

## The 10th Medium-Term Business Plan (FY2017-2019)

### 1. Strategy

#### **Sanyo Global Action 2019**

- Pursuing sustained growth through globalization of the Sanyo brand –

- ◇ Establish a strong corporate structure by strengthening the business foundation
- ◇ Further pursue technological superiority by enhancing R&D and quality competitiveness
- ◇ Promote “ Sanyo Special Steel - the Confident Choice ” to a global brand

Based on our management principle of “Confidence-based Management,” we will firmly establish a strong corporate structure that will enable us to secure stable earnings by executing “Sanyo Factory Renovation” and strengthening our business foundation. In addition, we aim to further pursue technological superiority and to promote “Sanyo Special Steel - the Confident Choice” to a global brand, with the aim of achieving sustainable growth (human resources, technologies, and profitability) even in a challenging environment of intensifying global competition in the special steel industry, and rising raw material and energy prices.

### 2. Targeted KIPs

(Unit: billion yen)

	FY2016 (Performance)	FY2019 (Target)	Variance
Net sales	138.7	150.0	11.3
Ordinary income	11.7	13.5	1.8
ROS	8.5%	9%	0.5%
ROE	6.6%	7%	0.4%
ROA	6.5%	7%	0.5%
D/E ratio (net)	0.1	0.2	0.1

Investment (3 years)	35.3	50.0	Approx. x1.4
R&D spending (3 years)	4.6	5.0	Approx. x1.1
Recruitment (3 years, non-consolidated)	56 persons	150 persons	Approx. x2.7

Consolidated dividend payout ratio	25.9%	30%	4.1%
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#### Major assumptions (FY16→FY19)

- Scrap market prices  
22,000→32,000  
(+10,000) yen/t
- Exchange rate  
109→100 yen /US\$
- Dubai crude oil  
47→60\$/BL

Note 1. ROE: Net Income to Net Assets

Note 2. ROA: Ordinary Income to Total Assets

### 3. Priority Measures

#### (1) Establish a strong corporate structure by strengthening the business foundation

##### 1) Strengthen competitiveness by executing “Sanyo Factory Renovation”

In addition to efforts at our regular energy saving, cost-reduction and labor saving, we aim to strengthen our cost and delivery competitiveness by streamlining factory logistics and directly linking production processes, to eliminate bottlenecks at No. 2 Bar Mill, and to promote automation and optimization through the use of AI and IoT.

##### 2) Secure stable earnings

###### i) Steel Products business

We aim to capture the growing overseas demand for special steel and absorb material and energy price hikes through cost reductions and sales price increases as well as improvement in our sales mix. In this way, we will ensure a strong corporate structure that will secure stable earnings through resilience against impacts of the external environment.

###### ii) Non-steel Products business

We will ensure that our businesses in Thailand (SSSP) and Mexico (SMM) and No. 2 Metal Powder Plant, which we decided in 9th medium-term, steadily become established. We will also capture growth markets in efforts to expand the non-steel business (1.5-fold growth in sales compared to FY2016), thereby increasing stable earnings for the entire company.

##### 3) Enhance the management foundation

###### i) Promote agile, transparent management

We will continuously focus on management with the understanding that safety initiatives, disaster prevention, environmental conservation, and a sound compliance structure are the cornerstones of management, and we will promote agile, transparent management by establishing an executive officer system (June 2017 onwards).

###### ii) Secure and train human resources

To ensure that we have a long-term, stable workforce, we will strengthen our regular recruitment program (increasing our hiring by 2.7-fold compared to the 9th medium-term period) and promote measures to foster the development of personnel who can work in an international environment and who can transfer their expertise to other staff. In addition, we will improve our re-hiring scheme and continue to work on measures to promote diversity including providing support to women in the workplace and reforming work style to achieve a work-life balance.

###### iii) Enhance shareholder return

While there is a need for strategic funding, we intend to set the lower limit of the consolidated dividend payout ratio at 25% (currently 20%), taking into account our current financial position, and will aim for a consolidated dividend payout ratio of 30% in the final year of the 10th Medium-Term Business Plan.

## **(2) Further pursue technological superiority by enhancing R&D and quality competitiveness**

### **1) Enhance quality competitiveness, mainly for bearing steel**

We will maintain Sanyo Special Steel's internal quality superiority based on its core "Premium Cleanliness Steel Manufacturing Technology" and we will achieve external appearance quality to match internal quality through improved processes and further advancement in quality assurance. In doing so, we aim to become "No. 1 globally in internal quality and external appearance quality."

### **2) Promote R&D**

With our sights set on global development, we will clarify the functions of basic research and product development and will strengthen medium- and long-term R&D planning functions with a view to continually creating products with high reliability and new technology. In terms of R&D spending, we will be investing 5.0 billion yen over three years in the 10th medium-term, for a 1.1-fold increase from the 9th medium-term.

## **(3) Promote "Sanyo Special Steel - the Confident Choice" to a global brand**

### **1) Promote global branding measures**

We will further enhance QCDD (quality, cost, delivery, and development) competitiveness to promote customer satisfaction, which is the source of our brand power. Furthermore, for further development of our global brand, we will review strategies for our respective overseas areas and customers, strengthen our overseas bases, establish a six-center structure worldwide for our Formed & Fabricated Materials business, and build a global supply chain. In addition, we will consider currency fluctuation measures and global CMS in light of the increase in our overseas bases and transactions.

### **2) Promote initiatives aimed at further improvements in recognition**

We will accelerate technological exchanges with customers in Japan and overseas by strengthening our technology planning function, and we aim to earn a high level of trust and achieve brand penetration in the global market. In addition, we will further enhance recognition of Sanyo Special Steel by stepping up our efforts at communicating information in Japan and overseas, including PR and IR activities.

## **(4) Investments**

In specific terms, we intend to implement the following investment plan: 25 billion yen/3 years for strategic investment ("Sanyo Factory Renovation", M&A, etc.) and 25 billion yen /3 years for general investments (investment in cost reductions such as energy saving, labor savings, quality, updating of aging facilities, etc.), totaling 50 billion yen /3 years.