



Become an integrated company that combines
trading and manufacturing capabilities

ALCONIX CORPORATION

Listed on TSE First Section

Code 3036

Financial Results Materials
The Third Quarter of the Fiscal Year
Ending March 31, 2019

February 2019

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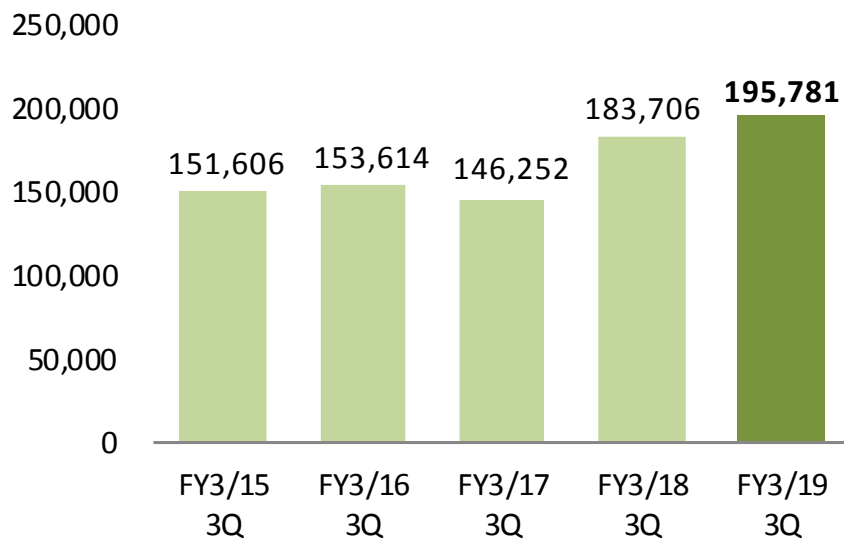
Results Materials


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Results highlights (3Q FY3/19) Consolidated sales

Consolidated Sales

(Unit: million yen)



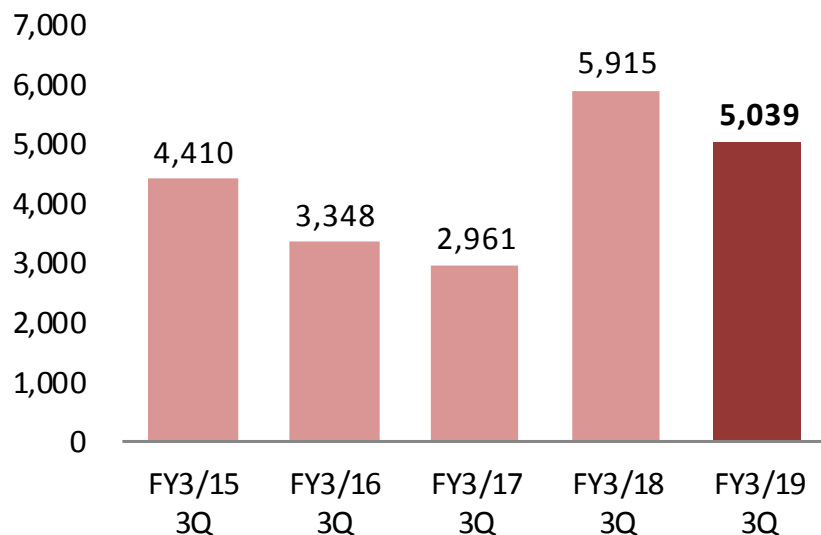
Up **6.6%** YoY 

The Manufacturing segment and electronic and advanced materials were the primary sources of sales growth

Results highlights (3Q FY3/19) Consolidated ordinary profit

Consolidated Ordinary Profit

(Unit: million yen)



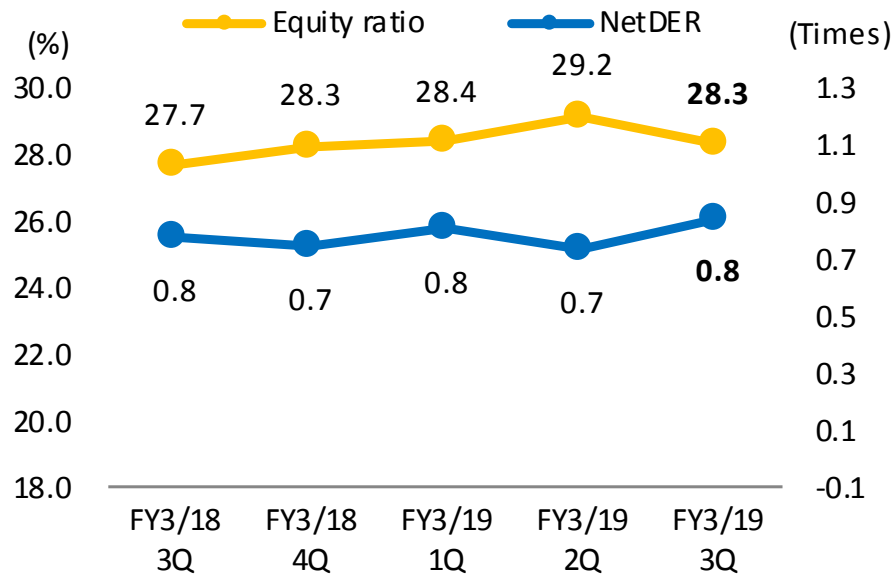
Down **14.8%** YoY



Affected by M&A expenses for purchasing manufacturing subsidiaries and an allowance for doubtful accounts for minor metals transactions

Results highlights (3Q FY3/19) Major consolidated financial indicators

Major Consolidated Financial Indicators



Equity Ratio

(vs. March 31, 2018)

± 0 percentage points

Assets and liabilities of Tohoku Chemical Industries were included in the consolidated balance sheets following the acquisition. They were offset by an increase in retained earnings.

Net debt equity ratio (NetDER)

0.8 times

NetDER remained below 1.0

M&A

● Acquisition of the Tohoku Chemical Industries stock (December 2018)

Tohoku Chemical Industries is a raw material manufacturer of mainly friction control materials, radio wave absorbing materials and functional ink. ALCONIX acquired all of the stock of Tohoku Chemical Industries to make this company a consolidated subsidiary. Cashew Particles, the company's primary product for friction control materials, boasts a high market share in Japan. Backed by its exclusive know-how and skill in the development of new technologies, Tohoku Chemical Industries provides almost all brake friction manufactures in Japan with high-performance friction control materials. Consolidating Tohoku Chemical Industries gives ALCONIX a position in the market for brake products. Additionally, this company will be able to go in new directions by using the overseas network of ALCONIX. This acquisition raised ALCONIX's M&A transactions to 16 cases, being the 7th in the manufacturing sector.

Company Overview

- Business: Manufacturing of friction control materials, radio wave absorbing materials and functional ink
- Establishment: October 1961
- Head office: Nasukarasuyama, Tochigi
- Capital: 125 million yen
- Fiscal year end: March
- Locations: Head office and plant (Tochigi), Overseas sites (Vietnam)



Head office and plant



Cashew Particles



Cashew liquid products

Business Performance: 3Q FY3/19 Financial Results

- Electronic and advanced materials in the Trading segment and the Manufacturing segment continued to make contribution to sales growth as demand for these products was steady in the automobile and semiconductor industries.
- Higher sales contributed to higher gross profit. However, operating profit, ordinary profit and profit attributable to owners of parent decreased due to M&A related expenses and an addition to the allowance for doubtful accounts in association with overdue receivables involving minor metals transactions.

