

Fiscal Year ending March 2021 Interim Results Briefing (Apr.1-Sept.30/2020)

October 30, 2020



< Contents >

<u>FY2020 Interim Results(Apr.1- Sep.30/2020)</u>	p.1	FY2020 Changes in Operating Income (y/y)	17
Overview of the FY 2020 2nd quarter results	2	Net Sales & Operating Income by Segment (y/y)	18
Changes in Net Sales & Operating Income (FY2020 2nd quarter results)	3	Changes in Net Sales & Operating Income (Interim)	19
4-9/2020 Changes in Operating Income (y/y)	4	Sales and operating income by segment (difference between the first and second halves)	20
Cost reduction	5	FY2020 Ordinary income ・ Net income	21
Overview of our major products in FY 2020 ①	6	FY2020 Dividend per share	22
Overview of our major products in FY 2020 ②	7	Total Assets, Interest-bearing Debt, D/E Ratio	23
4-9/2020 Net Sales & Operating Income by Segment	8	Cash flow	24
4-9/2020 Changes in Operating Income of Major Segments(y/y)	9	Capital investment	25
4-9/2020 Ordinary income ・ Net income	10	Our approach to ESG	26
<u>Plan for FY2020(Apr.1/2020-Mar.31/2021)</u>	11	<u>F a c t B o o k</u>	27-29
Perception of the business climate	12		
Outlook for the major markets <automobile-related demand>	13		
Premises of Profit Planning for FY2020 (Market Trend)	14		
Market Trend of Raw Materials (Scrap Steel and Nickel)	15		
Changes in Net Sales & Operating Income (Forecast for FY2020)	16		

FY2020 Interim Results

(Apr.1- Sep.30/2020)

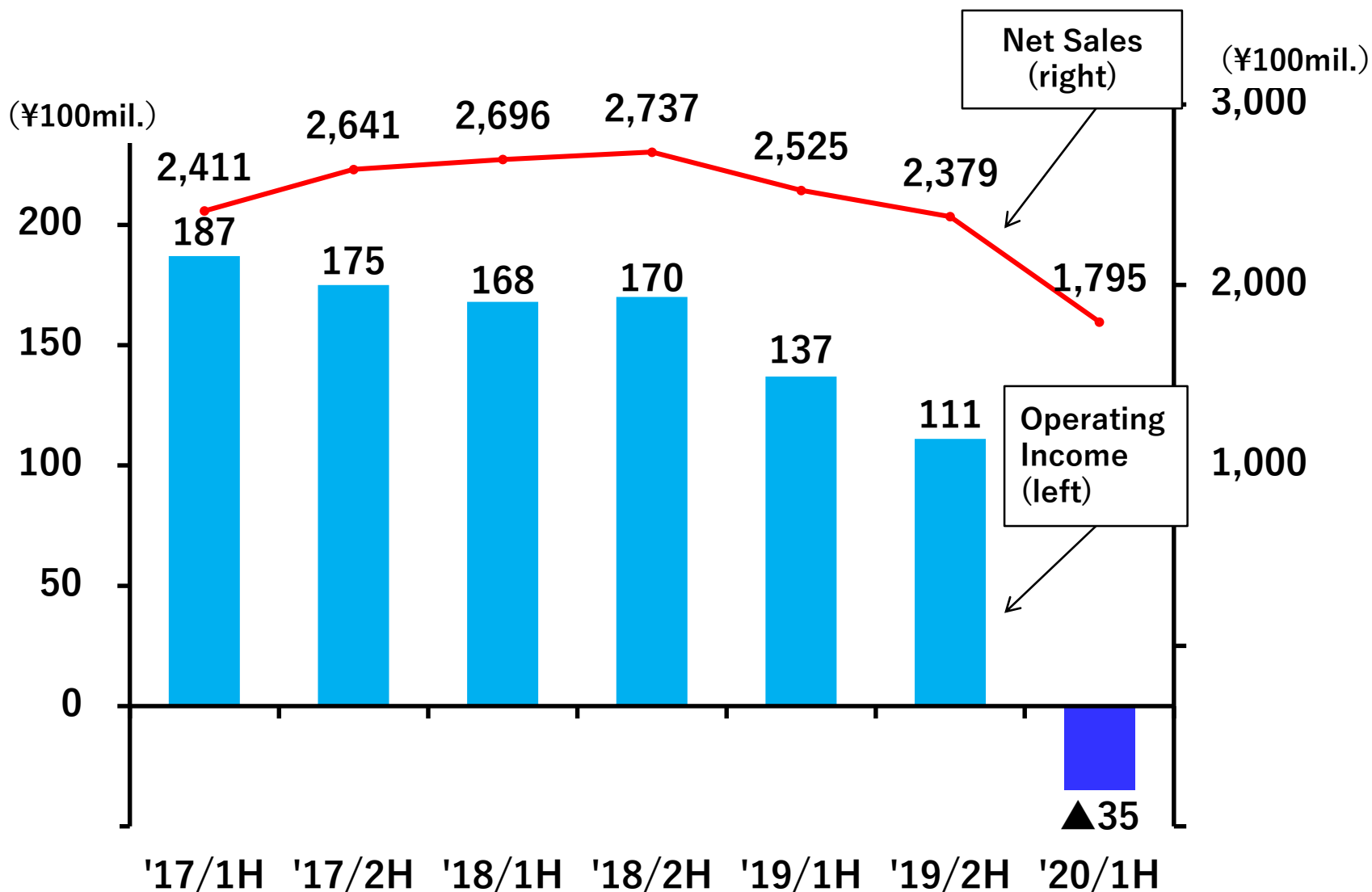
Overview of the FY 2020 2nd quarter results

(¥100 mil.)	4-9/ 2019	4-9/ 2020	y/y basis
Net Sales	2,525	1,795	-730
Operating income	137	▲35	-172
Ordinary income	137	▲21	-158
Net income(※)	113	▲23	-136

※ : Quarterly net income that is profit attributable to owners of parent

- Demand, including from the automobile-related industry, one of our major sources of customers, dropped due to the effects of the COVID-19 pandemic. After hitting bottom in the April to June quarter, the number of orders is recovering moderately, but both sales and profits declined as compared with the same period in the previous year.

Changes in Net Sales & Operating Income (FY2020 2nd quarter results)



4-9/2020 Changes in Operating Income (y/y)

(¥100 mil.)

Breakdown of changes

Raw materials and fuel price

- Costs of all items including scrap iron, alloys and energy declined.

Sales volume

- Demand, including from the automobile-related industry, one of our major sources of customers, declined substantially. The number of orders is recovering moderately after hitting bottom in the April to June quarter.

Sales price

- Selling prices went down due to the effects of scrap and alloy surcharges.
- Operating income decreased 900 million yen due to the effects of the sliding scale pricing system.

Sales mix

- Sales of semiconductor-related products recovered while the sales volumes of tool steel and open die forgings dropped.

Fixed costs

- There are still some factors remaining that could take a bad turn, such as depreciation expenses, although thorough cost-cutting efforts were carried out throughout the company to reduce SGA expenses.

(Non-operating expenses)

The maximum advantage was taken of the Japanese government's employment-adjustment subsidy system.

