

**KYOEI STEEL**

# **Financial Overview**

## **for the Fiscal Year**

### **Ending March 31, 2024**

**Kyoei Steel, Ltd.**

(TSE Prime Market Code: 5440)

November, 2023

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# Financial Results for 1st half of the Fiscal Year Ending March 31, 2024

Net sales decreased from the same period in the previous fiscal year, but operating profit increased.

Period: April 1, 2023 to September 30, 2023

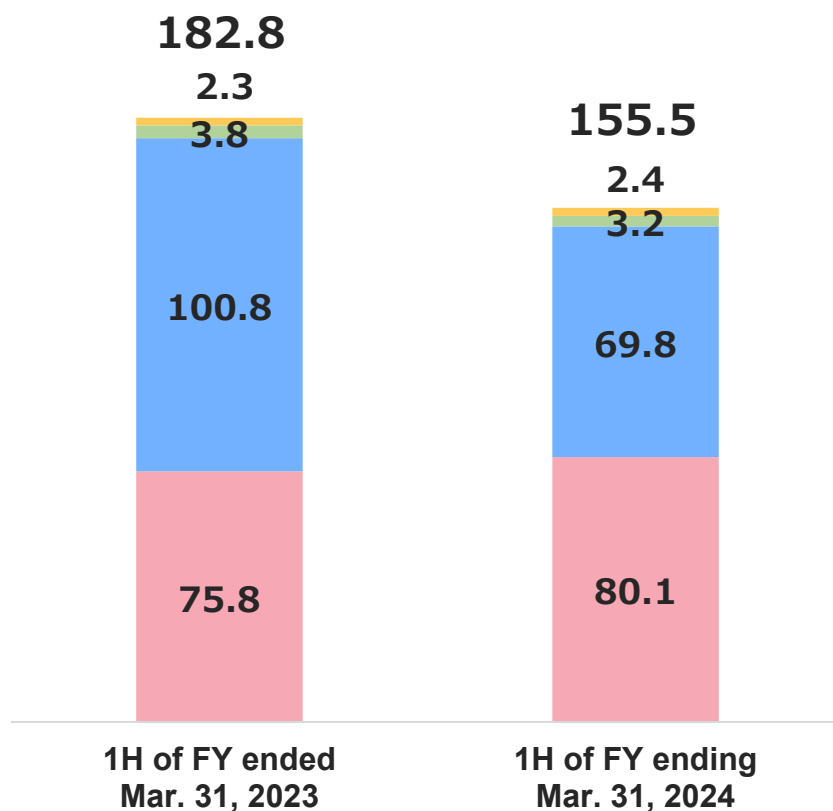
(billions of yen)	FY ended March 31, 2023		FY ended March 31, 2024			Latest forecast for 1st half (Jul. 31, 2023)	Change	
	1st half	2nd half	1Q	2Q	1st half		Y-o-Y	from the latest forecast for 1st half
<b>Net sales</b>	182.8	172.9	766	789	<b>155.5</b>	<b>157.0</b>	▲27 (▲14.9%)	▲1 (▲0.9%)
<b>Operating profit</b>	6.1	8.7	49	51	<b>9.9</b>	<b>9.0</b>	+4 (+63.4%)	+1 (+10.5%)
<b>Ordinary profit</b>	6.5	8.2	49	51	<b>10.0</b>	<b>8.5</b>	+4 (+54.2%)	+1 (+17.6%)
<b>Profit</b>	4.1	9.1	39	39	<b>7.9</b>	<b>6.0</b>	+4 (+93.8%)	+2 (+31.0%)

# Summary of Financial Results by Segment



## Net sales

(billions of yen)



## Operating profit

(billions of yen)

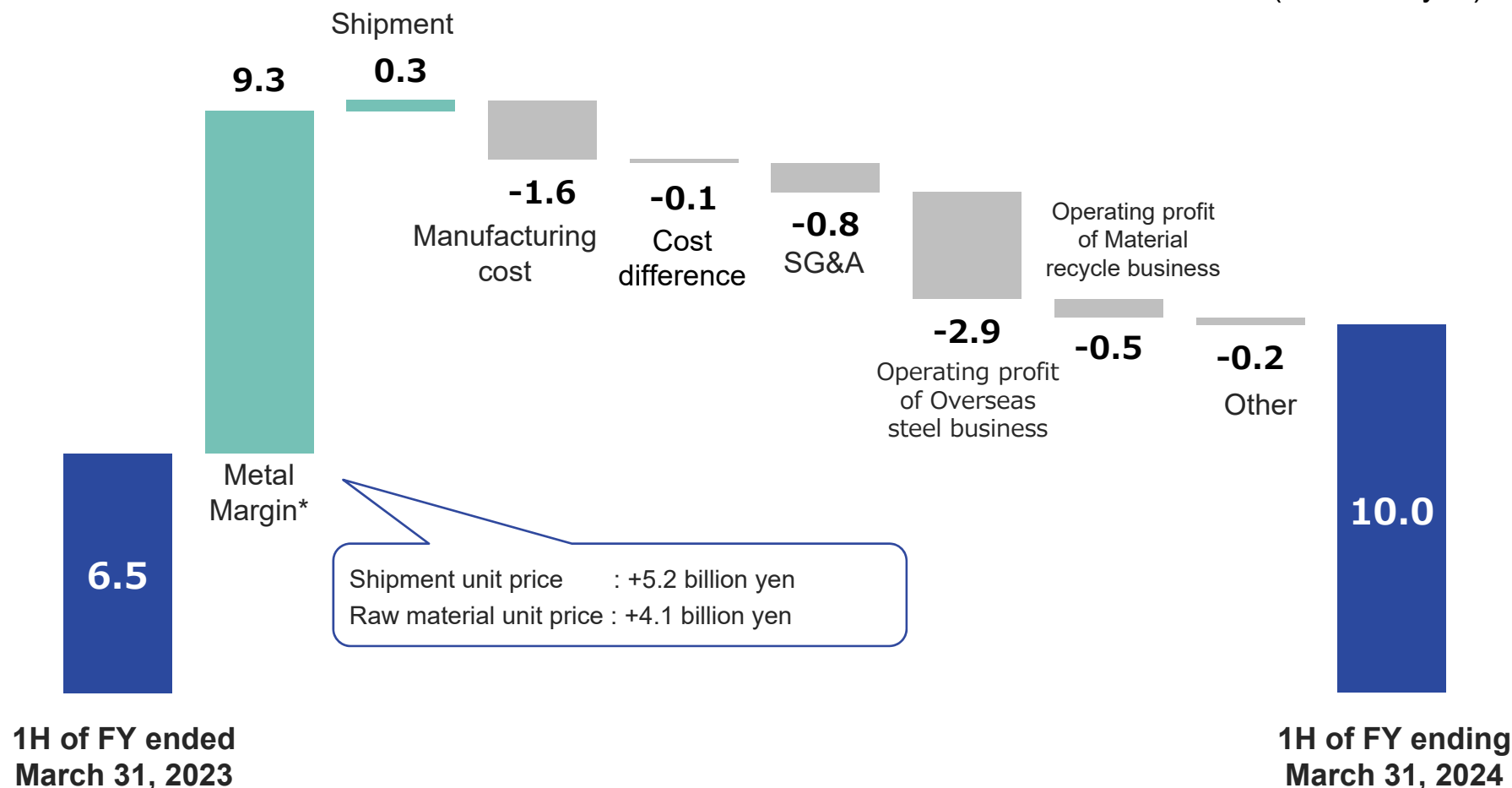


\* The differences between the total operating profit for each business and operating profit for the full year are attributed to elimination of corporate costs.