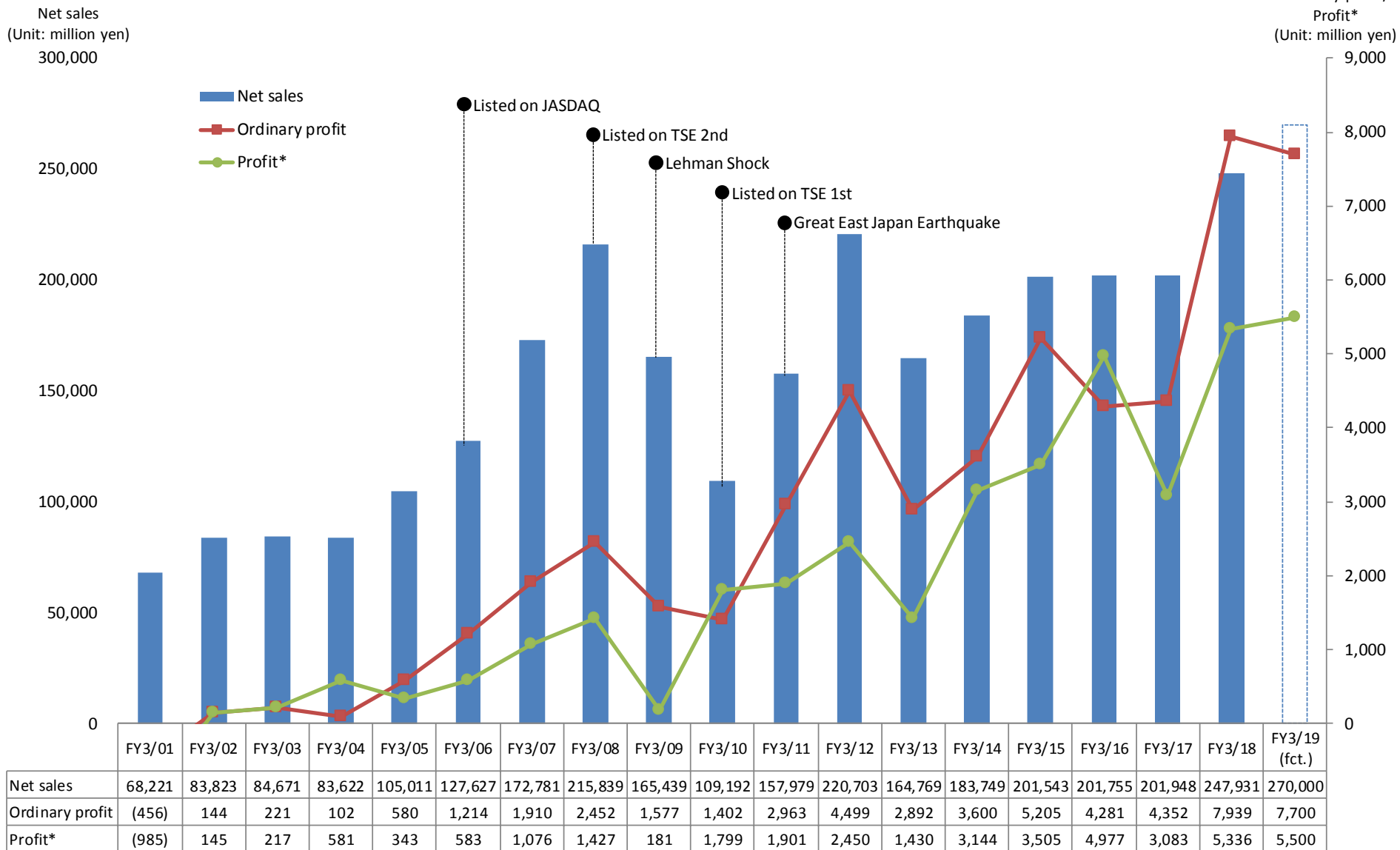
(Unit: million yen)

	FY3/18 3Q	FY3/19 3Q		
			% to sales	Change
Net sales	183,706	195,781		6.6%
Gross profit	14,025	14,750	7.5%	5.2%
SG&A expenses	8,542	9,804	5.0%	14.8%
Operating profit	5,482	4,946	2.5%	-9.8%
Ordinary profit	5,915	5,039	2.6%	-14.8%
Profit attributable to owners of parent	4,250	3,612	1.8%	-15.0%
Comprehensive income	4,655	2,285	—	—
				(Unit: yen)
Net income per share	164.54	139.61	—	—

Trading segment electronic and advanced materials and manufacturing subsidiaries in Japan and overseas were the primary sources of sales growth
[Increase] Non-ferrous materials (recycled aluminum ingots) Battery materials (for smartphones, automotive applications, etc.), nickel Plating materials Grinding processing parts (for chip mounters) Machining processing parts (aircraft parts, semiconductor manufacturing equipment)
[Decrease] Materials used in smartphones and tablets (lower production) Aluminum rolled products, copper scrap
Earnings decreased due to an addition to the allowance for doubtful accounts in association with overdue receivables involving minor metals transactions
[Gross profit] Higher sales at manufacturing subsidiaries and in the electronic materials sector of the Trading segment contributed to higher gross profit.
[Operating profit, ordinary profit and profit attributable to owners of parent] Earnings decreased due to expenses associated with purchasing the stock of two manufacturing subsidiaries and an addition to the allowance for doubtful accounts in association with overdue

Performance trend (consolidated income statements)

Financial results



* Profit attributable to owners of parent

Trading segment: Higher sales and lower earnings / Manufacturing segment: Higher sales and lower earnings

Trading—Electronic and Advanced Materials

Demand for electronic materials used in smartphones and tablets was generally steady, although there were inventory reductions for some materials. There was an increase in the transaction volume of minor metals and rare earths mainly for electronic materials. Earnings significantly declined because of an addition to the allowance for doubtful accounts in association with overdue receivables involving minor metals transactions.

Trading—Aluminum and Copper Products

Demand for non-ferrous materials such as aluminum and copper products was firm particularly in the automobile sector, but the transaction volume was affected by the prolonged U.S.-China trade friction and the economic slowdown in China. In the non-ferrous resources sector, earnings declined due to a lower transaction volume for copper scrap, the primary material, and other materials because non-ferrous metal prices started falling in July, despite a solid transaction volume for aluminum resources.

Manufacturing—Equipment and Materials

Shipments of plating materials continued to increase both in North America and China. Shipments and orders for welding and other materials in Japan's automobile industry were as steady as one year earlier. In the non-destructive testing and marking system sectors, there were large shipments of consumables to major customers in Japan and other countries but earnings declined because shipments of large equipment were pushed back to the following period. In addition, M&A related expenses were recorded.

Manufacturing—Metal Processing

Strong shipments of chip mounter parts raised sales but earnings decreased slightly because of an increase in the cost of manufacturing, such as higher depreciation expenses due to new capital expenditure. Orders for machining processing parts were strong for parts used in aircraft and semiconductor manufacturing equipment. There was also growth in shipments of precision stamped parts as demand increased in Japan's automobile industry.

(Unit: million yen)

		3Q FY3/18		3Q FY3/19				
			Comp.		Comp.	Change (amount)	Change (%)	
Net Sales	Trading	Electronic and advanced materials	53,538	29.1%	63,660	32.5%	10,122	18.9%
		Aluminum and copper products	100,982	55.0%	100,669	51.4%	-312	-0.3%
		Trading total	154,520	84.1%	164,330	83.9%	9,809	6.3%
	Manufacturing	Equipment and materials	14,251	7.8%	15,699	8.0%	1,447	10.2%
		Metal processing	14,933	8.1%	15,751	8.1%	817	5.5%
		Manufacturing total	29,185	15.9%	31,450	16.1%	2,264	7.8%
Total		183,706		195,781		12,074	6.6%	
Segment Profit	Trading	Electronic and advanced materials	1,181	20.0%	634	12.6%	-546	-46.3%
		Aluminum and copper products	896	15.2%	883	17.5%	-12	-1.4%
		Trading total	2,078	35.1%	1,518	30.1%	-559	-26.9%
	Manufacturing	Equipment and materials	635	10.7%	515	10.2%	-120	-18.9%
		Metal processing	3,203	54.2%	3,040	60.4%	-162	-5.1%
		Manufacturing total	3,838	64.9%	3,555	70.6%	-282	-7.4%
Total		5,915		5,039		-875	-14.8%	

Note 1. Segment profits are based on ordinary profit.

Note 2. Elimination or corporate for segment profit:

3Q FY3/19 : -35
3Q FY3/18 : -1

(Unit: million yen)

	3Q FY3/19	YoY change (Amount)	YoY change (Ratio)	Segment weighting
Net sales	63,660	10,122	18.9%	32.5%
Segment profit	634	-546	-46.3%	12.6%
Segment profit to net sales	1.0%	-1.2%		

Sales of major products (YoY change)

Materials used in electronic components for smartphones: Decrease

Battery materials (for automotive applications and smartphones): Increase

Titanium and nickel products: Decrease

Nickel ingot (for plating and melting): Increase

Minor metals (nickel, tungsten, etc.): Increase

Rare earths (used in magnetic materials): Increase

[Electronic materials and advanced materials]

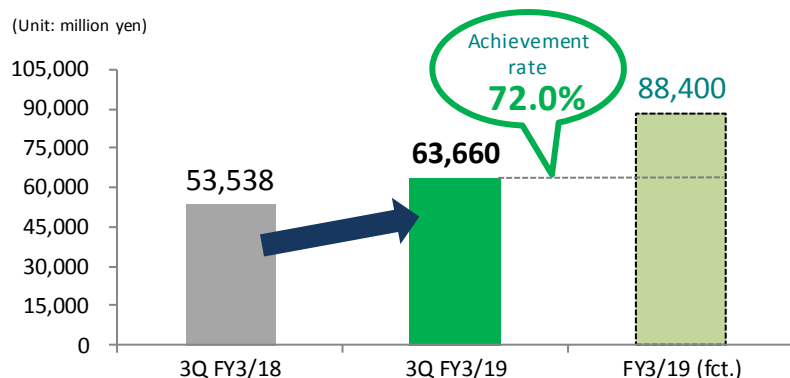
- The transaction volume of **materials used in smartphones and tablets** was generally firm while there were some inventory adjustments for some materials.
- Demand for **secondary battery materials** was steady.

[Minor metals and rare earths]

- The transaction volume of **plating nickel, tungsten and other minor metals** increased as demand for electronic materials grew and prices of these materials rose. **Rare earths used in magnetic materials** also contributed to sales growth.
- Earnings decreased due to an addition to the allowance for doubtful accounts in association with **overdue receivables in minor metals transactions**.

