

Achieve profit targets ahead of schedule by responding quickly to changes

Refresh the Mid-term Management Plan and take steps toward further growth.

Review of fiscal 2020

Fiscal year 2020 was a year in which society as a whole was greatly affected by the COVID-19 pandemic. The pandemic further accelerated the movement toward work style reforms and digitalization, which had a positive impact on our business performance, and we attained the highest profit level since we were listed on the stock exchange by capturing the increased demand for mobile IT products and improving productivity. However, there is something else that I believe deserves praise besides financial performance: employees' change in mindset. In last year's Integrated Report, I mentioned that a mindset that is not afraid of change has been fostered within the company. In the midst of the major changes in the external environment caused by the COVID-19 pandemic, the management team and employees were able to act in unison and cope with the changes in an agile manner, which I believe is a valuable evolution that will lead to the sustainable growth of the company in the future. Taking DX (Digital Transformation) as an example, in the process of rolling out remote work to all of our business locations, each and every one of us has come to realize the necessity

and importance of remote work, which has led to the acceleration of our efforts to respond to change. In terms of communication with customers, various challenges have been attempted despite the difficulty of face-to-face communication, and the fact that we were able to implement spec-in activities beyond our expectations has been a gain harvest for us. carry out more spec-in activities than expected.

Progress and assessment of the Mid-term Management Plan in the two years

As for the progress of the Med-term Management Plan 2023 "Challenge to Evolution," I believe that we have been able to steadily implement what we can do in the midst of significant changes in the business environment over the two years to 2020. Specifically, in order to achieve a qualitative change in business in existing areas, we have established a system for business reevaluation that ensures transparency and fairness, identified businesses that should be selected and focused on, and firmly implemented measures accordingly. For example, we reevaluated our production bases of businesses that should continue,

and thoroughly strengthened them by taking measures such as improving productivity and expanding differentiating technology products. In order to strengthen the management base, we have promoted generational changes in our management team and implemented a special early career change support program for managers aged 50 and above. In the micro devices business, we have improved its revenue structure on a stand-alone basis and established a production system that is resilient to fluctuations in demand since January of this year, and have begun to operate the business independently to achieve sustainable growth.

On the other hand, one of the remaining issues is the growth of new businesses. Although we have made progress, such as in the development of our automotive business, we have yet to transform the company's overall business portfolio and need to accelerate further. Last October, we began collaboration with German automotive design house SemsoTec Group. The fact that we were able to establish a technological support system for in-vehicle displays in spite of the COVID-19 pandemic is one of our achievements, and we will strengthen the collaboration even further going forward.



Representative Director and President

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Refresh the Mid-term Management Plan

After completing second year of the Mid-term Management Plan, we have refreshed (updated) the Mid-term Management Plan to set new targets for the next stage of growth, as there have been major changes in the business environment that were not expected when this plan was formulated, and in terms of business performance, we have exceeded the initial plan for two consecutive years, including achieving the final year target for operating income three years ahead of schedule. Although the three basic policies we initially established — (1) Accelerate growth in new domains, (2) Qualitatively change businesses in the existing domains, and (3) Strengthen our management base — remain unchanged, we will update the individual measures related to each one. In addition to EBITDA (earnings before interest, taxes, depreciation, and amortization), as an indicator of our earning strength, we will also introduce ROIC (return on invested capital), to judge the investment efficiency for growth.

Furthermore, even after the announcement of the refresh of the Mid-term Management Plan, the evaluation of and demand for our differentiated technology products continued to increase, and based on this, we made a further upward revision to our business forecast for fiscal year 2021 in November 2021.



See Page 24 for the details of the updated Mid-term Management Plan.

1. Accelerate growth in new domains: Promote full-scale growth of automotive business

In the automotive business, which is the prioritized field in new domains, even though the automotive market overall faces slowdowns in production volume and shortages of semiconductors due to the COVID-19 pandemic, environmental problems have triggered the acceleration of the electrification trend for EVs and autonomous driving. In the in-vehicle display market, the increase in display size has progressed than expected, so we will strive to achieve dramatic business growth with a focus on anti-reflection films. The number of car models that use our products have been expanding steadily: In fiscal 2021 our products are expected to be adopted in a total of over 100 models globally. With regard to joint sales

promotion activities with our German collaborative partner, SemsoTec Group, we have started trial lamination of optical elastic resin (SVR) in addition to anti-reflective film, we are also making various preparations to further enhance our presence in German automotive OEMs, such as discussing the introduction of an infrastructure for Jettable SVR compatible with inkjet coating.

