

## ETIC to Provide Support to Fuji Technica Inc. and related company

September 17<sup>th</sup>, 2010

Enterprise Turnaround Initiative Corporation of Japan

The Enterprise Turnaround Initiative Corporation of Japan (“ETIC”) has decided to provide support to Fuji Technica Inc. and a related company under Article 25, Clause 4 of the Enterprise Turnaround Initiative Corporation of Japan Act (Act 63, of 2009, hereafter “the ETIC Act”).

1. Name(s) of persons or companies concerned

Fuji Technica Inc. (hereafter, “Fuji Technica”) and Fuji Assembly Systems, Inc. (hereafter “FAS”); collectively, “the Fuji Technica companies”

2. Name(s) of financial institutions jointly applying for rehabilitation support with the Fuji Technica companies

The Shizuoka Bank, Ltd. (hereafter “Shizuoka Bank”)

3. Outline of business revitalization plan

Please see appendix

4. Comments from State Ministers in charge of ETIC

Prime Minister, Minister of Internal Affairs and Communications, Minister of Finance, Minister of Economy, Trade and Industry: No opinion expressed

Minister of Health, Labour and Welfare: *“I have no objection to the decision to support Fuji Technica and FAS. However, I ask that after reaching the decision to support, ETIC should encourage the Fuji Technica companies to discuss the situation with employees of the companies as soon as possible. I also ask that in advising on and guiding the implementation of the corporate revitalization plan, ETIC should aim to ensure that the Fuji Technica companies comply with related laws and regulations, and that they also provide adequate opportunities for substantive discussions with the workforce with due consideration of employment stability and other such factors.”*

5. Comment from State Minister supervising business activities

Minister of Economy, Trade and Industry: *“The domestic die making industry is facing significant changes in the operating environment, including a substantial fall in orders*

*since the onset of the global recession and shifts in the demand structure accompanying the rapid development of Asia's manufacturing industry. I therefore believe that the business integration of two of Japan's major die making companies is a significant undertaking. I hope that through steady progress in the business revitalization plan we will see the creation of a cost structure able to compete with developing nations while maintaining Japan's outstanding product quality and delivery management capabilities, with a sustainable employment foundation."*

6. Debt purchase application period

From Friday, September 17<sup>th</sup>, 2010 for receipt by ETIC no later than Wednesday, November 10<sup>th</sup>, 2010

7. Request for temporary suspension

Under Article 27, Clause 1 of the ETIC Act, financial institutions have been requested not to recover loans or exercise any other rights they may have as creditors before the end of the debt purchase period as per item 6 above.

8. Treatment of trade and general creditors

The decision by ETIC to provide support involves requesting financial support only from financial institutions providing loans to the Fuji Technica companies. No request for support will be made with regard to trade debt. Therefore there will be no impact on trade and general creditors.

9. Basis for decision to support

ETIC's basis for deciding to provide support is as follows.

9.1 Rationale

Fuji Technica operates on a global scale with a strong client base in Japan and worldwide (in excess of 110 clients in 19 countries), providing world class technology in automotive stamping dies and serving as a primary production support for the global automotive industry. The company also maintains strong brand power derived from more than 50 years of technical development and its global client base. As a representative Japanese die maker, Fuji Technica has contributed to the development of the automotive industry in a broad range of regions, from the advanced to the emerging nations.

Furthermore, given that dies are a fundamental element of manufacturing, Fuji Technica's technological capabilities also contribute to the maintenance and enhancement of competitive strength in the Japanese domestic manufacturing industry.

One of the major themes of this business revitalization plan is a merger with Miyazu Seisakusho Co., Ltd. (hereafter, "Miyazu Seisakusho"), a major domestic die manufacturer.

It is hoped that this plan, by having ETIC play a catalytic role in the reorganization of an industry in a sector that has been exposed to global competition, will help the industry extricate itself from low profitability brought on by a structural oversupply from domestic manufacturers, and will provide an opportunity for further industrial reorganization in the future. ETIC believes that this plan can be a test case for other industry sectors that face the same issues.

