

Daido Steel Co., Ltd.  
FY2022 Interim Financial Results Briefing  
Q&A Session (Summary)

Date : Friday, October 28, 2022

Respondents: Takeshi Ishiguro, President & CEO, Representative Executive Director  
Tsukasa Nishimura, Representative Executive Director, Executive Vice President  
Akihito Kajita, Director, Managing Executive Officer

- Q. I see that, in spite of a decline in the Company's overall sales volume, the Company earned profits by raising various products' sales prices and diversifying the product lineup. Please tell us your evaluation of the full-year earnings outlook, on the basis of the information stated in this financial report, including changes in product sales prices and the earnings structure.
- A. We made vigorous efforts to pass on the soaring raw materials prices we faced through hikes in the sales prices of our products, and we managed to obtain our goal, at least to some degree. In addition, the spread across the entire lineup has improved as a result of our efforts to expand the application of the surcharge scheme to energy costs and to increase base prices through the negotiations with our customers. We started to take these steps during the first half of the term, and obtained consent from some of our customers. In the past, it would have been difficult for us to make any kind of profit if we received lower than 100,000 tons worth of orders per month. However, as you can see, we were now able to post this nice level of earnings. We believe that this was due not only to the increased sales prices, but also to the change in the product sales mix.
- Q. In your explanation, you mentioned that there were temporary gains in the first half of the fiscal year. However, these temporary gains are being lost and therefore there will be a decrease in profit during the second half as compared with the first half. Could you tell us the details of these temporary factors?
- A. The first is the effect of the exchange rates. Exports benefitted immediately from the effects of the weak yen, increasing profits temporarily during the first half. On the other hand, the costs of imported alloys and energy will increase, starting in the second half. There will be a time lag between the generation of profits and the imposition of costs.
- Secondly, the positive effects of the rise of raw materials prices that go into some high-alloy products such as nickel alloys included in the sliding-scale pricing system, are reflected earlier in sales prices than in manufacturing costs. Therefore, these effects seem to paint a favorable picture in the first half, but their impact disappears in the second half, which causes profits to drop.
- Q. What percentage of customers have agreed to the energy cost surcharge?
- A. We are now negotiating about the introduction of an energy surcharge with major manufacturers that have already agreed to accept the introduction of the scrap iron surcharge scheme. At present, we expect that about half of the customers who are cooperating with the scrap iron surcharge scheme will also agree to a power surcharge scheme.
- Q. What is the reason for strong sales of your open die forging products?
- A. Inquiries about our open die forgings are increasing considerably as the supply and demand situation is tightening, especially in Europe and the U.S. In addition, the manufacture of diesel engine exhaust valves for ship involves the use of open die forgings. These valves are used to make marine engines more efficient, and ours are enjoying a high market share around the world. We will continue to be active in the development of new products and the acquisition of overseas certifications, as the timing is right for us to make strategic moves for future advantage.

- Q. The specialty steel segment reported an operating income of 100 million yen in the first quarter and 4.1 billion yen in the second quarter. You explained that the second quarter's figure included some retroactive upward adjustments of sales prices for products, imposed during the first quarter. Therefore, the operating income of the specialty steel segment was actually about 1 billion yen in the first quarter and about 3 billion yen in the second quarter. Is it correct to say that this segment's actual ability to generate profit is about 4 billion yen per half year? Also, if the specialty steel sales volume returns to the previous level, would that returned portion be added to the current year's profit level?
- A. We believe that in general the specialty steel segment is capable of producing approximately 4 billion yen per half year. Therefore, if the sales volume returns to the previous level, an increase in marginal profit will be added to this segment's operating income for this year.
- Q. The high-performance materials and magnetic materials segment has seen a decrease in profit in the second half of the term, substantially down from the first half. Could you tell us about the background, including the trend of demand for stainless steel for semiconductor manufacturing equipment and automotive parts?
- A. Stainless steel prices are linked to the price of nickel and this is anticipated to fall in the future. This makes customers, especially in the distribution sector, reluctant to buy at this time. In addition, while Daido Electronics, our magnet manufacturing subsidiary, saw a one-time gain in the first half of the term because of an increase in the value of inventory, it experienced a drop in the volume of orders for sheet magnets for automobile motors in the second half, resulting in a reduction of profit from the first half to the second half. However, there is no sign of a tendency toward decreases in the demand for stainless steel for semiconductor manufacturing equipment to be seen in the number of orders we have received so far.
- Q. In the past, there was a considerable time lag between the recovery of automobile production and the recovery of specialty steel shipment volumes. Am I to understand that if automobile production recovers in the near future, it will be reflected relatively early on, in the shipping volume of specialty steel?
- A. At this time, we believe that if automobile production recovers, its effects will be reflected pretty quickly in the number of orders we receive for specialty steel products. Although there was a tendency for steel inventories to increase up to the first half of FY2021, the current stock-in-trade in the distribution channel has not built up very much. In addition, the inventory of finished cars is decreasing, leading us to think that the time may come in the near future to increase the production of specialty steel quite rapidly.
- Q. Net sales of open die forgings and stainless steel for semiconductor manufacturing equipment have increased, as compared with the forecast made at the beginning of the term. Would you please tell us about your upward flexibility of production capacity for those products and how much room there is left for accepting orders if the number swings upward?
- A. We have launched a project at the Shibukawa Plant to increase the productivity of their primary melting facility without making any major investment. In addition, we have also started another project to strengthen the secondary melting process by installing a third VAR(vacuum arc remelting) furnace, which will be completed in July 2023. Furthermore, the demand for stainless steel for semiconductor manufacturing equipment is also so high that in March 2023 we plan to start operating new machining equipment for stainless steel secondary processing at the Chita Second Plant. This shows that we are carrying out our capital investments ahead of schedule in order to cope with increasing demand for open die forgings and stainless steel, and there are no major concerns about these products' production capacity.

The figures in the forecasts and outlooks contained in this document are based on certain assumptions that cannot be fully evaluated at the present time.

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