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Daido Metal Co., Ltd.

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Release of new Mid-Term plan 2018-2023
Raise Up “Daido Spirit” - Ambitious, Innovative, Challenging -

We are pleased to announce our new Mid-Term plan 2018-2023 entitled ‘Raise Up “Daido Spirit” -Ambitious, Innovative, Challenging-’. Here is the summary of the plan which depicts our future strategy to realize our sustainable growth, with our Corporate Philosophy and our Principles at its core.

| 1. What we’d like to achieve in this Mid-Term plan

Objectives

In our Corporate Philosophy, the first item we have is “Our Duty: We hold ourselves responsible for the happiness of everyone in our organization and the contributions we make to global society”. Our actions will be in line with this duty throughout the new Mid-Term business plan period, to increase our Corporate Value and our global footprint.

(1) Actions for the happiness of everyone in our organization

- A. Cater for various work-style and diversity, to make workplace an enjoyable place for self-realization and joy of work.
- B. Workplace with zero work related accident.

(2) Contributions we make to global society

- A. Contribution through our business
 - (a) Responsibility as the world No.1 supplier to continue to provide the products to our customer
 - (b) Supply of low friction products which contributes to the energy efficiency
 - (c) Development and supply of environment-friendly products such as lead-free or water-lubricant
 - (d) Bearing for the clean energy (such as water and wind) turbine
 - (e) Reduction in deficiency rate to decrease wastage

- B. Sustainability of our company and creation of Corporate Value
- (a) Stay in business, and maintain employment
 - (b) To be a company with over 100 year of history by diversifying into neighboring and/or new business area
 - (c) Creation of Corporate value with focus on ESG (Environment, Social, Governance).

About 'Raise Up "Daido Spirit" - Ambitious, Innovative, Challenging-'

Our previous Mid-Term plan was entitled "Together To The Top -we will reach the top together-". We now have a new one with a title "Raise Up 'Daido Spirit' -Ambitious, Innovative, Challenging-".

"Ambitious, Innovative, Challenging" is long been used within the Company as the essence of Daido Spirit. We will re-raise our Spirit even higher to make this six year a period of a great step forward.

Initials put together, "AICH" comes from AICHI, the place where the Company started its business. AI, pronounced as "eye", means love. It also stands for Artificial Intelligence. CHI means knowledge.

With our love, knowledge, and Artificial Intelligence put together, we will aim at a further progress.

2. Review of the Mid-Term plan 2nd phase (2015-2017)

- (1) In the previous plan period of "Together To The Top", we targeted consolidated sales of JPY 111 billion, operating profit of JPY 16.7 billion, and operating margin of 15%, with the global top market share in all categories of plain bearings.
- (2) We started a production of bearings for automobile engines in India, and in Russia we entered a market of bearings for trucks. We increased a production capacity of Bi-metal, base material for bearings, with the start of production of Bi-metal at DAIDO METAL SAGA CO., LTD. in Saga, Japan in August 2017.
We acquired whole share of two companies, Iino Holding Ltd. and ATA Casting Technology Japan Co., Ltd., in 2017 to plan for the future paradigm change in automobile market (from engine to motor), and to diversify our product/business line started a new pillar of our business that is not dependent on automobile engine bearings.
- (3) With multiple actions taken under previous Mid-Term plan period, our production and sales network in five regions of the world has been set up, we entered the new business area, and thus we created the foundation for the next jump.
- (4) As a result, our sales reached quite close to the initial plan, but the profit fell short of the plan with wide margin. (Please see table below.) Shortfall was mainly due to the change in business environment, namely 1) the slow pickup of demand in Shipbuilding and Construction machinery, and slowing down of economy in developing countries, 2) unfavorable fluctuation of foreign

exchange rate, 3) increased cost of material, and also due to our internal factors such as the troubles we experienced in our production lines in Mexico due to the sudden rise of orders and relative increase in quality cost and delivery cost.