The collapse of Fuji Technica would damage the businesses of many of its clients (Fuji Technica had 32 ongoing projects as of August 15<sup>th</sup> 2010, while FAS had 37,) as well as business partners (Fuji Technica has in excess of 450 clients, while FAS has more than 206,) and ETIC expects that employees (a total of 586 at the target businesses as of July 31<sup>st</sup>) would lose their livelihoods.

If the company were to fail, there would be ramifications for the local economies in which its businesses are located, and the production plans of automotive manufacturers around the world would be exposed to considerable uncertainty. The effects of the failure of the company on social and economic systems overall are too great to be ignored. Accordingly, ETIC has determined that it is important to support Miyazu Seisakusho so that its business can continue operating.

## 9.2 Role of ETIC

Under the terms of this plan, ETIC will:

1. Act as a coordinator among the financial institutions and others that are involved with Fuji Technica  
→ ETIC's aim is to resolve the excessive interest-bearing debt burden on the business and strengthen its financial position by requesting debt forgiveness

from financial institutions, as outlined below

2. Coordinate the parties who have an interest in the business integration between Fuji Technica and Miyazu Seisakusho.
  - ETIC's role will be to facilitate optimal coordination between the parties to the integration
3. Inject capital of ¥5.3 billion
  - ETIC will underwrite a ¥5.3 billion issuance of new preferred shares, providing funding for payments associated with the business transfer of Miyazu Seisakusho and for structural reform.
4. Provide a maximum of ¥1.5 billion in loan guarantees
  - ETIC will facilitate funding procurement by guaranteeing approximately 50% of a maximum of ¥3.0 billion in working capital funding to be provided by Shizuoka Bank and others
5. Deploy management personnel and other such resources to support management of the company.
  - ETIC, subsequent to the capital injection outlined in 3. above, will deploy management and other personnel into the company to support the implementation of the business revitalization plan.

Appendix: Outline of the Business Revitalization Plan

**Section 1: Overview of the companies receiving support** (all information as of July 31<sup>st</sup>, 2010 unless otherwise stated)

**1. Fuji Technica Inc.**

1.1 Name of company

Fuji Technica Inc.

1.2 Head office

20 Matoba, Shimizu-cho, Sunto-gun, Shizuoka Prefecture

1.3 Date of establishment

February 6, 1957

1.4 Capital

¥910,174,967

1.5 Shares

Number of shares authorized: 29,000,000 shares

Number of shares issued and outstanding: 8,043,418 shares

1.6 Main shareholders

(As of March 31, 2010)

Name of shareholder	Number of shares held (thousand shares)	Percentage of total
Lotus Trading	1,040	12.92
Toshio Takahashi	683	8.49
Komatsu Ltd.	643	7.99
Ohchu Co., Ltd.	495	6.15
The Shizuoka Bank, Ltd.	273	3.40
Takako Takahashi	266	3.30
Midori Takahashi	263	3.27
Mizuho Trust & Banking Co., Ltd. Retirement Pension Trust (Mizuho Bank account) mandate with Trust & Custody Services Bank, Ltd.	252	3.13
Kasumi Takahashi	196	2.44
Fuji Technica Employees Share Club	155	1.93
Other	3,777	46.98
Total	8,043	100.00

1.7 Main business

Automotive stamping tool and die operations

1.8 Number of employees

441 (of which, 7 part-time and 1 on placement)

### 1.9 Main facility locations

Head office and Mishima plant: Shimizu-cho, Sunto-gun, Shizuoka Prefecture

Izu-Nagaoka plant: Izunokuni-shi, Shizuoka Prefecture

Niigata plant (warehouse): Nishikanbara-gun, Yahiko Mura, Niigata Prefecture

### 1.10 Main banks

The Shizuoka Bank; The Bank of Tokyo-Mitsubishi UFJ, Ltd; The Juroku Bank, Ltd.; others

### 1.11 Affiliated companies

FAS; Fuji Technica Service Inc.; Yantai Fuji Wilson Engineering Co., Ltd.; Yantai Fuji Mitsui Automotive Die & Parts Co., Ltd.; PT Fuji Technica Indonesia; IBE Co., Ltd.

