



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

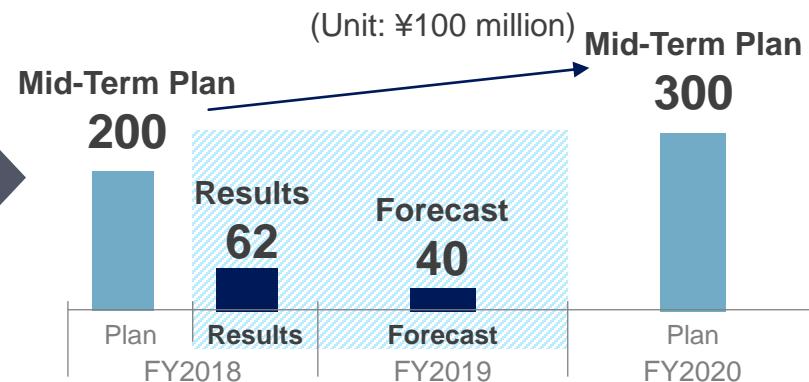


Reflecting on Past Performance

- **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

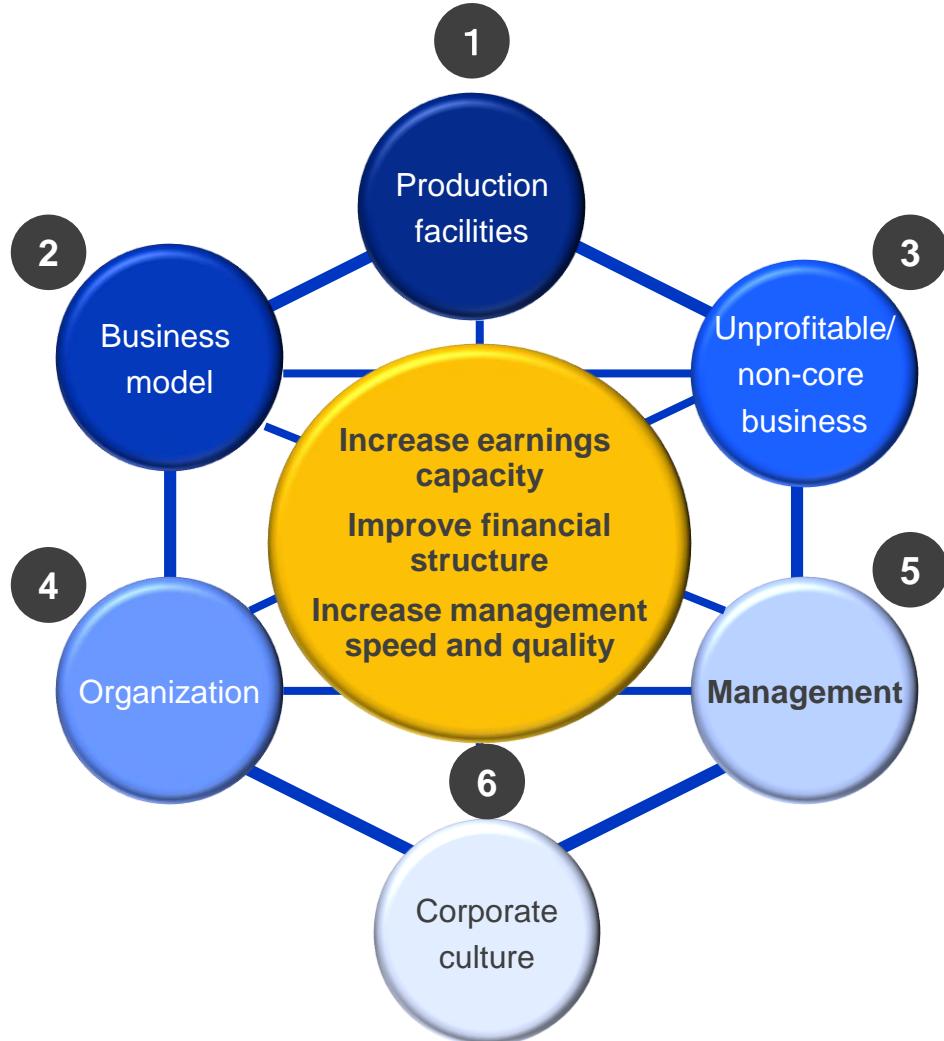
Weakening of financial structure

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

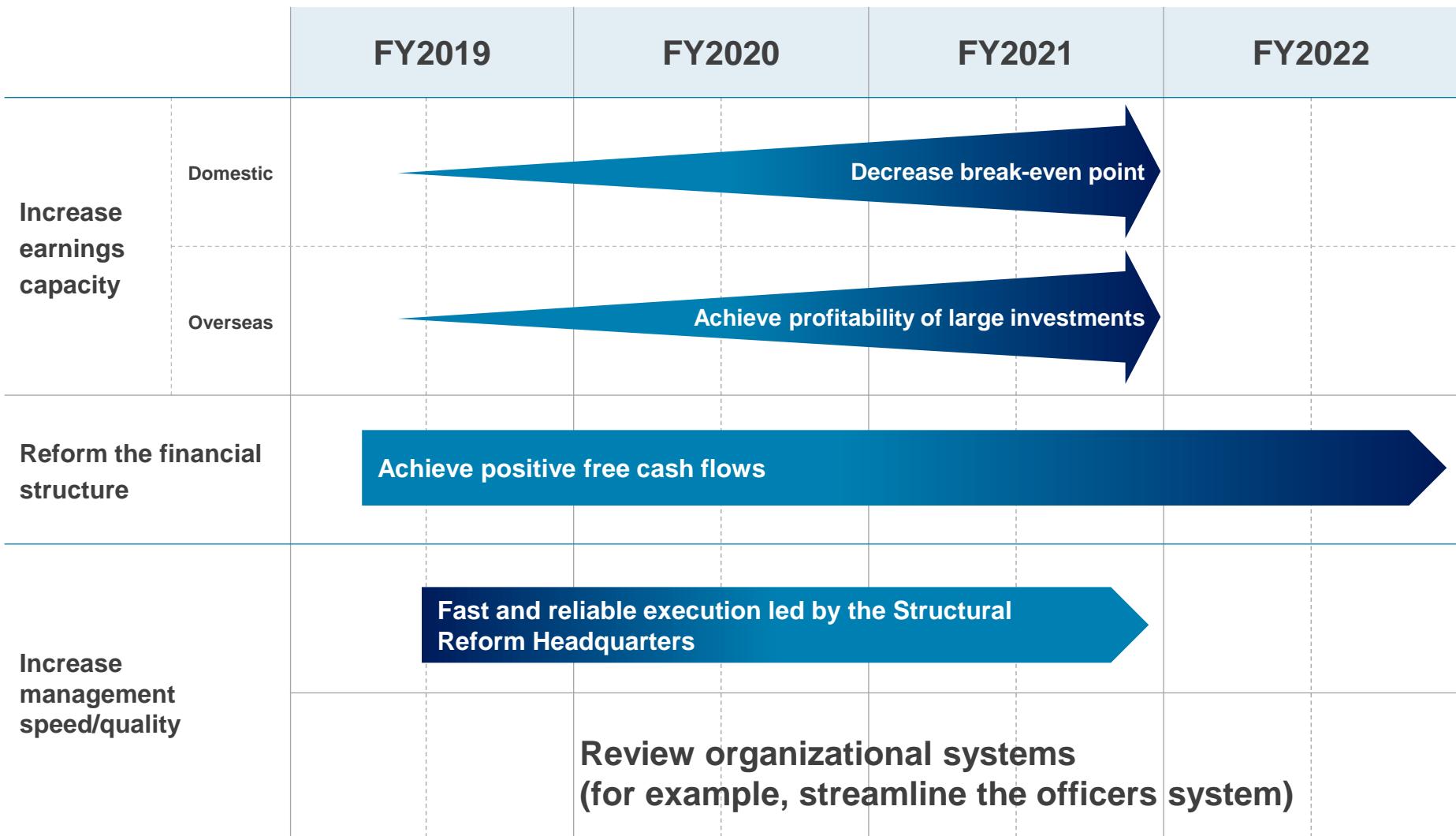
2. Reform financial structure

- 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

Recognition of Current Situation

Ideal Profit Structure

