Q&A Session Minutes on Corporate Strategy Briefing held in May 2025

Time: 13:00 to 14:35, Thursday, May 22, 2025
Place: The conference room of head office (Chiyoda-ku, Tokyo) with live internet streaming.
Briefers: President and Representative Director : SEKIGUCHI Akira
Director : TOBITA Minoru, SUGAWARA Akira, KATAGIRI Atsushi, HOSONO Hiroyuki
Executive officer : YANAI Yasuharu, FUKUDA Kensaku, SUZUKI Takehiko, ONIOH Takashi, KAGAWA Koki, INOMATA Hirotoshi, WAKABAYASHI Eiichi

Q. Could you explain the factors behind the changes in ordinary income for each segment from FY2025 to FY2027?

(Executive Officer responsible for Environmental Management & Recycling Business, Mr. YANAI)

In the Environmental Management & Recycling Business, we expect a significant decrease in income from the PCB waste treatment business, which will reach its processing deadline in March 2027. However, we plan to compensate for this by expanding the range of waste and recycling items, increasing the treatment of hazardous waste, and expanding our business in Southeast Asia. Additionally, we aim for further business growth by expanding the recycling of precious metals and waste plastics at the Kumamoto New Plant currently under construction, promoting new businesses such as the recycling of used lithium-ion batteries and solar panels, and the production and sale of Bio-coke, as well as expanding our business areas through partnerships and M&A.

(Executive Officer responsible for Nonferrous Metals Business, Mr. FUKUDA)

In the Nonferrous Metals Business, the increase in sales is largely due to the contribution of PGMs recycling. We plan to strengthen the collection and processing of spent catalysts by expanding our collection areas and improving the operating rate of the new sampling base in North America where investments have been completed. We also expect the purchase conditions for zinc concentrates to gradually improve towards FY2027 with the start of operations at several new zinc mines overseas, and we have incorporated the reduction of raw material procurement costs into our plans.

(Executive Officer responsible for Electronic Materials Business, Mr. SUZUKI)

In the Electronic Materials Business, we recognize the urgent need to focus on immediate measures to rebuild our earnings base as our current profitability has deteriorated. Therefore, we will focus our development resources on highly feasible projects such as Short-Wavelength-Infrared LEDs/PDs and silver powder for solar panels, which are our main products. For Short-Wavelength-Infrared LEDs/PDs, we have two ongoing projects involving special sensors for wearable devices in the highly competitive advantage area. We are working on improving characteristics and obtaining customer certifications to secure these projects in FY2025 and FY2026. For silver powder, new silver powder is required for new types of solar panels that will be launched in the second half of FY2025, and we plan to allocate development resources to regain market share. In addition, to respond to customer requests for cost reductions, we are developing new conductive powders as derivative products of silver powder, with plans to start sales during the Medium-term Plan 2027 period.

(Executive Officer responsible for Metal Processing Business, Mr. ONIOH)

In the Metal Processing Business, we plan to develop and expand sales of new products for AI servers as part of our efforts to develop new applications for copper rolled products. For metal-ceramic substrates, we expect an increase in demand for power semiconductors in the power transmission and distribution fields of new energy sources such as wind power, and we will develop and expand sales of new products. Additionally, we aim to capture the needs of carbon neutrality and circular economy by developing products and services that use recycled materials.

(Executive Officer responsible for Heat Treatment Business, Mr. KAGAWA)

In the Heat Treatment Business, we aim to expand orders for heat treatment for EV parts both domestically and internationally. We also plan to capture the demand for outsourcing the heat treatment of existing lines due to the establishment of new EV production lines by major automobile manufactures and auto parts manufacturers. Overseas, we have already secured orders for non-automotive applications and will reap the benefits of the investments made during the Medium-term Plan 2024. For the expansion of new products, we will improve and expand the sales of new furnace such as Z-TKM and V-TKM, which aim for carbon neutrality.

Q. What level of profit is planned for FY2026?

(Director responsible for Accounting and Finance, Mr. HOSONO)

While we aim for an ordinary income of 60.0 billion yen in FY2027, compared to the forecast of 34.0 billion yen for FY2025, we expect the profit for FY2026 to be slightly lower than the midpoint between these two figures.