### 1.12 Financial overview (financial results for the year ended March 31, 2010)

Consolidated results:

Net sales	¥15,832,520,000
Gross profit	¥1,240,400,000
Operating income	¥396,110,000
Ordinary income	¥257,770,000
Net income	¥299,830,000
Net assets	¥533,060,000
Total assets	¥18,688,410,000

Non-consolidated results:

Net sales	¥12,483,080,000
Gross profit	¥818,910,000
Operating income	¥236,030,000
Ordinary income	¥8,390,000
Net income	¥49,140,000
Net assets	¥301,940,000
Total assets	¥15,321,380,000

## 2. FAS

### 1.1 Name of company

Fuji Assembly Systems Inc.

### 1.2 Head office

Shin-Hasama 71, Seki-shi, Gifu Prefecture

1.3 Date of establishment

July 11, 2000

1.4 Capital

¥60,000,000

1.5 Shares

Number of shares authorized: 4,800 shares

Number of shares issued and outstanding: 1,200 shares

1.6 Main shareholders

Name of shareholder	Number of shares held (shares)	Percentage of total
Fuji Technica	1,000	83.33
Hiroshi Watanabe	100	8.33
Other	100	8.34
Total	1,200	100.00

1.7 Main business

Automotive welding equipment operations

1.8 Number of employees

145 (of which, 2 part-time, 9 on placement, 6 temps)

1.9 Main facility locations

Head office, Seki plant: Seki-shi, Gifu Prefecture

Kani plant: Kani-shi, Gifu Prefecture

1.10 Main banks

Juroko Bank; The Bank of Tokyo-Mitsubishi UFJ, Ltd.; The Gifu Shinkin Bank;  
others

1.11 Financial overview (financial results for the year ended March 31, 2010)

Net sales	¥3,388,030,000
Gross profit	¥286,530,000
Operating income	¥35,750,000
Ordinary income	¥30,190,000
Net income	¥30,140,000
Net assets	¥2,080,000
Total assets	¥3,704,150,000

## **Section 2: Background and circumstances leading to request for ETIC support**

As a major maker of large automobile stamping dies, Fuji Technica maintains brand power and a solid domestic and international client base supported by high technical capabilities.

Nevertheless, in the face of the cost competitiveness of new metal die-makers in the Asian region, particularly in South Korea and China, since 2000 Japanese domestic metal die-makers—including Fuji Technica—have lost the price war and have been forced to retreat into the area of high-precision dies where they can take advantage of their technical superiority but where profit margins are slim. The same circumstances have forced FSA into the high precision area.

As a result of excessive competition in the high-precision die sector, the Japanese domestic die-making industry has fallen into a vicious cycle where it is having difficulty generating sufficient levels of cash flow and is running low on the funding needed for investment to ensure future competitiveness.

In response, Fuji Technica in 2009 implemented restructuring which included closing its Niigata plant, cutting directors' remuneration, and reducing personnel and salaries, and on September 28<sup>th</sup> of the same year, the company received business reconstruction planning (hereafter, "the business reconstruction plan") accreditation based on the Law on Special Measures for Industrial Revitalization, and procured finance using the debt guarantee system of the Organization for Small & Medium Enterprises and Regional Innovation.

Fuji Technica has made efforts to improve productivity based on the business reconstruction plan, and some results are being seen. However, in addition to the unexpected appreciation of the yen, there have been sharp changes in the external environment, including a prolonged dip in orders as a result of the economic slump and increasingly severe price competition. These changes have had a considerable impact, and in order to overcome this situation and further develop business, more effective and drastic reforms are needed. Fuji Technica's capital adequacy ratio has fallen to 1.5 percent (based on the annual security report for the year ending March 2010 for Fuji Technica on a non-consolidated basis,) and this has also had an impact on order activity.