# Factors for Changes in Ordinary Profit (Year-on-Year Comparison)

Factors that caused a year-on-year increase in ordinary profit for the first half of FY2024 by 3.5 billion yen

(billions of yen)



\*Metal margin: Difference between product shipment unit price and scrap consumption unit price

## Domestic Steel Business

**Net sales: 80.1 billion yen**  
**Operating profit: 12.4 billion yen**

Year-on-year change: Both net sales and operating profit increased.

- Product shipment decreased by 15,000 tons (-1.9%) year-on-year to 789,000 tons. Both production volume and product shipment increased year on year due to firm construction demand.
- Spreads widened both year on year and compared to the second half of the previous fiscal year as we worked to maintain product prices, while scrap prices dropped.

## Overseas Steel Business

**Net sales: 39.8 billion yen**  
**Operating profit: -2.3 billion yen**

Year-on-year change: Both net sales and operating profit decreased.

- **Vietnam**  
Housing demand evaporated due to the real estate slump, which has continued since the second half of the previous fiscal year. Fixed costs increased as production volume decreased in proportion to the decrease in sales volume, which resulted in poor performance.
- **North America**  
While demand was strong, we were forced to reduce production and sales due to an inventory shortage during regular repair and facility troubles. As a result, cost per ton worsened.

## Material Recycling Business

**Net sales: 3.2 billion yen**  
**Operating profit: 0.4 billion yen**

Year-on-year change: Both net sales and operating profit decreased.

- Waste treatment volume decreased due to the effect of temporary suspension of shipment during the large regular repair work in the Yamaguchi Division and a decrease in new projects related to COVID-19.

## Other Businesses (Steel Peripheral Business)

**Net sales: 2.4 billion yen**  
**Operating profit: 0.0 billion yen**

Year-on-year change: Both net sales and operating profit increased.

- Vietnam harbor operations business:  
Handling volume decreased due to the war in Ukraine and a decrease in the production volume of VKS.
- Vietnam casting business:  
Operating profit increased as we maintained sales prices while material prices dropped.
- Domestic casting business:  
Operating profit turned from negative to positive as we streamlined and revised our manufacturing processes.



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# Revision of Financial Forecasts

We have revised the full-year financial forecasts by revising the net sales forecast downward, keeping operating profit unchanged, and revising ordinary profit and net profit forecasts upward. We have also revised the dividend forecast upward by 10 yen.

## Previous forecasts (announced on July 31)

	FY ending March 31, 2024		
	1st half	2nd half (Forecast)	Full year (Forecast)
<b>Net sales</b>	157.0	178.0	335.0
<b>Operating profit</b>	9.0	11.0	20.0
<b>Ordinary profit</b>	8.5	9.5	18.0
<b>Profit</b>	6.0	6.0	12.0

	Interim	Year-end	Full year
	<b>Dividend per share</b>	15	55

\* Exchange rate assumption:  
135 yen/\$ for the second half

## Revised forecast (announced on October 31)

	FY ending March 31, 2024 (Forecast)			Change (from the previous fiscal year)
	1st half	2nd half	Full year (Forecast)	
<b>Net sales</b>	155.5	168.5	324.0	(-3.3%)
<b>Operating profit</b>	9.9	10.1	20.0	(+0.0%)
<b>Ordinary profit</b>	10.0	9.0	19.0	(+5.6%)
<b>Profit</b>	7.9	5.1	13.0	(+8.3%)

	(yen)			Dividend payout ratio
	Interim	Year-end	Full year	
<b>Dividend per share</b>	15	65	80	26.7%

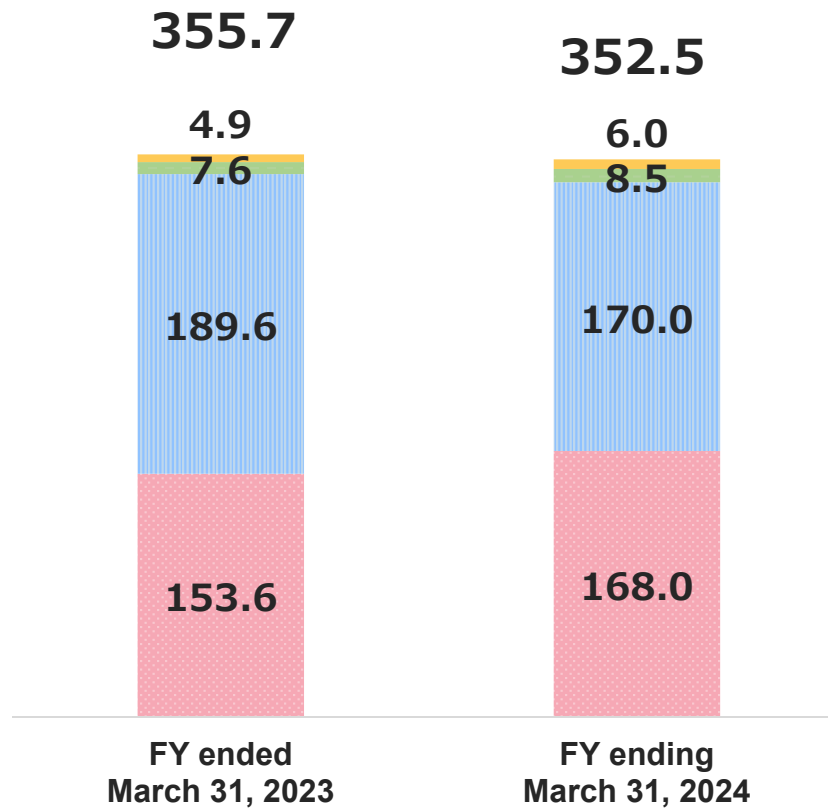
\* Exchange rate assumption:  
140 yen/\$ for the second half

# Forecast of Financial Results for Full Year by Segment

■ Domestic Steel Business   
 ■ Overseas Steel Business   
 ■ Material Recycling Business   
 ■ Other Business

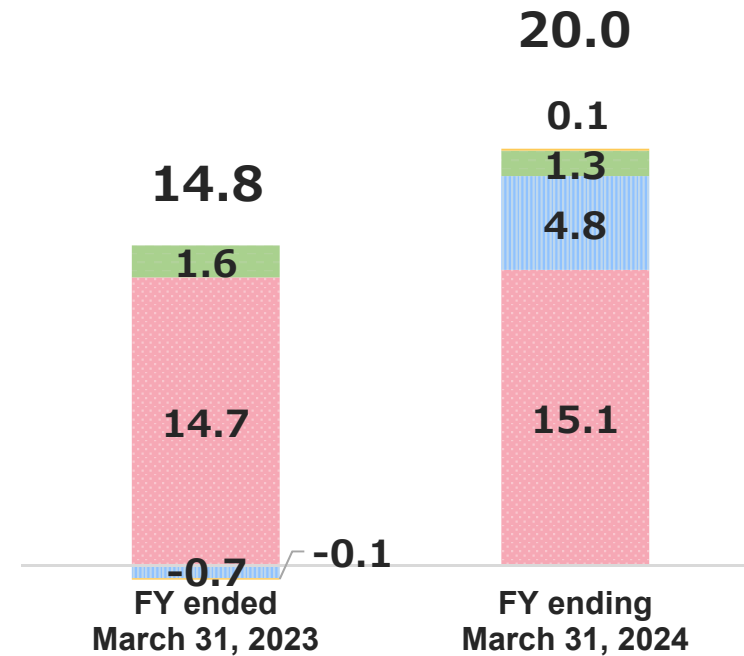
## Net sales

(billions of yen)



