



Q&A at the Progress Briefing on Medium Term Business Plan

Reference: Material for the Progress Briefing on 2022-2024 New Medium Term Business Plan

URL: [https://www.mitsui-](https://www.mitsui-kinzoku.com/LinkClick.aspx?fileticket=%2bfkf7v9%2bD10%3d&tabid=227&mid=1027)

[kinzoku.com/LinkClick.aspx?fileticket=%2bfkf7v9%2bD10%3d&tabid=227&mid=1027](https://www.mitsui-kinzoku.com/LinkClick.aspx?fileticket=%2bfkf7v9%2bD10%3d&tabid=227&mid=1027)

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.

【Total or multiple segments】

Q.

FY2024 (the final year of MTP22) results targets were not achieved due to lower sales and higher costs. Could you share President's view on how your company could have gotten closer to the results targets?

A.

Regarding initiative to improve social value, I believe, there is nothing to reflect. The initiatives have been implemented thoroughly following the discussions with management members and members of the Board of Directors within or beyond expectations. Regarding financial value, I deeply regret revenues are falling short of what we promised for earnings in FY2024. In each business, we left out the perspective of efficiency to some extent. Although catalysts have boosted results, higher precious metal prices have reduced turnover leading to inefficiencies and greater volatility. I think our management team did not take enough measures to address these points. Regarding MicroThin™, in response to the decrease in profit margins while selling prices have not decreased, no action was taken until costs rose. Our management team is responsible for this issue and regrets it very much. From FY2024, performance evaluation metrics for Directors and Senior Executive Officers start to include efficiency indicators. This will incentivize the heads of each business unit to focus not only on profit and loss but also on efficiency.

Q.

We are told that Ambidexterity and Integrated thinking-based management described at the bottom of P2 (Briefing materials) have been made more progress than expected. Could you share more specifics than just the plan?

A.

Management methods are completely different for existing and new businesses. In order to increase income in existing businesses, we need to focus on cutting costs and other short-term issues, but in contrast, in new businesses, we need to invest with strong determination, looking further ahead than in the foreseeable future. Before Business Creation Sector was established, when I was the head of Engineered Materials Sector, there was a sector for running existing and new businesses side by side. I found it extremely difficult to have both existing and new businesses under the single sector, so I clearly divided the organizational structure in MTP22. As I mentioned on the business briefing session last month, I believe, Business Creation Sector is beginning to function successfully due to the organizational reform as mentioned. Although the outcome is currently not in sight, this organization is sowing the seeds for the next five to ten years.

Q.

In addition to the business growth perspective, are you considering business cut? For example, business management that cuts out businesses that do not contribute much to profits and leaves only profitable businesses can be considered. Could you share your thoughts on this?

A.

We have two options for business cut. For one option, if a certain product within product lines of each business declines in profitability, there is a way to stop the business even if it is profitable and bring the personnel there to other businesses. For the other option, it is a way to stop a business altogether. The areas targeted for business restructuring apply to the business to be cut in terms of dynamic management of business portfolios. For example, for businesses that cannot be expanded by our company, it is unfortunate for those involved in that business, which is why it is quite possible to cut out the relevant business. Mobility Sector in MTP22 should be carefully monitored progress. We are currently reviewing Mobility Sector including businesses in Mobility Sector.

Q.

Could you tell us what you are concerned about among the changes in the external environment compared to when MTP22 was started? Costs are rising and Generative AI is growing considerably, in contrast to smartphones and other devices that are maturing somewhat. This trend seems to be an opportunity for your company, but it has not led to any business results. Considering the overall changes in this external environment, and in light of the tailwind, what are your thoughts on the situation where business performance is struggling to grow?

A.

Among the changes in the external environment since the start of MTP22, some were completely unexpected. For Engineered Materials, I did not at all expect to see such a brake on smartphones, the supply destination of copper foils and engineered copper powders, and such a drop in semiconductors for about a year and a half. The higher the profit margin, the more profit is squeezed when sales decline. For this reason, we missed our target by quite a bit. For another change in automobile industry, I think it was a big change for our company to experience such a sharp downturn in the performance of Japanese companies in China, which are our customers for ACT and catalysts. For metals, market prices are lower than the original plan. Japanese yen depreciated against the dollar to nearly 160 yen. Rising energy costs have nearly canceled out the benefits of yen depreciation. As a result, metal prices, foreign exchange, and energy costs had a negative impact in total. Another point I would like to mention is our initiatives for carbon neutrality. Carbon neutrality is becoming more prevalent than initially expected, and we've changed to work firmly on decarbonization such as initiatives of Hachinohe Smelting described this time.

