



Mitsubishi Materials Corporation

Q1 Financial Results Briefing for the Fiscal Year Ending March 2025

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Question & Answer

Participant [Q]: I don't understand the part about the partial cancellation of hedging, so I would like you to clarify the impact of this part, or rather, the impact from the same period last year, which was ¥7.5 billion, and whether the same stance will be taken from Q2 onward. There was talk of it disappearing and stuff, but what will happen in the future, like after Q2, Q3, etc.? For example, what happens if the copper price falls or the yen appreciates? Could you please explain that, including what swings that would cause in earnings?

My second question is, is it correct to understand that when you moved this hedging part out of the way, operating profit was originally based on Q1 or something like that, or that H1 was still weak, and that it would recover in H2, so it is a kind of 180-degree rule, or a bracketed section. In contrast, I am wondering if it is correct to understand that there will still be some jump in H2, which of course I dare to ask because there is no up or down.

From our point of view, the fact that some of the main segments are only reporting operating profit for Q1 suggests that the accuracy of the target for the full year is low. Alternatively, non-operating profit and expenditure looks solid. Could you explain your company's view, including these aspects? I would appreciate your explanation about when you moved away from this hedging. Thank you.

Takayanagi [A]: Thank you very much. The hedging part is indeed quite technical, so I think it may be a little difficult for everyone to understand, but as you can see in the waterfall graph on page seven, the degree of impact was about ¥7.5 billion in Q1. The breakdown is as follows: the amount attributed to the Metals business is ¥6.8 billion in foreign exchange, and for the Copper & Copper Alloy business it is an additional ¥0.7 billion for the cost of copper raw materials.

What is behind this is that, for example, when there is an interest rate difference between Japan and the US, currency futures become cheaper than spot prices, especially when selling the yen. The discount on the price of selling yen means that the loss is fixed even at the moment of hedging, and in the case of a company like ours with a large ore price, if we hedged the entire ore price, the annual hedge loss would exceed ¥5.0 billion and it would be fixed.

We have come to the conclusion that hedging is no longer worthwhile, so we have decided not to hedge anymore. This means that we were not hedging for ore ships that were shipping around January to March. In terms of the exchange rate and how it has moved in Q1 since that time, it is included in the breakdown of the ¥7.5 billion increase mentioned earlier, and since the yen has been considerably weak since then, some of the profits have been generated here.

To explain a little more, the ore and things that arrived in April, May, and June, created a profit. However, for example, I think the average for June was ¥157, but if the yen appreciates from there to the current level of ¥147 or ¥150, the opposite will happen, and in that sense, it will be offset. That is what I am talking about. That answers the first question.

Participant [Q]: It was around ¥6.0 billion, wasn't it? Is it correct that that would erase it all? If Q2 is a minus, would Q1 gains be erased?

Takayanagi [A]: That's what I mean.

Participant [Q]: So, would Q1 and Q2 be a factor in lower profits?

Takayanagi [A]: I think you can think of it as plus ¥7.5 billion in Q1, but from Q2 onward it is usually erased by a minus ¥7.5 billion.

Participant [Q]: I see. If the yen appreciates more than that, say to ¥140, would the negative impact increase?

Takayanagi [A]: I think that at ¥140, there will be a bit of a negative figure.

Participant [Q]: This is difficult.

Takayanagi [A]: Yes, that's right. So, I think it will be a matter of the balance between that and the confirmed loss that I mentioned earlier. Originally, if we hedge like normal, this ¥7.5 billion increase would be a ¥5.0 billion decline. A ¥5.0 billion fall would not be fixed, but roughly speaking, that amount would become fixed, so we would like to avoid a little bit of loss becoming fixed.

Participant [M]: I understand.

Takayanagi [A]: In terms of how we see Q1, excluding this factor, in very general terms, we see it as in line with our expectations. There are some parts at Onahama, that are still a little bit of an unknown factor, but for the normal part, I think we are generally in line with our estimates. However, we believe that the Copper & Copper Alloy business and the Metalworking Solutions business, excluding the benefits of the weak yen, should be able to rise more, and we believe that more efforts are needed in this area.

Participant [Q]: So, the assumption was originally that it would rise in H2?

