

# Overview of Business Results

for the 1<sup>st</sup> Quarter of Fiscal Year Ending March 31, 2020  
(April 2019 → June 2019)



“ **Special Steel** ” - specialized, and exists in everyday life

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



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

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# Outline of Statements of Income

(Unit : Billion yen)

	FY19/1Q (A)		FY18/1Q(B)		Change(B) → (A)	
	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)
Net Sales	77.2	100.0	43.9	100.0	+33.3	+75.9
Operating Income	2.5	ROS 3.2	3.7	ROS 8.4	-1.2	-33.4
(Sanyo)	2.3	-	3.5	-	-1.3	-35.7
(Ovako)*1	1.2	-	-	-	+1.2	-
(MSSS)*1	-0.2	-	-	-	-0.2	-
(Amortization of Ovako's goodwill)	-0.7	-	-	-	-0.7	-
Ordinary Income	2.3	3.0	3.9	8.8	-1.6	-40.7
Net Income*2	1.8	2.3	4.0	9.1	-2.2	-55.1

Net Income (Underlying Basis)*3	2.4	3.2	2.5	5.8	-0.1	-3.2
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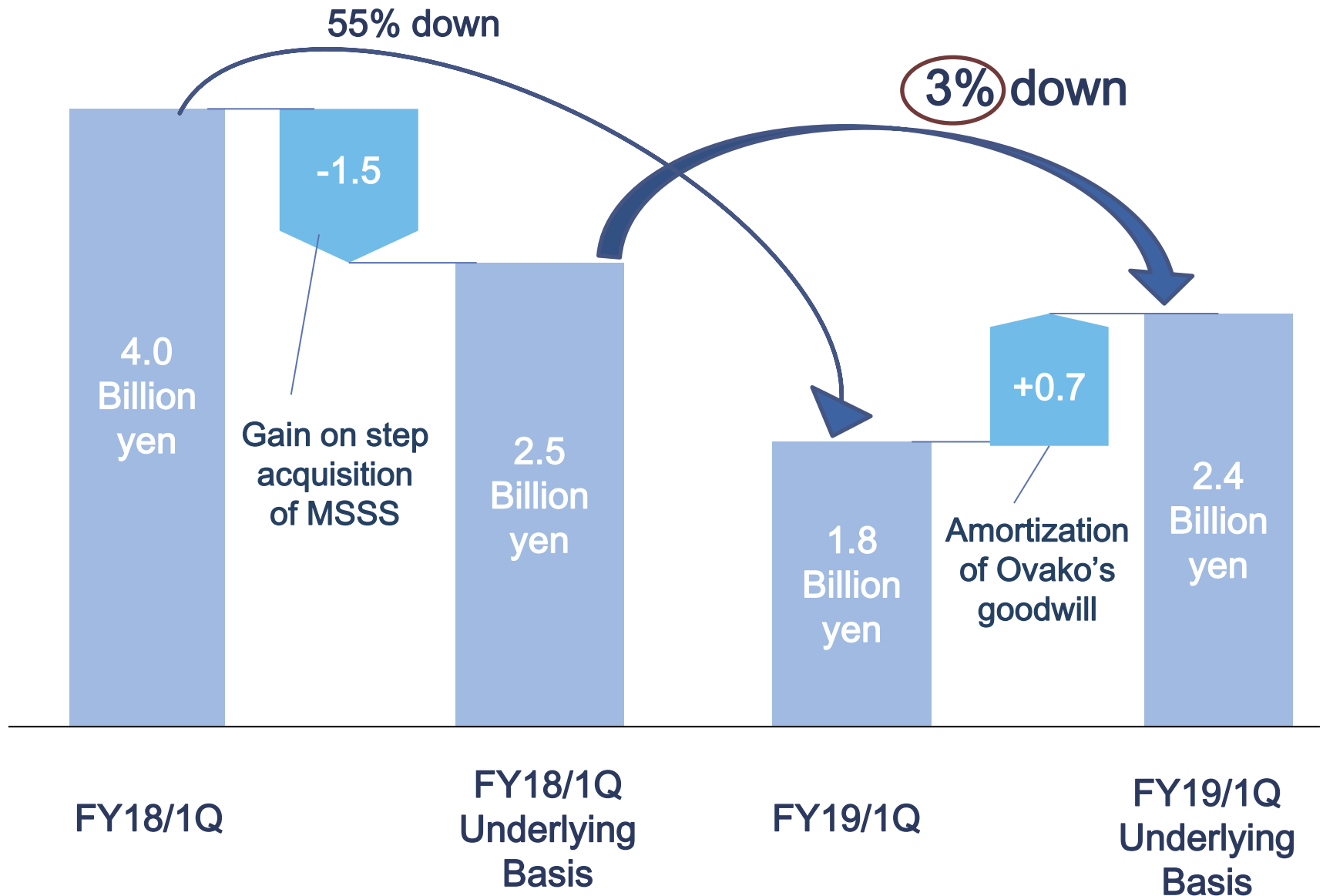
Sales Volume (Thousands of ton)	479	160 /month	281	94 /month	+198	+66 /month
(Sanyo)	255	85 /month	281	94 /month	-25	-8 /month
(Ovako)	196	65 /month	-	-	+196	+65 /month
(MSSS)	28	9 /month	-	-	+28	+9 /month

\*1 The consolidated accounting period for Ovako and MSSS is Jan 2019 to Dec 2019      \*2 Profit attributable to owners of parent

\*3 Adjusted by following transactions FY2018: Net Income - Gain on step acquisition of MSSS (=4.0 -1.5 billion yen)

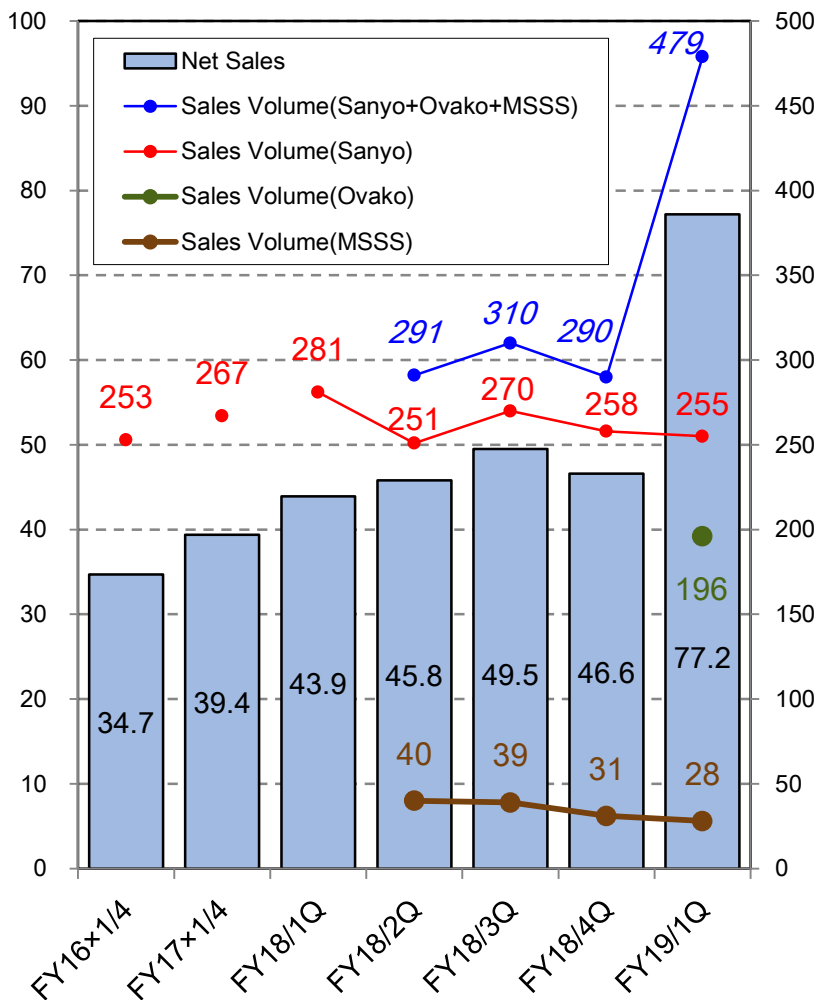
FY2019: Net Income + Ovako's goodwill amortization(=1.8+0.7 billion yen)

