

Aiming to become a genuine global player while reaping the rewards of proactive investment in growth

UACJ began implementing proactive growth strategies under its new three-year mid-term management plan from the beginning of fiscal 2018. To learn more about what investors expect of UACJ and how it is evaluated in capital markets, the Company invited Harunobu Goroh from Morgan Stanley MUFG Securities to talk with UACJ Director Takayoshi Nakano.

Boosting capital efficiency and steadily generating returns on past investments with an ongoing focus on growth markets and industries

—How would you assess the results of the previous mid-term management plan from fiscal 2015 to 2017, and what is your outlook for fiscal 2018 to 2020 under the new mid-term management plan?

Nakano: Our management plans are based on conditions in the global aluminum industry, and the future outlook is very exciting and favorable for the UACJ Group. For one thing, demand for aluminum is growing alongside the

economic development of emerging countries, especially in Southeast Asia. Moreover, aluminum is being used to make vehicles lighter in an effort to comply with stricter environmental regulations around the world, and that marks an epoch-making change in the automotive industry. To swiftly respond to these market trends, we aggressively made investments and procured the funds to do so under our previous mid-term management plan. That included a third round of investment in Rayong Works in Thailand, investment in new production lines at Tri-Arrows Aluminum in the United States, and the acquisition of a company in the U.S., which was renamed as UACJ Automotive Whitehall Industries.

Goroh: I think that concentrating investment in those

We want the execution of our new mid-term management plan to be seen as an important indicator of the Company's genuine capabilities.

Takayoshi Nakano

Representative Director, Member of the Board,
Senior Managing Executive Officer
In charge of Global Business Strategy Department and
Public and Investor Relations Department, UACJ Corporation
President and Director, Tri-Arrows Aluminum Holding Inc.



operations to capitalize on growth in the automotive industry and markets in Asia and North America was the right strategy to take, but the profit targets of the previous plan were not achieved. Although measures for expanding established operations appeared to proceed smoothly, I wonder if increased investment in new operations became a drag on UACJ's performance.


Nakano: Over the course of executing our strategies, we came up against several obstacles that had not been anticipated when the plan commenced. Firstly, the startup of new operations was delayed. Furthermore, processing fees for aluminum products were low on average in Southeast Asia, energy prices rose, and foreign exchange rates were unfavorable. So, in retrospect, although there were no problems with the strategies of the previous mid-term management plan, unfortunately we needed to improve and deal with various issues when executing those strategies.

Goroh: Am I correct to say that under those

circumstances, management not only focused on the same growth markets and the auto industry, but also established major new policies in the new mid-term management plan, namely generating returns on past investments and increasing capital efficiency, particularly in terms of return on invested capital (ROIC)?

Nakano: That's right. We believed there was no need to amend the strategies themselves, and looked to increase profitability while boosting or at least maintaining the Group's competitiveness. Nevertheless, when incorporating those strategies in specific investment and financing plans, we realized that risks and progress had to be thoroughly managed in order to ensure that the past investments would steadily generate returns.

Goroh: According to your new timeframe, most of the earmarked capital investment and related financing will be completed in fiscal 2019. Then UACJ will enter a stage of full-fledged profit growth in fiscal 2021.



Management's ability to execute
its strategies will attract
the most attention in capital markets,
where expectations for
UACJ are high.

Harunobu Goroh

Managing director
Morgan Stanley MUFG Securities Co., Ltd.
(As of June 2018)

Engaging with Investors

Nakano: Yes, and we are also preparing for considerable business growth over those three years. In addition, our policy is to take steps toward increasing capital efficiency across the entire UACJ Group, placing importance on ROIC as an indicator of sound financial management.

Goroh: Securing positive free cash flow by fiscal 2020 and a ROIC ratio of at least 8% by fiscal 2022 are goals of the new management plan, but to accomplish them, obviously it will be very important to strategically target and focus on key businesses while strictly managing the business portfolio.

Nakano: That's right. If the Company does not attain a high enough level of ROIC, we may have to restructure certain businesses, including those that are profitable. On the other hand, it may also be necessary to accelerate investment in greater production capacity to promptly and accurately respond to changes in the market.

Goroh: If that happens, at some point in the future you may have to decide whether priority should be given to financial discipline or to capital investment.

Nakano: Yes, and in that regard, we want the execution of our current management plan to be viewed by capital markets as an important indicator of the Company's genuine capabilities.

