UACJ Corporation

Q1 Financial Results Briefing for the Fiscal Year Ending March 2024

August 3, 2023

Event Summary

[Company Name]	UACJ Corporation
[Company ID]	5741-QCODE
[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	Q1 Financial Results Briefing for the Fiscal Year Ending March 2024
[Fiscal Period]	FY2024 Q1
[Date]	August 3, 2023
[Number of Pages]	28
[Time]	16:00 – 16:56 (Total: 56 minutes, Presentation: 23 minutes, Q&A: 33 minutes)
[Venue]	Webcast
[Venue Size]	
[Participants]	
[Number of Speakers]	6

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	Teruo Kawashima	Director, Executive Vice President
	Shinji Tanaka	Chief Executive, Corporate Sustainability Division; Vice Chief Executive, Flat Rolled Products Division (Manufacturing Division) Director, Managing Executive Officer
	Joji Kumamoto	Chief Executive, Corporate Strategy Division, Director, Executive Officer
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*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Ueda: Thank you very much for taking time out of your busy schedule today to participate in the UACJ Corporation financial results briefing for Q1 of the fiscal year ending March 2024.

I would like to introduce the Company's attendees for today's meeting. Miyuki Ishihara, Representative Director, President.

Ishihara: My name is Ishihara. Thank you.

Ueda: Teruo Kawashima, Director, Executive Vice President.

Kawashima: My name is Kawashima. Thank you.

Ueda: Shinji Tanaka, Director, Managing Executive Officer.

Tanaka: My name is Tanaka. Thank you.

Ueda: Joji Kumamoto, Chief Executive, Corporate Strategy Division, Director, Executive Officer.

Kumamoto: My name is Kumamoto. Thank you.

Ueda: Haruhiro Iida, Chief Executive, Finance and Accounting Division Executive Officer.

Iida: I am Iida. Thank you.

Ueda: I am Kaoru Ueda, General Manager, IR, Finance Department, and I will be your moderator today. Thank you very much for your cooperation.

Mr. Iida, Finance and Accounting Division Executive Officer, will now explain the Q1 results for FY2023, which we announced today. Please refer to the presentation material. I will now hand over to Division Executive Officer Iida.

Key Points of Today's Announcements

Q1 FY2023: Operating profit before metal price lag increased due to profitability improvements in the domestic business and the effects of higher profit at TAA[*1] and UWH[*2]
Revenue: ¥211.1 billion (YoY: ¥(45.1) bn), operating profit before metal price lag: ¥11.0 billion (YoY[*3]: +¥2.1 bn)

1

■ Q1 FY2023 Overview

- ✓ Japan: Although we secured profits through revisions to prices and the adoption of a market price-linked scheme, demand remains sluggish in some areas. With production disruption moving towards resolution, sales of automotive body panel materials increased
- ✓ Overseas: In addition to the positive shift in UHW's profit and loss, TAA saw an increase in profits due to improvements in product mix and manufacturing costs etc., despite the correction in demand for can stock

2

■ No change to initial full-year forecasts for FY2023

- ✓ With automobile-related sectors benefiting from resolution of production disruption, positive shifts in profit and loss are expected for both Japan and UWH
- ✓ Demand for can stock in North America and Southeast Asia is undergoing a correction, but we will work to improve profitability through price revisions and by optimizing product mix, etc.
- ✓ Market price-linked scheme will be applied throughout the year to address the risk of soaring prices for energy and additive metals

*1 TAA: Tri-Arrows Aluminum Inc. *2 UWH: UACJ Automotive Whitehall Industries, Inc.
*3 IFRS figures for Q1 FY2022 results are rough estimates, and may change depending on the results of quarterly reviews going forward.

Iida: I will explain according to the financial results presentation material.

Page one shows key points of today's announcement. In Q1 of FY2023, operating profit before metal price lag increased by JPY2.1 billion from the same period last year due to improved profitability in domestic operations and TAA and UWH.

I would like to summarize Q1. In Japan, we secured profits, partly due to the introduction of a market price-linked scheme for energy. Although demand remained stagnant following H2 of last fiscal year, sales volume of automotive body panel materials increased in accordance with the recovery of automobile production.Overseas, earnings at UWH, an automotive-related company, have turned around. TAA secured an increase in profit despite the inventory adjustment phase of can stock.

The full-year forecast remains unchanged from the initial forecast announced in May. We expect the automotive-related sector to continue to recover steadily. We expect the adjustment phase in demand for can stock to last longer than we expected at the beginning of the fiscal year, but we believe that we will be able to maintain profitability.

With regard to the risk of price hikes in energy and additive metals, we expect the market price-linked scheme for energy to be effective throughout the year.

Contents

2

As you can see in point number three in the table of contents, we have adopted IFRS from this fiscal year.

1. Results for Q1 FY2023

Overview of Results for Q1 FY2023

Operating profit before metal price lag: ¥11.0 billion (YoY[*1]: +¥2.1 billion)

Operating profit: ¥8.2 billion (YoY: ¥(9.5) billion)

Sales volume: 280,000 tons (YoY: -73,000 tons)

- Can stock: Sales at UATH (Thailand)[*3] and TAA (U.S.) declined due to the impact of excess inventories of can stock, primarily in North America
- Automotive-related: On a recovery trend following resolution of production disruption

Operating profit before metal price lag: YoY: +¥2.1 billion

Positive factors

- Improved profitability for domestic businesses (Passing-on of sharp increases in energy, additive metal, and other prices, etc.)
- TAA recorded increase of profits due to improvements in product mix and manufacturing costs, etc.

Negative factors

- UATH profitability deteriorating due to temporary slowing of demand for can stock in North America and Southeast Asia

Interim dividend planned

- Plan interim dividend per share of 40 yen and year-end dividend of 45 yen, for a total of 85 yen
- Targeting consolidated dividend payout ratio of 20-30%

*1 IFRS figures for Q1 FY2022 results are rough estimates, and may change depending on the results of quarterly reviews going forward.
*2 Actual figures have been restated following change in the accounting period. *3 UATH: UACJ (Thailand) Co., Ltd.

4

Please move on to page four.

Sales volume and operating profit before metal price lag are explained on separate pages.

We plan to pay interim dividends from this fiscal year.

1. Results for Q1 FY2023

Results for Q1 FY2023

(Billions of yen)

	Q1 FY2022[*1] (A)	Q1 FY2023 (B)	Change (B)−(A)
Revenue	256.2	**211.1**	(45.1)
Operating profit before metal price lag	8.9	**11.0**	2.1
Metal price lag	8.8	**(2.8)**	(11.6)
Operating profit	17.7	**8.2**	(9.5)
Profit (loss)	12.8	**2.9**	(9.9)
Adjusted EBITDA[*2]	17.5	**20.0**	2.5

*1 IFRS figures for Q1 FY2022 results are rough estimates, and may change depending on the results of quarterly reviews going forward. Accounting periods of some group companies, including UATH, have been changed from December to March year-end to coincide with the adoption of International Financial Reporting Standards (IFRS).
*2 Adjusted EBITDA: EBITDA − Metal price lag

5

Page five is the P&L.

IFRS is applied from Q1 of FY2023, and IFRS is also applied to the figures for Q1 of FY2022, which is the comparative year. The figures are different from the figures announced last year. Accounting standards and accounting periods were changed, and the scope of consolidated subsidiaries was also changed. Here is a comparison of the figures after these changes.

