November 30, 2023

Yamato Kogyo Co., Ltd.

Financial results briefing for the six months ended September 30, 2023
Main points from the Q&A session

Q01. I would like to hear the expected profit level of the new base in Indonesia, and its expected investment efficiency.

A01. We have received a variety of opinions from investors and analysts concerning the disclosure of information since the disclosure in August. Although we have been considering and negotiating with the seller of the new company aiming for the reinforcement for disclosure of information, we regret to inform you that it is difficult to disclose more information than they have disclosed due to their intension as a listed company. For this reason, please understand that the information disclosed is limited. As I explained today, we believe that this business has high upside potential. However, in addition to executing the capital investment required for realizing the potential, it is also necessary to consider the learning curve of local staff. For these reasons, please allow us some time before we present medium- to long-term quantitative information.

Q02. Will you allocate the US dollars accumulated in the US subsidiary companies for funding the investment in Indonesia?

A02. We intend to allocate US dollars held in the US subsidiary companies.

Q03. I would like to hear the background of the low operating rate of the company being acquired in the Indonesia deal. Is the bottleneck operational problem, lack of demand, or the inability to secure buyers?

A03. The recent operating rate remains low as you pointed out, but firstly the small-medium line has been updated over the past two years. Also, in terms of operation, production efficiency has been low due to the time taken for the roll-change operation on the medium-large line. We believe that the operating rate could be increased with capital investments aimed at improvements, and expect the upside potential to be significantly high.

Q04. I would like to hear rough schedule towards full operation of the Indonesia business.

A04. It will be necessary to implement capital investment aimed at increasing the operating rates of the small-medium line and the medium-large line, and to train employees, so it is difficult to present a specific schedule at this point In terms of operation, we plan to have Thailand/SYS engineers stay on site, and would like to present the revised schedule once the share transfer has been executed and our management been launched. We are not formulating schedule in span of five to ten years; we would rather like to implement the necessary capital investment in two to four years and establish a structure to perform production with the nominal capacity.

Q05. You have set a target ROE of 10% or more in your Vision, but have far exceeded 10% recently. Shouldn't you be setting this as high as possible?

A05. We had ROE as high as 20% in the past, but this was due not only to profit, but also because we had not accumulated as much equity as now. After the Financial Crisis in 2008, profit levels dropped and it continued to be at a level around 4%. In the steel industry changes in market conditions are intense and our performance has fluctuated significantly. We would like to establish the earning capacity and business structure that eliminates such fluctuations and stably secure ROE of 10% or higher. To achieve this goal, we believe it is necessary to embrace major initiatives such as launching new businesses, and also improve capital efficiency. We would like to emphasize that we are not satisfied with the current state and striving for the higher goal.

Q06. What exactly does the entry into the steel, infrastructure and green business indicate? Please provide a more detailed image. To begin with, what kind of expertise does your company have in the infrastructure and green areas?

A06. With regard to entry into new areas of steel, we envisage products other than structural steel such as steel sheet/plate, pipe and round bar, and also entry into upstream and downstream in the value chain. With regard to entry into the infrastructure and green areas, in addition to the existing trackwork and ship component business, creating mechanisms for the realization of new electric power sources and next-generation fuels, logistics networks and resource recycling required for cleanly manufacturing steel. It may also include the acquisition of technology and building a sales model involving aspects such as premium pricing and carbon credits to realize these. We would like to partner with companies that possess advanced technology and conduct joint research and development with universities, etc. for areas where Yamato Kogyo lacks knowledge or experience, and also seek the exploration and creation of business opportunities through such means as investment in venture capital.

Q07. You explained that you aim to be a leading steel company in the Vision for 2030, but I would like to ask how you define a leading company. Does this mean that you aim to become a company that surpasses Nippon Steel and JFE?

A07. We do not aim to surpass Nippon Steel or JFE in terms of raw steel scale or product variety. This means that we aim to be a leading company in steel "supporting the world's infrastructure." In addition to further growing our already world-leading structural steel business, we want to become a steel company that contributes to and drives the world's sustainable growth, the creation of social infrastructure in particular, by expanding into the surrounding fields. Yamato Kogyo has globally operated a business specializing in electric furnaces for around 80 years, and in that respect, we are confident that we favorably compare with Nippon Steel or JFE. To achieve sustainable growth in future, we believe it is important to proceed with areas such as strengthening our core business of structural steel, expanding business vertically and horizontally, carbon neutrality and resource recycling, and we would like to utilize our expertise and strengths to swiftly realize these.

