



UACJ Corporation

Q1 Financial Results Briefing for the Fiscal Year Ending March 2022 Telephone Conference

August 5, 2021

Event Summary

[Company Name]	UACJ Corporation	
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[Participants]	89	
[Number of Speakers]	6	
	Miyuki Ishihara	Representative Director & President
	Teruo Kawashima	Director, Member of the Board, Managing Executive Officer
	Shinji Tanaka	Executive Officer, Corporate Strategic Restructuring Executive Officer
	Jyoji Kumamoto	General Manager of the Corporate Planning Office
	Haruhiro Iida	Accounting Manager
	Kouzo Okada	Manager of IR and Finance Department
[Analyst Names] *	Atsushi Yamaguchi	SMBC Nikko Securities Inc.
	Yuji Matsumoto	Nomura Securities Co., Ltd.
	Yu Shirakawa	Morgan Stanley MUFG Securities Co., Ltd.

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Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasia.com



Shinichiro Ozaki
Harunobu Goroh

Daiwa Securities Co., Ltd.
UBS Securities Japan Co., Ltd.

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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Presentation

Operator: Everyone, thank you for standing by. We will now hold a financial results briefing call for the first quarter of the fiscal year 2021 of UACJ Corporation.

This conference call will be conducted using the briefing materials available on the UACJ Corporation's website. If you do not have the materials at hand, please visit our website.

Thank you for your cooperation.

Okada: Thank you very much for taking time out of your very busy schedule to participate in today's conference call.

I would like to introduce our attendees for today. Miyuki Ishihara, Representative Director & President.

Ishihara: I am Ishihara. Thank you.

Okada: Teruo Kawashima, Director, Member of the Board, Managing Executive Officer.

Kawashima: This is Kawashima. Thank you for joining us today.

Okada: Shinji Tanaka, Executive Officer, Corporate Strategic Restructuring Executive Officer.

Tanaka: I am Tanaka. Thank you.

Okada: Jyoji Kumamoto, General Manager of the Corporate Planning Office.

Kumamoto: I am Kumamoto. Thank you.

Okada: Haruhiro Iida, Accounting Manager.

Iida: I am Iida. Thank you.

Okada: I am Kouzo Okada, Manager of IR and Finance Department, who will serve as the moderator today. Thank you.

Kawashima, General Manager of the Finance Division, will now explain the business results for the first quarter of FY2021 and the full-year business forecast announced today.

Please join us while viewing the presentation materials.

Mr. Kawashima, Director, please go ahead.

Kawashima: Now, Kawashima will explain the first quarter results and the full-year forecast that were announced today. Please have a PowerPoint presentation ready at your hand.

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4. Sustainability Initiatives

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On the first page, you will find the table of contents. I will explain these 4 items: the first quarter, the full year, the progress of structural reforms, and sustainability initiatives. First, let's look at the results of the first quarter. There is a page number in the bottom right corner, which I will refer to during the presentation.

1. Results for Q1 FY2021

Overview of Results for Q1 FY2021

Ordinary income: **¥11.6 billion (Results for Q1 FY2020: ¥0.04 billion)**

■ Sales volume: Up YoY

- Steady growth in demand for can stock from UATH^{*1} (Thailand) and TAA^{*2} (United States)
- Recovery of demand from transportation equipment manufacturers, centered on automakers, led to strong performance

■ Ordinary income: Great YoY improvement

Positive factors

- Improvement in domestic business performance (including recovery from impact of COVID-19)
- Improvement in UATH's performance
- Steady growth of TAA's performance
- Upturn in inventory valuation

Negative factors

- Nothing in particular

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*1 UACJ (Thailand) Co., Ltd. *2 Tri-Arrows Aluminum Holding Inc.

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Please turn to page 3. Page 3 shows a summary of the first quarter. I will explain the details later.

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First, in the first quarter, we were able to record JPY11.6 billion in ordinary income, a large amount of profit compared to the same period of the previous year in which we were almost even.

As for the volume, as I will explain later, it has been increasing mainly overseas.

The upturn in ordinary income was due to the impact of the coronavirus pandemic in the first quarter of last year, especially in Japan and the US, and the start-up of UATH.

The other big thing is that the price of ingot has risen very much, and the difference due to the inventory evaluation effect has improved greatly. In this way, the profit and loss situation has improved significantly.

1. Results for Q1 FY2021

Results for Q1 FY2021

(Billions of yen)	Q1 FY2020 (A)	Q1 FY2021 (B)	Change (B) – (A)
Net sales	133.3	173.8	40.5
Operating income	(0.6)	13.2	13.8
Ordinary income before inventory valuation impact	1.0	5.1	4.0
Inventory valuation impact	(1.0)	6.5	7.5
Ordinary income	0.0	11.6	11.5
Net income*	(0.2)	8.8	8.9
Adjusted EBITDA**	8.7	14.5	5.8

* Net income: Net income attributable to owners of the parent
** Adjusted EBITDA: EBITDA excluding the impact of inventory valuation

Please turn to page 4. This is the results for the first quarter of this fiscal year.

Net sales were JPY173.8 billion, an increase of JPY40.5 billion, or about 30%, from the same period last year. Operating income was JPY13.2 billion, an increase of JPY13.8 billion compared to the previous fiscal year. Ordinary income before the impact of inventory valuation was JPY5.1 billion, an increase of JPY4.0 billion.

Inventory impact was JPY6.5 billion, a turnaround of about JPY7.5 billion from the previous fiscal year. As a result, consolidated ordinary income for the first quarter was JPY11.6 billion, which is a significant turnaround from the almost zero profit in the previous fiscal year.

Net profit was JPY8.8 billion, and adjusted EBITDA was JPY14.5 billion, compared to a loss in the same period last year. Net sales increased by JPY40.5 billion. As mentioned in the financial result summary, the new accounting for revenue recognition started in the FY2021 slightly changed the number of sales.

In terms of the breakdown of the JPY40.5 billion, we estimate that about JPY21 billion is due to the impact of higher ingot prices. Also, the sales volume was strong, which resulted in about JPY31 billion.

In contrast, the revenue recognition accounting standard has reduced sales by about JPY11.6 billion. In total, the increase in revenue was JPY40.5 billion in the first quarter of this fiscal year.

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Sales and Operating Income by Segment

(Billions of yen)	Q1 FY2020 (A)		Q1 FY2021 (B)		Change (B) – (A)	
	Sales	Operating income	Sales	Operating Income	Sales	Operating income
Flat-rolled products	112.0	1.0	159.6	14.9	47.6	13.9
Precision-machined components and related business	39.4	(0.2)	34.0	0.2	(5.4)	0.4
(Adjustment)	(18.0)	(1.3)	(19.9)	(1.8)	(1.9)	(0.5)
Total	133.3	(0.6)	173.8	13.2	40.5	13.8

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Please turn to page 5. This is the status by segment.

As you can see, Flat-rolled Products business is increasing in sales and profits. Sales decreased by JPY5.4 billion at Precision-machined Components and Related Business. On the other hand, its profit increased.

As I mentioned earlier, the new accounting standard for revenue recognition has resulted in a decrease in sales of about JPY11.6 billion compared to last year, but this decrease is in the Precision-machined Components and Related Business.

Please understand that without this decrease, sales in the Precision-machined Components and Related Business would have increased.

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1. Results for Q1 FY2021

Sales Volume, Flat Rolled Products

(Thousands of tons)

	Q1 FY2020 (A)	Q1 FY2021 (B)	Change (B) - (A)
Can stock	189	204	15
Foil	12	15	3
IT	6	4	△ 2
Automotive materials	22	38	17
Thick plates	10	12	3
Other general-purpose materials	35	57	22
Total	272	330	58
	(For Japanese market 107) (For overseas market 165)	(For Japanese market 128) (For overseas market 202)	(For Japanese market 21) (For overseas market 37)

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* Sales volume after eliminating internal transactions

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This is the status of the first quarter results. Please turn to page 6. This is sales status.

