

1H FY2020 Briefing for Analysts and Institutional Investors
(Q&A Summary)

1. Consolidated Performance, Other

Q. In your full-year forecast, is the disparity between the negative ¥3.5 billion in ordinary income and negative ¥9.5 billion in net income attributable to owners of the parent due to the tax burden and extraordinary losses?

A. The main factors are extraordinary losses, the tax burden, and a 25% decrease in our minority interest in TAA.

Q. "Impact of aluminum price" is one component in the analysis of consolidated ordinary income. Could you provide more detail on that component?

A. The loss of sales due to COVID-19 is included in "impact of COVID-19." "Impact of aluminum price" is the main component indicating domestic sales that are not directly affected by COVID-19.

Q. Looking at rolled aluminum products in general, you had anticipated that demand for automotive materials and other products would start to return in 2H FY2020. However, this resurgence is not incorporated into your performance forecast for FY2020 or your full-year forecast analysis of consolidated ordinary income. Is this because you are adopting a conservative outlook?

A. Automotive materials and other aspects of the automotive business are affected by the degree to which unit sales recover for individual customers. Our sales forecast assumes that the 2H trend will continue in the same vein as in 1H.

Q. Please describe the trend in domestic demand for thick plates for semiconductor manufacturing equipment (including future trends).

A. The most recent trends still do not indicate a recovery. Demand for capex in such areas as 5G base stations is robust, and over the long term we expect demand for semiconductor manufacturing equipment to recover. We continue to monitor trends across the semiconductor supply chain.

Q. "Others, adjustment" within the FY2020 analysis of consolidated ordinary income

includes a positive ¥2.9 billion impact from cost reductions, but the total is negative ¥1.6 billion. Please provide some detail on this component.

A. This component also includes such elements as depreciation on the newly installed automotive CALP line at the Fukui Works, the impact of last year's sale of the copper tubing business, and a deterioration in performance of our Australian subsidiary (UAAU). The result is a negative ¥1.6 billion.

Q. Globally, does the trend toward a shift from PET bottles to aluminum cans continue despite COVID-19?

A. Progress continues in the North American market, where sales of mineral water in bottle-shaped cans have begun. Progress has yet to be made in Japan and other regions.

2. Status of Major Subsidiaries

Q. What are your sales, operating income, and ordinary income forecasts for TAA and UATH?

A. UATH: Net sales of ¥64.8 billion, operating income of ¥3.5 billion, and ordinary income of ¥4.7 billion
TAA: Net sales of ¥135.5 billion, operating income of ¥8.4 billion, and ordinary income of ¥6.1 billion

Q. How is the recent market environment in Thailand (UATH)?

A. The Thai market, including travel from overseas, has yet to recover. However, UATH derives 70–80% of its sales from overseas: throughout Southeast Asia and extending to North America, Oceania, the Middle East, and South America. Globally, we expect demand to gradually recover from October 2020 after having bottomed out in July–September.

Q. UATH is expected to see sales volume rise between October and December, but can you provide more region-specific details on the status of recovery?

A. Demand is trending upward in Southeast Asia. In North America, demand is flourishing despite COVID-19. In other regions, demand is also increasing. In December, we expect monthly sales to recover to around 20,000 tons.

Q. What is UATH's breakeven point? How many hundred thousand tons per year does it require to be profitable at the operating level?

A. Operating income turns positive when annual sales reach approximately 200,000 tons. Next fiscal year, the company anticipates sales of 300,000 tons. If it reaches that level, UATH should make a positive contribution at the operating and ordinary income levels.

Q. I understand that performance is sluggish in the precision-machined components and related businesses. Will the outlook change, now that a recovery in demand is forecast for UWH and other automotive businesses?

A. UWH responded to requests from the US state of Michigan to halt operations for one and half months. This is one reason for the temporary deterioration in performance in FY2020. However, automotive demand is currently on the upswing, and new orders from customers are increasing. In addition, companies are in the investment phase, reinforcing facilities to commence mass production in 2021 of materials they have already ordered.

3. Restructuring

Q. I would like to ask your thoughts about the effects of restructuring. Were your plans based on the general assumption of an overall demand recovery, including in Japan? If demand fails to recover and sales volume declines further, do you expect to see less benefit from the consolidation of production bases and other reform efforts? Might it even be possible that restructuring efforts will yield no results?

A. The streamlining of production bases and reductions in indirect costs are corporate initiatives; they are not affected by sales and demand fluctuations. However, we need to take changes in sales and demand into consideration as we move forward with measures to optimize production and improve the product mix.

Q. I understand that restructuring is expected to have a positive impact of more than ¥10.0 billion in FY2021. Against that backdrop, could you provide some detail on what domestic and overseas measures are likely to be effective, and what level of improvement you anticipate?

A. In FY2021, the impact of restructuring efforts should amount to ¥10.0 billion or more. The largest improvements are likely to be felt by UATH and UWH, which have been most affected by COVID-19. In Japan as well, in FY2021 we should see the impact of resurgent demand, closing the Nikko works, streamlining presses in the extrusion business, and consolidating production bases.

Q. Are you likely to seek extraordinary losses in the neighborhood of several billion yen from next fiscal year in relation to restructuring? Next fiscal year, do you anticipate a further impact from restructuring efforts?

A. We also expect extraordinary losses stemming from restructuring next fiscal year, but losses peaked in FY2020. Next year, we expect the impact of restructuring efforts to gradually begin appearing at the operating level.

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