



# 2020 Midterm Management Plan

June 6, 2018

 **DAIDO STEEL CO., LTD.**

# **1. Review of 2017 midterm management plan**

## **2. 2020 Midterm Management Plan**

**(1) Management basic policy**

**(2) Business environment recognition**

**(3) Priority strategies**

**(4) Business objectives**

# 1. Review of 2017 midterm management plan

# Objectives of the 2017 midterm management plan (Target vs Results)

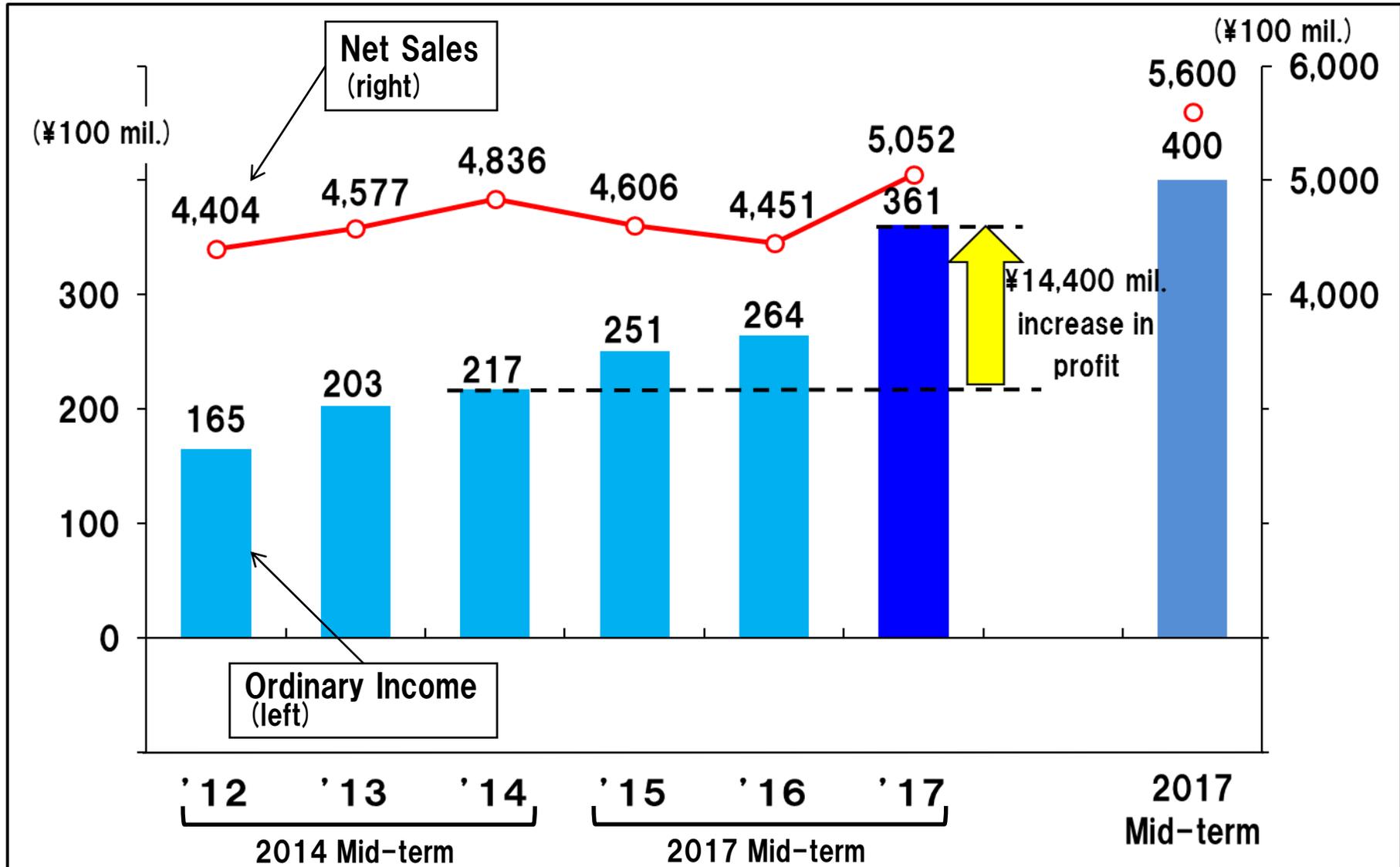
(\*: 100 million yen)

