



Mitsubishi Materials Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending March 2025

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Speaker: Nobuhiro Takyanagi Director, Managing Executive Officer, CFO

Question & Answer

Participant [Q]: In the full-year plan, there has been an upward revision of operating profit to ¥12.2 billion and ordinary profit to ¥10.1 billion for the Metals business. Based on the materials on page 10, it looks like the improvement in metal recoveries accounts for ¥+8.4 billion, and market conditions contribute about ¥+3.3 billion, leading to an increase in ordinary profit. Yet, since there's an exchange loss, ordinary profit seems to be lower than operating profit.

The improvement in metal recoveries of ¥+8.4 billion is something I learned about when I visited Naoshima. You explained that inventory is only assessed at the end of September and March, and since it wasn't done at the end of Q1, after performing it, there were higher-than-expected recoveries in metals, including copper. This was particularly true for gold, as it was quite high, so I wonder if the exposure to those metals, especially gold, contributed to the positive result this time.

If, for example, gold reaches \$3,000, the exchange rate is 155¥/\$, and copper hits \$4.5 by the end of the year, would similar positive effects from metal prices reappear? I understand that it's difficult to predict because of the nature of recycled materials, but typically, your results tend to fluctuate between Q2 and Q4 depending on market conditions. Could you provide some clarification on this?

Takayanagi [A]: First, let me address the metal recoveries. First, the quantity of precious metal slime that Naoshima receives was very limited last year because of the construction of the expansion at PT. Smelting. Therefore, the actual income of gold and silver was not very high. However, this year, we've been receiving more substantial amounts, so we've seen a higher-than-expected recovery of precious metals, which is one of the factors driving the improvement.

In Q2 and Q4, we perform inventory checks to finalize metal recoveries. In Q1 and Q2, for example, until around July or August, the metal recoveries are calculated based on the input volume until then, and then the final actual volume is compared with the input volume in August or September.

Especially in the case of this fiscal year, I honestly believe that we did not accurately read the added benefit of the increased acceptance from PT. Smelting there. However, since this part will be resolved in H2 of this fiscal year, we believe that the volume will remain at the level we have assumed to a certain extent.

Regarding metal prices, if we were to see copper at \$4.5, an exchange rate of ¥155, and gold at \$3,000 by the end of the year, it would certainly increase the availability of free metal, which would positively affect our metal recoveries. I would like to say that such a phenomenon can occur.

Participant [Q]: However, for the upcoming fiscal year-end, it seems that there won't be as much gold and silver slime coming in from PT. Smelting. Could you confirm this?

Takayanagi [A]: Yes. You are correct.

Participant [Q]: Was the influx of those materials temporary, as you mentioned earlier? I was a little unsure.

Takayanagi [A]: This is because of PT. Smelting had slowed down operations. When ore processing decreases, less slime will be produced. That is the reasoning.

Participant [Q]: So, in the future, if regulations change, these materials may no longer come in?

Takayanagi [A]: Well, in the future, PT. Freeport Indonesia is operating a new smelter nearby, and the materials will likely be processed there moving forward. So, basically, it will be handled.

Participant [Q]: So, we can still expect to receive materials until that smelter is fully operational?

Takayanagi [A]: Yes, as long as the new smelter is not fully up and running, we will continue to receive materials.

Participant [Q]: In Q1, the Metals business showed ¥6.8 billion, and the Copper & Copper Alloy business ¥0.7 billion, totaling ¥7.5 billion. What were the figures for Q2? What were the cumulative results for H1? And how do you expect H2 to look? Could you please help clarify with a breakdown of these figures?

Takayanagi [A]: In Q1, as you mentioned, the Metals business accounted for ¥6.8 billion and the Copper & Copper Alloy business ¥0.7 billion, making a total of ¥7.5 billion. What makes it difficult is that part of this is accounted for under non-operating profit, as seen in the waterfall graph on page seven, showing a loss of ¥12.3 billion. For example, some foreign exchange hedges on copper cathode exports have been dropped, as has been the case with ore. This has been pointed out by our auditors, and they instructed us to account for this under non-operating profit. So, there is a portion that falls under this category That's about ¥1.9 billion in Q2. If we talk only about Q1, it is ¥6.8 billion and ¥0.7 billion. The corresponding Q2 was ¥-1.8 billion and ¥-4.1 billion. Additionally, there is a non-operating profit of ¥-1.9 billion. So, totaling H2, we have ¥-0.9 billion for the Copper & Copper Alloy business and ¥-1.7 billion for the Metals business. I believe that most of the non-operating profit I mentioned earlier will not come up.

