Matsuda Sangyo Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2024

November 21, 2023

Event Summary

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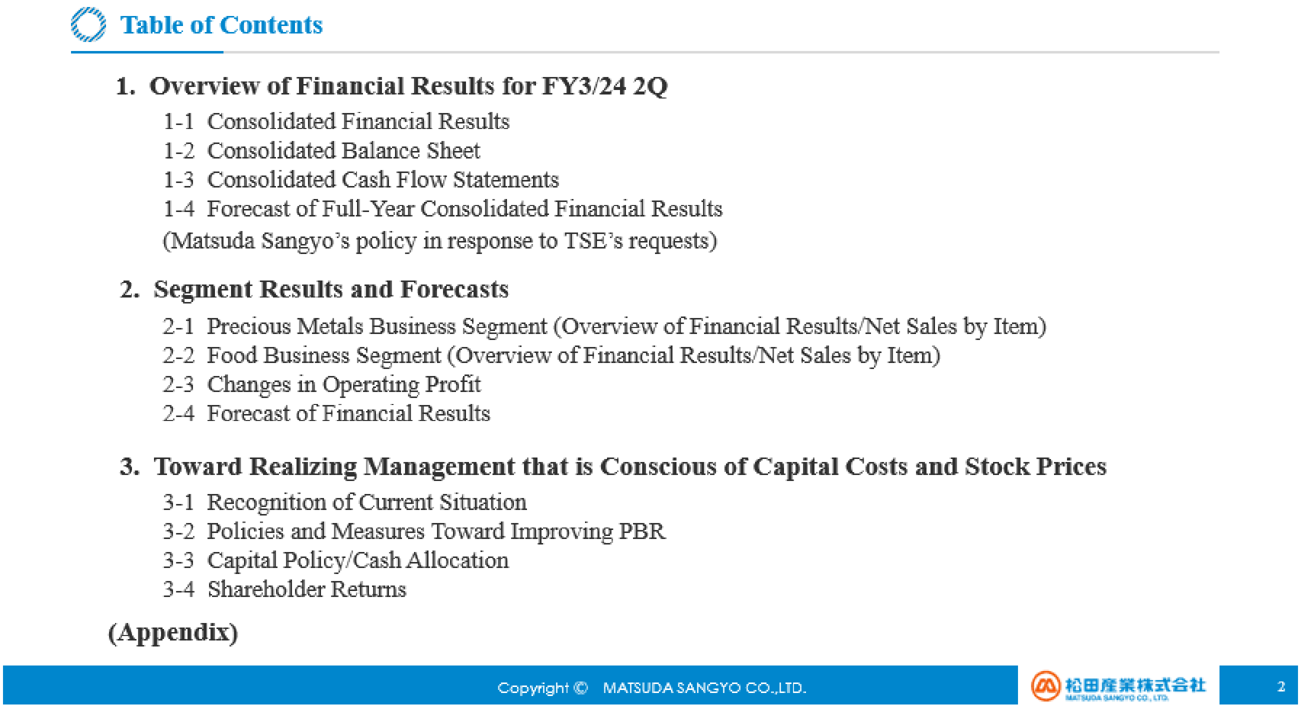
[Venue]	Webcast
[Venue Size]	
[Participants]	
[Number of Speakers]	2 Yoshiaki Matsuda — President Yoshinori Tanaka — Executive Officer, General Manager of CSR IR Department

Presentation

Moderator: We will now begin the financial results briefing for the first half of the fiscal year ending March 2024 of Matsuda Sangyo Co., Ltd. Thank you very much for taking time out of your busy schedules to join today's financial results briefing.

There will be time for questions and answers after the presentation. At approximately 14:30, we will move to a Q&A session, where we will read and answer any questions we receive. Due to time constraints, we may not be able to answer all questions. Please understand this in advance.

Now, Mr. Yoshiaki Matsuda, President, and Mr. Yoshinori Tanaka, Executive Officer, General Manager of CSR IR Department, will report on the financial results for the first half of the fiscal year ending March 2024.



Matsuda: Thank you very much for attending our financial results presentation today. I am Yoshiaki Matsuda, President of Matsuda Sangyo.

We will now focus on the details of the financial results for the first half of the fiscal year ending March 2024. Today, we will explain in the flow as you see it. In the first half of the presentation, I will give an overview of the financial results for H1 of the fiscal year. Afterwards, Mr. Tanaka, in charge of IR, will explain the business performance by segment and the realization of management targets, taking into account the cost of capital and stock price.

1-1 Consolidated Financial Results

Although net sales increased year-on-year partly due to contributions from the food business segment, operating profit declined due to a decrease in the precious metals recycling volume and product sales volume in the electronic devices field.

(billion yen)

	FY3/23 1H	FY3/24 1H	Year-on-year increase (decrease)	
Net sales	176.0	178.7	2.7	1.6%
Operating profit	7.9	5.0	(2.8)	(36.1)%
Operating margin	4.5%	2.8%	(1.7)pt	-
Ordinary profit	8.1	5.8	(2.2)	(27.7)%
Profit attributable to owners of parent	5.6	4.0	(1.5)	(27.9)%

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First, I will provide an overview of consolidated financial results. Net sales for H1 of the fiscal year ending March 2024 increased by 1.6% YoY to JPY178.7 billion, while operating profit decreased by 36.1% to JPY5 billion. Net sales increased partly due to contributions from the food business segment, but operating profit decreased, mainly due to the impact of lower operations in the electronic device sector in the precious metals business segment. Profit attributable to owners of the parent decreased by 27.9% YoY to JPY4 billion.

1-2 Consolidated Balance Sheet

Assets (billion yen)

	March 31, 2023	September 30, 2023	Increase (decrease)	Main reasons for change
Current assets	89.3	97.0	7.7	(+) Increase in notes and accounts receivable-trade and inventories
Non-current assets	39.8	43.7	3.8	(+) New buildings (Kitakyushu, Iruma, Thailand) and machinery and equipment
Total assets	129.2	140.7	11.5	

Liabilities

	March 31, 2023	September 30, 2023	Increase (decrease)	Main reasons for change
Current liabilities	27.8	36.5	8.6	(+) Increase in accounts payable-trade and short-term loans payable
Non-current liabilities	16.6	15.1	(1.4)	(-) Repayment of long-term loans
Interest bearing debt	19.2	24.9	5.7	
Total liabilities	44.5	51.7	7.1	

Net assets

	March 31, 2023	September 30, 2023	Increase (decrease)	Main reasons for change
Total net assets	84.6	89.0	4.4	(+) Increase in retained earnings
Total liabilities and net assets	129.2	140.7	11.5	
Shareholder's equity ratio	65.4%	63.1%		

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Next, I will explain the consolidated balance sheet. First, in terms of assets, current assets increased by JPY7.7 billion, due to increases in notes and accounts receivable and inventories, and fixed assets increased by JPY3.8 billion, due to the construction of new buildings and production facilities at production sites, resulting in a JPY11.5 billion increase in total assets from the end of the previous period to JPY140.7 billion.

