

DAIDO STEEL CO., LTD (5471 JP)**FY26 OP GROWTH APPEAR FLATTISH GIVEN CONSERVATIVE VIEW ON COSTS AND PRICE HIKES****EXECUTIVE SUMMARY**

- **FY25 Earnings:** Daido Steel [DS] (5471 JP) produced FY25 (March year-end) OP [IFRS basis] of ¥42,081mil (+6.8% YoY) on sales of ¥578,129mil (+0.6% YoY). This performance overshoot the revised full-year guidance [OP of ¥36,000mil (-8.6% YoY) on sales of ¥575,000mil (flat YoY)]. The firm had revised up with the release of its Q3 results, given (1) solid orders, despite higher-than-expected steel scrap prices, (2) the weaker yen and (3) maintaining an optimal GPM amid continued cost reductions. FY25 OP surpassed the revised guidance thanks primarily to stronger-than-expected (1) steel products sales volumes of 1,025K ton, vs forecast of 1,022K ton, (2) price adjustments (approx. +¥1,000mil vs forecast), (3) a recovery in stainless steel demand for SPE (+¥200mil), and (4) cost reductions.
- **Assumptions for FY26 guidance:** Daido Steel is guiding for FY26 1H OP of ¥21,000mil (+13.7% YoY) on sales of ¥305,000mil (+7.2% YoY) and full-year OP of ¥40,000mil (-4.9% YoY) on sales of ¥630,000mil (+9.0% YoY) based on the following assumptions: (1) Steel products sales volume remain flattish at 1,042K ton (vs. 1,025K ton in FY25), (2) a FOREX rate of ¥155/USD in FY26, vs the FY25 average rate of ¥150.8/USD, (3) higher steel scrap prices [¥51,000/t vs. ¥42,000/t in FY25], and (4) the impact from the geopolitical risk in the Middle East. The firm assumes some ¥1,200mil increase in costs on the back of rising crude oil prices [Q1 crude oil \$90/bbl in Q1 / Q2 onwards \$63/bbl].
- **Review of MTP:** The Mid-Term Plan [MTP], which ends in FY26, was revised down in Oct 2025 to reflect (1) a larger-than-expected decline in steel product sales volumes, (2) sluggish auto production, (3) weaker than expected industrial machinery-related orders and (4) an increasing lack of clarity in the business environment. However, compared to Oct 2025, the recovery in demand for stainless steel for SPEs started earlier.
- **Shareholder returns:** Daido Steel commits to a stable dividend pay-out ratio of more than 30%. To ensure a stable dividend payment, the firm has newly introduced DOE as a KPI, which commits to a DOE of 2.5% as a minimum of annual dividend payments during the tenure of current MTP. In FY26, the firm is guiding for an annual dividend of ¥52.00/share (vs. FY25 annual dividend of ¥49.00/share), which generates a dividend payout ratio of 37.8%, or 38.4% (excluding any one-off factors that may arise).

Daido Steel (5471): Share Information

Market Cap (¥mil)		550,300	Market Cap (\$mil)		3,439	
22-day Average Trading Volume (¥mil)		2,787	22-day Average Trading Volume (\$mil)		17	
Share performance (%)	5471	TOPIX	Earnings Summary (¥mil, %)	FY24	FY25	FY26 CE
Share price (18 June 2026)	2,534	4,068.18	Sales	574,945	578,129	630,000
3mo (from 18 Mar)	21.7	9.4	OP	39,408	42,081	40,000
6mo (from 18 Dec 2025)	59.8	21.2	OPM (%)	6.9	7.3	6.3
YTD (from 5 Jan 2026)	56.9	17.0	EBITDA	69,673	73,210	74,000*
1yr	151.0	62.4	EPS (¥)	134.57	161.74	137.60
5yrs	135.5	109.0	Financial Leverage (X)	1.8	1.8	1.8*
Per-share and Valuations	5471	TOPIX	Net D/E Ratio (X)	0.2	0.2	0.2*
EPS (¥, FY26 CE)	137.60	220.00	FCF	37,930	17,848	N/A
DPS (¥, FY26 CE)	52.00	N/A	Shareholder Return Summary	FY24	FY25	FY26 CE
BPS (¥, FY26 EST*)	N/A	N/A	Dividend (¥)	47.00	49.00	52.00
FCFPS (¥, FY26 EST*)	N/A	N/A	Dividend Payout (%)	34.9	30.3	37.8
Forward PER (x)	18.41	18.49	Dividend Yield (%)	N/A	N/A	2.1
Forward PBR (x)	N/A	1.30	DOE (%)	2.5	2.5	2.5
Forward PCFR (x)	N/A	N/A	Treasury Shares (%)	1.6	7.8	N/A
EV/EBITDA (x)*	8.7	N/A	ROE (%)	6.7	7.2	N/A