Participant [Q]: The yen has strengthened, so there's been a bit of a slowdown. The Metals business is relatively small, but the Copper & Copper Alloy business has been hit harder in Q2, correct?

Takayanagi [A]: Yes. You are correct. The impact has been larger on the Copper & Copper Alloy business side, as high-cost inventory has been worked through, and this will continue into H2.

Participant [M]: So, there's been inventory turnover and an impact from metal recoveries. Understood. Thank you.

Participant [Q]: Regarding the Metalworking Solutions business, I understand that you have seen a decrease in profits from H1 to H2, but I would like to know if it is only for automobiles or by region, and if you can give us a breakdown of the demand trends. In addition, there were talks about how you were losing market share, and it seemed like the focus was more on spending to regain that market share. If you look at page 13, it looks more like a cost reduction. Please let me know what is going on here.

Takayanagi [A]: Yes, we are expecting a decline in profit from H1 to H2. Our biggest concern right now is that the sales volume has dropped considerably more than we originally expected on our side of the market in Europe. In addition to that, our feeling is that the U.S. is also experiencing a considerable decline.

As for Japan, we were originally aware that we had lost some market share in the Japanese market, so we are trying to recover our market share as you mentioned earlier. This has helped us regain a few percentage points in market share, as we perceive it.

However, the overall pie is being pulled down by China, and Japanese sales are also decreasing due to the decline in sales of Japanese OEMs in China. The overall pie has been decreasing, and as a result, the Japanese market is still struggling, although we are recovering market share. This is the situation.

Participant [Q]: So, on page 13, it looks like costs are going to decrease, as I can see the breakdown of 'Other' section. Is this because the volumes are down, and you're cutting costs accordingly?

Takayanagi [A]: Yes. Basically, it is labor costs. Our original plan was to hire salespeople in Europe and the U.S. to expand sales, but we are now putting the brakes on that plan in view of the current demand situation. That is where this cost reduction is expressed.

Participant [Q]: Regarding the Metals business, just to confirm again, earlier you mentioned that with the new smelter being built by PT. Freeport Indonesia, the gold and silver slime will be processed there, meaning there will be no processing at your Naoshima Smelter & Refinery. Could you confirm that, and explain what the impact on profit and loss will be in that case?

Takayanagi [A]: Regarding the processing of slime at PT. Smelting, the details of the agreement between us and PT. Freeport Indonesia are confidential, so I cannot share too many specifics.

Basically, the Indonesian government itself has a policy of exporting natural resources that can be extracted in Indonesia only after they have been processed to a high degree. In accordance with this policy, copper concentrates and gold and silver slime derived from copper concentrates are exported only after they are commercialized in Indonesia.

In line with this trend, the gold and silver slime from PT. Smelting cannot be refined at the Naoshima Smelter & Refinery in Japan for a long time. Thus, when the regular gold and silver slime operation becomes available at the new smelter built by PT. Freeport Indonesia, it is expected that the processing will shift to that refinery.

However, we do not yet know when that timing will be, due to issues related to the launch of the new refinery.

The impact on profit and loss depends on the conditions of slime trading at the time, which can be quite difficult to determine.

We are doing this because there are economic benefits to doing so, and I think this will probably lead to a decrease in the number of such cases. On the other hand, we are planning to increase the processing of E-Scrap, which we have been talking about. This will generate additional slime, which we believe will offset the reduction in gold and silver slime processing from PT. Smelting.

Participant [Q]: Looking at page 14, it seems like the overseas business is planning for a decrease in profit in H2, correct? Also, domestically, while the volume is expected to increase in H2, why isn't the profit expected to increase as much? Could you explain how you view this?

Takayanagi [A]: To begin with, for the U.S. business, typically in H2, there is a slowdown in construction progress due to winter weather and bad conditions, so profits in H2 are generally lower compared to H1.

This is the usual trend. As for this year's figures, I don't think H2 will see a specific increase in the negative impact. This is the first point.

In terms of the U.S. business itself, the last fiscal year was quite negative compared to the previous year due to really bad weather, but we expect the weather to improve a little more.

However, it is difficult to estimate how much the cost increase will be due to the effects of current inflation. I think we are looking at a somewhat higher cost there. Overall, it is our understanding that the momentum of cement sales has not dropped significantly.

Participant [Q]: The operating profit forecast for the Copper & Copper Alloy business has changed significantly this time compared to last time, and the impact of halted hedging is quite large. Fundamentally, copper processing is a roll-margin business, so I thought the model was based on a stable roll margin and volume fluctuations. Given the recent decrease in volume, how should we think about the pure downside of this volume reduction?