As for liabilities, current liabilities increased by JPY8.6 billion due to increases in accounts payable and short-term loans payable, while long-term liabilities decreased by JPY1.4 billion due to repayment of long-term loans payable, resulting in a total of JPY51.7 billion, an increase of JPY7.1 billion from the end of the previous period.

Net assets increased by JPY4.4 billion from the end of the previous period to approximately JPY89 billion, mainly due to an increase in retained earnings.

1-3 Consolidated Cash Flow Statements

(billion yen)

	FY3/23 1H	FY3/24 1H	Main reasons for change in the current period
Cash flows from operating activities	(3.7)	**(2.0)**	(+) Increase in quarterly profit before taxes and accounts payable-trade (-) Increase in notes and accounts receivable-trade and inventories, payment of income taxes, etc.
Cash flows from investing activities	(9.4)	**(4.3)**	(-) Payment for acquisition of property, plant and equipment
Free cash flows	(13.2)	**(6.3)**	
Cash flows from financing activities	12.3	**4.6**	(+) Increase in short-term loans payable
Net increase (decrease) in cash and cash equivalents	(0.1)	**(1.1)**	
Cash and cash equivalents at end of period	11.2	**10.6**	

Next is the consolidated statement of cash flows.

Operating cash flow for H1 of the current fiscal year was negative JPY2 billion, as the increase in funds due to profit before income taxes and increase in notes and accounts payable, exceeded the decrease in funds due to increase in notes and accounts receivable, inventories, and income taxes paid. As the end of the current period falls on a holiday for financial institutions, the notes and accounts receivable carried over to the next period due this holiday amounts to approximately JPY3.7 billion.

As for investment cash flow, expenditures amounted to JPY4.3 billion, mainly due to the acquisition of tangible fixed assets, such as plant and equipment. As a result, free cash flow decreased by JPY6.3 billion. Financing cash flow increased by JPY4.6 billion, mainly due to an increase in short-term loans payable.

1-4 Forecast of Full-Year Consolidated Financial Results

The forecast of financial results for the full year of FY3/24 has been revised upward as follows from the forecast published on May 12.

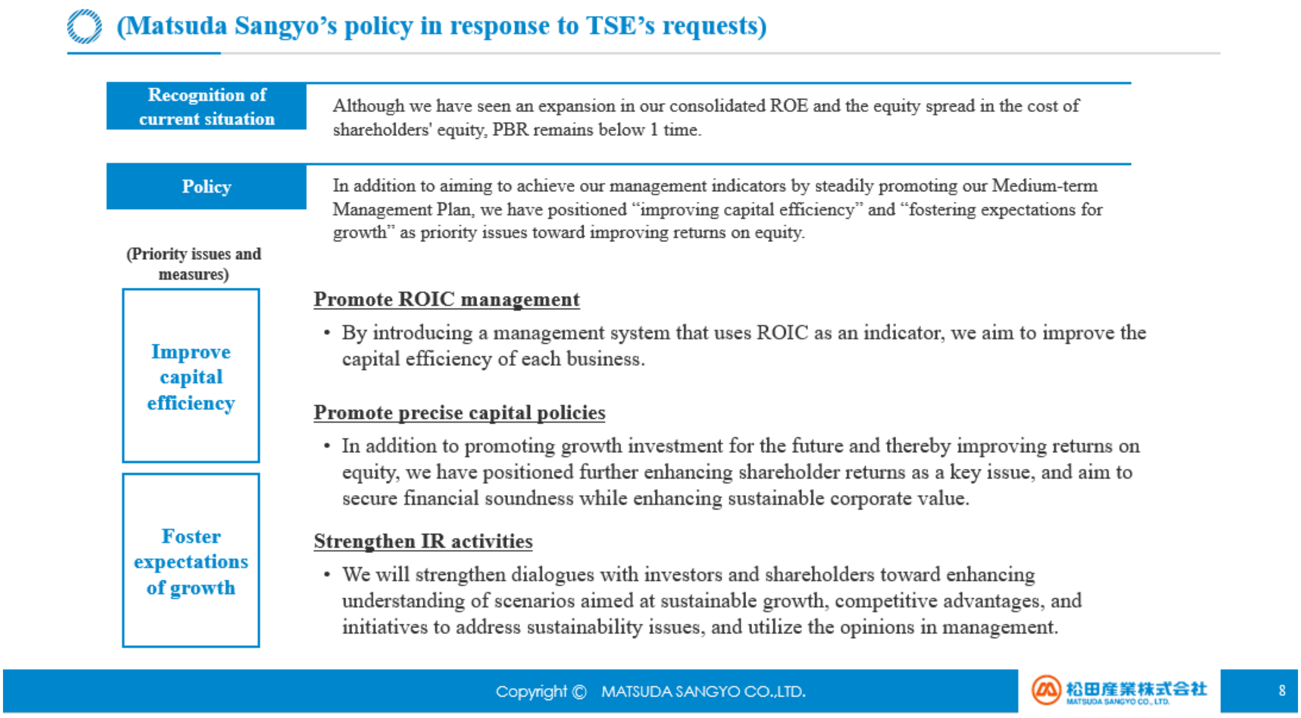
(billion yen)

	FY3/23 Results	Initial forecast (Published on May 12)	Revised forecast (Published on November 10)	Increase (decrease) from initial forecast	Increase (decrease) YoY
Net sales	351.0	330.0	360.0	30.0	2.6%
Operating profit	13.8	9.0	10.0	1.0	(27.6)%
Operating margin	3.9%	2.7%	2.8%	0.1pt	-
Ordinary profit	13.8	9.3	11.0	1.7	(20.5)%
Profit attributable to owners of parent	9.6	6.5	7.6	1.1	(21.6)%
Earnings per share (yen)	371.7	249.1	291.4	42.2	(21.6)%
ROE	12.2%	7.3%	8.3%	1.0pt	-

Next, I will explain our full-year consolidated earnings forecast for the fiscal year ending March 2024.

The full-year forecast announced on May 12 was revised and announced on the 10th of this month. Compared to our initial forecast, we have revised our net sales to JPY360 billion, up by JPY30 billion, operating profit to JPY10 billion, up by JPY1 billion, and profit to JPY7.6 billion, up by JPY1.1 billion.

Mr. Tanaka, in charge of IR, will explain the business forecast by segment later.



That is a summary of the H1 financial results.

At the end of my explanation, there was a request from the TSE in March of this year. We would like to inform you of our company's policy at this stage regarding measures for the realization of management targets with an awareness of cost of capital and stock price.

We use CAPM to independently assess the cost of shareholders' equity, which is useful for considering business plans and capital policies. Although we have seen an expansion in our consolidated ROE and the equity spread in the cost of shareholders' equity, the P/B ratio remains below 1x, and we recognize that improving capital efficiency and fostering growth expectations are important issues.

