
Aichi Steel Group FY2024-2026 Medium-Term Management Plan

May 30, 2024

**Aichi Steel Corporation
President, Naohide Goto**

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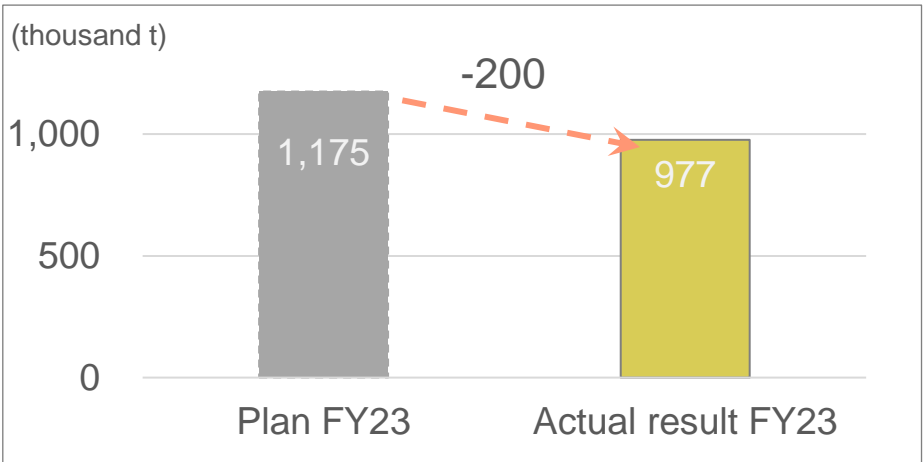
1. Review of the FY2021-2023
Medium-Term Management Plan
2. The Management Environment
3. Corporate Policy for FY2024-2026



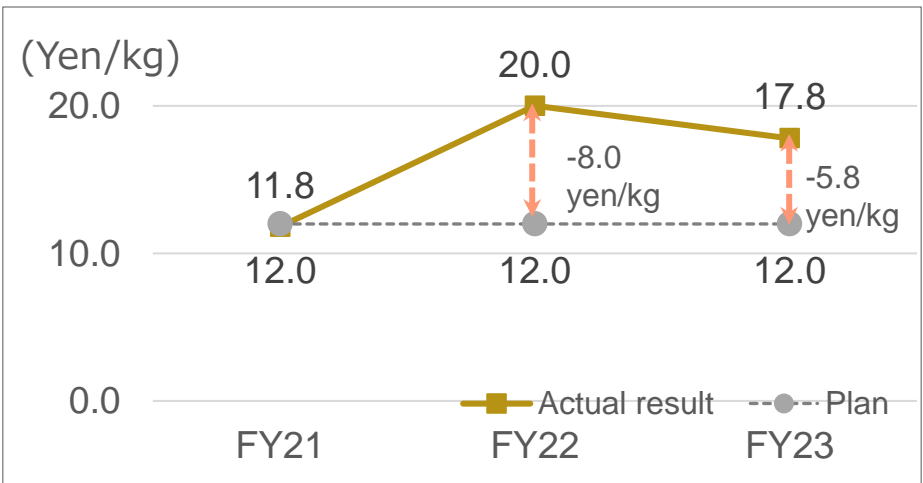
1. Review of the FY2021-2023 Medium-Term Management Plan

● Profit plan

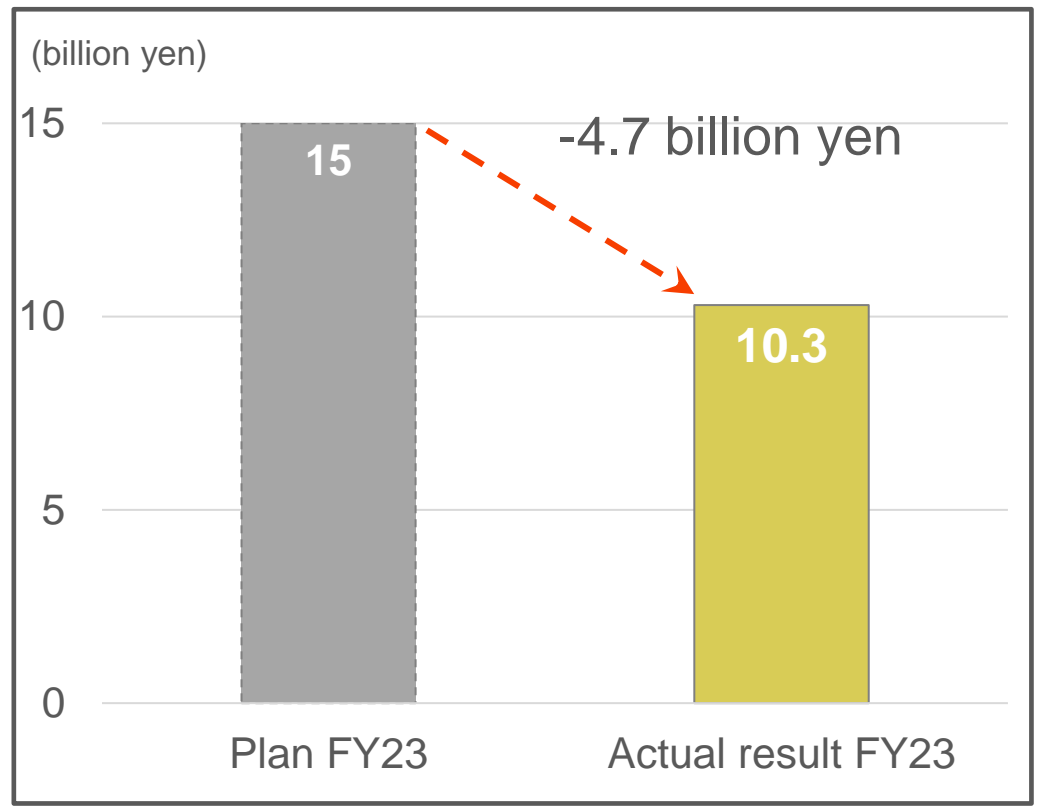
< Sales volume >



< Electricity costs >



< Operating profit >



Fluctuations in the business environment were larger than expected, and we could not keep track. Operating profit was significantly below the plan

2. The Management Environment

< The surrounding business environment >

- Growing social interest in **sustainability** (carbon neutral (CN), electrification of blast furnaces)
- **Geopolitical risks** such as US-China economic conflict
- **Market growth in emerging countries**, including the Global South
- **Progress in the electrification** of cars
- **Low birthrates and aging** in developed countries




< the Company issues >

- **Grasping changes in the business environment quickly and responding to customer needs accurately**
- **Strengthening of business adapting to the progress of electrification of cars and the promotion of growth measures**
- **Contributions to the resolution of new social issues and commercialization**

3. FY2024-2026 Medium-Term Management Plan

◆ Basic policy

Having proven once again over the next three years that we are a “good company” and a “growing company” that society needs, we will maximize corporate value

- 
- 1. We will strengthen earning capability and ensure our growth strategy**
 - 2. We will promote the creation of social value**

3. FY2024-2026 Medium-Term Management Plan

1. We will strengthen earning capability and ensure our growth strategy

- Value creation with a sense of speed
- **Align with customers and meet expectations**
- **Dig deep into customer needs and take advantage of our knowledge and technology of a materials manufacturer to be of use from the stage prior to developing parts and components**



Consider thoroughly what kinds of materials, technologies and parts will be necessary for the resolution of customers' problems with integrated sales and development function

3. FY2024-2026 Medium-Term Management Plan

1. We will strengthen earning capability and ensure our growth strategy



Value creation

- Building of portfolio and planning and execution of business models to earn
- Planning and execution of sales reform

- We will realize technological development that contributes to customer needs in collaboration with sales management
- Development of seeds that contributes to commercialization from a long-term perspective

Marketing & Sales General Headquarters

[General Manager: Kazuya Fukatsu]

- Sales Planning Div. - New Business Development Dept.
- Toyota Sales Div.
- Specialty Steel Sales Div.
- Stainless Steel Sales Div.

