

Sanyo Special Steel Co., Ltd.
IR Briefing Regarding the Business Results for the FY2019 3Q
Q&A Summary

Date: Monday, February 3, 2020

Speaker: Director, Member of the Board and Managing Executive Officer;
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** Please be noted that the actual Q&A session was in Japanese and this English translation is prepared for reference purpose only.*

Q. The profit and sales volume of the steel segment of Sanyo's competitors have declined as well, but the degree of Sanyo's profit deterioration is significant compared to others. Could you let us know if my assumptions of this drastic profit decline is correct or not?

- 1) Sanyo has a high dependence on bearing steel with relatively high profit margin,
- 2) Competitors have benefited from good financial results in segments other than steel.

A. We consider that our profit deterioration is largely due to the decline in sales volume. First, the sales of bearing steel, our main product, were greatly affected by inventory adjustments in the whole supply chain which is considerably long. Second, as you pointed out, we believe that there is a difference in the degree of profit margin compared to our competitors. In addition, and to our regret, Ovako and MSSS still have not contributed to boost the consolidated profit of the group, including the amortization of goodwill of both companies. These occurrences have greatly affected our consolidated profit.

Q. Assuming that this situation continues, do you see any possibilities of impairment risk in affiliated companies?

A. Ovako has been consolidated since this fiscal year (FY2019), and we think that there will be no immediate need to discuss the possibility of impairment. MSSS became an affiliated company in June 2018 and has been on a deficit basis since then. Whether MSSS will regain its profitability in FY2020, would be one important aspect. We surely will endeavor to make MSSS a profitable entity, and as a matter of fact, sales volume in MSSS has started to recover.

Q. When can you capitalize and embrace, 1) the effect of synergy among three companies, and 2) the effect of Sanyo Factory Renovation? Capital investment in FY2019 seems to be behind schedule. Do you intend to execute the remaining investments in the last quarter of FY 2019?

A. We are quite confident that we can materialize some of the synergies among the three companies at an early stage, especially with regards to cost savings. We are intending to incorporate some of the synergies into Ovako's FY2020 budget. Regarding synergies in sales and marketing, we consider that it will take couple of years because we need customer approval. Capital investment is on schedule. Sanyo Factory Renovation is proceeding as planned, although the timing of acceptance and inauguration of facilities may be delayed by 1 or 2 months.

Q. Sales volume of Sanyo (non-consolidated basis) declined in comparison with its forecast, and what customer areas mostly affected the decline? According to your explanation, OVAKO and MSSS seem to start recovering. Which industries are contributing to their recovery?

A. In Japan, inventory adjustments in areas such as robots and semiconductors began earlier than other industries. Inventory adjustments in the area of bearings and automotive, are magnifying these days. Inventory adjustments in construction machinery manufacturers are also becoming apparent. Steel demand in Ovako and MSSS are mainly for automotive. The inventory adjustment of the supply chain in Europe and India started earlier than in Japan, and is close to getting finished, but we consider the recovery of actual demand would take longer than anticipated.

Q. With competition intensifying in overseas markets, do you see any negative effects in the area of pricing?

A. Ovako is currently negotiating with its customers about the sales price for FY2020. Ovako has a high proportion of long time and stable customers, as Sanyo does. Ovako has continued to contribute to these customers through factors other than price competitiveness, such as high quality and timely delivery, which led to the long lasting patronage and confidence from customers. Although the environment is challenging, we consider that prices will not decline significantly.

Q. What do you forecast for prices of various procurement materials such as electrodes, in the fiscal year 2020?

A. Electrode price has risen significantly since FY2018. We consider that its price has already reached its peak. However, since prices soared, it would be difficult to imagine that the prices would drop to the previous level in the coming fiscal year, even if its price will start decline. For other procurement materials, the situation is more or less the same. Hence, we think it essential to reduce cost in other areas, such as labor cost, repair and maintenance expense, and other general and administrative expenses.

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