

Mid-Term Plan

Raise Up “Daido Spirit”

Ambitious, Innovative, Challenging

Review of the First Three Years and Plan for the Latter Three Years

May 14, 2021

DAIDO METAL CO., LTD.

1. Objectives of the Mid-Term Plan

2. Review of the First Half Results

- Results and summary of the first three years
- Four cornerstones (Achievements for the first three years)

3. Environmental Awareness and Response Policies

- Changes in the business environment and response policies
- Trends of automotive sales and the composition of power sources

4. Plan for the Latter Half of Three-Year Period

- Four cornerstones: Priority items to be implemented
- Four cornerstones (Targets for the latter half)
- Quantitative targets for the latter half
- Financial strategies for the latter half

5. Enhance of Corporate Value with a keen awareness of ESG (Environment, Social, Governance)

Corporate Philosophy

1. **Our Duty:** We hold ourselves responsible for the happiness of everyone in our organization and the contributions we make to global society.
2. **Our Resolve:** We will create a vigorous and open-minded corporate culture through diligent self-discipline and ethical behavior.
3. **Our Foundation:** We will learn from our markets, respond to our customers' requirements, and surpass our customers' expectations.
4. **Our Approach:** We will devote ourselves to creation, innovation, and the realization of dreams.
5. **Our Objective:** We will strive to be the world leader in tribology through constant technical improvement, development, and innovation.

- Following the first three years of the Mid-Term Plan, we will continue to implement measures in line with this Corporate Philosophy in the latter three years of the Plan, aiming to become a company with a global presence and to enhance our corporate value.
- Under our Philosophy #5, we will continue to refine our technologies for the coming era as a world technology leader, based on the core tribology solutions we have cultivated over the years.
- Under our Philosophy #1, we value our employees more than ever, who are the source of power for our development, and make various contributions to the global society.



While fully aware of the changes in business environment, such as the shift to EV, a six-year Mid-Term Plan from FY2018 to FY2023 is being promoted under the banner of Four Cornerstones:

- [1] Strengthen current business lines further (Action line 1)
- [2] Creating/fostering new business lines (Action line 2)
- [3] Enhance management/operational control platform (Action line 3)
- [4] Energetic organization with animated communication and motivation (Action line 4)

2-1 Results and summary of the first three years

Consolidated basis		FY2018 (Actual)	FY2019 (Actual)	FY2020 (Actual)
Sales	(JPY billion)	107.7	100.1	84.7
Operating profit	(JPY billion)	7.2	4.2	1.3
Operating margin	(%)	6.7	4.2	1.6
ROE	(%)	7.9	4.9	0.2

Global market share of plain bearings

Top market share in three fields

Our estimates based on calendar year production volume (%)

Application	2018		2019		2020	
Automotive engine	33.1	→	33.0	↗	33.5	TOP
Turbocharger (Small turbo)	24.0	↘	20.5	↘	19.6	TOP
Low speed marine diesel engine	54.0	↗	55.0	↗	58.0	TOP
Mid to high-speed marine and industrial diesel engine	15.0	→	15.0	→	15.0	
Polymer bearing	12.9	→	12.8	→	12.9	
Industrial High-speed rotating machinery	3.7	↗	4.6	↗	4.9	

- In the first three years of the Mid-Term Plan, we strived to achieve sales of 120 billion yen and operating profit of 10 billion yen, however, the targets were not achieved due to the global economic slowdown stemming from the U.S.-China trade friction etc. and impact of COVID-19.
- On the other hand, we worked to maintain and expand our market share, reorganize the Iino Group's bases, and establish a new plant in the Die Casting Group, thereby setting the stage for the upturn in the latter half of three-year period.