Source: Nippon-IBR based on data on Daido Steel's presentation materials, Bloomberg and Toyo Keizai / * Nippon-IBR estimates

FY25 RESULTS

Daido Steel [DS] (5471 JP) produced FY25 (March year-end) OP [IFRS basis] of ¥42,081mil (+6.8% YoY) on sales of ¥578,129mil (+0.6% YoY), which overshoot the revised full-year OP guidance of ¥36,000mil (-8.6% YoY) on sales of ¥575,000mil (flat YoY). The firm revised the full-year guidance with the release of its Q3 results, given (1) solid orders despite higher-than-expected steel scrap prices, (2) the weaker yen and (3) being able to maintain an optimal GPM amid continued cost reductions.

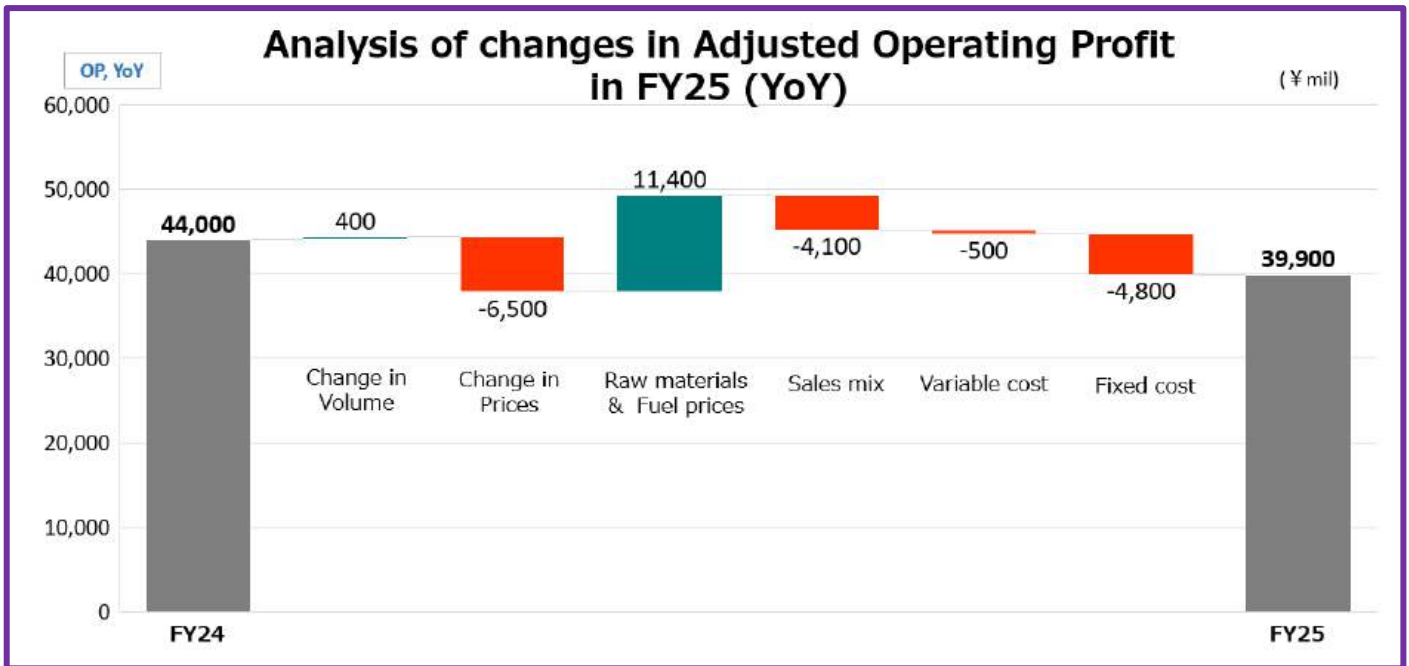
Overall, FY25 OP surpassed the revised guidance, thanks primarily to stronger-than-expected (1) steel products sales volumes of 1,025K ton, vs forecast of 1,022K ton, (2) price adjustments (approx. +¥1,000mil vs forecast), (3) a recovery in stainless steel demand for SPE (+¥200mil), and (4) cost reductions.

Steel scrap prices rose throughout FY25, while the price of Nickel remained stable. The firm managed to maintain the optimal margin by passing through cost increases to customers and its own cost reduction efforts.

