



## Q&A Concerning Medium Term Business Plan Progress

Reference: Progress Briefing on 2022-2024 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

real profit = ordinary income excluding the inventory factors and the PGM price difference in Catalysts

Questioner 1

Q.

*While there was a large inventory adjustment for MicroThin™ in fiscal 2022, a rapid recovery is expected in the second half of fiscal 2023. What do you think is happening in the market? The sales volume in fiscal 2024 for non-smartphones remains almost unchanged from the original plan. Please tell us if there are other changes.*

A.

There has been a sharp decline in orders since around the second half of fiscal 2022 and it has been reported that inventory adjustments are being made due to the global semiconductor recession, which has had a great impact on upstream companies like us. It has been very tough because all of the supply chain players held inventories, including our company, CCL manufacturers, PCB manufacturers, assembly manufacturers, and final product manufacturers. It seems that there are still inventories at final product manufacturers, but inventories in the middle of the supply chain are being eliminated. Given the situation in which orders are coming in from our direct customers, orders are expected to recover to some extent across the supply chain from the late second half of fiscal 2023.

In terms of changes from the original plan in fiscal 2024, we assume that the sales volume for smartphones will not grow as much as expected. Currently, customers for HDI are one North American and three Chinese smartphone manufacturers. Because the Chinese smartphone manufacturers adopt MicroThin™ for HDI only for their high-end models, their order volume is low. Most of the orders are for North American smartphones, but the number of North American smartphones will not increase as originally expected. The sales volume of MicroThin™ for PKG for smartphone applications will also be slightly lower than initially expected.

Q.

*Please tell us why real profit for the Mobility segment in fiscal 2024 was revised upward from the original plan of ¥12.2 billion to ¥14 billion.*

A.

We expect sales will increase mainly for catalysts, so real profit will be higher than originally planned.

Questioner 2

Q.

*Regarding M&As commented on in the telephone conference on financial results the other day, please tell us about specific targets.*

A.

M&As involve both buying and selling deals. Regarding selling, the Business Reconstruction Office of the Corporate Planning Department is considering target businesses in the lower left of the four-quadrant matrix (Reference, page 15). Although no deals were implemented last year, we are currently considering multiple businesses as targets. For buying, the Business Development Office of the Corporate Planning Department is working as the department in charge with an increased number of personnel, including from the recruitment of mid-career hires. We have also established a working group with the heads of the Business Planning Departments of different Sectors to examine whether the M&As can add value to each Sector, whether there are appropriate M&As in the five target market segments, and so on. Unfortunately, there was no M&A to be announced in the first year of the Medium-term Business Plan, but we will continue our efforts by maintaining the M&A budget of ¥20 billion set in the Medium-term Business Plan.

Q.

*In the overall Engineered Materials segment, please tell us if there are any changes from the market environment of each business assumed a year ago, such as new applications of copper foil, and if there are any business opportunities or business risks associated with the changes.*

A.

For copper foil and engineered powders, there has been almost no change in the market environment since a year ago. During the past year, we experienced many things, such as the impact of COVID-19 and the very difficult situation in the semiconductor business, but development is still progressing smoothly with our customers in the areas we originally targeted, which is indicated by the fact that capital investment remains unchanged from the original plan.

Q.

*Various news releases have been issued on the solid electrolyte for All-Solid State Battery (ASSB) and HRDP®. Also, at the earlier meeting, the President explained that inquiries for these products are increasing. Please tell us specifically if there are changes from a year ago.*

A.

Since both are completely new products that have never existed in the world before, even if customers at first try to evaluate them on their own, they are not sure whether they can evaluate them properly or not. As a result, the frequency of communication with customers has increased significantly. For example, persons close to the manager level of automobile manufacturers visited our R&D Center for a discussion. For HRDP®, executives of Taiwanese and South Korean manufacturers visited us for discussions with our top management. Even if we produce solid electrolytes and HRDP®, this will be meaningless unless our customers can use the amount produced, so our customers are also investing and conducting R&D, which we believe is one sign of progress.