These are flat-rolled products. In Japan, Thailand, and the US, the total sales volume of the first quarter was 330,000 tons, which is 58,000 tons or more than 20% higher than the same period last year.

In terms of the breakdown, can stock has increased significantly in the US and Thailand.

In the first quarter of last year, due to the coronavirus pandemic, there was a decrease in sales volume for automotive materials in Japan, such as those related to heat exchange.

It has returned to a normal level with the increase of 17,000 tons.

You will see that market expanded both in Japan and overseas in these areas, resulting in the increase of 58,000 tons in the sales volume in the first quarter.

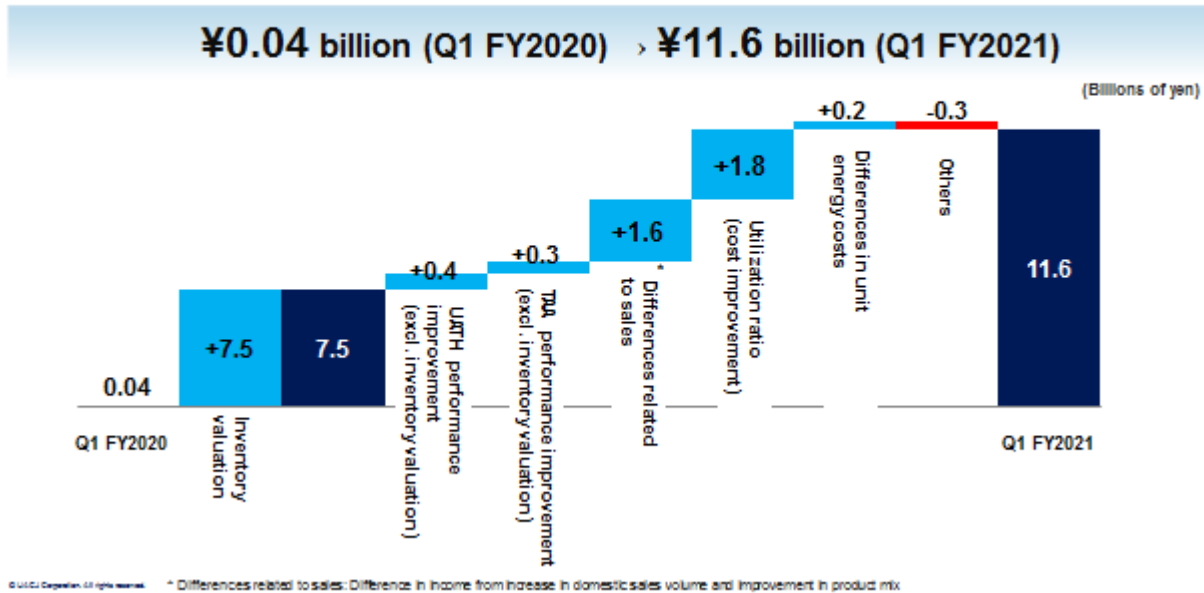
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Analysis of Consolidated Ordinary Income (Q1 FY2020 → Q1 FY2021)



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In response to this, on page 7, we have an analysis of profit and loss in the waterfall chart.

In the first quarter of the previous fiscal year, the profit was JPY40 million, which has grown to JPY11.6 billion, resulting in the turnaround of JPY11.6 billion.

Of the JPY11.6 billion, the inventory evaluation-related difference on the far left, as I mentioned earlier, was a loss of JPY1 billion in the first quarter of last year and an increase of JPY6.5 billion this year, which is a turnaround of JPY7.5 billion.

Other than that, in the area of business, there was an improvement of JPY4.1 billion to JPY11.6 billion.

The major factor is the sales-related difference, and the improvement in utilization ratio, and costs due to the increase in sales, which is JPY3.4 billion.

This has contributed significantly to our profit and loss.

In addition, operations at TAA and UATH have also increased, resulting in a turnaround in profits to JPY11.6 billion in the first quarter.

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Consolidated Balance Sheet

Increase in inventories and other assets due to recovery in sales and higher bullion prices

	March 31, 2021	June 30, 2021	Change from March 31, 2021	(Billions of yen)
Cash and deposits	28.1	25.8	-2.3	
Notes and accounts receivable – trade	120.0	132.3	12.3	
Inventories	131.7	156.5	24.8	
Other current assets	14.8	21.6	6.8	
Noncurrent assets	400.3	400.1	-0.2	
Investments and other assets	38.1	40.1	2.0	
Total assets	733.0	776.4	43.4	
Notes and accounts payable – trade	101.1	100.2	-0.9	
Short-term loans payable	110.0	124.3	14.3	
Long-term loans payable	225.7	221.1	-4.6	
Other	99.6	120.0	20.4	
Total shareholders' equity	177.5	185.5	8.0	
Accumulated other comprehensive income, non-controlling assets	19.0	25.2	6.2	
Total liabilities and net assets	733.0	776.4	43.4	

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Page 8 shows a brief status of the balance sheet.

If you look at it, total assets were JPY776.4 billion, an increase of about JPY43.4 billion compared to the same period last year. The main reason for the large increase in accounts receivable and inventories is the impact of the substantial rise in the price of ingot, as well as the increase in sales volume, which has led to a slight increase in volume.

Non-current asset was almost even, but the capital investment in the first quarter was JPY4.7 billion.

On the other hand, there is depreciation of JPY6.9 billion. The difference of over JPY2 billion is due to foreign exchange conversion. The amount of overseas assets has been inflated by calculating at the exchange rate at the end of the fiscal year.

The exchange rate difference is about JPY2 billion, so as a result, it is a loss of JPY200 million.

Of the JPY4.7 billion in capital investment, a little over JPY1 billion is for strategic investment.

As we have already announced, the Whitehall presses are a major part of our investment, and the rest is mainly general investment.

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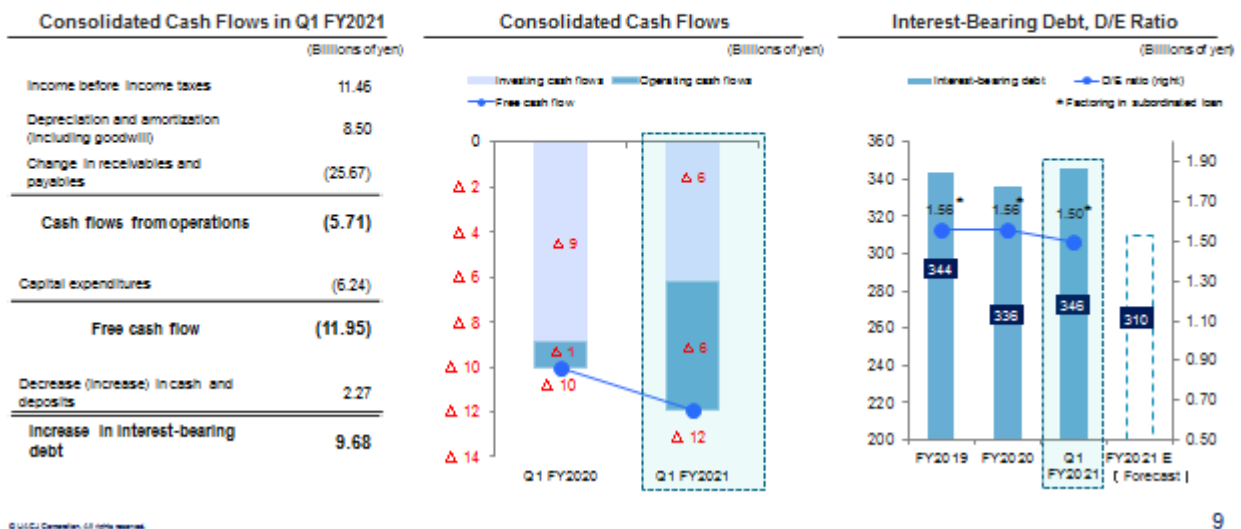
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Consolidated Cash Flow Statement

While interest-bearing debt increased due to increase in operating capital, D/E ratio improved



Page 9 is the statement of cash flows.