2-2 Four cornerstones (Achievements in the first three years)

Action line 1

Strengthen current business lines further

- Strengthened sales in the passenger car market
 - Developed new customers and increased market share in China, increased orders in South Korea and strengthened sales for trucks
- Expanded overseas market share of shipbuilding business and developed new bearing business for hydroelectric power generation

Action line 2

Creating/fostering new business lines

- DM Casting Technology (Thailand) Co., Ltd. launched aluminum die-cast product manufacturing for electric vehicles
- Relocated the Iino Group's head office and reorganized plants. Consolidated the North American production base to Mexico
- Established the Future Creation Department within the Technology Division
- Sales expansion of CALME (Porous plate made by sintering aluminum powder using proprietary technology). Adopted at the Tokyo Olympics swimming venue
- Released and obtained orders of VR training software for manufacturing companies

Action line 3

Enhance management/operational control platform

- Reviewed business segments
- Established the China Technical Center
- Established the Compliance Department
- Promoted the project to strengthen business administration system in Europe
- Improved capital-to-asset ratio
- Effective use of management resources and assets (transferred the site of former Headquarters and Nagoya Plant)

Action line 4

Energetic organization with animated communication and motivation

- Renewed internal portal sites and conducted Employee Satisfaction Surveys
- Constructed welfare facility "Kibokan" in the Inuyama Site
- Promoted open innovation projects with startups

3-1 Changes in the business environment and response policies

Respond to changes in business environment by continuing and strengthening initiatives for “Four cornerstones”

1. Business environment

- ◆ Changes in demand and use of automobiles due to progress in CASE and acceleration of EV application (However, internal combustion engines will remain for a while)
- ◆ Evolution toward a decarbonized and carbon-neutral society (Increasing demand for renewable energy)



2. Corporate management environment

- ◆ Trends of enhancing ESG and SDGs activities
- ◆ Enhancement of corporate governance



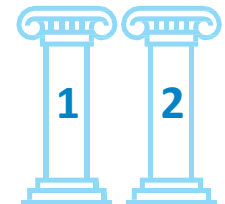
3. Work style (Environment for workers)

- ◆ Advancement in remote work
- ◆ Promotion of Diversity, Equity and Inclusion
- ◆ Decline in labor force (especially in Japan)



Response Policies

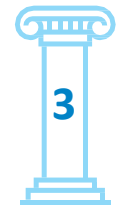
- Strengthen profitability of existing businesses (Increase sales and market share)
- Construct alternative business to engine bearings (Business model change)



Strengthen current business lines

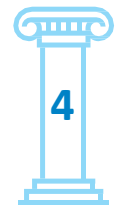
Creating/fostering new business lines

- Build a structure that fits the new era (SDGs, ESG)
- Strengthen global business management structure



