

Fiscal Year ending March 2020 Interim Results Briefing (Apr. 1 – Sept. 30 / 2019)

October 31, 2019



< Contents >

FY2019 Interim Results (Apr.1 – Sep.30/2019)

Changes in Net Sales & Operating Income (FY2019
2nd quarter results)

4–9/2019 Changes in Operating Income (y/y)

Overview of our major products in FY 2019 ①

Overview of our major products in FY 2019 ②

4–9/2019 Net Sales & Operating Income by Segment

4–9/2019 Changes in Operating Income of Major
Segments (y/y)

4–9/2019 Ordinary income • Net income

Total Assets, Interest-bearing Debt, D/E Ratio

Plan for FY2019 (Apr.1/2019– Mar.31/2020)

Outlook in the major markets <Automobiles>

Outlook for the major markets <Industrial machines>

Market Trend of Raw Materials (Scrap Steel and
Nickel)

Premises of Profit Planning for FY2019 (Market Trend)

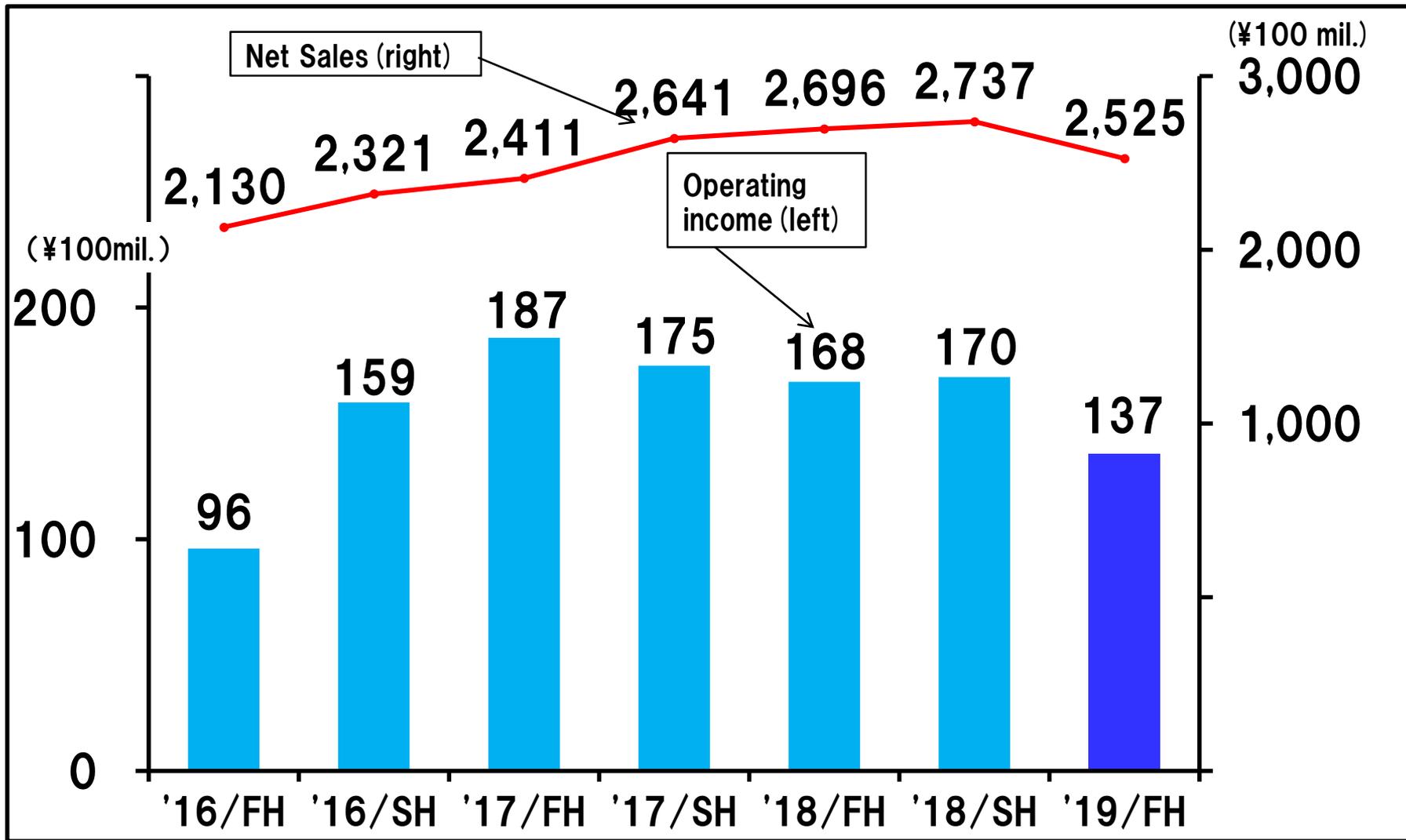
Changes in Net Sales & Operating Income (Forecast
for FY2019)

p.1	FY2019 Changes in Operating Income (y/y)	16
2	Net Sales & Operating Income by Segment(y/y)	17
3	Changes in Net Sales & Operating Income (Interim)	18
4	Net Sales & Operating Income by Segment (Interim)	19
5	FY2019 Ordinary income • Net income	20
6	FY2019 Dividend per share	21
7	<u>Capital investment etc.</u>	22
8	Capital investment	23–30
9	CSR report	31
10	<u>Fact Book</u>	32–34
11		
12		
13		
14		
15		

FY2019 Interim Results

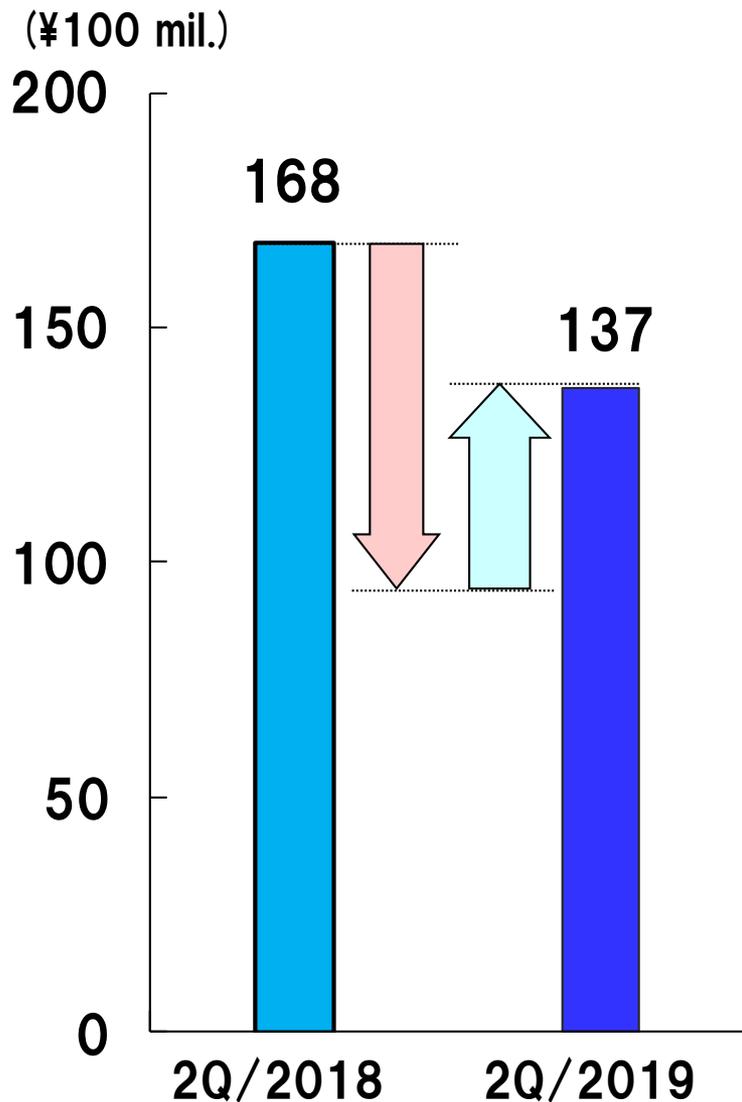
(Apr.1 – Sep.30/2019)

Changes in Net Sales & Operating Income (FY2019 2nd quarter results)



4-9/2019 Changes in Operating Income (y/y)

(¥100 mil.)



