

Nippon Light Metal Holdings Co., Ltd.

Q&A Summary of Briefing on Financial Results for the Fiscal Year Ended March 31, 2024

- Date: 5:00–5:45 pm; May 15, 2024 (Wednesday)

- Briefers and respondents:

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Q1. Operating profit for fiscal 2023 totaled 18.2 billion yen, an upward swing of 1.2 billion yen from the 17.0 billion yen forecast in Q3 financial results. This includes 6.6 billion yen in actual results in the fabricated products and others segment, up from 6.0 billion yen, and 10.8 billion yen in actual results in the aluminum ingot and chemicals segment, up from 10.0 billion yen. What are the profit factors in each segment?

A1. We see two main profit factors in the fabricated products and others segment. First, since fiscal 2022, the panel system division has continued to post strong performance in the clean room field for semiconductor-related manufacturers. Second, the truck body business experienced a substantial improvement in profit over fiscal 2022, attributable in part to the effect of sales price revisions, despite its inability to return to profitability in fiscal 2023. Our forecast for fiscal 2024 assumes a downturn from the recent favorable performance in the panel system division during the first half and an ongoing recovery in the truck body business from fiscal 2023, as well as the impact of sales price revisions. The increase in the aluminum ingot and chemicals segment was primarily due to the result of highly effective sales price revisions in the aluminum ingot and chemicals division, and the strong performance in the secondary alloy ingot segment in the U.S. market. The above-mentioned profit factor relative to the fiscal 2022 results and the profit factor relative to the earnings forecast at the end of Q3 of fiscal 2023 have the same composition.

Q2. Looking ahead to fiscal 2024, what are the assumptions in your forecasts for each segment? (i.e., the difference between first- and second-half earnings forecasts appear to be larger than seasonality.)

A2. Given that the ordinary profit forecast for fiscal 2024 is 20.0 billion yen, 5.0 billion yen in first half and 15.0 billion yen in second half, our forecast assumes a 10.0 billion yen

increase in profit from the first half through the second half of the year. This includes: 6.0 billion yen increase in construction engineering businesses such as the panel system division and the landscape engineering division, which are profit-biased in the second half; slightly more than 1 billion yen in the aluminum foil, powder, and paste segment; and 1.0 billion yen in the aluminum sheet division on recovery in sales of thick sheets for semiconductor manufacturing equipment. The auto parts business (Nikkeikin ALMO) expects to see a certain level of profit recovery in the second half of fiscal 2023 compared to fiscal 2024, resulting in an increase of about 1.0 billion yen from the first half to the second half of the year, with the truck body business' sales recovery in fiscal 2024 and sales price revisions having a larger effect in second half than in first half of the year.

In addition, the factor contributing to the decrease in ordinary profit forecast for the first half of fiscal 2024 is the fact that the impact of aluminum ingot prices and the rising U.S. dollar have been factored in. Additionally, there are indications that the panel system division's construction projects have been pushed back overall, so the earnings are likely to be smaller than anticipated. The second-half forecast, on the other hand, incorporates a recovery in the semiconductor-related sector, which has profitability at a higher level. Earnings will vary depending on when the second half picks up, but at this point, we are of the view that a successful recovery would be good, and are not bullish on the recovery forecast.

Q3. With regard to the management reforms (e.g., reducing the number of directors, grouping business functions), what kinds of issues are you aware of and what effects do you expect to see? You mentioned a target of 30.0 billion yen in consolidated ordinary profit on a consistent basis, but when will this target be achieved?

A3. What led to the management reforms was a sense of urgency that the current organizational structure could not create a growth curve with a view to creating new businesses and products. We are also looking at this issue in terms of both governance and compliance (in the non-financial area), and we are determined to complete the measures to prevent the reoccurrence of inappropriate behavior announced a year ago by the end of the 2023 medium-term plan period. With these in mind, we identify the issues of what we should do to bring about more unified management as a Group, and to increase the Group's corporate value.

To this end, instead of the past organizational structure, we will take a broad view and look at what we can do in the non-financial area to increase the margins for the entire Group, so that our efforts will lead to fruitful results from fiscal 2025. As for the 30.0 billion yen profit level, it is achievable given the external environment allows it, but the current organizational structure is not yet in place to achieve a 30.0 billion yen profit level on a consistent basis. Therefore, the company's objective is to pursue management

reforms in both financial and non-financial areas under an organizational structure not seen in the past, in order to increase corporate value.

Q4. The outlook for fiscal 2024 for the aluminum foil, powder, and paste segment (i.e., Toyo Aluminium) includes a profit plan of 5.0 billion yen, but could the dividend forecast change depending on the situation or developments?

A4. We are still in discussions with the companies involved. We have not reached a point where we can definitively close the deal at this time. The outlook for fiscal 2024 reflects the results of the aluminum foil, powder, and paste segment for the full fiscal year. However, at this stage of the process, we are not in a position to incorporate any changes in the situation or developments into our financial earnings and dividend forecasts.

Q5. What caused and determined the 1.0 billion yen operating profit forecast for fiscal 2024 in the aluminum sheet and extrusions segment (including the effect of sales price revisions that took effect in February 2024 in the aluminum sheet division and the launch of the new U.S. auto parts plant in the extrusion products division) (Net sales is projected to recover to 20% year-on-year growth, and operating profit still seems low, though we believe the company has the ability to generate more than 5.0 billion yen in operating profit.)

