



Daido Steel Co., Ltd.

FY2024 Interim Financial Results Briefing

Q&A Session (Summary)

Date : Wednesday, October 30, 2024

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

Akihito Kajita, Director, Managing Executive Officer

Tatsushi Iwata, Director, Managing Executive Officer

Takashi Kano, Executive Officer and General Manager, Corporate Planning Dept.

- Q. I would like to learn about the details of the adjustments made between IFRS-based operating profit and underlying operating profit.
- A. Under J-GAAP, adjustments are made for such things as: items disclosed as extraordinary gains/losses; losses and gains on the valuation of inventories using the lower of the cost or market method; allowances for environment conservation-related expenses incurred due to past factors; and the equal distribution of fixed asset taxes over the four quarters. With regard to these fixed asset taxes, under IFRS the tax amount is recorded as a lump sum expense in the fourth quarter when it is finalized. However, we are apportioning it in equal installments across the four quarters, so its effect is distributed equally throughout the entire year.
- Q. You said that the recovery in stainless steel sales volumes has been slower than initially expected. Could you review for us stainless steel sales figures in fields other than semiconductor manufacturing equipment?
- A. Sales to the automobile industry have been affected by a decrease in production due to such factors as reduced sales in China of Japanese cars. In the industrial equipment sector, the value of overall orders for machine tools after adjustments for price fluctuations (Japan Machine Tool Builders' Association: "Machine Tool Statistics") bottomed out in 2023 and recovered after the January to March period of 2024, but then fell again in July to September. Thus, overall, our orders for industrial equipment have also been sluggish. In the first half of 2024, stainless steel sales volumes increased due to a temporary increase in demand for HDDs, but we believe that the overall recovery will be slower than initially expected in the second half, when the effect of this increase in demand disappears.
- Q. There have been news reports that production by an overseas aircraft manufacturer has been disrupted due to strikes. Please let us know, to the best of your knowledge at this time, if this event will have any impact on sales of your open-die forgings in the next fiscal year or beyond.
- A. Because there is a long supply chain between our company, which is a materials manufacturer, and the manufacturers of finished aircraft, it is possible that after a time lag there will be an impact. We will assess the timing of this as we hold frequent conversations with the heavy industry manufacturers who are our direct customers.

- Q. Please explain the situation regarding the certification of Daido open-die forgings that will permit their use as a material in the manufacture of oil & gas drilling equipment and aircraft parts.
- A. In the superalloy market, material suppliers cannot do business with an engineering company or a heavy industry manufacturer unless the materials supplier receives certification from that specific company for the materials they supply. We have been working toward obtaining various certifications for about 10 years. In the gas and oil drilling industry, we are now close to receiving certification for our open-die forgings from all four major companies, and we have begun doing business with them. In the aircraft industry, our products have certification for use in specific aircraft models made by each aircraft manufacturer, but our aim is to obtain more generally applicable certifications, for a wider scope of business. To this end, we are working on projects to reform our superalloy production processes and enhance our production equipment capacity.
- Q. I would like to ask about the forecast for operating profit for the full year of FY2024. The specialty steel sales volume was lower -- by 45,000 tons -- from the initial forecast, while operating profit was a negative 7.5 billion yen different from the initial forecast, due to the decrease in sales volume. It seems to me that the impact on operating profit was disproportionately greater than the decline in sales volume, so I would like to know more about the details. In addition, I understand that demand for specialty steel for semiconductor manufacturing equipment and automobiles is a little weak at present. However, how do you view the recovery period as you look ahead to the next fiscal year and beyond?
- A. The decline in stainless steel sales as well as structural steel has had an impact on actual profits, as compared with what we projected in our initial forecast. In the past, we have seen rapid increases in demand for stainless steel for semiconductor manufacturing equipment, when the market entered the recovery phase, but this time the recovery has been more gradual than expected. We suppose the fact that parts manufacturers, who have had to deal with material shortages during past recovery phases, had built up good stocks of stainless steel may also be a factor. Since demand for semiconductor-related products is expected to continue to rise once the recovery phase takes hold, we expect that our stainless-steel sales volume will definitely increase, even though the peak is slightly delayed. With regard to the automotive sector, it is very difficult to predict how Japanese cars sales will develop in the future, and to what extent local Chinese manufacturers will make inroads with new energy vehicles (NEVs). There is also a suggestion that the production of Japanese cars will recover by 2025, so we will be watching this situation closely. With regard to industrial equipment-related products, we will also be exchanging information with machine tool manufacturers about the extent to which sales to China will recover. It is uncertain whether they will return to the high levels of the past.
- Q. In the second half of 2024, the Specialty Steel segment's operating profit, excluding the Slide Gap, will be limited to 4.4 billion yen on an underlying basis. What do you make of this restricted level of profit? Also, please tell us if there are any factors that suggest improvement in the next fiscal term.
- A. The profit level for specialty steel is being held back significantly by the decline in sales volumes, due to the slump in the automobile and industrial equipment sectors. However, this also includes the impact of the relative increase in the burden of fixed costs due to the decline in overall sales volumes. We believe that as the demand for stainless steel recovers over time, the burden of fixed costs weighing on specialty steel products will also decrease.

