DAIDO STEEL CO., LTD (5471 JP)

NEGATIVE SLIDE GAP INFLUENCES 2H BUT HIGH-PERFORMANCE MATERIALS GROWTH CONTINUES.

EXECUTIVE SUMMARY

- **FY26 1H Earnings and full-year earnings revision**: Daido Steel [DS] (5471 JP) produced FY26 1H (April~Sept 26) OP [IFRS basis] of ¥26,068mil (+41.2% YoY) and adjusted OP [AOP] of ¥23,163mil (+25.0% YoY) on sales of ¥330,652mil (+16.2% YoY), and came in ahead of 1H guidance. With the better-than-expected 1H results, Daido Steel revised the full-year guidance from OP of ¥40,000mil (-4.9% YoY) and AOP of ¥40,100mil (+0.5% YoY) on sales of ¥630,000mil (+9.0% YoY) to OP of ¥46,000mil (+9.3% YoY) and AOP of ¥45,000mil (+12.7% YoY) on sales of ¥680,000mil (+17.6% YoY).
- **Assumptions for revised FY26 guidance:** The new full-year guidance is based on (1) a revision up to steel products sales volumes from 1,042K ton (vs. 1,025K ton in FY25) to 1,063K ton (1H: 531K ton / 2H: 532K ton), (2) growth in stainless steel products for SPEs, reflecting the boost in AI-related demand; the firm is guiding for 2H YoY growth of +50% and (3) the slide gap remaining in negative territory (-¥4,000mil in FY26) throughout FY26 reflecting the surge in fuel prices from Q2 onwards.
- **Strategic Growth Investment:** Between FY24~FY30, a total of ¥66,000mil in strategic growth investments will be made. Over FY24 and FY25, the firm invested ¥8,600mil and ¥21,300mil, respectively, which contributed +¥3,500mil and +¥4,900mil to OP, respectively. In FY26, the firm has budgeted ¥13,000mil for strategic investments and now expects a +¥10,800mil contribution to OP, revised up from a return of ¥7,200mil, thanks to strong orders boosting production. The returns on strategic growth investment will likely accelerate from FY27 onwards. In FY27 and FY28, the firm continues to make the strategic investment of ¥14,000mil and ¥9,000mil, respectively, to complete the planned ¥66,000mil investment. DS expects returns of ¥15,000mil in FY27, ¥17,000mil in FY28, ¥24,000mil in FY29 and ¥25,000mil in FY30 on the investment.
- **Shareholder returns:** Along with earnings revision, the FY26 cash dividend was also revised from ¥52.00/share (vs. FY25 annual dividend of ¥49.00/share) to ¥56.00/share, which generates a dividend payout ratio of 36.1%, or 38.7% excluding any one-off extraordinary factors that may arise.

Daido Steel (5471): Share Information

Market Cap (¥mil)		**365,700**	**Market Cap ($mil)**			**2,315**
22-day Average Trading Volume (¥mil)		**2,480**	**22-day Average Trading Volume ($mil)**			**15.7**
Share performance (%)	**5471**	**TOPIX**	**Earnings Summary (¥mil, %)**	**FY24**	**FY25**	**FY26 CE**
Share price (20 Nov 2026)	1,683.50	3,674.22	**Sales**	574,945	578,129	680,000
3mo (from 20 Aug)	-27.4	-9.5	**OP**	39,408	42,081	46,000
6mo (from 20 May)	-6.7	-3.1	**OPM (%)**	6.9	7.3	6.8
YTD	4.3	5.7	**EBITDA**	69,673	73,210	80,000*
1yr	12.5	11.4	**EPS (¥)**	134.57	161.74	155.08
5yrs	107.6	79.9	**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)	155.08	233.96	**FCF**	37,930	17,848	N/A
DPS (¥, FY26 CE)	56.00	0.01	**Shareholder Return Summary**	**FY24**	**FY25**	**FY26 CE**
BPS (¥, Sep 26)	2,365	N/A	**Dividend (¥)**	47.00	49.00	56.00
FCFPS (¥, FY26 EST)	82.2	N/A	**Dividend Payout (%)**	34.9	30.3	36.1
Forward PER (X)	10.9	15.49	**Dividend Yield (%)**	N/A	N/A	3.3
PBR (X)	0.7	1.63	**DOE (%)**	2.3	2.5	2.5
PCFR (X)	20.5	N/A	**Treasury Shares (%)**	1.6	7.8	N/A
EV/EBITDA (X)*	6.4	N/A	**ROE (%)**	6.5	6.8	6.5

*Source: Nippon-IBR based on data on Bloomberg and Toyo Keizai / * Nippon-IBR estimates*

FY26 1H RESULTS

Daido Steel [DS] (5471 JP) produced FY26 1H (April~Sept 26) OP [IFRS basis] of ¥26,068mil (+41.2% YoY) and adjusted OP [AOP] of ¥23,163mil (+25.0% YoY) on sales of ¥330,652mil (+16.2% YoY), which overshot 1H company guidance of OP of ¥21,000mil (+13.7% YoY) and AOP of ¥18,700mil (+1.0% YoY) on sales of ¥305,000mil (+7.2% YoY).