4-9/2019
Operating income

Changes (y/y)

Raw material/
Fuel price

Sales volume

Sales price

Sales mix

Variable cost

Fixed cost

Total

4-9/2020
Operating income

137

+108

-180

-73

-55

-18

+46

-326

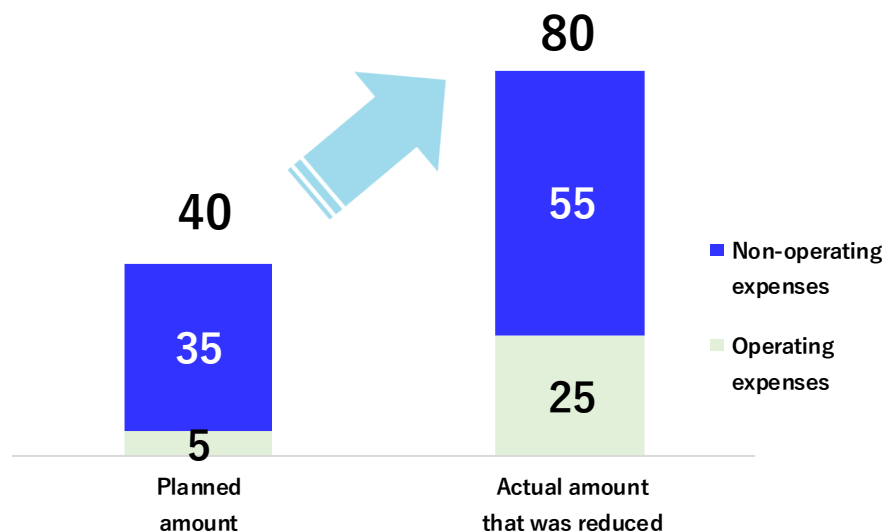
+154

▲35

(-172)

■ Cost reduction

Amount of reduction (100 million yen)



《Cost-cutting measures》

Fixed costs

Reduction in labor expenses

- Use of the employment adjustment subsidy system (non-operating expenses)
- Reduced overtime
- Reduced directors' remuneration and managers' salaries

Reduction in SGA expenses

- Zero-based review of maintenance/repair expenses and administrative expenditures.

Variable costs

Improved production efficiency

- Reviewed operating schedules and integrated production facilities

Cost reductions

- Reaped the benefits of strategic investments made in the past and increased the in-house ratio of production processes which had previously been outsourced.

Fixed costs were also reviewed in an attempt to further reduce overall costs.

Operating expenses:

Thorough cost-cutting efforts were carried out throughout the company to reduce SGA expenses.

Non-operating expenses:

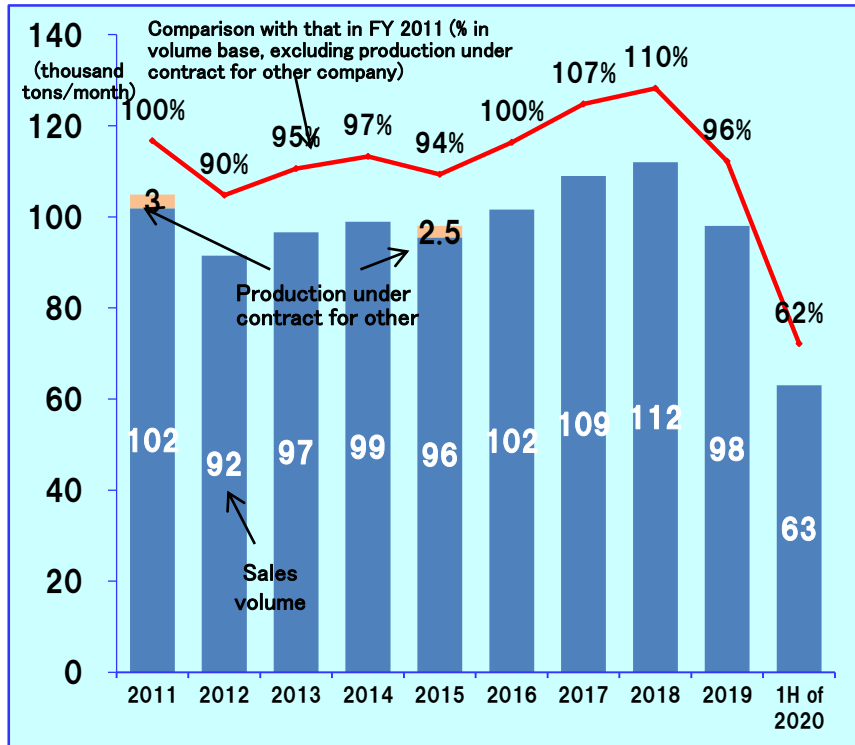
The maximum advantage was taken of the Japanese government's employment-adjustment subsidy system.

Overview of our major products in FY 2020 ①

Specialty steel

< Demand environment >

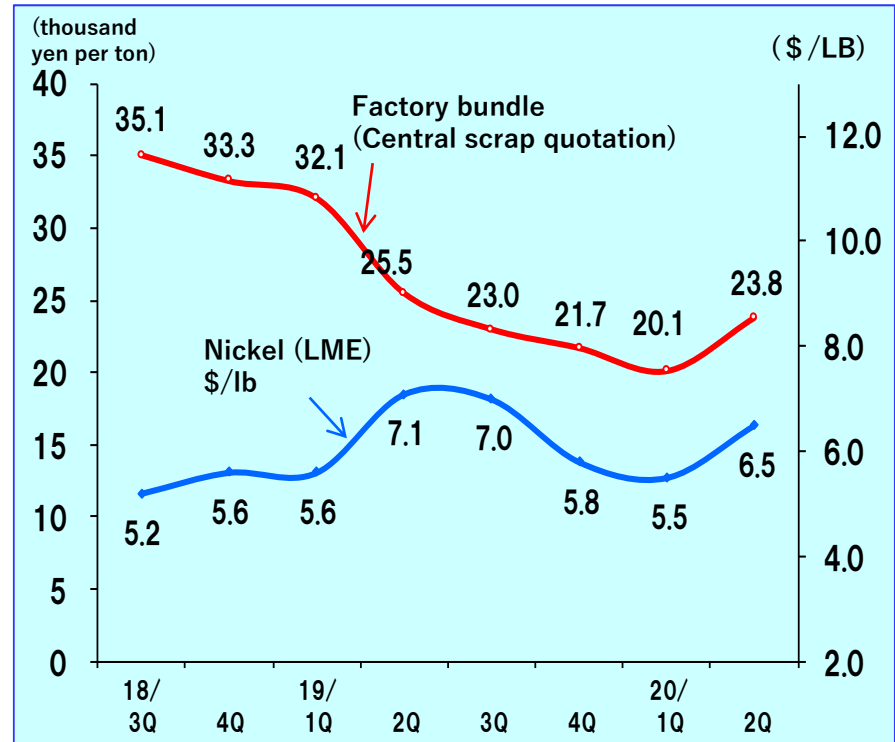
Sales volume of specialty steel (non-consolidated)



➢ Demand for specialty steel declined substantially in many sectors, including the automobile industry. Although there was moderate recovery after hitting bottom in the first quarter, the full-blown recovery of demand is likely to come in the second half.

< Market conditions of raw materials >

Changes in scrap iron and nickel prices

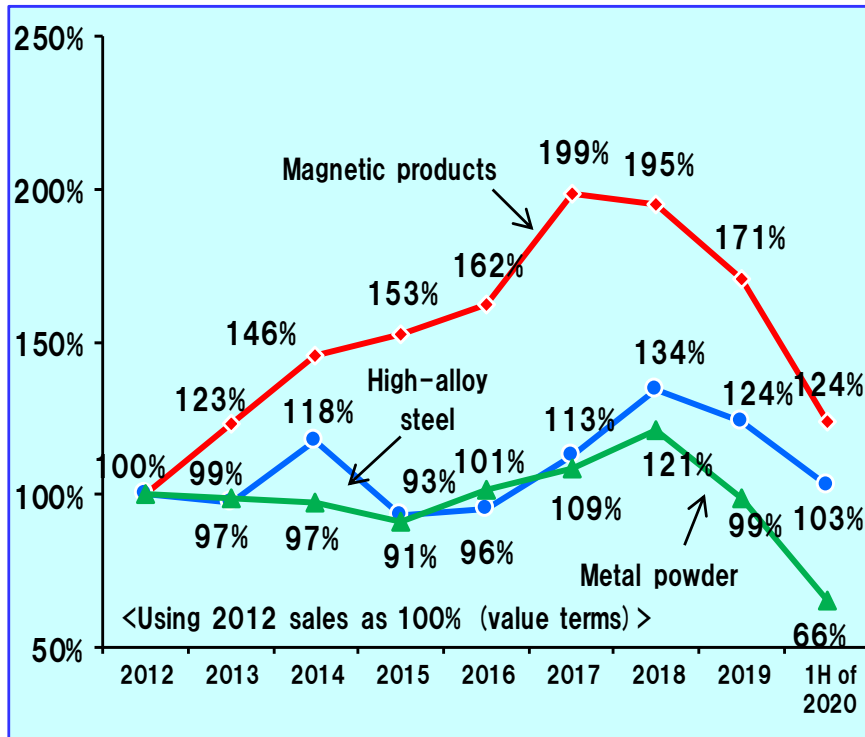


➢ Scrap iron: The price trend is rising because scrap iron generation in Japan decreased and demand is expanding in overseas markets.
 ➢ Nickel: The price is moving within a range of \$5 to \$7 per lb.

