Sanyo Special Steel Co., Ltd.
IR Briefing Regarding the Business Results for the FY2023 2Q
Q&A Summary

Date : Tuesday, October 31, 2023

Speaker : Katsuhiro Miyamoto, Representative Director and President
Kozo Takahashi, Director, Member of the Board and Managing Executive Officer
Takashi Yatsunami, 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 how you view the demand trend of bearing steel in Japan and Europe? Shipment of bearing steel appear to be sluggish despite destocking being resolved.

A . Demand for automobile in Japan is recovering gradually and current shipment of bearing steel is slightly exceeding our expectation. Although we have conservative view of sales volume in Europe since the economy is sluggish due to rising interest rates, our profit margin is secured successfully.

Q . Could you tell us how you evaluate the actual results of Sanyo and OVAKO in FY2023/1H?

A . Sanyo's result was affected by negative factors such as cost inflows from the previous period. OVAKO's result was better than expected due to relatively reasonable energy prices in FY2023/2Q.

Q . Regarding changes from the previous FY2023 forecast, you explained rising iron scrap price affected Sanyo. Could you tell us the details of negative impact related to "sales price and product mix" and "raw material and fuel prices"?

A . Negative impact of raw material and fuel prices (-0.8 billion yen) includes effects of rising iron scrap prices. Regarding sales margin and product mix (-1 billion yen), impact of applying alloy surcharge and change in product mix are included. Impact of the surcharges are basically due to time lag, and amount of impact will depend on future raw material and fuel prices.

Q . Could you tell us why you see OVAKO's sales volume in FY2023 forecast at a historically low level of 560 thousand tons? Is there any concern that OVAKO's market share is declining? In addition, what is the reason why OVAKO has maintained a higher profit margin than in the past while sales volume is declining?

A . OVAKO's sales volume is not stagnant compared to competitors despite contracting demand in Europe. On the other hand, improved profit margin by base price increase and expanded application of surcharges has contributed to further profit improvement compared to FY2020, when sales volume was 570 thousand tons.

Q . Sanyo's sales volume forecast for FY2023/3Q is decreased compared to FY2023/2Q. Could you tell us how you see sales volume in FY2023/2H considering demand trends by each customer industry?

A . Production for construction and industrial machineries has remained stagnant despite gradual improvements in automobile industry. Taking these factors into account, we intend to achieve at least the same level of sales volume as FY2023/1H.

Q . Profitability of the formed and fabricated materials segment fluctuates from quarter to quarter. Could you tell us what is the profit/loss projection for FY2023/2H?

A . Decrease in sales volume to China had a significant impact in FY2023/1H, but it is now gradually recovering. In addition, cost impact due to increasing sales volume in Mexico has preceded profit impact. Thus, we expect the profitability will recover in FY2023/2H.

Q . Recovery of sales volume for Sanyo and OVAKO is still stagnant. May we assume it to be transient due to economical deceleration? Could you tell us how you see long-term demand of specialty steel?

A . Although our sales volume has been affected by current economic slowdown, demand for automotive applications is recovering, and we believe that demand for construction and industrial machinery will eventually recover through increased capital investment. The recovery of the European economy might be slower than that of Japan, but we are not pessimistic about the long-term demand for specialty steel at all.

Q . Could you tell us about the market evaluation of CN steel products?

A . We consider CN (green) steel value is increasing in Europe and recognize that a start-up steelmaker in Scandinavia has been successful with contracts to sell green steel at substantial premium prices. There may be a growing acceptance among customers that products with low environmental impact should be paid for their value.