4-9/2018 Operating income	
Changes (y/y)	Raw material/ Fuel price
	Sales volume
	Sales price
	Sales mix
	Variable cost
	Fixed cost
	Newly consolidated subsidiaries
	Total
4-9/2019 Operating income	

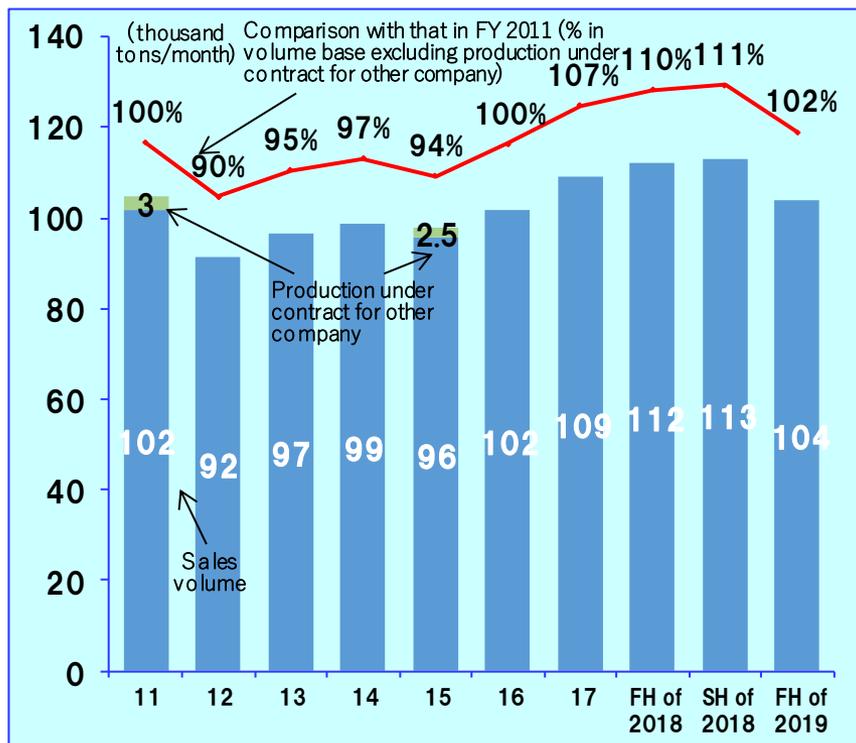
168	
-60	+7
-4	+24
-6	+3
-70	+5
-70	+39
137 (-31)	

Overview of our major products in FY 2019 ①

Specialty steel

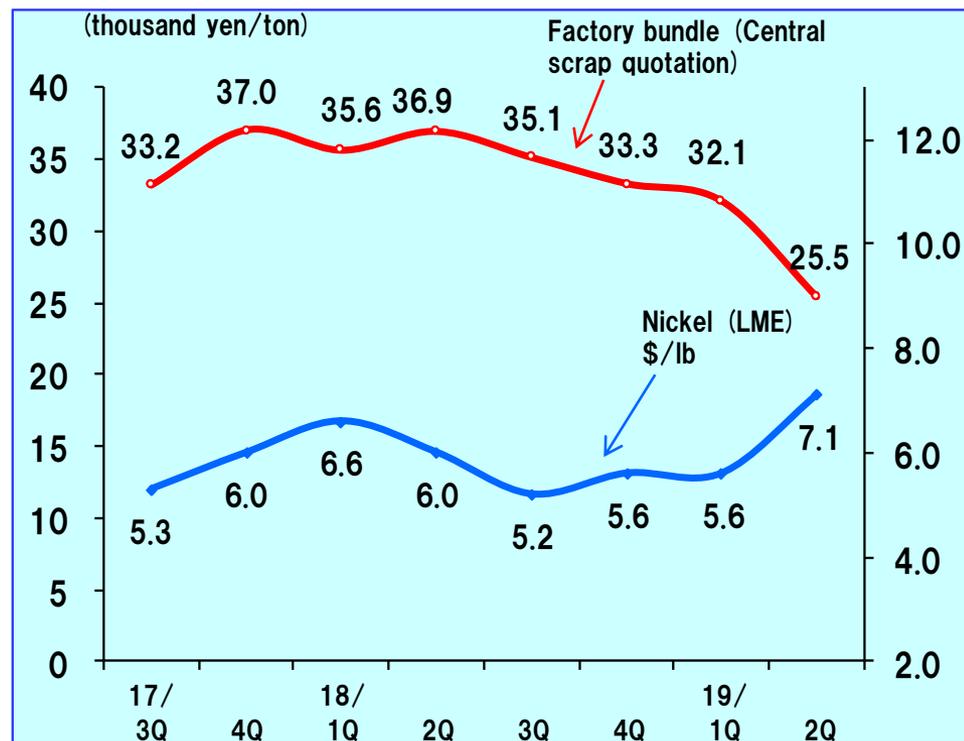
<Demand environment>

Sales volume of specialty steel (non-consolidated)



<Market conditions of raw materials>

Changes in scrap iron and nickel prices



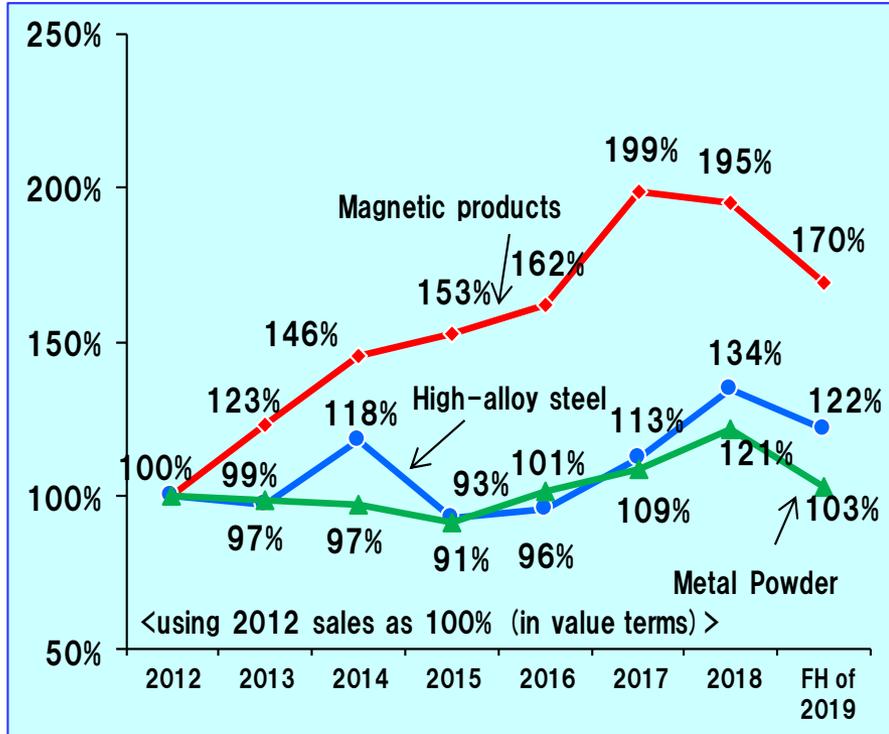
➤ The demand for both automotive parts and industrial machine parts is in an adjustment phase.

➤ Scrap: Prices weakened also in Japan, reflecting the languishing international market condition.
 ➤ Nickel: Prices have surged to the range of 7 to 8 \$/lb since around August.

Overview of our major products in FY 2019 ②

High performance and magnetic materials

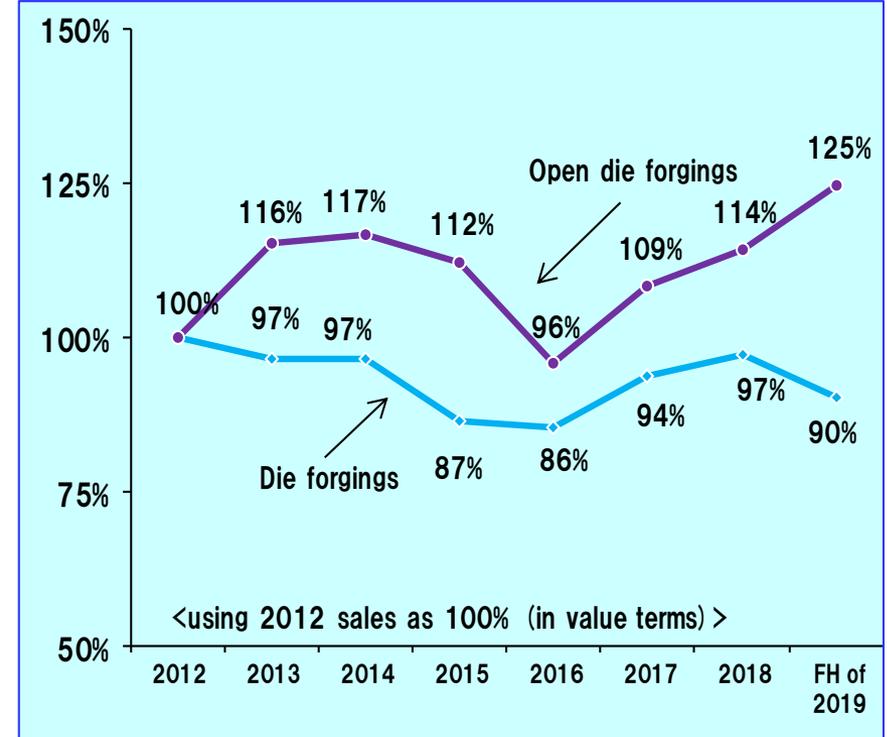
<High-alloy, magnetic products and metal powder>



- Magnetic products: Demand entered an inventory adjustment phase due to a slowdown in the production of automobiles in China.
- Metal powder products: Demand in some overseas markets was in an adjustment phase.
- High-alloy steel: Sales were strong in the automobile field, but demand for lead frame materials was in an adjustment phase

Parts for automobile and industrial equipment

<Die forging and open die forging>



- Open die forgings: Demand for semiconductor-related equipment slowed down, but chemical plant-related demand improved.
- Die forgings: Automobile-related demand remained sagging.