Q. Regarding the overall growth strategy of the group, are measures to improve margins included in the plan?

(President, Mr. SEKIGUCHI)

In the Nonferrous Metals Business, expanding the recovery of byproduct metals is important for improving margins. Our recycling smelting facilities have the strength of being able to recover many elements, and we aim to expand the range of recovered elements and further improve recovery rates. In the Environmental Management & Recycling Business, Metal Processing Business, and Heat Treatment Business, we have been revising the prices of waste treatment fees and processing fees in recent years, and in the Nonferrous Metals Business, we are also working on raising premiums for some metals. In the Medium-term Plan 2027, we will steadily implement measures to improve margins in addition to increasing sales.

Q. Could you provide specific details on cost reduction measures?

(President, Mr. SEKIGUCHI)

Regarding cost reduction, in addition to the reduction of depreciation expenses for large investments made during the Medium-term Plan 2024 period, we are making consistent efforts and achieving productivity improvements resulting from past capital investments. In the Nonferrous Metals Business, raw material costs are one of the major costs, so improving purchase conditions for raw materials also contributes to cost improvement.

Q. Could you explain the reasons for the large-scale investment required for the rebuilding project of the smelting and recycling complex and the expected effects?

(President, Mr. SEKIGUCHI)

Although the specific details of the plan have not yet been finalized, we are considering the rebuilding of the smelting and recycling complex in Akita Prefecture, including the Environmental Management & Recycling Business base. Especially in the Akita area, by making AKITA ZINC a wholly-owned subsidiary and the integration of zinc-related subsidiaries, we have decided to conduct zinc-related business consistently under the new AKITA ZINC entity from April 2025. This allows us to consider the optimal equipment configuration for the entire smelting and recycling complex. This rebuilding includes considering the optimal equipment configuration to maximize the effects of this integration, fundamentally improving productivity and expanding the range of recycling raw materials. For KOSAKA SMELTING & REFINING, we are considering the optimal equipment configuration to balance the capabilities of the processes from the ore smelting era and the processes transformed into a recycling smelter, improve logistics efficiency, and ensure the expandability of recycling raw materials. The specific quantitative effects are currently being verified, but as a result of the reconstruction, we aim to significantly improve productivity, expand the range of recycling raw materials, increase the range of recovered elements, and improve recovery rates.

Q. Is the rebuilding project of the smelting and recycling complex being implemented for growth, or is it being implemented due to the necessity caused by aging equipment?

(President, Mr. SEKIGUCHI)

It is an investment necessary to fundamentally solve external environmental changes and internal issues. For example, in addition to aiming for business growth and expansion with the transition to the circular economy as a tailwind, it is also necessary to respond to the declining and aging labor population in the Akita area to ensure business continuity. While it is necessary to verify the return on investment, it is also an important investment for maintaining and strengthening the business foundation. We will proceed with the concretization of the plan and disclose information in a timely and appropriate manner.

Q. Regarding capital policy, you mentioned aiming to reduce the holding of listed company shares by 50% by FY2030. What is the reason for setting the target by FY2030, and what is your view on FUJITA KANKO shares?

(President, Mr. SEKIGUCHI)

Given the anticipated large-scale funding needs for the rebuilding project of the smelting and recycling complex, we are considering utilizing the funds from the sale of listed company shares as reinvestment into more profitable assets. We expect an investment of approximately 100.0 billion yen by FY2030, so we will proceed with reducing the holding of listed company shares, considering business performance, funding needs, and shareholder returns. Our view on FUJITA KANKO shares has not changed, and we plan to reduce the holding of listed company shares, including those of FUJITA KANKO, by 50% by FY2030 to secure funds for reinvestment.

Q. Regarding the expansion of shareholder returns, could you explain the internal discussions and decision-making process, as well as the criteria for executing share buybacks?

(Director responsible for Accounting and Finance, Mr. HOSONO)

In the Medium-term Plan 2027, we aim to achieve an ROE of 10%, and to improve ROE, it is necessary to simultaneously strengthen business profitability and improve capital efficiency. Therefore, we decided to increase the dividend payout ratio to 35%, providing upward flexibility, and set a minimum dividend per share of 150 yen to mitigate downside risks. Regarding share buybacks, it is difficult to provide specific quantitative criteria at this time due to the anticipation of large-scale investments, but we will consider it based on future funding needs, financial conditions, and capital efficiency.