

10th Medium-Term Business Plan

# *Sanyo Global Action 2019*

*- Pursuing sustained growth through globalization of the Sanyo brand -*



**SANYO SPECIAL STEEL Co., Ltd.**



<http://www.sanyo-steel.co.jp>

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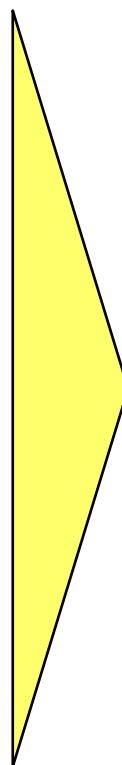
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# **I . Results of the 9th Medium-Term Business Plan**

# Results of the 9th Medium-Term Business Plan

(Unit: billion yen)

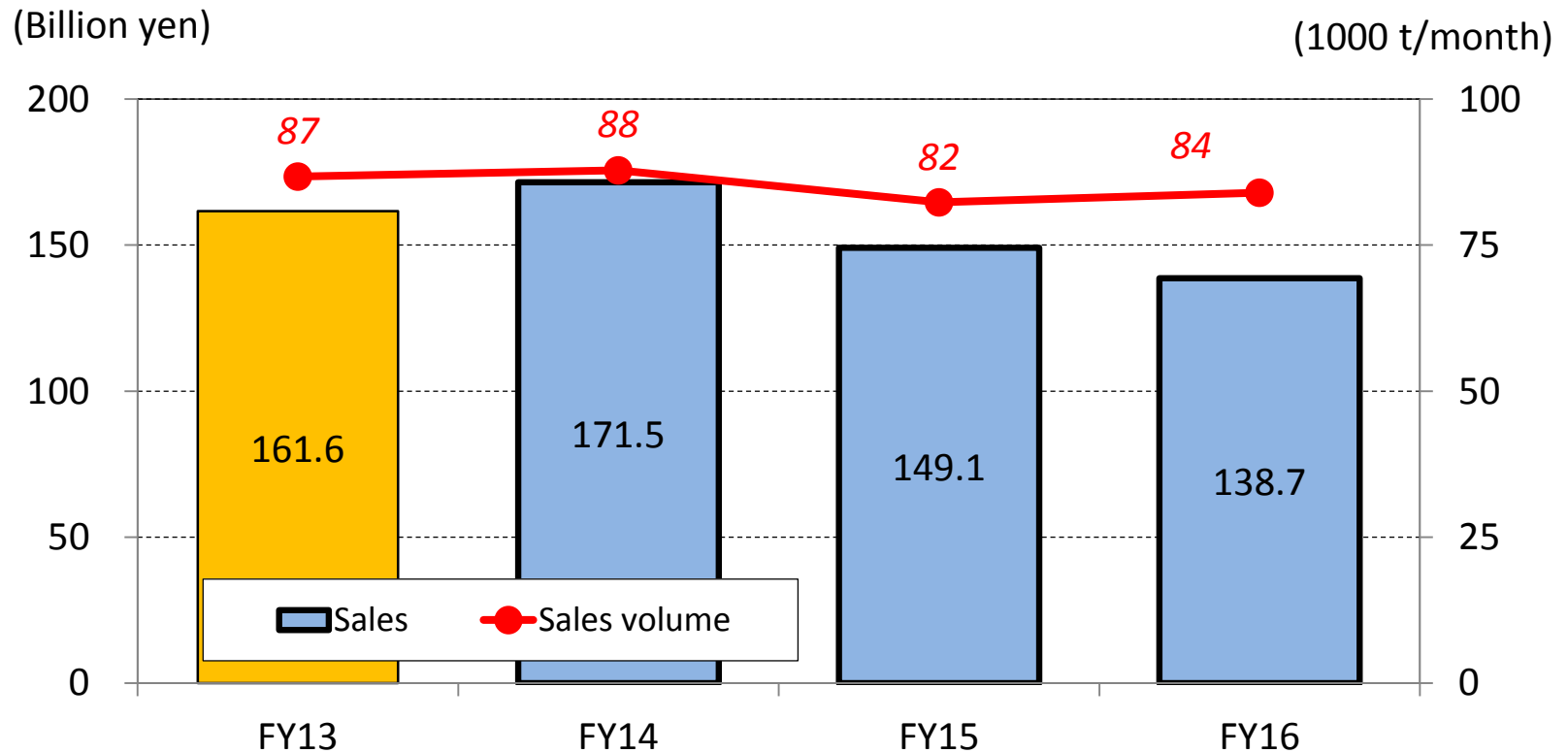
	9th Medium-Term Business Plan (FY2016 targets)
Net sales	200.0
Ordinary income	15.0
ROS	7.5%
ROE	7.5%
D/E ratio (net)	0.30
Interest-bearing debt (net)	35.0
Investment (3 years)	30.0



FY2016 (Performance)	Variance
138.7	△61.3
11.7	△3.3
8.5%	1.0%
6.6%	△0.9%
0.10	△0.20
12.7	△22.3
35.3	5.3