Overview of our major products in FY 2020 ②

High-performance and magnetic materials

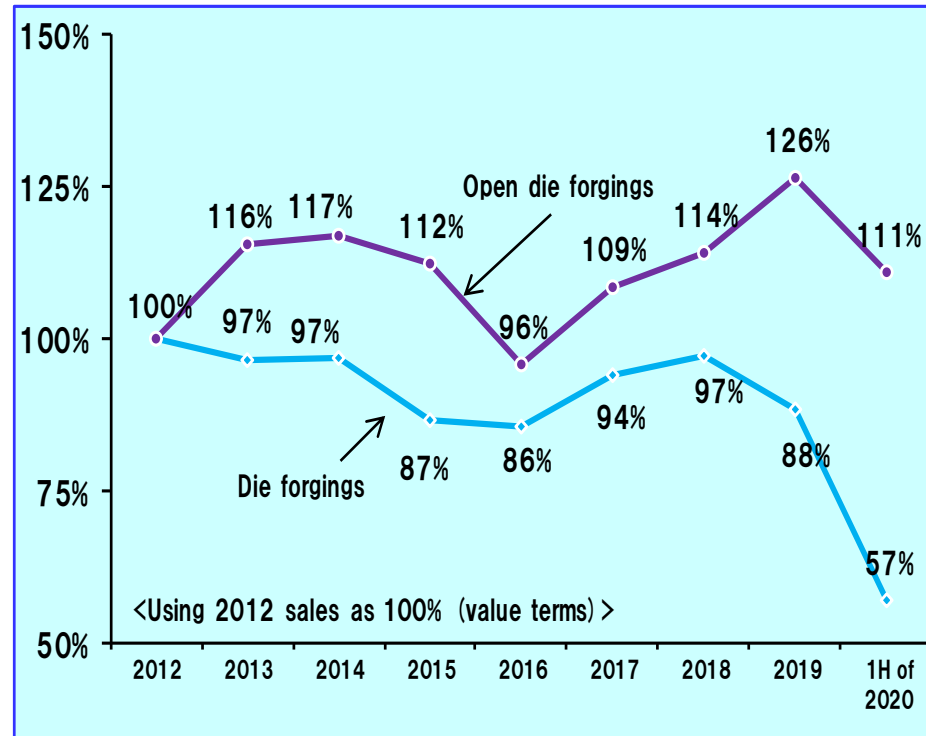
< High-alloy, magnetic products and metal powder >



- > Magnetic products: Automobile-related demand slowed down both in Japan and abroad.
- > Metal powder: Exports are still in a downturn.
- > High-alloy steel: Sales had been strong in 5G-related industries, but the effects were cancelled out by the reduction in automobile-related sales.

Parts for automobile and industrial equipment

< Die forging and open die forging >



- > Open die forging: Semiconductor-related sales recovered while aircraft-related demand declined.
- > Die forging: Automobile-related sales have been recovering on the whole, despite truck-related demand being weak.

4-9/2020 Net Sales & Operating Income by Segment

(¥100 mil.)

		4-9/2019 Results (A)	4-9/2020 Results (B)	y/y basis (B)-(A)
Specialty Steel	Net Sales	971	598	-373
	Operating Income	32	▲ 30	-62
High Performance Materials & Magnetic Materials	Net Sales	847	648	-199
	Operating Income	70	22	-48
Parts for Automobile & Industrial Equipment	Net Sales	499	361	-138
	Operating Income	6	▲ 41	-47
Engineering	Net Sales	124	103	-21
	Operating Income	15	5	-10
Trading & Service	Net Sales	84	85	1
	Operating Income	14	9	-5
Total	Net Sales	2,525	1,795	-730
	Operating Income	137	▲ 35	-172

Sales volume of specialty steel

625 thou.t

378 thou.t

-247 thou.t

4-9/2020 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	
4-9/2019 Operating Income			32	70	6	15	
Changes (y/y)	Operating Income / Loss	Raw material/Fuel price	+79	+19	+10		
		Sales volume	-61	-68	-51		
		Sales price	-66	-5	-2		
		Sales mix	-39	+8	-9	-10	
		Variable cost	-10	-6	-2		
		Fixed cost	+35	+4	+7		
		Total	-176	+114	-64	+17	-10
		4-9/2020 Operating Income			▲30 (-62)	22 (-48)	▲41 (-47)

The balance of sales by product improved due to the recovery of semiconductor-related demand.

■ 4-9/2020 Ordinary income ・ Net income

(¥100 mil.)

Operating income	▲35
Non-operating income / expense	14
Ordinary income	▲21
Extraordinary income / loss	0
Income taxes(*)	▲2
Net income that is profit attributable to owners of parent	▲23

(*) Income taxes, income taxes deferred (including deferred tax assets), and net income attributable to non-controlling interests

Plan for FY2020

(Apr.1/2020-Mar.31/2021)

■ Perception of the business climate

Perception of the business climate affecting the Company in the second half (2H) of FY 2020

Recovery of automobile production



Increase in demand for specialty steel

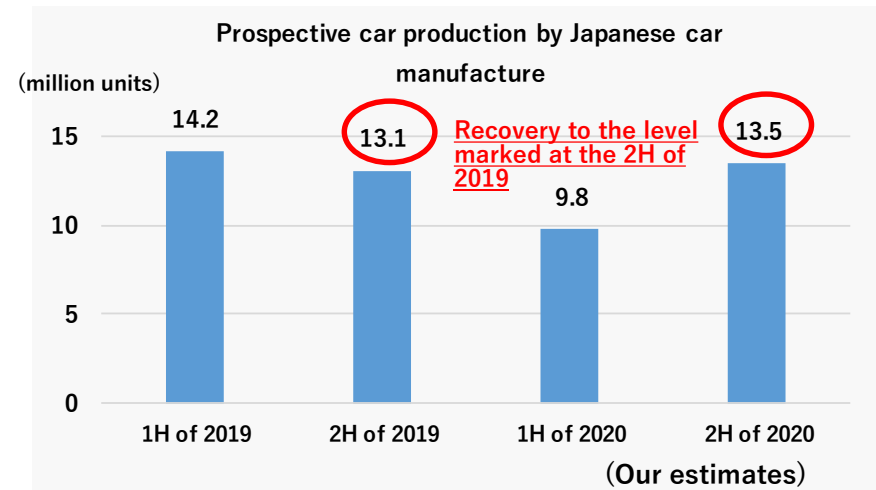
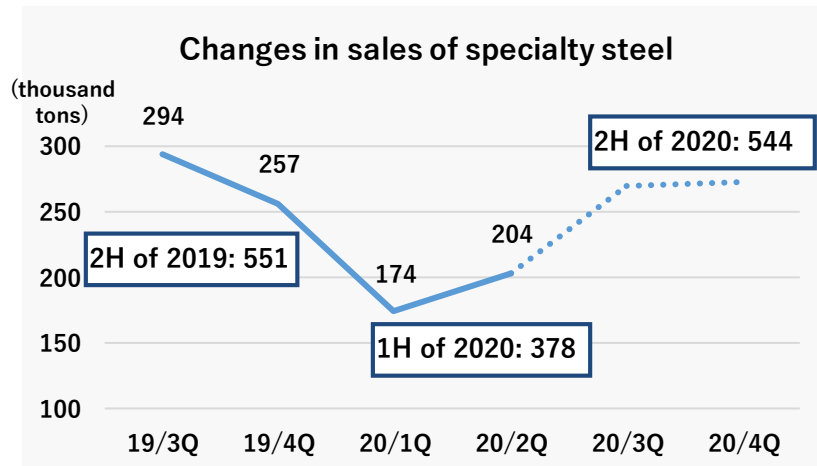
Semiconductor-related demand: Strong