# Net Income(Underlying Basis)

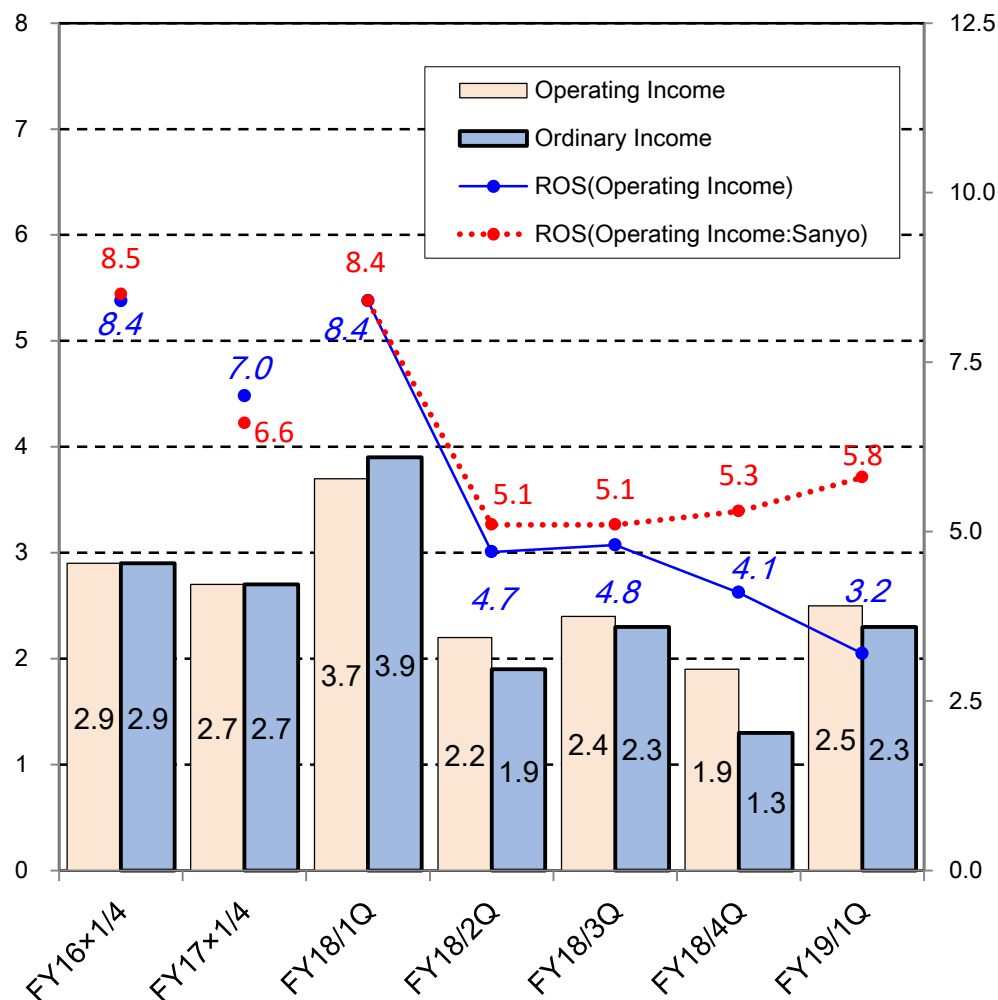


# Net Sales and Income (quarterly)

Net Sales (Billion yen) Sales Volume (Thousands of ton per quarter)



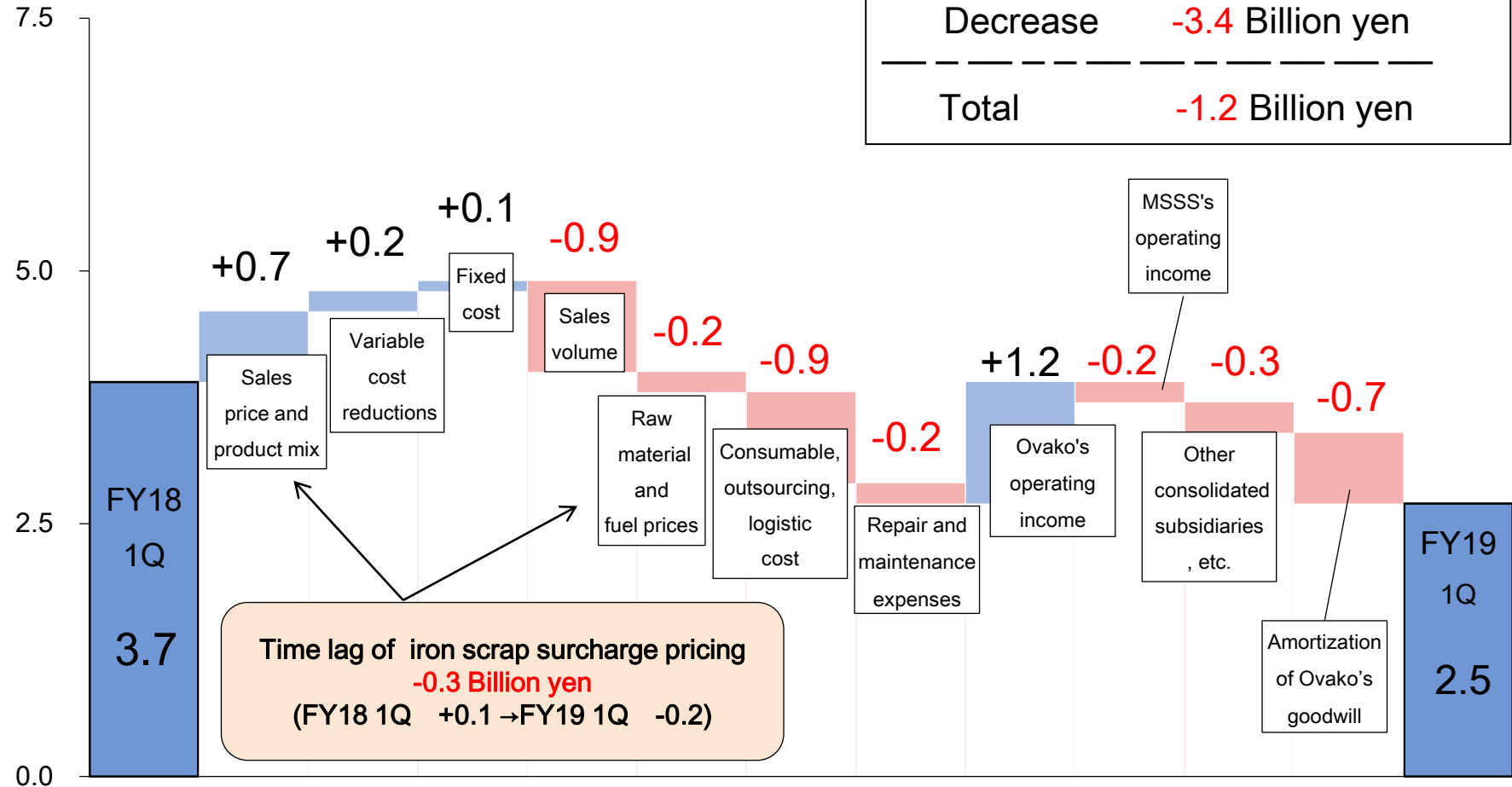
Operating Income Ordinary Income (Billion yen) ROS (%)