Enhance management/operational control platform

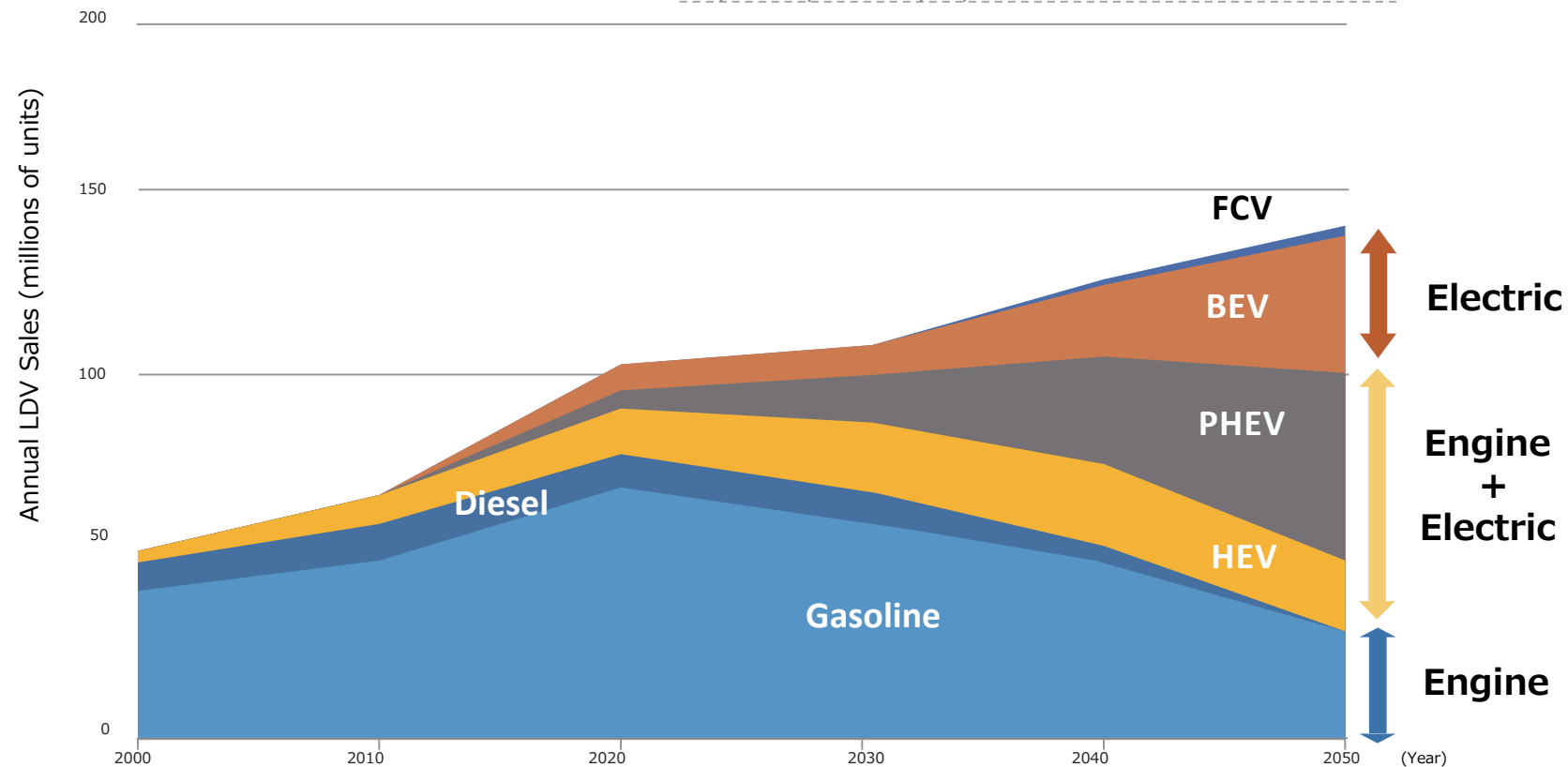
- Create a diverse workforce culture and correspond for work style reform and remote work (systems, infrastructures)
- Animated communication



Energetic organization with animated communication and motivation

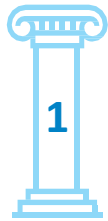
3-2 Trends of automotive sales and the composition of power sources

Prepared by our company based on the available information



- Although advancement in EV will continue, demands for internal combustion engines are not expected to decrease rapidly. New capital investment is to be strictly controlled in anticipation of a demand peak for internal combustion engines.
- However, the global situation has been changing rapidly due to COVID-19, and it is necessary to continue monitoring the future trends in the installation of internal combustion engines and to review the optimal investment plan as appropriate.

4-1 Four cornerstones: Priority items to be implemented



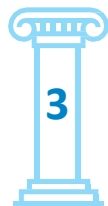
Strengthen current business lines further

- [1]-A Expansion of market share
- [1]-B Strengthening of profitability
- [1]-C Production innovation, efficiency improvement and technology innovation



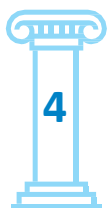
Creating/fostering new business lines

- [2]-A Sales expansion of die-cast aluminum products for EV
- [2]-B Establishment of new businesses such as bearings for wind power turbine
- [2]-C Research in the new fields



Enhance management/operational control platform

- [3]-A Enhancement of consolidated business management
- [3]-B Restructuring of global quality assurance system, global technology development, and global production system
- [3]-C Introduction of global governance and Human Resources systems
- [3]-D Strengthening of financial base



Energetic organization with animated communication and motivation

- [4]-A Animated communication
- [4]-B Creating a system to support challenges
- [4]-C Creating culture of a dynamic organization and promote work style reform