Regarding the topic that Generative AI growth is an opportunity for our company, our products will contribute to the coming Singularity world with AI and other technologies, which will also contribute to our company's profitability. For copper foil, engineered powders and HRDP®, we anticipate that business conditions will improve as such a world becomes a reality.

Q.

We've heard that FY2024 forecast deeply falls short of the initial target of MTP22 and the long-term numerical target of 2030 will be maintained. Please kindly explain how the milestones are managed in case of a major deviation like this time. I believe that we should have a few more additional actions as contingency plans for FY2024. Are there any supporting factors to maintain expectations for the long-term goal of 80 billion yen?

A.

There are two reasons not to change the long-term 2030 goal at this time despite the very high volatility. For one reason, with such a drastically changing environment, we do not see much reason to lower the target now. While automotive-related sales are becoming very tough, development of products for automobiles is progressing such as copper foil and copper powders for MLCC, so we can't find enough negative factors to change it in the long run. We've just started discussion on our next mid-term plan MTP25. Verifying the certainty of 80 billion yen is part of the agenda. For the other reason, we believe that the themes in Business Creation Sector including HRDP®, SE and carbon neutrality are progressing much better than expected, and we expect to see growth in profits from them. Let me add one more thing. With the introduction of WACC by sector for this time, we expect to see a turnover of our business portfolio by FY2030 as we select and accelerate investments and accelerate mergers and acquisitions. For these reasons, we do not believe that the 2030 target should be changed now, and we will continue to discuss this issue for formulating MTP25.

【Engineered Materials Segment】

Q.

Do you actually take action to raise the price of copper foil? Do you have any thoughts on the feasibility of raising prices?

A.

Regarding raising prices of copper foils, we have priced by the square meter or kilogram, and if volume increases, we have lowered the price as a volume discount, and if volume does not increase, we have maintained the price. Automobile manufacturers have been asking us to lower our prices on an annual basis, but we have taken the stance that we will maintain our prices. However, as costs have risen so much, we cannot maintain the same prices as before, and last year we raised prices only for a few customers who understood the situation. Since the cost increase is even larger than the price increase, we are beginning to consider how to proceed with the price increase in FY2024. Negotiations for price increases also take time, three or four months. Our competitors have been offering prices much lower than ours from the beginning, but we have not lost market share for MicroThin™ we have raised prices on. We are proceeding to raise prices based on our overwhelming superiority in terms of quality, delivery, and capacity. We cannot mention the specific period of negotiations or the extent of the price increase, but we are in such a position.

Q.

High-grade VSP is considered to be the one that gets the tailwind from the generative AI. Are there any particular changes in the competitive environment for this product? Please explain whether the competitive advantage of high grade-VSP is at least as great as that of MicroThin™.

A.

Regarding the competitiveness of high-grade VSP used in AI servers, we are overwhelmingly strong. The reason for our strength is our development capabilities. Development takes place in Japan (Ageo City, Saitama Prefecture) and Taiwan, and collaboration is working well. Manufacturing is performed in Taiwan. It is a very good match for our surface treatment technology and roughening technology and other technologies that we have developed over the years. Development in Taiwan is an overwhelming advantage. This is because we can work closely with a large number of customers in Taiwan and China, and can develop products that are suitable for customer's resin in advance of other competitors. Moreover, we have a base not only in Taiwan but also in Malaysia, and our capability for mixing production in Taiwan and Malaysia is an extremely significant strength of our copper foil products. High-grade VSP is manufactured in Taiwan, and mid-range varieties that were manufactured in

Taiwan are also manufactured in Malaysia.

Q.

The development system and roughening technology were mentioned as competitiveness of high-grade VSP, but as a matter of fact, high-grade VSP doesn't require as much high technology as MicroThin™ and other copper foil manufacturers can also manufacture high-grade VSP according to my study. As for current market conditions, I have heard about the market share for MicroThin™, but I would like to know what market share you have for high-grade VSP. Also, I would like to ask for comments on whether other companies can really manufacture this product.