2. Qualitatively change businesses in the existing domains:

Improve our earning strength by investing in increased production and launching new products

With the advancement of digitalization and the changes in values and behavior brought about by the COVID-19 pandemic, demand for mobile IT products

We will strive to improve corporate value further by introducing ROIC in addition to EBITDA.



Measures to strengthen the management base

Corporate Governance

- Transition to a company with an Audit and Supervisory Committee
- Adopt EBITDA and TSR as evaluation criteria for directors' remuneration
- Relocate Headquarters to Tochigi

Work style reform

- Promote diversification of work styles by institutionalizing remote work
- Double the number of women in management compared to fiscal 2020

Enhancement of Environmental Measures and BCP

- Installation of in-house power generation using renewable energy and electricity storage facility
- Improve maneuverability in response to disasters

Digital Transformation

- Visualize all the activities
- Strive to accelerate growth and create new customer value

in existing domains, such as laptop PCs, tablet PCs, and smartphones, has increased more than initially expected when the Mid-term Management Plan was formulated. Specifically, anti-reflection films for laptop PCs have been adopted by new customers and are expected to expand business steadily along with products for in-vehicle displays, and it has also led to new customers adopting phosphor film, a new product for which mass production has already begun. We will expand the business for our differentiated technology products, such as surface mountable type fuses for Li-ion batteries and particle-arrayed

anisotropic conductive films (ACF), by making investment for more production capacity and improving production efficiency. As legal regulations for Li-ion batteries have been strengthened in Europe, demand for our surface mounted type fuses is expected to increase since they meet European safety requirements. Since various projects are progressing and demand looks very strong not only for laptop PCs, but also for electric motorcycles, electric power tools, drones, and cordless vacuum cleaners, we plan to work to take full advantage of business opportunities and achieve steady growth by making

investment for more production capacity. In addition to the expansion of particle-arrayed ACF for displays, also for mounting sensor modules is expanding. Going forward, we will make investment for more production capacity to build optimal lines specifically for particle-arrayed ACF to increase production capacity and dramatically boost productivity. We expect it to become a powerful growth driver for the Company.

3. Strengthen management base:

Tackling innovation to create a new corporate image that coexists with all stakeholders

In order to further strengthen our management base, we made a transition to a company with an audit and supervisory committee in June 2021 to further separate the execution and supervision functions, speed up the decision-making process, and strengthen the monitoring function. In July of the same year, we relocated our head office from Tokyo to Shimotsuke-shi, Tochigi where Tochigi Technology Center is located to integrate operation of management and site. With regard to employee relations, in April of the same year, we established the remote work system in response to diverse work styles due to the COVID-19 pandemic, and we will continue to further diversify the work styles of our employees, including the use of shared offices.

On the other hand, looking at the external environment, the world can no longer wait to address climate change. We had set a rather challenging goal for our carbon-neutral efforts, but through the active use of renewable energy, we have made progress in reducing CO₂ emissions ahead of our initial plan. In terms of environmental issues, our stance as a company on decarbonization efforts across the

Message from Top Management

entire supply chain, which includes customers abroad, is being challenged to take a corporate stance toward decarbonization, and we recognize that if we miss the global trend toward decarbonization, it will come back to us as a risk to our business. While keeping an eye on the future introduction of a carbon tax in the future, we have moved forward with using renewable energy, despite the costs, and set a new target of zero CO₂ emissions from business-derived electricity consumption through the use of renewable energies by fiscal 2030. In addition to our own efforts, we will continue to actively work on developing and providing materials that can reduce the environmental impact on our customers and society.

