

Our Steel, Your Future



# **FY2022/3 Third Quarter Earnings Release Briefing Materials**










February 2022

**Yamato Kogyo Co., Ltd.**

(Securities Code: 5444)

# Abbreviations, Fiscal Years, Conversion Rates

## ● Abbreviations

	Thailand	<b>SYS</b>	Siam Yamato Steel Co., Ltd.
	United States	<b>NYS</b>	Nucor-Yamato Steel Company
	United States	<b>ASA</b>	Arkansas Steel Associates, LLC
	Bahrain	<b>SULB</b>	Sulb Company BSC (c)
	Saudi Arabia	<b>Saudi Sulb</b>	United Sulb Company (Saudi Sulb) LLC
	Vietnam	<b>PY VINA</b>	POSCO YAMATO VINA STEEL JOINT STOCK COMPANY
	South Korea	<b>YKS</b>	YK Steel Corporation
	United States	<b>YKA</b>	Yamato Kogyo America, Inc.
	United States	<b>YHC</b>	Yamato Holding Corporation
	United States	<b>YK (USA)</b>	Yamato Kogyo (U.S.A.) Corporation
	Bahrain	<b>Bahrain Venture</b>	United Steel Company ("Sulb") Bahrain Venture Co.W.L.L.
	South Korea	<b>YKH</b>	Yamato Korea Holdings Co., Ltd.

## ● Fiscal years

	Fiscal year (FY)	FY2021	Q1	Q2	Q3	Q4
Parent, Japanese subsidiaries & affiliates	April to March	Apr 2021-Mar 2022 (FY2022/3)	2021 Apr-Jun	2021 Jul-Sep	2021 Oct-Dec	2022 Jan-Mar
Foreign subsidiaries & affiliates	January to December	Jan-Dec 2021 (FY2021/12)	2021 Jan-Mar	2021 Apr-Jun	2021 Jul-Sep	2021 Oct-Dec

## ● Conversion rates

		Yen/Dollar	Yen/Baht	Won/Yen
Statements of Income	Jan-Sep average	109.13 (107.26)	3.45 (3.39)	10.36 (11.20)
	Fiscal year forecast	110.39	3.44	10.37
Balance Sheets	Sep. 30, 2021	111.95 (103.52)	3.30 (3.44)	10.58 (10.51)
	Dec. 31, 2021	115.02	3.43	10.31
	Mar. 31, 2022 forecast	113.00	3.40	10.50

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# Financial Highlights: FY2022/3 Q3 (Nine Months)

## Business KPI

Group-wide  
sales volume

**4.87 million tons\***

(+16.5% YoY)

H-beam sales  
ratio

**68.8%**

(+4.9% YoY)

## Financial KPI

Ordinary  
profit increase

**126.3%**

Equity-method  
earnings

**28.8 billion yen**

Ordinary  
profit margin

**36.8%**

(+20.7% YoY)

Shareholders'  
equity ratio

**84.3%**

(+0.3% Ytd)

\*Simple sum of the sales volume of the group companies, without taking equity interest or other factors into account.



I

## FY2022/3 Q3 Results Overview

# FY2022/3 Q3 Results Overview (Nine Months)

- The recovery in the demand for H-beam and other steel materials used in civil engineering and construction has been stronger or weaker depending on the country/region. On the other hand, the supply-demand balance tightened due to factors such as China's export restrictions and cuts in crude steel production, and unit prices were generally strong.
- Yamato Steel (Japan steel business) saw profit decline due to higher raw material prices. On the other hand, profits held steady at overseas companies. In particular, equity in earnings of affiliates surged 277% from a year earlier. Net profit jumped 471% YoY, due to an extraordinary loss on the sale of YKS shares recorded in the previous fiscal year.

(100 million yen)	FY2021/3 Q3 (9 months)	FY2022/3 Q3 (9 months)	YoY	
			Change (yen)	Change (%)
Net sales	1,087	1,077	(10)	(1.0%)
Steel (Japan)	295	408	113	38.5%
Steel (S. Korea)*	335	–	(335)	–
Steel (Thailand)	382	590	208	54.5%
Railway Track-Accessories	60	53	(7)	(10.7%)
Operating profit	86	85	(1)	(1.8%)
Steel (Japan)	27	14	(13)	(48.4%)
Steel (S. Korea)*	25	–	(25)	–
Steel (Thailand)	44	82	38	86.5%
Railway Track-Accessories	6	5	(1)	(21.0%)
Ordinary profit	175	396	221	126.3%
Equity in earnings of affiliates	76	288	212	276.6%
Profit (loss) attributable to owners of parent	48	278	230	470.8%
Operating profit margin	7.9%	7.9%	(0.0pp)	–
Ordinary profit margin	16.1%	36.8%	+20.7pp	–

\*Converted from a subsidiary to an equity-method affiliate in September 2020.

# FY2022/3 Q3 Results Overview (Quarterly)

- Q3 sales and profits were up from Q2. Margins improved due to higher selling prices. The steel business in Thailand helped push operating profit higher as the export market continued to improve. The US business helped push ordinary profit higher thanks to the continued solid demand for structural steel.
- Q3 sales and profits were also up compared to a year earlier. The steel business in Thailand made a significant contribution to the increase in operating profit as the export market continued to improve. Ordinary profit rose sharply thanks to the improved market environment and improved margins at overseas companies, such as the US, where the rebound from the coronavirus-related downturn was evident.

