

FY2020 / Q1 Financial Results and Strategic Update

Aug. 6, 2020

Nippon Steel Trading

President Yasumitsu Saeki



**NIPPON STEEL
TRADING**

Highlight: FY2020 / Q1 Results

Harsh Environment

COVID-19 Impacts

- Japan: Demand for steel products, clothing sales, and eating-out demand fell on a record decline.
- Overseas: In a strict lockdown system with each country (excluding China), economic activity stagnated, and both exports and local sales dropped significantly.

Steel Demand (Domestic + Export) (METI)

2019/Q1 2020/Q1
23 MT → **17** Mt ▲ **23%**

Sales of Clothing in Department Stores (JDSA)

2019/Q1 2020/Q1
 ¥414.5 billion → **¥168.9 billion** ▲ **59%**

FY2020/Q1 Results

Profits Decreased Due to Sales Decline

- NST staff work from home in principle.
- Despite Company-wide efforts at cost-saving activities, profits declined due to harsh sales environment.

¥ billion	2019/Q1	2020/Q2	Change	
Sales	628.7	479.3	-24%	▲149.4
Ordinary Profit	8.1	4.6	-43%	×3.5
Net Profit	5.2	2.7	-48%	×2.5

Forecast for FY2020 and Our Initiative

Assuming that the Severe Environment Will Continue Even in Post COVID-19 Era.



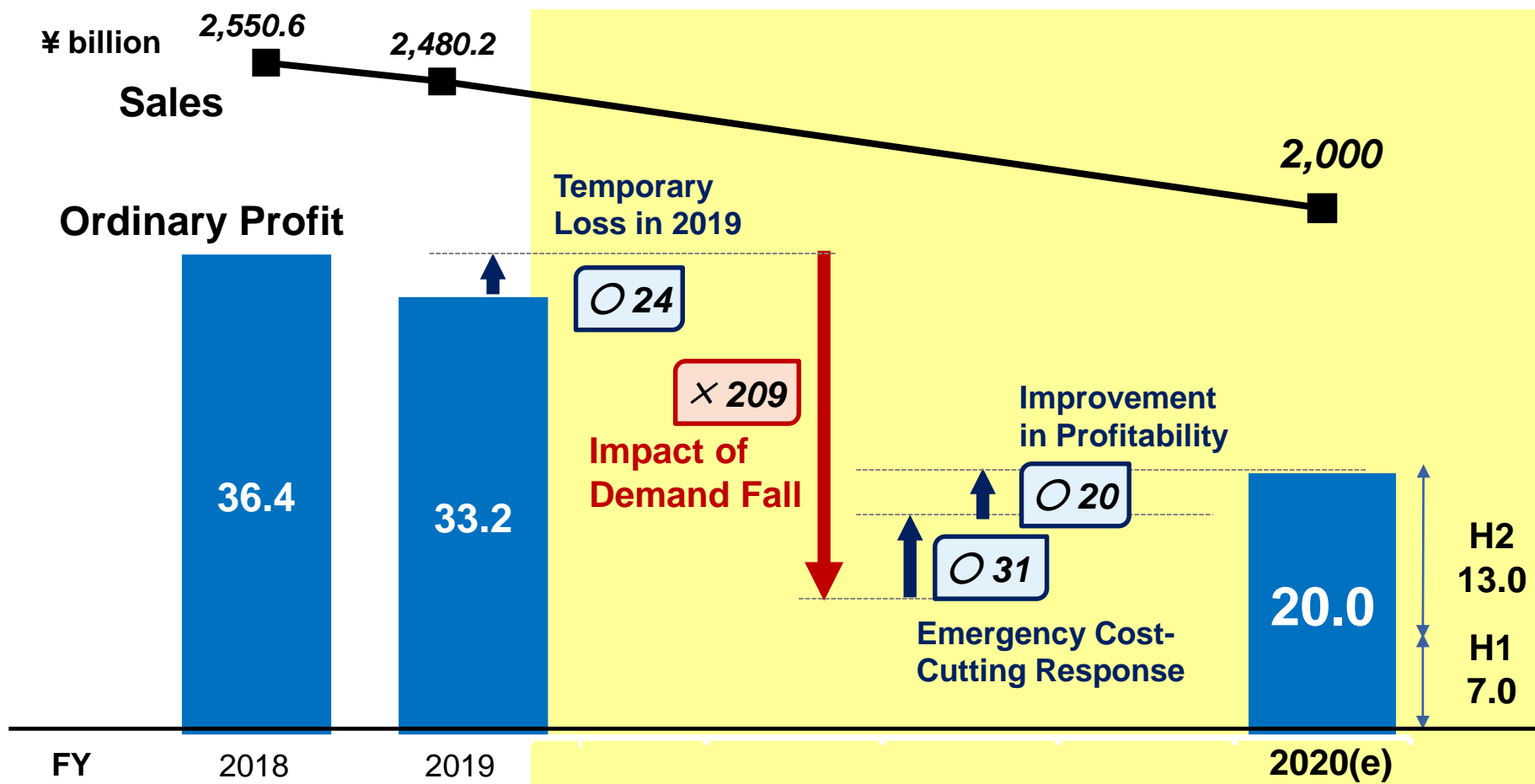
Working on Measures to Strengthen Our Profit Structure and Return to a Growing Company.

¥ billion	FY2019	FY2020 Forecast	Change	
Sales	2,480.2	2,000	-19%	▲480.2
Ordinary Profit	33.2	20.0	-40%	×13.2
Net Profit	20.7	10.0	-52%	×10.7
Dividend (¥)	20.0	10.0		▲10.0

1. FY2020 Forecast

Overview: FY2020 Sales and Ordinary Profit Forecast

- Although the global economy will recover gradually from COVID-19 pandemic impact, structural problems will remain in the Steel and the Textiles sector.
- FY2020 Forecast: Sales: ¥2,000 billion, Ordinary Profit: ¥20 billion.
- The comprehensive action for cost reduction will be continued.



FY2020 Forecast by Segment

¥ billion	FY2019		(%:YoY, Excepting Temporary Factors)				
	Results	Excepting Temporary Factors	H1 (e)		H2 (e)	FY2020 Forecast	
			Q1				
Steel	2,118.6		406.8	800	880	-21%	1,680
I & I	87.7		18.6	37	43	- 9%	80
Textiles	130.0		20.2	45	55	-23%	100
Food	142.8		33.5	68	72	- 2%	140
Sales	2,480.2		479.3	950	1,050	-19%	2,000
Steel	22.2	<-3.2> 25.4	4.5	6.0	9.2	-40%	15.2
I & I	3.7	<0.8> 2.9	<-0.5> 0.4	0.5	0.8	-55%	1.3
Textiles	4.6	4.6	(0.2)	(0.5)	1.7	-74%	1.2
Food	2.4	2.4	0.4	1.0	1.3	- 4%	2.3
Ordinary Profit	33.2	<-2.4> 35.6	<-0.5> 5.2	7.0	13.0	-44%	20.0

<Temporary Factors>

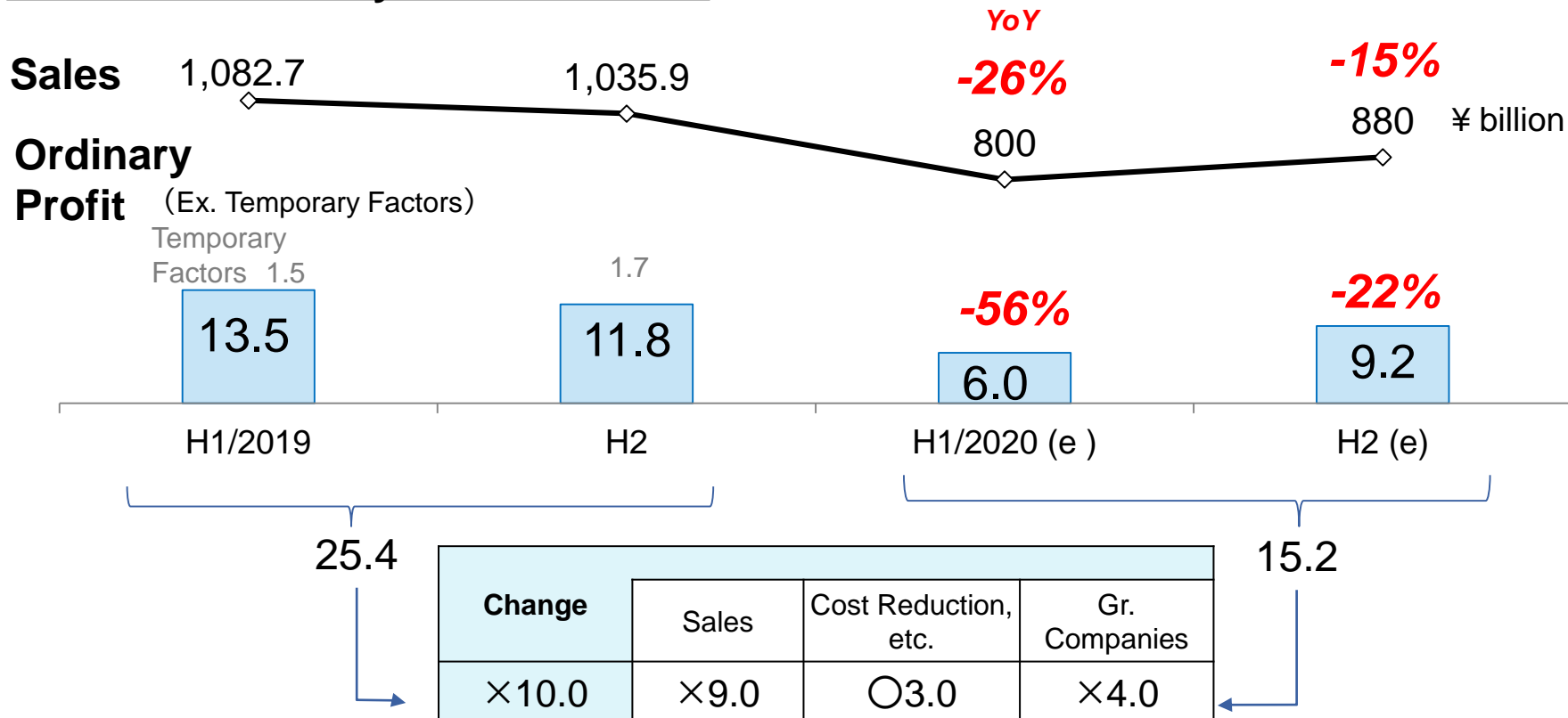
Forecast by Segment

Steel

Sales ▲21%
 Ordinary Profit ▲40%
 (Ex. Temporary Factors)

Million tons	FY2019	FY2020 (e)	Change
Domestic	11.67	9.5	▲2.2
Overseas	8.25	6.5	▲1.8
Consolidated Sales Volume	19.92	Approx. 16.0	Approx. ▲4.0

Sales and Ordinary Profit Forecast

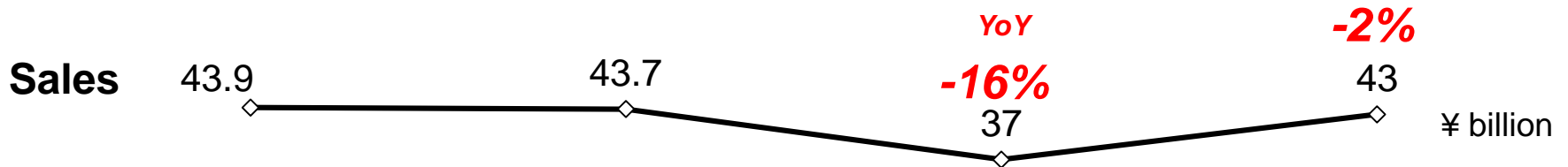


Forecast by Segment

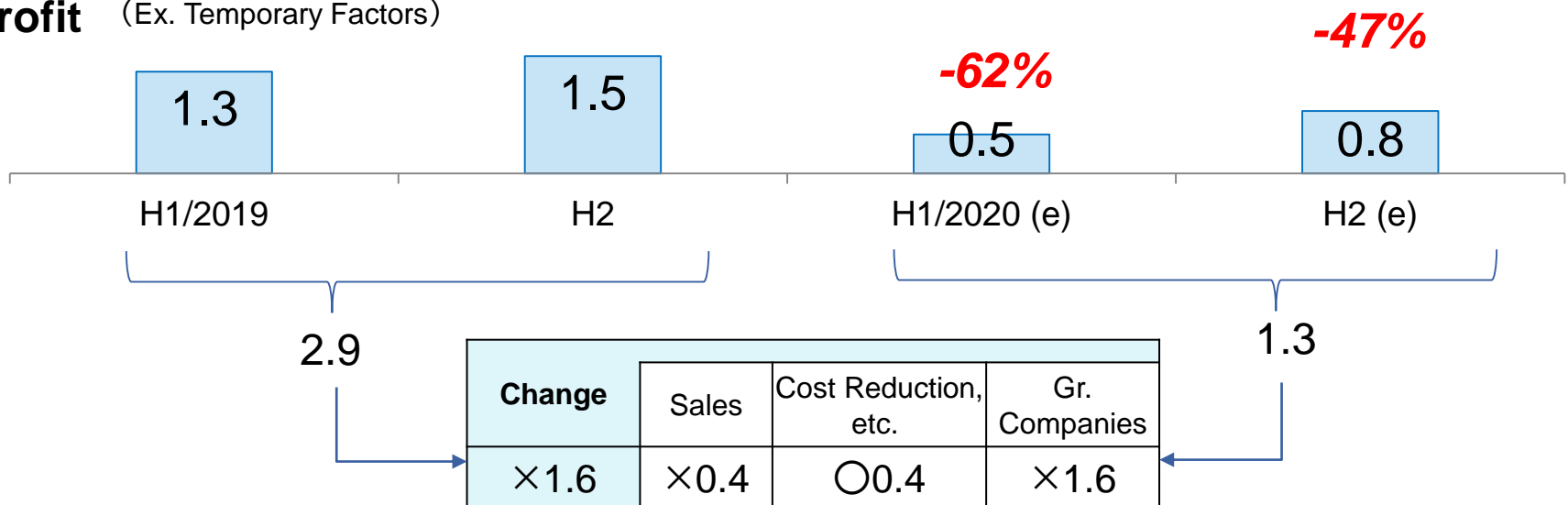
Sales ▲ 9%
 Ordinary Profit ▲ 55%
 (Ex. Temporary Factors)

- Profit will decline in automobile parts business.