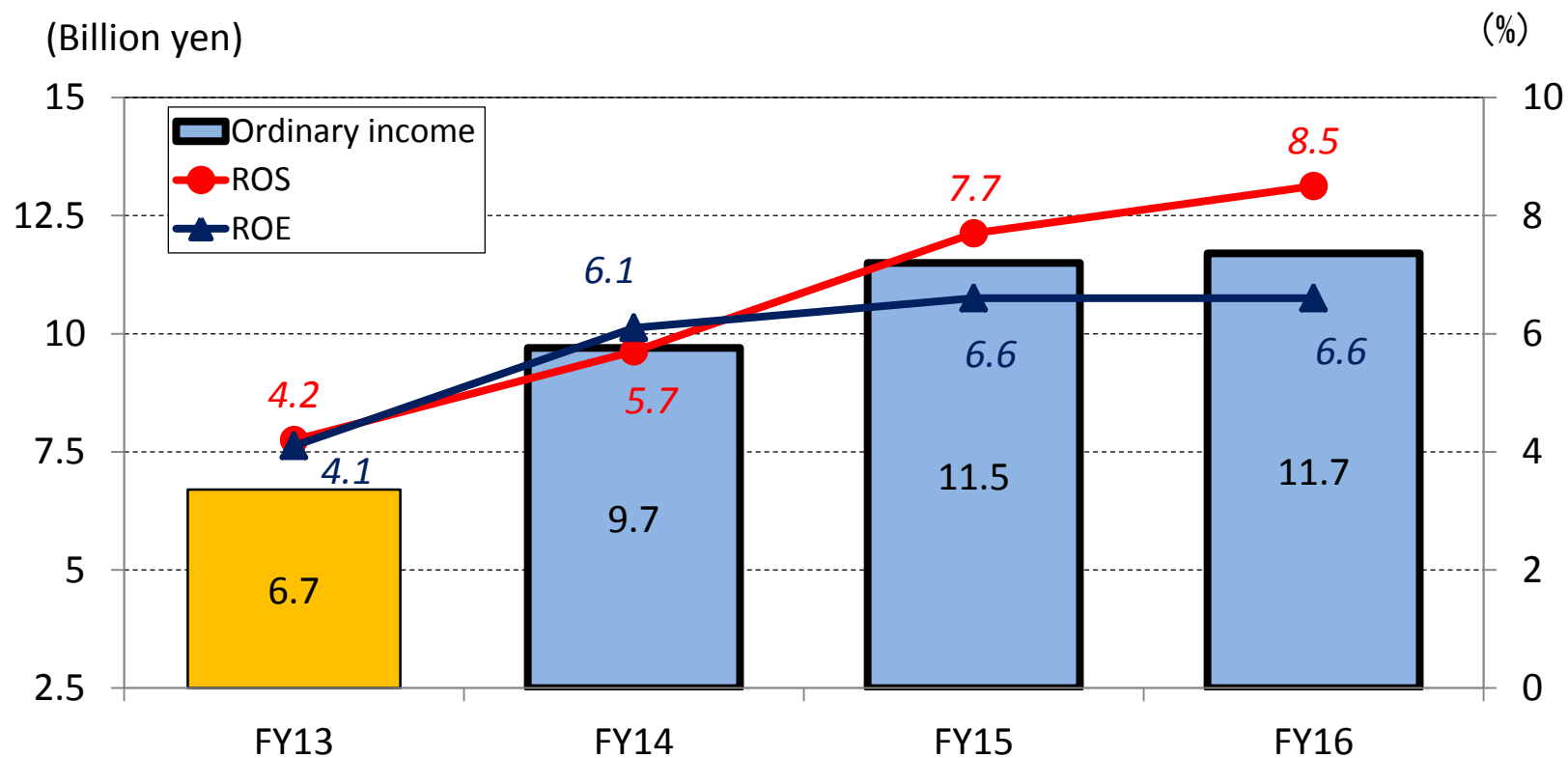
# Changes in KPIs

Net sales, sales volume