## Target for FY2017

## Results of FY2017

Net sales	5,600*	5,052*
Ordinary income	400*	361*
Ratio of ordinary income to net sales	7%	7.2%
Net income	250*	239*
ROA	6%	5.9%
Dividend payout ratio (according to our dividend payout policy)	20-25%	21.4%

# Net sales and ordinary income



# Net Sales & Operating Income by Segment (Compared to the last year of the midterm plan)

(¥100 mil.)

		FY2014 Results (A)	FY2017 Results (B)	Previous midterm plan difference (B) - (A)
Specialty Steel	Net Sales	1,891	1,890	-1
	Operating Income	32	65	33
High Performance Materials & Magnetic Materials	Net Sales	1,618	1,708	90
	Operating Income	135	222	87
Parts for Automobile & Industrial Equipment	Net Sales	994	1,063	69
	Operating Income	10	30	20
Engineering	Net Sales	229	249	20
	Operating Income	17	18	1
Trading & Service	Net Sales	104	142	38
	Operating Income	10	27	17
Total	Net Sales	4,836	5,052	216
	Operating Income	204	362	158

Sales volume of  
specialty steel

volume

1,187 thou.t

1,310 thou.t

123 thou.t

# ■ Capital investment (Total from 2015 to 2017)

	2017 Midterm Management Plan	Results
Capital investment (based on construction)	83 billion yen for 3 years	87.7 billion yen for 3 years

**Vigorous investment implemented, including the brought-forward construction of the 2nd turbine housing factory.**

## <Major investment projects>

- Install a large VIM furnace in the Shibukawa Plant
- Install an electro-slag remelting (ESR) furnace in the Chita Plant
- Construct the second turbine housing factory
- Establish a new die forging factory in Thailand
- Construct a new hollow-head engine valve factory

## 2. 2020 Midterm Management Plan

# ( 1 ) Management basic policy

## «Basic management policy»

# **Beyond the Special**

**We support our customers' technological innovations by supplying high-performance materials.**

**A big wave of technological innovation is occurring throughout many industries. The automobile sector, one of our major sources of customers, is bursting with new product possibilities, like highly efficient internal combustion engines, electric vehicles and self-driving cars.**

**DAIDO STEEL is providing an agile response to this astonishing once-in-a-hundred-years revolution and the digital-age innovations that help drive it. We are committed to supporting our customers' technological innovations by supplying the high-performance materials they need.**

# Basic management policy

## «Guidelines for corporate activities»

### 1. Portfolio reform

Portfolio reform

- Shift from structural materials to high-performance materials

### 2. Enhance our business fundamentals

Enhance our business fundamentals

- Improve the break-even point and strengthen our corporate structure

### 3. Rebuild our business

Rebuild our business

- More focus on the die forging and turbine housing businesses

## (2) Business environment recognition

# Perspectives on our business environment

## <Global issues>

- **Global warming**
- **Destruction of the natural environment**
- **Increased populations in emerging countries and decline of the working-age population in Japan**

## <Changes in market (technology)>

- **Highly efficient internal combustion engines**
- **Electric vehicles and self-driving cars**
- **Digitalization (Big Data, AI, IoT, FA, etc.)**

## Increased demand for high-performance materials

(Materials delivering high performance such as high resistance to heat and corrosion, a high level of cleanliness, and high strength, including high-performance magnets and powder products)

## (3) Priority strategies

## Enhance our stainless steel manufacturing capacity

Portfolio reform

### Chita Plant

Upgrade its capacity by streamlining the steel-making process and logistics  
(Increase the quantity of stainless steel continuous casting by 15%)

Improve yield by increasing the process's continuous casting ratio  
Reduce each product's energy consumption rate

- Investment: about 4 billion yen
- Operating schedule : Fiscal 2019 (planned)



### Hoshizaki Plant

Add a new steel wire heat-treatment furnace and new cold-forming equipment  
(For an increase of 10% in capacity)

Improve the efficiency of logistics between the Chita and Hoshizaki Plants  
(Establish a Production Management Dept.)

