DAIDO STEEL CO., LTD.

Daido Steel Co., Ltd.

FY2026 Interim Financial Results Briefing

Q&A Session (Summary)

Date : October 29, 2026 (Thursday)

Respondents: Tetsuya Shimizu, President & CEO, Representative Executive Director
Tatsushi Iwata, Director, Managing Executive Officer
Kenichiro Saito, Executive Officer and General Manager, Corporate Planning Dept.

Q. Could you explain the changes in profits from the first half to the second half by segment?

A. [Specialty Steel Segment]

There are two main factors contributing to the decline in profits. The first is the impact of lower sales volumes, driven by weak demand from the automotive sector. Consequently, we have revised downward our production forecast for Japanese automakers from 25.0 million units (the estimate from May) to 23.8 million units. This revision reflects our expectation that the decline in market share for Japanese automakers in the ASEAN region will not stop in the short term. Meanwhile, although demand from the industrial equipment sector remains robust, we judged it too optimistic to assume growth in the second half compared to the first half. Therefore, we have projected flat performance for the second half relative to the first half. The second factor is the impact of rising fixed costs. The rebound from the reduction in fixed costs caused by inventory buildup in the first half will carry over into the second half. While adjusted operating profit for the full fiscal year is 8.5 billion yen, we assess that the company is expected to secure a certain level of profit despite the impact of the surcharge gap.

[High-Performance Materials and Magnetic Materials Segment]

The primary driver of the profit increase is the impact of higher sales volumes of stainless steel for semiconductor production equipment. However, as the overall level of fixed costs has been rising, the increase in profit is expected to be modest.

[Parts for Automobiles and Industrial Equipment Segment]

The forecast for the second half of the fiscal year anticipates profit levels on par with the first half, driven by steady performance in Fuji OOZX's engine valves as well as consistent orders for open-die forgings. Adjusted operating profit for the full fiscal year is 11.3 billion yen, and we assess that this represents a high level of profitability.

[Engineering]

There has been no change from the full-year forecast of 1.0 billion yen as of May 15, and no significant changes are expected between the first and second halves of the fiscal year.

[Trading and Service]

The outlook for FY2026 is 4.0 billion yen, and there are no significant changes expected between the first and second halves of the fiscal year.

Q. Please explain the duration of the timing discrepancy in the surcharge gaps.

A. The timing discrepancy generally results in a lag of 3 to 6 months for ferrous scrap and 4 to 7 months for energy before price adjustments are reflected. Regarding the impact of this surcharge gap in FY2026, the fiscal year total is projected at a negative 4.0 billion yen. This comprises minus 2.2 billion yen for ferrous scrap and other materials, and minus 1.8 billion yen for energy (gas and electricity). By half, the first-half impact was minus 2.2 billion yen (minus 1.7 billion yen for ferrous scrap/others and minus 500 million yen for energy), while the second half is expected to be minus 1.8 billion yen (minus 500 million yen for ferrous scrap/others and minus 1.3 billion yen for energy). The impact of the surcharge gap on ferrous scrap is expected to narrow in the second half, assuming ferrous scrap prices remain high and stable. However, we anticipate that the impact on energy will expand in the second half due to rising crude oil prices. It should be noted that transaction terms under the surcharge system vary by customer. For items not subject to surcharges, we are working to secure solid margins by raising base prices in response to soaring market conditions.

Q. Could you tell us the profit level once the surcharge gap is resolved?

A. On page 25 of the FY2026 financial results briefing, we present our profit level based on underlying performance. Excluding temporary factors such as the surcharge gap, we estimate that adjusted operating profit for FY2026 will be 50.1 billion yen.

Q. Sales volume of stainless steel for semiconductor production equipment has increased significantly in FY2026. Could you tell us how you view this? Also, please let us know if there are any issues with production capacity.

A. We do not view the entire increase in sales volume as stemming from growth in actual demand. Instead, we believe part of this increase is due to inventory buildup within the supply chain. Regarding our outlook for the next fiscal year and beyond, we will continue to monitor sales forecasts for semiconductor production equipment and gather information from customers. At the same time, we believe it is necessary to remain mindful of a potential phase of inventory adjustments. As for production capacity, we have expanded our equipment to the extent necessary to meet current demand. However, our manufacturing facilities for semiconductor-grade stainless steel are shared with aerospace-related products. Demand from the aerospace sector is highly robust, and consequently, order volumes for these products remain strong. Therefore, we believe it is essential to thoroughly analyze the order mix and underlying trends to respond effectively. Looking ahead to the next fiscal year, if demand increases for products that are difficult to accommodate with our existing facilities, we may need to consider some lead-time adjustments. However, if this increase in orders proves to be permanent, we will look into expanding our production capacity accordingly.

