Daido Steel Co., Ltd.

FY2022 Financial Results Briefing

Q&A Session (Summary)

Date : April 28, 2023 (Friday)

Respondents: Takeshi Ishiguro, Representative Executive Director, President and CEO
Tsukasa Nishimura, Representative Executive Director, Executive Vice President
Tetsuya Shimizu, Representative Executive Director, Executive Vice President
Akihito Kajita, Director, Managing Executive Officer
Tatsushi Iwata, Managing Executive Officer

Q. What outlook for electricity prices do you have in your earnings forecast for the next term?

A. Electricity prices rose steadily during FY2022, due to the rise in crude oil and LNG prices. However, now that the markets have stabilized to some extent, we expect electricity rates during FY2023 to stay at the same level as they are now. Comparing the annual electricity bills in FY2022 and FY2023, the relatively high electricity rate expected in FY2023 will probably increase production costs by about 7 billion yen per year. However, there will not be a significant impact on profitability because any increase in costs will be compensated for by the surcharge to cover the increased price of electricity.

Q. The previous forecast of operating income for the specialty steel segment for FY2022 was 8 billion yen. Why was the result changed to 9.8 billion yen?

A. We succeeded in raising base selling prices more than we expected to. On the other hand, we had expected the prices of main raw materials such as steel scrap to remain high, but they have settled down and stayed at a reasonable level. We believe that the positive effects seen in raised selling prices and reduced costs contributed to the upward swing of operating income.

Q. You estimate that the specialty steel segment operating income for FY2023 will be 5 billion yen for the first half and 8.5 billion yen for the second half. Could you explain the reason for the difference between the first and second halves?

A. We have created the plan for FY2023 based on the assumption that demand for specialty steel from the automotive industry will recover and that other industries will also see an improvement in sales volume, starting from the second half of the year. That’s why there is a difference between the first and second halves.

Q. I have a feeling that the sales volume of specialty steel for FY2023 will be weak in spite of the favorable progress in inventory adjustment. I would like to hear your views on specialty steel products’ final demand and sales volumes.

A. Inventories of specialty steel bottomed out in January-March of 2023, and we believe that the sales volume will increase as actual demand increases. However, our forecast is that automobile production will increase in the first half of 2023 as compared with the same period in the previous year, but will remain at the same level as the second half of 2022; that is, it will increase slightly in the second half of 2023, but only by a small percentage. Under these circumstances, we believe that the actual demand for specialty steel will increase, but the pace of recovery is expected to be slow.

Q. At a previous briefing, it was explained that the sales volume of stainless steel for chip-making equipment has not decreased very much. However, it does seem to have dropped in the second half of FY2022. Could you explain what kinds of changes have occurred?

A. It is true that the long-term trend of stainless steel for semiconductor-manufacturing equipment has been on the rise, but that demand seems to have entered a downward phase, starting in the second half of FY2022. Although we are still producing a large amount of stainless steel for chip machinery, as compared with past production, including the order backlog, production is now half of the earlier peak. Our overall stainless steel production has weakened slightly, not only for chip-making equipment, but also for hard disks and parts for automobiles. We believe that now is the time to be patient. We are steadily making preparations for capital investments in anticipation of future stainless steel sales volume growth.

Q. In the year-on-year difference in operating income forecast for FY2023, the prices of nickel and other alloys are included as factors contributing to a 6 billion yen decrease in operating income. Should we assume that the rise in the prices of nickel and other alloys cannot be passed on to customers? Assuming that nickel prices will not rise to the expected level, will this have a positive effect on earnings?

A. We are basically assuming that increases in nickel and other alloy prices will be passed on in selling prices. In the financial result briefing we stated that raw materials price rises are a factor in operating income changes. That is, they are a variable affecting selling prices and raw materials and fuel prices, but not necessarily a factor causing decreasing earnings.

Q. Looking at the statistics for specialty steel by product type, the production of stainless steel and tool steel has declined significantly, while the production of structural steel has not declined very much. What can you tell us about differences in the progress of inventory adjustment by product type?

A. Structural steel is basically sold to automobile manufacturers and Tier 1 makers. We are able to negotiate selling prices directly with them, so it is relatively easy to keep track of those customers' inventories. On the other hand, stainless steel and tool steel are often traded through wholesalers, and large inventories tend to accumulate in the supply chain. I think this explains why the time frame for inventory adjustment for stainless and tool steel is different from that for structural steel. We know that inventories of structural steel bottomed out in January-March 2023, and we expect demand to increase gradually from this point.

Q. You explained that you will continue to sell strategically-held shares and use the funds obtained to make aggressive investments that help you to attain carbon neutrality. Will the company strengthen its stance from its existing policy and accelerate selling such shares?

A. In the mid-term management plan, we had worked out a policy of reducing the ratio of strategically-held shares (excluding deemed holdings of equity securities) to net assets to not more than 20%. However, in order to meet more stringent standards, in line with changes being made elsewhere in the world, as stated in the previous Corporate Governance Report we aim to reduce the ratio of strategically-held shares to 20% or less of net assets, including deemed holdings of equity securities. That policy is still in place. This will take some time, and we are working to achieve the goal by March 2024, the final year of the current mid-term management plan.

Q. Looking back on your seven years in office, President Ishiguro, what achievements have you made and what challenges do you see for the future?

A. Our accomplishments include strengthening our business by revising selling prices and withdrawing from uncompetitive businesses, as well as making timely capital investments in products in which we excel, and capturing increasing demand. One challenge we face is how to achieve carbon neutrality as planned. The trend from internal combustion engines to electric motors is inevitable, and the rate of change of this trend is increasing rapidly. It is necessary for us to develop new products that allow specialty steel to play a growing role in this arena. We believe that now our major task lies beyond simply the conduct of research, and requires us to put the fruits of research to practical use, efficiently and quickly.

Q. FY2023 is the final year of the current medium-term management plan, and you have hit the operating income target of 40 billion yen. I suppose the effects of many of the measures you are currently implementing will not show up soon, so please tell us about the challenges you foresee for the next fiscal year and beyond.

A. One of our major tasks is to consolidate production into the Chita Plant, which has high productivity and low manufacturing costs. Specifically, we will transfer the melting process of products that do not require special melting, from the Shibukawa Plant to the Chita Plant. We'll also transfer some of the Hoshizaki Plant's rolling processes, those which can be consolidated, to the Chita Plant. Then, the Shibukawa Plant will specialize in the production of superalloys and special stainless steel, while the Hoshizaki Plant will be able to concentrate on rolling difficult-to-machine materials. This will make it even more competitive in secondary processing as well. The success of this project will make it possible for each plant to take advantage of its respective unique characteristics.

These measures will not be accomplished in a few years, but they should be implemented continuously over the next and subsequent medium-term management plans. And, looking beyond these accomplishments, we want to promote the commercialization of products and businesses in fields that we are not even involved in yet.