

Sanyo Special Steel Co., Ltd.
IR Briefing Regarding the Business Results for the FY2022 3Q
Q&A Summary

Date : Wednesday, February 1st, 2023

Speaker : Kozo Takahashi, Director, Member of the Board and Managing Executive Officer
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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 . Could you tell us the actual numbers of transient factors included in ordinary income of OVAKO for every quarter and the forecast for FY22/4Q ?

A . The amount of transient factors was 2.1 billion yen in FY22/1Q, 1.4 billion yen in 2Q and 1.9 billion yen in 3Q, in total, 5.4 billion yen in FY22/1Q-3Q. Transient factors are not included in the forecast for FY22/4Q.

Q . Compared to the forecast of 22 billion yen in ordinary income for FY2022, ordinary income for Apr.-Dec. was 20.7 billion and progress is 94%. Does this mean you have a conservative view for 4Q? If the actual performance for the full year is better than forecast, is it possible to raise the dividend amount?

A . With regards to the forecast for FY22/4Q, we are taking a conservative view of sales volume for both Sanyo and OVAKO. In addition, we assume no positive transient factors and include some risk of margin deterioration in OVAKO due to negative market conditions. The dividend amount will be determined based on the actual results for FY2022.

Q . Could you tell us the development of price increase and applying surcharge mechanism at Sanyo, on non-consolidated basis, and OVAKO? Also, what do you consider of its progress?

A . Sanyo has successfully amended the surcharge system with more appropriate iron scrap price index and more frequent application term, in addition to applying surcharge mechanism to more types of alloys. Furthermore, almost all customers accepted the application of energy surcharges or quasi-energy surcharge mechanism for energy costs that were not previously surcharged. OVAKO introduced an energy surcharge in April 2022 to cover rising energy costs, in addition to iron scrap and alloy surcharge. OVAKO has introduced climate surcharge to all customers unanimously since January 2022 as well. Currently, initiatives are underway to implement sales price increases in response to inflation.

Q . The sales volume of OVAKO is forecasted to decrease from 3Q to 4Q in FY2022, while we consider that Jan.-Mar. has never been lower than Oct.-Dec. in the past. What is your perspective on sales volume for this 4Q? Is there any concern that the market share is declining?

A . The sales volume in FY22/4Q is estimated at 45,000 tons per month based on the assumption of decline in orders, but we expect orders to have bottomed out at present. Although the market is undergoing significant changes, such as the disruption of the European market due to the lack of incoming Russian materials and the increase in sales price due to rising energy costs, we will continue to implement appropriate measures regarding sales price and volume while keeping a close eye on the market situation.

Q . Could you tell us the reason why Sanyo's margin is expected to worsen in FY22/4Q compared to 3Q?

A . Forecast for FY22/4Q includes impact of time lag of energy surcharge. Energy prices are expected to rise further in 4Q but it will take 6-9 months to pass on the increasing energy costs to the sales prices.

Q . Please tell us about the risk of declining sales volume for Sanyo in FY22/4Q?

A . We consider auto production will probably still take some time to recover, although the shortage of semiconductors has been resolving. On the other hand, destocking for construction and industrial machineries are not expected to be significant, as demands for large construction machineries, machine tools and robots are resilient. Therefore, the risk of a significant decline of sales volumes from FY22/4Q forecast will be probably low.

Q . Could you tell us about the impact of time lag of energy surcharge on profit and loss in FY2023?

A . We will examine the impact in our FY2023 budget. If the level of energy costs at the end of FY2022 continues, impact of increasing energy costs incurred during FY2022 will be reflected in the profit and loss in FY2023 with a certain time lag.

Q . Are there any signs of recovery in sales volume of Sanyo in FY22/4Q on non-consolidated basis?

A . From current order situation, it is hard to say that sales volume are recovering, but we believe that sales volume will bottom out in FY22/4Q.

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