Research and Development Headquarters

[General Manager: Hironari Mitarai]

- Development Planning Div.
- Frontier Research and Development Div.
- Products Development Div. - Elemental Technologies Development for EV Motor Dept.
- Material Testing Technology Div.

- New establishment of New Business Development Dept in Marketing & Sales General Headquarters
: Searching for new needs and promoting the commercialization of developed products
- New establishment of Elemental Technologies Development for EV Motor Dept in Research and Development Headquarters
: Acceleration of the commercialization of parts and materials

3. FY2024-2026 Medium-Term Management Plan

1. We will strengthen earning capability and ensure our growth strategy

• Maximize the potential of Specialty steel and Forging

: Promotion of strategies looking to the future for core steel business

◆ Hagane Reborn (April 2023 -)

- Produce our own good products, inexpensive products with high **quality**, which is the spirit of our founding
- We contribute to **carbon neutrality** and the realization of mobility society as a **member of the Toyota Group** by providing better materials

Systemization for production of “small section continuous casting technology”

- CO2 reduction by shortening manufacturing processes (switch to heating once from twice)
- Ensuring upward flexibility of production



Consideration of “energy-saving electric furnaces”

- CO2 reductions, cost reductions



We will contribute to carbon neutrality by perfecting the manufacturing we have cultivated since our founding

3. FY2024-2026 Medium-Term Management Plan

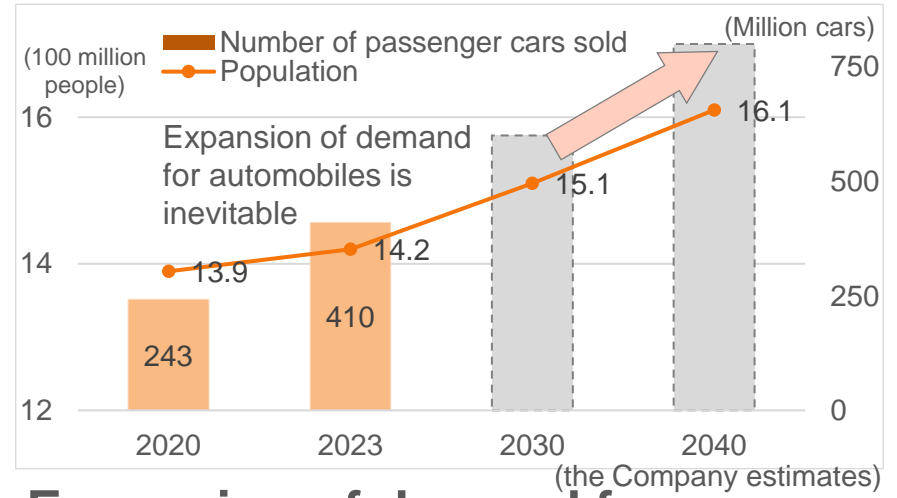
1. We will strengthen earning capability and ensure our growth strategy

• Maximize the potential of Specialty steel and Forging

: Promotion of a global strategy for specialty steel with an eye on growth markets

◆ India in the Global South is a promising growth market

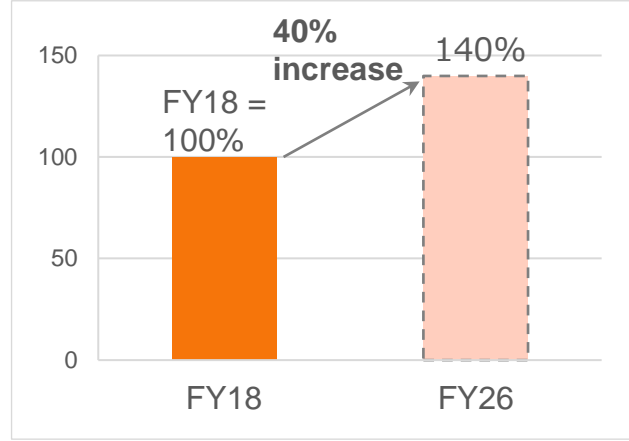
< Forecasts of India's population and passenger car sales >



Expansion of demand for Specialty steel in India

◆ FY19: Investment in Vardhman Special Steels Limited ("Vardhman")

< Vardhman's manufacturing capacity (compared with pre-support) >



Improvement of quality and expansion of manufacturing capacity through support by dispatching engineers

◆ New sales expansion in India

We were the first to obtain approval for steel for gears using Indian materials from Japanese automobile manufacturers

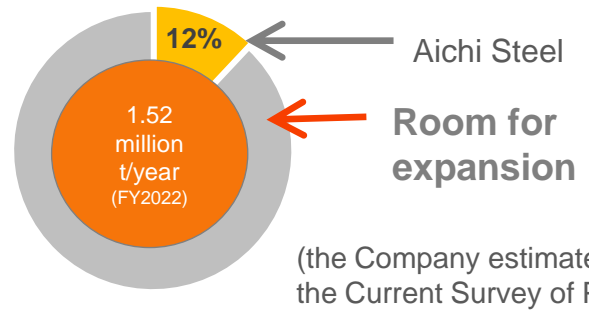
We will contribute to the realization of mobility society in growth markets in cooperation with partners

3. FY2024-2026 Medium-Term Management Plan

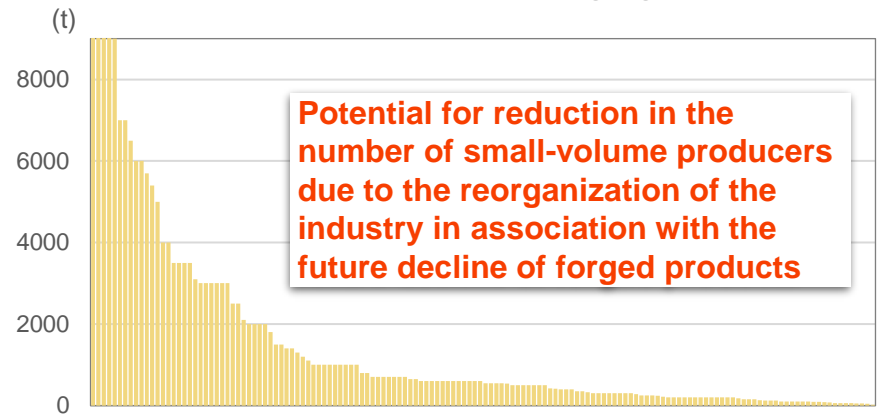
1. We will strengthen earning capability and ensure our growth strategy