# Operating Income Variance Analysis

FY18 1Q (3.7) → FY19 1Q (2.5) ( - 1.2 Billion yen)

(Billion yen)

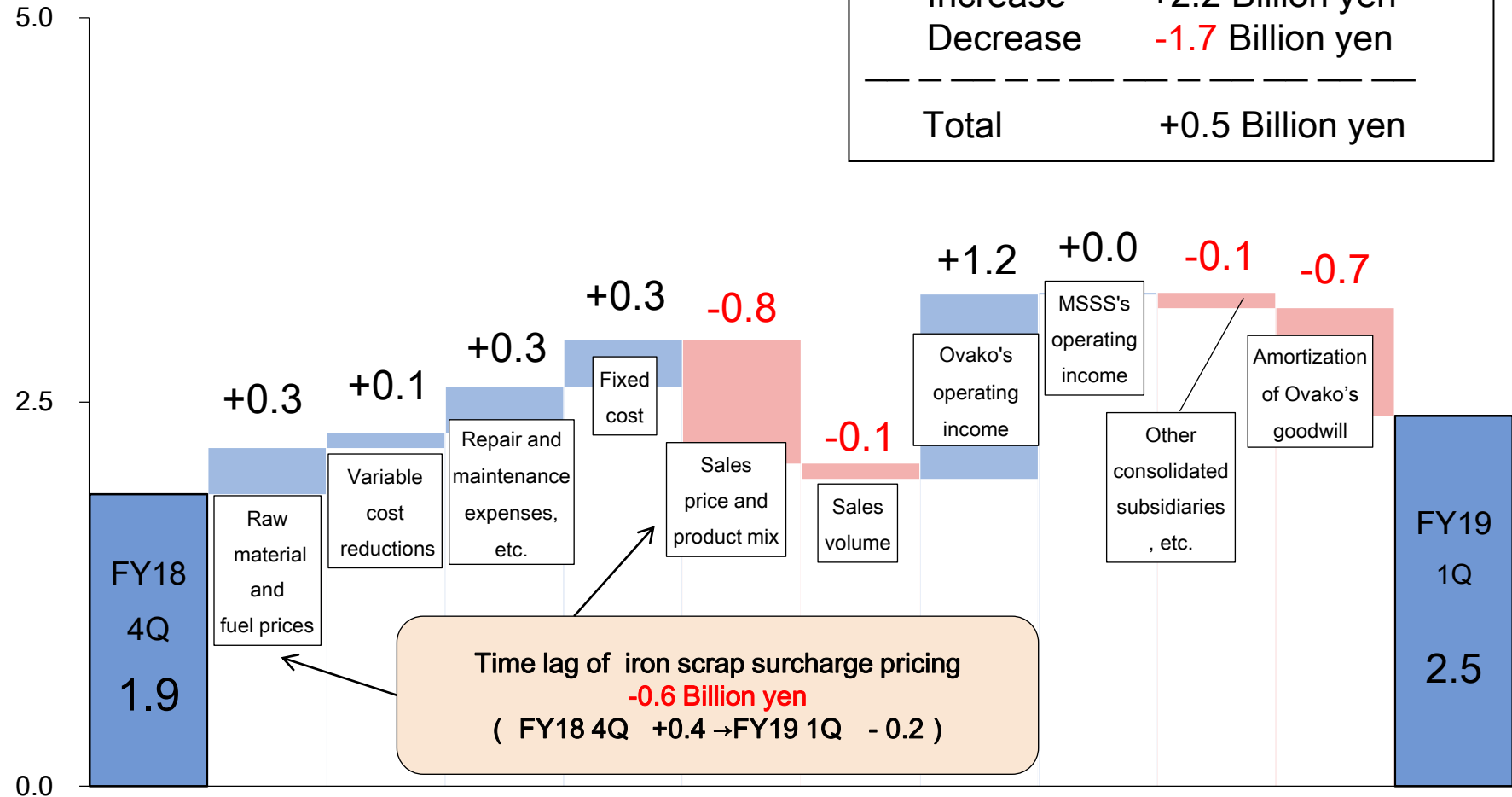


Increase	+2.2 Billion yen
Decrease	-3.4 Billion yen
<hr/>	
<b>Total</b>	<b>-1.2 Billion yen</b>

# Operating Income Variance Analysis

FY18 4Q (1.9) → FY19 1Q (2.5) (+0.5 Billion yen)

(Billion yen)



# Earnings by Business Segment

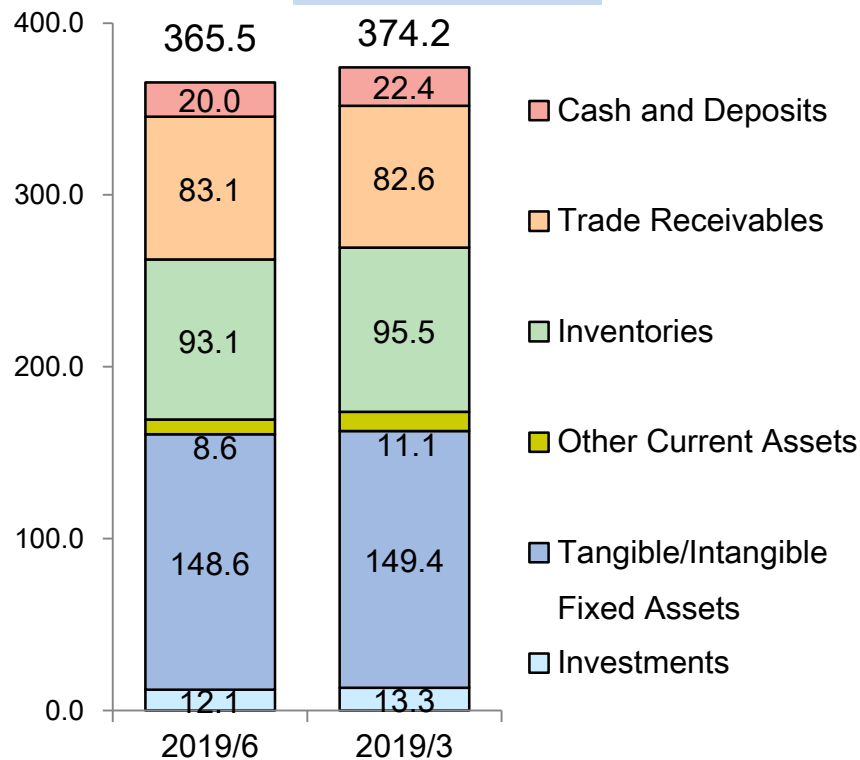
(Unit : Billion yen)