To address these issues, we will promote ROIC management, accurately execute capital policies, and strengthen IR activities. We will work on the above measures to improve the P/B ratio, but at the same time, we believe that steady implementation of the medium-term management plan and achievement of management targets will be important. This theme will be supplemented in the latter part of this presentation.

With that, Mr. Tanaka, in charge of IR, will now give a more detailed explanation.

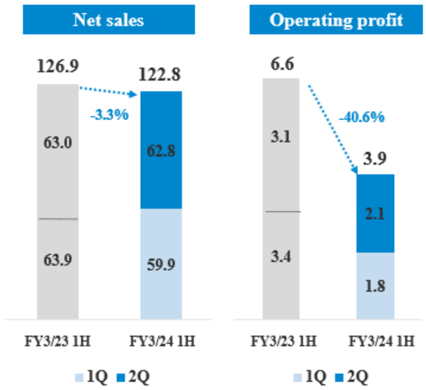
Thank you for your attention.

2-1 Precious Metals Business Segment (Overview of Financial Results)

Despite an increase in precious metals recycling volume in the jewelry field and steady gold prices, operations were sluggish in the electronic devices field, which is our key market, resulting in significant falls in the precious metals recycling volume and product sales volume.

(billion yen)

	FY3/23 1H	FY3/24 1H	Increase (decrease)	
Net sales	126.9	**122.8**	(4.1)	(3.3)%
Operating profit	6.6	**3.9**	(2.6)	(40.6)%
Operating margin	5.2%	**3.2%**	(2.0)pt	-



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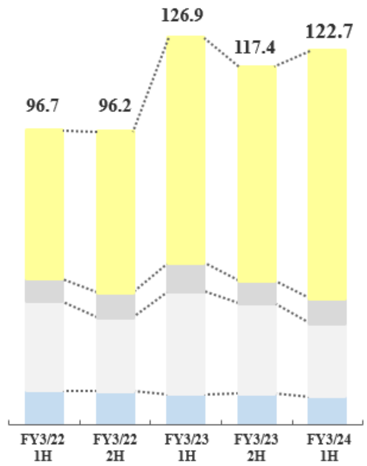
Tanaka: I am Tanaka, Executive Officer in charge of IR. I will now provide an overview of our business performance by segment for the first half of the fiscal year ending March 2024, and our outlook.

The first is the precious metals business segment. Consolidated net sales for H1 of the current fiscal year decreased by 3.3% YoY to JPY122.8 billion, and operating profit decreased by 40.6% YoY to JPY3.9 billion. Although a decline in operations in the electronic device sector, our main customer, had a significant impact on the volume of precious metals recycled and products sold, the decline in net sales was limited to 3.3% due to an increase in the volume of precious metals recycled in the jewelry sector and the effect of rising market prices for gold and other metals.

Operating profit, however, declined as the gross profit margin fell by 1.6 percentage points due to a slump in the relatively high value-added electronic device sector, and manufacturing costs and SG&A expenses also increased.

2-1 Precious Metals Business Segment (Net Sales by Item)

Sales of gold increased by 7.4 billion yen year-on-year due to the rise in gold prices and increase in precious metals recycling volume in the jewelry field. However, as both precious metals recycling volume and product sales volume fell in the electronic devices field, overall net sales decreased by 4.1 billion yen year-on-year.



(billion yen)

	FY24/3 1H	Increase (decrease) YoY		Reasons for increase (decrease)
Gold	81.3	7.4	10.1%	Quantity decreased by 2.1% and prices increased by 12.2%
Silver	8.1	(1.0)	(11.9)%	Quantity decreased by 24.2% and prices increased by 12.3%
Platinum group	23.9	(9.7)	(28.9)%	Quantity decreased by 17.1% and prices decreased by 11.9%
Other	9.3	(0.7)	(7.6)%	Non-ferrous metal products decreased by 11.0%, etc.

I will now explain the net sales of this segment by product category. All comparisons are explained on a YoY basis.

Gold products account for about 66% of total net sales in this segment, followed by platinum group products and silver products. Net sales of gold products increased by about 10%, but if we break this down by factor, we see that the quantity factor decreased by about 2%, while the price factor increased by about 12%.

Although the volume was affected by lower operations in the electronic device sector, a roughly 25% increase in the volume of recycling handled from the jewelry sector curbed the decline in volume, and the rising gold market price resulted in an increase in net sales.

Net sales of silver products decreased by about 12%. By factor, the volume factor decreased by about 24%, while the price factor increased by about 12%.

Next, net sales of platinum group products declined by about 29%. Both volume and price factors decreased by about 17% and 12%, respectively. The decrease in volume was due to sluggishness in the electronic device sector, while the volume of recycled auto catalysts handled increased.

Other sales also declined slightly, but this was mainly due to a decrease in nonferrous metals derived from precious metal recycling due to falling prices.

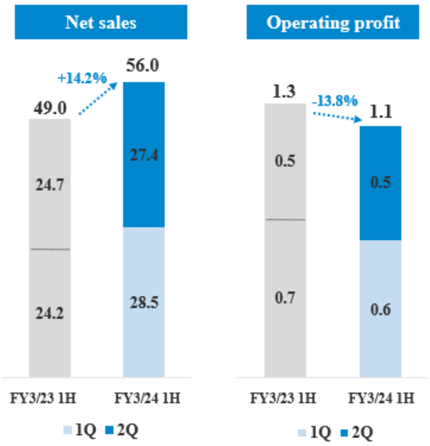
In addition, the contracted disposal of industrial waste remained generally flat as the electronic device sector struggled, but other manufacturing sectors remained steady.

2-2 Food Business Segment (Overview of Financial Results)

Despite a year-on-year increase in net sales on the back of an increase in sales volume and rising selling prices, operating profit fell slightly year-on-year due to the impact of an increase in transportation and storage costs, as well as rising procurement prices.

(billion yen)

	FY3/23 1H	FY3/24 1H	Increase (decrease)	
Net sales	49.0	**56.0**	6.9	14.2%
Operating profit	1.3	**1.1**	(0.2)	(13.8)%
Operating margin	2.7%	**2.1%**	(0.6)pt	-



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Next comes the food business segment.

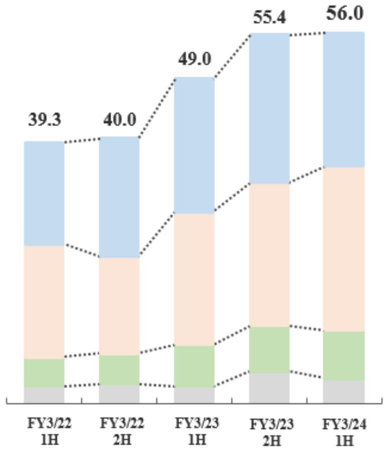
Consolidated net sales for H1 of the current fiscal year increased by 14.2% YoY to JPY55.9 billion, but operating profit decreased by 13.8% YoY to JPY1.1 billion. In the external environment, demand for food products remained firm due to factors such as increased inbound demand. In addition, there was a series of price increases in the end prices of food products due to the rising prices of raw materials and energy, and there was a strong trend toward price increases at each stage of distribution, with the exception of some products.

