

BUSINESS STRATEGY / FINANCIAL STRATEGY

Business Strategy



Building on the achievements of the first year of the Medium-term Management Plan to create further business value

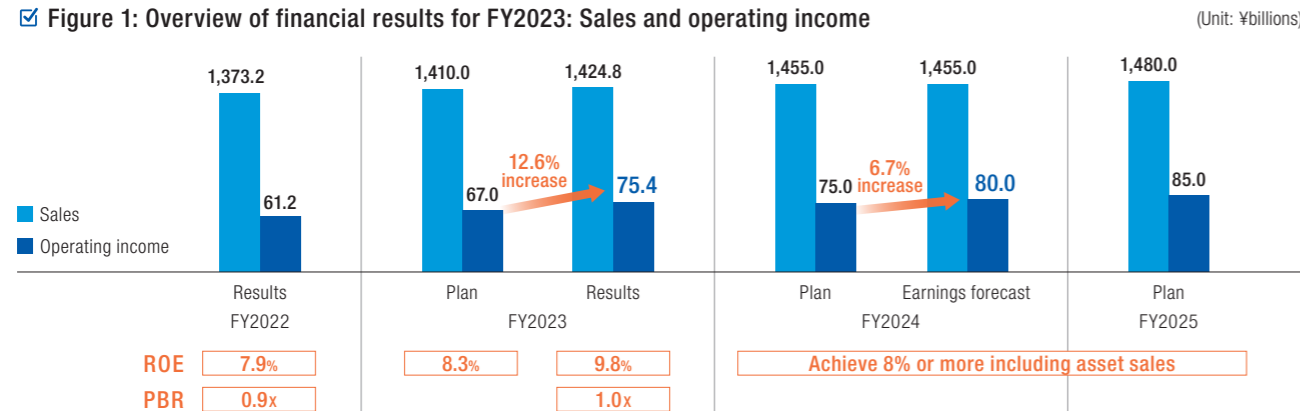
Mitsuru Tsuchiya, Senior Executive Corporate Officer

Goals and progress of the Medium-term Management Plan

The DNP Group's Corporate Philosophy is to connect individuals and society, and provide new value. We are dedicated to creating a better, more sustainable society and a well-being life. Our commitment is to address social issues, create new value that meets people's expectations, and make that value a constant, everyday presence in people's lives. This dedication is embodied in our brand statement: "Creating future standards." Through these efforts, we aim to create a sustainable business and shareholder value, striving to achieve return on equity (ROE) of 10% and a price-to-book ratio (PBR) exceeding 1.0 as early as possible.

To achieve this, our current Medium-term Management Plan for fiscal 2023 to fiscal 2025 categorizes DNP's businesses into four areas—"growth-driving businesses," "new business," "stable business" and "business for reforming"—based on two axes: growth potential/attractiveness of the market, and business profitability. We will optimally allocate management resources to each business area and implement the best strategies to build a robust business portfolio that can leverage our strengths over the medium to long term, enhancing profitability and capital efficiency. (See diagram on page 10.)

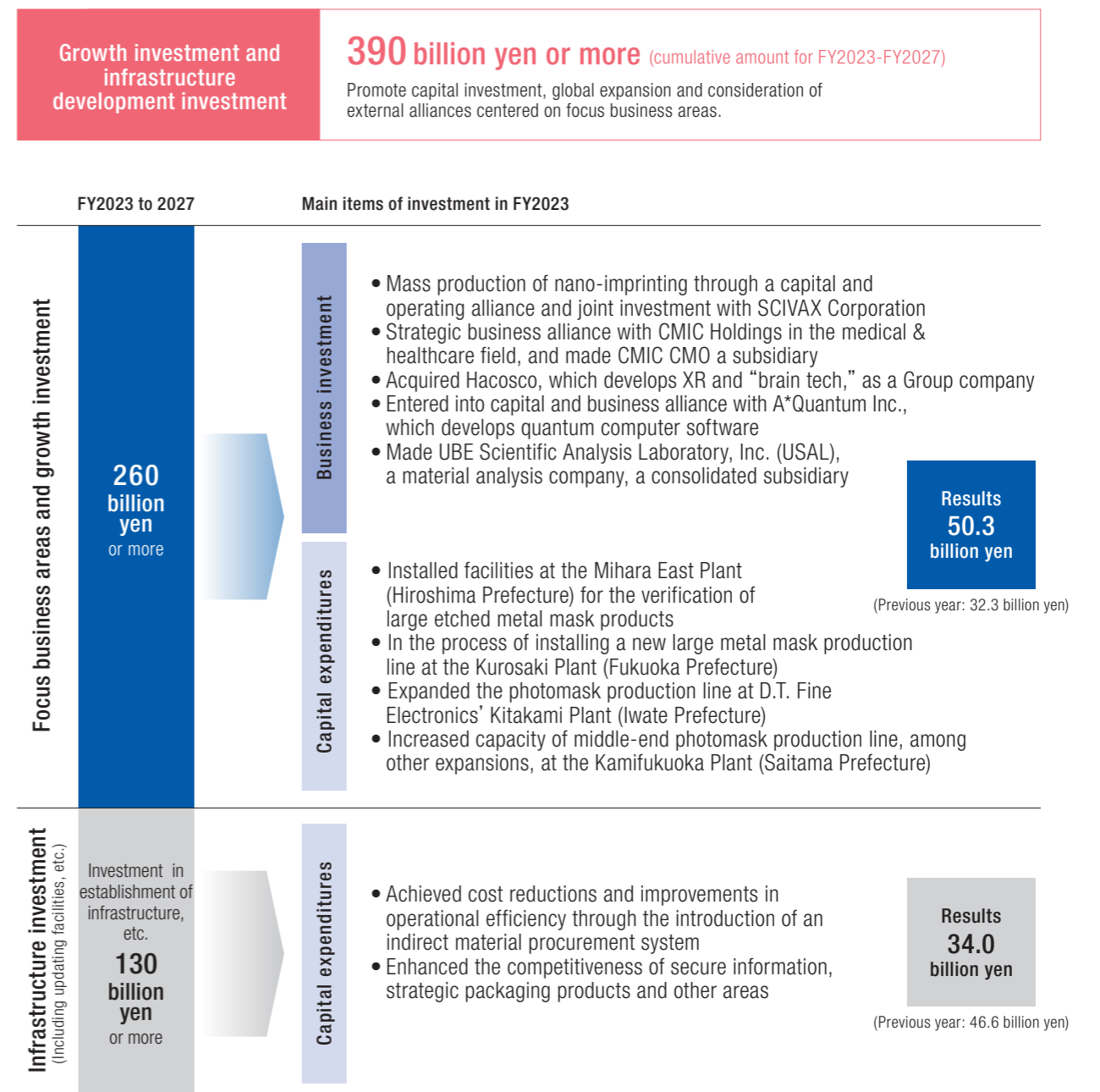
Figure 1: Overview of financial results for FY2023: Sales and operating income