Sales and Ordinary Profit Forecast



Ordinary Profit (Ex. Temporary Factors)



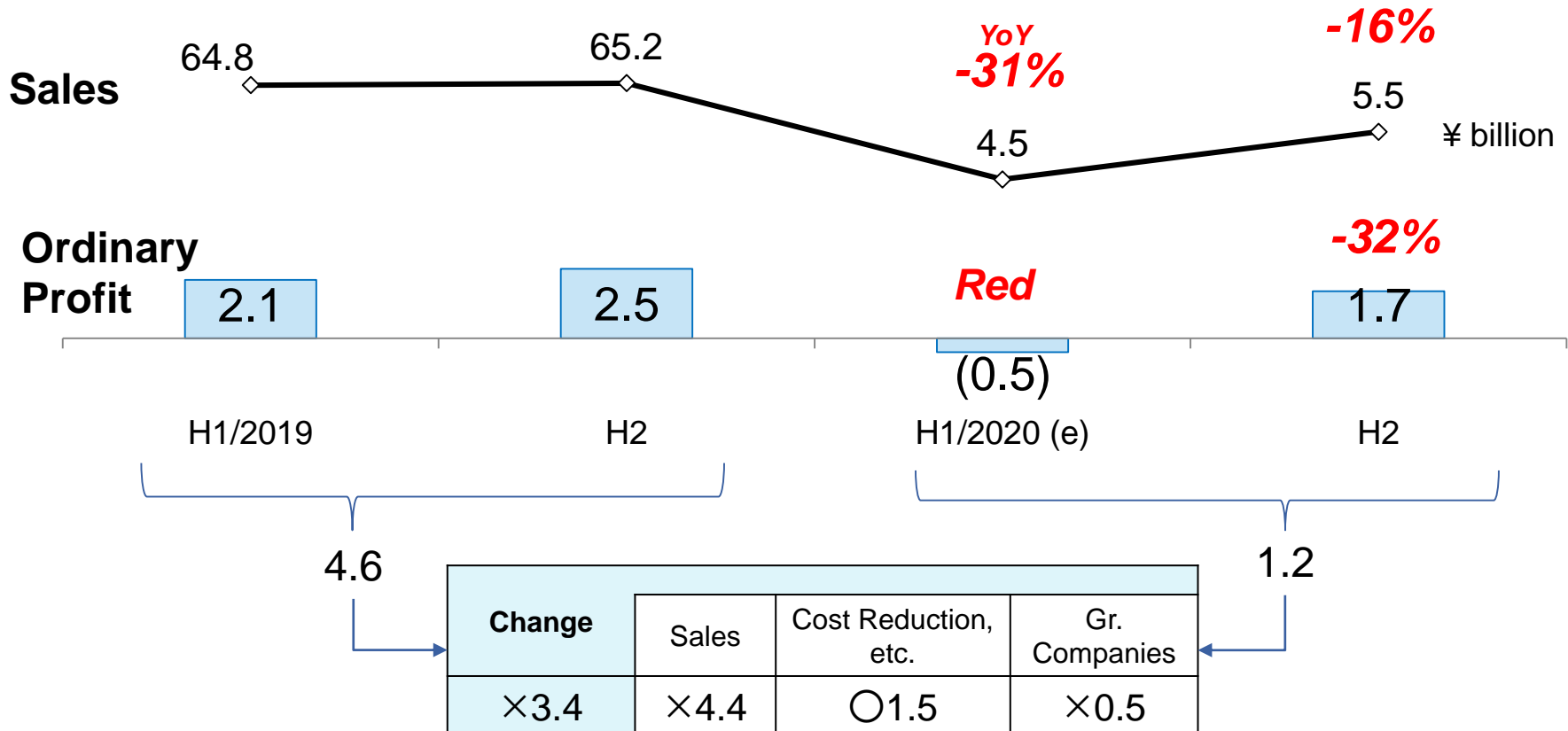
Forecast by Segment

Textiles

Sales ▲23%
Ordinary Profit ▲74%

- Profit will drop into the red due to the closure of retail stores and the effect of customers' stock control. Demand is recovering post-lockdown, but at varying paces.
- We will strongly promote cost improvement and aim to return to the black in the second half.

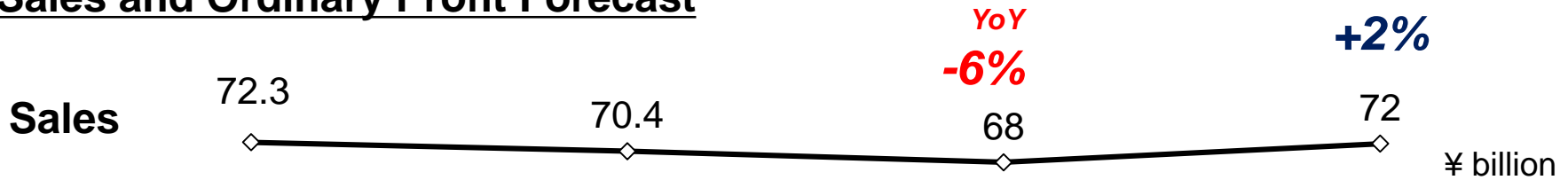
Sales and Ordinary Profit Forecast



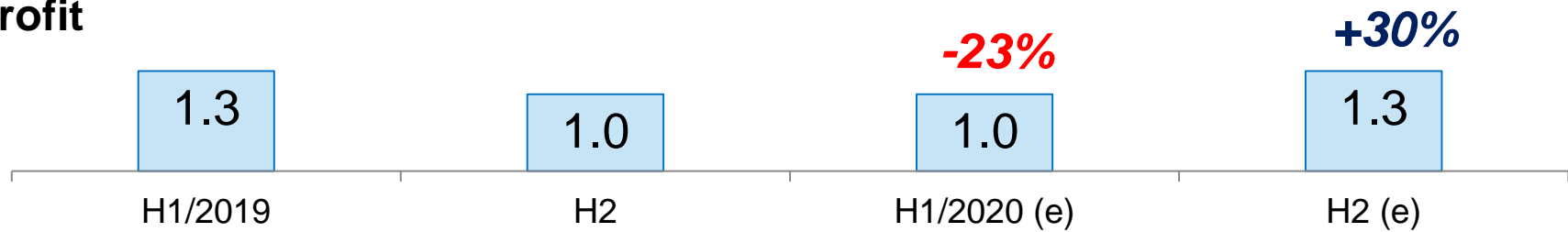
Sales ▲ 2%
 Ordinary Profit ▲ 4%

- The decrease in demand for restaurants will be covered by expansion of sales to mass retailers.
- Aiming to achieve the same level profit as the previous year.

Sales and Ordinary Profit Forecast



Ordinary Profit

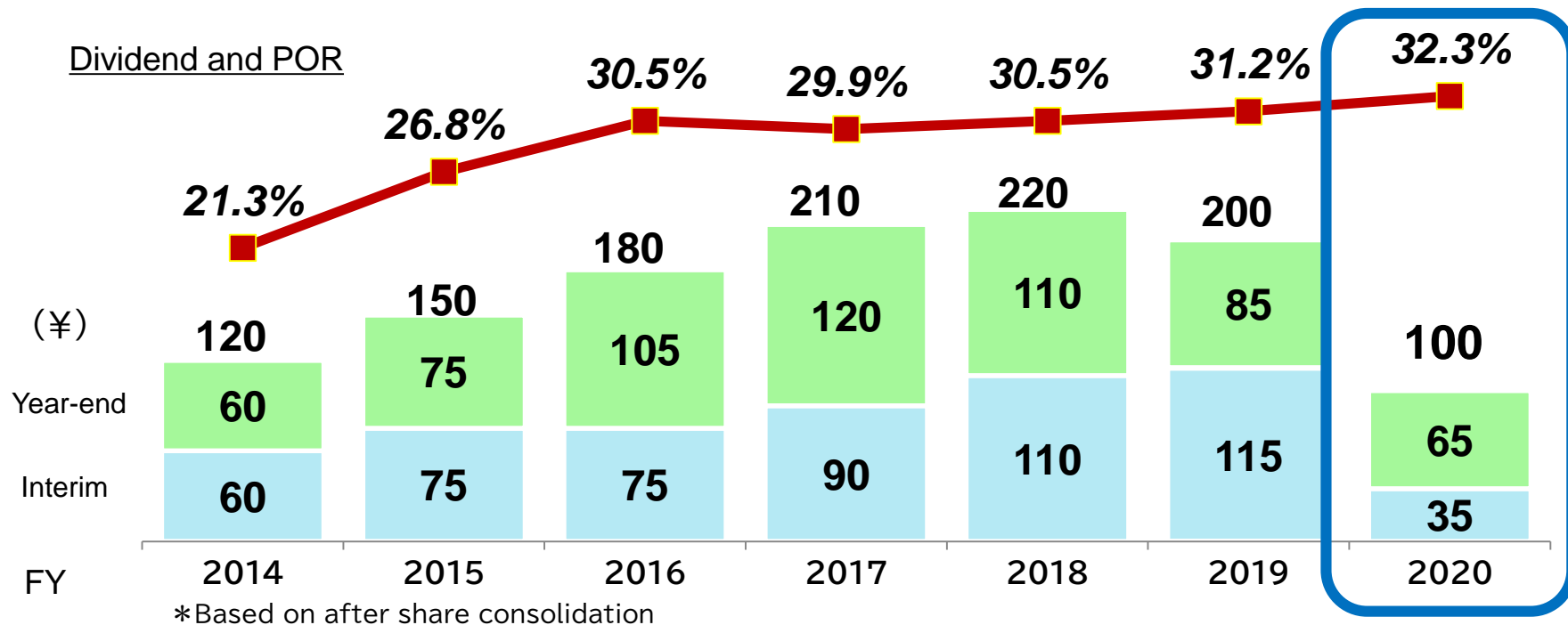


Change	Sales	Cost Reduction, etc.	Gr. Companies
	× 0.1	○ 0.3	× 0.1

2.4 (Total Change from H1/2019 to H2) 2.3 (Total Change from H1/2020 to H2)

Forecast for Dividends

¥ billion	FY2019	FY2020 (e)		Change
		H1 (e)	H2 (e)	
Ordinary Profit	33.2	7.0	13.0	▲40%
Net Profit	20.7	3.5	6.5	▲52%
Dividend (¥)	200	35	65	▲ 100
POR	31.2%	32.3%	32.3%	+1.1%



2. Our Initiative

Action Plan Has Already Started

	FY2019	2020		2021		2022
	Q4	H1	H2	H1	H2	
Economic Condition	The Crisis Caused by COVID-19	Sluggish Recovery (Nonlinear)				
Estimated Demand Level		Approx. -25%	Approx. -10~-15%	Structural Problem in the Steel and the Apparel Sector Will Remain. →		

Action Plan

A. Both Preventing the Spread of COVID-19 and Maintaining Healthy Business Operations

Promoting Emergency Cost-Cutting Response and Credit Control Management

B. Reducing Fixed Costs

① *Restructuring low-Profit Units*

② *Radically Improving Business Productivity*

C. Formulating and Executing Growth Strategies

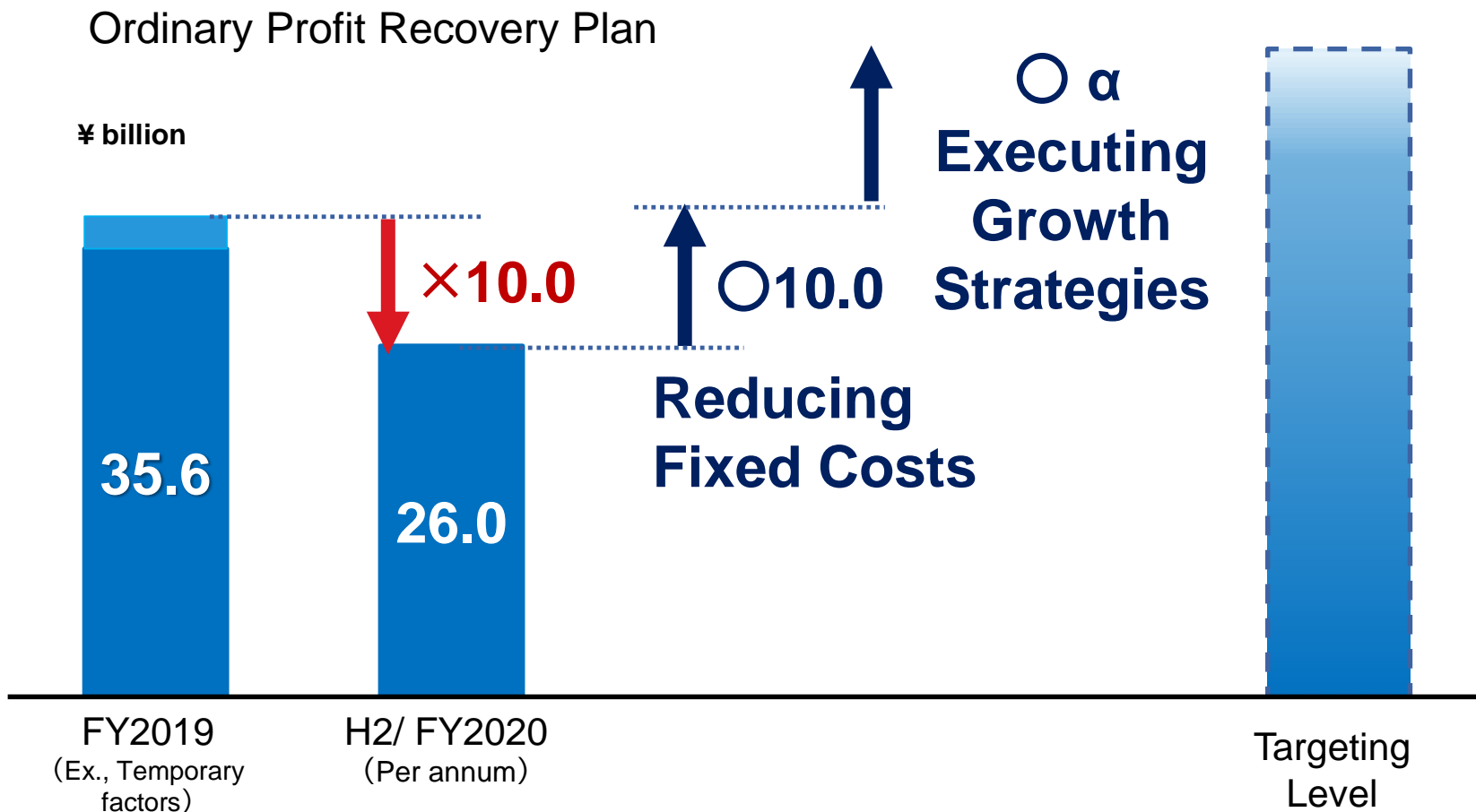
① *Expanding Sales*

② *Promoting New Business Fields*

Using M&A / Alliance to Accelerate Our Strategies

Targeting Profit Level in the Next Few Years

- Structural Problem in the Steel and the Apparel Sector Will Remain.
- NST Will Bounce Our Profit Back through the Strong Action Plan.



