



DAIDO STEEL CO., LTD.

**2023**

# Midterm Management Plan

(from fiscal years 2021 to 2023)

Daido Steel Co., Ltd.

June 25, 2021

# 1. Looking back at the 2020 Midterm Management Plan

## 2. The 2023 Midterm Management Plan

- Perspectives on the business environment and our basic management policy
- Primary objectives
- Priority strategies by major segment
- Investment plan
- Financial strategies
- Management objectives

<Reference> What we want to look like in 2030

# 1. Looking back at the 2020 Midterm Management Plan

# Looking back at the 2020 Midterm Management Plan (management indices)

We made capital investments aggressively to increase the capacities of our facilities based on the prospects for long-term demand for our products, and enhanced and reorganized our operational foundations as planned. However, sales declined substantially and the effects of our investment and improvement activities were slow to appear, mainly due to the COVID-19 pandemic. Thus, we could not achieve the target values set for most management indices in fiscal year 2020.

## Targets for FY2020

(\*: 100 million yen)

Net sales	5,800*
Operating income	470*
Net income	300*
Return on equity (ROE)	9%
Capital investment (a total of 3 years on a construction basis)	950*
Dividend payout ratio	20 - 25%



## Results of FY2020

	1st half	2nd half	Full year
	1,795*	2,332*	4,127*
	▲35*	136*	101*
	▲21*	66*	45*
	-	-	1.6%
	-	-	939*
	-	-	33%

# Looking back at the 2020 Midterm Management Plan (priority strategies)

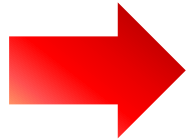
**High-performance and magnetic materials recorded the highest sales among our market segments in fiscal year 2020.**

○Results ☆Future issues

Primary objectives	Priority strategies	Evaluation	
Reform of product portfolio	Making aggressive investments in high-performance and magnetic materials	○	• Strategic investment in specialty stainless steel and high-alloy steel completed
		○	• Advanced magnetic material development center has been established
		☆	• The effects of these investments are expected to appear in coming years.
Enhancement of our business foundations	Lowering the break-even point	○☆	• Fixed costs reduced, proportional costs improved, and production yields also improved. • Profitability improved by increasing the base price of some products.
	Promoting our Work Style Reform activities	○	• Discussion have been held of directions for reform and improvements in working environments.
	Introducing IFRS	○☆	• Preparations to launch the project are in progress.
Reorganization of diverse businesses	Reforming the structure of our die forge business	☆	Reform efforts have been made and some good results achieved, but efforts must still be continued. ⇒ The feasibility of changes to this business will be determined around the middle of FY2023.
	Restoring the soundness of our turbocharger component and turbocharger housing business	○	Reviewing this business is ongoing, including the transfer of the subsidiary in China and writing off the loss.

## 2. 2023 Midterm Management Plan

The business climate may change substantially in the medium to long run, depending upon whether or not global warming can be successfully suppressed. (However, changes in the business climate may be limited in the coming three years.)



Supporting concrete manifestations of the effects of our strategic actions, taken according to the 2020 Midterm Management Plan, and the business activities necessary to prepare for possible future changes in the business environment.

## Outlook for the business environment envisioned in the 2023 Midterm Management Plan

- Demand for our products related to automobiles, semiconductor-manufacturing equipment, and heavy electrical machinery will be strong.
- Aircraft-related demand will remain weak.
- Engineering business will gradually recover.
- There is a risk of raw material costs escalating or energy costs rising.

# Primary objectives

## 1. Expand businesses in fast-growing fields

Focus our efforts on products that are expected to grow rapidly in the near future, such as those in CASE\* (automobile), semiconductor manufacturing, and green energy fields.

## 2. Strengthen management' agility

Enhance our resilience in the presence of change in the business environment surrounding the company (Expand the presence of our existing businesses)

## 3. Expand overseas business

Expand the high-performance material business, putting an emphasis on the East-Asian markets.

- High-performance stainless steel, high-alloy and tool steel

## 4. ESG-based management

- Cut CO2 emissions in order to ensure sustainable management
- Enhance corporate governance

\* CASE (Connectivity, Autonomy, Sharing and Electrification)



Focus our efforts on products that are expected to grow rapidly in the near future, such as those in CASE\* (automobiles), semiconductor manufacturing, and green energy fields.