Takayanagi [A]: Yes, that's right. Originally, we expected gains in H2, and speaking very broadly again, we were looking at a ratio of roughly 4 to 6.

Participant [Q]: I see. The ratio of H1 to H2 was 4 to 6.

Takayanagi [A]: Yes.

Participant [M]: I understand. Thank you very much.

Participant [Q]: The first question is about hedging, and I was wondering if it is correct that for Copper & Copper Alloy business, if the copper price goes up, there will be a positive impact, and if the copper price goes down, there will be a negative impact, and also, did the original company plan factor in the fact that this hedging would be suspended? If it was factored in, then this positive factor of reduced hedging costs, which in Q1 is ¥1.0 billion for the Metals business and ¥0.7 billion for the Copper & Copper Alloy business, will probably continue to appear in Q2 and beyond. Please let me know what to think about these factors.

My second question is, in general, there is an image that automobile production is down a bit due to various factors, such as infection cases causing difficulties in China, or some kind of certification irregularities. I think semiconductor companies, for example, are looking a little better than they did, say, three months ago. Can you tell us, in your company's business, compared to May's assumptions, for example, how are businesses around you doing? That is all.

Takayanagi [A]: Thank you very much. On the first question, about the hedging of Copper & Copper Alloy business, as you mentioned, it is safe to assume that gains will come from an increase in copper prices. As for the hedging costs, if you look at page seven, I think you will see that they are mentioned in the others section of operating profit, which was incorporated to a certain extent in the original business plan. There was originally supposed to be no hedging, so I think it is safe to assume that this reduction in hedging costs was included. The hedging cost will be reduced, or rather, what I mentioned earlier, which is roughly ¥5.0 billion per year, was incurred last fiscal year, but not this fiscal year, so I think it is fair to say that the waterfall graph will show a positive impact.

As for your second question, we share the same view of the market as you have just described. However, if you look at the statistics on global automobile production and sales, you will see that overall production and sales are increasing, but the increase is especially in China, whereas in Japan there is almost no increase at all. In this sense, and since the number of Chinese-made EVs is increasing in China, but our materials are not included in such EVs, it is difficult. In addition to this, quality issues are also becoming a concern, so we need to look at automobiles more carefully. We are in the process of reevaluating our sales mix and starting to implement various measures. As you mentioned, for semiconductors, some movement has emerged in the receipt of orders, although I am not sure if it is fair to say that they have now bottomed out. That is all.

Participant [M]: I understand. Thank you very much.

Participant [Q]: Thank you for taking my questions. I am afraid I am being repetitive, but regarding the hedging, just to confirm the mechanism, basically, since futures have continued to depreciate, it would be useless to spend ¥5.0 billion on hedging costs, so they have been fully open since January or so.

After those positions were left fully open, the yen suddenly depreciated further from the January to March period to the April to June period, so you were able to sell copper cathode made from copper ore you purchased when the yen was strong, when the yen had depreciated further, giving you a healthy profit in April to June. If the yen were to appreciate rapidly again in the future, you would have to sell those strong-yen copper cathode made of copper ore purchased when the yen was weak, which risks creating a loss. Please let me confirm whether I have got that mechanism right or not.

My second question is about the Advanced Products business. Looking at Q1 profits, it seems that Electronic Materials & Components business is making a reasonable amount of profit, while progress in the Copper & Copper Alloy business seems to be a little slow. Could you please tell us how your company sees the current, Q1 progress in terms of Advanced Products business? That is all.

Takayanagi [A]: Thank you very much. As for the hedging mechanism, it is as you just said. You are absolutely right. However, the ¥5.0 billion figure is a very rounded number, so we would like you to consider this a provisional figure. And on the business side, in the area of high functionality, I wonder if this is a direct reflection of the market trends that I mentioned earlier in my answer to your question.

In particular, the Copper & Copper Alloy business is not necessarily limited to automobiles. We also handle lead-frames and heat-spreaders, but the automobile industry is still the main focus, and the Copper & Copper Alloy business will not take off unless the automobile industry grows. Compared to this, as I mentioned earlier, orders for semiconductors have started to move considerably, and I feel that the Q1 results were considerably better than our initial estimates. That is all.

Participant [Q]: Semiconductors, then, are upstream materials, so is there a possibility that they will pick up again a little more in the future?