	FY19/1Q(A)			FY18/1Q(B)			Change (B) → (A)		
	Net Sales	Operating Income	ROS (%)	Net Sales	Operating Income	ROS (%)	Net Sales	Operating Income	ROS (%)
Steel Products	73.8	2.2	2.9	40.4	3.2	8.0	+33.4	-1.1	-5.1
Metal Powders	1.1	0.1	6.3	1.2	0.2	16.4	-0.1	-0.1	-10.1
Formed and Fabricated Materials	4.6	0.2	4.1	4.7	0.2	4.6	-0.1	-0.0	-0.5
Sub-total	79.5	2.4	3.1	46.3	3.6	7.9	+33.2	-1.2	-4.8
Other	0.3	0.0	0.2	0.3	-0.0	-0.3	-0.0	+0.0	+0.5
Adjustments	-2.6	0.0	—	-2.7	0.0	—	+0.1	-0.0	—
Consolidated Total	77.2	2.5	3.2	43.9	3.7	8.4	+33.3	-1.2	-5.2

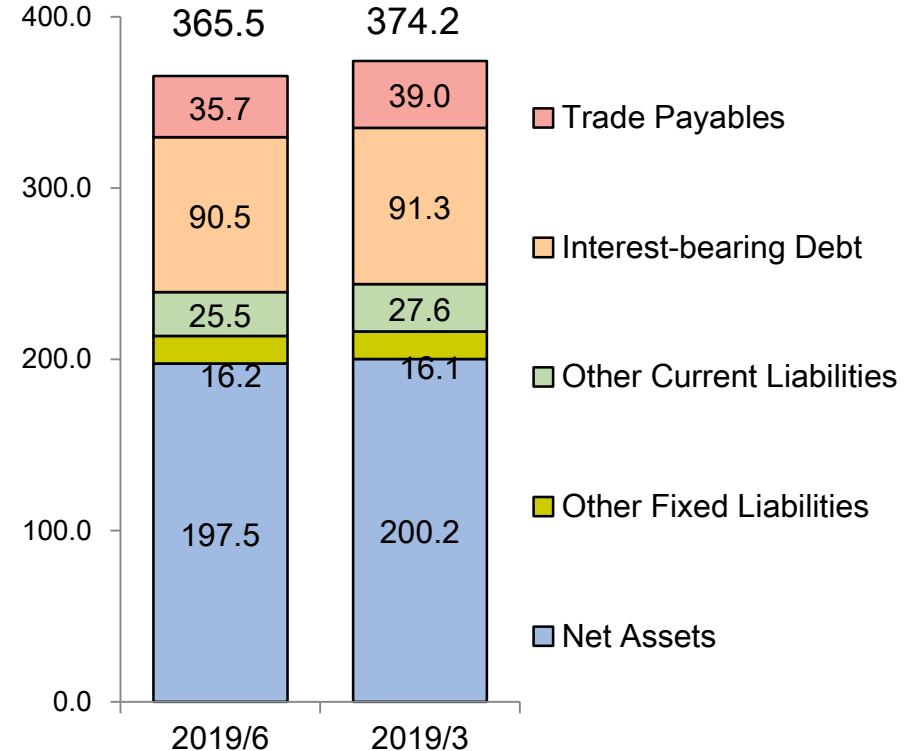


# Balance Sheets

(Billion yen)



(Billion yen)



**Major changes in Assets** - 8.8 billion yen

Cash and Deposits	- 2.4
Trade Receivables	+ 0.6
Inventories	- 2.4

**Major changes in Liabilities and Net Assets** - 8.8 billion yen

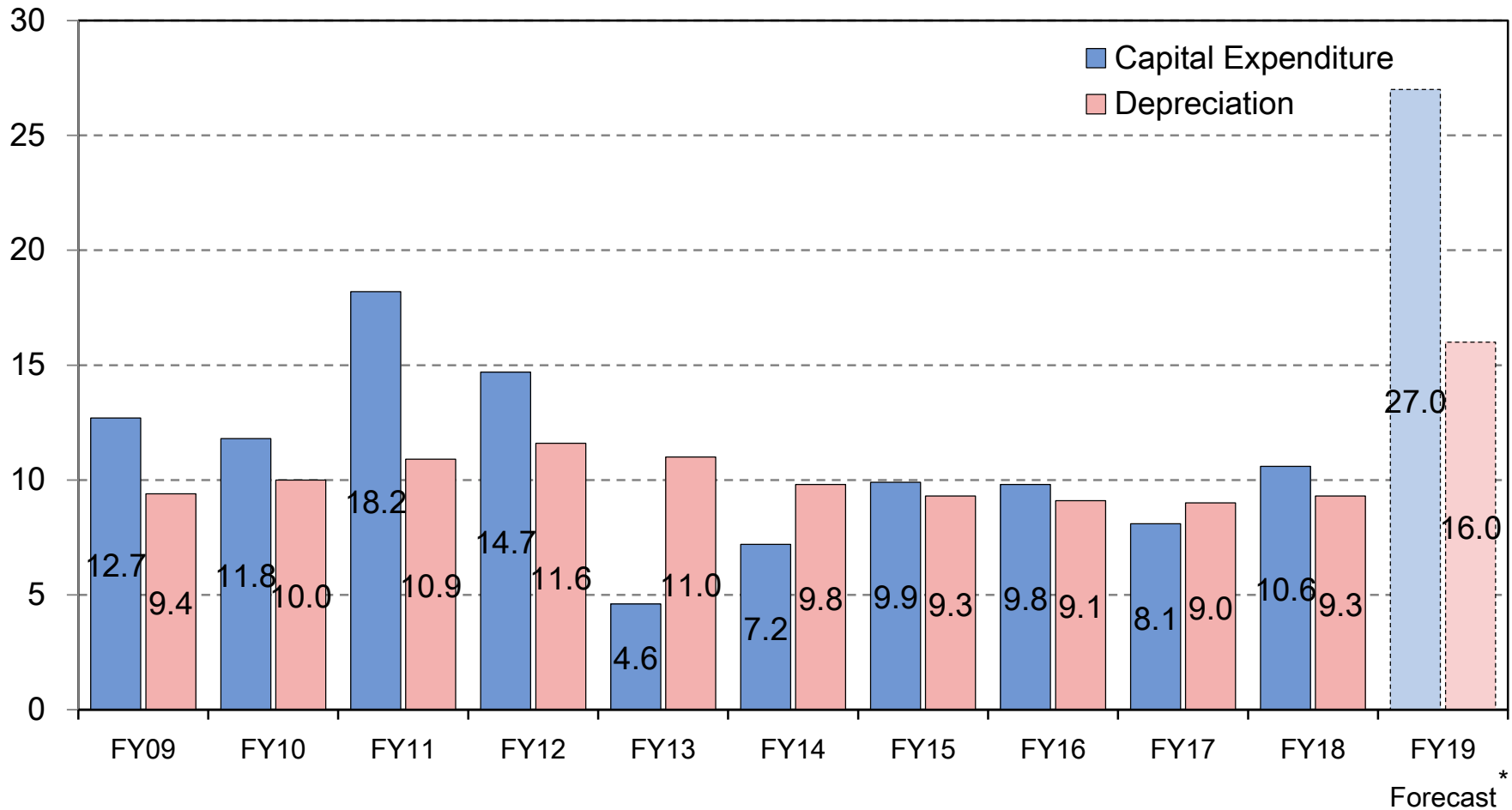
Trade Payables	- 3.3
Interest-bearing Debt	- 0.9
Net Assets	- 2.7

(Reference) Each assets for Sanyo, Ovako, MSSS (before consolidated adjustment)

Sanyo	273.1 billion yen
Ovako	99.0 billion yen
MSSS	18.6 billion yen

# (Reference) Capital Expenditure and Depreciation

(Billion yen)



\*Capital Expenditure of 27.0 billion yen in FY19 includes 13.2 billion yen for Sanyo Factory Renovation to solve bottlenecks at No.2 Bar & Wire Rod Mill, 5.4 billion yen for Ovako and 1.2 billion yen for MSSS.  
 Depreciation of 16.0 billion yen in FY19 includes 5.5 billion yen for Ovako and 0.5 billion yen for MSSS.