(100 million yen)	FY2021/3				FY2022/3			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Net sales</b>	382	459	245	272	328	349	<b>400</b>	—
Steel (Japan)	92	102	100	104	116	134	<b>159</b>	—
Steel (S. Korea)	118	219*	—	—	—	—	—	—
Steel (Thailand)	149	111	121	138	188	187	<b>216</b>	—
Railway Track-Accessories	17	22	20	20	16	21	<b>17</b>	—
<b>Operating profit</b>	30	37	18	13	16	21	<b>47</b>	—
Steel (Japan)	10	8	7	4	2	3	<b>9</b>	—
Steel (S. Korea)	6	18*	—	—	—	—	—	—
Steel (Thailand)	16	14	14	12	18	21	<b>43</b>	—
Railway Track-Accessories	1	2	2	1	1	3	<b>1</b>	—
<b>Ordinary profit</b>	74	54	45	40	83	128	<b>185</b>	—
Equity in earnings of affiliates	35	13	26	8	63	101	<b>124</b>	—
<b>Profit (loss) attributable to owners of parent</b>	51	(31)	29	1	55	93	<b>129</b>	—
Operating profit	8.0%	8.2%	7.6%	4.9%	4.9%	6.1%	<b>11.9%</b>	—
Ordinary profit margin	19.5%	11.9%	18.5%	14.9%	25.3%	36.7%	<b>46.2%</b>	—

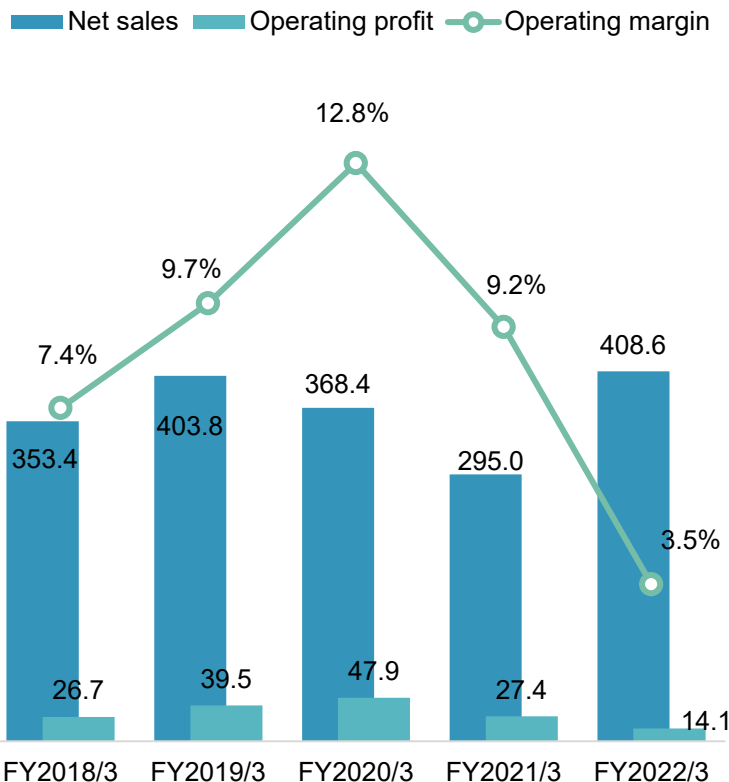
\*Five months from Apr to Aug (converted from a subsidiary to an equity-method affiliate in September).

# Results Overview by Segment (1) Steel (Japan)

- The market of structural steel is still not active, lacking momentum. With blast furnace makers focusing on steel sheet, sales volume increased year on year thanks to proactive efforts to cultivate new customers.
- High costs are depressing earnings, so segment profits declined even as sales rose from a year earlier. On the other hand, lowering costs and pushing through price increases is helping to improve profitability.

## Historical results: Q3 (nine months)

(100 million yen)



## Profit change factors

- Business environment
  - ✓ Market inventory levels for structural steel increased slightly. The pace of price hikes is sluggish.
  - ✓ Blast-furnace manufacturers are focusing on steel sheet.
  - ✓ Scrap prices remain high, and prices for ferro alloys, fuels, and others are also on the rise.
- Yamato Steel
  - ✓ Thanks to proactive customer acquisition, orders for H-beams for fabricators and contractors were strong. Sales volume for the nine months ended December 31, 2021, rose 11.4% to 416,000 tons.
  - ✓ The Q3 metal margin recovered to the previous year's average thanks to efforts to boost selling prices primarily by revising size and steel-grade extras pricing, and tightening market inventories.

