

Seizing new business opportunities by standing at the forefront of change, responding quickly and evolving itself

Review of the 1st year after taking office as president

Advancing initiatives needed for growth in the face of unexpected changes in the business environment

In last year's integrated report, I stated my aspiration at the time of taking office as president was to "achieve the new Mid-term Management Plan in the era of uncertainty." Even when Mid-term Management Plan 2023 was announced in April 2019, I also realized that there is always the possibility of major unexpected changes occurring in these uncertain times. Looking back over this past fiscal year, it was a year of unprecedented and unexpected changes: rise of geopolitical risks such as the trade friction between the US and China in 2019, changes in the business environment, and the ongoing pandemic of novel coronavirus (COVID-19) that started in 2020.

We have been taking comprehensive measures to address these changes, and I believe we have been able to quickly produce products and services that will contribute to solving major problems faced by society over the long term and advance initiatives needed to transform and grow the Company.

Countermeasures against COVID-19

Rolling out comprehensive prevention measures against the pandemic early on

When COVID-19 began to spread in Wuhan, China, we established a prevention task force in the end of January 2020 and formulated company-wide rules and guidelines ahead of national governments' actions. Under our policy of placing the highest priority on the health and safety of employees, we immediately adopted a remote working system on a company-wide basis and worked to maintain a stable product supply. Looking back now, we were able to swiftly respond to COVID-19 prior to advice or guidelines from the government.

We had already worked to establish an internal infrastructure for a remote working system in view of the fact that it might be difficult for employees to commute to work during the Tokyo Olympic and Paralympic Games, so we immediately decided to introduce the system to all business locations. There was a concern about implementing remote working, but once we started, we realized it worked better than expected, even improving efficiency in some operations. It accelerated changes in work styles at

the Company. For example, as of December 2020, around 90% of employees at our Headquarters continue to work remotely.

Running a business under COVID-19

Fostering of an in-house mindset not to fear a change

COVID-19 has affected the Company in both positive and negative ways, and it has had an immense impact on a global scale. First of all, it clearly accelerated the trend of "digital transformation" (DX). People realized many aspects through remote communication with each other, including the fact that it has freed people from the constraints of mobility and that it has generated needs for technology that can enhance reality remotely. This is a theme that can lead to new social issues that humans must overcome. As we provide many products that support "digitalization", solutions of such social issues can lead to expanding business opportunities.

I've been telling employees that the biggest risk of all is not being able to transform ourselves in these rapidly changing times, and a mindset not to fear a

Representative Director and President

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change began to be fostered among employees from the sense of crisis for the environmental changes due to the pandemic. We have been advancing DX in our manufacturing and sales divisions, which mainly centered on activities on site and through interaction with clients. I can see that the awareness of employees to transform themselves has spread among them, including the use of tools such as VR (virtual reality) and MI (materials informatics). Rather than deciding ahead of time that remote working is impossible, they think about how remote working can be achieved.

Review of the 1st year of the Mid-term Management Plan

3 basic policies have seen solid progress

Last year we formulated the 5-year Mid-term Management Plan 2023 with the theme of “Challenges for Evolution.” It is very difficult to look ahead to the

next five years in such dramatically changing times, with drastic changes occurring globally in the plan’s first year alone, fiscal 2019. But in order to avoid making short-sighted business decisions, we chose to formulate a 5-year plan. We have positioned these five years as “a phase to ensure a sustainable growth through business expansion in new domains where social issues have surfaced.” The first three years will consist of shifting resources which includes selection and focus, to break away from overemphasizing on the consumer IT products market. In the last two years, we plan to expand new domains centering on automobiles and transform our business portfolio.

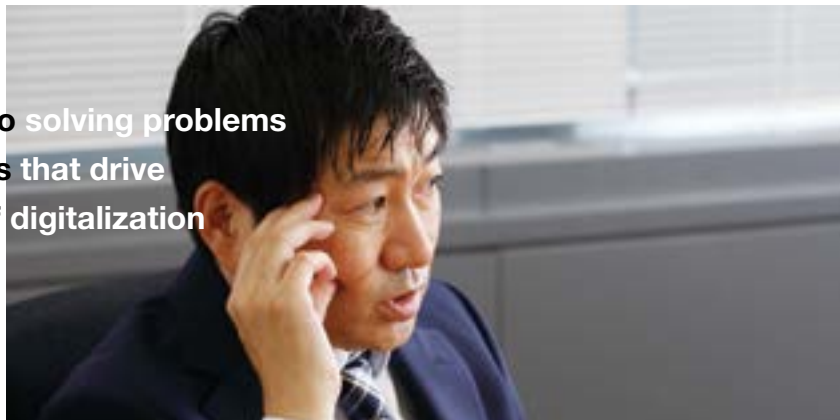
We have established three basic policies— “accelerate growth in new domains,” “qualitatively change businesses in the existing domains,” and “strengthen management base”—and the initiatives based on these policies have made solid progress in fiscal 2019.

(1) Accelerate growth in new domains

In the new domains, we are focusing resources on the automotive business as a growth pillar and increasing the proportion of the automotive business in the Group’s total sales.