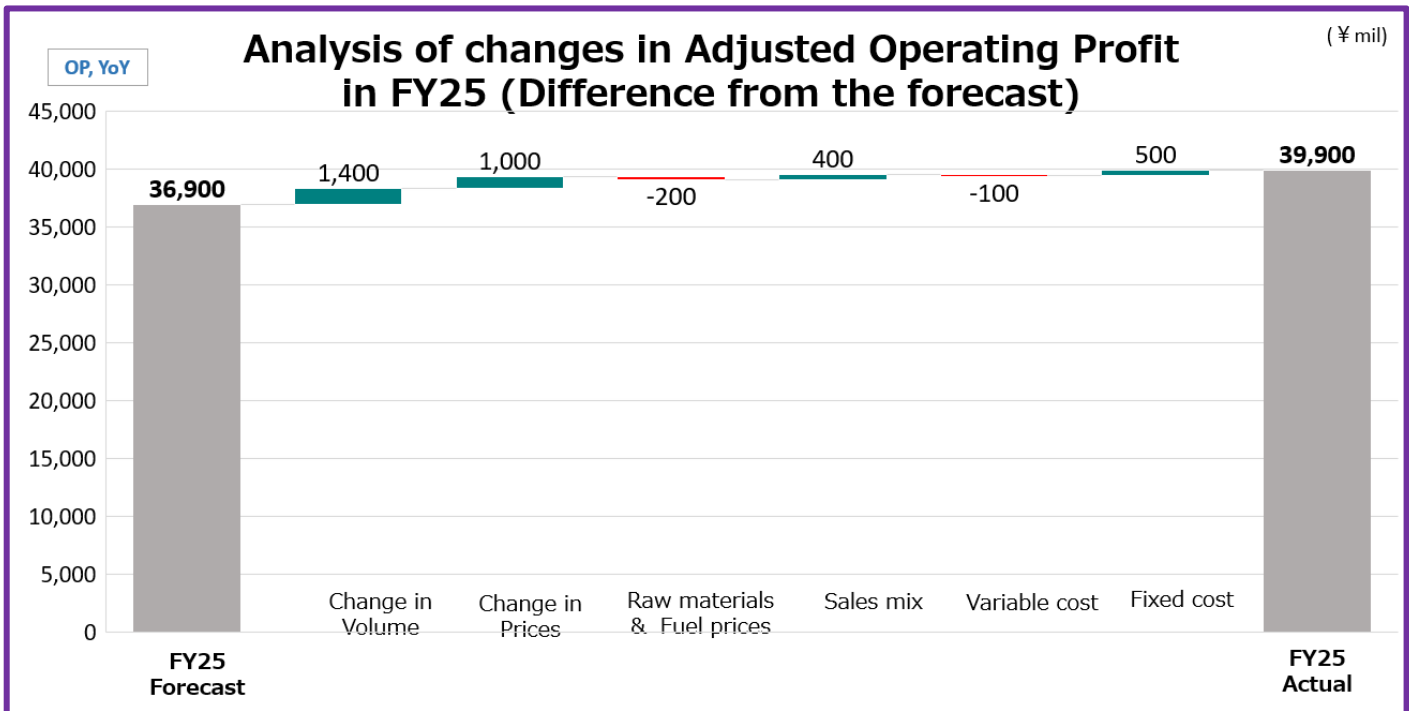
Daido Steel (5471 JP): Earnings Results Summary							
(¥mil)	FY24		FY25				
	1H	FY	1H	FY	YoY (%)	FY CE	FY vs FYCE (%)
Steel Products Sales Volume (ton)	519,000	1,015,000	504,000	1,025,000	1.0	1,022,000	0.3
Sales	283,439	574,945	284,499	578,129	0.6	575,000	0.5
COGS	231,582	470,757	234,347	476,828	1.3	N/A	N/A
COGS / Sales (%)	81.7	81.9	82.4	82.5	+0.6ppt	N/A	N/A
GP	51,856	104,187	50,151	101,301	-2.8	N/A	N/A
GPM (%)	18.3	18.1	17.6	17.5	-0.6ppt	N/A	N/A
SG&A	29,689	61,335	31,468	64,790	5.6	N/A	N/A
SG&A / Sales (%)	10.5	10.7	11.1	11.2	+0.5ppt	N/A	N/A
OP	18,258	39,408	18,464	42,081	6.8	36,000	16.9
OPM (%)	6.4	6.9	6.5	7.3	+0.4ppt	6.3	+1.0ppt
Pretax profit	19,608	42,653	19,650	44,756	4.9	37,500	19.3
Corporation Tax	-6,410	-12,092	-5,631	-9,878	-18.3	N/A	N/A
NP*	12,152	28,314	12,937	32,605	15.2	25,500	27.9

Source: Nippon-IBR based on Daido Steel's earnings results materials
* NP attributed to the parent's shareholders

Adjusted for the non-operating items [AOP] – FOREX gains / losses, inventory valuations, provisions for eco-related provision, the normalisation of fixed asset tax etc – the YoY decline in FY25 AOP [-¥4,033mil YoY / -9.2% YoY] to ¥39,920mil, vs FY24 AOP of ¥43,953mil] was mainly due to (1) price adjustments to reflect lower raw material costs (-¥6,500mil), (2) higher fixed costs (-¥4,800mil) and includes a hike in labour costs, (3) a change in sales mix (-¥4,100mil) with -¥3,800mil from open die forging reflecting the decline in demand from oil and gas industry. These negative factors were partially offset by lower raw material and energy costs (+¥11,400mil).



