

Q&A Session Minutes on Corporate Strategy Briefing held in Nov. 2023

Time: 13:30 to 14:40, Friday, Nov. 16, 2023

Place: The conference room of head office (Chiyoda-ku, Tokyo) with live internet streaming.

Briefers: SEKIGUCHI Akira, President and Representative Director

HOSONO Hiroyuki, Director

OKASHITA Osamu, General Manager of Accounting Dept.

OOSHIKA Yoshikazu, Deputy General Manager of Corporate Strategy Dept.

■ Group-wide

Q: In Midterm Plan 2024, the Company aims to achieve quantitative expansion through aggressive capital investments, and is steadily implementing measures in accordance with this plan. At the same time, fixed costs have risen due to advance investments, leading to a rise in the break-even point. Is it possible to improve the profit margin by controlling costs and realizing investment benefits early on? In the Metal Processing Business in particular, there are many projects that will start mass production in FY2024. Please explain the profit margin outlook.

(President)

For investments over a certain size, the company makes investment decisions taking into account the return on investment and the recovery period in various scenarios at the Corporate Strategy Committee, which is attended by all directors and executive officers for discussions. Since the return on investment depends on the market for each product and service, there is no uniform investment standard that can be applied; but the minimum standard is that the company does not lose money even in the worst-case scenario, and that profits excluding depreciation will increase steadily if up-front investments are made.

Investments in the Metal Processing Business consist of projects that are essential to maintain the Company's strength in the market, and projects that have high expectations for growth and lead to improved profit margins. It is important to ensure that the planned returns are obtained in all projects, and we are constantly making strict self-checks, not only in the Metal Processing Business but in all segments, as to whether it is possible to achieve a reliable return on investments, which also includes restraint on initial investment.

Q: What is the status of consideration regarding the sale of cross-shareholdings in Fujita Kanko?

(President)

I understand that Fujita Kanko shares are one of our long-standing issues. We have a history with the company and hold the shares, but since there is almost no synergy between our business and Fujita Kanko's hotel business, we need to review our shareholdings. Therefore, we are deepening the level of our internal discussions with regard to this. On the

other hand, the hotel industry has suffered severe damage during the COVID-19 pandemic, and Fujita Kanko is still in the process of rebuilding. The sale of shares may have a negative impact on efforts to rebuild their business, so we will have to decide carefully.

Q: Regarding the dividends for the current fiscal year, you said that considering how to reflect the improvement in the financial position. Do you have any plans to revise the dividend policy?

(President)

Currently, we are expecting a decline in profit for the second consecutive year, but we have no intention of revising the dividend policy of Midterm Plan 2024, which is “not to decrease the amount of ordinary dividends from the previous year’s amount” and “to increase the amount of ordinary dividends in stages”. Based on this policy, we are discussing our approach to the total dividend for the current fiscal year, based on the assumption that the ordinary dividend will be increased to 110 yen, and taking into account that the total dividend (ordinary dividend plus special dividend) for the past two years was 130 yen. Details will be announced as soon as discussions are concluded.

Q: The PBR is below 1x. To increase capital efficiency, it is necessary to consider appropriate leverage and capital levels, but as a result, ROE is not in an upward trend. In preparation for the next midterm plan, are there any discussions on reviewing the dividend policy, including capital control?

(President)

With regard to the next midterm plan, no business plan or investment plan has been finalized at this time. In Midterm Plan 2024, some segments are making up-front investments, so we believe that ensuring returns on these investments is a top priority for the next midterm plan. In addition, although it is difficult to immediately link them to improvements in profitability, we are also discussing sustainability-related investments necessary for business continuity. We believe that a concrete plan for these will not be made until after the next medium-term plan. It will also be necessary for us to discuss our dividend policy, as one of the key materials for formulating a comprehensive management plan, including these investment plans. Accordingly, we are not in a situation where our future dividend policy can be decided at this time, and no decisions have yet been made.

Q: How do you estimate cost of shareholder's equity?

