

November 15, 2024

Financial Results Briefing Session for the Six Months

Ended September 30, 2024

Q&A (Summary)

(Q1) What are the potential impacts of the change in U.S. presidents?

- (A1) In the ferronickel business, there may be some impacts due to fluctuations in foreign exchange rates and LME quotes, but otherwise we do not foresee any major factors. On the other hand, the transition to green energy that is in progress around the world is expected to slow down in the U.S., which could result in weaker investment in EV-related industries. Therefore, the new businesses that we explained today might experience some impacts with respect to the seafloor resources business and LIB-related business markets. In addition, we must closely monitor the movements of the Inflation Reduction Act in the U.S.

(Q2) This fiscal year is the final year of your medium-term business plan. Could you tell us about your policy for future business plans?

- (A2) Overproduction of nickel has led to excessive competition, and supply continues to outstrip demand. Therefore, the assumptions of our medium-term business plan have changed significantly. It is not clear when this situation will change, and the global market for Class 2 nickel has been significantly affected. To avoid an ongoing slump in business performance, we intend to present our strategies to speedily launch new businesses in the next medium-term business plan.

Thus far, we have mainly announced our business results, but we intend to present a roadmap for how we will realize our vision of “a comprehensive materials company that co-creates a sustainable, recycling-oriented society.”

(Q3) Your company has not made it out of the red yet given the ongoing harsh business environment in terms of both prices and volume due to intensifying competition with nickel pig iron. Do you see any opportunities to improve profitability by improvements in the external environment, self-help efforts, or other factors?

(A3) One of the main factors behind the deficit is rising costs due to globally soaring energy resource prices. Additionally, the main factor specific to our business is excessive competition caused by competition with nickel pig iron due to oversupply of nickel, which itself is the result of a decline in stainless steel production due to the weakening of the Chinese economy. We believe that this situation will not change drastically, and if the situation remains unchanged, we regret to say that a speedy recovery into the black will be difficult.

To this end, we are moving forward with research and development to reduce costs as much as possible and to differentiate our products from nickel pig iron. Along with the improvement of our nickel business, we will strongly promote the new metal smelting business based on seafloor resources as well as the beryllium production and sales business to build a stable revenue platform by developing businesses that are less susceptible to the impacts of market conditions.

(Q4) What should we expect as investors?

(A4) To get out of the slump in business performance, we aim to speedily launch a new business utilizing the smelting technology that we have developed to date, to realize a new business pillar, and to increase our corporate value. We hope that you will appreciate our efforts.

(Q5) What is the role of the beryllium business? Also, how do you envision the future?

(A5) MiRESSO and our company are pooling our respective management resources, with MiRESSO providing its proprietary low-temperature refining technology and know-how, and our company providing existing infrastructure in the form of facilities; plant maintenance, operation, and management in the forms of human resources and technology; and technologies for all aspects of production, including safety, the environment, and quality.

Beryllium is a metallic material necessary for clean energy technology, and demand is expected to increase in the future. We believe that collaboration with MiRESSO in this business will contribute to the achievement of our priority measures and vision. We will establish a support system to contribute to society by ensuring a stable, low-cost supply of beryllium, with potential capital participation in mind.

(Q6) Regarding the beryllium market, could you tell us about any barriers to entry, future demand, and room to enter the current market?

(A6) The fact that the beryllium market is an oligopoly could be a barrier to entry. However, we believe there is ample room to enter the current market by leveraging the advantages of MiRESSO's technology in terms of cost, quality, and sustainability.

As for future demand, apparent demand is not strong because of the limited supply and high price. However, with rising potential demand mainly caused by an expansion in electric vehicle demand, we expect the beryllium market will grow beyond projections by supplying a large volume of beryllium at a relatively low cost to meet the potential demand.

In addition, further significant market growth is expected as efforts toward the future fusion implementation make progress.

(Q7) Is there a possibility of withdrawing from the nickel smelting business in the future?

- (A7) The nickel business is our core business. At present, we have no thought of withdrawing from it. We are pursuing the creation of new businesses that leverage the smelting technology we have developed to date and are actively engaging in business areas beyond the nickel business.

(Q8) Could you tell us why you are operating the furnace given the harsh environment and the impact of such operation on business performance?

- (A8) We believe that despite the harsh environment, our mission is to fulfill a certain level of supply responsibility to our clients as a nickel supply base in Japan. In addition, operating the furnace demonstrates our efforts to reduce environmental impacts and provide more added value, leading to an expected improvement in our competitiveness.

Stopping production operations with electric furnaces as a method of preventing increased losses would have only a temporary effect. Stopping and starting up an electric furnace requires a certain amount of time to thoroughly check its condition while ensuring safety, which results in lost profits and incidental start-up expenses. Since there are many advantages to safe, stable continuous operation and disadvantages abound over the medium- to long-term, we will implement a substantial volume reduction during the slump in the business environment, but we will avoid stopping production entirely.

(Q9) Why were both operating profit and ordinary profit for the second quarter approximately 1 billion yen below their respective forecasts (announced on July 31)? Why have the full-year forecasts for these items also been revised downward by approximately 2 billion yen respectively from their previous forecasts?