Takayanagi [A]: Yes, that's right. That is what I am hoping for.

Participant [M]: I understand. Thank you.

Participant [Q]: I apologize for the repetition, but I understood that the ¥7.5 billion in the waterfall chart was not factored in at the beginning of the period and that it was a figure unique to Q1. When you say as planned, do you mean that excluding this figure at the operating profit level means ¥12.8 billion minus ¥7.5 billion is a little more than ¥5.0 billion, and that figure was as planned? I would like to confirm again your evaluation of

the progress. The reason I ask is that there are so many irregularities, such as foreign exchange differences and unrealized income, that it is difficult to understand what you mean by as planned. I would like to know what the originally estimated profit level was for Q1, and if that is the evaluation of what was planned. This is my first question.

My second question is, in terms of the business environment, you mentioned demand for automobiles and semiconductors, but I think the Metalworking Solutions business has seen a decrease in profit, mainly in cemented carbide tools. To begin with, the timing of changes in final demand and the timing of the gains or decline of this segment often had a long lead-time gap. Considering this, when making a forecast for H2, whether the Metalworking Solutions business can uphold the planned level will create expectations for future recovery. I think this is an irregular situation, as you have just invested and expanded, and the volume has dropped while fixed costs have increased. Could you please comment on the outlook for improvement around this? These are my two questions.

Takayanagi [A]: Regarding the first question, as you just said, you can consider that the point where a gain of ¥7.5 billion is not included is basically the expected line. And, as I mentioned earlier, we are looking at H2 as being a little heavy, so taking that balance into consideration, we think that we are on target for the time being. This answers the first question. However, in the waterfall chart, the foreign exchange difference in blue on the far left is already fixed at plus ¥3.4 billion, so this will not move. I'll just add that here.

Participant [Q]: I see. In that case, would it be correct to say that your company's original target for operating profit for Q1 was about the level after subtracting that ¥5.0 billion?

Takayanagi [A]: That is what operating profit is. Or ¥6.0 billion, something like that.

Participant [M]: I see. I understand.

Takayanagi [A]: So, the second question is about the Metalworking Solutions business.

Participant [Q]: And carbide tools.

Takayanagi [A]: Yes. The sales volume is a little lower than we had expected, although there are some factors that have been affected by the exchange rate. However, in terms of profit, although it is slightly negative, we are in a line that is very close to the goal. Therefore, sales are not growing in reality, especially since, as I mentioned in the executive summary at the beginning of this presentation, there are still areas of the market, especially in Japan, where sales are not vigorous, so we are trying to prop up these areas. That is all.

Participant [Q]: What is the timeline for recovery?

Takayanagi [A]: The time frame for recovery is now about three to six months, and we are already taking various measures, and since April and May, after the start of the fiscal year, we have already seen this trend. We are taking such measures, and we expect that the effects of these measures will be seen in a while.

Participant [M]: I understand. Thank you very much.

Participant [Q]: I would like to ask two questions. I apologize for the repetition on the subject of hedging, but I would like to confirm that the reason for this is that the exchange rate started at the ¥130 level last year, and the yen had been weakening to around ¥145 for a long time. In terms of futures prices, a weak yen continued but now it is strengthening and that has become normal, so you decided to stop this kind of hedging.

Originally, at the operating profit stage, your company's sensitivity is about ¥0.8 billion for a ¥1 move, so if the exchange rate moves in the opposite direction from the expected one, for say ¥5.0 billion in hedging costs, was it structured in such a way that it would have to move more than ¥6 per year to cover that? I would like to confirm the mechanism and the background that led to the idea. I'm sorry, but you said that the sensitivity was not factored in, so I would like to confirm that the sensitivity you just mentioned, the sensitivity of the exchange rate to operating profit or ordinary profit announced at the beginning of the period, will remain the same. This is my first question.

Secondly, regarding the Metals business, I would like to ask about your company's current thinking on mining dividends. Looking at the Q1 results, there are dividends from Escondida, but there aren't any from Los Pelambres this time. I learned this from looking at the financial results of the trading company directly under you, but what are your thoughts on dividends from Los Pelambres in the future? That is all. Thank you.