(Director Hosono)

We estimate it using a typical formula. Additionally, although it is stated in the document as 6%, it is discussed internally with a range of 6–7%.

■ Environmental Management & Recycling

Q: It is our understanding that the PCB waste treatment business will shrink in the future because of the treatment deadline. On the other hand, have there been any changes in the current competitive environment?

(President)

The PCB waste treatment business operations will be terminated by the 2027 treatment deadline. In the past, we saw a decline in the unit price of treatment due to competitors progressively entering the market, but in recent years there have been almost no new market entrants, and the unit price has stabilized. In the current situation, with the deadline approaching, it is unlikely that there will be any more new market entrants, and there is even a possibility that demand will temporarily increase as we approach the deadline. While it is difficult to predict future demand, we believe that it will remain a stable business until the 2027 treatment deadline.

After the termination of PCB waste treatment business, we expect to transition to a recycling business for used lithium-ion batteries. The heat treatment furnace used for PCB waste treatment is effective for the inactivation and stabilization of used lithium-ion batteries, and since our existing equipment can be used without modification, we believe this gives us a significant advantage in terms of treatment capacity and know-how over competitors.

Q: What was the reason for acquiring a new business site in Kumamoto Prefecture and establishing a new recycling business base? In addition to strengthening the used home appliance recycling business, what kind of business development are you considering?

(President)

For several years, we had been considering strengthening our used home appliance recycling business at Act-B Recycling in Kumamoto. We started looking for a new business site because there is no room for expansion at the existing Act-B site. Act-B Recycling is engaged mainly in the used home appliance recycling business, but since we were able to confirm that there is room for expansion of the Environmental Management & Recycling business due to growing needs for recycling in the Kyushu region, we decided to secure a larger business site to take advantage of the future expansion potential of the Kyushu region as our new market. In Kumamoto Prefecture, demand for business site has been increasing rapidly in recent years. Although it was delayed, we were able to successfully acquire site in Uki city in Kumamoto this time.

Although we do not yet have a concrete business plan, we are considering the recycling of precious metal scrap, recycling of used lithium-ion batteries, and recycling of solar panels, for which technological development is currently underway at existing bases in the Tohoku and Kanto regions. In the future, we will proceed with market research and business feasibility studies.

Q: There have been some signs of stagnation in business expansion in Indonesia. What is the outlook for the future?

(President)

At the second treatment facility in East Java Province (DESI), which began operations in early 2023, we planned to expand waste treatment orders for a full-scale launch in parallel with obtaining various licenses, but there has been a delay in obtaining those licenses. However, since we have recently been able to increase waste treatment orders, we expect to be able to reach the scale of the business envisioned in Midterm Plan 2024, although there will be some delays.

On the other hand, social awareness of the country's environmental problems is increasing, and there are more and more requests for us not only to dispose of waste in landfills but also to incinerate it. Since the incineration facility has already been installed, we would like to expand our business in full cooperation with the authorities.

Although the progress of the Indonesian business is lagging behind the midterm plan, we feel that the growth potential of the business remains high, and we will continue to pursue measures and investments to expand the business.

■ Nonferrous Metals

Q: Regarding the zinc business, energy prices remain high, although they are declining recently. What are your thoughts on the operation and production of Akita Zinc from FY2024 onward?

(President)

Our business plan is based on the assumption that energy prices, especially electricity prices, will not return to previous levels. In FY2023, zinc smelting and refining alone will not be able to make a profit, but if we include the profits achieved at Kosaka Smelting and Refining via Akita Zinc and the equity method profits from overseas zinc mines, then we have secured profits. So, withdrawing from zinc production is not an option at all.

In FY2023, zinc production efficiency has temporarily deteriorated due to the situation where intermediate and semi-processed products are stuck due to production problems, and we are prioritizing the elimination of these problems in our operations. At the same time, if we operate under normal conditions and at the current level of electricity costs, profits can still be secured, so we judge zinc smelting to be sufficiently sustainable. As for zinc production from FY2024 onward, we expect to see a recovery in demand for automobiles, which are the largest application, so we believe that we can avoid deliberate production adjustments like those made in FY2023. These matters will be clarified when we formulate the budget plan for FY2024.