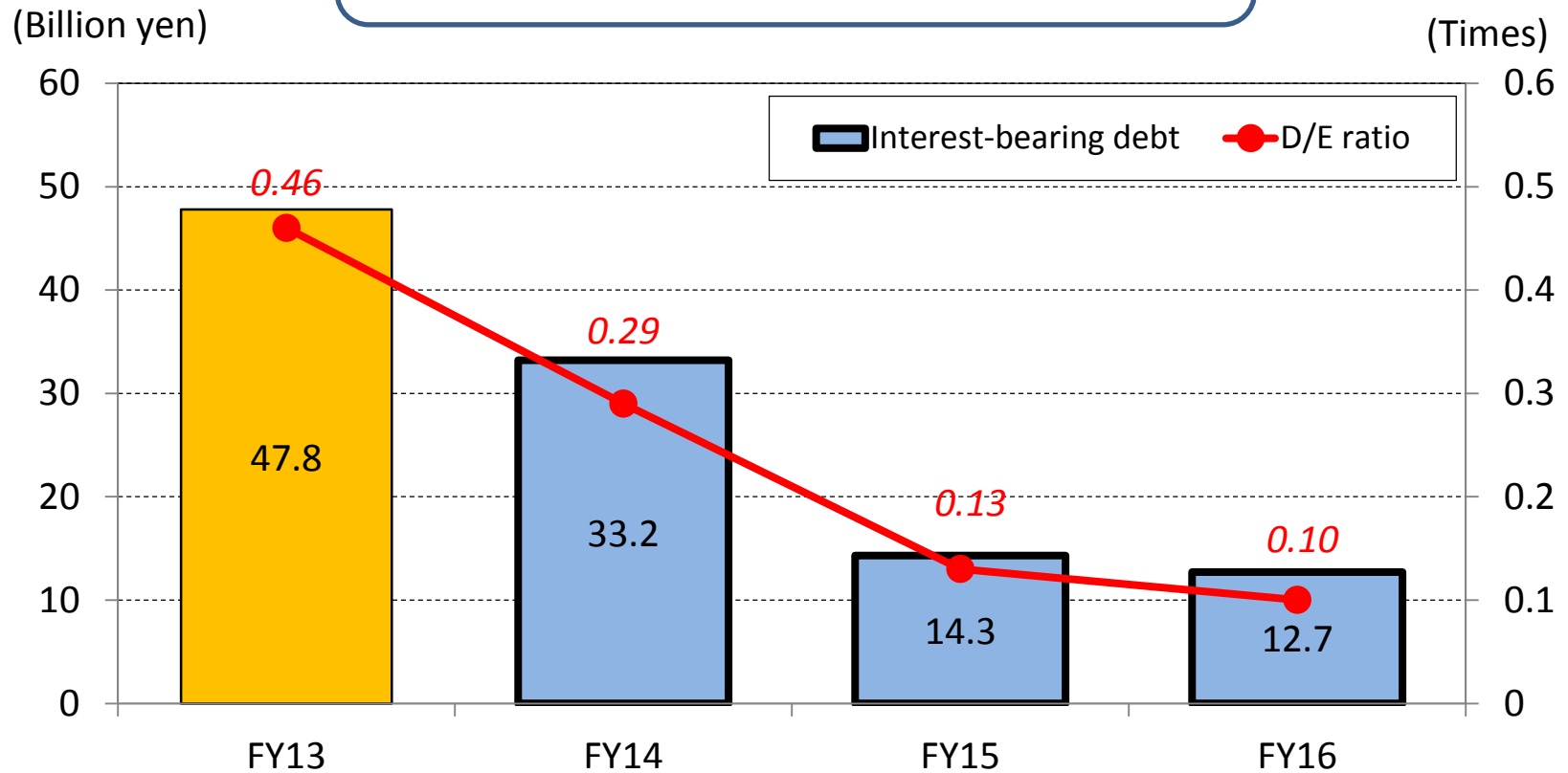
# Changes in KPIs

Ordinary income, ROS, ROE

