New Mid-term Business Plan
FY2018-2020

Yorozu Spiral-up Plan 2020

May 24, 2018
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Mid-Term Business Plan: Yorozu Spiral-up Plan 2017

Robust corporate structure to outstrip the competition

FY 2017 goals as midway indicators toward achievement of the long-term vision

- Consolidated revenue of 180 billion JPY
- Consolidated operating income ratio: 6%

Key initiatives focused on enhancing corporate value

1. Business domains
   Implement three pillars for achievement of sustainable growth.

2. Financial strategy
   Capital plan that considers a balance between realizing mid- to long-term growth and capital efficiency.

3. Corporate Governance
   Establish internal systems that contribute to enhanced profit for stakeholders.
Mid-term Business Plan YSP2017 review

Business Performance

Consolidated Revenue

*The 6 new bases are listed below. The above numbers are an accumulation of the result of these companies, without consolidation adjustment. For FY2017, the result of Yorozu Automotive Alabama (YAA) is included.

- Wuhan YOROZU Bao Mit Automotive Co., Ltd. (W-YBM)
- YOROZU JBM Automotive Tamil Nadu Pvt. Ltd. (YJAT)
- PT. YOROZU Automotive Indonesia (YAI)
- Y-Ogura Automotive (Thailand) Co., Ltd. (Y-OAT)
- YOROZU Automotive Guanajuato de Mexico, S.A. de C.V. (YAGM)
- YOROZU Automotiva do Brasil Ltda. (YAB)

Revenue:
- Reduced due to the progress of yen appreciation against all related currencies except the US dollar.
- Reduced due to customers’ reduced production in emerging countries; Thailand, India, Indonesia, and Brazil.

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Operating Income Ratio:
- Negative impact from the deteriorated US profitability
- Exacerbated by underperformance in Thailand, India, Indonesia and Brazil

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YOROZU JBM Automotive Tamil Nadu Pvt. Ltd. (YJAT)
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Y-Ogura Automotive (Thailand) Co., Ltd. (Y-OAT)
YOROZU Automotive Guanajuato de Mexico, S.A. de C.V. (YAGM)
YOROZU Automotiva do Brasil Ltda. (YAB)
Key Initiatives: (1) Business Domains

1. Further strengthen product competitiveness and development capabilities

**Realized fully-automated assembly line**
- Introduced fully-automated lines in Japan and accumulated know-how. (Yorozu Oita; started operation in July 2016)
- Introduced the fully-automated line to overseas bases in the US., Mexico, and China. (US Tennessee base; started operation in April 2017)

**Yorozu Engineering's expansion / enhancement**
- Aggregated manufacturing technology in Japan.
- Developed new press technologies utilizing latest press machines.
- Added 16 units/13 types of machining tools to realize 1400 dies to be produced in-house annually.
- Became one of the leading tooling manufacturers in Japan with the largest facilities in Tohoku area.
## Key Initiatives: (1) Business Domains

### 2. Expand sales channels to major automakers worldwide

#### Acquired additional business from domestic and overseas automakers

- Won new contracts for Daimler projects
- Increased business with Renault and VW
- Increased orders from Toyota Group

**Making a foundation for new business expansion in the future**

#### Started production at new Alabama base in USA

- Realize “the world's No. 1 suspension parts production plant” as a parts manufacturer.
- Contribute to Tennessee base’s profit improvement by advancing the start of operation
- Business opportunities from the new Mazda-Toyota joint venture factory

#### Started expansion of Yorozu Oita

- Expanded facilities to respond to increased orders due to automakers’ Kyushu shift.
- Introduced large-size press machine to meet automakers’ future needs for difficult-to-process parts, such as integrally formed parts, multi-process production parts, high tensile steel sheets, etc. (Operation to start in October 2018)
Key Initiatives: (1) Business Domains

3. Strengthen global management with respect for diversity

Efforts to cultivate human resources

- Promote “Work Style Reform" by Work Style Reform Committee (Smart Work Committee)
- Secure and develop human resources and contribute to the community

Work Style Reform (Smart Work Committee)