■ CASE (automobiles)

... Develop new products and expand product lineups to meet new demand for magnets and sensor-related products

■ Semiconductor-related products

... Increase sales of products that need special melting processes and those that are difficult to machine, by enhancing our technological capabilities.

■ Green energy sector

... Provide highly high-purity steel as well as making highly competitive green technology products

Launch new company-wide working groups

# 1. Expand businesses in fast-growing fields

# Products that are expected to grow rapidly in the near future

Develop new products in fast-growing fields while sowing seeds of growth in those types of fields, as well as capturing future demand.

Specialty steel products	Steel for gears (e-Axle) Steel for offshore wind-power generation plants	Main motor magnets Bonded magnets Soft magnetic material/powder Negative electrodes for lithium-ion battery Semiconductor manufacturing equipment Hydrogen fuel-related products	High-performance and magnetic materials
Automotive parts and industrial equipment parts	Offshore wind power generation plants	Hydrogen fuel-related projects	Engineering

## CASE (automobiles)

« **e-Axle Reducer \*** » \* Drive system that combines a reducer, a motor and an inverter into one unit.  
Steel for gears

Meets a variety of needs under high circumferential speeds

« **Main and auxiliary motors and sensors** »

NdFeB magnet with a preferred direction of magnetization for main motors: Improves motor efficiency.

NdFeB bonded magnet for sensors: easy assembly

SmFeN bonded magnet with high corrosion-resistance for auxiliary motors:

« **Current sensors and noise absorbers** »

High-performance soft magnetic material and powder: Meets needs of high frequency applications.

« **Batteries** »

Negative electrodes for lithium-ion batteries



## Semiconductor-related products

### Semiconductor manufacturing equipment

- Materials for highly clean valves (stainless steel and high-alloy steel)
- Materials for polishing low thermal-expansion wafers
- Gas filters
- Materials for forming thin film and etching



Semiconductor gas filters

## Green energy

### Hydrogen fuel-related products (for the manufacture, transportation and storage of hydrogen fuel)

- Steel that resists being made brittle by hydrogen (used under high temperature and pressure)
- Hydrogen combustion burner

### Offshore wind-power generation plants

- Gearbox material (highly high-purity steel)
- Structural material intended to resist seawater



### [Strengthen management' agility]

Enhance our resilience to change in the business environment surrounding the company

(Expand the presence of our existing businesses)



#### Sales-related departments

- Improve profitability
- Reshape our product portfolio (Increase our emphasis on high-profit products)