- Investment: about 1.5 billion yen
- Operating schedule : Fiscal 2019 (planned)



## Update the capacities for manufacturing special stainless steel and high-alloy steel

Portfolio reform

### Shibukawa Plant and Chita Plant

Increase capacities for manufacturing super-clean steel by adding a new electro-slag remelting (ESR) furnace.

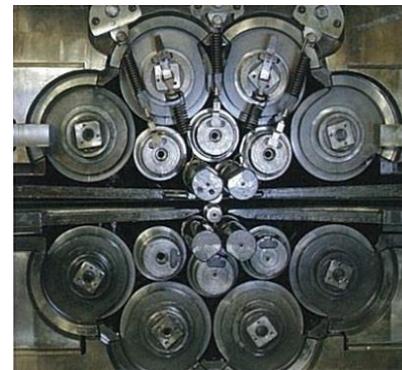
Increase Chita Plant's integrated manufacturing capacity for plastic die steel

- Investment: about 4 billion yen
- Operating schedule : Fiscal 2019 (planned)

### Chita Steel Strip Plant

Upgrade capacities for manufacturing high-end steel strip by adding a new heat treatment furnace and increasing the cold drawing capacity  
(Increase manufacturing capacities by about 20%)

- Investment: about 1.5 billion yen
- Operating schedule : Fiscal 2019 (planned)



## Powder products Portfolio reform

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

Add a production line for soft magnetic powder products

Increase sales of high-performance magnetic powder products

- Investment: about 1.5 billion yen
- Operating schedule : Fiscal 2019 (planned)



Compressed cores for reactors

## Electronic parts Portfolio reform

Increase sales of high-performance LED products for industrial robots, etc.

LED production and inspection process:  
Upgrade production capacities by 50%

Establish a new Electronic Parts Department

- Investment: about 0.5 billion yen
- Operating schedule : Fiscal 2018 (planned)



Point light source LED:  
Star LED

## Magnet products

Portfolio reform

### Promote a growth strategy for high-performance neodymium magnets

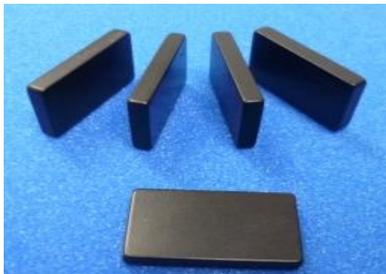
Upgrade production line for “near-net-shape” sintered magnets made using the pressless process (PLP) method)

Strengthen the R&D organization to enhance our ability to come up with new solutions in the development for high-performance motors

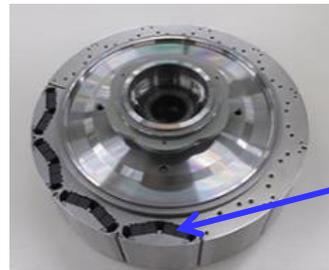
Consider establishing new sales locations overseas (including in North America) in order to increase sales of automotive magnets.

Promote closer interrelationships and the further integration of sales, production and product development.

- Investment: about 4 billion yen
- Sales target: An increase of about 150%



PLP magnets



HEV drive motor magnets: Magnets free of heavy rare earth elements



High performance neodymium magnets

# Specialty steel

## Structural steel

Enhance our business fundamentals



### Secure sustainable profit margins

Rethink our selling prices to account for rising materials costs

### Secure the Chita Plant's structural steel production capacity

Upgrade the rolling capacity of products by 5% (steel bars and wires)

- Investment: about 2 billion yen
- Operating schedule : Fiscal 2019 (planned)