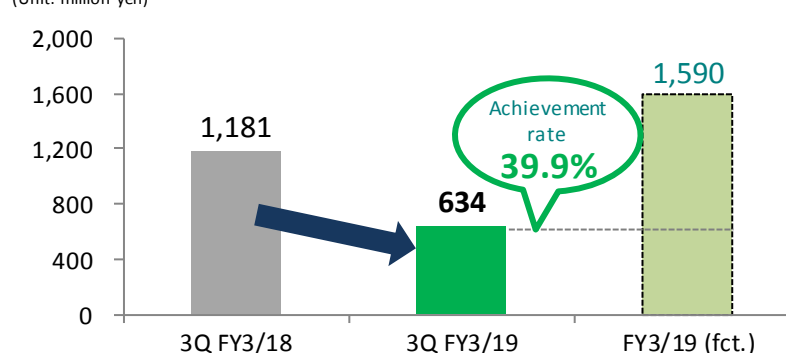
Net Sales

(Unit: million yen)



Segment Profit

(Unit: million yen)



Aluminum and copper products

(ALCONIX, HEIWA KINZOKU, four domestic sales subsidiaries, overseas subsidiaries) Financial results

(Unit: million yen)

	3Q FY3/19	YoY change (Amount)	YoY change (Ratio)	Segment weighting
Net sales	100,669	-312	-0.3%	51.4%
Segment profit	883	-12	-1.4%	17.5%
Segment profit to net sales	0.9%	0.0%		

[Products]

- Demand for **construction materials and homebuilding materials in Japan and air conditioning materials** were steady.
- Overall demand for **automobile component materials** is increasing as automakers continue to use more electronic components and make their vehicles lighter. But the prolonged U.S.-China trade friction affected the trading volume of these materials.
- Sales of **bus bars for construction materials** and of other products at sales subsidiaries in Japan increased. The transaction volume of **can materials** decreased due to the shift from aluminum cans to PET beverage containers.
- The transaction volume of automotive and building materials decreased during the second quarter because of typhoons, heavy rain and other natural disasters in Japan but started to recover in the third quarter.

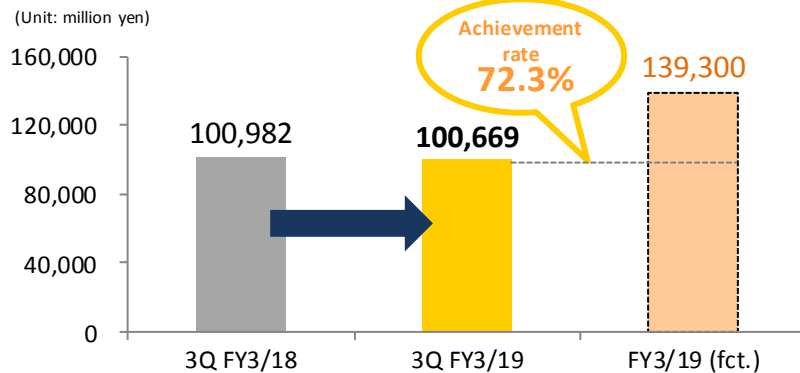
[Resources]

- Transaction volumes of **recycled aluminum ingots and other aluminum resources** increased due to growth in demand in the automobile industry. Transaction volume of copper scrap decreased affected by lower non-ferrous metal prices since July. Sales and earnings decreased at **ALUMINUM & COPPER RECYCLING CENTER**.

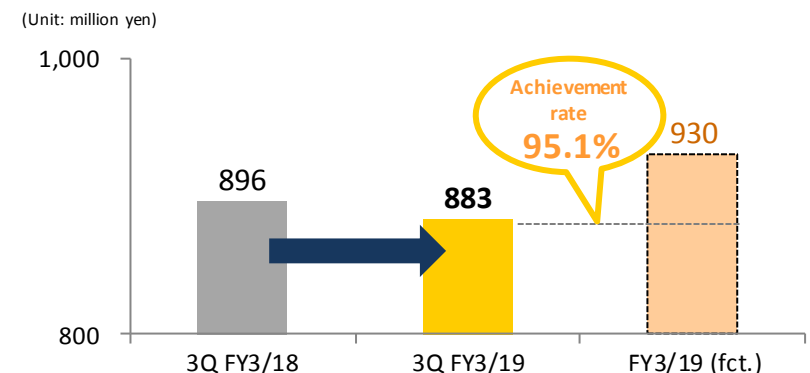
Sales of major products (YoY change)

Recycled aluminum ingots: Increase
 Copper scrap: Decrease
 Metal silicon: Same level
 Aluminum rolled products: Decrease
 Can materials: Decrease

Net Sales



Segment Profit



(Unit: million yen)

	3Q FY3/19	YoY change (Amount)	YoY change (Ratio)	Segment weighting
Net sales	15,699	1,447	10.2%	8.0%
Segment profit	515	-120	-18.9%	10.2%
Segment profit to net sales	3.3%	-1.2%		

Sales of major products (YoY change)

Plating materials (copper anode, nickel sulfate, etc.): Increase (UHI)

Mold building-up welding rods/Thermal spraying: Same level (TOKAI YOGYO)

Non-destructive testing detection materials: Increase (MT)

Consumables including paints for marking systems: Decrease (MT)

● UNIVERTICAL (UHI) – Plating materials

Shipments of plating materials were strong both in North America and China. A big increase in shipments of **plating chemical products** in China contributed to higher segment sales and earnings.

● TOKAI YOGYO – Welding materials

Shipments of welding rods to repair molds and orders for **thermal spraying** were as steady as one year earlier mainly in Japan's automobile industry.

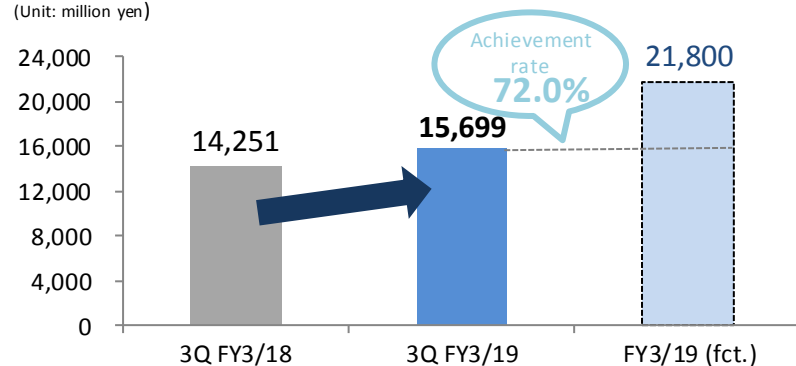
● MARKTEC (MT) – Non-destructive testing equipment and marking systems

There was a large volume of **consumables** shipments to automobile companies in Japan and other countries. However, earnings declined because some shipments of **large equipment** were pushed back to the following period and there was a **decrease in demand for consumables from companies in the steel industries**.

● M&A expenses for purchasing stocks of Tohoku Chemical Industries and Fuji Carbon Manufacturing were recorded in the third quarter.

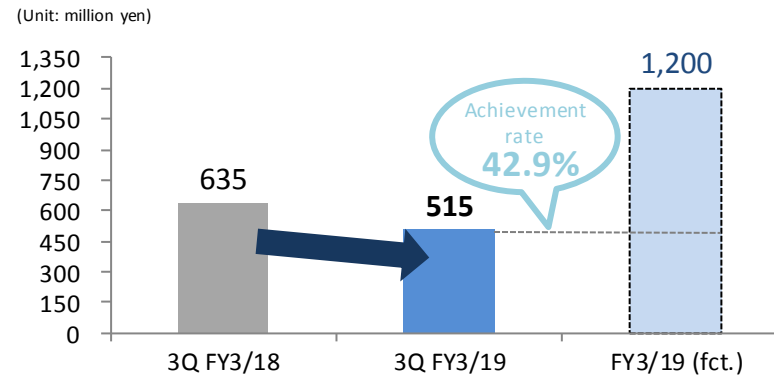
Net Sales

(Unit: million yen)



Segment Profit

(Unit: million yen)



(Unit: million yen)

	3Q FY3/19	YoY change (Amount)	YoY change (Ratio)	Segment weighting
Net sales	15,751	817	5.5%	8.1%
Segment profit	3,040	-162	-5.1%	60.4%
Segment profit to net sales	19.3%	-2.1%		

Sales of major products (YoY change)

Machining processing parts (for aircraft, semiconductor manufacturing equipment, etc.): Increase (OHKAWA)

Grinding processing parts (for chip mounters): Increase (OHBA SEIKEN)

Grinding processing parts (prototype items for automotive applications): Increase (OHBA SEIKEN)

Metal stamped parts (for automotive powertrains, etc.): Increase (FUJI PRESS)

● OHBA SEIKEN (Grinding processing parts)

Demand for **parts for chip mounters** remained at a consistently high level. Sales increased but earnings slightly decreased because depreciation expenses started at a factory completed in February 2018, and the cost of manufacturing increased mainly because of higher labor and outsourcing expenses due to the large volume of work.