## Revision of Business Forecast for FY19

(Unit : Billion yen)

	Revised forecast (A)			Previous forecast (B)			Change(B) → (A)		
	FY19 1st Half	FY19 2nd Half	FY19	FY19 1st Half	FY19 2nd Half	FY19	FY19 1st Half	FY19 2nd Half	FY19
Net Sales	150.0	150.0	300.0	160.0	155.0	315.0	-10.0	-5.0	-15.0
Operating Income	4.5	6.5	11.0	6.5	4.5	11.0	-2.0	+2.0	—
(Sanyo)	4.5	5.6	10.1	3.5	3.7	7.2	+1.0	+1.9	+2.9
(Ovako) *1	1.7	1.6	3.3	4.2	1.5	5.6	-2.5	+0.2	-2.3
(MSSS) *1	-0.4	0.5	0.1	0.1	0.5	0.6	-0.5	—	-0.5
(Amortization of Ovako's goodwill )	-1.3	-1.3	-2.6	-1.4	-1.4	-2.7	+0.1	+0.1	+0.1
Ordinary Income	4.0	6.0	10.0	6.0	4.0	10.0	-2.0	+2.0	—
Net Income	3.0	4.0	7.0	4.6	2.4	7.0	-1.6	+1.6	—

<i>Sales Volume</i> (Thousands of ton)	934	944	1,878	990	960	1,950	-56	-16	-72
(Sanyo)	495	513	1,008	516	528	1,044	-21	-15	-36
(Ovako)	387	349	736	405	345	750	-18	+4	-14
(MSSS)	52	82	134	69	87	156	-17	-5	-22

\*1 The consolidated accounting period for Ovako and MSSS is Jan 2019 to Dec 2019

\*2 Previous forecast is as of May 8, 2019.

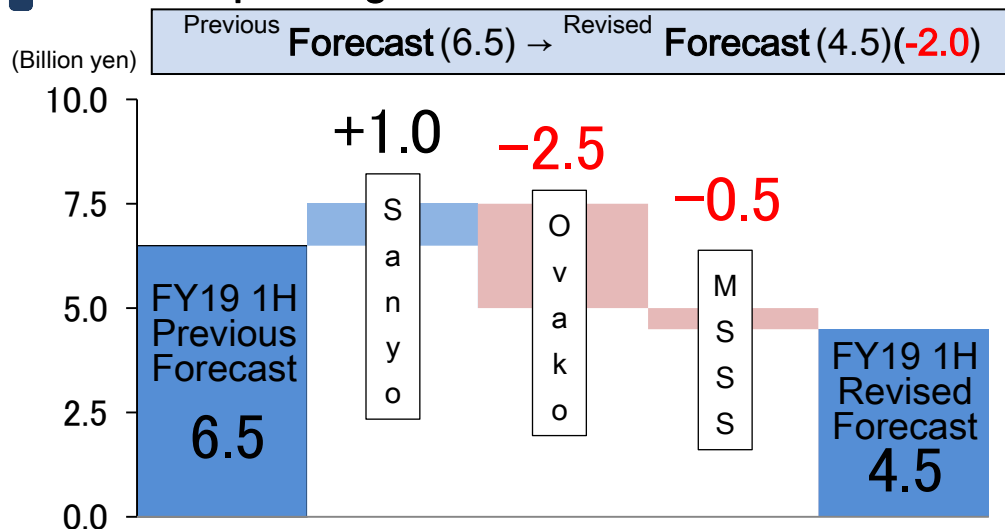
Explanation at page 12

Major assumptions after July 2019

- Scrap iron 25,500 yen/t (H2 market price in Himeji area)
- Crude oil(Dubai) 65\$/BL
- Exchange rate 105 yen/US\$, 120 yen/€

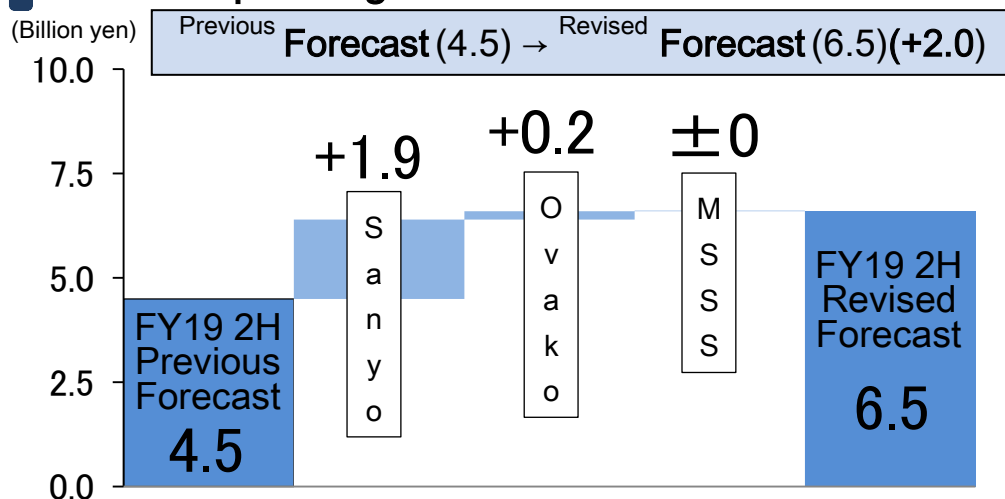
# Revision of Business Forecast for FY19

## Detail of operating income for FY19 1st Half forecast



- For Sanyo, operating income in the first half is expected to increase from the previous forecast. The increase is mainly attributable to the decline of raw material and fuel prices, including iron scrap, and will more than offset the drop of sales volume.
- For Ovako and MSSS, operating income is expected to decline from the previous forecast, mainly attributable to the significant decline of the sales volume.
- For Sanyo, operating income in the second half is expected to increase from the previous forecast.