4-9/2019 Net Sales & Operating Income by Segment

(¥100 mil.)

		4-9/2018 Results (A)	4-9/2019 Results (B)	y/y (B) - (A)
Specialty Steel	Net Sales	1,020	971	-49
	Operating Income	21	32	11
High Performance Materials & Magnetic Materials	Net Sales	927	847	-80
	Operating Income	114	70	-44
Parts for Automobile & Industrial Equipment	Net Sales	554	499	-55
	Operating Income	11	6	-5
Engineering	Net Sales	126	124	-2
	Operating Income	8	15	7
Trading & Service	Net Sales	69	84	15
	Operating Income	14	14	0
Total	Net Sales	2,696	2,525	-171
	Operating Income	168	137	-31

Sales volume of specialty steel

673 thou.t

625 thou.t

-48 thou.t

4-9/2019 Changes in Operating Income of Major Segments (y/y)

(¥100 mil.)

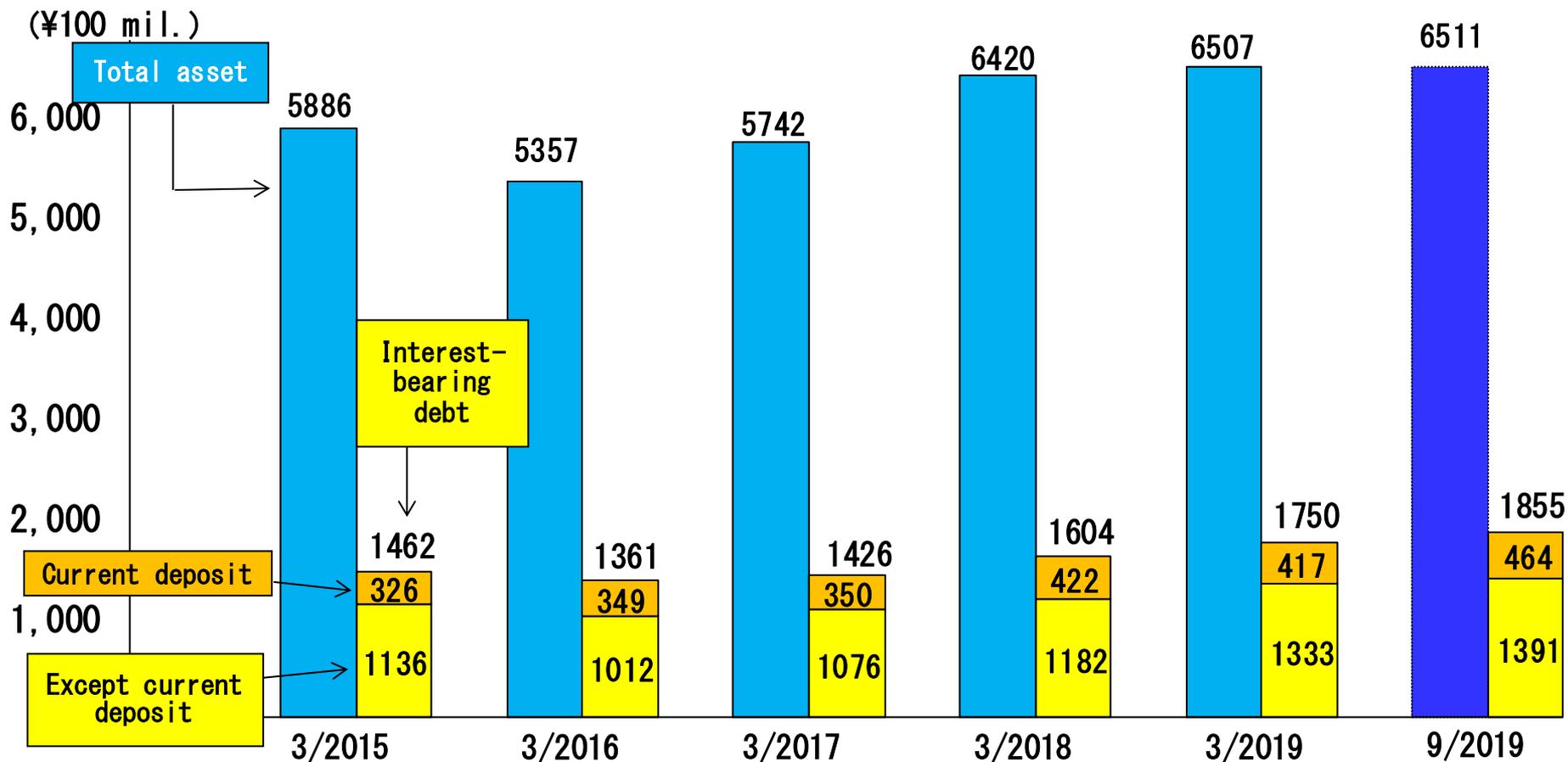
Segment			Specialty Steel	High Performance Materials & Magnetic Materials	Parts for Automobile & Industrial Equipment	Engineering
4-9/2018 Operating Income			21	114	11	8
Changes (y/y)	Operating Income / Loss	Raw material/ Fuel price	/ +10	/ +2	-5 /	/
		Sales volume	-13 /	-30 /	-17 /	/
		Sales price	/ +21	-1 /	/ +4	/
		Sales mix	-3 /	-13 /	/ +7	/ +7
		Variable cost	-2 /	-5 /	/ +1	/
		Fixed cost	-2 /	/ +1	/ +4	/
		Newly consolidated subsidiaries	/	/ +2	/ +1	/
		Total	-20 +31	-49 +5	-22 +17	/ +7
4-9/2019 Operating Income			32 (+11)	70 (-44)	6 (-5)	15 (+7)

■ 4-9/2019 Ordinary income - Net income

(¥100 mil.)

Operating income	137
Non-operating income / expense	0
Ordinary income	137
Extraordinary income / loss	38
Income taxes and profit attributable to non-controlling interests	▲62
Net income that is profit attributable to owners of parent	113

Total Assets, Interest-bearing Debt, D/E Ratio



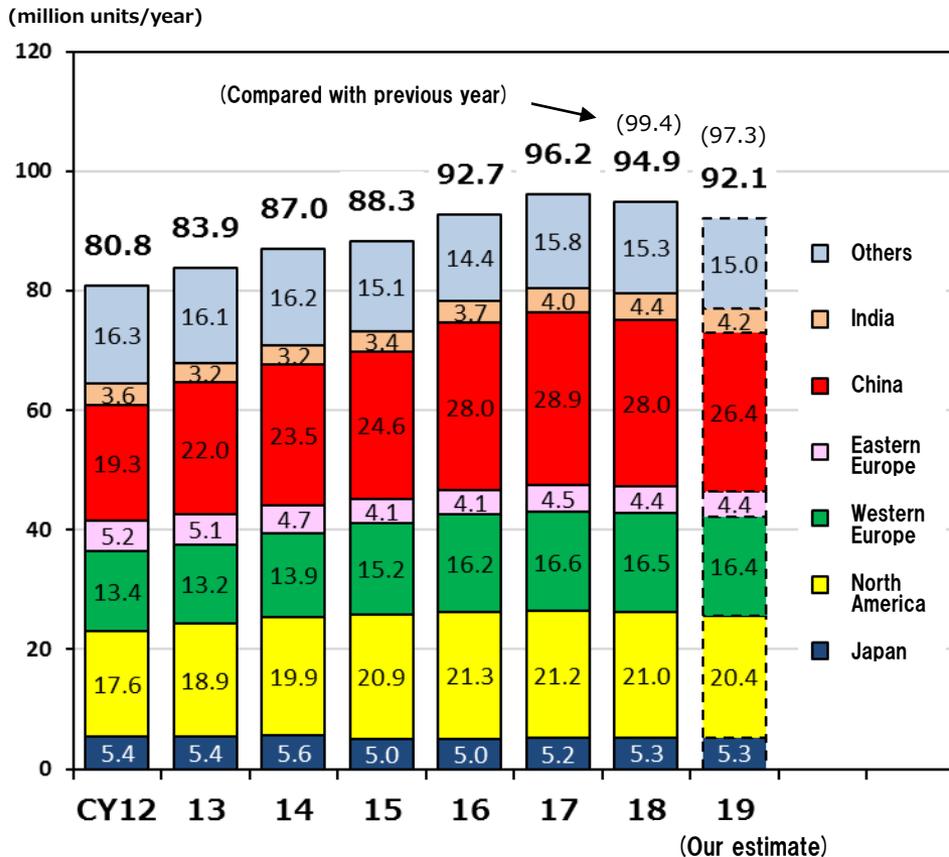
	3/2015	3/2016	3/2017	3/2018	3/2019	9/2019
ROA	3.8%	4.5%	4.8%	5.9%	5.3%	4.2%
D/E	0.57	0.58	0.55	0.56	0.61	0.63