Sales volume increased and selling prices generally rose, with the exception of seafood products, resulting in a 14.2% increase in net sales. On the other hand, operating profit decreased due to a decline in the gross profit margin by about 0.7 percentage points, mainly reflecting higher purchase prices, in addition to an increased burden from higher transportation and storage fees prices and higher SG&A expenses, including personnel expenses.

Although SG&A expenses increased, the ratio of SG&A expenses to net sales is trending downward, so the challenges are to devise procurement methods and to pass on costs to the selling price.

2-2 Food Business Segment (Net Sales by Item)

Although sales volume fell due to a decline in demand for marine products, overall net sales increased by 6.9 billion yen year-on-year due to a steady increase in the sales volume of agricultural products, etc. and rising selling prices.



(billion yen)

	FY3/24 1H	Increase (decrease) YoY		Reasons for increase (decrease)
Marine products	20.0	0.0	0.2%	Quantity decreased by 6.1% and prices increased by 6.1%
Livestock products	24.7	4.7	23.6%	Quantity increased by 4.4% and prices increased by 19.2%
Agricultural products	7.3	1.1	17.9%	Quantity increased by 5.2% and prices increased by 12.7%
Other	3.7	1.0	40.4%	Quantity increased by 49.1% and prices decreased by 8.7%

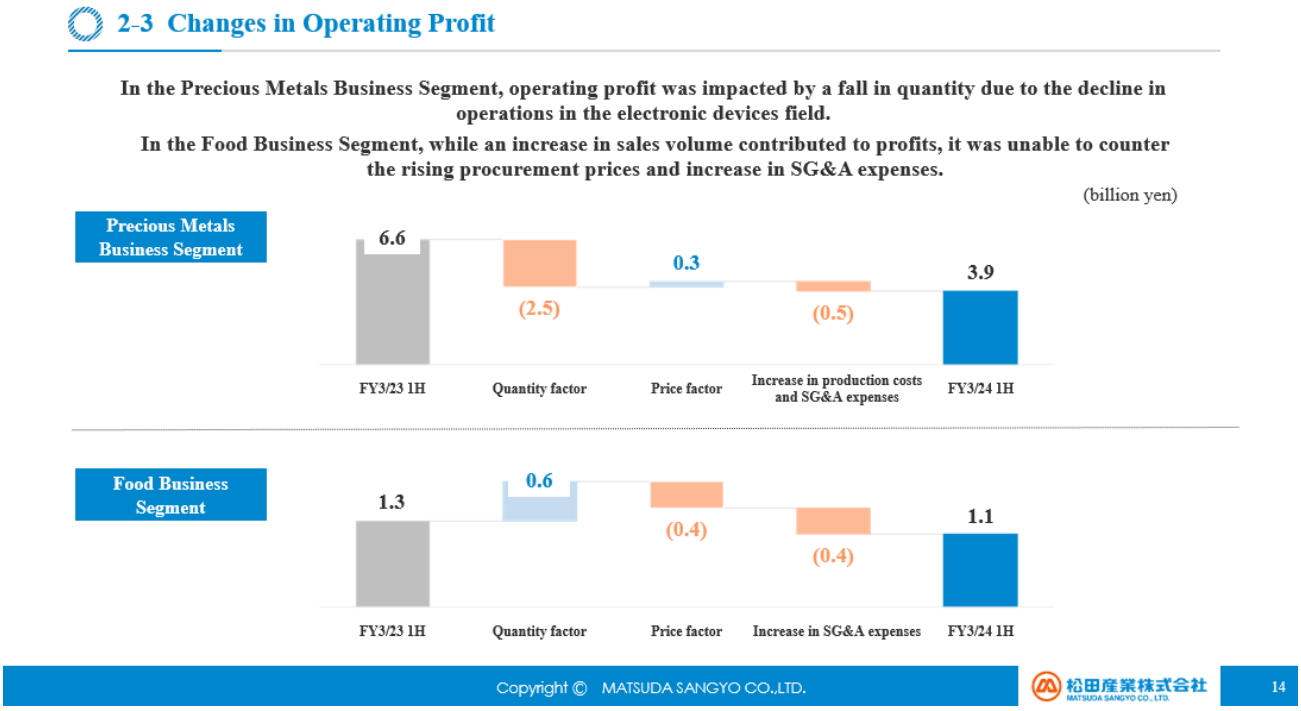
I would like to explain the net sales of the food business segment by item. All comparisons are on a YoY basis.

Net sales of seafood products were generally flat, but when broken down by factor, the volume factor decreased by about 6%, while the price factor increased by about 6%. In terms of volume, conditions were difficult overall for surimi, shrimp, and frozen fish, due in part to domestic demand.

Net sales of livestock products increased by about 24%. Both volume and price factors increased by approximately 4% and 19%, respectively. In terms of volume, the increase in sales volume of chicken and pork mainly contributed to the increase. On the price front, the rise in egg prices against a backdrop of supply shortages due to avian influenza and other factors, also had a significant impact.

Next, we turn to agricultural products, where net sales have increased by about 18%. Both volume and price factors increased by approximately 5% and 13%, respectively. In terms of volume, we were able to steadily increase the sales volume of both dried and frozen vegetables.

As mentioned above, demand for seafood products has been weak due to relatively high prices and other factors, and sales volume has also been struggling. However, livestock and agricultural products have steadily increased in sales volume by taking advantage of our product proposals and procurement capabilities, as well as demand contributing to net sales growth.



This is a summary of the factors behind the increase or decrease in operating profit by segment, for your reference.

In the precious metals business segment, the external environment was significantly affected by the downturn in the electronic device sector and volume factors, such as a decrease in the volume of precious metal recycling and a decrease in the sales volume of products, such as high-function electronic materials, caused a decrease of approximately JPY2.5 billion, while price factors associated with fluctuations in precious metal markets pushed up profits by approximately JPY300 million.

However, including an increase of approximately JPY500 million in manufacturing costs and SG&A expenses, operating profit decreased by JPY2.7 billion YoY. The increase in manufacturing costs is primarily in power and labor costs, while the increase in SG&A expenses is primarily in labor costs.

In the food business segment, volume factors due to a steady increase in sales volume, excluding seafood products, contributed approximately JPY600 million to profit growth. However, against the backdrop of a time lag in sales price development in response to rising purchase prices, price factors pulled profits down by about JPY400 million, and SG&A expenses were affected by about JPY400 million, due to price increases in transportation and storage fees and higher labor costs. As a result, operating profit decreased by approximately JPY200 million YoY.