Aircraft-related demand: Weak

Business risks

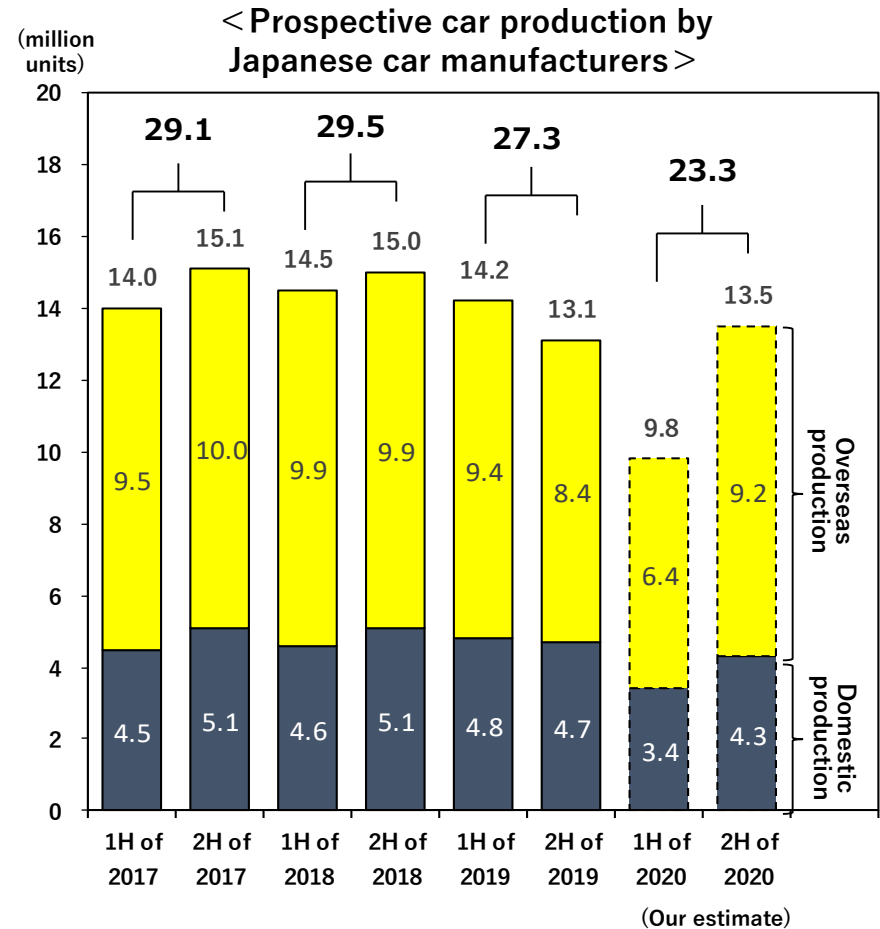
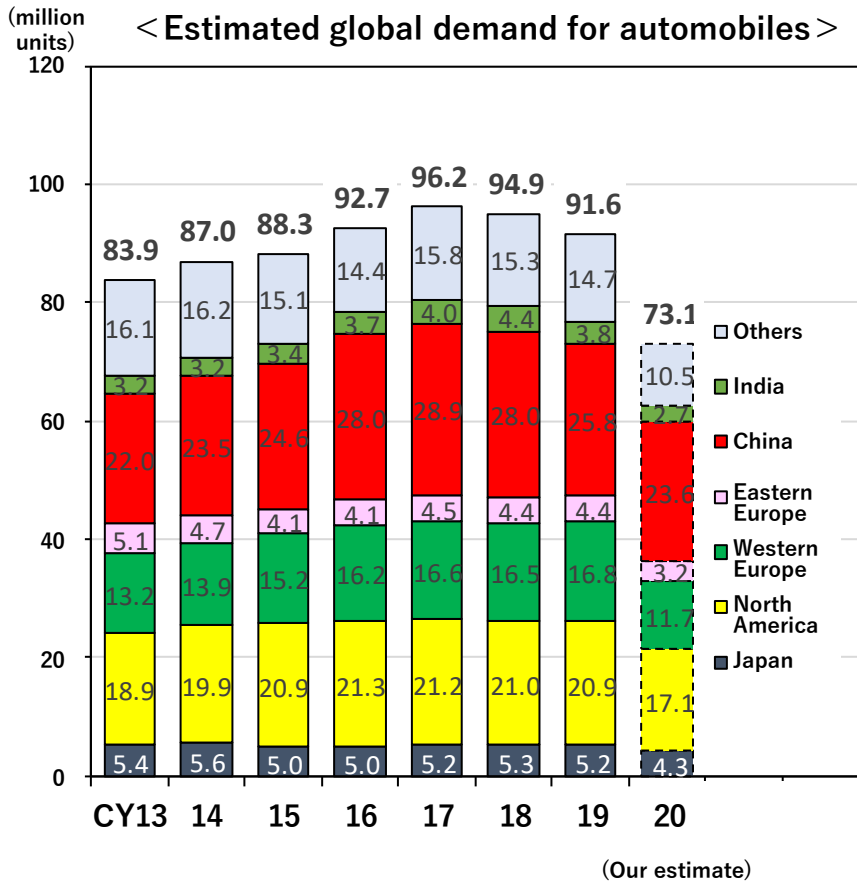
- Prolonged effects of the COVID-19 pandemic
- Intensified trade tension between the U.S. and China
- Increase in raw materials prices



《We will continue to take the following measures while making efforts to prevent the spread of COVID-19 infections.》

- Optimizing our production system and inventory.
- Striving to achieve a low-cost production scheme, including efforts to reduce fixed costs.
- Maintain and secure favorable metal spreads.