10K tons K Y/ton	FY2021/3				FY2022/3			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales volume	11.5	13.1	12.6	12.3	12.9	13.7	15.1	-
Steel margin	50.5	46.0	42.8	39.3	37.2	40.8	44.9	-

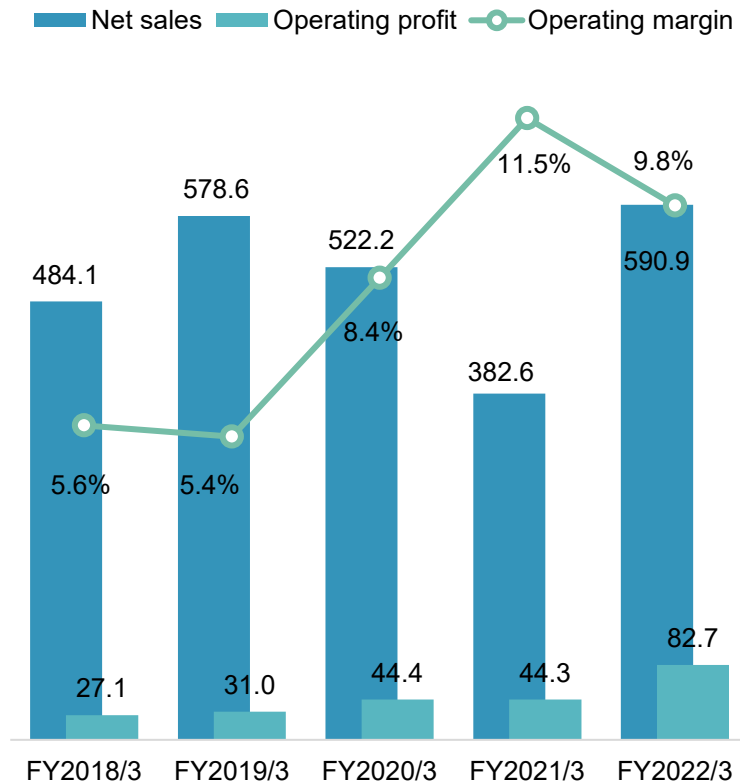


# Results Overview by Segment (2) Steel (Thailand)

- Domestic demand for structural steel weakened as construction work came to a standstill due to another surge in infections. On the other hand, the competitive environment in the export market eased as pressure from exports from Chinese and South Korean steel makers diminished. Sales volume was up from a year earlier thanks to efforts to expand market share in exports.
- Although the higher scrap steel prices continued, the increases in sales volume and selling prices on export markets contributed to the increases of the segment's sales and profits from a year earlier.

Historical results: Q3 (nine months)

(100 million yen)



Profit change factors

- Business environment
  - ✓ Demand for structural steel slowed down both inside and outside the country as infections surged again.
  - ✓ Export pressure from Chinese manufacturers eased due to that country's export restrictions, and the volume of exports from South Korean makers to Southeast Asia also decreased. The climate for the export market continued to improve yet again in Q3.
  - ✓ Imports into Thailand also trended downwards.
- Siam Yamato Steel (SYS)
  - ✓ As the export market's competitive environment improved, SYS worked to expand market share. The weakening baht (versus the dollar) also helped make exports more competitive. Sales volume for the nine months to September 2021 rose 24% YoY to 650,000 tons.
  - ✓ Although scrap prices continued to rise, the Q3 metal margin improved significantly due to the improvement in export prices. Helped by increasing sales volume, profit was also up from a year earlier.

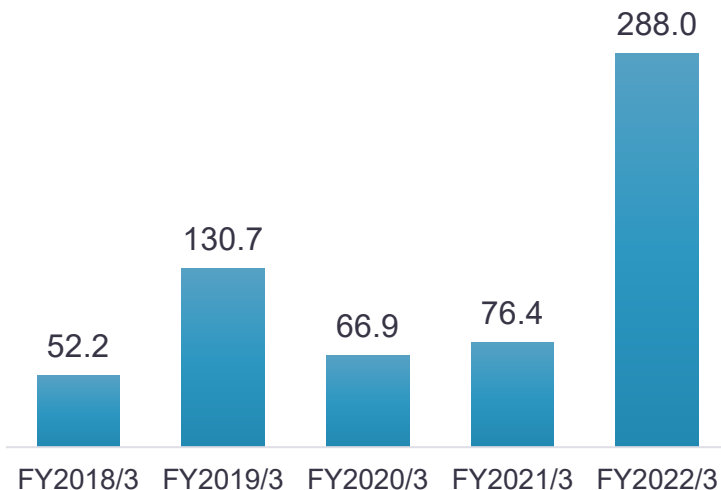
10K tons, K B/ton	FY2021/3				FY2022/3			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales volume (Including semi-finished products)	20.6	15.5	16.8	18.8	24.1	21.0	20.7	-
Steel margin	12.5	13.3	12.4	11.7	11.1	12.3	17.2	-

# Equity-Method Affiliates

- Selling prices improved as the supply-demand balance for steel tightened worldwide. Results were up from a year earlier at all the companies. Equity-method earnings surged 277% from a year earlier.
- By region, in the US, metal margin expanded against the backdrop of strong non-residential construction demand, and profit was up sharply from a year earlier. In the Middle East, the market environment improved as pressure from imports diminished, and sales improved. In Asia, profits were solid thanks to higher selling prices in both Vietnam and South Korea.