- Maximize the potential of Specialty steel and Forging : Development of next-generation forging methods with an eye on the reorganization of the forging industry

< Production quantity of hot forged products for automobiles >



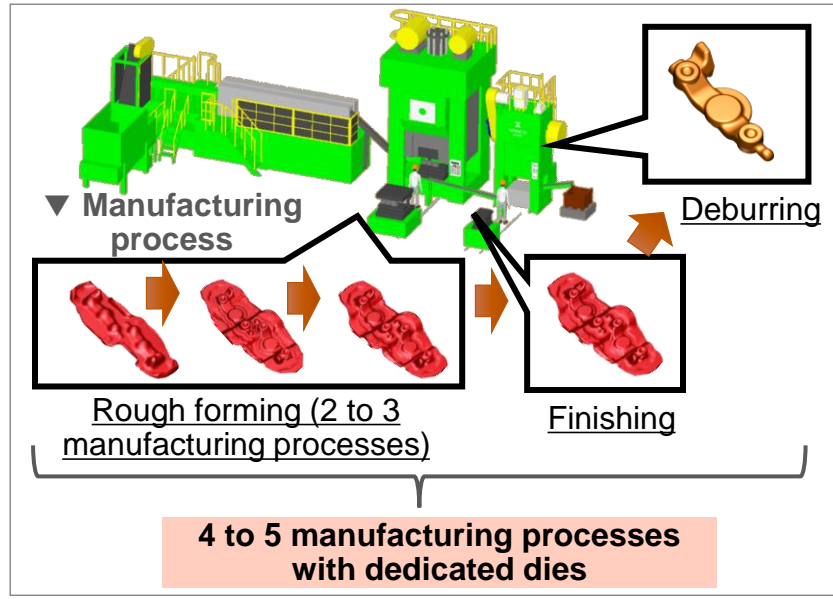
< Production volume of domestic forging companies >



< Development of new manufacturing processes >

We will work on the high-mix, low-volume production that will be required from now on

Conventional die forging



The issue for high-mix, low-volume production

Costs increase as the number of dedicated dies increases **in association with making more various products**

Countermeasures

Shapes are made freely by rotational sequential molding using general purpose dies, reducing the rough forming process and dedicated dies

=> Switch to common dies + manufacturing process reduction (Setup time reductions)

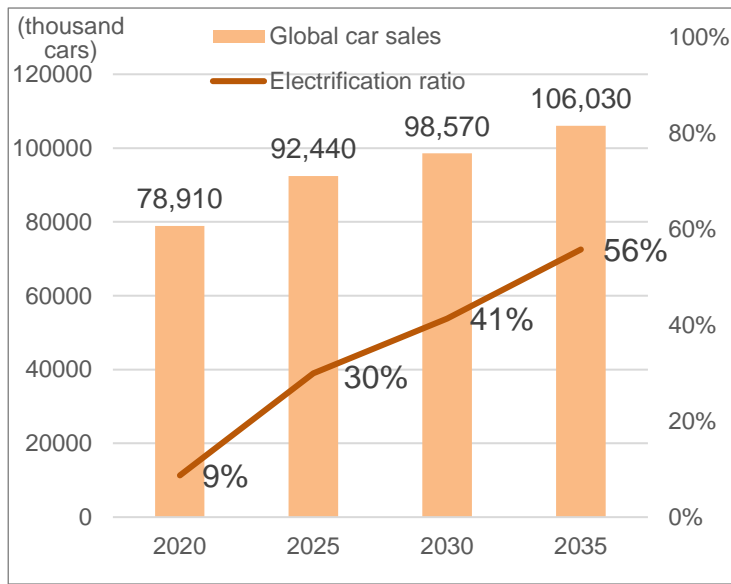
We will contribute to the maintenance of the supply chain with high-mix, low-volume production

3. FY2024-2026 Medium-Term Management Plan

1. We will strengthen earning capability and ensure our growth strategy

- Maximize the potential of Specialty steel and Forging
- : Taking on the challenge of new areas

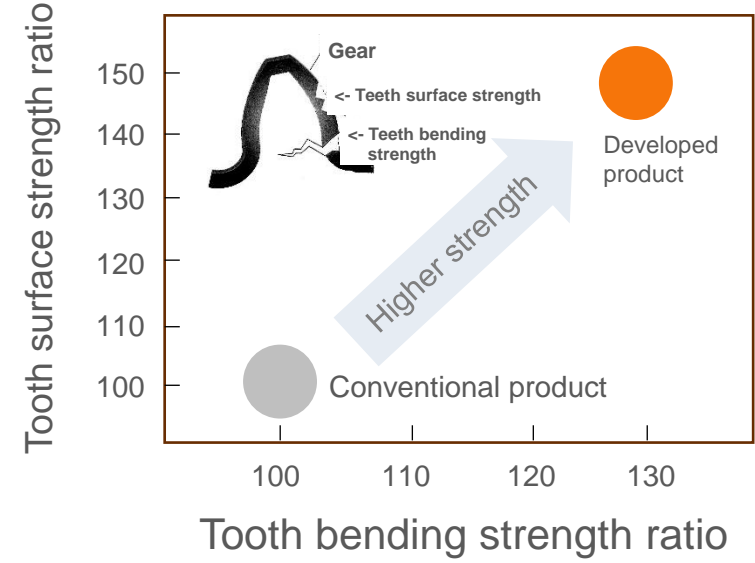
< Electrification ratio >



(Prepared by the Company based on Yano Research Institute data)

< High strength gear steel >

We will realize high strength that contributes to miniaturization through the fusion of materials, forging and surface modification technologies



< e-Axle parts >

We will aim for parts orders in response to the expansion of demand for e-Axles



Rotor shaft with gear



Gear

We will contribute to the progress of electrification of cars through our integrated forging with steel making processes

3. FY2024-2026 Medium-Term Management Plan

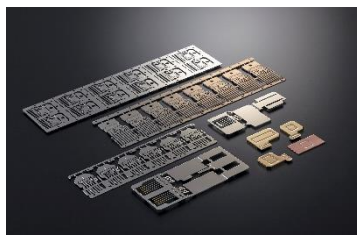
1. We will strengthen earning capability and ensure our growth strategy

- Promotion of the growth of new business: Power card lead frames
- We will follow the progress of electrification with certain handling of increasing demand