A. Both Preventing the Spread of COVID-19 and Maintaining Healthy Business Operations

Work from Home

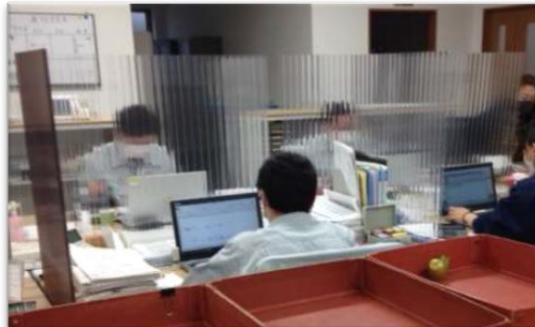
Over 50% of workers are working from home now.

Utilizing IOT, Cloud Computing, Web-Meeting Tools, etc.

Strict Guidance to Prevent Infection

Avoiding Rush Hour, Physical Distancing in Workplace, Prohibition of Business Trip, etc.

Generous Support for Essential Workers



✓ Re-planning of New Headquarters' Office Layout



A. Both Preventing the Spread of COVID-19 and Maintaining Healthy Business Operations

● Promoting Emergency Cost-Cutting Response and Credit Control Management

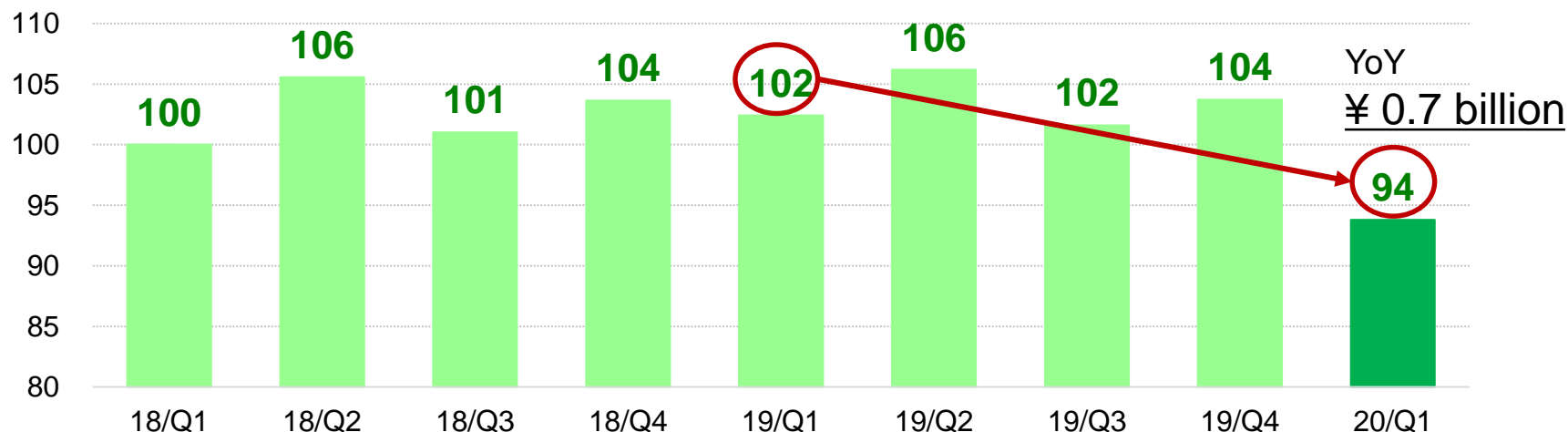
- ✓ Reducing operating costs, reviewing all budgets.
- ✓ Temporary layoffs in some subsidiaries.



Operating Cost Reduction in FY2020 **¥3 billion**

- ✓ Effective credit risk management

Trends of SGA (non-consolidated 2018/Q1=100)



B. Reducing Fixed Costs

① Restructuring Low-Profit Units

- ✓ Consolidating steel service centers / sewing subsidiaries
- ✓ Rebuilding effective sales network in Japan and overseas

② Radically Improving Business Productivity

- ✓ Targeting ratio in productivity: 20~30% improvement
utilizing IOT methods
- ✓ Relocating human resources to growing area or high-growth sectors

NST will reduce its fixed costs about **¥10 billion** over the next few years.

C. Formulating and Executing Growth Strategies

① Expanding Sales

Renewal in Trade Operating System with Digital Technologies

NST launches section for in-house digital-transformation initiatives

Improving Customer Satisfaction

- Reducing customers' labor
- Visualizing service-providing process
- Improving product-consistency quality control

Supporting Customers' SDGs Activity with Eco-Friendly Products and Services

Improving Customers' SDGs Performance

- Advanced materials for lightweight vehicle or electric car
- Recycle materials for clothing
- Antibiotic-free meats

Expanding NST's Value Chain to Address Localism

*Local Procurement
Local Processing
For Local Customers*

Improving Customers' Global Supply Chain

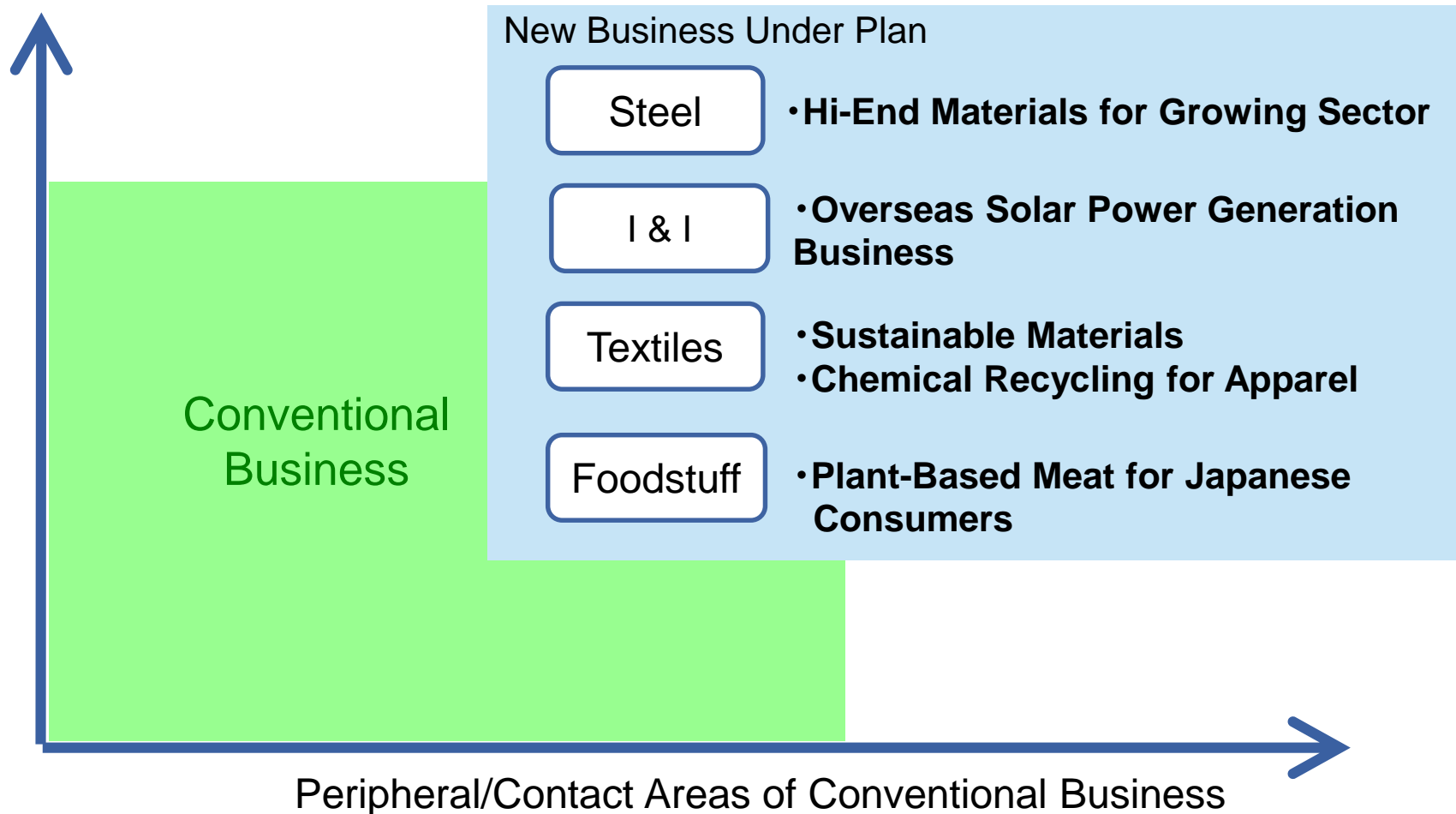
- Steel: Strengthen processing bases in Asia and North America
- I & I: Improving cost competitiveness in automobile parts business.
- Textiles: Expanding sales to Asian buyers.
- Food: Expansion of trilateral trade

< Utilizing **M&A / Alliance** to realize the strategy early >

C. Formulating and Executing Growth Strategies

② Promoting New Business Fields

DX・SDGs・Global



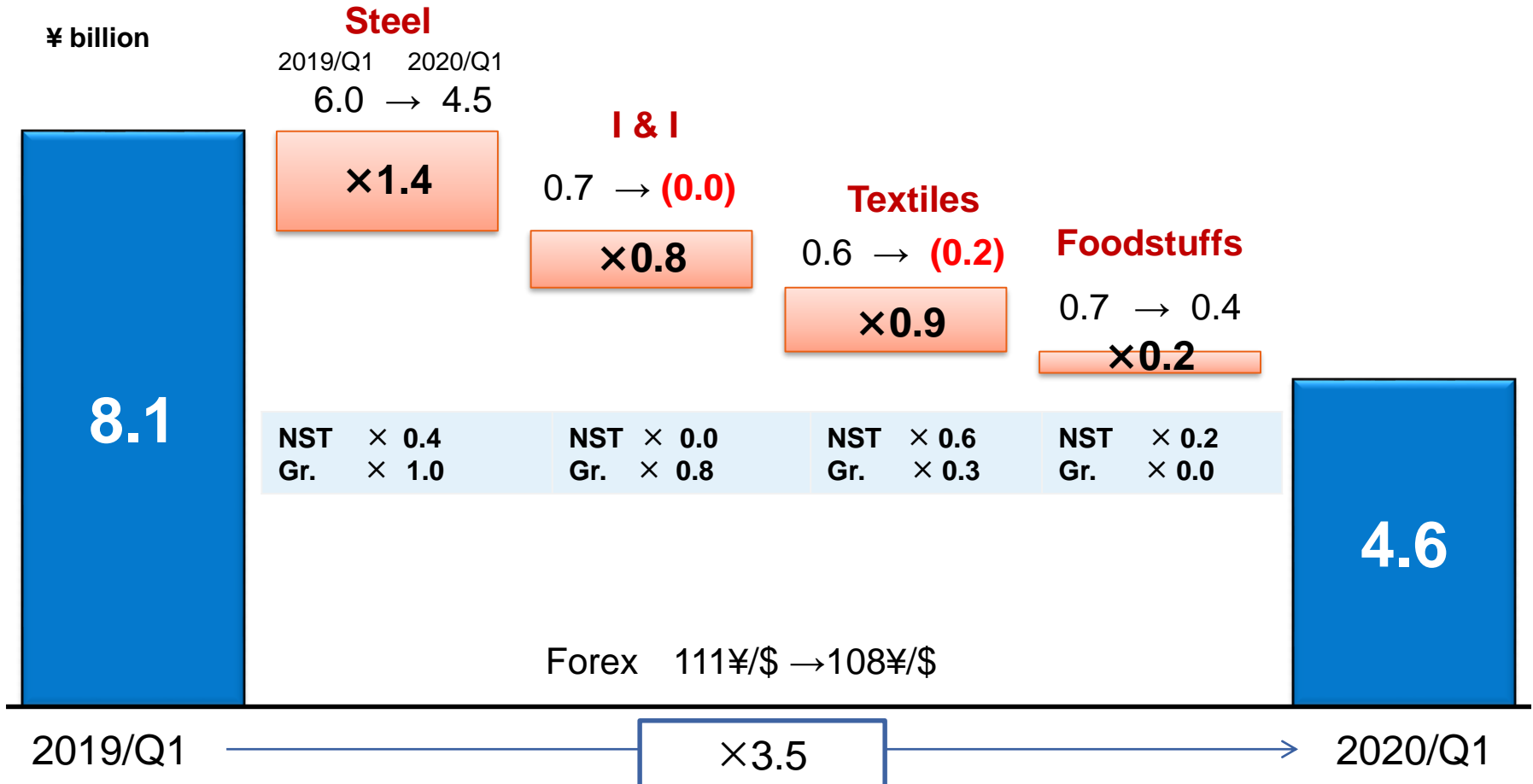
3. FY2020/Q1 Results and FY2020 Forecast