4-2 Action line 1: Strengthen current business lines further

(Targets for the latter half)

①-A Expansion of market share

- Expand market share of bearings for overseas trucks; develop domestic and overseas bearing markets for medium and high speed engines for marine and industrial use

Global market share of plain bearings

our estimates based on calendar year production volume (%)

Application	2020(Actual)	2023(Target)
Automotive engine	33.5	40.0 TOP
Turbocharger (Small turbo)	19.6	30.0 TOP
Low speed marine diesel engine	58.0	65.0 TOP
Mid to high-speed marine and industrial diesel engine	15.0	20.0
Polymer bearing	12.9	13.1
Industrial High-speed rotating machinery	4.9	6.0

①-B Strengthening of profitability

- Review the system globally from production to delivery, and strengthen inventory management
- Improvement of operating rate, defect rate, production yield, and production lead time
- Strengthen efforts to reduce indirect costs

①-C Production innovation, efficiency improvement and technology innovation

- Visualization of production progress (including inventory and delivery control, etc.), automation of visual inspection, etc.
- Production innovation through IoT
- Implementation of BPR activities led by the Business Process Re-engineering Department
- Strengthen R&D by utilizing the Daido Metal Group's core technologies (see Item 5 ESG, below)

4-3 Action line 2: Creating/fostering new business lines (Targets for the latter half)

②-A Sales expansion of die-cast aluminum products for EV

- Pursue synergies with the Iino Group and Die Casting Group, and expand sales
- Strengthen competitiveness of the die casting business (review of product mix, quality enhancement, human resources development)

②-B Establishment of new businesses such as bearings for wind power turbine

- Secure sales channels in Europe, where the need for offshore and onshore wind power is high
- Strengthen efforts in the offshore wind power business in Japan
- Sales expansion of parts for aircrafts
- Sales expansion of hydropower and pump business
- Further development in the field of renewable energy

②-C Research in the new fields

- Promotion of commercialization through cooperation and collaboration with the Future Creation Department and the R&D Department
 - Research and development of new products in the tribology related field
 - Strengthen the initiatives for generating new product ideas
 - Create an organizational culture and a mindset for the development of new products

4-4 Action line 3: Enhance management/operational control platform (Targets for the latter half)

③-A Enhancement of consolidated business management

- Enhancement of affiliates management methods
 - Use of consolidated accounting system for advanced segment management and strategy formulation
- Development of IT infrastructure
 - Restructuring of domestic core systems, strengthening of overseas core system operations, and enhancement of communication networks using new technologies

③-B Restructuring of global quality assurance system, global technology development, and global production system

- Review quality assurance and quality education systems at production plants
- Improvement of functions through exchange of “design” and “R&D” members on a global basis

③-C Introduction of global governance and Human Resources systems

- Reorganize compliance education system
- Establish a risk management system at overseas affiliates in line with the actual conditions
- Strengthen governance and internal controls in line with the Corporate Governance Code
- Flexible hiring activities in line with business strategies, and continued active hiring of women, people with disabilities, foreigners, etc.

③-D Strengthening of financial base

- Maintain capital-to-asset ratio of 35%
- Practice sound capital investment management

4-5 Action line 4: Energetic organization with animated communication and motivation (Targets for the latter half)



④-A Animated communication

- Examination of the optimal organizational structure for the next Mid-Term Plan
- Create a mechanism for interactive communication between management (team) and employees
- Strengthen ways to share information and knowledge management

④-B Creating a system to support challenges

- Formulation of a system and mechanism for proposing new business and exchanging opinions
- Revision and review of the Human Resources system (treatment, evaluation system, etc.)
- Creating a system for Career Self-reliance and support
- Enhance training systems

④-C Creating a dynamic organizational culture and promote work style reform

- Revision and enhancement of the Human Resources system (working arrangements, work style, etc.)
- Enhancing Health and Productivity Management
- Discussion on the introduction of second / concurrent employment

		FY2018 (Actual)	FY2019 (Actual)	FY2020 (Actual)	FY2023 (Target)
Female employee over total employee	(%) (number)	13.0 (187)	13.4 (194)	13.7 (202)	14.0
Female manager over total manager	(%) (number)	5.3 (6)	5.0 (6)	4.8 (6)	7.0

(Non-consolidated indicators for Daido Metal Co., Ltd.)

