

FY2024 3<sup>rd</sup> Quarter Financial Results Briefing  
Q&A Session (Summary)

Date : Friday, January 31, 2025

Respondents: Akihito Kajita, Director, Managing Executive Officer

Tatsushi Iwata, Director, Managing Executive Officer

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Q. I would like to know the trend in adjusted operating profit by segment for FY2023 and FY2024.

A. The adjusted operating profit by segment for each quarter is as follows: (Unit: 100 million yen)

Specialty Steel:	FY2023: 22, 33, 60, 19 (total: 134)	FY2024: 30, 33, 44 (total: 107)
High-Performance Materials and Magnetic Materials:	FY2023: 35, 33, 49, 26 (total: 143)	FY2024: 36, 37, 44 (total: 117)
Parts for Automobile and Industrial Equipment:	FY2023: 7, 19, 24, 22 (total: 72)	FY2024: 23, 26, 34 (total: 83)
Engineering:	FY2023: 5, 5, 6, 5 (total: 21)	FY2024: 2, 6, 4 (total: 12)
Trading and Service:	FY2023: 11, 9, 9, 1 (total: 30)	FY2024: 7, 7, 7 (total: 21)

Q. If we deduct the impact of items such as the surcharge gap from adjusted operating profit in the second half of FY2024, can we assume that the company's underlying profit will be around 20 billion yen, and that the company's underlying profit for the full year will be just over 40 billion yen?

A. That is correct. Our full-year operating profit forecast for FY2024 is 40 billion yen, and this includes items that correspond to the extraordinary losses incurred in the first half of the year, so we believe that the company's underlying profit will be just over 40 billion yen.

Q. Could you explain the trends in each segment from the second quarter to the third, and fourth quarters in qualitative terms?

A. Specialty Steel segment sales volumes have continued to decline, due to the impact of the struggles of Japanese auto manufacturers, and we do not think that we can be optimistic about the fourth quarter, either. The profit decrease caused by this sales volume drop is partially offset by the surcharge gap produced by the low price of ferrous scrap, our specialty steel's main raw material. In order to prepare for the rise in electricity prices during the summer and winter, we have been alternating between building up and reducing inventory since the first quarter, and this has resulted in changes in the fixed cost burden for each quarter. The overall picture of our operating profit is such that the decline in sales volume and the ferrous scrap surcharge gap are affecting our profits. In the High-Performance Materials and Magnetic Materials segment, operating profit increased as sales of those materials increased due to a temporary recovery in sales of stainless steel for use in HDDs in the first half of FY2024. In the third quarter, however, sales volumes of stainless steel declined slightly as the effect of this temporary recovery has since dissipated.

Sales of products for semiconductor production equipment bottomed out in the fourth quarter of FY2023 and are gradually recovering in FY2024, with sales in the third quarter of the current fiscal year having returned to approximately 60% of the FY2022 level. We had initially expected a faster recovery, but sales are now returning steadily, although not to the extent that we had expected. We believe this trend will continue in the fourth quarter. The most important point is further recovery from the next fiscal year onwards, and we will explain this when we disclose the outlook for the next fiscal year in our year-end financial results report.

In the Parts for Automobile and Industrial Equipment segment, sales of open-die forged products increased by approximately 20% year-on-year and continue to grow quarter by quarter. The effort to expand sales of open-die forged products that our company has been working on for years is now starting to show results. From the fourth quarter onwards, in addition to the fact that there is a limit to our production capacity, there is also uncertainty about the direction of the Trump administration's policies in the United States and, in the aircraft industry, the demand for aircraft. This includes issues with Boeing, and we will be assessing the situation carefully.

Since this is a segment that can be expected to achieve high growth over the medium to long term, we are implementing the strategic investments outlined in our 2026 Medium-Term Management Plan, and we are looking forward to the benefits of these investments being realized from FY2026 onwards.

Q. Regarding the outlook for orders for stainless steel products for semiconductor production equipment presented at the “Business Briefing about Our Products for Semiconductor Production Equipment” held on January 15, has there been any change in the situation since the third quarter results were compiled?

A. There has been no change in the trend at this point in time.

Orders for the current third and fourth quarters are in line with our expectations, and we will provide our outlook for future sales of these products when we announce our earnings guidance for next fiscal year.

\* The information about the “Business Briefing about Our Products for Semiconductor Production Equipment” is available on our webpage:

[https://www.daido.co.jp/en/common/pdf/pages/ir/library/presentation/business\\_briefing2024.pdf](https://www.daido.co.jp/en/common/pdf/pages/ir/library/presentation/business_briefing2024.pdf)

Q. Given the difficulties of the Japanese automakers, could you tell us how you are forecasting sales volumes in the Specialty Steel segment for each automaker?

A. While our sales to Nissan Motor and Honda Motor have traditionally been high, we believe that the recent struggles of both companies have made the situation difficult in terms of sales volume for our specialty steel products. However, the decline in the sales volume of products we supply to Nissan has recently eased somewhat. As for our sales to Toyota Motor, we maintain a certain amount of business with Toyota, including sales of products for their parts manufacturers, so overall sales of our specialty steel products are in line with the overall trend for Japanese automakers.