< Precision machining >
Micrometer-level dimensional precision press

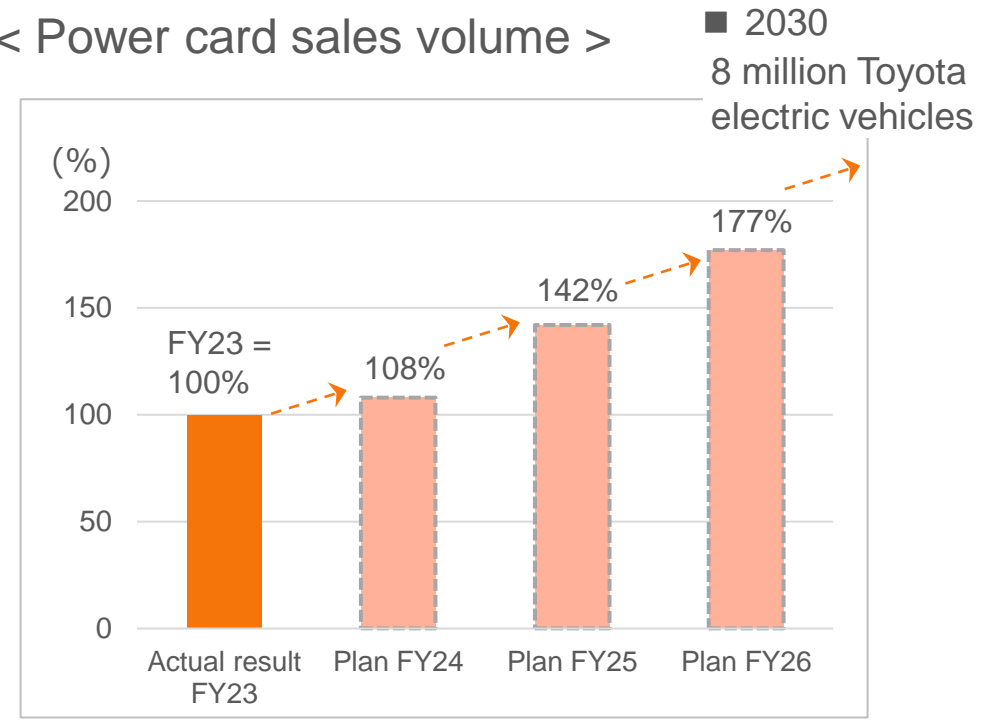
< Surface treatment >
Highly clean and reliable plating

< Imaging inspection >
Uniquely designed DX image inspection device



We guarantee high quality that meets customers' expectations through our integrated production

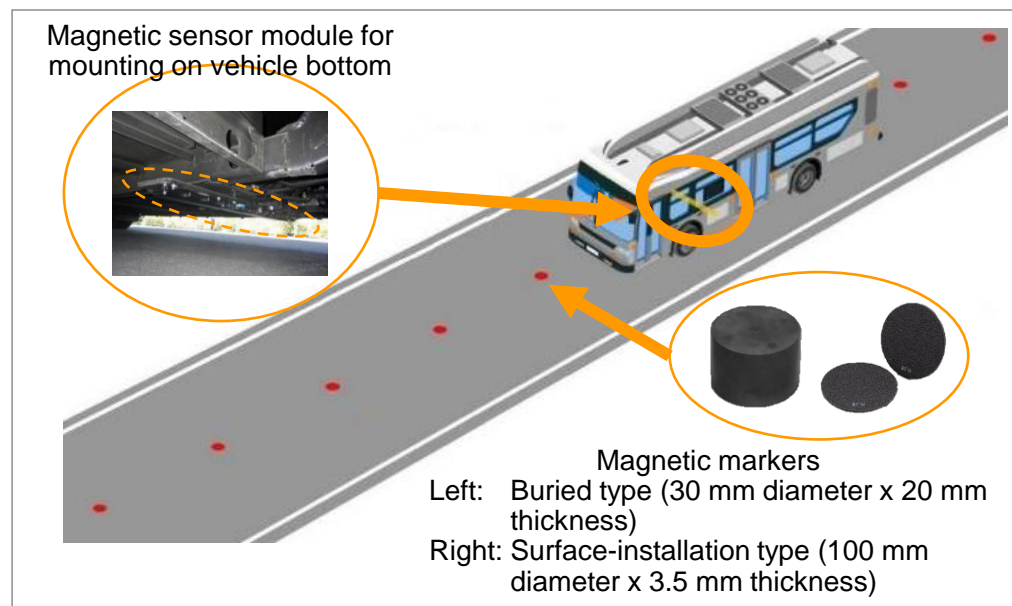
< Power card sales volume >



We will contribute to the competitiveness of electric vehicles by further enhancing quality assurance level

3. FY2024-2026 Medium-Term Management Plan

- Promotion of the growth of new business: GMPS
- We will use our strengths and promote commercialization from demonstration experiments to social implementation with certainty

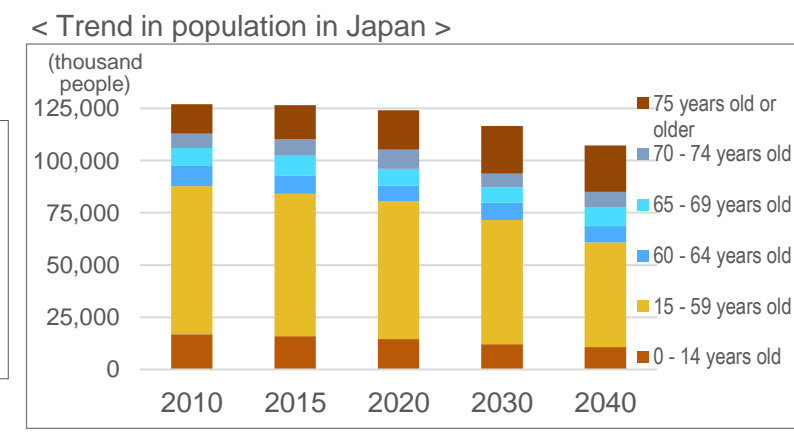


Strengths: Identification of vehicle position to +/- 5 mm is possible even in tunnels or underground, where GPS cannot reach, or in conditions of snow cover, fog, backlight, etc., where optical devices do not work well

1. We will strengthen earning capability and ensure our growth strategy

◆ Use for the resolution of social issues

- Aging population with fewer children
- The 2024 logistics issues



◆ On-premises logistics market size (the Company estimates)

Domestic factories 240 locations
 Overseas factories 400 locations
≥ 80 billion yen

We will contribute to human resource savings for customers through unmanned transportation in house factory logistics using GMPS

3. FY2024-2026 Medium-Term Management Plan

- Promotion of the growth of new business: Magnets
- Expanding business by leveraging MAGFINE'S strengths

◆ Rare earth procurement risks become normal due to US-China economic conflict



- **Non-use of heavy rare earths: Dy (dysprosium), Tb (terbium), Co (cobalt)**
- **Reduction of risk through the MAGFINE technology strategy**

- 1. Reduction of consumption in consideration of resource saving
 - **Improvement of yield by integrated injection molding**
 - Use of resource-rich rare earths (La, Ce) (Reduction in use of neodymium)
- 2. Good recyclability
 - **Reuse of magnetic powder from collected magnets**



1. We will strengthen earning capability and ensure our growth strategy

◆ Initiatives for the expansion of business

Neodymium market (20,000 t/month)
(the Company estimates)
Applications: Home appliances, automobiles, wind power generation, etc.