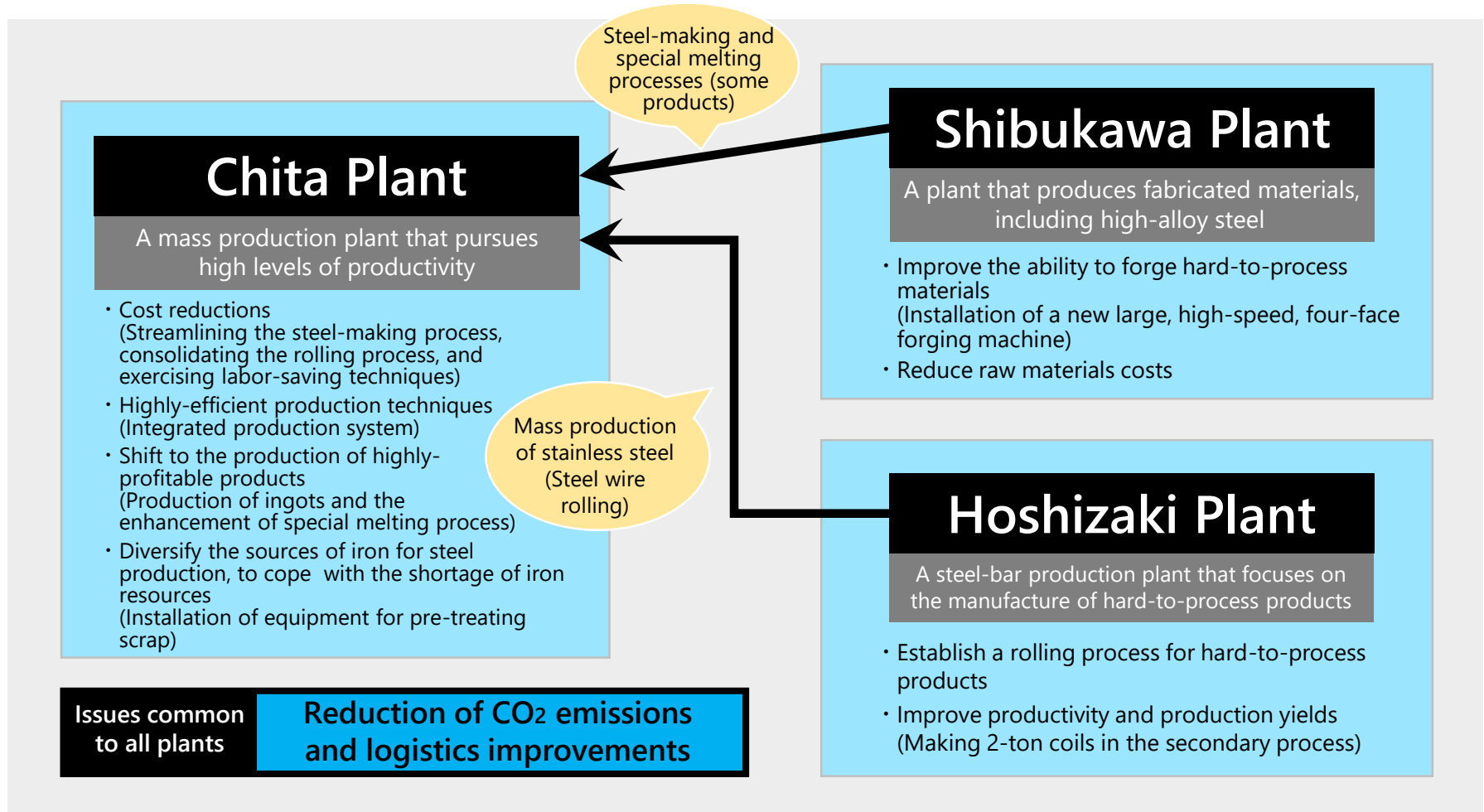
#### Production-related departments

- Improve flexibility (Improve production efficiency and diversify the sources of the iron used for steel production)
- Enhance our ability to produce high-performance materials and hard-to-process materials
- Pursue low-cost production (consolidate production resources, improve production yield and reduce labor costs)

#### Human resource-related departments

- Promote optimal human resource assignments
- Reduce man-hours and labor costs by promoting DX and RPA.

Devote the production capabilities of each plant more closely to their respective fields of expertise, to improve production efficiency.



## Increased presence in China, India, and ASEAN



Expand our high-performance materials business, putting an emphasis on the East-Asian markets.

• High-performance stainless steel, high-alloy and tool steel

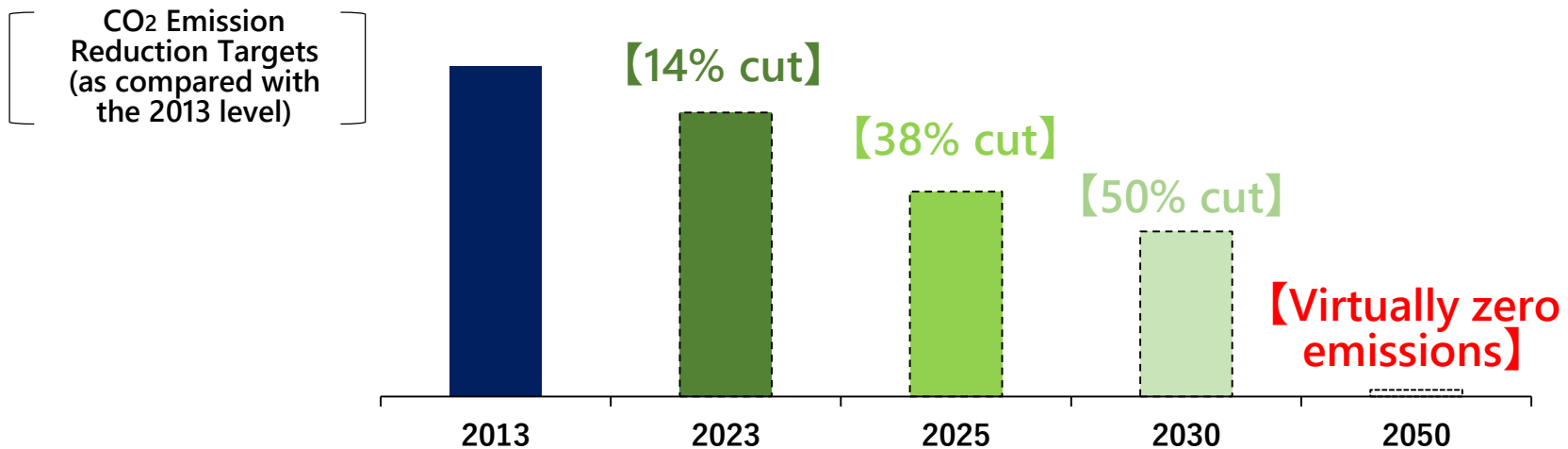
- Identify fast-growing fields and develop new customers by building up a reliable supply chain.
- Take advantage of our alliance with Sunflag in India.
- Enhance our cost-competitiveness.
- Bend efforts to conform with overseas standards.
- Enhance our sales organizations.

