



Daido Steel Co., Ltd.
FY2022 3rd Quarter Financial Results Briefing
Q&A Session (Summary)

Date : Monday, January 30, 2023

Respondents: Tsukasa Nishimura, Representative Executive Director, Executive Vice President
Akihito Kajita, Director, Managing Executive Officer
Tatsushi Iwata, Managing Executive Officer and General Manager, Corporate Planning Dept.

- Q. In this quarter's financial results report, you have left the full-year earnings forecast for FY 2022 unchanged from the preceding quarter. Would you please explain the situation for the fourth quarter, including the current business environment?
- A. We need to keep our eyes on fluctuations in the number of orders as we move toward the 4th quarter, because automobile production in Japan might be lower than expected. This is true, as well, in the stainless steel field, because there are signs of inventory adjustments for semiconductor-related and electrical/electronic components. Turning to production costs, we are aware that there are many factors that could affect our profit forecast, such as the impact of exchange rate fluctuations and rising raw material prices due to disruptions in the supply chain. So, we have not revised the annual operating income forecast of 45.0 billion yen that we set forth in the preceding statement.
- Q. Demand for open die forgings seems to be very strong. Do you expect the number of orders for open die forgings to continue to be high in the future?
- A. There are three factors behind the strong demand for open die forgings. The first is demand from energy-related industries, such as for turbines for power generation and oil drilling rigs. This demand has been growing significantly. The second is a sign that the COVID-19 pandemic may have finally been brought under control. Demand for aircraft engine shafts is returning at a considerable pace and demand for semiconductor-related products is also increasing. That is, it seems that demand for products that would correspond to a post-pandemic business environment is growing. Third is a group of other business environment factors. One is the fact that the labor force, which was temporarily reduced by the COVID-19 pandemic, has not sufficiently returned to work in U.S. and European mills. Then it is also the case that the shipment of open die forgings for civilian use cannot be increased in a timely manner due to the strong military demand for them. Given these circumstances, we expect sales of open die forgings to remain the same for the time being.
- Q. In the past, when fuel costs soared, profits declined significantly. Is it correct to think that the profit structure is now such that there is no need to worry as much about the expected large increase in electricity prices?
- A. Until recently, when energy costs rose, we would then plead with our customers to allow us to raise base prices. Now, we are gradually getting customers to understand the issue of raising base prices to account for the rise of energy costs, in the form of energy surcharges. Specifically, we expect energy surcharges to affect the prices of about 70% of structural steel products, which should help to eliminate some of the impact of cost increases. We will probably still be forced to continue to ask customers to allow us to pass on cost increases. We think it is therefore necessary for us to respond accordingly and continue to explain the situation to customers clearly and straightforwardly.

