

Instilling a B/S-oriented corporate management approach and continuously strengthening business portfolio management



Senior Executive Officer
CFO (Chief Financial Officer), Corporate Planning & Control Division Head, Company Process Innovator

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Profile

Joined Sony Chemicals Corporation, the predecessor of Dexerials, in 1984. Having gained experience in sales and corporate planning divisions, served as a director of Dexerials' subsidiary in Singapore. After returning to Japan, held positions including head of sales and business divisions and plant manager. Appointed Executive Officer in 2012, and Corporate Planning & Control Division Head in 2014. Contributed to taking Dexerials public. In the current position since 2019.

Review of the first year of “Mid-term Management Plan 2023”

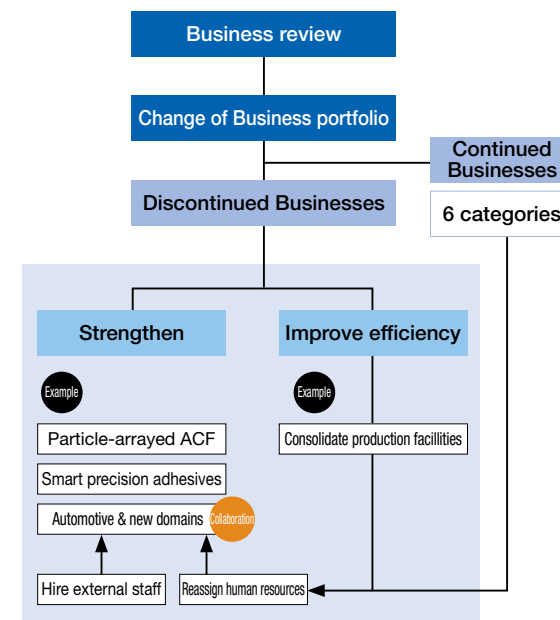
Net sales in fiscal 2019 decreased 5% year on year, but operating profit grew 24.0% year on year thanks in part to the expansion of smart precision adhesives and particle-arrayed anisotropic conductive film (ACF). Operating profit exceeded the targets of the initial plan, getting the first year of the Mid-term Management Plan off to a good start.

In fiscal 2019 we reviewed our businesses to strengthen business portfolio management. The review assessed the profitability, stability, growth, scale, and competitive advantage of each business, and the “economic value of business,” i.e., the spread between the profit contributed by the business and the capital cost of the business. Based on the results, we changed our business portfolio to improve corporate value over the mid- to long-term, and determined which businesses we would continue and which ones we would discontinue. Two things that are key in carrying out business reviews: visually displaying how improvements will affect the numbers by sharing the review rules throughout the company, and carrying it out not once but annually.

By making these two into company rules, we will improve the efficiency of “operating capital” and increase “the economic value of business”, and instill a B/S-oriented corporate management approach. In terms of cash flows, thanks to accumulating over 9.0 billion yen in operating cash flows—our earning power—free cash flow increased year on year from approximately 1.3 billion yen to 5.8 billion yen.

As for the initiatives laid out in the Mid-term Management Plan, we have set a target for our new automotive business to achieve 30% of total sales by fiscal 2023, and in fiscal 2019 the percentage steadily increased from approximately 10% of the previous fiscal year. However, one of our management issue is our high dependence on the consumer IT products market. The increase in sales of high value-added products such as our differentiating technology

Efforts to Strengthen the Business Portfolio



product ACF, anti-reflection film, and smart precision adhesives enabled us to absorb market volatility, but it did not lead to lowering our dependence. In the future, we will accelerate growth in domains other than the consumer IT products market to lower our dependency.

Risks and opportunities from a financial perspective

The first risks we see are the trend in operating cash flows and fluctuations in the foreign exchange rate caused by changes in the economic environment stemming from the COVID-19 pandemic. Our foreign exchange sensitivity continues to be a financial risk we need to work on: The loss caused by yen appreciation by one yen against the US dollar was relatively large,

with a loss of approximately 400 million yen in net sales and approximately 300 million yen in operating profit. When investing in growth over the mid-term, it is important to identify business risks early and accurately. For example, for new investment candidates we will carry out risk management while maintaining a balance between risk and return, such as forming alliances instead of contributing funds from the start.

