







# **Implementation of Structural Reform**

## **- Towards a Strong Structure -**

September 30, 2019

**UACJ Corporation**

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# Changes from Time of Formulating Mid-Term Management Plan

## Urgency of response to sudden environmental changes

### Mid-Term Management Plan (FY2018 to 2020)

1. Continue focus on growth markets and growth fields
2. Certain recovery of advance investments
3. Increase capital efficiency
4. Share and instill principles of conduct.

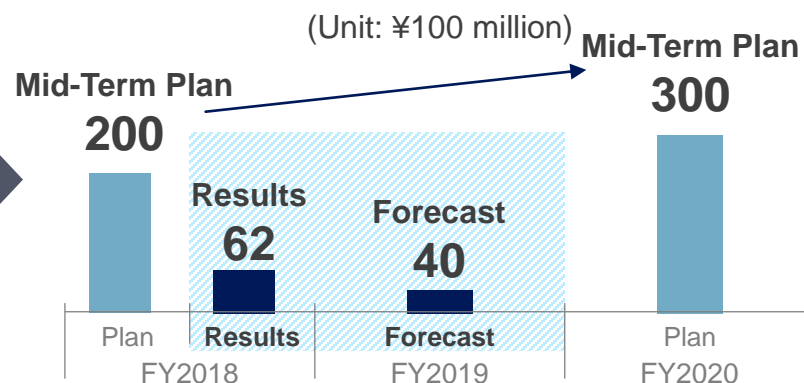
Decreased demand mainly for IT-related devices and liquid crystal and semiconductor manufacturing equipment due to US-China trade friction and economic slowdown in China

Urgent need to respond to sudden changes in the business environment and internal issues

### Reflecting on Past Performance

- **Positives** Confirmed the strategic viability of selected growth markets and fields
- **Negatives** Failed to achieve business results plan

### Changes in Ordinary Profits



## Expansion of scale via growth strategy and identification of issues due to environmental changes

### Insufficient management function

1. Delay in decision-making, insufficient execution ability
2. Insufficient response to risks
3. Delay in business process reform due to IT delays, etc.

### Decreased earnings capacity

1. Delay in response to changes in business environment
2. Delay in response to changes in assumed product type mix
3. Insufficient response for decreasing fixed costs
4. Failure to achieve earnings plan at overseas bases

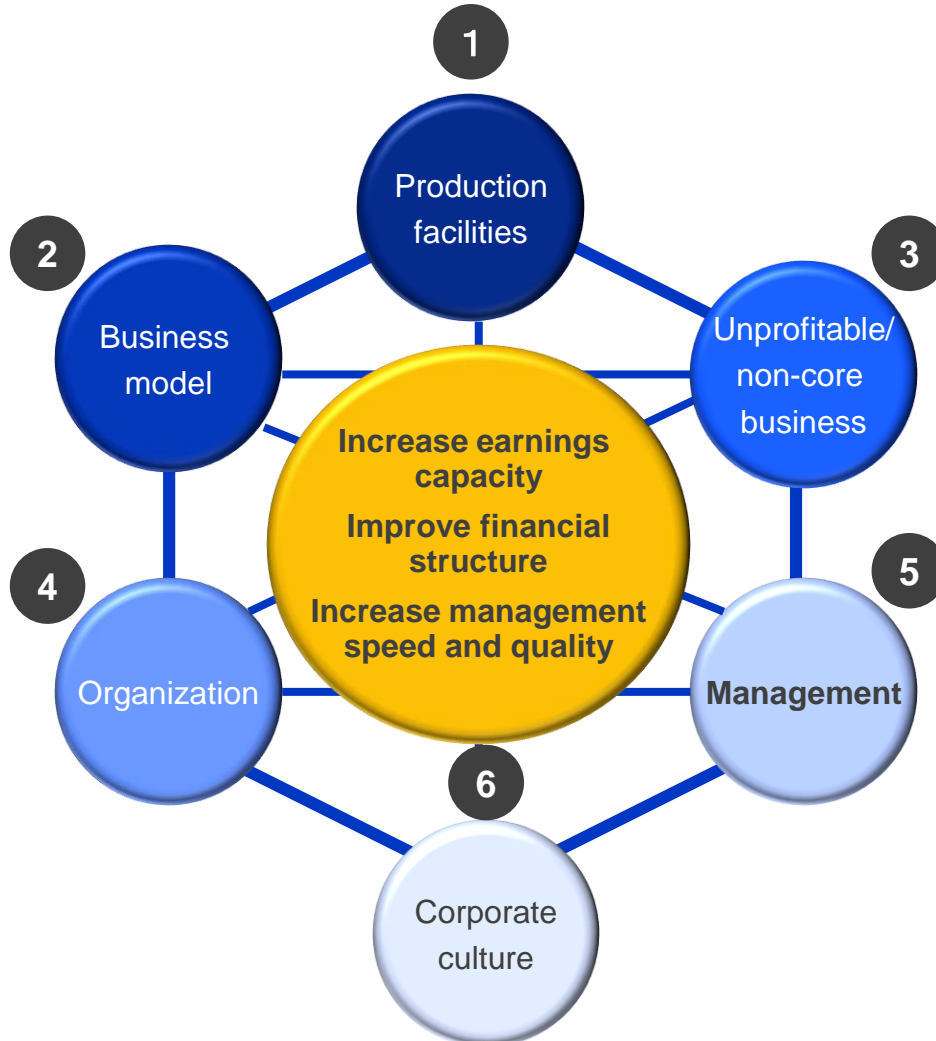
### Weakening of financial structure

1. Increase in interest-bearing debt due to concentration of large-scale investments
2. Delay in increasing asset efficiency

**Aiming for early V-shaped recovery by reforming both profit structure and management**

# Overview of Structural Reform

Seek to create a strong corporate body by organically linking the 6 elements of structural reform



## 6 elements of structural reform

### 1. Production facilities

- Domestic: Increase the rate of operation through aggregation
- Overseas: Maximum utilization of facilities capacity

### 2. Business model

- Conversion to solutions type
- Select product category, correct price

### 3. Unprofitable/non-core business

- Review sale and withdrawal

### 4. Organization

- Streamline indirect departments

### 5. Management

- Streamline office system
- Visualize management data

### 6. Corporate culture

- Reconfirm and reconstruct the philosophy and values which will be important to the reborn UACJ

**Establish strong structure resistant to environmental changes**

## **Structural Reform Principles**

### **1. Increase earnings capacity**

- Reduce break-even point
- Achieve profitability for large investments
- Withdraw from non-profitable fields and non-core fields