Domestic

- 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



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^{*1}
- The startup period for UATH / TAA^{*2} 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 Break-Even Point at Domestic Bases

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

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

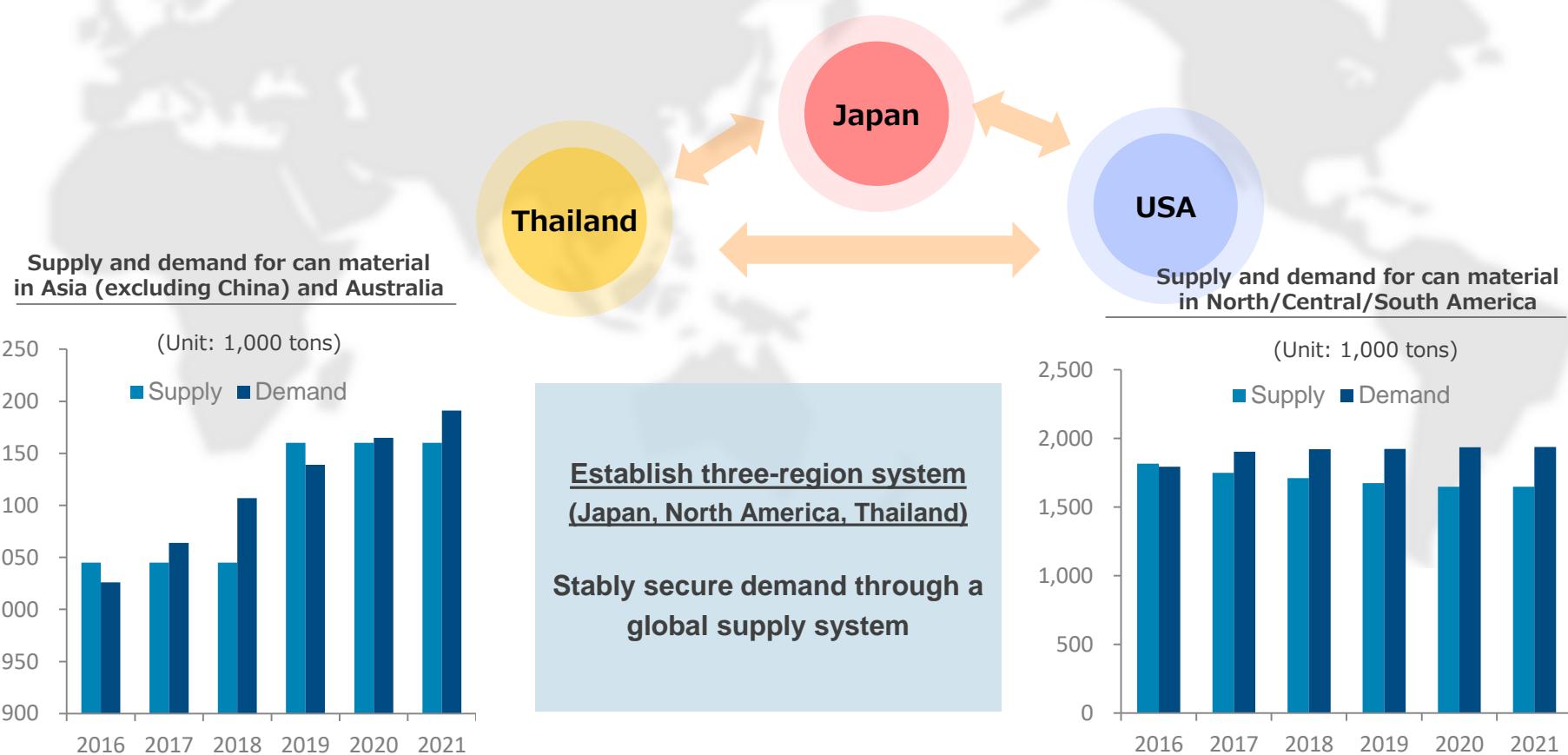
- Large investment is nearly finished.
- Transition for startup phase to increased profitability phase.

