

Sanyo Special Steel Co., Ltd.
IR Briefing Regarding the Business Results for the FY2024 2Q
Q&A Summary

Date : Thursday, October 31, 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 . Sales volume forecast for FY2024/2H has been revised slightly downwards. Could you share your view on domestic demand environment? It seems unlikely that final demand will become robust, considering factors such as the replacement of materials due to local procurement in China.

A . We incorporate information from our customers into our forecasts only after careful examination. Regarding automotive industry, although situation is not strong due to production and shipment suspension, we expect a demand recovery from FY2024/1H. In respect to construction and industrial machinery, demand recovery is expected due to end of destocking. The pace of the recovery, however, is likely to be slower than previously anticipated. Concerning replacement of Japanese products with local alternatives in China, we consider that such impact has already affected our mid- and low-range products, which are more easily substitutable in terms of required quality and specification.

Q . Regarding ordinary income forecast for FY2024, a positive surcharge time lag effect is expected due to decline in iron scrap prices. Will this positive impact disappear in FY2025?

A . If iron scrap prices remain at their current level, the positive impact will wear off as our sales prices would go down in line with reductions of scrap surcharges.

Q . OVAKO's introduction of the hydrogen plant appears to be a very advanced initiative among steel manufacturers worldwide. Is there any further progress, such as expansion to other locations?

A . We have started operating the hydrogen plant at Hofors site. We plan to expand these plants to other OVAKO locations in the future, as operation costs are favorable thanks to advantageous electricity mix in Northern Europe. On the other hand, we are currently not considering introducing hydrogen plants in Japan promptly, since cost of hydrogen is still very high.

Q . OVAKO's sales volume for FY2024/2Q increased on a YOY basis, How did OVAKO gain market share? Are there any other contributing factors than being a green steel producer?

A . Sales increased primarily in mid-range product segment, including spot orders from FNSteel. OVAKO's main competitors are blast furnace-based manufacturers. We believe that OVAKO's superior position in carbon efficiency compared to these competitors is helping the company gaining market share.

Q . In Europe, the Carbon Border Adjustment Mechanism (CBAM) will be introduced in 2026. Are there any customers making inquiries about OVAKO's green steel products from a long-term perspective?

A . Due to the severe economic situation, there is a slight delay in green movement of Europe, but this is only temporary and overall trend has not changed at all. We have received positive feedback from major customers that they want to maintain and strengthen their relationships with OVAKO. OVAKO has a competitive advantage in terms of carbon efficiency, and we will continue to focus on meeting customers' expectations.

Q . The formed and fabricated materials segment is struggling, what are your prospects for FY2024/2H? Is there any risk of impairment?

A . As pointed out, the situation remains somewhat challenging. Our subsidiary in Mexico, one of our main manufacturing base for this segment, has encountered some short-term constraints related to launch of new products. However, the trend of transferring production from US to Mexico has not changed, and we anticipate a strong and continuous flow of orders in future. At the same time, we are diligently working to improve margins, and there is no concern about impairment at this moment.

Q . Ordinary income forecast for FY2024 is unchanged from the previous forecast. However, breakdown shows that FY2024/2H sales volume forecasts for both Sanyo and OVAKO are revised downwards, with the impact of volume drop being covered by a positive one-off effect resulting from a fall in iron scrap prices. Therefore, I guess that the underlying business situation is unfavorable. Could you share your assessment of the forecast for FY2024?

A . As you pointed out, recovery in sales volume is slower than anticipated, which is expected to be partially offset by decline in iron scrap prices. Furthermore, we are actively pursuing cost reductions at both Sanyo and OVAKO, and we expect that these efforts will mitigate the impact of the sales volume decline.

Q . Could you tell us the background of the slight reduction in the forecast for sales volume of Sanyo in FY2024/2H?

A . After comprehensive discussions with our customers, we adopted some cautious outlook. For example, regarding demand from automobile industry, we have considered potential significant impact of the shift to EVs in China, as well as differences in sales momentum among Japanese OEMs. While it is certain that demand is recovering from the low point, we are considering recovery to be slower than expected, and reviewed our forecast with somewhat conservative perspective.

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