- Q. Could you tell us what temporary factors were involved in the increase in operating income for the October – December period of FY2022?
- A. These factors were: Inventory revaluation reflecting the raw-materials market conditions at affiliated companies; the effects of the sliding-scale pricing system for scrap iron, or the difference between the assumed sales price for scrap iron and the cost of raw materials; and foreign exchange gains. These temporary factors contributed temporary benefits for an increased operating income of about 3 billion yen for that period.
- Q. The third quarter's steel sales volume figure looks to be a little high, compared to industry statistics. Could you explain the background of this growth from the second quarter and what your outlook is for the fourth quarter?
- A. After bottoming out at 260 thousand tons in the second quarter, we were expecting a slight recovery in the second half of the year. We received orders for a volume of 296 thousand tons in the third quarter. To tell the truth, what we think is that this large order volume in the third quarter actually came in a little early, and really belongs to the fourth quarter. This seems likely, when we consider the pattern of the receipt of orders during the entire second half of the year. Also, as you pointed out, we believe that our own third quarter steel sales volume figure may be slightly higher than that of the entire industry's statistical data.
- Q. There has been talk about inventory adjustments for some products related to semiconductors. I have a feeling that the sales volumes of stainless steel for semiconductor manufacturing equipment and open die forgings for semiconductor-related products will decrease in the future. Could you tell us about your outlook on the prospects for sales related to semiconductor-related products?
- A. Semiconductor-related products, including stainless steel and open die forgings, are generally said to be in an adjustment phase. But, our monthly shipment volumes for stainless steel for semiconductor manufacturing equipment during the first three quarters of FY2022 were actually approximately three times higher than during the same period of FY2020 and approximately 1.2 times higher than the same period of FY2021. Shipment in the fourth quarter of FY2022 may be a little lower, but it will still be slightly higher than the same period in FY2021. We don't have a sense, ourselves, that stainless steel for semiconductor manufacturing equipment is in a big adjustment phase. We expect that the volume of shipment for those items will definitely decline in FY2023, but although it is unclear how much the decline will be, we do not expect a big drop. The installation of semiconductor manufacturing equipment is expected to increase in 2024 and 2025, and therefore we will make capital investments and increase our supply capacity in response to those situations.
- Q. Looking at the three months of the third quarter of FY2022 in terms of our specialty steel business, operating income was 3.6 billion yen, excluding the effects of the sliding-scale pricing system. Should we conclude that this figure does not include the increase in operating income due to the temporary factors you mentioned above? Does it thus reflect the actual effectiveness of raising prices?
- A. The overall operating income of specialty steel we referred to includes an increase due to temporary factors such as the impact of foreign exchange. However, the fact that the profit level has clearly improved compared to the past years' operating income is an indication that our steady efforts to raise prices are finally beginning to be realized, and so, yes, we do consider such an increase in operating income to be due to the actual effectiveness of this approach.
- Q. The specialty steel sales volume increased by 36 thousand tons in the third quarter over that in the second quarter, and this change in sales volume led to an increase of 2.5 billion yen in operating income for the third quarter. I have the impression that this is due to an increase in marginal profit per unit. Would you please give us the details behind this?
- A. This is because we could successfully raise prices thanks to the efforts regarding increasing prices that we were making earlier, that is, since the beginning of this term.

- Q. Operating income of the automotive parts and industrial machine parts segment, including that for open die forgings, increased considerably in the third quarter. Do you think you will be able to increase the production of open die forgings more, in the future? Or that you can manage to maintain the current high level of production? Is there any extra capacity for you to increase the production of open die forgings, if further demand increases occur?
- A. Sales of open die forgings are increasing at a fairly rapid pace in the energy-related industries, such as heavy electricity-generating machinery and oil drilling, and in the aircraft and semiconductor-related industries. We expect this trend to continue for a while. In particular, superalloy products are growing. Since we do not have much extra capacity for further production increases, some divisions may need to increase the capacity of their equipment, in anticipation of the next mid-term management plan in 2026.
- Q. How do you assess the results of your efforts to raise the selling prices of the products you have been working on since last year? Passing the effects of soaring raw materials and energy prices on in the selling prices of the products has just begun. Do you think there is a possibility that increasing sales prices further will become a factor in terms of improving the profit structure in the next fiscal year?
- A. In terms of energy, there is a time lag of six to eight months between a change in market conditions and the time when that change is reflected in our P/L statement. Since we are negotiating with customers about sales prices so that they will be willing to accept our passing on increases in the cost of energy to them, we expect that we will be able to catch up with market conditions if we can revise our product prices before the increased costs actually hit. As of now, we reckon that we are able to pass about 80% of any increase in energy cost on to the selling prices. As a mechanism for the future, we think it may be possible to introduce the energy surcharge system to the prices of approximately 70% of our structural steel. We will continue to engage in sincere dialogue with our customers, with the ultimate goal of being able to reflect all of any increase in energy costs in the prices of our products, with the full understanding of customers about the circumstances and the necessity of our actions.
- Q. In the high-performance materials and magnetic materials segment, sales of semiconductor-related parts grew significantly in the three quarters through December. However, the sales volume declines in the sales of automotive-related parts had a significant impact, causing overall operating income to remain at the same level as the previous year. Could you explain the details of this change in automotive parts sales volumes?
- A. Sales of stainless steel for semiconductor manufacturing equipment have remained strong, but the overall sales volume of stainless steel in the first three quarters of FY2022, as compared with the previous year, has fallen to about 80% of the previous year's level, mainly in stainless steel for automobiles. The negative impact of the decline in the sales volume of general-purpose stainless steel, mainly for automobiles, was offset by the growth of highly profitable stainless steel for semiconductors.

The figures in 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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