

Record of Telephone Conference Concerning FY2022 Q3 Results

Reference: FY2022 Q3 Results & FY2022 Forecast

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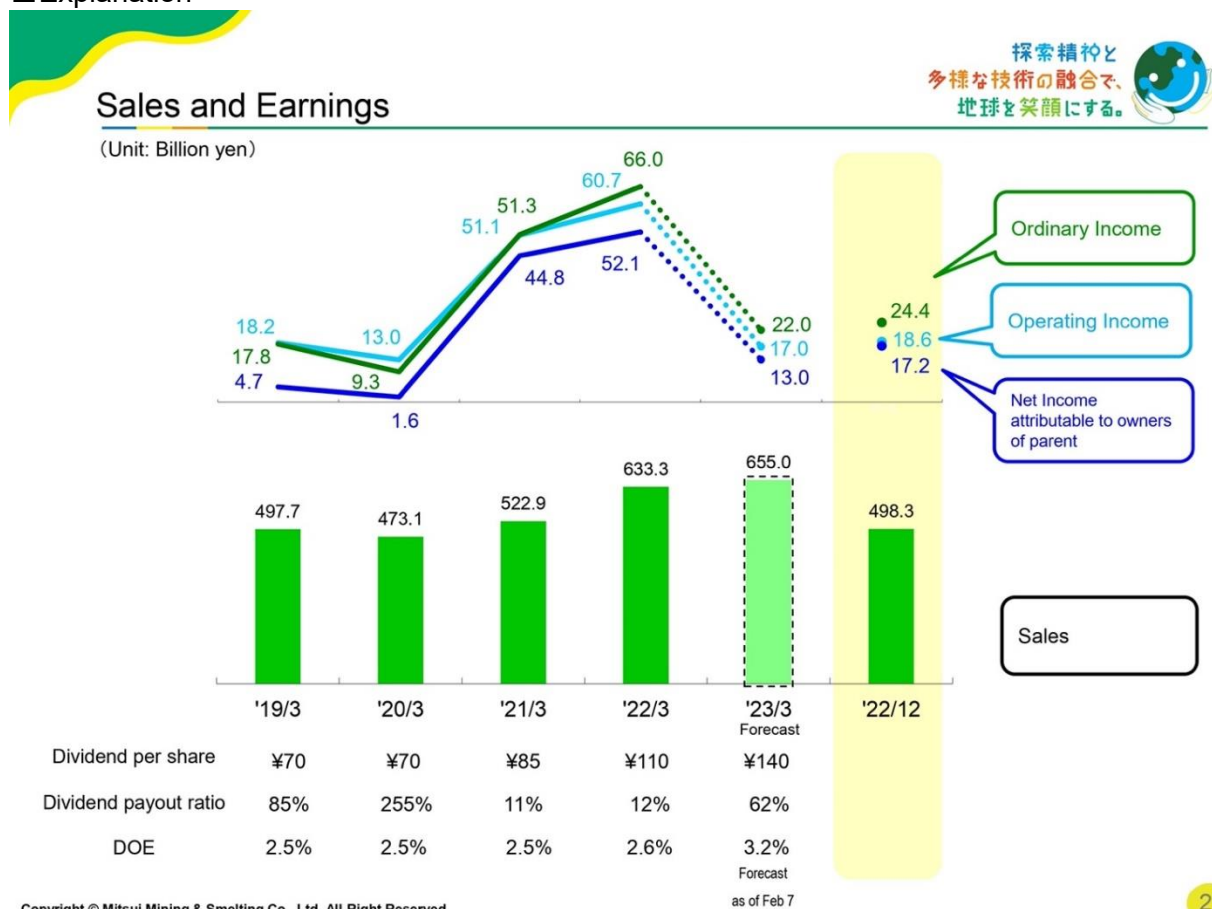
Note:

PKG = Package substrate

HDI = High density interconnect

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

Explanation



Please refer to page 2 about Sales and Earnings.

Net sales, operating income, ordinary income, and net income attributable to owners of parent for the cumulative Q3 were ¥498.3 billion, ¥18.6 billion, ¥24.4 billion, and ¥17.2 billion, respectively.