Income before income taxes and depreciation, etc., generated a profit of about JPY20 billion, but the largest part of the profit was in the form of receivables and payables, which amounted to JPY25.6 billion, resulting in a negative operating cash flow of JPY5.7 billion.

Then, the cash basis for capital investment was JPY6.2 billion, resulting in a negative free cash flow of JPY11.9 billion. Since we have reduced deposits slightly, debt has increased by JPY9.7 billion.

The profit is strong, but as I mentioned earlier, ingot prices have skyrocketed since the beginning of this fiscal year. There will inevitably be a difference in the settlement of claims.

As for ingot, it is rather cash-based. Selling is a bit like having a site, and this will be a follow-up, so the increase in the price of ingot as well as in the volume will, if anything, worsen the working capital first, and we will catch up after the second quarter throughout the year.

If you look at the bar graph on the far right, you can see that interest-bearing debt at the end of March was 3,358, and at the end of June it was 3,455, but we are now thinking that we can bring it to 3,100 by the end of March next year.

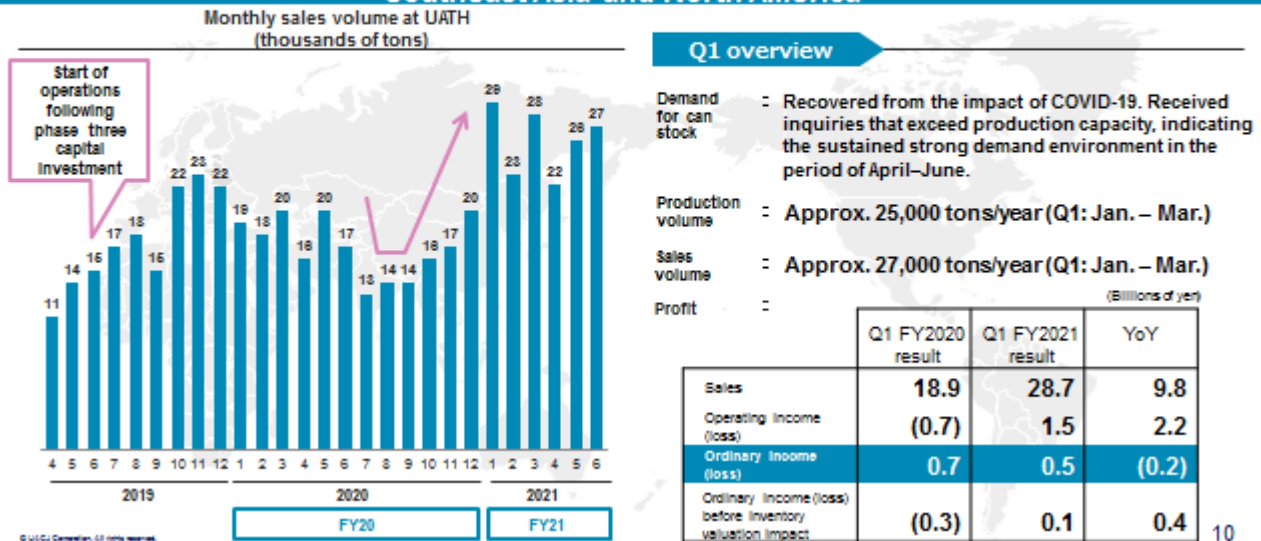
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Situation in Thailand (UATH) – Overview of Q1 FY2021

Sales volume rose and profit improved, as demand for can stock was robust mainly in Southeast Asia and North America



Page 10 onwards shows the status of our overseas offices.

First is Thailand. As you can see in a bar chart, the sales volume in Thailand has been at a very high level of 27,000 to 28,000 tons since January 2021.

In February, there was a shortage of operating days, and in April, shipments were down due to ships staying at the port for a while, but demand was still very strong. Production is running at almost full capacity.

If you take a look at the profit and loss, ordinary income was JPY500 million in the first quarter alone.

If we take into account the impact of inventory, it is JPY100 million, but compared to last year, it has improved by about JPY400 million.

Since the volume will continue to increase from the second quarter, we expect an increase in profits.

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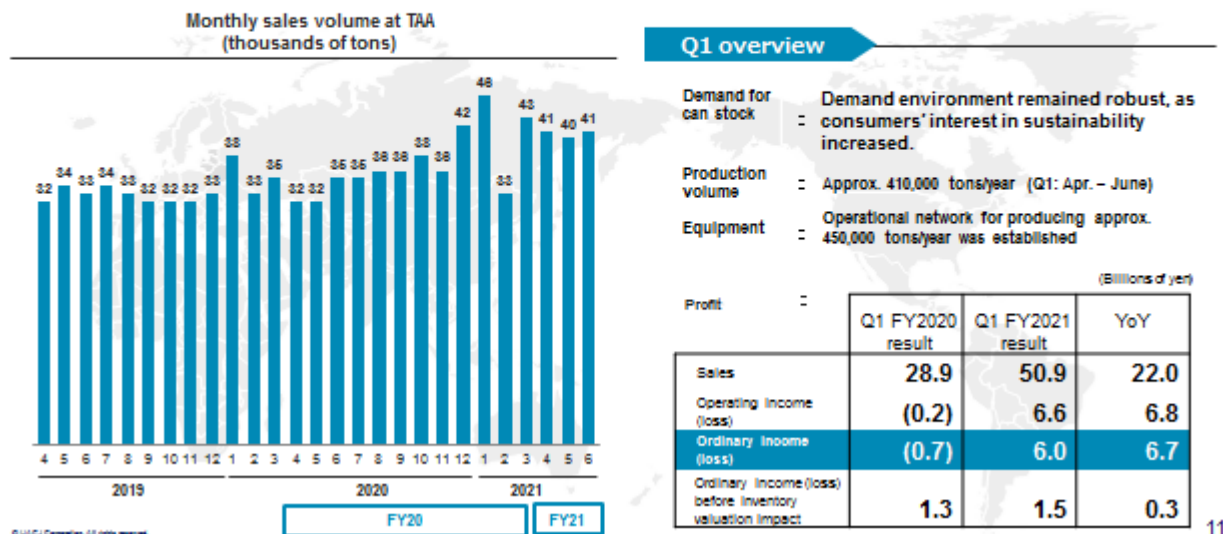
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1. Results for Q1 FY2021

Situation in the United States (TAA) – Overview of Q1 FY2021

Sales and income rose, buoyed by robust North American demand for can stock against the backdrop of changes in consumer preferences



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Please turn to page 11. This is the status of TAA.

As for TAA, the situation has been very favorable, and if you look at the figures for April, May, and June we have been selling about 40,000 tons per month.

As for profit and loss, in the case of the US, the rise in the price of ingot has a rather timely effect, so if you look at the first quarter alone, there was an increase of JPY4.5 billion in the ingot difference.

So, the profit is JPY6 billion. Before the impact of inventory valuation, the profit is JPY1.5 billion, which is a slight increase compared to last year, so we can say that the business situation is quite strong.

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Situation in the United States (UWH^x) – Overview of Q1 FY2021

Order volume and new inquiries for aluminum car parts increased mainly in North America, where shift to electric vehicles is taking place ahead of other areas



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Q1 overview

- Demand : New inquiries increased rapidly in response to the expansion of the electric vehicle market
 - Added an extrusion machine to the main plant in Michigan
- Equipment : Established a new plant in Arizona (Started operations in July 2021)

(Billions of yen)

Profit	Q1 FY2020 result	Q1 FY2021 result	YoY
Sales	4.2	4.9	0.7
Operating income (loss)	(0.3)	(0.3)	(0.1)
Ordinary income (loss)	(0.4)	(0.4)	(0.0)

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Page 12 shows the Whitehall situation.