	Investment Amount	2018 and earlier	FY2019	FY2020	FY2021	FY2022
UATH (Thailand)	Phases 1 & 2: ¥59.5 billion Phase 3: ¥39.0 billion					
TAA (USA)	Casting and forging (hot): ¥26.0 billion Casting and forging (cold): ¥19.0 billion					
UWH* (USA)	Acquisition: ¥14.5 billion Extrusion machine: ¥5.9 billion					

1. Increased Earnings Capacity Can Material Business Environment

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

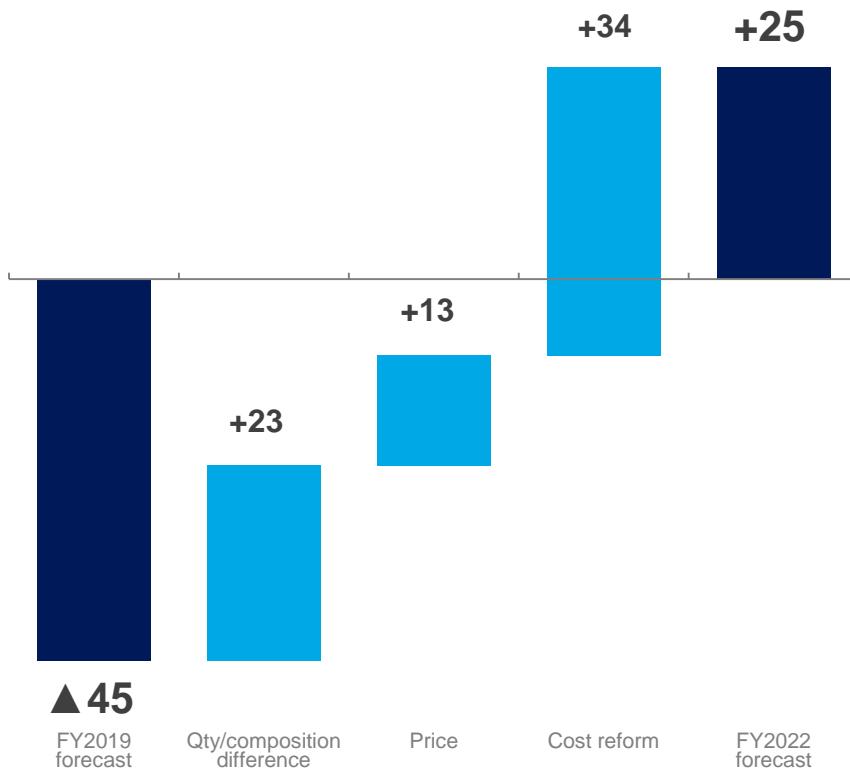
- Stable growth in can materials market in conjunction with economic expansion focused on Southeast Asia
- Tightened supply and demand in USA
- Expect return to aluminum can material in conjunction with marine plastics issue