For the fiscal year ending March 31, 2023, we forecast consolidated net sales of ¥655.0 billion, operating income of ¥17.0 billion, ordinary income of ¥22.0 billion, and net income of ¥13.0 billion.

For the period of January to March, we assume an LME Zinc price of \$3,200 per ton, an LME Lead price of \$2,200 per ton, an LME Copper price of ¢ 380 per pound, and an exchange rate

of ¥130/\$.

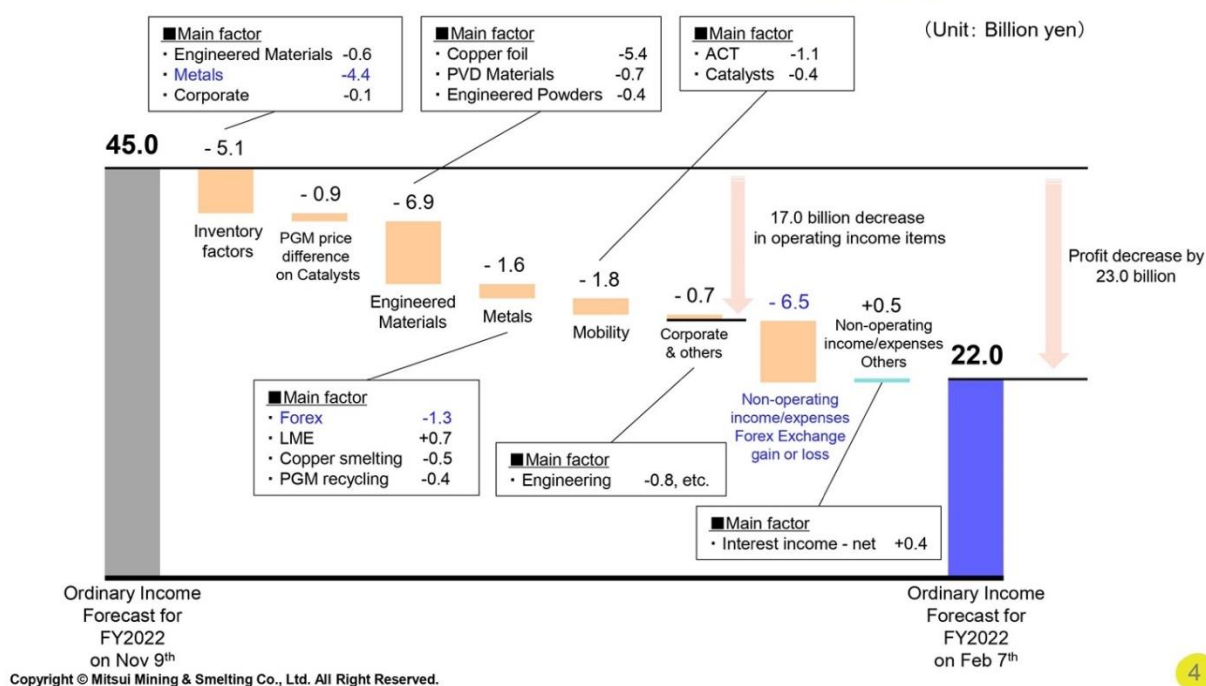
The dividend will be ¥140 per share, unchanged from the previously announced dividend forecast.

FY2022 Ordinary Income Forecast

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Ordinary income forecast for FY2022 is 22.0 billion, by 23.0 billion less than forecast for FY2022 announced on November 9th.

Among them, decrease due to the stronger yen is about 12.2 billion. (Items in blue)



I will continue with an explanation of our full-year forecast, comparing them to the forecast announced on November 9. Please see page 4.


The ordinary income forecast announced on November 9 was ¥45.0 billion, but this has been revised downward by ¥23.0 billion, totaling to ¥22.0 billion. Of the ¥23.0 billion decrease in income, the portion shown in blue is due to the impact of the stronger yen, which accounted for approximately ¥12.2 billion.