## Operating profit

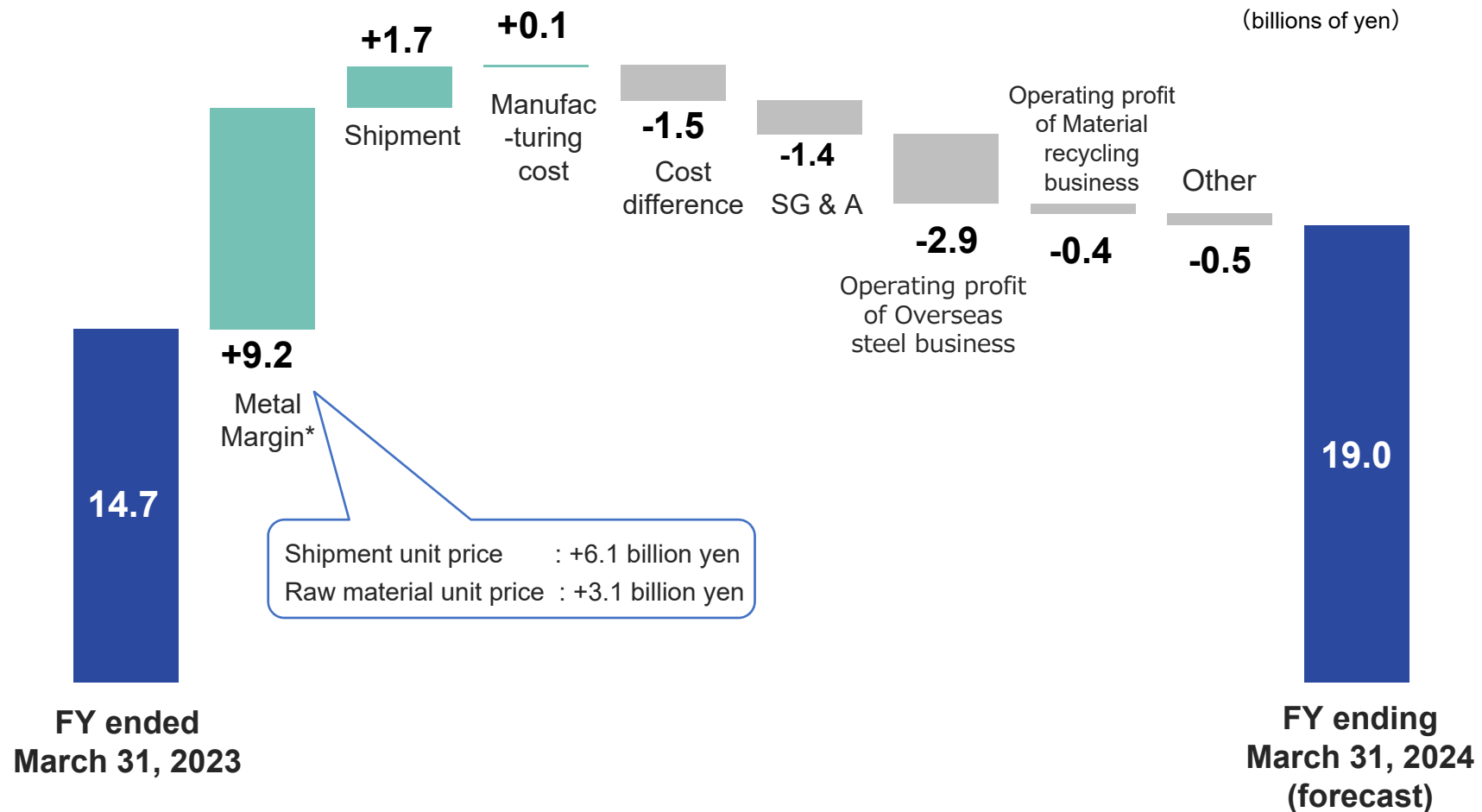
(billions of yen)



\* The differences between the total operating profit for each business and operating profit for the full year are attributed to elimination of corporate costs.

# Factors for Changes in Ordinary Profit: Full Year Forecast Vs. Previous Fiscal Year Results

Factors that are likely to cause ordinary profit for the fiscal year ending March 31, 2024 to increase by 4.3 billion yen from the previous fiscal year.



\*Metal margin: Difference between product shipment unit price and scrap consumption unit price

## Domestic Steel Business

**Net sales: 164.5 billion yen**  
**Operating profit: 23.5 billion yen**

Year-on-year change: Both net sales and operating profit are forecast to increase.

- Product shipment is forecast to increase from the previous fiscal year.
- While an increase in manufacturing costs is inevitable, metal spreads are expected to widen from the previous fiscal year as we maintain product prices.

## Overseas Steel Business

**Net sales: 146.1 billion yen**  
**Operating profit: -3.6 billion yen**

Year-on-year change: Both net sales and operating profit are forecast to decrease.

- **Vietnam**  
Recovery in demand is expected in or after the fiscal year ending March 31, 2025.  
We will strengthen sales for projects in order to compensate for the reduced sales volume for housing.
- **North America**
  - There are market expectations for price declines going forward, as competing mills have reduced prices.  
We will work to strengthen sales after the resumption of operation following a fire accident (in the U.S.).
  - We will compensate for the rise in manufacturing costs by increasing production and sales and widening sales-purchase differentials (in Canada).

## Material Recycling Business

**Net sales:** 7.8 billion yen  
**Operating profit:** 1.2 billion yen

Year-on-year change: Net sales are forecast to increase and operating profit is forecast to decrease.

- We will strengthen the handling of difficult waste treatment, whose treatment price per unit is high, in the second half of the current fiscal year.

## Other Businesses (Steel Peripheral Business)

**Net sales:** 5.6 billion yen  
**Operating profit:** 0.1 billion yen

Year-on-year change: Both net sales and operating profit are forecast to increase.

- Vietnam harbor operations business:  
While facing increasing competition as cargo volume has decreased, we will search for stable customers.
- Vietnam casting business:  
We will continue to focus on maintaining product prices and acquiring new customers who target the Japanese market.
- Domestic casting business:  
We will continue to pass the increase in manufacturing costs on to prices and to reduce manufacturing costs.

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Progress of the Medium-Term Business Plan

# Progress of the Medium-Term Business Plan

While all numerical targets except for product shipment are expected to be met, achieving a well-balanced profit structure remains an issue.