Outlook for the major markets <automobile-related demand>

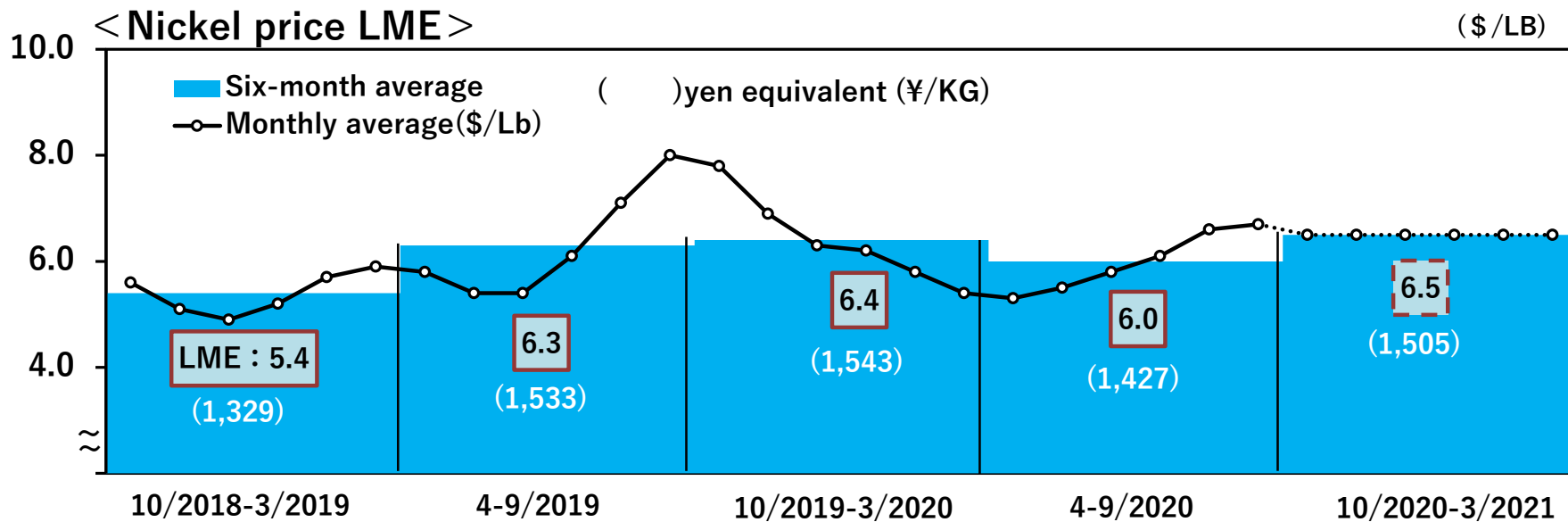
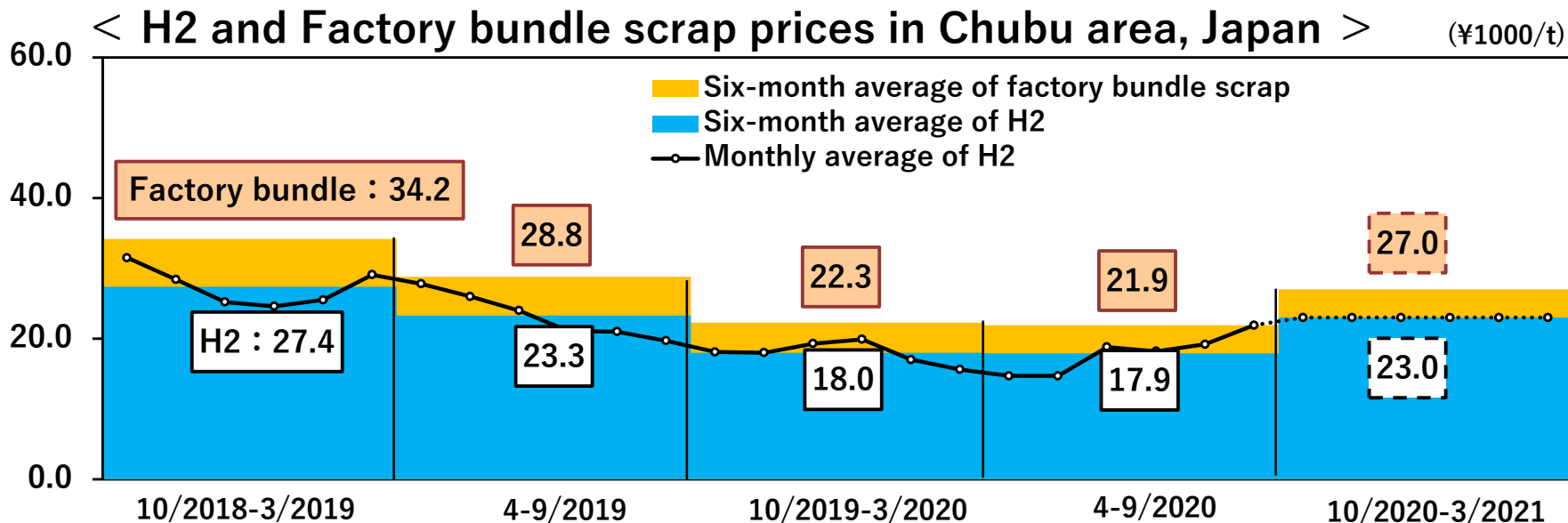


- Global demand: Weaker than the previous year in almost all countries and regions due to the effects of the COVID-19 pandemic.
- Production by Japanese car manufacturers: Production is expected to recover in the second half of the year, but the total number of cars to be produced will be smaller than that recorded in the previous year.

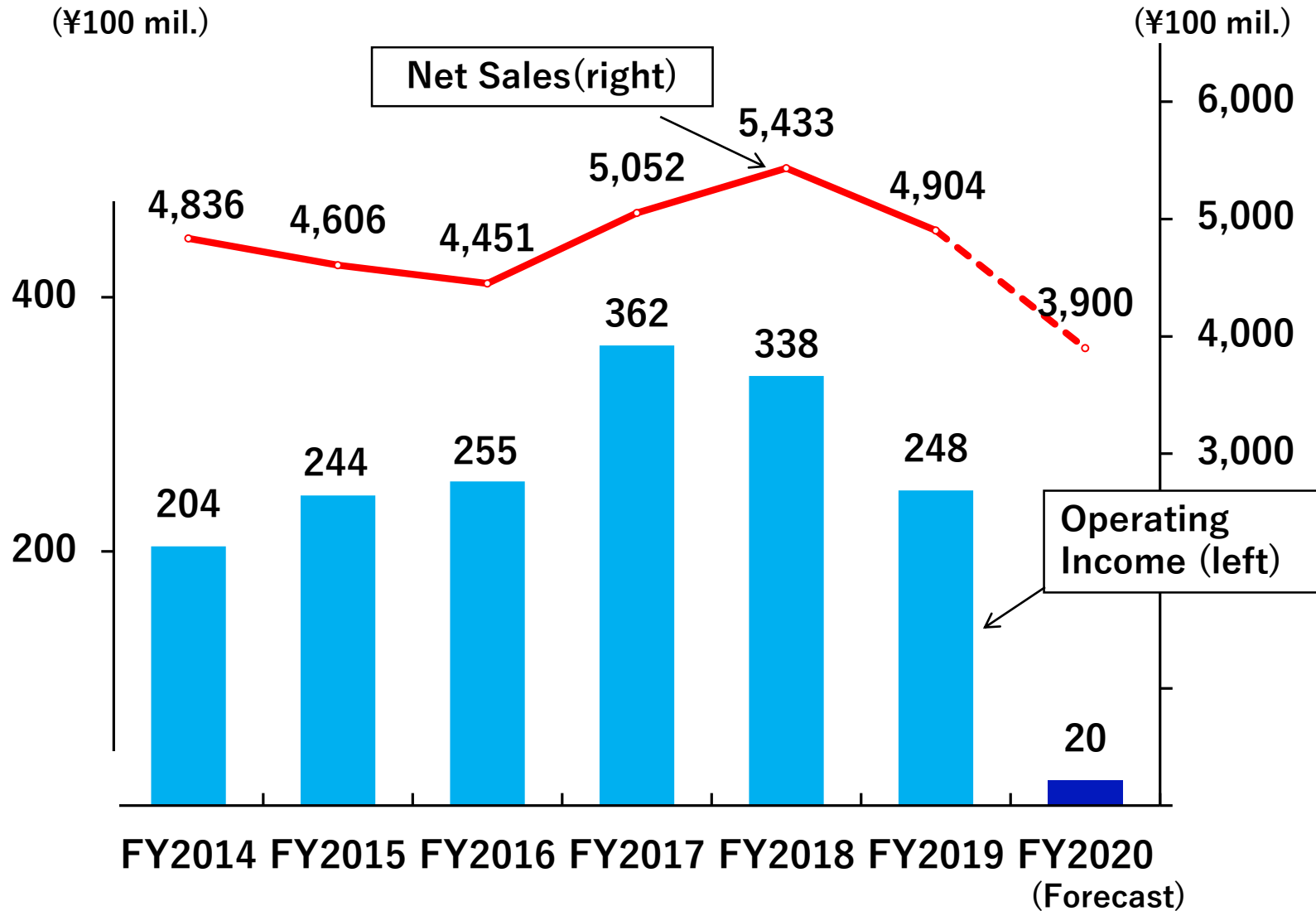
■ Premises of Profit Planning for FY2020 (Market Trend)

	UNIT	4-9/2020 Results (Difference with the original premise)		10/2020-3/2021 Premises of plan (Difference with the original premise)	
Scrap steel Upper : H2 Lower : Factory bundle	¥thou./t	1 7 . 9	(+0.1)	2 3 . 0	(+5.1)
		2 1 . 9	(+0.1)	2 7 . 0	(+5.1)
Nickel (LME)	\$/LB	6 . 0	(+0.2)	6 . 5	(+0.5)
Crude oil (Dubai)	\$/B	3 8 . 3	(+1.4)	4 0 . 0	(+1.7)
Exchange rate (TTM)	¥/\$	1 0 7 . 9	(-0.9)	1 0 5 . 0	(-2.9)

Market Trend of Raw Materials (Scrap Steel and Nickel)



Changes in Net Sales & Operating Income (Forecast for FY2020)



FY2020 Changes in Operating Income (y/y)

(¥100 mil.)

