

Nippon Light Metal Holdings Company, Ltd.

Briefing on financial results for the fiscal year ended March 31, 2022, for analysts: Summary of Q&A

- Date: 2:00–2:45 p.m., May 30, 2022 (Monday)
- Presenter: Ichiro Okamoto, President & Chief Executive Officer
Hiroyuki Matsudaira, Officer and Head of Central Planning Office
Haruhiko Takahashi, Accounting Manager, Central HR, General Affairs and Accounting Office

Q1. Which segments will be significantly affected by the rise in raw material and fuel prices in the earnings forecasts for the fiscal year ending in March 2023 (hereinafter, “fiscal 2022”)?

A1. The increase in raw material and fuel prices is a factor, but our earnings forecasts also factor risks into the demand forecast. We take a harsh view on the truck bodies business in the fabricated products and others business segment and on the aluminum foil, powder and paste business segment. Regarding the truck bodies business, the supply of truck chassis has been unreliable since Q4 of the fiscal year ended in March 2022 (hereinafter, “fiscal 2021”), and it will take time for this to subside. The aluminum foil division is affected by the fact that it will take time to reflect the steep rise in aluminum ingot prices in sales prices, and foil for the outer packaging of lithium-ion batteries for automobiles will be affected by inventory adjustments and other factors caused by fluctuations in automobile demand.

Q2. What are your thoughts on reflecting the steep rise in raw material and fuel prices in sales prices?

A2. Some products have formulas whose sales prices are linked to market prices, such as aluminum ingot prices, and some products do not have such formulas. Our basic thinking on the latter is that customers need to understand that they will also need to bear some of the burden of fluctuating raw material and fuel prices so that we can provide a stable supply of products.

Q3. The financial indicators for the 2022 Medium-term Management Plan (hereinafter, “2022 Medium-term Plan”) list 30 billion yen in operating profit by the year ending in March 2025 (hereinafter, “fiscal 2024”) as a reference. What proportion of this amount do you expect each segment to achieve?

A3. Overall, we believe it is important to achieve growth for the Group by pursuing economic value and social value, irrespective of specific segments. We explain the 2022 Medium-term Plan with the word “linkage,” which expresses our intention to become a corporate structure that can create products and businesses by linking to customers and can consistently generate 30–40 billion yen in income, regardless of existing segments.

Q4. The 2019 Medium-term Management Plan (hereinafter, “2019 Medium-term Plan”) has been praised for creating a structure that has enabled the Group to steadily generate 20 billion yen in income even in a difficult business environment, but currently the total market capitalization is falling. As the president, what are your thoughts on bringing stock prices back up and the measures in the 2022 Medium-term Plan?

A 4 We are certainly concerned that our total market capitalization has fallen below 100 billion yen, and are aware that the Group’s efforts are not being recognized by the market. Our financial foundation has become more solid, as demonstrated by an equity ratio of nearly 40% and a D/E ratio of 0.8x. Our plan is to continue our steady efforts, including the measures in the 2022 Medium-term Plan, so that market participants understand what we are accomplishing.

Q5. Can you explain the process of establishing the medium-term plan and the Group’s reasons for setting operating profit at more than 30 billion yen? Also, can the Group make any commitments in this Medium-term Plan?

A5. In establishing the 2022 Medium-term Plan, we used a backcasting approach that started with our vision for the Group, and then we identified material issues and revised the Group’s management policies. We debated whether it was appropriate to give targets as commitments, given the possibility of major volatility in the economic environment and business environment going forward and the substantial fluctuations in this economic environment, and we determined that we would lay out a goal of creating a structure capable of steadily generating 30 billion yen in operating profit by the end of the 2022 Medium-term Plan.

Q6. Nippon Fruehauf’s operating profit forecast for fiscal 2022 is a loss of 1.6 billion yen, the same as in fiscal 2021. To what extent have sales prices been revised to address higher costs, and what is the current progress in fiscal 2022?

A6. The sales price for Nippon Fruehauf’s truck body products is set when orders are placed, and the production and sales process takes several months, so sales price revisions could not keep up with the pace of the cost increases caused by skyrocketing aluminum ingot prices. This was the main problem for financial results in fiscal 2021. Although the company has been gradually revising sales prices in fiscal 2022, it has not yet completely caught up. In addition, it takes time for the unstable supply of chassis from truck manufacturers, which has continued since fiscal 2021, to subside, so we have taken a harsh view on earnings in the first half.

Q7. The fiscal 2022 earnings forecasts predict a 3.5 billion yen impact on ordinary income due to sales volume, a change compared to fiscal 2021. This was due to an increase in sales of which products, specifically?

A7. Sales of products for eco-friendly cars, which are a focus of our 2022 Medium-term Plan, are

steadily increasing, and were a factor behind higher income in fiscal 2022, but at present, operations by auto manufacturers are unstable, so this is not at a level that can contribute significantly to higher income. The factors behind changes noted here include the steep rise in aluminum ingot prices reflected in sales prices in the aluminum foil business.

Q8. How does the 2022 Medium-term Plan address development, marketing and sale of new products?

A8. The auto sector, which has major changes in the market environment, is the one that most seeks new value. The Group's strength lies in its diverse businesses and products, and we believe that it is important to create new value and forge links by addressing changes in each sector. A prime example of this is our initiatives regarding heat-release products for eco-friendly cars, which will become a volume zone going forward.