In the first year of this Medium-term Management Plan, fiscal 2023, we achieved a high level of results through the steady execution of initiatives aimed at enhancing corporate value. Operating income reached 75.4 billion yen, an increase of 23.2% compared to the previous year and 12.6% above the initial target, due to the strong performance of growth-driving businesses such as digital interface. This represents the highest level in the past decade. Net income attributable to parent company shareholders was 110.9 billion yen, an increase of 29.5% compared to the previous year and 26.1% above the initial target, marking the highest profit in DNP's history. ROE reached 9.8%, up 1.9 percentage points from the

previous year and 1.5 percentage points above the initial target, approaching our medium- to long-term goal of 10%. For fiscal 2024, we expect that growth-driving businesses will continue to perform strongly, and improvements in the profitability of business for reforming will also contribute. We anticipate operating income to reach 80 billion yen—6.7% above the initial target of 75 billion yen. However, the strong performance in fiscal 2023 includes temporary factors, such as the recording of extraordinary gains from the sale of fixed assets. Therefore, we will accelerate the accumulation of business profit and work as one Group to achieve our goals.

Figure 2: Investment in focus business areas, etc.



Business Strategy

Regarding the business strategy of “concentrated investment in focus business areas,” we plan to allocate more than 260 billion yen of the total 390 billion yen over five years to these key business areas. In fiscal 2023, we invested 50.3 billion yen. In particular, we are actively investing in equipment

related to metal masks for OLED display manufacturing and photomasks for semiconductors in the Electronics segment, where market growth is expected. These investments are anticipated to contribute to future performance. For details on the investment targets, see Figure 2.

Figure 3: Structural reform of existing printing business and reallocation of management resources (FY2020–FY2023)

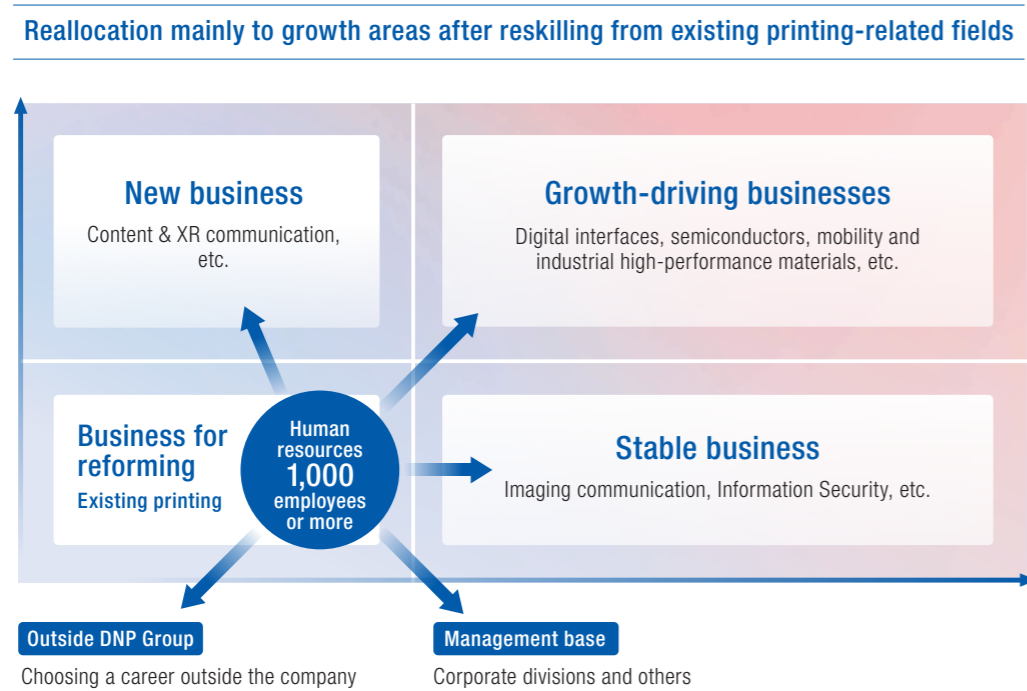
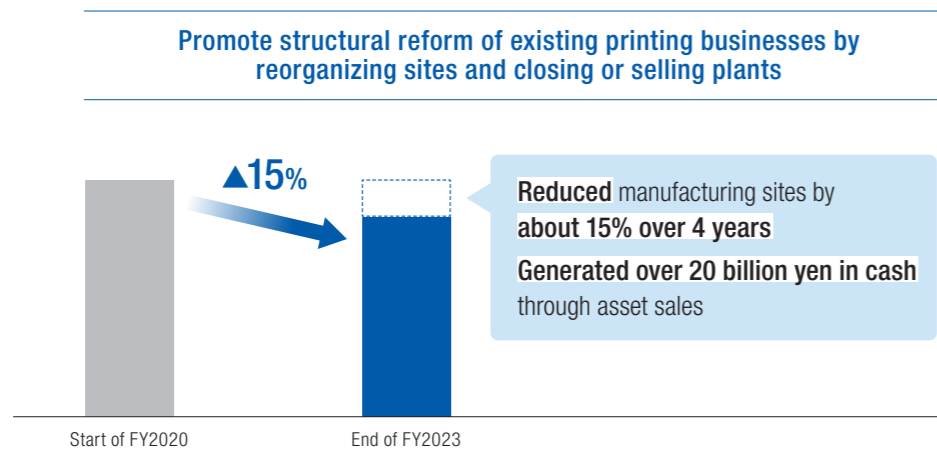