**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*)

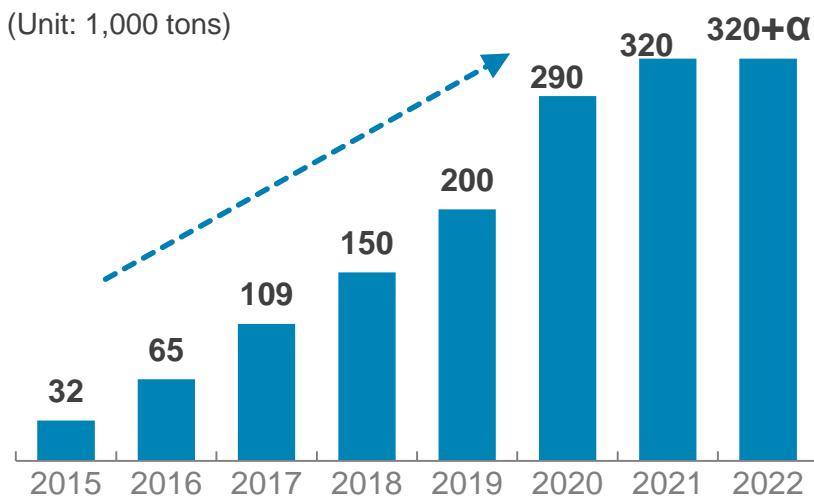


Profit Reform Measures

- 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

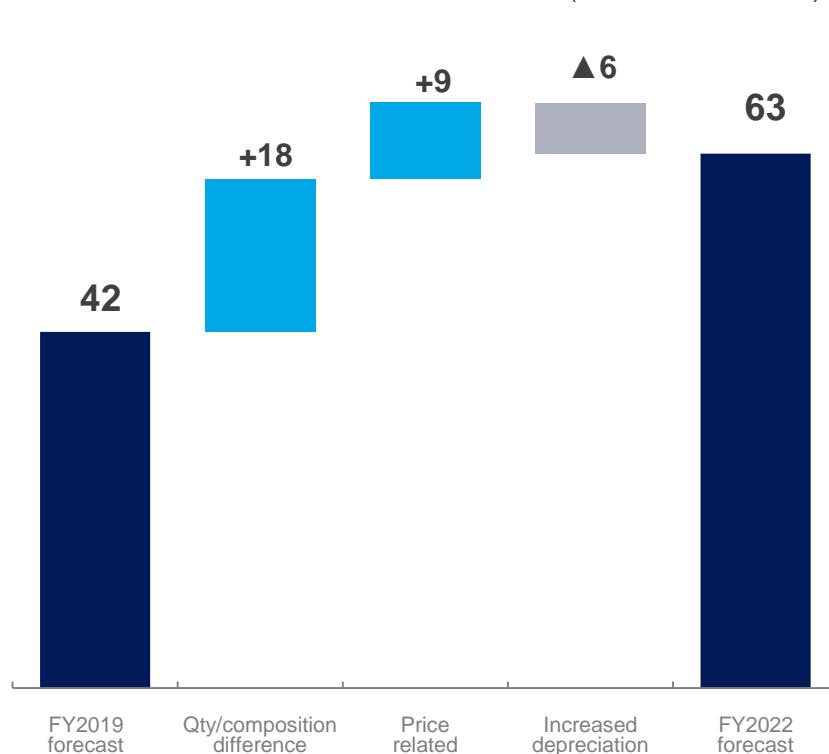
(Unit: 1,000 tons)



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*)

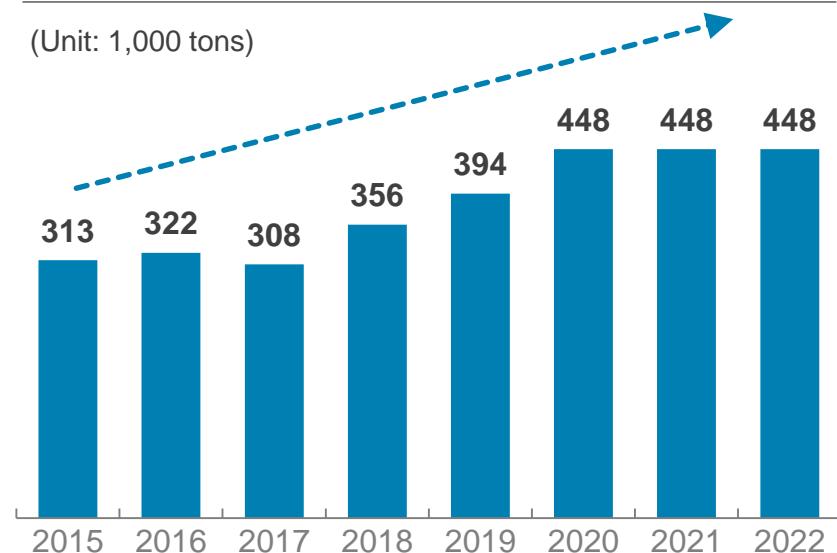


Profit Reform Measures

- 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)



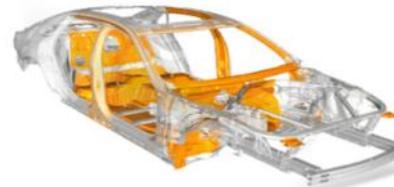
Business Environment for Aluminum Automotive Parts in North America

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

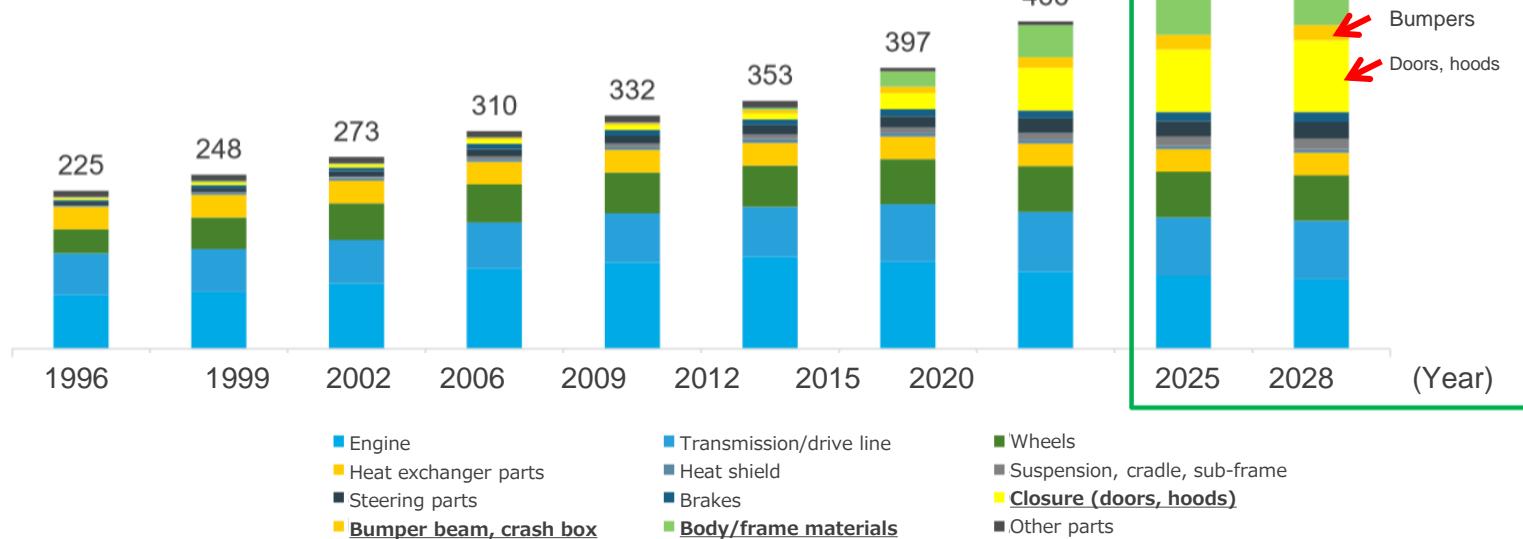
- Vehicle weight is decreasing and EV vehicles are spreading due to stricter environmental regulations



