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Daido Metal Co., Ltd.

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(For inquiry)

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Announcement regarding formulation of New Midterm Plan 2025-2030 'Bridge to Daido 2030'

In order to devise a strategy to permanently increase the corporate value of the Daido Metal Group and achieve sustainable growth, Daido Metal Co., Ltd. has formulated the new Midterm Plan entitled 'Bridge to Daido 2030' which will run from FY2025 to FY2030. The details are summarised below.

1. What the New Midterm Plan is Aiming for Positioning of the New Midterm Plan

Through our new Midterm Plan, the Daido Metal Group is aiming to be a company that can envisage and achieve sustainable growth exceeding capital costs. Positioning a six-year period during 2025-2030 as a business restructuring term with a view to 2030 onwards, we have established a new Midterm Plan including results and issues of the previous Midterm Plan, initiatives implemented in FY2024 and recent changes to the business environment.

Aiming for the Future

When formulating this new Midterm Plan, with a view towards 2050, we decided the social values of the products the Daido Metal Group supplies and the values we cherish for the future as Purpose and what we want to be as Vision. For starting of the new Midterm Plan, we have changed the name of each business segment. In order to achieve the targets of the new Midterm Plan, we have clarified a strategy for more than just the conventional business segment and are proceeding with review of allocation of management resources etc. Through these initiatives we will realise the business portfolio our Group is aiming for.

Target Business Portfolio

The core business of our Group is manufacturing and supplying bearings used in automotive and marine engines. To remain as the world's number one plain bearing manufacturer, we are further leveraging the technology, production know-how, reliability, secure quality and strong business foundations of the engine bearing business we have created so far.

Specifically, we are proceeding with a multi pathway strategy to continue to meet customer needs for spare parts for engines bearings, to respond to environmental regulations etc. for our Group's core business of plain bearings which are used in engines.

Furthermore, to increase sales of products which are used outside engines, we are gradually implementing specific strategies and giving increasing weight to each business such as 'non-engines' and 'non-automotive/marine'. We plan to expand our business foundations by supplying plain bearings for not just the conventional cars and ships, but for a wider range including for general industry, and intend to focus on frontier business other than engine bearings.

2. Previous Midterm Plan (2018-2023) and Looking Back at the Previous Year (2024)

- (1) FY2023 was the final year of the previous Midterm Plan 'Raise Up "Daido Spirit" Ambitious, Innovative, Challenging'. Targets of 'Sales of 102.1 billion JPY, Operating Profit of 8.2 billion JPY and an Operating Profit Margin of 8.0%' were set for the final year of the Plan (FY2023). Although the target for sales was achieved, the targets for operating profit and operating profit margin were not achieved.
- (2) During the six years of the previous Midterm Plan, in addition to many changes to the social situation including the outbreak of Covid-19, the situation in Ukraine and intensified conflict between the US and China, the economic situation including the continuing 'weak yen, strong dollar', soaring raw material and energy costs has had a large impact on our Group's profits. Although we are able to see signs of recovery from Japan's long-term deflationary mindset, factors influencing sales and profits are increasing, so we are entering an era where new initiatives are required in order to secure profits.
- (3) In response to the changing business environment, the Daido Metal Group established a policy for the future through the Longterm Vision, and began structural reform through initiatives in the Reform Plan, etc., and although activities were sped up in response to the new era, there are still unachieved items to be carried over. Even in such circumstances, our Group responded to production recovery by main automotive customers and increased demand from the marine, general industry and construction industries, and as a result, sales in FY2024 were 136.3 billion JPY (up 7.5 billion JPY compared to the previous year), surpassing the results of the previous year. As for profits, by focusing on factors affecting profits through initiatives such as material price pass through for raw material costs and energy costs, we were able to achieve an operating profit of 7.0 billion JPY (up 1.0 billion compared to the previous year) and an operating profit margin of 5.2% (up 0.5 point compared to the previous year).
- (4) The rapid changes to the environment surrounding our Group, and the difficulty in predicting the future has not changed, but the Daido Group has established a new Midterm Plan to accurately address this difficult situation and is pursuing increased corporate value.

