

Question & Answer at IR Meeting on Financial Results for FY2021 Q3

[Date] February 4, 2022

[Presenters]	Masaru Shiomi	Representative Director, Managing Executive Officer, Chief Financial Officer
	Yasuhiro Yoshida	Executive Officer, General Manager, Accounting Controlling Department
	Masahiro Yamane	General Manager, Investor Relations Department

List of Questions (Detailed Question & Answer follows)

<Q1>

- The forecast excluding one-off profits/losses has been raised to JPY400 billion. How has the profitability on actual performance basis changed?
- As to the shareholder return policy for the next fiscal year and beyond, I interpreted the meaning of “sustainable growth” as the forecast of profitability on actual performance basis. And “long-term interests for shareholders” means securing long-term yields by raising the minimum dividend. Please explain what kind of discussions are going on regarding the review of dividend policy.
- In terms of “long-term profits for shareholders”, it is necessary to be aware of the need for a stable dividend yield that is higher than other trading companies. Is this perspective included in the discussion?

<Q2>

- In the past, share buyback was not included that much in your options and you wanted to give priority to improving credit rating. Has the priority changed and become worth for consideration? What is the thought behind?
- As the annual forecast of Metal Products Business Unit was revised upward, please explain what changed from the initial outlook and what is the future outlook.

<Q3>

- As to Metal Products Business Unit, annual forecast excluding one-off profits/losses was revised upward to JPY48 billion. This exceeds the profit in FY2018 when the number of rigs was level of 1,000. Has the business model changed, as the number of rigs is still 600 level?
- As to shareholder return, is there a gradual change in the way you think about the financial conditions you are aiming for, or is it that you are making positive progress in improving your financial condition due to good performance and you are getting closer to the level you are aiming for? Please tell us your thought.
- Net debt-equity ratio was 0.9 times at the end of Q3. What do you think is the appropriate level?

<Q4>

- As to SHIFT in business portfolio, please tell us the progress of exit/divestment as well as the outlook of one-off profits/losses for remaining exit/divestment for next fiscal year and beyond.
- As to nickel mining and refining business in Madagascar, can we expect that the production to remain unchanged at the 40,000-ton pace for next fiscal year and beyond? Also, please tell us the factors other than the nickel price that will cause fluctuations such as increase in subsidiary materials.

<Q5>

- The results of tender for domestic offshore wind power was announced late last year, and I believe your company had also put in a bid for it. Please tell us, to the extent possible, how you considered the profitability in your bid.

Question & Answer

<Q1>

Questioner 1: At the time of Q2 results announcement, annual forecast was JPY360 billion excluding one-off profits/losses and your earning capability is JPY260 billion after deducting JPY100 billion from the external environmental effects. The forecast excluding one-off factors has been raised to JPY400 billion, and I would like to ask you how the profitability on actual performance basis has changed.

Shiomi: We still consider JPY260 billion is profitability on actual performance basis. Therefore, in 400 billion, we estimate that JPY140 billion is the increase in profit due to the external environmental effects. For the next fiscal year and beyond, while it is still just an image as our internal discussion will be held later, we would like to raise our profitability on actual performance basis to the level around JPY300 billion. I would like to examine how much external environmental effect remains next fiscal year and provide an update at the end of fiscal year.

Questioner 1: On page 6 of the presentation, the shareholder return policy for the next fiscal year and beyond is newly included. I interpreted the meaning of “sustainable growth” as the forecast of profitability on actual performance basis. And “long-term interests for shareholders” means securing long-term yields by raising the minimum dividend. Please explain in more detail what kind of discussions are going on regarding the review of dividend policy.

Shiomi: When we announced this medium-term management plan, the original annual forecast for the fiscal year was JPY230 billion. Although we have robust performance, product price rose due to disruptions in logistics and shortages of raw materials at production sites, and the profits increased more than originally planned, and as a result, we revised our forecast every quarter.

