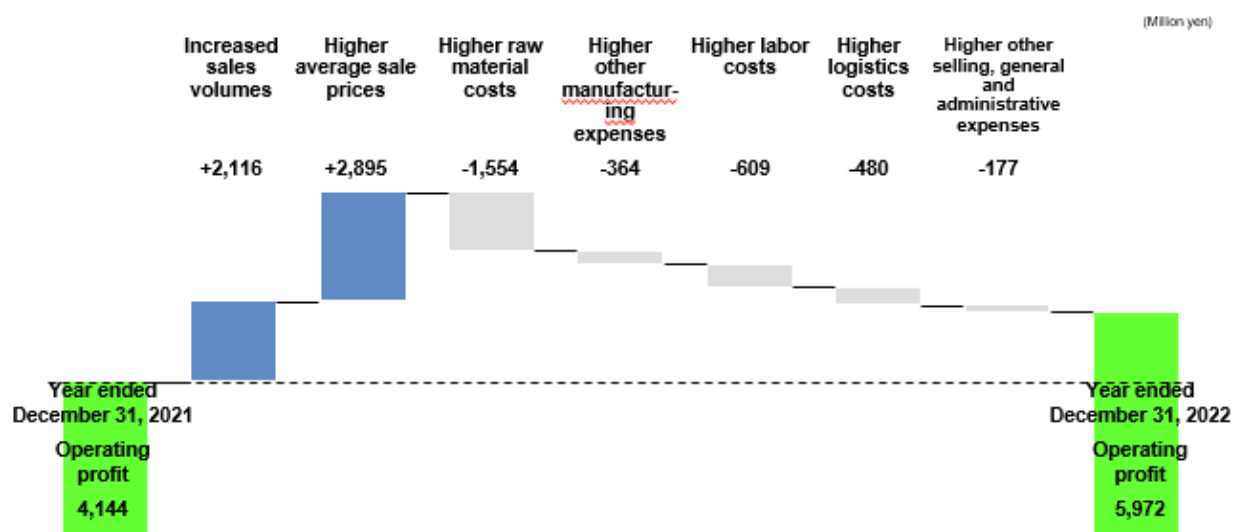
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Factors Underlying Changes in Operating Profit

Operating profit grew due to growing sales volumes and rising average sale prices.



- ◆ Sales volumes grew due to the recovery in consumer spending, centering on paper bags (up 10.5%).
- ◆ Average sale prices rose due to changes in product structures, efforts to optimize prices, and proposal-based sales for high value added products (paper bags up 7.8%, paper cartons up 15.8%, corrugated boxes up 8.8%, plastic bags up 2.1%).
- ◆ Manufacturing costs rose due mainly to higher utilities and power costs (352 million yen) accompanying rising electricity charges and heavy oil prices.
- ◆ Logistics costs increased due mainly to rising warehouse storage costs (211 million yen) and transportation charges (265 million yen) driven by growth in manufacturing and shipping volumes.

Next, we will look at the factors underlying changes in operating profit.

Operating profit increased due to an increase in sales volume and higher average sales prices. The increase in average sales prices is attributable to incorporating increases in raw material costs into sales prices, changes in the product mix, and sales of high value added products. Labor costs increased, primarily due to adding more part-time employees and full-time employees in manufacturing. Logistics costs have increased as shown; however, the ratio of logistics costs to net sales, actually decreased 0.3 percentage points, from 7.7% in 2021 to 7.4% in 2022.

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Results by Segment

(Million yen)

	Year ended December 31, 2021		Year ended December 31, 2022		
	Actual	Share	Actual	Share	YoY change
Net sales	79,690	100.0%	89,060	100.0%	11.8%
Paper Products	55,498	69.7%	62,932	70.7%	13.4%
Paper bags	22,032	27.7%	26,252	29.5%	19.2%
Paper cartons	19,497	24.5%	22,283	25.0%	14.3%
Corrugated boxes	11,850	14.9%	12,210	13.7%	3.0%
Printing	2,117	2.7%	2,186	2.5%	3.2%
Film Packaging	11,184	14.0%	11,988	13.4%	7.2%
Others	13,008	16.3%	14,138	15.9%	8.7%
Operating profit	4,144	100.0%	5,972	100.0%	44.1%
Paper Products	3,958	95.5%	5,333	89.3%	34.7%
Film Packaging	397	9.6%	583	9.8%	47.0%
Others	882	21.3%	1,059	17.7%	20.0%
Adjustments	-1,093	-26.4%	-1,004	-16.8%	-

- ◆ The Paper Products Business recorded sales and profit growth thanks to growth in consumer spending and tourism demand as well as strong sales of paper cartons for delivery and takeout foods and strong sales of paper cartons and corrugated boxes for the e-commerce sector.
- ◆ Strong sales of paper bags at overseas Group companies
- ◆ The Film Packaging Business saw higher sales and profits as the result of energetic sales of film packaging for food products, cultivation of existing customers, and price revisions.

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This shows results by segment.

I will discuss the details later on, but profit in each segment has been increasing steadily, and profit margins are also improving.

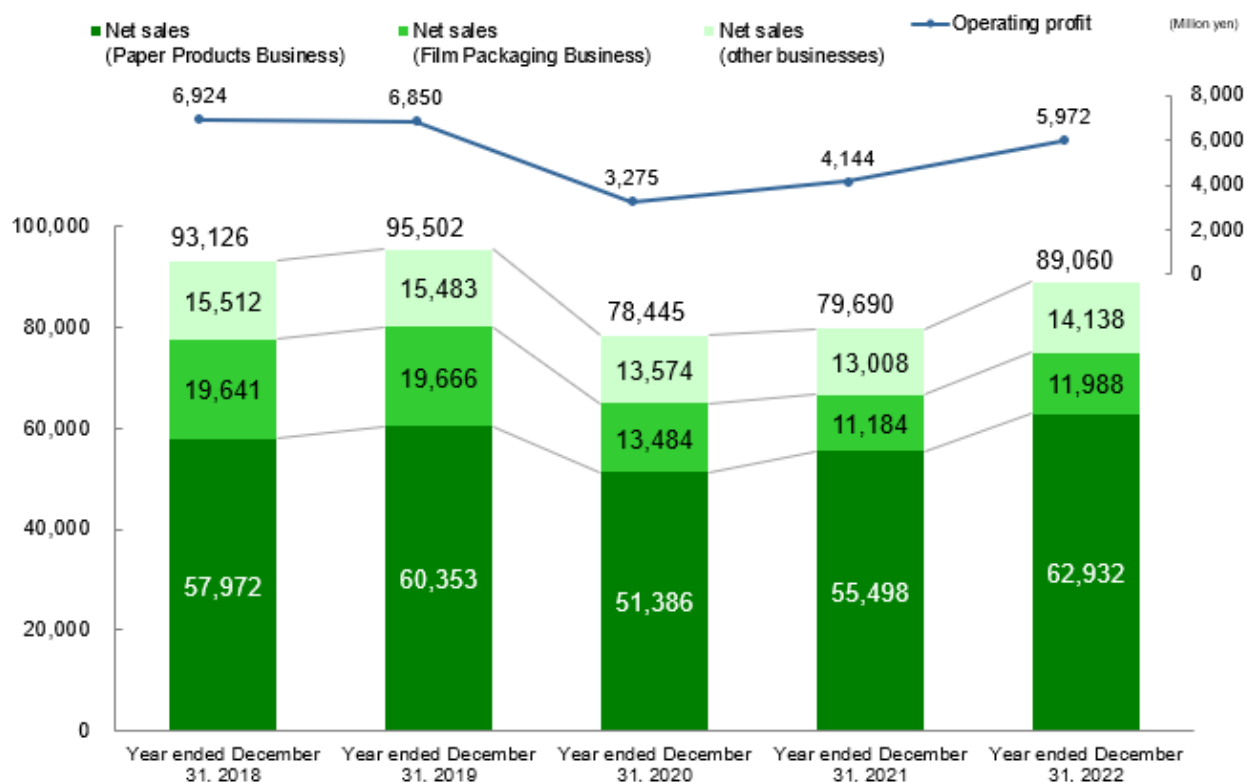
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Trends by Segment



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Next, we will look at trends by segment.