## Historical equity in earnings of affiliates: Q3 (nine months)

(100 million yen)



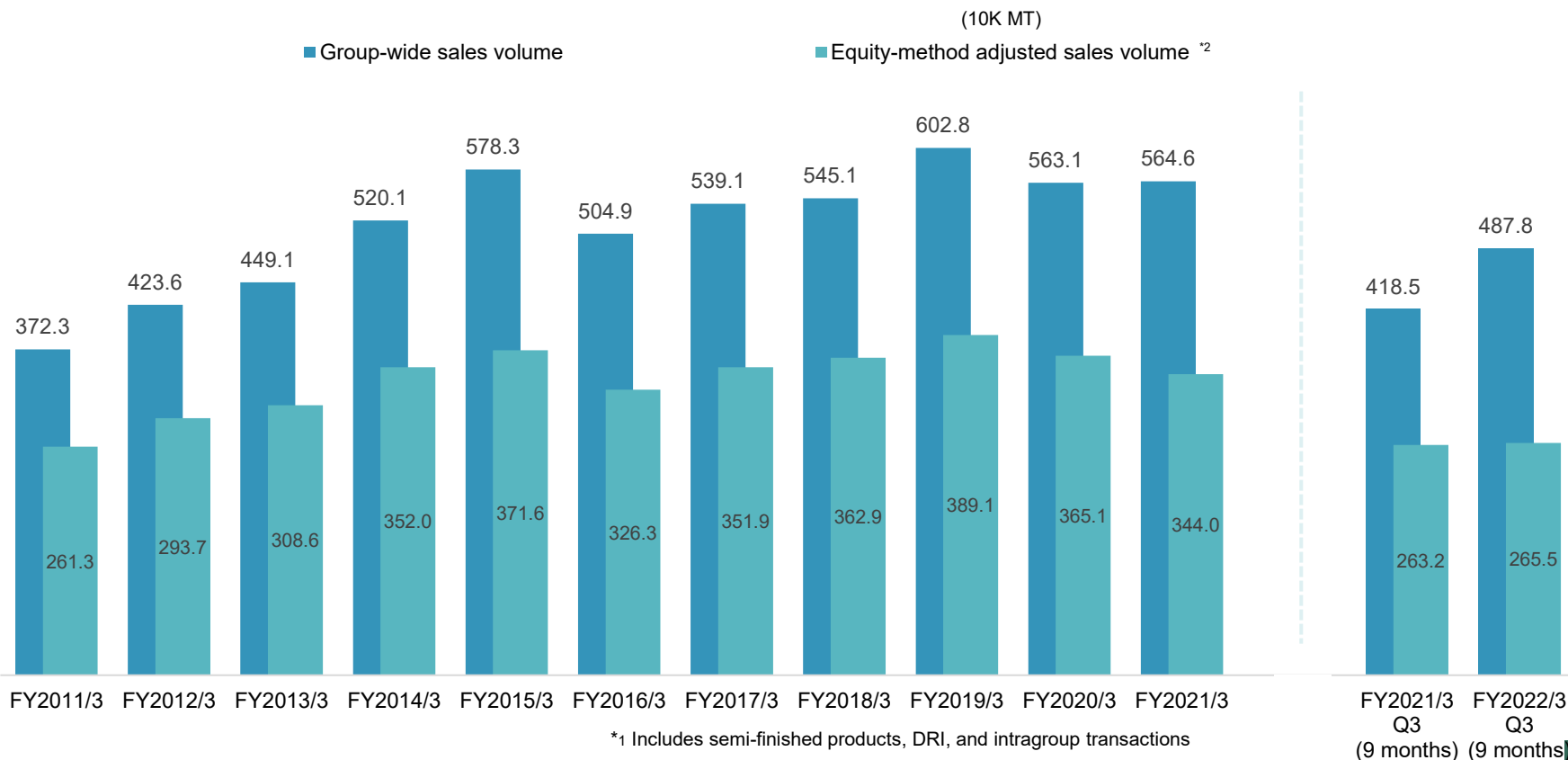
## Profit change factors

- United States ✓
  - Orders were brisk amid improved demand for structural steel on the back of strong non-residential construction demand. Sales volume was up from a year earlier.
  - ✓ As the supply-demand balance tightened, prices for structural steel were raised faster than the rise in scrap prices. Metal margin continued to expand.
  - ✓ Helped by increasing sales volume and wider margins, profit was up significantly from a year earlier.
- Middle East ✓
  - The market environment improved somewhat as the supply-demand balance for steel tightened worldwide and the pressure from imports diminished.
  - ✓ After the summer drop in iron ore prices, customers are expecting a decrease in product prices, adopting a wait-and-see attitude.
  - ✓ Results improved compared to a year earlier thanks to the focus on the profitability of orders in the GCC region and the effort to strike a balance with the exports needed to ensure production volume.
- Asia ✓
  - In Vietnam, demand for structural steel improved as the economy recovered but then deteriorated when infections surged again. Results held steady thanks to cost reductions arising from operational streamlining and higher selling prices.
  - ✓ In South Korea, the supply-demand balance for rebar improved thanks to an increase in housing construction, and selling prices rose. Results were firm.

# Historical Group-Wide Sales Volume

- Group-wide sales volume for the nine months rose 16.5% YoY to 4,878,000 tons. Sales were up from a year earlier at all the companies.
- Despite the reduction in the stake held in South Korea's YKS, equity-method adjusted sales volume rose 0.9% YoY to 2,655,000 tons.