A5. The operating profit forecast for fiscal 2024 states a return to profitability in the aluminum sheet and extrusions segment from a loss in fiscal 2023. However, given the current situation, it would be difficult to say whether a profit of 5.0 billion yen could be achieved if external conditions were favorable. In forecasting earnings for the aluminum sheet division, we are keeping a close eye on the timing of the recovery in demand for thick sheets for semiconductor manufacturing equipment. In fact, we do not see a recovery in the first half of fiscal 2024, and our forecast is based on the assumption that a recovery will occur in the second half or later. The latest April shipment is still not recovered. We will carefully track information from distributors and trading companies, etc., to catch up on the timing of the recovery. The effect of sales price revisions was factored into our fiscal 2024 forecast for which we have asked our customers as previously announced.

In the U.S. auto parts business in the extrusion products division, there was a delay in starting mass production due to new efforts to introduce an in-house production process for forged products at an overseas plant. As we entered fiscal 2024, the situation has improved to the point where we can launch normal production activities. We are now able to deliver good products to our customers in North America. The key is whether the company will be able to manufacture products with a solid production system in the future. For the time being, however, the negative impact on profit and loss is expected to continue.

- Q6. The forecast for the aluminum ingot price in fiscal 2024 is lower than that in fiscal 2023 results. What are the assumptions used in the forecast? Please explain the impact of the increase in the aluminum ingot price on the company's performance.
- A6. Our assumption is that domestic market prices will be significantly higher as from the beginning of fiscal 2024, the depreciation of the yen accelerates in addition to the rise in LME prices. Our aluminum ingot price forecast for fiscal 2024 is 380 yen, but we intend to firmly catch up with business performance by addressing the recent rise in aluminum ingot prices. The sensitivity to the impact of a 10 yen/kg increase in aluminum ingot price is assumed to be 500 million yen. In particular, there is no mechanism for passing on changes in aluminum ingot prices to sales price formulas for products in the fabricated products and others segment. So, the increase in aluminum ingot prices will be directly translated into an increase in raw material prices, which will have a negative impact on business performance.
- Q7. Profit in the fabricated products and others segment amounted to 4.4 billion yen in Q4 (January–March) alone, which I believe was a high level compared to the past, but what were the factors behind this?
- A7. The high profit level was due to two factors. First, shipments of insulation panels in the panel system division, and the clean room and refrigeration/freezer fields were quite strong, including last-minute shipments, in 4Q, and second, profit in the truck body business recovered during 4Q of the year.
- Q8. What is included in the effect of a 2.3 billion yen increase in purchased products, and what caused the effect of a 6.9 billion yen decrease in other, as indicated in the factors behind year-on-year changes in fiscal 2024 profit?
- A8. The effects of purchased products price fluctuations are due to the fact that the price of crude oil, based on an assumption in the cost calculation of the fiscal 2024 plan, is set at a higher price given heightened geopolitical risks, and the risk of price increases is also reflected in the cost of various materials. Other effects include the impact of an increase in depreciation, based on the assumption that the company will aggressively invest in capital expenditures in growth areas.
- Q9. In the panel system division's clean room field for semiconductor-related manufacturers, you mentioned that demand for clean rooms in first half will be thin during fiscal 2024. Is it correct to consider this as a one-off trend? (i.e., given that there was a reference to a return from second half, is it correct to assume that the expansion trend to date will continue?)

A9. Recently, orders for medium and large projects are being shifted to the second half period. We are currently analyzing the causes of the order trends, and in view of the current brisk order situation, we are forecasting that a certain amount of profits not fully captured in the first half will be transferred to the second half.

Q10. Regarding the effect of the revisions listed on page 22 of the supplementary materials on the “Status of sales price revisions,” to what extent is it included in the sales price impact of 3.0 billion yen listed as a factor in the year-on-year change in ordinary profit for fiscal 2024?

A10. The company announced the sales price revisions in the truck body business (Nippon Fruehauf) and the aluminum ingot and chemicals division (Nippon Light Metal, chemicals). A certain amount of the corresponding effects has been incorporated into our earnings forecast. However, prices of raw materials and fuels, such as aluminum ingot prices, have been moving recently, and the effects of sales price revisions that will be required in the future to cover these increases is difficult to predict, including fluctuations in prices. Therefore, it should be noted that the 3.0 billion yen effect of sales price revisions in fiscal 2024 does not include the effects expected in the second half and beyond.

Q11. What are your views and assumptions on the automotive market in the outlook for fiscal 2024?

A11. The business environment in the China business is very challenging. Looking at the auto parts business (Nikkeikin ALMO) in the Japan business, SOPs for the products we are targeting have been delayed due to the Noto Peninsula Earthquake and other circumstances at our customer or automaker sites, and we have factored into our fiscal 2024 forecast the impact of this.

We are closely monitoring the differences between the domestic and international automotive business environments and the fact that the pace of the transition to electric vehicles is slower than we originally anticipated. We recognize that only a few domestic automakers are experiencing strong sales. Overseas, especially in East Asia including China, the growth rate of EVs is high, but we are keeping a close eye on the view that it may be time for the EV market to level off. In our company, there have been scattered instances where the slow pace of progress in the shift to EVs has resulted in the postponement of previously firm orders that had been anticipated in the automotive components business.

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