## Detail of operating income for FY19 2nd Half forecast



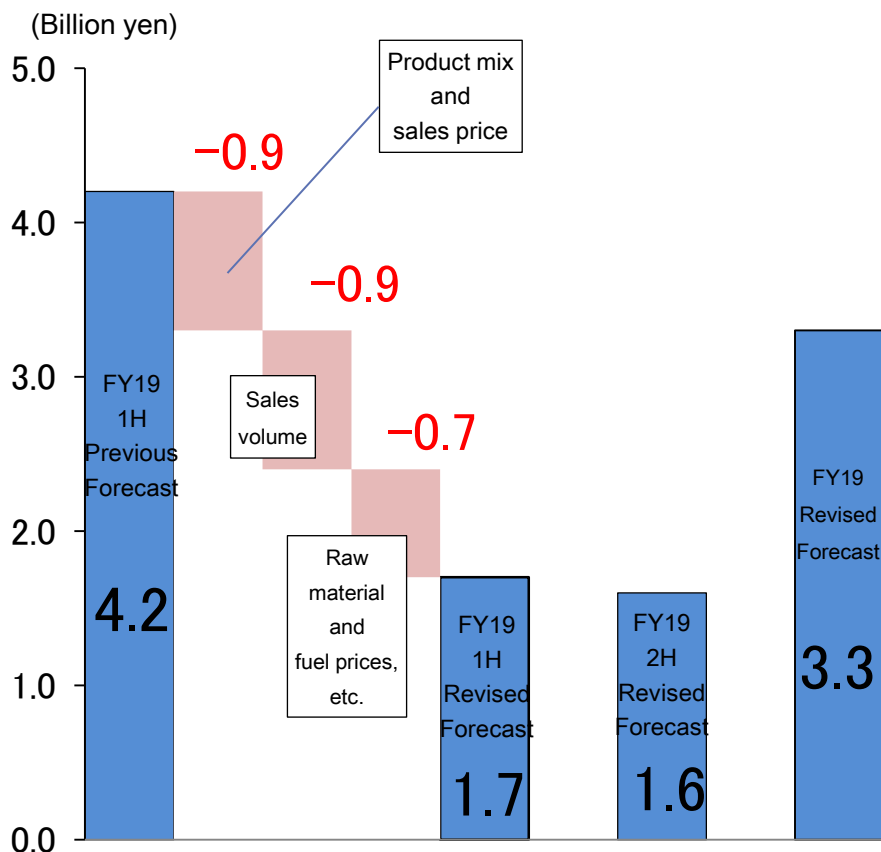
- Major contributing factors are as follows;
  - The sales volume decline will bottom out.
  - Material and fuel prices are expected to be lower than originally expected.
  - Incremental cost reductions reflecting the rather stagnant sales volume
- For Ovako and MSSS, operating income is expected to be on par with the previous forecast mainly attributable to profit improvement measures, such as overall cost reductions.

Explanation at page 13-14

# Ovako Review

## Operating Income Variance Analysis

Previous **Forecast 1st Half (4.2)**  
 → Revised **Forecast 1st Half (1.7)(-2.5)**



## Overview of FY 2019

The EU economy is continuing to be sluggish, mainly due to US-China trade friction and uncertainty of Brexit. In particular, business confidence in the manufacturing industry is deteriorating. Demand for special steel in the EU does not show signs of recovery after falling sharply in October-December 2018, as a result of supply chain inventory adjustments and WLTP.

### <Change from previous forecast>

Product mix and sales price	Decrease of highly profitable steel tubes and pipes, and escalating competition in the area of general-purpose products
Sales volume	Decline of demand mainly in the EU
Raw material and fuel prices	Drop of inexpensive hydropower ratio due to water shortage

### <Second half>

Although the 2H sales volume will decline due to regular factory maintenance in summer. Ovako will maintain the same profit level as 1H by focusing on the following profit improvement measures.

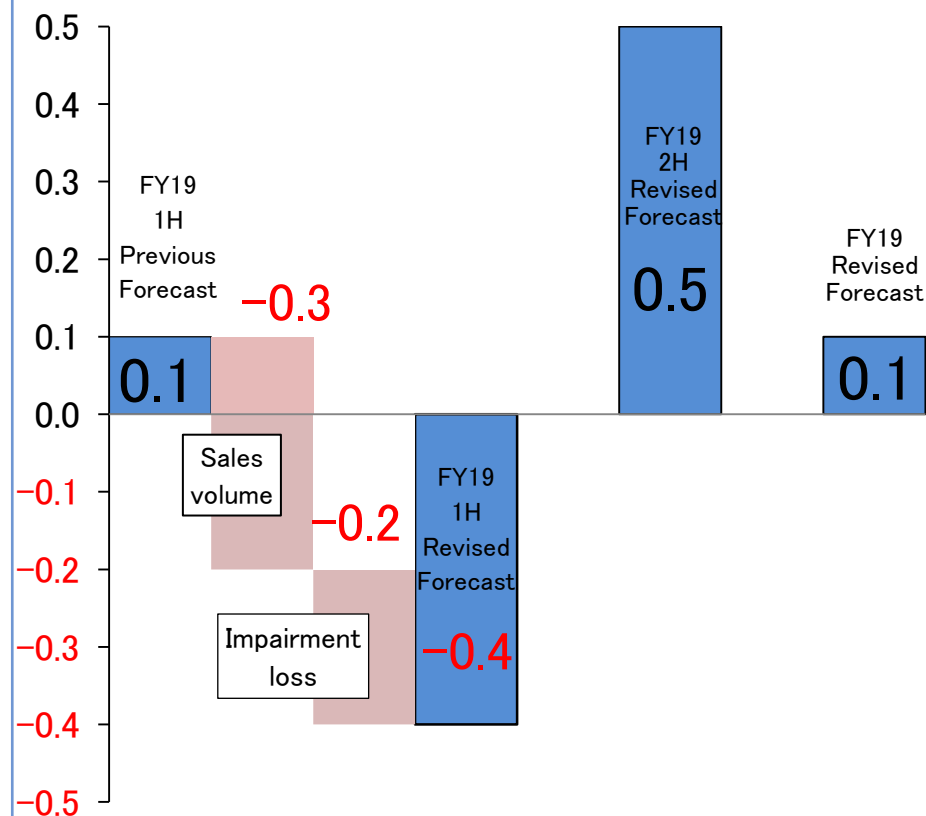
- Expanding Sales on areas such as;
  - ▶ Bearing steel for existing EU customers
  - ▶ Rings for wind power generators, etc.
- Reduction of operational cost with the support of Sanyo and its dispatches
- Reduction of procurement costs
- Reduction of fixed cost, mainly by shift down

# MSSS Review

## Operating Income Variance Analysis

Previous Forecast 1st Half (0.1)  
 → Revised Forecast 1st Half (-0.4)(-0.5)

(Billion yen)



## Overview of FY 2019

Domestic car sales in India have decreased on year to year basis for eight consecutive months since November 2018. Main causes of this decline are;  
 i) Uncertainty of the policies after the general election  
 ii) Rising car prices and car insurance premiums.

<Change from previous forecast>

Sales volume	Demand reduction due to inventory adjustment of the supply chain
Impairment loss	Impairment loss due to the insolvency of the power supply company

<Second half>

Car sales in India still remain uncertain. However, MSSS will maintain the profit level as forecasted previously, by executing the following profit improvement measures.