FY2020 / Q1 Results

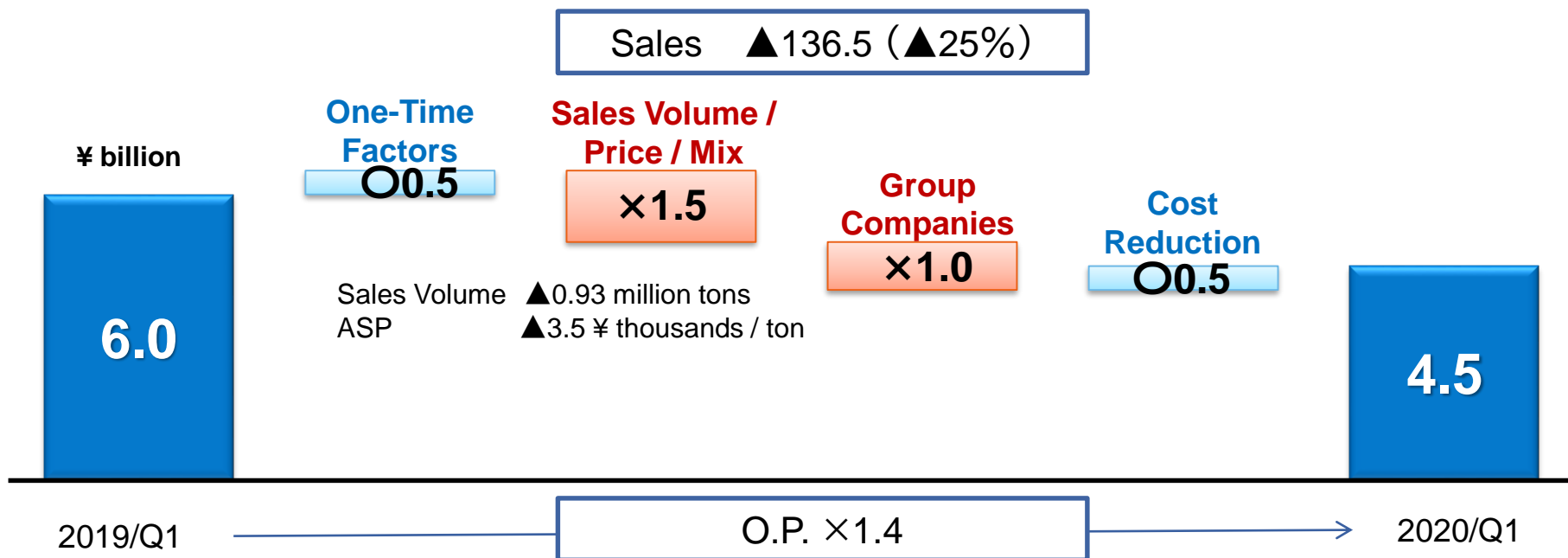
¥ billion					FY2019	FY2020 Q1	Change	
	Q1	Q2	Q3	Q4			YoY	QoQ
Sales	628.7	635.6	617.3	598.5	2,480.2	479.3	-149.4	-119.1
(ratio) Overseas Sales	(28.1%) 176.7	(28.2%) 179.1	(27.5%) 169.5	(28.4%) 170.0	(28.0%) 695.5	(29.8%) 142.6	- 34.1	- 27.4
(ratio) Gross Profit	(5.6%) 34.9	(5.8%) 36.9	(5.8%) 35.7	(5.7%) 33.8	(5.7%) 141.5	(6.0%) 28.5	× 6.4	× 5.2
Operating Profit	8.0	9.3	8.5	6.1	32.0	4.2	× 3.8	× 1.9
Equity Method Income (Loss)	0.4	0.6	0.9	0.7	2.7	(0.0)	× 0.5	× 0.8
Ordinary Profit	8.1	9.2	9.4	6.3	33.2	4.6	× 3.5	× 1.6
Extraordinary Income (Loss)	(0.1)	0.0	0.1	(1.5)	(1.5)	(0.4)	× 0.3	○ 1.0
Total Income Taxes	2.4	2.8	2.7	1.5	9.5	1.1	○ 1.3	○ 0.4
Profit Attributable to Non-Controlling Interests	0.3	0.3	0.3	0.3	1.4	0.3	○ 0.0	○ 0.0
Net Income	5.2	6.0	6.5	2.8	20.7	2.7	× 2.5	× 0.0
EPS (¥)	162.98	188.47	203.54	86.98	641.97	84.68	-78.30	-2.30

Ordinary Profit Variance Analysis [FY2019 / Q1 vs. FY2020 / Q1]

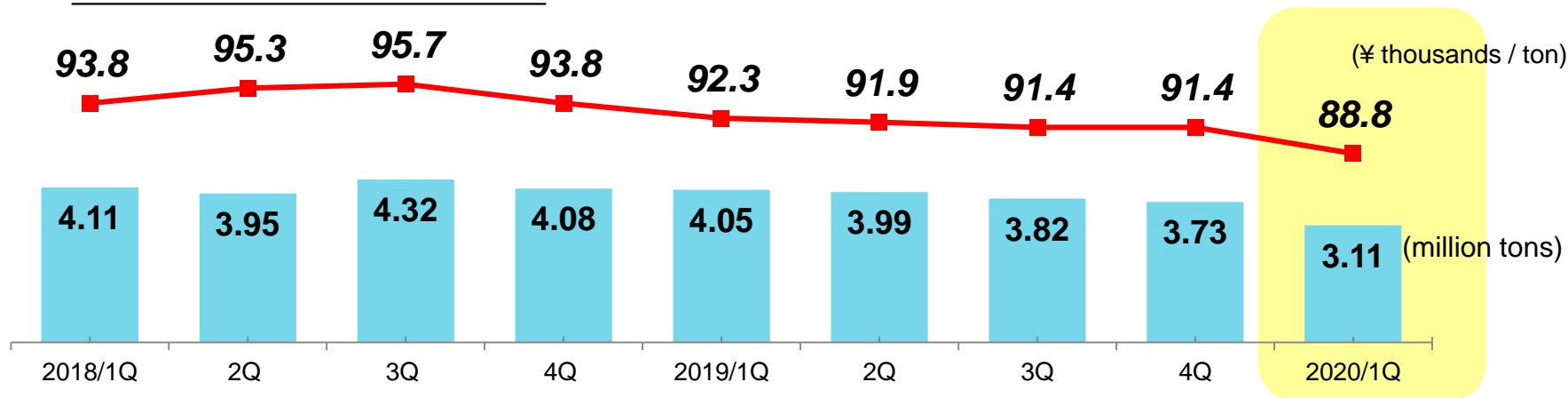
- COVID-19 Having Profoundly Negative Impact on Sales and Profits



Ordinary Profit Variance Analysis [Steel Div.]

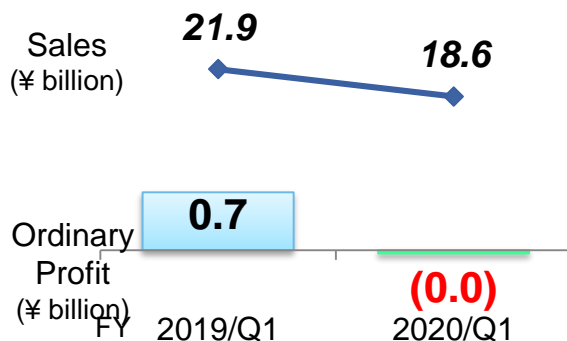


NST Sales Volume and ASP



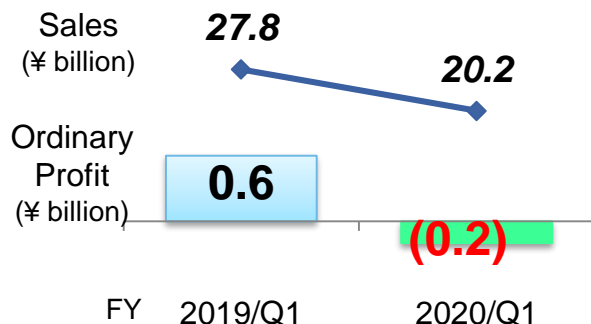
Ordinary Profit Variance Analysis [I & I / Textiles / Foodstuffs Div.]

Industrial Supply & Infrastructure



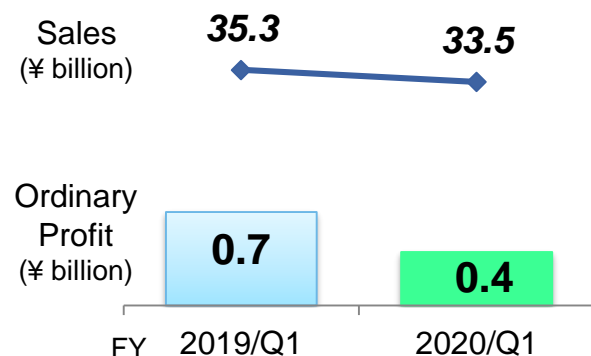
- Sales declined ¥3.2 billion (15.1%) due to a sharp drop in demand from automobile and capital investment.
- Ordinary loss was ¥0.09 billion, a deterioration of ¥0.8 billion due to sales decline and loss on valuation of equity method affiliates.

Textiles



- Sales were ¥20.2 billion, down ¥7.6 billion (27.5%) due to store closures of apparel customers.
- Ordinary loss was ¥0.2 billion, a deterioration of ¥0.9 million due to sales decline and impact of recording allowance for loan losses.

Foodstuffs



- Sales were ¥33.5 billion, down ¥1.8 billion (5.1%) due to the fall in restaurant demand.
- Ordinary profit was ¥0.4 billion, down ¥0.2 billion (40.0%).

Extraordinary Income (Loss)

¥ billion		FY2019/Q1	FY2020/Q2	Change
	Gain on sales of non-current assets	-	0.3	0.3
	Gain on sales of investment securities	0.0	0.0	0.0
Extraordinary Income		0.0	0.3	0.3
	Loss on sales of investment securities	(0.1)	-	0.1
	Loss on valuation of investment securities	(0.0)	(0.2)	-0.2
	Provision for loss on guarantees	-	(0.5)	-0.5
Extraordinary Loss		(0.1)	(0.8)	-0.6
Net Extraordinary Income (Loss)		(0.1)	(0.4)	-0.3

FY2020 Forecast

¥ billion	FY2019		FY2020 (e)				Change	
	H1		Q1	Q2 (e)	H1 (e)		H1	Full Year
Steel	1,082.7	2,118.6	406.8	393.2	800	1,680	-282.7	-438.6
I & I	43.9	87.7	18.6	18.4	37	80	-6.9	-7.7
Textiles	64.8	130.0	20.2	24.8	45	100	-19.8	-30.0
Foodstuffs	72.3	142.8	33.5	34.4	68	140	-4.3	-2.8
Sales	1,264.4	2,480.2	479.3	470.7	950	2,000	-314.4	-480.2
Steel	12.0	22.2	4.5	1.4	6.0	15.2	× 6.0	× 7.0
I & I	1.7	3.7	(0.0)	0.5	0.5	1.3	× 1.2	× 2.4
Textiles	2.1	4.6	(0.2)	(0.2)	(0.5)	1.2	× 2.6	× 3.4
Foodstuffs	1.3	2.4	0.4	0.5	1.0	2.3	× 0.3	× 0.1
Ordinary Profit	17.4	33.2	4.6	2.3	7.0	20.0	× 10.4	× 13.2
Net Profit	11.3	20.7	2.7	0.8	3.5	10.0	× 7.8	× 10.7
EPS (¥)	351.5	641.97	84.68	23.82	108.5	310.0	- 243.0	- 331.97
Dividend (¥)	115	200			35	100	- 80	- 100
POR		31.2%				32.3%		1.1%

Balance Sheet

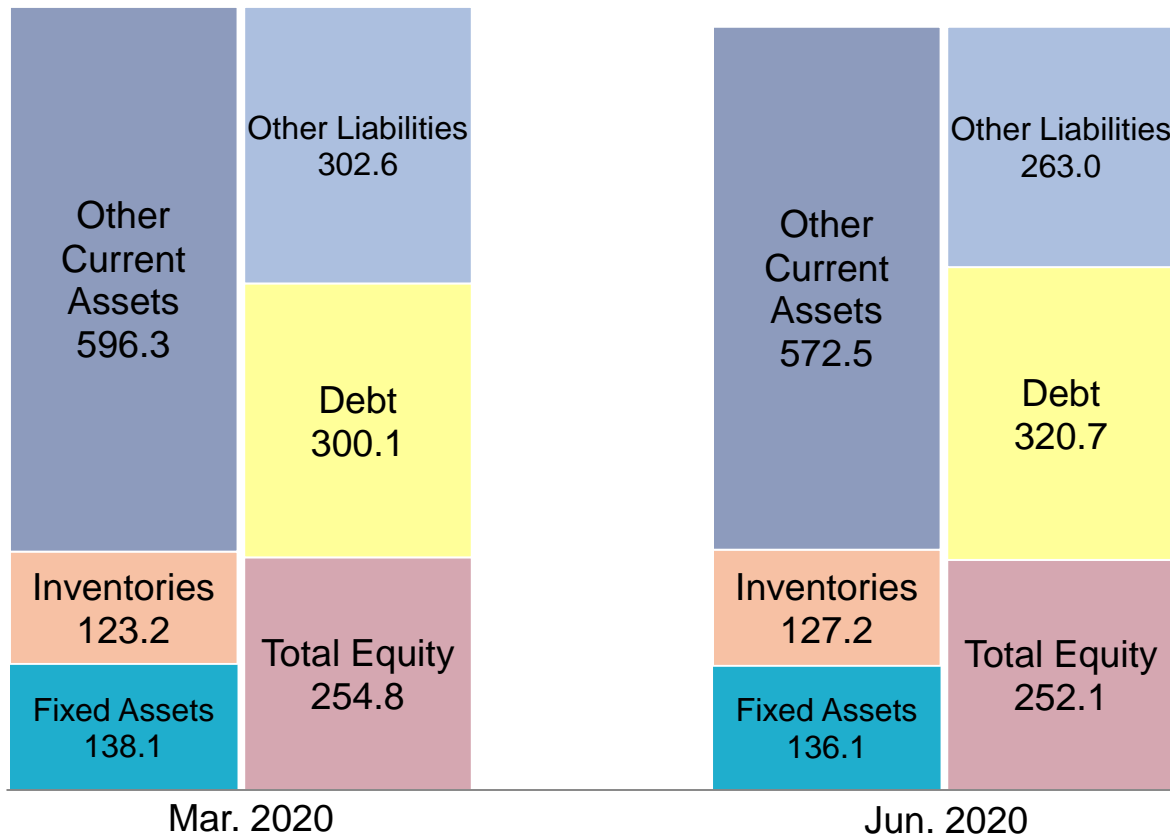
- Improving in Financial Indicator
- Total Assets Decreased Mainly Due to a Decrease in Accounts Receivable

