

Sanyo Special Steel Co., Ltd.
IR Briefing Regarding the Business Results for the FY2023 3Q
Q&A Summary

Date : Friday, February 2nd, 2024

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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 demand situation, industrial machinery appear to mainly depend on Chinese economy and construction machinery is expected to weaken for a while. Given the situation, should we assume Sanyo's sales volume will recover to levels around 70 thousand tons per month after destocking is completed? Also, how do you see recovery of OVAKO's sales volume?

A . We assume Sanyo's sales volume will recover to levels around 70 thousand tons per month after destocking is over although specific timing for the end of destocking period is still unclear. Negative effects from destocking will decrease gradually but they might remain during FY2024/1Q.

OVAKO's sales volume is expected to recover gradually along with the expected declining of interest rates despite economic uncertainty in Europe. Easing of high interest rates may to start around June 2024, which would lead to demand recovery.

Q . Regarding OVAKO, could you tell us why you consider that easing of high interest rates in Europe will lead to recovery of demand for specialty steel?

A . Prevailing high interest rates have had negative impact on manufacturing sentiment and activity including capital investment. Therefore, we consider that easing of high interest rates will have positive impact on European economy.

Q . Regarding sales volume, if weak demand for industrial machinery for China is structural, would it be difficult to return to previous sales levels? What are your current thoughts on mid to long-term outlook for specialty steel demand in Japan and Europe?

A . Even though stagnant Chinese economy has huge impact on demand from Japanese industrial machinery, some recovery associated with the end of destocking phase is anticipated. Whether we can enjoy recovery in demand from China depends on developments related to local procurement of specialty steel in the country. Most of our specialty steel is used for industrial machinery parts and if local procurement of materials for these parts progresses overseas, demand for our materials would decrease. Considering carbon neutrality and geopolitical risks, we believe that risk of progress in local procurement is not high for the time being, but it is necessary to increase profit not only by increasing sales volume but also by improving margins.

The outlook for Europe has not changed dramatically from outlook in the revised 2025 mid-term management plan announced in July 2023. As for OVAKO, its advantage of being only specialty steel manufacturer capable of supplying its entire product as CN (green) steel is still unmatched. Therefore, we believe OVAKO's sales volume is expected to bounce back in line with recovery of European economy.

Q . Could you explain impact of changes in OVAKO's sales volume for each customer industry?

A . Of OVAKO's sales volume, those for automotive make up slightly less than half and construction and industrial machinery account one-third. Sales volume for each customer industry is equally affected by demand decrease.

Q . Do you consider that it is possible to broadly raise base price by 10 thousand yen per ton from February 2024 contracts amid current weak demand?

A . We recognize that it is not easy to raise base price while supply-demand balance has not tightened yet. However, other steel manufacturers have also announced raising base price, and overall trend in the industry is heading toward raising prices. We will continue to provide detailed explanations to our customers to gain their understanding.

Q . Could you tell us details of current cost increase factors?

A . Not only electricity and logistics costs, but also labor costs and expenditures on other materials, outsourcing, repair and maintenance are increasing due to current trend of raising wages.

Q . Regarding changes from FY2023/2H previous forecast to FY2023/2H revised forecast, could you explain about negative impact of raw material and fuel prices (-1.0 billion yen) and sales price and product mix (-0.9 billion yen)? Especially with regards to raw material and fuel prices, please provide a supplementary explanation as it seems that there were no major fluctuations in both market trends and exchange rates.

A . Raw materials and fuel costs are based on cost of goods sold, not on purchasing. Electricity and LNG purchased during time of yen's depreciation are emerging in cost of goods sold after a time lag. However, these costs are basically covered by energy surcharges, adopted for fuel cost adjustments. Sales price and product mix is expected to deteriorate due to negative impact of alloy surcharge and the fact that improvement in product mix effects is no longer expected.

Q . Could you tell us cost change from review of nighttime electricity price by KEPCO will be covered by energy surcharge?

A . It will not be covered by energy surcharge because the change is in base price, not in fuel cost adjustment.

Q . We have heard that some automakers have stopped production due to the difficult shipping conditions in the Red Sea. Does this affect OVAKO?

A . This matter does not particularly affect OVAKO.

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