As I explained at the IR Day, we have just received an order for the project, and we are working on its launch.

The full-scale launch is scheduled for 2022. We're on schedule.

Although we recorded a loss in profit, the situation is about the same as last year.

From the second quarter onward, the loss will probably decrease, and by the end of this fiscal year, we expect to be able to post a monthly profit.

This was the situation in the first quarter.

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Full-Year Forecast for FY2021

(Billions of yen)	FY2021 (May forecast) (A)	FY2021 (Current forecast) (B)	FY2020 (C)	Change (B) - (A)	Change (B) - (C)
Net sales	660.0	700.0	569.8	40.0	130.2
Operating income	22.0	33.0	11.1	11.0	21.9
Ordinary income before inventory valuation impact	9.9	13.4	6.2	3.5	7.2
Inventory valuation impact	6.1	11.6	(0.2)	5.5	11.8
Ordinary income	16.0	25.0	6.0	9.0	19.0
Net income	8.0	12.0	(3.3)	4.0	15.3
Adjusted EBITDA	50.8	54.9	44.7	4.1	10.2

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Please turn to page 14. This is the annual situation.

We are still 3 quarters of the way through the first quarter, but since the first quarter was quite strong, we reviewed our profit and loss for the year once again. This is why we have made revision to our profit and loss forecast this time.

You can see the new figures. Sales are expected to be JPY700 billion, up JPY40 billion from the JPY660 billion forecast in May. Compared to the previous fiscal year, sales will increase by about JPY130 billion.

Then, consolidated operating income is expected to be JPY33 billion, and ordinary income before inventory valuation to be JPY13.4 billion.

Ordinary income will be JPY25 billion. We are currently forecasting a net profit of JPY12 billion.

The second from the right shows the difference from the forecast in May, and the ordinary income forecast was changed from JPY16 billion to JPY25 billion, which is an increase of JPY9 billion.

We estimate that JPY5.5 billion of this amount is due to inventory impact and JPY3.5 billion is due to business conditions.

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Sales Volume, Flat Rolled Products (Current Forecast)

(Thousands of tons)

	FY2020 (May forecast) (A)	FY2021 (Current forecast) (B)	Change (B) – (A)
Can stock	845	847	2
Foil	59	58	△ 1
IT	19	18	△ 2
Automotive materials	155	157	2
Thick plates	49	51	2
Other general-purpose materials	201	211	10
Total	1,328	1,342	13
	(For Japanese market 505 For overseas market 824)	(For Japanese market 504 For overseas market 838)	(For Japanese market △ 1 For overseas market 14)

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Please turn to page 15.

First, let's look at the sales situation, which is the assumption of the forecast.

The flat-rolled products, as I mentioned earlier, is a total of 3 regions. The total is expected to be 1,342,000 tons, an increase of about 13,000 tons from the May forecast.

In the first half of the year, we were able to get a clear picture of the situation until September.

As for the second half of the year, it is still too early to tell.

Therefore, for after October, we have factored in a figure that is close to the base that we initially expected.

This is a somewhat conservative approach, although I believe that the situation will change if [inaudible] comes up.

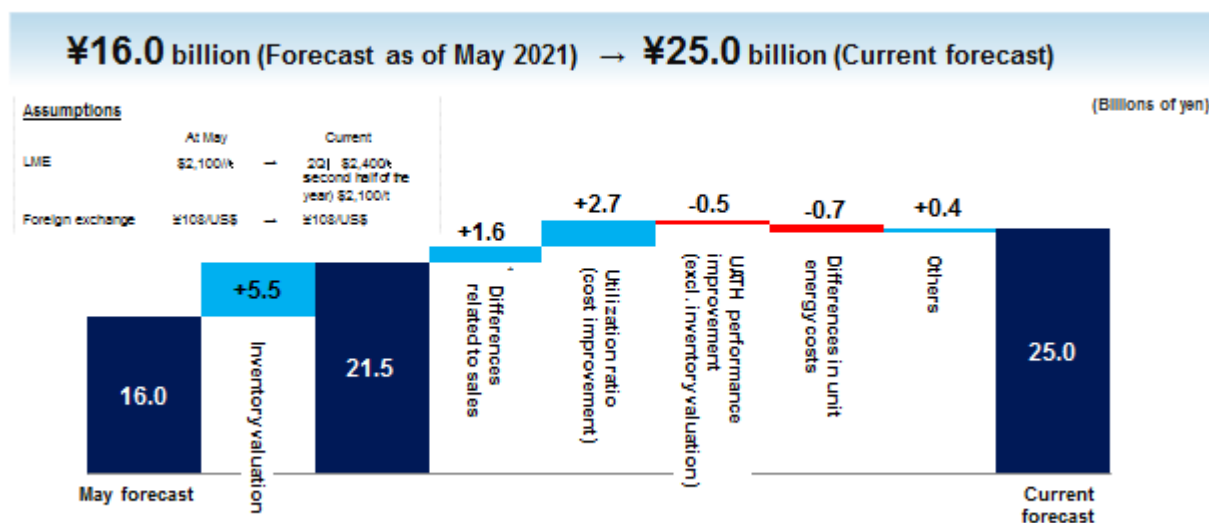
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2. Full-Year Forecast for FY2021

Analysis of Consolidated Ordinary Income (Forecast as of May 2021 → Current Forecast)



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Based on this, the profit and loss situation is shown on page 16.

As I explained earlier, we have revised our forecast upward, with an increase of about JPY9 billion from JPY16 billion to JPY25 billion. For the increase of JPY9 billion, the assumption is shown at the top left.

I put the price of aluminum ingot at a base of USD2,400 for now until the second quarter.

Since we do not know the price of ingot after the third quarter and after October, we have included it based on our initial forecast of USD2,100. However, as you know, the price is currently hovering around the USD2,500 level, so although it is slightly different from this assumption, we have set the price at USD2,100 for now.

As for demand, as I mentioned earlier, we have put in the second and third quarters and beyond on the basis of the original plan. But considering the situation in the first and second quarters, the current situation is slightly better, but we are not sure about the second half.

In this circumstances, we have made upward revision of JPY9 billion, and of the JPY9 billion, JPY5.5 billion is for inventory impact, and JPY3.5 billion is for profit and loss.

As for profit and loss, sales are strong, especially in the first and second quarters, so we have added JPY4.3 billion for sales-related differences, associated operations, and cost improvements.

On the other hand, the cost of energy, such as crude oil and LNG, has risen slightly in recent years, so we factored in the loss of JPY700 million for that. As a result, we are currently forecasting an annual profit of JPY25 billion.

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Sales Volume, Flat Rolled Products (Current Forecast)

(Thousands of tons)

	FY2020 (A)	FY2021 (Current forecast) (B)	Change (B) – (A)
Can stock	693	847	154
Foil	52	58	6
IT	25	18	△ 7
Automotive materials	123	157	34
Thick plates	42	51	10
Other general-purpose materials	180	211	32
Total	1,113	1,342	228
	(For Japanese market 441) (For overseas market 673)	(For Japanese market 504) (For overseas market 838)	(For Japanese market 63) (For overseas market 165)

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Page 17 shows the difference to FY2020.

As I mentioned earlier, the annual sales volume is expected to be 1,342,000 tons, which is 228,000 tons more than the previous year.

As you can see, we expect a significant increase in can stock and the recovery in automobile-related products.

Based on this, we are forecasting an increase of 228,000 tons compared to the same period last year.