- Productivity Improvement
- Work Satisfaction
- Working hour Reduction
- Growth
- Diversity

A company with engaged and fulfilled employees through work style reform

Academic-Industrial cooperation/ Contribution to local communities

Human resource cultivation through academic-Industrial cooperation
Academic-Industrial cooperation activities at Shonai, Yamagata

JICA human resource development program/ International cooperation in Mexico

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After YSP 2017 was announced, additional events such as opening of YAA, expansion and enhancement of existing base, etc. led to increase in capital investment, resulting in deterioration of free cash flow.
In June 2015 at the ordinary general meeting of shareholders, amendment of the articles of incorporation was approved by our shareholders, and our company transformed into a company with audit and supervisory committee. In addition, two female outside directors were appointed at the same shareholders meeting.
Mid-term Business Plan YSP2017 Summary

Business Performance

Revenue: Target not achieved due to the yen’s appreciation, and modest increase of sales at newly established bases

Operating profit: Target not achieved due to deteriorated US profits, modest increase at newly established bases

Key Initiatives

Business domain: Started fully-automated unattended line, expanded sales channels / increased production capacity, cultivated human resources

Financial strategy: Deterioration of cash flow due to decreased profits and increased capital investment

Corporate governance: Transformed into a company with audit and supervisory committee, and appointed two female external directors

Direction for the next mid-term plan

Enhance profitability while promoting activities for the future
1. Mid-term Business Plan
   Yorozu Spiral-up Plan 2017 review

2. New Mid-term Business Plan
   Yorozu Spiral-up Plan 2020
New Mid-term Business Plan YSP 2020

Establish robust corporate structure to win the competitions

Set FY 2020 goals as midway indicators toward achievement of the Long-Term vision

Consolidated Revenue 180 billion JPY (FY2017 actual: 171.5 B JPY)

Consolidated Operating Income Ratio 5% (FY 2017 actual: 3.5%)

Key initiatives to strengthen profitability and lead to future growth

(1) Enhance Profitability
- Strengthen free cash flow management
- Strengthen project revenue management
- Innovate “monozukuri” operation

(2) Improve Product competitiveness / Development Capabilities
- Improve competitiveness of suspension parts
- Approach new products utilizing our unique technologies
- Engage in proactive sales expansion in 3 axes (customers, products, regions)

(3) Enhance Corporate Capabilities
- Human resource development
- Organization review
- ESG management
New Mid-term Business Plan YSP 2020

Consolidated Revenue / Operating Income Ratio

- **Consolidated Revenue (B yen)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2017 Actual</th>
<th>2018 Forecast</th>
<th>2020 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Revenue (B yen)</td>
<td>171.5</td>
<td>171</td>
<td>180</td>
</tr>
</tbody>
</table>

- **Operating Income Ratio (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2017 Actual</th>
<th>2018 Forecast</th>
<th>2020 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio (%)</td>
<td>3.5</td>
<td>3.7</td>
<td>5.0</td>
</tr>
</tbody>
</table>
2. New Mid-term Business Plan
Yorozu Spiral-up Plan 2020

Key Initiatives:
(1) Profitability Enhancement
Key Initiatives: (1) Enhance Profitability

Cash flow management

- By reducing further investment in new model facilities and strengthening evaluation and management of return on investment, free cash flow is expected to turn positive (improve).
- Keep the target dividend payout ratio at 35%.

<table>
<thead>
<tr>
<th>YSP2017 Actual</th>
<th>YSP2020 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit (3-yrs) 13.1 B yen</td>
<td>Net Profit (3-yrs)</td>
</tr>
<tr>
<td>Capex (3-yrs) 60.1 B yen</td>
<td>Capex (3-yrs) 44.7 B yen</td>
</tr>
<tr>
<td>Depreciation (3-yrs) 33.3 B yen</td>
<td>Depreciation (3-yrs) 38.8 B yen</td>
</tr>
<tr>
<td>Free Cash Flow (3-yrs) -13.7 B yen</td>
<td>Free Cash Flow (3-yrs)</td>
</tr>
</tbody>
</table>

