UACJ Corporation
May 2020

Briefing for Analysts and Institutional Investors on Performance in the Fiscal Year Ending March 31, 2020 (Q&A Summary)

1. Consolidated operating performance, demand environment

Q) Could you describe current business conditions and the state of demand among individual regions and customers? Could you also tell us about production and sales volumes in Thailand (UATH), both currently and in the January–March 2020 quarter?

A) Production and sales activity in the January-March 2020 quarter was not affected by COVID-19.
The impact of COVID-19 is unlikely to emerge until May or later.
Both UATH and UWH performed in line with internal targets in the January–March 2020 quarter.

Q) Could you explain in a bit more detail the overshoot on cost reductions and sales-related differences in FY2019? Is it safe to say that COVID-19 had little impact on FY2019?

A) When we saw that cost reductions in Q3 fell short of the annual figures we put out, we exerted more top-down efforts to reduce costs and expenditures, resulting in outperformance of around JPY300 million. COVID-19 had almost no impact on our business in FY2019.

Q) Demand for can stock appears strong in Japan and North America, but it looks like it is starting to feel the effects of COVID-19 in Asia ex-Japan. Could you explain the differences in market conditions in more detail? What kind of possibilities do you see regarding emergency cost cutting measures in preparation for declining demand as a result of COVID-19?

A) In terms of market conditions themselves, we are starting to see regional differences, but when it comes to can stock in Japan and North America, there is has been no major fluctuation in demand. In both Japan and the US, can stock is a daily necessity, and since there is also a market for enjoying drinks at home, there has been no substantial drop in demand. In Southeast Asia, there has been some decline in demand for beverage can stock due to the effects of the lockdowns and restrictions on liquor sales. In automotive business, demand is starting to be affected by the suspension of economic activity and stay-at-home policies in Japan, the US, and Asia as well.

Q) In terms of the impact on decline in automotive demand, how do you think this will affect different products and how big of an impact do you think this will have on profits? If you can, could you tell us how various business lines have been affected, such as flat rolled products, extruded products, cast and forged products (such as compressor wheels), and UWH? Could you also tell us about what percent of overall profit comes from the automotive sector?

A) Given the production output cutbacks by automakers, products such as auto body sheets, bumper and structural components, as well as heat exchanger materials are starting to be affected by declining demand. UWH temporarily idled production at the end of March, but it has now resumed operations. The impact on cast and forged products has been limited since we also supply the aerospace and railway sectors in addition to the automotive sector, but we are starting to see effects in the area of compressor wheels. In extruded products, heat exchanger materials have been affected.

Q) Could you detail how inquiries are doing at this time, and what the current outlook is for thick plate for semiconductor and LCD production equipment?

A) Thick plate for semiconductor and LCD production equipment started to make a comeback in Q4 FY2019, and FY2020 had looked promising, but demand has been stagnating since around May 2020 due to the impact of COVID-19. Looking ahead, there could be a de-concentration of semiconductor production from China to other areas, and I think sales volumes will increase over the medium to long term.

Q) Imports of plates and sheets into Japan are on the rise. Have you been affected at all?

A) There have been increased imports in areas such as printing plates and foils, but in our case we are able to secure profits even if domestic sales volumes decline, and we are adapting by putting a higher concentration of high-added-value items into our product mix.

Q) UACJ has not yet released FY2020 earnings forecasts. Could you tell us what kind of factors driving profit growth or decline there are likely to be in FY2020? Around when will UACJ's earnings begin to benefit from the drop in crude oil prices?

A) Negative factors: The risk of deterioration in our inventories due to falling ingot prices.
Positive factors: A turn for the better in our energy costs stemming from falling energy prices (a profit boosting factor of more than JPY1 billion).

2. Status of key overseas subsidiaries

Q) Could you tell us about the earnings results and current status of your overseas subsidiaries? And has the slump in the automotive and aircraft industries in the US caused the supply of plates and sheets to go from a shortage to a surplus?

A) Earnings results are as follows:
UATH: FY2019 sales of JPY69.1 billion and an ordinary loss of JPY4.5 billion
TAA: FY2019 sales of JPY130.6 billion and an ordinary income of JPY2.9 billion
In domestic can stock, both production and sales are on target. Automotive items are down slightly.
UATH is currently experiencing delays in shipments due to the effects of restrictions on liquor sales in Asian countries and the temporary suspension of economic activity, but there has been no change in annual order volumes from can makers and bottlers.
TAA has maintained business continuity and there are no problems in terms of beverage cans, but the supply of automotive materials has been affected by the idling of plants by automakers.
Precision machined components and other lines of business were temporarily idled, but are now up and running again, and globally speaking, all of our facilities are currently in operation.

Q) Could you give us the details of progress on can stock price hikes by TAA in the January–March quarter?

A) Thanks to brisk demand for can stock in North America, TAA was able to raise prices and obtain long-term contracts during FY2019. We anticipate similar success on price hikes in FY2020 as well.

3. Structural reform (capital investment)

Q) How much do you expect to be able to pare back capital investment?

A) Capital investment in FY2019 totaled JPY48.9 billion, with outlays in Japan, the US, and Thailand. However, FY2019 represents the peak of the heavy capital investments

we have made over the past few years, and our outlook for FY2020 capital investment (budgeted) is approximately half the figure for FY2019. Since COVID-19 is likely to strain our cash flow, we intend to maintain financial discipline by postponing some investments and cutting expenditures.
We are also internally studying additional investments as part of our post-COVID response, which we will also implement within a financially disciplined scope through measures such as asset streamlining.

Q) Your structural reform measures include positive free cash flow. Your large-scale strategic investments are playing out, and you have kept capital investment over the next three years at JPY67.0 billion, but considering FY03/2020 results and the current business environment, is there any chance you will change your mind about the scale of capital investments, or in fact pare them back further?
Could you also explain how you think fixed costs will trend, including how structural reform will affect such costs? The string of major investments you have implemented will drive up depreciation and amortization, so will you be doing anything to bring down your breakeven point?

A) We must stick to the JPY67.0 billion amount set forth in our structural reform plans. However, the forthcoming impact of COVID-19 puts both our bottom line and cash flow at risk of temporary damage, and I foresee need to postpone or reduce capital investments in response. We also need to make new investments looking ahead to the post-COVID era, though, and by taking additional measures such as streamlining assets and improving inventory turnover, we will stay within the scope of our JPY67.0 billion declaration.

In terms of reducing fixed costs, our structural reform plans also include the theme of "lowering our breakeven point". We commenced undertakings in that respect in each of our business lines in 2H FY2019, and the Corporate Strategic Restructuring Office is in charge of managing progress. Increased depreciation and amortization costs are already factored into our FY2020 guidance, and we will implement even more stringent cost management at the individual business unit level. We are also working to streamline our workforce, and we will be making effective use of IT to achieve more sophisticated production activity, and streamlining indirect departments. Currently, we are carrying out business process reengineering (BPR) and identifying necessary action, while at the same time building mechanisms to adapt to the major changes in the societal landscape.

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Except for past or present facts, plans regarding sales, profits, etc., as listed in this document use forecasts contingent on assumptions and judgments made by the Group based on currently available information. Such information is used when examining factors such as economic conditions (including forecasts of trends in industries related to the Group's businesses), exchange rates, and other factors that may affect the Group's performance.

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