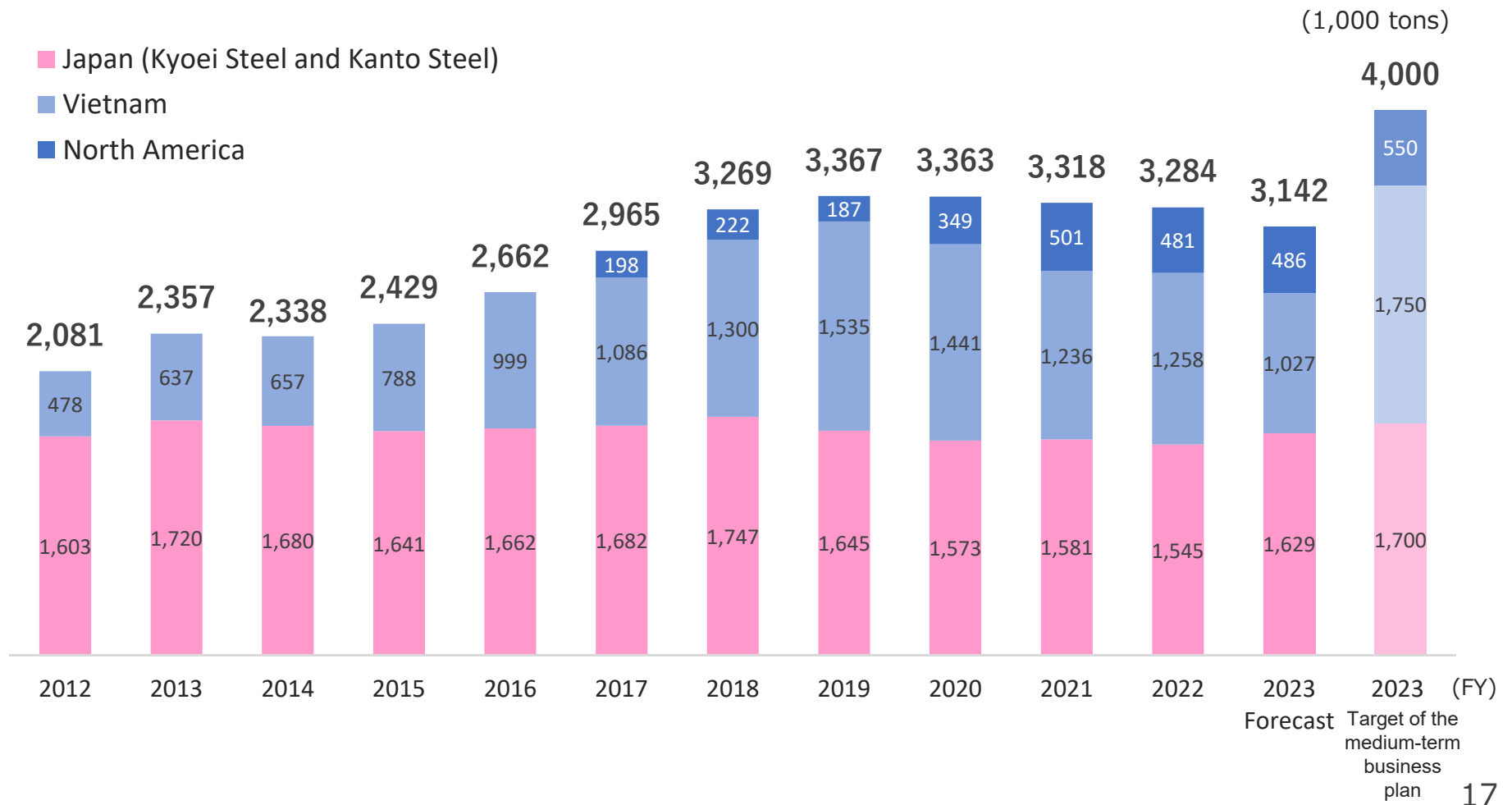
		FY2022	FY2023	FY2024	
		Results	Results	Medium-term business plan	Forecast
<b>Net sales</b>	(billion yen)	292.7	355.7	290.0	324.0
<b>Ordinary profit</b>	(billion yen)	10.5	14.7	18.0	19.0
<b>Profit</b>	(billion yen)	6.3	13.1	12.0	13.0
<b>Shipment</b>	(million tons)	3.32	3.28	4.00	3.14
<b>(Japan)</b>	(million tons)	1.58	1.54	1.70	1.63
<b>(Overseas)</b>	(million tons)	1.74	1.74	2.30	1.51
<b>ROS</b>		3.6%	4.1%	6% or more	5.9%
<b>ROE</b>		0.4%	7.7%	7% or more	7.0%
<b>Dividend payout ratio</b>		27.5%	265.5%	Around 30%	26.7%
<b>Capital and business investment</b>	(billion yen)	13.0	9.3	-	14.1
		60.0 billion yen over three years			

\* The amount of capital expenditure forecast for FY2023 is on an approval basis.



# Progress and Issues of the Current Medium-term Business Plan **KYOEI STEEL** and Targets under the Next Medium-term Business Plan

Although the development of a capacity to handle product shipment of 4 million tons worldwide will be delayed to the period for the next medium-term business plan, the whole Group will work concertedly to achieve the target.



## Efforts to boost the growth of each business

**1**

### **Overseas Steel Business**

Raising of profitability  
Preparation for accelerating growth

**2**

### **Domestic Steel Business**

Strengthening of competitiveness  
Replacement of facilities with an eye toward the future

**3**

### **Material Recycling and Steel Peripheral Business**

Increase in profit-making opportunities

## Upgrading of ESG efforts and business foundation that supports growth

**4**

**Initiatives to realize carbon neutrality and a resource recycling society**

**5**

**Contributing to the benefit of all stakeholders**

**6**

**Upgrading of business foundation**

# Specific Measures under Medium-Term Business Plan

## Efforts to boost the growth of each business

1

### Overseas Steel Business

Raising of profitability  
Preparation for accelerating growth

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### Material Recycling and Steel Peripheral Business

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Contributing to the benefit of all stakeholders

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Upgrading of business foundation

## 1

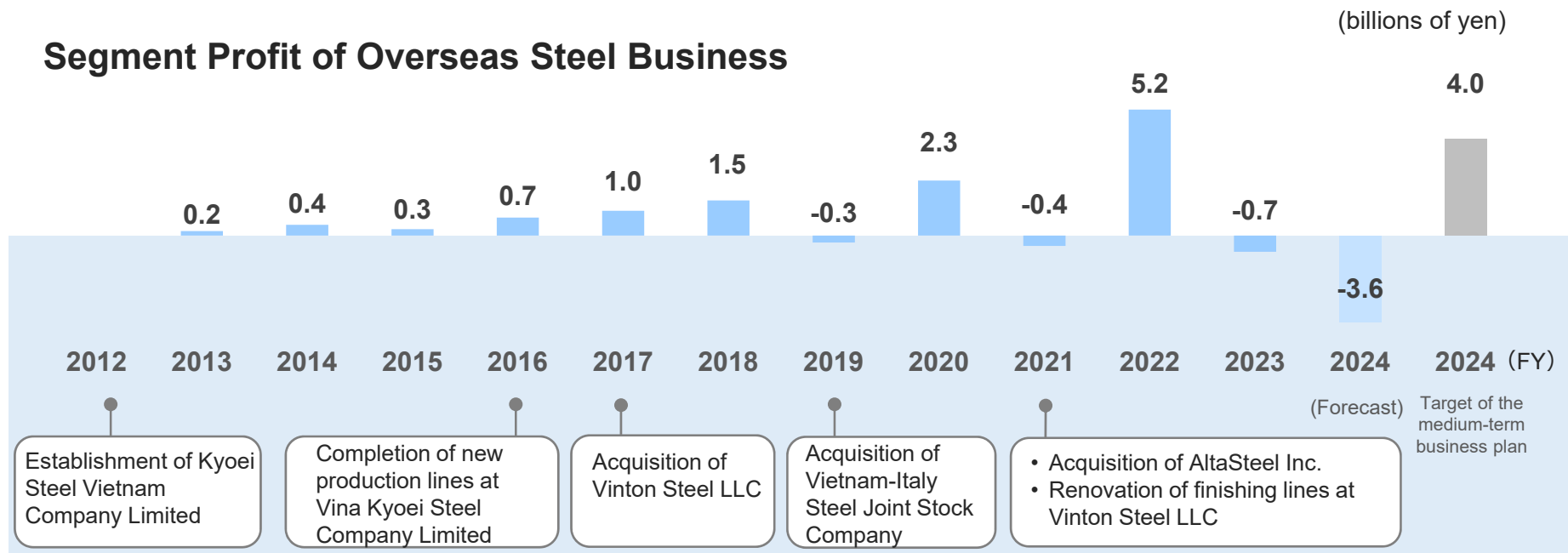
### Overseas Steel Business

Raising of profitability  
Preparation for accelerating growth

### Progress during the final year of the medium-term plan

- Vietnam: Recorded a significant loss as the business environment continued to worsen
- U.S.: Struggled due to the effect of facility troubles and a fire accident
- Canada: Profit is expected to increase in the second half of the year as a result of increases in production and sales despite the headwind of rising electricity costs.

