

## Message from Management



**Seigo Hanji**

Chairman & Chief Executive  
Officer (CEO)

**We will overcome the era of volatility, uncertainty, omplexity, and ambiguity (VUCA), and aim for further increases in corporate value by executing our long-term vision and reform plan with dynamism in thought and action.**

### Introduction

At DAIDO METAL GROUP, we have grown and developed as the world's only comprehensive manufacturer of plain bearings for all fields of industry, including primarily motor vehicles, and also ships, construction machinery, and general industry. We always listen to our customers as we continue to pursue quality and boost the added value of our products so that we can provide top-level appealing products based on our sense of mission as a world leader in tribology (friction, wear, lubrication). Having grown to become a worldwide company with 44 bases in 15 countries around the world, we have a strong reputation as a business partner that is trusted by business associates the world over.

Since I became President in 1995, our Group has enjoyed the two assets of good customers and good employees. Management's role is to make the most of such wonderful assets so that the company is an organization with a meaningful existence. In managing this company, I have always made a conscious effort to eliminate barriers based on gender, age, department, and nationality to give rise to a flat, open corporate culture. In fact, I have worked to get rid of departments and sections to establish an open corporate culture. I can still remember that in the address I gave upon being appointed, I made it clear that I wanted to create an organization in which eliminating barriers would bring about intellectual exhilaration. Long before diversity became a focus of attention we have placed great importance on recognizing diversity among our employees, welcoming those employees in, and enabling them to fully engage.

Down through the years, we have always tried to pursue participatory management in which all employees could take part. We even created the Group Corporate Philosophy that lies at the heart of our business activities by soliciting ideas from all employees. Anyone can create a Med-Term Business Plan, if only to create a plan. What's important is to be able to do it with a sense of ownership. Before the "Lehman shock" financial crisis of 2008, I was telling our employees to reduce inventory volumes and capital investment because of the sense of crisis I felt amid a global economy that was rushing ahead with money

games that were destroying capitalism. Unable to take immediate action, however, we ended up with a large deficit. Simply telling people to do something does not enable them to make it happen, so I have always insisted on having everyone participate in making decisions on policy and planning.

It does no good for human society or the planet if a company thinks solely of its profit. A company should have the earth as a stakeholder. I think corporations should contribute more to society because boosting corporate value by working to achieve the SDGs and ESG management is a matter of course. We continue to let our employees know that in contributing to the company through their work, their contribution leads to the company's contribution to society.

### Review of FY2022

In FY2022 there was a drastic rise in the cost of materials such as steel, nonferrous metals and aluminum due to the impact of the COVID-19 pandemic and adjustments in vehicle production due to a semiconductor shortage, in addition to the increasingly tense situation in Ukraine. Energy and logistics costs also increased drastically, weighing down on profit. Given the drastic rise in the cost of materials, we are working to eliminate the factors that are weighing down on profits by moving ahead with price pass-through efforts in the appropriate transactions. Amid a rapid increase in orders for products for electric vehicles we have used air cargo transport to meet delivery deadlines, which has increased logistics costs. We will work to improve logistics costs by increasing production efficiency.

Regarding our overall Group business performance, net sales totaled 115.480 billion yen, up 11.455 billion yen (+11.0%) from the previous year. In terms of profit, we continued to work on reducing fixed costs and expenses while increasing profitability and productivity, but operating profit decreased 2.217 billion yen from the previous year to 2.824 billion yen, while ordinary profit fell 1.926 billion yen from the previous year to 2.909 billion yen. As a result, our net loss attributable to parent company was 2.208 billion yen, down 4.106 billion yen from the year before.

## “Raise Up ‘Daido Spirit’ - Ambitious, Innovative, Challenging—” is a six-year Mid-Term Business Plan that runs from FY2018 to FY2023.