### **2. Reform financial structure**

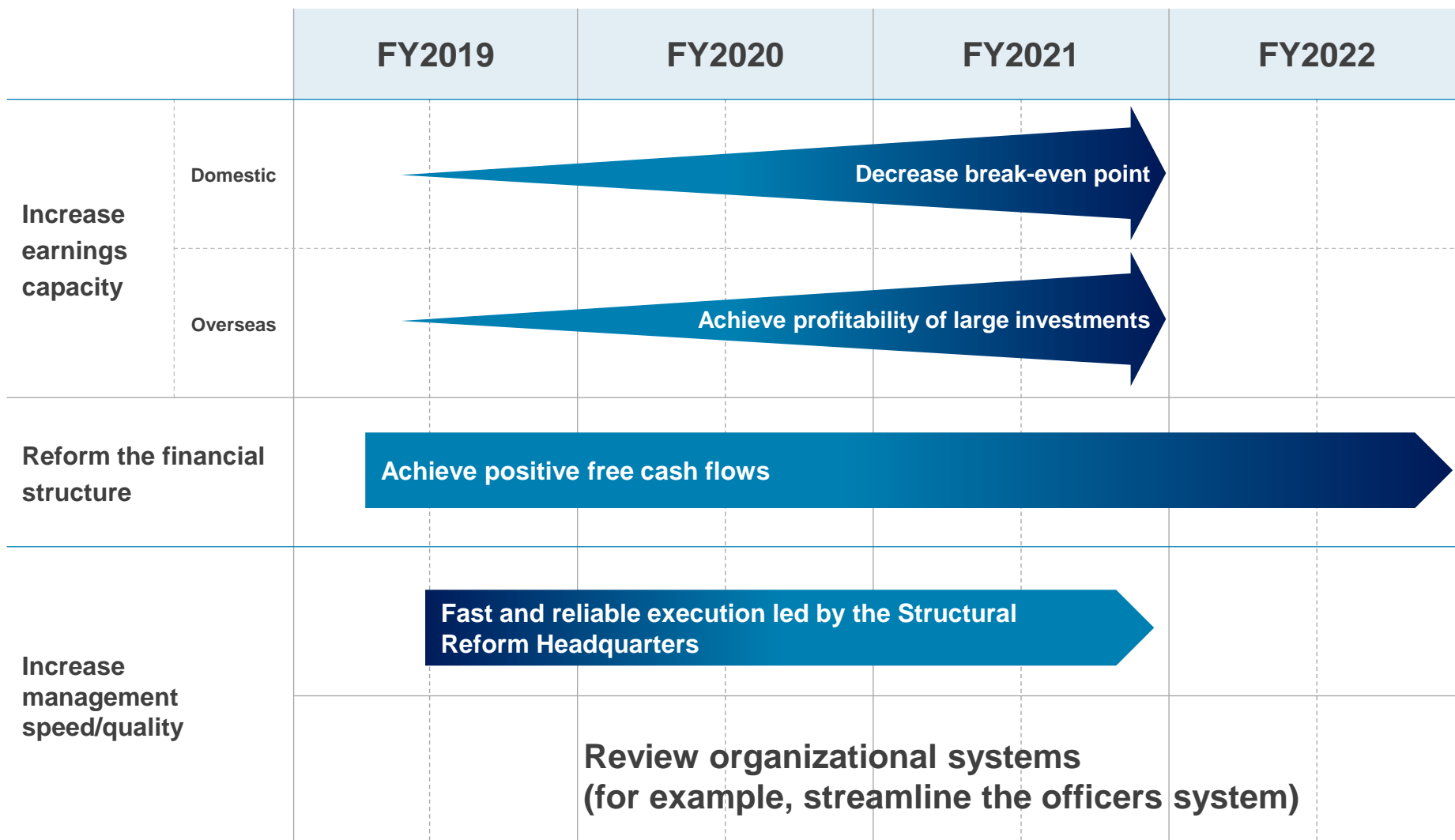
- Improve operating cash flows
- Reduce investment
- Reduce of inventory assets

### **3. Increase the speed/quality of management**

- Strengthen management systems and mechanisms
- Establish a Structural Reform Headquarters



## Establish a new Structural Reform Headquarters and steadily implement fast reform



# Main Measures for Structural Reform

## Recognition of Current Situation at Domestic/Overseas Bases and Ideal Profit Structure

- **Domestic:** Decrease break-even point and achieve a profit structure resistant to environmental changes
- **Overseas:** Maximize profits by taking full advantage of the capabilities of large investments already executed

### Domestic

#### Recognition of Current Situation

- Due to a decrease in demand since last year, the facilities utilization rate has declined and profits have decreased significantly
- Productivity decline and insufficient cost reform due to changes in product mix



#### Ideal Profit Structure

**Decrease the break-even point and achieve a profit structure resistant to environmental changes**

### Overseas

- Long-term startup phase extending through the first, second, and third stages of UATH\*<sup>1</sup>
- The startup period for UATH / TAA\*<sup>2</sup> large-scale investments overlaps, and there is a concentration of profits pressure due to start-up costs



**Respond to strong demand and maximize profits by taking full advantage of the capabilities of large investments already executed**

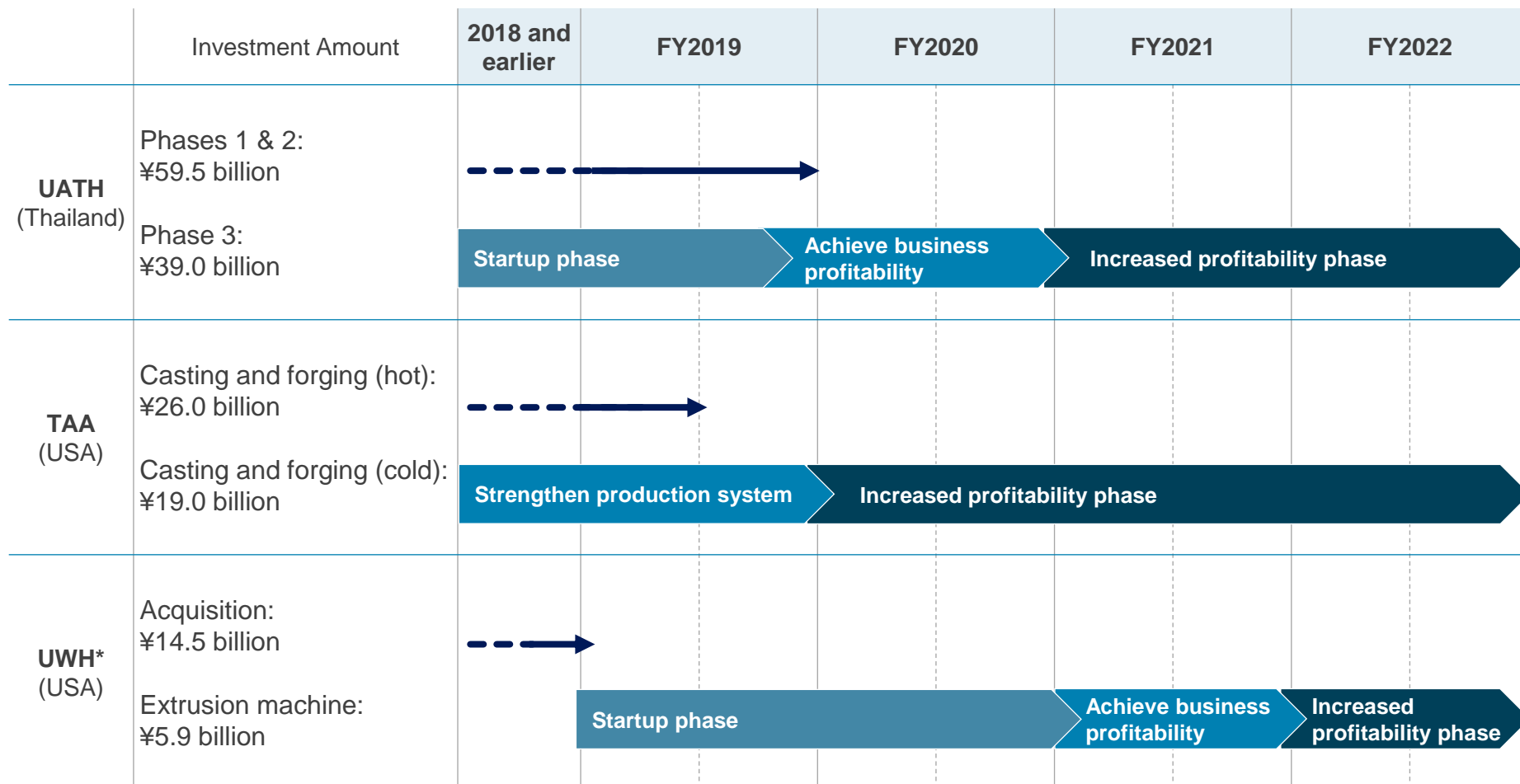
**Decrease the break-even point by reducing fixed costs  
and increasing the marginal profit ratio**