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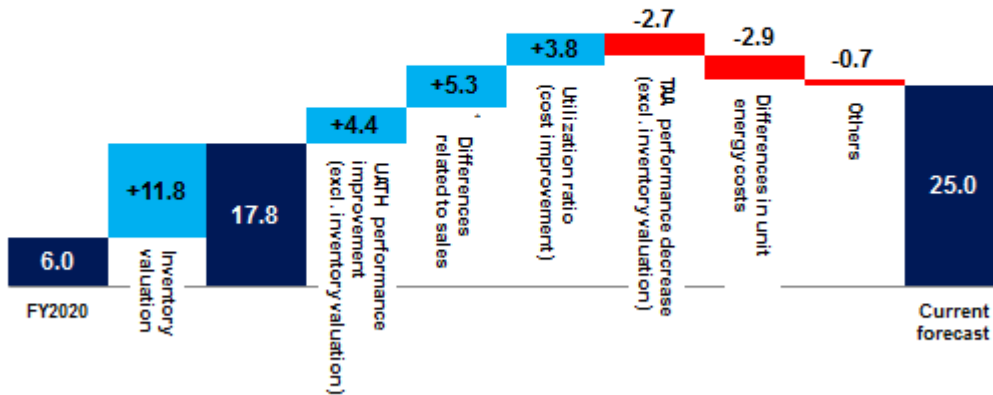
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Analysis of Consolidated Ordinary Income (FY2020 → Current forecast)

¥6.0 billion (FY2020) → ¥25.0 billion (Current Forecast)

(Billions of yen)



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* Differences related to sales: Difference in income from increase in domestic sales volume and improvement in product mix

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Page 18 shows the profit and loss trend from the previous year.

A profit of JPY6 billion is planned to be JPY25 billion, and we expect the increase of about JPY19 billion. Of that amount, the inventory valuation-related difference will be JPY11.8 billion. The remaining JPY7.2 billion will be for other items, and its major factor is the operation utilization and sales-related difference. Altogether, it will generate the increase of over JPY9 billion.

In addition, last year, UATH was very much affected by the coronavirus pandemic in the second and third quarters. But with the elimination of that, we forecast the increase of JPY4 billion.

On the other hand, there is the energy cost. This will be the loss of JPY2.9 billion.

As for TAA, the valuation gain/loss on inventories is included in the JPY11.8 billion mentioned earlier. Other than that, since the performance was strong last year, we expected the recovery and estimated the loss of JPY2.7 billion.

This is same base in the previous fiscal year.as of May. The first quarter is also moving slightly in the right direction, roughly on schedule. But we expect a slight loss in the TAA except for inventories.

Latest forecast is JPY25 billion.

That is all for the summary of financial results.

Support

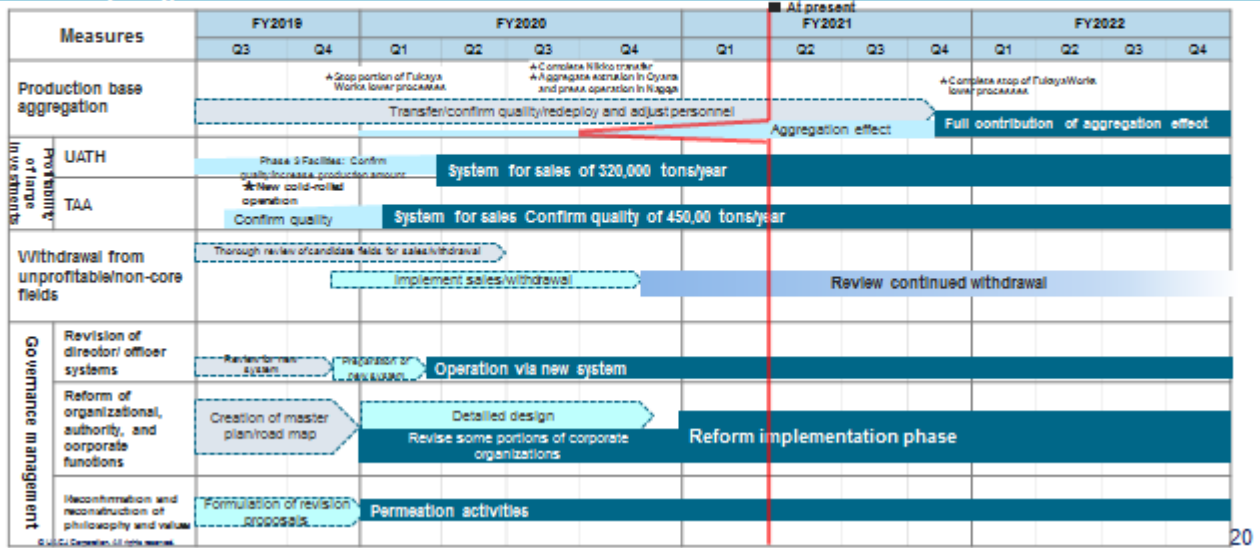
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3. Progress on Restructuring

Progress on Restructuring

We are progressing with various restructuring measures as planned in accordance with our roadmap in general



20

Next, I will talk about the progress of our structural reforms.

Please turn to page 20.

We show this table every time, but for the progress status, the situation has not changed significantly from the annual profit and loss report. Things are going pretty much as planned.

One point is that the contribution of the aggregation effect of production point has been slightly delayed due to the fact that there is a slight delay in the accreditation of some customers, but we believe that this will be caught up by 2022 or 2023.

We believe that the structural reforms we are trying to implement are going according to plan.

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3. Progress on Restructuring

Domestic Profit Structure Reform & Selection and Focus

Domestic profit structure reform and business reorganization by selection and focus shifted from the implementation phase to the delivery phase

Progress of domestic profit structure reform	Business reorganization by selection and focus
<p>Production base aggregation</p> <ul style="list-style-type: none"> ● Stop lower processes at the Fukaya Works ● Close the Nikko Works ● Aggregate/optimize extrusion in Oyama and press operation in Nagoya 	<p>Domestic business</p> <ul style="list-style-type: none"> ● Sale of wrought copper business ● Close the Nikko Works ● Close the Fukaya Works of UACJ Metal Components Corporation ● Close the Osaka Works of UACJ Metal Components Corporation ● Transfer shares in logistics subsidiary etc. <p>Overseas business</p> <ul style="list-style-type: none"> ● Complete transfer of extrusion company in Indonesia ● Decide on transfer of Thai PF heat exchanger^{*2} business ● Close Ayutthaya Plant of UACJ Extrusion (Thailand) ● Decide on partial transfer of shares in extrusion subsidiary in Tianjin, China etc.
<p>Optimizing the production system, improving the product mix</p> <ul style="list-style-type: none"> ● Prioritizing sales of products for which demand is increasing despite COVID-19 ● Promoted optimization of prices in some key product categories ● Stepped up monitoring of production at four factories in Japan 	
<p>Reducing indirect expenses</p> <ul style="list-style-type: none"> ● Introduced BPR^{*1} measures to make back-office operations more efficient ● Considering the optimal structure for consolidating and slimming corporate functions ● Stepping up cost controls in the aim of curtailing overall expenses 	

© UACJ Corporation. All rights reserved. *1 Business process reengineering (BPR): Thoroughly review internal business details, flows and organizational structures and redesign them. *2 PF heat exchanger: all-aluminum heat exchangers for the outside units of cooling-only air conditioners

21

Page 21 shows the progress of the selection and concentration of domestic and overseas businesses.

On the right side of this page, where it is in bold in the color in overseas business, there is a partial transfer of shares in the Tianjin extrusion subsidiary in China, and the policy was decided during the first quarter.

The implementation will be in the second half of the fiscal year, but the policy has been decided. We put this based on the fact that the agreement reached with the other party.

The figures for structural reforms have not changed from those in the medium-term management plan announced in May.

The figure was JPY3.4 billion in the fiscal year just ended, and for 2021, we expect it to be JPY11.1 billion with an increase of JPY7.7 billion, and it will be JPY18.5 billion finally.

With regard to the JPY2.5 billion, we have not changed our policy of making JPY21 billion of structural reform and of making ourselves lean, after considering various factors.

