Sanyo Special Steel Co., Ltd.
IR Briefing Regarding the Business Results for the FY2018
Q&A Summary

Date: Tuesday, May 21, 2019

Speaker: Representative Director and President;
Shinya Higuchi

** Please be noted that the actual Q&A session was in Japanese and this English translation is prepared for reference purpose only.*

Q. Economic trends and car sales in Europe seem to be weakening. Is Ovako's FY2019 profit forecast a conservative estimate? Can you please explain about the basis for Ovako's profit forecast and the market environment in Europe?

A. Automakers still are struggling to adapt to Europe's new fuel efficiency regulations and car sales are declining, having a significant impact. However, Ovako's sales ratio for automobiles is around 50% while the sales ratio for automobiles of other special steel makers in Europe is 60 to 70%. Ovako has sales in other areas such as large trucks, mining, and wind power generators, so we do not think that Ovako's sales will be heavily affected.

The forecast for Ovako's FY2019 operating income is 5.6 billion yen, a slight decrease from the actual numbers of FY2018, and we consider it a conservative estimate.

Q. You are moving forward on capital investments in connection with Sanyo Factory Renovation under the 10th Medium-Term Plan. How much can we expect the effect of these investments?

A. The investment in the No. 2 Bar & Wire Rod Mill is aimed at eliminating bottlenecks for smaller diameter and smaller lot production. We think that this could increase the production capacity by 10% depending on product mix.

The amount to be invested in the No. 2 Bar & Wire Rod Mill is 20 billion yen in total, 13 billion yen in FY2019 (rolling and finishing) and 7 billion yen in FY2020 (heating furnace). The investment in rolling and finishing will be completed in January 2020, and we expect to enjoy the effect simultaneously. The furnace construction will be completed in summer 2020, so this effect will be added on in summer 2020.

Q. It's only been a few months since the integration with Ovako and Nippon Steel. Can you give us the latest information about the synergies of this integration?

A. The most notable synergy is expected to come from rearranging and optimizing the manufacturing sites, but we think that it will take 2 to 3 years because the customer's approval will be required for each item. On the other hand, we think that the effects from sharing operating know-how will appear in a shorter time. Currently, two engineers from Sanyo and two engineers from Nippon Steel are providing guidance on operations at Ovako. The effects are beginning to show as gains in productivity and operating rates.

Q. According to a newspaper article, domestic capital investments will total 50 billion yen. What does this 50 billion yen refer to? Can you also let us know about the progress of the renovation at the No. 1 Factory as the second step in Sanyo Factory Renovation?

A. Half of 50 billion yen represents strategic investments in the No. 2 Factory (for example, investments to eliminate bottlenecks at the No. 2 Bar & Wire Rod Mill), which is our main factory, and the remaining amount represents general capital investments.

We are just getting started to work on warehousing facilities and infrastructure at the No. 1 Factory, which will take about two years. Then we will consider optimization, including full layout changes of No. 1 Factory.

Q. Do you think that massive investments are required for a complete overhaul of the No.1 Factory?

A. We do not believe that it will cost so much. We already installed the completely vertical type bloom continuous caster, the latest technology, at the No. 1 Factory in 2012, and we can utilize this facility into the future. Although some equipment needs to be updated, we believe that we do not need to upgrade all our equipment because we have been making improvements on our equipment individually and continuously.

On the logistics, we will work to eliminate unnecessary procedures and focus on making direct-linking of process.

Q.Is there anything that you have discovered or learned about Ovako since Sanyo made Ovako a subsidiary in March 2019?

A. We learned that Ovako's product lineup is quite good. However, we think that manufacturing process needs to be improved because the effectiveness and efficiency of its processes are inferior to our thought. Ovako has three steelmaking plants and we think we can upgrade each of them. The facilities have been well maintained, and these are in anyway not obsolete to utilize. We have clear targets of improvement for Imatra in Finland and Smedjebacken in Sweden among the three steelmaking plants. We will have to work out the details about what should be done with Hofors in Sweden where high-grade steel is manufactured. As our overall impression, it's a pretty good company.

Q. I'd like you to ask about demand and inventory of the bearing steel market.

A. Most of bearing steel is used for automobiles, and consumption of automobiles hasn't declined in Japan or Asia, so we think that the level of demand has been maintained at a constant level.

On the other hand, capital investment is still in a wait-and-see situation due to the issues of US-China trade friction and NAFTA. In terms of final usage, demand for steel related to capital investment—such as machine tools, robots, and semiconductor manufacturing equipment—is falling. Inquiries from customers are down to half compared with last summer.

Some people say that the demand for semiconductor manufacturing equipment will recover this fall, but we are still cautious. There has been no decline in areas such as high-speed rail way and wind power generator, so the demand varies depending on industry or business segment.