Policy	Measures
<b>Reduce fixed costs and increase operating ratio by aggregating production bases</b>	<ul style="list-style-type: none"> <li>● Close the Nikko Works→Aggregate automotive heat exchanges to UMP*</li> <li>● Stop lower process at the Fukaya Works →Aggregate to Nagoya and Fukui</li> <li>● Aggregate/optimize extrusion in Oyama and press operation in Nagoya</li> </ul>
<b>Increase profitability</b>	<ul style="list-style-type: none"> <li>● Respond to main fields/growth fields (can materials, automotive materials, battery materials)</li> <li>● Correct prices</li> <li>● Correct or withdraw from low-profit fields</li> </ul>
<b>Construct optimal production system (reduce variable expenses)</b>	<ul style="list-style-type: none"> <li>● Increase productivity for automotive materials</li> <li>● Review and optimize sharing of products/processes among manufacturing sites by utilizing the new CALP line (automotive materials finishing line) in Fukui</li> </ul>
<b>Reduce indirect expenses</b>	<ul style="list-style-type: none"> <li>● Reduce indirect personnel expenses, etc.               <ul style="list-style-type: none"> <li>▪ Reform business process by using investment in IT, etc.</li> </ul> </li> </ul>

# 1. Increased Earnings Capacity Towards Increased Profitability at Overseas Bases

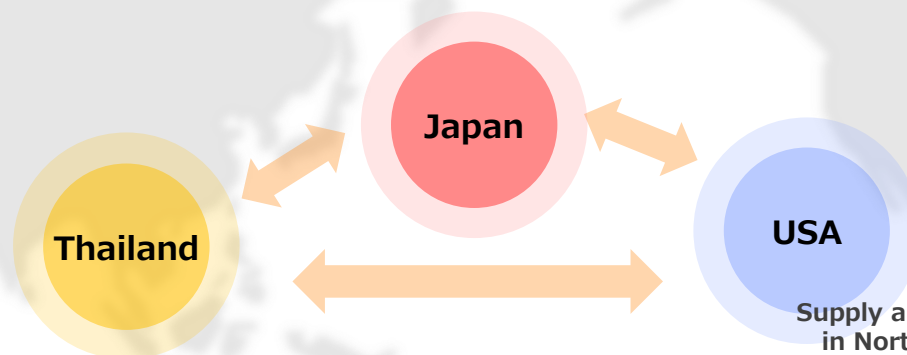


- Large investment is nearly finished.
- Transition for startup phase to increased profitability phase.

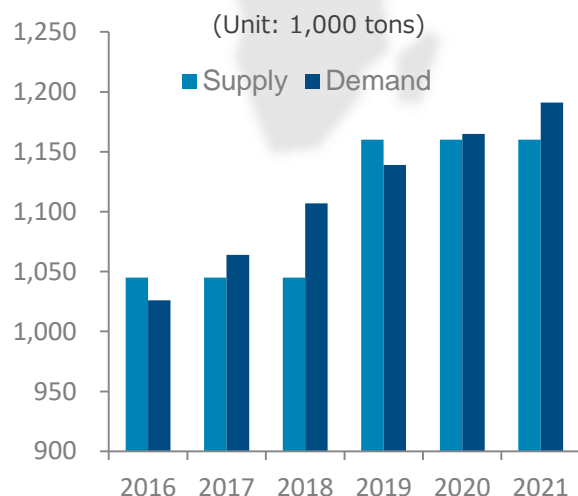


## Demand for can material continues to exceed supply in Asia, Australia, and North America

- Stable growth in can materials market in conjunction with economic expansion focused on Southeast Asia
- Tightened supply and demand in USA
- Expect return to aluminum can material in conjunction with marine plastics issue



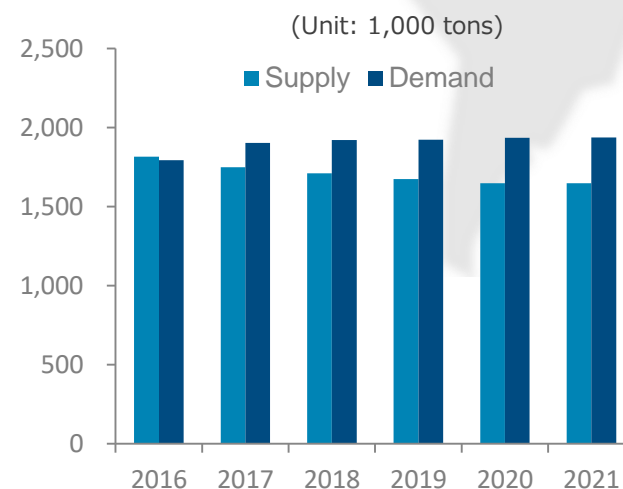
Supply and demand for can material  
in Asia (excluding China) and Australia



Establish three-region system  
(Japan, North America, Thailand)

Stably secure demand through a  
global supply system

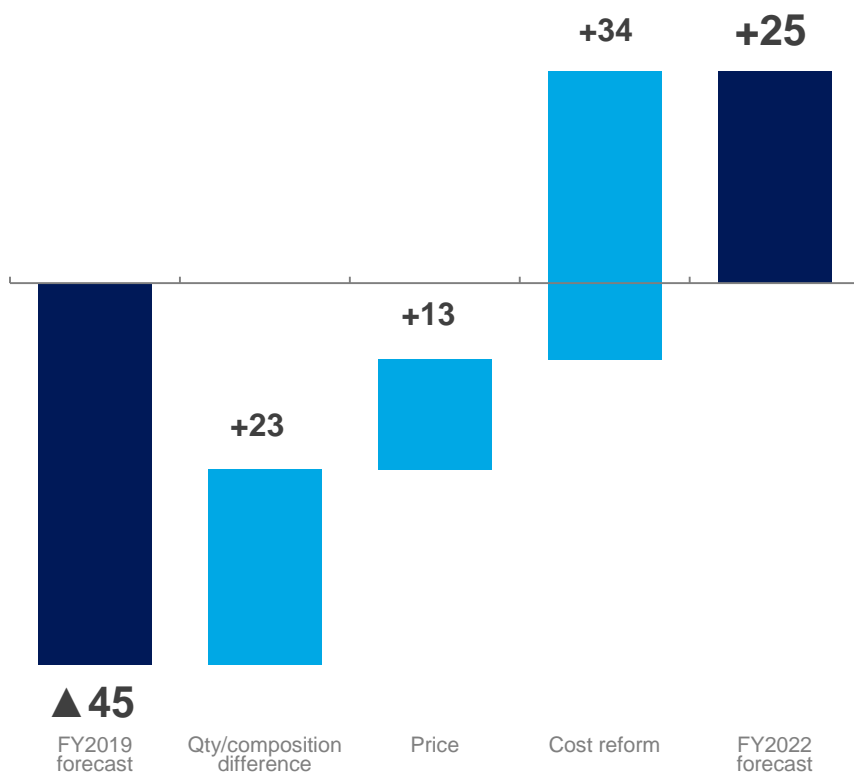
Supply and demand for can material  
in North/Central/South America