Figure 4: Profit improvement through structural reform of existing printing business and restructuring of manufacturing sites



We have also been continuously pursuing another business strategy, “business structure transformation.” Since fiscal 2020, we have redeployed over 1,000 employees from restructuring projects to growth areas through reskilling (see Figure 3). Additionally, we have reduced our manufacturing

sites by about 15% over the four years since fiscal 2020, generating over 20 billion yen in cash through asset sales (see Figure 4). We will continue to use these funds for growth investments and share repurchases, thereby further improving capital efficiency.

Initiatives by business segment

Smart Communication

The main businesses in the Smart Communication segment include the imaging communication business, which focuses on services related to photo printing, the Information Security business, which encompasses business process outsourcing (BPO) and smart card services, and the new business of content & XR communication.

In the stable business of imaging communication, demand for dye-sublimation thermal transfer media for photo prints, which holds a leading global market share, is expected to grow, particularly in emerging markets. We will continue to work on expanding our share further by developing applications and promoting sales tailored to regional characteristics, including the “Ki-Re-i” ID photo printing machines, which boast the largest number of installations in Japan.

In another stable business, Information Security, we expect

the market environment to remain steady. In particular, we will strengthen our competitiveness further by expanding high-value-added products, such as eco-friendly smart cards, where we maintain Japan’s top share.

In the content & XR communication business, we are committed to expanding and revitalizing the market by enhancing both the experiential and economic value for people through the integration of real and virtual spaces in the metaverse.

Meanwhile, for paper-based printed materials such as publication printing, commercial printing and business forms, which are expected to see market contraction, we will continue to drive structural reforms. This includes shifting human resources through reskilling to focus business areas and stable businesses and reorganizing manufacturing sites to optimize assets.

Market environment

*1 Market outlook is DNP forecasts based on various surveys

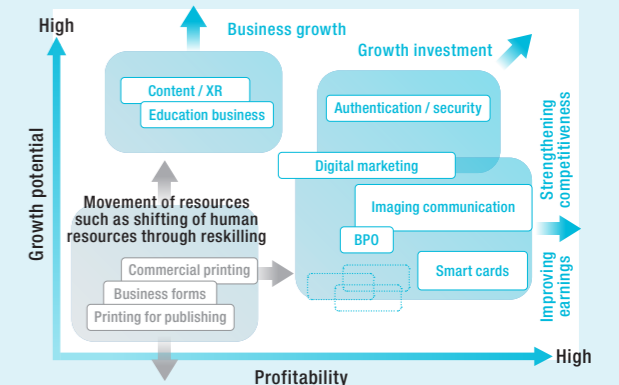
Main business segments		Market trends		Market outlook*1 (CAGR)
Imaging communication	Dye-sublimation thermal transfer printing media for photo prints	▲	<ul style="list-style-type: none"> Although demand declined in FY2020 due to the impact of COVID-19, it recovered from FY2021 onward. Increase in dry type including dye-sublimation thermal transfer printing media for photo prints due to switching from the silver halide method. 	+4% (2022–2027)
	BPO	▲	<ul style="list-style-type: none"> The market is expected to expand against a backdrop of work style reform and DX promotion due to labor and human resource shortages. Increase in the need for services that combine human operations with digital technology. 	+3% (2024–2027)
Information Security	Smart cards	→	<ul style="list-style-type: none"> Although the percentage of cashless payments has increased to over 35% due to the penetration of QR code payments, card payments still account for over 80% of the total, making them the mainstay of the shift to cashless payment. 	+1% (2022–2026)
	–	▼	<ul style="list-style-type: none"> Although the paper media market remains large at 1.7 trillion yen, it will continue to shrink slowly due to the progress of digitization. The digital marketing market will continue to expand. 	Paper media: -1.5% (2023 vs. 2022)
Marketing	–	▼	<ul style="list-style-type: none"> The paper media market for both magazines and books is expected to continue shrinking. Online bookstores and the e-book market are growing. 	Paper media: -5% (2023–2028)
Publishing	Books and magazines	▼	<ul style="list-style-type: none"> Overseas demand for comics, anime and games originating in Japan will grow, and the market for content development such as merchandise and services will be active. In addition to the demand for XR in the area of extraordinary experiences, utilization in various industries such as education and training is increasing. 	Expanding
New business	Content & XR communication	▲		