We will aim for 1% of the market (200 t/month) by 2030

- Automobile electric water pump (EWP)
- Home appliances (drones, electric bicycles)

We will contribute to stable supply by reducing the procurement of rare earths using our technological capabilities

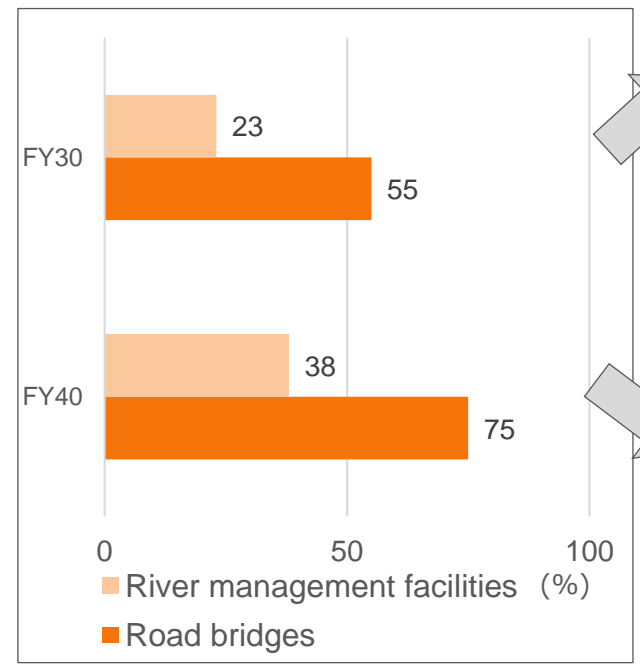
3. FY2024-2026 Medium-Term Management Plan

1. We will strengthen earning capability and ensure our growth strategy

Contributions to society through materials: Stainless steel

◆ Use in aging infrastructure countermeasures

< Percentage of infrastructure in excess of 50 years after construction >



(Source: Ministry of Land, Infrastructure, Transport and Tourism)

[River management facilities]

Renewal of floodgates and other gates

- We will maintain facility functions through the repair and partial renewal of aging gates

Switching to stainless steel improves durability

Examples of the use of stainless steel (Source: Ministry of Land, Infrastructure, Transport and Tourism)

[Road bridges]

As a co-researcher with the Public Works Research Institute (PWRI), we confirmed the usefulness (high durability) of stainless steel reinforcement in road bridges

Renovation of electric furnaces for stainless steel (March, 2023)

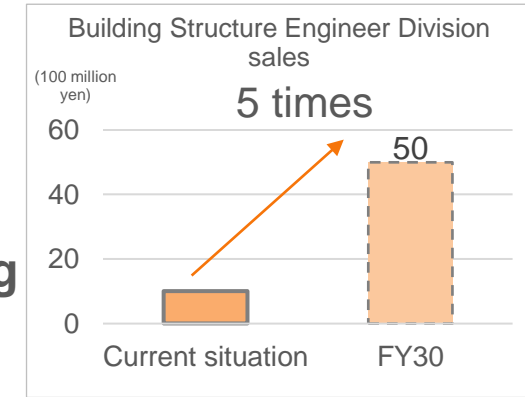


◆ Handling of increased demand

- 30% increase in production capacity by FY2026 (compared to FY2023)
- Strengthening of structure engineering functions
- **Strengthening of integrated handling capabilities from design partnership to plant manufacture and on-site construction**

The group company AIKO has **obtained a general construction license**

In addition to construction production, it is also **promoting the switch to insourcing at on-site construction**



We will promote the generalization of use in infrastructure

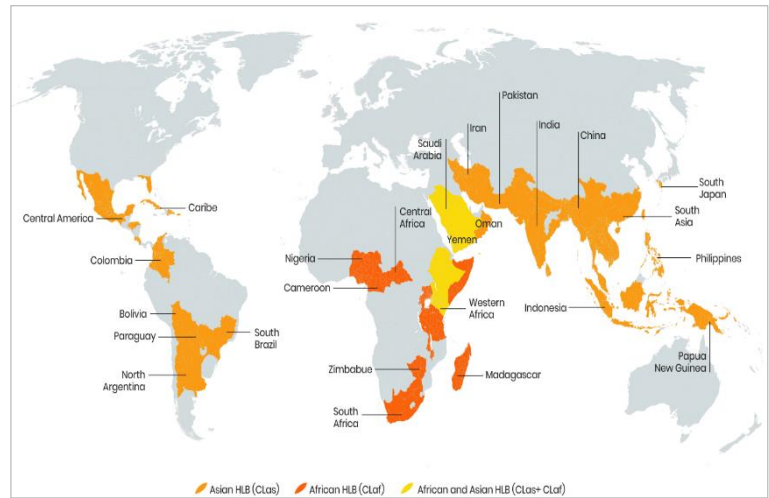
We will appeal to the superiority of stainless steel and contribute to measures against the aging of social capital

3. FY2024-2026 Medium-Term Management Plan

1. We will strengthen earning capability and ensure our growth strategy

Promotion of the growth of new business: Iron Fertilizer

◆ Citrus greening disease (CG) (CG) is spreading worldwide



[prevent HLB epidemics - Prevent HLB \(prehlb.eu\)](http://prehlb.eu)

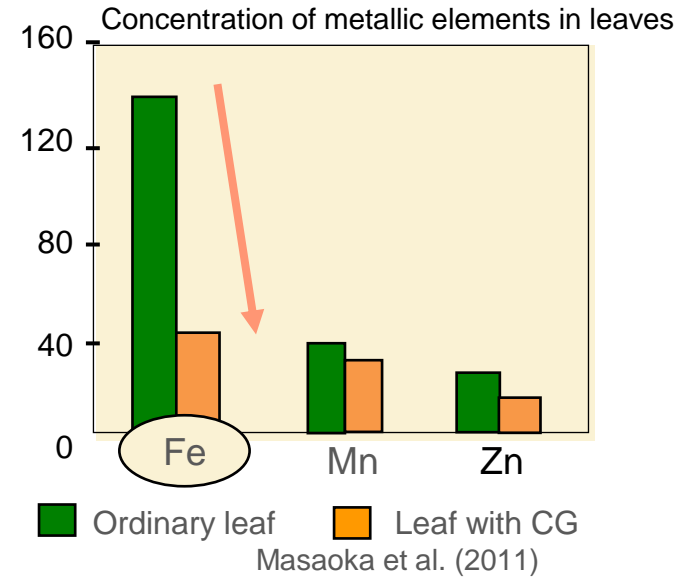
Reduction in orange yields

- US -> reduced by half in 10 years
- Brazil -> reduced by 24% compared to last year

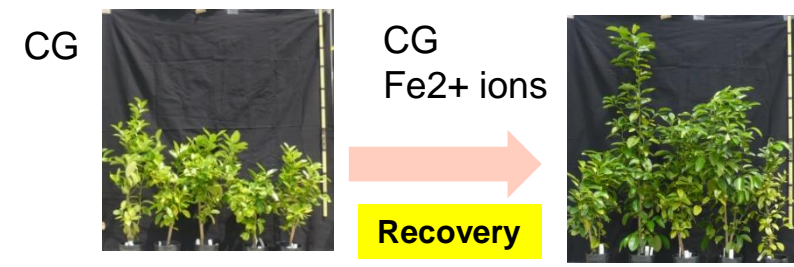
• Leaves infected with CG are white and show iron-deficiency-like symptoms



• The iron content decreases in leaves with CG



◆ To improve iron deficiency, we spray the Company's Fe²⁺ ions solution, which is absorbed easily by plants



There was a **70%** yield increase in a 3-year demonstration experiment at a US test farm