Increasing opportunities for direct dialogue with all kinds of investors and gaining their trust in management strategies and business

—What is your opinion of UACJ's corporate governance and how would you rate it overall?

Goroh: While many companies around the world have



been stepping up efforts to strengthen their corporate governance during the past few years, such initiatives appear to be lagging somewhat in the metal industry. In that context, I understand that UACJ has been improving its governance systems every year, such as by increasing the number of outside directors. In addition to strengthening those systems, I think it will be important in the future to verify whether corporate governance is functioning as expected and to take steps to improve its efficacy.

Nakano: In capital markets, corporate governance initiatives have recently emerged as important criteria for choosing which companies to invest in, as we have seen with environmental, social and governance investing. Therefore, if UACJ is to compete as a genuine global player in the future, it must raise its corporate governance to a respectable global level.

Goroh: Active dialogue with investors is indispensable for raising the level of corporate governance. Indeed, it is vital for companies to identify exactly what investors and capital markets expect and are concerned about, and to directly interact with them to bring any issues out in the open.

Nakano: We increased the number of briefing presentations for individual investors this year, and plan to increase the number of meetings with institutional investors, including one-on-one meetings. We are also preparing to create opportunities for investors to tour the Group's factories.

Goroh: Touring factories and seeing products firsthand is the best way to understand operations in the manufacturing sector. At a factory, you can clearly explain things like the benefits of installing new equipment and how your technologies are superior to other companies. That can make investors really trust and believe that your strategies are actually making progress.

Upgrading production facilities and diversifying the product mix with the aim to become an aluminum solution provider

—Finally, we would like to hear your opinion regarding the future direction that UACJ intends to take?

Goroh: In order to realize the new mid-term management plan's future vision, first of all, the major policies of the plan must be executed. To achieve the profit targets, in particular, it will be necessary to increase earnings capacity.

What initiatives are you considering to accomplish that?

Nakano: Our plan is to technically upgrade production lines and take steps to raise productivity and quality. By making effective use of the latest technologies, such as artificial intelligence and the internet of things, we should be able to practically eliminate human error in factories, and mass-produce a wider variety of products with unprecedented levels of quality.

Goroh: In manufacturing industries, investment in plant and equipment is an obvious response to growing demand. What investors are really concerned about, however, is whether such investment will just increase production capacity or actually contribute to higher profitability by making production more efficient and advanced. If UACJ makes it a policy of proactively pursuing the latter kind of investment, it will send a strong message to capital markets going forward.

Nakano: In the future, we envision UACJ as a solution provider rather than just a manufacturer that sells materials. With our aluminum materials, we want to offer functions that help customers solve the challenges they face.

Goroh: Offering not only materials but also functions is a very intriguing vision for your business, and a lot of investors will be receptive to that approach if you can effectively promote it. What measures do you plan to take to accomplish that objective?

Nakano: We have set up a dedicated team to study manufacturing innovations and strategies of solution providers with a view to creating a concrete action plan in the future. It will be essential, of course, to enhance and expand our research and development organizations. At present, we are working to speed up the pace of R&D and expand it in other regions of the world. For example, we have sent an R&D team from Japan to the United States, and are involved in collaborative projects with a university in Thailand.

Goroh: To realize such a vision over the next five to ten years, you will have to closely monitor the progress of your priority measures and find an optimum balance between executing strategies and achieving profit targets. If something goes wrong, however, will management be able to deal with it effectively? In the market, investors expect companies to be able to respond to such challenges and carry out plans successfully. They closely watch the business strategies of various companies with those concerns.

Nakano: The global aluminum market is constantly changing. Therefore, we must quickly detect emerging



trends and be flexible about the steps we take to achieve our targets, even if the strategy, itself, does not need to be modified. In other words, it is essential to prepare a "Plan B."

Goroh: I would also add that the market has high expectations for UACJ in terms of its technological capabilities. Competition is heating up in growing markets, such as the market for automotive body sheet, so UACJ will have to continue being at the forefront of technology in the future if it is to fully capitalize on market growth.

Nakano: The Company must have a large enough scale of operations to maintain its competitive edge. At the time when UACJ was established through a merger in October 2013, it was large enough to compete on the world stage. What position we can secure on that stage going forward, however, will depend on how effectively we execute our technical development and other important strategies.

Goroh: Your ability to execute those strategies will attract the most attention in capital markets, where the expectations for UACJ are high. I wish you the best of luck in meeting those expectations and achieving the plan's targets.