Q. The recovery of stainless steel for semiconductor production equipment has been a little slower than the company's outlook over the past year or so. What do you think is behind this?

A. With regard to the trend of demand for our stainless steel products for semiconductor production equipment, we have been making forecasts while anticipating demand from customers, taking into account reports from various research organizations. Semiconductors have a very wide range of uses. At present, demand in certain fields such as AI is returning to a certain extent, but demand in other fields is stagnating slightly. Therefore, we don't think we're on the recovery line we were hoping for.

Q. How do you think the reported business merger of Nissan and Honda will affect the industry?

A. The specific details of the merger of the two companies have not been announced, so we have not yet been able

to assess the impact. However, in general, when it comes to business mergers, there is some expectation of a consolidation effect on the business partners. Since Daido Steel is a major supplier of specialty steel to both companies, there is a potential positive impact on our company if the supply chain of the new company is consolidated by region. On the other hand, there is also a risk that our sales volume could decrease if the new company deliberately develops second and third tier suppliers. We will continue to respond to customer needs while considering how to respond to them.

- Q. You have maintained your operating profit forecast of 40 billion yen for FY2024 in your guidance, despite the fact that performance has been steady up to the third quarter. Is it safe to assume that this is due to accounting factors such as the lump sum recording of fixed asset taxes in the fourth quarter and the effect caused by the intentional increase in inventories in the third quarter? If you think there is a risk in the external environment, could you tell us what it is?
- A. While sales volumes were slightly weaker than were assumed in the guidance, there was a change in the market price of raw materials, which was lower than expected. Overall, however, progress has been in line with expectations and we do not expect the underlying tone of the external business environment to change. The reason for maintaining the operating profit forecast is due to accounting factors and the impact of our production policies.
- Q. Compared to the previous year, the difference in the sales mix had a positive effect, particularly in the Parts for Automobile and Industrial Equipment segment. Could you explain whether Daido Steel expects growth in the next fiscal year, such as maintaining its present positive sales mix differential and improving margins, including the effects of investment?
- A. In the Specialty Steel segment, it is difficult to expand margins significantly when there is no prospect of an increase in sales volume, so we would like to try to maintain current profits while simultaneously maintaining a certain level of sales volume. In the High-Performance Materials and Magnetic Materials segment, the contribution of the sales mix difference will vary depending on the extent to which sales recover for semiconductor production equipment stainless steel. In order to respond to increased demand, we installed new vacuum arc remelting (VAR) furnaces at the Chita Second Plant in December 2024 and February 2025, to increase production flexibility. Sales of open-die forgings for automobile and industrial equipment parts have been increasing steadily and are beginning to contribute to profits, but it is necessary to eliminate production capacity constraints. We aim to gradually increase sales by improving the production facilities in the next fiscal year. Therefore, we will maintain our current profit level goals in FY2025 and aim to reap the benefits of large-scale investments in production equipment from FY2026.
- Q. Could you tell us about any factors that may affect sales from the third quarter to the fourth quarter?
- A. There is a factor that will contribute to reduced revenue in the fourth quarter, and that is the fact that there are fewer working days in Japan during that period. Other than that, we expect raw material and fuel prices to remain flat, and we do not plan to increase or decrease our sales prices. As a result, we do not expect significant changes in sales.
- Q. In addition to the fact that the recovery in demand for stainless steel for semiconductor production equipment is slower than expected, you also mentioned that the recovery in demand for stainless steel for machine tools and industrial machinery is also slow. Could you explain the current recovery situation? In addition, I understand that stainless steel for HDDs, whose sales were strong in the first half of the year, are being challenged by the fact that glass is being used as a substrate. Will there still be room for Daido Steel to win large orders for stainless steel for HDDs in the future?

A. Approximately half of our stainless steel products are delivered for use in the automotive industry, so the sales volume of stainless steel is most affected by trends in automobile production. Japanese auto manufacturers are having a hard time right now, so it's taking a while for our stainless steel sales to recover. Sales of our products for machine tools and industrial machinery, not only of stainless steel but also of specialty steel, are also sluggish. We have a sense that the economic situation in China is affecting demand trends in Japan, so it is difficult to be optimistic about the outlook. But we will examine this carefully when preparing our guidance for the next fiscal year. In addition, in terms of HDD material, there has been a trend for some time to turn to glass instead of stainless steel, but we have continued to maintain the current level of sales. Our sense is that the current sales level should continue for the time being.

Q. In the materials from the recent “Business Briefing about Our Products for Semiconductor Production Equipment”, the number of orders is reported to have increased by around 20-30% between the second and third quarters of FY2024. If we take into account the production lead time, is it correct to conclude that this will manifest as an increase in future sales, from the next fiscal year onward?

A. The increase in orders received in the current period will lead to an increase in sales from the next fiscal year onward. Stainless steel for semiconductor production equipment is shipped after undergoing a number of processes, including special melting, secondary processing and various inspection processes. Therefore, we want to keep the production of this product as even as possible, because it would be inefficient to manage production in real time in response to increases and decreases in the number of orders. We aim to balance production volumes to some extent throughout the year in order to achieve stable sales. Please understand that the sales volume we just discussed, which is about 60% of the level in fiscal 2022, is a figure on a sales basis and does not correspond to the number of orders.

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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