November 13, 2020

DOWA HOLDINGS CO., LTD.

Q&A Session Minutes on FY2020 Second Quarter Business Results

Q1. You achieved high operating income compared to past levels, despite the difficult economic conditions in FY2020. Is this attributable to any changes?

A1. The Environmental Management & Recycling segment has expanded into a number of business areas including the melting/recycling waste business, broadening its revenue base through the creation of a range of menus in the Group. The industrial waste treatment market is recovering from the negative impact of economic stagnation in the current fiscal year thanks to the effects of measures that have been taken to date. Looking ahead, if the global economy begins improve, the volume of existing industrial waste generated should recover, which will lead to an improvement in the profitability of the Environmental Management & Recycling segment.

The Nonferrous Metals segment, which has been working on the greatest challenge of strengthening processing functions in the recycling and smelting complex for nearly 10 years, has been focusing especially on the recycling of metals. Kosaka Smelting and Refining has been striving to enhance its production lines for the recycling of metals with high value added such as gold and PGM, while Zinc smelting has been collecting gold, silver, copper and lead, metals that are not collected through the smelting of zinc, in a highly efficient way in collaboration with Kosaka Smelting and Refining.

Efforts to advance technical development and capital investment with an eye on collecting all valuable metals included in raw materials are contributing to this fiscal year’s financial results. In addition, our nonferrous metal business is increasingly characterized by the higher ratio of production volume of precious metals in proportion to that of base metals compared to competitors.

Q2. Please describe Meltec Iwaki’s profitability and the effects from the operation of pretreatment facilities in conjunction with the melting/recycling waste business.

A2. Making Meltec Iwaki profitable this fiscal year is difficult. We will aim to achieve a return to profitability next year or beyond by improving capacity utilization. With respect to pretreatment facilities, temporary calculations show that the treatment volume of existing facilities will roughly double after operation starts.

Q3. What are the medium- to long-term prospects for the melting/recycling waste business?

A3. There is demand from local governments, our clients, due to the shortage of landfill sites. Our melting/recycling waste business is a service of recycling incinerated ash, from which local governments can expect the prolonged use of landfill sites. Given high expectations from local governments, we will maintain and develop good relationships with them by maintaining stable, safe and secure treatment operations. We have not decided anything with respect to region-by-region outlooks.

For the time being, we will give priority to boosting the treatment volume of the existing two plants by establishing pretreatment facilities as planned.

Q4. What are the prospects for the collection of spent catalysts?

A4. With respect to the volume of spent catalysts, attention should be paid to the fact that cars equipped with exhaust gas purification catalysts are gradually being decommissioned due to the tightening of environmental regulations, particularly in Europe, over the past 15 years. In addition, with the number of cars owned or scrapped expected to increase in Asia due to economic growth, we expect that the market will grow as a whole.

Against the background of these market conditions, we plan to increase the volume of collection in Europe and East Asia. In Europe, we will expand the area of collection into Southern Europe, North Africa and other Mediterranean areas. In Asia, we will tap into demand in a range of areas, in addition to Southeast Asia, which we cover through the Group's local network.

We will also boost the volume of treatment with respect to refractory metals by leveraging processing functions in the recycling and smelting complex at Nippon PGM and Kosaka Smelting and Refining. Since we are acquiring know-how on operations with existing facilities, we will seek to increase the volume of collection by featuring collection together with metals that cannot be treated easily.

What will happen to surging PGM prices is unclear. But even if they decline, we will achieve the expected results by increasing the volume of collection and treatment. Since we have additional treatment capacity, we are able to increase the volume of treatment by 20 to 30% from the current level. We will focus on boosting the volume of collection without making any investment in treatment facilities.

Q5. What are the prospects for medium- to long-term demand for silver powder? Please comment on whether production capacity is sufficient or not and whether or not there is any risk in substitution with other materials due to a rise in silver prices.

A5. We are expecting that demand for silver power will continue to grow steadily, going forward. To the extent that it rises to the volume that we are now expecting for next year, we can manage with existing facilities. Our stance is to make investments on an as-needed basis to enhance facilities after assessing how much and how fast demand will grow in the future

In conjunction with a risk in the substitution of materials, as the power generation efficiency of solar panels need to be improved, we are not sure if materials other than silver satisfy the required level of quality. A rise in silver prices is more likely to prompt a reduction in the volume of silver used per panel, such as the implementation of thinner cell wiring in solar panels. Thinner cell wiring not only contributes to improvements in power generation efficiency but also reduces the volume of silver powder used.

Our strength is our ability to supply silver powder that addresses this development trend. So we will respond to rising demand correctly, while at the same time keeping an eye on future trends in technologies

Q6. Please comment on which new products will be commercialized earlier in the Electronics Materials segment, as well as their applications.

A6. Sales of conductive atomized powder have finally increased to the level that can be categorized as a business. The raw material is used for electronic components such as capacitors, electromagnetic shields and die attach materials. We expect that more and more automobiles and telecommunication devices will be equipped with components in which the powder is used. With mass-production already up and running, we have reached the harvesting stage.

Coming second is the launch of deep-ultraviolet LEDs for medical and industrial applications. With development almost completed and adoption by clients underway, we are ready to move forward, depending on the acceptance of products by customers. We are moving to the next stage with a view toward commercialization.

A third product to be launched is short-wavelength infrared LEDs for healthcare. We feel that demand is growing due to health-related needs. The development stage was almost completed in the first half and construction of mass-production facilities is underway. If things go well, we expect a launch in the second half of the next fiscal year.

Other products include fuel cells materials and silver nano powder, which we aim to have adopted in areas that we have been focusing on, such as energy and electronic components. We will strive for the earliest possible commercialization while closely examining the market direction in a timely manner.

Q7. What are the cash flow prospects for this fiscal year? Going forward, is there any possibility of a change in your stance on measures for improving ROE, investment for growth and capital policy?

A7. Cash flows in the first half were stronger than in recent years, mainly reflecting a decline in sales and progress in the collection of accounts receivable. On the other hand, we expect that cash flows for the full year will be more stable because investments for enhancements will be made in the Electronics Materials segment.

With respect to the Los Gatos mine, although expenditure has been greater so far, we project positive cash flows in the second half. With progress being made in the local partner's financing plan, we are optimistic that a plan will be prepared on the collection of funds next year. Cash flows will improve from late December through early next January albeit more slowly than the first half.

As for capital policy, we will reduce debt that has increased due to the construction of the Los Gatos mine and return the D/E ratio to previous levels. As for dividends, we will maintain the annual dividend at 90 yen while simultaneously waiting for an opportunity to increase dividends, based on our dividend policy.