Main business strategies

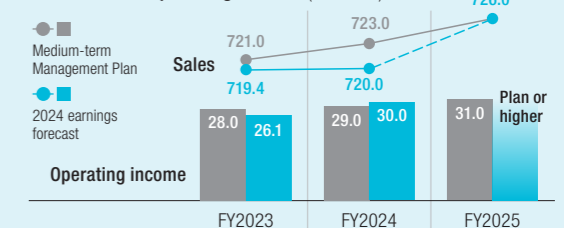
Main business segments	Strategy	
Imaging communication	Dye-sublimation thermal transfer printing media for photo prints	Aim to achieve a global market share of 70% or more by developing applications tailored to regional characteristics and expanding sales.
	Ink ribbons for ID cards	Capture demand for national ID cards in emerging countries, aiming for a 70% share of the global market for sublimation ribbons for ID cards.
Information Security	BPO	Expand the scope of business from outsourcing some operations to business reform with digitalization and support for reform.
	Smart cards	Maintain Japan’s top share by strengthening competitiveness and expanding high value-added products such as eco-friendly products and more.
New business	Content & XR communication	Accelerate IP content development in Japan and overseas by applying information processing and conversion technologies. Develop and implement common services for XR Communication® according to solutions for regional and corporate issues.

- ▶ Raise the level of profits mainly by expanding the dye-sublimation thermal transfer printing media with the leading global market share to emerging countries, etc., and by strengthening competitiveness and improving profitability of smart cards, with the leading market share in Japan
- ▶ Since the market for paper-based printed materials is expected to shrink, optimize assets by shifting human resources to growth business and stable business through reskilling and reorganizing manufacturing sites

Image of portfolio evolution



Sales and operating income (¥ billions)



Business Strategy

Life & Healthcare

The main businesses in the Life & Healthcare segment include mobility and industrial high-performance materials as a growth-driving business, medical & healthcare as a new business, as well as packaging, which encompasses environmentally conscious functional packaging and aseptic filling systems. It also covers living spaces, which deals with interior and exterior materials for residential and non-residential spaces, and beverages.

For mobility and industrial high-performance materials, the demand for battery pouches for lithium-ion batteries is expected to expand long-term, not only for electronic devices but also for automobiles, due to the growing trend toward electrification. To support this, we will continue to make the necessary investments. Automotive decorative films are projected to grow, both for interior applications and as an

alternative to painting for exterior use. In addition, the market for photovoltaic products is projected to continue growing globally. We will accelerate the global deployment of differentiated products utilizing DNP's core technologies.

For the new business of medical & healthcare, we will expand DNP's value-providing capabilities across the entire value chain, including pharmaceuticals and medical packaging, against the backdrop of steady growth in the global pharmaceutical market.

For packaging and living spaces, we will focus on improving efficiency for the domestic market while accurately capturing diverse demands in the high-growth overseas market. Our efforts will be directed towards developing and providing products and services that maximize value and business potential.

Market environment

*1 Market outlook is DNP forecasts based on various surveys *2 Total for EVs, PHEVs and HEVs

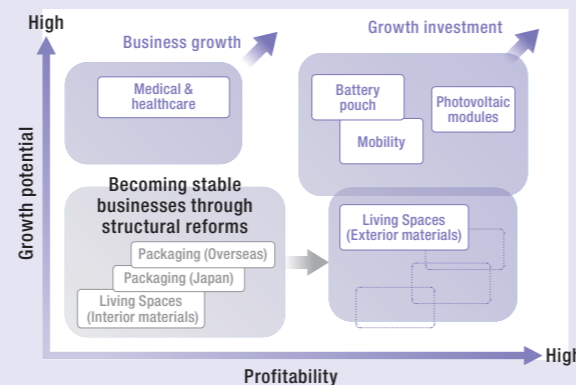
Main business segments	Market trends	Market outlook** (CAGR)
Mobility and industrial high-performance materials	Battery pouch	• The trend toward electrification of automobiles will remain unchanged over the medium to long term, and demand is expected to increase mainly in the US as automakers shift to in-house battery (pouch type).
	Photovoltaic modules	• The global market for solar power generation systems will grow 2.5x from 2020 to 2030. Demand is growing in the US, EU and China, due to policy initiatives, etc.
	Automotive decorative films	• There are expectations for expansion of exterior film, especially for use as a substitute for paint, amid growth in high-end design products for both interior and exterior applications.
Medical & healthcare	• Stable growth is expected, with the size of the global pharmaceutical market expected to expand from 141 trillion yen in 2018 to 196 trillion yen in 2030.	Global market for pharmaceuticals +2.8% (2018–2030)
Packaging	• The global market for soft packaging is growing (approx. 40 trillion yen in 2023), and growth is expected in Asian markets and for eco-friendly products in the future.	Global market for soft packaging: +4.7% (2024–2030)
Living spaces	• Domestic housing starts are expected to continue to decline. Overseas demand is sluggish at present, but growth will continue over the medium to long term due to population growth.	Japan: -1% (2024–2028) Overseas: +3% (2023–2029)
Beverage business	• Overall business conditions recovered after COVID-19, and demand, including inbound demand, remained strong.	+1–2% (2024–2026)