Revenue was JPY211.1 billion, a decrease of JPY45.1 billion from the same period last year. Of this amount, the impact of the aluminum market is negative JPY18 billion. Operating profit before metal price lag was JPY11 billion, a JPY2.1 billion improvement from the previous year.

Metal price lag was negative JPY2.8 billion, a deterioration of JPY11.6 billion from the previous year. Until Q1 of FY2022, there was a positive impact due to the lower cost of goods sold in relation to the higher market price, but since then, the impact has turned negative.

Operating profit was JPY8.2 billion, a decrease of JPY9.5 billion. Profit was JPY2.9 billion, down JPY9.9 billion from the previous year, largely due to metal price lag. Adjusted EBITDA was JPY20 billion, a JPY2.5 billion improvement over the previous year.

1. Results for Q1 FY2023

Revenue and Operating Profit by Segment

(Billions of yen)

	Q1 FY2022* (A)		Q1 FY2023 (B)		Change (B)−(A)	
	Revenue	Operating profit	Revenue	Operating profit	Revenue	Operating profit
Flat-rolled products	231.7	19.3	**182.3**	**9.8**	(49.4)	(9.5)
Precision-machined components and related business	48.5	0.4	**51.3**	**0.9**	2.8	0.5
(Adjustment)	(24.1)	(2.0)	**(22.4)**	**(2.5)**	1.7	(0.5)
Total	256.2	17.7	**211.1**	**8.2**	(45.1)	(9.5)

* IFRS figures for Q1 FY2022 results are rough estimates, and may change depending on the results of quarterly reviews going forward.

6

Page six shows results by segment.

Operating profit of flat-rolled products decreased significantly by JPY9.5 billion from the previous year, again due to metal price lag. Operating profit in the precision-machined components and related business increased by JPY500 million from the previous year, with a favorable turnaround in UWH contributing to this increase.

1. Results for Q1 FY2023

Sales Volume, Flat-rolled Products

	Q1 FY2022*1 (A)	Q1 FY2023 (B)	Change (B)−(A)
Can stock*2	229	**187**	(42)
Foil	13	**11**	(2)
IT	3	**1**	(2)
Automotive materials	30	**33**	3
Thick plates	16	**7**	(9)
Other general-purpose materials	62	**40**	(22)
Total	**353** For Japanese market 128 For overseas market 225	**280** For Japanese market 116 For overseas market 164	**(73)** For Japanese market (12) For overseas market (61)

*1 Actual figures have been restated following change in the accounting period.
*2 Sales volume after eliminating internal transactions

7

Page seven shows sales volume of flat-rolled products.

Q1 sales volume was 280,000 tons, down 73,000 tons from the previous year. In particular, sales volume to overseas markets declined by 61,000 tons, a change from the trend we had previously explained.

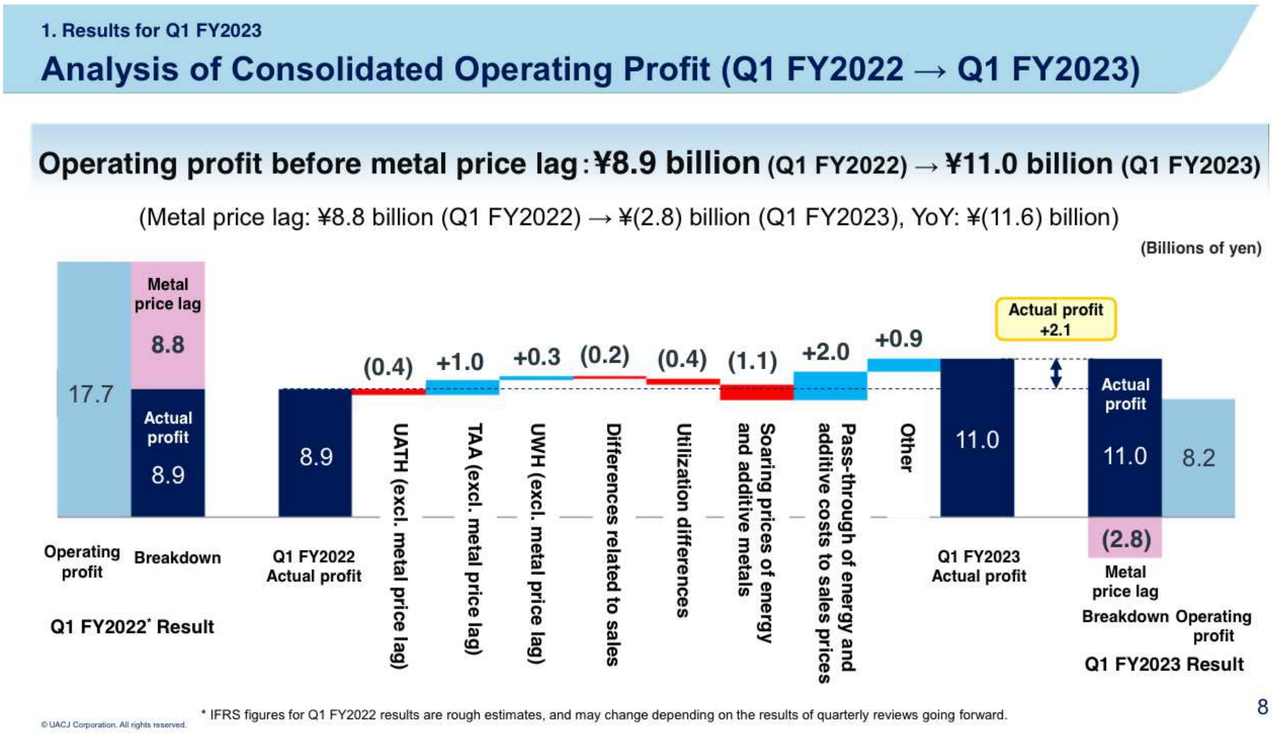
The volume of mainstay can stock, which fell 42,000 tons YoY, had the largest impact. The decrease in the US market and the overseas markets for which UATH is responsible has been significant.

Sales volume of automotive materials is on a recovery trend, as I mentioned earlier, due to an increase of 30,000 tons in the volume of panel materials.

However, foil shown in the second line, which is also automotive-related, has yet to recover, in part because of its long supply chain as it is for batteries. We expect this to expand in line with the recovery of automobile production.

We expect the slump in demand for thick plates to continue this year.

Sales volume of other general-purpose materials fell sharply to 220,000 tons. However, as we reported in May, the volume of semi-finished products that TAA handles, which we call slabs or ingots, has declined significantly. Although the decrease in volume is significant, the impact on operating profit is small.



On page eight, I will explain operating profit.