Among them, net sales in the Paper Products Business was ¥62.9 billion, which is ¥2.6 billion, or 4.3%, higher than the pre-pandemic level of 2019, when sales were ¥60.3 billion.

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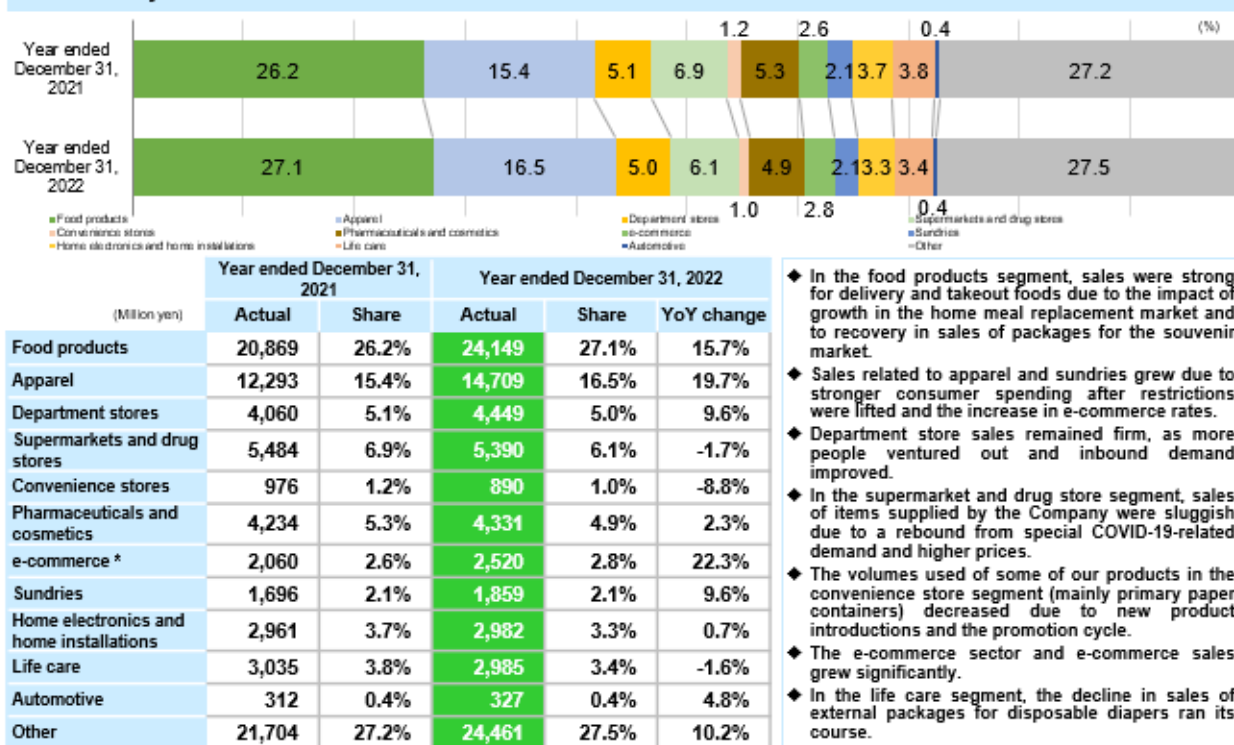
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Sales Composition

Net sales by business



* e-commerce refers to the e-commerce platform segment. e-commerce sales on vendor sites are counted as part of their individual business segments.

Next is net sales by business.

Among the categories, food products and e-commerce continue to grow steadily. According to data from the Japan Department Stores Association, department store sales in 2022 were up 13.1% year on year. Even among our customers, apparel, department stores, and sundries are improving substantially.

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Paper Products Segment

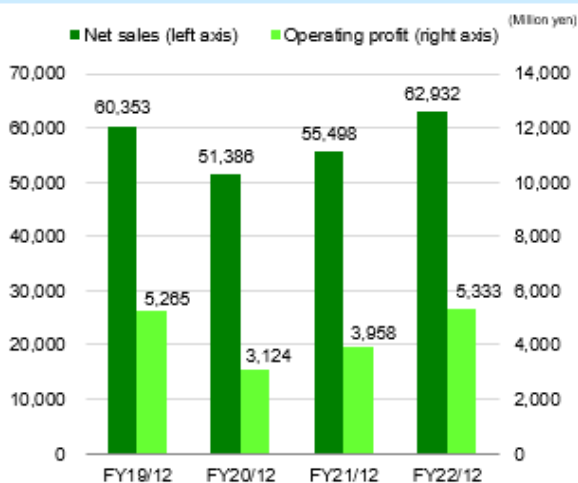
Industry environment

- ◆ Demand for packages at stores is growing as more people venture out following the end of restrictions.
- ◆ The e-commerce rate continues to increase in various categories, including apparel, food and cosmetics, generating growing demand for packages for the e-commerce sector.
- ◆ Demand rose for delivery and takeout food packages alongside continuing growth in the home meal replacement market.
- ◆ Thanks to the development of high-performance paper materials driven by growing environmental awareness, the range of paper package applications continues to expand.

Initiatives

- ◆ Ongoing efforts to make proactive proposals involving paper packages and eco-friendly products for the e-commerce sector and food delivery and takeout market
- ◆ Promoting improvements in packaging material forms and specifications and labor-saving, energy-saving, and mechanization solutions for automation of operation lines
- ◆ Strengthening initiatives to develop new eco-friendly materials and processes and paper materials with advanced functions

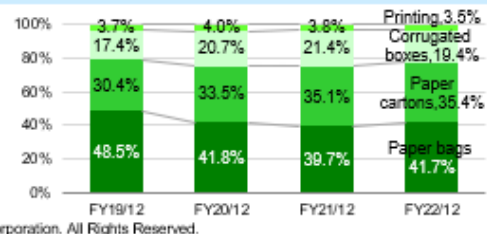
Trends in net sales and operating profits



Trends in operating profit margins



Trends in the Paper Products Business's share of net sales



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Next, we will discuss individual segments.

In the Paper Products Business, regarding the industry environment, more people are venturing out since the end of restrictions, causing a major increase in demand for packages used at stores. Also, with environmental awareness increasing, development of high-performance materials is advancing, and the range of applications for paper packaging is expanding.

Regarding our initiatives, we continue to promote migration to paper packages and eco-friendly products for each market. We are also proposing improvements to packaging material forms and specifications and are proposing solutions for labor saving, energy saving, and mechanization for customers. In addition, we are strengthening initiatives to develop new eco-friendly materials and processes and paper materials with advanced functions.

Trends in net sales and operating profits are as shown. Operating profit margins have also been improving.

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Paper Products Segment (Paper Bags)

Industry environment

- ◆ Demand for takeout paper cartons improving with more people venturing out
- ◆ Growing demand for paper bags thanks to growing environmental awareness
 - Increasing cases of customers changing from conventional materials to more eco-friendly materials
- ◆ Growing use of delivery bags with the expanding e-commerce market

Initiatives

- ◆ Developing new shapes, centering on delivery bags, and formulating proposals to allow customers to achieve labor and energy savings and implement mechanization
- ◆ Strengthening proposals for high value added products centering on eco-friendly products
 - Making proposals in line with the businesses and needs of customers, including effective use of waste materials generated in customers' product manufacturing processes

Examples of developed products

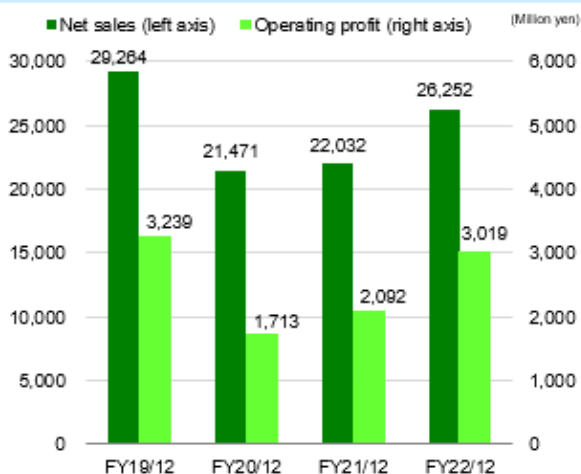


▲ Mixed paper with used clothes

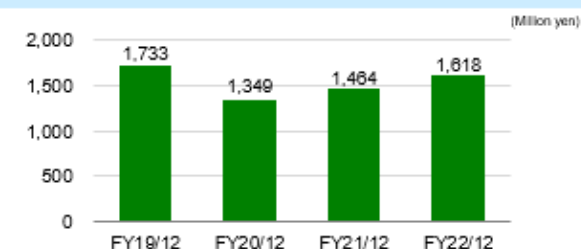


▲ Paper delivery bag compatible with automatic packaging machines

Trends in operating profit margins



Trends in sales volumes



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This shows the paper bags portion of the Paper Products Business. Regarding the industry environment, more people are venturing out, and demand has been recovering significantly in tourism, travel, and souvenirs. As for our initiatives, we are strengthening proposals for high value added products, centering on eco-friendly products.