¥ billion

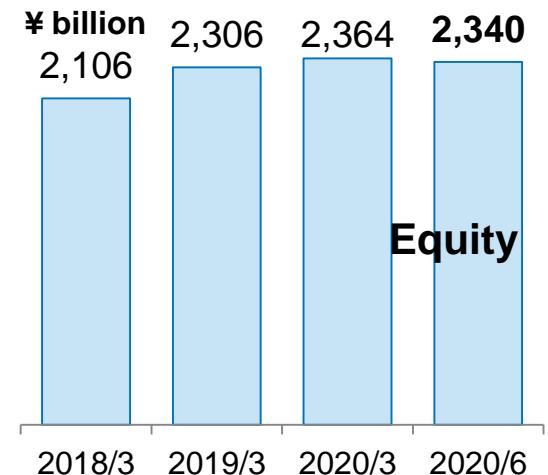
Total Assets 857.7

▲21.8

→ 835.9



	Mar. 2020	Jun. 2020
Equity Ratio	27.6%	28.0%
Net D/E (multiples)	1.16	1.12



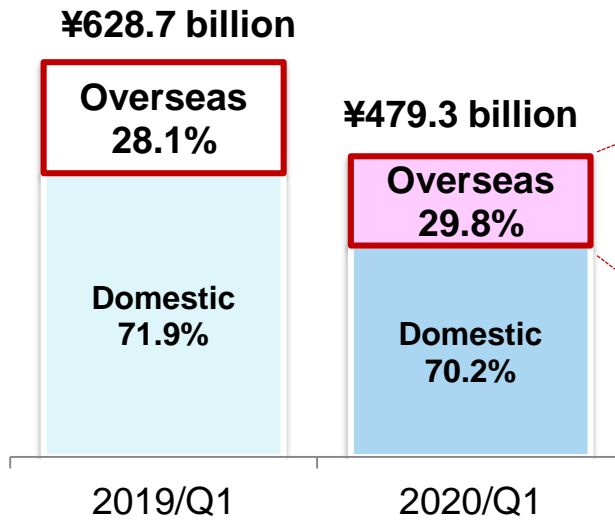
4. Appendix

Sales and Ordinary Profit by Quarter

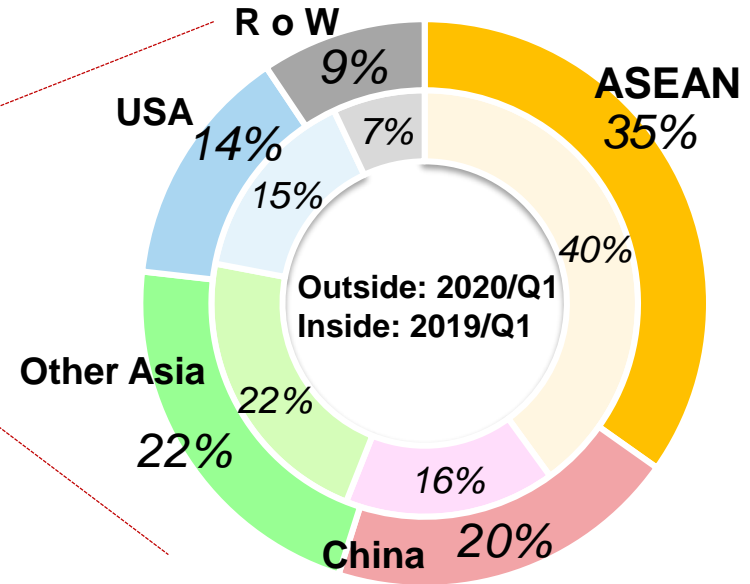
¥ billion	2018				2019				2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Steel	519.4	528.9	561.3	553.2	543.3	539.3	521.5	514.3	406.8
I & I	22.4	23.0	24.3	22.5	21.9	22.0	22.8	20.9	18.6
Textiles	35.3	38.8	37.3	39.3	27.8	36.9	34.7	30.5	20.2
Foodstuffs	34.8	36.0	39.4	32.1	35.3	36.9	37.9	32.5	33.5
Others	0.3	0.4	0.3	0.8	0.2	0.2	0.2	0.1	0.0
Sales	612.3	627.2	662.8	648.1	628.7	635.6	617.3	598.5	479.3
Steel	7.4	6.3	7.0	5.5	6.0	6.0	6.4	3.6	4.5
I & I	0.7	0.6	0.8	0.4	0.7	1.0	1.1	0.8	(0.0)
Textiles	0.9	0.7	0.5	2.1	0.6	1.5	1.2	1.2	(0.2)
Foodstuffs	0.5	0.7	0.7	0.6	0.7	0.5	0.5	0.5	0.4
Others	(0.6)	0.3	0.1	0.0	0.0	0.0	0.0	0.0	(0.0)
Ordinary Profit	9.1	8.8	9.4	8.9	8.1	9.2	9.4	6.3	4.6