Source: Nippon-IBR based on Daido Steel's earnings results material



Source: Nippon-IBR based on Daido Steel's earnings results material

FY25 PERFORMANCE BY SEGMENT

Key factors regarding the performance of Daido Steel's three major segments are discussed below:

1. Specialty Steel Segment

[FY25 Sales ¥207,781mil (-1.1% YoY) / OP ¥13,380mil (+10.7% YoY) / OPM 6.4% (+0.6ppt YoY)]

FY25 sales volumes of steel products were 85,000 ton/month, flat YoY, thanks primarily to the continued weakness in auto production by Japanese OEMs, especially in China. However, there has been a recovery in demand from the industrial machinery sector. Japanese OEMs production volume growth remained flattish at 24.6mil units during FY25, essentially running at the same pace as FY24. As a result, FY25 segment sales landed at ¥207,781mil (-1.1% YoY), but were 1.9% above the firm's expected FY25 sales.

FY25 IFRS-based OP surpassed guidance of ¥9,500mil by +40.8% / ¥3,880mil. However, segment AOP fell -13.8% YoY / -¥1,803mil YoY, on the back of (1) price changes (-¥4,000mil YoY), (2) a deterioration in sales mix (-¥1,600mil YoY) as tool steel sales declined, and (3) an increase in variable (-¥800mil YoY) and fixed costs (-¥1,100mil YoY). These negatives could not be offset by the (1) lower energy and materials (+¥5,000mil) costs and (2) improved sales volumes (+¥700mil).

2. High-Performance Materials & Magnetic Materials Segment [HP&MM]

[FY25 sales ¥199,753mil (-0.6% YoY) / OP ¥14,884mil (+35.0% YoY) / OPM 7.5% (+2.0ppt YoY)]

Both FY25 segment sales and OP came in above the firm's expectation by approx.+1.4% and +14.5%, respectively. The rise in OP was supported by an increase in sales volumes of stainless steel, thanks to steady demand for data centre HDDs. Sales volume recovered toward the end of FY25, given recovery in demand from industrial machinery and SPEs. The firm has high exposure to SPEs for front-end process, whose full-fledged recovery is now expected to be in FY26 2H and onward.

Sales volumes of high alloy products improved thanks to demand from the auto sector. Given export restrictions on rare earth materials, Daido Steel's magnetic material, which is free from heavy rare earths such as Dysprosium [Dy] and Terbium [Tb], saw a boost in demand. On the other hand, titanium products sales were affected by inventory adjustments in the medical equipment value chain.

Segment AOP declined by -¥372mil YoY. Despite the negative impact from price changes (-¥2,400mil YoY) and higher fixed costs (-¥1,800mil YoY), they were offset by the lower-than-expected raw material and energy costs (+¥3,500mil YoY). AOP came in at around ¥13,389mil (-2.7% YoY), vs the firm's guidance of ¥12,400mil (-9.9% YoY).

3. Parts for Automobiles / Industrial Equipment Segment

[FY25 sales ¥117,937mil (+4.3% YoY) / OP ¥8,160mil (-28.0% YoY) / OPM 6.9% (-3.1 ppt YoY)]

The solid growth in segment sales was supported by steady demand for engine valves in the US, as well as open die forging for the ship diesel engine valves whose demand was especially strong in China, and solid heavy electronics-related demand. Orders for aircraft-related products saw a recovery towards the end of FY25. The sales of open die forging for oil and gas drilling equipment remained weak, given the ongoing inventory adjustments in the sector. As a result, segment OP declined -28.0% YoY, together with one-off cost incurred related to the Superalloy Manufacturing Process Transformation Project.