● OHKAWA (Machining processing parts)

Orders increased for **precision machining processing parts for aircraft and semiconductor manufacturing equipment**. Higher earnings also benefited from capital expenditures.

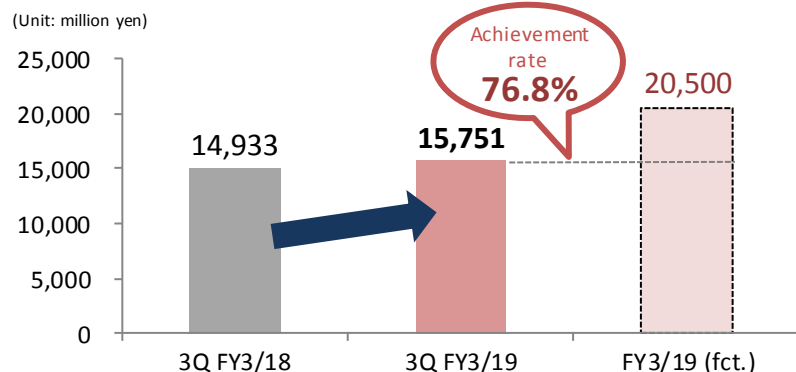
● FUJI PRESS (Metal stamped parts)

Shipments of **metal stamped parts for powertrains** increased due to strong automobile production in Japan.

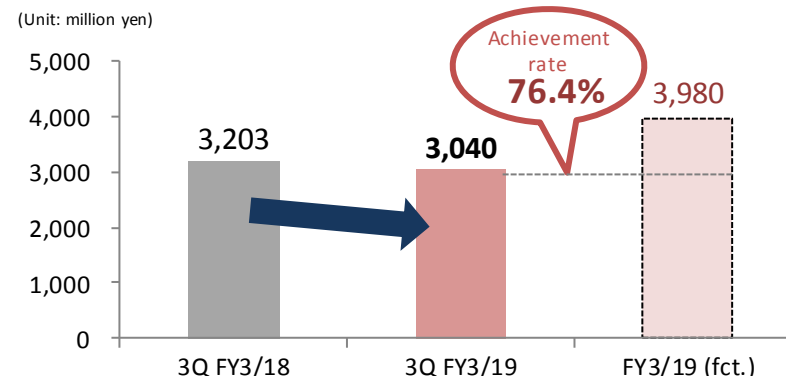
● Equity-method affiliates (K'MAC and Guandon Chuangfu Metal Product)

Segment profit decreased because of the sale of stock of Shanghai Longyang Precise Compound Copper Tube.

Net Sales



Segment Profit



Consolidated balance sheets (3Q FY3/19)

Financial results

(Unit: million yen)

	FY3/18	FY3/19 3Q	Change	Major components
Current assets, total	95,028	100,108	5,079	
Cash and deposits	18,698	19,732	1,033	
Operating receivables	47,495	47,643	148	Increase due to acquisition of Tohoku Chemical Industries
Inventories	24,070	28,783	4,712	Higher transaction of electronic and advanced materials
Non-current assets, total	35,168	34,625	-543	
Property, plant and equipment	14,811	15,648	836	Increase due to acquisition of Tohoku Chemical Industries and other capital expenditures
Intangible assets	7,710	7,712	1	
Investments and other assets	12,646	11,264	-1,381	Decrease in valuation difference
Assets, total	130,197	134,733	4,536	
	FY3/18	FY3/19 3Q	Change	Major components
Current liabilities, total	72,393	78,553	6,160	
Operating debt	33,922	33,357	-564	Lower transactions in Trading segment
Short-term loans payable	31,227	39,928	8,701	Working capital procurement
(including current portion of long-term loans payable/bonds payable)				
Non-current liabilities, total	19,178	16,274	-2,903	
Bonds payable	675	525	-149	Transfer to the current portion
Long-term loans payable	14,150	11,412	-2,738	Transfer to the current portion
Liabilities, total	91,571	94,828	3,257	
Shareholders' equity	32,633	35,285	2,652	
Retained earnings	27,698	30,328	2,629	Higher earnings on a consolidated basis (profit attributable to owners of parent – dividends paid)
Accumulated other comprehensive income	4,193	2,882	-1,310	
Shareholders' equity	36,826	38,168	1,342	Equity ratio: 28.3%
Net assets, total	38,626	39,905	1,279	
Liabilities and net assets, total	130,197	134,733	4,536	

*Change: Numbers may not tally exactly due to rounding.

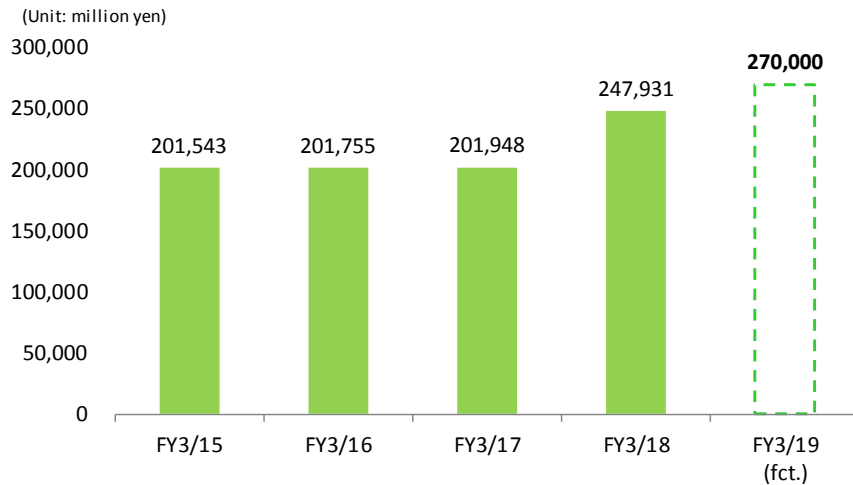
FY3/19 Earnings Forecasts

(Consolidated earnings forecasts announced on May 15, 2018 are currently unchanged.)

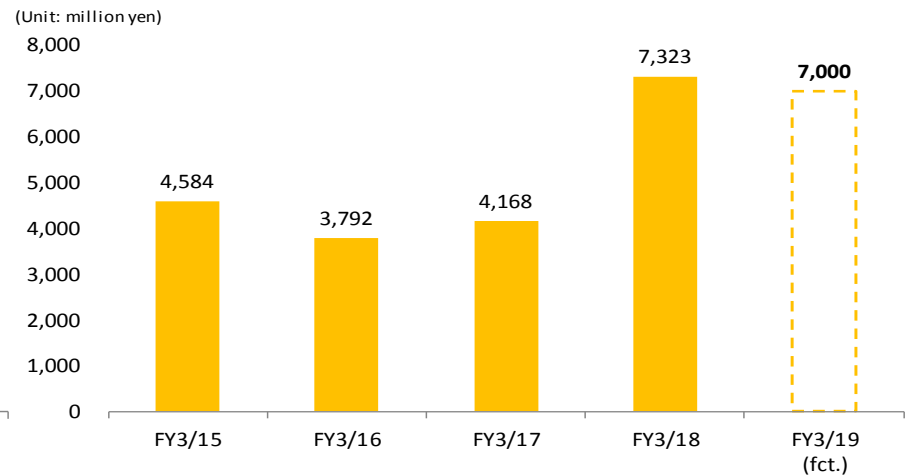
Trend in consolidated sales and earnings

Earnings forecast

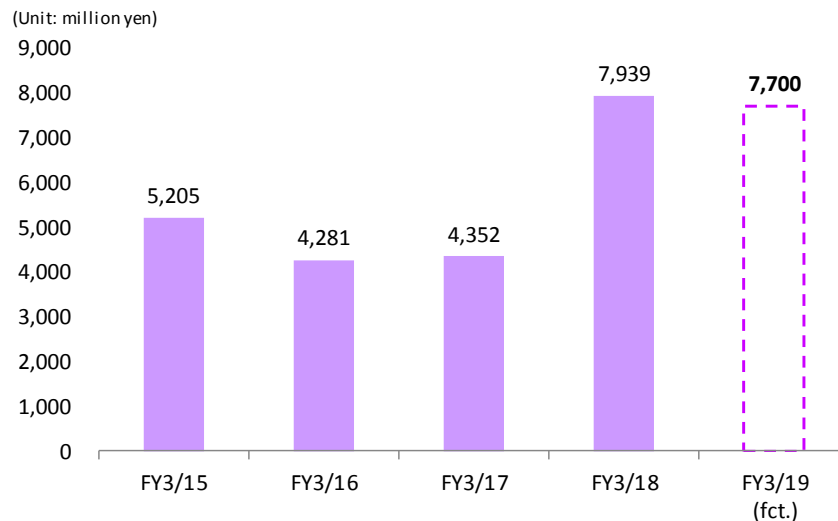
Net Sales



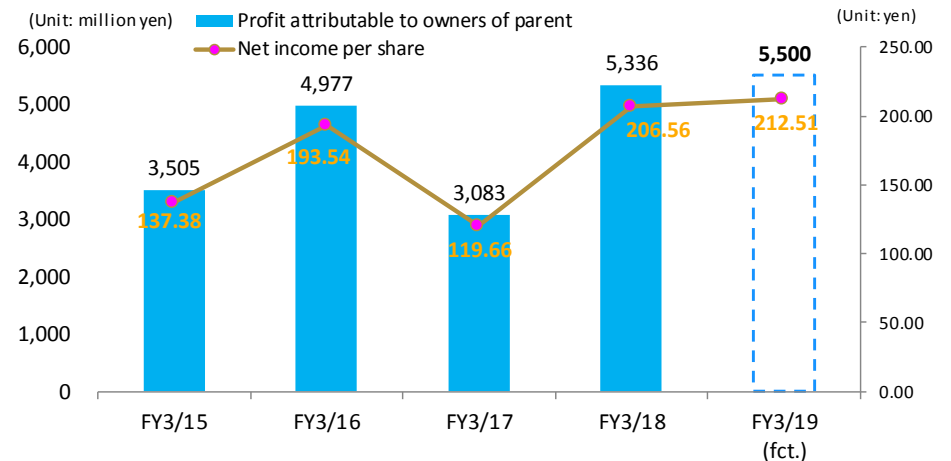
Operating Profit



Ordinary Profit



Profit Attributable to Owners of Parent



* Net income per share figures are adjusted to reflect the stock split on September 1, 2017.