Breaking it down by segment, inventory factors deteriorated by ¥5.1 billion, and the impact of the decline in PGM price difference on catalysts located to the right of that was a negative ¥0.9 billion. Excluding these factors, the downward revision was ¥6.9 billion in the Engineered Materials segment. The downward revision of ¥5.4 billion in the copper foil business is due to a significant decrease in the sales volume of MicroThin™, especially for package applications, which is about half of the previous forecast due to the significant impact of the prolonged inventory adjustment. The PVD materials and engineered powders businesses are also expected to see lower earnings due to sluggish demand and inventory adjustments.


The Metals segment is expected to report a decrease of ¥1.6 billion. Of this amount, approximately ¥1.3 billion is attributable to the impact of yen appreciation. The Mobility segment is also expected to see a ¥1.8 billion decrease in profit. We expect a ¥1.1 billion decrease in profit at Mitsui Kinzoku ACT due to the impact of the struggling Japanese car manufacturers in China and other factors. The catalysts business is expected to see a ¥0.4 billion decrease in

profit due to the lower-than-expected sales volume of motorcycles in India and a less-than-expected recovery in the automobile market for four-wheeled vehicles.

Non-operating income is expected to decrease by ¥6.0 billion, of which ¥6.5 billion is due to the stronger yen. Due to these factors, we expect a significant decrease in profit from the previous forecast.



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Statements of income

(Unit : Billion yen)

	Results			Forecast				
	'22/Q1-3 Results	'21/Q1-3 Results	Difference (22-21)	2022 Forecast (Feb 7)	2021 Results	Difference (22-21)	2022 Forecast (Nov 9)	Difference
Net Sales	498.3	463.7	34.6 7.5%	655.0	633.3	21.7 3.4%	695.0	-40.0 -5.8%
Cost of sales	430.1	375.7	54.4 14.5%	-	-	-	-	-
Gross Profit	68.2	88.0	-19.8 -22.5%	-	-	-	-	-
SG&A expenses	49.6	45.3	4.4 9.6%	-	-	-	-	-
Operating Income	18.6	42.7	-24.2 -56.6%	17.0	60.7	-43.7 -72.0%	34.0	-17.0 -50.0%
Non-operating income/expenses -net	5.8	3.1	2.8	5.0	5.3	-0.3	11.0	-6.0
Ordinary Income	24.4	45.8	-21.4 -46.8%	22.0	66.0	-44.0 -66.7%	45.0	-23.0 -51.1%
Extraordinary profit/losses-net	-1.2	0.0	-1.2	-2.8	-1.5	-1.4	-2.1	-0.7
Net Income before income taxes	23.2	45.8	-22.6 -49.4%	19.2	64.5	-45.4 -70.3%	42.9	-23.7 -55.3%
Income taxes & minority interests	5.9	8.9	-3.0	6.2	12.4	-6.3	6.9	-0.7
Net income attributable to owners of parent	17.2	36.9	-19.6 -53.3%	13.0	52.1	-39.1 -75.0%	36.0	-23.0 -63.9%

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I will continue with an explanation of the results for the first nine months of the fiscal year and the outlook for the full year. Please see page 5.

In the Q3 cumulative period, net sales increased by ¥34.6 billion, or 7.5%, totaling to ¥498.3 billion, compared to the same period last year, mainly due to higher zinc prices and the weaker yen. Operating income dropped by ¥24.2 billion, or 56.6%, totaling to ¥18.6 billion due to lower sales volume of electro-deposited copper foil and MicroThin™ and higher energy costs. Ordinary income deteriorated by ¥21.4 billion, or 46.8%, totaling to ¥24.4 billion. Net income deteriorated by ¥19.6 billion totaling to ¥17.2 billion.



Performance by Segment – Engineered Materials

(Unit : Billion yen)

	22/Q1-3 Results	21/Q1-3 Results	Diff. (22-21)	FY2022 Forecast (Feb 7)	FY2021 Results	Diff. (22-21)	FY2022 Forecast (Nov 9)	Diff.
■ Sales	91.3	103.6	-12.2	114.0	136.1	-22.1	127.0	-13.0
■ Operating income	11.3	23.2	-11.9	11.5	29.4	-17.9	19.0	-7.5
■ Ordinary income	12.1	23.3	-11.1	12.5	30.0	-17.5	20.0	-7.5
※ Ordinary income	12.0	21.5	-9.4	12.5	28.0	-15.5	19.4	-6.9

※ Ordinary income : Ordinary income excluding inventory factors.