2-4 Forecast of Financial Results

The forecast of financial results by business segment was revised upward for both the Precious Metals Business Segment and Food Business Segment.

(billion yen)

		FY3/23 Results	Initial forecast (Published on May 12)	Revised forecast (Published on November 10)	Increase (decrease) from initial forecast	Increase (decrease) YoY
Precious Metals Business Segment	Net sales	246.5	230.0	250.0	20.0	1.4%
	Operating profit	12.0	7.1	7.8	0.7	(35.2)%
Food Business Segment	Net sales	104.4	100.0	110.0	10.0	5.2%
	Operating profit	1.7	1.9	2.2	0.3	24.0%
Total	Net sales	351.0	330.0	360.0	30.0	2.6%
	Operating profit	13.8	9.0	10.0	1.0	(27.6)%

Taking into account the above H1 results, we have revised our full-year consolidated earnings forecast, and would like to discuss the details of the forecast by segment.

In the precious metals business segment, at this stage, we do not expect a recovery in operations in the electronic device sector during the current fiscal year, and we expect improvement in volume to be severe.

On the price front, regarding the trend of the precious metals market, we assume the same level as in H1 amidst uncertainty. Therefore, with the outlook for H2 of the fiscal year generally on par with H1, we forecast a 1.4% YoY increase in net sales to JPY250 billion and a 35% YoY decrease in operating profit to JPY7.8 billion for the full fiscal year.

In the food business segment, no major changes are expected in the domestic foodstuff related business, and we do not anticipate any major changes from H1 of the year in terms of both sales volume and prices. Q3 will be a busy period, but conversely, Q4 will be a quiet period, so we expect overall performance in H2 of the year to remain flat to the level of H1. Accordingly, for the full year, we forecast net sales of JPY110 billion, up by approximately 5% YoY, and operating profit of JPY2.2 billion, up by approximately 24% YoY.

2-4 Forecast of Financial Results (Changes in the Assumptions Used in the Forecast)

Due to the increase in volume of precious metals recovered from the jewelry field and increase in gold prices in the Precious Metals Business Segment, and higher-than-expected increase in selling prices in the Food Business Segment, financial results have exceeded the initial forecast.

		Assumptions used in the forecast in May	Recognition of current situation/Changes in assumptions
Precious Metals Business Segment	External environment and quantity	• Decline in operations in the electronic devices field alongside a decline in demand (excluding automobiles) and adjustments to excess inventory, with recovery expected in the second half of the fiscal year ➡ Decrease in precious metals recycling volume and product sales volume	• Electronic devices field expected to recover after the next fiscal year • Increase in volume of precious metals recovered from the jewelry field
	Selling prices	• Precious metals market prices: Assumed to be on par with the average for FY3/23 2H (Gold: 8,000 yen/g, Silver: 95 yen/g)	• Higher-than-expected increase in gold prices • Precious metals market prices: Assumed to be on par with the average for FY3/24 1H (Gold: 8,700 yen/g, Silver: 106 yen/g)
Food Business Segment	External environment and quantity	• Recovery in the external environment due to growth in inbound demand and other factors; strengthening of procurement capabilities in anticipation of diversifying customer needs ➡ Increase in sales volume with a focus on marine and agricultural products	• Increase in sales volume for livestock and agricultural products, and decrease in sales volume for marine products
	Selling prices	• Assumed to fall to the level of average prices for FY3/23 1H	• Despite a higher-than-expected increase in selling prices, there will be a lull in rising prices followed by a gradual decline

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Please refer to the summary of the current situation in the revision of the full-year consolidated earnings forecast, as compared to the assumptions used in the initial forecast.

In the precious metals business segment, with respect to the external environment and volume, we have changed our estimate of the timing of recovery of operations in the electronic device sector from H2 of the current fiscal year to the next fiscal year or later.

In addition, we assume that the volume of precious metals recovered from the jewelry sector, which increased in H1 of the year, will be maintained and remain the same in H2 of the year. In terms of sales prices, we have changed our assumption of precious metal market prices to the same level as the results of H1 of the fiscal year.

In the food business segment, we do not expect any change from H1 with respect to the external environment and volume, and assume that sales volume will remain steady, especially for livestock products and agricultural products.

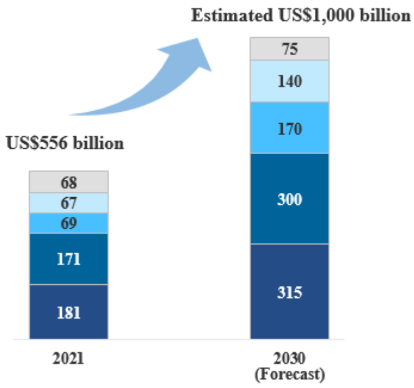
In terms of sales prices, we expect overall price increases, including some expected declines in seafood products and eggs. The intermittent rise seen since H2 of the previous fiscal year is expected to slow down and some products are expected to decline, and we expect prices to settle around the average of H1 of the previous fiscal year.

There is no change in the forecast for capital expenditures and depreciation.

(Supplementary Information: Recognition of the External Environment for the Precious Metals Business Segment)

The electronic devices field will continue to see a decline in operations in the near future, but will expand in the medium- to long-term due to the shift to IoT and EVs.
Demand for resource recycling is expected to grow further in the future with a view to securing rare mineral resources.

(Outlook for the global semiconductor market)



Color	Target field
	For consumer electronics
	For industrial electronics
	For automobiles/EVs
	For communications
	For data technology

Source: Prepared by Matsuda Sangyo based on data from the German Electro and Digital Industry Association (ZVEI)