- The semiconductor sector has been in a phase where new demand is generated in a chain of reaction backed by the IoT and the rapidly increasing use of self-driving and other next-generation technologies in automobiles. Benefited by this, strong performance at group manufacturing subsidiaries in Japan and overseas will continue to make a contribution to consolidated sales and earnings. Also, the transaction volumes of electronic materials and minor metals and rare earths in the Trading segment are expected to grow. On the other hand, given the growing uncertainty over the economic outlook, ALCONIX maintains the initial forecast. Major causes of the uncertainty is the market saturation of smartphones and tablets, products that fueled global economic growth and concerns about the global effects of U.S. trade policies.

(Unit: million yen)

	FY3/18		FY3/19		YoY change	3Q FY3/19	
		% to sales	(Initial forecasts on May 15, 2018)	% to sales			Progress ratio
Net sales	247,931		270,000		8.9%	195,781	72.5%
Gross profit	19,038	7.7%	19,500	7.2%	2.4%	14,750	75.6%
SG&A expenses	11,715	4.7%	12,500	4.6%	6.7%	9,804	78.4%
Operating profit	7,323	3.0%	7,000	2.6%	-4.4%	4,946	70.7%
Ordinary profit	7,939	3.2%	7,700	2.9%	-3.0%	5,039	65.4%
Profit attributable to owners of parent	5,336	2.2%	5,500	2.0%	3.1%	3,612	65.7%
Net income per share (yen)	206.56		212.51			139.61	-

■ Trading segment: Higher sales and lower earnings /

Manufacturing segment: Higher sales and earnings (further increase in Manufacturing share of ordinary profit)

•Trading—Electronic and Advanced Materials

Although shipments of smartphones and tablets are declining, the transaction volume of electronic materials used in these products is expected to increase. The main reasons are the rising number of parts used in these products due to advances in performance and the growth in demand for smartphones and tablets in emerging countries. Also forecast growth in the volume of minor metals and rare earths, primarily for automotive applications, but a gradual decrease in profit margin.

•Trading—Aluminum and Copper Products

Forecast a higher transaction volume for aluminum rolled products, copper products, and copper and aluminum resources due to the outlook for strong demand in the automobile industry. Distribution margins at domestic subsidiaries will probably decrease due to the end of the upturn in prices of non-ferrous metals in the first half of FY3/18.

•Manufacturing—Equipment and Materials

At UNIVERTICAL, shipments are consistently high in the U.S. and China. The performance of MARKTEC is expected to continue recovering at its manufacturing subsidiaries in Japan and overseas, mainly because of orders from the automobile and steel industries, this company's primary markets. Forecast earnings growth at UNIVERTICAL to contribute to this sector's profitability.

•Manufacturing—Metal Processing

Production volume will increase at OHBA SEIKEN and OHKAWA due to increasing demand for this sector's products in the semiconductor and aerospace industries. In its second year as a consolidated subsidiary, FUJI PRESS is again expected to make a contribution because of strong demand for automobiles in Japan and other countries. But a decline in share of profit of entities accounted for using equity method is anticipated.

(Unit: million yen)

		FY3/18		FY3/19		Change	3Q FY3/19			
				Initial forecasts on May 15, 2018			Comp. Progress ratio			
			Comp.		Comp.					
Net Sales	Trading	Electronic and advanced materials	73,857	29.8%	88,400	32.7%	19.7%	63,660	32.5%	72.0%
		Aluminum and copper products	134,506	54.2%	139,300	51.6%	3.6%	100,669	51.4%	72.3%
		Trading total	208,363	84.0%	227,700	84.3%	9.3%	164,330	83.9%	72.2%
	Manufacturing	Equipment and materials	19,697	8.0%	21,800	8.2%	10.7%	15,699	8.0%	72.0%
		Metal processing	19,870	8.0%	20,500	7.6%	3.2%	15,751	8.1%	76.8%
		Manufacturing total	39,567	16.0%	42,300	15.7%	6.9%	31,450	16.1%	74.4%
Total		247,931		270,000		8.9%	195,781		72.5%	
Segment Profit	Trading	Electronic and advanced materials	1,822	23.0%	1,590	20.6%	-12.7%	634	12.6%	39.9%
		Aluminum and copper products	1,033	13.0%	930	12.1%	-10.0%	883	17.5%	95.1%
		Trading total	2,855	36.0%	2,520	32.7%	-11.8%	1,518	30.1%	60.3%
	Manufacturing	Equipment and materials	835	10.5%	1,200	15.6%	43.6%	515	10.2%	42.9%
		Metal processing	4,244	53.5%	3,980	51.7%	-6.2%	3,040	60.4%	76.4%
		Manufacturing total	5,080	64.0%	5,180	67.3%	2.0%	3,555	70.6%	68.6%
Total		7,939		7,700		-3.0%	5,039		65.4%	

*Change: Numbers may not tally exactly due to rounding.

Medium-term Business Plan

for the Three-year Period from FY3/19 to FY3/21

Our three-year business plan is a “rolling-style” business plan updated once a year to adapt to changes in the business environment and promote speedier decision-making.

The ALCONIX Group Vision

Become an integrated company that combines trading and manufacturing capabilities

Management Policies

- **M&A/new business investments** ➡ Continue to grow through expansion and new trade channels
- **Electronic and advanced materials** ➡ More growth in Japan's leading industrial sectors
- **Aluminum and copper** ➡ Expand trading volume for aluminum and copper, the ALCONIX Group's core business
- **Recycling business** ➡ Bolster activities for environmental protection
- **Overseas growth/Local and trilateral transactions** ➡ Further enlarge the overseas network

Five Action Plans

Strengthen operating revenue

Synergies between Trading and Manufacturing
Electronic materials business
Overseas business

Promote investment activities

M&A mainly involving manufacturing
Business investments
Capital expenditures

Reinforce the financial backbone

Increase the equity ratio
Maintain sufficient liquidity and
lower the cost of capital

Upgrade the skills of employees

Attract, train and retain skilled
people

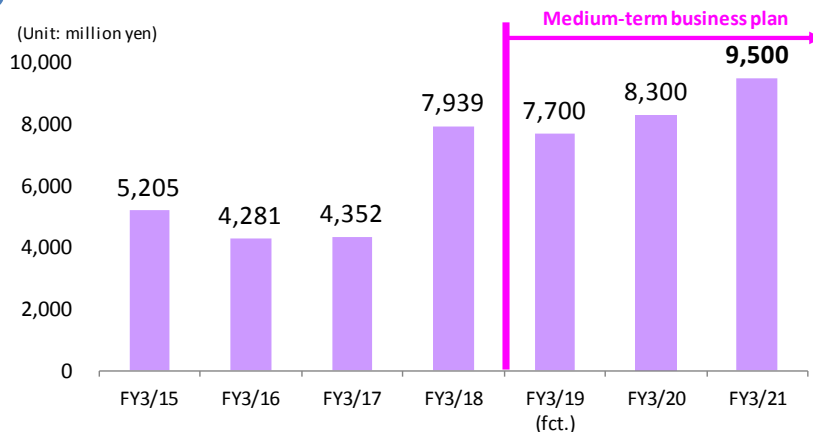
Strengthen corporate infrastructure and internal governance

Performance targets (final year: end-March 2021)

