JFE Holdings, Inc.

JFE Group Investor Meeting
(FY2019 3Q Financial Results and FY2019 Earnings Forecasts)
Summary of Q&A Session on February 12, 2020

Q. Assuming the Steel Business's unconsolidated ordinary income at a loss of around 70 billion yen and an operating loss of around 80 billion yen, is there any possibility of impairment being booked? Also, please tell us if there will be any need to consolidate steel production equipment beyond what you have recently announced.

A. We review the risk of impairment on a quarterly basis. Currently, there is no indication of impairment. However, we expect unconsolidated operating income for FY2019 to be in the red, as you point out, so depending on the outlook for next fiscal year and beyond, we may see indications of impairment. Our earnings outlook for next fiscal year and beyond currently remains uncertain.

We are studying how to optimize our Steel Business production operations in light of the current and future business environment.

Q. You plan to increase crude steel production in 4Q relative to 3Q. Do you not foresee any problems in light of the current market environment?

A. As of mid-February, we have a fairly clear picture of 4Q export orders, and we do not believe our plans to increase volume will pose any problem.

Q. With the market environment weakening, particularly domestically, you are forecasting 4Q shipment volume of 6.41 million tons, which would be the highest level since FY2018. Do you believe that level is attainable? Also, please tell us why you assume that the average sales price will be 3,600 yen lower in 4Q relative to 3Q.

A. 4Q shipment volume reflects our production plans based on the current domestic environment. Assuming that our outlook for orders is basically accurate, we believe we are likely to attain this level, but we have not factored in the impact of the novel coronavirus (2019-nCoV). We expect the average sales price to be down in 4Q relative to 3Q owing to exports' increased share of the overall mix and a slight fall in the average domestic price due to declines in the costs of key raw materials.

Q. You expect the export ratio to rise in 4Q. Is the projected rise in volume due entirely to increased exports?

A. We are forecasting mainly increases in exports. Exports in 3Q fell, but they will increase in 4Q in view of market conditions. However, we have not factored in the impact of 2019-nCoV.

Q. Previously, you said you would be adjusting production in response to a decline in export prices. With the increase in exports you are projecting in 4Q, do you expect to earn a margin?

A. We believe exports will be profitable in 4Q.

Q. Regarding the joint venture in Mexico, your partner NUCOR has announced that more investment will be needed and that the start of operations will be delayed. Please tell us what is happening.

A. Construction costs have increased, as NUCOR has disclosed. As a result, our investment will increase in proportion to our equity stake. While it is true that some construction work, etc., has cost more and taken longer than initially anticipated, trial operations are currently under way and we expect to commence commercial production soon. Business feasibility has not been impacted significantly.

Q. What is the purpose of the business alliance between Japan Marine United Corporation (JMU) and Imabari Shipbuilding Co., Ltd. (Imabari)?

A. JMU is earnestly working on its alliance with Imabari, looking to establish a joint design and sales company. To ensure effectiveness, we are examining the prospect of Imabari investing in JMU. We plan to announce details as soon as they are sorted out. The main aim is to combine JMU's technical capabilities with Imabari's shipbuilding capabilities to achieve optimal production operations that exceed the individual companies' capabilities, and to enable Japan's shipbuilding industry to compete against Korean and Chinese players. The date of Imabari's investment is yet to be determined, but we hope to move forward as swiftly as possible. We anticipate that this collaboration will have positive effects at the ground level, even before Imabari makes any investment, so we are looking to realize such effects as soon as possible.

Q. In addition to consolidating facilities in the Chiba and Keihin districts, you plan to put a new continuous casting machine into advance operation in Kurashiki. Please describe what your production operations will look like eventually, including how they will be balanced between the East and West Japan Works.

A. We have been increasing cold-rolling capacity in the other districts to ensure our ability to cover the partial shutdown of cold-rolling and surface-treatment equipment in the Keihin district. With respect to tin-mill product, once we have consolidated operations in the Fukuyama district, production capacity will be about two-thirds that of the current combined capacity of our operations in Chiba and Fukuyama. Hence, these recently announced consolidations constitute operational revisions within the scope of our existing equipment.

As for the West Japan Works, we will continue to regard this as our core steel works and thus make priority investments here, as stated in our sixth medium-term business plan.

We will continue to study what optimal production operations should look like, considering our current and future business environment.

Q. You have said you plan to have West Japan Works consolidate some of your cold-rolled and surface-treated steel sheet capacity in Keihin and tin-mill product capacity in Chiba. Can you tell us how much, in terms of volume, will be transferred? Also, has your stance on future production consolidations changed in any way?

A. Production volume at the cold-rolling facilities in Keihin that we recently decided to shut down has been around 20,000 tons per month of late. This will be transferred to the other districts.

We aim to fully consolidate the production of tin-mill product in the Fukuyama district by FY2022, so production capacity of cold-rolling facilities and the other following lines will be about two-thirds that of current capacity in Chiba and Fukuyama combined. We cannot say how much tin-mill product volume will be transferred, but current cold-rolling capacity in Chiba and Fukuyama is around 100,000 tons per month.

For some time we have been, and still are, studying how to optimize overall Steel Business production with respect to operations both in Japan and overseas, taking into account the current and future business environment.

Q. What factors are behind the projected increases or decreases in the Steel Business's segment profit in 4Q versus 3Q?

A. We expect the Steel Business's segment profit in 4Q to decline from 3Q by 4.9 billion yen, producing a loss of 11.3 billion yen. Factors behind this 4.9 billion yen decline, as described on Page 57 of the presentation materials, are as follows: cost reductions will add 10.0 billion yen and volume/mix factors will add 10.0 billion yen, whereas we expect other factors to reduce profit by 28.9 billion yen. These other factors mostly comprise a profit decrease of around 7.0 billion yen in earnings at Group companies, mainly overseas, and a loss of 10.0 billion yen owing to combined asset disposal, etc. concerning the commencement of operation of sintering equipment and coke ovens in the Fukuyama district in 4Q.

Q. With respect to cost reductions in the Steel Business, what is the breakdown of the -5 billion yen figure versus the previous forecast? Also, did all of this loss occur in 3Q?

A. A loss of around 3.0 billion yen is attributable to the effects of typhoons, and the remainder reflects smaller cost reductions due to the sharp drop in production volumes and other factors. The entire loss of 5 billion yen occurred in 3Q.

Q. Please explain why the reduction in net income versus your previous outlook is 5 billion yen greater than the reduction in pretax profit.

A. The effect of a partial reversal of deferred tax assets, made in light of current earnings, is around 5 billion yen.

Q. Is 2019-nCoV having an impact on operations and steel prices?

A. Our biggest Steel Business operation in China is Guangzhou JFE Steel Sheet, an automotive steel sheet processor, but the company's business category is exempt from Guangdong Province's operational shutdowns and it operates during the Chinese New Year with minimum personnel, so we have not seen any major impact so far. If operational shutdowns at our customers' plants end up being prolonged, supply/demand may be affected, but currently we do not have a clear outlook on this. As for other Steel Business sites in China, the current operating status differs from location to location. We will closely monitor the impact on the steel market ahead. Some products we procure are imported from China, but at current levels we are able to cope by using inventory. In case the impact becomes prolonged, we have also been looking at the possibility of procuring substitutes for some product types.

Q. How many months of inventory do you have for products that you procure from China?

A. It depends on the product type, so we cannot give an overall number of months. We are also monitoring inventory levels and looking at the possibility of procuring substitutes for some product types.