Financials

	FY2014 (actual)	FY 2017 (actual)	FY 2017 (initial plan)
Sales (JPY billion)	85.0	106.6	111.0
Operating Profit (JPY billion)	7.6	6.5	16.7
Operating Margin (%)	9.0	6.1	15.0

Global Market Share (per Calendar Year, our estimate) (%)

Applications	2014 (actual)	2017 (actual)	2017 (initial plan)
Automotive engine	31.5	32.5	40.0
Turbocharger (small turbo)	34.0	28.0	40.0
Low-speed Marine diesel engine	59.0	51.0	60.0
Mid to High-speed marine and industrial diesel engines	22.0	15.0	35.0
Polymer bearing	12.4	12.8	16.0
Industrial High-speed rotating machinery	5.0	3.7	6.0

3. Future change in business environment and risks

We expect the following changes in our business environment and risks.

- (1) Support for Far-right movement and protectionism in many countries, and its impact on commodities price and exchange rates.
 - A. Increase in export tariff to US market
 - B. Trade agreement between the US and Mexico
 - C. Economic sanction against Russia and its impact on Russian Ruble exchange rate
 - D. Fluctuations in material cost
- (2) Labor Market
 - A. Shrink in Japanese labor market
 - B. Intensifying competition in attracting engineers (especially IT related), and concern over future availability of workforce

- (3) Advancement in Electric Vehicle (EV) and car sharing
- A. Increase in EV's share in new car sales
Despite the increase in EV cars, sales of total internal combustion engine (including Hybrid) will continue to rise thanks to increase in developing countries. We expect our main business market, automotive engine bearings, will witness a stable growth at least up to year 2030.
 - B. Dramatic cost down of car batteries with the break-through in technology, or the subsidies for EV purchase in various countries will accelerate the consumers' acceptance of EVs.
 - C. Advance in car sharing in advanced countries resulting in decrease in new car sales
- (4) Increased awareness on the environmental issues, advance in ESG investment
- A. The world is more and more keen to the environmental issues, and need to reduce GHG (Greenhouse Gas) or conservation of water supply are of high priority. Apart from our effort of our own initiative, such requirements come from our customer to tackle the issue on the whole supply chain basis.
 - B. This can also be our opportunity to promote our environment-friendly value added products.

4. New Mid-Term plan (2018-2023)

(1) Four cornerstones of our new Mid-Term plan

With the analysis of the result of our previous Mid-Term plan, together with the foreseeable changes in business environment and risks, we came up with the following four points as our principle action lines during our new Mid-Term plan:

1. Strengthen current business lines further	True leader in Tribology
2. Creating / fostering new business lines	Define new business areas and foster them.
3. Enhance management / operational control platform	Strengthen various platform including production, IT, HR, financial reporting. Review of organizational structure
4. Energetic organization with animated communication and motivation	To develop people and organization who can adapt oneself to the rule changes in the business.

For each of the four points above, our Group will implement following strategies to enhance our Corporate Value to realize our sustainable growth.

Action line 1: Strengthen current business lines further - True leader in Tribology

- A. Sales activities to attract new customers, improve products in functionality and in price competitiveness, and increase in global market share
- B. Improve in capacity utilization rate, defect rate, production yield to enhance profitability

- C. Revamp of production process with introduction of IoT(internet of things), leading to minimization of inventories / work-in-progress and to improvement of profitability
- D. Other actions to improve efficiencies in production and business operation through the BPR (Business Process Re-engineering) activities lead by BPR department

Action line 2: Creating / fostering new business lines

- A. Investment in R&D (increase investment in “seeds” R&D, on top of “needs”)
- B. Set up “Future Creation” department in charge of research in new business areas
- C. Seek possibility of non-organic growth into new business areas through M&A
- D. To start production of aluminum die cast parts for EVs at our new subsidiary in Thailand (DM Casting Technology (Thailand) Co., Ltd.)
- E. Assess investment opportunity to produce special type of bearings for wind power turbine (both off-shore and on-shore) in Europe
- F. Further realization of synergy with Iino group and ACJ/ACT group, sales promotion of “CALME” (sound absorbing material - product of NDC Co., Ltd.)