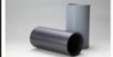
Difference Analysis of Ordinary income

[FY2021 Q1-3 → FY2022 Q1-3 - 11.1]

Copper foil -7.1
(Electro-deposited Copper foil and MicroThin™ volume of sales decreases, others)
PVD Materials -2.4
(Deterioration of inventory factors, Volume of sales decrease, others)
Engineered Powders -2.0
(Major products such as copper powder volume of sales decrease, others)
Battery Materials +0.2
(Volume of sales increase, others)

[FY2021 → FY2022 Forecast - 17.5]

Copper foil -12.3
(Electro-deposited Copper foil and MicroThin™ volume of sales decreases, others)
PVD Materials -3.1
(Deterioration of inventory factors, Volume of sales decrease, others)
Engineered Powders -2.5
(Major products such as copper powder volume of sales decrease, others)
Battery Materials +0.2

(Engineered Material Products)	(Main Applications)
Battery Materials	 <ul style="list-style-type: none"> • Nickel-hydrogen batteries for hybrid cars • Lithium-ion batteries
Engineered Powders	 <ul style="list-style-type: none"> • Wide range of electronic components • Abrasive for glass
Copper Foil	 <ul style="list-style-type: none"> • High-Density Packaging • Printed circuit board
PVD Materials (Sputtering target)	 <ul style="list-style-type: none"> • Flat panel displays

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We will explain the situation in each segment.

First, Engineered Materials segment. Please see page 11.

Ordinary income for the Q3 cumulative period was ¥12.1 billion, down ¥11.1 billion from the same period last year.

This was mainly due to a decrease in sales of electro-deposited copper foil and MicroThin™, which led to a ¥7.1 billion decrease in profit in the copper foil business. Also, in the PVD materials business, the impact of inventory factors decreased by ¥1.7 billion, and a decrease in sales volume led to a total decrease of ¥2.4 billion. In addition, the engineered powders business also saw a significant decrease in profit due to factors such as a decline in the sales volume of copper powder and other major products, which resulted in a ¥2.0 billion decrease in profit.

The forecast for ordinary income is ¥12.5 billion, a decrease of ¥7.5 billion from the November 9 forecast. The breakdown is shown on page 4, but the copper foil business had the largest impact, with a ¥5.4 billion decrease in profit.



Performance by Segment – Metals

(Unit : Billion yen)

	22/Q1-3 Results	21/Q1-3 Results	Diff. (22-21)	FY2022 Forecast (Feb 7)	FY2021 Results	Diff. (22-21)	FY2022 Forecast (Nov 9)	Diff.
■Sales	193.1	173.5	19.6	260.0	240.9	19.1	268.0	-8.0
■Operating income	5.2	23.7	-18.5	5.0	34.2	-29.2	11.0	-6.0
■Ordinary income	9.5	25.1	-15.5	9.0	36.3	-27.3	16.0	-7.0
※Ordinary income	10.2	17.3	-7.0	11.7	25.3	-13.6	14.3	-2.6

※Ordinary income : Ordinary income excluding inventory factors.

Ordinary Income Difference Analysis

	21/Q1-3→ 22/Q1-3	FY2021→ FY2022 Forecast
LME/Forex	7.1	7.5
T/C	1.3	1.5
Inventory Factors	-8.5	-13.7
Equity profit/loss	2.4	1.5
Cokes	-3.5	-3.5
Dividends	0.1	0.1
Others※	-14.4	-20.7
Total	-15.5	-27.3

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Sensitivity to ordinary income(for FY2022)

(Unit: Billion yen)

		Full open basis	Including forward contract
Zinc	±100\$/t	1.3	0.9
Lead	±100\$/t	0.4	0.4
US\$(yen/\$)	±1yen/\$	0.6	0.4

Zinc TC

FY2020	FY2021	FY2022
299.75 \$/t	159 \$/t	230 \$/t

※Detail of Others

21/Q1-3→ 22/Q1-3	Energy cost increase -6.2, Mineral Resources Division -2.3, Large scale maintenance for copper smelting -2.5, Cost increase -1.8, Raw materials composition difference -1.2, PGM recycling -0.3
FY2021→ FY2022 Forecast	Energy cost increase -9.4, Mineral Resources Division -2.8, Large scale maintenance for copper smelting -2.5, Cost increase -2.5, Raw materials composition difference -1.1, PGM recycling -1.1

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Metal segment. Please refer to page 12.