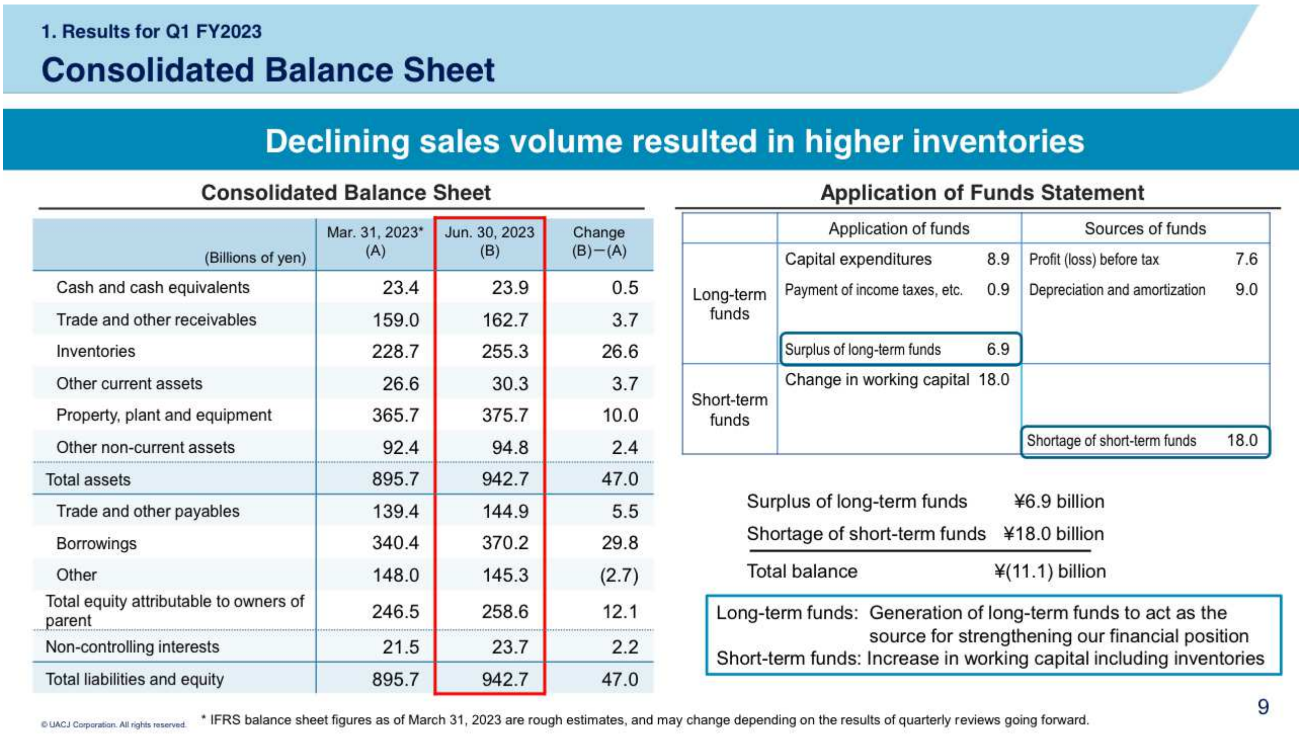
Operating profit improved by JPY2.1 billion from JPY8.9 billion to JPY11 billion in the same period last year.

I would like to focus on the dark blue area. UATH volume deteriorated due to the inventory adjustment phase, which had a negative impact of JPY0.4 billion. TAA, likewise, in the inventory adjustment phase, secured a profit and had a positive impact of JPY1 billion. This includes the effect of currency translation. UWH had a positive impact of JPY0.3 billion due to increased demand.

Domestic sales-related and capacity utilization differences had negative impacts due to still weak demand. Energy and additive metals increased costs by JPY1.1 billion from the previous year.

Price pass-through of energy and additive metals had a positive impact of JPY2 billion. The higher prices in H2 of the previous fiscal year were passed on this year, resulting in a positive result. This is the major difference from the previous year. In the previous fiscal year, cost burdens were incurred in advance, but the impact on operating profit has turned positive due to the fact that these costs have been passed on this year.

As a result of the above factors, the actual profit improved by JPY2.1 billion.



1. Results for Q1 FY2023

Consolidated Balance Sheet

Declining sales volume resulted in higher inventories

Consolidated Balance Sheet

(Billions of yen)	Mar. 31, 2023* (A)	Jun. 30, 2023 (B)	Change (B)−(A)
Cash and cash equivalents	23.4	23.9	0.5
Trade and other receivables	159.0	162.7	3.7
Inventories	228.7	255.3	26.6
Other current assets	26.6	30.3	3.7
Property, plant and equipment	365.7	375.7	10.0
Other non-current assets	92.4	94.8	2.4
Total assets	895.7	942.7	47.0
Trade and other payables	139.4	144.9	5.5
Borrowings	340.4	370.2	29.8
Other	148.0	145.3	(2.7)
Total equity attributable to owners of parent	246.5	258.6	12.1
Non-controlling interests	21.5	23.7	2.2
Total liabilities and equity	895.7	942.7	47.0

Application of Funds Statement

	Application of funds		Sources of funds	
Long-term funds	Capital expenditures	8.9	Profit (loss) before tax	7.6
	Payment of income taxes, etc.	0.9	Depreciation and amortization	9.0
	Surplus of long-term funds	6.9		
Short-term funds	Change in working capital	18.0		
			Shortage of short-term funds	18.0

Surplus of long-term funds	¥6.9 billion
Shortage of short-term funds	¥18.0 billion
Total balance	¥(11.1) billion

Long-term funds: Generation of long-term funds to act as the source for strengthening our financial position
Short-term funds: Increase in working capital including inventories

* IFRS balance sheet figures as of March 31, 2023 are rough estimates, and may change depending on the results of quarterly reviews going forward.

9

On page nine, I will explain the balance sheet.

Due to the application of IFRS, the names of accounts have changed somewhat.

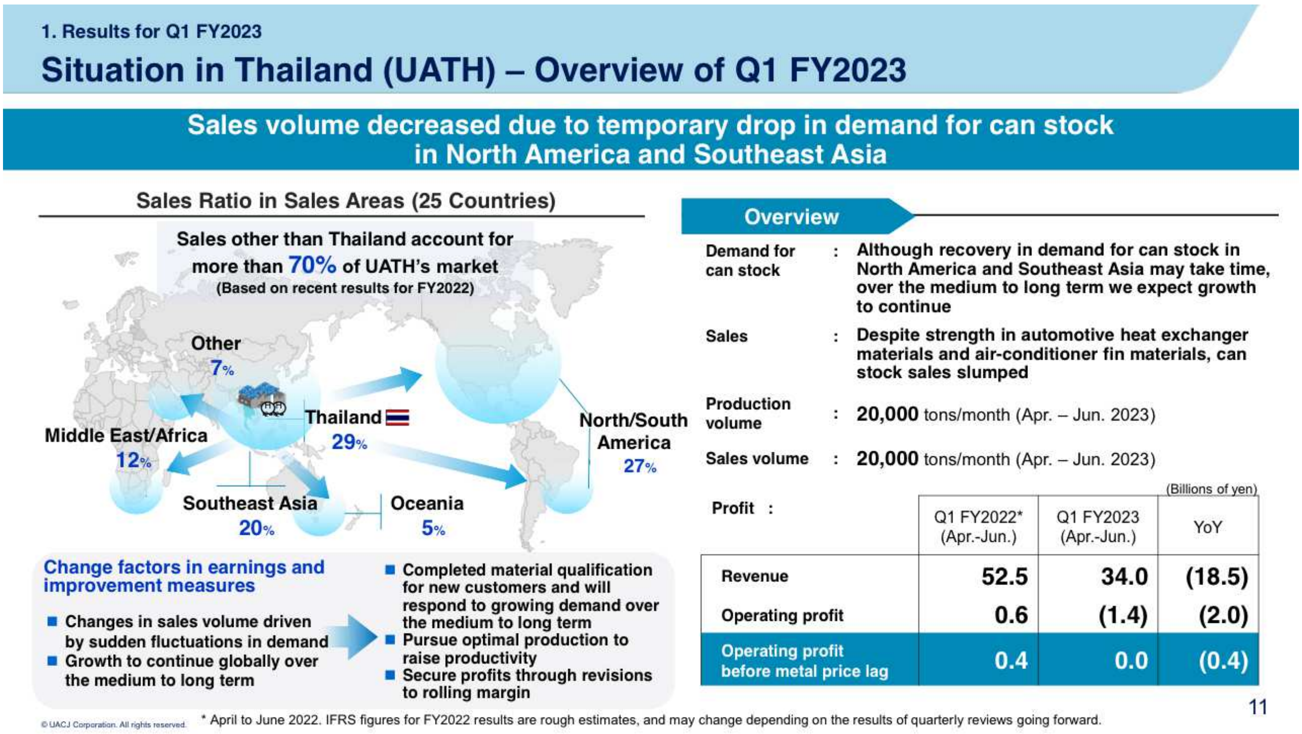
Total assets amounted to JPY942.7 billion, a JPY47 billion increase from the previous year. The main factor was the impact of foreign exchange rate fluctuations of approximately JPY32 billion.

