



Daido Steel Co., Ltd.

FY2026 Mid-Term Management Plan Briefing

Q&A Session (Summary)

Date : June 6, 2024 (Thursday)

Respondents: Tetsuya Shimizu, President & CEO, Representative Executive Director

Toshiaki Yamashita, Executive Vice President, Representative Executive Director

Akihito Kajita, Director, Managing Executive Officer

Tatsushi Iwata, Director, Managing Executive Officer

- Q. Please explain your FY2026 plan for operating income by segment. First, I would like to understand the reason for the decrease in the figure for specialty steel products, as compared with the current results. That is, the FY2023 results obtained were 14.8 billion yen and the FY2026 plan anticipates 12.5 billion yen. In addition, you seem to be anticipating increased profits from high-performance materials and magnetic materials. Namely, the profits close to the figure you set in the plan have been posted in the past (FY2021 results: 26.7 billion yen → FY2026 plan: 28.0 billion yen). Could you tell us if there is a possibility that this figure will swing upward even further, as investments take effect. Furthermore, in the latest financial results briefing, it was explained that there was an issue with achieving sufficient production capacity to meet a strong surge of orders for parts for automotive and industrial equipment. However, in this 2026 mid-term plan you say profits are anticipated to increase in FY2026. Does this expectation arise from the probable effects of investments in this segment? (FY2023 results: 7.6 billion yen → FY2026 plan; 14.5 billion yen).
- A. In recent years we worked hard to raise the selling prices of specialty steel products and reduce production costs. We are now in a position to reap more stable profits than we were able to before. We hope to be able to at least maintain this profit level, even if the business environment does not support an expectation of a large expansion of automotive specialty steel products in terms of volume. Sales were strong in FY2021 in the high-performance materials and magnetic materials business, but this is simply because the fiscal year 2021 coincided with the peak of the semiconductor cycle and sales demand outstripped the company's actual ability to produce. Moving toward FY2026, we hope to increase profits by demonstrating the performance of the products we have been working on as part of our product portfolio reform. In the Parts for Automotive and Industrial Equipment business, we hope to increase profits through a succession of increases in our capacity to manufacture open-die forging products, by investing in superalloy manufacturing process transformation and so forth.
- Q. So far, you have mentioned that you will focus on open-die forging products. Could you tell us about the investment projects you have announced in the 2026 mid-term plan under the heading of "the Superalloy Manufacturing Process Transformation Project"?
- A. The most important factor will be the installation of a large radial forging machine that will enable us to increase the dimensions of open-die forgings that can be manufactured, and this will expand our production capacity for such products beyond that of our existing facilities. In addition, we are going to increase the production capacity of the vacuum induction melting furnace (VIM). That is, throughput will be increased by enlarging the production volume of the upstream processes, in conjunction with the installation of the new

forging machine.

Q. Of the 150 billion yen in capital investment during the FY2026 mid-term plan period, 64 billion yen is allocated for strategic investment. I would like to know the details of the remaining 90 billion yen and how much will be used to strengthen the company's business foundations.

A. Other than the strategic investments, there are, for example, investments to reduce CO2 emissions and others for promoting the growth of affiliated companies. Basic investments, including maintenance and renewal of production equipment, account for about 2/3 of the 90 billion yen.

Q. You say the Superalloy Manufacturing Process Transformation Project will be completed in FY2027. How will you increase the production capacity of open-die forgings during the period from now to FY2026?

A. We are working now to increase our open-die forging products capacity through continuous improvement activities as well as some capital investments, although not on a large scale. Although the Superalloy Manufacturing Process Transformation Project will be completed in FY2027, we have facilities that will be launched in stages before then, and we will utilize them as they come on line, to increase capacity.

Q. Regarding the dividend policy, there seems to be no significant change from the "dividend payout ratio of about 30%" in the 2023 mid-term plan to a "dividend payout ratio of 30% or more" in the 2026 mid-term plan. What is your approach to shareholder returns?

A. We are currently planning investments for growth, under the recognition that the external business environment is undergoing very drastic changes. We will continue to respond flexibly to the timing of investment needs, not limited to production equipment. We ask for your understanding that this business environment makes it difficult for us to clearly indicate that we will raise the level of shareholder returns. However, we will implement the shareholder returns necessary to secure a ROE of 9% or more while increasing operating income.

Q. It is expected that the total of current net income will be around 100 billion yen over the three years of the 2024 to 2026 mid-term plan period and you have announced that the shareholder return will be about 40 billion yen. Assuming that this figure will actually be realized, would you aim for a 35-40% dividend payout ratio in the final year of the 2026 mid-term plan, or would you keep the payout ratio at around 30% and consider share buybacks or other measures? In addition, if you have an idea of the projected dividend payout ratio in 2030, please share that with us.