As a measure to reinforce our BCP (Business Continuity Plan), we are planning to introduce in-house power generation using renewable energy including solar and other renewable energy sources, and electricity storage facilities to prepare for large scale power outage by natural disasters. As for DX, a dedicated organization leads a company-wide initiatives. DX literacy has risen among management who have already completed training, and we will continue to achieve more agile management leveraging DX and bring change to customer value.

Risks and opportunities

The Board of Directors has been discussing what we want to be as a company in the long term. We recognize that the change in people's behavior and the acceleration of digitalization in the COVID-19 pandemic are business opportunities for us, but we also recognize that the environmental issues, although



Environmental initiatives are becoming one of the requirements for the sustainable growth of business.

I have been consistently sending a message to our employees that the greatest risk for our company is the risk of not changing and acting on our own in the face of so much change in the external environment. On the other hand, I also told them that if they can act quickly to change, they can turn risks into opportunities.

ESG management

Through our efforts to date, our understanding of ESG and SDGs has become quite widespread within the company. I feel that each and every one of our employees is gaining a deeper understanding of the fact that these issues cannot be considered separately from our business, and that they are all connected.

With regard to the "environment (E)", I feel that it is changing into one of the necessary conditions for the sustainable growth of our business. Our CO₂ emissions were 45,000 tons in fiscal 2020, which is extremely low for a company in the chemical sector. However, as decarbonization efforts are becoming a precondition for business, we believe that being a pioneer and making solid efforts will lead to the expansion of our business.

they present great business opportunities, will become a risk factor if we do not respond properly. We are also aware of the need to strengthen our BCP in preparation for further intensification of natural disasters as a risk of climate change advancing faster than expected, and we will also implement measures to improve our mobility in responding to disasters. Among the various possible risks and opportunities,

With regard to “society (S)”, carrying out initiatives to deepen relations with stakeholders who are involved with our businesses, including employees. We also will focus on development of human resource system that can accommodate new ways of working and create a framework that will ensure the company to achieve solid growth in the midst of diversifying work styles, while at the same time expanding overall diversity. Although we set a target of doubling the number of women in management positions in Japan in the Mid-term Management Plan Refresh, the number of women in management positions in Japan is still small in terms of the overall number. In addition, we will actively promote the appointment of foreign nationals to executive positions. We will continue to take on the challenge of expanding the opportunities for women to play an active role in the company, as a variety of work styles that can be easily balanced with life events have taken root. We will also actively promote the appointment of foreign nationals as executives.

With regard to “governance (G)”, we will further enhance our effectiveness under the new governance structure. We are also working to comply with the revised Japan’s Corporate Governance Code announced in June 2021. The Nomination and Remuneration Committee will play a central role in examining the process of appointing internal and external directors with the skills required by the Company’s priority issues, including succession plans, in a way that fits the Company.

And we are preparing with preparations for disclosing sustainability-related information in line with the TCFD (Task Force on Climate-related Financial Disclosures) framework. In fiscal 2021, we introduced EBITDA for short-term incentives and TSR (Total

Shareholder Return) for long-term incentives as KPIs to be reflected in the calculation of executive remuneration, and we are promoting management that is more conscious than ever of corporate value enhancement and stock prices. We feel this has been positively received in our engagement with investors, and will continue to deepen our discussions based on the recognition that in the future it will be a matter of course to incorporate ESG-related indicators into the KPIs for calculating officer remuneration.

See Pages 48-49 for the details of the policy to decide officers’ remuneration.

I feel that we have been able to establish a base for sustainable growth and enhancement of corporate value in the future, and stand at the starting line for the next stage of growth.

Message to Stakeholders

In the two years since I took office as President, I have strived to convey a consistent message and have focused on engagement with investors, employees, and other stakeholders. Now that we have completed the second year of our Mid-term Management Plan, I feel that we have established a base for sustainable growth and enhancement of corporate value, and we are finally standing on the starting line for the next stage of growth.

December 2021

Representative Director and President

Yoshihisa Shinya





Management and employees will work together under the same mindset to develop CSR activities.