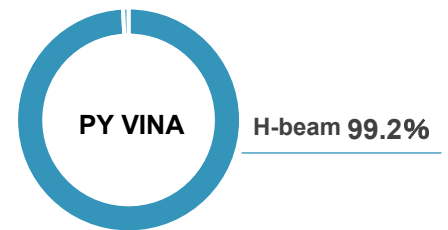
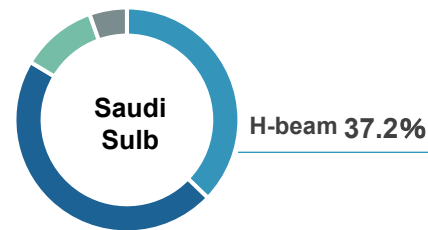
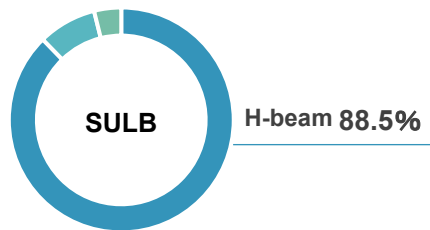
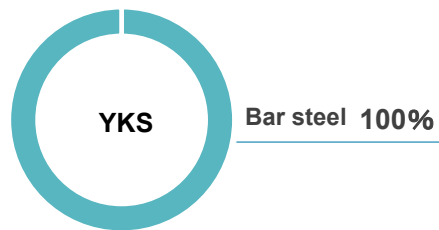
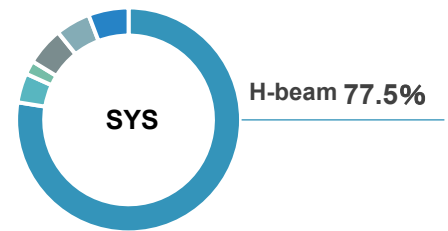
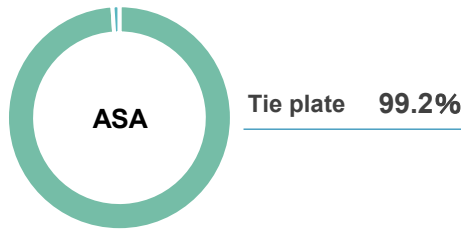
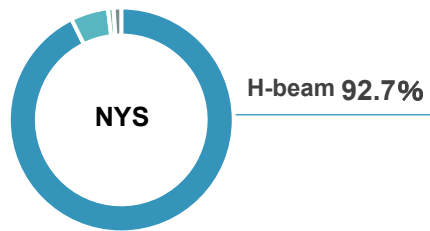
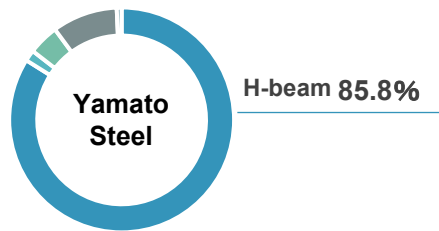
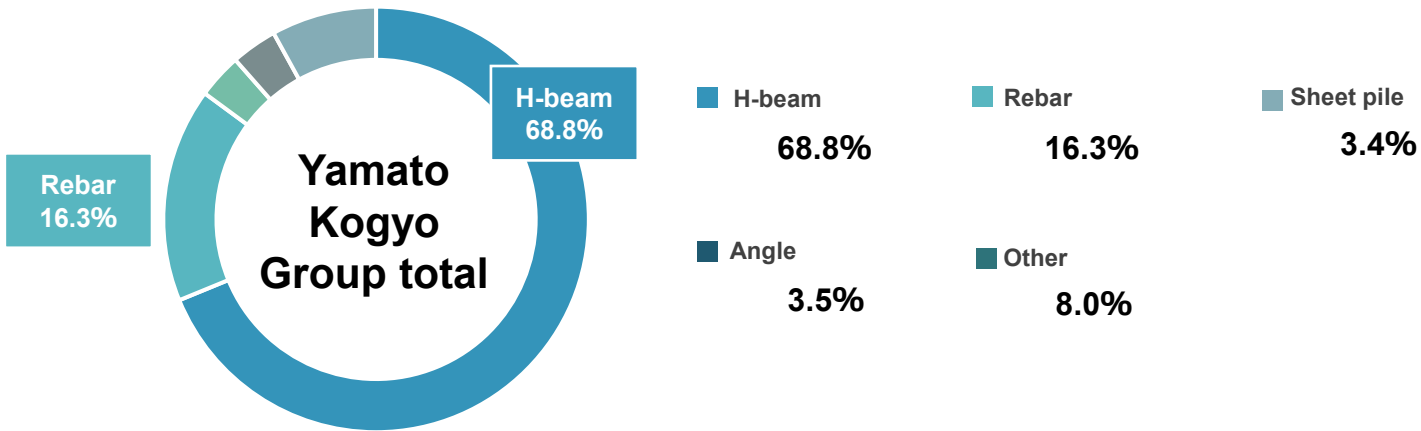
Historical group-wide sales volume \*1



\*1 Includes semi-finished products, DRI, and intragroup transactions

\*2 Calculated by multiplying each company's sales volume by the equity interest

# Product Mix (FY2022/3 Q3 Results (Nine Months))



# Balance Sheet

- Yamato still has zero interest-bearing debt. Shareholders' equity ratio is 84.3%.
- Total assets and total liabilities and net assets increased mainly due to the rise in steel product and raw material prices and the weaker yen.