Plan for FY2019

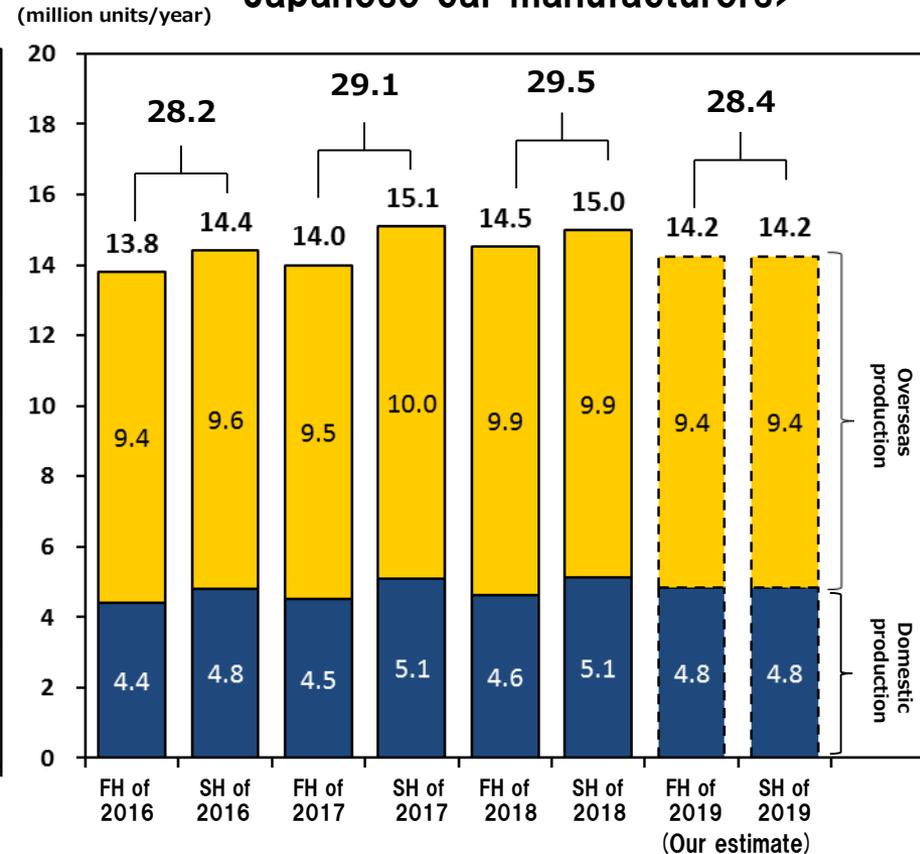
(Apr.1 / 2019 – Mar.31 / 2020)

Outlook in the major markets <Automobiles>

<Estimated global demand for automobiles>

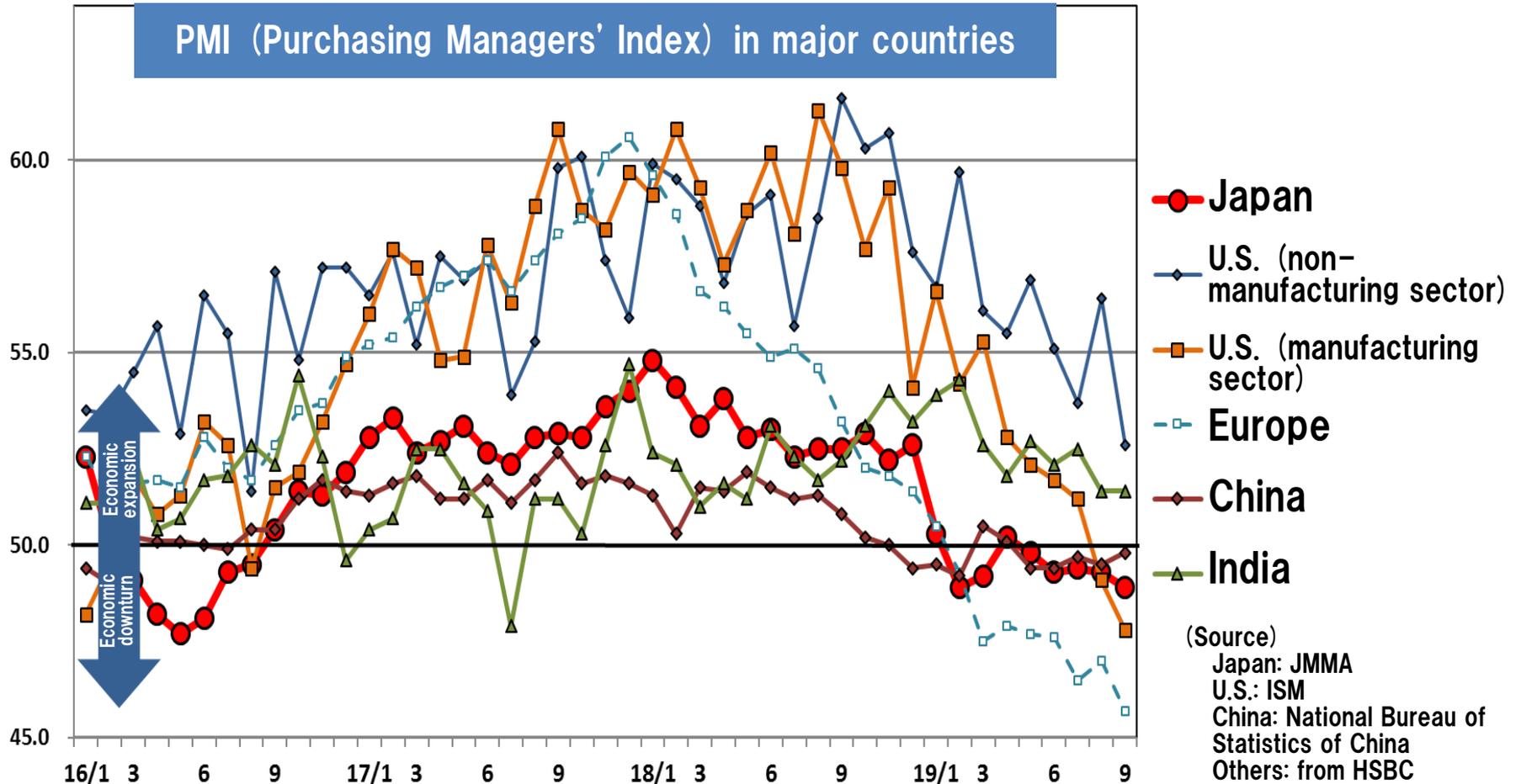


<Prospective car production by Japanese car manufacturers>



- Global demand: Demand was down from the previous year due to substantial drops in North America and China.
- Production by Japanese car manufacturers: Production is estimated to drop slightly, to about 96% of the previous year, due to the substantial drop in demand for automobiles in major countries.

Outlook for the major markets <Industrial machines>

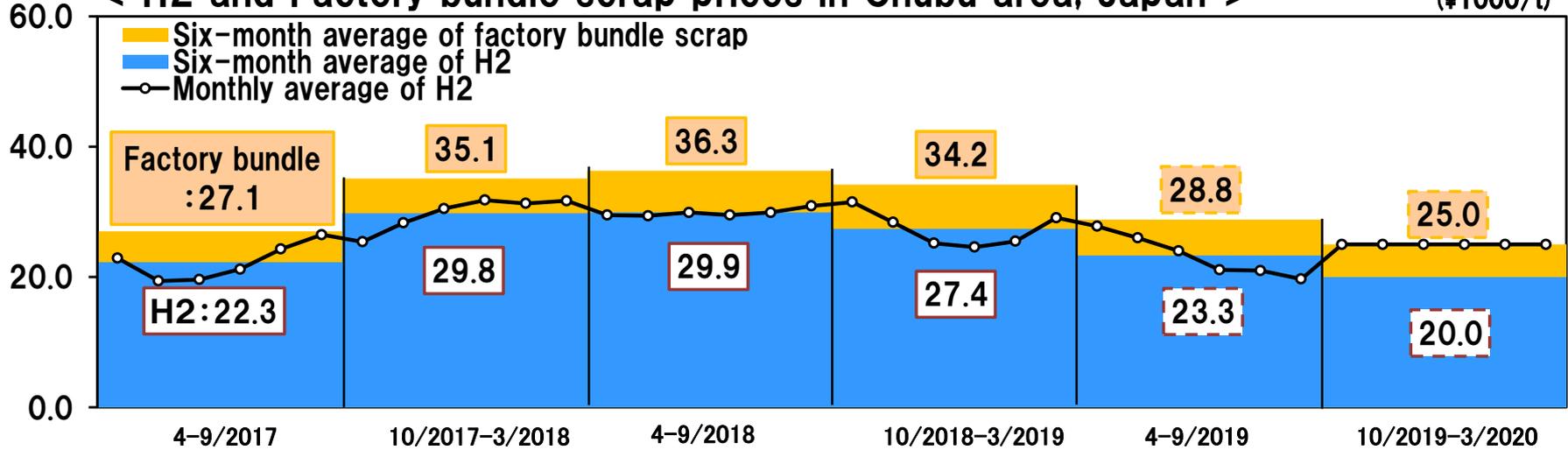


- The world economy remains flat on the whole, although some weakness can be found in Asia and Europe.
- It is necessary to pay close attention to some factors that are exerting downward pressure on the world economy, such as trade friction between the U.S. and China, various geopolitical risks and the outlook for Brexit.