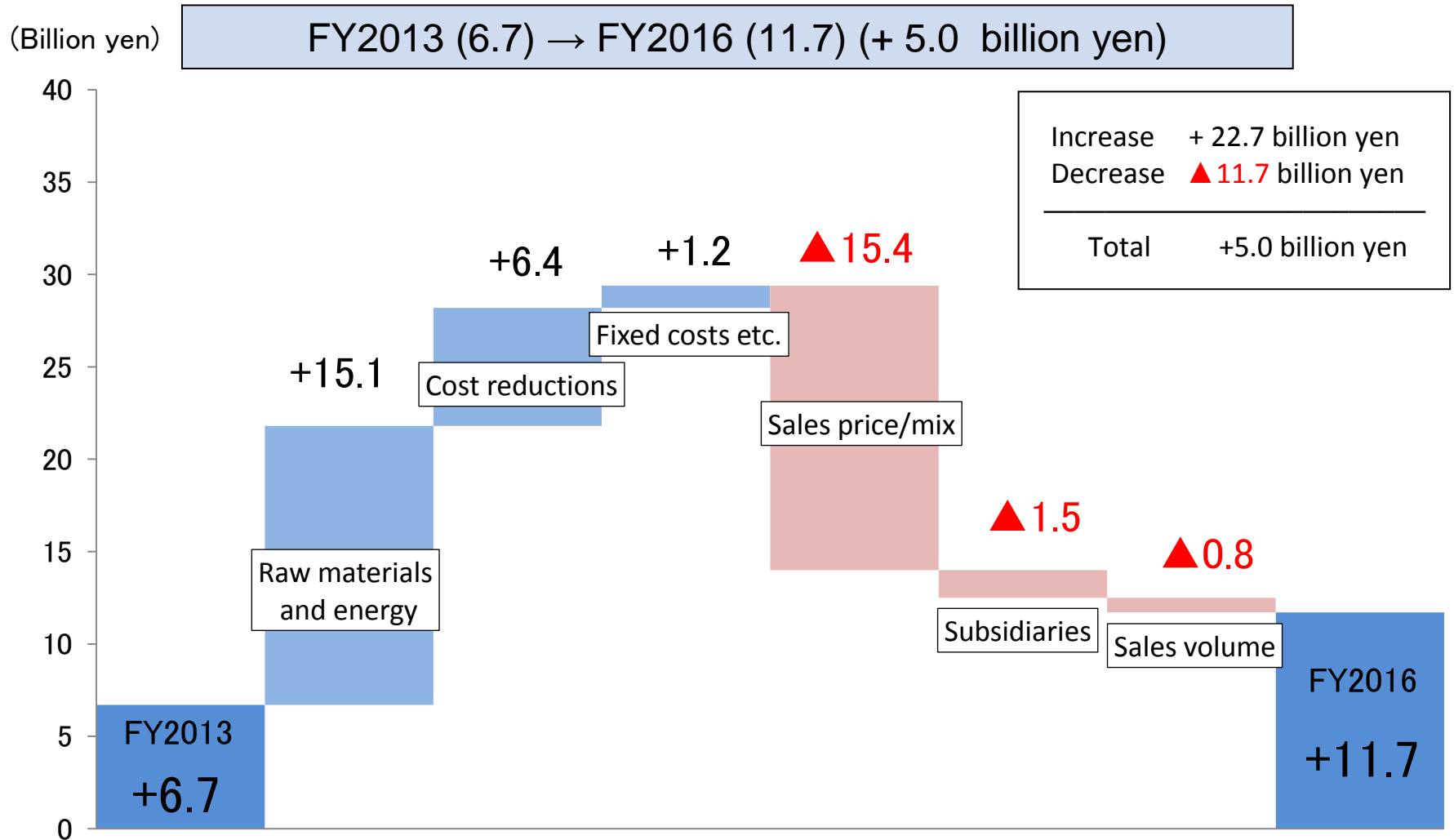


# Changes in KPIs

Interesting-bearing debt, D/E ratio  
(net)