The firm revised the full-year guidance with the release of its 1H results, from OP of ¥40,000mil (-4.9% YoY) and AOP of ¥40,100mil (+0.5% YoY) on sales of ¥630,000mil (+9.0% YoY) to OP of ¥46,000mil (+9.3% YoY) and AOP of ¥45,000mil (+12.7% YoY) on sales of ¥680,000mil (+17.6% YoY) given (1) strong orders for high performance products such as stainless steel for SPEs and open die forging, and (2) better than expected sales volumes in specialty steel products thanks for solid demand from industrial machinery.

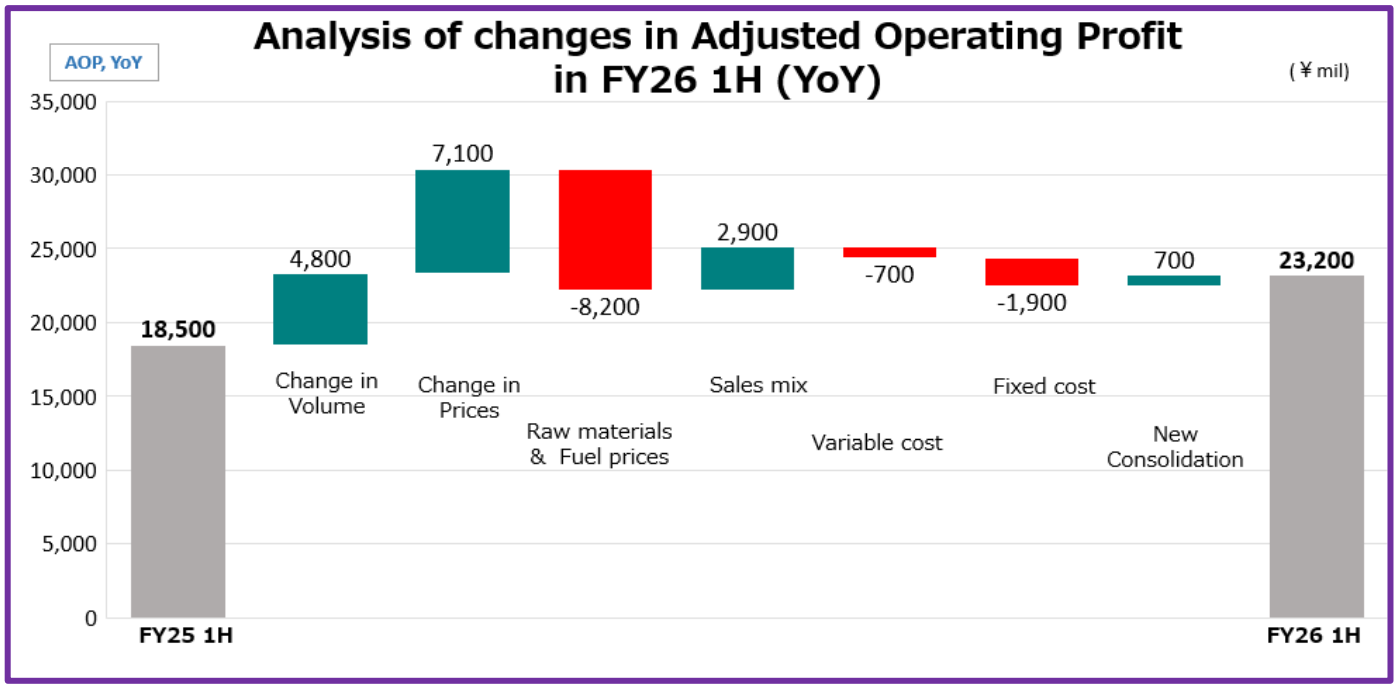
FY26 1H AOP increased +¥4,639mil (+25.0%) YoY, thanks to (1) a +¥4,800mil YoY rise in steel product sales volumes to 531K ton, (2) price adjustments [+¥7,100mil YoY], (3) an improved sales mix [+¥2,900mil YoY] and (4) the consolidation of Nippon Koshuha Steel and Tohoku Speciality Steel [+¥700mil YoY]. These positive factors offset negatives from (1) higher raw materials and fuel prices [-¥8,200mil YoY], of which -¥2,200mil comes from impact of surcharge gaps – the so-called "slide gap", and (2) an increase in fixed costs such as depreciation (-¥1,400mil) and personnel costs (-¥900mil).