Considering the payout ratio is 30%, we have already reached the level of JPY110 in the Q3 of this fiscal year. On the other hand, if the disruption in logistics is normalized and the current price hike is corrected to a normal level, our profit will return to the level that initially forecasted. If the current level of JPY460 billion is not achieved in FY2022 and if it remains at JPY300 billion level, the dividend level will theoretically drop significantly. We are going consider if this is appropriate or not.

We will formulate a profit and cash flow plan for the next three years and update the dividend policy in SHIFT 2023 from the perspective that we can achieve sustainable growth and long-term interests of shareholders. Including all kinds of return policies, such as setting minimum dividend or share buyback, we would like to update our dividend policy from the perspective of simulating the transition of dividends for next three years.

Questioner 1: In terms of long-term profits for shareholders, it is necessary to be aware of the need for a stable dividend yield that is higher than other trading companies on a relative basis. Is this perspective included in the discussion?

Shiomi: Yes, we will consider that aspect as well. On the other hand, if we were to increase the dividend payout ratio significantly above the current level, we would like to consider the impact on our company’s long-term growth. We would like to incorporate these multiple factors into our consideration and review our shareholder return policy.

<Q2>

Questioner 2: I was a little surprised that the stock price did not go up even though the dividend was raised and the yield was 6%. I have a feeling that your company's current policy is not in line with the market's expectations. In the past, share buyback was not included that much in your options, and you wanted to give priority to improving credit rating. However, has the priority changed and become worth for consideration? What is the thought behind?

Shiomi: The profit is improving more than what we initially forecasted, and our financial position is also improving at a much faster pace. We are not directly aiming to return to an A rating. We are aiming to be able to achieve a financial soundness that will allow us to achieve a single-A rating and improve our ability to generate cash flow, and we assume we can achieve it sooner than planned. And as the results, we would like to consider all possible methods of return including share buybacks and would like to avoid sharp drop in dividend level as much as possible.

Questioner 2: As the annual forecast of Metal Products Business Unit was revised upward, please explain what changed from the initial outlook and what is the future outlook.

Yoshida: As to tubular business, the oil price is rising and the rig count has recovered from the beginning of the fiscal year at about the level of 400 rigs to the current level of 600 rigs. As a result, we have seen strong performance in terms of shipment volumes and price increases. Not only the market conditions, but also the recent restructuring of group companies as part of our structural reforms, leaner operations have also contributed to the strong figures.

As to steel sheets business, the price has been on an upward trend since early spring, and after summer there was a halt in the rise, and now the price has fallen a little. Steel sheets business is centered on steel service centers, and while the profit tends to increase when prices are rising, it slows down when the price hikes subside. The price kept little higher than when we announced the Q2 result, so the Q3 saw strong numbers. But Q4 will see a slight decline. In terms of volume, we are carefully monitoring the impact of the shortage of semiconductors in the automotive industry.

<Q3>

Questioner 3: As to Metal Products Business Unit, annual forecast excluding one-off profits/losses was revised upward to JPY48 billion. This exceeds the profit in FY2018 when the number of rigs was level of 1,000. Has the business model changed, as the number of rigs is still 600 level? How much is an external environmental effect and what is the improvement due to structural reforms?

Yoshida: In the past, in Metal Products Business Unit, the contribution of tubular products business was higher than that of steel sheets business, but now the contribution of tubular products business and steel sheets business is almost fifty-fifty. Good performance of steel sheets business is contributing. For the tubular products business, we have been managing our business with many distributors mainly in North America, but we have been implementing structural reforms and we have reduced the number of companies and are running lean operations. We are still in the midst of structural reforms at some group companies such as EDGEN GROUP and ERYNGUIM, but the business performance of tubular products business is recovering. The number of rigs is still around 600, so our business performance has not strongly come back yet. However, the length of tubular products used per rig has been increasing, so even if the number of rigs does not recover to 1,000, there is a possibility that certain volume to be still used. As to external environmental effect, we haven't done a clear analysis, so we are unable to answer your questions.

Questioner 3: As to shareholder return, is there a gradual change in the way you think about the financial structure you are aiming for, or is it that you are making positive progress in improving your financial condition due to good performance and you are getting closer to the level you are aiming for? Please tell us your thought.