Note: Figures are for illustrative purposes only and does not represent actual figures.
Key Initiatives: (1) Enhance Profitability

Enhance project profit management

- **Advance development**
- **Product development**
- **Production preparation**
- **SOP~EOP**

**Monozukuri functions**

- Advance

**Control functions**

**Production base**

- **NPV**
- Calculation:

\[
\text{NPV} = \text{Net Present Value} = (\text{amount}) \times (\text{years})
\]

- **Evaluation of return on investment by NPV at each milestone**

- **Aim to achieve the target profit by advancing profit management and expanding cooperation**
Key Initiatives: (1) Enhance Profitability

Monozukuri Innovation:

Realize “World's No. 1 suspension parts production plant” as an auto parts maker.

Unmanned Logistics
- AGV
- Automated paint hangers

Innovative press line
- 1200t BL press
- 3500t TF Servo press

Efforts toward full automation (unmanning)
Alabama new base

Expand fully-automated production line / Horizontal expansion

YSP2017

YSP2020
Key Initiatives: (1) Enhance Profitability

Monozukuri Innovation:
Planned development of multi-skilled and highly competent human resources

- Monozukuri is about developing people
- Further evolution of the skills built on tradition
- Operator with the skills to manage new technology, unmanned facilities
- Die maintenance skills
- Basic welding skills
- Meister system
- Train engineers to handle multiple processes
- Handing down the basic skills
- Automated equipment
- Unattended facility
- Robot application
- Composite process
- AI Robot

New Mid-term Business Plan YSP2020

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Key Initiatives: (1) Enhance Profitability

Monozukuri Innovation: Reduce capital investment

Make an all-out effort in simultaneous engineering
Component parts reduction, parts integration, etc.

Better yield with arc tailored blanks

Assembly line process reduction image
Before 15 processes
After 9 processes

Reduce capital investment

▲50% challenge
- Step up efforts toward simultaneous engineering in drawings
- Introduce new technologies / new manufacturing methods
- Introduce new concept lines
- Design waste-free facilities

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2. New Mid-term Business Plan
Yorozu Spiral-up Plan 2020

Key Initiatives:
(2) Improve Product Competitiveness / Development Capabilities
New Mid-term Business Plan YSP 2020

Key Initiatives:
(2) Improve Product Competitiveness / Development Capabilities

Environment surrounding the automotive industry

**Vehicle weight increase**
- CO2 reduction (Low fuel consumption)
- Hybrid and EV system installed

**Environment**
- CO2 reduction (Low fuel consumption)
- Hybrid and EV system installed

**Safety**
- Collision safety and passive safety
- Automatic brake and lane keep assist system installed

**Market requirements for suspension parts**
- Lighter: Lightweight solutions
- Stronger: Stiffness of the structure
- Lower cost: Low cost development
- Quicker: Shorter development period

**Comfort**
- Automated drive & advanced passenger space comfort
- Autonomous driving and new value-added system installed

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New Mid-term Business Plan YSP 2020

Key Initiatives:
(2) Improve Product Competitiveness / Development Capabilities

Development of light weight product; plan in 2018 to 2020

~2017

2018~2020

2021~

Innovative evolution of our products
Light weight / High stiffness / Low cost
by applying new structure / new manufacturing methods / new materials

~ 2017
Reduced 15% of the weight of RR AXLE BEAM in FY 2017
→ Planned for commercialization

2018 to 2020
New structure &
super high-tensile steel
Reduce weight -15%

New structure & super high-tensile steel
& multi-material (resin, aluminum)
Reduce weight - 30%

Evolution through development of new manufacturing methods
(for joining, forming, rust prevention)

Development of new products for the future / Suspension system development
= Increase added-value

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Development of new products and technologies for the future
Meeting the requirements for electric vehicles and autonomous driving

Vehicle becomes heavier from the additional equipment for electrification, autonomous operation & battery, etc.