- Acquire all the equity of Timken Steel's sales units in China (scheduled for acquisition in July of 2021).
- Further increase sales of SBQ\* products in China and enhance our marketing expertise regarding high-alloy and specialty stainless steel.

※SBQ: Special Bar Quality

## Daido Carbon Neutral Challenge

- We keep pursuing expanded possibilities for steel and supporting the future for people and society -



### Major actions to be taken to achieve targets for fiscal year 2023

- Improvements made by minimizing heat loss
- Improvement made by achieving high-efficiency combustion
- Promotion of the use of energy-saving equipment and improving the operating efficiency of equipment
- Use CO<sub>2</sub>-free power sources

# <Reference> Roadmap for Achieving Carbon Neutrality for 2050

## 3 policies for carbon neutrality

- ① Thorough energy saving efforts made by taking full advantage of existing technologies
- ② Use of decarbonized power sources
- ③ Introduction of decarbonizing technology

By 2030

By 2050

### Scope 1

Fuel decarbonization

- ① Expanding highly efficient combustion technology
- ③ Verifying hydrogen combustion technology → Development of a new burner → Put to use in industrial furnaces
- ③ Introduction of on site CO<sub>2</sub> recovery and utilization technology (hydrogen electrolysis and methanation)

### Scope 2

Decarbonization of electric power

- ① Full use of existing energy saving technologies, including our own.
- ② Switching to CO<sub>2</sub> free electric power [Chita Plant → Offices in Nagoya → Entire company]
- ② Introduction of recyclable energy (solar power) to be used in the head office and factories and local offices

Improvement of basics

Thorough improvement by reducing energy waste and loss and raising production yields

We build trust with society and take a variety of approaches to achieve ESG objectives, putting our top priority on the health and safety of our employees.

## Health management

- Fine-tune our health management policy and objectives and continue activities to support health.



## Diversity

- Promote organizational reforms that allow us to benefit from the inherent differences among employees as individuals and allow them to gain satisfaction by working at the company.



## Work style reform

- Promote various measures that allow our employees to create maximum value, including improving their work environment.

## White Logistics (an initiative aimed at ensuring stable logistics functions)

- Continue to take a White Logistics approach, to improve our logistics system in a way that ensures stable and sustainable logistics.



### Takeover defense measures

- The board of directors decided to abolish the takeover defense measures at the meeting held in May 2021.
- Improve the self-discipline of management to promote conversations with shareholders.

### Stocks held in cross-shareholding

- Reduce the amount of stocks held in cross-shareholdings to not more than 20% of net assets during the term of this midterm management plan, taking into account the possibility of creating business opportunities, the quantity of transactions and the collaborative relationships with the other involved companies. Aim at reducing these holdings to 10% of net assets in the long run.

### Enhancement of group management

- Improve the accuracy of management control, allow swift management decisions, and bolster the governance of the group companies by introducing IFRS.
- Identify low-profit businesses and maximize synergistic effects of businesses within the group

### Composition of the board of directors

- Increase the percentage of outside directors to not less than 1/3 of all the directors in fiscal year 2022.
- Consider introducing a stock compensation plan.
- Implement the evaluation of the board of directors by a third-party body.