◆ Initiatives for the expansion of business

We will shift from demonstration experiments on test farms to trial sales

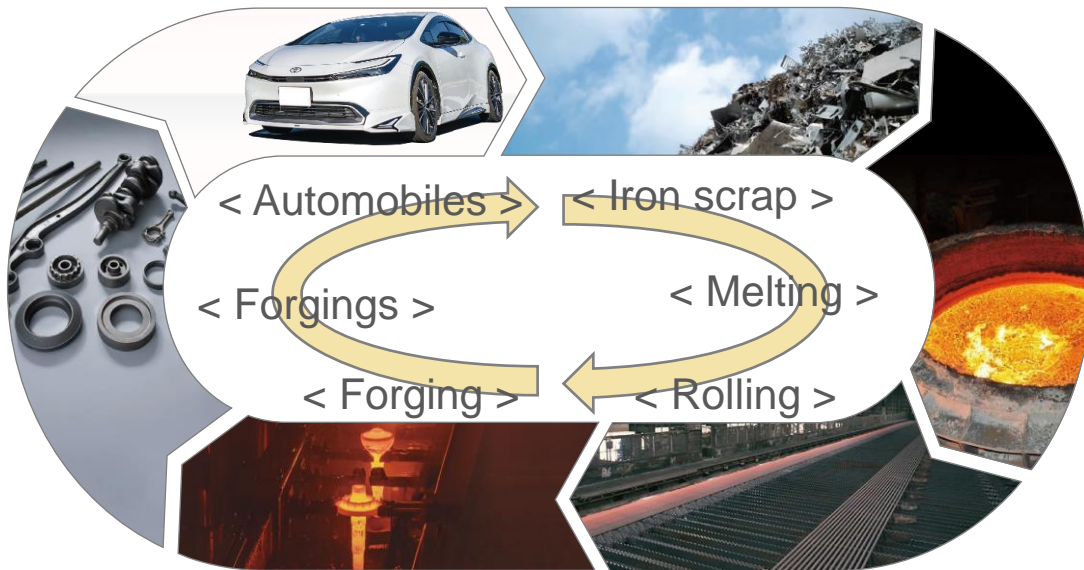
We will contribute to the resolution of global agricultural problems by utilizing our material DNA

3. FY2024-2026 Medium-Term Management Plan

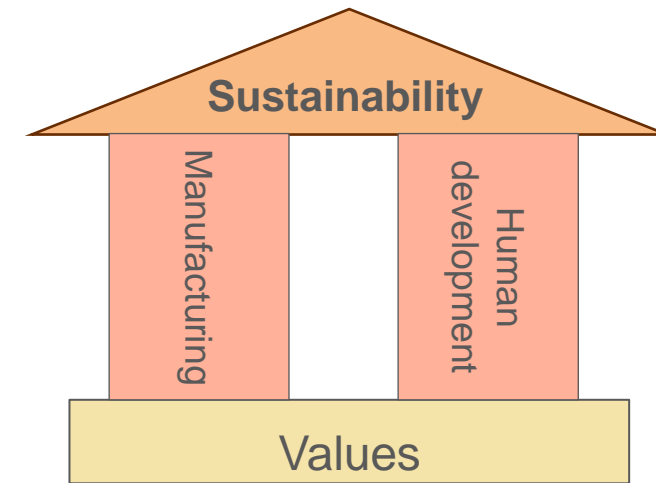
2. We will promote the creation of social value

- Handling of sustainability issues
- We newly established Sustainability Promotion Department in April 24 to commit thoroughly to the circular economy, the identity of the Company

< Resource recycling-type manufacturing >



We will realize sustainability unique to the Company through human development and manufacturing



We will contribute to the realization of a sustainable society by increasing corporate value with sustainability unique to us

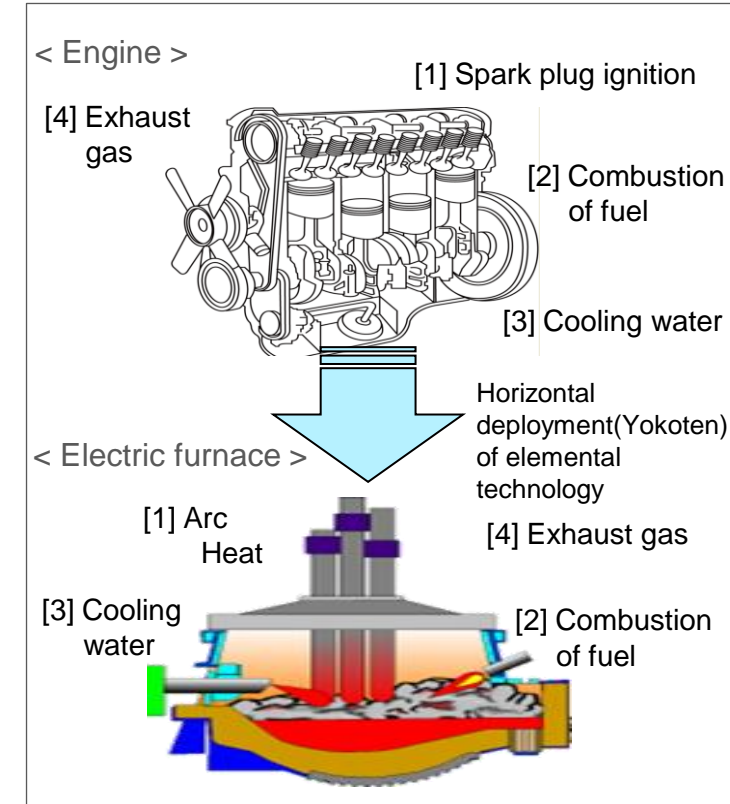
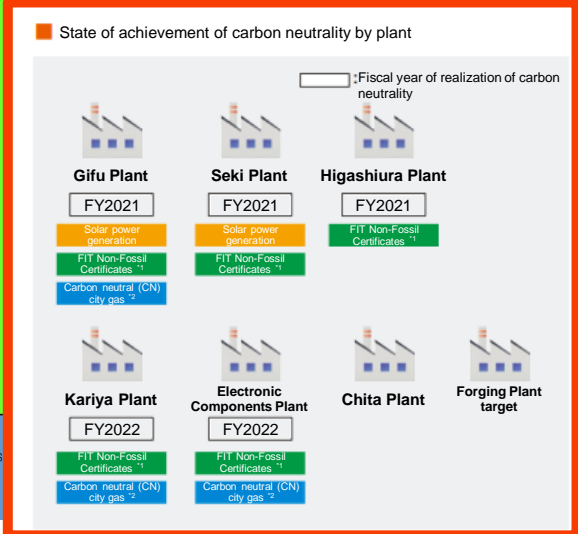
3. FY2024-2026 Medium-Term Management Plan

2. We will promote the creation of social value

(Reference) Initiatives for carbon neutrality

We are considering Toyota's thermal management technology for the realization of next-generation energy-saving electric furnaces