Q.

*Is it correct to understand that under such circumstances, income from sample shipments, etc., has increased and R&D and other costs are now being covered?*

A.

Yes. However, it does not mean that their timing of contributing to earnings, which we have so far explained, has been brought forward. They are making progress almost as planned, and therefore the investment plan remains almost unchanged as well.

Questioner 3

Q.

*While in fiscal 2023 ordinary income was ¥20 billion, you explained that, as a result of an internal review, it is expected that ordinary income will reach ¥47 billion in fiscal 2024 and ¥60 billion in fiscal 2025, one year behind the plan. But it seems difficult to achieve these goals given the fiscal 2023 level of ¥20 billion. Please tell us more specifically what factors will enable the rapid recovery from fiscal 2023 to fiscal 2024 and 2025.*

A.

In the Metals segment, we assume that ordinary income will increase from ¥7.5 billion in fiscal 2023 to ¥13.0 billion in fiscal 2024. The breakdown of this improvement is as follows; ¥2.5 billion due to the elimination of inventory factors, and ¥3.4 billion due to the effects of the depreciation of the yen and the improvement in energy costs. There are of course factors that increase the profit from recycle-smelting, but the improvement is mainly due to the effects of the underlying assumptions. In the Mobility segment, Mitsui Kinzoku ACT is expected to achieve an increase in ordinary income of ¥2.4 billion, resulting from expanded sales and sales product composition differences. This level of increase is expected if the types of automobiles for which we receive orders are sold as planned by our customers. For catalysts, sales for automobiles are expected to increase. Although sales will shrink at some point toward 2030, they are expected to increase at least in fiscal 2024, and we expect catalysts will achieve an increase of ¥2.7 billion. In the Engineered Materials segment, in addition to an increase in the sales volume of MicroThin™, the sales volume of electro-deposited copper foil and engineered powders will also increase.

Q.

*The progress made in improving the Company's financial strength has been slow and the dividend payout ratio will continue to be around 90%, but you explained that the DOE of 3.0% will be maintained. Even if you do not change the DOE of 3.0% for the current year, how do you position shareholder returns, including in the next year and beyond, based on the cash flow distribution and dividend payout ratio?*

A.

We may change our shareholder return policy if we find ourselves in a situation in which we are unable to make the necessary investments in the future (e.g., a large deficit), but at our current level of financial strength, we would like to maintain stable shareholder returns. The reason we use the DOE as a basis is that, since the time we have owned Caserones Copper Mine, if high volatility makes it difficult for investors to hold our shares, we would like to first ensure we return profits to shareholders based on the DOE. On the other hand, the Company is conducting medium- and long-term R&D and investments that are expected to improve its financial strength in the future. It is regrettable that the equity ratio will not reach 50% in fiscal 2024, but it will reach 50% in fiscal 2025, and we will reconsider how to reward shareholders at that time. Therefore, as long as our cash flow does not fall into a significantly negative position, we would like to maintain a DOE of 3.0%, which we believe will give our shareholders confidence in the Company and high expectations for its future.

Q.

*Looking toward fiscal 2024, do you assume that the recovery in engineered materials sales will be driven largely by the recovery in sales of MicroThin™?*

A.

Yes, exactly. As inventory piled up in the supply chain in fiscal 2021, inventory was significantly reduced in fiscal 2022, but orders are currently recovering. Since the Company is located at the most upstream point in the supply chain, orders are gradually coming in from areas where inventory adjustments have been completed. As such, we feel that there is a

slight difference from the outlook reported by newspapers and other media, that the recovery of semiconductors is likely to be quite slow.

Questioner 4

Q.

*The performance target that was expected to be reached in fiscal 2024 has been downwardly revised this time. Please explain the background to this revision. One thing that caught my attention during last week's telephone conference on the financial results was that, for example in copper foil, the recovery in the sales volume of MicroThin™ did not contribute to an increase in profits as expected. You explained that this was due to higher energy costs that prevented the Company from achieving the volume effect that it had obtained in the past. In general, I think there is a trend in the world to pass on cost increases to prices more than ever before. How is the Company working on revising margins and pricing formulas, etc.? Given that copper foil is just one example, please tell us about your approach to margins, including other products, as well as whether the trend in total performance is just a shift on the time axis, or whether the structure has changed.*

A.

