Sanyo Special Steel Co., Ltd.
IR Briefing Regarding the Business Results for the FY2024 1Q
Q&A Summary

Date : Tuesday, July 30, 2024
Speaker : Takashi Yatsunami, Director, Member of the Board and Managing 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 why FY2024/1H operating profit forecasts for Sanyo, OVAKO and SSMI have been revised upwards?

A . For Sanyo, sales volume is expected to be slightly lower than the previous forecast due to the impact of decline in automobile production in FY2023/4Q, which adversely affected sales volume in FY2024/1Q, as well as the impact of automobile output reduction that occurred again in FY2024/1Q. On the other hand, margins have improved more than expected, leading to a slight upward revision in operating profits.

Regarding OVAKO, sales promotion utilizing green steel and other competitive advantages has progressed. For example, OVAKO has received some spot orders from FNsteel, ahead of the start in 2025 of their partnership agreement to boost low-carbon production. Such orders contribute to securing sales volume. In addition, we also consider that OVAKO holds superior position compared to some European competitors, struggling in terms of financial performance.

SSMI is gradually making progress in strengthening its revenue base by sales promotion of high-end products and improving margins, given its relative raw material cost disadvantage compared to blast furnace-based manufacturers. As a result, SSMI has been profitable despite somewhat less-than-ideal sales volume.

Q . Ordinary income forecast for FY2024 is unchanged from the previous forecast, despite an upward revision for the 1H forecast, indicating that there has been a downward revision for the 2H forecast. Could you tell us your view on this modification?

A . We consider that there are currently no definite factors that require us to change FY2024 forecast. In terms of sales volume, we expect the speed of recovery to be slower to a certain degree than in our previous forecast. We will continue to monitor the situation closely.

Q . We understand that OVAKO's sales volume recovery is a result of actively pursuing volume despite challenging market conditions. Could you tell us the details again?

A . We consider that OVAKO is gradually strengthening its position by leveraging its ability to provide green steel products and its relative advantage over some competitors. From the time OVAKO joined Sanyo's group until recently, OVAKO had been focusing on increasing sales ratios of high-end products while limiting those of mid-range products, as part of its efforts to strengthen the cost structure and improve margins. However, OVAKO is now actively responding to mid-range customers' needs to procure green steel products, thereby contributing to the sales volume recovery to some extent.

Q . Regarding variance analysis of ordinary income for "FY2024/1H Forecast → FY2024/2H Forecast", could you explain the change in ordinary income for consolidated subsidiaries?

A . Ordinary income of consolidated subsidiaries is +5.0 billion yen, which includes a +2.9 billion yen-impact attributed to the elimination of dividends from consolidated subsidiaries during the consolidation process. Of the remaining positive impact of about +2.0 billion yen, half reflects improved earnings at our Mexican subsidiary manufacturing and marketing formed and fabricated materials, while the rest comes from improved earnings at other subsidiaries resulting from recoveries in sales volume. In FY2024/1H, the Mexican subsidiary's earnings are likely to be weaker than expected, due to increase in costs associated with the launch of new products and the relatively abrupt depreciation of the Mexican peso in Apr.-Jun. 2024. On the other hand, we have factored in a certain level of recovery in earnings for 2H, because our Mexican affiliate is quite sure to receive some definite volume of future orders.

Q . Although revised amortization of goodwill has increased due to the impact of the yen's depreciation, revised net income forecast for FY2024 remains unchanged from the previous forecast. In other words, you are expecting the company's actual performance, excluding amortization of goodwill, to increase slightly?

A . That is correct.

Q . Regarding sales volume in Sanyo, a 7% increase is expected from 1Q to 2Q of FY2024, but achieving this magnitude of recovery seems difficult given the low level of automobile production in Apr.-Jun. 2024 and its impact on the supply chain. Which industries do you think will recover in FY2024/2Q?

A . We assume Sanyo's sales volume will slightly recover through FY2024/2Q. The impact of production reductions in the automotive industry in FY2023/4Q persisted, resulting in weaker-than-anticipated demand from the sector in FY2024/1Q. Orders from the automotive industry, however, are gradually recovering. We expect a certain recovery in 2Q, driven by a rebound from 1Q's lower-than-expected sales volume. Regarding industrial machinery, we are anticipating a recovery in the semiconductor sector, and we expect this will contribute to an improvement in our product mix as well. As for construction machinery, through discussions with customers, we recognize that sales volume has bottomed out. We feel that each industry is gradually recovering due to progress in destocking and gradual expansion of actual demand.

Q . OVAKO's sales of mid-range products are expanding. On the other hand, the spread is worsening compared to last year. Can we assume that this will be positive for the overall profits and losses in FY2024?

A . Business confidence in Europe, including the situation in Germany's manufacturing industry, has not changed much from last year. In this environment, demand for OVAKO's high-end products has not deteriorated, but it has not shown signs of recovery either. As OVAKO has some excess production capacity, even after the implementation of fixed cost control measures, the company is promoting sales of mid-range products utilizing its competitiveness, including in green steel production. Sales of such products, however, are limited to those that contribute to profit.

Q .Regarding the partnership between OVAKO and FNsteel, we recognize that benefits from the deal will begin accruing in 2025. Any update on this matter?

A .At the moment, there are no specific updates. However, cooperation is deepening between the two companies ahead of the full-fledged start of the partnership in 2025, with OVAKO receiving some spot orders from FNsteel.

Q . Regarding variance analysis of ordinary income for "FY2024/1Q Result → FY2024/2Q Forecast", it appears that impact of OVAKO's decrease in profit is smaller than in the past, are there any changes?

A. In case of OVAKO, sales volume usually decreases in 2Q due to summer outage, while fixed costs decrease. This is also the case for FY2024, and there are no significant changes from previous years.

Q . Regarding Sanyo's sales volume, you expect a further recovery in FY2024/2H. Is this based on inventory situation in the supply chain and other factors? Are you confident about the recovery?

A . Sales volume forecast for FY2024/2Q relies on some realistic assumptions. Regarding sales volume in FY2024/2H, we cannot give a clear forecast at this point. However, given that current sales volume is at a historically low level, we believe that if sales volume in 1H progresses as expected, the forecast for 2H will not be unreasonable. When it comes to inventory situation in the supply chain, it varies by industry, but at least it is not increasing.

Q . You explained that SANYO's margin in FY2024/1Q was better than expected, does this mean that sales price revisions were more successful than expected? Could you also tell us about outlook for margin in 2Q and beyond?

A . Negotiations have been more successful than expected, but final target levels for sales price revisions have not been changed. It may take some time, but we will continue to negotiate with tenacity.

Q . What are your thoughts on the impact on OVAKO of influx of Chinese products into Europe?

A .OVAKO mainly supplies high-end products, which are less vulnerable to such influx. The impact on OVAKO's mid-range product sales, which have been growing recently, is also limited. This growth does not arise from OVAKO compromising margins to compete with Chinese products but from the increasing recognition of the value of green steel among customers and unstable conditions of some of its competitors. Therefore, we consider that the overall impact of influx of Chinese products on OVAKO is insignificant.