Implementation items	Investment amount (million yen)	Running costs (million yen/year)	CO ₂ reduction effect (tons/year)	Person in charge	Year of achievement	Subcommittee	FY21-23 Medium-Term Management Plan			FY24-26 Medium-Term Management Plan			FY27-30 Medium-Term Management Plan			
							FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Chita Plant target							Actual value * Power coefficient 2023 fixed / change in power coefficient in ()									
Energy saving improvement themes for FY2024 to FY2026							Energy saving budget 1 → Energy saving budget 2 → Energy saving budget 3 → Energy saving									
Energy saving improvement themes for FY2027 to FY2030							Actual value: Power coefficient 2023 fixed / change in power coefficient in ()									
Innovative electric furnaces							Material heating in furnace - improvement of efficiency									
Kariya Plant target (CN model plant)							Achievement of CN (2022)									
1. Energy saving process reform							<ul style="list-style-type: none"> Reduction of intensity by improvement of facilities Reduction of intensity by improvement of operations 									
2. Use of renewable energy							<ul style="list-style-type: none"> Electric power: Purchasing of renewable energy - bidding for FIT Non-Fossil Certificates Gas: Purchasing of CN city gas 									
3. Use of CO ₂ -free technology							<ul style="list-style-type: none"> Conversion of fuel to hydrogen and ammonia -> targeting hydrogen 									

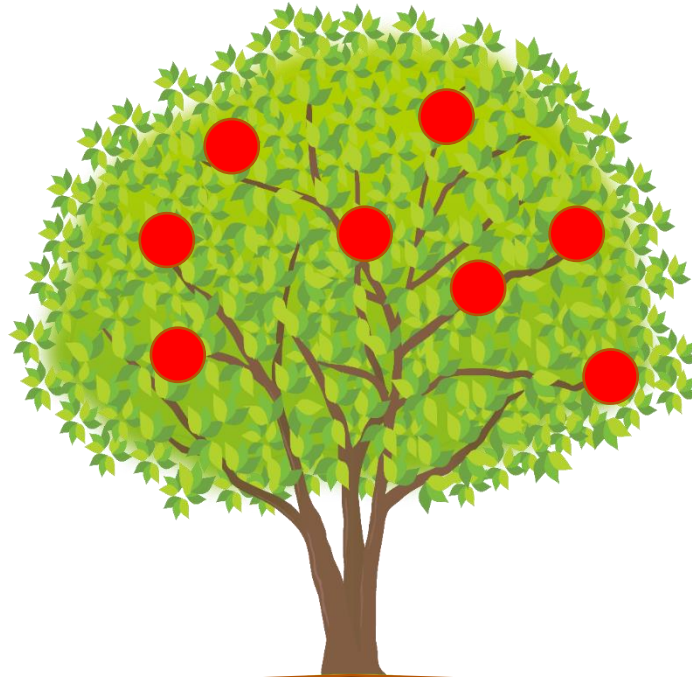


We will achieve CN at 5 Plants (Kariya, Electronic Components, Higashiura, Gifu, Seki) to contribute to the reduction of CO2 emissions

3. FY2024-2026 Medium-Term Management Plan

2. We will promote the creation of social value

- Fostering of a strict, but warm culture within which people grow



“Our greatest assets are human resources”

- ◆ An environment in which human resources grow naturally

- Caring
- Values
- TPS, problem resolution

We will contribute to society through the development of human resources who can realize sustainability

3. FY2024-2026 Medium-Term Management Plan

2. We will promote the creation of social value

- Financial strategy for sustainable growth in the future



Financial indicators (end-March, 2024)

Financial health	Capital efficiency	Market valuation
D/E ratio: 0.29	ROE: 2.9%	PBR: 0.31
○	×	×

Even though our financial strength is good, we receive a low market evaluation due to low profitability and capital efficiency

Management targets (new Medium-Term Management Plan)

Financial health	Capital efficiency	Market valuation
D/E ratio: 0.3 to 0.5	ROE: 4% or higher	PBR: 0.5 or higher

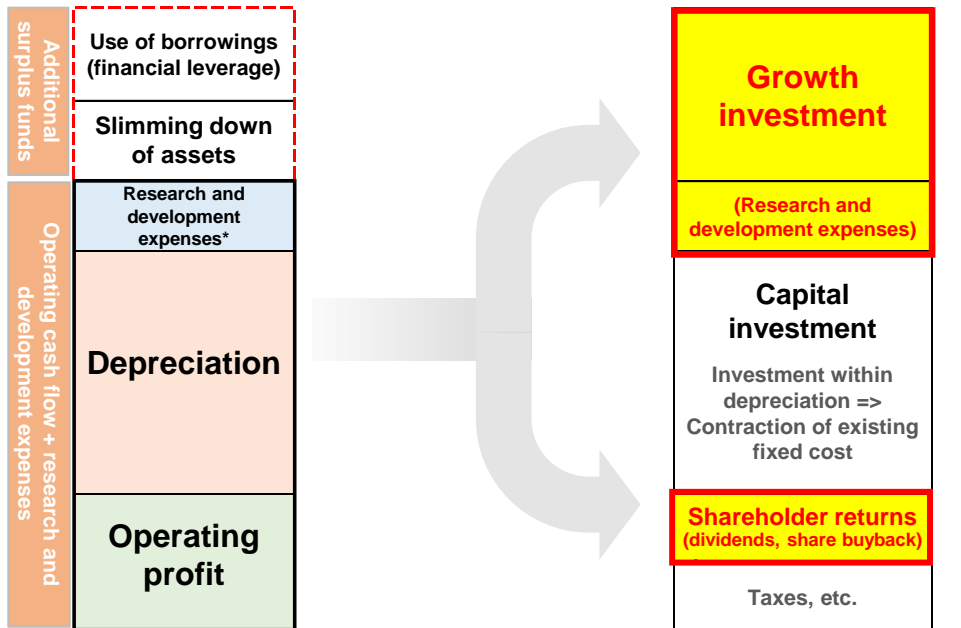
We will meet investors’ expectations through positive allocations to “growth investment” and “shareholder return” based on medium to long-term strategies

3. FY2024-2026 Medium-Term Management Plan

• Capital allocation policy

**Generation of cash
100 billion yen or more
(3 years)**

**Positive allocation to
“growth investment” and
“shareholder returns”**



* Research and development expenses, which are costs when calculating operating profit, are stated externally

2. We will promote the creation of social value

< Cash in >

- ◆ Pursuit of optimal capital structure
=> Use of financial leverage (D/E ratio 0.3 to 0.5 x)
- ◆ Slimming down of assets
=> Sale of cross-shareholdings (less than 10% of net assets), etc.
- ◆ Strengthening of earning power