The photos at the bottom show examples of products we've developed. This is a mixed paper made with used clothes that people no longer need. This example was manufactured using denim scraps received from a customer of ours that makes jeans. We also make paper mixed with the unneeded parts of tea, which we received from a customer of ours that makes tea. These mixed papers are then turned into bags that customers can use. These are the types of initiatives we are conducting through joint development with paper manufacturers.

Trends in net sales and operating profits are as shown. The operating profit margin has also been improving, increasing from 11.1% in 2019 to 11.5% in 2022. Sales volumes are also steadily rising.

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Paper Products Segment (Paper Cartons)

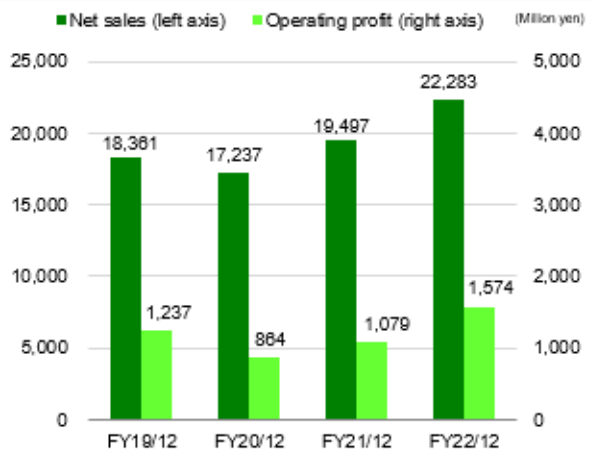
Industry environment

- ◆ Growing demand for primary paper cartons for food products thanks to growth in the home meal replacement market and growing environmental awareness
- ◆ Recovery in consumer spending for travel and leisure after decline due to COVID-19 restrictions; inbound demand also improving
→ Strong sales of paper cartons for the souvenir market

Initiatives

- ◆ Strengthening capital investment and new product development initiatives to bolster sales of primary paper containers for food products
- ◆ Strengthening proposals for paper carton engineering and design, and molded carton shapes via 3D printers, 3D computer graphics, and other technologies

Trends in operating profit margins



◆ Examples of developed products



▲ Kome-kami TP-FS, a paperboard made with waste rice, developed jointly with Papai Co., Ltd.



▲ Molded tray packages sealed with paper lids



▲ Tapered paper trays

◆ Examples of technologies used in proposals



▲ Design/shape proposal tool using 3D computer graphics

▲ 3D printer

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Next, we see the paper cartons category of the Paper Products Business. Regarding the industry environment, demand for primary paper cartons for food products is increasing thanks to growth in the home meal replacement market and increasing environmental awareness. In the paper cartons category as well, sales in the souvenir market have been strong.

Looking at the photos of developed products at the bottom, you can see our tapered paper trays, which are a plastic alternative in line with the trend towards reduced use of plastics and the use of plastic alternatives. We are also engaging with these types of products and plan to introduce new manufacturing facilities as well.

Net sales and operating profits in the paper cartons category in 2021 and 2022 both greatly exceeded 2019. Net sales in 2022 was 21% higher than in 2019.

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Paper Products Segment (Corrugated Boxes)

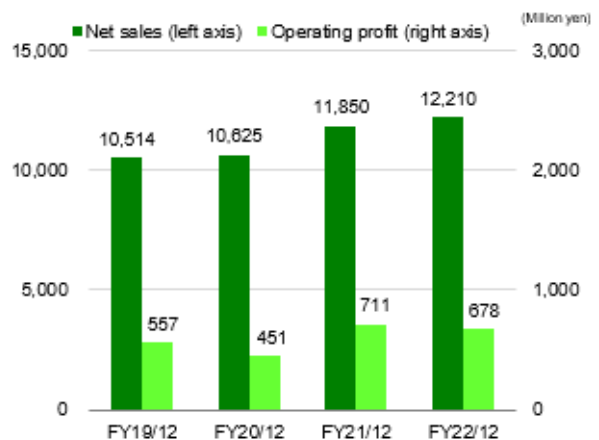
Industry environment

- ◆ Slight increase in production in the corrugated box industry overall (up 0.3% YoY)*
→ By use, consumption for e-commerce/delivery/moving was up 2.6% YoY.*
- ◆ Growing demand for corrugated boxes for delivery with growth in e-commerce market
→ Growing need for delivery boxes that fit inside mailboxes and delivery boxes with simple packaging, opening, and disposal
→ Expanding e-commerce gift market
*Reference: "Corrugated Box Statistics," Japan Corrugated Case Association

Initiatives

- ◆ Proposing added value based on special reinforced corrugated box materials, large-format printers, decorative printers, and design capabilities
→ Numbers of patent and design applications for corrugated box-related materials: 7 patents, 5 designs (cumulative 2019-2022)

Trends in operating profit margins



◆ Examples of developed products



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Here we see the corrugated boxes category. Production volume in the overall corrugated box industry is increasing slightly. Looking at individual applications, consumption for e-commerce/delivery/moving was up 2.6% year on year. Customers in food products, apparel, sundries, and distribution, who have been our main purchasers of paper cartons, have come to use corrugated boxes for e-commerce, so there are increasing cases in which we conduct combined sales by adding corrugated boxes to ongoing sales of paper cartons and paper bags.

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Film Packaging Segment

Industry environment

- ◆ Declining use of disposable diapers for children. Use of adult diapers is growing as the population continues to age.
→ Overall production in the diaper industry is projected to increase.
- ◆ Growing demand for microwavable food and food products with long shelf life
→ Growing need for high-performance materials (with barrier properties, etc.)
- ◆ Growing numbers of requests for proposals related to eco-friendliness (Recycling of factory scraps, eco-friendly materials, CO₂ reductions, etc.)

Initiatives

- ◆ Making energetic proposals involving eco-friendly film packaging for food, beverage, and e-commerce markets focusing on combined sales of paper cartons and corrugated boxes
- ◆ Growing sales by leveraging eco-friendly multicolor printing with the latest 10-color flexographic printers (introduced in FY2022)
- ◆ Developing paper film packaging and other eco-friendly products

◆ Examples of developed products



▲ Craft Clear, see-through paper film packaging

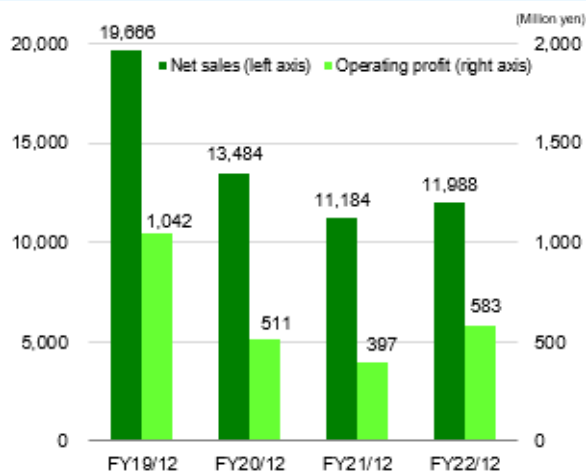


▲ Craft VM Barrier, paper film packaging with light shielding and high barrier properties

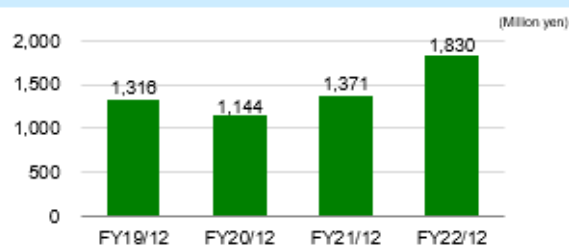


▲ Water-resistant paper Craft Pouch suitable for boiling

Trends in operating profit margins



Trends in sales of film packaging



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Next is the Film Packaging Business. Net sales and profits had both been trending downward due to stores beginning to charge for checkout bags and the decline in sales of external packages for disposable diapers, but they bottomed out in 2021, and in 2022, net sales grew by 7.2% and operating profit by 46.9%. There has also been major growth in sales of film packaging sold in combination with paper bags and paper cartons to customers in the food products sector. Net sales of film packaging in 2022 increased 33.5% compared to the previous year.