Segment Profit of Overseas Steel Business



## <Current demand environment>

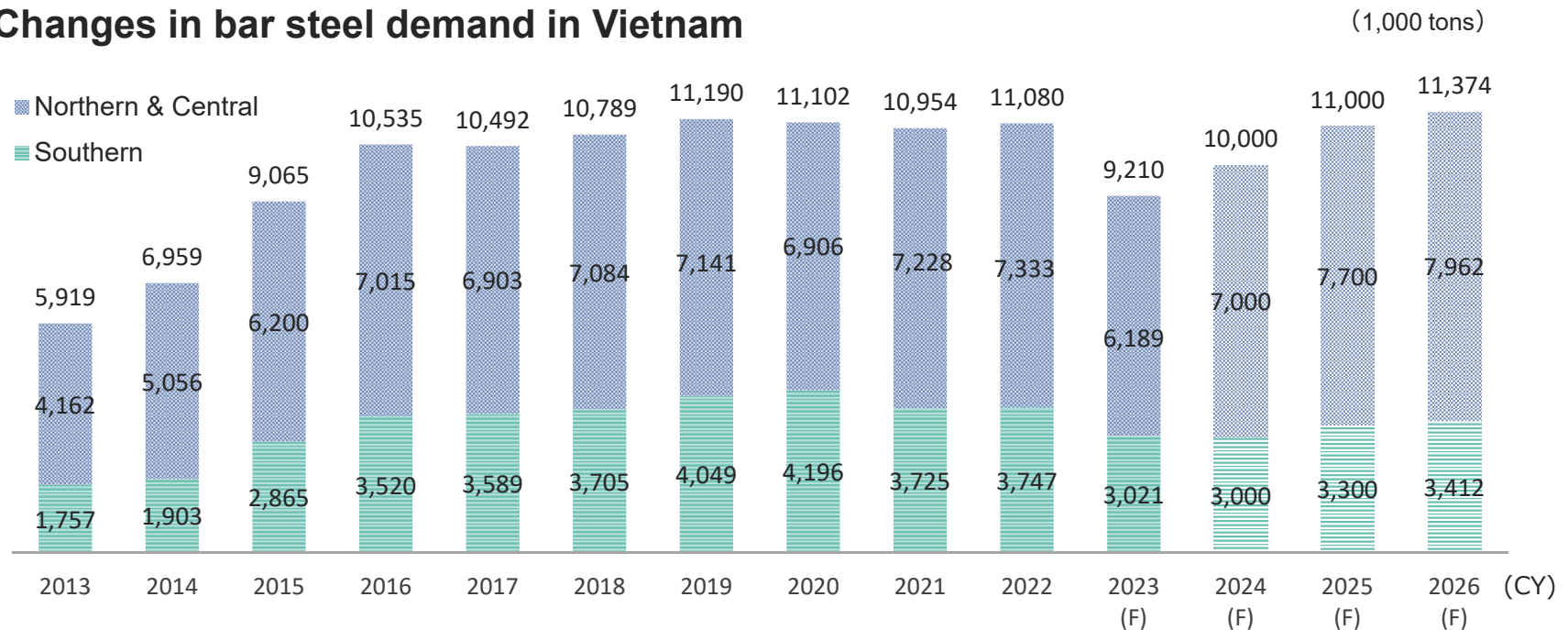
In 2023, demand decreased significantly due to the effect of the weak real estate market in the previous year.

## <Future outlook>

Although the current demand environment is challenging, it is expected to recover by 2025 to the levels of 2022.

As there are many government projects in northern Vietnam, we can expect demand growth going forward particularly in the metropolitan area (Hanoi).

## Changes in bar steel demand in Vietnam



Vietnam Steel Association, Kyoei Steel

# Vietnam: Rebuilding Business Looking Ahead to the Next KYOEI STEEL Medium-term Business Plan

## ■ VIS

- Reduced manufacturing costs significantly (down approx. 50 dollars/ton year on year) by reducing energy consumption rates through capital investment and rationalizing headcount
- Was delisted to increase freedom in management and enable integrated management of VIS and KSVC
- Will resume capital investment to upgrade the Hai Phong Factory to realize integrated operations from steelmaking to rolling in order to realize cost competitiveness against competitors (i.e., mini blast furnaces and induction furnaces)

## ■ KSVC

- Continue to procure billets flexibly in accordance with market conditions, leveraging the agility of a rolling-only factory
- Will strengthen sales for projects in order to compensate for the reduced sales volume for housing

## ■ VKS

- The management structure was changed in October 2023 (top executives has been dispatched from the Company to restore Japanese management)
- Will revise the sales strategy and strengthen sales for projects (including the recruitment of human resources with expertise)

# Vietnam: VIS Capital Investment Plan

## ■ Description and concept

- Building a rolling line with the latest equipment in order to increase competitiveness through direct rolling production
- Production capacity: 500,000 tons/year

## ■ Background and purpose

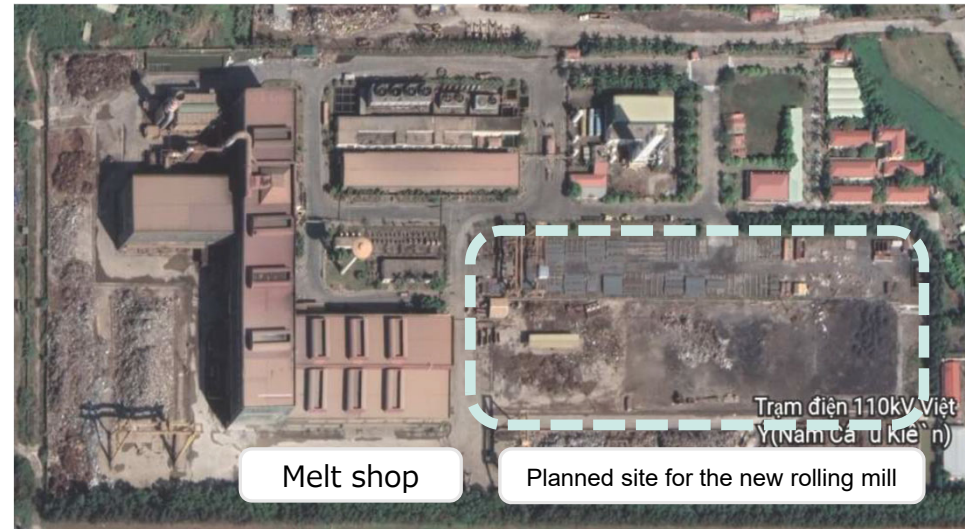
- Bar steel demand in Vietnam is expected to be affected by the weak real estate market until the first half of 2024, but to recover to previous levels in and after 2025 owing to demand stimulation measures such as large public works.
- It is essential to realize a highly competitive mill in order to survive in northern Vietnam, where there are many competitors with different cost structures, such as mini blast furnaces and induction furnaces.