4-6 Quantitative targets for the latter half

Consolidated basis

	FY2019 (Actual)	FY2020 (Actual)	FY2021 (Plan)	FY2022 (Plan)	FY2023 (Plan)
Sales (JPY billion)	100.1	84.7	92.0	98.2	102.1
Operating profit (JPY billion)	4.2	1.3	3.5	6.3	8.2
Operating margin (%)	4.2	1.6	3.8	6.4	8.0
ROE (%)	4.9	0.2	—	—	9.0

our estimates based on calendar year production volume (%)

1. Although the business performance has been steadily recovering from the impact of COVID-19, uncertainties about the future trends still remain. In the midst of this, we will ensure that the various measures implemented in the first three years link to results in the latter three years.
2. In fiscal 2022, we aim to return sales to near the pre-Corona level, and in fiscal 2023, the final year of the Mid-Term Plan, we aim to achieve sales of 102.1 billion yen and operating margin of 8.2 billion yen.
3. Utilizing the core technologies of the Daido Metal Group, we aim to expand the added value of existing businesses as well as new businesses, while responding appropriately to the shift to EV and contributing more to society than before, and aim for further growth in the next Mid-Term Plan.

■ FY2023 Targets

- Sales: 102.1 billion yen (+ 2 billion yen vs. FY2019)
- Operating margin: 8.2 billion yen (+ 4 billion yen vs. FY2019)
- Operating margin: 8.0 %

Positive investment in growth areas while ensuring financial soundness

- Reduce interest-bearing debt with increased profitability and with optimized cash management
- Take a cautious approach to capital investment related to automotive engine bearings in the latter half of the Plan in preparation for a possible rapid market contraction in automotive engine bearings
- Positive investment in R&D, new businesses, M&A, etc. **Provide necessary financing while ensuring financial soundness** with capital-to-asset ratio of 35% as a reference point

Effective capital investment

- **Strict management of hurdle rate** to boost the return on investment
- Improve the accuracy of investment by precisely measuring the effectiveness of post-investment activities

Dividend policy and corporate value enhancement

- Stable dividend payout
- **Focus on ROE, aiming at 9% in FY2023**

5-1 Enhance of Corporate Value with a keen awareness of ESG (Environment, Social, Governance)