Medium-term business plan

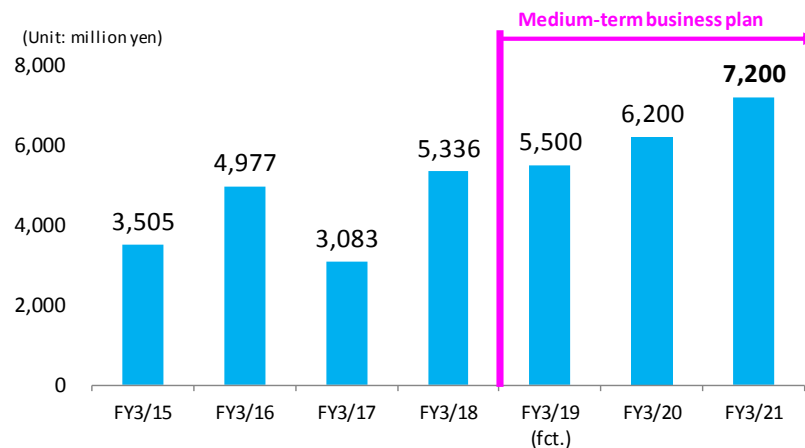
Profit targets

Consolidated ordinary profit: Over ¥9.5 billion (FY3/21)



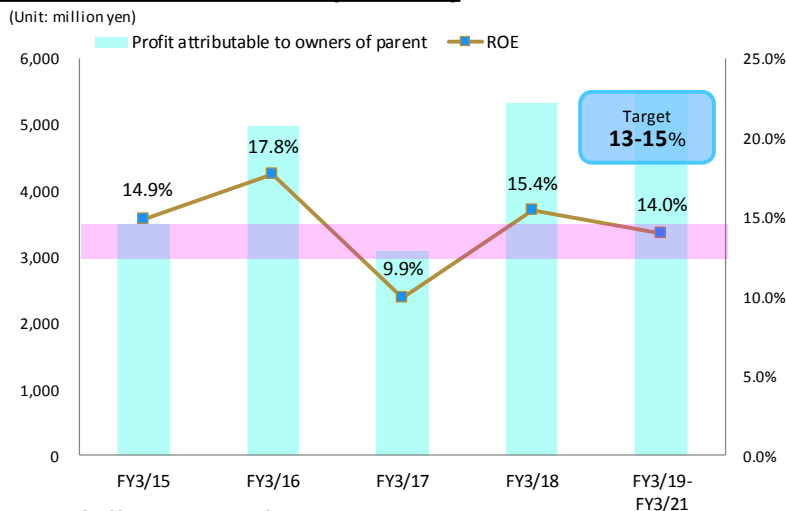
Profit attributable to owners of parent:

Over ¥7.2 billion (FY3/21)

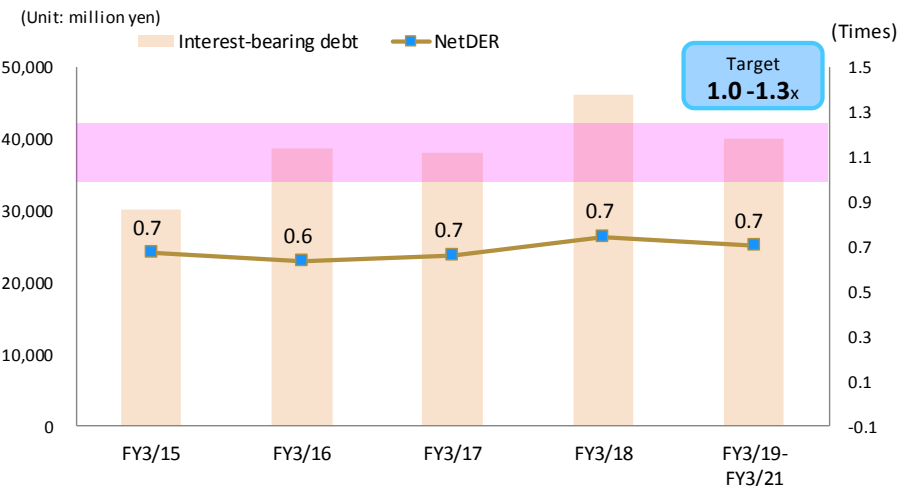


Management benchmarks

ROE: Around 13-15% (FY3/21)



NetDER: Around 1.0-1.3x (FY3/21)



Investment plans

¥25 billion over three years

Target: M&As; business investments;
net increase in capital expenditure (capital expenditure – amount written off)

For more details, please see page 26
“Investment activities”

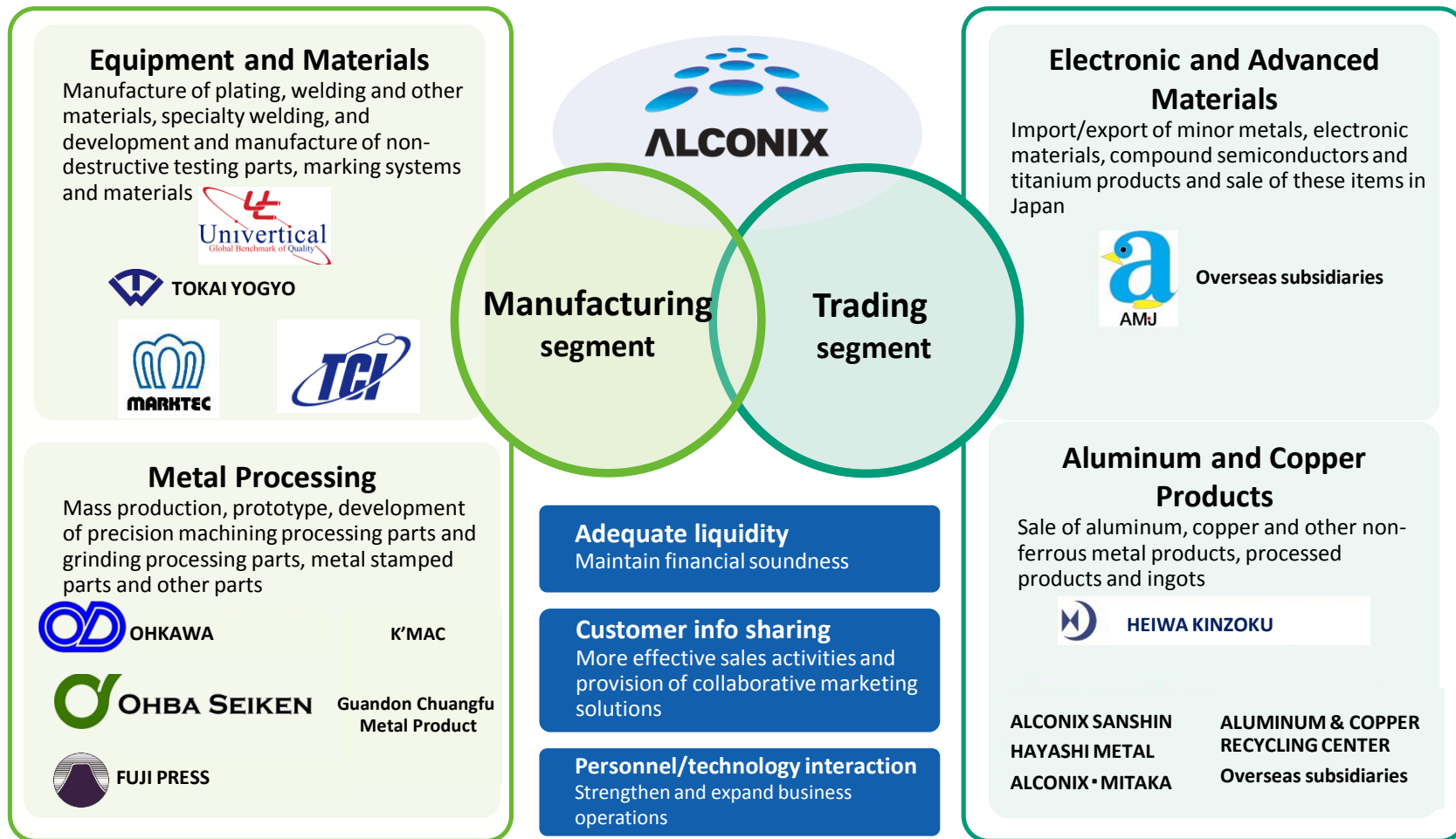
Strengthen operating revenue 1

Generate the greatest possible synergies between Trading and Manufacturing

From point to surface

Build a seamless organization by using “face-to-face” relationships among consolidated subsidiaries and with ALCONIX.

Aim for dramatic growth in profitability by creating synergies between Trading and Manufacturing.