The automotive industry was greatly impacted by COVID-19 toward the end of fiscal 2019. Plants around the world were forced to temporarily suspend operations, leading to a huge temporary decline in global automobile production. However, since the 2nd quarter of fiscal 2020, automobile demand has shown signs of recovery and production plants across the globe have resumed operations. Not even the COVID-19 pandemic could change the CASE (Connected, Autonomous, Shared & Services, Electric) trend, which points to the future direction of the automotive industry. In fact, I think the needs for peripheral devices related to autonomous and electric technologies have increased at an accelerated pace. The Dexerials Group is rolling out an automotive business with a focus on anti-reflection films and anisotropic conductive films (ACF)—products that have a competitive advantage such as higher visibility, safety, and durability, as well as larger size of in-vehicle displays, in addition to compatibility with curved surfaces and irregular shapes. Some countries, like France and Germany, are granting subsidies to purchase electric vehicles as part of their measures to stimulate the stagnant economy caused by the COVID-19 pandemic. In China, recent automobile sales have shown an increase from the previous corresponding period. As the number of in-vehicle displays per automobile increases and the size of

“We will contribute to solving problems by offering products that drive the acceleration of digitalization stemming from COVID-19.”



displays becomes larger in line with the CASE trend, we will accelerate business growth with a focus on products that are differentiated from the competitors.

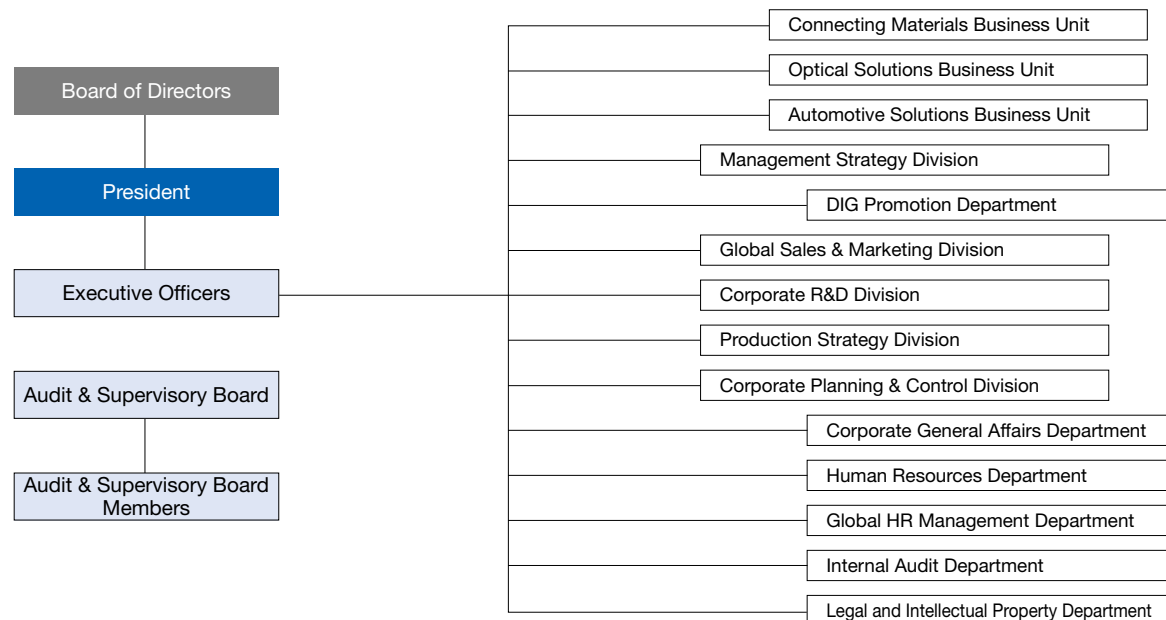
(2) Qualitatively change businesses in the existing domains

In existing domains, we are restructuring and consolidating businesses, and working to strengthen and concentrate resources on differentiating technology products such as particle-arrayed ACF, in accordance with a conservative projection for the growth potential of the consumer IT products market, which includes smartphone displays and other products.

As part of the process of restructuring and consolidating businesses, we have decided to review all our businesses once per year. The first business review was carried out in the end of 2019. Based on the results of the review, we announced in August this year that we would implement reorganization and structural reforms on October 1. We switched from a four-business-unit structure to a three-business-unit structure. As for the micro device business which deals with products such as inorganic polarizers, inorganic waveplates, and sputtering targets, we established a subsidiary to consolidate business unit functions. We also established a joint venture with OUTSOURCING Inc. for product manufacturing. The reorganization aims

to strengthen our revenue base and build a business structure that can endure demand fluctuations. Many of the products the micro device business deals with have the potential of providing solutions for the future advance of VR (virtual reality), AR (augmented reality), and MR (mixed reality), as well as the evolution of head-up displays for automobiles. Considering this promise of potential, we decided that we should continue it as a strategic business. But to do so, we must further strengthen the current business structure. Instead of operating the entire business by ourselves alone, we will strengthen our business by ascertaining what functions the Company should have and what functions should be achieved in collaboration with external partners.

