

Sanyo Special Steel Co., Ltd.
IR Briefing Regarding the Business Results for the FY2021 2Q
Q&A Summary

Date : Friday, October 29, 2021

Attendees : Katsuhiro Miyamoto, Representative Director and President

Kozo Takahashi, Director, Member of the Board and Managing Executive Officer

Takashi Yatsunami, Executive Officer

** Please be noted that the actual Q&A session was in Japanese and this English translation is prepared for reference purpose only.*

Q . Your competitors have revised their business forecast downwards, and seem to struggle. On the other hand, Sanyo has revised its business forecasts upwards. Could you tell us what the difference between Sanyo and other special steel companies is?

A . Some of the difference might have been how we view the prerequisites including energy and raw material prices. Our previous forecast may have been more conservative. The significant difference may have been the scale of global deployment and the positive performance of our major global affiliated company Ovako in Northern Europe, with a business scale close to Sanyo.

Q . Sanyo has recently announced a base price increase. Is the positive effect of base price increase included in the FY2021 business forecast? Could you share us the progress of price negotiations?

A . On September 3, we announced to raise the sales price, including base price. We have already notified our customers and distributors the reason and rationale of sales price increase and have started to receive understanding and consent of customers including those in the area of bearings and automotive. To some extent, the positive effect of sales price increase is embedded in our FY2021 business forecast.

Q . You mentioned that the FY2021 ordinary income excluding one-offs would be about 16 billion yen. Considering the escalation of energy prices, leading to higher electricity cost, and the rise of material prices including electrodes, how do you consider the possibility of further profit increase in FY2022?

A . Currently, the prices of crude oil, coal, and natural gas are soaring, which will be reflected in electricity and gas prices in the latter half of FY2021, and of course, in FY2022. In addition, both Sanyo and Ovako are receiving inquiries almost equivalent to their production capacity. Therefore, both Sanyo and Ovako have no choice but to further raise the sales price. We would like to utilize the tight supply and demand situation and secure an appropriate profit margin, enabling us to further develop into the future.

Q . The electricity mix of Northern Europe differs greatly from that of Japan. Could you tell us about the impact of soaring crude oil, natural gas and coal prices on Ovako?

A . Prices of crude oil, coal and natural gas are skyrocketing worldwide, but electricity prices in Northern Europe are less affected than those of Japan, Germany and the United Kingdom, because of the difference in energy mix and the higher dependence on hydro and wind power generation. We consider Ovako to be relatively advantageous to other European competitors, who are more reliant on thermal power generation.

Q . Do you think the climate surcharge in Ovako is accepted by the customers? How do you consider the introduction of similar energy surcharges in Japan?

A . Ovako's concept of climate surcharge has been well received by the top management of many customers, though we may need a little bit more time to be agreed on actual business basis. However, we are quite confident that Ovako's proposal will be accepted considering the need of customers to display they are applying green steel to their products. We value the significance of Ovako to be the first carbon free manufacturer in the industry.

As for the introduction of climate surcharges in Japan, we consider it to be premature for the time being. Prior to the introduction of climate surcharge, we will aim to shorten the time lag of the iron scrap surcharge system, and to apply surcharge to more alloys.

Q . Could you share us your view on the impact of the current decline in domestic automobile production on demand for specialty steel?

A . Recently, most automakers have reduced production by 20 to 30%, but we hear many voices that they plan to recover the production by the end of this year. Demand for special steel is expected to remain stable and strong as demand in areas of industrial machinery, construction machinery and semiconductor manufacturing equipment are quite robust.

Q . If you compare the forecast for the second half of FY2021 to the first half of FY2021, sales price and product mix are expected to be positive by 8.1 billion yen and raw material and fuel prices are expected to be negative by 10.3 billion yen. How much do these figures include the effect of sales price increase? Is it correct to assume that sales price increase will affect you more positive in FY2022?

A . The effect of raising sales price is partly included in the forecast for FY2021. We expect that the sales price increase will be realized to some extent towards the end of FY2021, though the total amount of its effect in FY2021 is not that significant, and the positive effects do not catch up with the increase of raw material and fuel prices. In FY2022, we consider the raw material and fuel prices such as energy, iron scraps, alloy, etc. to be even higher than today. We may need to amend sales price further upwards to offset the increase of the raw material and fuel prices.

Q . The Inventory Circulation Diagram (about Bearing Products, page 44) shows FY2021/2Q is in the "Stock Loading Phase", but automobile production in Japan has started to decrease. How do you view the balance of the inventory and shipment of bearing products in the future?

A . It is true that decrease in automobile production has partly started to impact our orders. We consider the impact of destocking in the supply chain will materialize from September to October or November 2021. On the other hand, we consider that automobile production will recover sooner or later since shortage of automotive parts from Southeast Asia will be solved in the near future, and hence, early next year, we consider the destocking to be over.

Q .MSSS stopped operation in the first half of FY2021 due to the halt of oxygen supply. Could you tell us the current situation in MSSS?

A . The supply of oxygen to MSSS was halted due to state order giving priority to oxygen supply to medical institutions, because of the brutal spread of COVID-19 infection in India. The supply of oxygen to MSSS restarted from June 2021, reflecting the alleviating situation of COVID-19 infections, and MSSS's operation has fully recovered from July 2021. In addition, Japanese representatives returned to India in late August 2021. We expect to secure positive income in FY2021 mainly attributable to reducing cost and improving sales margin and product mix.

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