## Tool steel

Enhance our business fundamentals

Portfolio reform

### Meet demand and sow seeds for the future



- ① Expand sales network  
Make the most of Daido's DM solution overseas locations (ASEAN, North America, China)
- ② Review manufacturing strategy  
Install an electro-slag remelting (ESR) furnace in the Chita Plant
- ③ Develop new products  
Develop new steel products for hot stamping and plastic molds

# Parts for automobile & industrial equipment ①

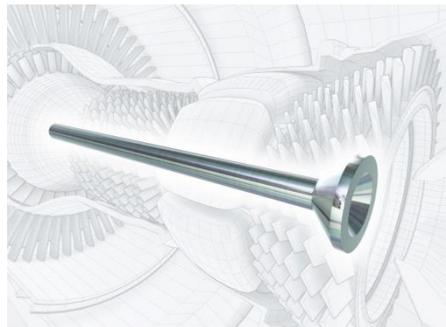
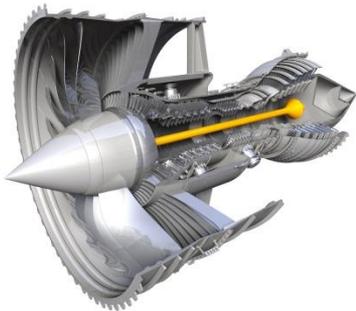
## Free forgings

Portfolio reform

### Respond clearly to growing markets

Make the most of the production capabilities of the large VIM furnace (installed in fiscal 2016)

Expand sales of aircraft engine shaft and advance into the market of high-alloy turbine disk forging



Aircraft engine shafts

## Engine valves

Portfolio reform

### Expand the engine valve production capacity in order to increase our share in the global market (Global 10)

Increase the production of hollow valves (increase the proportion of high-end products)

Expand the proportion produced overseas



Hollow valves

# Parts for automobile & industrial equipment ②

## Die forgings

Rebuild our business

**Rebuild our businesses' emphases in Japan and accelerate overseas growth**

Accelerate the reorganization of our businesses by promoting project-based activities

Increase sales by taking advantage of our locations around the world



Die forgings

## Turbocharger components

Rebuild our business

**Respond to increases in demand for turbocharger components**

Bring the turbocharger housing business into the black by taking advantage of our newly established second factory (started operating in January 2018)

Increase sales of turbine wheels



Turbine housings



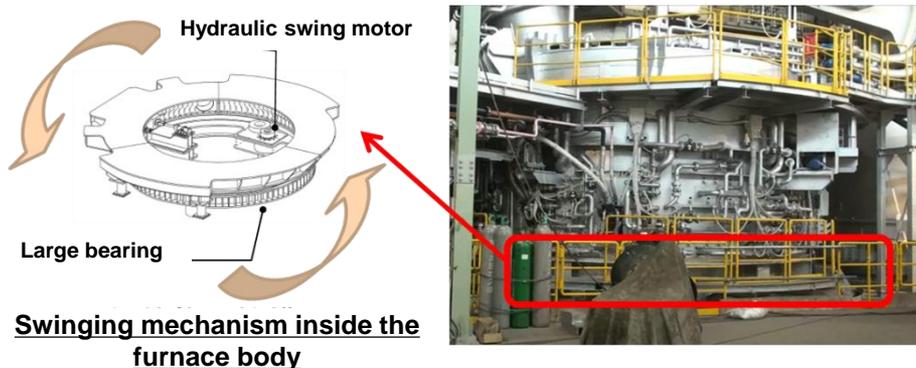
Turbine wheels

## Environmental engineering products

Portfolio reform

### Reduce environmental impact by reducing the energy consumption of electric furnaces

Reduce the time required for melting by adopting a uniform scrap melting method using a swing electric furnace



Swing AC electric furnace

### Streamline automotive parts heat treatment and renovate the production line

Reduce CO2 emissions by 47% as compared with a conventional gas carburizing furnace

Propose optimal solutions for materials and heat treatment (Vacuum carburizing steel)

Large-batch production type



Earned the Agency of Natural Resources and Energy Director's General Prize in the energy-saving equipment category in recognition of its outstanding efficiency.