Shiomi: Our initial forecast was JPY230 billion, but now we are expecting JPY460 billion. We are steadily realizing the resilient portfolio and increasing profitability, after we suffered a loss in many businesses. Therefore, improvement in our financial conditions is expected to be realized earlier than the schedule originally projected in this medium-term management plan. We have explained that review in shareholder return will be done after achieving the targets in current medium-term management plan. But considering that situation allows us to do it ahead of schedule, we plan to announce an update when we announce the consolidated results at the end of this fiscal year.

Questioner 3: Net debt-equity ratio was 0.9 times at the end of Q3. What do you think is the appropriate level of net debt-equity ratio?

Shiomi: In the current medium-term management plan, our image was to achieve 0.8 times by the end of FY2023, so we are aiming for a target of less than 0.8 in short-term. The balance sheet at the end of Q3 is around JPY9 trillion, due to the progress of business transactions, rising prices of goods, and the depreciation of the yen. However, we intend to correct this by the end of the fiscal year, so although debt-equity ratio has risen to 0.9 once now, I think we will be able to lower it a little more.

In the long run, it's not that the more we lower our debt-equity ratio, the better it will be. After we enhance our capital, we would like to leverage in appropriate level for future growth. Our policy of controlling the balance sheet with proper discipline and leading it to growth has not changed. We will be able to show quantitative plans in the future.

<Q4>

Questioner 4: As to SHIFT in business portfolio, please tell us the progress of exit/divestment as well as the outlook of one-off profits/losses for remaining exit/divestment for next fiscal year and beyond.

Shiomi: Out of 39 companies planned this fiscal year, 20 have been realized by the end of Q3. About 30 companies are expected in FY2021, but it is slightly taking time as there are other parties. One-off profits/losses are as per our revised forecasts. At this moment, there is no major one-off loss forecasted in next fiscal year and beyond. And no one-off profit is forecasted either, although it is subject to the business and the other parties we are selling the business to.

Yamane: The profits from the one-off factors have also increased compared to the initial plan, and we are now expecting profits from the sale, it is increasing and to be included in Q4.

Questioner 4: As to nickel mining and refining business in Madagascar, it is in black even excluding one-off profits/losses in Q3 due to the rise in nickel price. Can we expect that the production to remain unchanged at the 40,000-ton pace for next fiscal year and beyond? Also, please tell us the factors other than the nickel price that will cause fluctuations such as increase in subsidiary materials.

Shiomi: Production is currently rising steadily at a pace of 40 KMTs per year and the nickel price has exceeded USD10. Although the price of subsidiary materials such as sulfur is also rising and this has raised the cost of nickel production, we have been able to foresee the project to be black excluding one-off profits/losses. There is the spread of the Omicron variant in Madagascar, we continue our measures to prevent infection and control the operation.

<Q5>

Questioner 5: The results of tender for domestic offshore wind power was announced late last year, and I believe your company had also put in a bid for it. Please tell us, to the extent possible, how you considered the profitability in your bid.

Shiomi: We were surprised with the results as well. Sumitomo Corporation has been involved in offshore wind power projects in Europe for a long time. With this know-how, we participated in the bidding process. We understand that the bidding price is now under the spotlight. We are currently examining and analyzing the results including the pricing aspect. Our strategy to participate in domestic offshore wind industry remains unchanged, as it will contribute to expand renewable energy sources in Japan. We will reconsider our tactics based on result this time and move on to the next challenge.

Shiomi: Thank you very much for your time today. We have made three quarterly upward revisions since Q1 of this fiscal year, and the dividend amount has been revised to JPY110, with a payout ratio of 30% as promised in the medium-term management plan. As I mentioned in my explanation, although there is external environmental effect, the recovery process has been very smooth, and we would like to update the medium-term management plan based on this current situation. We will be able to show you the quantitative plan and the shareholder return policy in the future at the time of the consolidated results announcement in this fiscal year end, so please allow us a moment and let me explain again at that time.

We look forward to your continued support and guidance. Thank you very much.

[END]