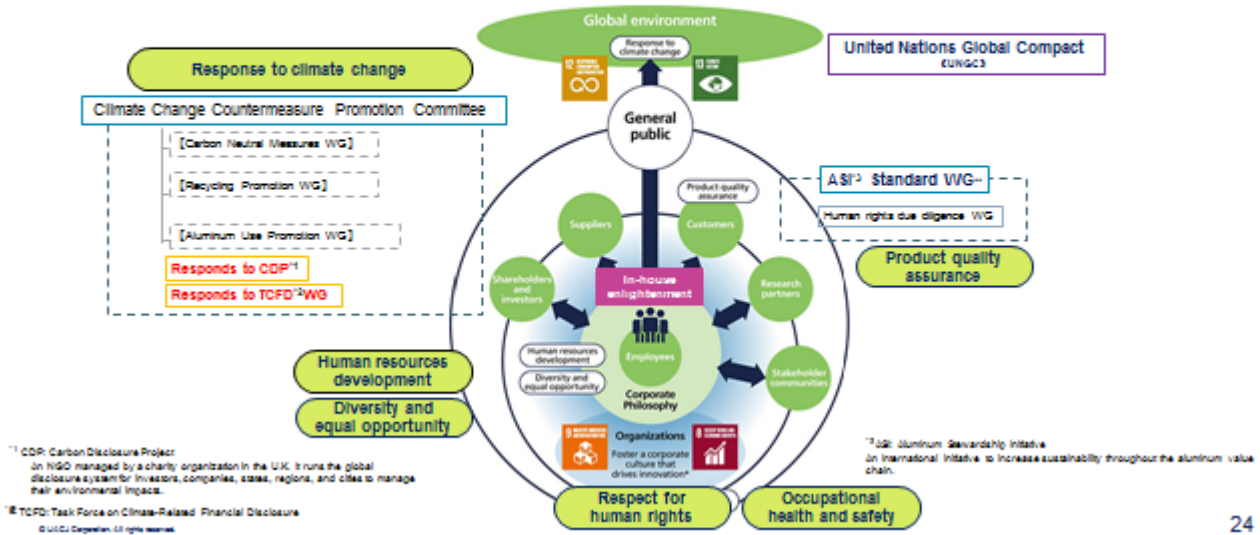
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Sustainability Initiatives

Clarify the overall picture of the UACJ Group's sustainability-related initiatives



Lastly, I would like to talk about our sustainability initiatives, which are described on pages 24 and 25.

As I explained in the mid-term management plan in May and at the IR Day on June 8, we are now moving forward with non-financial initiatives in the form of ESG and SDGs, based on VISION 2030 for 2030.

Page 24 is a diagram that embodies our own thoughts and big ideas about how to proceed.

This is also the same diagram that was published in the mid-term management plan, so there are no particular changes.

But in this way, we are making company-wide efforts in relation to sustainability toward 2030.

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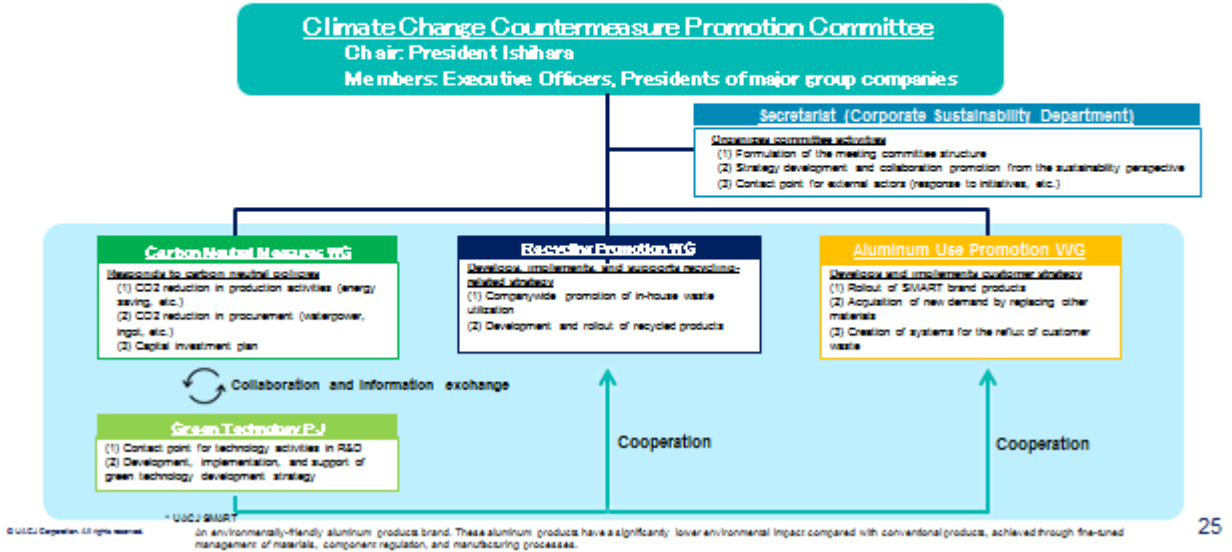
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4. Sustainability Initiatives

Sustainability Initiatives

Established the Committee for Promotion of Measures against Climate Change, and launched activities in accordance with its priority policies and priority issues



25

Please turn to page 25.

As for this one in particular, in response to climate change, we launched the Committee for the Promotion of Climate Change Measures this spring. If you could, take a look at it here, focusing on that.

We have established working groups in the form of the Carbon Neutral Working Group, the Recycling Promotion Working Group, and the Aluminization Promotion Working Group, while at the same time, we have established the Green Technology Project in R&D and are currently working on climate change.

We have created our own organization in this way, and I have introduced what we are working on.

That is all I have to say about my explanation.

Okada: That is all for the presentation from the Company.

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Question & Answer

Okada: We will now take your questions.

Please follow the operator's explanation for questions and answers.

Operator: The operator will appoint the person who will ask the question. Now let me introduce the first questioner.

The first question is from Mr. Yamaguchi of SMBC Nikko Securities Inc. Now, Mr. Yamaguchi, please go ahead.

Yamaguchi: Thank you for all your help. This is Yamaguchi from SMBC. Thank you.

Q1 is a question that I always ask, but I would like to know, how much is the inventory impact on sales, operating income, recurring income, and if possible, each, in TAA, UATH, and Whitehall in this new forecast for the year? Thank you.

Kawashima: Kawashima will answer. Let's start with UATH. Our latest forecast for the year is net sales of JPY132.7 billion, operating income of JPY4.9 billion, and ordinary income of JPY1.8 billion. The current figures for TAA are net sales of JPY2.157 billion, operating income of JPY11.8 billion, and ordinary income of JPY9.6 billion.

As for Whitehall, net sales is JPY23.7 billion, operating loss is JPY600 million, and ordinary loss is JPY900 million. The impact of inventory is estimated to be JPY1.5 billion for UATH and JPY3 billion for TAA for now. That's all.

Yamaguchi: I see. As for the evaluation of the performance in the first quarter, whether there was an internal budget or not, I would like to know whether the pace of performance was over-achieved on a so-called pre-inventory basis.

You mentioned that you were taking a conservative view of the second half of the fiscal year, but could you tell us if the performance is on a steady pace against the plan, in light of the financial result came out this time including the units you just mentioned? Please tell me about how the numbers are set up.

Kawashima: Kawashima will answer. First, for the situation in the first quarter, the impact of inventory has certainly been very significant. The original assumption was based on USD2,100, and it has been around USD2,400 for a long time, so this was a positive factor.

However, in addition to that, for the business itself, the flat-rolled product business is strong, but the extrusion business and the foil business are also experiencing very strong demand. Since it was difficult to foresee the situation due to the effect of coronavirus pandemic, we might have been slightly conservative eventually, for Flat-rolled Products business.

However, the demand in Japan and overseas turned out to be extremely robust, and this was having a positive effect on the internal budget we were able to have every month. We believe that the situation will be same in July, August, and September based on the current level of orders.