3. Financial Strategy in the New Midterm Plan (2025-2030)

(1) Fundamental Policy

As a fundamental financial strategy in the new Midterm Plan, we address the following:

1. Improve profitability by strengthening profit generating capability
2. Investment in fields of expected growth and shareholder dividends
3. Investment cost control through balance sheet management and reduce interest bearing debt

We plan to increase corporate value through improving ROE indicators, with the fundamental policy that increased corporate value, and leads to investment in the future and shareholder returns.

(2) Main KPIs

The new Midterm Plan has set midpoint targets for FY2027 – the end of the first three years of the Plan – of sales of 150 billion JPY, operating profit of 12 billion JPY, operating profit Margin of above 8% and ROE of above 8%, and is aiming to achieve targets of operating profit margin of above 10% and ROE of above 9% in the final year of the Plan in FY2030.

Reciprocal tariffs introduced by the US are predicted to have a large impact on our Group's sales and profits, but as a Group, we are continuing to proceed with business restructuring to increase profit generating capability in the first half of the Midterm Plan irrespective of changes to the external environment. As a fundamental strategy for achieving profit targets, we will not only increase profits by increasing sales through increasing new customers or new application development, but will also continually and systematically implement initiatives such as passing through material costs and labour costs into the sales price, implementing profit and loss control for each product, introducing better cost price control etc. Together with optimising total asset turnover ratio by reducing lead time etc. through effective management of machinery investment and supply chain management and appropriate financial leverage etc., we will simultaneously proceed with reforms for financial stability, and initiatives to increase ROE.

	FY2024 Actual	FY2027 Plan
Sales	136.3 billion JPY	150 billion JPY
Operating Profit	7.0 billion JPY	12.0 billion JPY
Operating Profit Margin	5.2%	Above 8%
ROE	3.8%	Above 8%
Net DFE Ratio	0.50	0.45

4. Business Strategy in the New Midterm Plan

(1) Four Action lines for the Midterm Plan

A business strategy positioning the four main Action lines for a growth strategy from 2030 has been developed.

Action line 1: Structural Reform for Strengthening Profitability

Action line 2: Refinement of Core Businesses

Action line 3: Strengthen Next Core and Semi Core Business

Action line 4: Promote Management Focusing on Non-Financial Capital

Action line 1: Structural Reform for Strengthening Profitability

Our profit levels have recovered due to a return in demand after Covid-19, but to further strengthen our profit generating capability, we understand business reform is necessary. We began our 'Reform Plan' from FY2023, identifying areas for reform and working on them. We continued these initiatives in FY2024, and we will see the effects of these initiatives during the new Midterm Plan period.

To eliminate the factors that are causing losses at the Al die cast business, we have addressed production issues and are beginning to see results. We aim to address all production process issues from material procurement, moulding creation, production, inspection and despatch, to create stable production systems. We have begun measures for reform in European locations in difficult business environments such as proceeding with transfer of some production machinery to other locations. In other locations, we are proceeding with activities to reduce production costs by reforming capex control through optimisation of depreciation costs, reviewing raw material procurement and production systems etc. We are systematically working on long-term issues with an outlook for from 2030 onwards, and a continuing business reform through elimination of unprofitable business and organisational reform.

Action line 2: Refinement of Core Businesses

We have continued to achieve the top market share for the Powertrain business (2024 calendar year, prediction by Daido) continuing from 2023. The progress of the shift to EV (electric vehicles) has not changed globally, but due to a slowdown in the shift to EVs, there is still forecast to be some, although lower, demand for combustion engines. We aim to further increase our share by carefully considering and addressing machinery investment in response to explicit and latent market needs and expanding bearings for truck engines or new development for gasoline engine bearings. Furthermore, we are pursuing further expansion of the Life business (formerly non-automotive engine bearing business) through further expansion of automotive parts focused on non-engine bearings such as shock absorbers, expansion of new demand for EV vehicles, and development of bearings for general industry such as air conditioning.