(100 million yen)	FY2020/3	FY2021/3	FY2022/3 Q3	YoY chg.
Current assets	1,628	1,500	<b>1,601</b>	101
Cash & deposits	1,000	1,016	<b>924</b>	(92)
Trade receivables	254	176	<b>287</b>	111
Inventory assets	343	281	<b>366</b>	85
Non-current assets	2,202	2,098	<b>2,306</b>	208
Property, plant and equipment	722	621	<b>586</b>	(35)
Total Investments and other assets	1,474	1,462	<b>1,703</b>	241
Investment securities	474	457	<b>517</b>	60
Long-term time deposits	224	213	<b>230</b>	17
Total assets	3,830	3,598	<b>3,907</b>	309
Liabilities	404	340	<b>382</b>	42
Trade payables	109	75	<b>104</b>	29
Deferred tax liabilities	118	120	<b>126</b>	6
Net assets	3,426	3,258	<b>3,524</b>	266
Foreign currency translation adjustment	107	(22)	<b>106</b>	128
Non-controlling interests	248	238	<b>231</b>	(7)
Total liabilities and net assets	3,830	3,598	<b>3,907</b>	309

Surplus capacity secured for strategic expansion of facility expansion and flexible response to M&A opportunities

Increase in trade receivables / inventory assets due to rising markets for steel product and raw materials and the rebound in demand.

Financial assets\* decreased 6.9 billion yen from end of the prior period to 125.4 billion yen (foreign exchange impact +7.5 billion yen)

84.3% shareholders' equity ratio

Increased mainly due to solid results and weaker yen

\*Financial assets = cash and deposits + investment securities (excluding non-consolidated subsidiaries and affiliates) + long-term deposits

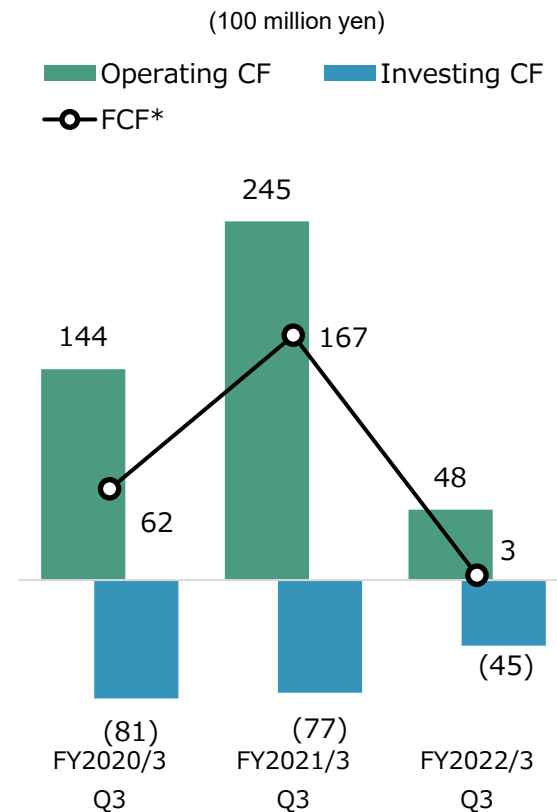
# Cash Flows

- FCF decreased 16.4 billion yen to 300 million yen due to an increase in working capital.
- Investing cash flow includes minus 2.1 billion yen for an adjustment on the transfer value of YKS shares associated with a penalty levied in South Korea (YKS) in the prior period.
- Financing cash flow was minus 15.5 billion yen (an increase in outflows of 5.8 billion yen) after returning profits to shareholders in the form of dividends and stock buybacks.

(100 million yen)	FY2020/3 Q3	FY2021/3 Q3	FY2022/3 Q3	YoY change
Operating CF	144	245	48	(197)
Investing CF (excluding changes in long term time deposits)	(81)	(77)	(45)	32
Acquisition of property, plant and equipment	(79)	(40)	(26)	14
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	—	(0)	(21)	(21)
FCF*	62	167	3	(164)
Financing CF	(63)	(96)	(155)	(58)
Purchase of treasury shares	(63)	(25)	(68)	(43)
Dividends paid	(56)	(57)	(61)	(4)

\*FCF is calculated as operating CF + investing CF (excluding changes in term deposits)

## Historical free cash flow





## II

# FY2022/3 Forecast

# FY2022/3 Earnings Forecast

- The forecast for net sales remains unchanged, but the operating profit forecast is 8.0% (1.0 billion yen) higher than the previous forecast, at 13.5 billion yen. For the steel business in Japan, sales and profits have been revised up from the previous forecast, while in the steel business in Thailand sales have been revised down but profits have been revised up.
- In equity in earnings of affiliates, the forecast for the Middle East business has been revised up. The outlook for the other equity-method affiliates is generally unchanged. The ordinary profit forecast has been revised up 1.8% (1.0 billion yen) to 56.0 billion yen.
- Net income is expected to reach a record 38.5 billion yen.