Corporate structure after structural reforms (as of Oct. 1, 2020)



(3) Strengthen management base

A key factor in driving the above two initiatives is strengthening the management base. Encouraging changes in the mindset and behavior of each employee who will transform the business portfolio will also lead to strengthening the corporate culture. I think the pandemic has helped to foster a sound sense of crisis among employees and provided motivation to drive “Challenges for Evolution.”

We also announced that we would implement a “special early job transfer support program” to create a lean management system as part of our efforts to build a dynamic organizational structure in order to achieve sustainable growth. To carry out these reforms, we also need to revamp our executive structure. Therefore, we recruited new people from within and outside the Company to invigorate the

“We will continue to be an organization that stands at the forefront of changes and takes on challenges.”



organization and improve management in view of the next-generation. In October 2019, we started a training program to develop next-generation leaders, participants for which were selected from managers. We are also running a training program for engineers—the drivers of innovation.

→ [See Page 56 for the details of our business leadership program.]

COVID-19 made us realize things about our values and how we work, spurring discussions about what we want Dexerials to be as a company. The Nomination and Remuneration Committee began discussing a vision for our management system in the future and started deliberating on revising the personnel system in line with changes in work styles. We will continue deliberating on how to become a company that attracts highly creative individuals and how to build a system that enables sustainable growth.

Looking ahead to the medium- to long-term

Solving social issues and achieving sustainable growth

In the medium- to long-term, and amid the pandemic we are currently facing, I believe we are required to carry out management that can swiftly respond to changes. In today's world that changes dramatically and constantly, the biggest risk is not changing, or not being able to change. We want to be an organization that stands at the forefront of changes in the world and takes on the challenge of transforming ourselves.

With our recent COVID-19 measures, we demonstrated our ability to quickly respond to the change. We are considering how we can contribute to solving social issues such as environmental problems and poverty over the medium- to long-term, while considering how we transform ourselves. Dexerials is

a solution provider that drives the evolution of digitalization from materials, which is one of the tools to solve such issues. Through practicing this identity, we will contribute to society and grow ourselves. It is essential that both of these work in tandem.

Developing and expanding a telecommunications infrastructure is essential for driving digitalization. As telecommunication systems switch to 5G, the number of base stations will inevitably increase. And the range of applications for our products in 5G devices will further expand.

The reason why we have chosen automobiles as the domain to accelerate business growth is that automobile applications have pioneered innovative solutions among IoT applications including DX. The COVID-19 pandemic has reaffirmed the importance of IoT applications in various business domains other than the automotive domain. For example, needs have increased for IoT applications in the medical and healthcare domains from the perspective of how we utilize sensing technology and monitor health in healthcare. As healthcare costs increase year by year around the world, the number of social problems that need to be solved in the medical and healthcare domains have piled up, such as the widening disparity in some countries between those who benefit from healthcare system and those who do not. We will achieve solutions of social problems and attain corporate growth in a wide range of fields other than the automotive domain by entering medical, healthcare, and other domains.

→ [See Page 32 for the details of businesses in new domains]

ESG management

ESG and business strategy work through integration

If we cannot develop businesses that can contribute to solving various social issues, we will not be able to become a company that can maintain sustainable growth. In this sense, I believe that ESG (Environment, Society, and Governance) and business strategy should not be taken as separated components; rather, ESG should be viewed as a condition for sustainable growth and tied directly to business operations. In fact, when making a decision, I always do so using the concepts of ESG and SDGs (Sustainable Development Goals) as guidelines, rather than just viewing within a business framework.

We have identified four materiality themes of high priority that are considered closely related to our business activities: “creating new value, resolving social issues,” “reinforcement of corporate governance and compliance,” “cultivation of diverse human resources and engagement,” and “ensuring operational safety and business continuity.” In terms of governance, in fiscal 2019, we established the Nomination and Remuneration Committee, an optional advisory body, and promoted delegation of authority within the Company. At the General Meeting of Shareholders held in June 2020, we changed the composition of the Board of Directors by reducing the number of internal directors by one, whereby four of the six director posts in total are assumed by outside directors. In terms of engagement, we made an effort to engage in attentive dialogue and share our values

with employees with a focus on managers who are eligible for a special early job transfer support program, and continued to engage in dialogue with shareholders and other stakeholders.

→ See Page 28 for the details of materiality.

In conclusion

Striving for sustainable growth while standing at the forefront of changes in the world and transforming ourselves

In 2030, the target achievement year for SDGs, one-third of Japan’s total population is expected to be 65-year-old or older. This will inevitably create a new world for companies where diverse human resources regardless of gender, age, and nationality work together as a team to drive business operation,

without being constrained by their workplace. In this case, we will have no choice but to change Japan’s traditional personnel system and work style. We will continue to make all-out efforts to become a company that can achieve sustainable growth by responding rapidly to changes in the world and engaging in research at the forefront of changes. We look forward to your continued support.

December 2020

Representative Director and President

Yoshihisa Shinya

“We will achieve sustainable growth by promotion of ESG initiatives that is integrated with business.”