Q08. There is little growth in the structural steel market, and it seems that there are few new entrants. When aiming to increase the types of products by entering into new areas, will you consider entering highly competitive areas such as steel sheets?

A08. With regard to which areas we are considering for entry into new business areas, the steel sheet industry that you mentioned as an example has continued to be a highly competitive environment for the past few years, and although I cannot completely dismiss the possibility of entry, I think it is a little long way off. We have not reached the consideration for details and unable to provide specific product names, but for entry into new business areas, we would like to consider steel-related businesses with close themes centering on the area of infrastructure.

Q09. You have mentioned that you are considering entering into new types of steel, but are you considering this based on the assumption of construction of a new factory? Alternatively, are you considering M&A or the utilization of existing factories?

A09. Rather than greenfield investment in something completely new, we are considering the direction of acquiring an existing company. However, with regard to whether it is greenfield or brownfield investment, we will not consider/implement it by determining which method to use from the outset because it depends on the circumstances in the market we are entering. However, we recognize that the steel-related industry tends to have an excess of equipment and that greenfield investment would be difficult, so we are considering prioritization of M&A.

Q10. Will the update of the electric furnace at Thailand/SYS be the same as that introduced at Japan/Yamato Steel?

A10. I think the question is intended to ask whether we will update to an electric furnace with a scrap preheater like that introduced at Japan/Yamato Steel, and although we considered the introduction of a preheater, problems such as the height of the factory resulted in us intending to update to a conventional-type DC (direct current) furnace. It is the latest type of equipment, so production efficiency is expected to improve compared to the current one, and it is also expected to improve aspects such as CO_2 emissions.

Q11. You have mentioned that competition with rival companies and imports has increased for some sizes in the US business. What specific sizes are these, and when and from which countries are imports increasing? I would also like to hear about the backdrop to heightened competition and the outlook for the future.

A11. At present, we are focusing on sales of products with high added value such as high tensile strength steel, and competition has not increased much for these products. The inflow of imports has been in so-called general-purpose sizes, and have come in from Central and South America, and the Middle East in some cases. In terms of volume, apart from China, volume allocations apply to South Korea and Europe, but there has not been an inflow of a large volume into the market. However, cheap imports coming in has had the effect of pulling down prices. As to the backdrop to heightened competition, I think this is because US steel prices are much higher than other markets, which makes it an appealing destination for exports. However, the US government is also taking steps to restrict imports, and I do not think they will increase to a volume that causes a serious impact.

Q12. I would like to hear about the steps you are taking to be able to maintain a high level of profit on par with the previous year as the tailwind weakens in the business environment.

A12. The largest reason is that the US business did not drop off as initially forecast, and has remained strong. Furthermore, the impact of high interest rates in the US and favorable exchange rates has also been significant, and conversion of the earnings of overseas equity-method affiliates into Japanese yen has had a positive impact.

Q13. The dividend payout ratio for FY2023 is currently around 30% in company plans, but will you eventually consider this based on the assumption of a 40% dividend payout ratio as stated in your shareholder returns policy? Also, will you consider/implement the acquisition of treasury shares separately from the 40% dividend payout ratio? I would also like to hear the criteria for determining the acquisition of treasury shares.

A13. Firstly, with regard to dividends, we have stated that the dividend payout ratio will be around 40% in the returns policy, but also mentioned that we will endeavor to maintain steady dividends. The increase in the minimum dividend that we announced this time was also a decision made with emphasis on stability based on a judgement that we could maintain this level of dividends considering the state of cash on hand and the outlook for the next two to three years. We are considering flexibly implementing acquisitions of treasury shares according to conditions, but please be aware that there are some restrictions to do this it in cases where we hold important information. The implementation of acquisitions of treasury shares will not be considered linked to the dividend payout ratio of 40%, and we will consider implementing these based on conditions at the time.

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