Daido Steel (5471 JP): Earnings Results Summary

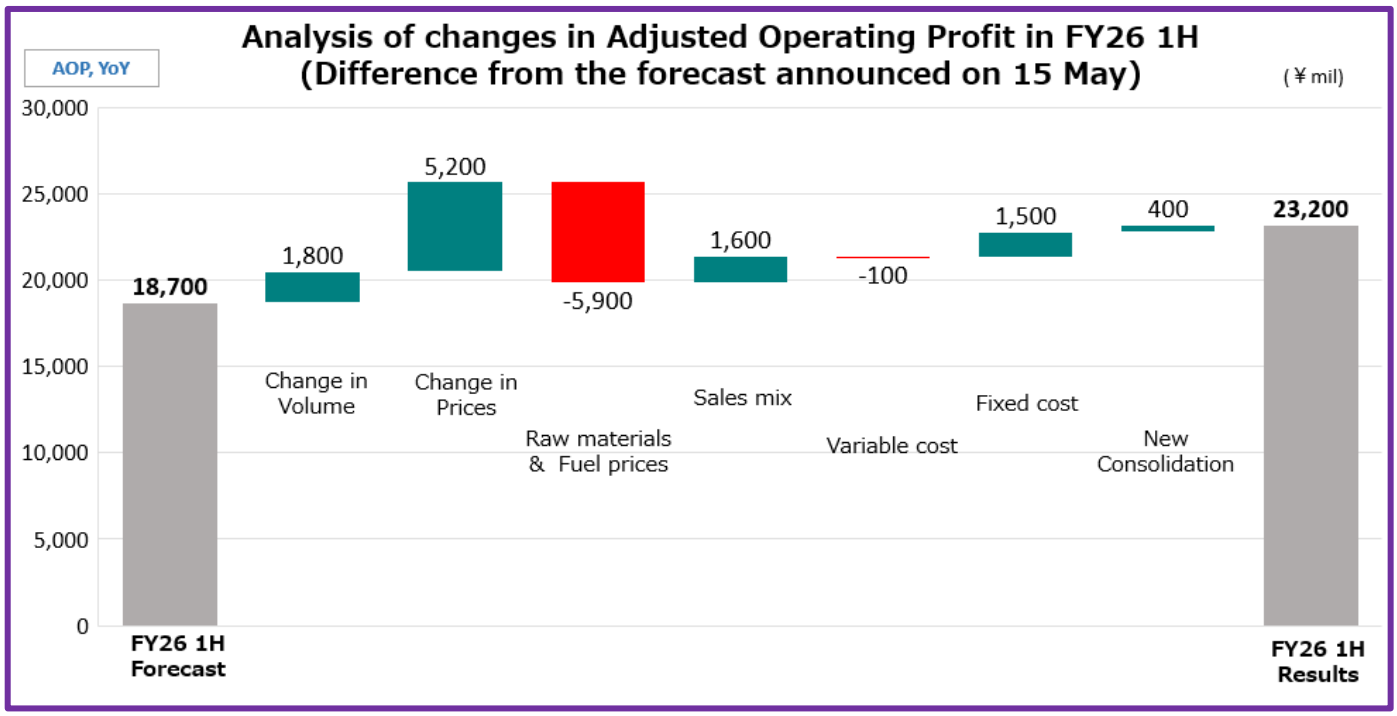
(¥mil)	FY25			FY26				
	1H	2H	FY	1H	YoY (%)	HoH (%)	1H CE	1H vs 1HCE (%)
Steel Products Sales Volume (ton)	504,000	521,000	1,025,000	531,000	5.4	1.9	521,000	1.9
Sales	284,499	293,630	578,129	330,652	16.2	12.6	305,000	8.4
COGS	234,347	242,481	476,828	272,392	16.2	12.3	N/A	N/A
COGS / Sales (%)	82.4	82.6	82.5	82.4	flat	-0.2ppt	N/A	N/A
GP	50,151	51,150	101,301	58,260	16.2	13.9	N/A	N/A
GPM (%)	17.6	17.4	17.5	17.6	flat	+0.2ppt	N/A	N/A
SG&A	31,468	33,322	64,790	34,161	8.6	2.5	N/A	N/A
SG&A / Sales (%)	11.1	11.3	11.2	10.3	-0.8ppt	-1.0ppt	N/A	N/A
OP	18,464	23,617	42,081	26,068	41.2	10.4	21,000	24.1
OPM (%)	6.5	8.0	7.3	7.9	+1.4ppt	-0.1ppt	6.9	+1.0ppt
Pretax profit	19,650	25,106	44,756	27,302	38.9	8.7	22,000	24.1
Corporation Tax	-5,631	-4,247	-9,878	-7,671	36.2	80.6	N/A	N/A
NP*	12,937	19,668	32,605	18,262	41.2	-7.1	14,000	30.4

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



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

FY26 1H PERFORMANCE BY SEGMENT

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

1. Specialty Steel Segment [SS]

[FY26 1H Sales ¥120,033mil (+20.1% YoY) / OP ¥5,360mil (-1.2% YoY) / OPM 4.5% (-0.9ppt YoY)]

The main positive surprise was the stronger-than-expected specialty steel sales volumes of 531K ton vs guidance of 521K ton – a steady recovery from 504K ton in FY25 1H and 521K ton in FY25 2H. While the market share of Japanese OEMs continued to decline, especially in ASEAN and China, there has been a recovery in demand from the industrial machinery sector, which supported sales of products such as structured steel.