### Increase sales amount and reduce costs by starting operation for Phase 3 investment utilizing hot rolling capacity

#### Reasons for improvement of ordinary profit/loss (excluding inventory valuation)

(Unit: ¥100 million\*)

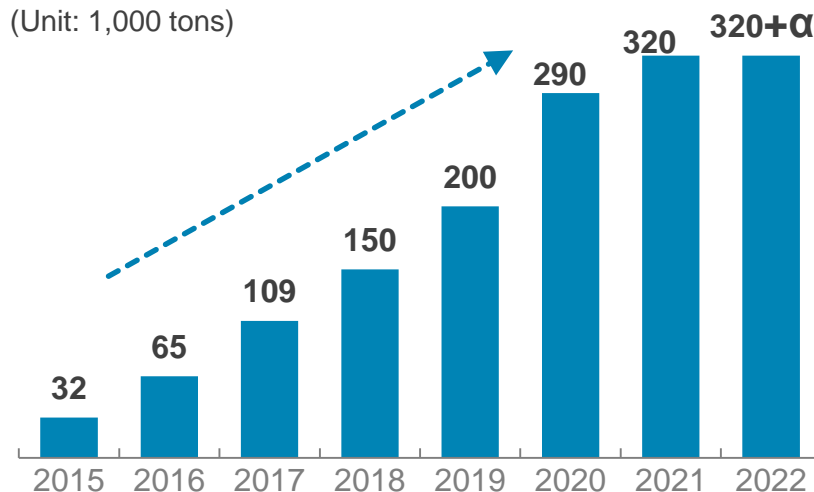


#### Profit Reform Measures

- Increased sales through full-scale operation of Phase 3 facilities
- Secure quantities and improve prices through long-term contracts
- Decreased costs via cancellation of startup costs and the effect of increased production

#### Predicted change in sales amount

(Unit: 1,000 tons)



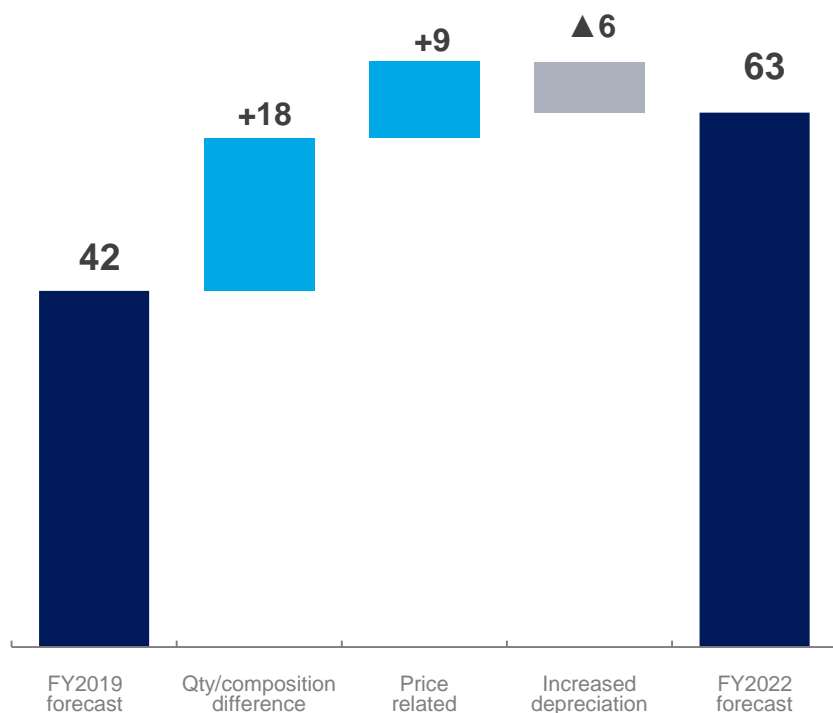
# 1. Earnings Reform Scenario

## Profit Structure Scenario for TAA

While demand for can material is high, increase sales amount through completion of investment for increased production and increased profits through price reform

### Reasons for improvement of ordinary profit/loss (excluding inventory valuation)

(Unit: ¥100 million\*)

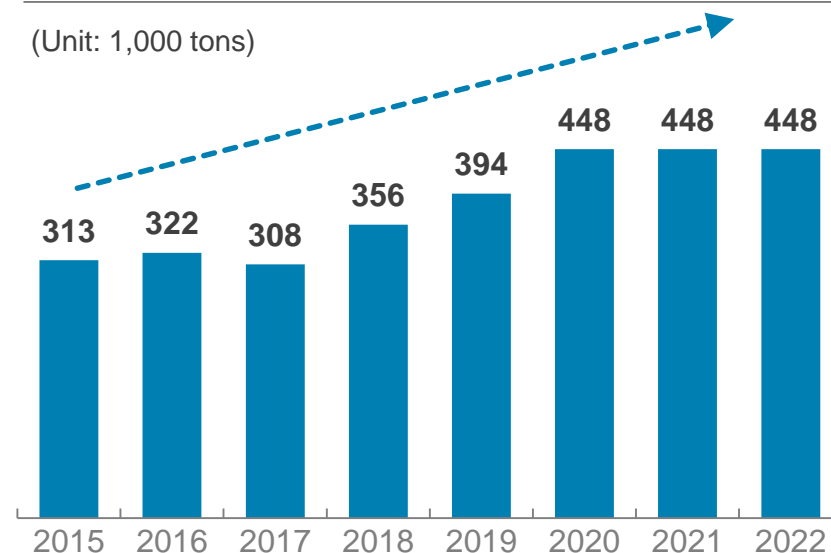


### Profit Reform Measures

- Increase sales amount through completion of investment for increased production
- Secure quantities and improve prices through long-term contracts

### Predicted change in sales amount

(Unit: 1,000 tons)