Aluminum
Steel

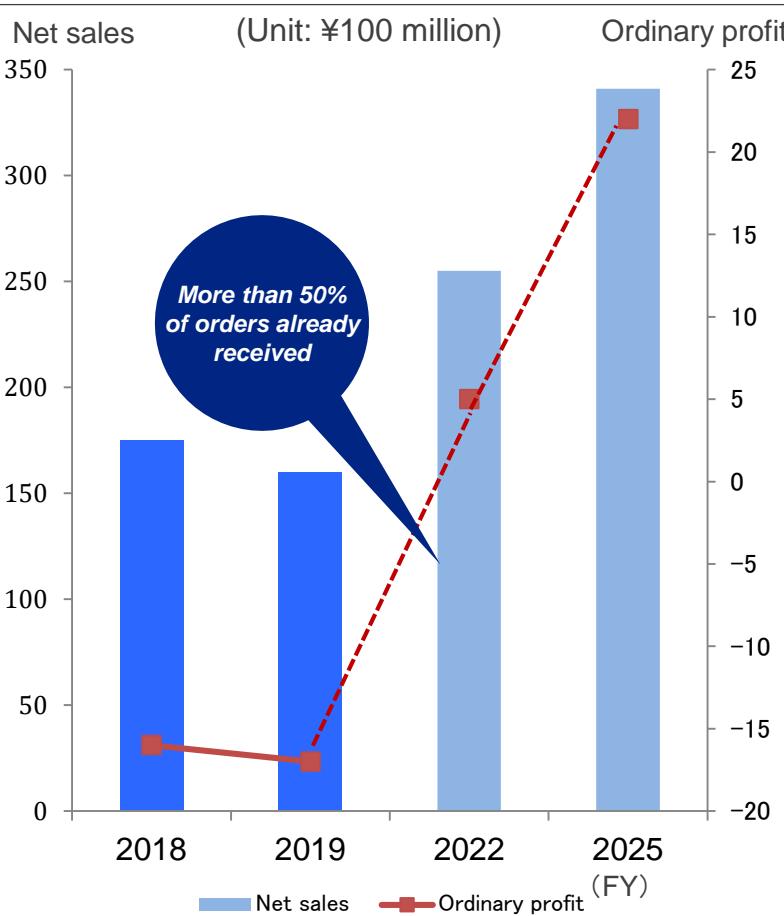


North American Aluminum Content in Passenger Vehicles
(Net Pounds per Vehicle)



**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

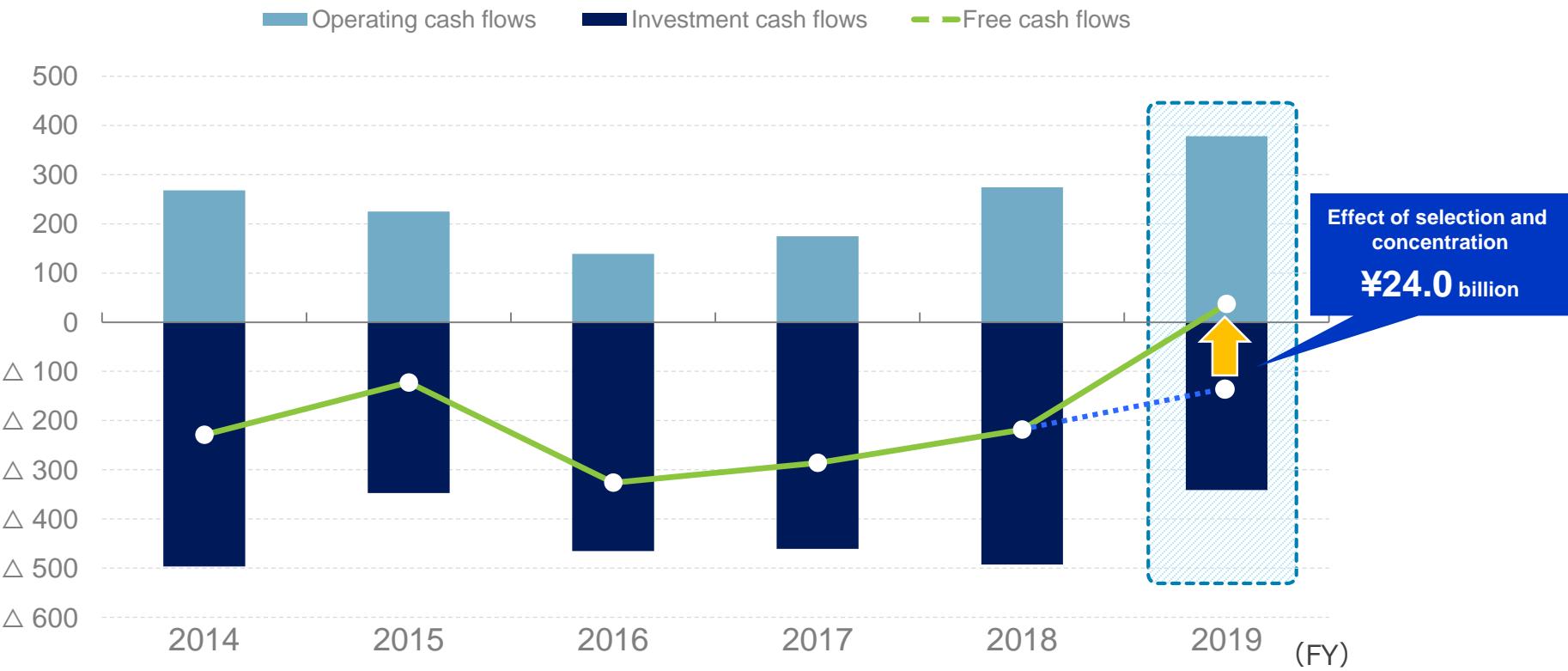
UWH Accept orders with emphasis of profitability, utilize extrusion machines to increase sales +¥2.0 billion