The development of the overseas market has borne fruit with our Group maintaining a market share of 75.0% (2024 calendar year, prediction by Daido) for low-speed engine bearings for use in ships in the Marine & Energy Business (formerly the non-automotive bearing business) as well as seeing increased demand from the marine industry. Furthermore, due to an increase in orders from the production and construction machinery market, the share for bearings for marine and industrial medium and high-speed engines in the aforementioned Marine & Energy Business has increased. As well as maintaining the market share for marine engine low speed bearings, we are responding to increased demand for medium and high-speed bearings for power generation by expanding production capability through new machinery and investment in Japan and the UK.

Action line 3: Strengthen Next Core and Semi Core Business

In terms of the Frontier Business (formerly the automotive non-engine business) which includes the Al Die Cast Business, despite an increase in orders for automotive products for new EVs, in the Precision Metal Manufactured Parts Business, there has not been any great change in demand for precision metal manufactured parts such as moulded pipes or knock pins so the amount of sales remained the same as the previous year. Following process improvements and changes to the production control system a recovery in profit levels is expected from FY2025 for the previously unprofitable Al die cast business. By further strengthening the process improvements and production control system and reviewing the quality control system, we are continuing to strengthen initiatives to secure profits.

While strengthening the response to customer needs (performance, cost, and lightweight) through core technology developed during the period of the previous Midterm Plan, we will continue to expand demand for bearings used outside engines and will continuously and systematically unearth new social value of plain bearings, as well as achieving our target business portfolio. In the future we will also build a foothold for expanding new gas turbines and wind power generation business, and establishing technical foundations for the wind turbine business etc.

Action line 4: Promote Management Focusing on Non-Financial Capital

To achieve a sustainable society as a global company, we have set our priority issues (Materialities) for ESGS with the two axes of 'the impact on shareholders' and 'the importance to our Group' and are working on them. Furthermore, we are continuing with initiatives to achieve carbon neutrality, and after announcing, our support for the TCFD (Task Force on Climate-related Financial Disclosures) are regularly disclosing important information. We are aiming for management with an awareness of increasing corporate value and capital costs and are strategically proceeding with sustainability management with a focus on strengthened ESG.

The new Midterm Plan will focus on strengthening human capital, promotion of DX and cultural reform. For human capital strategy, we are actively focusing on 'establish personnel system', 'reform way of working', 'strengthen training and recruitment'. For DX promotion and cultural reform, we are actively focusing on 'organisational activation', 'cultural reform' and 'global contribution'. As a result, by creating an active organisation we will increase employee productivity, which is linked to increasing corporate value. With Daido Spirit (Ambitious, Innovative, and Challenging) as a foundation, while increasing our knowledge and skills, we will engage in open and lively discussions within the company to foster creativity, and foster human resources that can bring innovation, and will pursue the training of human resources that can support our Group in the future.

(2) Increasing Corporate Value through Dialogue with Stakeholders

Our group positions the above four Action lines as important axes and will implement all measures to enhance corporate value. To enhance corporate value, we will not only raise ROE indicators but also strengthen initiatives for non-financial capital to optimize capital costs. We will promote sustainability management, strengthen corporate governance across the entire group, including affiliated companies, and pursue risk-averse management to improve PBR indicators. Additionally, we will enhance external PR activities, including dialogue with stakeholders, and enrich the disclosure content in the integrated report. By advancing dialogue with investors, we aim to gain a broader understanding of our group's initiatives.

Our group aims to return value to our shareholders by targeting a dividend payout ratio of over 35% in FY2027 and over 40% in FY2030. We will work together as a company to achieve the measures outlined in the new Midterm Plan.

(Note) The forecasts in this document are based on information available at the time, and actual performance may differ due to various factors in the future.