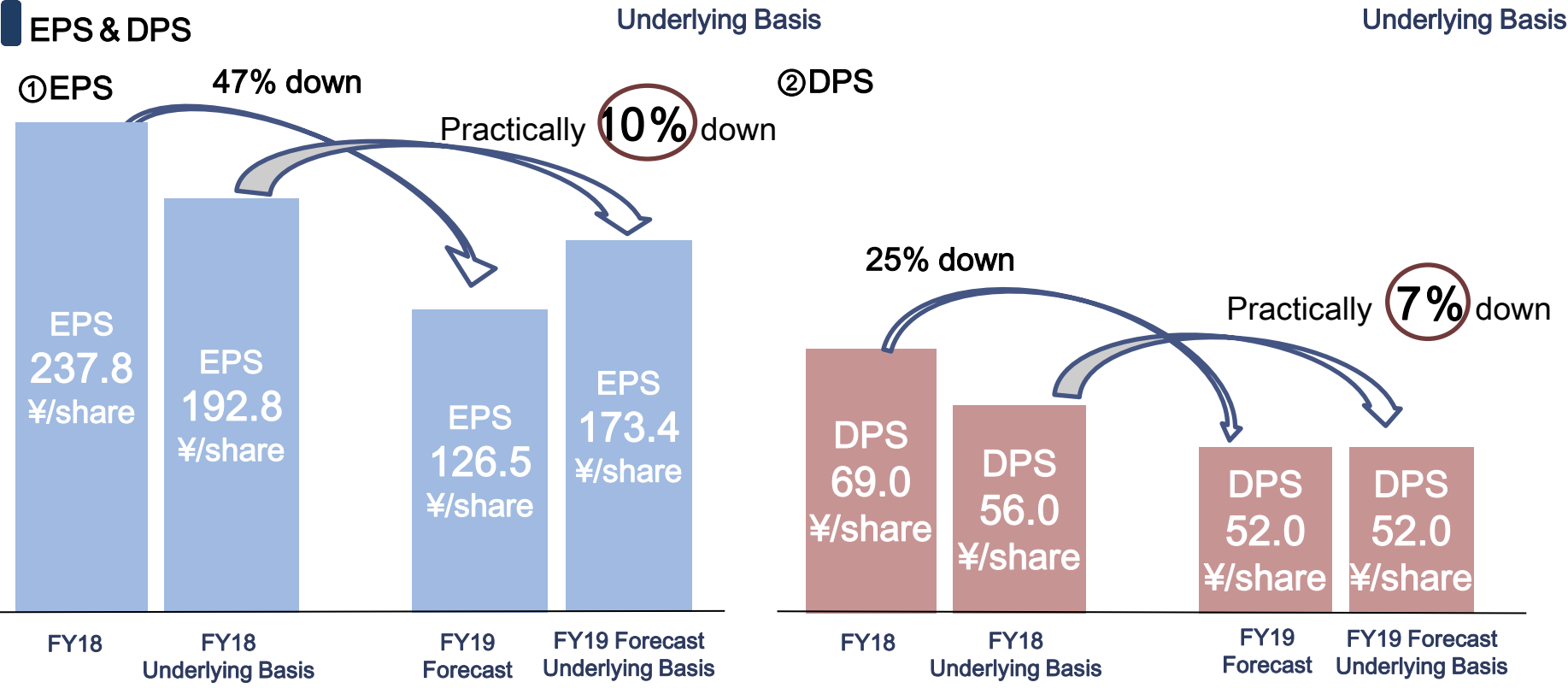
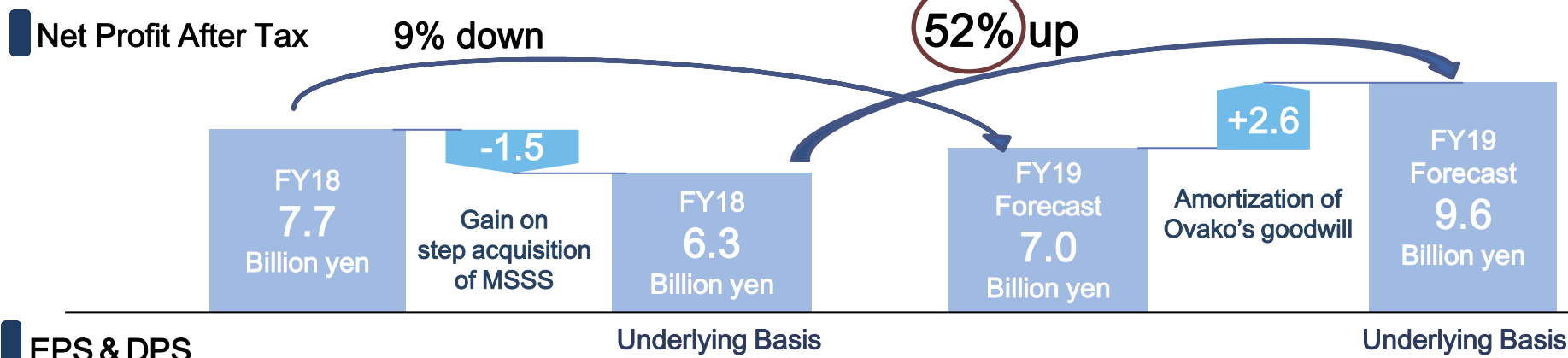
- Reducing operating cost by improving energy intensity and efficiency
- Reducing procurement cost by use of Chinese Electrodes
- Increasing orders for high-profit products through expansion of sales network etc.
- Securing orders for National Railway
- Reducing outsourcing costs by optimizing number of personnel

## Revision of Dividend Forecast for FY19

			Revised forecast (A)			Previous forecast (B)			Change(B) → (A)			(Reference) FY18 Result
			FY19 1st Half	FY19 2nd Half	FY19	FY19 1st Half	FY19 2nd Half	FY19	FY19 1st Half	FY19 2nd Half	FY19	
Earnings Per Share	A	¥/ share	53.6	/	126.5	81.8	/	124.5	-28.3	/	+2.0	237.8
Earnings Per Share before amortization of Ovako's goodwill	B	¥/ share	76.8	/	173.4	105.8	/	172.5	-29.1	/	+0.9	/
Dividend	C	¥/ share	<b>23.0</b>	<b>29.0</b>	<b>52.0</b> (*)	31.7	20.0	51.7	<b>-8.7</b>	<b>+9.0</b>	<b>+0.3</b>	69.0 Interim 45.0 Year-end 24.0
Payout Ratio	C / A	%	<i>43.0</i>	/	<i>41.1</i>	<i>38.7</i>	/	<i>41.5</i>	+4.3	/	<b>-0.4</b>	<i>29.0</i>
	C / B	%	<i>30.0</i>	/	<i>30.0</i>	<i>30.0</i>	/	<i>30.0</i>	-	/	-	/

\* Dividend per share for FY19 revised forecast is calculated in consideration of the repurchase of shares.  
(Payout ratio(C/B) is not changed at 30%.)