The volume difference of ¥-7.8 billion has been accounted for, but should we simply calculate this as if the roll margin remains the same as before? If the automotive and electronics sectors don't recover in H2 or in the next fiscal year, does that mean the current H2 levels will be used as a new base?

I want to clarify the real underlying numbers here. How should we interpret this, especially for the Copper & Copper Alloy business?

Takayanagi [A]: The ¥-7.8 billion difference in volume is purely a result of actual performance, and you can consider that this decrease is real. As a result, the operating profit is at ¥1.9 billion, as mentioned earlier.

The level of orders in this H2 is, of course, quite low. For our part, the recovery of automobiles has been very slow as expected. Although there is talk of recovery, we are uncertain whether the market will recover to the levels we had hoped for.

Looking at the current automotive production numbers, growth is happening primarily in China. Although there has been some slowdown recently, the number of EV manufacturers in China is increasing. If other areas do not show much growth, we are very concerned that this difficult situation will continue.

To address this, we are focusing on diversifying away from being overly dependent on the automotive sector, by strengthening other business areas. For example, in semiconductors, we are actively working to expand sales to customers we have not reached before, including general copper products. Of course, we are trying to reduce costs more than ever.

Participant [Q]: Up until now, you've presented the sensitivity of the Metal business's TC/RC to factors like exchange rates and copper prices, which was shown in a table. But I think going forward, there will be other factors to consider in addition to these.

Specifically, the impact of halting hedging on copper prices and exchange rates. How should we think about the additional impact of these factors? Or, perhaps the details on this haven't been fully worked out yet, but I feel the fluctuations may become larger. If you could offer an explanation, even just within the scope of what you know, I would appreciate it.

Takayanagi [A]: As for the earlier point about currency sensitivity, that's exactly right. The exchange rate sensitivity is shown on page nine, with a ¥0.33 billion impact in H2 for every ¥1 fluctuation in operating profit. This figure excludes the effects of the halting of hedging. We describe this as an inventory valuation impact.

For example, in the Copper & Copper Alloy business, this relates to factors like the copper inventory levels and work-in-progress, as well as the exchange rate hedging for payments related to ores at the Metals Company. These positions depend on shipments at different times, and if the shipments are uneven, it will affect our open positions, so it is quite difficult to predict the exact impact.

If we were to make a rough calculation, the impact of ¥0.33 billion for every ¥1 fluctuation may increase by an additional ¥0.5 billion to ¥0.7 billion in operating profit, based on our current estimates.

Participant [Q]: As for copper prices, is it still difficult to forecast?

Takayanagi [A]: Copper prices are difficult. For now, let's leave it at that.

Participant [Q]: For H2, could you explain how profits are expected to develop quarter by quarter? Assuming that external factors align with the market conditions you've outlined, how would this impact the business? For example, if the market for copper processing and semiconductor materials were to return to normal volumes, would it be safe to assume that profits would move in parallel with the market? Also, regarding the dividends from mines, would it come in Q3? Could you share your expectations for Q3 and Q4?

Takayanagi [A]: As for H2's quarterly progression, if volumes indeed recover, we would expect profits to gradually improve. However, at this point, it seems unlikely that the recovery will be smooth and immediate.

Regarding the dividends from mines, they typically come in Q3, so we are currently expecting it to appear in Q3. However, this is not confirmed, and we believe there is a possibility that it may be shifted to Q4 instead. This is my answer to your first question.

Participant [Q]: Regarding free cash flow, it seems challenging to turn it positive, but is it impossible unless the volumes in the Copper & Copper Alloy business and other areas recover? Or, are there other measures that could turn free cash flow positive? What areas should we pay special attention to in terms of achieving a positive free cash flow?

Takayanagi [A]: Regarding free cash flow, according to Phase 1 in the Medium-term Management Strategy FY2031, which covers FYE March 2024, FYE March 2025, and FYE March 2026, we planned for investment to come first, so free cash flow was expected to be negative during this period. As you can see from the cash allocation, we have increased our borrowings and debt by ¥100 billion, so we had originally expected free cash flow to be negative because of this increase.

Considering this, we are getting close to the limit of how much negative cash flow we can manage, so we must manage free cash flow more strictly from here on out.

In particular, the current environment surrounding us, especially demand, is becoming quite severe. If we expand investment with the expectation of a large increase in cash inflow, we will not be able to manage the situation.

Participant [Q]: Regarding the Copper & Copper Alloy business: With a volume difference of ¥7.8 billion, there is a fairly large reduction from the previous forecast. Could you explain if there are any proactive measures, such as cost improvements, that can help mitigate this? Also, you've mentioned the delay in recovery, but could you give an outlook on when demand might return? For example, during which month do you expect recovery to happen in the next fiscal year?

