

## Q&A Session Minutes on Corporate Strategy Briefing held in Nov. 2022

Time: 10:00 to 11:30, Wednesday, November 16, 2022

Place: The conference room of head office (Chiyoda-ku, Tokyo) with live internet streaming.

Briefer: SEKIGUCHI Akira, President and Representative Director

HOSONO Hiroyuki, Director and General manager of corporate strategy dept., sustainability sec. and public relations & investor relations sec.

OKASHITA Osamu, General manager of accounting dept.

OSHIKA Yoshikazu, Manager of corporate strategy dept.

### ■ Common

#### **Q. Are you considering price revisions to offset the effects of rises in electricity costs and other costs?**

(President)

We have already revised the prices of certain copper rolled products and metal-ceramic substrates in Metal Processing Business, which have produced results. The price revisions in the Environmental Management & Recycling Business are expected to produce results from next fiscal year because many of the waste treatment contracts are annual contracts. We have already offered to revise prices for projects for local governments next fiscal year and are gaining their understanding to a certain degree. In the Nonferrous Metals Business, we will make strong efforts to seek customers' understanding of price revisions particularly for zinc, sales of which are mostly sales of processed zinc products, planned next fiscal year. We are negotiating with customers also in the Heat Treatment Business. In each of those businesses, there is concern that the effect of price revisions will be limited if energy costs and transportation costs rise more than expected, but we will strive to accumulate profits steadily anyway. In certain industries, it is difficult to revise prices, and we will also work to improve profit margins for products and cut costs as efforts common to all businesses.

#### **Q. What will the effect of rises in electricity costs and other costs be this fiscal year? To what extent will you be able to offset the effect by revising prices?**

(General Manager OKASHITA)

Electricity costs rose 3.0 billion yen to 4.0 billion yen year on year in the first half. We expect that electricity costs will increase around 10.0 billion yen for the full year. Fuel costs and materials costs also rose. They rose 1.0 billion yen to 2.0 billion yen year on year in the first half. They will likely increase more than twice as much as that amount in the full year.

(President)

The effect of price revisions varies from business to business. In the Melting and Recycling Business of the Environmental Management & Recycling Business, price revisions will not have any impact until next fiscal year. Cost increases will thus have a significant effects this fiscal year. In the

Nonferrous Metals Business in fiscal year 2021, market prices rose earlier than energy costs rose. Due to the time lag, profit increased. This fiscal year, metal prices are lower in dollars than last fiscal year, although the yen is weaker. Meanwhile, crude oil prices are high. The balance between market prices and energy costs has changed from the previous fiscal year. This trend is attributable to the structure of the entire industry. We will respond by revising costs and cutting costs as far as possible.

**Q. You have said that you invest aggressively and have continued to make investments that exceed depreciation. However, when the break-even point rises due to an increase in fixed costs and demand declines, profit changes significantly, as it is doing now. I wonder if your earnings structure is becoming vulnerable. Wouldn't it be advisable to steps to lower the break-even point.**

(President)

With respect to the increase in depreciation, we invest primarily in new business areas and areas where we can differentiate ourselves in term of technology. Consequently, if we reduce investment for the next few years, we may lose our competitive advantage. In the Metal Processing Business, in particular, future trends can be predicted relatively clearly. We are at high risk of losing competitiveness if we reduce investment. To ensure that new products sell, we will therefore not reduce capital expenditure. In the Nonferrous Metals Business, we make substantial investments in each project. We have been investing primarily in infrastructure since the Midterm Plan before the previous one. We were affected by heavy rains this summer. The investments in infrastructure that we have steadily made include investments in countermeasures to mitigate damage caused by heavy rains, and we believe that those investments have made possible an early recovery after the damage was done. We will continue to make investments to make our businesses more robust and to ensure their stability, including their preparedness for natural disasters.

We will make decisions on future investment based on the characteristics of each business and carry out investment. If we reduce investment unnecessarily, we will lose the sources of our competitiveness. We will make investments as planned except in an emergency situation.