# Priority strategies by major segment

**Promote priority strategies by launching new company-wide working groups**

- Semiconductor manufacturing equipment working group
- New fuel working groups
- Offshore wind power generation plant working group

<b>Growth</b>	Expand businesses in fast-growing fields	<b>Agility</b>	Strengthen management's agility
<b>Overseas</b>	Expand overseas business	<b>ESG</b>	Approach achieving carbon neutrality

## Specialty stainless steel



Improve cost competitiveness.  
 Make efforts to keep the basic amount of orders and maintain processing fees  
 Investigate needs of steel for electric vehicles and development materials

## High-performance and magnetic materials



Capture demand for products related to CASE and the information communication industry.  
 Harvest returns from the strategic investments made under the 2020 Midterm Management Plan  
 Improve productivity and production yields for high-performance stainless steel and high-alloy steel

## Automotive parts and industrial equipment parts



Expand sales of high-performance materials and break into the decarbonization business.  
 Bolster sales forces for overseas markets (through optimal human resource assignments)  
 Review the die forging business (determine the feasibility of business)

## Engineering

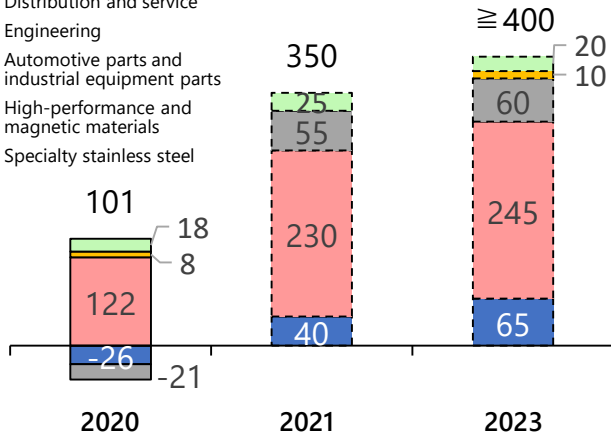


Expand the lineup of products that contribute to reducing CO2 emissions.

< Plan for operating profits >

(100 million yen)

- Distribution and service
- Engineering
- Automotive parts and industrial equipment parts
- High-performance and magnetic materials
- Specialty stainless steel



# Investment plan

**A total of 85 billion yen in three years (on a final-decision basis)**



## Investment in management bases (70 billion yen)

- Chita Plant: Improve productivity (low costs and high production yields) → Streamlining the steel-making process and consolidating the rolling process
- Hoshizaki Plant: Beef up market competitiveness in high-performance stainless steel → Streamlining the secondary process
- Shibukawa Plant: Reduce costs of producing high-alloy steel → Reduce raw materials costs and improve production yields.

## Environmental investment (10 billion yen)

- Promote labor-savings and production efficiency to cut CO<sub>2</sub> emissions.
- Meet environmental regulations.