In order to overcome the prevailing situation, Fuji Technica recently reached agreement with Miyazu Seisakusho, a major domestic competitor from the same industry, on a business merger.



The Fuji Technica companies, following discussions with their main bank Shizuoka Bank, have concluded a “Memorandum of Understanding for Business Integration” (hereafter, “Memorandum of Understanding”) with Miyazu Seisakusho, and applied to ETIC for revitalization support so as to achieve business revitalization based on a transparent and fair process, while minimizing impairment of business value and pursuing a swift merger completion.

### **Section 3: Outline of business revitalization plan**

#### **1. Basic policy**

The main components of this business revitalization plan call for Fuji Technica to receive assistance from ETIC and receive the entire business of Miyazu Seisakusho, regarded as one of the “Big Three” companies in the large press metal-die industry alongside Fuji Technica, with Fuji Technica taking over the business of the merging companies and pursuing business revitalization.

Fuji Technica and Miyazu Seisakusho have been in friendly competition over the past several decades in the large press metal-die industry, and both have established their brands and their customer bases globally based on strong technical foundations. The Fuji Technica companies have enhanced competitiveness and differentiation by extending their activities from large stamping dies to also include operations related to automobile body stamping, encompassing adjacent operations on the value chain such as welding equipment and automobile component stamping.

Nevertheless, as mentioned earlier, the rapid rise of metal-die manufacturers in emerging nations and the reduction in the number of new car models due to the effects of the global recession have made the business environments for both companies suddenly much more difficult, and the futile war of attrition amongst the Japanese die-makers has put both companies at risk of losing the advantages that they have developed.

In order to resolve the current situation, the companies have chosen to try to restore their innate competitiveness through the integration of their operations.

There are three essential points to this business revitalization plan.

- (1) Withdrawing from the wasteful war of attrition with fellow domestic die-makers in

the high-precision die sector in which Japanese companies are internationally competitive

- (2) Creating greater cost competitiveness by strengthening manufacturing plants in the emerging nations
- (3) Building competitive superiority through the combination of product quality control and delivery management skills that both companies possess, together with the enhanced cost competitiveness in (2) above.

## 2. Business plan

To realize these three essential points, Fuji Technica and Miyazu Seisakusho will integrate their businesses so that both can gain the greatest possible benefit from each other's strengths, supplement each other's scarce management resources, ease the domestic oversupply of metal dies, and aim for sustainable increases in competitiveness.

The business plan of the integrated company can be summarized as follows.

- (1) Reform to change the business structure
  - (1) Reduce domestic supply capacity and promote selective acceptance of orders (in the large high-precision die sector)
  - (2) Increase orders through manufacturing bases in emerging nations (in sectors other than large high-precision dies)
  - (3) Strengthen the order base
- (2) Reform to achieve cost reductions
  - (1) Strengthen profit management and cost management systems
  - (2) Streamline head office functions
  - (3) Streamline the FAS welding equipment business
- (3) Reform of organizational management and personnel policies

Use the reform of organizational management and personnel policies, which will accompany the business integration, as a lever to achieve a thorough change in business structure (solve excessive competition resulting from the structural oversupply, achieve greater cost competitiveness by strengthening manufacturing plants in the emerging nations, strengthen financial footing to help secure more orders), and build up incremental, steady cost reductions to help the company shed its current low-profit structure.

### 3. Business restructuring

On the September 17<sup>th</sup> 2010, Miyazu Seisakusho and Fuji Technica concluded a Memorandum of Understanding. Following completion of the business integration contract, in late December 2010 Miyazu Seisakusho will transfer its entire business to Fuji Technica ("the business transfer") and the operations of the companies will be integrated.

Funding for payments associated with the business transfer of Miyazu Seisakusho and for structural reform implemented under the business revitalization plan will be procured through a third party allocation of shares underwritten by ETIC.