Main business strategies

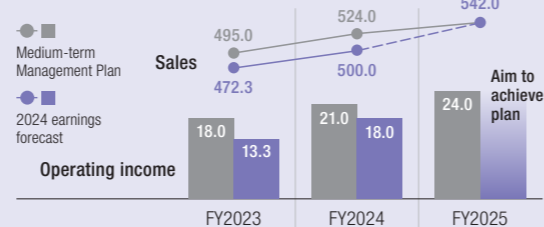
Main business segments	Strategy
Mobility and industrial high-performance materials	Battery pouch: Despite the current softening of the market for automotive applications, continue to make the necessary investments to keep up with the trend of medium- to long-term growth.
	Photovoltaic modules: Leverage high reliability and high quality, and consider introduction of new facilities to meet increasing demand in the US and Europe.
	Mobility: Globally expand differentiated products for exterior applications by combining core technologies.
Packaging	Japan: Reduce costs by switching to low-cost materials and improving delivery efficiency, and promote passing on the impact of price hikes of raw materials, etc. on to customers.
	Overseas: Accelerate provision of mono-materials and aseptic filling systems to overseas customers.
Living spaces	Interior materials: Promote operational efficiency and optimization of manufacturing sites, and develop customers and business partners, including overseas.
	Exterior materials: Expand sales areas to Asia, China and Europe through a partner strategy, in addition to expanding into infrastructure and exterior wall applications.
New business	Medical & healthcare: Continue growth in APIs, formulations and packaging by expanding DNP's value chain in an industry with a horizontal division of labor.

- ▶ Consider both business investment and M&A in line with market growth in the mobility and industrial high-performance materials, which is a growth driver
- ▶ Accelerate overseas development of products in which we have strengths in packaging and living spaces

Image of portfolio evolution



Sales and operating income (¥ billions)



Electronics

The main businesses in the Electronics segment are the digital interface, which includes optical films for displays and metal masks for manufacturing organic light-emitting diode (OLED) displays, both of which boast the world's top market share, and the semiconductor, which encompasses photomasks and lead frames.

In the digital interface business, optical films for displays are expected to continue growing due to the trend toward larger panel sizes for TVs. The long-term market outlook forecasts a compound annual growth rate (CAGR) of 3.2% for these films, indicating steady demand. Additionally, metal masks are anticipated to see increased adoption not only in smartphones but also in tablets and laptops. The market CAGR from 2023 to 2030 is projected to be approximately 6% for smartphones and around 40% for tablets and laptops.

In the semiconductor business, the demand for photomasks is increasing due to customer product development needs and the rising demand for logic and memory applications for generative AI. As a result, the external market for photomasks, excluding those used internally by

semiconductor manufacturers, is projected to experience a CAGR of approximately 8% from 2020 to 2027, indicating significant market growth in the medium to long term. Although recovery in demand for lead frames used in automotive, communications and consumer products has been slow, the market is anticipated to grow at a CAGR of about 7% from 2022 to 2029.

In response to the market environment, DNP will focus its investments on high-share businesses such as metal masks, optical films, and photomasks, as illustrated in the "image of portfolio evolution." We will target businesses with strong market potential, social needs and high public expectations. We will also prioritize the development of advanced products and services. For example, we are advancing investments in the development of glass core substrates for next-generation semiconductor packages, aiming to achieve sustainable business growth that exceeds market growth rates. Through these efforts, we aim to elevate our sales and operating income for fiscal 2024 and 2025 to levels exceeding those outlined in our Medium-term Management Plan.

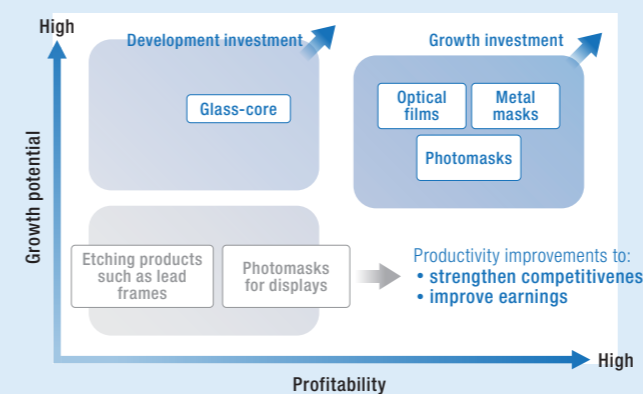
Market environment

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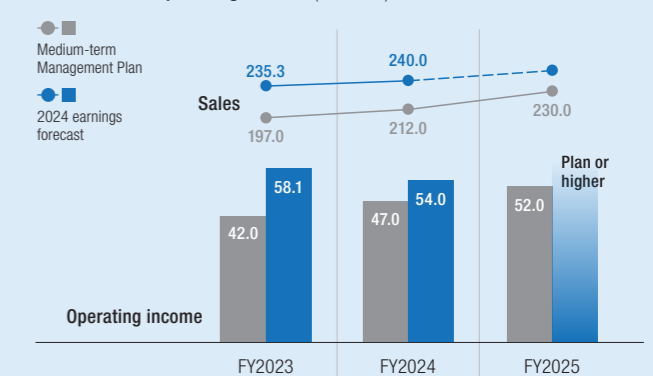
Main business segments	Market trends	Market outlook** (CAGR)
Digital interfaces	Optical films	• Demand remained strong, mainly due to an increase in area shipped resulting from a shift to larger panel sizes for TVs.
	Metal masks for OLED display manufacturing	• Demand continues to steadily increase due to expanded adoption of OLEDs for smartphones.
Semiconductors	Photomasks	• In addition to demand for product development, the market is expected to grow significantly in the medium to long term due to increased demand in the semiconductor market for logic and memory applications for generative AI.
	Lead frames	• Although recovery in demand for automotive, telecommunications and consumer product applications has been delayed, the market is expected to grow over the medium to long term.