Overseas Sales

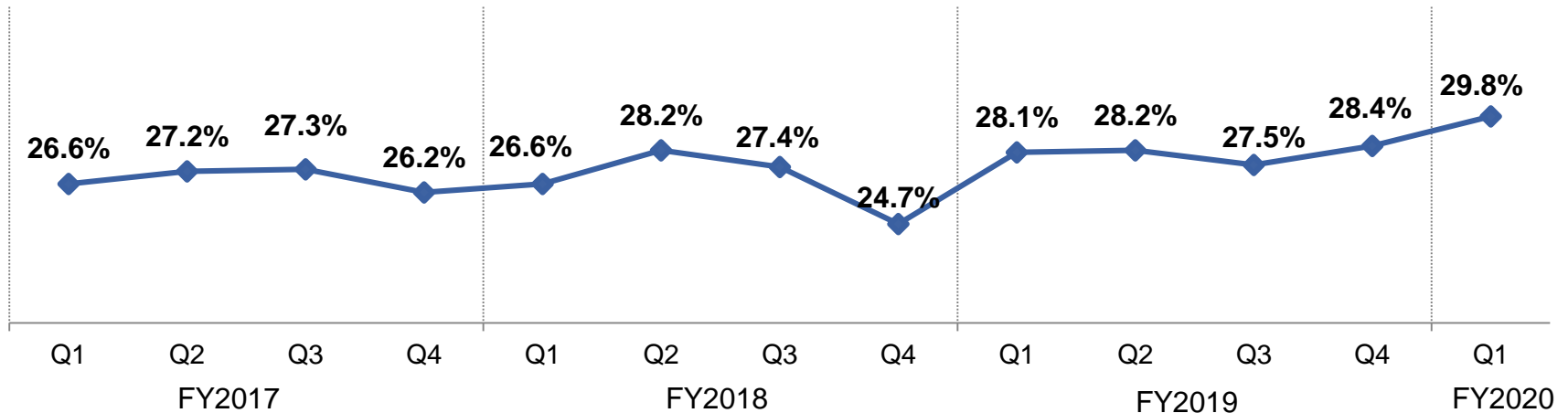
Net Sales



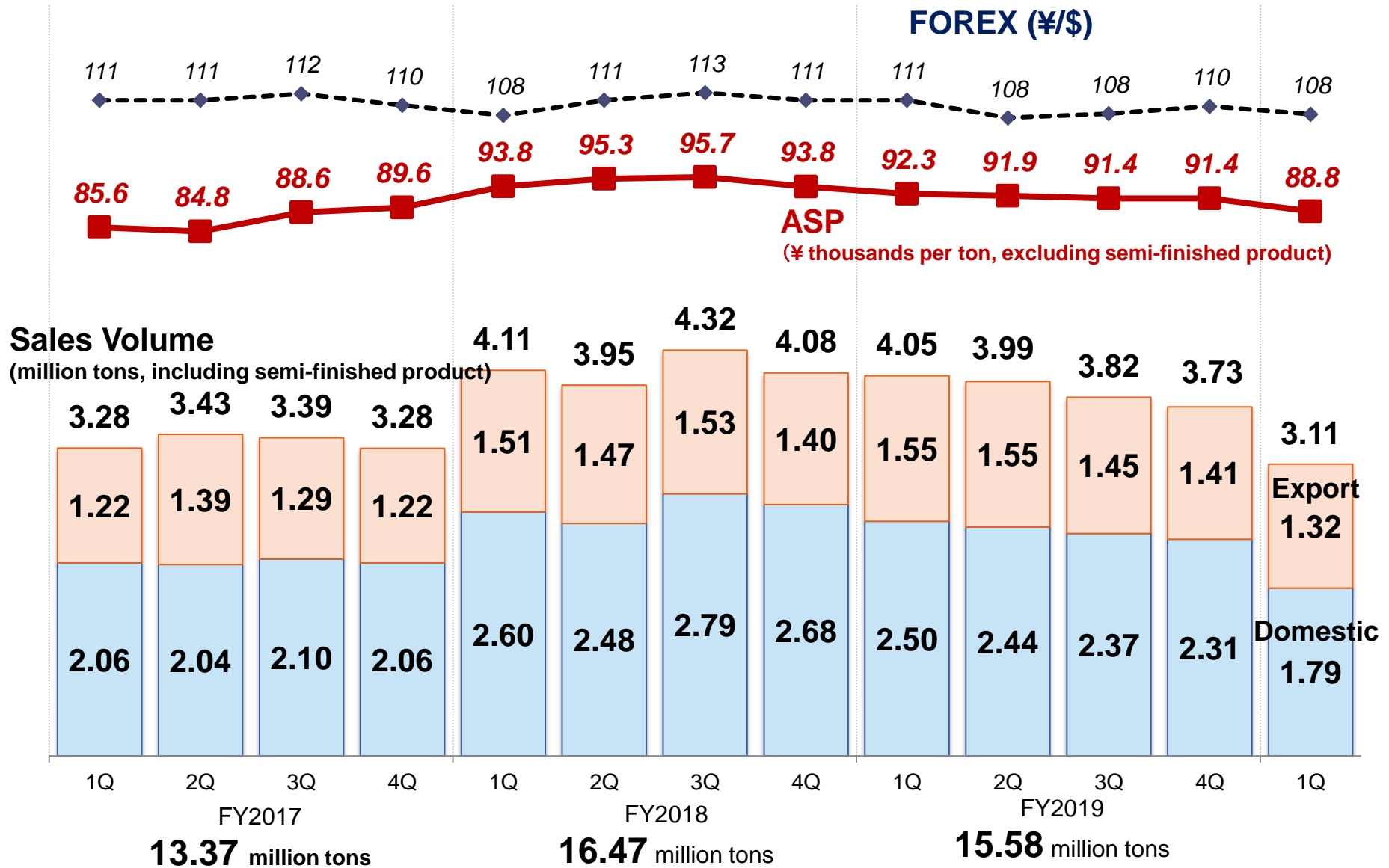
Overseas Sales by Region



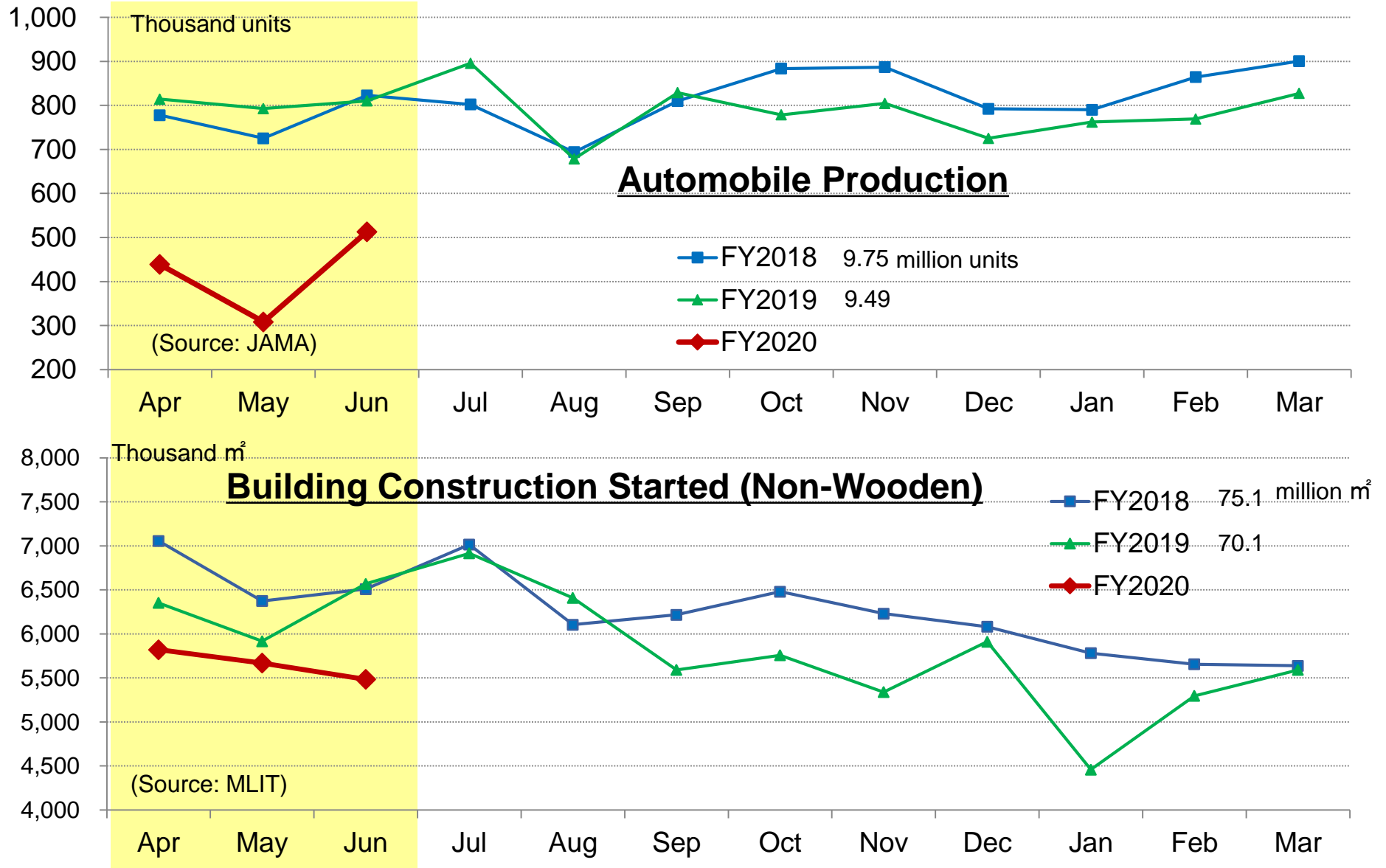
Overseas Sales Trend



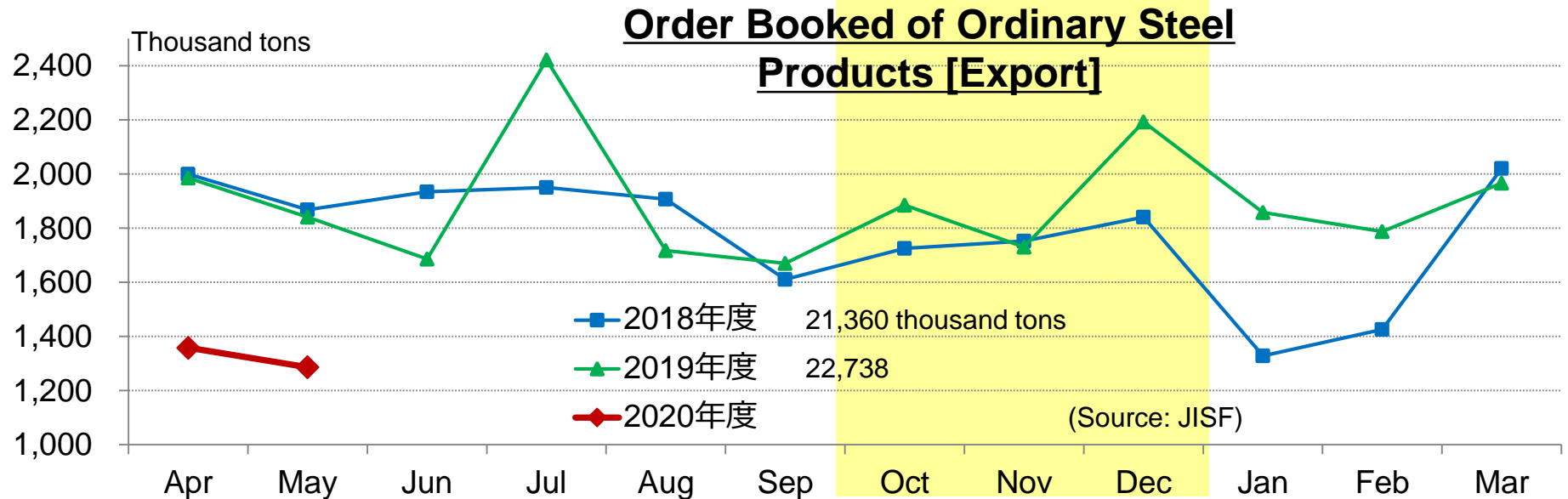
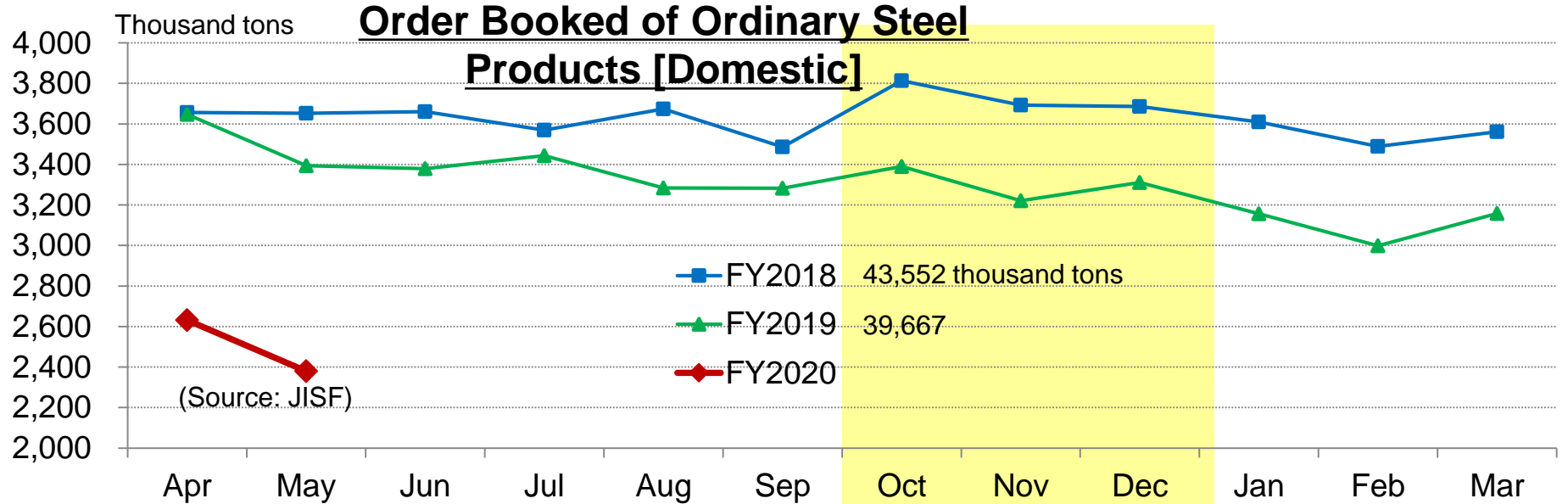
Non-Consolidated Sales Volume and ASP of Steel by Quarter



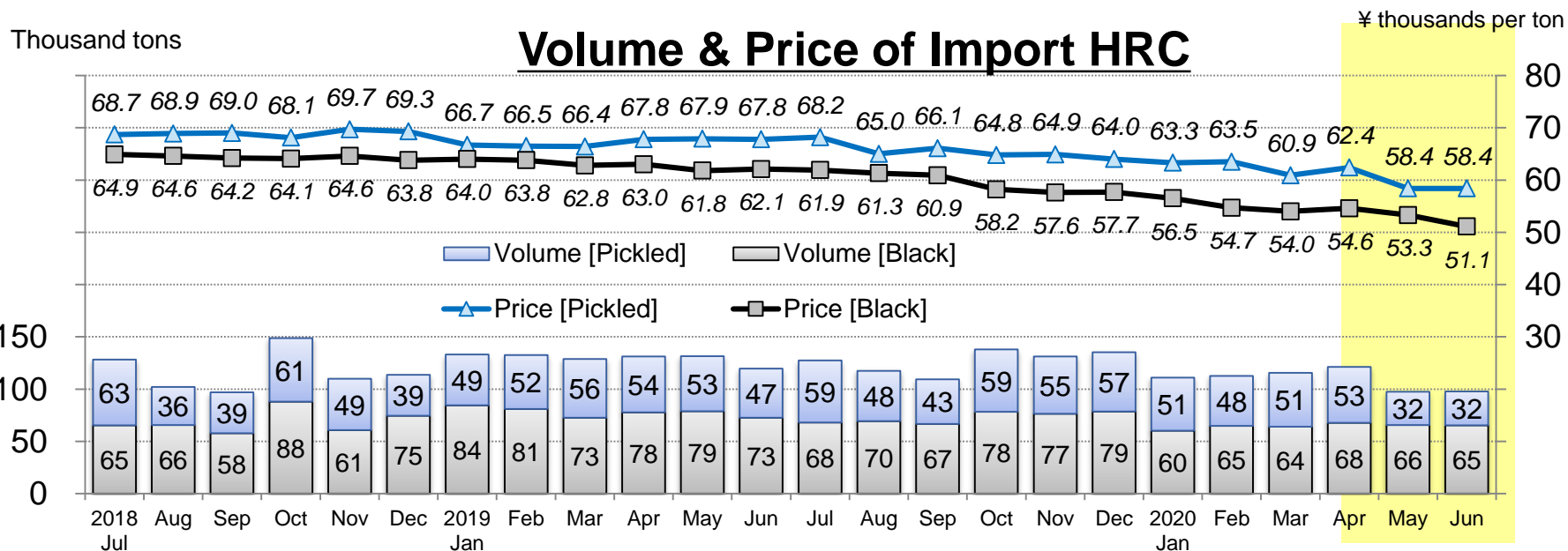
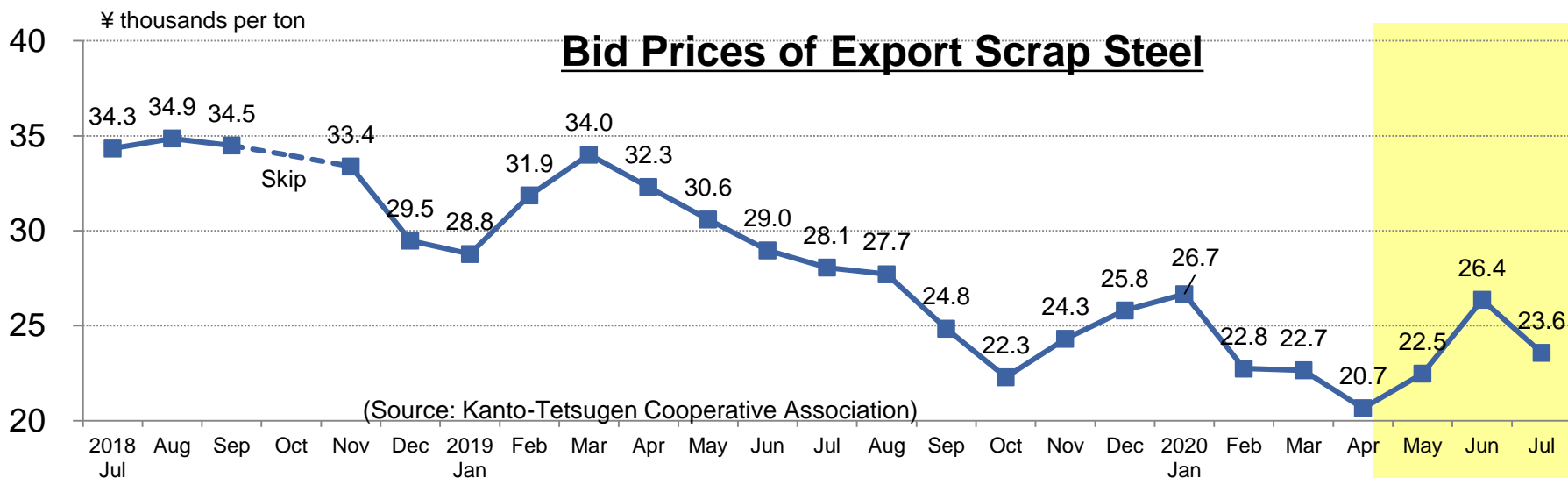
Domestic Demand Trend for Steel



