Dai Nippon Printing Co., Ltd
Briefing on Financial Results: Q&A Summary
(November 13, 2024)

<u>Questioner 1</u>

Q: Please provide information on the sales trends for metal masks. Specifically, I would like to know the sales amount in the first half of FY2024 compares to the same period of the previous year, including whether there was an increase or decrease. Additionally, please include the forecast for the full year. I would also appreciate an explanation of the composition ratio and growth rate by application.

A: In the first half of FY2024, sales of metal masks increased slightly year on year, as planned at the beginning of the fiscal year. In particular, the increase in the ratio of OLED to LCD in smartphones and the fact that some of the large 10.4-inch tablets for major clients were switched to OLED from the first half of this year contributed to the increase in sales. Demand associated with the launch of tablets using OLEDs was very strong from last year to the first half of this year, and we expect demand to settle down in the second half of this fiscal year. For this reason, we are unable to give a quantitative figure, but we think the second half of the fiscal year may be lower than the previous fiscal year. In addition, the sales composition ratio of metal masks for smartphones compared with those for other tablets and notebook PCs is roughly 60%. Although smartphone sales are not increasing on a unit basis, there is a demand for switching from LCDs of around 4-5% per year, so we expect to see growth at that level. We do not expect to see an increase in sales of tablets and notebook PCs this year because our clients' large-scale production lines have not been started, but we expect that they will start up rapidly from next year onwards.

Q: Could you provide an update on the sales amount for automotive battery pouches in the first half of FY2024 compared to the previous year? Additionally, I would appreciate insights into the sales forecast for the second half of FY2024. I would also like to know about the progress of clients' inventory adjustments.

A: Sales of automotive battery pouches in the first half of FY2024 were down approximately 45% year on year. We also expect sales for the full year to decrease by approximately 25% year on year. We are expecting a recovery in the second half of the fiscal year, but we are still in the process of examining whether or not we will return to last year's level. The progress of inventory adjustments varies from customer to customer, so we are unable to give a simple answer.

<u>**Questioner 2**</u>

Q: Regarding the situation with automotive battery pouches, a sales target of over 100 billion yen per year by FY2025 is set in the Medium-term Management Plan, but at what point do you think you will achieve sales of over 100 billion yen per year given the slow start of the EV market? Additionally, are there any negative factors affecting this goal, such as increasing price pressure from customers regarding unit sales price, aside from concerns about sales volume?

A: As we are still examining the long-term outlook, as of today, we cannot say when we will achieve the target we had set for 2025. We do not think there will be a significant impact on prices because the competitive environment has not changed.

Q: The effect of structural reform of the publishing printing business is indicated as 2 billion yen in FY2025. Could you please clarify if there are any expectations for one-time expenses or other expenses that might occur during this fiscal year, the next fiscal year, or in the future. Additionally, I would appreciate if you could tell us the effects of structural reforms of the Packaging printing business.

A: We don’t believe that the structural reform of the publishing business will incur significant costs as it will be a reorganization through the redistribution of resources. In addition, in the Packaging business, the Nakatsugawa Plant (Gifu Prefecture) closed in FY2023, and this had the effect of reducing fixed costs by approximately 1 billion yen per year. We are currently examining further structural reforms.

Q: A target operating income of 85 billion yen is set for FY2025, the final year of the Medium-term Management Plan, but it seems that operating income for the current fiscal year has not increased very much if the effect of the reduction in retirement benefit costs for the current fiscal year is excluded. With battery pouches, which are a major point, not being expected to improve significantly in the next fiscal year, please tell us about the businesses you expect to achieve your targets for the next fiscal year and the businesses you have concerns about.

A: Battery pouches may fall below expectations, but we expect the large-scale production lines for metal masks used in OLED manufacturing to start up, and their widespread use in tablets and notebook PCs. The depreciation costs for the capital investment in the production line will increase, but we are expecting sales to cover this. In addition, we have also started structural reforms of existing businesses and reforming our business portfolio in parallel, and we expect to see the effects of these in the next fiscal year.

<u>Questioner 3</u>

Q: You explained that the reason for the weaker outlook for the second half of the fiscal year in the Electronics segment was due to the risks of inventory adjustments, intensifying competition in China, and demand declines, but I would like you to tell us which areas of the Electronics segment you are referring to in each case.

A: The concern over inventory adjustments is in the LCD market for televisions, so it is in the area of optical films. The intensification of competition in China is a concern in the area of photomasks, as the move to decouple the US and China is leading to Chinese companies developing their capabilities and intensifying competition amid semiconductor regulations.

Q: Does your company also feel that there is an excess of inventory in optical films?

A: It is not as significant a change as it was at one point. Recently, Chinese LCD manufacturers have been substantially adjusting production in response to market conditions. So the quantities are not large, but we feel that demand is beginning to ease somewhat.

Q: I don't think photomasks themselves are subject to restrictions on exports to China, but the media are suggesting that these may be strengthened. How does your company view the tightening of restrictions? Also, I would like you to tell us how your company's performance will be affected if restrictions are tightened. Additionally, I think that photomasks for China are manufactured at a joint venture company, and I would like you to explain the reason for this.