(100 million yen)	FY2021/3 *	FY2022/3		YoY		Versus prev. forecast	
		Prev. forecast (Oct 29, 2021)	New forecast (Jan 1, 2022)	Change (yen)	Change (%)	Change (yen)	Change (%)
Net sales	1,360	1,500	<b>1,500</b>	140	10.3%	—	—
Operating profit	100	125	<b>135</b>	35	34.8%	10	8.0%
Ordinary profit	216	550	<b>560</b>	344	159.6%	10	1.8%
Equity in earnings of affiliates	85	—	—	—	—	—	—
Profit (loss) attributable to owners of parent	50	380	<b>385</b>	335	672.4%	5	1.3%
Operating profit	7.4%	8.3%	<b>9.0%</b>	1.6pp	—	0.7pp	—
Ordinary profit margin	15.9%	36.7%	<b>37.3%</b>	21.4pp	—	0.6pp	—

\*In the South Korea steel business, YKS was converted from a subsidiary to an equity-method affiliate in September 2020.



# Earnings Forecast by Segment

## Consolidated subsidiaries

### Steel (Japan)

- There has been no significant change in demand for structural steel since the previous forecast. Orders remain firm.
- Scrap prices remain high, and prices for ferro alloys and fuels are also on the rise, but the company is working to restore profitability by lowering costs and pushing through price increases. Sales and profits have been revised up from the previous forecast.

### Steel (Thailand)

- Construction activity inside the country is expected to slow down due to flooding and labor shortages at construction sites, so sales volume is expected to decrease.
- Competition from Chinese and South Korean manufacturers on export markets has eased. Thus selling prices are now expected to be somewhat better than previously forecast.
- While sales have been revised down slightly from the previous forecast, profits are expected to be higher.

## Equity-method affiliates

### United States

- Although some projects were temporarily delayed due to personnel shortages at construction sites and supply chain bottlenecks, non-residential construction demand and structural steel demand should both remain strong.
- With product prices on the rise, results should remain firm and generally in line with the previous forecast. Earnings are expected to rise sharply from the prior year.

### Middle East

- A full-scale recovery of construction activities within the GCC region is still expected to take some time, and the raw material market is unstable. However, results are expected to be better than the previous forecast, as we strike a balance between profit-oriented sales efforts in the GCC structural steel market and exporting products and selling intermediate materials in order to secure production volume.
- The segment is expected to turn a profit this year thanks to cost-cutting efforts, the cultivation of new export partners, less pressure from exports as the supply-demand balance for steel tightens worldwide, and improved selling prices.

### Vietnam

- Construction activity, which had been at a standstill, has begun moving again as restrictions on movement are eased, but has not fully recovered yet.
- Despite the construction standstill, structural steel prices have not dropped, so the forecast is unchanged.
- As a result of an anti-dumping investigation, Malaysia formally imposed a tariff of 10.64% (5 years) on imported H-beams in August. This is expected to serve as a trade barrier.

### South Korea

- There has been no significant change in demand for rebar since the previous forecast, and actual demand remains firm.
- Although there are factors that are increasing costs, such as high scrap prices, selling prices remain strong, so the outlook is generally in line with the previous forecast.

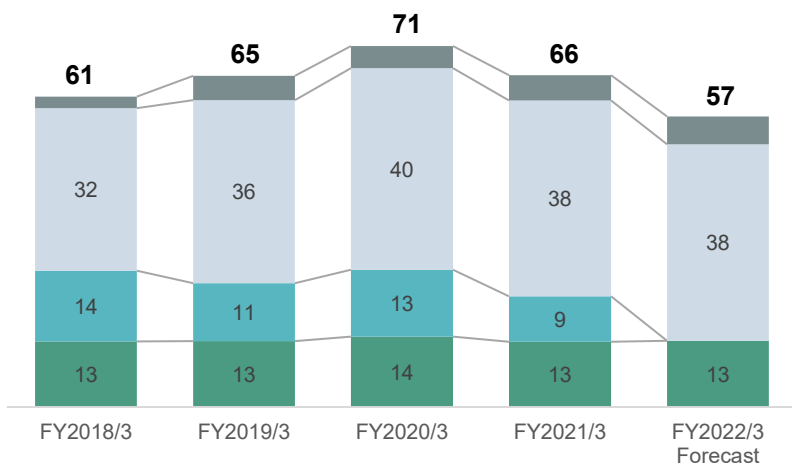
# Depreciation & Capital Investment

- Capital investment for the entire group is expected to decrease by about 30%. This is mainly because SYS (Thailand steel business) is in between major investments, and YKS (South Korea steel business) has been converted to an equity-method affiliate.

## Depreciation

(100 million yen)

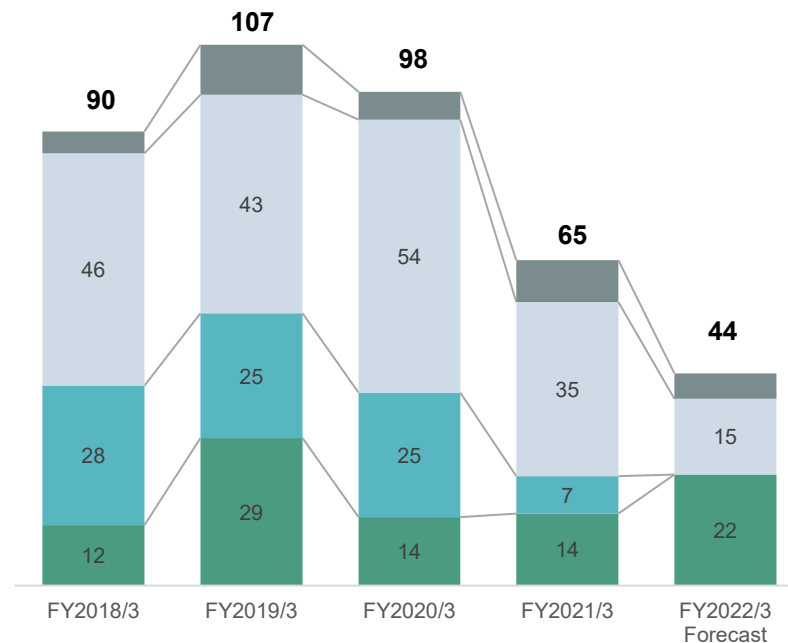
■ Japan      ■ South Korea  
■ Thailand   ■ Other