## ■ Amount

Total investment amount:  
Approximately USD 80 million

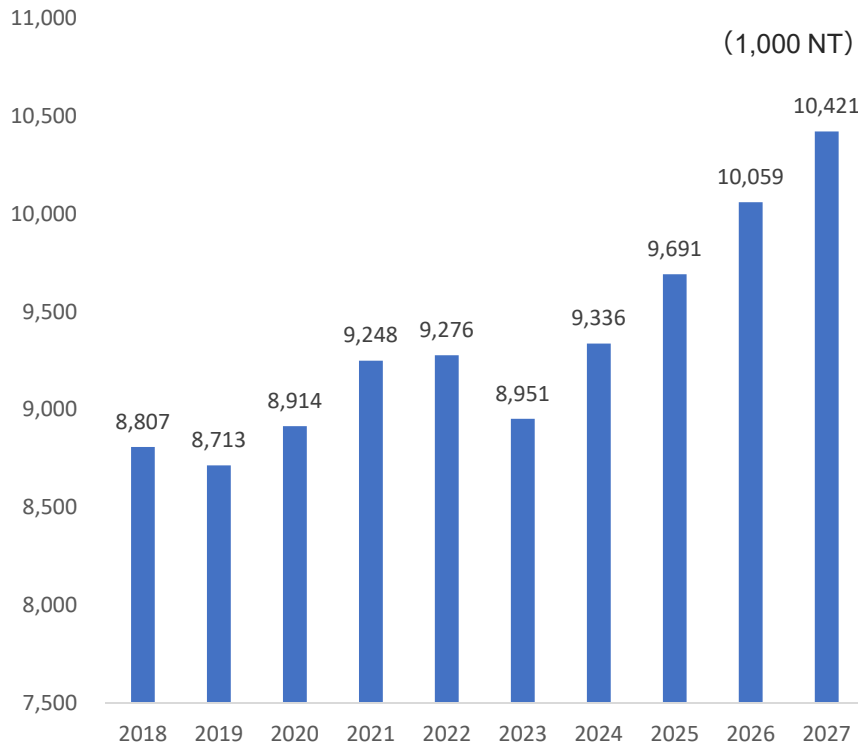
## ■ Schedule

Start of construction work: Around  
November 2023  
Start of operation: April 2025



## Changes in bar steel demand in the U.S.

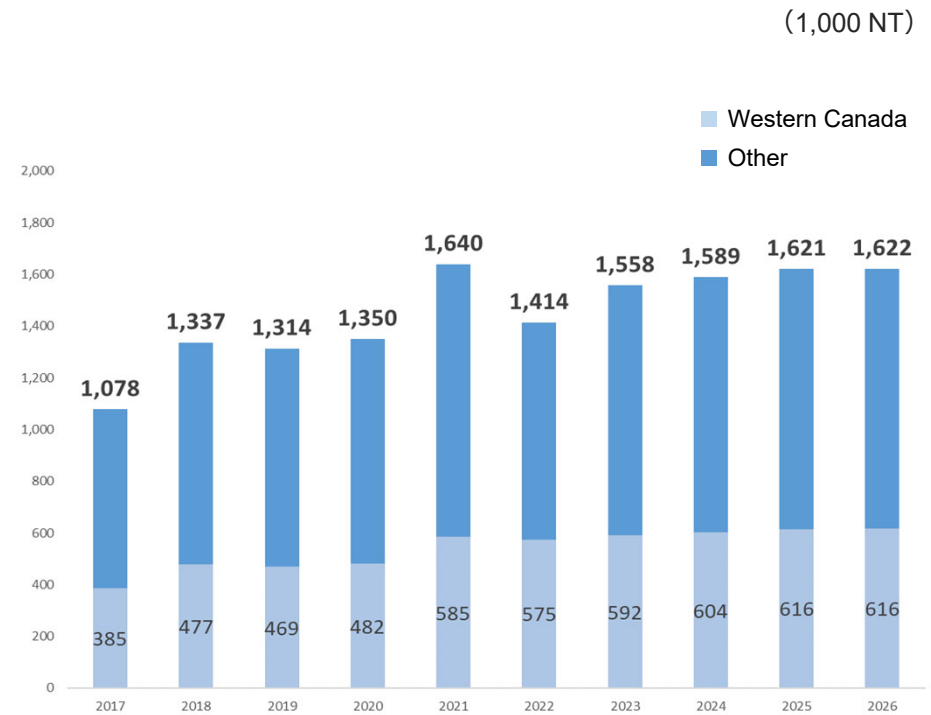
- Bar steel demand is projected to fall below 9,000 thousand net tons in 2023, but exceed 10,000 thousand net tons in 2026.  
(\*Net tons: approximately 0.907 metric tons)



Concrete Reinforcing Steel Institute (CRSI)

## Changes in construction steel demand in Canada

- Basic demand remained healthy in 2022, although demand temporarily dropped following the pent-up demand related to COVID-19.
- In and after 2023, steel demand is expected to grow at a moderate pace thanks to population growth.



(Prepared by AltaSteel Inc. based on Statistics Canada, CSPA, and interviews with customers)



## ■ Vinton Steel

- There is a problem of aging facilities. In response to the recent fire accident caused by a leakage of molten steel, some of the facilities have been renewed.
- Started a study on major investments in anticipation of drastic renewal of facilities and equipment, targeting demand in California

## ■ AltaSteel

- AltaSteel is expected to achieve a significant increase in profit in the second half of the current fiscal year by increasing production volume and product shipment while reducing electricity cost, and its full-year profit is also expected to recover nearly to the level of the previous fiscal year.
- The implementation of the company's capital investment plan, which has been revised, will be resumed (see the next slide for further information.)

# Canada: AltaSteel Capital Investment Plan

## ■ Description and concept

- Modification of the existing rolling process and enhancement of shipment capacity
- An increase of 60,000 net tons per year in production volume (to an annual production capacity of 370,000 net tons upon the completion of the plan)



Success in trial rolling of 10mm rebar

## ■ Background and purpose

- Potential sales expansion in the rebar market in Canada, whose population continues to grow at a moderate pace
- Entry to fine rebar, which has strong demand from customers, but has not been included in the product lineup of AltaSteel Inc.

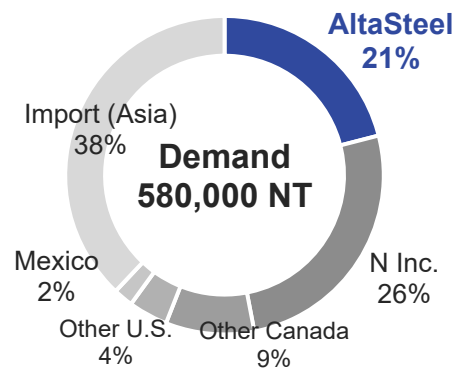
## ■ Amount

Total investment amount: CAD 37 million

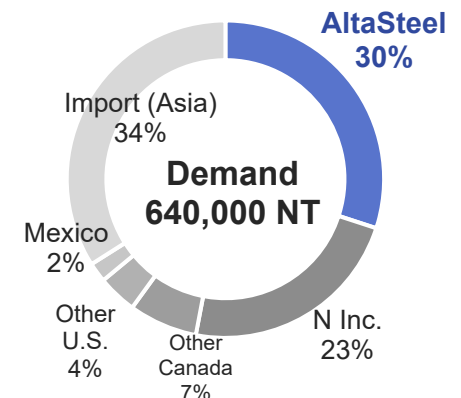
## ■ Schedule

Start of operation: End of 2024

Western Canada Rebar Market Share (From 2021 to 2022)



(Prediction after Five Years)