Ordinary income for the Q3 cumulative period was ¥9.5 billion, down ¥15.5 billion from the same period last year. Although there was a positive impact of ¥7.1 billion due to favorable nonferrous metal market prices and foreign exchange rates, the inventory factor was a negative factor of ¥0.7 billion, down from the positive ¥7.8 billion in the previous year, resulting in a decrease of ¥8.5 billion, on top higher energy costs, including cokes, resulted in a decrease of ¥9.7 billion.

The forecast for ordinary income is ¥9.0 billion, a decrease of ¥7.0 billion from the November 9 forecast. This was due mainly to a ¥4.4 billion deterioration in the impact of inventory factors and the impact of the stronger yen.

Performance by Segment – Mobility

(Unit : Billion yen)

	22/Q1-3 Results	21/Q1-3 Results	Diff. (22-21)	FY2022 Forecast (Feb 7)	FY2021 Results	Diff. (22-21)	FY2022 Forecast (Nov 9)	Diff.
■ Sales	163.0	154.0	9.0	215.0	207.1	7.9	231.0	-16.0
(Mitsui Kinzoku ACT)	(63.1)	(58.2)	(4.9)	(86.0)	(78.8)	(7.2)	(89.0)	(-2.9)
■ Operating income	4.7	-0.6	5.3	5.5	1.5	4.0	8.2	-2.7
(Mitsui Kinzoku ACT)	(-1.8)	(-0.1)	(-1.7)	(-1.7)	(-0.3)	(-1.4)	(-0.6)	(-1.1)
■ Ordinary income	4.3	-0.3	4.6	4.5	2.4	2.1	11.5	-7.0
(Mitsui Kinzoku ACT)	(-1.2)	(0.7)	(-1.9)	(-1.0)	(0.5)	(-1.6)	(0.0)	(-1.1)
※ Ordinary income	3.7	4.5	-0.8	5.4	8.4	-3.0	11.5	-6.1

※ Ordinary income : Ordinary income excluding PGM price difference on Catalysts.

Difference Analysis of Ordinary income ['FY2021 Q1-3' → 'FY2022 Q1-3' + 4.6]

Catalysts +6.0 (Volume of sales increase,
Precious metal price difference, others)
ACT -1.9 (Rising steel material and resin prices, others)
Die-Casting +0.8 (Improved yield, others)




['FY2021' → 'FY2022 Forecast' + 2.1]

Catalysts +3.2 (Volume of sales increase,
Precious metal price difference, others)
ACT -1.6 (Rising steel material and resin prices, others)
Die-Casting +1.2 (Improved yield, others)

ACT: Difference Analysis of Ordinary income

	21/Q1-3→ 22/Q1-3	FY2021→ FY2022 Forecast
Sales Volume	-1.7	-2.0
Cost down	0.8	1.2
Others※	-1.0	-0.8
Total	-1.9	-1.6

	21/Q1-3→ 22/Q1-3	FY2021→ FY2022 Forecast
※Detail of Others		
Rising steel material and resin prices	-1.3	-1.4
Freight Charge	0.0	0.2

(Mobility Sector)	(Main Applications)
Catalysts	 <ul style="list-style-type: none"> • Motorcycles • Automobiles
Mitsui Kinzoku ACT	 <ul style="list-style-type: none"> • Door locks for automobiles
Mitsui Kinzoku Die-Casting	 <ul style="list-style-type: none"> • Die-Casting products

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Mobility segment. Please refer to page 13.