## Capital investment

(100 million yen)

■ Japan      ■ South Korea  
■ Thailand   ■ Other



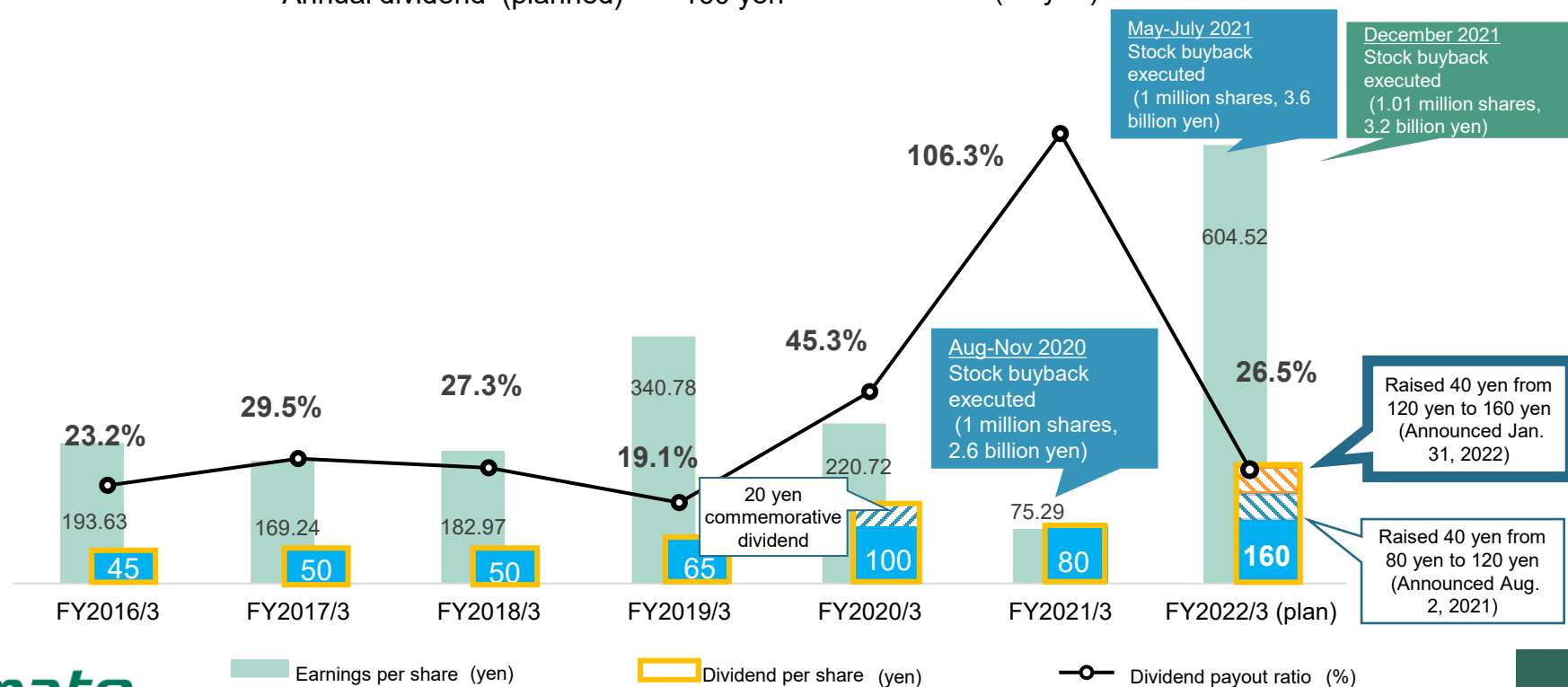
# Shareholder Returns: Dividend Raised

The projected year-end dividend (March 2022) has been raised by 40 yen from the previously announced figures to 100 yen. This raises the projected annual dividend to 160 yen per share, the highest ever.

➤ FY2022/3 planned annual dividend (dividend per share)

\*Actual figures for prior year shown in parentheses

Interim dividend	60 yen	(40 yen)
Year-end dividend (planned)	100 yen	(40 yen)
Annual dividend (planned)	160 yen	(80 yen)



- The forward-looking statements including forecasts presented in this document are based on information currently available to Yamato Kogyo Group and certain assumptions deemed to be reasonable and are not intended as a promise by the Company that they will be achieved.
- Actual business performance may differ significantly due to various factors.
- This document is a translation of a part of the original Japanese version and provided for reference purposes only. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.