Japan Machine Tool Builders' Association statistics also indicate that total machine tool orders continue to recover in the real terms (i.e. adjusted for price inflation), for both domestic and international demand, and likely surpassing the previous peak in CY2018. As a result, FY26 1H IFRS-based OP surpassed guidance of ¥4,000mil by +34.0 % / ¥1,360mil. On a YoY Basis, segment OP and AOP both fell -1.2% YoY and -10.9% YoY, respectively. 1H OP fell -10.9% YoY / -¥613mil YoY primarily due to higher raw materials and fuel prices, which became more apparent from Q2.

Segment AOP was hit by price hikes [-¥5,800mil] which includes the slide gap of -¥2,200mil (-¥1,700mil from steel scrap price surge and -¥500mil from change in fuel prices). Positive factors, however, such as (1) an increase in sales volumes (+¥1,900mil YoY) and (2) price adjustments (+¥3,100mil) could not fully offset the surge in raw materials and fuel prices.

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

[FY26 1H sales ¥121,233mil (+25.2% YoY) / OP ¥12,082mil (+91.3% YoY) / OPM 10.0 % (+3.5ppt YoY)]

Both FY26 1H sales and OP came in above guidance by +10.2% and +20.8%, respectively. Demand for stainless steel remained strong thanks to demand from the SPE sector as well as expanded sales to plant applications.

Sales of high alloy products improved thanks to increasing demand for use in semiconductor-related electronics components. Given export restrictions on rare earth materials, DS's magnetic material, which is free from heavy rare earths such as Dysprosium [Dy] and Terbium [Tb], continued to see a boost in demand. Moreover, plans to begin production of a new magnetic product for HEVs was brought forward. However, titanium products sales were affected by prolonged inventory adjustments in the medical equipment value chain.

The negative impact from (1) raw material and fuel prices (-¥2,400mil YoY) and (2) higher fixed costs (-¥1,300mil YoY), were offset by (1) an increase in sales volume (+¥2,500mil YoY), (2) price adjustments (+¥3,600mil YoY) and (3) an improved sales mix (+¥1,500mil YoY). As a result, 1H segment AOP surged +74.5% YoY / +¥4,240mil YoY) to ¥9,930mil.

3. Parts for Automobiles / Industrial Equipment Segment

[FY26 1H sales ¥61,654mil (+4.2% YoY) / OP ¥5,879mil (+63.3% YoY) / OPM 9.5% (+3.4 ppt YoY)]

The solid growth in segment sales was supported by (1) steady demand for engine valves in the US and (2) continued strength in sales of open die forging (approx. 42% of the 1H segment sales) for the ship diesel engine valves whose demand was especially strong in China, and (3) solid heavy electronics-related demand. Demand for open die forging also surged for aerospace applications and semiconductor plants. Sales of open die forging for oil and gas drilling equipment has also to show signs of recovery, however the firm remains cautious. As a result, segment OP surged +63.3% YoY, although it has not yet recovered to the recent FY24 2H peak OP of ¥6,508mil, when the firm saw improvement in production throughput in open die forging.

FY26 1H AOP improved +34.4% YoY / +¥1,460mil YoY thanks primarily to (1) an improved sales mix (+¥1,800mil YoY) and (2) higher sales volumes (+¥400mil YoY), which fully offset increases in both fixed and variable costs by -¥500mil and -¥300mil, respectively.