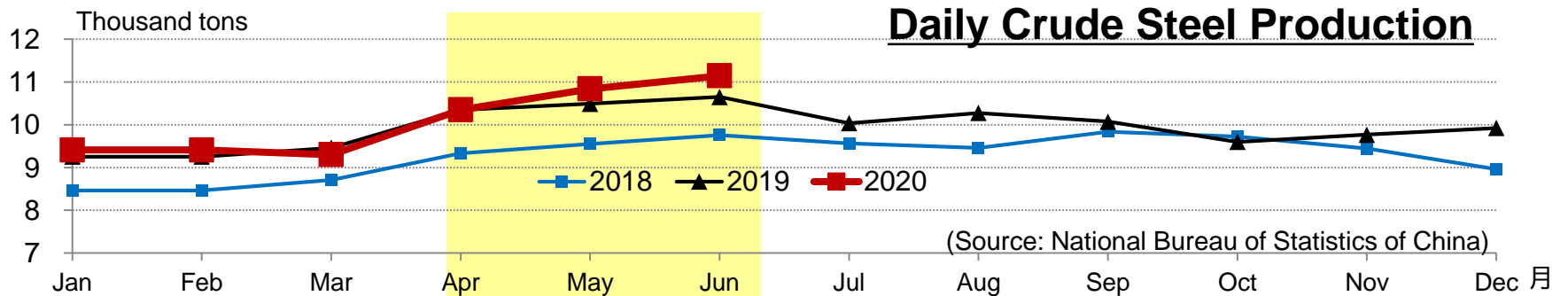
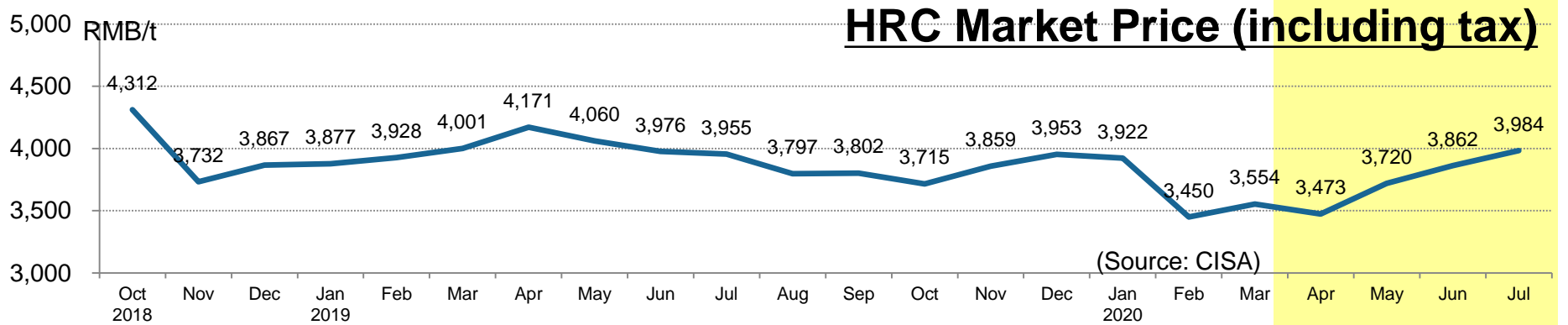
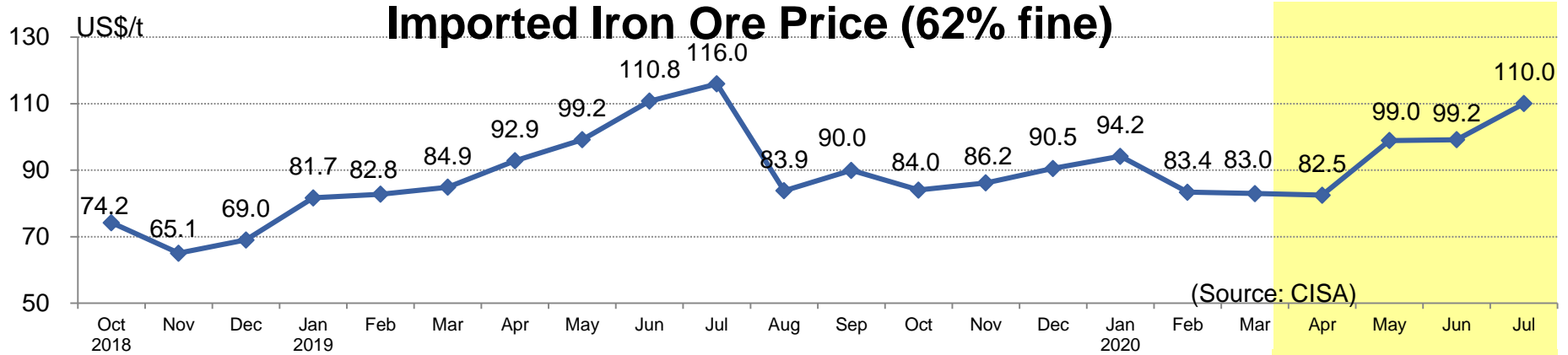
Steel Demand in Japan



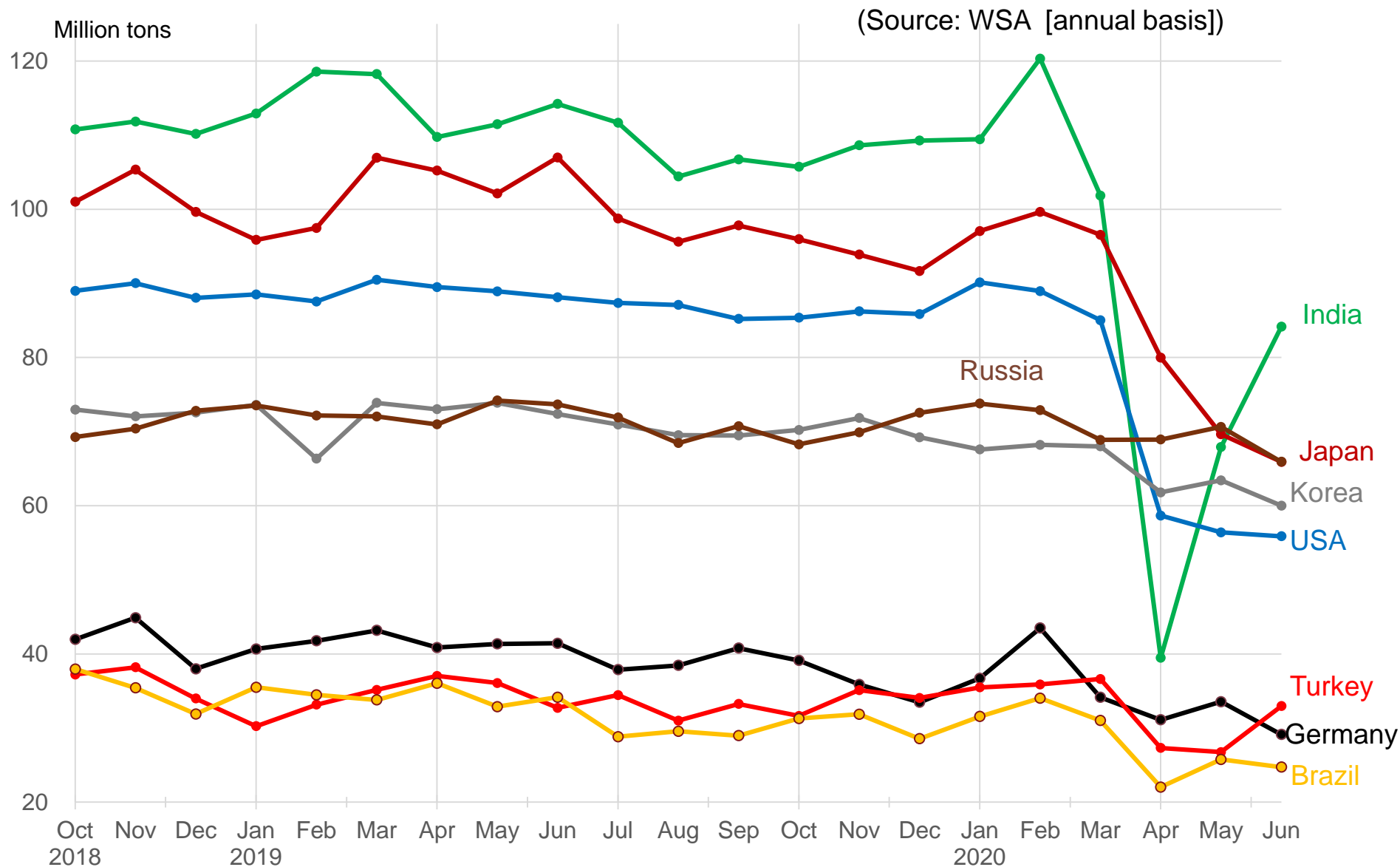
Steel Scrap Price / Imported Steel Volume and Price



Steel Market in China



Crude Steel Production by Country



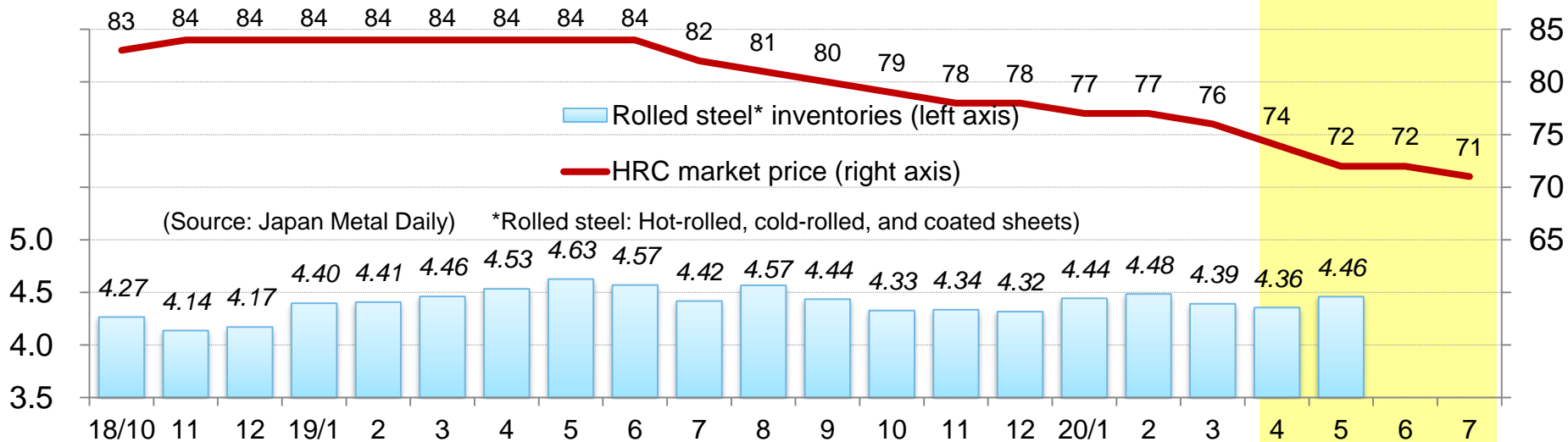
Steel Inventory and Market Price in Japan



(Million tons)

Rolled Steel Inventory and HRC Market Price

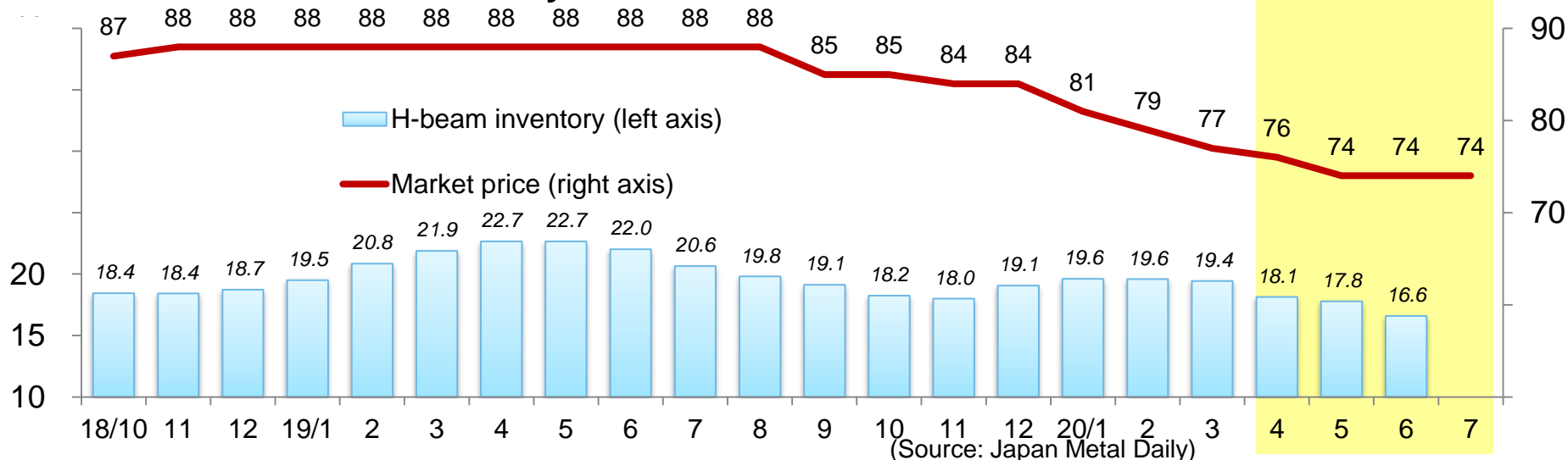
(¥ thousands per ton)



(Thousand tons)

H-beam Inventory and Market Price

(¥ thousands per ton)

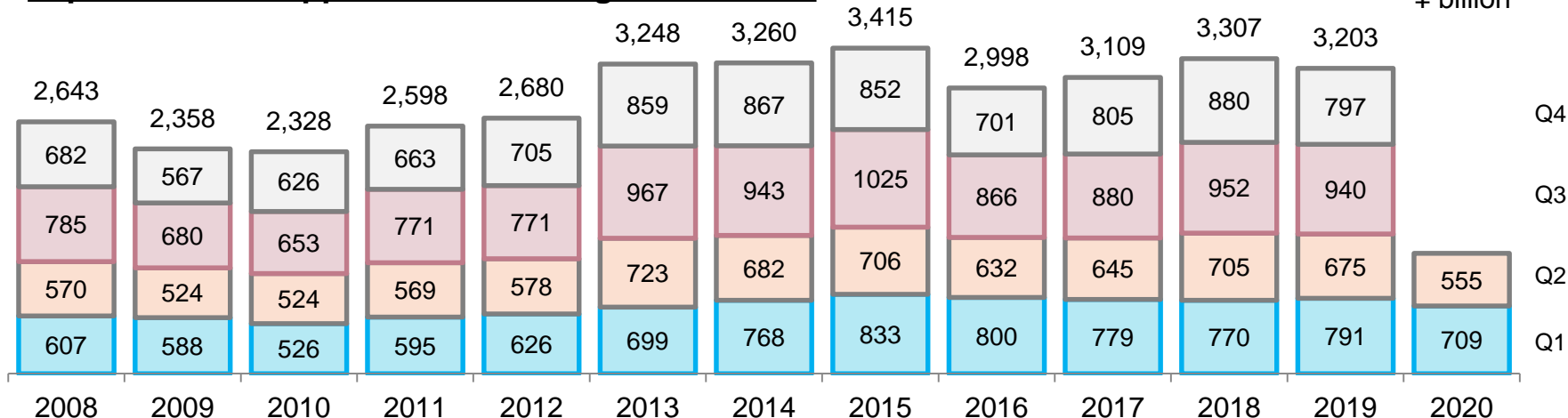




Import Trend of Apparel and Clothing Accessories

(Source: Customs)