Daido Steel (5471JP): Sales, OP and OPM by Segment										
¥mil		FY24			FY25					
		1H	2H	FY	1H	2H	FY	YoY (%)	FYCE	FY vs FYCE (%)
Specialty Steel	Sales	105,478	104,684	210,162	99,979	107,802	207,781	-1.1	204,000	1.9
	OP	6,112	5,976	12,088	5,424	7,956	13,380	10.7	9,500	40.8
	OPM (%)	5.8	5.7	5.8	5.4	7.4	6.4	+0.6ppt	4.7	+1.7ppt
High Performance Materials & Magnetic Materials	Sales	100,116	100,747	200,863	96,794	102,959	199,753	-0.6	197,000	1.4
	OP	5,081	5,947	11,028	6,316	8,568	14,884	35.0	13,000	14.5
	OPM (%)	5.1	5.9	5.5	6.5	8.3	7.5	+2.0ppt	6.6	+0.9ppt
Parts for Automobile and Industrial Equipment	Sales	53,734	59,297	113,031	59,166	58,771	117,937	4.3	119,000	-0.9
	OP	4,829	6,508	11,337	3,601	4,559	8,160	-28.0	7,500	8.8
	OPM (%)	9.0	11.0	10.0	6.1	7.8	6.9	-3.1ppt	6.3	+0.6ppt
Engineering	Sales	10,587	13,480	24,067	14,257	12,368	26,625	10.6	28,000	-4.9
	OP	809	1,392	2,201	1,275	1,347	2,622	19.1	3,000	-12.6
	OPM (%)	7.6	10.3	9.1	8.9	10.9	9.8	+0.7ppt	10.7	-0.9ppt
Trading & Service	Sales	13,522	13,298	26,820	14,300	11,731	26,031	-2.9	27,000	-3.6
	OP	1,428	1,342	2,770	1,796	1,226	3,022	9.1	3,000	0.7
	OPM (%)	10.6	10.1	10.3	12.6	10.5	11.6	+1.3ppt	11.1	+0.5ppt
Total	Sales	283,439	291,506	574,945	284,499	293,630	578,129	0.6	575,000	0.5
	OP	18,258	21,150	39,408	18,464	23,617	42,081	6.8	36,000	16.9
	OPM (%)	6.4	7.3	6.9	6.5	8.0	7.3	+0.4ppt	6.3	+1.0ppt

Source: Nippon-IBR based on Daido Steel's earnings results materials
Total numbers are after adjusted for inter-segment trades.

FY26 OUTLOOK

Due to multiple unknown factors surrounding the business environment, such as the geopolitical risk in the Middle East, which led to volatile crude oil prices, Daido Steel has factored in the following assumptions to its guidance for FY26 1H [OP of ¥21,000mil (+13.7% YoY) on sales of ¥305,000mil (+7.2% YoY)] and the full-year [OP of ¥40,000mil (-4.9% YoY) on sales of ¥630,000mil (+9.0% YoY)]:

- Steel products sales volume remains flattish at 1,042K ton (vs. 1,025K ton in FY25) assuming (1) auto production volumes by Japanese OEMs of 25mil vehicles – this is largely the same level seen over the past two years [FY24 24.5mil units / FY25 24.6mil units] and (2) Industrial machinery-related demand will likely recover gradually with moderate volume growth.
- A more conservative FOREX rate of ¥155/USD in FY26, vs the FY25 average rate of ¥150.8/USD. The steel scrap market price is estimated at ¥51,000/t vs. ¥42,000/t in FY25. The firm assumes that the current strong scrap market continues.
- Impact from the geopolitical risk in the Middle East. The firm assumes an increase in costs of around ¥1,200mil on the back of rising crude oil prices, assuming crude oil price of \$90/bbl in Q1 and \$63/bbl from Q2 onwards. If crude oil prices remain at \$90/bbl level, cost increases might expand to ¥2,000mil. The impact on demand from supply chain issues related to the surge in oil prices has not yet been factored in the guidance.

FY26 AOP is estimated to rise +0.5% YoY / +¥200mil, reflecting the following factors:

