

Daido Steel Co., Ltd.

A Business Briefing on Our Products for Semiconductor Production Equipment

Q&A Session (Summary)

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Q. What does Daido Steel focus on when producing CLEANSTAR, the high corrosion resistance and cleanliness stainless steel for use in semiconductor production equipment?

A. One of the primary features of CLEANSTAR is strict control over its chemical composition, including the ability to maintain extremely low manganese and sulfur contents. Among our strengths are the possession of advanced steel making equipment, such as VIM (vacuum induction melting) and VAR (vacuum arc remelting) furnaces, which make this possible, and the equipment operation technology for these that we have developed.

Q. Do you think the planned expansion of VAR equipment at the Chita Second Plant will be sufficient to provide the production capacity necessary to meet CLEANSTAR's sales peak, which is expected to arrive in 2027?

A. We think so. However, we will also continue to monitor future demand trends for the product and consider the need for additional investment as circumstances warrant.

Q. You have stated that Daido Steel's global market share of high-performance stainless-steel bars and wire rods for semiconductor production equipment will increase from 40% to 50% in FY2026, an increase of 10 points. Could you tell us what measures you will take to achieve this?

A. We are currently doing business related to parts for semiconductor production equipment mainly with Japanese and North American manufacturers. So far, however, overseas sales have not been that big. We want to increase the number of customers for our semiconductor production equipment parts in North America, and we sincerely believe we can achieve this goal.

Q. Could you explain the difference between the terms "open-die forgings" and "stainless steel products", especially as related to the sale of products for semiconductor production equipment? Also, open-die forged product sales were high in FY2022. Could you tell us if there were any special factors involved in this increase in sales?

A. "Open-die forgings" refers primarily to open-die forged products made of stainless steel, and "stainless steel products" refers to various stainless-steel materials such as bars, wire rods and strip steel. The majority of products

for semiconductor production equipment are made of stainless steel. The increase in sales of open-die forgings in FY2022 was due to spot orders.

Q. I imagine providing yourselves with a whole lot of special melting equipment is quite difficult. However, once this type of equipment is actually in your possession, I would think it is relatively easy to sustain production using it. Or, am I wrong? Is there a need for continuous improvement in operating techniques? Is success not simply guaranteed by the fact that you have the equipment in hand?

A. Using special melting technology requires a great deal of technological know-how, including understanding how to control the chemical composition of the steel to be produced. We believe that simply having the equipment is not sufficient to overcome the difficulties encountered when attempting to produce high quality steel. The barriers to entry into this field are indeed quite high.

Q. Could you tell us how Daido Steel stands and is evaluated, as compared to its competitors in the stainless-steel industry?

A. We are extremely proud to be the number one manufacturer of high-performance stainless steel in Japan. Looking at the global picture, we see that our competitors in Europe and the US tend to be strong in the government sector, i.e. in military and aerospace applications, while we are strong in the private sector. We believe that this difference in positioning is one reason that we receive so many inquiries about our stainless steel for semiconductor production equipment.

Q. Considering that most of your open-die forged products are made of stainless steel, it seems that Daido Steel as a whole relies heavily on its stainless-steel business. How do you plan to deal with this over the long term?

A. We have a wide range of stainless-steel products, and the ones we have just explained for use in semiconductor production equipment are only a part of what we have to offer. We are also focusing on open-die forged products that contain high-performance superalloy steel (that is, having a higher proportion of alloy). Basically, our core business of specialty steel materials is a stable foundation for Daido Steel's profits. With this in mind, we are now aggressively investing in promising new areas into which to expand our business.

Q. Is my understanding correct that CLEANSTAR-A can only be produced at the Shibukawa Plant, because the primary melting is done in the VIM (Vacuum Induction Melting) furnace there? As a follow-up to that question, do you have any plans to install a VIM at the Chita Second Plant?

A. As you have pointed out, yes, at present we only have VIM furnaces installed at the Shibukawa Plant, so primary melting is carried out there. If demand for CLEANSTAR-A increases and capacity at the Shibukawa Plant becomes insufficient, we will consider investing in the installation of a VIM furnace at the Chita Second Plant, as necessary.

Q. From the medium-to-long term perspective, do you have any plans to further increase the shift from the current basic products made in electric furnaces at the Chita Plant, such as structural steel, to products that involve special melting methods, such as VAR (Vacuum Arc Remelting) furnaces at the Chita Second Plant?

A. In the future, we would like to continue to expand our product line, not only with regard to CLEANSTAR, which we have just explained, but also with regard to products that require the VAR process and also those that can provide a solution by being remelted in a VAR furnace.

- Q. How do you balance the payback period after installing new equipment such as VAR furnaces with the increase in fixed costs?
- A. We are a company in a so-called “equipment-intensive industry” and so we recognize that the payback of capital investment will take a certain amount of time. Therefore, to address this situation, we use multiple indicators to make investment decisions and determine investment efficiency, such as setting ROIC standards and evaluating cumulative profitability with IRR.
- Q. You said that Daido Steel is working to develop new customers for your products for semiconductor production equipment parts in North America. Are there any differences between new overseas customers and existing Japanese customers in the mechanisms for passing on raw material cost increases to the customer, such as alloy surcharges?
- A. The specific arrangements vary from customer to customer, but in general, as in Japan, we pass on cost increases in the selling price of products by adjusting the price in line with changes in the raw material market.
- Q. I understand that Daido Steel is making capital investments so that the company will not lose out on business opportunities when the semiconductor cycle is at its peak. However, how do you plan to use the equipment you’ve installed as capital investments when demand decreases?
- A. The equipment, such as the VAR furnace we mentioned above, is not dedicated to products for semiconductor production equipment, but can be redirected to products and materials for use in other fields. We will use it to make products for any fields where appropriate demand exists.
- Q. Do you expect there to be a demand for replacement parts to service semiconductor production equipment?
- A. We do not foresee a lot of demand for our products from that segment.

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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