FY2019 Operating Income		248	
Changes (y/y)	Raw material/ Fuel price		+152
	Sales volume	-223	
	Sales price	-115	
	Sales mix	-98	
	Variable cost	-16	
	Fixed cost		+72
	Total	-452	+224
FY2020 Operating Income		20 (-228)	

Breakdown of changes

Raw materials and fuel market conditions

- The market conditions for alloys, steel materials and energies will improve.

Sales volume

- Sales volume of specialty steel will increase in the second half of the year up to the level recorded for the same period during the previous year. Sales volume of SUS will also recover fully, starting in this term's fourth quarter.

Sales price

- Selling prices will go down due to the effects of scrap and alloy surcharges.
- Operating income will decrease by 3 billion yen due to the effects of the sliding scale pricing system (0.9 billion yen in the first half and 2.1 billion yen in the second half).

Sales mix

- Sales of semiconductor-related products will recover while the sales volume of tool steel will drop.
- A review of the calculation of projected retirement benefits obligation will result in a decrease of 1.5 billion yen.

Fixed costs

- Cost-cutting efforts will be continued as is in the first half.

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

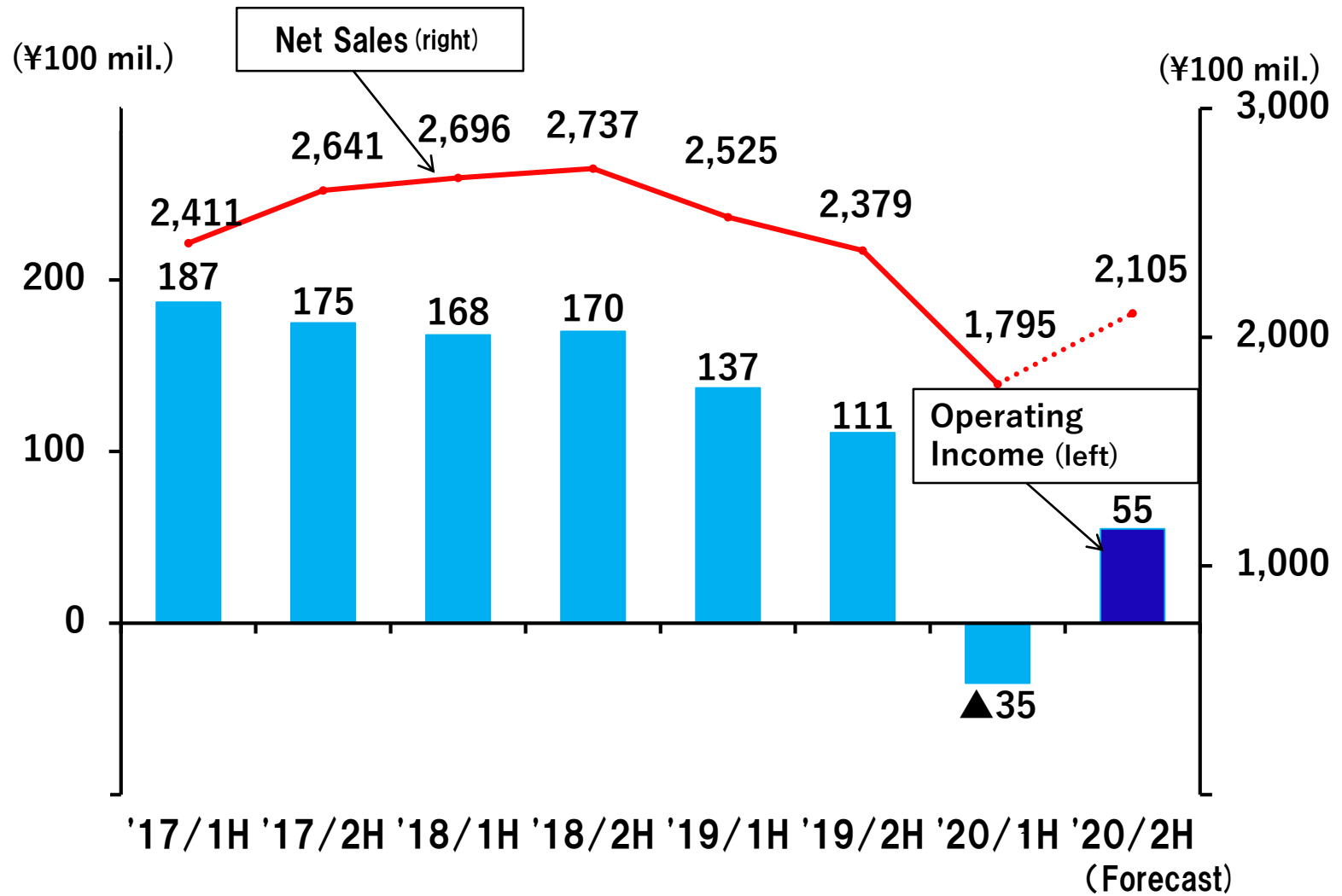
(¥100 mil.)

		FY2019 Results (A)	FY2020 Forecast (B)	y/y (B)-(A)
Specialty Steel	Net Sales	1,817	1,350	-467
	Operating Income	52	▲ 45	-97
High Performance Materials & Magnetic Materials	Net Sales	1,674	1,420	-254
	Operating Income	136	87	-49
Parts for Automobile & Industrial Equipment	Net Sales	973	790	-183
	Operating Income	4	▲ 41	-45
Engineering	Net Sales	266	200	-66
	Operating Income	30	5	-25
Trading & Service	Net Sales	174	140	-34
	Operating Income	26	14	-12
Total	Net Sales	4,904	3,900	-1,004
	Operating Income	248	20	-228

Sales volume of specialty steel

1,176 thou.t 922 thou.t -254 thou.t

Changes in Net Sales & Operating Income (Interim)



Sales and operating income by segment (difference between the first and second halves)

(¥100 mil.)

		4-9/2020 Results (A)	10/2020- 3/2021 Forecast (B)	FY2020 Forecast (A)+(B)	FY2020 Difference between the 1H and the 2H (B)-(A)
Specialty Steel	Net Sales	598	752	1,350	154
	Operating Income	▲ 30	▲ 15	▲ 45	15
High Performance Materials & Magnetic Materials	Net Sales	648	772	1,420	124
	Operating Income	22	65	87	43
Parts for Automobile & Industrial Equipment	Net Sales	361	429	790	68
	Operating Income	▲ 41	0	▲ 41	41
Engineering	Net Sales	103	97	200	-6
	Operating Income	5	0	5	-5
Trading & Service	Net Sales	85	55	140	-30
	Operating Income	9	5	14	-4
Total	Net Sales	1,795	2,105	3,900	310
	Operating Income	▲ 35	55	20	90

Sales volume of specialty steel

378 thou.t

544 thou.t

922 thou.t

166 thou.t

Specialty steel:

Although scrap iron prices increased, sales volumes recovered and energy costs dropped, thus resulting in an improvement in earnings. Loss in operating income in the second half will be zero if the loss (1.5 billion yen) made by the reviewed calculation of projected retirement benefits obligation is excluded.