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

Towards profitability of free cash flows from FY2019

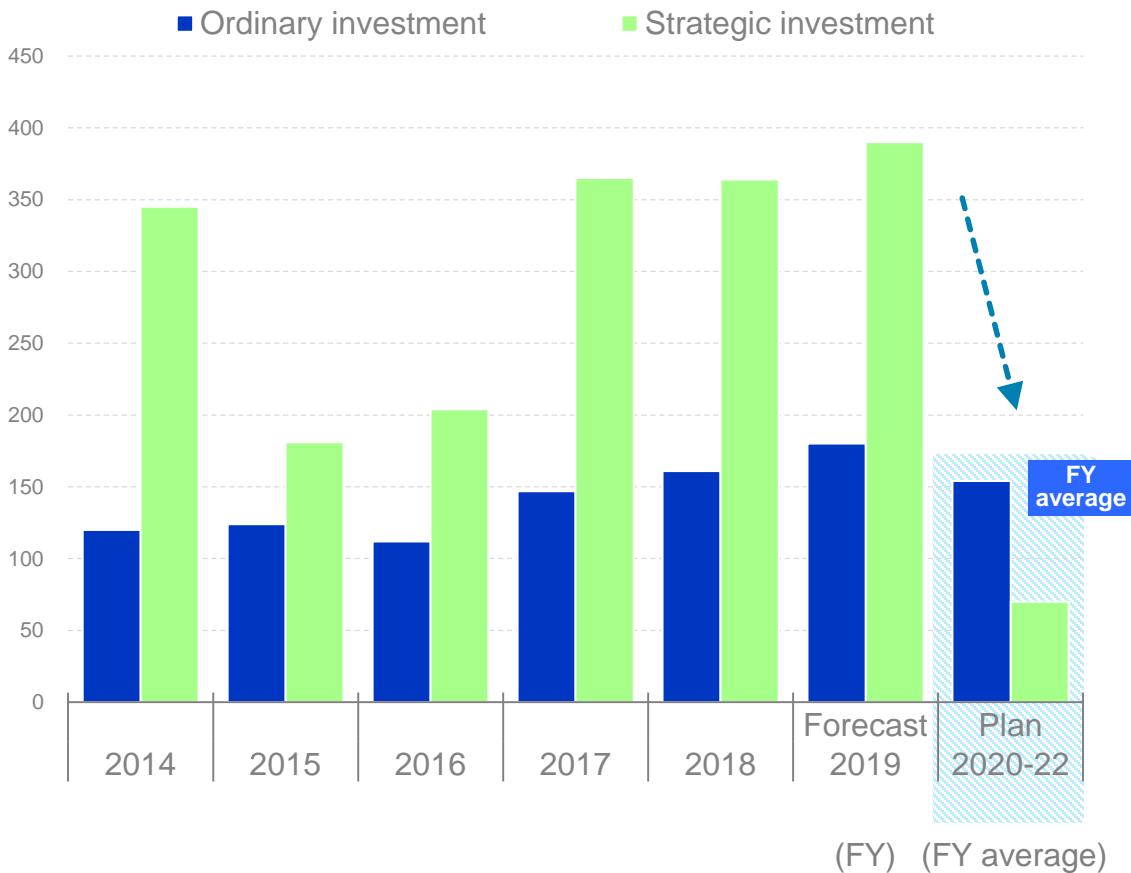
Consolidated Cash Flows

(Unit: ¥100 million)



Completion of large strategic investment in FY2019

Changes in Facility Investment (Unit: ¥100 million)