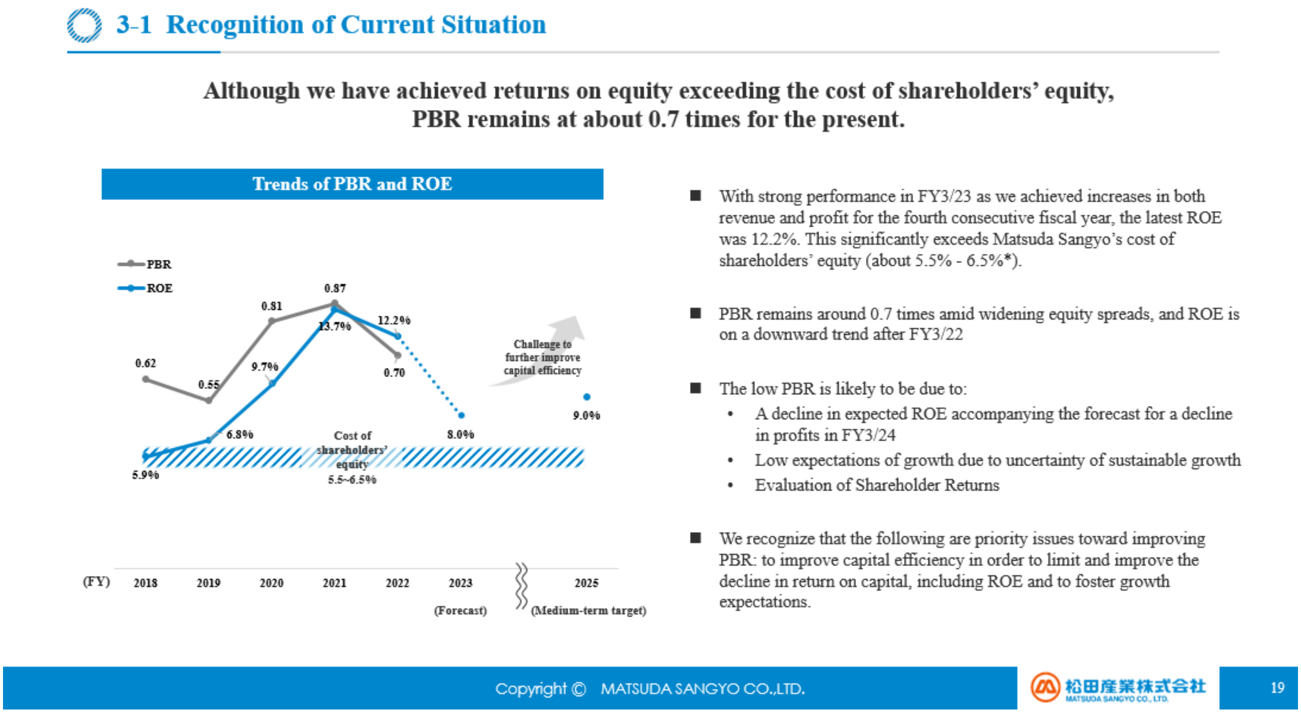
The above is an explanation of the business results and outlook by segment, but the performance of the precious metals business segment has recently deteriorated due to a decline in operations in the electronic device sector.

However, since we are aggressively investing in businesses for future growth based on our medium-term management plan, I would like to add a few words here about the future growth potential of the electronic device sector.

In the short term, we expect a slow recovery of operations in the electronic device sector due to a drop in demand for smartphones, PCs, servers, etc., and a difficult business environment is expected to continue. In the mid to long term, however, the need for electronic devices is expected to increase due to the shift to EVs in automobiles, the growing use of IoT in both consumer and industrial applications, and technological innovations such as AI, which will lead to quantitative growth.

In addition, with regard to mineral resources such as precious metals, which are indispensable for the production of electronic devices, demand for recycling is expected to increase as countries secure resources and reduce environmental burdens.

We are determined to make steady capital investments in order to demonstrate our competitive advantage in response to such mid- to long-term market growth potential, and to link this to business growth, and we will work steadily to achieve the goals of our medium-term management plan and to achieve sustainable growth in our business for the future, without dwelling on short-term stagnation.

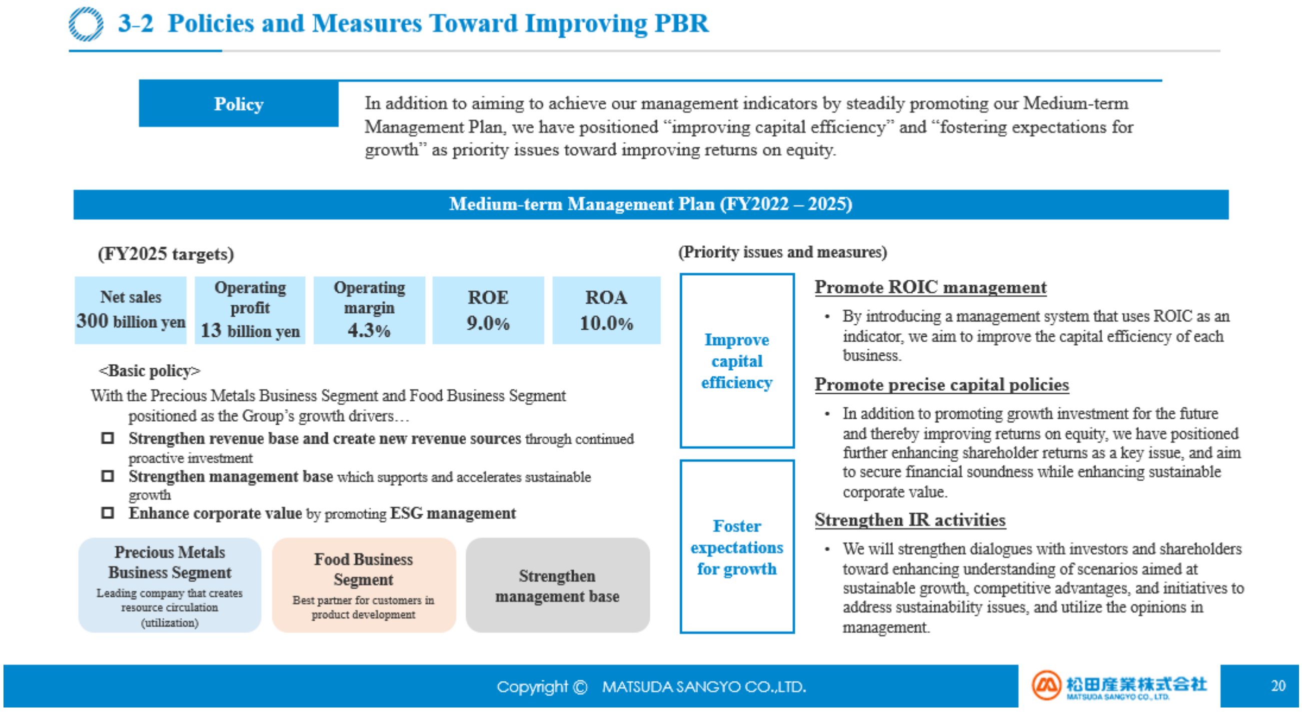


From here, I will explain in detail how to realize management targets while taking into account the cost of capital and stock price, as mentioned in the first half of this presentation, although there are some overlapping points.

First, let me talk about the current situation. As an analysis of factors related to a P/B ratio below 1x, a graph is shown with the equity spread in mind. In comparison to our cost of shareholders' equity, which ranges from 5.5% to 6.5%, the equity spread has been widening from FY2020 to FY2022 due to a higher ROE, but the improvement in the P/B ratio is a little lower than the improvement in ROE.

The reason why we believe that the widening of this spread has not necessarily led to an improvement in the P/B ratio is that, in the short term, ROE is on a downward trend, and furthermore, the decline in ROE associated with the forecast decrease in profits for the current year has lowered expectations. And in the mid to long term, uncertainty about future growth potential is lowering expectations. Our analysis indicates that the low P/E ratio is due to such factors. In addition, the Company's reputation for shareholder returns is also likely to have an impact on the price/earnings ratio.