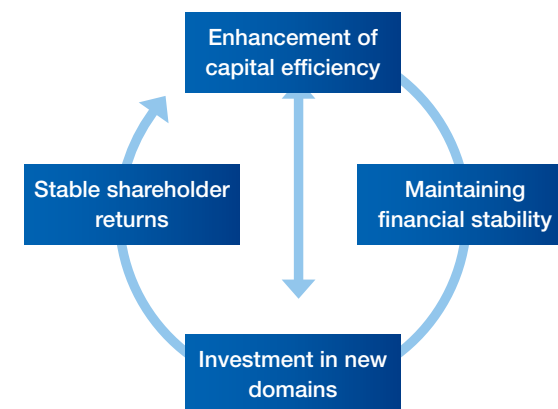
With the elevated at-home demand due to the pandemic, the expanding demand of consumer IT products such as personal displays presents a possible business opportunity. As COVID-19 has increased demand for next-generation automobiles and accelerated the widespread use of various technologies over the mid-term, I believe that developing immersive technologies like VR (virtual reality), AR (augmented reality), and MR (mixed reality) will create business growth opportunities for Dexerials.

Future financial strategies

We will continue to work on four basic policies for our financial strategy: enhancement of capital efficiency, maintaining financial stability, investment in new domains, and stable shareholder returns. In terms of KPIs, we set a capital cost target of 8% prioritizing ROE and will work to achieve a positive equity spread. At present we expect around a 5% ROE mainly due to incurring temporary costs related to resource shifts, but we will aim to achieve over 10% from fiscal 2021 to 2023 when the effects of decreased fixed costs and others manifest. Growth investment will be driven by the Management Strategy Division, which was established in October 2020 in the structural reforms. We are deliberating mainly on investing in domains where we can make use of our technology, such as the environmental, telecommunications, and medical fields, with a focus on the new automotive domain. Our shareholder return policy, one of our capital strategies, remains unchanged with a total payout

Basic Policy

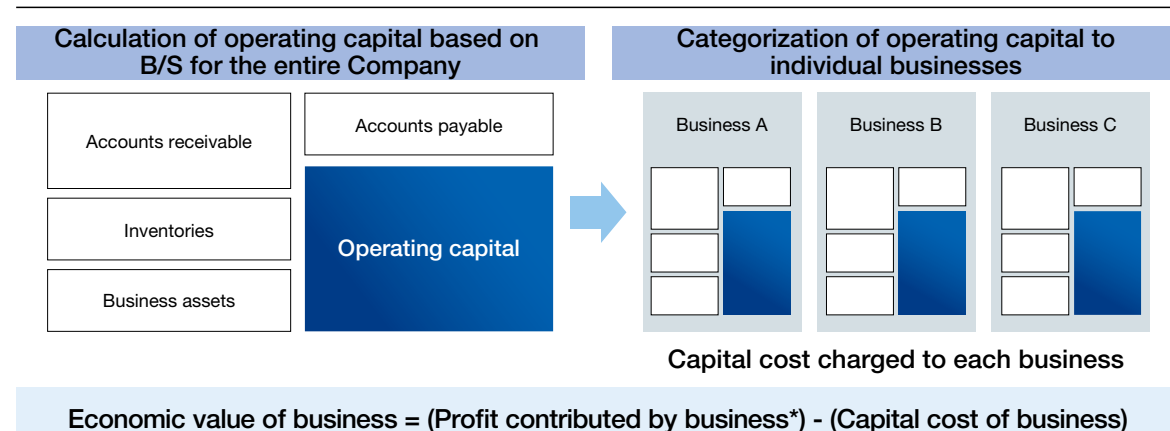
Strengthening Financial Base Leading to Sustained Enhancement of Corporate Value



ratio to profit before amortization of goodwill at approximately 40%. We will continue to convey our efforts to attain our vision on how we will continue to achieve sustainable growth by solving social problems through a wide range of communication channels to our shareholders and investors.



Concept of Economic Value of Business



*Operating profit of each business + indirect division expenses charged to each business

Endeavor to improve the efficiency of operating capital and increase the economic value of the business, mindful of the capital cost