Market Trend of Raw Materials (Scrap Steel and Nickel)

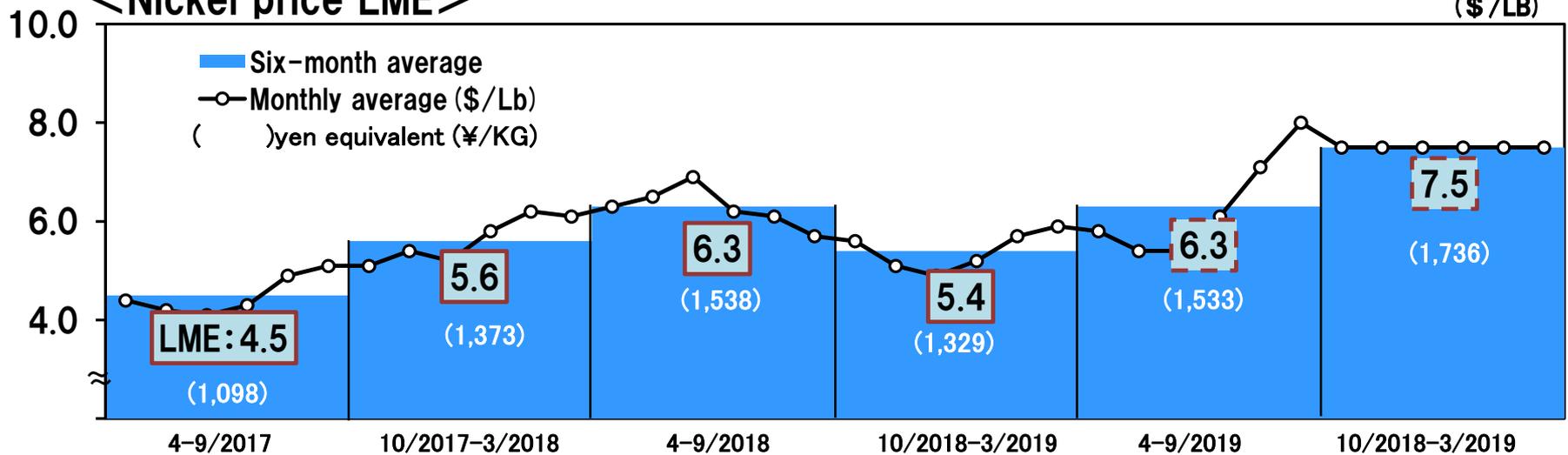
< H2 and Factory bundle scrap prices in Chubu area, Japan >

(¥1000/t)



< Nickel price LME >

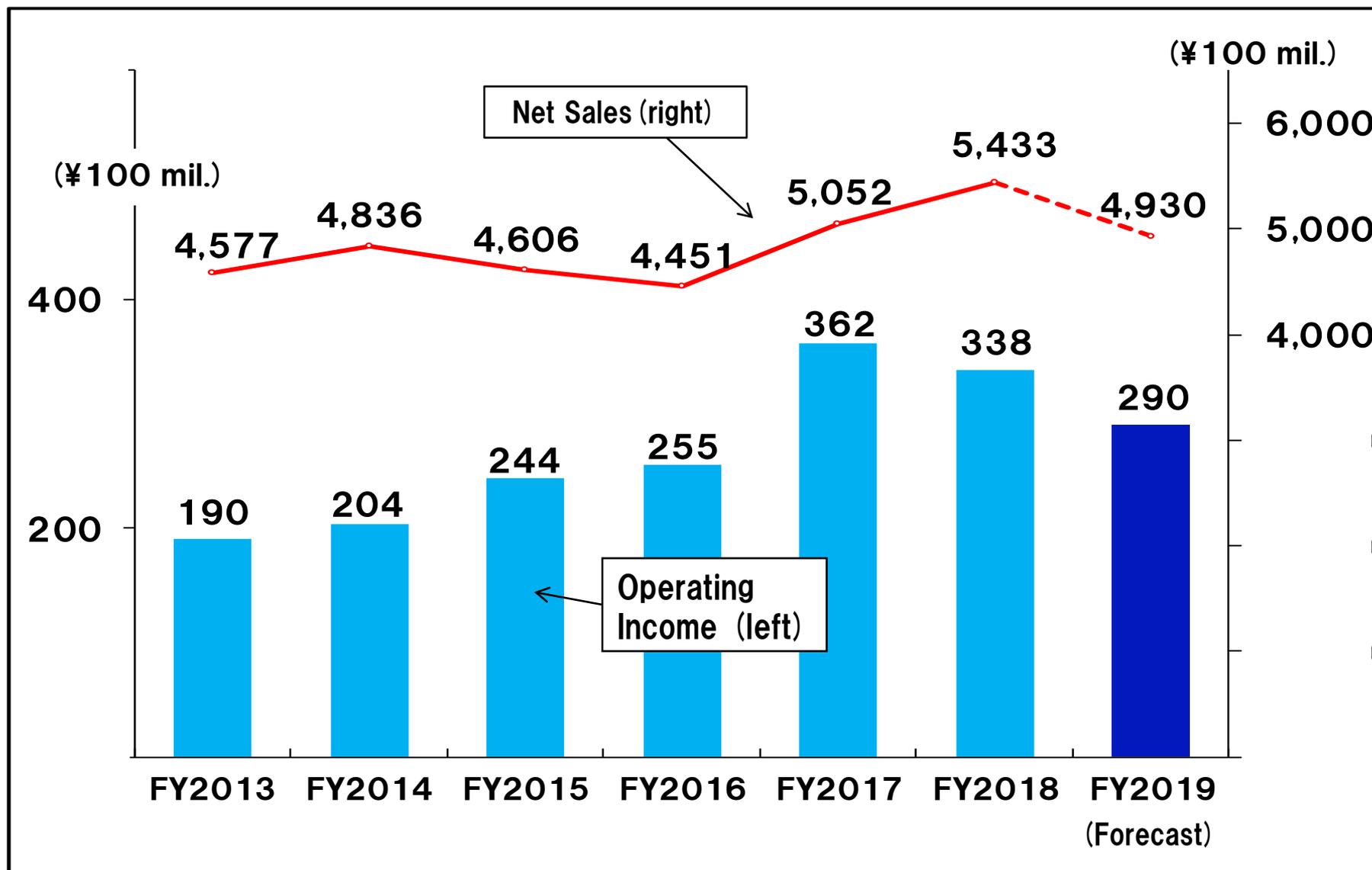
(\$/LB)



Premises of Profit Planning for FY2019 (Market Trend)

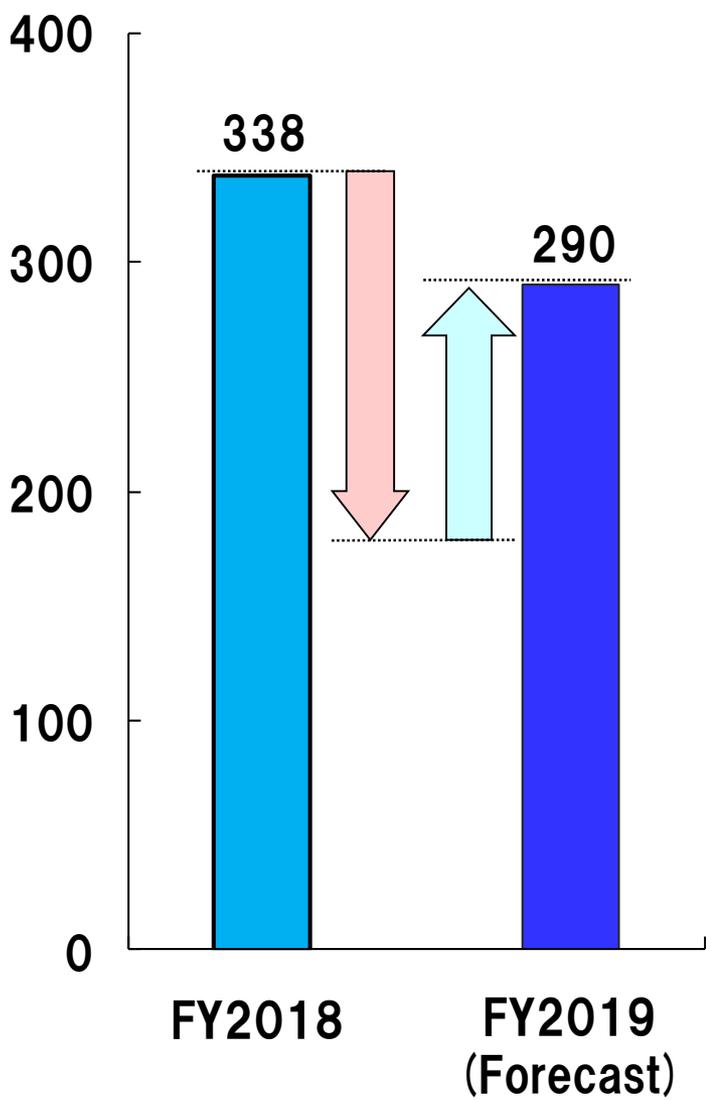
	UNIT	4-9/2019 Results (Difference with the original premise)	10/2019-3/2020 Premises of plan (Difference with the original premise)
Scrap steel Upper:H2 Lower:Factory bundle	¥thou./t	23.3 (-4.7) 28.8 (-6.2)	20.0 (-8.0) 25.0 (-10.0)
Nickel (LME)	\$/LB	6.3 (+0.8)	7.5 (+2.0)
Crude oil (Dubai)	\$/B	63.1 (+3.1)	60.0 (±0)
Exchange rate (TTM)	¥/\$	109.6 (-0.4)	105.0 (-5.0)

Changes in Net Sales & Operating Income (Forecast for FY2019)



FY2019 Changes in Operating Income (y/y)

(¥100 mil.)