I would like to explain the cash flow in the application of funds statement. Long-term funds of JPY16.6 billion were raised from profits and amortization to cover capital expenditures and income taxes on the left side. There is still a surplus of JPY6.9 billion in long-term funds.

On the other hand, however, the Company needs JPY18 billion in working capital. As shown in the balance sheet on the left, working capital was required due to a JPY26.6 billion increase in inventories in particular, including the impact of foreign exchange.

As a result, as noted below, we are creating long-term funds, which are the source of strengthening our financial base, but working capital is increasing.

In addition to this total balance and the impact of foreign exchange, borrowings increased by JPY29.8 billion.



This is the situation at UATH.

As noted in the summary on the right, it is expected to take some more time for demand to recover in the North American and Southeast Asian can stock businesses, but we expect continued growth in the medium to long term.

The bottom left-hand side of the page describes the steps to be taken to improve the situation. UATH's basic growth strategy is to respond to growing demand in terms of manufacturing and sales.

With production and sales of 20,000 tons, UATH struggled to make a profit, and operating profit before metal price lag was zero.

1. Results for Q1 FY2023

Situation in United States (TAA) – Overview of Q1 FY2023

Secured profits through improvements in product mix and manufacturing costs, etc., despite decline in sales volume caused by inventory correction and impact of market conditions

Changes in US Can Stock Demand and Domestic Supply Capacity

Source: Research by UACJ

Overview

Demand for can stock	:	Even if outlook is for prolongation of recent inventory correction, healthy demand environment expected to continue in the long term
Sales volume	:	33,000 ton/month (Apr. – Jun. 2023) *including shipments from Japan and UATH
Production capacity	:	Established an operation network to handle production of approximately 450,000 tons/year
Capacity increases	:	Enhanced facility at production bases in North America

Profit :

(Billions of yen)

	Q1 FY2022*2	Q1 FY2023	YoY
Revenue	82.9	57.0	(25.9)
Operating profit	9.6	6.6	(3.0)
Operating profit before metal price lag	6.3	7.3	1.0

*1 CAGR: Shows a rate of increase over multiple periods in terms of the rate of increase per period.

*2 IFRS figures for FY2022 results are rough estimates, and may change depending on the results of quarterly reviews going forward.

12

Page 12 shows the status of TAA.

As you can see in the summary on the right, TAA is also expected to be affected by the current inventory adjustment for a prolonged period. However, as shown in the bar graph on the left, the North American can market is projected to grow at a CAGR of 3% over the long term.

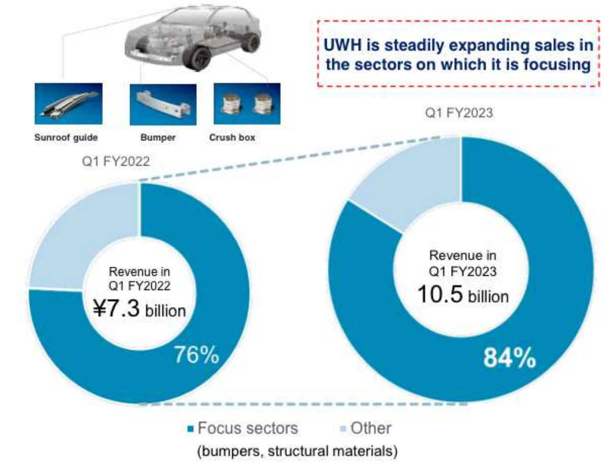
Despite sluggish volume, we secured a JPY1 billion improvement in profit, and operating profit before metal price lag was JPY7.3 billion.

1. Results for Q1 FY2023

Situation in United States (UWH) – Overview of Q1 FY2023

Supply chain disruption has been resolved and most recent production volume at customers is showing recovery, leading to higher revenue and profits

Change in product mix



Overview

Market environment : ・With production disruption resolved, the North American automobile market is on a recovery trend
・Move towards electric vehicles in North American market continues, use of aluminum products in automotive components predicted to expand

Sales : ・Recovery in customer production volumes leading to increase in revenue

Profit :

(Billions of yen)

	Q1 FY2022*	Q1 FY2023	YoY
Revenue	7.3	10.5	3.2
Operating profit	(0.8)	0.1	0.9
Operating profit before metal price lag	(0.4)	(0.1)	0.3

* IFRS figures for FY2022 results are rough estimates, and may change depending on the results of quarterly reviews going forward.

13

Page 13 is the status of UWH.

As you can see in the pie chart on the left, revenue is expanding and the percentage of focus sectors, such as bumpers and structural materials, is increasing.

See the table on the right. Operating profit under IFRS was JPY0.1 billion, but excluding the impact of material price lag, it was a loss of JPY0.1 billion. We are improving to the point where we are almost out of losses.

2. Forecast for FY2023

Understanding of Business Environment

Automotive-related demand is recovering following the resolution of production disruption.
Conversely, can stock in North America and Southeast Asia and thick plates, etc. in Japan are now forecast to recover more slowly than initially expected.

