

Dai Nippon Printing, Co., Ltd.
Briefing on Financial Results for the Fiscal Year
Ended March 2022 (Fiscal 2021)
(May 17, 2022)
Q&A Summary

[Questioner 1]

Q: Regarding battery pouches for lithium-ion batteries, I heard a forecast that the decline in demand due to the adjustment of automobile production will likely bottom out between April and June of 2022. Has there been any change to that forecast? Also, what growth rate do you expect for the fiscal year through March 2023? Isn't profitability declining due to soaring raw material prices?

A: Based on the ordering plans of the various battery manufacturers which are our customers, we expect battery pouch production to bottom out around May or June of 2022. After that, we expect the growth rate to return to its previous level. As a result, we expect sales in fiscal 2022 to increase by several dozen percent compared to fiscal 2021. As for raw materials, the price of aluminum rose, which pushed down profits. For the time being, we have made progress on passing through price increases, so we are getting close to our previous level of profitability. But if raw material prices rise even further in the future, once again there will be a time lag until we can pass on those increases, and it may take some time for profitability to recover.

Q: Please explain your specific capital investment plans for fiscal 2022.

A: Of the ¥95 billion that we plan to spend on capital investments, about ¥30 billion will be invested in redevelopment of the Ichigaya area. We also plan to invest in increasing production capacity for battery pouches, photomasks, and lead frames. Concerning battery pouches, plans for new battery factories are increasing faster than had been expected, mainly in the United States. So demand for pouches is expanding. However, we don't expect these new factories to start operating until early 2025 at the earliest. Regarding 2025 and beyond, I think we need to consider our production systems in advance.

Q: Concerning your approach to share buybacks, do you have a formula for determining the scale? Or are there indicators that you take into account, like your cash position or consolidated dividend payout ratio?

A: Based on the cash generation and allocation strategies found on pages 30-31 of the presentation materials, we consider the medium-term span from fiscal 2021 to fiscal 2024. We don't have a simple formula, but when we decided on amounts to implement this time, we considered our investment plans and financial situation. Going forward, I would like to continue to deliberate from this kind of perspective.

[Questioner 2]

Q: About Electronics, you plan to increase income by ¥500 million in fiscal 2022, so how much growth in sales volume are you projecting for metal masks, optical films, photomasks, and lead frames--in other words, the segment's main products?

A: For the past two years, growth in demand for optical films exceeded our expectations because people spent so much time at home. From now, however, we anticipate that there will be a sense that the market is taking a pause, and we believe this will weigh on the market. On the other hand, we expect to see steady growth in metal masks. We also anticipate that last year's strong growth in photomasks will continue, and we expect close to double-digit growth in the current fiscal year as well. Electronics is very much impacted by currency rates, and since the yen is expected to continue to remain weak for the time being, we look for a modest increase in income to compensate for the negative impact of the fall-off in "nesting" demand.

Q: By about what percentages do you plan to increase production capacity as a result of adding equipment for making photomasks and lead frames, and what is your timetable for doing so?

A: In view of our relationships with competitors and business partners, we will refrain from answering specifically about the timing or amounts of investments. However, we can say that we plan to invest a total of a few billion yen in photomask and lead frame production in fiscal 2022.

Q: Page 8 of the presentation materials shows the impact of raw material prices as a negative ¥8.3 billion yen. Is that the net amount obtained by subtracting the amount passed on in sales prices from the amount of increase in raw material prices? If so, what were the gross amounts of price increases and price pass-throughs for fiscal 2021, and the projected gross amounts for fiscal 2022?

A: The figure showing the impact of raw material price increases is the net amount. In fiscal 2021, the gross impact was about ¥12.5 billion yen. This figure does not include the impact of cost reduction measures related to raw materials, which are counted as cost reductions. While there is a high degree of uncertainty about the future in fiscal 2022, we expect the price of naphtha to rise from the second quarter and reach 75,000 JPY/kl. We also expect that prices of aluminum and paper will rise. In all, we foresee net impact of about ¥10 billion. We predict that the gross impact of raw materials price increases will be more than ¥22 billion, and the price pass-through rate will be 50-60%.

[Questioner 3]

Q: What exchange rates did you use for your fiscal 2022 earnings forecast, and how much foreign exchange sensitivity do you expect for operating income?

A: The average yen/dollar exchange rate in fiscal 2021 was 112 yen to the dollar, whereas for fiscal 2022 we assume it will be 122 yen to the dollar. The average yen/euro rate in fiscal 2021 was 131, and for fiscal 2022 we are assuming the yen will trade at 137 to the euro. Foreign exchange sensitivity will be about ¥600 million if the yen depreciates by 1 yen per dollar.

Q: I understand that Imaging Communication sales were ¥80-90 billion before the COVID-19 pandemic; to what extent did sales recover in fiscal 2021? Is the profit margin recovering? If not, is it safe to assume that it will fully recover in fiscal 2022?

A: Imaging Communication is a highly profitable business. Because its sales declined in fiscal 2020 due to activity restrictions, profitability also declined sharply. In fiscal 2021, there was a significant recovery in the United States, which is the main market. Japan also recovered to some extent, and with the weaker yen also working in our favor, profitability has come back close to the level it was at before the COVID-19 pandemic.