Dai Nippon Printing, Co., Ltd.
Briefing on Financial Results: Q&A Summary
(May 15, 2024)

[Questioner 1]

Q: The results in the Electronics segment were a 11.2 billion yen increase in income for FY2023, with a 4.1 billion yen decrease forecast for FY2024. Please explain these, including the growth rate of the sales volume and the sales amount of main products.

A: In FY2023, we achieved strong results due to increased demand and capturing demand related to digital interfaces. In particular, metal masks for OLED production performed well as demand increased due to the replacement of LCDs (liquid crystal displays) with OLEDs in smartphones, and also due to the increased adoption of OLED in IT-related products such as PCs and tablet devices. Optical film also contributed to performance as demand returned from the inventory adjustment phase the year before last and demand increased on an area basis due to larger televisions. Meanwhile, we expect a decrease in income in FY2024 due to an increase in fixed costs resulting from the start of depreciation of the metal mask production line at the Kurosaki Plant (Fukuoka Prefecture) and the new optical film line at the end of FY2024, as well as a decrease in income due to the assumed exchange rate set with a stronger yen. The increase in the fixed costs is approximately 4 billion yen in depreciation of the metal mask production line at the Kurosaki Plant. We will refrain from disclosing the impact of the assumed stronger yen.

Q: What is the status of battery pouches in FY2023 compared to the previous year and the forecast for FY2024? Also, you have set a target of 100 billion yen in sales for FY2025, but what is your current outlook for the growth of the battery pouch business over the next two or three years, including any changes in your investment plans for the U.S.?

A: In FY2023, orders, mainly for battery pouches for EVs, have stagnated due to inventory adjustments since the end of 2023, but increased slightly throughout the fiscal year. Weak demand for battery pouches due to this inventory adjustment and uncertainty are the reasons for the downward revision of the Life and Healthcare segment forecast for FY2024. However, we view the first half of FY2024 as the bottom for battery pouches and expect a slight increase in FY2024. In the long term, we believe that the shift to EVs will proceed steadily, albeit somewhat gradually, in light of environmental issues, GHG emissions, and other factors, although there are factors such as the issue of the U.S. administration. Although we cannot rule out the possibility that we will make decisions on our U.S. investment plans in accordance with market conditions in the future, there are no changes to our plans at present.

[Questioner 2]

Q: There was an explanation of the "Initiatives Aimed at Enhancement of Corporate Value" shown on page 16 of the presentation materials. The share price has been strong due to the unprecedented scale of purchase of treasury shares and profit progress exceeding the Medium-term Management Plan. Please describe any ideas for future initiatives that you feel are lacking, or if you are aware of any problems and would like to make them a high priority. For my part, I expect the profit disclosure aspect to be enhanced in relation to the "Expansion of information disclosure" section in the upper right hand corner of page 16.

A: We set forth our long-term goals in our "Basic Management Policy" released last year. In that announcement, we announced that the DNP Group will make what could be called "discontinuous" changes to develop and provide new value that differ from in the past, and that we will strengthen our financial and non-financial capital to support our efforts to continue creating value. As part of this effort, we proceeded with the acquisition of treasury shares and the sale of strategic shareholdings, as described on page 22 of the presentation materials. Also, with operating income in the 70 billion yen range for the first time in 16 fiscal years, we believe we are on track for growth in terms of profits. While our financial strategy will proceed steadily as planned, we believe it is important to increase profits more than ever on the business side, and we would like to improve DNP's corporate value by continuing to create value on an ongoing basis. We will continue to increase dialogue with everyone and implement management that is more conscious of the cost of capital and stock price.

Q: Regarding the situation with battery pouches, we heard your explanation that orders have stagnated since the second half of FY2023 due to inventory adjustments. Please tell us the market conditions and

results for the last fiscal year, divided into sales for IT and those for EVs.

A: In the first half of FY2023, both sales for IT and EVs started off strong. Sales to IT increased for the full year despite a slight decline in the second half. Orders for EVs stagnated considerably in the second half due to inventory adjustments. We expect orders for EVs to bottom out in the first half of FY2024, as EV growth has now stagnated and seems to have settled down. For IT, we do not expect a sharp decline as the market is slightly growing, but competition with other companies is emerging, so we believe the key point will be how to secure orders.