### 4. Request for financial support

With respect to approximately ¥3.1 billion of the total debt owed to creditors, Fuji Technica will implement a third party share subscription through investment-in-kind by the relevant creditors (a so-called Debt-Equity Swap, hereafter referred to as DES,). With respect to approximately ¥1.2 billion of debt, Fuji Technica will request a change in loan terms to subordinated loan capital (a so-called Debt-Debt Swap.)

With respect to FAS, the issue of excessive debt shall effectively be eliminated through a process of aggregating debt pertaining to FAS in Fuji Technica, with Fuji Technica underwriting the discharged debt.

### 5. Financing

ETIC believes that the financial support set forth in this business revitalization plan, along with the capital injection from ETIC and the facility to procure working capital from Shizuoka Bank, will ensure that there will be no risk of Fuji Technica becoming short of funds.

### 6. Conformance with standards for support

#### 1. Possession of effective management resources

Fuji Technica is a one of the world's leading manufacturers of large press dies used for high precision stamping in the automotive industry, capable of short delivery cycles from design through to production. The company has 50 years of accumulated experience and technical development, and has a strong customer base and brand

presence, particularly in the area of high precision press dies for body side panels and fenders. The Fuji Technica companies have also enhanced competitiveness and differentiation by extending their activities from large stamping dies to also include operations related to automobile body stamping, encompassing adjacent operations on the value chain such as welding equipment and automobile component stamping.

FAS, meanwhile, is one of the world's leading high precision automobile welding line equipment companies, with sophisticated planning and construction capabilities, a strong brand and solid customer base developed since its founding

Accordingly, both companies are repositories of effective management resources.

#### 2. Standards for productivity improvement

The Fuji Technica companies are expected to be able to meet productivity improvement standards within three years of the date of ETIC's decision to provide support.

#### 3. Standards for financial soundness

The Fuji Technica companies expected to be able to meet standards for financial soundness within three years of the date of ETIC's decision to provide support.

#### 4. Potential to refinance within three years

Implementation of the business revitalization plan is expected to significantly improve the financial condition of the Fuji Technica companies, enabling them to reach suitable levels of capital repayment and interest payment capacity, and making refinancing highly possible.

#### 5. Connection with structural oversupply

Implementation of the business revitalization plan will lead to the business integration and rationalization of Fuji Technica and Miyazu Seisakusho, contributing to a reduction in structural oversupply.

Accordingly, the plan has been judged as 'not hindering the resolution of structural oversupply' with reference to Article 19 of the Act on Special Measures for Industrial Revitalization and Industrial Innovation.

## 6. Status of consultations with workforce

While Fuji Technica has no associated labor union, it is planned that meetings with employees will be scheduled promptly after announcement of the decision to provide support, and opportunities provided to discuss employment conditions and other aspects of the business revitalization plan.

At FAS, it is planned that meetings with the labor union will be scheduled promptly after announcement of the decision to provide support to discuss employment conditions and other aspects of the business revitalization plan.

## **Section 4: Responsibility of managers**

### 1. Fuji Technica

The responsibility of the management team of Fuji Technica will be reflected in the resignation of all current directors and auditors, other than outside directors and auditors, without directors' retirement benefits.

### 2. FAS

The responsibility of the management team of FAS will be reflected in the resignation in principle of all current directors and auditors, without directors' retirement benefits.

## **Section 5: Responsibility of investors**

### 1. Fuji Technica

The responsibility of shareholders will be reflected in the significant dilution of their existing shareholdings that is expected to arise as a result of new shares issued to ETIC on its ¥5.3 billion capital injection along with the planned ¥3.1 billion DES implemented with creditors of the company.

### 2. FAS

The responsibility of shareholders will be reflected in the significant dilution of their existing shareholdings that is expected to arise as a result of Fuji Technica making a capital injection into FAS through using the investment-in-kind and other methods to aggregate FAS debt in Fuji Technica.

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