Based on four pillars, “Strengthen current business lines further,” “Creating/fostering new business lines,” “Enhance management/operational control platform” and “Energetic organization with animated communication and motivation,” it is aimed at heightening our Daido Spirit and taking great strides forward, with high aspirations, an eagerness for reform, and the spirit to take on challenges. We revised the plan upon completing its first stage (FY2018 to FY2020), and have been working since then to move forward with the second stage (FY2021 to FY2023).

We will continue to focus effort on maintaining and expanding our share of the market for plain bearings during the coming fiscal year, while also working to tap into the automotive industry’s need to generate new business, such as needs emerging from the shift to vehicles that do not use fossil fuels (e.g. hydrogen-fueled vehicles) as well as the shift to EVs. We will also continue to engage proactively in research into new fields leading to development of environmentally friendly materials and products, putting to maximum use the technologies that our Group has cultivated over many years while also advancing research in core technologies and technological development in new areas.

Heightened political uncertainties resulting from Russia’s invasion of Ukraine and conflict between the U.S. and China have fomented the development of bloc-based global economics, with diminished economic freedom. Even with the development of good, inexpensive products, inefficiencies such as fragmentation of the economic sphere making it impossible to purchase them results in unsustainability. I intend to put my faith in the wisdom of the human race. Moving forward, while we will continue R&D work at each of our overseas bases, we are going to have to rethink our approach to production. We will move forward with the future-oriented consolidation of our manufacturing bases and relocation of our facilities.

## Developing a Long-Term Vision and Implementing a Reform Plan

In recent years, the world has undergone change at incredible speed. If our conventional organization and thinking remains as it is, we are going to fall behind the times. The automotive industry is approaching a once in a century period of great upheaval, which makes a changeover of business structure an urgent issue for our Group as automotive engine bearings are our mainstay products.

At the beginning of 2022, we therefore communicated to all of our employees our plans to create “Daido’s Great Path to the Future,” showing the journey that our Group

must take up through 2050. In doing so, we formulated a Long-term Vision while holding interviews with each department. We are now producing a Reform Plan based on that Long-term Vision. We need to undertake a major reimagining of our ways of selling, our ways of manufacturing, and our logistics. Once we have formulated it, however, that doesn’t mean it shouldn’t change. I intend for us to move forward flexibly with change as we make corrections in line with the times and circumstances.

Amid the decrease in demand for automotive engine bearings due to the accelerating shift to EVs, we have already started efforts to double the percentage of our sales represented by non-automotive products, aiming for 50%. We have been working proactively to link customer needs to the creation and nurturing of new business operations, such as by expanding sales of die-cast aluminum products for electric vehicles, having our bearing products used in test operation of hydrogen engine trucks, and adapting to automobiles fitted with internal combustion engines that run on carbon-neutral fuel.

We are also making the most of our core technologies cultivated over many years in our exploration of the market for wind power generation bearings, which is expected to be in demand for the renewable energy sector. We have also concluded a supply contract for plain bearings used in the main shafts of offshore wind power generators in Europe, and have decided to invest 6 billion yen in construction of a new plant in the Czech Republic, with the aim of starting production in 2025. Our Group’s wind power generation bearings, the first of their kind in the world, comprise multiple circularly divided component parts, and can be disassembled. Not only are these components easier to transport for repairs than conventional components, but they hold the promise of reducing maintenance costs by only having to replace faulty parts for instance. Through this, we intend to contribute to the social implementation of offshore wind power generation and the realization of carbon neutrality by 2050.

Despite the accelerating shift to EVs, demand for automotive engine bearings will not necessarily disappear. There are still regions of the world that are not reached by electric power. And there is also an aftermarket. Where older products are concerned, there are cases in which jigs that direct and guide the working positions of parts and tools during processing and assembly are lacking, so we will continue to put these sales channels and production systems in place. Moreover, as competitors withdraw in the future, we can look forward to some of the profits that accrue to the remaining players as a result. Countless tasks lie before us in the field of automotive engine bearing products, and we will move forward with expansion of operations in both existing and new businesses.

