

Responding to Tariff Risk An opportunity to build a global supply chain management system

Sanden Corporation was interviewed by two national news stations on Tuesday, March 3, and Monday, March 10, 2025, regarding our response to tariff risks. We would like to take this opportunity to share our approach to a manufacturing system that is closely aligned with our customers.

Interview



【 Content of the interview and our response 】

■ Our Company's Impact and Response to the Increase in Automotive Tariffs by the U.S. Government

Although the tariff policy will have some impact, we believe it could be an opportunity for our company.

We have established a global production network based on the principle of "manufacturing close to our customers". We have already established a five-region system for the production of our mainstay compressors: Japan, Europe, the Americas, China, and Asia. The reason for this is to respond quickly to customer needs and requests by developing and manufacturing products close to the customers and to increase our competitiveness. At the same time, the aim is to respond flexibly to the risks of fluctuating exchange rates and tariffs and to achieve a stable supply of products.

As a listed company in Japan, we have been providing products to many customers around the world for many years, taking advantage of being an independent company not affiliated with any automobile company and utilizing our

technology and quality focused on automotive compressors. The US market is currently our second largest market after China. Unfortunately, our market share is not large at the moment, but we are positioning the U.S. as a market with growth potential, and in our medium-term business plan SHIFT 2028, which we developed in 2024, we have set expanding our market share in the U.S. as a key strategy.

In addition to tariffs, there are always changes in the market environment, such as exchange rate fluctuations, but we will continue to actively invest to strengthen our production system based on our current strategy, and we will continue to expand our market share in the United States, which is an important market with potential.

■ A grace period has been set for the increase in auto tariffs on Mexico. The impact of the increase and the impact on business strategy of the fact that U.S. policy changes back and forth.

It is true that uncertainty and frequent changes in tariff policies make it difficult for companies to make business decisions. However, we have a system in place to respond quickly to geopolitical risks and policy changes.

We have been strengthening the following:

- Diversification of business portfolio
- Strengthening and flexible response to the North American market
- Strengthening partnerships with customers and business partners

We see this tariff issue not as a risk, but as an opportunity to optimize our supply chain and accelerate growth. By maintaining flexibility in our management strategy, we will strengthen our foundation for sustainable growth. While there will be some short-term impact, we will minimize the impact by leveraging our global manufacturing footprint, which is one of our strengths, and by optimizing production and sourcing. For example, we'll look at the possibility of supplying the same type of product produced from regions with low tariffs. We'll also look at the balance of logistics costs. We will continue to maintain production in Mexico, although there may be a temporary volume adjustment.

■ Why has Sanden built a factory in Mexico? What are the options, such as relocating the factory, if tariffs on Mexico are increased?

We established a manufacturing plant in the United States (Dallas) in 1980 and have been operating in the North American market for many years. In 1994, we established a plant in Mexico to ensure stable supply to the North American market, optimize manufacturing costs, and respond quickly to customer needs.

There are three reasons we built a plant in Mexico.

1. Stable Supply to the North American Market

The goal was to respond to the growing demand in the US, Mexican and Canadian markets (within the NAFTA region) and to provide a stable supply to

customers in the US. Another important objective was to take advantage of the proximity to the US market and to establish a flexible production system with short delivery times.

2. Building a Competitive Production System

Mexico has excellent cost competitiveness and a geographic advantage that allows for the optimization of parts sourcing and logistics systems. As a result, we have been able to establish a high-quality, low-cost production system and maximize the price competitiveness of our products.

3. Building a Global Supply Chain

As one of our manufacturing plants in North America, we view the Mexico plant as an important location in our global supply chain. This has enabled us to strengthen our production and supply system, which spans the Americas, Mexico, Asia, and Europe, and to achieve risk diversification and stable supply.

Next, regarding the possibility of moving our plant, it is true that the impact of the tariff increase is a factor. However, we have no immediate plans to move our Mexican plant. In fact, we see the tariff issue as an opportunity for growth. The reasons are as follows.

1. Short-term Measures: Control of tariff risks

Even if tariffs are increased, we are already taking several steps to manage the situation.

- Shifting some production to our U.S. plant to minimize the impact of tariffs.
- Adjusting production at our Mexican plant to optimize the supply chain.
- Restructuring procurement routes to keep raw material costs down.

By taking these actions, we intend to minimize the impact of the increase in tariff costs.

2. Medium-term measures: Make production plants more flexible

With a manufacturing network of 46 plants in 22 countries around the world, we can quickly and flexibly adjust our production system to manage tariff risks.

For example, we are currently preparing to shift some production from our Mexican plant to our U.S. plant to avoid tariff risks. At the same time, we are redesigning our procurement of parts from Asia and China to ensure that we have a system in place to reduce the burden of tariffs.

3. Long-term measures: Shift to the Electric Vehicle Market

In the long term, we will strengthen our supply system in the U.S. market to meet the growth of the North American EV market and the increasing demand for electric compressors and ITMS (Integrated Thermal Management System). We are also considering expanding the production capacity of our U.S. plant in the future in response to increased market demand.

(Our facilities in the Americas)



We're not just focusing on short-term tariff risks. We're also continuing to optimize our production system with an eye toward long-term growth opportunities.

As a listed Japanese company in business for over 80 years, we will continue to pursue sustainable global growth and live up to the trust of our customers, employees, and stakeholders.

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