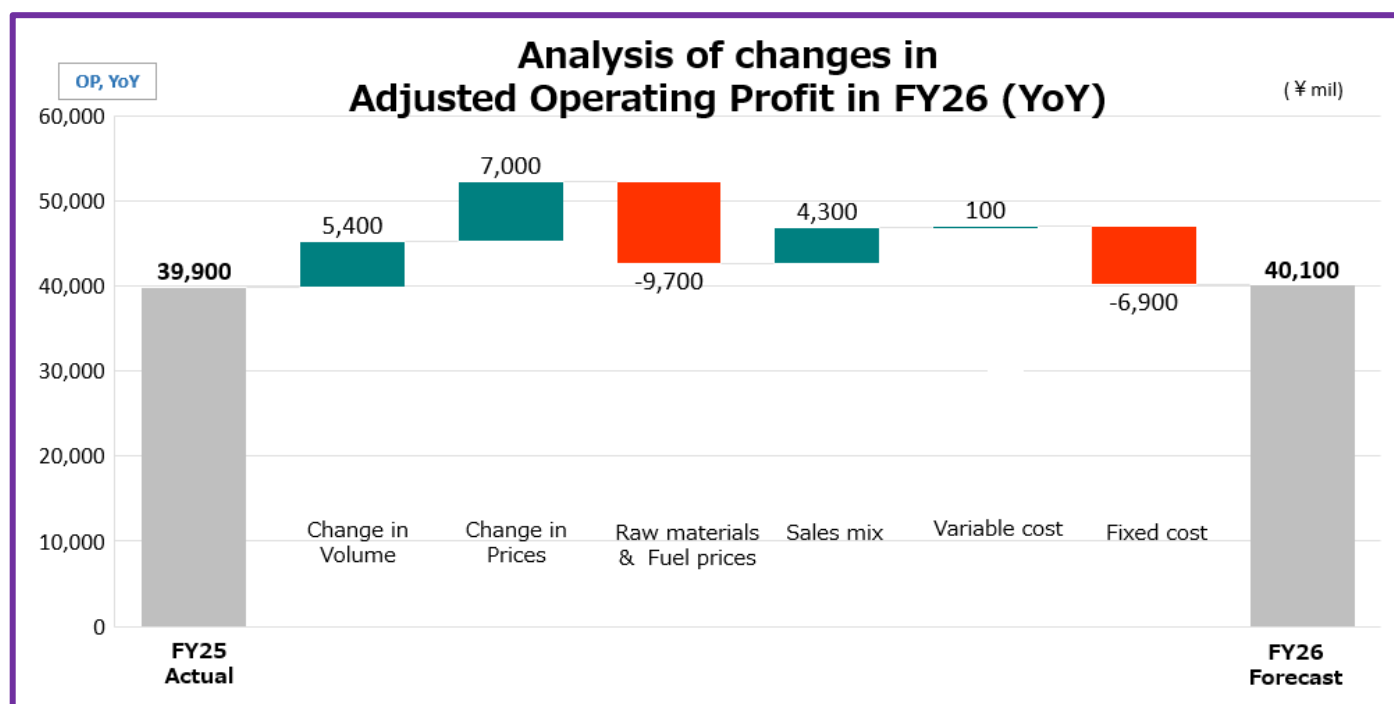
- Main negative factors are: (1) higher raw materials and energy costs (-¥9,700mil YoY), including a negative slide gap (approx. -¥2,800mil), and (2) an increase in fixed costs including a rise in labour costs (-¥6,900mil YoY).
- These negatives are expected to be offset by positive factors such as: (1) an increase in sales volumes, especially in stainless steel and strip steel (+¥5,400mil YoY), (2) prices (+¥7,000mil YoY) and (3) an improved sales mix (+¥4,300mil), comprising +¥4,700mil YoY in open die forging, +¥1,600mil in stainless steel for SPEs and -¥1,700mil in engineering.

- Given the increase in production capacity at the Shibukawa Factory (VIM) and the Chita Second Factory (VAR), depreciation costs will continue to squeeze profit as they have just started operating.

DS plans to pay out an annual dividend of ¥52.00/share (vs. FY25 ¥49.00/share), which generates a dividend payout ratio of 37.8%, or 38.4% excluding any one-off factors that may arise. The firm maintains its shareholder returns policy for a DOE of 2.5% as a minimum dividend measure in addition to the existing annual payout ratio of more than 30% on normalised EPS which excludes any one-off factor that may affect earnings.

Daido Steel (5471 JP): Earnings Results and Forecast									
¥mil	FY25			FY26 CE					
	1H	2H	FY	1H CE	YoY (%)	2H CE	YoY (%)	FY CE	YoY (%)
Steel Products Sales Volume (tone)	504,000	521,000	1,025,000	521,000	3.4	521,000	0.0	1,042,000	1.7
Sales	284,499	293,630	578,129	305,000	7.2	325,000	10.7	630,000	9.0
OP	18,464	23,617	42,081	21,000	13.7	19,000	-19.5	40,000	-4.9
OPM (%)	6.5	8.0	7.3	6.9	+0.4ppt	5.8	-2.2ppt	6.3	-0.9ppt
Pretax profit	19,650	25,106	44,756	22,000	12.0	20,000	-20.3	42,000	-6.2
Corporation Tax	-5,631	-4,247	-9,878	N/A	N/A	N/A	N/A	N/A	N/A
NP*	12,937	19,668	32,605	14,000	8.2	13,500	-31.4	27,500	-15.7

Source: Nippon-IBR based on Daido Steel's earnings results materials
 * NP attributed to the parent's shareholders