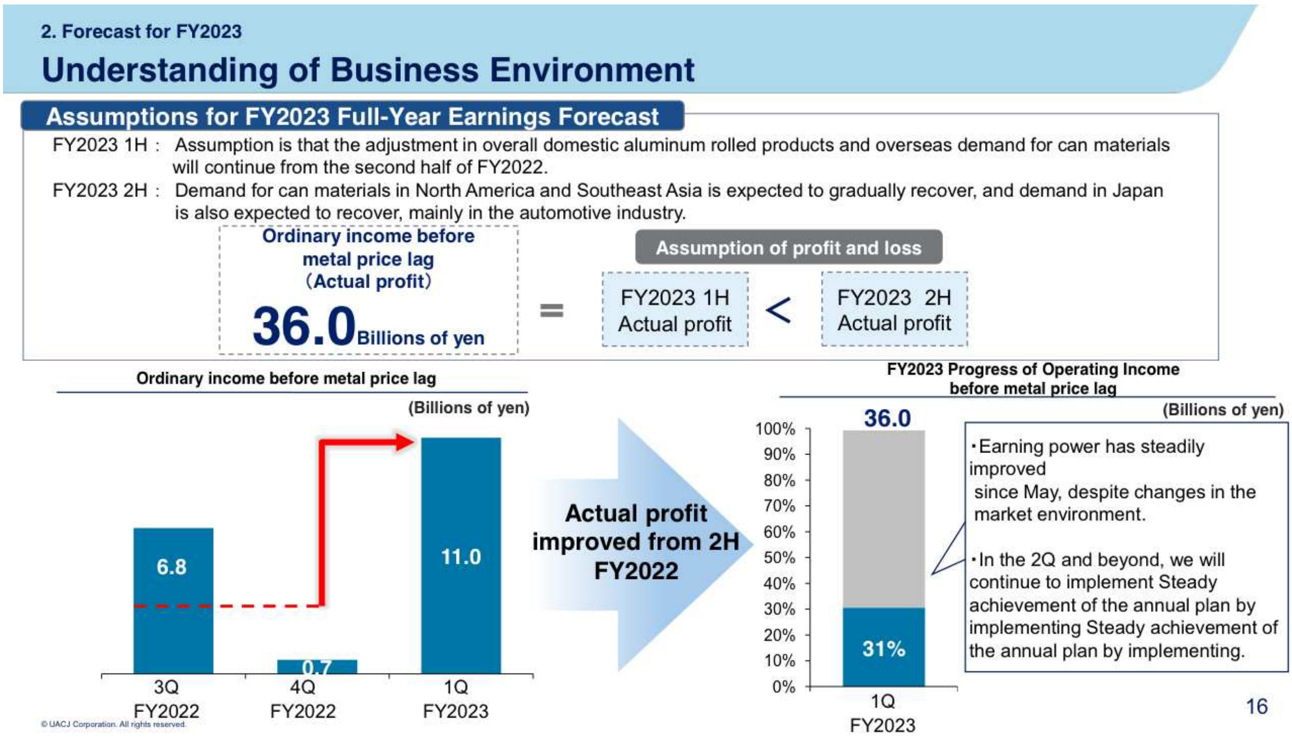
Japan	Can stock: Demand remains resilient despite impact of a fall in demand for drinking at home seen during the COVID-19 pandemic Automotive: Following the resolution of production disruption at customers, demand is recovering as initially expected, primarily for automotive panel materials Thick plates: Being affected by timing of recovery in semiconductor demand, which is later than expected
North America	Can stock: Recovery in demand is likely to take longer than initially inspected due to lower sales caused by inventory correction and the impact of inflation Automotive parts: Following the resolution of production disruption at customers, demand has recovered to pre-COVID-19 levels
Asia	Can stock: Being affected by delayed recovery in demand for can stock in North America as well as inventory corrections at customers in Southeast Asia

15

Let's move on to the full-year forecast for FY2023.

With regard to perceptions of the business environment, first of all, the automotive-related demand is recovering. On the other hand, we expect a slight delay in the recovery of demand for can stock.

In any case, we expect that last year's low level of demand will continue until H1.



Based on this demand environment outlook, we believe that the operating profit forecast of JPY36 billion will be biased toward H2.

Unfortunately, demand remained sluggish in Q3 and Q4 of FY2022 and Q1 of FY2023. However, as shown in the graph below left, operating profit is steadily increasing. Against the full-year forecast of JPY36 billion, the current progress rate is 31%.

Under these circumstances, we feel that we have a good response regarding the profit for Q1 of this fiscal year. However, we are still at the stage where we are only three months into the year. Based on the outlook for the business environment ahead, we have made no changes to our full-year forecast.

2. Forecast for FY2023

Full-Year Forecast for FY2023 (announced on May 11, 2023) [IFRS]

No change to full-year forecasts

(Billions of yen)	FY2023 Forecast	FY2022 Results	Difference
Revenue	970.0	955.7	14.3
Operating profit	34.0	10.7	23.3
Operating profit before metal price lag	36.0	19.7	16.3
Metal price lag	(2.0)	(9.0)	7.0
Profit (loss) attributable to owners of parent	15.0	(1.3)	16.3
Adjusted EBITDA	72.3	53.2	19.1
Annual dividends	85 yen/share	85 yen/share	-

* IFRS figures for FY2022 results are rough estimates, and may change depending on the results of quarterly reviews going forward.

17

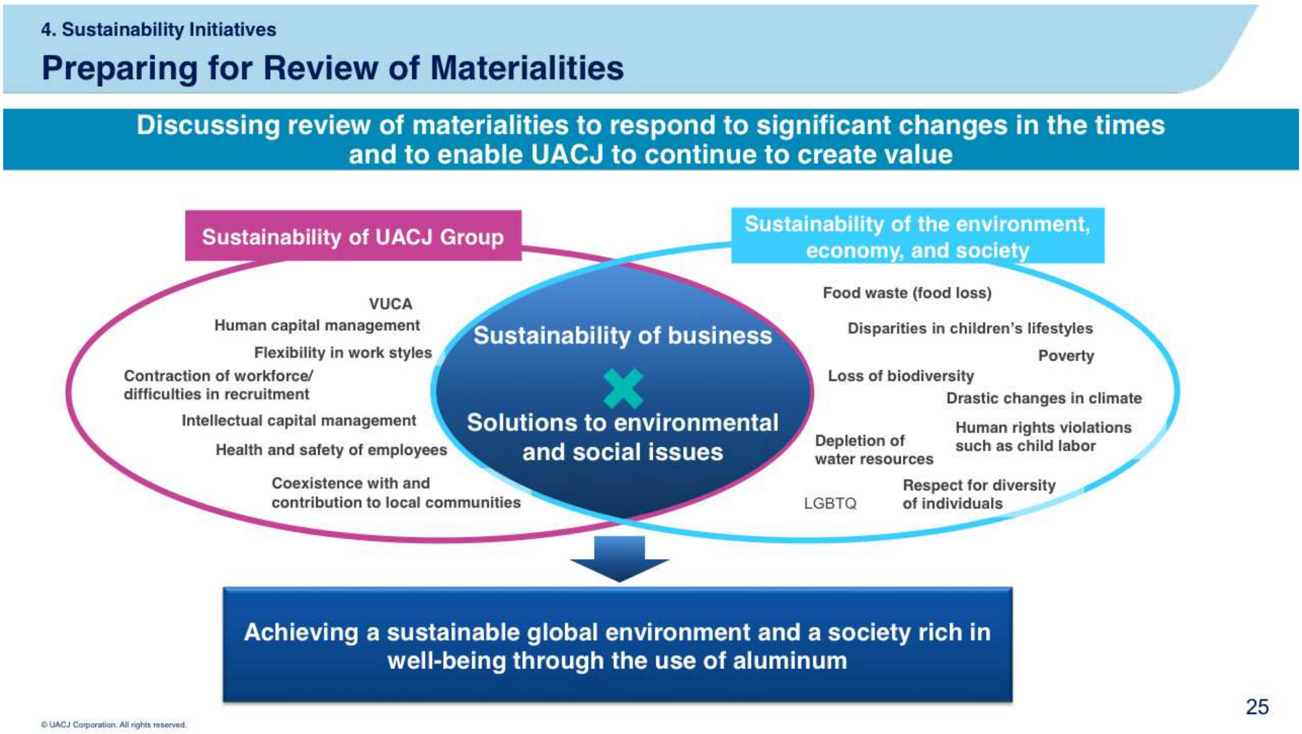
Figures are shown on page 17.