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Other Businesses

Industry environment

- ◆ Declining demand for in-store supplies and office supplies due to changing formats in the department store industry
→ Recovering from COVID-19 sales downturns
- ◆ Growing demand for reusable soft bags (made using materials such as cotton, polyester, and nonwovens)
- ◆ Growing need for eco-friendly migration of plastic packaging (food trays, etc.)

Initiatives

- ◆ Review of transaction details and products, and streamlining efforts, in the Pack Assortment Service System (PAS)
- ◆ Solution sales of accessories such as price tags and labels and sales promotion materials suited to market needs
- ◆ Strengthening new product development initiatives, including food trays made of eco-friendly materials and soft bags with recycled materials

◆ Examples of developed products

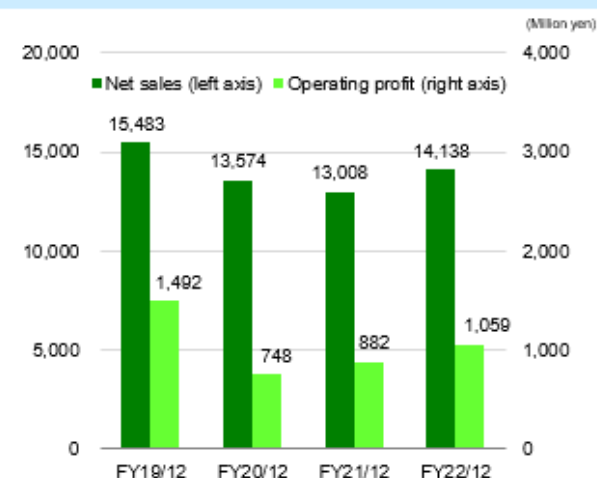


▲ ecoKARA™ tray, a biomass tray containing eggshells



▲ Recycled Tetron Cotton, a material made by recycling materials such as cotton and polyester scraps from factories

Trends in operating profit margins



◆ PAS (Pack Assortment Service System)



▲ Streamlining logistics via bulk delivery also helps reduce CO₂ emissions.

The next category is Other Businesses. Due to changing formats in the department store industry, demand for in-store supplies and office supplies has been declining, but our sales have recovered from declines caused by the COVID-19 pandemic. We are also strengthening new product development initiatives, including food trays made with eco-friendly materials and soft bags and reusable shopping bags that use recycled materials.

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Balance Sheet

(Million yen)

	Year ended December 31, 2021	Year ended December 31, 2022
	Actual	Actual
Assets	87,422	94,365
Current assets	55,438	61,484
Non-current assets	31,984	32,881
Property, plant, and equipment	22,658	23,729
Intangible assets	643	1,044
Investments and other assets	8,682	8,106
Liabilities	25,390	28,994
Current liabilities	22,279	26,054
Non-current liabilities	3,110	2,939
Net assets	62,032	65,371
Shareholders' equity	60,654	63,713
Accumulated other comprehensive income	1,300	1,611
Share acquisition rights	63	46
Non-controlling interests	13	-



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Next is our balance sheet, on which I have no specific comments to make.

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Cash Flow

(Million yen)

Main items	Year ended December 31, 2021	Year ended December 31, 2022
	Actual	Actual
Cash flows from operating activities	7,217	5,380
Profit before income taxes	4,214	5,925
Depreciation and impairment losses	2,138	2,315
Cash flows used in investment activities	-3,460	-3,762
Purchase of property, plant, and equipment	-3,219	-3,109
Purchase of intangible assets	-514	-433
Purchase of investment securities	-136	-2,357
Proceeds from sales of investment securities	135	204
Cash flows used in financing activities	-1,029	-1,124
Cash dividends paid	-1,045	-1,043
Cash and cash equivalents at end of period	18,067	18,653

◆ Depreciation and impairment losses include 323 million yen in impairment losses on fixed assets at the Tokyo Plant and The Pack (Changshu) Co., Ltd.
 ◆ Purchases of investment securities increased, including investments in long-term investment bonds and renewable energy funds.

Regarding cash flow, the comments at the bottom indicate that outflows increased from the purchase of investment securities, including investments in long-term investment bonds and renewable energy bonds, and as regards cross-shareholdings, these are reviewed each half and adjustments are made. Cross-shareholdings represented 7.0% of net assets as of the end of December 2022.

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Forecasts of Business Results

Growth in sales and profit driven by providing value to the environment, society and economy in response to changing markets

(Million yen)

	Year ended December 31, 2022	Year ending December 31, 2023	
	Actual	Forecast of business results	Forecast YoY change
Net sales	89,060	94,000	5.5%
Operating profit	5,972	6,400	7.2%
Ordinary profit	6,353	6,800	7.0%
Profit attributable to owners of parent	4,058	4,400	8.4%

- ◆ In FY2023, economic activity is expected to proceed alongside the COVID-19 pandemic, whose impact is expected to persist.
- ◆ Continuing growth is expected in the e-commerce and food takeout and delivery markets. Steady trends are projected for related products.
- ◆ As a total packaging solutions company, we will target sales and profit growth by energetically formulating and proposing proposals for eco-friendly packaging as well as labor and energy savings and mechanization to solve issues facing customers and society.

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The next slide shows a forecast of business results for the year ending December 31, 2023. In fiscal 2023, we will work to significantly increase sales and profits by providing value to the environment, society, and the economy in response to changing market conditions. We are forecasting net sales to increase ¥4.9 billion, or 5.5%, year on year to ¥94 billion, and are projecting operating profit to increase ¥428.0 million, or 7.2%, to ¥6.4 billion. As a total packaging solutions company, we will actively make proposals for eco-friendly packaging as well as labor and energy savings and mechanization to address the sustainability issues facing customers and society.

Support

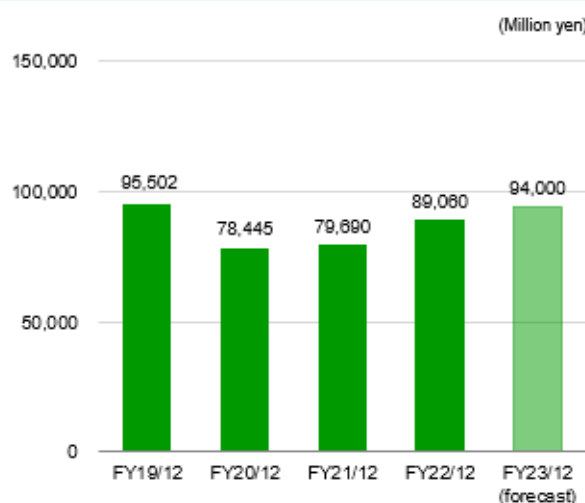
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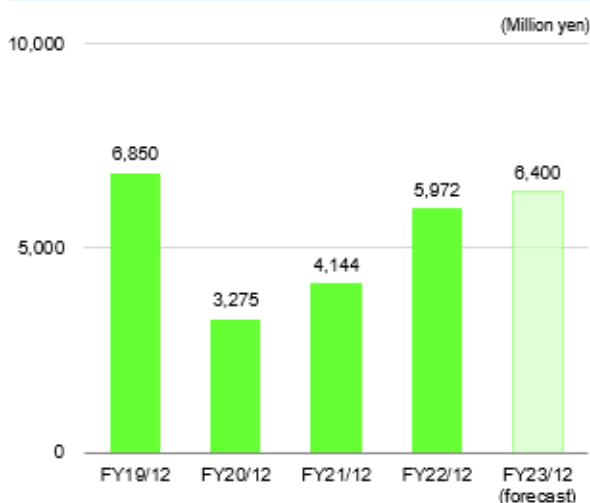
Trends in Consolidated Business Results

	Year ended December 31, 2019	Year ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2022	Year ending December 31, 2023 (forecast)
Net sales	95,502	78,445	79,690	89,060	94,000
Operating profit	6,850	3,275	4,144	5,972	6,400

Trends in net sales



Trends in operating profit



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The three-year period from 2020 to 2022 was a very challenging period, but as I just mentioned, our performance has been recovering, as you can see here, as a result of carrying out the strategies and tactics outlined in our medium-term plan.