## Increased use of aluminum in automotive parts (in particular, North America)

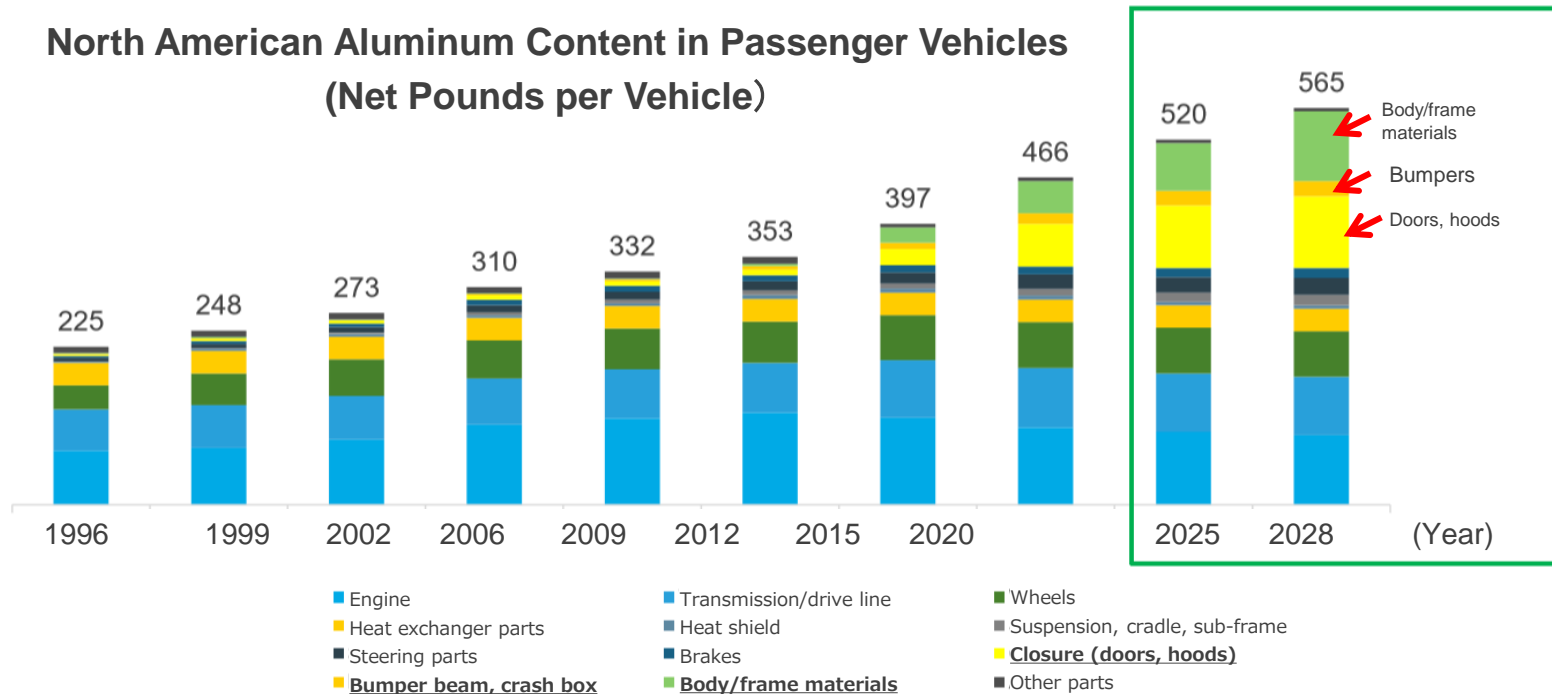
- Vehicle weight is decreasing and EV vehicles are spreading due to stricter environmental regulations



Aluminum  
Steel

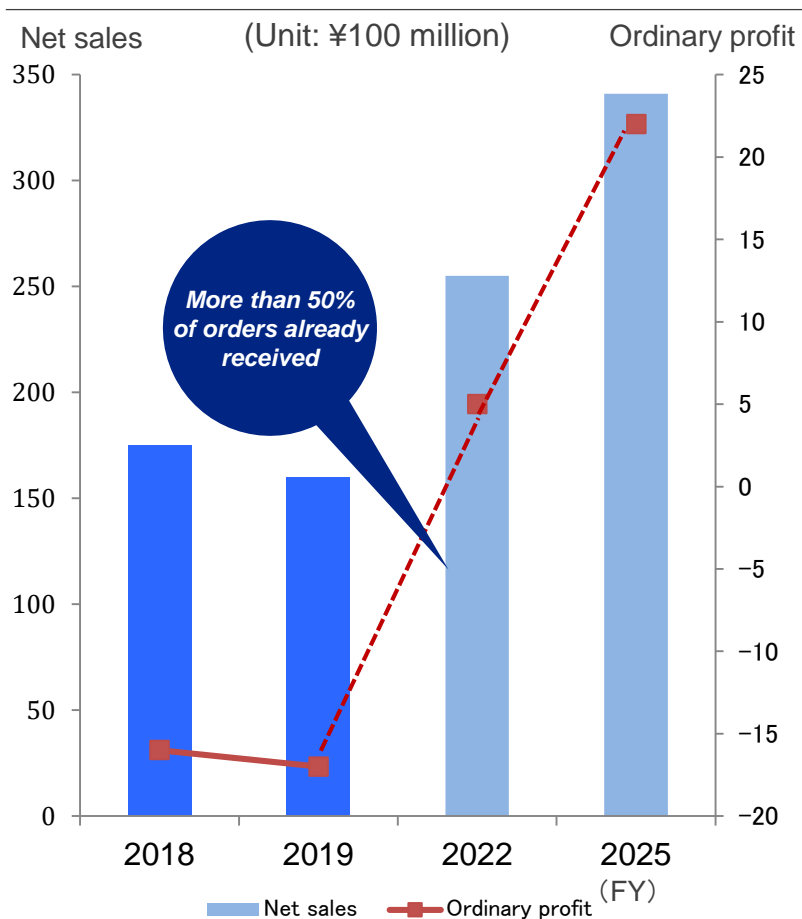


North American Aluminum Content in Passenger Vehicles  
(Net Pounds per Vehicle)



**During strong demand for aluminum automotive parts,  
maximize profits by utilizing facilities capacity**

Forecast for net sales and ordinary profit



### Recognition of Current Situation

- During a strong demand environment, frequent inquiries on solutions spanning for design to extrusion and processing
- Early implementation of investment in extrusion facilities
- Existing orders are below the expected amount



### Profit Reform Measures

- Accept orders with priority on profitability (revision acceptance criteria)
- Increase sales through new orders such as OEM from Japanese corporations

# Effect of Increased Profitability Through Profit Structure Reform and Large Investment

**Effect of Profit Reform (FY2019→FY2022)    +¥21.0 billion**

## Domestic: Profit structure reform

**+¥10.0 billion**

Aggregation of production bases

**+¥4.0 billion**

Establish optimal production system/reform parts mix  
(increase in automotive materials and increase in battery materials)

**+¥5.0 billion**

Reduce indirect expenses (reduce indirect personnel expenses, etc.)

**+¥1.0 billion**

## Overseas: Achieve profitability through large investment

**+¥11.0 billion**

UATH    Increase sales amount and reduce cost by starting operation of Phase 3 investment

**+¥7.0 billion**

TAA    Increase sales amount by completing investment for increased production, achieve price reform

**+¥2.0 billion**

UWH    Accept orders with emphasis of profitability, utilize extrusion machines to increase sales