Source: Nippon-IBR based on Daido Steel's earnings results material

FY26 OUTLOOK BY SEGMENT

Daido Steel (5471JP): Sales, OP and OPM by Segment Forecast										
¥mil		FY25			FY26 CE					
		1H	2H	FY	1H CE	YoY (%)	2H CE	YoY (%)	FY CE	YoY (%)
Specialty Steel	Sales	99,979	107,802	207,781	110,000	10.0	120,000	11.3	230,000	10.7
	OP	5,424	7,956	13,380	4,000	-26.3	4,000	-49.7	8,000	-40.2
	OPM (%)	5.4	7.4	6.4	3.6	-1.8ppt	3.3	-4.1ppt	3.5	-2.9ppt
High Performance Materials & Magnetic Materials	Sales	96,794	102,959	199,753	110,000	13.6	120,000	16.6	230,000	15.1
	OP	6,316	8,568	14,884	10,000	58.3	9,000	5.0	19,000	27.7
	OPM (%)	6.5	8.3	7.5	9.1	+2.6ppt	7.5	-0.8ppt	8.3	+0.8ppt
Parts for Automobile and Industrial Equipment	Sales	59,166	58,771	117,937	60,000	1.4	60,000	2.1	120,000	1.7
	OP	3,601	4,559	8,160	5,000	38.9	4,000	-12.3	9,000	10.3
	OPM (%)	6.1	7.8	6.9	8.3	+2.2ppt	6.7	-1.1ppt	7.5	+0.6ppt
Engineering	Sales	14,257	12,368	26,625	12,000	-15.8	11,000	-11.1	23,000	-13.6
	OP	1,275	1,347	2,622	500	-60.8	500	-62.9	1,000	-61.9
	OPM (%)	8.9	10.9	9.8	4.2	-4.7ppt	4.5	-6.4ppt	4.3	-5.5ppt
Trading & Service	Sales	14,300	11,731	26,031	13,000	-9.1	14,000	19.3	27,000	3.7
	OP	1,796	1,226	3,022	1,500	-16.5	1,500	22.3	3,000	-0.7
	OPM (%)	12.6	10.5	11.6	11.5	-1.1ppt	10.7	+0.2ppt	11.1	-0.5ppt
Total	Sales	284,499	293,630	578,129	305,000	7.2	325,000	10.7	630,000	9.0
	OP	18,464	23,617	42,081	21,000	13.7	19,000	-19.5	40,000	-4.9
	OPM (%)	6.5	8.0	7.3	6.9	+0.4ppt	5.8	-2.2ppt	6.3	-1.0ppt

Source: Nippon-IBR based on Daido Steel's earnings results materials

The FY26 earnings outlook for Daido Steel's three major segments are discussed below:

1. Specialty Steel

[FY26 sales ¥230,000mil (+10.7% YoY), OP ¥8,000mil (-40.2% YoY), OPM 3.5%]

Daido Steel is guiding for FY26 segment OP of ¥8,000mil (-40.2% YoY) on sales of ¥230,000mil (+10.7% YoY). Sales growth will be led by a gradual recovery in industrial machinery-related demand, while auto sector-related demand will remain flat YoY. AOP is estimated to decline by ¥3,000mil YoY (-26.5% YoY) based on the following assumptions: (1) DS aims to pass on the surge in costs, however, segment OP will be affected mainly by the slide gap of steel scrap and energy surcharges, which is estimated at around -¥2,000mil for the segment, albeit a temporary impact. Should the raw material and energy markets trend as the firm expects, the slide gap will be reduced in FY27, and (2) DS has set aside an additional -¥1,000mil in case it fails to implement all price hikes.

2. High-Performance Materials & Magnetic Materials

[FY26 sales ¥230,000mil (+15.1% YoY), OP ¥19,000mil (+27.7% YoY), OPM 8.3%]

Here, the firm guides for FY26 segment OP of ¥19,000mil (+27.7% YoY) on sales of ¥230,000mil (+15.1% YoY), on the back of (1) sales volumes increase in stainless steel for SPEs in FY26. However, the firm estimates the same level of sales volume as in 1H in 2H despite the current strong demand, (2) sales increase in stainless steel promoted for plants, (3) continued increases in demand for heavy rare earth-free magnets, and (4) an improvement in sales mix [+¥1,600mil] thanks to growth of stainless steel for SPEs.

Regarding stainless steel for SPEs which finally started trending up, DS noted that there has been a quick pick up in demand for valve mass flow controller filters. When DS revised the ongoing MTP in Oct 2025, it assumed that demand

for SPE-related products would likely recover from FY26 2H onwards, however, demand is already recovering. As for magnets, the firm continues to receive steady enquiries for rare-earth-free magnet.

3. Parts for Automobile and Industrial Equipment Segment

[FY26 sales ¥120,000mil (+1.7% YoY), OP ¥9,000mil (+10.3% YoY), OPM 7.5%]

For FY26, OP is expected to improve +10.3% YoY to ¥9,000mil on sales of ¥120,000mil (+1.7% YoY), thanks to strong demand in aircraft and heavy electric-related products and continued high orders for ship valves. Additionally, semiconductor-related orders have been increasing. Oil and gas sector-related demand will likely remain weak in FY26.