Daido Steel (5471JP): Sales, OP and OPM by Segment

(¥mil)		FY25			FY26				
		1H	2H	FY	1H	YoY (%)	HoH (%)	1H CE	1H vs 1HCE (%)
Specialty Steel	Sales	99,979	107,802	207,781	120,033	20.1	11.3	110,000	9.1
	OP	5,424	7,956	13,380	5,360	-1.2	-32.6	4,000	34.0
	OPM (%)	5.4	7.4	6.4	4.5	-0.9ppt	-2.9ppt	3.6	+0.9ppt
High-Performance Materials & Magnetic Materials	Sales	96,794	102,959	199,753	121,233	25.2	17.7	110,000	10.2
	OP	6,316	8,568	14,884	12,082	91.3	41.0	10,000	20.8
	OPM (%)	6.5	8.3	7.5	10.0	+3.5ppt	+1.7ppt	9.1	+0.9ppt
Parts for Automobile and Industrial Equipment	Sales	59,166	58,771	117,937	61,654	4.2	4.9	60,000	2.8
	OP	3,601	4,559	8,160	5,879	63.3	29.0	5,000	17.6
	OPM (%)	6.1	7.8	6.9	9.5	+3.4ppt	+1.7ppt	8.3	+1.2ppt
Engineering	Sales	14,257	12,368	26,625	12,264	-14.0	-0.8	12,000	2.2
	OP	1,275	1,347	2,622	390	-69.4	-71.0	500	-22.0
	OPM (%)	8.9	10.9	9.8	3.2	-5.7ppt	-7.7ppt	4.2	-1.0ppt
Trading & Service	Sales	14,300	11,731	26,031	15,466	8.2	31.8	13,000	19.0
	OP	1,796	1,226	3,022	2,344	30.5	91.2	1,500	56.3
	OPM (%)	12.6	10.5	11.6	15.2	+2.6ppt	+4.7ppt	11.5	+3.7ppt
Total	Sales	284,499	293,630	578,129	330,652	16.2	12.6	305,000	8.4
	OP	18,464	23,617	42,081	26,068	41.2	10.4	21,000	24.1
	OPM (%)	6.5	8.0	7.3	7.9	+1.4ppt	-0.1ppt	6.9	+1.0ppt

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

Total numbers are after adjusted for inter-segment trades.

FY26 OUTLOOK

Given the stronger-than-expected 1H results, DS revised the full-year guidance from OP of ¥40,000mil (-4.9% YoY) and AOP of ¥40,100mil (+0.5% YoY) on sales of ¥630,000mil (+9.0% YoY) to OP of ¥46,000mil (+9.3% YoY) and AOP of ¥45,000mil (+12.7% YoY) on sales of ¥680,000mil (+17.6% YoY). While the slide gap will continue to weigh on earnings, strong sales momentum in high-performance materials such as stainless steel for SPEs and open die forging is likely to offset it. Also, the consolidation of Nippon Koshuha Steel and Tohoku Specialty Steel will contribute to FY26 earnings growth. Excluding temporary costs associated with the change in production allocation (-¥1,100mil) and the slide gap (-¥4,000mil), underlying FY26 AOP is guided to come in at ¥50,100mil.

Assumptions for the revised guidance are as follows:

- **Steel products sales:** Volumes were revised up from the initial forecast of 1,042K ton (vs. 1,025K ton in FY25) to 1,063K ton (1H: 531K ton / 2H: 532K ton) based on:
  1. Demand from the industrial machinery sector will likely continue to recover although 2H HoH sales volumes are assumed to be flat, and
  2. Auto sales volumes by Japanese OEMs was revised down from the initial forecast of 25mil vehicles to 23.8mil in FY26, lower than the level seen over the past two years [FY24 24.5mil units / FY25 24.3mil units], given declining production volumes especially in ASEAN and China.
  3. Given the AI-related demand boost, stainless steel products for SPEs will likely increase +50% HoH in 2H.
- Continued strength in steel scrap and fuel prices: The steel scrap market price is estimated at ¥51,000/t in 2H vs. ¥42,000/t in FY25 and ¥52,300/t in FY26 1H, and DS expects the current strong scrap market will continue. It also initially thought the rise in crude oil prices would peak-out from Q2 onwards, assuming a crude oil price of $90/bbl in Q1 and $63/bbl from Q2 onwards, but now DS is basing its 2H forecasts on a Dubai-based crude oil price of $95/bbl in 2H vs 1H actual price of $87.2/bbl.

As a result, DS sees the 2H slide gap of -¥1,800mil which includes -¥500mil in steel scrap and -¥1,300mil in fuel prices in 2H alone. On the full-year basis, the slide gap is estimated at -¥4,000mil, which include -¥2,200mil in steel scrap and -¥1,800mil in fuel price.

- A more conservative FOREX rate of ¥155/USD in FY26 2H, vs the FY25 average rate of ¥150.8/USD and FY26 1H average rate of ¥159.4/USD. For the full-year, DS assumes an average rate of ¥157.20/USD.

FY26 AOP is estimated to rise +¥5,080mil /+12.7% YoY, reflecting the following factors:

- Price adjustments [+¥21,500mil YoY]
- Sales volumes [+¥9,400mil YoY]
- Improved sales mix [+¥6,200mil YoY]

The main negatives include:

- Higher raw material and energy costs [-¥25,300mil YoY, vs the initial estimate of -¥17,700mil], including a negative slide gap [approx. -¥4,000mil].
- An increase in fixed costs [-¥7,700mil], including a rise in labour [-¥2,900mil YoY] and depreciation (-¥2,600mil).