It is true that margins are falling in copper foil. As you all know, the cost of electricity has dramatically increased in Japan, where it is higher than in other countries. There is no doubt that the cost of electricity will rise further, so this was factored into the performance. In segments other than the Metals segment, we believe it is possible to pass on cost increases to prices, and we are working in that direction. However, there is inevitably a time lag due to the time required for negotiations and competitive relationships. Because MicroThin™ has no competitors, theoretically we can pass on costs, and we will pass the cost increases on to prices in the future. In the domestic market, there is already a trend of passing on the increased costs to prices, so I believe that domestic PCB and CCL manufacturers will also start to reflect the increased electricity costs in their prices. But unfortunately, this trend has not progressed abroad. One of the countermeasures is to transfer the production of MicroThin™ for PKG to Malaysia as much as possible because the costs in Malaysia are lower than in Japan. If we still cannot manage, we will naturally have to raise prices for overseas customers as well, given that there are no competitors overseas. Negotiations on price increases for products other than copper foil are also progressing steadily.

Q.

*You have provided us with updated information on the recent activities of the Business Creation Sector. At the time of such a start-up phase, if too much reliance is placed on specific users, the new business itself may go up and down depending on the trends of those users. Similar cases can be seen in many companies in the same industry. Are there any particular initiatives that you are devising for the future process of the launch of the Business Creation Sector, such as strategies for the customer base and commitments to users in order to seek more solid business and sales growth?*

A.

For new businesses, both solid electrolytes and HRDP® are new products, and we do not intend to work only with specific companies but rather to target a wide range of customers, so we do not think that the businesses will disappear due to the slump in those specific companies. For HRDP®, we assume that we will continue to work closely with GEOMATEC.HRDP®. The other day, the top management of GEOMATEC and I confirmed that we will invest together, so please do not worry about that.

Questioner 5

Q.

*The volatility of metals has been extremely high over the past few years, and I wonder if you*

*have been able to devise some measures in response. Please tell us if you have any new thoughts or ideas on this matter.*

A.

As was explained in the past, the key to zinc is the timing of hedging. Since the Company can carry out production operations as planned, there will be only small fluctuations when using hedging. We do not use hedging for other metals, so the impact of market fluctuations will be significant. The only measure we can take is to shorten the lead time from the arrival of raw materials to the sale of products.

Q.

*You have revised the fiscal 2024 forecast for the Metals segment from the original plan of ¥17.5 billion to ¥13.0 billion. Please tell us what factors led to the downward reduction, such as changing assumptions.*

A.

Although this is partly due to assumptions on market prices and exchange rates, the main reason is that energy costs have risen more than expected. Because metal costs are not being successfully passed on to prices, our profits are decreasing accordingly. One direction to address this issue would be to recover valuable metals from recycled raw materials, rather than buying ore.

Q.

*You have set a budget of ¥20 billion for M&As. Have you accumulated enough M&A candidates to achieve the set target level?*

A.

Since we have not had a specialized department fully focused on M&As, please understand that we are still in the beginning stage. It's not the case that "we have a number of promising candidates and are working on M&As together with them."

Q.

*While electricity prices have been increasing for the Metals segment, you have decided that there is no need to change the 2030 target. Looking ahead to 2030, we can expect that interest rates in the U.S. will fall over the next few years, and that high inflation will be tamed and energy costs will go down accordingly. Is it correct to understand that the reason for the unchanged 2030 target is that the high inflation rate is expected to normalize in the medium to long term?*

A.

The target remains almost unchanged between fiscal 2024 and 2030 because we believe that the metal business can generate ¥20 billion due to the improvements of recycling smelting and the smelting network, and that earnings will not fall so much even if costs rise. We believe that we can achieve this target, including with investments such as in carbon neutrality.