

Q&A Session Minutes on FY2020 Results Briefing

Time: 13:30 to 15:00, Wednesday, May 19, 2021

Place: Internet distribution from the conference room of head office (Chiyoda-ku, Tokyo)

Briefer: SEKIGUCHI Akira, President and Representative Director

■Environmental Management & Recycling Segment

Q. Will profit fall year on year in FY2021 due to a decrease in the waste treatment unit price and an increase in depreciation expenses? The payback period for investment in facilities will start in FY2022. Is that right?

(President)

An increase in depreciation expenses is a larger contributing factor for a year-on-year decrease in profit in FY2021 than a fall in treatment unit price. In the domestic waste treatment business, a fall in treatment unit price is inevitable due to competition. We will offset the effect of a fall in unit price as far as possible by handling hard-to-treat hazardous waste, increasing capacity utilization at factories and cutting cost. Meanwhile, we will seek to expand the service menu by making new investments and will make sure to generate a profit from added services. We will recoup the investment in new facilities from FY2022.

Q. What is your outlook for a recovery in waste in the Southeast Asia business? What contribution will the new facilities make in the region?

(President)

In the Southeast Asia business, the quantity of waste generated was not favorable in FY2020 partly due to the spread of COVID-19. Sales activities were difficult due to movement restrictions. Assuming that the quantity of waste generated is recovering to earlier levels and the effects of new services emerge gradually, we forecast that orders will increase in FY2021.

■Nonferrous Metals Segment

Q. In the PGM recovery business, to what extent can you expand your treatment capacity?

(President)

The PGM recovery business is a joint venture between us and Tanaka Kikinzoku Kogyo. In the production line, we are responsible for the pre-process and Tanaka Kikinzoku Kogyo is responsible for the post-process (refinement). The sum of each company's treatment is our whole treatment capacity. NIPPON PGM, our treatment plant, processed 1,000 tons of used automotive catalysts a month, a target in Midterm Plan 2020, a year ahead of plan. FY2021 is the third year of the operation. At present, the treatment volume has increased about 30% against the original target. In FY2021, we will try to keep the increased treatment volume throughout the year to see if that is possible. We will examine whether an increase in our treatment volume will cause some problems in Tanaka Kikinzoku

Kogyo's PGM treatment process. It is thus difficult to clearly state to what extent we can expand our treatment capacity. We can say that we can process about 1,100 tons a month at least based on our performance in FY2020.

■Electronic Materials Segment

Q. Is there any upward elasticity in the sales volume of silver powder? How much do you think you will invest to increase production?

(President)

We are looking at investing in the silver powder business to increase production. We will meet demand expected in FY2021 using existing facilities. Demand is expected to increase in FY2022 and thereafter. We plan to obtain information about expected growth in early FY2021 and will prepare for investment to increase production as needed.

Demand for silver powder has begun to be polarized. Wires contained silver powder used for solar panels are becoming finer, and demand for silver powder suitable for finer wiring is increasing. We are strong in this field, and our medium-term strategy is to expand our business to meet increasing demand. There is demand also for silver powder that do not have special properties. However, because we cannot expect to earn much revenue from that type of silver powder, we should not focus on it. Our basic strategy is not thus to simply increase the capacity of facilities and production but to enhance quality and increase the production and sales of high-performance products.

Q. What types of LED do you expect will be needed in the medium term?

(President)

We are considering producing short-wavelength-infrared LEDs, and final approval will be given to mass produce them soon. Progress is being made almost as scheduled. We plan to start mass production from June. We built facilities to mass produce short wavelength infrared LEDs in FY2020. In FY2021, depreciation expenses will rise, but we expect we will achieve profitability. From FY2022, we expect to see increasing sales throughout the year. The product life of electronic materials is shorter than that of our other products. We are thus developing next-generation products. While making up-front investments for new projects, we will make short-wavelength-infrared LEDs our second mainstay product following silver powder in the Electronic Materials segment.

Q. What new products will contribute to earnings? When will they make contributions?

(President)

In FY2020, silver powder, an existing product, accounted for most of our revenue. From FY2021, we expect new products will begin to be sold. Let me describe new products one by one. We expect that the sales volume of Conductive atomized powder will reach the level where the product will contribute to profit in FY2021. As for Fuel cell materials, we have started to build mass production

facilities, which are about to be inaugurated. It will take some time before Fuel cell materials contribute to profit. We are still conducting research and development into All-solid-state battery materials. Short-wavelength-infrared LEDs will start to be produced in FY2021. They will contribute to profit in earnest from FY2022. We will expand sales of Deep-ultraviolet LEDs. It will take some time before they contribute to profit.

■Others

Q. Total assets increased at the end of FY2020. Are you considering any initiatives to improve asset efficiency and capital efficiency?

(President)

There are two factors that raised total assets at the end of FY2020. The first is an increase in working capital in the PGM recovery business and silver powder business, which performed well in FY2020, due to a temporary rise in raw materials prices as a result of an increase in metal prices. If the prices stabilize, cash inflows will be generated. If the prices do not fall, total assets are expected to remain at a high level. The other is construction investment related to the Los Gatos Mine. We temporarily paid the share of a JV partner and collected the payment in FY2020. Scheduled repayments of loans for construction costs have started. According to the Los Gatos Mine profit plan for FY2021, the loans will be repaid without any problems. We will make steady progress in recouping the Los Gatos Mine construction funds.

Both factors reflect investments in businesses that greatly contribute to earnings. If we achieve the FY2021 profit plan, asset efficiency will naturally improve. If we do what we should do, numbers will improve. I think there is little need for any special action.