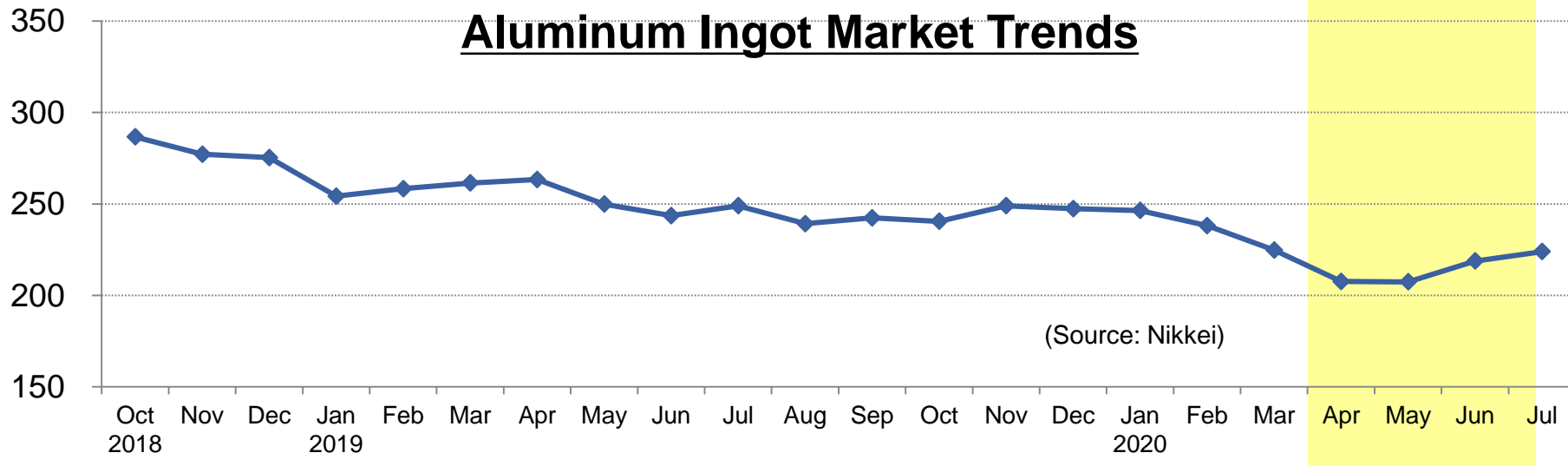
¥ billion



出所:通関統計

¥ thousands per ton

Aluminum Ingot Market Trends



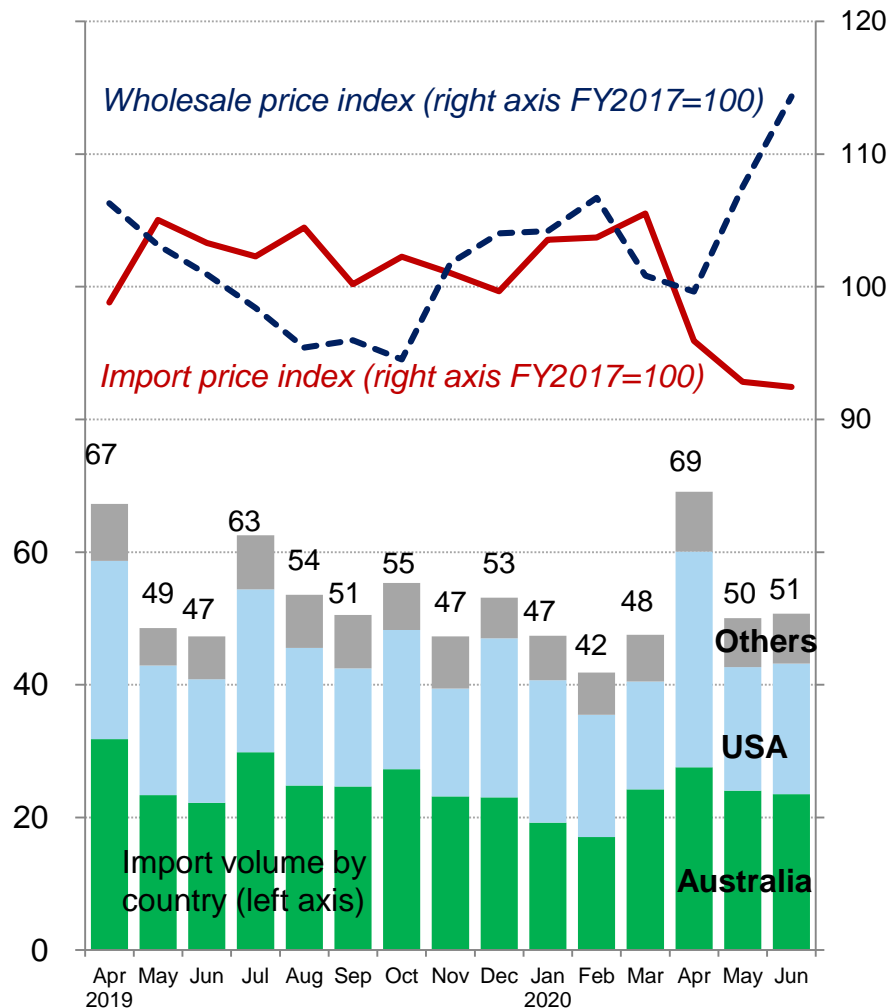
(Source: Nikkei)

Import Price and Volume Trend of Meats (1)



Beef

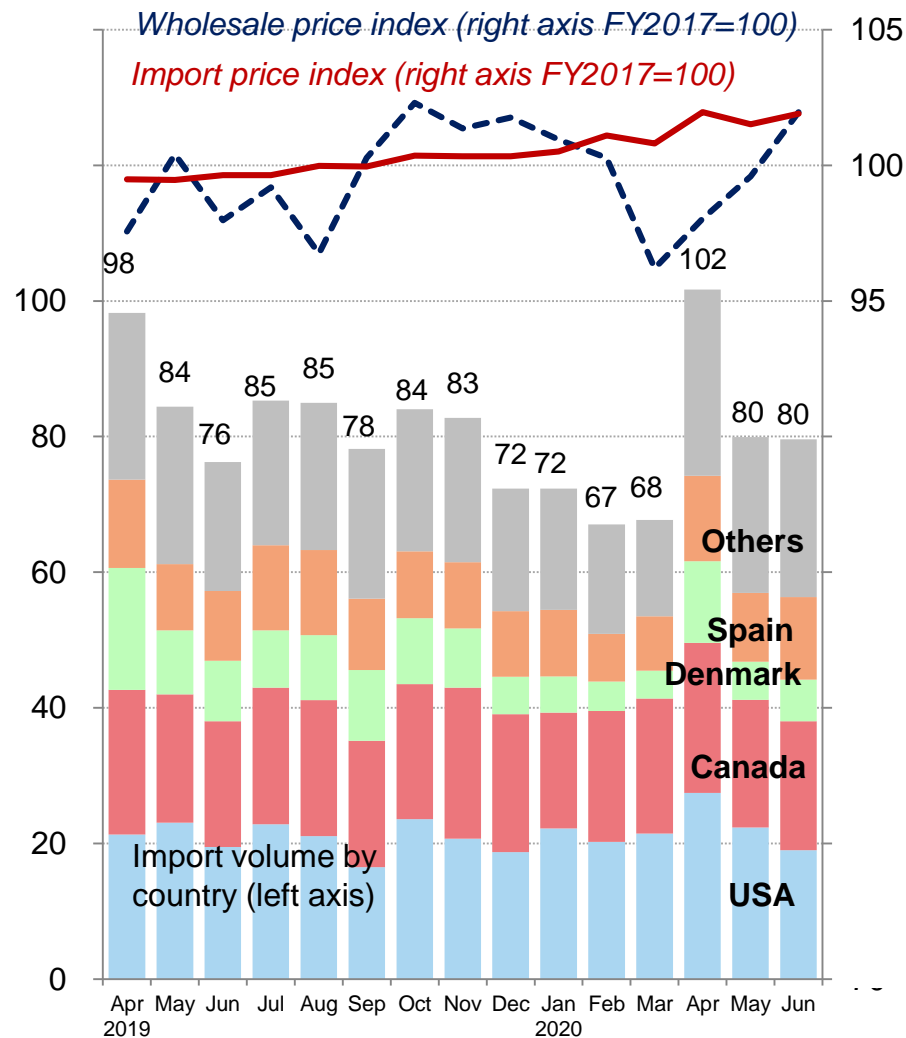
(Thousand tons)



(Source: MAFF, Customs)

Pork

(Thousand tons)



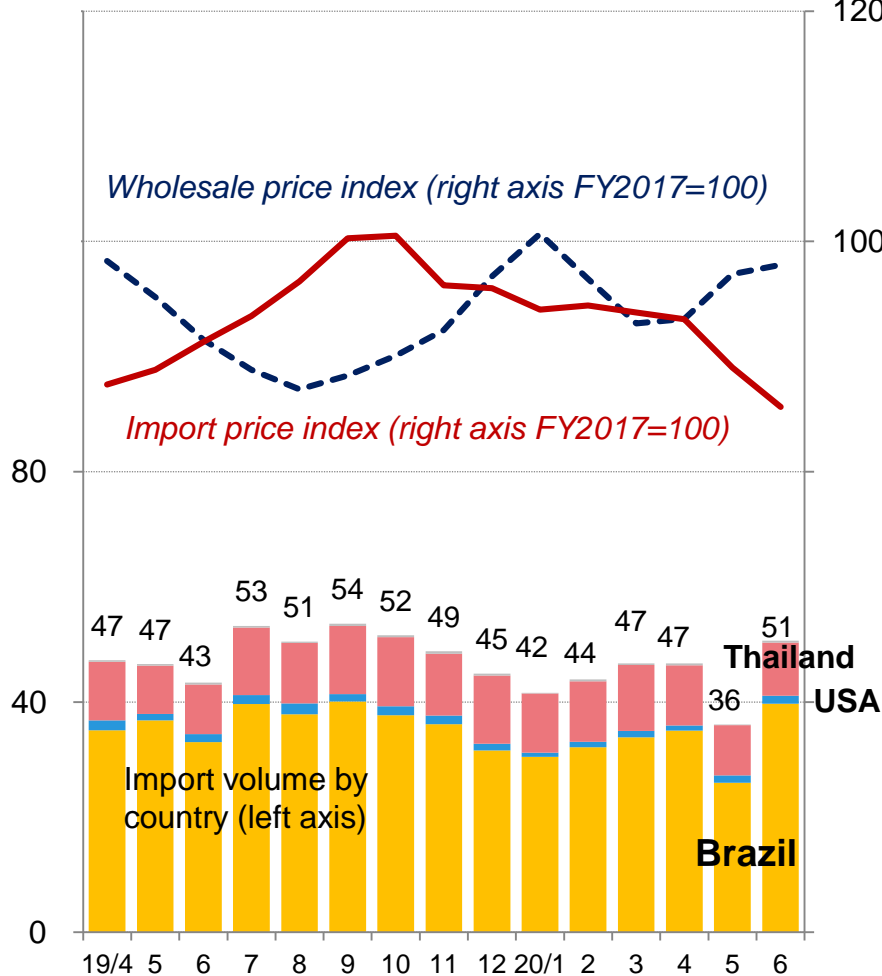
(Source: MAFF, Customs)

Import Price and Volume Trend of Meats (2)

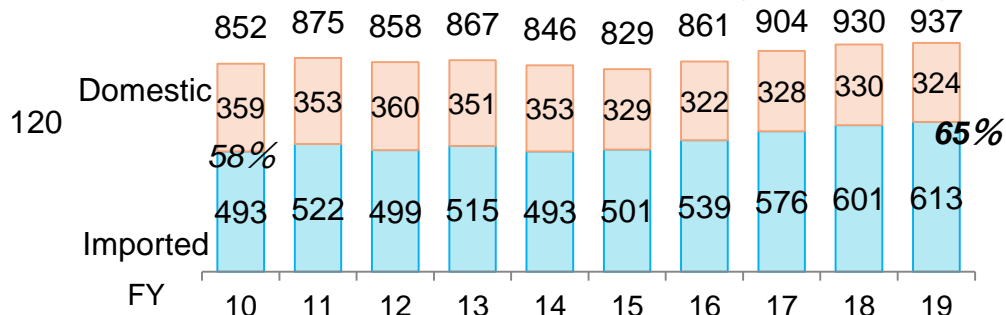


Broilers

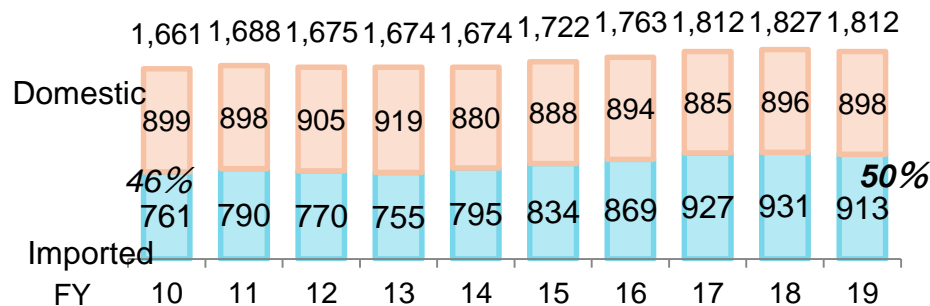
(Thousand tons)



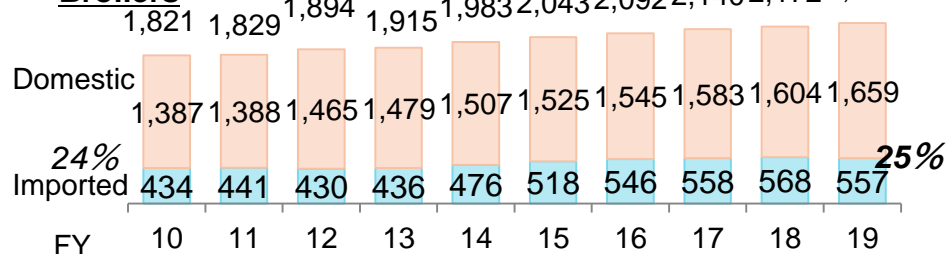
Estimated Marketing Quantity of Beef (Thousand tons)



Estimated Marketing Quantity of Pork (Thousand tons)



Estimated Marketing Quantity of Broilers (Thousand tons)



(Source: Agriculture & Livestock Industries Corporation)

Corporate Philosophy

1. Continuing to be a corporate group driven by the aspiration of providing goods and services that offer new value to the larger society.
2. Putting trust and reliability first, and by doing so developing together with our customers.
3. Aiming to become the kind of organization that increasingly cultivates, utilizes, and values human resources and their talents.

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