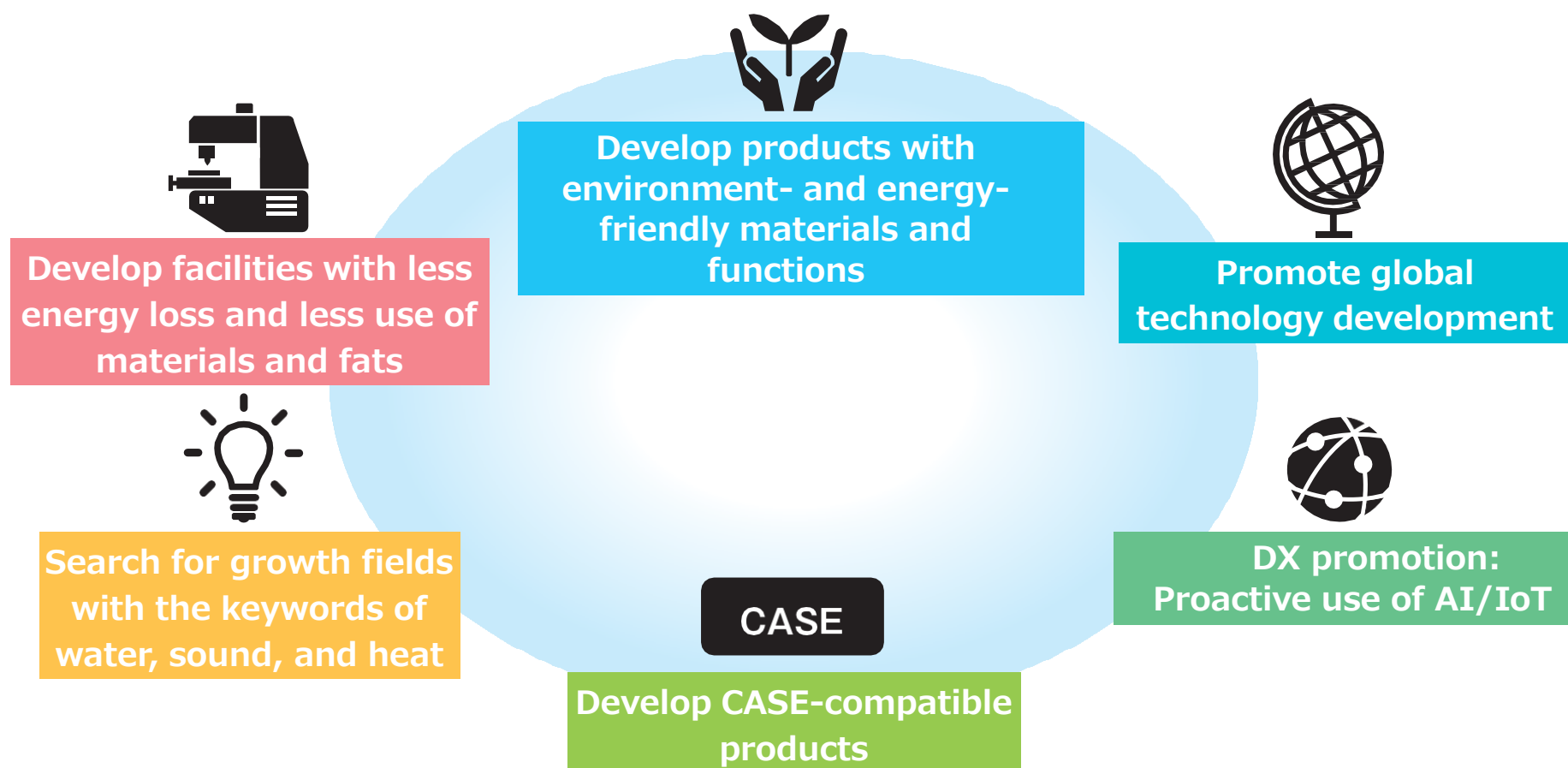
Daido Metal Group's SDGs Policy

In order to fulfill our responsibility as a global enterprise, the Daido Metal Group will contribute to achieving the various targets set forth in the SDGs.

Outline for identification of the SDGs to which the Daido Metal Group will contribute

	Major Item	Item to be Addressed	SDGs to be contributed
 Environment	Contributing to a sustainable global society	Respond to climate change (Energy conservation and rationalization)	  
		Manufacture and develop products for natural energy	
		Develop environmentally friendly products	
 Society	Contributing to the development of all industries	Create an internal system to cope with globalization and diversifying needs	   
	Achieving diversity and work-life balance	Establish a system that supports the diverse human resources	
	Ensuring the safety and health of our valued employees	Ensure safety and health management	
 Governance	Establishing governance and compliance systems as the basis of management and enhancing reliability	Address global governance and risk management across the Group	
		Instill a compliance culture that respects corporate ethics	
		Establish a CSR Supply Chain	

The Daido Metal Group will make full use of the core technologies it has cultivated over the years, and develop technologies and products that can contribute to global society



- We have continued to engage in dialogue with our investors through IR events and other means, and we plan to do so even more in the future.
- In terms of financial indicators, we will strive to improve profitability with ROE as a financial indicator, and the disclosure of non-financial information will also be enhanced to gain the understanding of stakeholders, thereby further improving our corporate value.

The plan, estimate, forecast and other future information in this report is based on the information available at the time the report was prepared, and actual results may differ from such future information due to various factors.

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