- ▶ Concentrate investment in businesses with high social needs and in which DNP has a high market share, to achieve sustainable business expansion that exceeds the market growth rate

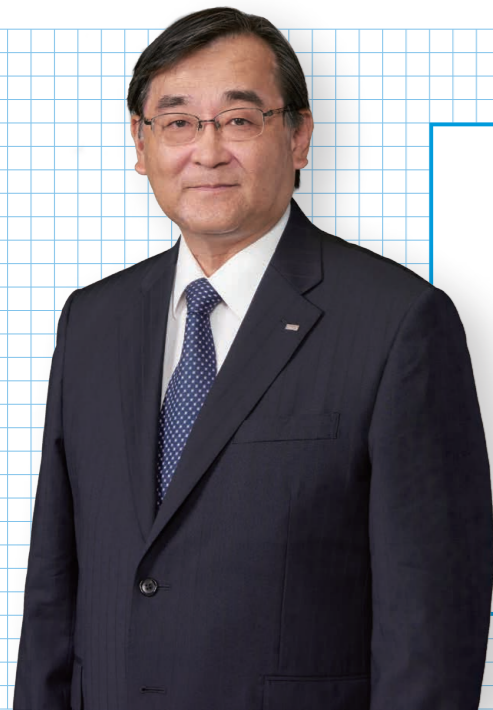
Image of portfolio evolution



Sales and operating income (¥ billions)



Financial Strategy



We will strive to further improve our PBR and meet the expectations of our stakeholders.

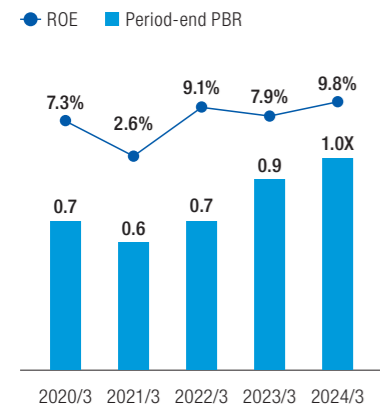
Masafumi Kuroyanagi, Senior Managing Director

In February 2023, DNP established the DNP Group's Basic Management Policy. Based on this policy, we have been working to ensure capital profitability that exceeds our cost of capital and to promote initiatives for the Group's sustainable growth. To meet the expectations of various stakeholders,

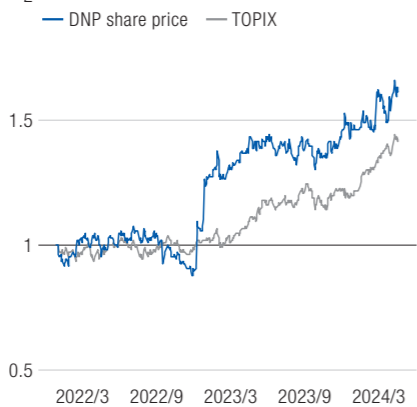
including shareholders and investors, we are committed to achieving a return on equity (ROE) of 10% and a price-to-book ratio (PBR) of more than 1.0X as early as possible through specific initiatives in our Medium-term Management Plan's business strategy, financial strategy and non-financial strategy.

☑ Analysis of current conditions for enhancement of corporate value

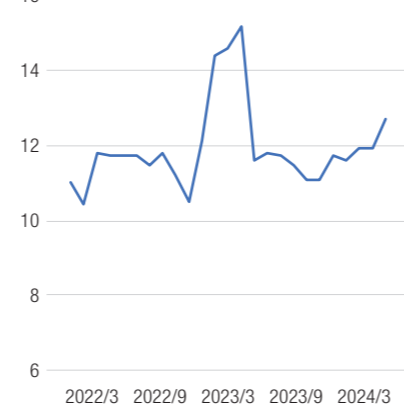
PBR and ROE



Relative share price (showing April 1, 2022 as 1)



PER (Multiple)



Analysis of current conditions

- PBR has recently risen to around 1.0X due to solid performance from the steady implementation of the Medium-term Management Plan and enhanced shareholder returns (share buybacks, etc.) based on the cash allocation strategy.
- ROE has improved to a level exceeding the target value of 8% in the FY2025 plan, and efforts are underway to reach the target of 10%.
- Although the rate of increase of the share price is higher than TOPIX, since the current price-to-earnings ratio (PER) is at a flat level, it is necessary to provide investors with a deeper understanding of the business and raise their expectations for future earnings.
- In order to sustainably enhance corporate value, DNP needs to reform its business portfolio, including a review of business for reforming, and continue to work on the business, financial and non-financial strategies set forth in the Medium-term Management Plan to meet investors' expectations.

The graphs on page 28 show the analysis of current conditions for enhancing corporate value. In fiscal 2023, ROE improved to a level exceeding the 8% target for fiscal 2025, and the PBR has risen to around 1.0. As shown by the graph of relative share price, DNP's share price increase since the second half of fiscal 2022 has outpaced TOPIX. However, the PER remains relatively flat. This indicates that the stock market's evaluation of our solid performance is still not fully reflected.