**2**

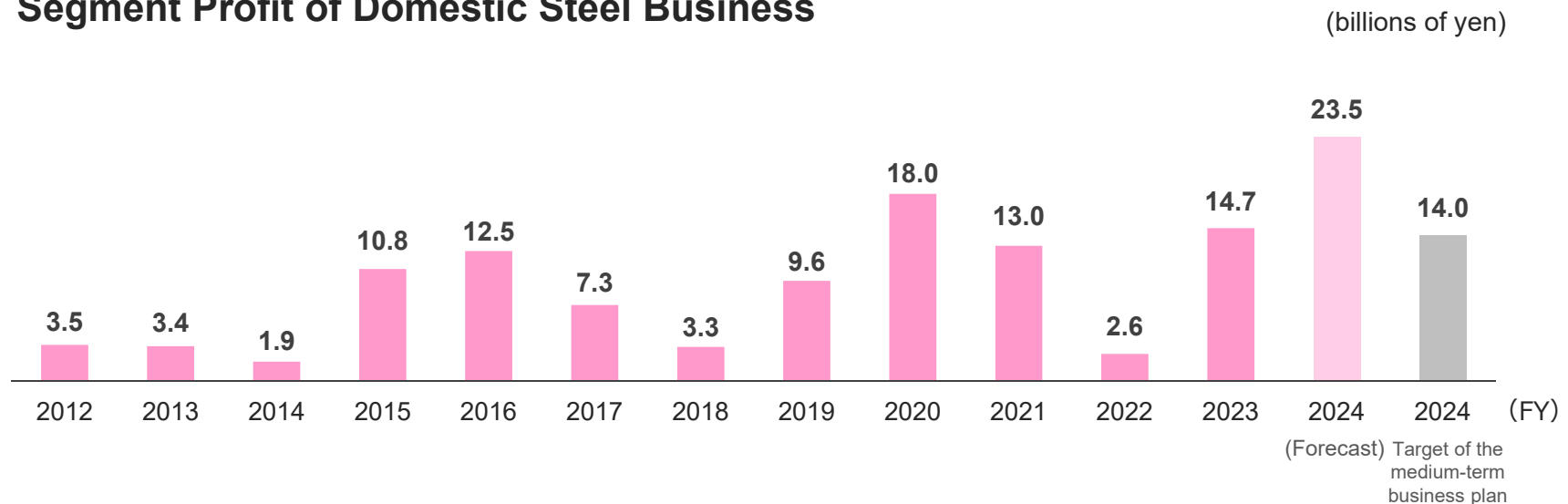
**Domestic Steel Business**

Strengthening of competitiveness  
Replacement of facilities with an eye toward the future

## Progress during the final year of the medium-term plan

- Both production volume and product shipment increased year on year due to firm construction demand.
- While an increase in manufacturing costs is expected, metal spreads are expected to widen from the previous fiscal year as we maintain product prices.
- Profit is forecast to increase to the highest levels in recent years.

### Segment Profit of Domestic Steel Business



# Japan: Merger of Kanto Steel, Ltd.

Absorption-type merger scheduled for March 31, 2024:

To strengthen the collective strengths of the whole Group by establishing a four-location production structure in Japan, looking ahead to the next medium-term business plan.

## ■ Background

- Kanto Steel has been revising its working conditions to meet the Company's standard in preparation for the merger.
- In view of the lesson from the fire accident in the Yamaguchi Division, the Company has keenly felt the need for strengthening coordination among divisions in Japan.

## ■ Expected benefits

- Stronger presence in the Tokyo metropolitan area
  - Increase competitiveness in the area of the largest demand
  - Increase the ability to recruit human resources
- Strengthening coordination among divisions
  - Use management resources efficiently and build an optimal production system
  - Increase the agility of business, achieve standardization in both manufacturing and sales, improve the system for mutual complementation, etc.
- Faster implementation of BCP measures
  - Seamless accommodation of products and semi-finished goods



## ■ Current status

- Increases in freightage and delivery costs as a whole will be inevitable mainly due to the shortage of drivers.
- In terms of delivery and customer services
  - The impact on Hirakata Div. and Kanto Steel will be insignificant as they focus on thin-type products for local production and consumption.
  - Yamaguchi Div. (shipping many different products over long distances) and Nagoya Div. (threaded rebar and high-strength rebar) are required to implement countermeasures

## ■ Countermeasures

- Construction of new warehouses
  - Nagoya: Scheduled for completion in 2025
  - Hirakata: Completed in 2021
  - Yamaguchi and Kanto: Under consideration
- A shift from long-distance to middle- to short-distance transportation
  - Securing stopping points:
    - 13 locations in FY2023
    - 25 locations in FY2025 (plan)
- Initiatives to reduce drivers' burden
  - Shorten waiting time and use expressways
  - Provide lounge space and welfare facilities for women
- Freightage revisions
- Use of trucking companies within the Group and expansion of contracts with external trucking companies

**3**

**Material Recycling and Steel Peripheral Business**

Increase in profit-making opportunities

## Progress during the final year of the medium-term plan

### Material Recycling Business

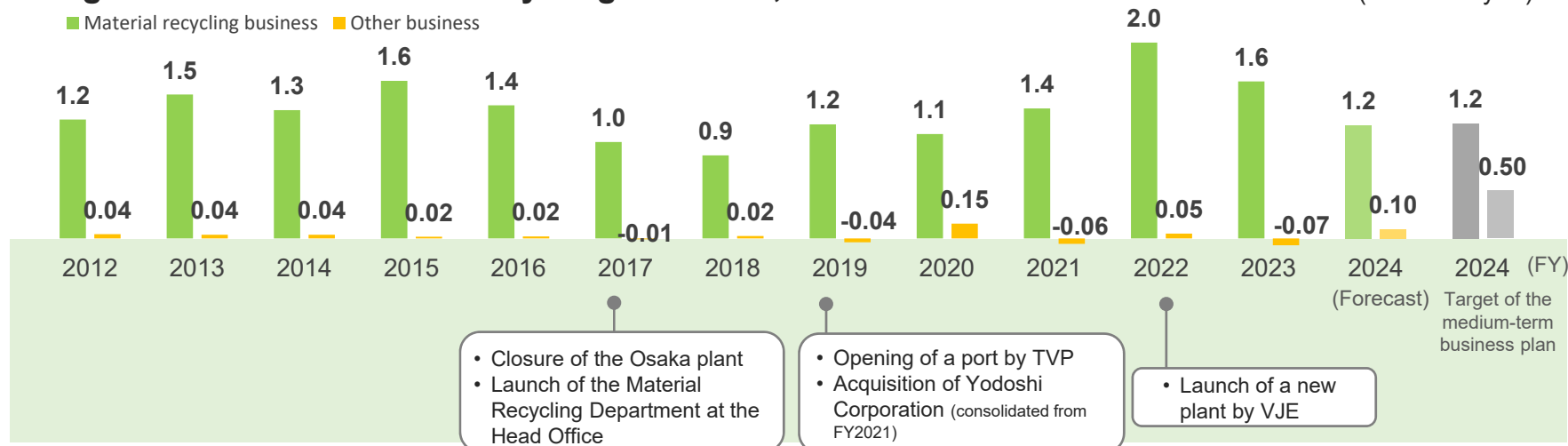
- We aim for recovery in financial results in the second half of the current fiscal year by focusing on acquiring projects for difficult waste treatment.

### Other Businesses (Steel Peripheral Business)

- Vietnam casting business: We will focus on maintaining product prices and acquiring new customers who target the Japanese market.
- Domestic casting business: We will continue to pass increases in costs on to prices and to reduce manufacturing costs.
- Vietnam harbor operations business: We are preparing for the start of the phase II construction work.

**Segment Profit of Material Recycling Business, Other Businesses**

(billions of yen)



# Initiatives Looking Ahead to the Next Medium-term Business Plan

## 1. Rebuilding overseas steel business

## 2. Strengthening domestic steel business

- Realize an organic combination of four divisions in Japan and the best product mix
- Take measures to diversify material procurement and use Kyoei Material in an advantageous manner

## 3. Reinforcement of human capital investment

- Improve the environment to secure diverse human resources.
- Improve working conditions (continued increase in basic wage and correction of nighttime operations).
- Improve education and training programs (by reinforcing the Human Resources Development Section and the Corporate Education Center).