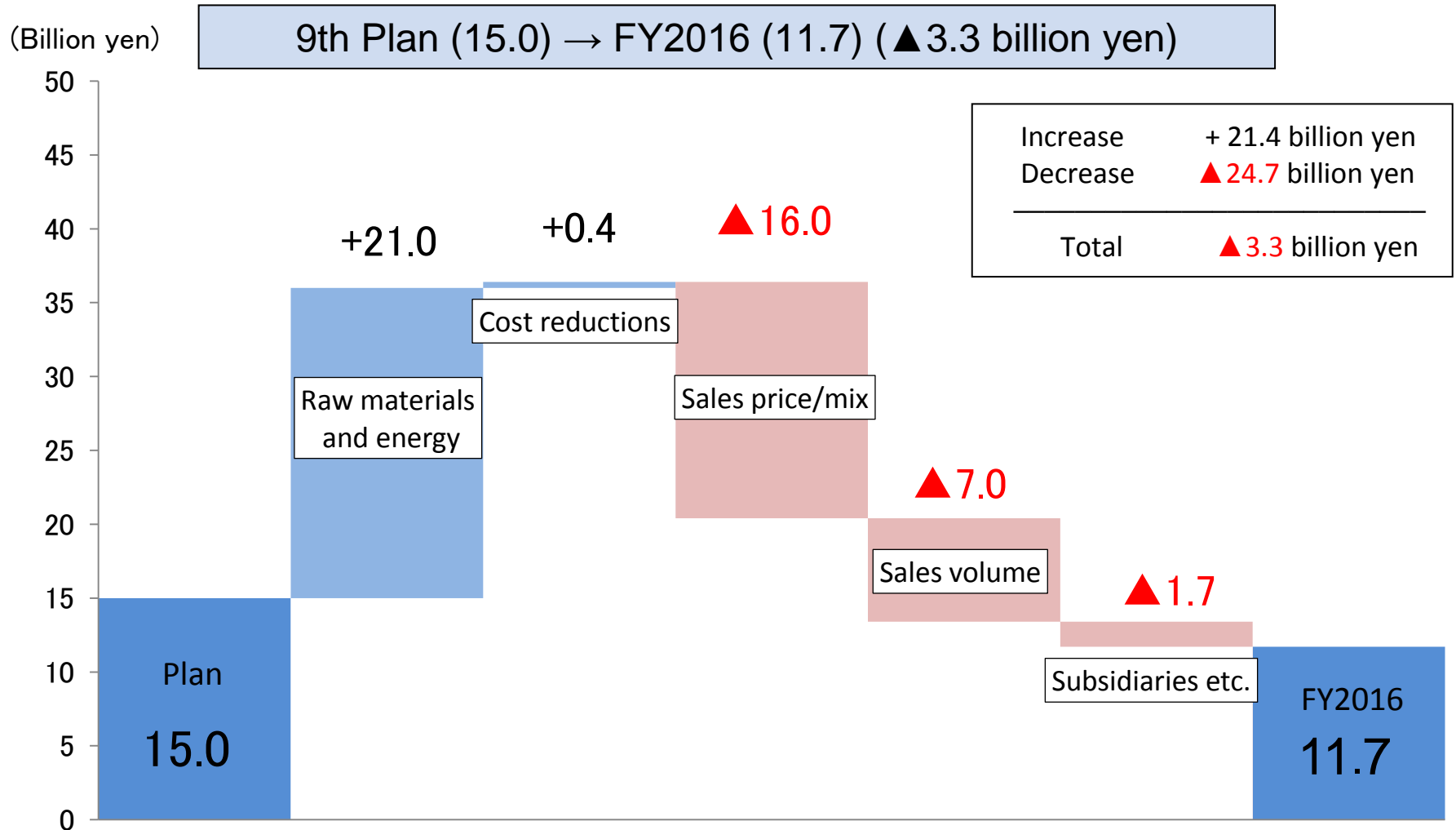


# Variance Analysis of Ordinary Income (FY2013 → FY2016)





# Variance Analysis of Ordinary Income (9th Plan → FY2016)



# Major measures during the 9th Medium-Term Plan

## **Special steel**

- ◇ Achieved sequential casting world record (100 heats) with a single tundish and no exchange submerged entry nozzle in a bearing steel production (February 2015)
- ◇ Award of the 63rd (Fiscal 2016) Okochi Production Prize (February 2017)  
We received the Okochi Production Prize under the title of “Development of High Productivity Process of the Ultra-High-Cleanliness Bearing Steel”.
- ◇ Development of New products
  - Commercialization of "ECOMAX4" nickel/molybdenum-free high-strength case hardening steel (July 2015)
  - "QDX-HARMOTEX®" obtained certification from NADCA (North American Die Casting Association) (February 2016)
  - Successful development of High-Toughness technology of Hyper-Eutectoid steel (February 2017)

## **Formed and fabricated materials**

- ◇ Established SMM a local subsidiary to manufacture and sell formed and fabricated materials in Mexico(December 2015)  
The plant will start operation in summer 2017, as planned.
- ◇ Started of commercial production at SSSP a local subsidiary to manufacture and sell formed and fabricated materials in Thailand (January 2016)

## **Special materials**

- ◇ Decision to construct the No.2 Metal Powder Plant (October 2015)  
The plant will start operation in summer 2017, as planned.

## **Others**

- ◇ Awarded the “Diversity Management Selection 100” as a company that enhanced corporate value by diversity management (March 2015)
- ◇ Decision to introduce an executive officer system (March 2017)

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## II . 10th Medium-Term Business Plan

# *Sanyo Global Action 2019*

*- Pursuing sustained growth through globalization of the Sanyo brand -*

# 1. Business Environment

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- **Global demand of special steel will expand moderately.**

It is currently firm, but

- **The trend toward declining of demand in Japan will unchanged in the long-term.**

- **Global competition in the special steel industry will intensify increasingly.**

Aggressive capital investment by competitors, increased quality competitiveness of overseas manufacturers etc.

- **Raw materials and energy prices are trending upwards.**

## 2. Strategy of the 10th Medium-Term Business Plan

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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

**Pursue  
Sustainable  
Growth**

**Human resources  
Technologies  
Profitability**

# 3. Targeted KPIs

(Unit: billion yen)

	FY2016 (Performance)
Net sales	138.7
Ordinary income	11.7
ROS	8.5%
ROE	6.6%
ROA	6.5%
D/E ratio (net)	0.1

Investment (3 years)	35.3
R&D spending (3 years)	4.6
Recruitment (3 years, Non-consolidated)	56 persons

Consolidated dividend payout ratio	25.9%
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FY2019 (Target)	Variance
150.0	11.3
13.5	1.8
9%	0.5%
7%	0.4%
7%	0.5%
0.2	0.1

