Dai Nippon Printing, Co., Ltd.
Briefing on Financial Results for the First Three Months
of the Fiscal Year Ending March 2021 (Fiscal 2020)
(August 7, 2020)
Q&A Summary

[Questioner 1]

Q: Can you indicate the numerical basis for your analysis of the positive and negative impact of COVID-19 on full-year earnings forecasts? You explained that you expect a recovery from the second half of the fiscal year, but I would like to understand how you see that recovery progressing.

A: COVID-19 is having both a positive and negative impact. Specifically, we are involved mainly in B2B businesses, but our Information Communication segment has a higher B2C weighting than our other segments and experienced a negative impact relatively early on; if the domestic economy recovers, we expect it to rebound more quickly than other segments. However, the Imaging Communication business may take somewhat longer to recover because earnings come mainly from markets such as North America and Europe, which have been harder hit by COVID-19 than Japan. E-book services and online book sales are among the businesses that have seen a positive impact, but we expect this to have a minimal impact on full-year earnings since their sales remain relatively low. However, we continue to see high levels of business outsourcing orders, and enquiries regarding companies' response to government economic measures, in our BPO business, and we therefore expect further growth.

In the Lifestyle and Industrial Supplies segment, housing, autos and other areas associated with consumer durables have been adversely affected by the pandemic, and we think they will take longer to recover than our B2C businesses. We think fiscal 2020 will be a year of perseverance. However, in the High-Performance Industrial Supplies business, sales of battery pouches for lithium-ion batteries remain upbeat, due mainly to an increase in teleworking. While there is no guarantee that these conditions will continue throughout 2020, or in 2021 and beyond, we expect sustained growth in the near term.

In the Electronics segment, we also expect sales of semiconductor photomasks to expand from the second half of the fiscal year, driven mainly by 5G applications.

However, I would note that the diversity of the firm's business portfolio makes it difficult to quantify the impact of COVID-19. This is because the characteristics of our individual businesses differ, and some have seen a definite impact from COVID-19 while in others the situation is less clear; this makes it difficult to sum up the overall picture. However, where COVID-19 is the only conceivable factor that could account for differences between fiscal 2019 and fiscal 2020, we could at a stretch interpret the difference between first-quarter results for the two years as due to COVID-19.

Q: What is the breakdown by segment of your full-year sales and operating income forecasts? I would also like to ask about the outlook for factors that you expect to have a positive or negative impact on full-year estimates in year-on-year terms.

A: While we are unable to disclose segment forecasts, we expect the Information Communication segment to recover early in the second half of fiscal 2020, and think the year-on-year decline in earnings will be smaller in the second half than in the first half. However, in the Lifestyle and Industrial Supplies segment, we expect a somewhat prolonged slump in businesses associated with consumer durables, and at this point we think the first and second halves will be broadly similar in year-on-year terms. In the Electronics segment, we also expect first- and second-half earnings to be similar in year-on-year terms. I would note that our outlook for the Beverages segment assumes that the second half is somewhat weaker than the first due to its December fiscal year-end.

[Questioner 2]

Q: Can you confirm which businesses contributed to year-on-year growth in first-quarter operating income, according to your analysis of positive and negative profit factors? Can you also give details of the specific products that drove the decline in existing businesses, growth in focus businesses, and cost reductions? Please explain in numerical terms if possible, or in terms of the major contributing factors to the extent you are able to.

A: Earnings declined in almost all our existing businesses except High-Performance Industrial Supplies. In focus businesses, we saw significant growth in BPO-related areas and profit growth in the optical film and information security businesses. One major driver of cost reductions was a roughly ¥1 billion year-on-year decline in depreciation costs as we reviewed our fixed asset holdings as part of business structure reforms in fiscal 2019.

Q: Do you see scope to review your production platform and make additional cost cuts in response to falling printed media sales?

A: As you note, the printed media business has been depressed by COVID-19, but even before the pandemic it had seen a prolonged, constant downtrend due to the shift to a paperless society. We have responded to this by reorganizing and consolidating related businesses over the past several years, and we booked impairment losses on our printed media production facilities in fiscal 2019; however, we will continue to pursue further restructuring over the next several years while assessing the supply-demand balance.

[Questioner 3]

Q: I estimate that sales in the marketing business under the Information Communication segment fell just under 5% year on year, but this appears moderate given the decline in sales of pamphlets and catalogs. Does that reflect growth in BPO and software services? I also assume that software service growth was driven by digital transformation; can you indicate any standout areas of growth?

A: As you note, sales of pamphlets and catalogs in the marketing business fell sharply but growth in BPO and settlement-related software services resulted in only a modest decline in overall sales.

Q: My understanding is that business selectivity and focus was one factor behind profit growth in Lifestyle and Industrial Supplies in fiscal 2019. I think there is scope to either accelerate or slow selectivity and focus initiatives in fiscal 2020 in view of the negative impact from external factors; what pace of progress should we assume this year?

A: In terms of selectivity and focus in the Lifestyle and Industrial Supplies segment, thus far we have mainly targeted the Packaging and Living Spaces businesses, but we are considering a variety of options due to the COVID-19 pandemic. We think the pandemic represents a good opportunity to reconsider which of our businesses have genuine value and should be built up in future. We intend to optimize our business portfolio to balance existing and focus businesses while monitoring the changing impact of COVID-19.

Q: How will fiscal 2020 capex, depreciation costs, and R&D spending change versus fiscal 2019? If possible, can you state your capex budget?

A: We continue to examine capex as part of a review of our medium-term business plan to factor in the impact of COVID-19, and we are therefore unable to announce a specific target. However, at this point we do not expect any major deviation from the amount invested in fiscal 2019. We expect depreciation costs to decline slightly year on year due to the impact of the impairment charge in fiscal 2019.