FY2018	
Operating Income	
Changes (y/y)	Raw material/ Fuel price
	Sales volume
	Sales price
	Sales mix
	Variable cost
	Fixed cost
	Newly consolidated subsidiaries
	Total
FY2019	
Operating Income	

(¥100 mil.)

338	
/	+97
-109	/
-27	/
-7	/
-9	/
-1	/
/	+8
-153	+105
290 (-48)	

Net Sales & Operating Income by Segment(y/y)

(¥100 mil.)

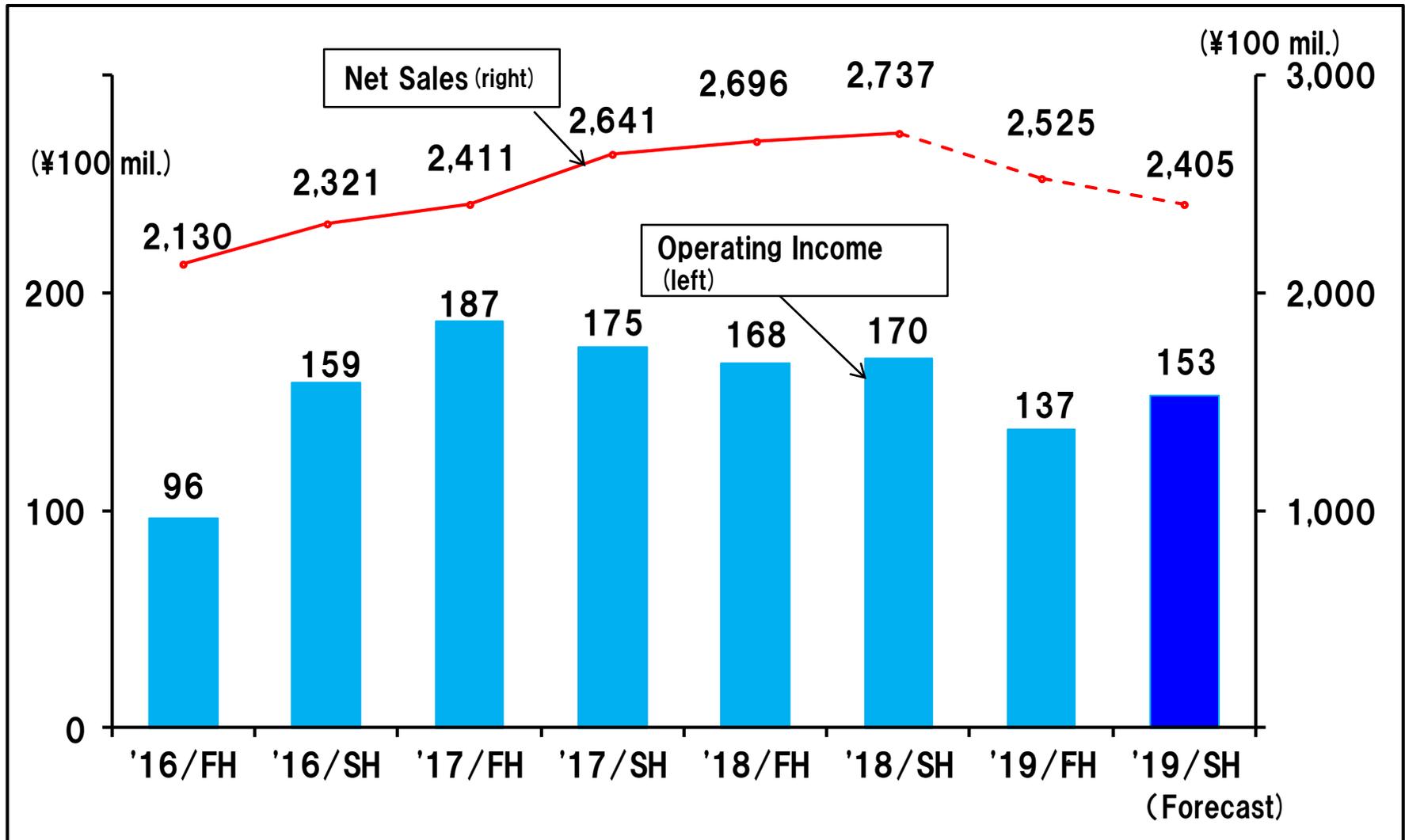
		FY2018 Results (A)	Fy2019 Forecast (B)	y/y (B) - (A)
Specialty Steel	Net Sales	2,078	1,870	-208
	Operating Income	60	85	25
High Performance Materials & Magnetic Materials	Net Sales	1,846	1,660	-186
	Operating Income	207	145	-62
Parts for Automobile & Industrial Equipment	Net Sales	1,099	980	-119
	Operating Income	23	10	-13
Engineering	Net Sales	275	250	-25
	Operating Income	23	25	2
Trading & Service	Net Sales	135	170	35
	Operating Income	25	25	0
Total	Net Sales	5,433	4,930	-503
	Operating Income	338	290	-48

Sales volume of specialty steel

1,349 thou.t

1,234 thou.t -115 thou.t

Changes in Net Sales & Operating Income (Interim)



Net Sales & Operating Income by Segment(Interim)

(¥100 mil.)

		FY2019		
		4-9/2019 Results	10/2019- 3/2020 Forecast	Full year Plan
Specialty Steel	Net Sales	971	899	1,870
	Operating Income	32	53	85
High Performance Materials & Magnetic Materials	Net Sales	847	813	1,660
	Operating Income	70	75	145
Parts for Automobile & Industrial Equipment	Net Sales	499	481	980
	Operating Income	6	4	10
Engineering	Net Sales	124	126	250
	Operating Income	15	10	25
Trading & Service	Net Sales	84	86	170
	Operating Income	14	11	25
Total	Net Sales	2,525	2,405	4,930
	Operating Income	137	153	290

Sales volume of specialty steel

625 thou.t 609 thou.t

1,234 thou.t

FY2019 Ordinary income - Net income

(¥100 mil.)

Operating income	290
Non-operating income / expense	0
Ordinary income	290
Extraordinary income / loss	38
Income taxes and profit attributable to non-controlling interests	▲ 113
Net income that is profit attributable to owners of parent	215

FY2019 Dividend per share

	FY2018		FY2019 (Forecast)	
	Interim	Year-end	Interim	Year-end
Ordinary income (¥100 mil.)	176	343	137	290
Net income ※ (¥100 mil.)	108	212	113	215
Dividend per share (¥/Share)	65.0	130.0	55.0	120.0
Payout ratio (%)	25.8	26.2	20.8	23.8

※: The net income that is attributable to stockholders of the parent company.

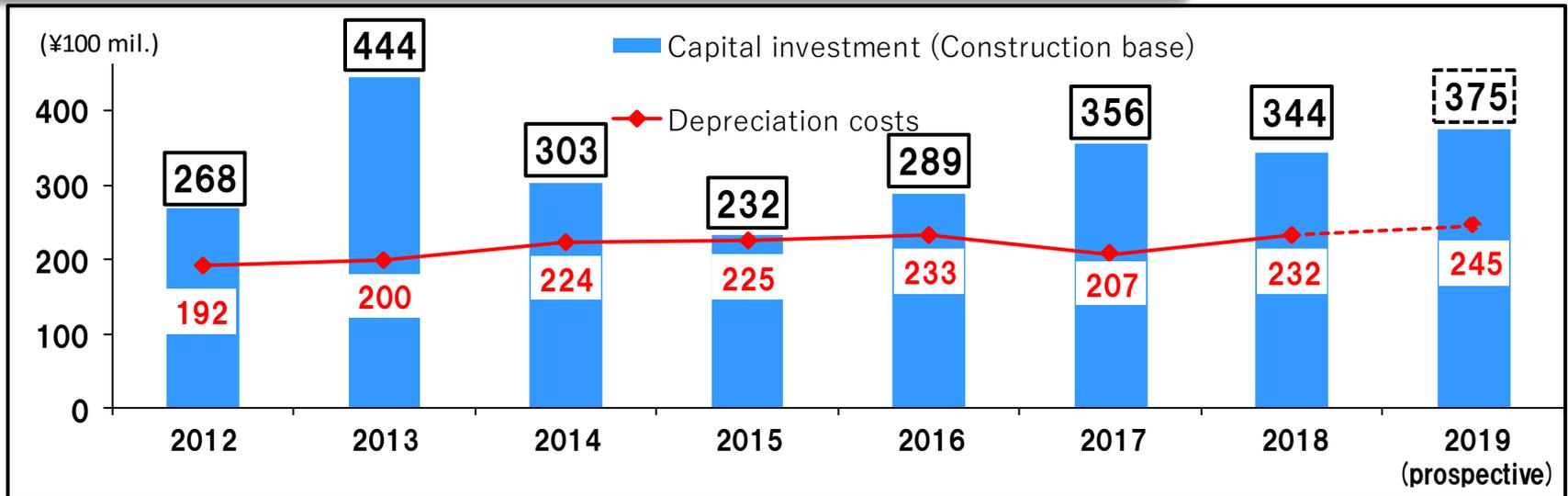
Capital investment etc.