REDESIGNING MEDIUM-TERM MANAGEMENT PLAN [MTP] - RECAP

In October 2025, Daido Steel revised the ongoing MTP that ends in FY26, on the back of (1) a larger-than-expected decline in steel product sales volumes, (2) weaker-than-expected orders related to auto and industrial machinery sectors, and (3) the increasing lack of clarity in the business environment. The firm revised the following KPIs:

1. FY26 OP target under the MTP was revised down from ¥60,000mil+ to ¥40,000mil+ back in October 2025, due to the aforementioned three reasons. Note that the current FY26 OP guidance of ¥40,000mil announced with FY25 results in May was based on different assumptions, one of which is the rapid surge in the price of steel scrap, which DS did not anticipate when it revised the MTP numbers.

DS assumed that FY26 OP, in fact, could be boosted to above the ¥40,000mil MTP target by increased sales of open-die forging for the aerospace sector, stainless steel for SPEs, and materials sales for stainless steel plants. Yet, with a temporary effect from the slide gap of -¥2,800mil [slide gap: actual steel scrap price fluctuations and the time lag or discrepancy regarding when and to what extent these can give impact on the firm's cost], the firm concluded that FY26 OP of ¥40,000mil, the same level forecast for the MTP, is a reasonable guidance.

2. Total investment over the three years reduced from ¥150,000mil to ¥140,000mil. Based on the IFRS definition of fixed asset, total CAPEX over three years (FY24~FY26) will be approx. ¥140,000mil, or ¥161,300mil including software investment.
3. D/E ratio at around 0.5x remains the same.
4. ROE target lowered to 7% or more from 9% or more vs an estimated capital cost of about 7% based on CAPM.
5. Shareholder returns: A dividend pay-out ratio of 30% or more remains unchanged. Minimum DOE of 2.5% is also committed to ensure a stable shareholder returns. Also, the firm plans to do share buybacks in case extra cash can be allocated.

CASH ALLOCATION

In October 2025, Daido Steel revised its cash allocation during the remaining tenure of the MTP, given (1) the lower-than-expected operating cash flow [OCF] (revised from ¥140,000mil over the three years to above ¥120,000mil), but noted that (2) the firm is willing to prioritise strategic investment for the future growth as well as improve shareholders return (from ¥40,000mil to ¥50,000mil over the three years).

Investment was revised from ¥150,000mil to ¥140,000mil, however, the firm plans to maintain the level of strategic investments and instead, has reduced maintenance CAPEX. DS aims to realise a return on these strategic investments towards FY30. Between FY24 and FY30, a total of ¥66,000mil for strategic investments will be made. Over FY24 and FY25, the firm invested ¥8,600mil and ¥21,300mil, respectively, and saw a return of ¥3,500mil and ¥4,900mil as part of OP, respectively. In FY26, the firm plans to make strategic investments of ¥13,000mil and generate a return of ¥7,200mil. DS expects the returns to accelerate from FY27 onwards.

To fill the gap in cash inflow, DS will accelerate the sale of non-core assets from an initial estimate of ¥50,000mil to ¥60,000mil. For example, the ratio of strategic equity portfolio holdings to total net asset will be further reduced to less than 15% by the end of FY26 and 10% by FY30, from 18.0% in FY25.

To improve capital efficiency, DS continues to promptly buy back shares. The firm repurchased 6,041,100 shares (2.92% of shares outstanding) at a cost of ¥6,603mil as of 29 July 2025.

TWO ACQUISITIONS

DS acquired the specialty steel business of Nippon Koshuha Steel Co., Ltd. [NKS] (5476 JP) in February 2026 from Kobe Steel (5406 JP). First, NKS became a wholly owned subsidiary of Kobe Steel, from which DS acquired 100% of the shares on the same day. DS's aim is to acquire NKS's manufacturing tool steel, special alloy and bearing steel facilities to achieve optimal production allocation. While the cost of acquisition is not disclosed, in FY25, reverse goodwill of ¥5,300mil was incurred, which is part of extraordinary profit under Japanese GAAP.

DS also called for TOB on Tohoku Speciality Steel [TSS] (5484 JP) in May 2026. Prior to the TOB proposal, DS already held 34.32% of the company as an equity method affiliate and acquired the remaining stake at an 86% premium on the stock price as of 15 May. DS could not acquire TSS in the past because with acquisition, it could have breached fair-trade competition rules. Now, having cleared that obstacle, DS was finally able to acquire TSS, which gives the firm access to TSS's ability to develop new materials, which both companies eventually co-develop.

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