

Sanyo Special Steel Co., Ltd.
IR Briefing Regarding the Business Results for the FY2021 3Q
Q&A Summary

Date : Thursday, January 27, 2022

Attendees : 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 . Could you tell us about the transient factors, including the time lag of iron scrap surcharge, of the operating income of 15.9 billion yen in the FY2021 business forecast?

A . Due to the impact of changing fiscal year end of OVAKO by +1.8 billion yen, the actual operating income of FY2021 for 12month will be 14.1 billion yen. The time lag of iron scrap surcharge for the FY2021 is expected to be -4.6 billion yen for Sanyo and +1.0 billion yen for OVAKO. The time lag in FY2022 will depend on the fluctuations in iron scrap prices, but we consider the possibility of certain scrap price increase, hence the time lag effect will remain negative, though we consider it to be smaller than that of 2021.

Q .Operating profit in the FY21/4Q is expected to decrease significantly due to the rise in raw material and fuel prices. Could you please tell us how Sanyo pass on the increasing costs of materials to the unit price of sales for the next year?

A . As shown in IR material page 17, the profits in FY21/4Q will be significantly lower than in FY21/3Q because the prices of iron scrap, ferroalloys, etc. have been soaring, and the improvement in sales prices will not catch up with the increase of costs. In addition, energy prices are expected to rise significantly in FY2022. We may need to amend sales price further upwards to offset the increase of the raw material and fuel prices.

Q . OVAKO has moved to carbon neutral (hereinafter referred to as CN) from January 2022 and introduced climate surcharge. How is the customer's reaction?

A .OVAKO's climate surcharge has been well received by all customers, because customers can now procure carbon free steel in production from OVAKO.

Q . The Ordinary Income Variance Analysis (change from previous forecast to revised forecast, page 16) shows Sanyo's sales price and product mix on non-consolidated basis in FY2021 will increase by 1.1 billion yen than previous forecast. Could you tell us the reason?

A . We have announced to raise sales price to all customers in September 2021. We assumed it would take some time to receive understanding and consent of customers especially in the area of bearings and automotive, compared to other customer fields including distributors. Currently, we have received understanding and consent from most of the customers including those in the area of bearings and automotive, and sales price has been improved faster than we expected; hence, we forecast sales price and product mix will increase by 1.1 billion yen.

Q . How do you consider the impact of the current decline in automobile production on demand for specialty steel?

A . Our sales volume had not decreased significantly by 3Q, because most of our automotive products are for bearing makers. However, our sales volume has started to decline currently and destocking in the supply chain has begun. Therefore, Sanyo's sales volume on non-consolidated basis in FY21/4Q is expected to be fragile compared to FY21/3Q. Nevertheless, the demand in automotive area is expected to recover from April 2022 since final demand for automotive remains robust and shortage of automotive parts seems to have bottomed out.

Q . Some effects of reduced automobile production have started to materialize in Europe as well. Could you tell us the reason why you have revised OVAKO's sales volume upwards? We expected OVAKO's sales volume in 4Q (Jan.-Mar.) to be seasonally high, however, you forecast its sales volume at a similar level of FY21/3Q (Oct.-Dec.). Do you predict that the demand will decrease in FY21/4Q? How do you consider the effects of achieving CN by OVAKO on sales volume?

A . OVAKO's sales volume in FY21/3Q (Oct.-Dec.) has increased compared to the previous forecast by 15 thousand tons despite the contracting demand in Europe, mainly since import from outside EU has remained at a very muted level. We predict that the reduced automobile production will impact on OVAKO's sales volume in FY21/4Q as in case of Sanyo, and forecast it be at the same level of FY21/3Q. Though it is difficult to evaluate the effects of OVAKO becoming CN in production quantitatively, we consider the move has been very well received by customers.

Q. You have disclosed TCFD scenario analysis. Which do you think will significantly impact on you, risk or opportunity?

A. For our company, there are some risks, but overall we consider and expect to embrace more opportunities in the fields such as CN related response, needs for smaller and lighter automobile parts, and growth of the wind power generation market. We will continuously endeavor to capture these demands.

Q. Are there any companies in Europe who compete with OVAKO in CN steel?

A. So far, several companies have announced to achieve CN in some particular plants or production lines. We recognize that OVAKO is the only company that has achieved CN in all its production process.

Q. Why do you expect Sanyo's sales volume in FY21/4Q to be about the same as in FY21/3Q, even though the effect of reduced automobiles production has started to materialize?

A. Sanyo's sales volume on non-consolidated basis in FY21/4Q is expected to 248 thousand tons, only slightly decreasing from 252 thousand tons in FY21/3Q, partly because some shipments at the end of December have been delayed to January.

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