

Dai Nippon Printing, Co., Ltd.
Briefing on Financial Results
for the Fiscal Year Ended March 2020 (Fiscal 2019)
and Medium-Term Management Plan
(June 1, 2020)
Q&A Summary

[Questioner 1]

Q: In fiscal 2019, what kind of projects did you handle relating to the consumption tax hike, and how did these contribute to earnings? What are the prospects for these projects in fiscal 2020? Can you also give an idea of the scale of their impact?

A: In fiscal 2019, we handled several large projects relating to the consumption tax hike that involved business process outsourcing (BPO) on behalf of client companies. We are unable to comment on the specific sales impact.

In fiscal 2020, we expect new projects relating to economic measures to address COVID-19, employment-related events, and Japan's social security and tax number ("My Number") system. We do not anticipate a substantial negative impact from a decline in projects relating to the 2019 consumption tax hike.

Q: In its segment operating income outlook, you target growth of more than ¥10 billion in Lifestyle and Industrial Supplies; which products are expected to drive this growth?

A: In the Industrial Materials business, we expect further growth in battery pouches for automotive lithium-ion batteries and photovoltaic module components. We also expect a review of low-margin packaging products and growth in value-added, environmentally conscious packaging to drive higher profits.

Q: You mentioned plans to pursue restructuring in businesses where sales will unavoidably decline. What level of cost cuts do you target over the next five years?

A: We intend to restructure businesses where we expect sales to decline, such as those based on printed media, to achieve the appropriate scale. However, we are unable to give specifics on financial impact.

[Questioner 2]

Q: You cite forex as a factor that affected profits, with a greater impact in the second half of the fiscal year than in the first. Which currency was the source of this impact?

A: Mainly the U.S. dollar, which was the foreign currency most commonly involved in our transactions.

Q: Can you discuss the outlook for metal mask, semiconductor photomask, and other products where it appears that trends are set to change between fiscal 2019 and fiscal 2020?

A: We will be monitoring the potential impact of COVID-19 on these products, but we expect the shift from LCD to OLED displays in products such as smartphones and tablets to continue.

The Electronic Devices business had weakened recently following the end of the "semiconductor supercycle," but we expect demand to increase due to the uptake of technologies such as 5G and IoT and a pickup in the momentum of digital transformation caused partly by COVID-19.

Q: You outlined plans to invest ¥10 billion in strategic partnerships and M&A; how do you screen the potential candidates for these deals? Also, what are the key points that you focus on when doing so?

A: We create a list of candidates for M&A and other partnerships, centering on the focus businesses we indicated, and exchange views with related industry parties. Many recent candidates have exceeded our budget due to their high share prices, but we intend to implement future deals if the timing is right.

[Questioner 3]

Q: What impact did COVID-19 have on sales and profits in the fourth quarter of fiscal 2019? Also, what potential positive and negative factors and business opportunities do you think require watching?

A: COVID-19 had a limited impact on earnings in the fourth quarter of fiscal 2019. In fiscal 2020, the voluntary closure of some large Tokyo metropolitan area bookstores in our B2C businesses resulted in a sharp decline in customer traffic from April onward. Our B2B businesses have also been affected in areas relating to consumer durables. However, we see the potential for growth in products in areas such as the Electronics segment and Industrial Supplies business in line with societal changes such as greater use of remote working due to COVID-19, and we are currently examining the overall impact.

Q: You target fiscal 2024 operating income of ¥75 billion and ROE of at least 5%. Based on the firm's current capital structure, it appears that ROE of 5% would be achievable if operating income reaches ¥75 billion without the need for share buybacks or other capital strategies. In light of this, can I ask whether there are any changes to the firm's capital strategy?

A: We are not currently considering any changes to our capital strategy. We aim to consistently book ROE of at least 5%, and intend to aim for levels above 5%. An increase of around ¥75 billion in operating income would also increase stockholders' equity, and we think this could lead us to consider share buybacks.

Q: What is your strategy for instilling awareness of the value creation program in your front-line sales and other operations? Can you discuss the initiatives involved?

A: We have previously awarded a President's Prize for projects that excel in terms of sales and profits, but from this year we switched to the DNP Awards program. This program evaluates the process from value hypothesis through to earnings in line with our value creation program. We intend to share the details of the award-winning projects throughout the company in order to instill awareness of the program in all business segments. We will also raise awareness via one-on-one meetings between senior and junior employees.

[Questioner 4]

Q: Since last year, the issues of ocean plastic and plastic waste have become a focus of attention; have these resulted in a positive impact on your environmental businesses? Can you discuss your business and investment strategies?

A: We see both risks and opportunities from ocean plastic and other environmental issues. We are therefore working on a robust risk analysis that allows us to turn these issues into opportunities.

As part of these efforts, DNP is participating in the secretariat of the Japan Clean Ocean Material Alliance (CLOMA), which tackles issues relating to ocean plastic waste across a variety of industries.

Plastics have positive aspects such as convenience and hygiene, and we will continue to develop environmentally conscious products that retain these attributes. For instance, we think providing environmentally conscious products such as monomaterials made from easily recyclable substances and carbon-neutral products using plastics derived from biomass will become a key driver of our future growth.

Q: Do you have any specific fiscal 2024 numerical targets for environmentally conscious products, for example for sales?

A: We have disclosed several metrics regarding our environmental targets in our integrated reports and elsewhere. We aim to achieve environmentally conscious product sales of ¥600 billion within fiscal 2020.

In March 2020, we also drew up the DNP Group Environmental Vision 2050, which aims to achieve effectively net-zero greenhouse gas emissions from business activities at our own sites in fiscal 2050.

We will set our next environmental targets this year, and are currently discussing targets for the five years from fiscal 2021. In this year's integrated report, we also intend to disclose the risks and opportunities we face due to the impact of environmental issues and climate change.