4. Sustainability Initiatives

UACJ Sustainability

UACJ

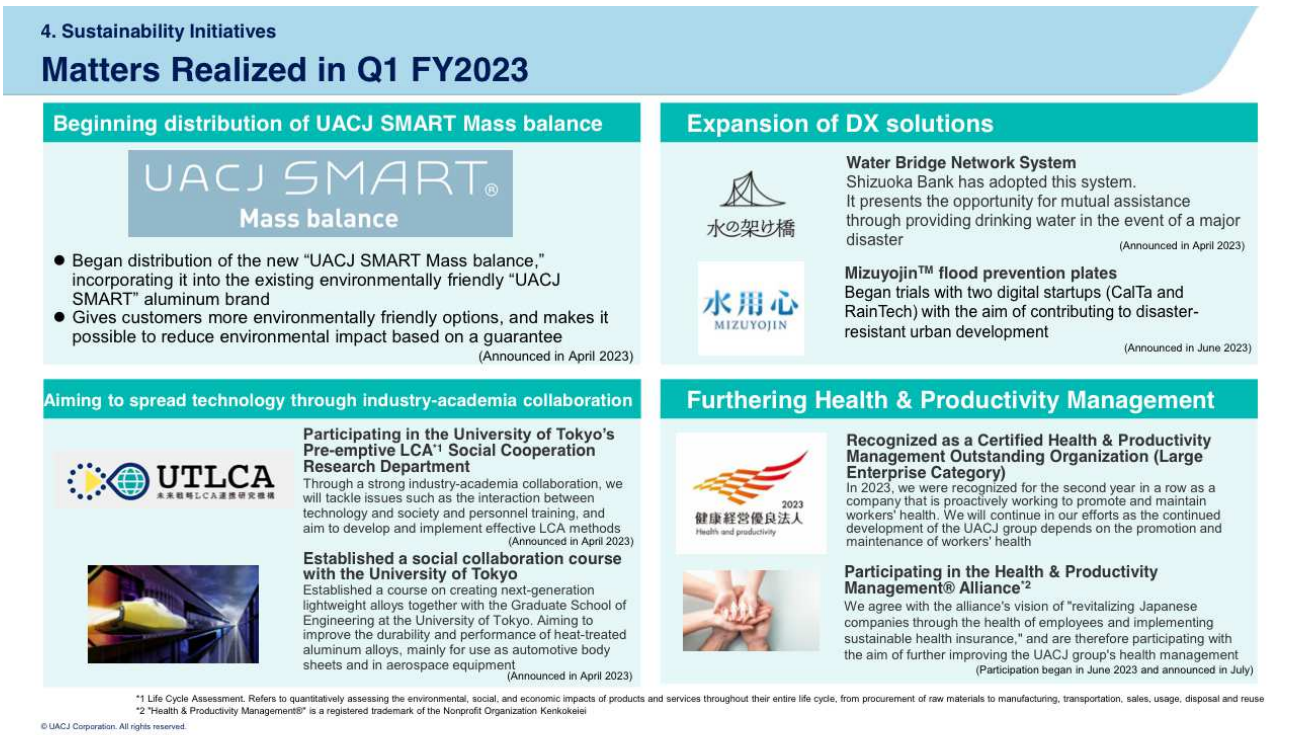
Next is an explanation of our sustainability efforts. Pages 22, 23, and 24 are unchanged from those previously introduced, so we will omit them.



This is about the review of materiality.

We have identified six items of materiality in 2021 and are currently working on them.

However, changes in environmental and social issues are radical, and we are currently discussing a review of our materiality. We would like to explain the specifics at another time.



On page 26, you will find a summary of our sustainability initiatives that have materialized in Q1.

All of this information has already been published, but we are presenting it here in summary. There are four main areas: UACJ SMART mass balance, expansion of DX solutions, industry-academia collaboration, and promotion of health management.

Preparing for a management indicator to address capital efficiency and management with an awareness of the share price

Ensure achievement of FY2023 targets and pave the way to VISION2030

We established ROE, ROIC, and D/E ratio as financial indicators for the 3rd Mid-Term Management Plan

⇒ ・In FY2023, the final year of the 3rd Mid-Term Management Plan, we will implement measures to steadily increase profits to ensure that we achieve our financial targets.
・Continue to actively engage in dialogue with the capital markets and reflect the needs of the capital markets in management.

ROE and ROIC are set as financial indicators in UACJ VISION 2030

⇒ Specific measures are being considered in the fourth medium-term management plan (from 2024) to ensure achievement of the 2030 target.

Financial indicators/ KPIs

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023 (Forecast)	FY2030 (Target)
				Period of 3rd MTMP			
ROE	0.6%	1.1%	-1.8%	15.6%	2.0%	4.6%	≧10.0%
ROIC [*1]	2.8%	1.9%	2.2%	11.1%	3.0%	5.5%	≧10.0%
D/Eratio [*2]	1.7	1.6	1.6	1.4	1.3	1.2	–

*1 ROIC: Calculated based on operating income before income taxes *2 D/E ratio: Factoring in subordinated loan

27

Finally, our capital efficiency management initiatives are explained on page 27.

Since 2020, we have incorporated capital efficiency as a management indicator. In the third medium-term management plan, we have achieved the results and set the schedule as shown below. In addition, we are working to ensure that we will be profitable in FY2023, the final year of our medium-term management plan. At the same time, we intend to actively engage in dialogue with the capital market and reflect the needs of the capital market in our management.

In our long-term management vision, UACJ VISION 2030, we have set targets for ROE and ROIC of 10% or more. In order to achieve our 2030 goal, we are currently discussing our fourth medium-term management plan and are considering specific measures.

We are determined to continue our efforts to enhance our corporate value by strengthening capital efficiency management.

That is all I have to say.

Ueda: That concludes our explanation of the presentation material.

President Ishihara will take a moment to say a few words. President Ishihara, please.

Ishihara: On page 16, we provide our perception of the business environment and review the assumptions underlying our full-year forecast for FY2023.

Regarding the outlook for FY2023, we considered that H1 would be an extension of H2 of FY2022. We expected that from H2 of FY2023, the improvement in automobile production, et cetera, would help us to improve our business performance.

In Q1, the effects of structural reforms can be seen to be steadily materializing. In response to these factors, I think we can say that the business environment surrounding the Company has changed from May. We will continue to work on maximizing profits in Q2 and beyond by taking additional measures as necessary to ensure improved performance.

At the same time, as awareness of the need to improve the changing global environment is steadily increasing, we are also seeing a solid response in the expanding potential of aluminum. Through these efforts, we will continue to improve the corporate value of our company, which makes its livelihood from aluminum.

Although the future outlook is very uncertain, we intend to make a concerted effort to ensure that we execute our profit plan throughout the year and at the same time exceed it.