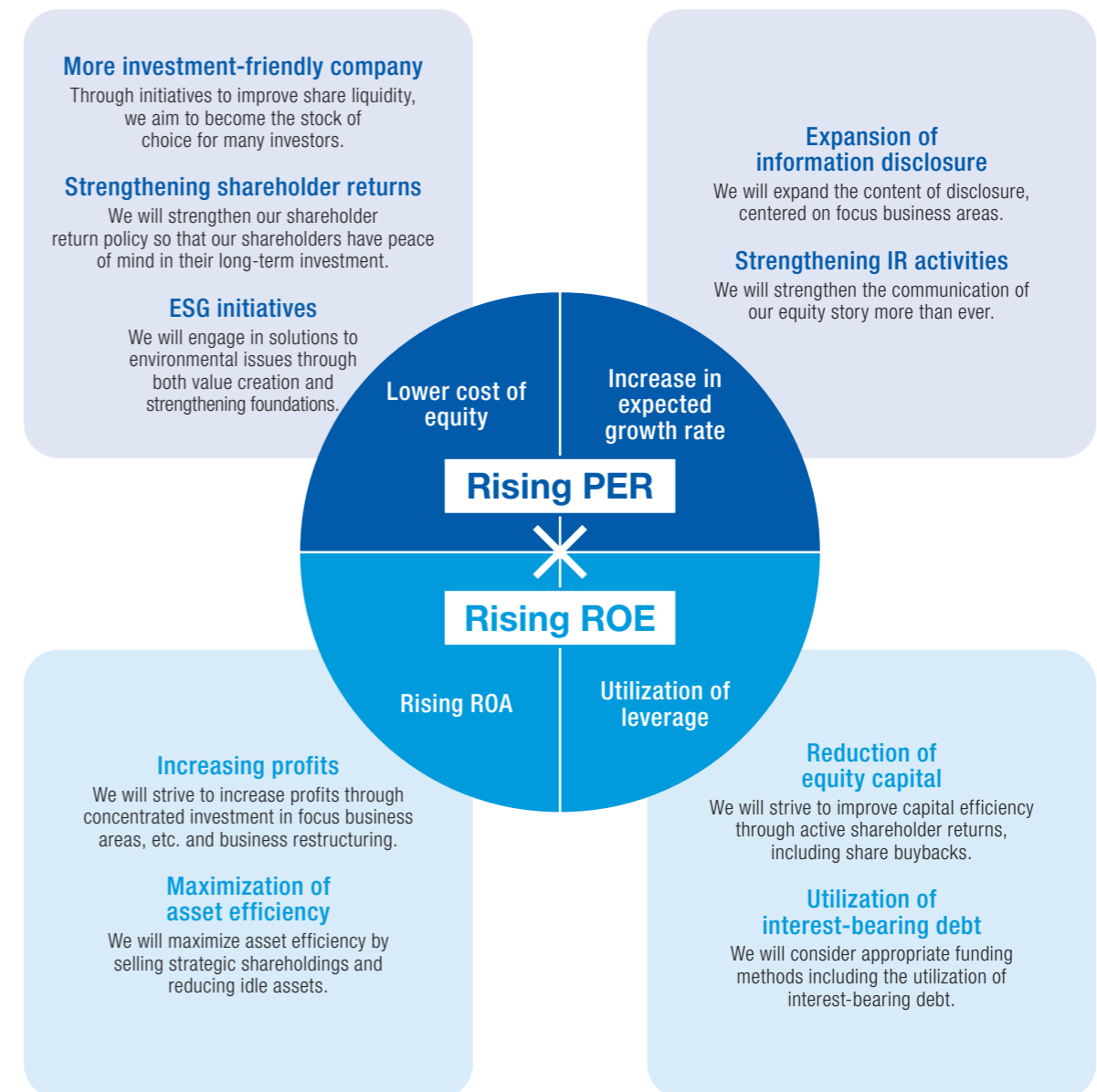
To address this situation and achieve sustainable growth and medium- to long-term enhancement of corporate value

for the DNP Group, we will initially focus on expanding profits through concentrated investment and business structure transformation in focus business areas. Additionally, we aim to create a resilient business portfolio capable of adapting to changes in the business environment. (For details, see from page 22 onward in the Business Strategy section.)

The chart below illustrates DNP's initiatives to enhance corporate value. By steadily implementing various measures aimed at expanding the equity spread, we will work towards increasing the PBR and improving corporate value.

Initiatives aimed at enhancement of corporate value: Rising PBR

We will work to steadily implement various measures to enhance corporate value.



Financial Strategy

As specific measures, we will implement strategies to manage volatility and reduce the cost of shareholders' equity amid rapidly changing business environments. Through initiatives to improve share liquidity, we aim to increase accessibility and become the stock of choice for many investors. We will also enhance shareholder returns to create a more secure environment for long-term investment. At the same time, we recognize the importance of our ESG initiatives. In April 2024, we raised our targets for the reduction of greenhouse gas (GHG) emissions and set more ambitious environmental goals (for details, see from page 64 onward in the Initiatives for Environment section). Through these measures, we aim to further reduce the cost of shareholders' equity.

To enhance future revenue expectations, we believe it is crucial to eliminate information disparities and increase credibility with the market by promoting timely and appropriate information dissemination and dialogue with shareholders and investors. Specifically, in addition to our traditional financial results briefings and sustainability briefings, we held our first IR Day in July 2024 to communicate growth strategies for individual businesses, particularly in our focus businesses. Through these initiatives,

we aim to deepen the understanding of DNP's operations and boost expectations for future revenue, thereby increasing the PER.

We will continue to steadily implement initiatives to boost asset efficiency. Regarding strategic shareholdings, in April 2024, we announced the sale of one listed security and recognized extraordinary gains of 58.6 billion yen from the sale of investment securities. This achievement means we have already exceeded 60% of our five-year plan to reduce strategic shareholdings by 220 billion yen. As part of our efforts to boost asset efficiency, we will further accelerate the reduction of strategic shareholdings, which has been an ongoing initiative.

In other initiatives to enhance capital efficiency, we completed the repurchase of 100 billion yen in shares in fiscal 2023 and announced a further repurchase of 50 billion yen in shares in March 2024. We will continue to steadily implement share repurchases with the aim of enhancing shareholder returns and reducing equity capital.

Through these initiatives, DNP will work to improve both the PER and ROE, aiming to increase the PBR and achieve sustainable enhancement of corporate value.