Capital investment

We are continuing to invest capital according to our mid-term management plan (major investment projects).

- <Reduce bottlenecks in production processes to achieve maximized throughput>
Streamline the continuous casting line and increase the secondary processing capacity
- <Keep up with increasing demand and improve process capabilities>
Upgrade electro-slag re-melting equipment and the high-grade steel strip production capacity.
- <Establish new facilities (factories and research institute) >
Second Chita Factory, Nakatsugawa Research Institute, and a new stainless steel secondary processing factory (in Thailand)

Changes in capital investment and depreciation costs



Capital investment: Stainless steel

Reduce bottlenecks in production processes to achieve maximized throughput

Streamline the continuous casting line

Improve our continuous casting capacity and streamline ladle handling
(Improve our stainless steel continuous casting capacity by 15%)

⇒ Our construction of casting equipment was completed in August.

We have begun operating the equipment to check the quality of the products created.

- Investment: about 4 billion yen
- Date on which new equipment started operating: August 2019



Construction complete

Increase the secondary processing capacity for wires.

Add a heat treatment furnace and cold processing facility
(Improve our manufacturing capacity by 10%)

⇒ The installation of the equipment was complete in August.

We have begun operating the equipment to check the quality of the products created.

- Investment: about 1.5 billion yen
- Date on which we began operating the new equipment: August 2019



Installation complete

Capital investment: High-grade steel (high-alloy steel, special stainless steel, and tool steel)

Keep up with increasing demand and improve process capabilities

Upgrade electro-slag re-melting equipment

Cope with the increased level of cleanliness required to deal with special stainless steel and plastic die steel, and expand production capacity

⇒ The installation of electro-slag re-melting equipment was complete in July.
We have begun operating the equipment to check the quality of the products created.

- Investment: about 4 billion yen
- Date on which new equipment started operating: July 2019



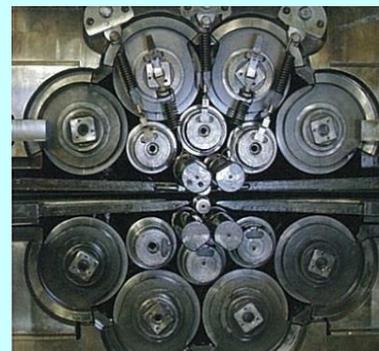
Installation complete

Upgrade high-grade steel strip production capacity

Increase our capacity for producing high-alloy steel by adding a heat-treatment furnace (Increase production capacity by 20%)

⇒ Chita Steel Strip Factory:
The installation of the steel strip production equipment is being carried out.

- Investment: about 1.5 billion yen
- Date on which we will begin operating the new equipment: Second half of 2019 (as scheduled).



Capital investment: High-grade steel (special stainless steel and metal powder products)

Special stainless steel

Enhance our wire heat-treatment capacity

Increase our production capacity by adding a new heat-treatment furnace
(increase production capacity by 25%)

⇒ Detailed designs are now being carried out for the installation of new equipment.

- Investment: about 1.5 billion yen
- Date on which new equipment will start operating: First half of 2021 (as scheduled).



Metal powder products

Expand sales of high-performance powder products for automotive reactors, etc.

Add a production line for soft magnetic powder products
⇒ The installation of the new equipment was completed in August.
We have begun operating the equipment to check the quality of products created.

- Investment: about 1.5 billion yen
- Date on which we began operating the new equipment: August 2019



Compressed cores for reactors

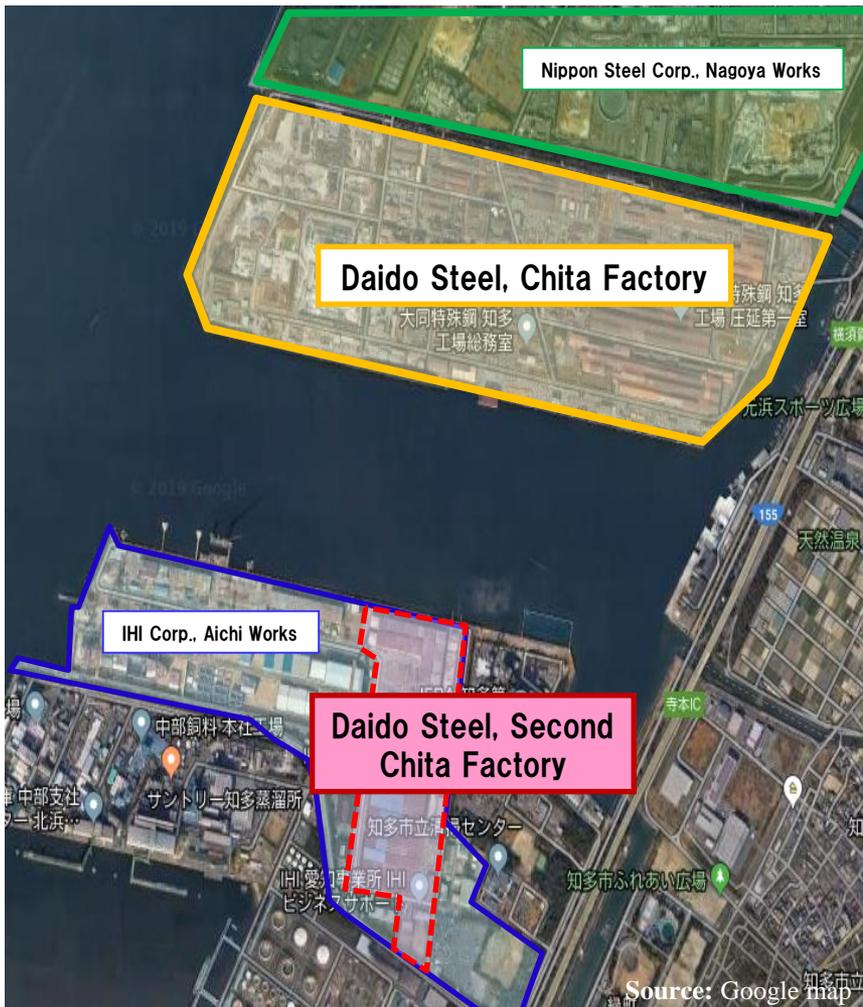
Installation complete

Capital investment: Present situations for equipment that is scheduled to start operating in 2019

	Location	1Q	2Q	3Q	4Q
■ Streamlining the continuous casting line (Ladle transfer equipment and casting equipment)	Chita Factory		Complete	→	
■ Increasing the secondary processing capacity (Cold-forming equipment and the heat-treatment furnace)	Hoshizaki Factory		Complete	→	
■ Upgrading the electro-slag re-melting equipment	Chita Factory	Complete	→		
	Shibukawa Factory		Complete	→	
■ Increasing the capacity of our high-grade steel strip manufacturing equipment	Chita Factory				● →
■ Adding a new production line for high-performance powder products	Powder product factory		Complete	→	
■ Adding a new production line for high-performance LEDs	Takiharuru Techno Center		Complete	→	

Construction of the second Chita Factory

Enhancement of the production capacity of special stainless steel, secondary processing capacity and logistics improvements



Increase the secondary processing capacity for bars

Add a new heat-treatment furnace and cutting equipment
(increase production capacity by 15%)