Action line 3: Enhance management / operational control platform

- A. Implementation of global quality assurance program, optimized global production and sales structure
- B. Set up Technical Center (TC) in China and have global technology service network with TCs in the UK, Germany, Czech Republic, the US, and in China.
- C. Set up European Technology Division and R&D Center in Germany (expected in 2023)
- D. Enhance global governance/compliance mechanism encompassing all Group companies.
- E. Introduction of Global HR policies, promotion of diversity to attract a wide variety of talent

Action line 4: Energetic organization with animated communication and motivation

- A. Improve skill and ability of each staff, activate communication, to enhance team performance that is more than the sum of each individual’s performance
- B. Corporate culture change to support the entre/intrapreneurship
- C. Promotion of work-life balance with reduced working hours, flexible work time and place.

(2) Financing strategy

- A. Active investment in business growth areas with an eye on the financial health of the Group
 - (a) Reduce interest-bearing debt with increased profitability and with optimized cash management
 - (b) Continue to invest around JPY 10billion per year throughout the plan period to maintain/enhance our competitiveness in our current business area
 - (c) Monitor the shift to EV to reevaluate the investment in automotive engine bearing production in the latter 3 year of Mid-Term plan period

- (d) R&D, new business, M&A are the key investment focus area. We will finance ourselves for necessary funds with capital-to-asset ratio of 35% as a reference point
- B. Effective capital investment
 - (a) Review investment hurdle rate to boost the return on investment
 - (b) Review result of each capital investment to see if intended effect is realized as planned
- C. Stable dividend payout to our shareholders from year to year. Target ROE ratio at the sixth year at 10%

(3) Human Resource strategy

- A. Secure talented people for future business expansion and diversification into new business lines
- B. Global recruitment, global relocation to support global business expansion and diversity

(4) Financials and KPIs

By executing those actions listed above, we aim to achieve in our third year (FY2020) sales of JPY 120billion, operating profit of 10billion, and operating margin of 8.3%. And in its final year (FY2023), we aim to achieve sales of JPY140billion, operating profit of 14billion, and operating margin of 10%.

Financials and KPIs

	FY 2017 (actual)	FY 2020 (target)	FY 2023 (target)
Sales (JPY billion)	106.6	120.0	140.0
Operating Profit (JPY billion)	6.5	10.0	14.0
Operating Margin (%)	6.1	8.3	10.0
ROE (%)	6.9	9.5	10.0
CAPEX (JPY billion)	8.6	10.1	10.0
Depreciation (JPY billion)	8.7	9.3	10.1
EBITDA (JPY billion)	15.3	19.3	24.1
Female employee over total employee * (%)	13.3	15.0	17.0
Female manager over total manager * (%)	3.7	6.2	10.0

* Ratio at Daido Metal Co., Ltd. at solo basis

Global Market Share (per Calendar Year, our estimate) (%)

Applications	2017 (actual)	2020 (target)	2023 (target)
Automotive engine	32.5	35.0	40.0
Turbocharger (small turbo)	28.0	40.0	40.0
Low-speed Marine diesel engine	51.0	60.0	70.0
Mid to High-speed marine and industrial diesel engines	15.0	16.0	20.0
Polymer bearing	12.8	14.3	16.5
Industrial High-speed rotating machinery	4.0	4.2	8.0

(5) Corporate value creation through dialogue with stakeholders

We have been communicating with investors through multiple of IR events during the year. We will continue to increase the opportunity to discuss with various stakeholders including, but not limited to, shareholders. We will strive to enhance our corporate value by strengthening our profitability with ROE as an important KPI. We will at the same time disclose more non-financial information in order for our corporate value to be understood by stakeholders.

Disclaimer

Future prospects described in this document are prepared as information purpose only, based on the information available to us at this moment, and are under certain condition which we assumed reasonable. We will not guarantee the realization of such prospects, and actual performance fluctuates due to various factors.

This is a translation of the Japanese press release for reference purposes only. In the event of any discrepancy, the Japanese original shall prevail.