However, in the second half of the year, the situation is a little unclear. The coronavirus infection is swelling considerably in Japan and abroad. The demand itself may be strong, but I am afraid that if the infection

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spreads to overseas factories. For example, some operators may become infected, or it may not reach the point of lockdown, but there is a possibility that it may affect the operation.

Demand itself is not bad at the moment, but we don't know if the operation in the factory will cause a slight drop in production, so that is an area of concern. That's all.

Yamaguchi: I see. That's exactly the point. Thailand has a huge number of infected people, 20,000 a day. I think there are 2 ways of thinking about this. One is that whether we should consider the risk of a drop in demand for automobiles and heat exchangers, including chip shortage, although there is a reasonable demand in these areas.

The other is that the demand for beverages in Asia itself will also decline, as people may not drink canned beverages unless they go out. I'm worried about the infection in the factory, as you said. Especially since it's an aluminum plant, I don't think it's a place where many people are working as if it were an assembly plant, so I think the first and second points I mentioned are the main concerns. Do you see such effect currently?

Kawashima: Kawashima will answer.

First, as for the demand itself, there is no impact right now. While we are concerned about that point, we have been experiencing very strong orders and demand in Southeast Asia and the US.

What we are afraid of is that the spread of the infection will affect our operations, and this is what we are afraid of.

Yamaguchi: I see. Thank you very much. Good bye.

Ishihara: I'm Ishihara, and Mr. Yamaguchi, may I?

Yamaguchi: Of course.

Ishihara: In the automotive sector, although the impact of semiconductors in particular has started to appear, fortunately, our customer base is very strong, and we have hardly been affected by this in Japan. That is one thing.

Therefore, although there is a possibility that overall demand will decline, we believe that the impact on our company will be minimal.

In addition, regarding can stock, it would of course be possible to be affected by the spread of infection in South East Asia. However, fortunately, our export of can stock to North America, and supply of empty can export from the Middle East, South America, South Africa, Central America, etc., have continued. Therefore, we believe that the total impact will be small.

We had seen this as a risk in the first half of the fiscal year, but fortunately, it does not seem to appear in the first half of the fiscal year, which led us to the revision this time. That's all.

Yamaguchi: I understand very well. Thank you.

Okada: Thank you for your question. Now, the next person, please go ahead.

Operator: The next question is from Mr. Shirakawa of Morgan Stanley MUFG Securities Co., Ltd.

Mr. Shirakawa, please go ahead.

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Shirakawa: I am Shirakawa from Morgan Stanley Securities. Thank you very much for today's briefing. I have 3 questions.

First, with regard to Thailand again, in your revised forecast, I think you revised downward the total for Thailand excluding the inventory impact. I believe you mentioned that the ship is staying or something like that, but please tell us about the factors behind the downward revision. This is the first point.

The second question I have is based on page 7 of the briefing materials. Looking at this one, it looks as if things have improved a lot in Japan. There was an improvement of about JPY3.4 billion due to the sales-related difference and the improvement in utilization ratio, which I think is a fairly large improvement.

I would like to have a breakdown of that. On page 6 above, there is a section on volume, and it shows that volume is growing. On the other hand, however, there is a slight decline in IT materials and other high margin products. Please tell me, what is the volume effect, the product mix, and the composition of the products?

In addition, how much of the JPY1.8 billion cost improvement in the first quarter was due to structural reforms in Japan? Also, please tell us how much you expect from 2Q onward.

Sorry, this is a bit long, but this is the second point.

Third point is about the outlook for the US, TAA. As for this fiscal year, you said that last fiscal year, the price difference between Midwest Premium and UBC was so large that the margin was expanding. You expected it to be eliminated in this fiscal year.

What was the result in the first quarter, and what are your current thoughts on whether or not there is a real risk of a decline in the second, third and fourth quarters? That's all. Thank you.

Kawashima: I will first explain the situation in Thailand. The sales-related performance is certainly good, but as you said, this is certainly becoming tight because of the situation related to freight. Also, the freight itself is rising. I think this will make profits a little tighter.

I hope the situation will be improved. Production is going well, so we have orders, and there is inventory built up at the port. Therefore, if this inventory comes out, we believe the profit will recover. For now, the impact of the freight-related matter is significant, and we are keeping our eyes on it.

Secondly, as for the sales situation, as I mentioned earlier, flat-rolled products are strong, but domestic extruded materials and foils are robust in general.

I think the biggest reason is that orders are increasing about 50% more than we expected, and it has led the improvement not only in the flat-rolled products but in the foil and extrusion business in general.

I don't have a breakdown of the business fields at hand at the moment, but that is the situation.

Then, regarding the structural reform, Mr. Tanaka.

Tanaka: Tanaka will respond.

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Page 22 of the document shows the transition of the structural reform effect. For FY2021, we plan to have JPY11.1 billion for the full year. About 50 percent of this will be from domestic structural reform. We have just completed the first quarter of the fiscal year, and we are generally on schedule, with a few additions, so we believe that we will be able to achieve the domestic structural reforms as planned for 2021.

Ishihara: I am Ishihara. In the first quarter, there was an upturn mainly in the domestic market, so I believe that structural reform factors are definitely coming into play here.

However, since we are still in the first quarter, we cannot make an accurate announcement. I will evaluate this area after a close examination. It is clear that the effect of this part has come out above our plan. That's all.

Kawashima: And the third point is the status of the TAA. Especially the metal benefits. As you pointed out earlier, in 2021, the metal benefits that were taken in FY2020 will return to normal level. We had a substantial benefit in 2020. Therefore, we expected it to return to normal.

As for the current situation, the ratio has shrunk considerably compared to FY2020. Or rather, it has returned to about normal.

However, because the total value of the ingot price and the Midwest Premium has risen in absolute terms, the amount of the benefit itself has not actually decreased as much as we thought it would. It appeared as an actual result in the first quarter.

However, since our current assumption is 2,100 from the third quarter onward or October onward, please understand that if we use current ratio based on 2,100 base, the metal benefits would decrease dramatically.

Shirakawa: Let me confirm something on the third point. Is it correct to say that the metal benefits are included in the inventory valuation that you have presented this time?

Kawashima: Metal benefits are included in costs; therefore, they are not inventory valuation gains or losses.

Shirakawa: Do you have any idea how much is in it?

Kawashima: I'm sorry, I don't have the detailed figures at hand.

Shirakawa: I understand. Thank you very much.

Okada: Thank you very much for your question. Now, the next person, please go ahead.

Operator: The next question is from Mr. Matsumoto of Nomura Securities Co., Ltd.

Mr. Matsumoto, please go ahead.

Matsumoto: This is Matsumoto from Nomura Securities Co., Ltd. Thank you.

This is kind of an addition to Mr. Shirakawa's question earlier, but could you tell us once more about the effect of the improvement in utilization ratio?

Please let me know if that also comes out in extrusion or foil or not. Please tell us about the first quarter and, if possible, around the point where you are raising your full-year forecast.

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Secondly, you raised the volume forecast on page 15, but what kind of products for overseas markets are increasing?

The third point is that you have revised up ordinary income by JPY9 billion, and I feel that net income should be a little higher. Please tell me about the changes in your outlook for ordinary income and net income. That's all.

Kawashima: Kawashima will explain first. In terms of utilization ratio, not only flat-rolled products, but also extrusion, foil, and as I mentioned earlier, all of our businesses are far better than our original situation. If sales increase, the operation at the factory will increase, and depending on the utilization ratio, profit and loss as well as cost will be lowered.

In that sense, you can consider that the utilization ratio in flat-rolled products, extrusion, foil and cast and forged products is rising due to [inaudible] situation. That's one point.

The second point is for overseas markets. I think it's overseas sales rather than for overseas market. As for which areas are increasing, some of the increases are actually in general materials and slab materials in TAA, and we have seen a slight increase in this area.

So, you can take it as that sales from domestic to overseas production bases are increasing.