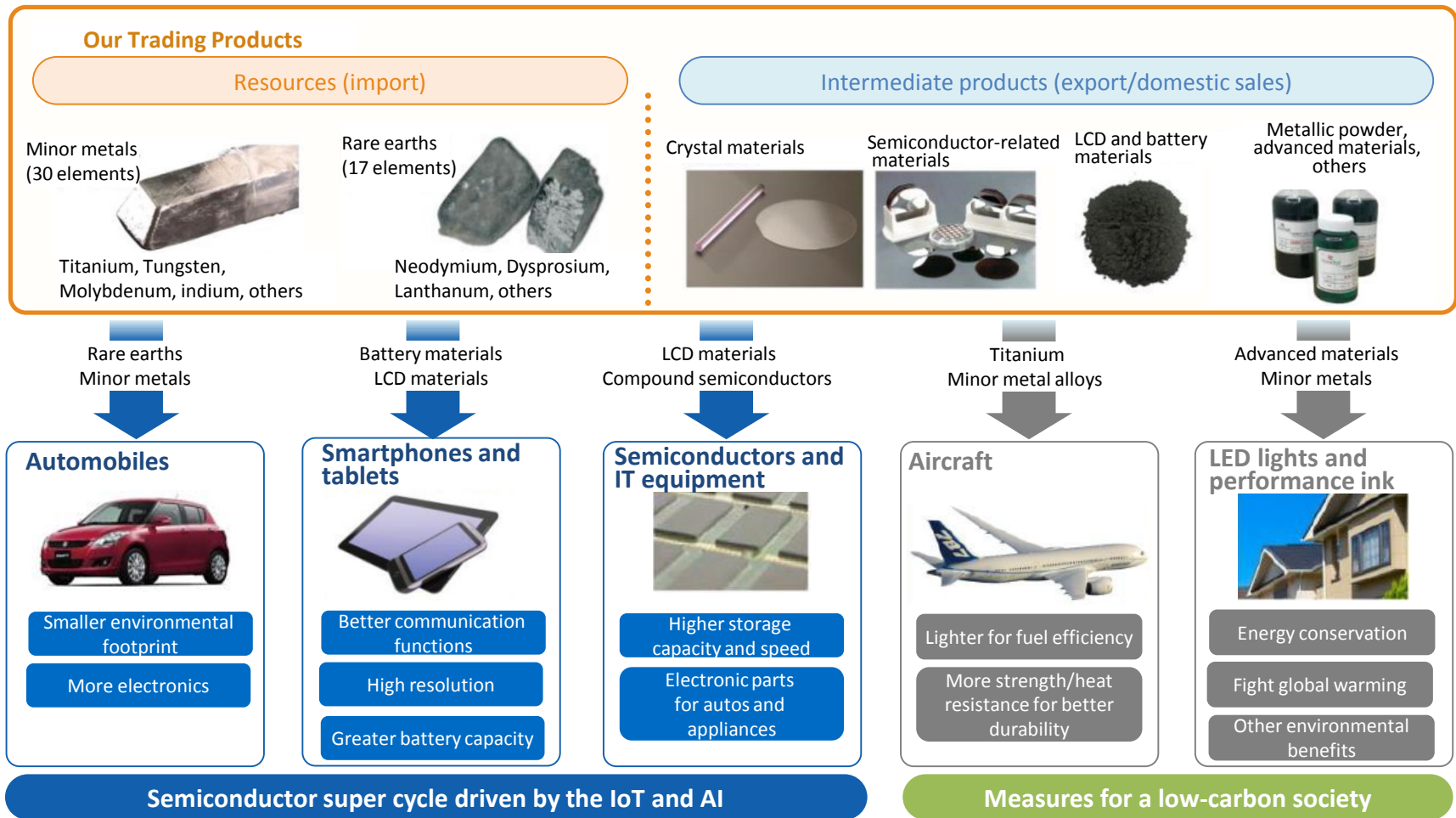


Initiatives for ALCONIX electronic and advanced materials business and subsidiary

ADVANCED MATERIAL JAPAN

Build a business model that extends from resources (minor metals and rare earths) to products (electronic materials and advanced materials).

Supply materials used for many purposes, from core materials to environmental compliance materials, in the automobile, home appliance, semiconductor, IT and other industries.



Expansion of areas covered by ALCONIX, ADVANCED MATERIAL JAPAN and overseas subsidiaries

Overseas network



1 Expand local transactions

Expand local transactions with Japanese companies overseas and foreign companies

ALCONIX (SHANGHAI) CORP. is enlarging its sales network in China by opening offices in Guangzhou and Shenzhen.

2 Expand trilateral business

More triangular transactions, using our overseas network

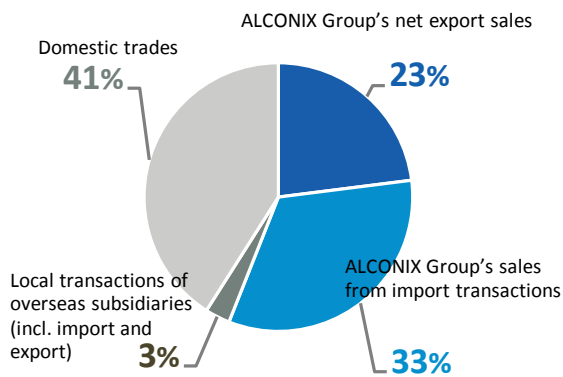
Growth of overseas operations, mainly for minor metals, at the Singapore subsidiary of ADVANCED MATERIAL JAPAN

3 Expand overseas network

Plan to establish branches in Mexico, Indonesia and India to extend the overseas network

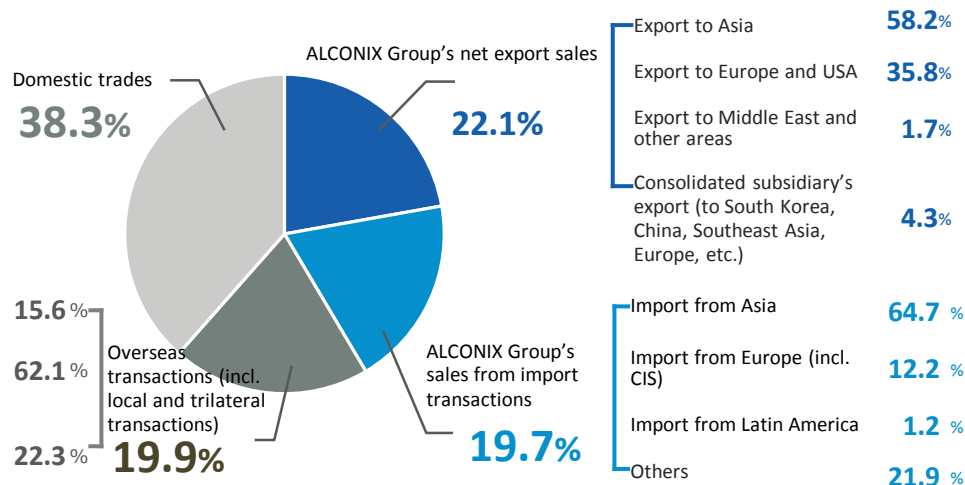
ALCONIX established a subsidiary in South Korea in April 2018 and will continue to focus on establishing overseas subsidiaries

Trade Category Sales Composition (FY3/11, consolidated)



Trilateral business of ALX
 Local and overseas transactions, etc. of overseas subsidiaries, others
 Local transactions (USA, China) and export transactions (Canada, Southeast Asia, etc.) of consolidated subsidiaries

Trade Category Sales Composition (FY3/18, consolidated)



Basic policy

Target companies with outstanding technologies in niche markets

- We **plan to make investments and loans of ¥25 billion** over three years with focus on M&A
- **Goal** for the return on invested capital: **10%**

FY3/19 plan

M&A

- Invest in manufacturers, seek opportunities for mergers and acquisitions
- Integration of recently acquired companies, investments for facility expansion at manufacturing subsidiaries
- M&A activity at subsidiaries as well in order to contribute to growth
- Acquisition of Fuji Carbon Manufacturing and Tohoku Chemical Industries

Business investment (Investments and loans)

- Investments and loans in overseas base metal and minor metal recycling businesses and in the development of rare earth mines

Capital expenditures

- Purchase more production equipment with priority on the efficient use of investments (UNIVERTICAL, OHBA SEIKEN, OHKAWA CORP., MARKTEC, FUJI PRESS, TOKAI YOGYO)

Our core strategies for investment activities are as follows: **M&A**, which is effective for **short-term business expansion; business investment** in metals fabrication and sales to **develop new trade channels**; and **investments** in recycling and other projects to secure natural resources.

Major consolidated subsidiaries added to the ALCONIX Group through M&As



■ **ADVANCED MATERIAL JAPAN CORPORATION**
Trading—Electronic and Advanced Materials (January 2004)



■ **HEIWA KINZOKU CO., LTD.**
Trading—Aluminum and Copper Products (October 2015)



■ **UNIVERTICAL HOLDINGS INC.**
Manufacturing—Equipment and Materials (December 2012)



■ **OHBA SEIKEN CO., LTD.**
Manufacturing—Metal Processing (May 2013)

M&As **16** cases (actual)

(Manufacturing segment: **7** cases

Trading segment: **9** cases)

Recent activities

■ **Acquisition of all of the stock of Tohoku Chemical Industries to make it a consolidated subsidiary**

Date of stock acquisition: December 25, 2018
Affiliated segment: Manufacturing—Equipment and Materials
Capital: 120 million yen
Recent results: Net sales: 1,700 million yen; Ordinary profit: 130 million yen (As of March 31, 2018)

* Sales and earnings of Tohoku Chemical Industries were included in the ALCONIX's consolidated financial statements beginning in January 2019