A. We will make decisions while taking into consideration the external business environment and the progress of our future business operations. In the 2026 mid-term plan we have announced, we did not use the expression "total dividend payout ratio" with the intention that it necessarily would include share buybacks. However, we believe that there will come a time when we will consider buybacks. We have not yet formulated our approach to shareholder returns for FY2030.

Q. Do you plan to renovate steelmaking and other upstream processes at the Chita Plant in the 2026 mid-term plan period? Or, will it be an issue in the next mid-term management plan?

A. We believe that we will be able to achieve a certain level of investment effect in the upstream processes at the Chita Plant if such an investment is made, but we need to consider the timing, including the business environment and future prospects for our Group. At least, we can say we do not anticipate implementing the plan during the 2024 to 2026 mid-term plan period.

- Q. Which of the 2026 mid-term management goals and main strategic KPIs that have been announced does President Shimizu see as having the highest priority?
- A. First of all, we are now in the process of making a major change in our business portfolio, and we would like to achieve a sales ratio of 15% or more for fast-growing market products. Secondly, with regard to human capital, we believe that as the number of workers in the country decreases there will come a time when our employee base will also decrease, and we will stick to "labor productivity improvement (non-consolidated) plan of +20%".
- Q. You explained that increasing sales in fast-growing markets will lead to an increase in the ratio of overseas sales. In that case, however, I assume that you would find yourself in close competition with overseas manufacturers. Please explain overseas market trends and the situation in terms of this competition.
- A. We are looking to expand our high-end specialty steel business overseas into the global marketplace, and our competition is limited to a few companies in Europe and the United States. Currently, our competitors in Europe and the U.S. are extremely busy, and there is a supply shortage of high-end specialty steel products for the consumer sector. We hope to expand sales by emphasizing our competitiveness in QCD, quality, and speedy delivery, as evaluated by the customers. Since it is difficult for new entrants to get into the market for high-end specialty steel, which requires a high level of manufacturing technology, we believe that the supply-demand situation will continue to be tight, benefitting us.
- Q. What are your assumptions for shipment volume during the three years of the 2026 mid-term plan period?
- A. We expect the specialty steel sales volume in FY2026 to be at the 1.16 million t/y level, slightly higher than our FY2024 forecast of 1.08 million t/y, although this may vary depending on the progress of automobile electrification and global automobile production volume. However, rather than chasing sales volume, we have created a plan that emphasizes improving the sales mix of products and securing profits thereby.
- Q. It is generally understood that materials manufacturers, including Daido Steel, tend to be affected by economic cycles. So, there is a concern that they cannot earn sufficient profits when sales volumes decrease. Could you explain how this perspective relates to your specialty steel business, in particular?
- A. The profitability of the specialty steel business has long been an issue for us. We have been working to improve profitability for the past three to four years, and this has led to achieving a profit of about 15 billion yen. In fact, although the current sales volume of specialty steel is quite low, due to the decline in the volume of automobiles produced in Japan and the economic downturn in China, we believe that we have gained the ability to consistently achieve a certain level of profit. That is why we feel certain that we will be able to soldier on without worrying too much about declining sales.
- Q. I've gotten the impression from the 2026 mid-term plan that you will pursue investment aggressively. What are your thoughts about the relative values of improving asset efficiency and ROIC?
- A. Our ideas about the payback from these new strategic investments and the ROIC level are presented for the first time in the 2026 mid-term management plan. In order to raise ROIC levels while simultaneously executing large investments, it is necessary for us to minimize the amount invested and to improve production lead times and inventory control, taking into account the fact that we handle superalloys, i.e. products with very high unit prices. We would like to improve capital efficiency by maintaining awareness of the cash conversion cycle.

- Q. You say that you will enhance shareholder returns based on the progress of cash allocation during the 2026 mid-term plan period. What specific criteria will you use to evaluate your progress toward enhancing shareholder returns?
- A. While strengthening shareholder returns, we will balance between profits and ROE. In addition, when reducing the number of cross-shareholdings, we will consider our relationships with the companies with which we hold each other's shares, as we decide how these should be reduced / sold off. We will be open to any options leading to effective returns to shareholders.
- Q. Given that the sales volume of specialty steel products is not on the increase, what initiatives will you take to generate profits?
- A. We want to lower the break-even point for specialty steel products still further. We are making continuous efforts to improve productivity and yields at our factories, which are generating several hundred million yen of benefits each year. We see this as the path to steady improvements. We would like to assure stable profits by tackling the remaining issues of improving profitability and margins.
- Q. Would you tell us about specific measures you are implementing to increase labor productivity, and initiatives you will focus on in the future?
- A. We are working to improve the individual skills of our employees and increase their multi-skill level through training and programs to increase their expertise. We also expect that promoting DX, utilizing IT tools, and improving productivity by skillfully analyzing data will, in the future, lead to changes in the way we work that bring about impressive increases in productivity.

The figures in our plans contained in this document are based on certain assumptions that cannot be fully evaluated at the present time.

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