**+¥2.0 billion**

**In addition to the above, work to improve profitability at existing business**

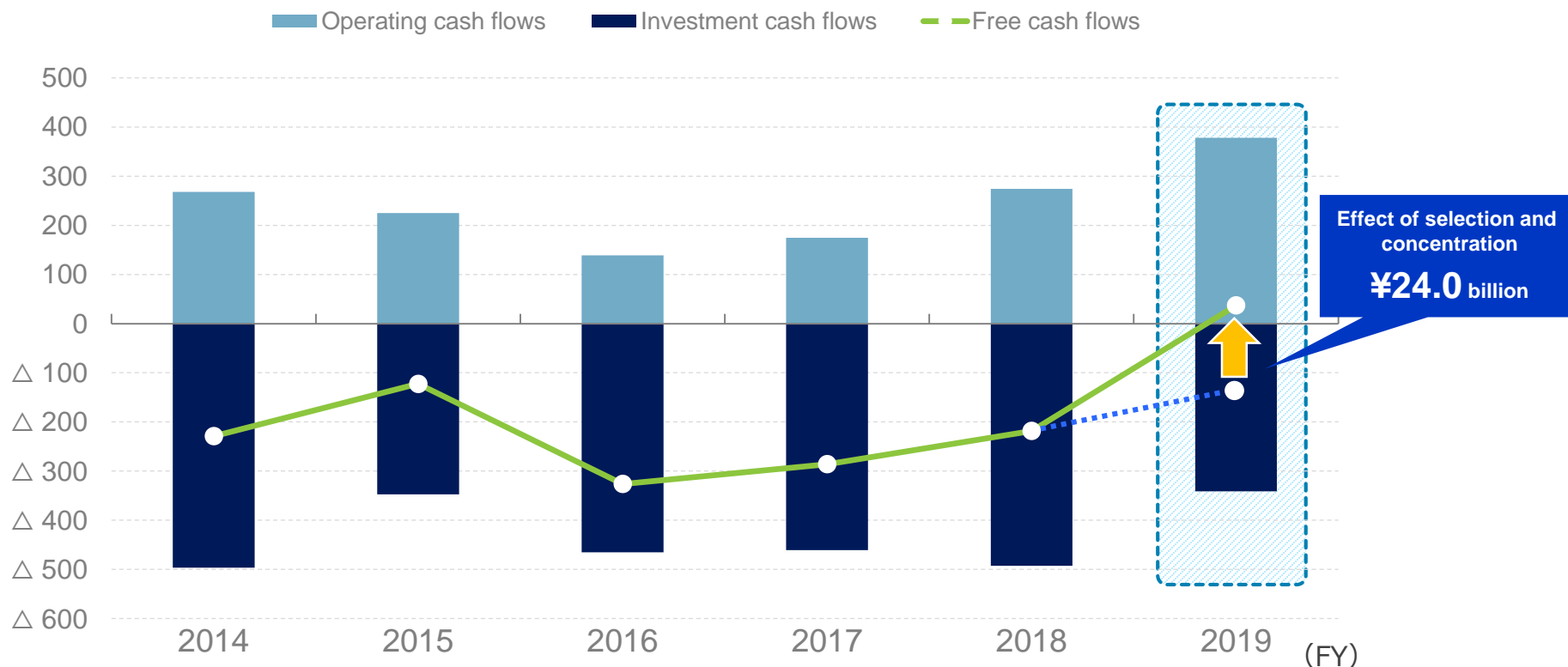
## 2. Reform of Financial Structure

# Achieve Positive Free Cash Flows

### Towards profitability of free cash flows from FY2019

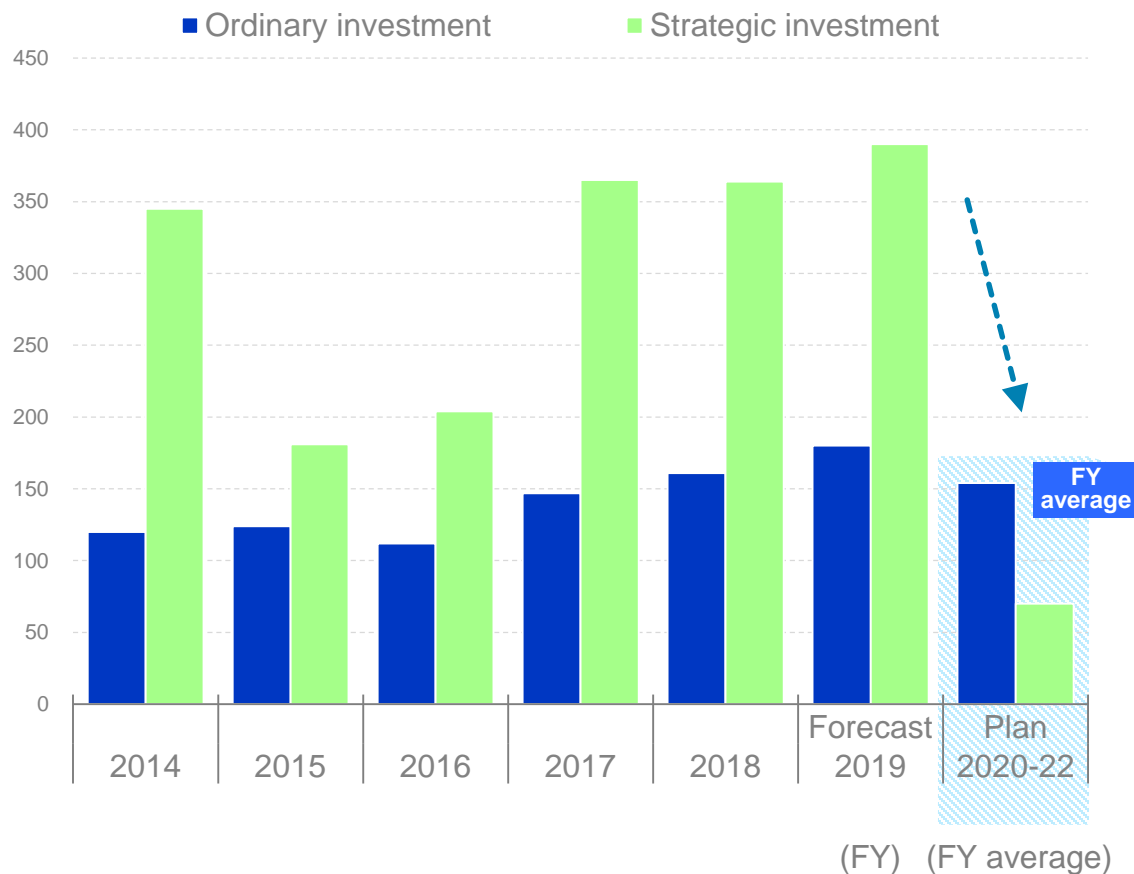
#### Consolidated Cash Flows

(Unit: ¥100 million)



## Completion of large strategic investment in FY2019

### Changes in Facility Investment (Unit: ¥100 million)



Facility Investment Forecast		
	FY2017 to FY2019 forecast	FY2020 to FY2022 forecast
Total amount	¥159.8 billion	<b>¥67.0 billion</b>
Ordinary investment	¥47.8 billion	<b>¥46.0 billion</b>
Strategic investment	¥112.0 billion	<b>¥21.0 billion</b>
Depreciation expense	¥89.8 billion	<b>¥110.0 billion</b>