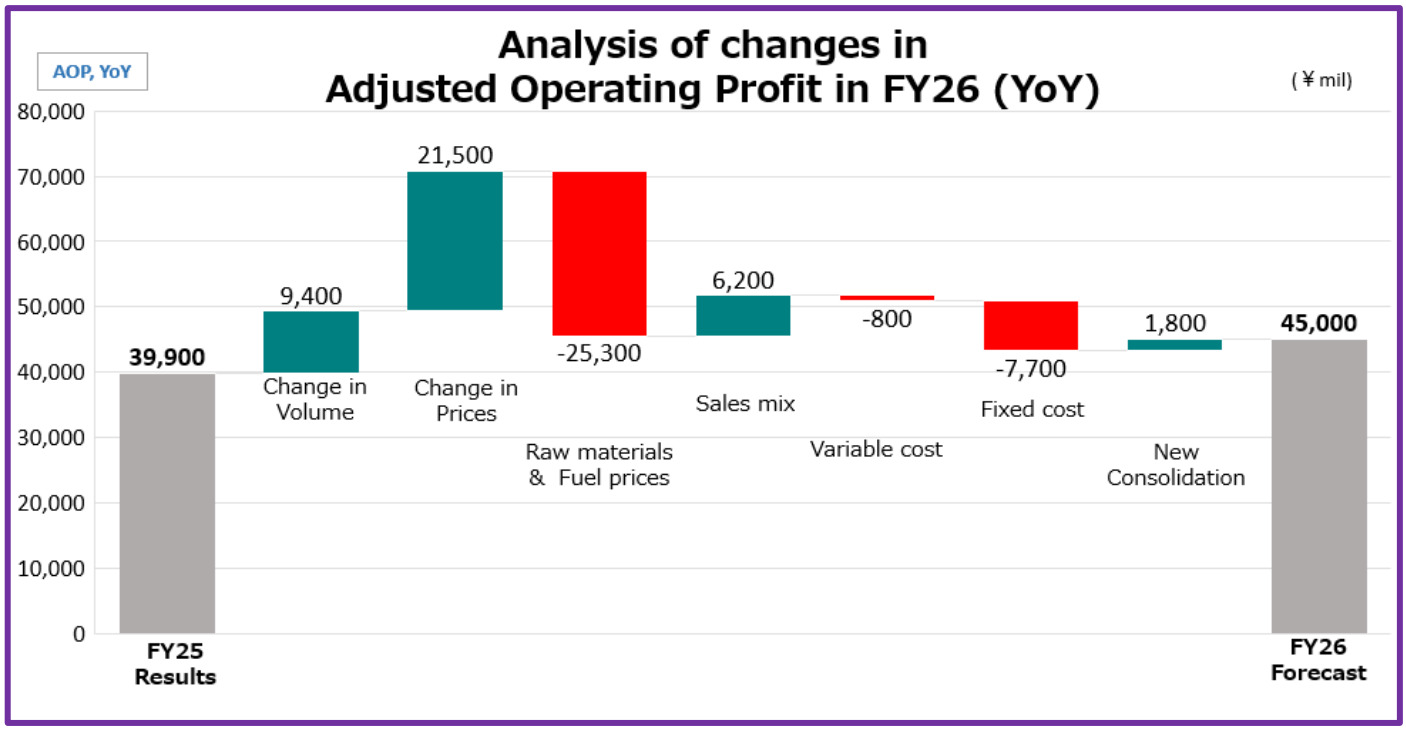
DS also revised the annual dividend from ¥52.00/share (vs. FY25 ¥49.00/share) to ¥56.00/share, which generates a dividend payout ratio of 36.1%, or 38.7% excluding any one-off extraordinary factors that may arise. The firm maintains its shareholder returns policy for a DOE of 2.5% as a minimum dividend 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 such as gain/loss from sales of fixed assets, loss associated with closure of affiliated companies, impairment loss of fixed assets etc.