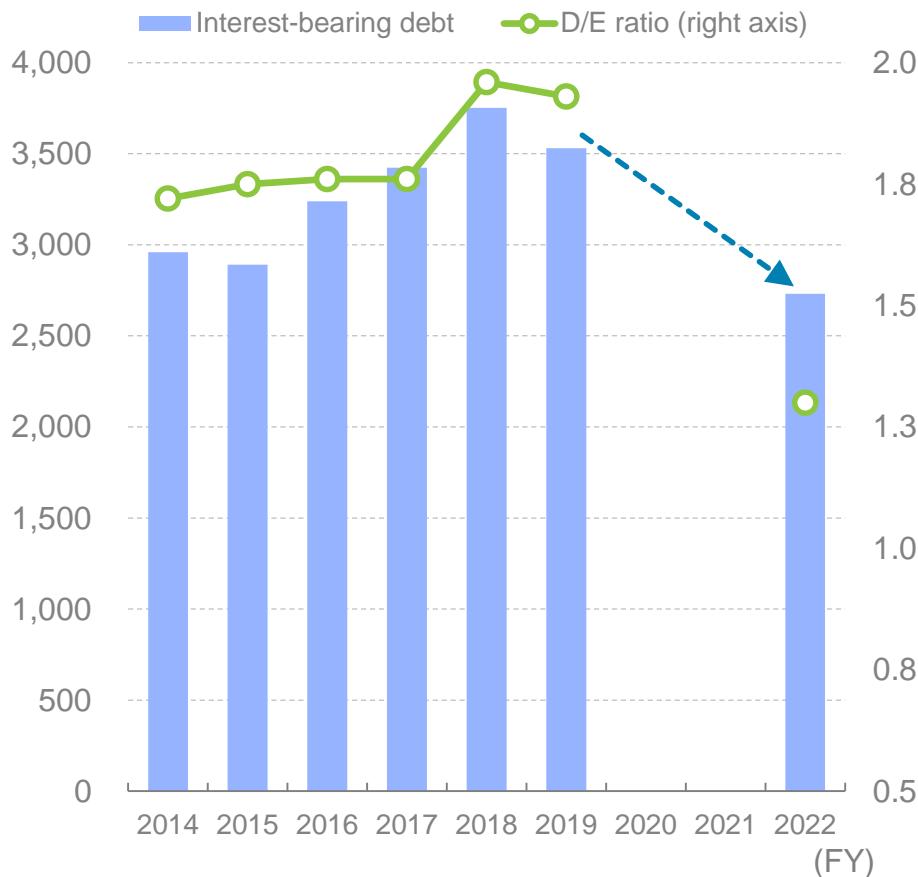
	FY2017 to FY2019 forecast	FY2020 to FY2022 forecast
Total amount	¥159.8 billion	¥67.0 billion
Ordinary investment	¥47.8 billion	¥46.0 billion
Strategic investment	¥112.0 billion	¥21.0 billion
Depreciation expense	¥89.8 billion	¥110.0 billion

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

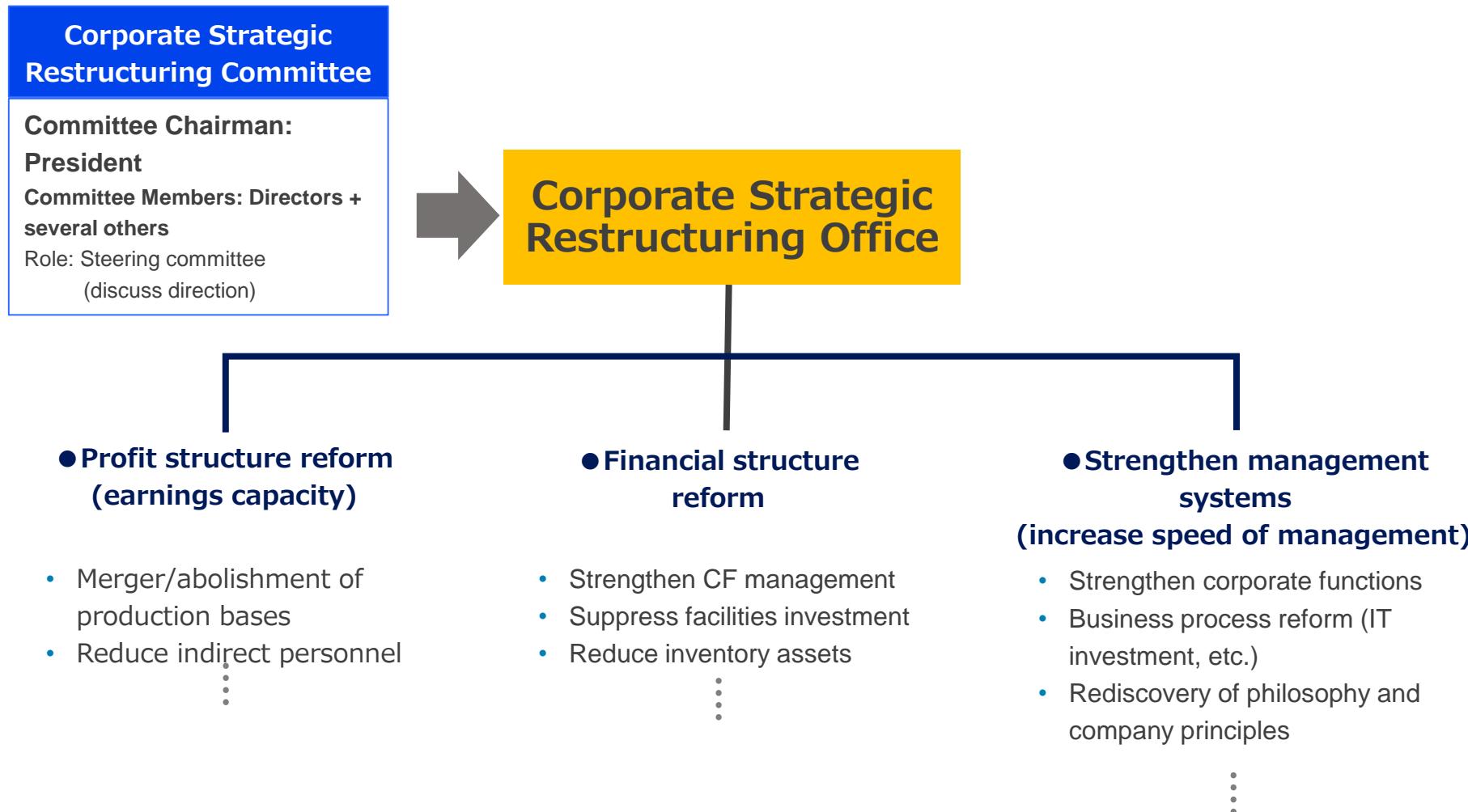
- 1. Streamline officers system, etc.**
- 2. Consider review of executive compensation system (including adoption of TSR*)**