Based on the above analysis, we recognize that in the short term, the challenge is to improve capital efficiency in order to limit and improve the decline in return on capital, including ROE. In the mid to long term, we also recognize that it is important to dispel uncertainty about future growth potential as much as possible, and to foster growth expectations. In addition, we will enhance shareholder returns.



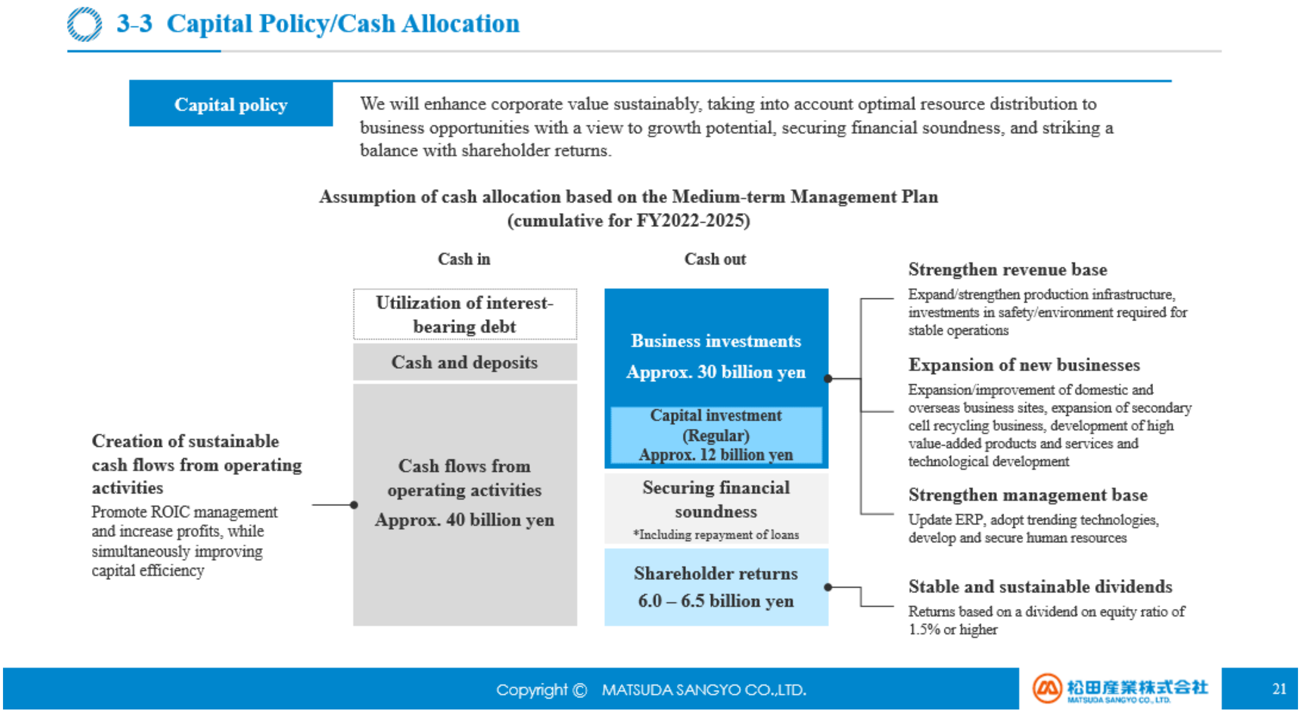
Based on the recognition of the above issues, we have set forth three major measures to improve the P/B ratio.

The first is to promote ROIC management to improve return on capital in order to steadily achieve the management targets of the medium-term management plan.

The second is capital policy. We will allocate funds by securing high earnings that will lead to improved return on capital, and by considering the appropriate balance between business investment for sustainable growth, ensuring financial soundness, and enhancing shareholder returns.

Thirdly, we would like to strengthen our IR activities through dialogue by communicating our mid- to long-term sustainable growth image and scenario, the market environment, and competitive advantages to our investors and shareholders in a concrete and easy-to-understand manner, and by utilizing the opinions we receive for management purposes.

We are also a company with a corporate philosophy of responding to all social issues, such as reducing our environmental impact through our business activities, and will therefore enhance our disclosure of sustainability initiatives. Through the above measures, we intend to improve the P/B ratio.

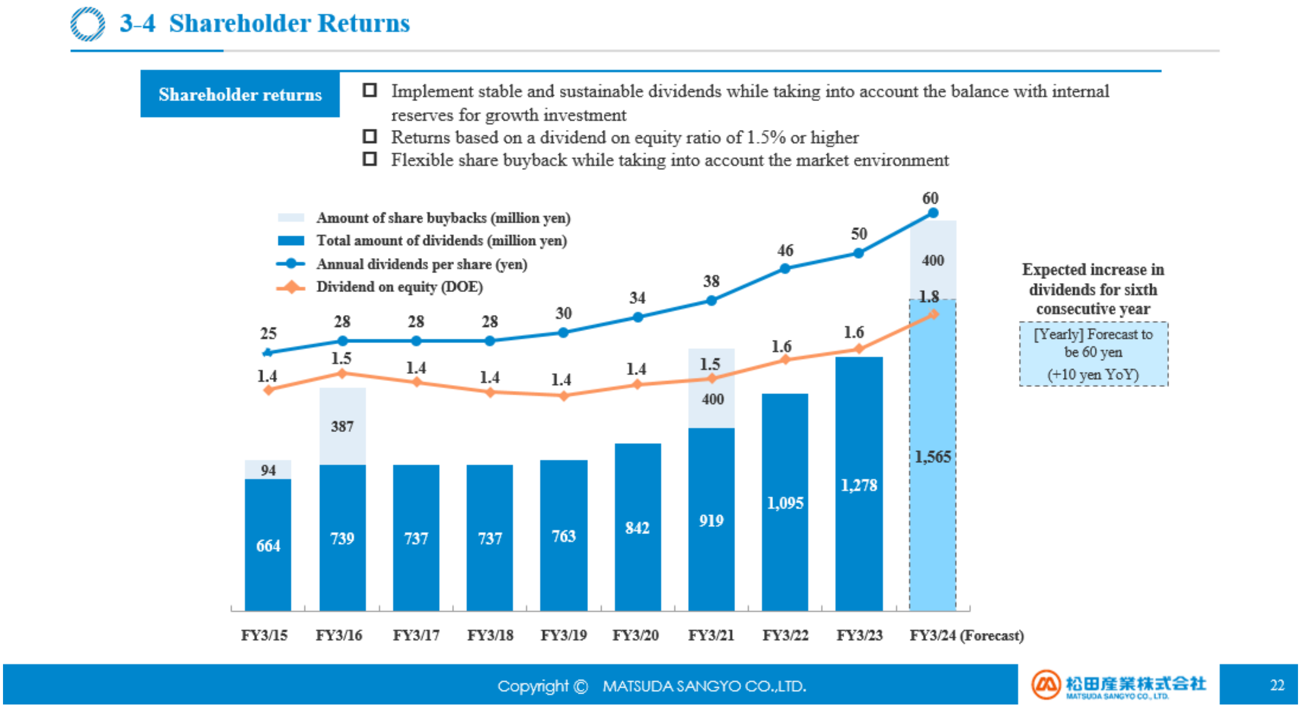


Since we have touched on capital policy, I would like to talk about the cash allocation we are envisioning, based on our ongoing medium-term management plan.

