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Q&A at the Briefing on 2025-2027 New Medium Term Business Plan

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Note:
PKG = Package substrate
HDI = High density interconnect—a printed circuit board with a high wiring density that serves as a motherboard

■Q&A Session
The person answering the question was President and Representative Director, Takeshi Nou.

Engineered Materials Segment
Q.
In your MicroThin™ growth scenario, please explain whether an increase in applications will expand the customer base and, in turn, increase sales volume. Focusing on stock prices, I believe that continued growth in the engineered materials business will drive stock price appreciation. Therefore, I would like to see you achieve profit growth led by engineered materials.

A.
We believe the strongest growth area for MicroThin™ will come from packages focused on memory for servers and routers. The base scenario is that AI server and existing server applications will continue to grow. As for new applications, optical modules are ramping up to around 100,000 square meters. Meanwhile, applications such as HDI related to AI servers are still in the planning stages.

Q.
Regarding the volume forecast for MicroThin™ for PKG, an increase of approximately 60% from the fiscal year 2024 result is projected for fiscal year 2027. Please explain the assumptions underlying this forecast.

A.
In non-smartphone usage, the amount of DRAM and NAND installed as server memory is definitely increasing. MicroThin™ has seen limited adoption in CPUs and GPUs, with memory being the primary usage in servers. On the other hand, it is used in various components of smartphones, such as RF modules and camera modules.

Q.
Has the 2025–2027 Medium Term Business Plan changed significantly compared to the previous growth forecast for MicroThin™? Also, regarding the medium- to long-term outlook, at the explanation meeting on the engineered materials business held in January 2025, you mentioned that you expected a decline in PKG module usage for smartphone starting in fiscal year 2028. Has there been any change in that view?

A.
The growth forecast remains unchanged. MicroThin™ sales volume was high in fiscal year 2021, largely due to temporary inventory buildup. Excluding this factor, sales have been growing steadily. However, growth has been weaker than expected, and the 2022–2024 Medium Term Business Plan has fallen significantly short of our expectations. In the 2025–2027 Medium Term Business Plan, given that it has been nearly two years since the

emergence of AI servers, and with general-purpose servers also now appearing in China, we have little doubt that AI servers will continue to grow. As the era of singularity is said to be approaching, applications for MicroThin™ are expected to be found in servers, routers, a wide range of future small electronic devices, and even in automobiles such as those equipped with ADAS. We believe its applications will continue to expand. Please note that there have been no significant revisions to the forecasts for fiscal year 2028 and beyond since the January explanation meeting.

Q.
In the copper foil business, stock prices have been linked to quarterly volume fluctuations, which has led to reduced investor confidence. Does your strategy for expanding the ROIC spread rely primarily on volume increases? If you can achieve it through improving productivity, raising prices, controlling costs, strategically adjusting the product mix, and other measures, disclosing the ROIC figures will enhance your credibility.

A.
In the 2025–2027 Medium Term Business Plan, as part of ROIC management, we will analyze the ROIC spread for each business. The initiatives to improve ROIC in the copper foil business are not simply about selling more. Rather, they involve raising prices in response to rising costs, setting prices for new products, reducing production costs, and various other actions to be taken with a strong focus on efficiency. These are the Big Moves we are implementing this time. We will also consider explaining the ROIC trend for copper foil.

Metals Segment
Q.
Regarding the metal business, I believe that the decline in zinc treatment charges (TC) in smelting will be difficult to recover. However, you are still forecasting higher profits. Please explain the background behind this forecast. For example, are you expecting increased profits from lead smelting?

A.
Zinc TC are currently at abnormally low levels, so we expect a slight recovery. We also expect to increase income by improving the efficiency of by-product recovery in lead smelting. We expect ordinary income for the metal business to be 44.5 billion yen in fiscal year 2024 and 12 billion yen in fiscal year 2025. However, we believe that the current drop in zinc TC is abnormal, and that the metals segment is fundamentally capable of generating around 20 billion yen in ordinary income on a stable basis. We aim to increase the proportion of recycled materials that are not affected by TC, and to thoroughly recover by-products to increase profits.

Business Creation Sector
Q.
You mentioned that HRDP® will be transferred to the Engineered Materials Sector in the second half of fiscal year 2025. Are its income figures already included in the Engineered Materials Sector rather than the Business Creation Sector? Is HRDP® included in the 4 billion yen ordinary loss for fiscal year 2027 shown on page 38?

A.
Since the transfer of HRDP® to the Engineered Materials Sector came up after formulating the Medium Term Business Plan, HRDP® is still included in the 4 billion yen ordinary loss for the Business Creation Sector in fiscal year 2027. At the timing of the transfer, it will be

accounted for as a cost within the Engineered Materials Sector, but by 2030, we aim for it to become a solidly profitable business.

Q.
Please tell us the latest information on HRDP®. You mentioned that you aim to make it a solidly profitable business by around 2030, but do you expect it to achieve profits comparable to MicroThin™, for example?