- Q. I would like to ask about the operating profits in the Automotive & Industrial Equipment segment. When comparing the results for the first half of 2024 with the forecast for the second half of the year, the operating profit figure of the second half shows a gradual recovery, as compared with the underlying operating profit figure. What is the reason for this? Also, while open-die forgings are enjoying strong sales, why is the full-year operating profit projected to be lower than the initial forecast?
- A. Under IFRS, fixed asset taxes are recorded as a lump sum in the fourth quarter of a fiscal year. On the other hand, when calculating underlying operating profits, these taxes are spread out evenly across the quarters. This is why there is an apparent difference in the amount of profit. There is no occurrence of unexpected non-operating expenses. In addition, the reason for the decrease in actual operating profit in the Parts for Automobiles and Industrial Equipment segment, as compared with the initial forecast, is due to a sales downturn for engine valves produced by our affiliate. The engine valve sales had increased in line with the strong performance of HEVs in North America, and our initial forecast incorporated the prospect of even higher sales. In actual fact, orders increased as anticipated, but the production was delayed because of factors attributable to the customer. This led to the decline in sales. We expect engine valves sales to increase in the next fiscal year.
- Q. While the Japanese economy as a whole is enjoying something of a boom, Daido Steel's sales volume is tending toward decline. Is the business environment surrounding specialty steel in a temporary low, or is specialty steel facing a structural condition, which is not expected to be overcome?
- A. The sales volume of specialty steel for automobiles turned out to be lower than expected. We believe that the shift to NEVs in China will not be reversed in favor of a return to gasoline-powered vehicles. As local Chinese car manufacturers are strong in this field, we believe that Japanese car manufacturers will continue to struggle, and we have factored this into our plans. We need to keep a close eye on trends in the automobile industry, including those in North America and Southeast Asia.
- Q. What areas of demand for stainless steel are you focusing on, for recovery in this segment?
- A. Half of our total sales of stainless steel are made to the automobile industry, and of the remaining half, the largest proportion, around 15%, is for industrial equipment. The remainder goes to IT, construction, and other sectors. Therefore, rather than focusing on particular industries or sectors, we are looking to generally expand sales of our high-performance stainless-steel products.
- Q. Do you still think that the strong demand for open-die forgings will remain unchanged, due to an increase in sales to other industries, even if the effects of an aircraft manufacturer strike are felt in the next fiscal year or later?
- A. Yes, if demand for open-die forgings in the aircraft industry falls, since we also deliver open-die forgings to a variety of other industries including heavy electrical machinery, energy, oil and gas drilling, shipbuilding, and semiconductors, we do not expect a significant drop in profits due to a decline specific to the aircraft industry. This fiscal year, we are seeing a recovery in demand for open-die forgings for semiconductor manufacturing equipment. Next fiscal year we expect to see an increase in demand for semiconductor-related products. On the other hand, there is a possibility that there will be at least some negative impact on sales of aircraft-related products.

- Q. The strategic investments are outlined in the medium-term management plan. Is my understanding correct that the effects of these investments have already started to appear, and that this has resulted in increased profits for open-die forged superalloy?
- A. As you say, those anticipatory investments we made are now starting to show results. In the past, there were times when we were unable to achieve sufficient profits due to insufficient production capacity, but by making investments in stages, we have been able to resolve this issue.
- Q. According to the import statistics of the Japan Iron and Steel Federation, imports of stainless steel have increased significantly, by 1.5 to 1.6 times over last year. I get the impression that demand for stainless steel itself is not weak. I would like to know if the decrease in Daido Steel's sales volume is due to competition with imported steel materials.
- A. We are aware that there is a significant import offensive of stainless-steel sheet from China due to overproduction there. However, we understand that, although there is a certain degree of increase in imports, the impact on the steel bars and wire rod products we produce is limited.
- Q. We were told that the one-time losses at the magnet production subsidiary in China undergoing liquidation procedures would not increase in the future. Could you tell us about the current situation?
- A. Although the final phase has not been completed yet, we expect to complete all procedures by the end of this fiscal year. There is a possibility that costs will increase slightly, but not significantly, and we have a pretty good grasp of what the final upshot will be. If we have any new information, we will disclose it.

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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