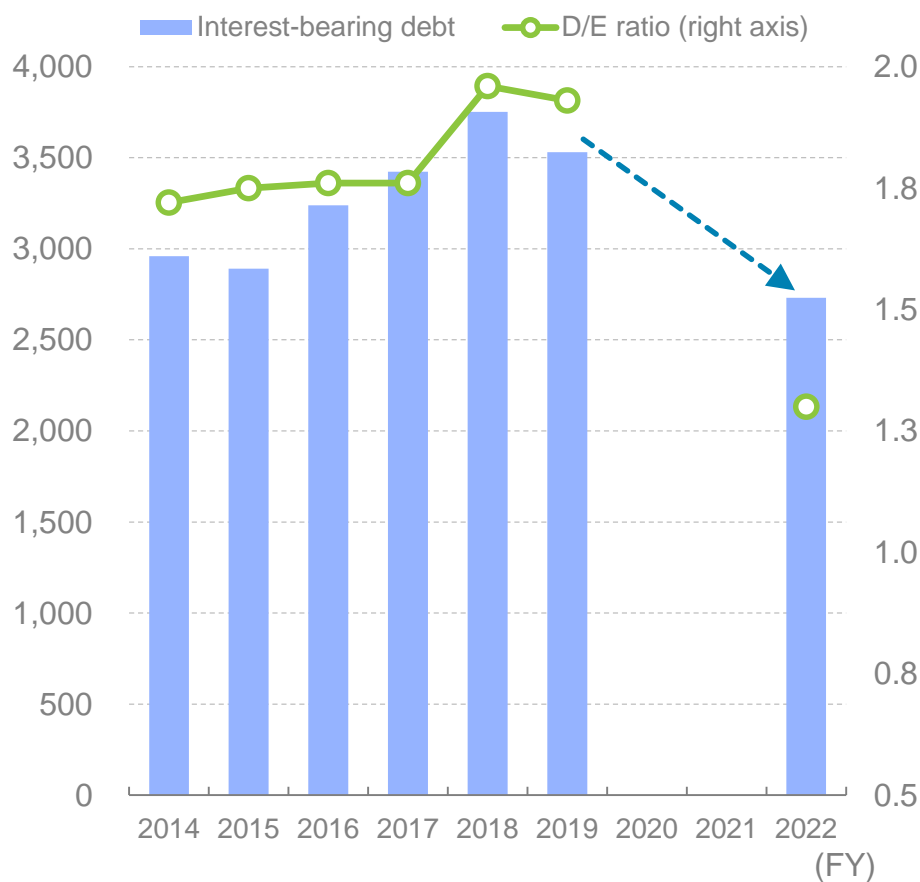
## 2. Reform of Financial Structure

# Reduction of Interest-Bearing Debt

**At least ¥80.0 billion reduction in interest-bearing debt by reducing facilities investment**

### Change in interest-bearing debt

(Unit: ¥100 million / multiplier\*)



### Breakdown of decrease in interest-bearing debt (FY2020 to FY2022)

Facilities investment	-¥67.0 billion
Depreciation expense	¥110.0 billion
Facilities investment, depreciation expense	¥43.0 billion
+	
Create profit, decrease inventory assets, etc.	at least ¥37.0



**Reduction target for interest-bearing debt**

at least **¥80.0** billion

**D/E ratio target**

**1.3**

D/E — Seek a future target of 1.0 or less

**Increase speed and quality of management by strengthening corporate governance and corporate functions**

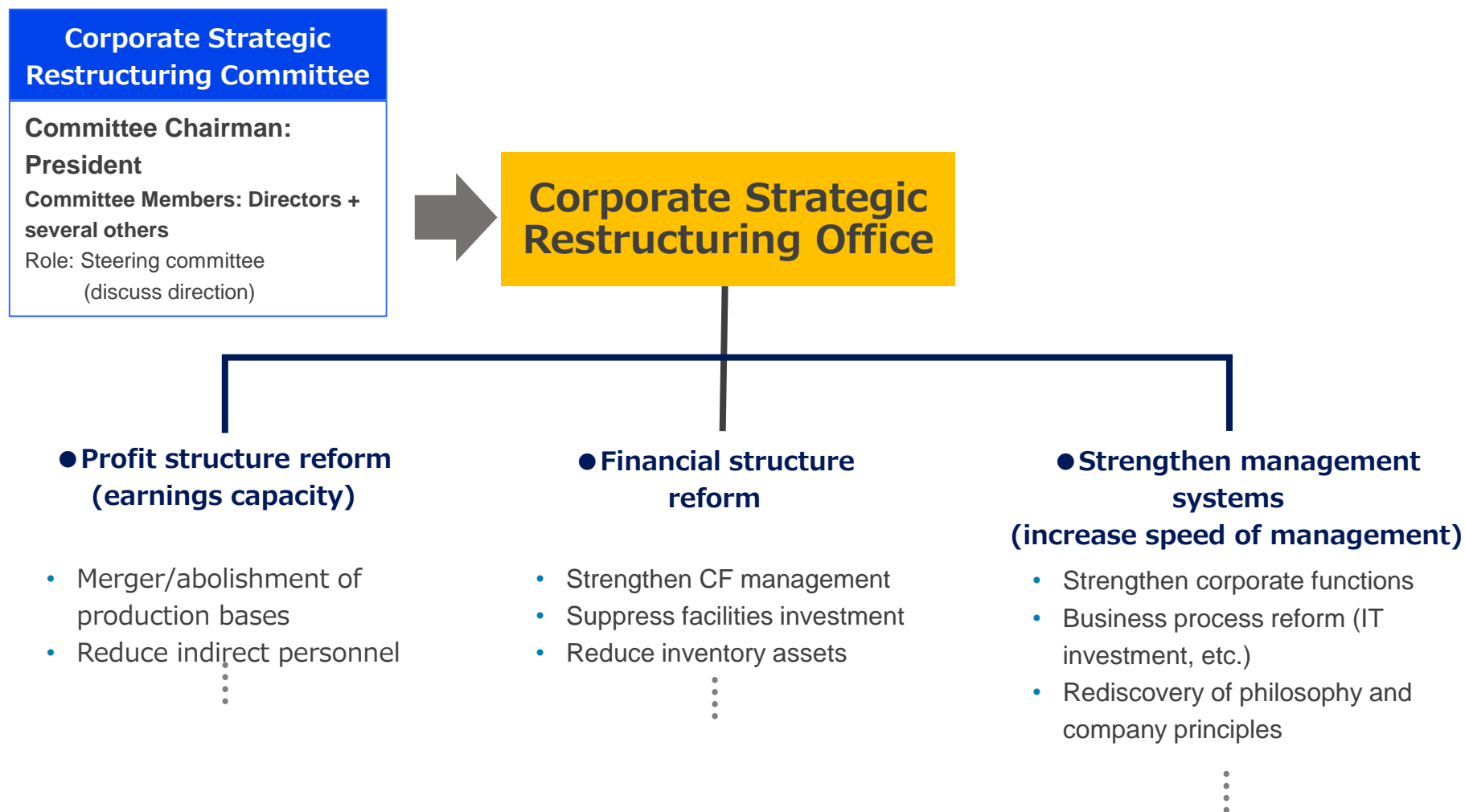
## **1 Strengthen corporate governance**

- 1. Streamline officers system, etc.**
- 2. Consider review of executive compensation system (including adoption of TSR\*)**

## **2 Strengthen corporate functions**

- 1. Increase decision-making speed through reform of organization and authority (including implementation of executive officer system)**
- 2. Strengthen functionality of risk management**
- 3. Reform business processes and visualize management information through IT investment, etc.**

**Achieve fast and reliable structural reform by establishing a Structural Reform Headquarters which is under direction jurisdiction of the president**