< Cash out >

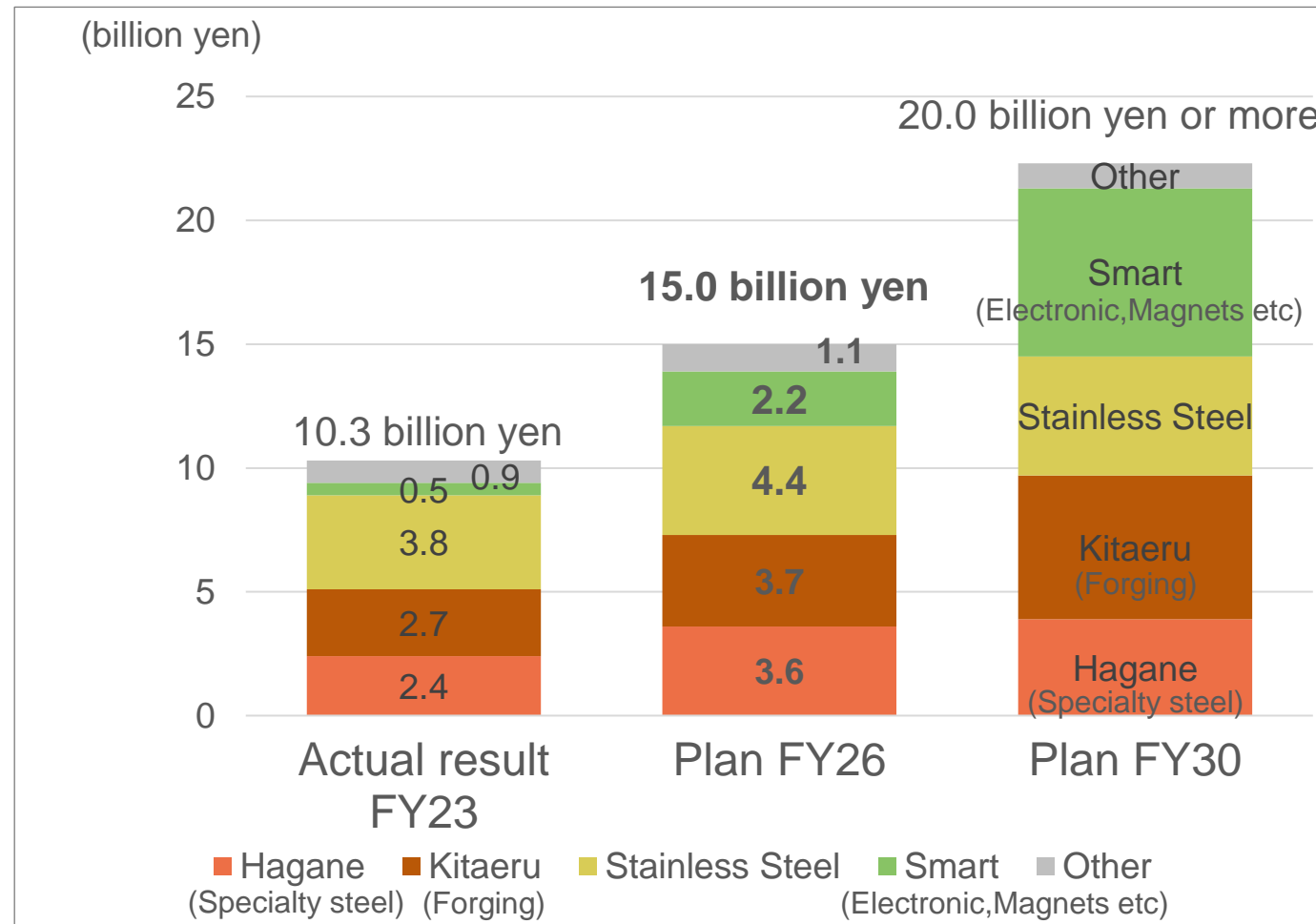
- ◆ We will invest cash “positively” in future growth investment
- ◆ Enhancement of shareholder returns
=> Dividend payout ratio (30% => Dividend payout ratio above the previous level based on stable dividends)
=> Share buyback(to be implemented based on trends of existing shareholders)

+

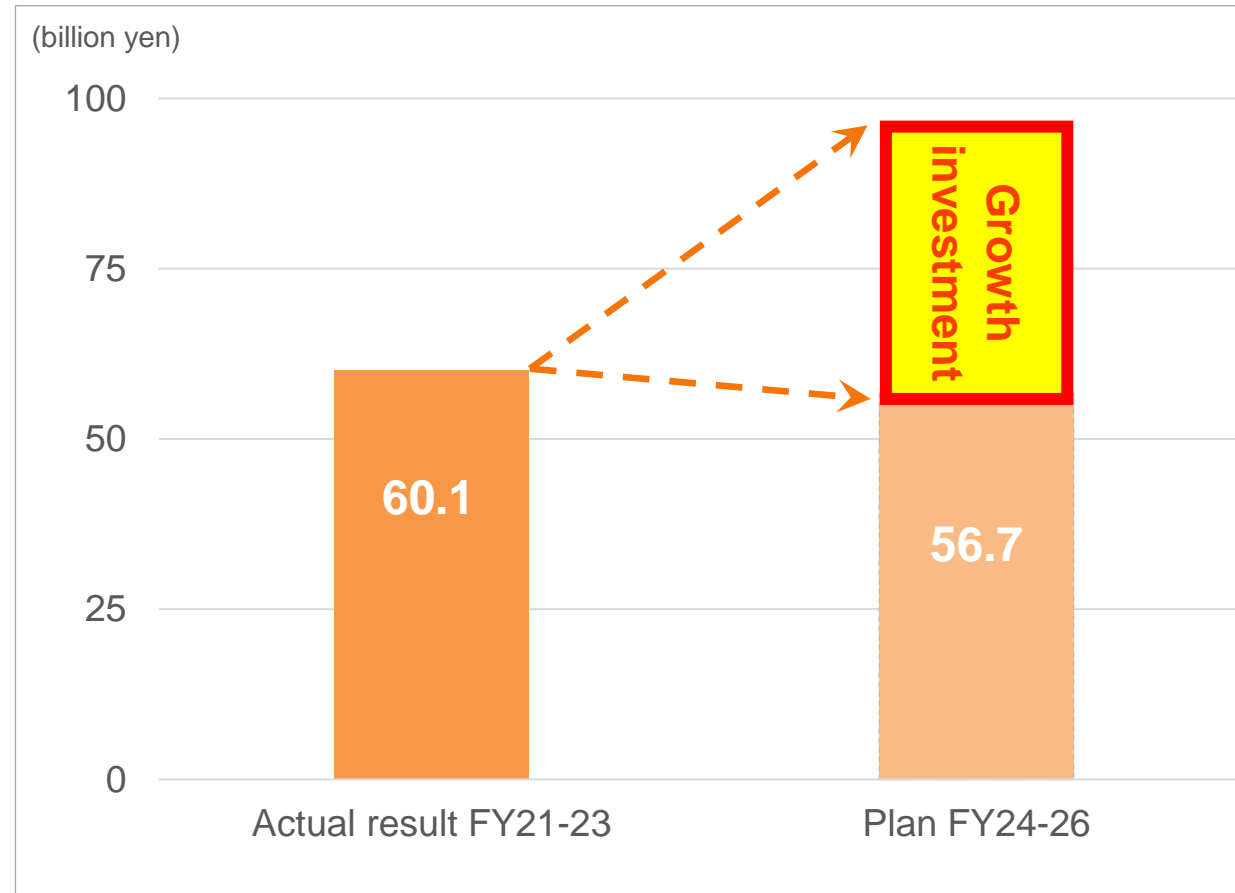
- ◆ Improvement of market valuation
=> Improvement of liquidity through stock splits (to be implemented based on stock price trends, etc.)
=> Compelling IR activities (appeals to growth strategies and ESG initiatives)

We will improve PBR through growth strategies and the enhancement of shareholder returns (PBR of 1x in FY2030)

< Profit plan >



< Capital investment >



(Amounts are on a non-consolidated, budgeted basis)

Thank you very much.

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AICHI STEEL

*Innovate Materials.
Create Tomorrow.*