Daido Steel (5471 JP): Earnings Results and Forecast

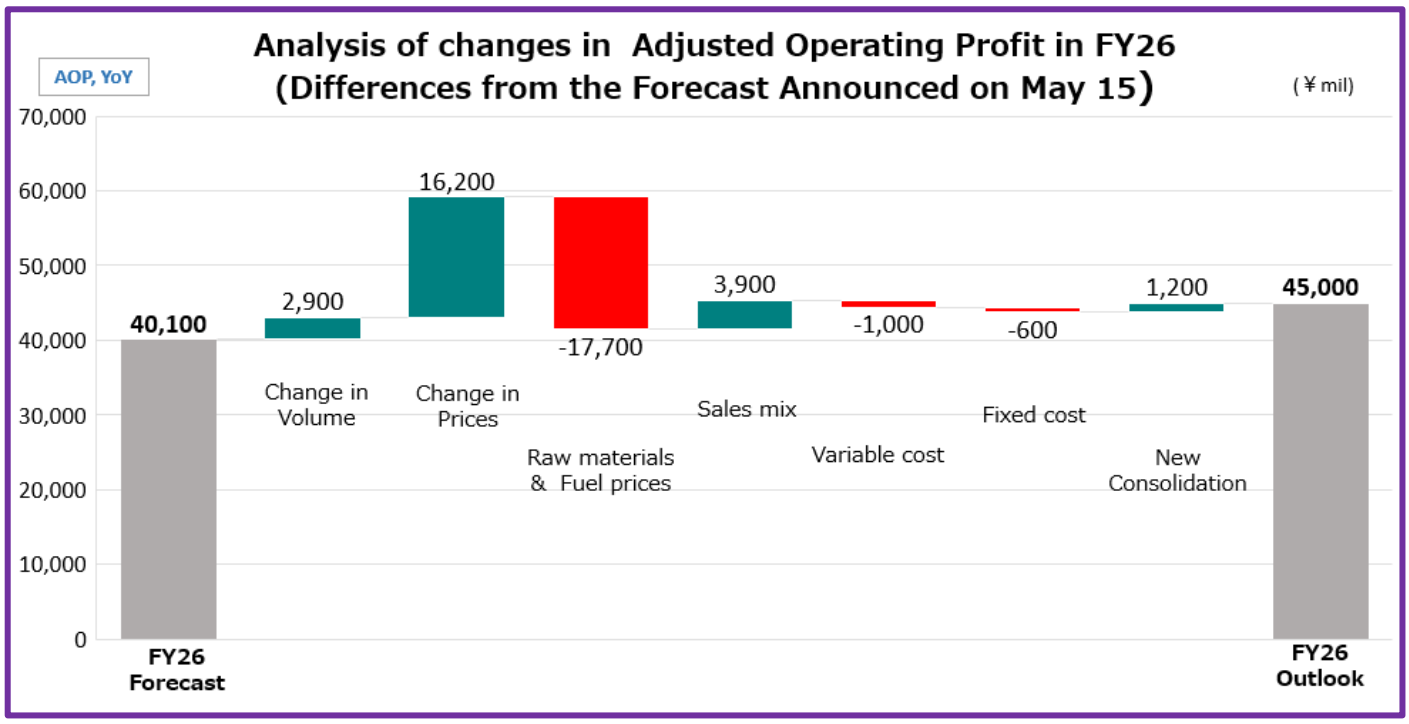
(¥mil)	FY25			FY26				
	1H	2H	FY	1H	New 2H CE	Old FYCE	New FYCE	YoY (%)
Steel Products Sales Volume (tone)	504,000	521,000	1,025,000	531,000	532,000	1,042,000	1,063,000	3.7
Sales	284,499	293,630	578,129	330,652	349,300	630,000	680,000	17.6
OP	18,464	23,617	42,081	26,068	19,900	40,000	46,000	9.3
OPM (%)	6.5	8.0	7.3	7.9	5.7	6.3	6.8	-0.5ppt
Pretax profit	19,650	25,106	44,756	27,302	19,700	42,000	47,000	5.0
Corporation Tax	-5,631	-4,247	-9,878	-7,671	N/A	N/A	N/A	N/A
NP*	12,937	19,668	32,605	18,262	12,700	27,500	31,000	-4.9

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



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

FY26 OUTLOOK BY SEGMENT

Daido Steel (5471JP): Sales, OP and OPM by Segment

(¥mil)		FY25			FY26				
		1H	2H	FY	1H	New 2H CE	Old FYCE	New FYCE	YoY (%)
Specialty Steel	Sales	99,979	107,802	207,781	120,033	120,000	230,000	240,000	15.5
	OP	5,424	7,956	13,380	5,360	3,100	8,000	8,500	-36.5
	OPM (%)	5.4	7.4	6.4	4.5	2.6	3.5	3.5	-2.9ppt
High-Performance Materials & Magnetic Materials	Sales	96,794	102,959	199,753	121,233	134,800	230,000	256,000	28.2
	OP	6,316	8,568	14,884	12,082	9,400	19,000	21,500	44.5
	OPM (%)	6.5	8.3	7.5	10.0	7.0	8.3	8.4	+0.9ppt
Parts for Automobile and Industrial Equipment	Sales	59,166	58,771	117,937	61,654	67,300	120,000	129,000	9.4
	OP	3,601	4,559	8,160	5,879	5,100	9,000	11,000	34.8
	OPM (%)	6.1	7.8	6.9	9.5	7.6	7.5	8.5	+1.6ppt
Engineering	Sales	14,257	12,368	26,625	12,264	11,700	23,000	24,000	-9.9
	OP	1,275	1,347	2,622	390	600	1,000	1,000	-61.9
	OPM (%)	8.9	10.9	9.8	3.2	5.1	4.3	4.2	-5.6ppt
Trading & Service	Sales	14,300	11,731	26,031	15,466	15,500	27,000	31,000	19.1
	OP	1,796	1,226	3,022	2,344	1,700	3,000	4,000	32.4
	OPM (%)	12.6	10.5	11.6	15.2	11.0	11.1	12.9	+1.3ppt
Total	Sales	284,499	293,630	578,129	330,652	349,300	630,000	680,000	17.6
	OP	18,464	23,617	42,081	26,068	19,900	40,000	46,000	9.3
	OPM (%)	6.5	8.0	7.3	7.9	5.7	6.3	6.8	-0.5ppt

