Dai Nippon Printing, Co., Ltd.
Briefing on New Medium-Term Management Plan Outline
Q&A Summary
(March 9, 2023)

[Questioner 1]

Q: The new management plan introduces the stock market's standard of "PBR (price-to-book ratio) of over 1.0x" as a key performance indicator (KPI), so it seems that you have clarified your intention to engage in dialogue with the stock market. Please explain the circumstances that caused you to change your thinking in this regard, and describe any related issues?

A: Today, the environment, society, and economies are changing rapidly on a global scale. We believe that DNP needs not only to respond to these changes, but also to develop and provide new value by taking the initiative to implement all kinds of reforms of its own. In order to achieve this, in addition to continuing to refine our own strengths, we believe it is extremely important to make changes that can even be described as discontinuous. As we prepared to formulate our new Medium-Term Management Plan, we engaged in dialogue with institutional investors and others, and received various suggestions. In order for DNP to exist as a sustainable company that contributes to sustainable society, we established this type of long-term goal and, based on our strong determination to achieve this goal, we held repeated debates within the company with the result that we have announced this new management policy and outline.

Q: Regarding the DNP Group's vision for revenue structure and its goal of operating income of "130 billion yen or more" as shown on page 4 of the presentation materials, please share details such as the time frame.

A: At this time I can't offer any specifics regarding the time frame, because it depends on future changes in the environment and various other factors. However, I can say that the early realization of a PBR of 1.0x-plus is a major goal for DNP, and we want to achieve it quickly by meeting our equity and ROE targets as well as boosting operating income to at least 130 billion yen.

Q: On page 6 of the presentation materials, optical films, metal masks, photomasks, lead frames and battery pouches are among the many electronics-related businesses listed as "growth-driving businesses." Would it be correct to understand that the businesses that DNP currently views as growth drivers are electronics-related, and that that is where DNP will be focusing its investments?

A: We are currently formulating a new medium-term management plan. When we consider market growth potential and profitability simultaneously, an important point to consider is where DNP can contribute to the social issues and megatrends indicated on page 5 of the presentation materials. From that standpoint, because electronics-related fields are especially sensitive to environmental changes in the context of our daily lives, it is our view that they will be the main businesses that will drive DNP's growth.

[Questioner 2]

Q: In the outline of DNP's new medium-term management plan, you announced a plan to buy back a total of 300 billion yen worth of DNP shares, with the first round of treasury stock acquisition amounting to a record high of 100 billion yen. Please explain the circumstances underpinning this decision.

A: One of the DNP Group's new basic management policies is to "set an ROE target of at least 10% and expedite the achievement of a PBR of more than 1.0x." Based on this policy, we believe that in terms of the use of funds, we should prioritize intensive investment in growth-area businesses. In line with that, we intend to post net income every fiscal period while using the cash generated by accelerating the reduction of idle assets and cross-shareholdings in order to bring down equity capital (which is the denominator of ROE) from its current level in excess of ¥1 trillion yen to no more than ¥1 trillion. We announced our plan to buy back a total of ¥300 billion worth of shares based on this thinking.

Q: What exactly do you mean by "Dividend policy conscious of EPS and DPS," which is mentioned on page 7 of the presentation materials? Please explain your dividend policy.

A: By increasing profitability and buying back treasury stock, we want to improve EPS (earnings per share). In the past, profit distribution was based on the idea of "stable dividends," but going forward, we would like to consider DPS (dividends per share) while paying close attention to EPS.

Q: Under "Cash Generation" on page 7 of the presentation materials, 90 billion yen or more is slated to come from "Reduction of idle assets, utilization of interest-bearing debt, maximization of cash efficiency." Of this amount, how much do you anticipate will come from the reduction of idle assets such as land and buildings?

A: As shown on page 6 of the materials, as we move forward with the transformation of our business portfolio, we will study the possible reuse of idle factories while continuing to sell those that cannot be repurposed. We have not set a specific target for such sales, but as we promote these measures, we would like to generate the stated total of 90 billion yen in order to maximize capital efficiency.

[Questioner 3]

Q: Concerning cash allocation as shown on page 7 of the presentation materials, I think that if one considers things like the amount of dividends paid out over the past five years, it will not be possible to balance "Cash Generation" on the left side of the page with "Cash Allocation Strategy" on the right side. Please clarify this point.

A: Since our new management plan is a medium- to long-term plan covering five years, it contains many predicted values, and we have appended "or more" to most of the figures. You indicated that when dividend payments are taken into account, the left and right sides may not be balanced, but we think that we may be able to make up for such an imbalance by using idle assets and interest-bearing debt, etc., and/or through the generation of operating cash flows.

Q: Please tell us about the level of financial leverage under consideration in this medium-term management plan.

A: I suppose your question is based on the idea that ROE breaks down into three values: profit-to-sales ratio, total asset turnover ratio, and financial leverage, and I will answer accordingly. As a way of improving ROE, DNP places top priority on boosting the profit-to-sales margin resulting from its business activities. Furthermore, we intend to increase our total asset turnover ratio by compressing total assets through the reduction of retained assets, especially cross-shareholdings. At the same time, we will consider the use of interest-bearing debt, but because we give high priority to improving the profit-to-sales margin resulting from our business activities and to the improvement of asset efficiency, at this point I do not expect the contribution of financial leverage to be very large.

Q: Page 4 of the presentation materials calls for raising the level of operating income in the fiscal year through March 2026 and beyond. Which businesses do you expect to drive that growth? Also, the same page calls for achieving ROE of "8% or more including asset sales." Is it correct to understand that you aim to achieve 8% every year?

A: The businesses that we expect will help boost operating income in the fiscal year through March 2026 are those in which we are currently planning to invest. For example, we plan to invest a total of 20 billion yen in metal mask production at our Kurosaki Plant. Within our Medium- to Long-term Business Portfolio, we believe that "growth-driving businesses" will contribute a large proportion of profits.

In order to improve ROE, over the next five years we will accelerate the reduction and sale of cross-shareholdings to get them down to less than 10% of net assets. This will result in extraordinary profits, and we will continue to aim to achieve ROE of 8% or higher, while adding this extraordinary profit as a transitional measure until operating income rises to a satisfactory level.

[Questioner 4]

Q: What are your thoughts regarding the responsibility of management in the event that you should fail to achieve the KPIs established in the outline of the new medium-term management plan?

A: We believe that it would be difficult to create, in a short period of time, businesses that will become sources of revenue. We are managing the Company with a view toward a medium- to long-term time frame that is longer than the three-year period covered by the medium-term management plan. Therefore we will not judge a manager’s course of action based solely on the extent to which short-term KPIs are achieved.