Ordinary income for the Q3 cumulative period was ¥4.3 billion, up ¥4.6 billion from the same period last year. This was mainly due to a ¥6.0 billion improvement in catalyst business profit, which was boosted by a ¥5.4 billion increase in PGM price difference on catalysts and increased sales for both motorcycles and automobiles. On the other hand, Mitsui Kinzoku ACT reported a YoY decline in earnings due to the significant impact of rising steel material and resin prices.

The forecast for ordinary income is ¥4.5 billion, a decrease of ¥7.0 billion from the previous forecast. We have lowered our forecast for the catalysts business by ¥5.6 billion due to the impact of lower sales volume, including the effect of foreign exchange rates, and we also forecast a ¥1.1 billion decrease in earnings for Mitsui Kinzoku ACT, mainly due to lower sales.

■ Q&A Session

Total

Q.

With regard to the variance details on page 7, the deficit due to margins, costs, and other worsening factors amounts to ¥21.8 billion on a year-on-year basis. Details about Metals are on page 12, but there is no information about Engineered Materials and Mobility. Apart from reduced profits due to decreased sales volume, how should we understand the worsening costs/margins? Could you tell us the background behind this significant change in Engineered Materials and Mobility, respectively?

A.

The major factor for margins and costs of Engineered Materials is the energy cost of copper foils. The rest consists of an accumulation of minor factors, including variable expenses, fixed

expenses, and SGA, so there is no major factor in particular. Therefore, in spite of the increase in sales volume, these factors may continue to affect business performance. As for Mobility, the increase in raw material prices, such as steel prices and resin prices for automobile parts, account for a large percentage.

Q.

For Engineered Materials and Mobility, are you transferring increased energy costs and materials expenses to selling prices? Is there any room for benefiting from the results and transferring further to selling prices in the future?

A.

For copper foils, we are transferring increased electricity prices to selling prices of MicroThin™ and some electro-deposited copper foils. For other electro-deposited copper foils, we will continue to examine if we can transfer any increase to selling prices in consideration of market trends, etc. With regard to Mobility, we are asking customers to accept the transfer of increased prices in steel and resin for automobile parts. We have not transferred the increase to all products, but we are producing results little by little, and we believe it will continue.

Q.

Please explain the reasons for profit changes in each segment from Q2 to Q3.

A.

There was no special factor with regard to Engineered Materials from Q2 to Q3, but performance was significantly affected by the decreased sales volume in copper foils and engineered powders.

Metal business worsened by ¥7.5 billion from Q2 to Q3, excluding inventory factors. A deficit of ¥2.5 billion due to periodic repairs of copper smelting; a deficit of more than ¥1.0 billion due to energy costs; a deficit of ¥0.5 billion due to the decrease in electricity generated by hydropower; a deficit of approximately ¥0.7 billion due to the decrease in sulfuric acid prices related to PPC copper smelting, which was incorporated in the equity earnings of affiliate companies; a deficit of ¥0.5 billion due to the decreased shipment volume from the Huanzalá Mine; a deficit of approximately ¥1.0 billion due to PGM recycling; and other factors, including raw material composition differences, worsened business performance. There were no operational problems or other major factors, but rather an accumulation of minor factors that resulted in this performance.

In regard to Mobility, ordinary income changed from a profit of ¥5.4 billion in Q2 to a loss of ¥3.2 billion in Q3—a difference of ¥8.6 billion—with catalysts accounting for a large percentage. As described on page 10, one major factor was the influence of precious metal prices, resulting in a deficit of ¥2.0 billion. Another significant factor was non-operating foreign exchange gains or losses, with catalysts posting a deficit of ¥4.8 billion from a gain of ¥0.9 billion yen in Q2 to a loss of ¥3.9 billion in Q3.

Engineered Materials Segment

Q.

With regard to MicroThin™ for PKG, could you tell us what is happening in relation to smartphone business and non-smartphone business, and how you are considering the recovery period at this point?

A.

MicroThin™ for PKG significantly and quantitatively dropped from the November forecast. As before, sales for mainly Chinese smartphones are still sluggish. Non-smartphone sales were not as bad as smartphone sales the last time we discussed it, but then they also dropped. This was a major factor. Applications for non-smartphone business have been expanding but are mainly for memory, and customers are holding high levels of inventory, so sales dropped more significantly than before.

