

Recycling



Emphasizing paths to new businesses will realize further business growth.

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Profile

Takuya Sano joined ARBIZ Co., Ltd. in 2004 after serving in the Japan Air Self-Defense Force. In 2013, he was promoted to General Manager of the metal and plastic recycling business before assuming his current post as the Director and Operating Officer of ARBIZ Co., Ltd. and the President and Representative Director of SMART Inc. in 2019.

Fiscal review

As the USS Group company developing its resource recycling business, ARBIZ saw higher income and lower profit in fiscal 2023 despite a rise in the volume of end-of-life vehicles due to an increase in depreciation expenses. As the USS Group company developing our plant recycling business though, SMART, Inc. saw an increase in income and decrease in profit despite a larger number of orders and completion of large-scale dismantling projects due to higher outsourcing and labor costs. ARBIZ and SMART, Inc. took on higher fixed costs to improve employee treatment, attract engineers and increase the retention rate as a means to strengthen internal and work systems which are the main reasons for the decline in profit. However, these investments do work to realize our medium-term management plan.

As a result, the Recycling Segment generated ¥10,526 million in net sales from outside customers, up 17.2% year on year, and an operating profit of ¥1,164 million, down 12.7% year on year.

Future strategies

Development of new resource recycling business

The resource recycling business aims to generate ¥10 billion in net sales by fiscal 2027. Some of its ventures include a new closed aluminum recycling system as well as solar panel recycling.

Aluminum is sorted into eight different types. Type 1 has distinct features identifiable by the human eye, but the remaining seven types cannot be sorted visually in the same way. The identification of the aluminum producer can distinguish the kind of material used, but it is impossible to identify the origins of dismantling, general, import, and other such aluminum scrap. Recycling undertaken within these circumstances can only produce a blend of aluminum with

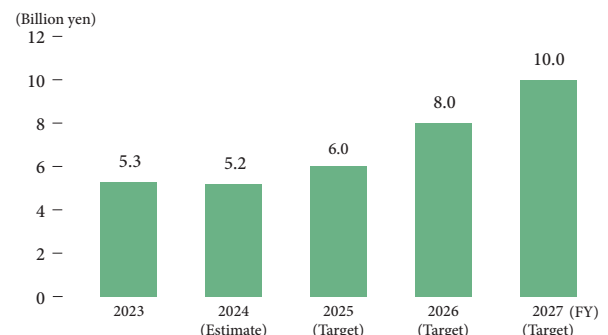
varying material properties. This type of recycling is known as cascade recycling because the quality of the aluminum falls like a waterfall due to the recycling process.

We are working to commercialize a closed recycling system that can recycle aluminum alloy while retaining its original value. This new business should be able to generate higher profit.

There are two requirements to commercialization of a closed recycling system for aluminum alloy. First, the pre-process must remove any contaminants to increase the purity of the scrap-based aluminum alloy. Second, a process needs to sort the aluminum by the type of alloy. Therefore, ARBIZ decided to introduce a system from Europe that facilitates this preprocessing and sorting by the type of aluminum alloy. The Company is the first in Japan to introduce this system. This equipment makes it possible for ARBIZ to carry out closed aluminum recycling. The Company is currently in the proof-of-concept stage, but plans to begin selling and distributing green aluminum to manufacturers worldwide around 2025.

In addition, ARBIZ has entered into a joint project that will begin in the fall of 2024 to prove a recycling concept for the panel waste from solar power generation systems—which is becoming a modern social issue—with Sumitomo

ARBIZ (resource recycling business) sales forecast



Corporation and the Sumitomo Mitsui Finance and Leasing Group. On the other hand, we will not even consider trying to do the impossible of trying pursue volume equivalent to the end-of-life vehicles that the Company handles. As the Japanese yen continues to weaken, the export of automobiles overseas from Japan has become commonplace. ARBIZ will not focus on volume but rather expand its business according to market conditions.

Green distribution that shifts from land to sea transport also provides us with a business opportunity. This includes the opportunity to respond to changing situations and social issues. We can also look into joint ventures and business alliances right for each business beyond simply investigating ways to expand ourselves.

The waste plastic recycling business considered previously has set a trajectory to crush partially finished products and create flakes that can be sold to major companies specializing in waste plastics. Conversely, closed aluminum and other recycling will focus on new ventures in other areas.

Growth of plant recycling business

The plant recycling business aims to generate ¥10 billion in net sales by fiscal 2026. The net sales target for fiscal 2024 aims to generate 5.2 billion yen. The business has already secured several dismantling projects while working to find other projects to achieve these goals together with Sumitomo Mitsui Finance and Leasing and SMFL MIRAI Partners. We will also take on the challenge of new businesses with dismantling projects at the core.

These dismantling projects are important to increase business performance. Building off our success in fiscal 2023,

we have secured orders to dismantle a medium-scale wind farm in Ibaraki Prefecture during fiscal 2024. At the same time, more power generation plants are shift from fossil fuels to natural gas. This also offers SMART, Inc. a business opportunity. In the past, the Company has experienced the pain of losing orders for projects to dismantle power plants mainly due to a lack of experience. We will keep stepping up to future challenges to build this track record.

Medium- to long-term challenges and measures

The age of facilities presents a challenge for the future. The replacement of aging facilities requires permits and licenses, and gaining permission of the disposal business to remove the old equipment after the new installation. In this case, another issue that arises is whether the existing premise can handle the new facility. Once closed aluminum recycling is up and running, ARBIZ needs to expand to a different location as the current one is not large enough. The timing is an important consideration for investments as well to enhance, replace or newly install these kinds of facilities. Active price pass-through based on market conditions is necessary.

We also see securing and training up-and-coming engineers as a medium- to long-term issue. Veteran engineers currently pair with young engineers on-site to pass down their knowledge and skills. SMART, Inc. also has overtime regulations that provide a shift system for supervisors who work on-site on Saturdays while at the same time furthering automation of heavy machines. These are some of the measures used to deal with the labor shortage. The Company is considering efforts that include M&As of partially owned companies too from the standpoint of securing engineers, which will foster sustainable growth.

SWOT analysis

Strengths	ARBIZ	<ul style="list-style-type: none"> ● An exclusive recycling technology (patented) ● The largest recycling yard in the Nagoya area and an ideal location for recycling operations ● Equipment and technologies capable of handling many types of waste materials 		
	SMART	<ul style="list-style-type: none"> ● Collaboration with the Sumitomo Mitsui Group for cost cutting, more sources of information and reuse channels, and better proposals for recycling and reuse 		
Weaknesses	ARBIZ	<ul style="list-style-type: none"> ● Insufficient network to circulate resources internationally 		
	SMART	<ul style="list-style-type: none"> ● Inadequate number of certified employees to foster business growth 		
Opportunities	ARBIZ	<ul style="list-style-type: none"> ● Restructuring of recycling industry to incite a green logistics ● Configuration of resource recycling system 	ARBIZ/ SMART	<ul style="list-style-type: none"> ● Reexamining the recycling business to contribute to achieving carbon neutrality
	SMART	<ul style="list-style-type: none"> ● Aging of structures during Japan's many years of rapid economic growth ● Growth of investments in the manufacturing and energy sectors 		
Threats	ARBIZ	<ul style="list-style-type: none"> ● Difficult to differentiate services in a highly competitive market ● Fiercer competition for resources from manufacturers and companies entering the market from other industries 		
	SMART	<ul style="list-style-type: none"> ● Emergence of other companies with similar business models 		