Progress with Medium-term Management Plan: Sale of strategic shareholdings and share purchases

5 years from FY2023 to FY2027 Cash allocation

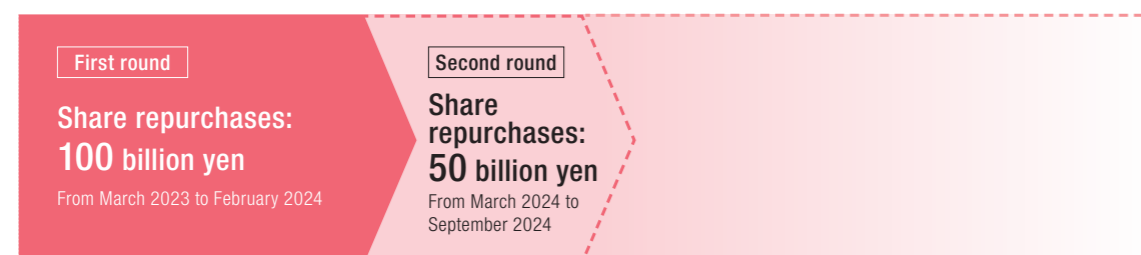
(1) Sale of strategic shareholdings: 220 billion yen

On April 16, 2024, the Company announced the sale of one listed stock it held and the recording of gain on sale of investment securities (extraordinary income) of 58.6 billion yen.

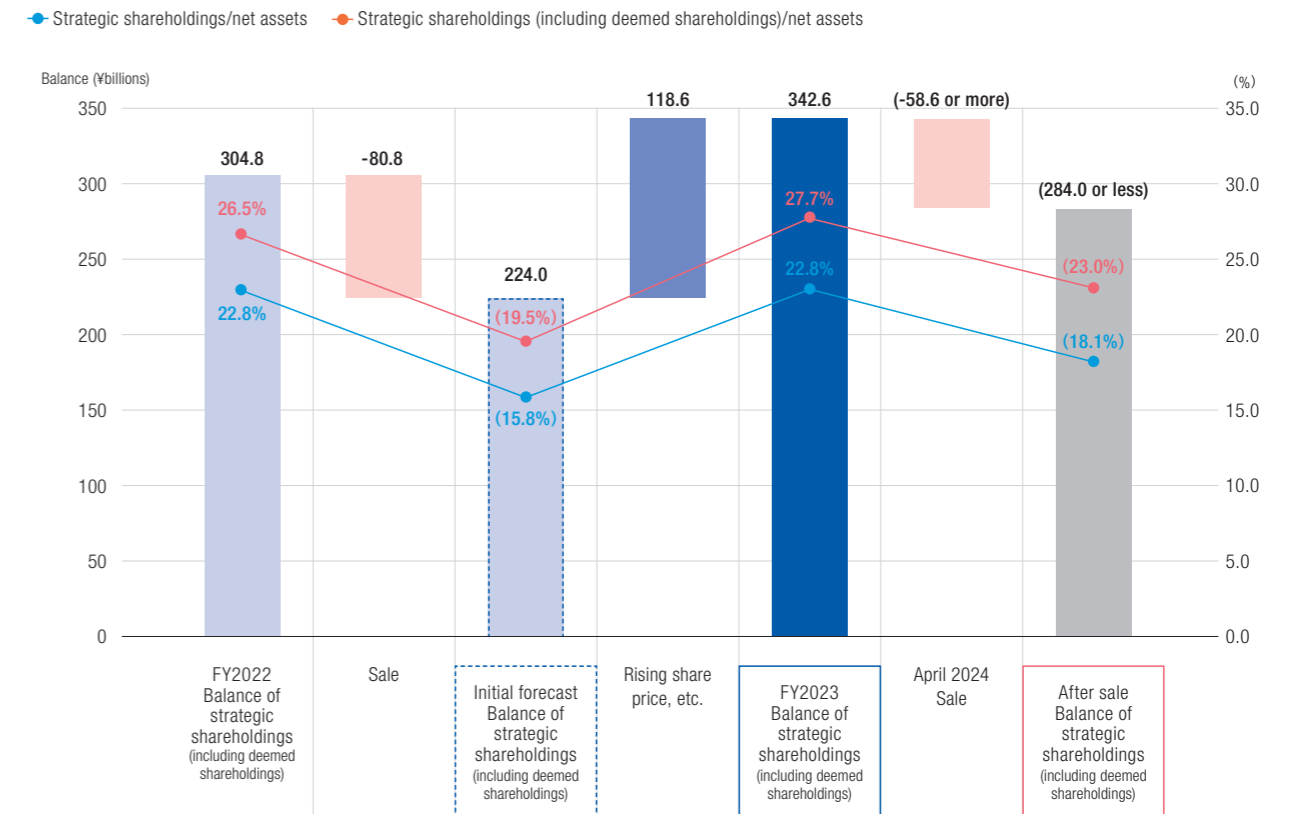


(2) Share repurchases: 300 billion yen

The first round of repurchase of shares of 100 billion yen (buyback period: March 10, 2023 to February 22, 2024) was steadily executed, and a new second round of repurchase of shares of 50 billion yen was announced in March 2024. As a result, the Company plans to acquire 150 billion yen of shares over 1.5 years.



Progress with Medium-term Management Plan: Balance of strategic shareholdings



* The figure above is an illustration of the state of reduction of DNP's strategic shareholdings to give a better understanding of its efforts to reduce strategic shareholdings.

Progress with Medium-term Management Plan: State of reduction of strategic shareholdings

We have proceeded to reduce the number of listed stocks held by 173 (-64%) from 269 at the end of FY2014.