50.0	Approx. x1.4
5.0	Approx. x1.1
150 persons	Approx. x2.7

30%	4.1%
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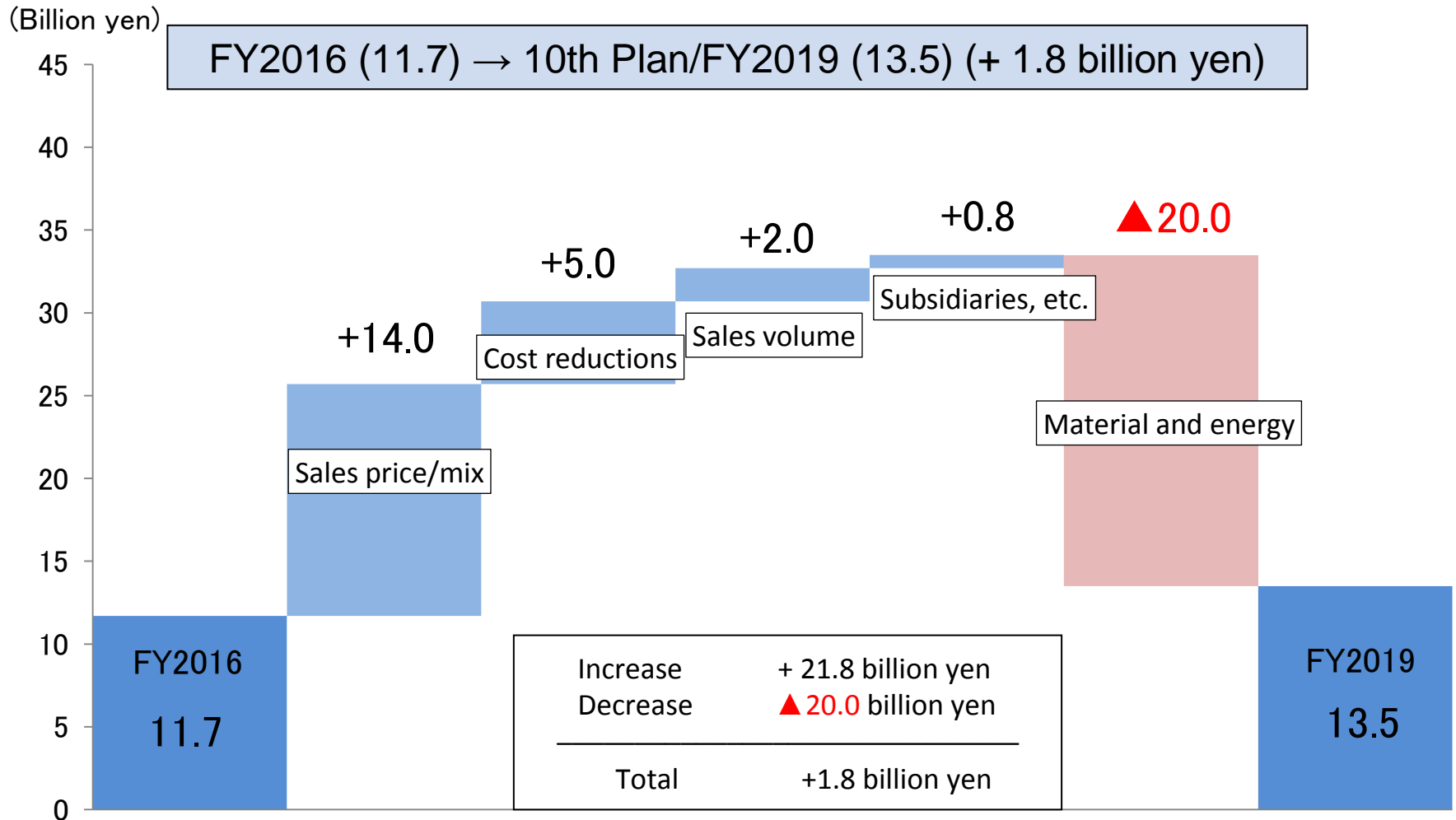
Major assumptions  
(FY16 → FY19)

- Scrap market prices  
22→32 (+10) 1,000 yen/t
- Exchange rate  
109→ 100yen/US\$
- Dubai crude oil  
47→60\$/BL

Note 1. ROE: Net Income to Net Assets

Note 2. ROA: Ordinary Income to Total Assets

# Reference: Changes in Ordinary Income



## 4. Priority Measures - 1

◇ Establish a strong corporate structure by strengthening the business foundation

(1) Strengthen competitiveness by executing “***Sanyo Factory Renovation***”

- Eliminate bottlenecks at No. 2 Bar Mill, etc.
- Streamline factory logistics and directly link production processes
- Promote automation and improve efficiency through AI and IoT, etc.