Q: You explained that capital investment in FY2023 was below the target due to the postponement of operation start dates to respond to market changes. Was this for battery pouch manufacturing facilities?

A: As for postponement of operation start dates due to market changes, the operation start date at the Tsuruse Plant (Saitama Prefecture) for battery pouches was partially postponed. In addition, many instances of postponement of operation start dates due to delays in deliveries by equipment manufacturers caused by shortages in the supply of components occurred in the Electronics segment.

[Questioner 3]

Q: Please tell us about the progress of profit and acquisition of treasury shares compared to the Medium-term Management Plan. The operating income forecast for FY2024 is 80 billion yen, an increase of 5 billion yen from the plan, but please tell us if the forecast for FY2025 is also expected to exceed the plan. The acquisition of treasury shares is progressing at a pace exceeding the announced plan, at 150 billion yen over 1.5 years, compared to 300 billion yen over the five years of the Medium-term Management Plan. Please tell us the background behind the accelerated acquisition of treasury shares and whether there are any changes to the plan of 300 billion yen over five years. Also, the balance of strategic shareholdings has been growing due to rising stock prices, so please let us know if you have a plan for using the increased amount of stock sold.

A: The Medium-term Management Plan calls for operating income of 130 billion yen or more and equity capital of 1 trillion yen as the DNP Group’s vision for revenue and capital structure, and we are currently working toward these goals. From the second year of the Medium-term Management Plan onward, we intend to increase operating income by focusing on growth areas of the business. We currently do not plan to revise our plans for the acquisition of treasury shares because we believe that business and capital investments in growth business areas will become more important in the future. We were able to raise our operating income plan by 5 billion yen from the initial plan of 75 billion yen to 80 billion yen in FY2024. The 85 billion yen plan for FY2025 will depend on conditions going forward, but there are no changes to the plan at this time. We also expect an increase in proceeds from the sale of strategic shareholdings due to rising stock prices, and we will consider using the proceeds, including the increase, mainly for strategic business investments.

Q: You explained that one of the reasons for the decrease in profits in the Electronics segment for FY2024 is that depreciation of the metal mask production line at the Kurosaki Plant (Fukuoka Prefecture) will increase by approximately 4 billion yen. Looking at page 11 of the presentation materials, depreciation for the entire company is almost the same between FY2023 and FY2024. I believe this means that there are businesses expected to see a decrease offsetting the increase you expect in metal masks. Please tell us about these businesses.

A: Depreciation of photomask manufacturing facilities in the Electronics segment is expected to decrease. The useful life of this equipment is very short, and although depreciation of new investments will increase, depreciation of existing equipment will also progress quickly, so depreciation is expected to decrease in FY2024. Depreciation for FY2023 and FY2024 will increase for some businesses and decrease for others, but it is expected to remain about the same on a company-wide basis.

[Questioner 4]

Q: Page 16 of the presentation materials mentions “rising ROE.” In FY2023, ROE was 9.8%, partly due to the posting of extraordinary income, etc. However, in the FY2024 forecast, ROE is 8.0%, and ROE appears to have declined from the previous year. Please tell us how you evaluate ROE as an actual value excluding strategic shareholdings, etc.

A: We estimate that the actual ROE for FY2023 was about 6.8%. For FY2024, we plan to increase operating income by 6.0% to 80 billion yen, and we believe that the actual ROE will be just under 7%, compared to the ROE of 8.0% based on our earnings forecast, which is an increase from the actual ROE of 6.8% in FY2023.

Q: Page 16 of the presentation materials mentions "strengthening shareholder returns." Regarding the balance between dividends and the acquisition of treasury shares, I think it could be viewed as a low dividend payout ratio. Please tell us your view on this.

A: Shareholder returns in the financial strategy of the Medium-term Management Plan announced last May are closely related to the improvement of ROE. The current plan to acquire 300 billion yen of treasury shares over five years is designed to rapidly reduce and control the accumulated equity capital to reach the goal of 1 trillion yen. At present, we are steadily implementing this acquisition of treasury shares as a means of returning profits to shareholders. Regarding dividends, we believe that our financial and business structure will change over the next few years, and we hope to consider and announce a new dividend policy in the next Medium-term Management Plan.