(A9) The increase in losses of 1 billion yen for the first half of the fiscal year was due to an increase in losses resulting from a decrease in the reversal of inventory write-downs and from a smaller foreign exchange valuation difference caused by the significant appreciation of the yen in comparing the ends of the first and second quarters, based on the rate at the end of the fiscal period as the year-end valuation rate.

The downward revision of the full-year forecast is due to an increase in cost of sales caused by a temporary increase in inventory selling prices resulting from higher fixed costs per unit because of a sharp decline in production. This decline in production has resulted in a significant decrease in manufacturing costs, thereby avoiding a deterioration in cash flow.

(Q10) PBR is consistently below the dissolution value. How does the management view this? Could you explain again about how cash is being used?

(A10) The Board of Directors takes market evaluations seriously. Regarding capital policy, we regard the return of profits to shareholders as an important management issue, and we aim to achieve a consolidated dividend payout ratio of 30% while enhancing and strengthening our corporate structure. In addition, we will use our internal reserve as a fund to respond functionally to changes in the business environment and will utilize the fund to secure resources, develop new technologies, make capital investments, acquire treasury shares, and other activities as part of our capital policies.

Specifically, to increase the feasibility of new businesses such as the seafloor resources, beryllium, and LIB-related businesses explained today, we will make systematic investments and aim to launch them as soon as possible to increase our corporate value.

(Q11) Could you tell us about your profit improvement measures to improve future performance?

(A11) We have been implementing production adjustments to reduce losses, though we recognize this to be a short-term measure. In addition to our production of ferronickel that meets strict environmental standards, we are proposing to our clients carbon-neutral green products through research and development for utilizing microwaves to reduce fossil fuel consumption in the calcining process that we have been promoting since last year. Through these approaches, we are aiming to recover and expand demand and increase revenue.

Furthermore, we are strongly making efforts to develop our overseas business, produce raw materials for LIB materials, and restructure the recycling business and the new metal smelting business based on seafloor resources. Through these endeavors, we will build a stable revenue platform by developing businesses that are less susceptible to market conditions.

(Q12) Could you tell us about the benefits of using the microwave equipment with respect to reducing GHG emissions (e.g., reductions in GHG emissions, energy consumption, and costs)? Also, could you give us some information about the implementation timing of mass production using this equipment?

(A12) We expect to be able to reduce coal-derived GHG emissions by 67%, and to cut costs by reducing energy consumption by directly heating raw materials and reducing the amount of dust generated during heating.

We aim to commercialize the microwave calcining equipment in FY2030. We plan to enter pilot production in FY2026, conduct a pilot demonstration and design and manufacture the actual equipment in FY2027, and commence operation of the actual equipment in FY2030.

(Q13) What are the merits for your company in the beryllium production and sales business? Are you considering investing in MiRESSO?

(A13) With the target of “creation of new businesses that contribute to society” as a priority measure under our medium-term business plan PAMCO-2024, we are promoting new metal smelting projects. We intend to continue working on this priority measure over the medium- to long-term beyond the period of the current medium-term business plan. Beryllium is a metallic material necessary for clean energy technology, and demand for it is expected to increase. We believe that collaboration with MiRESSO in the beryllium production and sales business will contribute to achieving our priority measures.

Stable, low-cost supply of beryllium will contribute to improving our corporate value, and we will establish a support system to contribute to society, with potential capital participation in mind.

(Q14) Could you explain the historical trend in operating profit and loss on an actual basis, excluding the recording and reversal of the impact of inventory write-downs, etc.?

(A14) As for the operating profit and loss excluding inventory valuation for the past three years, we had a profit of about 4.0 billion yen in FY2022, a loss of about 3.0 billion yen in FY2023, and a loss of about 8.0 billion yen in FY2024. The increase in losses and write-downs is attributed to a decrease in selling prices impacted by NPI and rising costs due to soaring prices of raw materials, fuel, and electricity.

(Q15) Is there any risk of discontinuance of sale of ferronickel in the Japanese market as a result of price comparison with NPI by consumers in Japan?

(A15) Although hypothetical, we must recognize such a risk.

Stainless steel manufacturers widely acknowledge that ferronickel has significant advantages in terms of quality and delivery time. The comparative disadvantage in terms of price has significantly impacted the financial results, but demand in ferronickel may recover as overproduction by Chinese companies settles down.

(Q16) Is it difficult to reduce domestic production capacity and substantially decrease fixed costs by reducing the volume of ore procured, especially that of procurement under ore procurement contracts that are set to expire, as described on page 29 of the IR documents?

(A16) Long-term contracts on ore procurement are not enforceable, and the volume to be procured is determined on an annual basis. Each year, we calculate the appropriate volume to procure after examining a well-balanced blend of ore, taking into consideration profit and loss trends. Therefore, we cannot reduce domestic production capacity by declining to renew ore procurement contracts after their expiration. We operate the ferronickel business as our core business and we will control the volume of ore to be procured at an appropriate level.

As for reducing fixed costs, we have been making various efforts and improvements for a long time and will continue such efforts.

(Q17) Are there any risks such as impairment losses?

(A17) We have had large impairments before. We continue to conduct appropriate accounting every year to assess the necessity of recording impairment losses. We must refrain from answering your question about any potential risks because it is a hypothetical question, but we will examine the issue carefully.