## Promoting Sustainability Management

The Kojiki, an ancient chronicle of Japan, includes a passage of waka-style verse said to be composed by Yamato Takeru

no Mikoto, extolling the beauty of Japan’s natural grandeur and verdant abundance. Roughly translated into modern prose, it states that, “Yamato is the best place in the country. Surrounded by mountains like layer upon layer of green hedges, Yamato truly is a beautiful place.” Because we are born into a country so naturally abundant, it is incumbent upon us to protect the natural environment.

As the world’s only comprehensive manufacturer of plain bearings, our Group is striving to help realize a sustainable society and enhance corporate value through our business activities. Our duty, as stated in our Corporate Philosophy, is that, “We hold ourselves responsible for the happiness of everyone in our organization and the contributions we make to global society.” Accordingly, since long before the SDGs were adopted in 2015, we have communicated to our employees that, “A company should contribute to society, and the employees comprising the company contribute to society through the company.” In order for us all to pull together in promoting the SDGs, we have built the targets of the SDGs into the policy management of our departments in order to continue to advance them.

Regarding action toward carbon neutrality, our whole Group is working to reduce CO<sub>2</sub> emissions in stages toward achieving carbon neutrality by 2050. Specifically, we are moving ahead with energy conservation and expanding our use of renewable energy, while bringing greater visibility to our CO<sub>2</sub> emissions, after calculating the costs of such measures. In June 2022 we announced our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and we disclose important information on climate change in line with the TCFD recommendations. Because carbon neutrality in automobiles is not something that automobile manufacturers can accomplish by themselves, we will place no limit on our efforts as a supplier to minimize the CO<sub>2</sub> emissions that occur in the production of bearings.

In terms of human resource development, we understand people to be critical human capital which provides our Company with its source of development. In order to achieve sustained growth and to boost productivity, we believe we must offer our employees opportunities and an environment in which each person can demonstrate his or her abilities to the fullest extent. To do so, we are moving ahead with systematic human resource development based on the Daido Spirit – Ambitious, Innovative, Challenging.

Regarding our efforts on diversity, we respect diversity, personality, and individuality, and we encourage the creation of a workplace and the establishment of an environment in which employees can demonstrate their abilities and engage actively. Specifically, our work-style reforms have included specifying numerical targets for minimum paid vacation days taken, and for the ratio of women in managerial positions. Ever since the days when women were rarely seen in general employment career-track positions, our Group has been proactive about hiring personnel regardless of gender, recruiting women into career-track jobs and promoting them to the ranks of our

management. I do not think it will be difficult for us to further increase the ratio of female managers. Since we should never skimp on investment for human resources, I intend for us to create a virtuous cycle in which we generate profits to invest in our human resources. We will also take the initiative to increase human resource fluidity among each of our domestic and overseas bases, which will enable us to assign suitable personnel to the positions that suit them.

Regarding the state of governance, we established a Sustainability Committee as an executive committee in April 2021, and tasked it with deliberating and discussing solutions to issues related to sustainability, such as efforts to address climate change and to respect human rights. In our Group’s efforts to advance sustainability management, we also identify and disclose priority issues (materialities) for our efforts in the area of the ESGs. The content of these sustainability-related deliberations is reported to the Board of Directors on a regular basis for guidance and oversight. We will continue to move forward with the reinforcement of governance that covers the worldwide distribution of our production facilities, product inventory management, and our affiliates and organizations.

## To All of Our Stakeholders

If you only look at the figures this has been a severe year, but it has also been an enormously meaningful year whereby we have set in order a sequence of initiatives for our future which cannot be expressed in numbers. My hope is that all of our stakeholders will look at our business activities not merely in terms of short-term figures, but a bit more in the longer term. Moving forward, I would like us to concentrate effort on enhancing our communication tools and spreading the word to achieve widespread awareness of our non-financial aspects, such as our open, participatory corporate culture that includes all employees, and our contributions to society, which are fundamental to our Group.

I look forward to your continued support and encouragement.