Thank you for your continued support. That's all from me.

Ueda: That concludes our explanation.

Question & Answer

Ueda [M]: We will now take your questions. First, Mr. Yamaguchi from SMBC Nikko Securities.

Yamaguchi [Q]: Thank you for your explanation today. I have three questions.

First of all, I saw that you have maintained your profit level despite such a decrease in volume, and I thought you were doing much better than I expected.

In the past, for example, in your company, the sales relationship difference or the capacity utilization difference in the waterfall chart on page eight would have been a major negative factor, pushing down profit. I thought it was very well run, including TAA. You spoke about the effects of structural reforms and the price pass-through. Could you please sort out and tell us the factors behind the profit despite such a decrease in volume?

Second, if we multiply Q1 operating profit of JPY11 billion by four, we get JPY44 billion, easily exceeding the full-year plan. In the top box on page 16, it is stated that operating profit in H2 will be larger than that in H1. Does this mean that operating profit will take a significant dip from Q1 to Q2 and then rise again?

Were there any one-time gains in Q1, for example, metal benefits? Or, for example, since fuel prices are coming down, will there be a temporary decrease in profit somewhere due to lower fuel prices? I would like to know about any increase or decrease in future operating profit.

Third question, can you tell us about the accounting changes? I think it is the other income on the income statement that makes the YoY change for Q1 under IFRS larger than that under GAAP. Please explain the increase or decrease of the item. Also, how did you handle the impact of changing the accounting period? For example, did you put 15 months of results, or did you put only a certain section on the balance sheet?

Since interest rates have gone up, I believe that pre-tax profit was flat excluding metal price lag, what is your assessment of that?

Iida [A]: I will answer each of the three questions in turn. Thank you for your recognition that we are doing well despite the decrease in volume.

First, let me explain TAA. The energy price increases and price-pass through shown on page eight are a domestic situation.

The same thing is happening at TAA. TAA's form of business is to reflect the price index in the following year. Last year there was a cost burden for energy and other prices. This year it has turned out to be positive, and that still has a significant effect on the bottom line.

Also, although the volume has decreased significantly, as I mentioned earlier, the volume of relatively unprofitable items such as slabs, for example, has decreased significantly, while the volume of profitable items has not decreased much, indicating that the mix has improved.

In addition, the current year incurs slightly less costs than the same period of the previous year. This overlaps a bit with the explanation of Q2, but as I mentioned earlier, there is a slight accumulation of inventory in TAA and Japan, which is a factor that has resulted in slightly lower cost disbursements.

Furthermore, due to the impact of foreign exchange conversions, TAA has seen an increase in profit despite a significant decrease in volume.

You pointed out that the domestic reduction is a little less, and that is exactly right. The positive effect of our efforts to pass on prices to customers, apart from the energy surcharge, is included in the negative JPY200 million, contributing to the improvement in operating profit.

Ishihara [A]: I would like to add a few things. The product mix is changing, especially for can stock. In addition, domestic sales volume to customers with high profit margins increased, due in part to the customer mix. In addition, significant progress has been made in improving low-profit products. This has increased the profit margin, although the volume has decreased.

Additionally, as you pointed out, the relatively small impact of the capacity utilization difference in Q1, despite the decrease in volume, can be attributed mainly to lower fuel costs and a shift to more productive products.

Iida [A]: You asked me if the profit for H1 multiplied by four would exceed the full-year plan, so the profit for Q2 would decrease a little. Sorry, you are correct. Q2 of each year is a difficult phase in terms of profit, especially in August, due to the number of operating days.

Comparing Q1 and Q2, I think we will struggle in Q2 with regard to profit.

Kawashima [A]: Third, first of all, due to the change to IFRS, all of our accounts are now closed in March. Figures for 15 months are not shown. For companies with a December fiscal year end, the figures for January through March 2023 are adjusted in the balance sheet. Last year's figures have also been recalculated to the figures from April to March. So, there are no figures for more than 12 months. In addition, all accounting periods are unified.

As for profit before taxes, as you mentioned, operating profit has improved, but due to the impact of inventories and an increase in financial expenses due to higher dollar interest rates, the figures are as you indicated.

As for others, equity in earnings of affiliates, et cetera, which were previously included in non-operating profit, is now included in operating profit. On the other hand, what were extraordinary gains or losses under Japanese accounting standards are included in operating profit. There is an increase or decrease due to these factors.

Ueda [M]: Thank you for your question. Mr. Goroh of UBS Securities, please.

Goroh [Q]: I am Goroh from UBS Securities. Thank you very much. Let me ask two questions for confirmation.

First, the improvement in margins has offset much of the impact of the drop in volume. You explained that this only worked in H2 of last year but will work throughout the year this year.

I believe you explained that this will allow us to expect further growth in H2. On the other hand, I have asked several times about the sophistication of the products you are working on, or the contribution of the new line. Regarding the automotive body panel line, in terms of volume, will it be able to reap the expected benefits in the future? Can we expect average margins to be positive?

Likewise, you also explained a new initiative called UACJ SMART mass balance. Would this be a high margin business? You said that you expect a shift from a business form that chases volume to one that chases margins, working on multiples and correcting low P/B ratios. Please explain the expectations for this fiscal year in this area based on the progress made in Q1.

Secondly, regarding cash flow, free cash flow started Q1 in the negative due to the continued heavy burden of working capital. Achievement of this goal is also important to the credibility of your financial base and discipline. There could be various initiatives such as liquidation of inventories. What is your financial outlook at this point in time?

Tanaka [A]: Regarding your question about the new automotive materials line, we are proceeding almost as planned. Unfortunately, in Q1, the volume did not reach the plan. Conversely, we focused on whether we could maintain productivity even if the volume was not satisfactory, and we have been working to improve our capacity.

Under such circumstances, we have successfully reached our production capacity as planned, and we are finally receiving orders from our customers in quantities that are almost in line with our plan. We believe that we can continue to post volumes as planned.

Some of the new areas are described on page 26. As we have already mentioned several times, we are now working on including mass balance and other factors in UACJ SMART. Although this has not yet been fully incorporated into our plans, we have received inquiries from a large number of customers.

Several companies have actually started doing business by applying mass balancing. We believe that this is still a field that will grow sufficiently in the future, and we are proceeding with PR.

Ishihara [A]: Regarding the issue of high margins you mentioned earlier, this is an initiative that has just begun, so we must consider how to increase its value and amount in the future. First of all, we are working to make it available to many customers. We would like to make efforts to be recognized as a high-margin product in the future.

Kawashima [A]: I will answer regarding cash flow.

First, debt is increasing. This is the effect of increased inventory. Inventories have increased in this Q1 due to lower sales than originally anticipated, which has resulted in a difference from the bullion that had already been decided to sell. However, we are willing to make that adjustment for the year.

As for the D/E ratio, which represents our financial strength, our goal is to achieve 1.2 times at the end of this fiscal year, and we are confident that we will be able to achieve this goal.

Another thing is that it is now possible to increase EBITDA from JPY50 billion to JPY60 billion in the past to more than JPY70 billion. We believe that as the scale of our business has grown, our ability to generate cash has changed significantly compared to a few years ago. We intend to use this to allocate funds to areas that will increase corporate value and also strengthen our finances.