Takayanagi [A]: On the first point, the reason why we stopped hedging is not so much that the yen is weak or strong, but that the yen is weak or strong as a result, but the difference in interest rates between Japan and the US makes the futures price cheaper than the spot price. When we hedge, we want futures contracts to sell at the same rate as the spot exchange rate when we convert yen to US dollars and pay the spot exchange rate. In that case, theoretically, the hedge would be 100%.

For example, if the spot price is ¥140 but the futures price is ¥138, we would lose ¥2 there. I'm sorry to say that I gave a rather vague figure earlier of ¥5.0 billion, but it is close to that amount, and it is also about that much per year. In that situation, the main background to this project is to think about how to hedge around that. I would like to add that I am not thinking of including this in the normal sensitivity at this time, because it can cause quite a positive or negative move depending on the way the exchange rate moves, up or down.

And as for the metal business's mining dividends, we are currently hoping that they will come in a little higher, due in part to the fact that copper prices are also higher than we had initially expected. As for the timing, we expect it to be in H2, as is the case every year, so we are taking that view. That is all.

Participant [Q]: Just to confirm regarding sensitivity, you did not include the fact that you stopped hedging this time, but the sensitivity announced at the beginning of the period will remain the same?

Takayanagi [A]: Yes, that's right. As I mentioned earlier, that is also why I commented that if the exchange rate falls to, say, ¥150, which we are now assuming, this ¥7.5 billion will disappear in Q2 and beyond. I commented on it because I thought it was worth mentioning.

Participant [Q]: When you say disappear, if the current price of about ¥145 continues for a long time after Q2, it will disappear?

Takayanagi [A]: Yes, that's right.

Participant [Q]: Okay, I understand. Now we are headed to yen strength of ¥145.

Takayanagi [A]: I'm sorry, ¥145 means ¥150.

Participant [Q]: ¥150. I see. So, with the current price around ¥145 or ¥146, would it be correct to say that there may be a little additional negative amount compared to the positive amount in Q1?

Takayanagi [A]: Yes, that's right.

Participant [M]: I understand. Thank you very much.

Participant [Q]: Thank you for taking my questions. My first question is about the Copper & Copper Alloy business. You explained that domestic automobile sales are weak, but I would like to ask you to give us a summary or comment on how the overseas Luvata and other products did in Q1. That is the first question.

Secondly, you said that the Metalworking Solutions business has been a little slow since April or May so you are going to take some measures. Could you tell us specifically what kind of measures you are planning to take? These are my two questions.

Takayanagi [A]: Thank you very much. As for the Copper & Copper Alloy business, you probably know this about Luvata, but we are still making superconducting wire, and that is mainly sold in China. In China, superconducting wires are used in medical equipment and there are two to three major manufacturers of it. Almost all of them have yet to start up demand for these products. So, these sales are down a little in some places at the moment.

On the other hand, Luvata is headquartered in Europe, where it raises funds, but the interest rate has not fallen as low as expected, and the company's performance has been slightly worse than we had expected. However, from a purely sales perspective, the sales volume of the welding electrode division, which excludes superconducting wires, but includes alloy wires, conductive materials, and specially processed products, has generally reached the planned level.

And as for your second question, the Metalworking Solutions business part, there are several measures. Regarding sales, demand is down and in our case in particular, we sell directly to customers, some to entrepreneurs, and some through distributors. In this case, we are focusing on strengthening our sales, especially to distributors, and we are now focusing on providing extensive and detailed customer support, including technical support. That is all.

Participant [Q]: Thank you. I have just one question, about your interpretation, but is the feeling that superconducting wire for medical equipment in China remains depressed, or is it more depressed compared to last year?

Takayanagi [A]: I think it would be better to say that it remains depressed.

Participant [M]: I understand. Thank you very much. Excuse me.

Takayanagi [M]: Thank you all very much for your time. In Q1, the market experienced large movements in exchange rates and stocks, and accordingly, since this was triggered by economic uncertainty in the US, I think it is necessary to take a closer look at metal prices as well. However, we are also working to strengthen our other businesses so that they will not be affected by the external environment, and I would like everyone to take a closer look at these efforts. Hedging is a very technical subject and may be difficult for some of you to understand, but I will try to explain it in as simple a manner as possible. Thank you very much for your time today.

[END]