

## Record of Telephone Conference Concerning FY2019 Q3 Results

Reference: FY2019 Q3 Results and Forecast

[https://www.mitsui-kinzoku.co.jp/wp-content/uploads/FY19Q3E\\_200212.pdf](https://www.mitsui-kinzoku.co.jp/wp-content/uploads/FY19Q3E_200212.pdf)

Note:

PKG = Package substrate

HDI = High density interconnect

PPC = Pan Pacific Copper Co., Ltd.—a joint venture with JX Nippon Mining & Metals Corporation

### **General Performance**

Q.

Please explain the changes in the segment forecasts. In particular, why have you raised the profit forecast for the engineered materials segment (by ¥4.1 billion)?

A.

[From page 2 of the financial results briefing]

Regarding the upward revision of ¥4.1 billion for the engineered materials segment, catalysts account for the bulk of the figure. The primary cause is higher precious metal prices. We purchase some of the raw materials for catalysts, and precious metal prices trended very high in Q3, resulting in a temporary bounce in profit. Copper foil is another contributor.

Regarding the upward revision of ¥700 million for the metals segment, this consists gains of ¥1.2 billion from the Caserones Copper Mine, partially offset by a ¥500 million loss in PPC.

Regarding the downward revision of ¥1.5 loss in affiliates coordination, ¥900 million of this is attributable to our subsidiary Mesco failing to convert leads.

We have also recorded a ¥3.3 billion loss related to inventory factors. This was due to low metal prices.

### **Engineered Materials Segment**

Q.

In the engineered materials segment, profit is up by ¥2.5 billion, yet the segment's sales were no higher in Q3 than they were in Q2. How did each of the main product lines contribute to the result?

A.

Part of this is down to inventory factors. The segment gained ¥700 million because the declining range of indium prices from Q2 to Q3 were smaller than the level from Q1 to Q2. But the bulk of the growth was in catalysts, which benefitted from high precious metals prices in Q3.

Q.

For Q4, what do you see as the main quarter-on-quarter decreases in the engineered materials segment?

A.

Given that precious metal prices are set to remain at the Q3 level, we do not expect the same price-driven bounce that occurred in Q3. Additionally, we expect slimmer sales of PKG-related MicroThin™ sales.

Q.  
Regarding MicroThin™ for HDI, have you won any new customers in the HDI market?

A.  
There has been no major development on that front.

Q.  
A North American smartphone maker is going to release a cheaper model. How will this affect sales of MicroThin™ for HDI?

A.  
The cheaper model uses MicroThin™, too. So the launch of the product may lead to an upturn in our HDI-related sales.

Q.  
Again on MicroThin™ for HDI, what trends (yield rate, number of circuit board layers, and so on) do you think will impact the sales for 2020 models?

A.  
The North American smartphone maker said it may use larger motherboard in the 2020 model. If it does decide to use larger one, we can expect higher sales in the forthcoming fiscal year.

Q.  
In 2019, PKG-related MicroThin™ sales show an increase from the 2018 level (19% up year on year). What explains this increase? How much of it was due to sales for non-smartphone applications?

A.  
We expect to see a higher annual growth rate in PKG-related MicroThin™ sales, both those for smartphone and non-smartphone applications. That said, much of the increase from 2018 to 2019 was driven by inventory factors; whereas clients reduced inventory levels in FY2018 H2, they stockpiled in FY2019 Q2. In other words, the rate of increase from the 2018 level exceeds real demand.

Q.  
If PKG-related MicroThin™ sales were affected by stockpiling in Q2, how come there was no change in Q3 sales? Also, why are sales down in Q4?

A.  
Sales in Q3 were maintained at same level by production for memory applications. As for the decrease in Q4, this was partly down to the timing of the lunar new year. It was also a reactionary drop following the end of such production.

Q.  
PKG-related MicroThin™ sales show positive year-on-year performance. Does this suggest any changes in the trends related to smartphone and non-smartphone applications?

A.  
There's no change in the trends as such. Smartphone makers continue to add more components to their products, meaning that they use higher quantities of MicroThin™. Outside the smartphone market, the roll-out of 5G continues to drive demand in relation to server memory.

Q.

Is it fair to say, then, that this year's PKG-related MicroThin™ sales outstrip real demand, in that they were buoyed by a reactionary upturn after last year's stock clearances as well as by memory-related production?

A.

That is certainly true for Q2 and Q3. Q2 sales were buoyed by stockpiling, while Q3 sales were buoyed by memory-related production. Conversely, forecasted sales in Q4 are below the level of demand, as clients have been reducing inventory levels again.

Q.

As for catalysts, does it take some time until you see the dividend from the high precious materials prices? I noticed that prices for palladium and rhodium started rising in January. Tell me how you factored such prices into the Q4 forecasts.

A.

There is a time lag; the whole process of buying the metal, coating the catalyst support, and then selling the product takes time. Prices in Q4 look set to remain at the Q3 level. If they do continue to trend at a high level, we should see profit growth in Q4.

Q.

Would you say that high prices of precious metals in Q3 pushed catalyst income north of ¥1 billion? If prices drop, when and how would you feel the impact? Do you know your rate of purchase raw materials?

A.

You're right by and large about prices driving up profit. And yes, if prices were to drop, we'd see the opposite effect. Our rate of purchase raw material is around 30%.

## **Metals Segment**

Q.

I have a question about the change in your stake in Hibi Kyodo Smelting Co., Ltd. The copper business looks set to return to profit in fiscal 2020. What will be the impact? Also, according to the disclosed materials, FYE March 2019 was a loss-making year. How is the outlook?

A.

The large loss was due to maintenance work and the suspension of operations due to such maintenance. As for Hibi Kyodo's outlook, in the absence of any change to the consignment agreement, the business will remain unprofitable when viewed in the long term. The impact will be negligible. That is, there is no change in the basic flow of profit and loss, in which we record PPC's profits under the equity method. That said, because the business will be a new consolidated subsidiary of ours, there will be some impact on the balance sheet.

We are still thrashing out the details. Forecasts and other precise data will be available after the subsidiary is incorporated next year.