Q: The collection volume of spent catalysts is decreasing, but is this due to the impact of the decline in PGM prices or has there been a change in the competitive environment? What is the outlook for the future?

(President)

For not only for spent catalysts, but also for recycled materials in general, when the prices are falling, recyclers, from whom we collect catalysts may refrain from shipping recycled materials and wait for price reversals. Prices rise, and shipment volumes increase. This cycle has repeated over and over, and we believe that this time also falls within this range. PGM prices have been in a downward trend since the fourth quarter of FY2022, and we are currently in a phase where businesses are holding back. But since the decline in PGM prices is beginning to show signs of bottoming out, we believe that there will be a movement to resolve the hold-back in the future.

Since our market share itself has not changed, we believe that it is simply that collection volume fluctuates according to increases or decreases in the distribution volume in the market. Under these conditions, efforts to expand collection capacity, such as the expansion of collection bases through the introduction of a new sampling facility in Spain and the construction of a new sampling plant in the United States, are proceeding as planned, regardless of fluctuations in PGM prices.

■ Electronic Materials

Q: Sales volume of silver powder is recovering. In the future, you are planning to develop new silver powders and expand sales. Is it possible to further expand profits?

(President)

Since there is a difference between the international price of silver ingots (the main raw material) and the domestic price of silver ingots in China, in competition with Chinese competitors it is necessary for us to supply high-quality silver powder, even if it is expensive. If there is an opportunity to do so, we will aim to increase profits. But since product prices are also an important factor in competition, we are considering maintaining the current profit level as a minimum target. We will also aim to improve the level of profits and reduce manufacturing costs.

Q: Short-wavelength-infrared LEDs and PDs for wearable devices, for which earnings are expected to increase under Midterm Plan 2024, have stalled due to sluggish demand. At the same time, these products have a high margin, and will have a significant impact on the future outlook of the Electronic Materials Business. Will there be any change in the current profitability and future expectations?

(President)

Our understanding is that there is no change in our market share of short-wavelength-

infrared LEDs and PDs. At the same time, due in part to the economic downturn mainly in China, sales of end products have been sluggish, so the expansion of sales has not progressed as planned. Since it is difficult for us to do anything about the demand for end products, we will wait for the recovery of demand at this time, make our own efforts to reduce costs, and take other measures as much as possible.

Q: Are there any new products not covered in today's explanation that are making progress toward commercialization?

(Deputy General Manager Ooshika)

For ultraviolet LEDs, we received a relatively large order in the first half of FY2023, although it is a one-shot order. Commercialization is now in sight, having passed the development stage. Demand is beginning to appear for medical applications, and for industrial equipment in the future, and we will consider how this can be reflected in our business plans for FY2024 and beyond.

■ Metal Processing

Q: You have many products and services for which mass production will begin in FY2024, which are expected to contribute to earnings. Since automobile production is also recovering, can we expect earnings to increase in FY2024?

(Director Hosono)

Since some plans have been pushed back, it seems that the start of mass production is concentrated in FY2024, but we also expect the results of our construction and development efforts to date to be realized. As for copper rolled products for the telecommunications sector, the introduction of DOWA Metanix's new rolling machine will increase production capacity. As for the expansion of our business in Asia, we plan to expand sales locally in response to the increase in the supply of base materials. Demand for precious metal electroplating mainly for automobiles, and metal-ceramics substrates for industrial applications and railways, are also expected to recover and grow from FY2024 onward.

(President)

The planned development of the mass production system will be completed in FY2024. Customer demand will have a significant impact on the timing and scale of its contribution to earnings. For this reason, we will make the contribution to earnings more concrete in the FY2024 budget plan and the next midterm plan.