We expect to generate about JPY40 billion in operating cash flow over the next four years, which we will use to invest about JPY30 billion in business investments, including routine investments, and to return JPY6 billion to JPY6.5 billion to shareholders, taking into account the need to ensure financial soundness.

Our dividend policy is to maintain a dividend on equity ratio, or DOE, of at least 1.5%. As mentioned earlier in our cash allocation assumptions, we expect the DOE ratio to rise by one level in the final year of the medium-term management plan.

Since the medium-term management plan is still in progress, this cash allocation is an assumption, but we hope to be able to present our capital policy and cash allocation as a plan in the next medium-term management plan.



Finally, I would like to talk about shareholder returns.

As you can see, up to the current fiscal year's forecast, we plan to increase dividends for six consecutive fiscal years beginning in the fiscal year ended March 2019, and DOE is also on an upward trend. In addition, we will meet the expectations of our shareholders by further enhancing shareholder returns, including the flexible acquisition of treasury shares in consideration of market conditions.

With that, I would like to conclude today's presentation and answer your questions. Please refer to the Appendix for the precious metals market trends.

Thank you for your attention.

Question & Answer

Moderator [M]: We will now move on to the question- and-answer session. We would like to receive as many questions as time permits, so please feel free to submit your questions via the Q&A function. We would very much appreciate your candid comments as well.

Tanaka [M]: Let us read your first question.

Participant [Q]: Regarding operations in the electronic device sector, is there any difference between domestic and overseas operations, such as the difference in recovery speed?

Tanaka [A]: I will answer this question. Regarding operating conditions and the speed of recovery, differences can be seen mainly in individual companies in the manufacturing industry in the electronic device sector, which is our customer base. On the other hand, there are no statistics on the difference in the speed of recovery in Japan or overseas, and we do not feel that there is a significant difference in the speed of recovery.

Naturally, since we also have considerable operations in Southeast Asia and other regions, we see that the future economic environment in China may have an impact, but we are not aware of any significant difference in the speed of that recovery at this time.

Participant [Q]: The second question. Regarding the promotion of ROIC management, I would like to know the status of your study, including whether you have calculated current values and target values for ROIC.

Tanaka [A]: I would like to respond to this question. As for the promotion of ROIC management, we are currently studying the issue and hope to develop this in the future. In this context, of course we understand that invested capital is interest-bearing debt and shareholders' equity, so naturally we are aware of the current values.

On the other hand, including target values, in the case of our company, they are by segments, so such development is one of the issues we are considering. We will continue to consider such matters and consider setting appropriate management targets that will help improve the capital efficiency of the Company.

Participant [Q]: The third question. Please explain the reason for the upward swing in operating profit from precious metals in H1.

Tanaka [A]: It is true that there was an increase in operating profit of nearly JPY1 billion from the initial forecast. In particular, there was an upward swing in the precious metals business segment. Regarding the reasons, we had initially anticipated a decline in operation in the electronic device sector, which is a major customer of the precious metals business segment, and this was also assumed in our forecast.

As for this, the contents were generally in line with the forecast, but on the other hand, in the jewelry-related sectors, we have seen an increase in the volume of precious metals and recycling. In addition, the volume of precious metal recycling in other sectors was generally favorable, and there was such an upward swing from the volume forecast.

These factors, as well as fluctuations in precious metal prices during H1, especially an increase in prices for gold, led to the increase in profits compared to the forecast. In addition, SG&A and manufacturing costs were also lower than originally forecast. These factors resulted in an increase over the initial forecast.

Participant [Q]: The next question is about the outlook of operating profit in the food business segment for H2. Why has this been revised downward slightly?

Tanaka [A]: It is true that we have slightly lowered our initial forecast for the food business segment for H2, but basically, we expect that the performance of the food business will remain on par with H1 and continue in H2.

On the other hand, in the initial forecast for H2, we had expected the food business to recover relatively well, and this has led to a slight downward revision. Naturally, it is downward, but only slightly, and we have not revised it to assume any major difference.

Participant [Q]: Next question. When will the direction regarding capital policy materialize?

Tanaka [A]: We have long had a basic policy regarding capital policy, which is to enhance shareholder returns by balancing business opportunities for future growth, and ensuring financial soundness.

I have already explained this earlier, but when will we realize this from here? I believe that to some extent, we have gone a little further in our assumptions this time, and presented a concept similar to capital policy in the form of a cash allocation assumption.

Also, as I mentioned earlier in my explanation, if we are to present such a plan in the form of a proper plan, this will be the assumption in the next medium-term management plan.

Participant [Q]: Next question. Could you be more specific about fostering growth expectations and strengthening IR activities?

Tanaka [A]: As for strengthening our IR activities, we will naturally aim to share and relate with investors and shareholders the expectations for the growth of the entire Matsuda Sangyo Group to a certain extent.

The basis will be the information we disclose, and we will consider how we can provide you with information that will lead to our growth story and scenario, our competitive advantage, and so on. We would like to enhance disclosure.

In addition, since disclosure alone is one-way, we would like to strengthen dialogue through individual meetings. We will be able to hear the opinions of institutional investors, etc., and we will feed them back to management, while implementing a PDCA cycle to improve disclosure, dialogue, and other aspects.

Participant [Q]: Next question. In Q2 of the precious metals business segment, operating profit has improved compared to Q1. Has the situation ever been improved?

Tanaka [A]: I am not sure if "unfortunately" is the right word, but from Q1 to Q2, if you are asking whether there were clear signs of improvement in the operating conditions of the electronic device sector, which is particularly important in the precious metals business segment, and operating profit for Q2 improved as a result, I would say that this is not necessarily the case.

Some of the differences include the volume of jewelry handled, fluctuations in the precious metals market, and so on. We understand that these factors have generally led to improvements in operating profit in Q2 from Q1.

Tanaka [M]: Therefore, since there are no other questions, I would like to end the Q&A session. Thank you very much for your questions.

Moderator [M]: Now that we have reached the end of our time, Matsuda Sangyo will conclude the financial results briefing for the first half of the fiscal year ending March 2024.

Thank you very much for your participation today.

[END]

Participant [Q]: Next question. Could you explain the outlook for the next fiscal year and beyond?

Tanaka [A]: Although we expect a gradual recovery in the operating conditions of electronic devices field, outlook for the next fiscal year and beyond will be studied in detail after analyzing the external environment and price trends in both segments.

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Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *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.*
4. *This document has been translated by SCRIPTS Asia.*
5. *The underlined parts of the questions and answers were not answered on the day of the meeting, but were added at a later date.*

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