# EPS & DPS

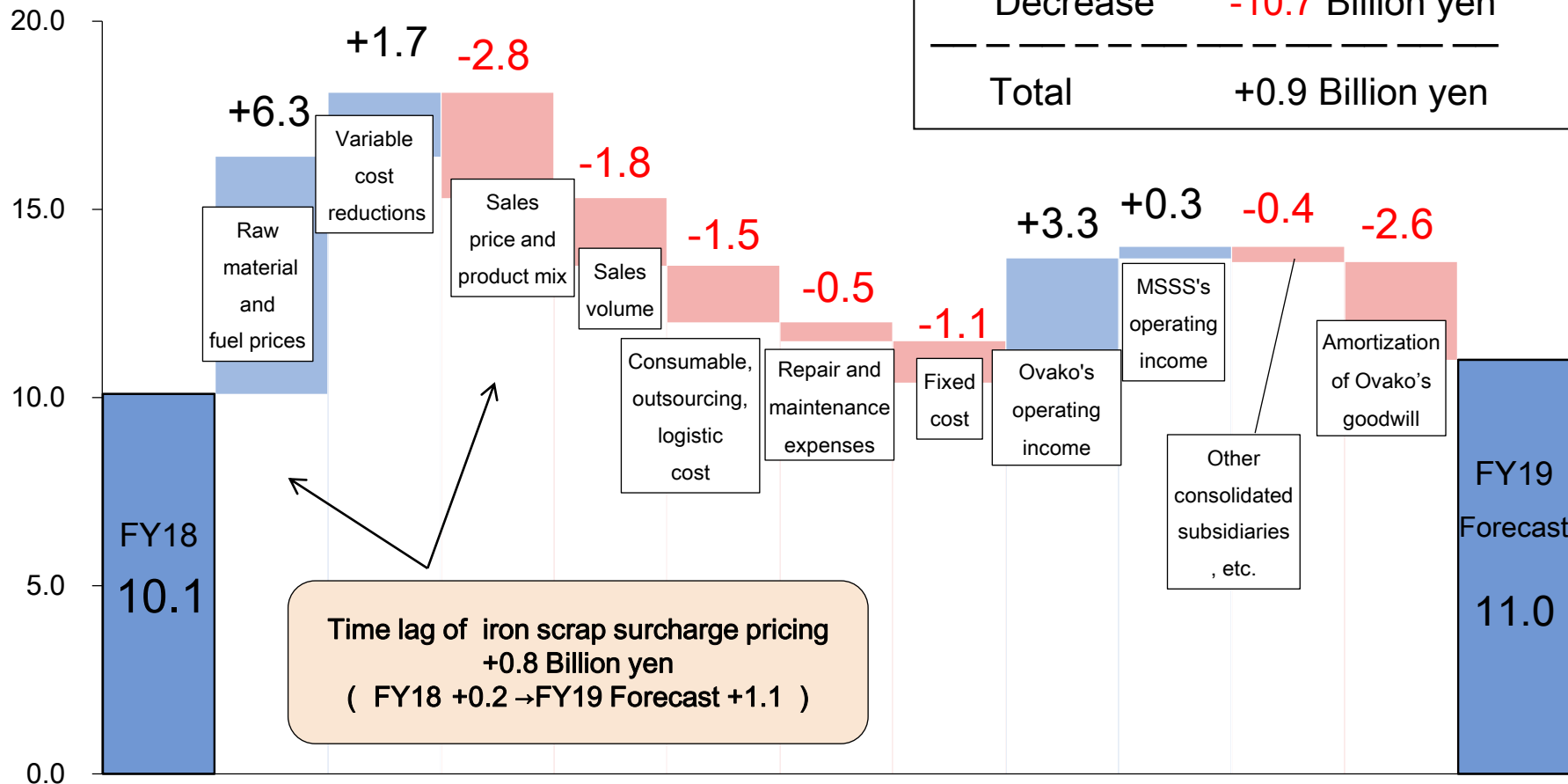




# Operating Income Variance Analysis

FY18(10.1) → FY19 Revised Forecast (11.0)(+0.9 Billion yen)

(Billion yen)



Increase	+11.6 Billion yen
Decrease	-10.7 Billion yen
<hr/>	
Total	+0.9 Billion yen

# Changes in Financial Indicators

		FY14	FY15	FY16	FY17	FY18	FY19 1Q
ROE (Net Income to Net Assets) *1	%	6.1	6.6	6.6	5.6	4.8	3.6
ROS (Operating Income to Net Sales)	%	5.3	8.2	8.4	7.0	5.4	3.2
ROA (Ordinary Income to Total Assets) *1	%	4.8	6.0	6.5	5.4	3.2	2.5
Equity Ratio	%	55.8	62.4	66.7	61.0	52.3	52.8
Interest-bearing Debt (Net)	Billion yen	33.2	14.3	12.7	28.4	69.0	70.5
Net D/E Ratio	Times	0.29	0.13	0.10	0.22	0.34	0.36
Earnings Per Share*2	¥/share	203.0	230.0	241.5	218.3	237.8	31.8
Net Assets Per Share*2	¥/share	3,498	3,483	3,797	3,961	3,481	3,436
Number of Employees at End of Period*3	Persons	2,706	2,625	2,598	2,666	6,835	6,880

\*1 ROE and ROA are annualized

\*2 We conducted a one-for-five reverse stock split of our company's shares effective on October 1, 2017.

Earnings Per Share and Net Assets Per Share are adjusted after the one-for-five reverse stock split .

\*3 Number of Employees in FY19/1Q includes about 3,000 persons for Ovako and about 1,000 persons for MSSS.

## (1) Repurchase of shares and cancellation of treasury stock

We resolved to repurchase the company's shares, and to cancel treasury stock at the meeting of the Board of Directors in June 19, 2019.

### ① Details of the repurchase

( 1 ) Type of shares to be repurchased	Common stock
( 2 ) Number of shares to be repurchased	1,730,000 shares (maximum) (3.1% of the number of issued shares excluding treasury stock)
( 3 ) Total value of shares to be repurchased	3.0 billion yen (maximum)
( 4 ) Repurchase period	From June 20,2019, to December 23, 2019
( 5 ) Methods of repurchase	Purchase on the Tokyo Stock Exchange based on discretionary trading contracts

(Reference)Total number of shares repurchased as of June 30,2019 are 34,000 shares.

### ② Details of cancellation of treasury stock

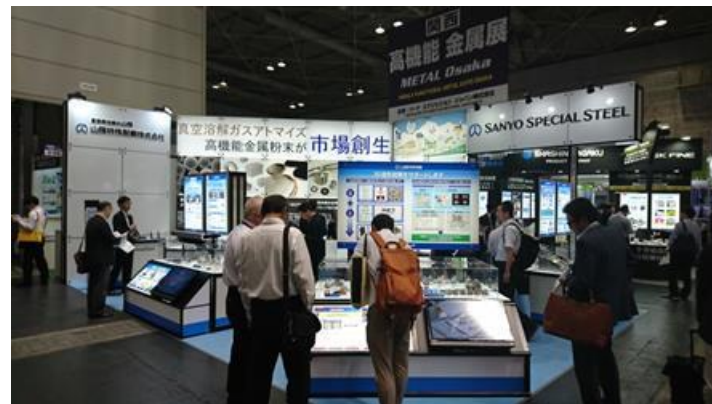
We will cancel 2,930,000 shares in January 31,2020. (5.1% of the number of issued shares before cancellation)

(Reference)About total return		FY18	FY19 Forecast	
Dividend	Billion yen	2.8	2.9	
Repurchase of Shares		0.0	3.0	
Total Return to Shareholders		2.8	5.9	
Net Income		7.7	(After amortization of Ovako's goodwill ) 7.0	(Before amortization of Ovako's goodwill ) 9.6
Total Return Ratio	%	36.2	83.6	60.9

# Other Topics

## (2) Highly functional Metal Expo

- In May 2019, we exhibited highly functional gas-atomized metal powders, powder metallurgy products, examples of moldings by 3D printing etc.
- Our exhibition attracted much interest to visitors.



## (3) Cultural lecture sponsored by Sanyo Special Steel Culture Promotion Foundation

- It was held at Himeji City Cultural Center in May 2019.
- The lecture was presented by Yuji Ikegaya who is a professor of Pharmacy, University of Tokyo and researches about the brain.
- He explained the differences between artificial intelligence (AI) and humans based on the latest findings from brain science with humor.





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### (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)