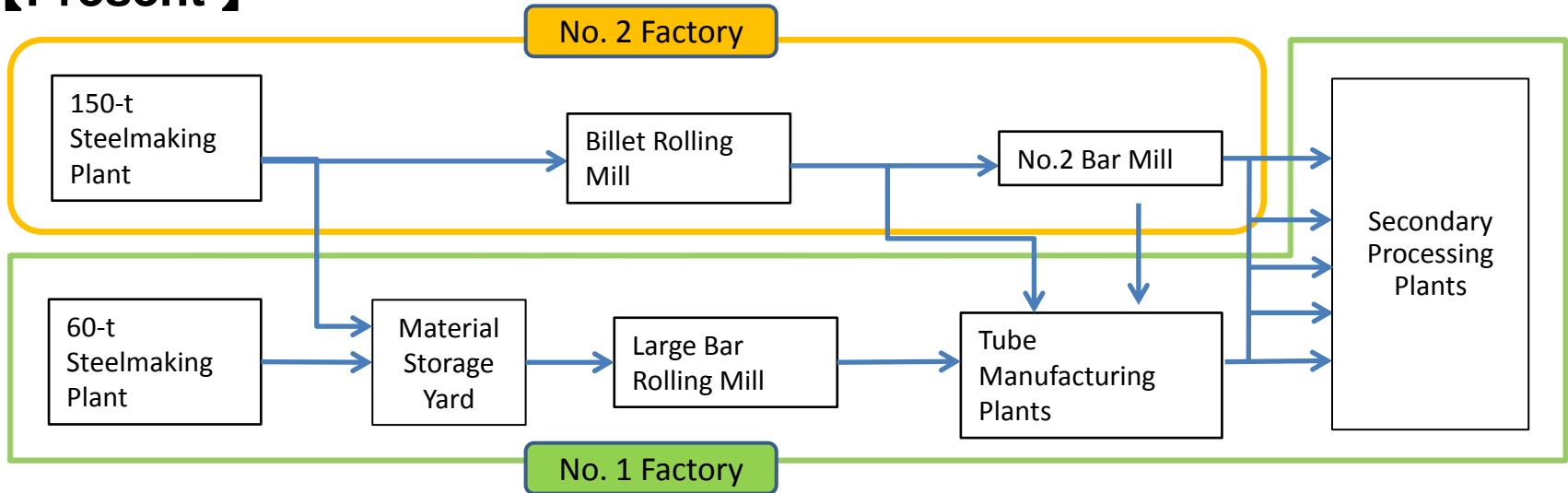


**Strengthen cost & delivery competitiveness**



# (Reference) Diagram of *Sanyo Factory Renovation*

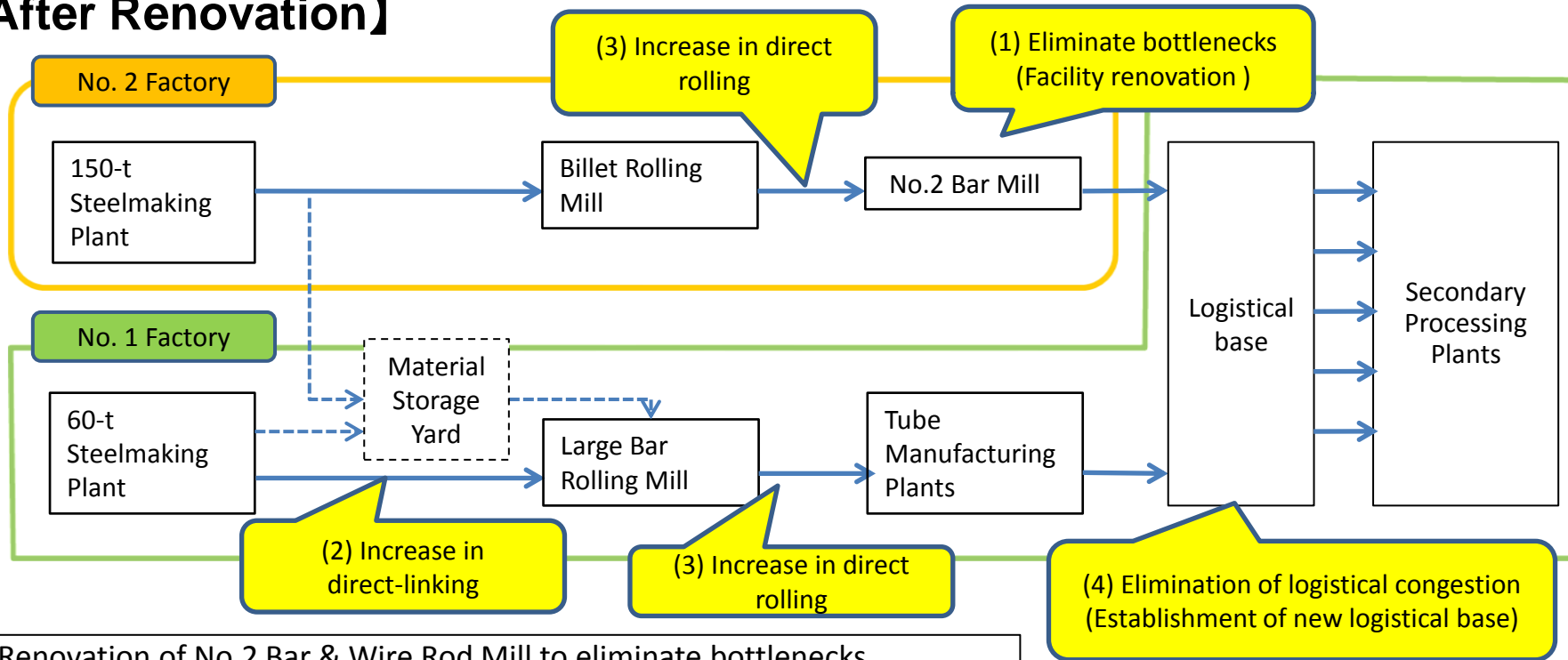
## 【Present】



- Shift to smaller diameters and lot sizes due to change in demand structure
  - **Bottlenecks at No. 2 Bar Mill due to decline of productivity**
  - **Logistical congestion prior to secondary processing due to increased number of lots**
- Become decrepit and not-directly linked 60t line
  - **Increase in material transportation from No.2 Factory to No.1 Factory due to decline in production at 60t line**