Starting this fiscal year, we will achieve further growth through our new Medium-Term Management Plan, which will be discussed later on by President Yamashita.

Support

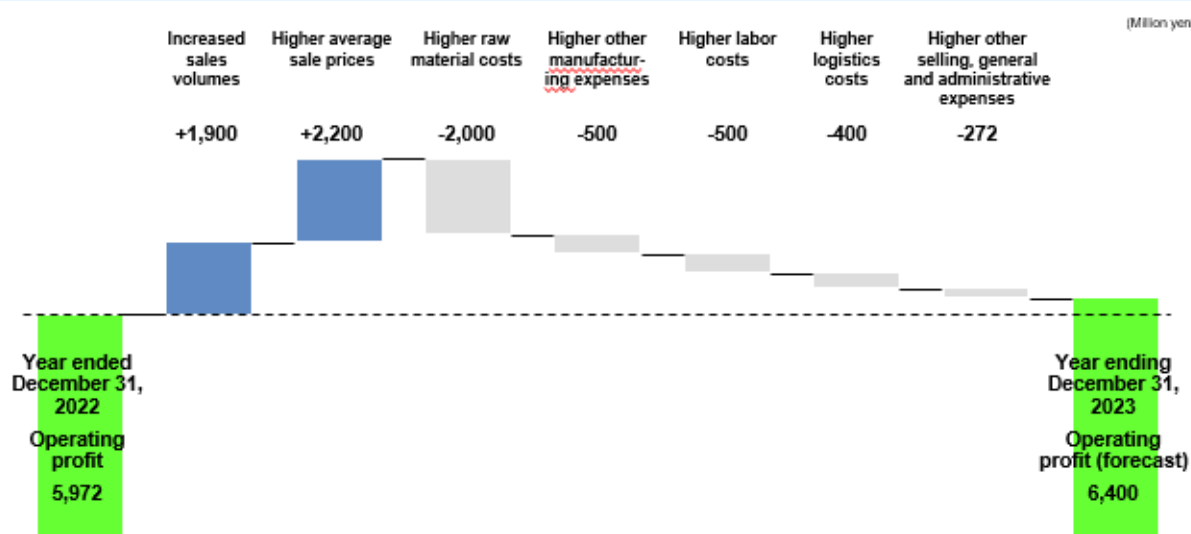
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Major Factors Underlying Projected Changes in Operating Profit

Growth in profit mainly from increased paper product sales volumes and improved sales



- ◆ Growth in sales volumes centering on paper bags and paper cartons thanks to recovering consumer spending associated with inbound demand and in connection with leisure and travel
- ◆ Increased sales volumes for corrugated boxes, paper cartons, and related products for the e-commerce market and food delivery market, which continue to grow
- ◆ Higher sale prices achieved through proactive proposals involving eco-friendly products and high value added products, starting with paper materials, as well as price optimization
- ◆ Responding to increases in raw material prices by cutting logistics and other costs and shifting higher prices to sale prices through proposals to change item specifications, etc.

Next are the factors underlying projected changes in our operating profit. We will achieve increased profit primarily through increased sales volume of paper products and improved sales. Raw material costs are expected to increase this fiscal year as well, but we will work to optimize sales prices and to reduce costs by streamlining logistics and other measures.

On the matter of reflecting our cost increases in sales prices, we will raise prices in some cases, but we will also work with the customer to reduce and absorb costs by proposing changes in specifications, such as the shape and design of paper cartons or paper bags, paper quality, paper type and thickness, and number of colors used when printing. We sell our products mainly through a direct sales system, so sales reps and design and product development staff in divisions that support sales activities work together to make proposals directly to customers.

This concludes my presentation. Thank you for listening.

Ouchi: Next is President Yamashita's presentation on the new Medium-Term Management Plan.

Review of Previous Medium-Term Management Plan (FY2020 to FY2022)

	Strategy	Assessment	Results
Paper cartons	<ul style="list-style-type: none"> Strengthen sales of paper cartons. From brick-and-mortar stores to accommodating e-commerce. Promote proposal-based sales activities. 	⊕	<ul style="list-style-type: none"> Sales growth in the food products market, a market of special interest Sales growth through acquiring new customers and initiatives for new demand
Paper bags	<ul style="list-style-type: none"> Initiatives related to the migration to paper. Increase sales of easy-to-recycle products. Increase sales of Forest® and FSC® products. 	○	<ul style="list-style-type: none"> Increased new orders through paper migration Increased development and sales of eco-friendly products
Corrugated boxes	<ul style="list-style-type: none"> Strengthen sales. From brick-and-mortar stores to accommodating e-commerce. Promote proposal-based sales. 	⊕	<ul style="list-style-type: none"> Growth in orders of paper delivery bags for e-commerce and expanded sales of related supplies Increases orders through solutions proposals
Other	<ul style="list-style-type: none"> Expand business domains. Initiatives for new businesses. Enter ASEAN markets, increase sales in Chinese market. 	△	<ul style="list-style-type: none"> Maintained dividend payout ratio of 25% or higher Investment-related <ul style="list-style-type: none"> Investments to augment paper carton capacity (2.5 billion yen) Completed construction of new headquarters building, March 2023 New system launch, scheduled for July 2024 Introduced automated conveyance system for products/semifinished products (100 million yen)
	<ul style="list-style-type: none"> Increase productivity. Backbone systems + manufacturing line labor and energy savings 	△	
	<ul style="list-style-type: none"> Shareholder returns. Target dividend payout ratio of 25% or higher 	○	
	<ul style="list-style-type: none"> Growth investment <ul style="list-style-type: none"> Increase paper manufacturing capacity (7.0 billion yen) New businesses (8.0 billion yen) Rebuild headquarters building (1.8 billion yen) 	△	
	<ul style="list-style-type: none"> Markets of special interest <ul style="list-style-type: none"> Food products market Pharmaceutical market Cosmetics market Health foods market E-commerce market System renovations (1.5 billion yen) (5-year plan) Rebuild Osaka Plant Augment Nara Plant 		

Yamashita: I will now explain our new Medium-Term Management Plan, but let me begin with a brief review of our previous Medium-Term Management Plan.

Under our previous Medium-Term Management Plan, we conducted business activities under the slogan of “Management Focused on Environmental Responsiveness” and on the basis of five strategies: making initiatives to switch to paper packaging; growing sales to the food products, pharmaceuticals and cosmetics, and e-commerce markets; enhancing sales of paper cartons; expanding business domains; and promoting productivity improvements and workstyle reforms.

With the spread of COVID-19 and restrictions on movement, it became difficult to achieve our numerical targets. However, with regard to paper cartons and corrugated boxes—markets we are tightly focused on—we were able to increase sales compared to fiscal 2019.

Regarding paper cartons, we were not able to achieve growth compared to fiscal 2019, but by increasing sales of eco-friendly products and acquiring new customers, we have been recovering from the downturn of fiscal 2020. With respect to the payout ratio, we achieved a ratio of 25% or higher, in keeping with our target.

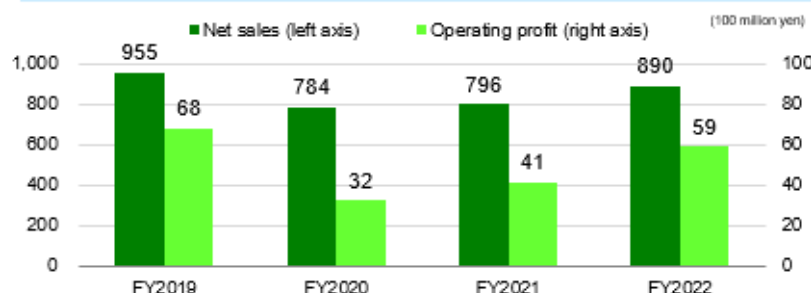
As for investments, we invested ¥2.5 billion in augmenting paper carton manufacturing capacity, rebuilt our head office building, built new backbone systems, and introduced facilities for labor saving and energy saving at factories.