Ishihara: We are responding to demand for can stock in particular, and also for other general products, including slabs.

Kawashima: The third point is that in the first quarter, in the tax calculation, we made a correction to the tax effect accounting of the previous period. Therefore, if you look at the tax assets in the first quarter, the rate is a little low in the area of income taxes.

That will disappear from the next quarter onward. Therefore, if you look at it on an annual basis, the figure would be about the same as now. It's a tax-related matter.

Also, we have taken consideration the increase in minority interests at TAA. It's not that there will be a big loss due to structural reforms, etc., but rather that the way we look at and calculate taxes, especially between the first quarter and the full year, looks a little skewed. That's all.

Matsumoto: I understood very well. Thank you.

Operator: The next question is from Mr. Ozaki of Daiwa Securities Co. Ltd.

Mr. Ozaki, please go ahead.

Ozaki: This is Ozaki from Daiwa Securities. Thank you. The level of TAA's ordinary income for the first quarter of this fiscal year on page 11 is a little worse than the previous quarter, and I thought it would be a little better than the same period last year, considering the benefits of scrapping, but I have the impression that it is a little weak.

Is there some special factor or seasonality? The first point is to confirm this point.

Secondly, please tell us about the current status of the recovery in demand for thick plates for semiconductors.

The third and final point is on page 22, which is about building on the effects of structural reforms. I believe it will be JPY7.7 billion in this fiscal year in terms of comparison to previous year.

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This is a bit of a rudimentary question, but I would like to know where the effects of the structural reforms are reflected in the increase and decrease in profits on page 18. I would like to ask these 3 questions.

Kawashima: Kawashima will respond about TAA-related matter. I haven't looked at it in detail, but I think that metal benefits were taken last year because the price of ingot dropped a lot in the first quarter. I think this is decreasing in some areas.

There is no particular situation where costs have risen or operations have changed, so please understand that the figures have changed by several hundred million yen, maybe JPY200 million to JPY300 million.

Then, for thick plates for semiconductors and others, please.

Ishihara: I am Ishihara. As for demand trends for thick plates, including semiconductors, we have originally been strong, both in the fields of LCD equipment and semiconductor manufacturing equipment, when it comes to thick plates.

While the liquid crystal industry is struggling to grow, the demand for semiconductor equipment itself is increasing due to the global shortage of semiconductors. Therefore, since we are making the materials, we are seeing the effects very early on.

At the moment, thick plates are returning to a level close to the demand of 2019 or so. However, since the capacity of manufacturing equipment manufacturers themselves needs to be considered in the medium to long term, it is unlikely at this point that demand will recover to any point or grow further.

Therefore, there will be no major increase in demand.

The current expectation is that the situation will recover to that in FY 2019. We have been receiving very strong orders.

Your third question is where the numbers for the structural reform distributed.

Tanaka: I am Tanaka. In FY2021, as mentioned earlier, we expect a total of JPY7.7 billion. As you can see on page 18, the JPY7.7 billion is expected to be the effect of both domestic and overseas reforms, and is incorporated in the improvement of UATH, the sales-related difference, and the improvement of operations, respectively.

The breakdown of the JPY7.7 billion is included here, although I can't tell you exactly how much each of the separate amounts is.

Ozaki: Is TAA in it?

Tanaka: TAA is also included. The negative figure is indicated here, but it includes the TAA.

Ozaki: I understand very well. Thank you.

Okada: Thank you for your question. Now, the next person, please go ahead.

Operator: Your next question is from Mr. Goroh, UBS Securities Japan Co., Ltd.

Mr. Goroh, please go ahead.

Goroh: This is Goroh from UBS Securities Japan. I have 2 questions. The first point is the approach to cash flow. I believe that the medium-term management plan calls for strengthening cash flow management, but

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this time, due to the rise in ingot prices, working capital increased, and free cash flow was negative in the first quarter. I understand that the D/E ratio has declined.

I have the impression that this situation is likely to continue for some time, and in order to clear the interest-bearing debt of JPY310 billion at the end of the fiscal year, we may need to make additional efforts, such as reducing inventories.

I would like to know if you have any ideas on how to maintain financial discipline in this area of cash management.

Secondly, I'm sorry, it's not about the financial results, but I would like to ask you a question because it was also announced today. I think you mentioned closed loop recycling in this release, which is newly adopted in the Land Cruiser. You mentioned that this will contribute to the process of reducing CO2 emissions, so I wonder if this is something that can be expanded to contribute to your company's CO2 reduction efforts, rather than just this one model.

Also, could you explain what kind of impact this will have on the economics, as well as on the environment? Thank you.

Kawashima: Kawashima will explain on the cashflow first. As you said, and as I explained, the sudden rise in the price of ingot has taken some working capital. When we purchase ingot, the sites are very short. In contrast, sales are based on factory turnover and then sales sites. It means it will take time.

It is true that working capital will increase in the first quarter, but sales and profits have risen by that amount, so I believe that it will converge from the second quarter onward.

In the first quarter, for example, regarding capital investment, there was depreciation of JPY6.9 billion. Against this, on a cash basis, it's a little over JPY6 billion. On an annual basis, capital investment will be limited to about 70% of depreciation, which will result in a positive investment cash flow.

Looking at the situation, it is true that we would like to reduce inventories as much as possible, and we are making efforts to do so. However, in the midst of our normal efforts, for the interest-bearing debt at the end of March, we are moving forward with the JPY310 billion as the target.

On a monthly basis, I have been explaining our cash flow and the financial situation we would like to achieve in the context of financial discipline, and we have been operating our business with that as one of our targets. We are operating our business with the expectation that we will be able to achieve the target of JPY310 billion at the end of March.

Ishihara: I am Ishihara. As you mentioned earlier about the adoption of Land Cruiser, you asked about the contribution of closed-loop recycling in reducing CO2 emissions. I believe that Nissan Motor Corporation has already talked about closed-loop recycling regarding the use of aluminum.

This is because weight reduction itself leads to CO2 emission reduction, which is thought to be a shift from the effects of fuel efficiency improvement in particular.

In addition, the recyclability of aluminum has the advantage that it can be returned as a material with only 3% of the CO2 emissions of using new ingot. By returning the materials to aluminum manufacturers like us, or returning them to us from the market, we can use them as new materials and raw materials.

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While considering that the creation of such a recycling system will contribute to the establishment of such an economy from the perspective of the so-called circular economy, it is not only automobile materials, but also beverage cans, for which a large closed-loop recycling system has already been established.

In this field, too, the figure is still several percentage over 90 percent, so we are working toward 100 percent, or building a closed-loop recycling system for other types of products and expanding our activities to more and more things like this.

As you can see on page 25, we are planning to promote recycling and the use of aluminum.

That's all.

Goroh: Thank you. As for the figure you just explained, 3%, I'm sorry, 3% of what?

Ishihara: If we assume that the use of new ingots is 100, and if we use recycled aluminum materials as raw materials instead of new ingots, the amount of CO2 emitted from the use of recycled materials is only 3% compared to the 100 CO2 emitted from the production of new ingots, including electricity.

This is the official view of the aluminum industry and others.

Goroh: Thank you. I think this is a contract to make use of the new Fukui line, but can I understand that this is an effort to expand the line to other models in general?

Ishihara: That's right. It will be a steady but gradual process.

Goroh: I understand. Thank you very much.

Okada: Thank you for your question.

We are almost at the end of our scheduled time. Does anyone have any other questions?

As there are no further questions, I would like to conclude the question and answer session.

For any further inquiries, please contact the Investor Relations Department.

Thank you very much for your time today.

We would like to ask for your continued support and encouragement to our company.

Company representative: Thank you very much.

Operator: This concludes the financial results briefing call for the first quarter of the fiscal year 2021 of UACJ Corporation.

Thank you very much for taking time out of your busy schedules to join us today.

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Support

Japan 03.4405.3160
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasias.com

