

JFE Group Investor Meeting
(FY2020 Financial Results and FY2021 Earnings Forecasts)

Summary of Q&A Session on May 7, 2021

Moderator: Now, we would like to move on to the Q&A session.

Participant: I think the price of iron ore will rise from USD155 in Q1 to about USD170 in Q2, and the price of coking coal will be about USD112 in Q1 if market conditions are as they are now. On the other hand, the export price of hot-rolled coil is now approaching USD1,000. I would like to know what level of raw material prices and export prices of hot rolled coils are assumed in your earnings forecast for FY2021.

In addition, the inventory valuation gain seems to be a little large. Is this due to the absence of the decline in the previous fiscal year due to the lower-of-cost-or-market method?

JFE: Our assumption for raw materials is that the current high level of iron ore will continue. On the other hand, the price of coking coal is currently in the USD110 range, but we are assuming the risk of higher prices due to strong demand.

For the first half of the fiscal year, export prices for hot-rolled coils reflect the prices that have been determined through negotiations, and at this stage, I understand that prices are generally visible up to July. However, there is still some uncertainty about the second half of the year, and we are thinking of using a slightly lower conventional spread level rather than the current level.

The rather large inventory valuation gain was partly due to the absence of the effect of the lower-of-cost-or-market method, but the main reason is the calculation of inventory valuation based on the assumption of the high level of raw material prices mentioned earlier.

Participant: Thank you. Do you expect coking coal to be around USD140 per ton to USD150 per ton?

JFE: I can't give you an absolute value, but we are expecting some increase.

Participant: Understood.

Moderator: Thank you very much. Next question please.

Participant: With regard to selling prices and raw materials, while there was an improvement of JPY20 billion from the first half to the second half of FY2020, there was an improvement of only JPY15 billion per year from FY2020 to FY2021. Does it mean that assumption for FY2021 will be worse than the second half of FY2020? Also, could you give us a breakdown of the changes in sales prices and raw materials in FY 2021 between domestic and exports?

JFE: It's correct that the assumption for FY2021 will be worse than the second half of FY2020. In terms of the breakdown of domestic demand and exports, we expect domestic demand to worsen compared to the previous fiscal year, while exports are expected to improve.

In terms of exports, we are assuming an improvement in the first half of FY 2021, reflecting the fact that market conditions are currently very favorable.

In Japan, while raw material prices are expected to rise significantly, our policy is to reflect prices as quickly as possible, but there will be a slight time lag, so we expect the impact on sales prices and raw materials to worsen.

Participant: Okay, thank you very much.

Moderator: Thank you very much. Next question please.

Participant: Please tell us how your company views the current supply and demand environment for steel products. Overseas market conditions have improved considerably, domestic market conditions are also rising, and inventories are quite tight, so I see a very favorable environment. How long do you expect the favorable environment will continue?

Also, in Q4 of fiscal 2020, the profit of the engineering business declined. Please tell us the background.

Could you also tell us if it would be possible to add a little more profit to the engineering business in FY2021?

JFE: With regard to the current supply and demand situation, the impact of the semiconductor supply shortage and other factors has not been felt so much now in the domestic automobile market, and we believe that there will be same demand as the level of the second half of FY2020.

In addition, we feel that the demand for construction and industrial equipment has recently become very strong, and we believe that there is sufficient demand to meet the assumptions we have made in our plan.

In terms of exports, the inquiries are very strong, and I think the reason behind this is the structural aspect that supply is not keeping up with demand worldwide.

As for how long it will continue, I think it will remain at this level in Japan this fiscal year unless the impact of COVID-19 becomes significant.

As for exports, the current tight situation is expected to continue, partly due to the impact of China raising the tax burden on steel exports, but it is difficult to say clearly how long the favorable environment will last.

I would like to explain the low profit in Q4 of FY2020 in the engineering business. The majority of the Engineering business uses the percentage-of-completion method, which means that sales and profits are recorded in line with the progress of construction.

In the past, the posting of sales and profits tended to be concentrated at the end of the fiscal year, but this is no longer necessarily the case, as construction progress is now reflected in detail on a quarterly basis. In FY2020, due to the progress of construction work, large profit was recorded in Q3, and as a result, profit was slightly lower in Q4.

The segment profit for FY2021 is planned to be JPY25 billion, but of course we would like to add more by piling up cost reductions and other measures.

In our mid-term plan, we are aiming for revenue of JPY650 billion and segment profit of JPY35 billion by FY2024, and furthermore, we have a target of revenue of about JPY1 trillion by FY2030. For those targets, we will firmly increase order received and secure profits in FY2021.

Participant: Understood. Thank you very much.

Moderator: Thank you very much. Next person, please.

Participant: I have a question about the rolling capacity of your company. I think the supply and demand for steel plates is quite tight both domestically and internationally. Please tell us whether or not your company has enough capacity to roll steel sheets for the current plan for FY2021.

Also, on page 20 of the explanatory material, the earnings forecast for FY2021 shows an improvement of JPY70 billion in volume and mix, but I think the amount is small considering your marginal profit, as crude steel production is planned to increase by about 4 million tons. Could you please explain if you are assuming any mix to be worse?

JFE: Regarding the rolling capacity, I think we are basically at full capacity for steel plate products. However, with regard to thick steel plates, we have a little extra capacity.

As for the JPY70 billion improvement in volume and mix, the forecast for FY 2021 has not been calculated in detail at this point, but rather calculated as a rough estimate based on certain assumptions, and we do not anticipate any major changes in the product mix.

Participant: Understood. Thank you.

Moderator: Thank you very much. Now, the next is the last question.

Participant: Do you have any hints about the difference between earnings forecast for the first half and the second half of the FY 2021? It is assumed that there will be a large inventory valuation gain in the first half of the fiscal year, and that the steel margin is also expected to be quite strong in the first half of the fiscal year, giving the impression that profits will be concentrated in the first half of the fiscal year and not much in the second half.

In addition, what is the background to the abolition of anti-takeover measures?

JFE: We have not announced specific figures for the breakdown between the first and second halves of FY 2021, but we expect to realize a large amount of inventory valuation gains in the first half, and we expect the current high level of export spreads to continue in the first half.

On the other hand, crude steel production is forecasted to be 26.5 million tons in FY2021, but the volume is expected to increase in the second half of the fiscal year as Kurashiki Blast Furnace No. 4 is scheduled to be restarted in December 2021 after completion of renovation.

With regard to anti-takeover measures, I believe that the significance of the necessity of anti-takeover measures has not changed for our company basically, in terms of protecting the rights of minority shareholders. However, the thinking of institutional investors regarding takeover defense measures has become very strict, and they are now inclined to oppose them in principle, and we believe that it is unwise to maintain takeover defense measures under the current circumstances.

However, we are continuing to examine ways to ensure the protection of minority shareholders within the current rules of the Companies Act.

Participant: Thank you very much.

Moderator: Thank you very much. This concludes the question and answer session for Part 1.

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