Q. The High-Performance Materials and Magnetic Materials segment's profit levels for the second half appear low, given the current order environment. Could you please explain the factors behind the changes in profit from the first half to the second half in this segment?

A. While second-half profits for this segment may appear conservative, this reflects the fact that we have factored in an increase in fixed costs. In addition to a general rise in fixed costs, another key factor is a higher allocation of shared corporate fixed costs to this segment, driven by a decline in sales volume within the Specialty Steel segment.

Q. Regarding the Parts for Automobiles and Industrial Equipment segment, you mentioned that orders for open-die forged products are expected to remain at a high level. Would you explain why profits are not expected to increase in the second half compared to the first half?

A. Orders for open-die forgings are trending upward gradually, and we expect second-half revenue to increase compared to the first half. However, due to higher fixed costs, second-half profits are expected to remain on par with the first half. While depreciation expenses are rising as our strategic investments progress, our production volume has not yet increased enough to offset this impact. Consequently, it will take a little more time to achieve a substantial increase in profits for this segment. We believe that once the large radial forging machine, scheduled for completion at the end of FY2027, begins operation, profit levels will see a significant increase.

Q. I would like to ask about the orders for structural steel for industrial equipment on page 33 of the financial results briefing. Could you explain the rationale behind assuming that orders will remain flat, even though the price-adjusted index for total machine tool orders is rising?

A. The majority of our orders are not tied directly to specific end-manufacturers but are placed through wholesalers. Therefore, we base our order forecasts on information gathered from these distributors and their customers. We believe that the price-adjusted total value of machine tool orders for July–September CY2026, when indexed at 100%, feels somewhat overextended at this stage. Therefore, we judged that forecasting a flat trend is appropriate for the time being, though we do expect a slight upside potential.

Q. The adjusted operating profit forecast for the Trading and Service segment for FY2026 shows an increase compared to past levels. Could you explain the details?

A. We made Tohoku Steel a consolidated subsidiary; the company provides leasing services for commercial facilities, and the rental income from these properties is the main factor behind the increase in profit.

Q. The High-Performance Materials and Magnetic Materials segment recorded an operating profit of 12.1 billion yen and an adjusted operating profit of 9.9 billion yen for the first half of FY2026. Could you please explain the difference between the two?

A. One of the adjustment items is an extraordinary gain of 2.1 billion yen, comprising a 700 million yen liquidation gain recorded in the first quarter for a subsidiary in the magnet business and a “gain on step-acquisition” of 1.4 billion yen resulting from the new consolidation of Tohoku Steel, which was recorded in the second quarter.

Q. The full-year dividend was increased by 4 yen per share from the May 15 forecast to 56 yen per share. Could you please explain the rationale behind this dividend hike?

A. We increased the interim dividend after considering the dividend yield in an environment of rising stock prices and interest rates, as well as the fact that maintaining the interim dividend at the May 15 forecast of 24 yen per share would result in a dividend payout ratio below 30%.

Q. I would like to ask about CLEANSTAR A, B, and C, your stainless steel products for semiconductor production equipment. Could you please share the current product mix and your future expectations for these products?

A. The current product mix ratio for CLEANSTAR A, B, and C is 1:7:2. We are seeing a downward trend in Grade C (the lowest grade) and an upward trend in Grade B (a higher-grade material). As demand grows for advanced materials with higher functionality and performance, we expect the ratios of Grades A and B to rise further. Additionally, we have announced the development of an even higher-grade material, "DSA D22," and expect its adoption to increase going forward. Because this will require technical evaluation and development on the customer's side, securing orders within this fiscal year may be difficult, but we are highly optimistic about its potential from the next fiscal year onward.

Q. Could you share your thoughts on initiatives to improve profitability in an environment of rising interest rates and on accelerating the return on investments?

A. We recognize that accelerating returns on strategic investments is a critical priority. Although the long-term contract nature of our aerospace steel products business makes rapid returns challenging, we are actively driving margin improvements in our semiconductor production equipment segment to deliver benefits ahead of schedule.

The figures in our plans contained in this document are based on certain assumptions that cannot be fully evaluated at the present time.
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