

Sanyo Special Steel Co., Ltd.
IR Briefing Regarding the Business Results for the FY2023
Q&A Summary

Date : Tuesday, April 30, 2024
Speaker : Katsuhiro Miyamoto, Representative Director and President
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** Please be noted that the actual Q&A session was in Japanese and this English translation is prepared for reference purpose only.*

Q . Regarding FY2024 ordinary income forecast, is it including base price increase of 10,000 yen per ton, starting from February 2024 contracts, and cost increase due to review of night-time electricity price by Kansai Electric Power?

A . FY2024 forecast incorporates both base price increase and cost increase. We assume that base price increase will become more penetrated from FY2024/2H. The forecast also includes cost increase associated with review of night-time electricity price.

Q . Could you explain outlook for demand recovery in FY2024, including from the inventory cycle aspect?

A . Destocking is gradually coming to an end. In particular, destocking in industrial machinery sector is almost completed and semiconductor-related demand is bottoming out. As for automotive industry, although impact of differences in sales momentum among manufacturers as well as temporary production and shipment halts has been greater than expected, we believe that demand will return as the situation normalizes.

Regarding OVAKO, we also expect a gradual recovery in demand from FY2024/2H, considering the destocking situation in Europe, which seems to have already been completed for the most part.

Q . Without full-fledged recovery of Chinese economy, wouldn't it be difficult for demand from industrial and construction machinery sectors to recover in Japan? In addition, Germany, to which a large portion of OVAKO sales is destined, is partially affected by Chinese economic situation. Given these factors, isn't China's economic recovery necessary for full-fledged recovery in sales volume?

A . It is true that deceleration of Chinese economy affects both Sanyo and OVAKO to some extent. However, our forecasts for FY2024 are not based on the premises that there will be a rapid recovery in sales volume. They are based on a scenario that there will be a post-destocking rebound and moderate upturn in demand.

Q . Could you explain more about the partnership between OVAKO and FNsteel? Can we expect a certain amount of increase in sales volume? Also, when will the benefits begin to accrue?

A . Through the partnership, OVAKO sells CN (green) steel bars to FNsteel, which processes them into wire rods and supplies them to customers, including Japanese automakers but we would like to reserve providing details such as sales schedule and volume. FNsteel has agreed on stable relationship with OVAKO and we are confident that this partnership will mutually benefit OVAKO and FNsteel.

Q . Regarding variance analysis of OVAKO's ordinary income, could you explain why the amount of negative impact of raw material and fuel prices is -0.7 billion yen for "FY2023/3Q→ FY2023/4Q" and is -2.6 billion yen for "FY2023 Result→FY2024 Forecast." It appears that this kind of negative impact has seldom occurred in the past.

A . As part of its efforts to strengthen cost structure for improvement of margins, OVAKO had been increasing sales ratios of high-end products while limiting those of mid-range products. However, we are now attracting demand for green steel materials in the mid-range sector, and we are positively considering capturing such demand since current business situation is requiring us to secure sales volume in a flexible manner. Therefore, some negative impact of sales margin and product mix resulting from increase in sales of mid-range products is included in FY2024 forecast.

Q . During explanation on Sanyo's sales volume trends, it was mentioned that some of the changes were due to structural changes in market. Could you explain more about that?

A . We believe that part of gradual decline in sales volume after recovery from COVID-19 impact is due to structural changes. In China, for example, excessive competition for EVs has led to fierce price competition for mid-range and low-end products in the local market, resulting in shifts to some cheaper local materials and parts. On the other hand, high-end products, such as those for the semiconductor market, where local materials and parts cannot be used, are not expected to be affected by structural changes.

Q . Regarding variance analysis of ordinary income for "FY2023 results→FY2024 forecast," could you tell us why there is positive impact of 4.2 billion yen in raw material and fuel prices despite the downward trend in alloy prices, which usually pushes down sales prices through surcharge system.

A . Although partly consequential, in FY2023, impact of alloy price decline appeared in sales prices before it did in the cost of goods sold. Therefore, we assume that decrease in the cost of goods sold will occur in FY2024.

Q . We have heard that a European competitor has filed for reorganization proceedings. Would you expect this to lead to increase in orders for OVAKO?

A . The competitor has a variety of customers, including Japanese manufacturers. Recently, some customers of the competitor have requested OVAKO to provide CN (green) steel, partly because of its stable management structure. We would like to ensure sales volumes by responding to such requests. For Japanese manufacturers, OVAKO and Sanyo can work together to respond swiftly and smoothly. We are of course open for enquiries from non-Japanese manufacturers as well.

Q . Regarding growth strategy, you explained that Sanyo Group currently has little exposure in North America and high equity ratio in its financial position, which provides platform to explore various opportunities. We understand that sales volume could recover in FY2024 as destocking is resolved, but we would like to hear your thoughts on future growth strategies, including options such as M&A.

A . If there is growth opportunity and is financially feasible, we would consider to pursue any option. For example, North America is a large market and trade barriers are blocking inflows of products from outside the country, so it makes sense to be an insider. In addition to global growth through regional expansion, we also aim to accelerate efforts toward carbon neutrality as demand for carbon-neutrality-related products from our customers is expected to grow going forward.

Q . Regarding OVAKO's product mix, you explained that mid-range products will be promoted in FY2024. Could you tell us what kind of strategies OVAKO would take after a possible recovery in demand for high-end products in the future?

A . Currently, OVAKO has some excess capacity, so sales of mid-range products should be of no concern, but we consider it is important to increase the number of customers who require high-end products because OVAKO's strength lies in its high-end products. In addition, we will further improve our carbon-neutrality-related strengths through the construction of additional hydrogen plants and other measures to stay far ahead of competitors. We also aim to use this advantage in strengthening OVAKO's product mix.

Q . Could you explain why there seems to be a major difference in impact of transient factors and surcharge timing for Sanyo and OVAKO?

A . How surcharge time lags affect profit and loss is different for Sanyo and OVAKO. In Sanyo, surcharges on iron scrap and alloy scrap are generally reflected in sales prices within three months, while energy surcharges have a time lag of about six months. In case of OVAKO, there are one to two months of time lags. Therefore, there is a difference in the magnitude of the impact caused by surcharge time lags. Part of OVAKO's transient factors in FY2023 were related to a unique phenomenon triggered by invasion of Ukraine, nevertheless not included in FY2024 forecasts since the phenomenon has already disappeared.

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