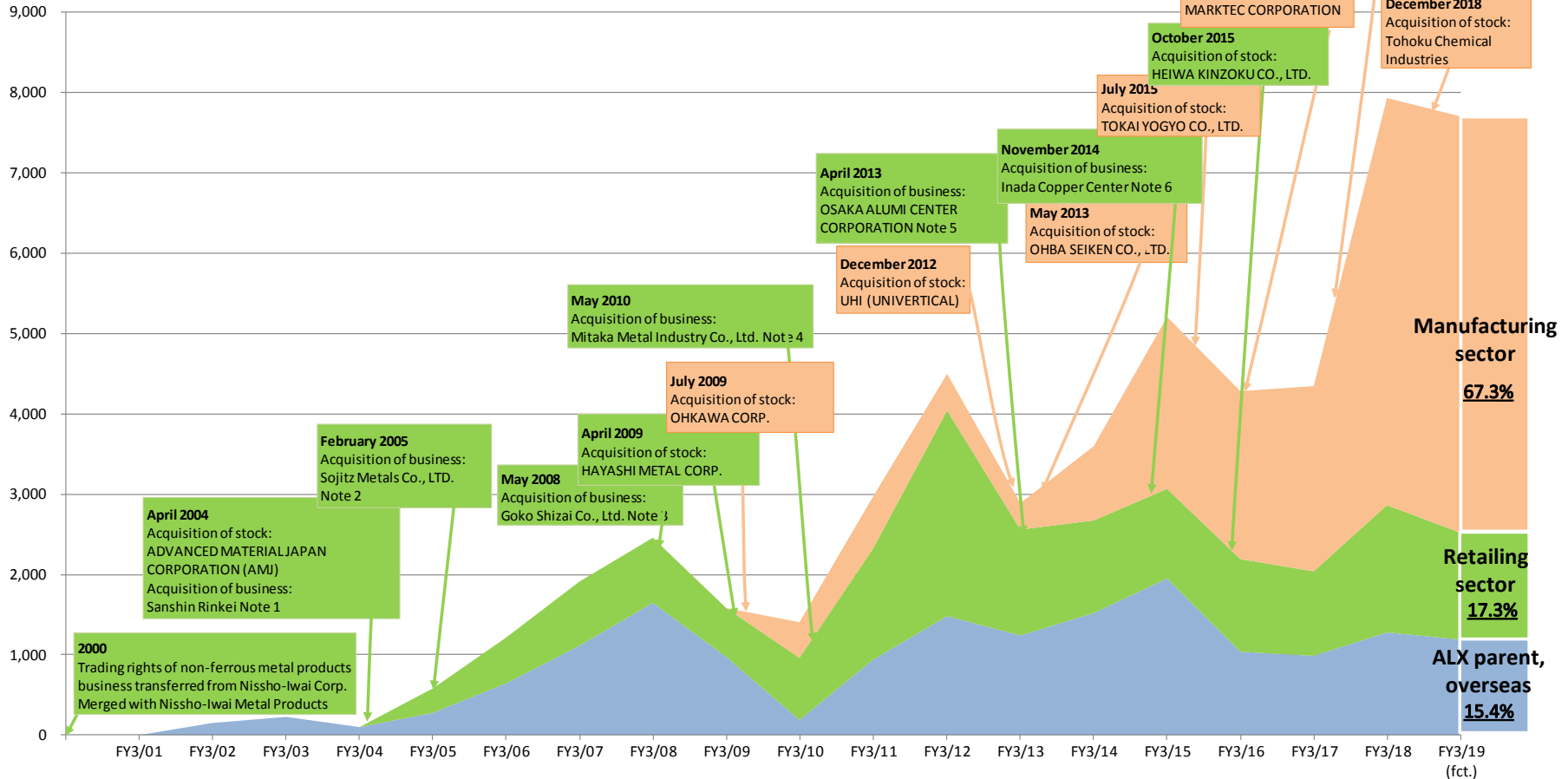
Head office building

Investment activities 3

Changes in business composition

The changing composition of ordinary profit shows how ALCONIX has grown and evolved.
(Manufacturing segment accounted for more than half of ordinary profit)

(Unit: million yen)



- Notes:
1. Sanshin Rinkei started as a division of ALCONIX Group which acquired its operation. Later the division was separated to establish ALCONIX SANSHIN CORPORATION in 2008.
 2. Sojitz Metals Co., LTD. has started as a non-ferrous materials division of ALCONIX Group.
 3. Goko Shizai Co., Ltd. was established as Sapporo branch of materials sales dept. through mergers and acquisitions by ALCONIX SANSHIN CORPORATION.
 4. Acquired trading rights of Mitaka Metal Industry Co., Ltd. and transferred the rights to newly established ALCONIX•MITAKA CORPORATION.

5. OSAKA ALUMI CENTER CORPORATION changed its name to ALUMINUM & COPPER RECYCLING CENTER CORPORATION in 2014.
6. Inada Copper Center started its operation as Kitakyushu branch of ALUMINUM & COPPER RECYCLING CENTER.
7. M&As in the Manufacturing sector includes earnings of equity-method affiliates.
8. Reported only unconsolidated ordinary loss for FY3/01.

Almost all subsidiaries have higher sales, earnings and workforces than when they joined the ALCONIX Group because of additional investments following their acquisitions by ALCONIX.

M&A year	Company name	Segment	Category	Capital expenditures after M&A
2004	Sanshin Rinkei (Later separated to establish ALCONIX SANSHIN CORPORATION)	Trading—Aluminum and Copper Products	Consolidated subsidiary	M&A and business succession conducted by ALCONIX SANSHIN CORPORATION (Total of three companies including Goko Shizai Co., Ltd.)
2004	ADVANCED MATERIAL JAPAN CORPORATION (AMJ)	Trading—Electronic and Advanced Materials	Consolidated subsidiary	Established overseas subsidiaries (AMT in Singapore, AMB in Beijing)
2009	OHKAWA CORP.	Manufacturing—Metal Processing	Consolidated subsidiary	Constructed the second plant in April 2016; expanded the plant in May 2018
2012	UNIVERTICAL HOLDINGS INC	Manufacturing—Equipment and Materials	Consolidated subsidiary	Expanded a chemical product manufacturing line in Suzhou, China, in April 2016
2012	Guandon Chuangfu Metal Product (Hengji Chuangfu)	Manufacturing—Metal Processing	Equity-method affiliate	Made major capital expenditures in 2012
2013	ALUMINUM & COPPER RECYCLING CENTER	Trading—Aluminum and Copper Products	Consolidated subsidiary	Acquired business of Inada Shokai K.K.; established Inada Copper Center in November 2014
2013	OHBA SEIKEN CO., LTD.	Manufacturing—Metal Processing	Consolidated subsidiary	Constructed a new factory in February 2018
2015	HEIWA KINZOKU CO., LTD.	Trading—Aluminum and Copper Products	Consolidated subsidiary	Integrated HEIWA KINZOKU's subsidiary in Vietnam into the ALCONIX's Vietnam subsidiary
2015	TOKAI YOGYO CO., LTD.	Manufacturing—Equipment and Materials	Consolidated subsidiary	Ongoing capital expenditures with guidance from ALCONIX
2016	MARKTEC CORPORATION	Manufacturing—Equipment and Materials	Consolidated subsidiary	Ongoing capital expenditures with guidance from ALCONIX
2017	FUJI PRESS CO., LTD.	Manufacturing—Metal Processing	Consolidated subsidiary	Added equipment at a joint venture in Mexico

Reinforce the financial backbone

- Aim to improve the shareholders' equity ratio and other financial ratios by bolstering profitability
- Further diversify fundraising channels while securing sufficient liquidity and reducing funding costs
- Strive to optimize working capital and move free cash flow into the black



Upgrade the skills of employees

- Hire talented people, both new graduates and experienced professionals, and bolster internal training
- In line with the ALCONIX personnel policy, give people the training needed to become professionals, tackle new challenges and cooperate with others



Strengthen corporate infrastructure and internal governance

- Aim for more speedy and stronger internal governance system through more effective use of the mission-critical system
- Upgrade and improve the Group's accounting system
- Strengthen administrative framework to prepare for increase and diversification of subsidiaries and affiliates
- Promote internal compliance education more broadly to enhance timely disclosure
- Implement post-merger integration of group companies which became a subsidiary through M&A and build a compliance system



Powerful organizational skills capable of linking demand and supply, centered on ALCONIX

The ALCONIX Group is an integrated company that combines trading and manufacturing capabilities with operations extending from upstream (manufacturing and recycling) to midstream (trading) and downstream (wholesaling).

Many successful acquisitions

- M&As 16 cases Manufacturing segment: 7 cases
 Trading segment: 9 cases

A diversified group of companies extending from trading to wholesaling that is centered on manufacturing subsidiaries in niche markets that are highly competitive and have outstanding manufacturing facilities

Top-class performance in minor metals and rare earths for electronic materials

ALCONIX is a major importer of metal titanium, tungsten compounds and rare earths in Japan. ALCONIX also has a high market share for electronic and advanced materials.

Solid overseas network

- 12 overseas subsidiaries, 15 locations

The overseas network consists of overseas subsidiaries and the overseas sites of a sales agent. Overseas business operations are conducted by subsidiaries in China, Southeast Asia, Europe and North America.

The ALCONIX Group has manufacturing subsidiaries in North America, China and Southeast Asia as well as its own sales channels.

A highly experienced and skilled workforce

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