Goroh [M]: I understand very well. Thank you very much.

Ueda [M]: Thank you for your question. Mr. Shirakawa of Morgan Stanley MUFG Securities, please.

Shirakawa [Q]: My name is Shirakawa from Morgan Stanley MUFG Securities. Thank you for your explanation today. I have two questions.

The first question is about the overall feeling. I recognize that the overall progress rate in Q1 was above the plan. Please tell us how each of the regions, divided into Thailand, TAA and UWH, and Japan, are progressing against the plan right now.

The second question is about your domestic business, especially thick plates for semiconductor manufacturing equipment. Some other companies said at the financial results briefing that the environment would continue to be difficult throughout the current fiscal year. I believe your company expected at the beginning of the period that demand would recover from H2. Please tell us your current perception.

Iida [A]: I would like to explain the progress rate. The domestic business is performing better than initially expected, partly due to the improved margins I mentioned earlier.

In the US, the rate of progress, mainly in TAA, exceeded the initial forecast at the beginning of the period.

On the other hand, UATH is struggling. The annual plan is expected to be achieved, but the rate of progress is slightly lower.

Ishihara [A]: I will talk about thick plates related to semiconductor manufacturing equipment.

Originally, the general industry expectation was that recovery would begin in H2. The industry has a long supply chain, so there is still some metal price lag. Therefore, it is becoming a common view that we, the materials industry, will not receive the product until next year or later.

However, construction of semiconductor manufacturing facilities in Japan and overseas has begun or is planned. So I think that after 2024, there will certainly be a situation where orders will come in for us on the materials side. Until then, we would like to steadily increase our market share and secure volume by taking advantage of the characteristics of our thick plates.

Shirakawa [Q]: Understood. Regarding the first point, I would like to ask one additional question. With regard to the situation in Thailand, for example, I have heard from North American can manufacturers and others in their financial results explanations that inventory adjustments are still continuing in Southeast Asia as a whole. Can you tell us a little more about your perception of the demand environment, inventory levels, and channel inventories right now?

Iida [A]: For Southeast Asia, we expect inventory adjustment to continue in H1, rather than a slump in demand, with a gradual recovery beginning in H2.

Shirakawa [M]: Understood. Thank you very much.

Ueda [M]: Thank you for your question. Mr. Matsumoto of Nomura Securities, please.

Matsumoto [Q]: My name is Matsumoto from Nomura Securities. Thank you.

The first point is about the state of the US market. What factors are delaying the recovery of demand? When do you expect the various adjustments to be completed and the recovery to begin?

Second, I believe you mentioned that UATH will pass on various costs to the long-term contracts when they revise their prices. With demand looking a bit weak, what are your thoughts on the risks in price pass-through?

Kumamoto [A]: My name is Kumamoto. I understood your question to be about when the recovery of demand, which has been delayed in North America and the US, is expected. Although the recovery has been slow, we had originally projected a CAGR of 8% or 10% for last year or the year before. I think the reason was that customers bought can stock in large quantities and can manufacturers imported empty cans because they could not keep up with production.

This was further compounded by the global disruption caused by COVID-19, especially in maritime transportation.

These are now being resolved one by one. We thought we would be able to make these adjustments in Q1 around March of this year, but now we expect it to take until around the July to September period. We have also received information that orders for H2, from October onward, are partially coming back. Therefore, we expect the adjustment phase to continue throughout H1, followed by a gradual recovery in H2.

Iida [A]: Regarding the prospect of price pass-through in Thailand, an agreement has already been reached and implemented for additive metals. As for energy, as you mentioned, we are factoring that in from the new contract.

However, we believe that we need to keep a close eye on the Chinese economic trend to see if it can be a factor that disturbs the market price. Regarding foreign exchange gains, we are proceeding with this as a management matter.

Matsumoto [Q]: Although the current demand is weak, is it my understanding that there is not much risk regarding the upcoming negotiations?

Kawashima [A]: Currently there is a risk, but it seems that the contract renewal is around 2025. The base demand itself is not weak. Due to inventory adjustments, the volume of cans is increasing. On a permanent basis, cans are insufficient. I have heard that they are firmly obtaining price pass-through agreement from customers.

Matsumoto [M]: Understood. Thank you very much. That is all.

Ueda [M]: Thank you for your question. Mr. Ozaki of Daiwa Securities, please.

Ozaki [Q]: I am Ozaki from Daiwa Securities. Thank you.

Regarding the first point, page 16, what is the background of the sharp increase in operating profit from Q4 to this Q1? Also, inventories have indeed increased at the end of June. Could you also explain how much of an impact the increase in inventory had on operating profit?

Second, there was a comment that the businesses in US and Japan are doing well. What factors are causing the progress to exceed the plan? Maybe the quantity is not so strong. Could you please tell me what factors are causing the upward swing, such as spreads, costs, et cetera?

Iida [A]: You asked about the rapid improvement from Q4 to Q1. To reiterate, first of all, there was an energy price hike in H2, which we unilaterally bore. The opposite situation began in Q1, resulting in a sharp improvement in P&L from negative to positive. This is the biggest factor.

Other effects of price revisions have also been seen in the current fiscal year.

Kawashima [A]: We have a bullion management process, but it does not mean that processing costs were larger than necessary in Q1. Since the cost of bullion is increasing, processing costs may increase, but the impact will not be significant.

Iida [A]: I think the first reason for the upward swing in progress is that the effects of structural reforms have been greater than expected, or rather, the effects that were not fully incorporated in the plan are now being realized.

The other positive factor is that, although internally we were prepared for energy prices to rise a bit more, so far they have not risen as much as expected.

Kumamoto [A]: The situation is somewhat similar in the US and Japan. As for the cost-shifting mechanism, the cost burden will be borne first, and recovery will be slightly delayed. Thus, the fact that there were more collections in Q1 is the reason for the increase in profit.

Another factor, as Kawashima and Iida explained earlier, is the depreciation of the yen against the US dollar.

Another structural aspect, which we call metal benefits, is that the LME is relatively low and stable, while the discount price of scrap is also low and stable. The fact that its volatility is relatively stable has also had a positive effect on the stability of earnings.

Ozaki [Q]: Thank you very much. I hope the profit growth in Q1 will continue. However, while there has been considerable progress in price shifting, the cost of electricity, for example, has peaked out. Is there anything that should be discounted, like the spread was too good in Q1? Is it safe to understand that the Q1 profit shows your raw power?

Iida [A]: To be honest, we neither gain nor lose anything by shifting energy price. However, since last year's steep rise in prices is having a positive effect on this year's performance, we believe that there will definitely be a positive impact on H1 rather than Q1.

Ozaki [Q]: Can I understand that the recovery of the cost increase will proceed in H1 of this fiscal year, so that the Company will recover to its capabilities in H1 of this fiscal year?

Iida [A]: It means that we are in the process of recovering last year's decline.

Ozaki [M]: I understand. Thank you very much.

Ueda [M]: Thank you for your question.

We will now conclude the question-and-answer session.

This concludes the UACJ Q1 financial results briefing for FY2023.

Thank you for joining us today. We will continue to strive to meet the expectations of our shareholders and other stakeholders, and we look forward to your continued support.

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

Corporate Representative [M]: Thank you very much.

[END]

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