A.

High-grade VSP is not as difficult to develop and manufacture as MicroThin™. In a few years, competitors may catch up with us with similar products, but by that time, customers' resin products will have become more advanced, and we will need to develop new products to meet their needs. We are more competitive than our competitors in terms of our capacity to develop materials for products upgraded by customers. Even though this competitive advantage is not as high as MicroThin™, we believe that we can and must maintain the current level of market share given that we are developing this product in Japan and Taiwan. Another strength is our capacity, and we can use a variety of facilities by changing the manufacturing mix. Our advantage at this point is very strong, not so different from MicroThin™. On the other hand, it is also true that unlike MicroThin™, high-grade VSP can also be manufactured by competitors.

Although we do not know the actual market share of high-grade VSP, as it is unknown for each customer, we are sure that the market share of high-grade VSP is overwhelmingly strong, probably 70 to 80%.

Q.

If any of your company's products would benefit from generative AI, I think high-grade VSP is a definite candidate right now. On top of high-grade VSP, how much do MicroThin™ and HRDP® benefit from generative AI?

A.

Servers also contain memory and modules, and AI servers need to increase their mounting density to achieve faster processing speeds. For this reason, the demand for MicroThin™ and HRDP® will increase for memory and modules, not substrates. We have not achieved profitability at this point in time, but we expect to achieve profitability by 2030.

Q.

The market size of Nippon Yttrium is about 10 billion yen, which is small compared to copper foil, etc. We have heard that it is still quite promising. Could you let us know more about how promising it is?

A.

While there are only about three companies in Japan that handle rare earths, Nippon Yttrium handles a variety of products, including recycling. I'll refrain from commenting on the market size, however, 50 to 60% of Nippon Yttrium's profits are related to semiconductors, and we expect to see growth in that area in the future.

【Mobility Segment】

Q.

Regarding ACT manufacturing automobile components, could you comment on review of the MTP22 period until now and future prospects?

A.

As of ACT, our current business environment is extremely severe as Japanese car manufacturers in China are struggling very badly, and we have changed our business structure in Japan and China. In short, we have completed a series of structural reforms to get the appropriate staffing numbers. However, since this is not enough for future growth, we believe it is extremely important to have the development capability to become a door system manufacturer. Our global market share of door locks is more than 20%, and we are by all means competitive in making door locks. However, for the door system, we are in a very difficult situation in terms of software development and linkage with ECU. Although we are increasing the number of development personnel for this area, the hurdles are quite high, and I believe we must discuss how we can extend ACT business before the next mid-term business plan. We recognize that the situation in ACT is becoming even more difficult than that at the beginning of MTP22.

【Business Creation Sector】

Q.

Packages used in AI servers are increasingly being mounted in multiple layers, and transmission loss must be kept as low as possible. I think it would be easier to manufacture a product like HRDP®. Could you give us your view on whether demand will increase ahead of expectations?

A.

Products for AI are definitely moving in the direction of multi-layer implementation and heterogeneity. HRDP® demand increase is expected, but new products take time for customers to become accustomed to using them. I suppose it depends on when and how soon. When demand increases in earnest, there is some concern about the first line in GEOMATEC, including quality, so we aim to respond to the increase in demand by introducing the second line. There is a line in GEOMATEC's facility that customers use to evaluate HRDP®, and customers frequently come there to evaluate the product with them, so growth can be expected for those customers. HRDP® never cannibalizes MicroThin™. We are very optimistic about HRDP®.

Q.

A new topic for solid electrolytes for all-Solid State Battery (ASSB) was that a new plant for initial mass production is being considered. If the supply destination is for automotive applications, I don't think a new mass-production plant will be built unless some degree of adoption has been determined. I would like to hear your view.

A.

Prior to the construction of the new plant intended for the mass production of all solid-state batteries, there is no specific product adoption being discussed at this time. Please understand that we now have a very strong sense that our products will be needed for all solid-state batteries no matter what angle we consider. We are currently in the process of designing a mass production plant, and by the end of the first half of the year we will have a clear idea of whether or not the plant will be built, after considering this we will explain the details publicly. Since test products are almost never used directly by automobile manufacturers for mass production, we assume that automobile manufacturers are the supply destination of products from the initial mass production plant.