# Vision

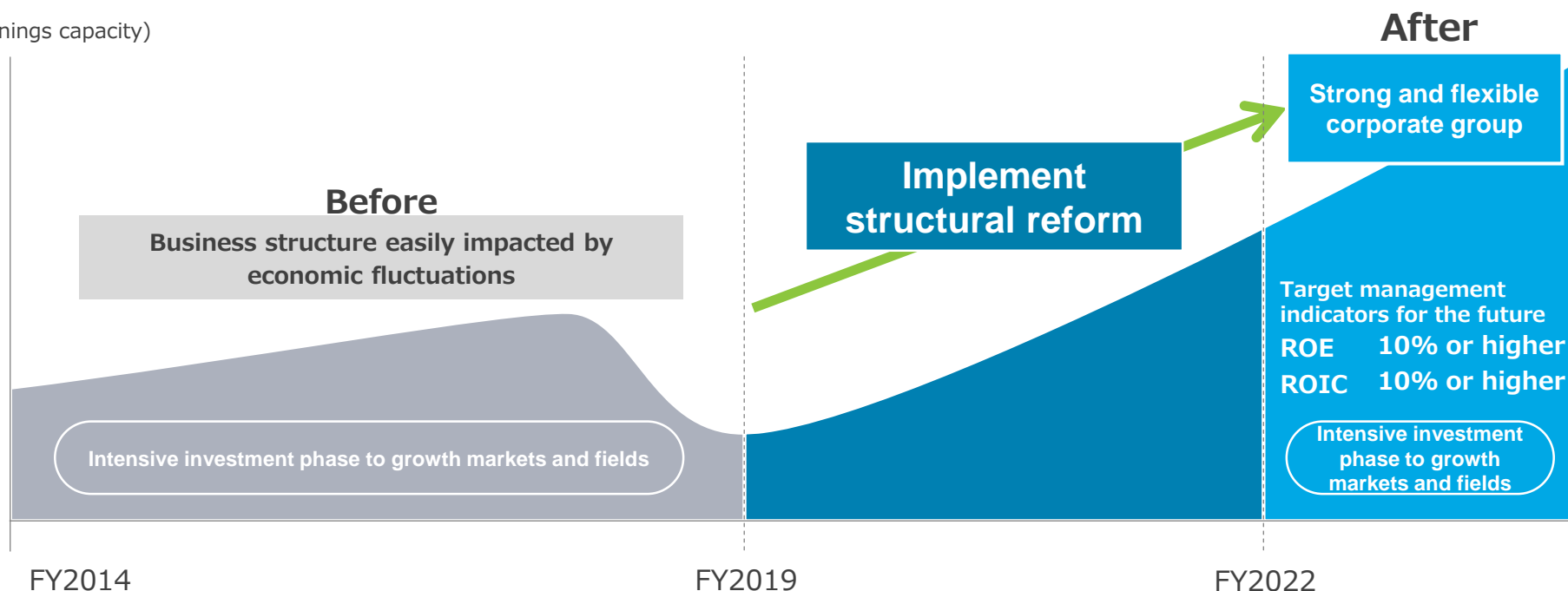
## Seeking to achieve a strong and flexible corporate group that is resistant to environmental changes

- **Can material:** Increased demand for aluminum can material in conjunction with the marine plastic issue  
Full utilization of the three-region system (Japan, North America, Thailand)
- **Automotive materials:** Increasing provided value by improving solutions through consolidation of group strength
- **Establish high profitability in other flat-rolled products, extrusion, foil, casted and forged products, precision-machined products, etc.**

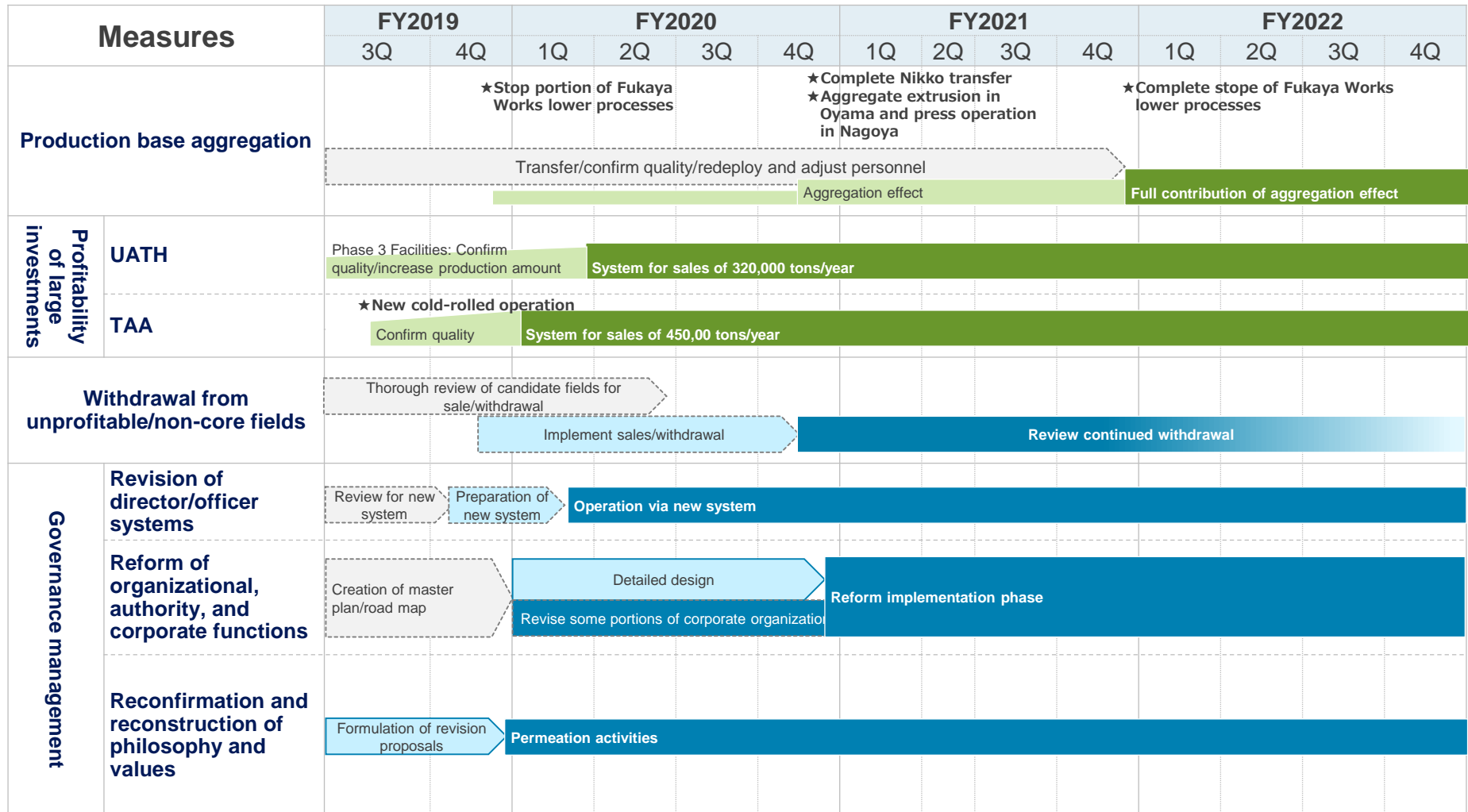
### Vision

Contribute to society and the environment by maximizing the potential of aluminum

(Earnings capacity)



## Establish a new Structural Reform Headquarters and reliably implement fast reform



★Group personnel: Approx. 13,000 as of March 31, 2019 → reduce to approx. 11,000 by FY2022 (including Wrought Copper Products Business)

## Cautions regarding forward-looking information

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

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