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Review of Previous Medium-Term Management Plan (FY2020 to FY2022)

Trends in operating profit margins

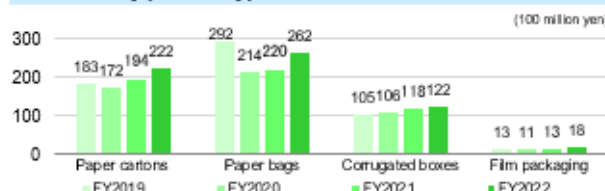


◆ The Company was affected by declining results in the distribution and retail industry, a major customer base, due to the impact of state of emergency declarations and stay-at-home requests during the COVID-19 pandemic. Current results are steadily recovering alongside the gradual resumption of economic activity.

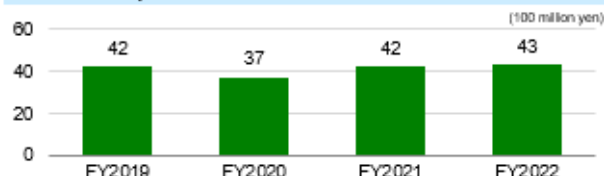
◆ Product sales to new markets in line with lifestyle changes and business growth through solution proposals contributed to results.

Note: The targets for consolidated net sales, operating profit, EBITDA and ROE, which were among the targets for the fiscal year ended December 31, 2022 in the previous Medium-Term Management Plan, were rescinded by the Board of Directors at the meeting held on August 30, 2021.

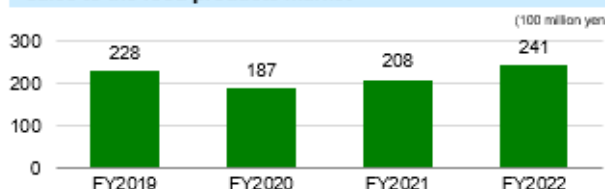
Net sales by product type



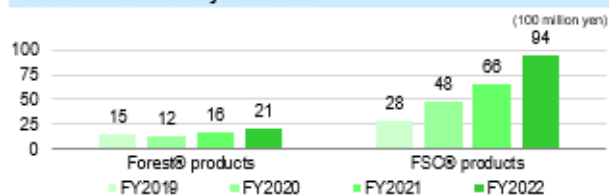
Sales to the pharmaceutical and cosmetics markets



Sales to the food products market



Sales of eco-friendly materials



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Next, I will review our numerical results under the previous Medium-Term Management Plan. Both net sales and profits declined substantially in 2020, but grew in fiscal 2021 and fiscal 2022, steadily approaching pre-pandemic levels.

Next, you'll see net sales by product type in the middle of the slide. Sales of paper cartons were ¥18.3 billion in 2019 and ¥22.2 billion in 2022. In the food products market, the graph underneath, sales increased from ¥22.8 billion to ¥24.1 billion as we were able to expand business in fields with large markets.

In sales of eco-friendly materials, which you'll see on the right, sales of FSC products increased greatly, from ¥2.8 billion to ¥9.4 billion, reflecting growing market sentiment alongside rising environmental awareness among customers and consumers.

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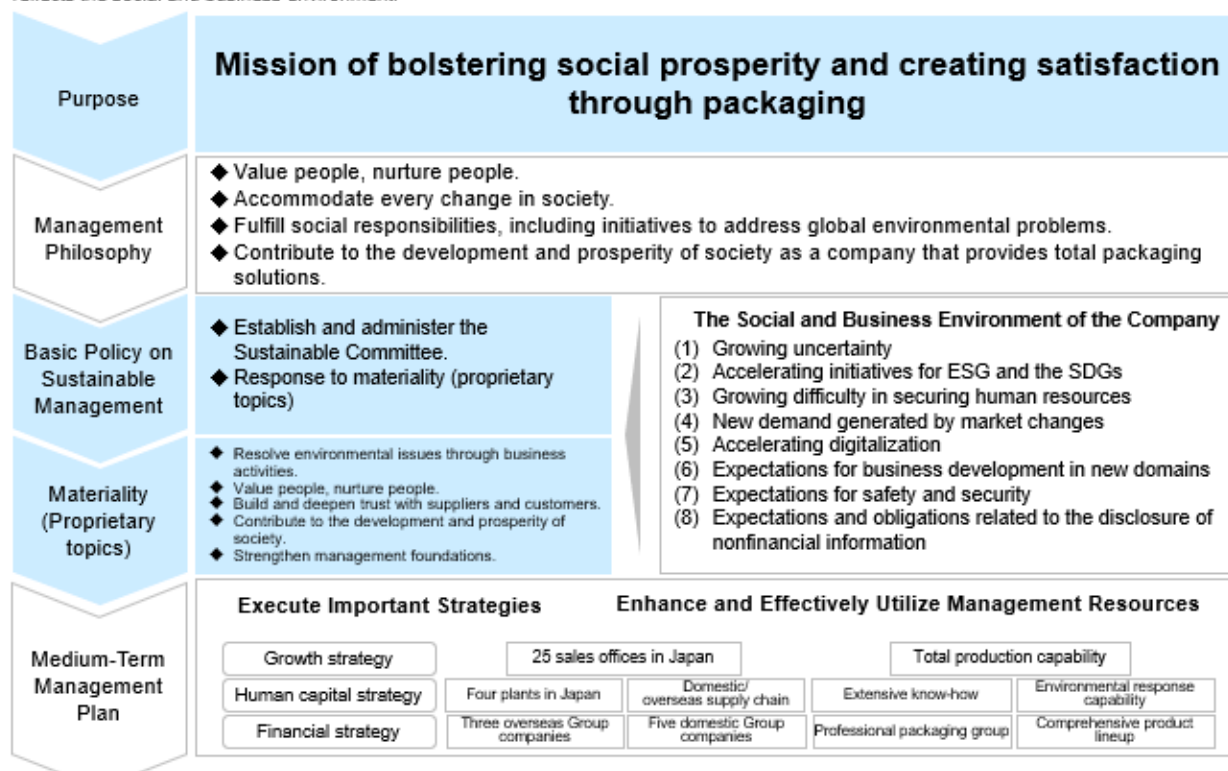
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The Pack Group's Management Policy

In 2023, the Company established its Purpose and Basic Policy on Sustainable Management and established a new management policy that reflects the social and business environment.



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Now I will discuss our management policy.

In addition to our Company Motto and Corporate Philosophy, which have guided us for some time, we established the following Corporate Purpose to define our reason for existing in society: “Mission of bolstering social prosperity and creating satisfaction through packaging.” Furthermore, we formulated a new Basic Policy on Sustainable Management that reflects the social and business environment in which we operate and also set forth a number of proprietary topics. In accordance with this management policy, we will pursue growth of The Pack Group by addressing these proprietary topics.

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Promotion of Sustainable Management

Basic Policy on Sustainable Management

Based on its Company Motto—Passionate and Dedicated to Our Partnerships—the Group will practice sustainable management and has established an official Purpose: Mission of bolstering social prosperity and creating satisfaction through packaging. As a total packaging solutions company, for the sake of the environment, society, and the economy, we will create new value for packaging to solve the various issues of stakeholders and to contribute to a more prosperous society that is both sustainable and full of smiles. To this end, we will maintain systems that allow us to accommodate any changes in society and grow in a sustainable manner to provide value unique to the Group.

Sustainable Committee Establishment and Administration

The Sustainable Committee (chaired by the president & CEO) has been established to promote sustainable management at the Group. The committee will deliberate and make decisions on the formulation of policies related to the execution and promotion of sustainable management and important themes, progress management for initiatives, and incorporation into the Medium-Term Management Plan. The committee's secretariat will coordinate with each division and Group company to promote action plans and manage key performance indicators, etc.



Response to Materiality (Priority Topics)

Environment

Solve environmental issues through business activities.

- ◆ Plan products and develop technologies that reflect environmental awareness.
- ◆ Reduce overall environmental impact of business activities.
- ◆ Contribute to nature protection and environmental preservation.