ModuTherm®

Small-batch inline type



Improve the automotive parts factory's production process by achieving synchronous production of multiple machines.

SyncroTherm®

# ■ Enhance our ability to provide solutions

## ■ Enhance our ability to provide solutions by collaborating with customers

Integrate the functions of proposing special steel and materials solutions to promote priority strategies as projects

- I) Electrification and self-driving products project
- II) High-performance turbocharger parts project
- III) Semiconductor manufacturing equipment project
- IV) High-performance powder products project

## Strengthen our compliance activities

Establish a CRM (Corporate Risk Management) Department in the Head Office to strengthen the entire Daido group's risk management system.

## Promote a better health management system

We were recognized by the METI as one of the Superior "Good-Health Business Corporations" in 2018 (in the big company category).

We are committed to keeping and promoting the health of our employees.



## Promote better eco-communication

We earned the Minister of the Environment's Award in the 72th Bird Week (2018) Wildlife Protection Contributors Recognition section.

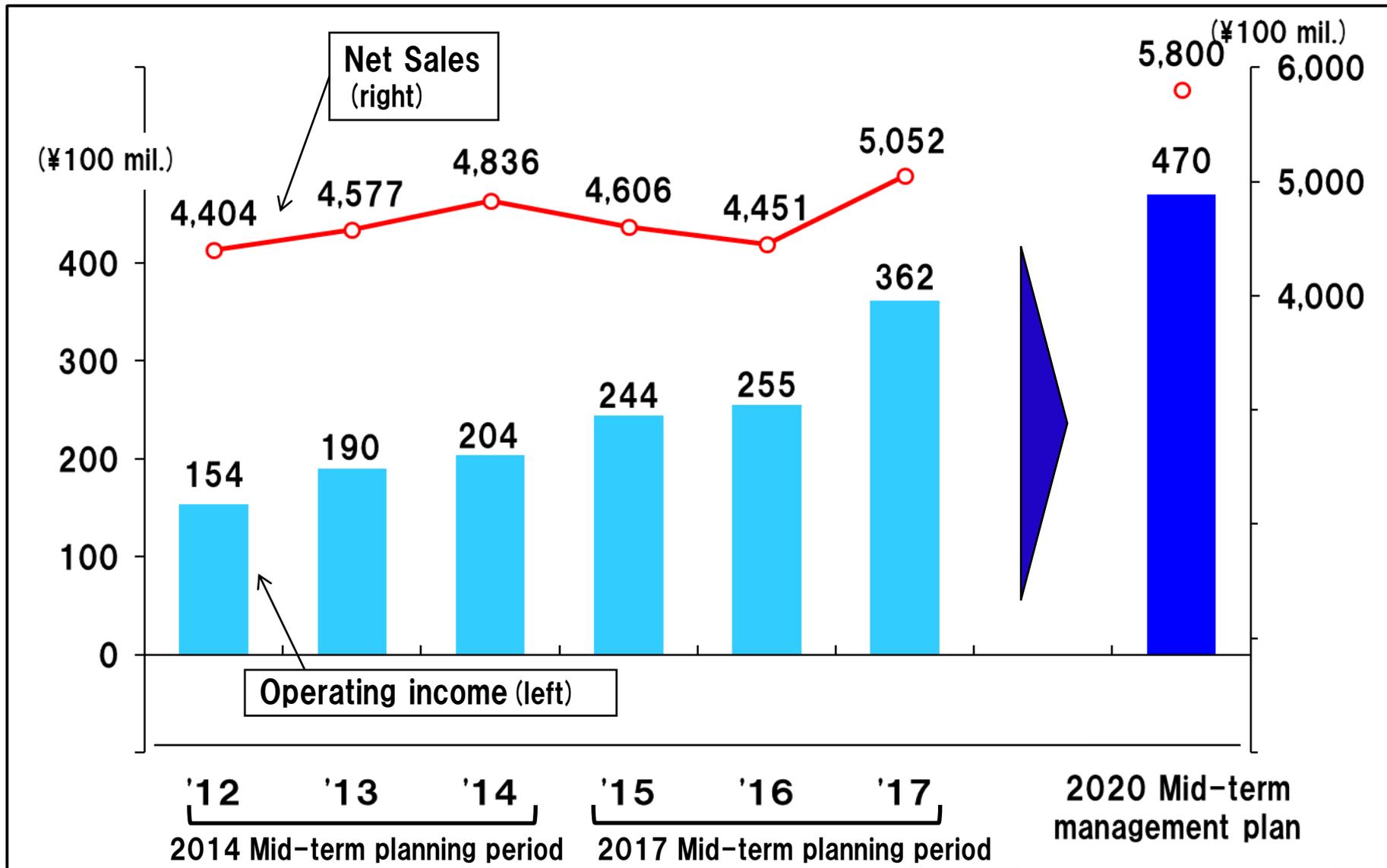
# (4) Business objectives

# Objectives of the 2020 midterm management plan

(\*: 100 million yen)

	Results of FY2017	Target for FY2020
Net sales	5,052*	5,800*
Operating income	362*	470*
Net income	239*	300*
ROS	7.2%	8%
ROA	5.9%	7%
ROE	8.8%	9%
Capital investment (Three years total, Construction base)	877*	950*
Dividend payout ratio	21.4%	20~25%

# Net sales and Operating income



# Net Sales & Operating Income by Segment (Compared to the last year of the midterm plan)

(¥100 mil.)

		FY2017 Results (A)	FY2020	
			Plan (B)	Previous midterm plan difference (B) - (A)
Specialty Steel	Net Sales	1,890	2,050	160
	Operating Income	65	70	5
High Performance Materials & Magnetic Materials	Net Sales	1,708	2,100	392
	Operating Income	222	290	68
Parts for Automobile & Industrial Equipment	Net Sales	1,063	1,200	137