## Investment in human resource (5 billion yen)

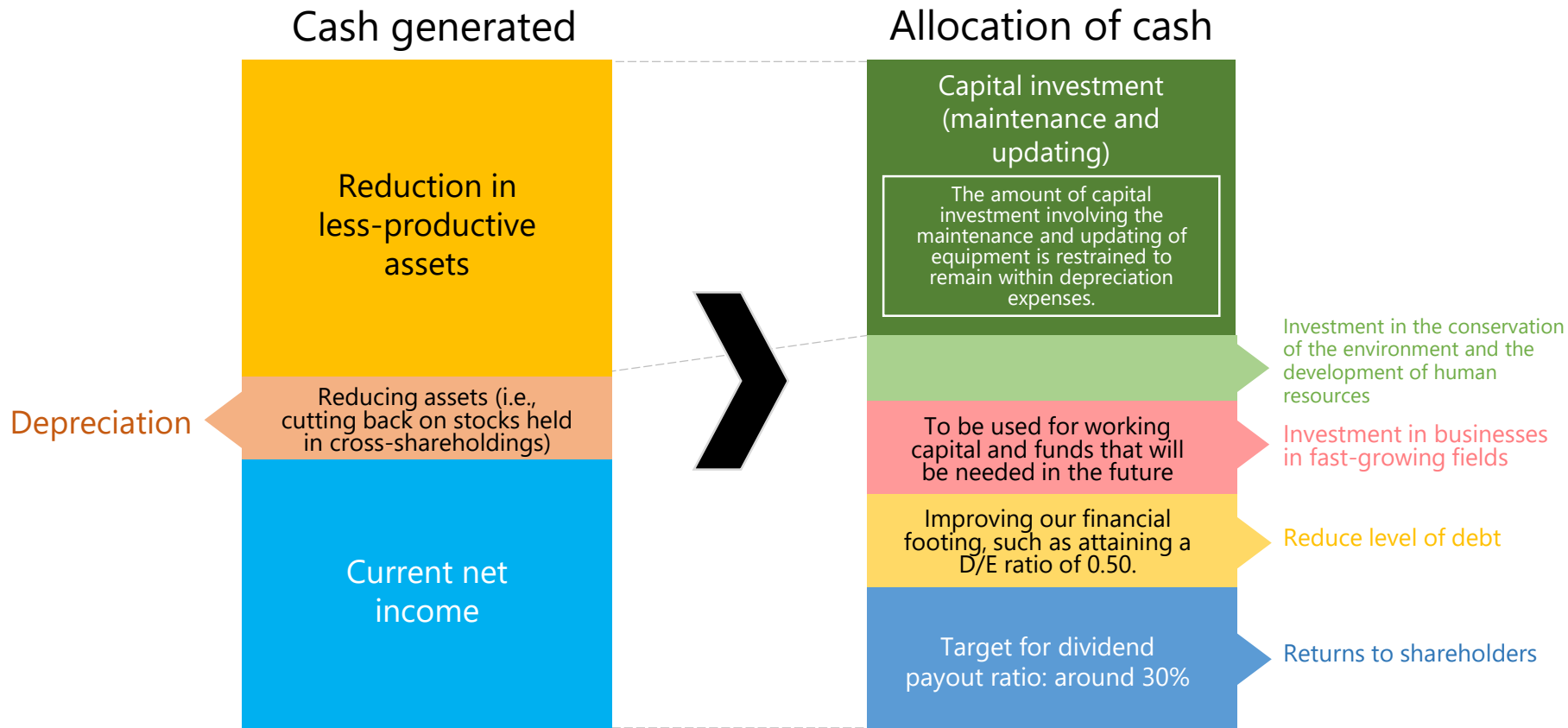
- Help employees develop their skills and abilities (including IT-skilled workers), promote health management and expand the company's welfare program (e.g.: the construction of a dormitory for unmarried employees)

Review the program for investing in fast-growing fields laid out in this period's 3-year midterm management plan and make investments (up to 30 billion yen) during the period of the 2026 midterm management plan.

# Financial strategies

We will allocate cash generated through our corporate activities to the following three measures, in order to improve sustainable corporate value.

- ① An investment fund -- needed for achieving sustainable growth
- ② Improvement in our financial footing: We must enhance our financial footing to prepare for future changes in the business environment.
- ③ Constant return to shareholders: Raising the dividend payout ratio will be based on the preceding midterm management plan



# Management objectives

## Results in fiscal year 2020 (\*: 100 million yen)

Operating profits	101*
Return on investment (ROE)	1.6%
D/E ratio	0.66
Investment (a total of three years on a final-decision basis)	796*
Steel sales volume (non-consolidated):	978 thousand tons

Dividend payout ratio	20 - 25%
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## Target values in the 2023 Midterm Management Plan

More than 400*
8.0%
0.50
850*
1,200 thousand tons

around 30%
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# <Reference> What we want to look like in 2030

**We contribute to achieving a green society by manufacturing the highest quality of high-performance specialty steel.**

- Expand sales of products in fast-growing markets to attain sustainable business growth.
- Improve productivity to step up our presence in the shrinking internal-combustion engine market.

## Changes in the business environment surrounding our company:

### Efforts to suppress global warming will turn into full swing.

(Japan declared its intention to achieve a carbon neutral society by 2050.)

→ The social and industrial structure will change substantially as the aim to cut CO2 emissions gains even more emphasis.

- Electrification of automobiles will accelerate (Automobiles with internal combustion engines will reach their peak in the middle of the 2020's).
- Shift from fossil fuels to green energies (offshore wind power and hydrogen).

### Acceleration of digitalization

- The semiconductor industry that supports the digitalization of information and communication sectors will grow sustainably.

### Increased uncertainties include the COVID-19 pandemic and trade friction between the U.S. and China.