## 4. Strengthening measures to promote harmony with global environment and increase brand strength

**We will review our efforts to develop a capacity to handle product shipment of 4 million tons worldwide and diversify our businesses, such as the Material Recycling Business, aiming to realize a robust management structure that can respond to changes in the external environment by improving the entire profit structure.**



Kyoei Material, Inc.



Groundbreaking ceremony for a new office and welfare building in the Yamaguchi Division



# NeXuS

## ▶▶▶ Next Success

### **Aiming to become a successful company in the future**

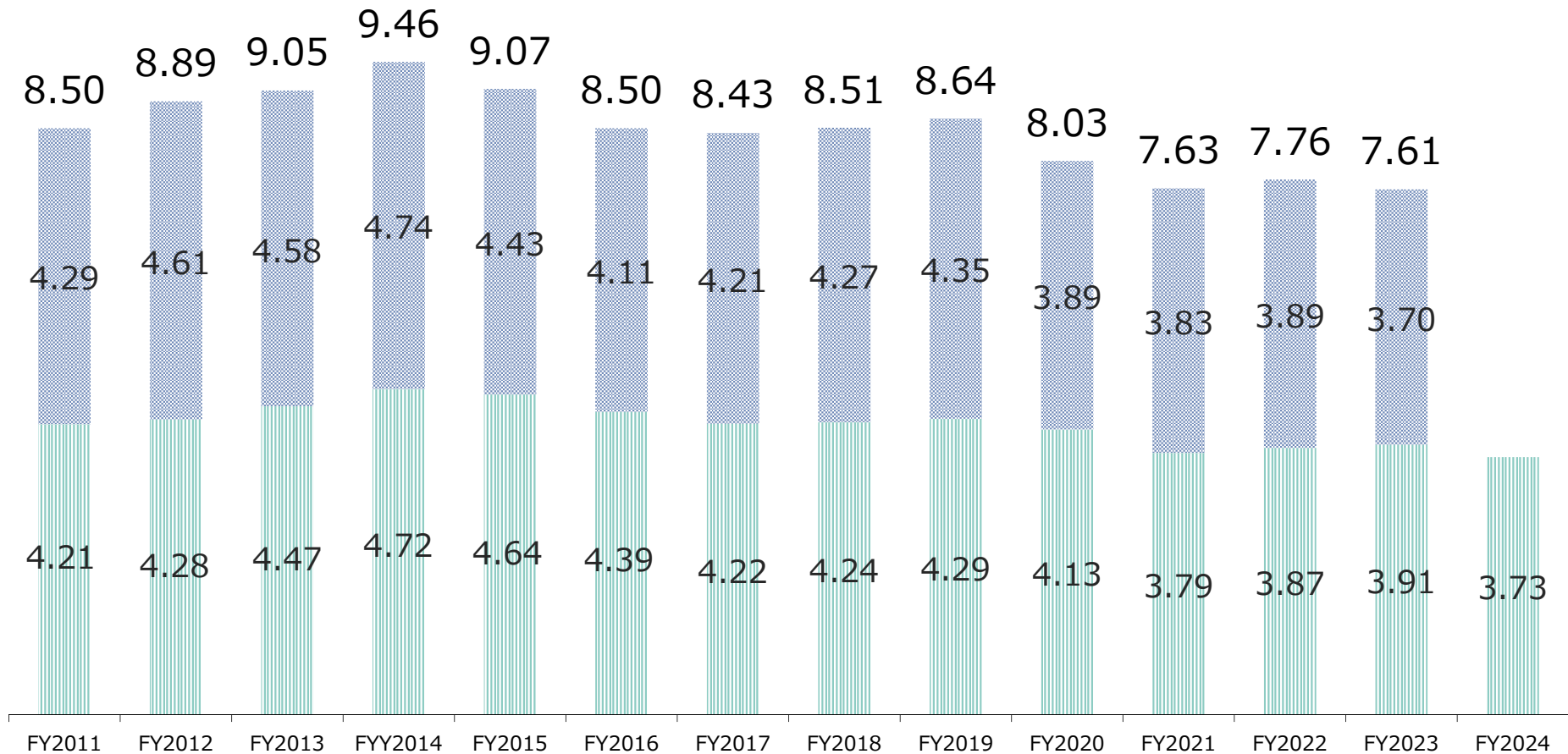
We are striving to transform ourselves from a company that has “contributed to the creation of social infrastructure across the world through steel manufacturing” into an “essential company” that will contribute to achieving development of society and harmony with global environment through the resource recycling business in the coming “circular economy society.”





# Reference: Small Bar Production Volume (Japan)

(million tons)



(Source) Materials of Japan Iron & Steel Federation

Reference 1

# Reference: Kyoei Steel Group's Bases in Japan



**Yamaguchi Division**

Rebar (all sizes), structural steel bar, small shapes (flat bar, I beam, equal angle bar)



**Hirakata Division**

Rebar (thin type) and round bar



**Kyoei Industrial Co., Ltd.**

Mechanical working of rebar, sales of steel products



**Kyoei Material, Inc.**

Gathering and processing of scrap



**Yodoshi Corporation**

Casting



**Kyoei Mesona Inc.**

Material recycling business



**Kanto Steel, Ltd.**

Rebar (thin type)



**Nagoya Division**

Rebar (all sizes), threaded rebar, and high-tensile steel

Other bases in Japan

- Kyoei Recycling Co. Ltd.
- Kyoei Fabricated Steel Sales Corporation
- MSK Japan Co., Ltd.
- Nakayama Steel Products Co., Ltd. (Equity-method investee)



# Reference: Kyohei Steel Group's Overseas Bases in Vietnam



- 1 Vietnam-Italy Steel Joint Stock Company (VIS)**  
Hung Yen Province, Vietnam  
Business: Production and sale of steel products (rebar and wire rod)  
Production capacity:  
    Steelmaking capacity of 450,000 tons/year and rolling capacity of 300,000 tons/year
- 2 Kyohei Steel Vietnam Company Ltd. (KSVC)**  
Ninh Binh Province, Vietnam  
Business: Production and sale of steel products (rebar and wire rod)  
Production capacity: Rolling capacity of 300,000 tons/year
- 3 Vina Kyohei Steel Company Ltd. (VKS)**  
Ba Ria-Vung Tau Province, Vietnam  
Business: Production and sale of steel products (rebar, round bar, section steel, and wire rod)  
Production capacity:  
    Steelmaking capacity of 500,000 tons/year and rolling capacity of 900,000 tons/year
- 4 Thi Vai International Port Co., Ltd. (TVP)**  
Ba Ria-Vung Tau Province, Vietnam  
Business: Harbor operations
- 5 Vina-Japan Engineering Ltd. (VJE)**  
Hai Phong City, Vietnam  
Business: Production and sale of pig iron casting products  
Production capacity: 9,000 tons/year



Steelmaking plant (Hai Phong)





# Reference: Kyohei Steel Group's Overseas Bases in North America



## 1 AltaSteel Inc.

State of Alberta, Canada

Business: Production and sale of steel products and processing and sale of scrap metal

Production capacity:

Steelmaking capacity of 300,000 tons/year and rolling capacity of 270,000 tons/year

Establishment: 2020 (founded in 1955)

**AltaSteel Inc.**  
(State of Alberta)

1

**Vinton Steel LLC**  
(State of Texas)

2



## 2 Vinton Steel LLC

State of Texas, the United States of America

Business: Production and sale of steel products (rebar, grinding ball)

Production capacity:

Steelmaking capacity of 250,000 tons/year, rolling capacity of 200,000 tons/year (rebar), and forging capacity of 50,000 tons/year (grinding ball)

Establishment: 1962

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**KYOEI STEEL**