Propose lighter products for battery related parts, etc. using the company’s stamping and welding technology

<table>
<thead>
<tr>
<th>Build the required new technologies</th>
<th>Deepen existing technologies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aluminum Technology</td>
<td>Press Forming Technology</td>
</tr>
<tr>
<td>Aluminum Forging Technology</td>
<td>Welding Technology</td>
</tr>
<tr>
<td>Technology to Combine Different Materials</td>
<td></td>
</tr>
</tbody>
</table>
Realize globally consistent quality and cost competitiveness, through simultaneous engineering by the Monozukuri functions and through strengthening Yorozu Engineering. Deliver to global manufacturing bases from Japan.
New Mid-term Business Plan YSP \textbf{2020}

Key Initiatives:
(2) Improve Product Competitiveness / Development Capabilities

Proactive sales expansion through activities under the 3 axes (customer, product, region)

Large shift in the automotive industry
- Accelerated autonomous drive / EV $\Rightarrow$ Large-scale investment
  -$\quad$ Intensified competition among automakers

Supply chain also to be changed dramatically
- Competition among suppliers also intensified

Customer \textbf{axis}
- Renault, Nissan, Mitsubishi Alliance
- Honda, Toyota
- Daimler, VW, etc.

Product \textbf{axis}
- Focus on suspension parts
- Expand business to new products for EVs

Region \textbf{axis}
- Expansion in large markets; Japan, US and China
- Expansion at Asian bases

Consistently maintain existing business, while proactively acquiring new businesses

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2. New Mid-term Business Plan
Yorozu Spiral-up Plan 2020

Key Initiatives:
(3) Enhance Corporate Capabilities
Key Initiatives: (3) Enhance Corporate Capabilities

Human resource development

- **Work Style Reform and Diversity**
  - Work Style Reform; create a “healthy and engaging” workplace
  - Recruitment and promotion with respect to diversity, establish new “Diversity Promotion Group”
  - Continuation of industry-academia collaboration

- **Human resource development**
  - Optimal education and training based on Yorozu general educational programs and professional development programs by function
  - Talent localization and nurturing of global human resources
Key Initiatives: (3) Enhance Corporate Capabilities

Organization review

- Manufacturing functions: Enhance “Total Production System”
  - Created the position of Chief of Yorozu Global Technical Center (YGTC) to enable quicker decision-making of manufacturing functions

Chief of Yorozu Global Technical Center (YGTC)

Mother plant (Yorozu Tochigi)

YGTC
- YPW
- Mfg. Eng.
- Prod. Control
- R&D
- QA
- Purchasing
Key Initiatives: (3) Enhance Corporate Capabilities

Organization review

- Strengthening advanced development

  - Elevate Advanced Development Gr. to new Research & Development Dept., with the aim of stepping up research and development of new manufacturing methods and new structural parts
Key Initiatives: (3) Enhance Corporate Capabilities

Organization review

- Enhance project profit management

Strengthen under the current organization

- Strengthen “Cost Planning Group”
- Strengthen project profitability evaluation (NPV)
- Enhance cross-functional profit management process

Strengthen project management system

- Cross-functional progress management
- Centralized management of new model budgets
- Problem solving activities

YSP2017 YSP2020
Key Initiatives: (3) Enhance Corporate Capabilities

Organization review

- Established new Diversity Promotion Group
  - Bring together and shape the ideas from the Smart Work Committee and the proposals from departments
**Key Initiatives: (3) Enhance Corporate Capabilities**

**ESG management**

**Environment**
- **Reduction of environmental burden**

**Social**
- **Work style reform**
- **Promoting diversity**

**Governance**
- **Enhance corporate governance**

**Environment**
- **Monozukuri innovation**
  - Environment friendly production process
- **Cultivate new products & technologies for the future**
  - Preventing global warming during product usage

**Social**
- **Promote work style reform and diversity**
  - Create a “healthy and engaging” workplace
  - Fostering organizations that accept diversity

**Governance**
- **Enhancement of governance**
  - Review member composition of the Board of Directors
  - Furtherance of compliance
  - Enrich dialogue with shareholders
Financial Strategies: Enhance return to shareholders

Increased dividend for 9 consecutive years

FY2017 dividend was 59 yen/share. (Annual 41 yen + Commemorative 18 yen)

Continue 35% as the target payout ratio in FY2018 onward
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