Now we forecast that recovery will start from Q1 or Q2 next year, but we have no clear evidence.

Q.

Customers are adjusting their inventories of MicroThin™ for PKG. Does this mean that the 2H sales volume on page 9 is less than the actual demand? Or should we consider that the stable sales volume until Q1 this year includes the effect of inventory accumulation?

A.

It is definitely true that the current sales volume is below the actual demand. For the past two years, our business has grown at an annual rate of approximately 20%, which is much higher than for general electronic materials. Based on the large-scale inventory adjustment so far, we anticipate that inventory demand, or something similar, was included from around Q3 last year to Q1 this year.

Q.

If we exclude the influence of accumulated inventories of MicroThin™, we are a little concerned that the volume for PKG may not have increased enough, but is the actual demand for PKG increasing due to an increase in the number of units or application expansion, etc.?

A.

Demand for MicroThin™ for PKG is definitely increasing. Inventory adjustments like we are seeing now periodically occur with electronic materials, and we think that sales volumes will increase in the medium- and long-term through these repetitive cycles. For example, for smartphones, the number of components will certainly increase due to 5G and more sophisticated functionality, and with regard to millimeter-wave smartphones, we can see that MicroThin™ will be used as components for antenna-in-packages, etc. Memory is now a main focus for non-smartphones, but non-smartphone applications are absolutely expanding, and in the medium- and long-term, MicroThin™ will never stop growing as fast as we have explained.

Q.

Sales of electro-deposited copper foils seem to be as sluggish as for MicroThin™. Please tell us what is happening.

A.

Sales of electro-deposited copper foils dropped slightly compared with the previous forecast. Mainly it was a decline in copper foils for communication infrastructure for comparatively low-end and middle-range server use. The volume of electro-deposited copper foils by weight increased from Q2 to Q3, but that is because orders for the Chinese New Year in Q4 arrived in advance, and the market conditions continue as they were in Q2.

Q.

So would you say that the decreased profits for both MicroThin™ and electro-deposited copper foils are basically caused by volume, and prices and competitive conditions have not become more severe?

A.

Yes.

Q.

Has anything changed with copper foils, such as the new adoption of MicroThin™ for HDI?

A.

MicroThin™ for HDI had been adopted by two Chinese smartphone manufacturers, but now one more company has adopted it, so it is being used by three companies in total. It is used for high-end foldable smartphones, and although there has been no quantitative impact, more and more companies are using it. We expect that volumes will increase with development from high-end to middle-range models.

Mobility Segment

Q.

Ordinary income for Mobility significantly decreased from ¥11.5 billion to ¥4.5 billion, and catalysts had an especially large impact. Could you please explain this a little more?

A.

We can see on page 10 that there was a loss of ¥1.7 billion due to the impact of precious metal prices and non-operating foreign exchange losses of ¥6.5 billion, out of which catalysts posted a deficit of ¥4.4 billion.

Q.

With regard to non-operating foreign exchange gains or losses in relation to catalysts, how did a large gain in 1H result in a large loss in 2H?

A.

Precious metals as raw materials for catalysts are processed in Japan, and catalysts are sold in local currencies in India and Indonesia, which are manufacturing bases. For Q1 and Q2, the yen weakened against the Indian rupee and Indonesian rupiah resulting in non-operating foreign exchange gains. In Q3, the yen became stronger against the US dollar, as well as to the rupee and rupiah, and there was a larger amount of foreign exchange losses in 2H than foreign exchange gains in 1H because the yen was stronger against the rupee and rupiah than against the dollar.

Business Creation Sector

Q.

Could you please explain the details of the solid electrolyte for All-Solid State Battery (ASSB) announced today, including progress, etc., to the extent you can answer?

A.

Today we announced in a release that we would double the capacity of the solid electrolyte "A-SOLiD®" for All-Solid State Battery (ASSB). As mentioned in the release, we have decided to double capacity because customer inquiries about development tests have been very aggressive and our current capacity will not be sufficient. The progress on solid electrolytes is difficult to show, but I hope you understand that we are making steady advances.

Q.

Do you mean that there is not a new expansion for consumer use but that you are increasing tests for automobiles?

A.

Exactly.