R&I Affirms A-/a-1, Changes Outlook to Positive: Daido Steel Co., Ltd.

Rating and Investment Information, Inc. (R&I) has announced the following:

**ISSUER:** Daido Steel Co., Ltd.
Issuer Rating: A-, Affirmed
Rating Outlook: Positive, Changed from Stable
Commercial Paper: a-1, Affirmed

**RATIONALE:**

Daido Steel Co., Ltd. is Japan's largest dedicated manufacturer of specialty steel and is among the world's largest in business scale. In addition to the core specialty steel business, the company operates a wide range of businesses, including high performance materials and magnetic materials, and parts for automobile and industrial equipment. Demand for its products is susceptible to the production trends of automobile and industrial equipment makers, its primary customers. Moreover, earnings tend to be affected by the price fluctuations of main raw materials, steel scrap and nickel. Because a surcharge system in which the company can transfer the price fluctuations to selling prices took hold, certain profits are ensured on an average basis, albeit with a time lag. R&I positively evaluates a further improvement in the profit level from some time ago thanks to a stabilized earnings structure, combined with the effect of adjustments of base prices for steel products. Daido Steel is enhancing its global supply chain in efforts to respond to customers' production shift to offshore countries and increase of local procurement. Backed by high technological prowess and product quality, a competitive advantage over foreign peers is maintained, which is unlikely to weaken in a short time.

Recently, earnings are affected by a slowdown in the automobile and industrial equipment sectors, the primary users of Daido Steel's products, as well as a decline in semiconductor prices, among others. Future prospects are uncertain, and there are downside risks to earnings. Even so, demand for high performance materials for automobiles, such as stainless steel and superalloys, is still high. R&I thus expects the company to continue to secure certain levels of profits and cash flow primarily from high performance materials and magnetic materials, its major sources of earnings.

The midterm management plan calls for continued aggressive capital investments. Although debt is on an upward trend due partly to a heavier working capital burden, the balance between debt and cash flow as well as the debt-equity structure will likely be maintained at a sound level for the rating on the back of stable earning and cash flow generating capacities. Based on the aforementioned considerations, R&I has affirmed the Issuer Rating at A-, and changed the Rating Outlook to Positive.

The primary rating methodologies applied to this rating are provided at "R&I's Basic Methodology for Corporate Credit Ratings" and "Minimills (Ordinary and Special Steel)". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html
# NEWS RELEASE

## R&I RATINGS:

**ISSUER:** Daido Steel Co., Ltd. (Sec. Code: 5471)

**Issuer Rating**

**RATING:** A-, Affirmed

**RATING OUTLOOK:** Positive, Changed from Stable

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<tr>
<th>Issue</th>
<th>Issue Date</th>
<th>Maturity Date</th>
<th>Issue Amount (mn)</th>
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<tr>
<td>Unsec. Str. Bonds No.12</td>
<td>Mar 07, 2017</td>
<td>Mar 07, 2022</td>
<td>JPY 10,000</td>
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<td>Dec 12, 2028</td>
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<td>Jul 17, 2026</td>
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**Commercial Paper**

**ISSUE LIMIT (mn):** JPY 50,000

**SUPPORT:** Unsecured

**RATING:** a-1, Affirmed

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