# (Reference) Diagram of *Sanyo Factory Renovation*

## [After Renovation]



- (1) Renovation of No.2 Bar & Wire Rod Mill to eliminate bottlenecks for even small diameters/lots production
- (2) Increase in direct-linking between 60t steelmaking plant and Large Bar Rolling Mill
- (3) Increase in direct rolling at each lines (150t line and 60t line)
- (4) Elimination of logistical congestion prior to secondary processing through establishment of new logistical base
- (5) Promotion of automatization and improvement efficiency through active utilization of AI and IoT, etc.



- Eliminate bottlenecks
- Streamline logistics
- Improve efficiency
- BCP measures

## 4. Priority Measures - 2

- ◇ Establish a strong corporate structure by strengthening the business foundation

### (2) Secure stable earnings

- Achieve stable earnings for Steel Products business
  - Absorb the material/energy price hike through cost reductions and sales price increase
  - Capture the growing overseas demand for special steel
  - Improve the sales mix
- Improve stability of earnings through expansion of Non-Steel Products business
  - Establish investment decided in 9th medium-term and capture growth market
    - Formed and Fabricated Materials: Local subsidiaries in Thailand (SSSP) and Mexico (SMM)
    - Special Materials: No.2 Metal Powder Plant
  - Non-Steel Products business sales: 1.5-fold growth vs. FY2016

## 4. Priority Measures - 3

- ◇ Establish a strong corporate structure by strengthening the business foundation

### (3) Enhance the management foundation

#### ■ Promote agile, transparent management

- Firmly establish the executive officer system (June 2017 onwards)
- Continuously focus on safety initiatives, disaster prevention, environmental conservation and compliance structure

#### ■ Secure and train human resources

- Strengthen the regular recruitment program for internationalization and transfer of expertise (2.7-fold increase from the 9th medium-term period)
- Improve re-hiring scheme and continue to promote diversity management including support for women in the workplace, etc.
- Implement work style reforms to achieve work-life balance

#### ■ Enhance shareholder return

- Set 25% as the lower limit for the consolidated dividend payout ratio (currently 20%)
- Aim for a consolidated dividend payout ratio of 30% in FY2019

## 4. Priority Measures - 4

- ◇ Further pursue technological superiority by enhancing R&D and quality competitiveness

(1) Enhance quality competitiveness, mainly for bearing steel

- Maintain Sanyo Special Steel's internal quality superiority based on its core "Premium Cleanliness Steel Manufacturing Technology"
- Develop external appearance quality through process improvements and a higher level of quality assurance

⇒ **Aim to become "No. 1 globally in internal quality and external appearance quality"**

## 4. Priority Measures - 5

- ◇ Further pursue technological superiority by enhancing R&D and quality competitiveness

### (2) Promote R&D

- R&D spending    1.1-fold increase from 9th medium term  
(4.6 → 5.0 billion yen)
  - Clarify functions of basic research and product development
  - Strengthen medium- and long-term R&D planning functions
- ⇒ **Create products with high reliability and new technology rapidly and continually**

## 4. Priority Measures - 6

◇ Promote “ Sanyo Special Steel-the Confident Choice ”  
to a global brand

(1) Promote global branding measures

Enhance the source of our brand power (QCDD\* power)

- Strengthen the roles of our overseas bases
- Establish a 6-center structure worldwide for the Formed and Fabricated Materials business
- Build a global supply chain

**Global branding**

\* Quality , Cost , Delivery, Development (R&D)

## 4. Priority Measures - 7

◇ Promote “ Sanyo Special Steel-the Confident Choice ”  
to a global brand

(2) Promote initiatives aimed at further improvements in recognition

- Strengthen the technical planning function and accelerate technical exchanges with customers
- Enhance communication of information in Japan and overseas  
... Actively expand PR and IR activities, etc.



**Worldwide brand penetration**



## 4. Priority Measures - 8

### ◇ Investments

#### Planning for 50 billion yen in 3 years

#### (x1.4 compared to 9th Medium-Term)

■ Strategic investment      25 billion yen/3 years

- ▪ ▪ “Sanyo Factory Renovation”, M&A, etc.

■ General investment      25 billion yen/3 years

- ▪ ▪ Investment in cost reductions such as energy savings, labor savings, quality, updating of aging facilities, etc.

(Cautionary Statement)

Business forecasts contained in this document are based on the information available at the time of the release of this document, and actual results may differ from these forecasts due to various factors that may occur in the future.

The business forecasts should not be interpreted as any commitment to or guarantee of future performance.



"Santo-kun"  
(Our mascot)



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