High-performance materials:

Operating income will increase due to the recovery in sales volume including that for SUS, on the assumption that semiconductor-related demand will be at the same level as during the first half.

Automobile parts:

While demand for open die forgings is expected to be weak, sales volumes of other products will recover. Therefore, loss in operating income is estimated to be zero in the second half.

FY2020 Ordinary income · Net income

(億円)

Operating income	20
Non-operating income / expense	15
Ordinary income	35
Extraordinary income / loss	0
Income taxes(*)	▲ 30
Net income that is profit attributable to owners of parent	5

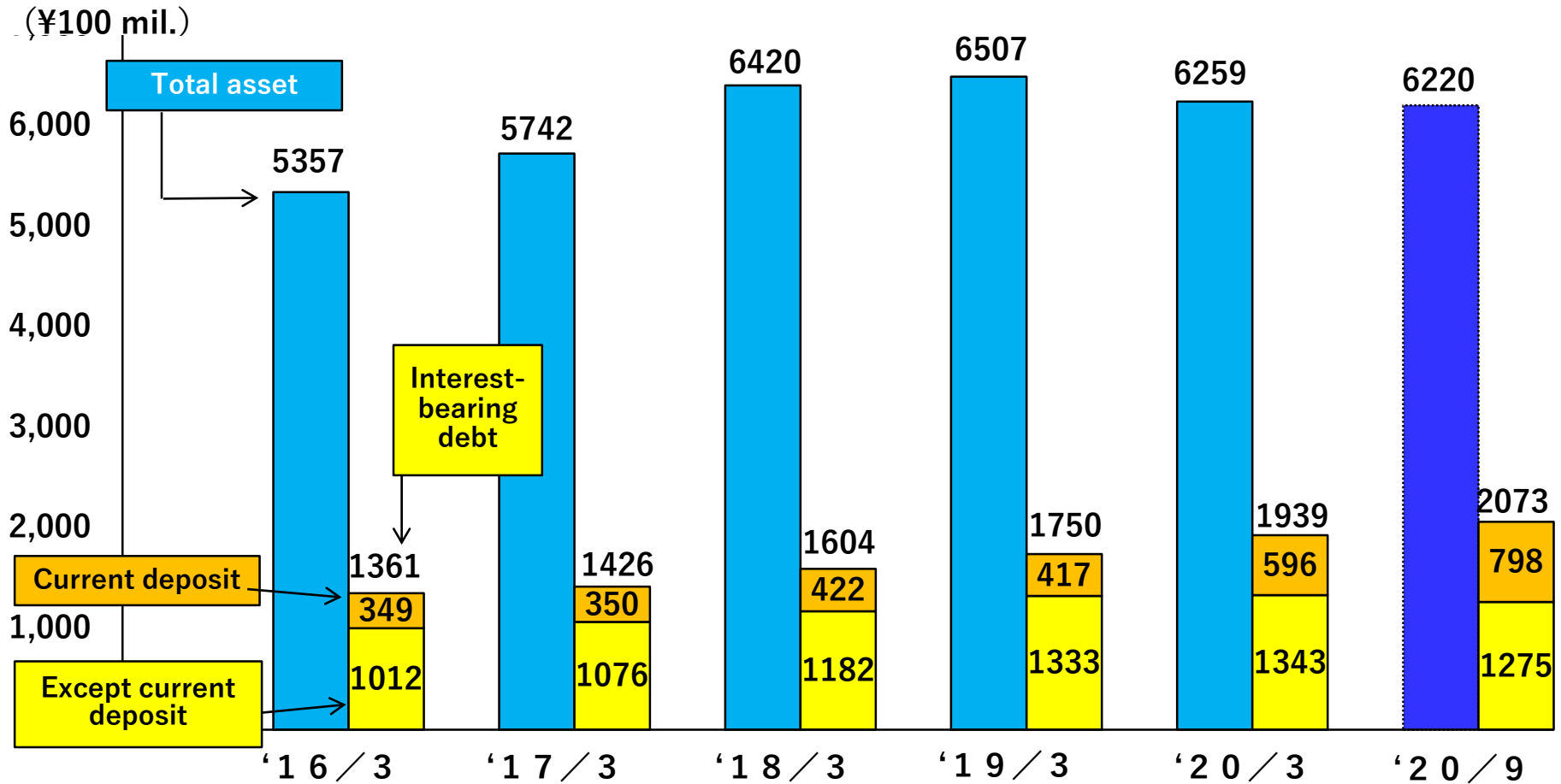
(*) Income taxes, income taxes deferred (including deferred tax assets), and net income attributable to non-controlling interests

FY2020 Dividend per share

	FY2019		FY2020(Forecast)	
	Interim	Year-end	Interim	Year-end
Ordinary income (¥100 mil.)	1 3 7	2 4 3	▲ 2 1	3 5
Net income ※ (¥100 mil.)	1 1 3	1 1 0	▲ 2 3	5
※ : The net income that is attributable to stockholders of the parent company.				
Dividend per share (¥/Share)	5 5.0	7 0.0 (End of Term 1 5.0)	1 0.0	2 0.0 (End of term 1 0.0)
Payout ratio (%)	2 0.8	2 7.2	—	1 7 0.5

- We will keep our policy to pay stable dividends. Assuming that our earnings will recover in the second half of this term, we will pay 10 yen per share as an interim dividend. We plan to pay 20 yen as the total amount of the dividend per share for the whole year.

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



	3/2016	3/2017	3/2018	3/2019	3/2020	9/2020
ROA	4.5%	4.8%	5.9%	5.3%	3.8%	(-0.7%)
D/E	0.58	0.55	0.56	0.61	0.71	0.75

Cash flow

- We registered a deficit in the first half of FY 2020, but free cash flow was a positive 7.8 billion yen, due to a reduction in the need for working funds.
- Demand is expected to recover in the second half of FY 2020. Therefore, free cash flow is expected to dip because the need for working funds will increase. We expect that the amount of free cash flow will be 2 billion yen at the end of the year if we continue to make efforts to reduce increases in assets (such as inventory).

		Results of Apr. -Sep. of FY 2020	Estimate during Oct. - Mar. of FY 2020	Estimate at the end of the year	
Operating CF	Ordinary income	-21	56	35	
	Depreciation expenses	128	132	260	
	Increase or decrease in working funds	Accounts receivable	246	-190	56
		Accounts payable	-191	150	-41
		Inventory	106	0	106
			161	-40	121
	Tax and other	-35	-50	-85	
		233	98	331	
Investment CF	Capital investment	-149	-150	-299	
	Other	-6	-6	-12	
		-155	-156	-311	
Free cash flow		78	-58	20	