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

Total numbers are after adjusted for inter-segment trades.

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

1. Specialty Steel Segment [SS]

[FY26 sales ¥240,000mil (+15.5% YoY), OP ¥8,500mil (-36.5% YoY), OPM 3.5%]

DS revised its full-year guidance for segment OP of ¥8,000mil (-40.2% YoY) on sales of ¥230,000mil (+10.7% YoY) to OP of ¥8,500mil (-36.5% YoY) on sales of ¥240,000mil (+15.5% YoY). Although specialty steel products sales volumes were revised up, the new full-year forecasts indicate a HoH decline in 2H OP to ¥3,100mil (-61.0% YoY / -42.2% HoH), vs the previous forecast of ¥4,000mil (-49.7% YoY). This is largely because of change in view over fuel costs.

The firm sees a negative slide gap – the time lag between a rise in costs and price adjustments with surcharges to match the increased costs – in FY26. In case of steel scrap, this time lag is usually between 3~6 months, while in case of fuel surcharges, it is between 4~7 months as some of the fuel is procured under direct contract while some are under indirect contract via EPCOS etc. The slide gap will be absorbed once the surcharge is fully passed through to customers, which will likely be in FY27. The 2H segment OP revision was also due to some of the fixed costs budgeted for the 1H will be booked in the 2H.

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

[FY26 sales ¥256,000mil (+28.2% YoY), OP ¥ 21,500mil (+44.5% YoY), OPM 8.4%]

Segment OP guidance of ¥19,000mil (+27.7% YoY) on sales of ¥230,000mil (+15.1% YoY) was revised up to OP of ¥21,500mil (+44.5% YoY) on sales of ¥256,000mil (+28.2% YoY) on the back of (1) higher sales volumes of stainless steel for SPE, industrial machinery and plants, (2) continued increases in demand for heavy rare earth-free magnets, and (3) an improved sales mix [+¥1,600mil] thanks to growth of stainless steel for SPE. However, based on the revised forecast, 2H segment OP will be down -22.2% HoH to ¥9,400mil, due to the aforementioned fixed cost allocation.

3. Parts for Automobile and Industrial Equipment Segment

[FY26 sales ¥129,000mil (+9.4% YoY), OP ¥11,000mil (+34.8% YoY), OPM 8.5%]

Segment OP guidance was revised from ¥9,000mil (+10.3% YoY) on sales of ¥120,000mil (+1.7% YoY) to OP of ¥11,000mil (+34.8% YoY) on sales of ¥129,000mil (+9.4% YoY), thanks to strong demand for open die forging in aircraft and heavy electric-related products and continued high orders for ship valves and auto engine valves. Additionally, semiconductor-related orders – infrastructure pipes for factories – have been increasing, while demand from the oil and gas sector will likely remain weak in FY26.

For the segment to see higher earnings growth, production throughput needs to improve. DS has been promoting strategic growth investment but contribution to dramatic production throughput improvement will not happen until around late FY27, when new capacity, such as a large radial forging machine, expanded capacity for VIM furnaces and two new VAR furnaces, is installed and approved for mass production under the ongoing Superalloy Manufacturing Process Transformation Project, for which the firm pledged to invest total of ¥36,000mil during three years between FY25 and FY27.

STRATEGIC INVESTMENTS

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

The budget for investments 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 (measured as added profit to OP) on these strategic investments towards FY30.

Between FY24~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 ¥10,800mil, which was revised up from a return of ¥7,200mil, given the firm's strong order level and resulted in higher production.

DS expects the returns to accelerate from FY27 onwards. In FY27 and FY28, the firm plans to make strategic investments of ¥14,000mil and ¥9,000mil, respectively to complete the planned ¥66,000mil strategic investment. DS estimates that those investments will generate a return of ¥15,000mil in FY27, ¥17,000mil in FY28, and further contribute ¥24,000mil in FY29 and ¥25,000mil in FY30.

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.

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