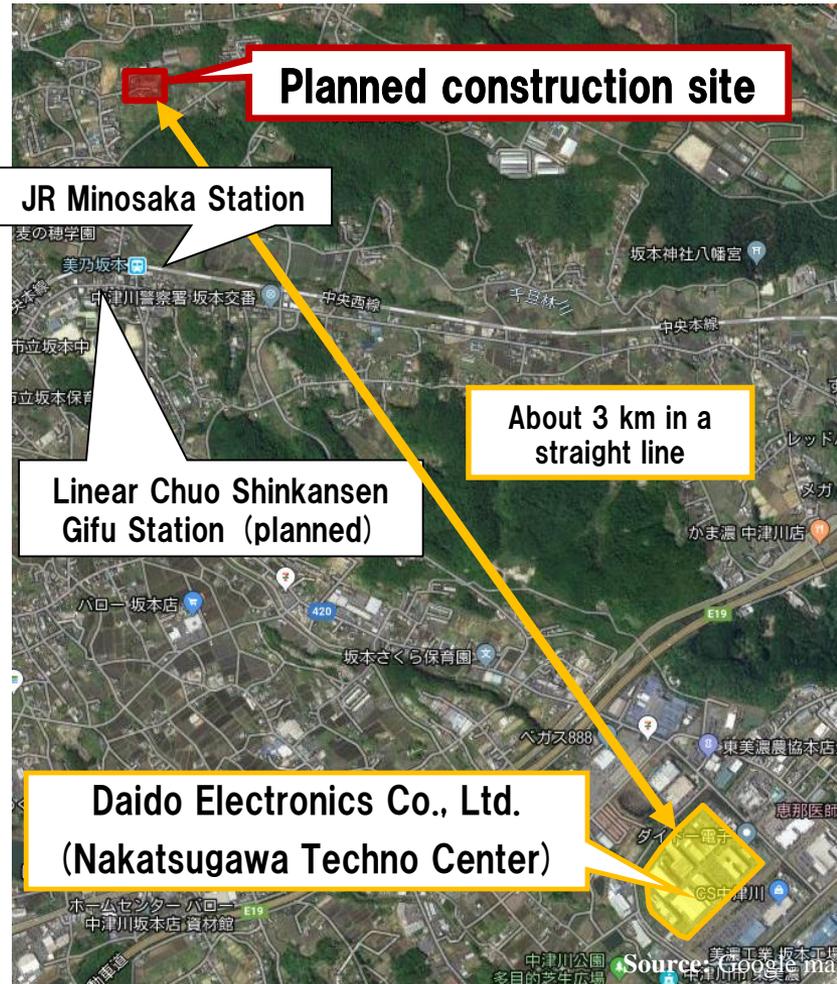
⇒ We have already obtained the land and buildings for our new factory.
Detailed designs are now being carried out for the installation of new equipment.

- Investment: about 3 billion yen
- Date on which we will begin operating the new equipment: 2020 (as scheduled).



Establish the Nakatsugawa Research Institute

Expand our magnetic product business and enhance our R&D capabilities

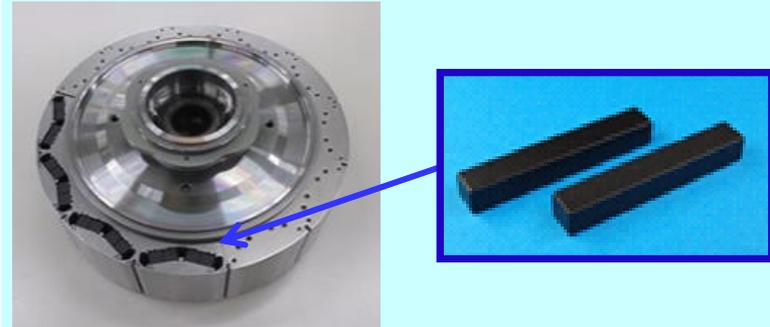


Establish the Nakatsugawa Research Institute

Enhance our R&D capabilities by operating in close cooperation with Daido Electronics, which is also located in the Nakatsugawa area, taking advantage of the physical proximity of the two entities.

⇒ We concluded an agreement on October 25 with Nakatsugawa City, regarding support for the construction of business facilities.

- Investment: about 1.5 billion yen



Establish a new overseas location (Thailand)

Portfolio reform

Establish a new factory for special stainless steel secondary processing



Daido Shimomura Steel Manufacturing (Thailand) Co., Ltd. was established in August 2019.

Business line: Manufacture, sale and warehousing of cold-drawn bars

- Location: within the premises of Daido Steel (Thailand) Co., Ltd. in the Pinthong Industrial Park, Chonburi, Thailand (ground area: 10,000 m²)
- Production capacity: 1,000 tons per month
- Date on which the factory will start operating: April of 2021 (planned)

Our 2019 CSR report was issued in September 2019.



<Features>

1. Daido Steel's approach to biodiversity
"To protect the connections of life"
 - "Kuccharo Natural Forest Daido" in Hamatonbetsu-cho, Hokkaido
 - "Preservation of biodiversity by cooperating with regional communities"
2. Daido Steel's approach to a recycling-oriented society
"To preserve limited resources"
 - An electric furnace that contributes to recycling iron resources
 - A rotary electric furnace, the STARQ®

<https://www.daido.co.jp/csr/data/report.html>

Fact Book

Fact Book Financial highlight

Consolidation

	'15/3	'16/3	'17/3	18/3	19/3	(¥1 mil.)					
	'14/9	'15/9	'16/9	'17/9	'18/9	'19/9					
Net sales	483,633	460,577	445,122	505,219	543,255	238,917	233,832	213,010	241,119	269,643	252,476
Operating income	20,408	24,432	25,513	36,218	33,815	8,664	10,757	9,643	18,726	16,752	13,711
Ordinary income	21,729	25,108	26,373	36,130	34,343	9,670	11,431	9,023	18,320	17,569	13,711
Net income	10,886	6,746	16,386	23,920	21,182	4,116	2,037	5,363	11,890	10,759	11,257
R & D expenses	5,300	5,766	6,206	5,419	5,638	2,671	2,716	3,158	2,770	2,788	2,896
Capital investment(Plan)	20,600	28,300	32,800	38,600	37,200	10,900	16,100	15,800	20,300	18,800	15,100
Capital investment(Construction)	30,295	23,205	28,940	35,605	34,413	13,967	9,241	15,791	14,899	15,027	22,092
Depreciation	22,436	22,454	23,275	20,740	23,171	10,650	11,039	11,087	10,023	11,453	12,022
Financial account balance	719	949	904	995	1,606	396	541	432	429	584	656
Total assets	588,590	535,675	574,169	642,021	650,697	568,193	567,439	523,304	614,828	661,998	651,112
Equity	256,022	232,832	259,851	284,435	285,508	237,892	250,255	231,600	274,221	291,948	293,276
Interest-bearing debt	146,208	136,114	142,599	160,352	174,998	146,470	146,461	133,172	157,201	174,928	185,536
Pay roll number	10,855	11,036	11,498	11,873	12,421	10,927	11,126	11,574	11,843	12,559	13,775
ROA(%)	3.8	4.5	4.8	5.9	5.3	3.4	4.0	3.4	6.2	5.4	4.2
ROE(%)	4.5	2.8	6.7	8.8	7.4	3.5	1.6	4.6	8.9	7.5	7.8
Consolidated subsidiary number	34	36	34	36	38	33	35	35	36	38	65
(Equity method affiliate number is excluded from the above)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(9)
Ratio of the consolidated to the non-consolidated											
Net sales	1.6	1.6	1.7	1.6	1.6						
Ordinary income	1.8	1.6	1.5	1.7	1.4						
Net income	2.5	1.2	1.1	1.6	1.3						

*Long-term prepaid expenses are not included in the depreciation. Net income after 2015 belongs to stockholder of parent company.

Fact Book Net Sales & Operating Income by Segment

Consolidation

<New segment(From Apr.1st in 2012)>

(¥100 mil.)

		'15/3	'16/3	'17/3	'18/3	'19/3
Speciality Steel	Net Sales	1,891	1,705	1,631	1,868	2,078
	Operating Income	32	75	58	65	60
High Performance Materials & Magnetic Materials	Net Sales	1,618	1,553	1,485	1,708	1,846
	Operating Income	135	123	174	222	207
Parts for Automobile & Industrial Equipment	Net Sales	994	997	975	1,063	1,099
	Operating Income	10	13	▲ 5	30	23
Engineering	Net Sales	229	261	239	249	275
	Operating Income	17	21	12	18	23
Trading and Service	Net Sales	104	90	121	164	135
	Operating Income	10	12	16	27	25
Total	Net Sales	4,836	4,606	4,451	5,052	5,433
	Operating Income	204	244	255	362	338

(¥100 mil.)

		'14/4-9	'14/10-3	'15/4-9	'15/10-3	'16/4-9	'16/10-3	'17/4-9	'17/10-3	'18/4-9	'18/10-3	'19/4-9
Speciality Steel	Net Sales	951	940	859	846	780	851	903	965	1,020	1,058	971
	Operating Income	6	26	21	54	26	32	48	17	21	39	32
High Performance Materials & Magnetic Materials	Net Sales	787	831	807	746	711	774	811	897	927	919	847
	Operating Income	67	68	63	60	75	99	108	114	114	93	70
Parts for Automobile & Industrial Equipment	Net Sales	492	502	494	503	467	508	517	546	554	545	499
	Operating Income	4	6	8	5	▲ 16	11	11	19	11	12	6
Engineering	Net Sales	107	122	132	129	115	124	105	144	126	149	124
	Operating Income	3	14	10	11	3	9	7	11	8	15	15
Trading and Service	Net Sales	52	52	46	44	57	64	75	89	69	66	84
	Operating Income	7	3	6	6	8	8	13	14	14	11	14
Total	Net Sales	2,389	2,447	2,338	2,268	2,130	2,321	2,411	2,641	2,696	2,737	2,525
	Operating Income	87	117	108	136	96	159	187	175	168	170	137

(Note)

Figures such as the business forecasts described in this document are based on specific assumptions which are predictable under the present state.

However, changes in circumstances could lead to different business outcomes, so blind reliance on this data as decision criterion is not recommended.

Also predicted figures can be changed in the future without prior notice. All use of this document is at the volition and discretion of the user. Please be aware that our company shall not assume any responsibility for the results of using the information in this document.