Social

Value people, nurture people.

- ◆ Promote employee health and ensure their safety.
- ◆ Nurture and cultivate total packaging solutions capabilities.
- ◆ Promote diverse work styles that allow employees to thrive.

Build and deepen trust with suppliers and customers.

- ◆ Co-create brand value with customers.
- ◆ Maintain and improve quality through collaboration with suppliers.

Contribute to the development and prosperity of society.

- ◆ Contribute to the development of the next generation and raise awareness of the environment.
- ◆ Solve diversifying social issues.

Governance

Strengthen management foundations.

- ◆ Maintain management soundness, transparency, and efficiency.
- ◆ Promote supply chain risk management.

Next, I will discuss our promotion of sustainable management, which will be implemented from fiscal 2023.

In our Basic Policy on Sustainable Management, we established a policy of accommodating changes in society and providing value unique to the Group in pursuit of a society that is sustainable, prosperous, and full of smiles.

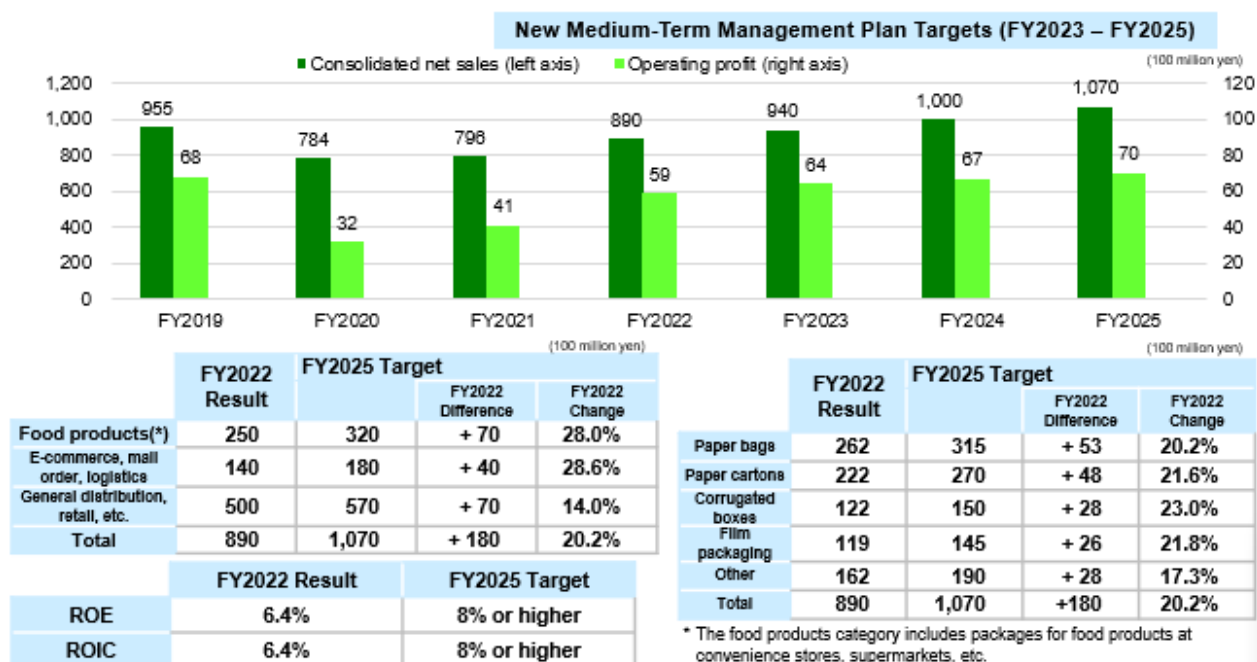
In addition, we established the Sustainable Committee to promote sustainable management. The committee manages and promotes sustainable management, formulates policies related to important themes, and deliberates and decides on progress management for various initiatives. Regarding the priority topics for promoting sustainable management, we will define them for each ESG item, deepen our understanding internally, and steadily work to solve the issues involved.

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Summary of New Medium-Term Management Plan (FY2023 to FY2025)

Slogan	Evolution: Start of Purpose-Based Management and Sustainable Management
FY2025 Targets	Consolidated net sales: 10.7 billion yen Operating profits: 7.0 billion yen ROE: 8% or higher ROIC: 8% or higher



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Next, I will give a summary of our new Medium-Term Management Plan.

The slogan of the new Medium-Term Management Plan is: “Evolution: Start of Purpose-Based Management and Sustainable Management.” The targets for the fiscal year ending December 21, 2025 are consolidated net sales of ¥107.0 billion, operating profit of ¥7.0 billion, ROE of 8% or higher, and ROIC of 8% or higher. We also set sales targets by product type and by industry. As we did in the previous Medium-Term Management Plan, we will focus specifically on increasing sales in the food products market, as well as in the e-commerce, mail order and distribution markets.

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Growth Strategies

Food products market (including convenience stores and fast food)

- ◆ Increase sales of primary food containers.
- ◆ Develop materials and processes that help reduce environmental impact; increase sales of FSC® products (FSC® C020517).
- ◆ Combined sales of paper bags and paper cartons with labels, films (film packaging), etc.
- ◆ Promote solution proposals that contribute to labor savings, streamlining, and automation at customers.
- ◆ Expand lineup of paper carton products.
- ◆ Initiatives for trays and molded containers, etc.



▲ Craft Clear, see-through paper film packaging



▲ Craft VM Barrier, paper film packaging with light shielding and high barrier properties



▲ Water-resistant paper Craft Pouch suitable for boiling



▲ Trays for food products

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Next is our growth strategies. First of all, in the food products market, the market for primary food containers is an extremely large one, and we will first work to increase sales in this market. With environmental awareness rising, there is increasing demand for migrating to paper cartons as an alternative to plastic.

Along with making proposals for paper migration, there are increasing opportunities for proposals and sales of products with reduced use of plastic, such as Craft Clear and Craft VM Barrier, which are shown in the photos at the bottom. While we haven't been very involved in this area, there are packages that are automatically filled using a machine called a cartoner, and we have been receiving many inquiries from customers about this type of packaging. Because of this increasing demand, we will renew efforts to grow sales in this market.

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Growth Strategies

E-commerce, mail order market, logistics industry

- ◆ Strengthen sales of delivery bags that increase transport efficiency for customers.
- ◆ Strengthen proposal-based sales that can help reduce labor requirements at customer facilities.
 - Proposals for product designs that reduce work hours
 - Proposals for solutions for automating work processes
- ◆ Develop materials and processes for automatic packaging and increase related sales.
- ◆ Further increase sales of reinforced corrugated boxes for heavy objects.



▲ Delivery bags for e-commerce



▲ Paper delivery bag compatible with automatic packaging machines; automatic packaging machine



▲ Reinforced corrugated box for heavy objects

Next is e-commerce, the mail-order market, and the logistics industry. These markets currently need to increase transport efficiency by decreasing the average size of packages. Recently, products that had been sturdily packaged in corrugated boxes are increasingly being shipped in delivery bags, especially for apparel products, so we think that sales of delivery bags are likely to increase going forward.

We do not sell a generic corrugated box product in the e-commerce market, so the switch from corrugated boxes to delivery bags will not have much impact on us. With regard to making packages smaller, we have fairly advanced design capabilities when it comes to designing packages with reduced sizes that retain their cushioning and are easy to assemble, and requests for this design work have been increasing greatly. In this regard, the trend towards more compact packages represents an opportunity for us to increase sales.

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Growth Strategies

General distribution and retail market, other markets

- ◆ Increase paper bag share and continue pursuing proposal-based sales to promote paper migration.
- ◆ Along with product sales, combined sales with assembly and setup work
- ◆ Develop sales channels in ASEAN region.
- ◆ Product sales aligned with the 3 Rs (reduce, reuse, recycle)
 - Increase sales of eco paper, upcycled materials, and FSC® paper.
 - Increase sales of eco bags and mono-material products.
 - Develop original paper and films with 100% recycled materials.
- ◆ Promote social contributions with customers.
 - Apply a portion of sales proceeds from eco-friendly products to promote forest conservation via The Pack Forest Environment Fund and an NPO.