## ■ Environmental Management & Recycling

**Q. Could you describe price revisions and schedules for major initiatives in Southeast Asia? Do you feel that you will be able to achieve the ordinary income target, 12.0 billion yen, in Midterm Plan 2024?**

(President)

Waste treatment markets in Japan and overseas have not changed significantly. It is important to implement initiatives steadily. In Southeast Asia, progress in new businesses was delayed due to the COVID-19 pandemic, but from early this year, we finally resumed normal activities before the pandemic. Due to COVID-19, the installation of incinerators, among other facilities, was delayed. The competitive environment has not changed, and we will focus on installing facilities efficiently. We

have been able to resume sales activities. We expect there will be no significant delays. It is difficult to expect trends in cost increases, but we do not think that it is impossible to achieve the ordinary income target in the Midterm Plan. If capital expenditure returns to the normal level, cost will naturally decline. Ordinary income in the Environmental Management & Recycling Business has reached 10.0 billion yen only once. In the previous fiscal year, ordinary income exceeded 10.0 billion yen. We want to continue to post ordinary income of 10.0 billion yen or more. We will implement initiatives without delay.

**Q. What concrete schedule do you have in mind for the used LIB recycling?**

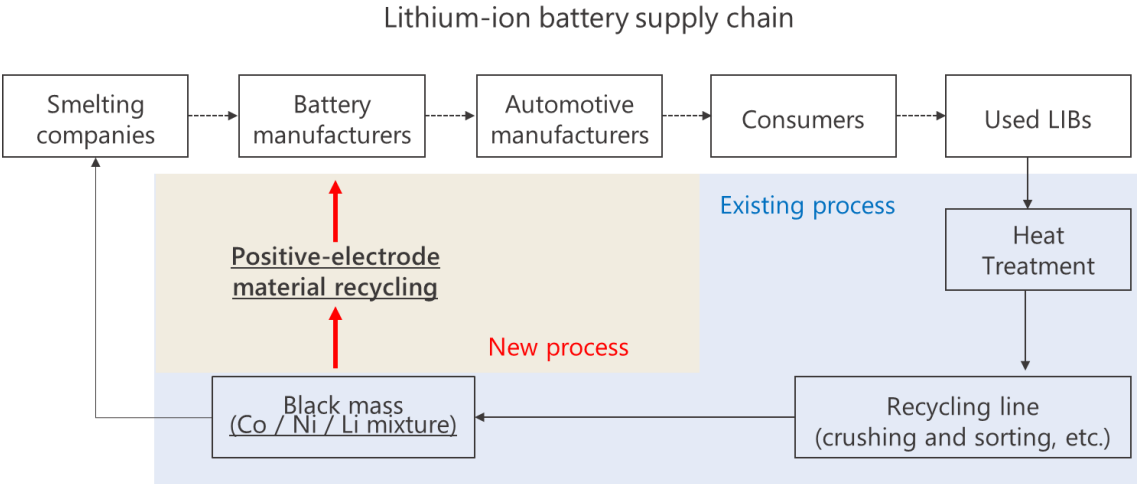
(Director HOSONO)

The used LIB recycling is on a testing phase. Dismantling and sorting have been tested. We expect that an era of mass disposal of LIB will arrive around 2030 and the amount of materials will increase. Until then, the amount of materials will increase gradually. The LIB recycling will be commercialized around 2030.

(President)

We are at a stage of establishing a process at the Company. In the chart "Lithium-ion battery supply chain" on page 9 of today's material, the process shown by the arrows leading up to "Smelting companies" on the left side is a process that has been established. The process shown by the red arrows leading up to "Battery manufacturers" is a new process that has been disclosed recently. We are developing two processes so that we can provide service to customers wherever they are.

(Reference: The chart on page 9 of the presentation material)



## ■ Nonferrous Metals

### Q. Amid the global shift to electric vehicles, haven't your expectations of the growth of the PGM business changed?

(President)

Despite a shift to electric vehicles, demand for exhaust gas purification catalysts is expected to increase. DOWA has collection bases in North America, Europe, South Korea, and Southeast Asia. At present, we are collecting catalysts primarily in North America and Europe. We are collecting spent exhaust gas purification catalysts from automobiles that were sold ten to fifteen years ago. Sales of automobiles at present will thus be reflected in the spent exhaust gas purification catalysts market in 10 to 15 years' time or in 20 years' time. Automotive gas emissions regulations are being tightened worldwide, and exhaust gas purification catalysts in automobiles will likely increase globally. Although certain markets are shifting to electric vehicles, the volume of exhaust gas purification catalysts in gasoline vehicles and diesel vehicles are increasing rather than decreasing. We expect that the market will not change significantly in 10 to 15 years and will expand collection areas. Our strength is in our ability to collect spent catalysts by ourselves, which enables us to obtain market information with relative ease. Moreover, we are maintaining a competitive advantage in the treatment process. We think that the PGM business will continue to be a core business in the Nonferrous Metals Business, although we do not know what the future trends in PGM prices will be.

