

Dai Nippon Printing, Co., Ltd.
Briefing on Financial Results: Q&A Summary
(November 16, 2022)

[Questioner 1]

Q: The Electronics segment's operating income plunged from ¥16.2 billion in the first quarter to ¥9.6 billion in the second. From the first quarter to the second, what trends did you see in sales volumes of Electronics' main products--optical films, metal masks and photomasks--and what do you expect to see in the second half of the fiscal year?

A: We will refrain from offering specific figures out of respect for our customers' situations. Semiconductor-related business has headed in an extremely favorable direction. However, in Display Components, although sales of optical films and metal masks were up year on year until the end of the first quarter, they slowed in response to rapid changes in market conditions in the second quarter, and ended the quarter below the previous-year level. Regarding the outlook for the second half, we do not anticipate any major fluctuations in photomask-related sales for the year as a whole. We expect that for some time Display Components will continue to be affected by the recoil following high stay-at-home-related demand sparked by the COVID-19 pandemic, along with the cooling of consumer sentiment in response to a growing sense of impending global economic recession. We think that we might start to see a recovery trend after the end of calendar 2022, in the beginning of the fourth quarter.

Q: Is it correct to understand that by investing ¥20 billion in metal mask manufacturing, DNP will double its current production capacity? Will production capacity double immediately? I'd like to know the timeline of events until capacity is expected to double. Also, given that you expect to start operations in the first half of calendar 2024, please share when you expect sales to double.

A: You ask whether we will immediately double production capacity. Our plan is to meet demand for large products while also manufacturing small products, and to gradually increase output volume. That's what we mean when we say we will double production capacity. We will refrain from answering about the timing of sales due to various considerations, including confidentiality obligations toward our customers.

Q: The Lifestyle and Industrial Supplies segment's operating income fell by ¥5.6 billion year on year, from ¥8.3 billion in the same period last year to ¥2.7 billion this year. Please explain the factors within each of the segment's businesses that underpinned this ¥5.6 billion drop. How much did operating income decline in Packaging, Living Spaces, and battery

components, in the end contributing to a ¥5.6 billion year-on-year decrease in profits?

A: We will refrain from answering with specific figures, but we can say that the biggest factor affecting the overall segment was the heavy impact of sharp spikes in raw material and energy prices, whereas we did not see so much impact from the weaker yen. In addition, this segment includes battery pouches, which are highly profitable and one of our focus businesses, and they contributed somewhat to the decline in income. Another factor was slower growth in sales of packaging and decorative printed materials for interiors and exteriors as a result of dampened demand. We view the above factors as contributors to the decline in operating income.

Q: On page 3 of the briefing materials, you show that soaring raw material and energy prices cost the company an extra ¥7.5 billion in the first half. I imagine that quite a large portion of that affected the Lifestyle and Industrial Supplies segment. At the beginning, you explain that the pass-through rate in the first half was 60%, but how much was the gross increase in raw material and energy prices? How much do you expect it to be for the full year, and how will the pass-through rate change in the second half?

A: That pass-through rate is the company-wide average, and even in the first half there was considerable variation depending on the segment. For Lifestyle and Industrial Supplies, the pass-through rate exceeded 60% and came close to 70%, but the gross impact of raw materials and energy is extremely large. For the company as a whole, it was about ¥18 billion in the first half, and we expect to see gross impact of over ¥35 billion for the full year. Regarding the full-year pass-through rate and net cost increase for Lifestyle and Industrial Supplies, there were some areas where we were unable to pass on price increases during the first half, but by the end of September we had just about finished negotiations. For the second half we expect an overall pass-through rate of almost 90%, and for the full year we expect it to average above 70%--probably around 75%.

[Questioner 2]

Q: On page 8 of the briefing materials, in the column showing expected impacts of the situation in Ukraine, “Decline in photography-related demand in Europe” is listed for Information Communication, and “Disruptions in supply chains due to fears about supplies of scarce gases, etc.” is listed for Electronics. Are you already seeing evidence of these effects? Or is there a high probability that you will see such effects in the future? Especially regarding the Electronics segment, please discuss those businesses that you anticipate will be affected.

A: The mention of “decline in photography-related demand in Europe” for Information Communication relates to that segment’s Imaging Communication business, but it is mentioned only as a potential risk, meaning that if the situation in Ukraine should further deteriorate in the future, it could cast a chill over consumer

sentiment. The same applies to the citation of “disruptions in supply chains due to fears about supplies of scarce gases, etc.” as a risk to the Electronics segment; since European semiconductor manufacturers depend on Ukraine for a very high proportion of the rare gases that they use, we recognize this dependence as a risk. To date we have heard no reports of any current hindrance to semiconductor-related production.

Q: Regarding battery pouches, page 13 of the briefing materials says you expect the market to remain solid in the medium- and long-term thanks to growing demand for electric vehicles, and says about production systems that you will consider increasing capacity in Japan and elsewhere, including in the United States. By how many times do you expect the market for battery pouches to grow by 2025 or so, compared to the current size of the market? Also, when you consider the total market for battery pouches including prismatic and cylindrical products, please explain your outlook for the percentage that automotive pouches will account for around 2027.

A: We expect the 2025 market for automotive battery pouches to be about 10 times larger than the 2019 market, or a bit more than double the size of the current year, 2022. In addition, we expect that in 2027, pouches for the automotive market will account for approximately 30% of the overall battery pouch market.

Q: Do I understand correctly that DNP’s lithium-ion battery pouch business contributed to profits in the second quarter? I understand that sales were weak, especially for IT applications, but are they contributing to profits as anticipated?

A: In terms of profits, along with the decline in sales of pouches for the IT sector, there was a decline in profits. Until the second quarter, we were affected significantly by soaring aluminum prices, but we still posted a profit.

Q: On page 3 of the briefing materials, you explained that earnings increased by ¥300 million due to the expansion of focus businesses. Please explain the breakdown of which ones grew, and whether any were faced with such a tough market that they did not grow.

A: We will refrain from giving specific figures, but among the focus businesses, the Imaging Communication business, which pertains to “data distribution,” made a particularly large contribution that significantly boosted profits compared to the previous year. In addition, payment service-related sales also increased year on year. On the other hand, among “mobility” and “IoT next-generation communication” focus businesses, there were year-on-year declines in profits generated by Electronics, battery pouches, and high-performance materials. In the “environment-related” sector as well, there was a slight decrease in earnings compared to the previous year.