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

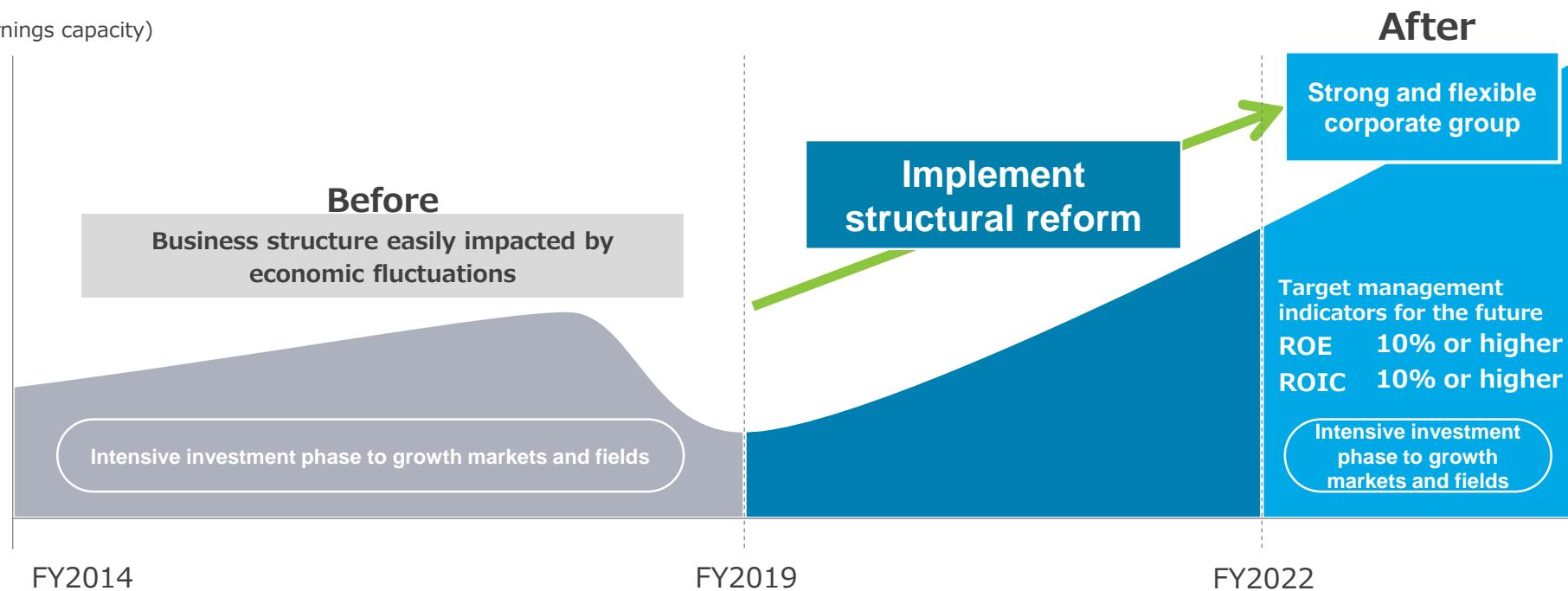
Seeking to achieve a strong and flexible corporate group that is resistant to environmental changes

- 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

Measures	FY2019		FY2020				FY2021				FY2022													
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q										
Production base aggregation			★ Stop portion of Fukaya Works lower processes				★ Complete Nikko transfer ★ Aggregate extrusion in Oyama and press operation in Nagoya				★ Complete stope of Fukaya Works lower processes													
Profitability of large investments	UATH	Phase 3 Facilities: Confirm quality/increase production amount	Transfer/confirm quality/redeploy and adjust personnel																					
	TAA	★ New cold-rolled operation	Confirm quality	System for sales of 320,000 tons/year																				
Withdrawal from unprofitable/non-core fields		Thorough review of candidate fields for sale/withdrawal	Implement sales/withdrawal		Review continued withdrawal																			
Governance management	Revision of director/officer systems	Review for new system	Preparation of new system	Operation via new system																				
	Reform of organizational, authority, and corporate functions	Creation of master plan/road map	Detailed design	Reform implementation phase																				
	Reconfirmation and reconstruction of philosophy and values	Formulation of revision proposals	Permeation activities																					

★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. These forward-looking statements contain known or unknown risks and uncertainties. Actual sales, profits, etc., may differ materially from the plans described in this document due to various factors in the future. Please note that forecasts are not promised or guaranteed. Also, this document is not intended to solicit investment.



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