## ■ Electronic Materials

### Q. What kinds of customers are continuing to buy high performance silver powder? Will the volume of sales in the second half of FY2022 remain unchanged?

(Manager OSHIKA)

We have excelled in silver powder for high efficiency panels. At present, high efficiency panel production bases are located chiefly in China. The level of sophistication of production processes at panel manufacturers is growing. Meanwhile, price competition due to an increase in the number of panel manufacturers has led to an increase in the use of silver powder that can be obtained in China at each manufacturer. As a result, our silver powder's competitiveness has declined. However, the manufacturing of certain panels requires the use of our silver powder, and demand for our products will continue to exist. There are still needs for high-efficiency panels, and that situation is expected to lead to increasing demand for next-generation panels. We will present evaluation samples of silver powder for next-generation panels to maintain and retain market share.

(President)

If we stop pursuing the development of high-performance silver powder, we will lose our remaining customers to Chinese manufacturers. We will thus not slow the development of high-performance silver powder. Profit will contract for some time to come, but we will continue development.

**Q. What products do you expect to offset the decline in sales of silver powder?**

(Manager OSHIKA)

Let me describe promising products that will contribute to the growth of the Electronic Materials Business. Conductive atomized powder, a consumer product which we are already mass producing, is not selling well due to the sluggish Chinese market. We already have customers and are waiting for a market recovery. Fuel cell materials are for fuel cells, a future power generation technology. We have high expectations for fuel cell materials. Fuel cell manufacturers are accelerating the examination of them and our samples have earned high marks. We are making capital investments to start mass production in FY2023. We have moved back the planned date of commencement of mass production for certain projects. The postponement is for customer-specific reasons and does not reflect a delay in the overall market recovery. We are taking steps to achieve commercialization during the period of the Midterm Plan 2024 at the earliest. Demand for magnetic powder for data tapes in connection with cloud services is increasing as use of big data rises with digitalization. Demand for data tapes is expected to increase because power consumption is low and the storage capacity is approaching HDD's capacity. If semiconductor shortages are resolved, demand for data tapes for data servers is expected to increase. We will steadily develop data tapes.

**Q. Will capital investment and research and development expenses in the Electronic Materials Business in Midterm Plan 2024 change because of changes in the status of the silver powder business?**

(Manager OSHIKA)

We consider research and development expenses as resources for continuing to launch the latest products and will not change them significantly. As for capital investment, we may allocate part of it to businesses that are performing better than initially expected, such as fuel cell materials, considering a decrease in share in the silver powder market.

(President)

We expect that our share in the silver powder market will not return to the level of the past for the time being. We will thus freeze investment to increase production and expand market share, which is included in Midterm Plan 2024, and will return personnel who have come to support an increase in production to departments to which they belong.

**■ Metal Processing**

**Q. Sales of copper rolled products for telecommunications equipment declined more than 30% in the second half compared with sales in the first half. Please describe the background and the timing of recovery.**

(Director HOSONO)

With respect to the decline in sales of copper rolled products for telecommunications equipment,

we think that manufacturers manufactured and stored products in the first half in response to strong demand, but are adjusting inventories in the second half partly due to a slowdown in the Chinese economy. It is difficult to predict the timing of a recovery. When they do start to improve, sales will pick up rapidly. We will carefully monitor the situation.

#### ■ Heat Treatment

**Q. I have a question about technology to reduce CO<sub>2</sub> emissions. How important is carbon neutrality in the auto industry? How far can you promote carbon-neutrality to customers?**

(Director HOSONO)

We recently unveiled Z-TKM at a trade show. Customers said that reducing CO<sub>2</sub> emissions 60% is revolutionary. We hope that Z-TKM will be a promising product that will attract great attention if there is a big move related to carbon neutrality in the auto industry, etc. We are giving demonstrations and conducting demonstration tests. If we are able to foresee future demand, we will communicate that to you.

#### ■ Dividends

**Q. The dividend yield is at the lowest level in the business category. I understand your dividend policy in the Midterm Plan 2024. I think that weak results and a low yield have led to a fall in the stock price after the earnings announcement, is that right?**

#### ■ Dividends

(President)

I do understand your comment and opinion. However, although we have revised downward the full-year forecast we announced in August, the forecast that we have announced shows our second highest profit after the record high posted in the previous fiscal year. In the previous fiscal year, we paid a dividend of 130 yen per share, a common dividend of 100 yen and a special dividend of 30 yen. This fiscal year, we plan to increase the common dividend per share to 105 yen. We will discuss the total dividend per share.

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