



Overview of Results for Fiscal 2018

In fiscal 2018, the Japanese economy continued to see moderate recovery in consumer spending as employment and income conditions improved. With growth in capital expenditures in the corporate sector as well, the economy itself remained on a gradual recovery track. However, some weakness in industrial production and other soft spots emerged in the economy heading into the fourth quarter. In the U.S., the steady economic recovery continued as consumer spending and capital expenditures increased. In Europe, the modest economic recovery continued on the back of strong employment conditions, but also exhibited some stalling with Germany's GDP growth trending flat. In China, economic growth decelerated as exports declined, but government stimulus measures are expected to provide support going forward.

Under these economic circumstances, the Daido Steel Group's key client industries such as automobiles and industrial equipment generally did well. Accordingly, steel sales volumes increased year on year. However, demand declined in some areas such as semiconductors. As for raw materials and auxiliary materials, scrap steel prices generally increased year on year due to robust domestic demand. Also, sharp growth in prices for auxiliary materials including graphite electrodes used in steelmaking resulted in higher costs.

As a result, the Daido Steel Group's net sales in fiscal 2018 increased by ¥38,036 million year on year to ¥543,255 million, due to a rise in sales prices reflecting higher prices for raw materials and auxiliary materials, as well as growth in sales volumes. Ordinary income declined by ¥1,787 million to ¥34,343 million, owing to impact from higher costs associated with a sharp rise in auxiliary material prices. Net income attributable to owners of the parent decreased by ¥2,738 million to ¥21,182 million.

Outlook for Fiscal 2019

In fiscal 2019, the global economy is likely to lose some steam and growth to slow. In the U.S., modest growth should continue on the back of robust employment conditions, though slight deceleration is likely as tax cut benefits fade. The Chinese economy is slowing due partially to trade friction with the U.S., and while support from government stimulus measures is expected to keep the slowdown modest, excessive debt and other risks exist. The Japanese economy is also likely to decelerate, owing to weaker external demand. Against this economic backdrop, in the key U.S. and China markets we anticipate a slight decline in demand for automobiles, a major source of demand. Also, we expect recovery to take time for the semiconductors field, which is seeing sharp deceleration.

We need to keep a close eye on uncertainties that can have an impact on the global economy, including the U.S.'s protectionist policies and the U.K.'s exit from the European Union. In addition, the Daido Steel Group recognizes the ongoing need to monitor risks that could have an impact on the Group, such as the risk of weaker demand due to foreign exchange fluctuations and the risk of price fluctuations in raw materials and fuel.

Given these conditions, our segment forecasts for the coming fiscal year are as follows.

SPECIALTY STEEL

In structural steel, we project slightly lower global demand for automobiles, a major source of demand for this steel. In tool steel, we anticipate similar demand trends. As for costs, we expect prices to remain high for energy and auxiliary materials, such as graphite electrodes used for manufacturing, and will work to reduce costs to maintain sustainable margins. Further, we will pursue market penetration of the newly applied surcharge system reflecting fluctuations in prices for raw material alloys in tool steel.

HIGH PERFORMANCE MATERIALS AND MAGNETIC MATERIALS

We expect high performance products like stainless steel, high alloys and powder metal to see ongoing growth in sales volumes in the automobile industry over the medium term, assuming improvements in the fuel economy of internal combustion engines for automobiles increase usage. To prepare for this medium-term growth, we are working on bolstering manufacturing facilities. In magnetic products, we are concentrating on the increasing use of electronics in automobiles and electrical applications and working hard to reduce costs.

PARTS FOR AUTOMOBILE AND INDUSTRIAL EQUIPMENT

In free forgings, we are focusing on keeping up with ongoing brisk demand for civil aircraft. In turbo-related products, we will strive to grow by tapping into expanding demand from an increasing ratio of gasoline engines with turbos installed over the medium to long term. In engine valves, we are continuing to work towards cost improvement and mass production of hollow-head valves that contribute to improving the fuel consumption of automobiles.

ENGINEERING

We will keep working to expand sales of Premium STC® (Short Time Cycle)—our mainstay STC® annealing furnace with a new combustion system installed, vacuum carburizing furnaces for auto parts makers, and rotary electric furnaces that lead to more energy-efficient steelmaking.

TRADING AND SERVICE

In the trading and service segment, demand should be at the same level as in 2018.

Based on the above, for fiscal 2019, the Daido Steel Group forecasts consolidated net sales of ¥530.0 billion, operating income of ¥31.0 billion, ordinary income of ¥31.5 billion, and net income attributable to owners of the parent of ¥24.0 billion.

Medium- to Long-Term Management Strategy

Initiatives to realize a sustainable society are a key global theme. Even among our customers, reducing emissions that contribute to global warming is a major topic, and high levels of efficiency for the internal combustion engines of automobiles and jet engines of aircraft are required. In the automobile industry moreover, the kind of major technological innovation only seen once every 100 years is about to occur, such as the diversification of power trains to proliferate the use of electronics and similar devices and the expanding use of automated cars and connected cars. Furthermore, the digital revolution marches onward, capitalizing on big data, AI (artificial intelligence) and IoT (Internet of Things), and ushering in transformations in a wide variety of industries. As a result, the Daido Steel Group expects that demand for semiconductors will increase and the automation of various processes and suchlike by robots will develop further.

In this business environment, we formulated our medium-term business plan (Daido Steel Group 2020 Mid-Term Management Plan), a three-year plan through fiscal 2020 (the fiscal year ending March 31, 2021). We also set our basic management policy as “Beyond the Special: We support our customers’ technological innovations by supplying high performance materials.” We will put that policy into practice. For instance, we will supply high alloys and stainless steel that are highly resistant to heat and corrosion for higher efficiency jet engines and internal combustion engines in automobiles, high performance powder products and high performance magnets for the increasing use of electronics in automobiles, and soft magnetic materials for the expanding use of automated cars. We will also deliver products for the digital revolution, such as super-clean stainless steel needed for semiconductor manufacturing equipment and high performance magnets required for increasing use of automation and robots. By supplying the high performance materials that our customers need, we will firmly support their evolutionary and technological innovations.

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Takeshi Ishiguro
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