▲Eco paper, upcycled materials (Mixed Paper with used clothes)



▲Flowchart for The Pack Forest Environment Fund

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Next is the general distribution and retail market. In this area, we will work to further increase our market share by making proposals and sales centering on paper migration. In addition, until now, sales have centered on individual products such as boxes only or bags only or corrugated boxes only; however, going forward, we will not only sell individual products but also combine sales with services that we render, such as product assembly or setup of the products.

Recently, even many of our customers have been facing labor shortages, so there are increasing cases of customers requesting combined sales. We think this is an area that will grow going forward.

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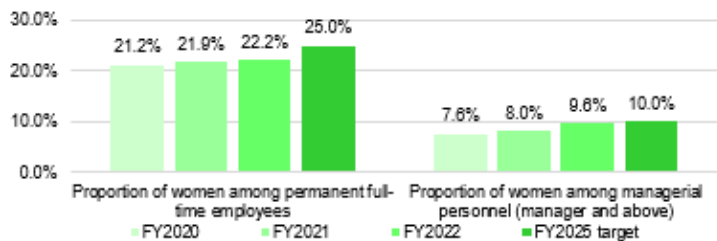
Human Capital Strategy

Growth and vitalization of individuals and the company

Secure diverse human resources.	<ul style="list-style-type: none"> ◆ Strengthen mid-career hiring. ◆ Promote active participation of women (full-time employee and manager ratios). ◆ Expand employment of people with disabilities.
Develop human resources.	<ul style="list-style-type: none"> ◆ Enhance training programs. ◆ Support for self-initiated skill improvement and retraining
Optimize personnel assignments.	<ul style="list-style-type: none"> ◆ Make effective use of the talent management system. ◆ Expand hiring opportunities (referrals, re-hires).
Develop optimal working environments.	<ul style="list-style-type: none"> ◆ Diverse work formats and program enhancements ◆ Well-being (promote health and productivity management)
Maximize employee engagement.	<ul style="list-style-type: none"> ◆ Appropriate wage structure, enhancements to benefits ◆ Raise management participation awareness by joining stock ownership association. ◆ Energize employee interactions and communications. ◆ Conduct engagement surveys.

Personnel Plan (consolidated)

FY2022 result	1,797 * Including full-time employees, contract employees, and part-time employees
FY2025 plan	1,920 (+123)



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Next is human capital strategy. First, we plan to secure diverse human resources.

Unfortunately, new graduate hires have been very modest, a situation which is proving to be challenging. On the other hand, mid-career hires have been very active. We are hiring people who have had a variety of careers for all of our divisions, as well as sales, manufacturing, and management, and we intend to further expand the areas where they can play active roles.

At the same time, the work systems required in workplaces are diversifying substantially, and we intend to make further adjustments to work formats in step with changes to the work environment. Regarding personnel plans, we had a workforce of 1,797 people as of the end of last fiscal year, and over the next three years we aim to add around 120 new employees.

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Financial Strategy

Supporting efficient, continuous growth through optimal fund usage planning

Growth investment	◆ Priority allocation of funds for growth investment (1) Capital investment (2) Investment in new businesses (3) Human investment (4) Investment for system upgrading (5) R&D
Shareholder returns	◆ Maintain dividend payout ratio of 30% or higher ◆ Flexible share buybacks

◆ Nara Plant rebuild

- Plan to acquire new land in Nara Prefecture and build corrugated box plant

◆ Osaka Plant rebuild

- Plan to rebuild through scrap-and-build on the current Osaka Plant site

Fund usage plan (FY2023 – FY2025 total)

Cash inflows	Cash outflows	
Cash on hand	Capital investment	Augment paper carton manufacturing capacity 2.0 billion yen
	6.5 billion yen	Augment paper bag manufacturing capacity 3.0 billion yen
		Rationalization, labor savings 1.1 billion yen
		Energy savings, resource savings 200 million yen
		Other 200 million yen
Operating cash flow	Strategy investment	M&A 10.0 billion yen
	14.0 billion yen	Backbone system upgrades 2.0 billion yen
		Human investment 2.0 billion yen
20.0 billion yen	Shareholder returns	
	4.0 billion yen	



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Finally, we look at our financial strategy.

With regard to growth investment, we will make investments in five areas, as shown here, starting with capital investment.

Next, with respect to shareholder returns, until last year we had set our payout ratio at 25% or higher, but we have since raised this target to a minimum of 30%. Also, as you can see in the upper-right, at the Nara Plant, we intend to rebuild on new land we've acquired, and at the Osaka Plant, we are planning a scrap-and-build on the current site.

Finally, regarding our fund usage plan, we are planning ¥6.5 billion for capital investment, ¥14.0 billion for strategy investment, and ¥4.0 billion for shareholder returns.

This concludes my presentation.

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Q&A

Moderator [M]: Now, as mentioned earlier, we will first take questions from people present at the venue. Please raise your hand if you have a question. Any questions? This is an excellent opportunity, so if you have a question, please do not hesitate.

Questioner 1 [Q]: I have just one, and it touches on the medium-term plan.

This was partially answered towards the beginning, but your P/B ratio is currently below 10%. In this situation, recently, including the financial statements, valuation itself can change greatly depending on the level of so-called cross-shareholdings. In this respect, I don't quite understand whether this is true in the case of your company.

It seems you have cross-shareholdings as net assets close to ¥20.0 billion, including investment securities, and, going forward, trends indicate a P/B ratio of at least 10%. I think this was already partially answered, but in your medium-term plan, what is the basic scope you are considering for selling cross-shareholdings and replacing assets? This is the one thing I would like you to confirm.

Fujii [A]: Thank you for your question. Regarding cross-shareholdings, I mentioned this earlier in my presentation, but the holding ratio is around 7.0%, and this has been the case for a good number of years. In our view, a holding ratio of 7.0% is not particularly high.

However, including such matters as the P/B ratio, going forward, such cross-shareholdings are now being reviewed every half, and we intend to monitor and review them going forward as well. This concludes my answer.

Questioner 1 [Q]: I understand. That's all I have. Thank you.

Moderator [M]: Thank you. Are there any other questions? Is there anything else? If there are no more questions, we will take questions from people participating on Zoom. If you have a question, please raise your hand by pressing the button at the bottom of the screen. We will send unmute requests in order from here, so after you are unmuted, please ask your question. This next portion will be handled by Mr. Ouchi, the company's IR representative. Please proceed.

Ouchi [M]: So now we will go to Zoom. Someone has raised their hand, so I will pass the mic to them. Go ahead. I think there is a button on the screen to unmute. Do you see it? How about now? Your mic is still muted. We seem to be having a little trouble, but if there is someone else with a question, please raise your hand by using the button on the bottom of the screen.

Is there anyone else with a question? You can also use the chat function, so please feel free to send a question that way as well. OK, let's leave Zoom aside for now. If there is anyone here in the audience with a question, we would ask you again to please speak up.

Moderator [M]: Does anyone have questions? Are we fine? OK, the person there in the very back, go ahead.

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Questioner 2 [Q]: I have a question about the growth strategy in your medium-term management plan. In the food products market, you explained that you would be increasing sales of primary containers, including to convenience stores and fast-food restaurants.

A little more specifically, what types of products are you envisioning to increase sales? A few more specifics with examples would be helpful. Thank you.

Yamashita [A]: It is a little hard to know how to answer that. To be honest, the products are interconnected with our customers' products, so it can be very difficult to give examples in specific terms.

However, it is more or less the case that the plastic containers used up until now will be changing to paper, as we have discussed today. So, we will be increasing sales as an extension of this general trend.

Questioner 2 [Q]: Thank you. You presented specific figures a moment ago, but basically you are envisioning an increase from ¥25.0 billion in fiscal 2022 to ¥32.0 billion in fiscal 2025. Is that correct?

Yamashita [A]: Yes.

Questioner 2 [Q]: Thank you.

Moderator [M]: Thank you. Are there any more questions? Are we fine? There don't appear to be any more questions, and there are no questions from people on Zoom, correct?

Ouchi [M]: Correct. There are no questions on Zoom.

Moderator [M]: OK. Then we hereby conclude The Pack's briefing on its business results. Thank you to everyone for attending.

[End]

Footnotes

1. Portions in which the audio is unclear are marked as "Audio unclear".
2. In the conversation, [Q] is a question, [A] is an answer, and [M] is neither a question nor an answer.

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