A.
At the moment, many customers in various supply chains are accelerating their evaluation of the product. We believe GEOMATEC's second production line will be highly competitive in both quality and cost. The key will be how quickly we can launch it and respond to customer evaluations. Based on our experience with MicroThin™, we initially saw demand take off with a small number of customers and then spread rapidly. Therefore, as shown in the demand forecast graph on page 23 of the document, we expect demand to begin rising in 2026 and to spread significantly in 2027. Furthermore, operating profit is expected to reach approximately 1.5 billion yen in 2027, with further increases naturally anticipated by 2030.

Q.
Will A-Solidi® remain in the sample shipment stage throughout the 2025–2027 Medium Term Business Plan period? Given that volume is expected to increase, is there a prospect that it will become an independent business during the 2025–2027 Medium Term Business Plan period?

A.
Much of the sample revenue in the Business Creation Sector comes from A-SOLiD®, and it can be said that it has already reached a scale suitable for commercialization. However, we believe the important business decision of all-solid state batteries will be made after 2030. Therefore, rather than assigning income responsibility to the product as a business unit, we believe it would be better to retain it within the research and development stage of the Business Creation Sector to support greater future growth. To maintain a broad perspective that includes potential collaboration with other companies, rather than simply pursuing business development on our own, we have no immediate plans to make A-SOLiD® an independent division.

Total or multiple segments

Q.
Regarding the promotion of the Big Moves using external expertise mentioned on page 11, I understand that you plan to implement new measures rather than simply extend existing ones. Could you share what specific measures you are considering in terms of pricing and inventory management?

A.
Although we have emphasized efficiency through ROIC management so far, outsiders still say there are opportunities being missed. We are currently examining questions such as why this price applies to multiple customers and why the trading company is structured this way, we are reviewing the details while working to understand the background. Instead of chasing after bold new theories, we are working with external consultants to explore what leading global companies are already practicing, and how we can apply those insights to ensure success in our own context. We aim to deliver results within a year, and since the impact of this initiative is not reflected in the 2025–2027 Medium Term Business Plan, we see this as an opportunity to exceed the plan.

Q.
You mentioned accelerating the shift toward management that takes into account capital costs and stock prices. What are the key points you would like to highlight in the 2025–2027 Medium Term Business Plan?

A.
We believe that by using ROIC trees across each business and implementing targeted improvement measures, we can enhance both ROIC and ROE. In managing with an awareness of stock price, we believe it is essential to consider what we need to communicate to the market in order to gain better understanding and valuation, and ultimately raise our PER.

Q.
With respect to shareholder returns, what was the reason for setting the DOE at 3.5% this time? If a 50% equity ratio is set as a benchmark for financial soundness, would financial soundness be the most important indicator for the prerequisite of share buybacks? Or would a 14% ROE target be more important?

A.
Regarding shareholder returns, we raised the rate from 2.5% to 3.0% in the 2022–2024 Medium Term Business Plan which began in 2022. Having achieved our target equity ratio of 50%, we would like this to be understood as a message that we intend to increase dividends from 2.5% to 3.0%, and then to 3.5%. As for whether we should prioritize maintaining an equity ratio of 50% or achieving a 14% ROE, I believe it makes sense to achieve a 14% ROE as a result of growth. To that end, we are committed to making growth investments and remain focused on reaching a 14% ROE by 2030. Even if there is no tailwind for income in the metal business like in FY2024, we aim to drive growth centered on the Engineered Materials Sector and generate stable income from it.

Q.
Regarding cash allocation, how do you plan to link investment progress and fluctuations in operating cash flow to share buybacks? Please explain the rules and how you balance different factors when deciding to carry out share buybacks.

A.
When there are opportunities for growth investment, we want to prioritize investing. On the other hand, since we have committed to a progressive dividend policy based on a DOE of 3.5%, we promise not to reduce the dividend of 195 yen for the fiscal year 2025.Unless there is a major deterioration in operating cash flow or a drop in our equity ratio, we will prioritize growth investments and dividends. Assuming we grow as planned, we do not intend to raise our equity ratio further and will consider share buybacks on a case-by-case basis.

Q.
Regarding M&A, please explain again the background behind why it did not progress under the 2022–2024 Medium Term Business Plan, and how you plan to move forward in the 2025–2027 Plan.

A.
As we had limited experience with M&A, we were overly cautious in the 2022–2024 Medium Term Business Plan, and as a result, made no progress. For the 2025–2027 Medium Term Business Plan, we intend to move forward under the leadership of the head office and

executive management, rather than relying on a division-led approach. We are not strictly bound by the 24 billion yen M&A budget. If a truly attractive opportunity arises, we are prepared to proceed even at 28 or 30 billion yen.

Q.
The sale of Mitsui Kinzoku ACT Corporation is scheduled for fiscal year 2025. Please explain how this will improve efficiency and, for example, what the impact on asset size will be.

A.
Since Mitsui Kinzoku ACT Corporation's ROIC is very low, asset efficiency is expected to improve following the sale of the business. Mitsui Kinzoku ACT Corporation's asset size is approximately 78 billion yen in consolidated total assets.