	Operating Income	30	65	35
Engineering	Net Sales	249	280	31
	Operating Income	18	20	2
Trading & Service	Net Sales	142	170	28
	Operating Income	27	25	-2
Total	Net Sales	5,052	5,800	748
	Operating Income	362	470	108

# Capital investment (Total from fiscal 2018 to 2020)

	2017 Midterm Results	2020 Midterm Management Plan
<b>Capital investment (based on construction)</b>	87.7 billion yen for 3 years	95 billion yen for 3 years
(Depreciation costs:	66.5 billion yen for 3 years	72 billion yen for 3 years)

## Continue vigorous investment in growing businesses

### <Major investment projects>

- Streamline the stainless steel production line at the Chita and Hoshizaki Plants
- Install an electro-slag remelting (ESR) furnace at the Chita and Shibukawa Plants
- Upgrade high-end steel strip capacity in the Chita Steel Strip Factory
- Upgrade the powder factory's production capacity
- Upgrade the high-performance magnet manufacturing line and consider the establishment of an overseas location for manufacturing high-performance magnet product
- Nippon Seisen Co., Ltd.: Upgrade its high-performance product capacity
- OOZX: Upgrade the hollow valve manufacturing line.

## ■ Policy for returns to shareholders

**We plan to make investments that exceed depreciation costs during the 2020 Midterm Management Plan period by maintaining vigorous investment in growing businesses. Therefore, we will continue to use a consolidated dividend payout of 20 to 25% as a guide when returning the earnings to shareholders.**

## ■ Premises of profit planning for 2020 midterm management plan (Market Trend)

	UNIT	FY2017 Results	FY2020 Premises of plan (Previous midterm plan difference)
<b>Scrap steel</b> Upper:H2 Lower:Factory bundle	¥thou./t	<b>26.1</b> <b>31.1</b>	<b>30.0 (+3.9)</b> <b>35.0 (+3.9)</b>
<b>Nickel</b> (LME)	\$/LB	<b>5.1</b>	<b>6.0 (+0.9)</b>
<b>Crude oil</b> (Dubai)	\$/B	<b>55.9</b>	<b>70.0 (+14.1)</b>
<b>Exchange rate</b> (TTM)	¥/\$	<b>110.9</b>	<b>110.0 (-0.9)</b>

## **(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.**

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