(Reference) Balance sheet at the end of September, 2020

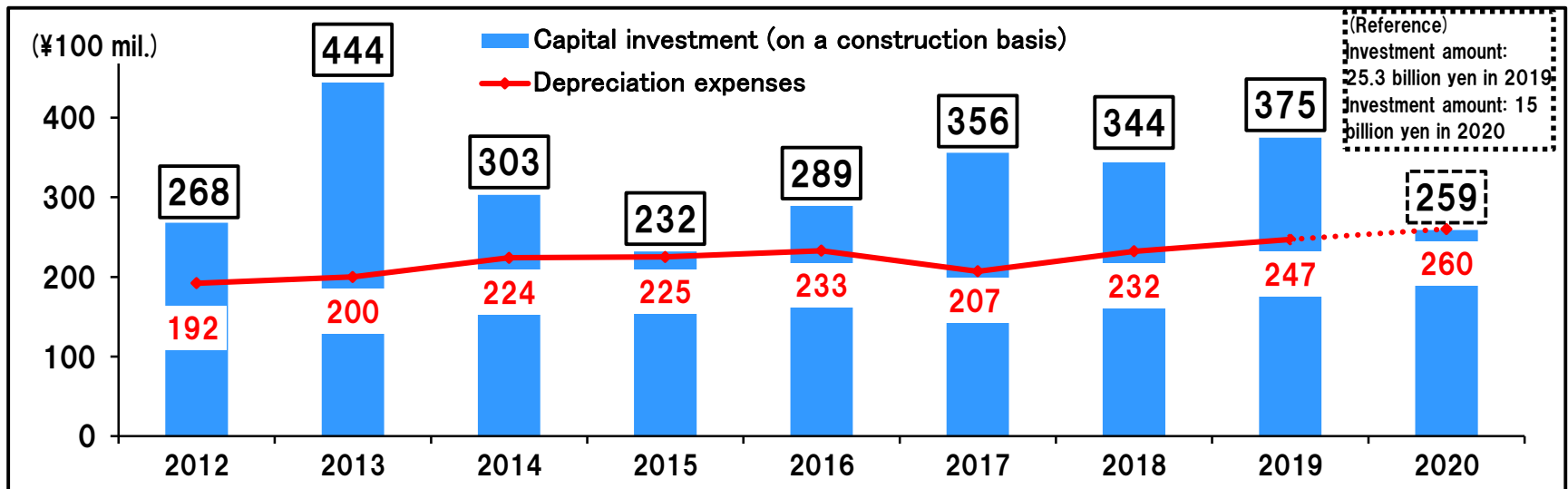
(¥100 mil.)

Item	20/3	20/9	Increase/ decrease	Item	20/3	20/9	Increase/ decrease
Current assets	3106	2967	-139	Debt	3168	3099	-69
Cash instruments	596	798	202	Operating payable	668	477	-191
Operating receivables	1183	937	-246	Interest- charging debt	1939	2073	134
Inventory	1272	1166	-106	Other	561	549	-12
Other	55	66	11				
Fixed assets	3153	3253	100	Net assets	3091	3121	30
Tangible fixed assets	2375	2380	5	Share capital	2761	2730	-31
Intangible fixed assets	16	22	6	Other accumulated comprehensive income	-25	39	64
Investments and other assets	762	851	89	Non-controlling interest	355	352	-3
Total of assets	6259	6220	-39	Total of assets	6259	6220	-39

Capital investment

- By selecting carefully the items we invest in, in fiscal 2020, we can lower the amount of investment far below the total amount of our depreciation expenses.
(The planned amount invested is 15 billion yen. No change from the amount set at the beginning of the term).
- We will strive to reap the benefits of the strategic investments we've made so far.

Changes in capital investment and depreciation expenses



Our approach to ESG



- We are publishing a **SUSTAINABILITY REPORT** instead of a **CSR REPORT**, starting in November 2020.
- With increased contents, the new magazine reports on our approach to ESG from a more long-term point of view.

<Major contents>

- Overview of the Daido Steel Group
- Our manufacturing capability that has supported our growth over 104-years.
- Our approach to SDGs and the identification of material issues
- Financial and non-financial highlights and more

Our CO₂ reduction project (Start on November 1, 2020)

- We are starting this as a company-wide long-term project with a view to reducing CO₂ emissions substantially by 2050, in accordance with an action plan to be established separately.
- Issues to be tackled to achieve substantial reductions in CO₂ emissions
 - ① Continuous development of energy-saving technology
 - ② Active use of renewable energy
 - ③ Effective use of CO₂-free hydrogen

Fact Book

Fact Book Financial highlight

Consolidation

(¥1 mil.)

	'16/3	'17/3	18/3	19/3	20/3	'15/9	'16/9	'17/9	'18/9	'19/9	'20/9
Net sales	460,577	445,122	505,219	543,255	490,421	233,832	213,010	241,119	269,643	252,476	179,490
Operating income	24,432	25,513	36,218	33,815	24,768	10,757	9,643	18,726	16,752	13,711	▲3,531
Ordinary income	25,108	26,373	36,130	34,343	24,298	11,431	9,023	18,320	17,569	13,711	▲2,112
Net income	6,746	16,386	23,920	21,182	10,987	2,037	5,363	11,890	10,759	11,257	▲2,318
R & D expenses	5,766	6,206	5,419	5,638	6,002	2,716	3,158	2,770	2,788	2,896	2,185
Capital investment(Plan)	28,300	32,800	38,600	37,200	25,300	16,100	15,800	20,300	18,800	15,100	7,500
Capital investment(Construction)	23,205	28,940	35,605	34,413	37,529	9,241	15,791	14,899	15,027	22,092	13,955
Depreciation	22,454	23,275	20,740	23,171	24,662	11,039	11,087	10,023	11,453	12,022	12,794
Financial account balance	949	904	995	1,606	1,297	541	432	429	584	656	459
Total assets	535,675	574,169	642,021	650,697	625,899	567,439	523,304	614,828	661,998	651,112	621,997
Equity	232,832	259,851	284,435	285,508	273,561	250,255	231,600	274,221	291,948	293,276	276,815
Interest-bearing debt	136,114	142,599	160,352	174,998	193,881	146,461	133,172	157,201	174,928	185,536	207,302
Pay roll number	11,036	11,498	11,873	12,421	13,436	11,126	11,574	11,843	12,559	13,775	13,474
ROA(%)	4.5	4.8	5.9	5.3	3.8	4.0	3.4	6.2	5.4	4.2	▲0.7
ROE(%)	2.8	6.7	8.8	7.4	3.9	1.6	4.6	8.9	7.5	7.8	▲1.7
Consolidated subsidiary number	36	34	36	38	65	35	35	36	38	65	68
(Equity method affiliate number is excluded from the above)	(6)	(6)	(6)	(6)	(9)	(6)	(6)	(6)	(6)	(9)	(9)
Ratio of the consolidated to the non-consolidated											
Net sales	1.6	1.7	1.6	1.6	1.6						
Ordinary income	1.6	1.5	1.7	1.4	1.2						
Net income	1.2	1.1	1.6	1.3	1.0						

*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.)

		'16/3	'17/3	'18/3	'19/3	'20/3
Speciality Steel	Net Sales	1,705	1,631	1,868	2,078	1,817
	Operating Income	75	58	65	60	52
High Performance Materials & Magnetic Materials	Net Sales	1,553	1,485	1,708	1,846	1,674
	Operating Income	123	174	222	207	136
Parts for Automobile & Industrial Equipment	Net Sales	997	975	1,063	1,099	973
	Operating Income	13	▲ 5	30	23	4
Engineering	Net Sales	261	239	249	275	266
	Operating Income	21	12	18	23	30
Trading and Service	Net Sales	90	121	164	135	174
	Operating Income	12	16	27	25	26
Total	Net Sales	4,606	4,451	5,052	5,433	4,904
	Operating Income	244	255	362	338	248

(¥100 mil.)

		'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	'19/10-3	'20/4-9
Speciality Steel	Net Sales	859	846	780	851	903	965	1,020	1,058	971	846	598
	Operating Income	21	54	26	32	48	17	21	39	32	20	▲ 30
High Performance Materials & Magnetic Materials	Net Sales	807	746	711	774	811	897	927	919	847	827	648
	Operating Income	63	60	75	99	108	114	114	93	70	66	22
Parts for Automobile & Industrial Equipment	Net Sales	494	503	467	508	517	546	554	545	499	474	361
	Operating Income	8	5	▲ 16	11	11	19	11	12	6	▲ 2	▲ 41
Engineering	Net Sales	132	129	115	124	105	144	126	149	124	142	103
	Operating Income	10	11	3	9	7	11	8	15	15	15	5
Trading and Service	Net Sales	46	44	57	64	75	89	69	66	84	90	85
	Operating Income	6	6	8	8	13	14	14	11	14	12	9
Total	Net Sales	2,338	2,268	2,130	2,321	2,411	2,641	2,696	2,737	2,525	2,379	1,795
	Operating Income	108	136	96	159	187	175	168	170	137	111	▲ 35

(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.