Profit/Loss on Equity-Method Investment

(Billions of yen)

Company Name	Mitsubishi Materials' Equity	FYE March 2024 Result							FYE March 2025 Result				
		Q1	Q2	H1	Q3	Q4	H2	Full-year	Q1	Q2	H1	H2	Full-year
Copper Mountain Mine(BC)Ltd.	25%	-0.4	-1.7	-2.2	0.5	-0.5	0.0	-2.2	0.0	-0.6	-0.6	-1.1	-1.7
Mantoverde S.A.	30%	-1.2	0.2	-1.0	-0.2	-1.0	-1.3	-2.3	-0.2	-0.4	-0.6	1.5	0.9
PT.Smelting *1	34%	—	—	—	—	—	—	—	—	0.4	0.4	0.7	1.2
Kansai Recycle Systems	41.4%	0.1	0.1	0.2	0.1	0.1	0.2	0.5	0.1	0.1	0.3	0.2	0.5
Fujikura Daia Cable *2	22%	0.2	0.1	0.4	0.2	0.2	0.5	0.9	0.3	0.0	0.4	0.4	0.8
Yuzawa Geothermal Power Corporation	30%	0.0	0.0	0.0	0.2	0.1	0.4	0.4	0.3	-0.0	0.3	0.4	0.7
Mitsubishi UBE Cement Corporation	50%	2.0	4.7	6.7	2.9	4.1	7.0	13.8	3.6	3.6	7.2	2.6	9.9
Other		0.1	0.1	0.2	0.1	-0.2	-0.0	0.2	0.2	-0.0	0.1	0.2	0.3
Total		0.7	3.7	4.5	4.1	2.8	7.0	11.5	4.5	3.1	7.6	5.2	12.8

*1: Due to decrease in equity ratio following completion of third-party allotment, PT.Smelting is treated as an equity-method affiliate from 2Q FYE March 2025.

*2: Mitsubishi Materials' stake in Fujikura Daia Cable for the FYE March 2024 was 22.5%, and for the FYE March 2025 is 22%.

Takayanagi [A]: As I mentioned earlier, we understand that the Copper & Copper Alloy business is in a very difficult situation, and we have been working to address this issue since Q1 of the current fiscal year.

We are already reducing costs as much as possible, but given the market conditions, we are working on another round of cost-cutting measures.

Our feeling is that it has become quite difficult to forecast the market recovery. Based on the recent earnings reports from car manufacturers and Tier 1 suppliers, we've seen increased uncertainty. We feel that it's hard to pinpoint when the recovery will take place. As a result, we are now focusing on diversifying and identifying other sales opportunities. This is the answer to the first question about the Copper & Copper Alloy business.

Participant [Q]: Not specifically about the Copper & Copper Alloy business, but in general, when demand is low and inventory builds up, sometimes inventory gains or valuation gains show up, but when the time comes to reduce inventory, profitability can suffer. Do you feel that in the current copper processing business, in response to lower demand, inventory levels have been rising?

Takayanagi [A]: Let's touch on inventory, raw materials, and in-process inventory. We are in a situation where, with the yen's depreciation and high copper prices, inventories are increasing. However, it is not acceptable to hold excessive inventory in this environment. I think it would be better to assume that the Company is operating under controlled conditions here as well.

Participant [Q]: Regarding Mantoverde. For the next fiscal year, copper concentrate production will also start in April, and at the end of this presentation, on page 22, it says that the profit contribution for H2 will be ¥1.5 billion. How should we think about this next term? It wouldn't be as simple as multiplying by two, but as production ramps up and becomes more stable, we expect higher output and lower costs. Assuming exchange rates are around 150¥/\$ and copper prices stay at current levels, how should we forecast next year's performance?

Takayanagi [A]: Our understanding is that production will be close to full capacity in H2 of this fiscal year. Given that, it seems reasonable to assume that next year's performance could be roughly double that of H2 of this year.

Takayanagi [M]: Thank you all for your valuable time and for spending so much time with us. As discussed, this year, especially in copper processing, we've received many questions. We are aware that we are in a very difficult situation, and we are working hard to get through it, both in terms of costs and sales.

Fortunately, in the metals business this year, operations have been stable, and we are seeing good numbers in terms of productivity and efficiency. With this foundation, we are determined to meet the earnings forecast for this year. We will continue to work hard toward this goal, and we appreciate your ongoing support and guidance. Thank you very much for your time today.

[END]

Document Notes

1. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*