A: Our current plans do not take into account the fact that the photomasks we manufacture will be subject to the restrictions. However, we have had some internal discussions about the risks and scenario responses in the event of stricter restrictions. Specifically, we are considering an overseas expansion policy in the event that the semiconductor industry moves to countries and regions other than China in the event of a contingency. Also, as we had no experience of operating in China, we made the decision to establish a joint venture in China based on the example of the joint venture company we had established earlier in Taiwan.

Q: How much is exported from Japanese sites to China?

A: The percentage is around a few percent because cutting-edge semiconductors cannot be manufactured in China.

Q: Regarding your approach to capital policy initiatives, your Medium-term Management Plan states that you aim to increase your equity capital to 1 trillion yen over the long term. I would like you to tell us the degree of your commitment to this 1 trillion yen target and the path you plan to take to achieve it. Also, regarding strategic shareholdings, you have set the targets of *the sale of 220 billion yen and reduction to less than 10% of net assets*, but I would like to know which is given higher priority.

A: In February 2023, we announced our basic policy of *achieving ROE of 10%* and *reaching a PBR of over 1X as soon as possible* as the DNP Group's Basic Management Policy. In order to achieve a ROE of 10%, we need net income corresponding to 1 trillion yen in equity capital, which is the denominator, and 130 billion yen in operating income, which is the numerator, exceeding the highest level we have ever recorded. In that respect, we think the target of 1 trillion yen in equity capital is a figure that should be given great emphasis. Although net income for the interim period is very large, we have not changed our initial net income forecast for the full year because we expect to incur structural reform expenses, etc. in the second half. We are constantly considering the acquisition of treasury shares as a way to reduce our equity capital. Regarding your second point, which is the sale of strategic shareholdings, the share prices of the shares we hold have been rising since the announcement of the outline of the Medium-term Management Plan in March 2023. Given that the market value of the shares we hold is rising, we believe we will have to sell more than 220 billion yen worth of shares. For the company to operate efficiently, it is important to reduce strategic shareholdings that are not profitable, so we will prioritize this with the aim of reducing the number to less than 10% of net assets.

<u>Questioner 4</u>

Q: I would like you to tell us how the results for the first half of FY2024 compare with internal plans, broken down by segment and business. Also, is it correct to assume that the same amount of retirement benefit expenses, which had a positive effect on operating income in the first half, will be included in the second half?

A: We have not issued an interim plan for the comparison of interim results with the company's plan, but we believe that we were generally able to achieve the figures we had anticipated. In addition, we were aware of the positive effect of the decrease in retirement benefit expenses on operating income at the beginning of the fiscal year, and we announced the full-year plan taking this figure into account. Retirement benefit expenses are usually allocated over a period of time, so unless there are any major changes, we expect the impact of the doubling in the first half of the fiscal year to be seen in the full year.

Q: It has been mentioned that demand for anti-reflection films is slowing down, but your company is planning to start up a new production line next year. I would like you to tell us what the current operating rate is for your company's production lines. Also, since your company's market share is increasing, am I correct in my understanding that you have not been greatly affected even if there has been a decline in panel manufacturers' operations?

A: Although some optical film production lines are running at a slower pace, the ultra-wide production line, which has a competitive advantage, is running at full capacity. As we are effectively the only company with the capacity to manufacture ultra-wide 2.5 meter optical films, we are increasing our market share by capturing demand from polarizer manufacturers who are our customers. In order to meet this demand, we are investing in the expansion of our production line for ultra-wide 2.5 meter optical film, which will begin operating next year.

Q: Looking at the semi-annual report, Elliott is missing from the list of major shareholders. Is it correct that your company is also aware that Elliott is missing? In addition, although you have been acquiring treasury shares at a pace of 100 billion yen per year over the past year and a half, you have not announced any such plans this time. I think you are aware of the risk that your company may be seen as having eased up on providing shareholder returns now that an activist has left, but I would like you to tell us about the background to your decision to stop the acquisition of treasury shares.

A: We are not implementing the current measures at the request of an activist, but rather based on a plan taken at our own initiative. At the time of the meeting with Elliott, the outline of the current Medium-term Management Plan had already been finalized, and we were responding to engagement. Also, when we announced our Medium-term Management Plan, we received a message from Elliott that they welcomed the plan. The number of engagements with Elliott after that was not high, and only one was held this fiscal year. In this context, we have confirmed that the Elliot is no longer a major shareholder and has almost no holdings.

We were concerned that the decision not to announce the acquisition of treasury shares this time would be linked to the sale of shares by Elliott, but we had to choose our words carefully because decisions on the acquisition of treasury shares are a very sensitive issue. In this context, we place great importance on *achieving ROE of 10%* and *reaching a PBR of over 1X as soon as possible*, and we would like you to understand that our basic stance of implementing plans to achieve these goals remains unchanged.

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