Representative Director and Senior Managing Executive Officer

Toshiya Satake

Review of fiscal 2020 CSR activities

Our corporate philosophy, “Integrity—Have Integrity and Sincerity,” is the foundation for our management decisions and the actions of each and every employee, and communication is the starting point for smooth corporate management toward the realization of our corporate philosophy. In July 2021, we moved our head office from Tokyo to Tochigi, and I expect that management and the frontline will be more integrated in our business operations than ever before. In terms of initiatives for CSR and ESG, it is important for employees to be able to straightforwardly convey their thoughts on day-to-day activities and customer needs to management, but it is also important for management to convey the right mindset to tackle to employees. I believe the relocation of our head office has facilitated such mutual communication.

I also feel that discussions are progressing based on a new, diverse set of values by establishing an executive management structure for the next

generation in October 2020, including the appointment of young executives from within the company and outside personnel.

The year 2022 will mark the 10th anniversary since we changed our company name to Dexerials and became independent from the Sony Group. I believe building a diverse management team has given us a foundation to achieve sustainable growth in the years ahead.

Progress and assessment of four materialities

(1) Creating New Value, Resolving Social Issues

Despite the impact of the COVID-19 pandemic, we have been able to firmly respond to market needs with our main products. In particular, our medical eye shield material (DxShield®), which is based on the Moth-eye type anti-reflection film that significantly reduces visual fatigue in medical personnel, has been adopted by many medical institutions.



See Page 37 for the details on eye shield material for medical use.

(2) Reinforcement of Corporate Governance and Compliance

While we have not experienced any major compliance issues, we have made a fresh start in terms of governance following the organizational reform in 2020 and the transition to a company with an audit and supervisory committee in June 2021, and we will strive to create more value under the new governance structure.

(3) Fostering Diverse Human Capital and Engagement

In terms of recruiting human resources, we are not limited to hiring new graduates en masse, but are actively promoting external human resources in Japan and overseas, and introduced a restricted stock compensation plan in 2020 to secure excellent human resources overseas. We will continue our efforts to maintain a work environment that emphasizes communication and mutual respect.

(4) Ensuring Operational Safety and Business Continuity

We quickly established a remote work system for the COVID-19 pandemic and have been able to continue our business with less risk of infection. Even with the remote work system, we have been able to maintain and strengthen our relationships with our customers and the entire supply chain, and the results are reflected in our business performance. We are also working on confirming the BCP plans of our business partners to strengthen the management system for procurement and logistics risks in the supply chain.

To resolve environmental issues

With regard to initiatives, we can do ourselves such as reducing CO₂ emissions and waste, and using water resources effectively, we are poised to achieve initial CO₂ emissions targets ahead of schedule by switching to electricity derived from renewable energy sources, and will strive to achieve a target of zero CO₂ emission from consuming electricity for business by fiscal 2030. In addition to our own initiatives, we are also aiming to achieve zero CO₂ emissions from business-derived electricity consumption in fiscal 2030. In addition to our own efforts, by using our products and technologies, we will also contribute to reducing CO₂ emissions in the manufacturing processes and end products of our customers, as well as reducing CO₂ emissions in society as a whole.

Initiatives to develop human resources, the source of value creation

The remote work rate at our offices in Tokyo and Western Japan has reached over 90%, and we have been working to improve the environment for remote

work in other regions as well, and in April 2021, we institutionalized remote work.

Besides showing promise to improve operational efficiency and employee creativity, accommodating diverse work styles will make it easier to balance work with life events such as childcare and nursing care, and lead to increasing the number of female managers and promoting health and productivity management. Over the past year, work styles have rapidly diversified, and many employees have developed the mindset of considering what they can do to create value themselves, taking into account their own life plans.

Our immediate task is to increase the number of female managers, from 11 at the end of March 2021 to nearly double to 20 by the end of March 2024, the final year of the Mid-term Management Plan.

Strengthen the governance system to enhance corporate value

In June 2021, we made a transition from a company with an audit and supervisory board to a company with an audit and supervisory committee. The objective was threefold: to speed up decision-making in management and define management responsibility by delegating authority from the Board of Directors to executive directors; invigorate discussions by the Board of Directors on mid- to long-term corporate strategies including growth strategies, financial strategies, and capital policies; and strengthen supervisory and audit functions by placing greater emphasis of the role the Board of Directors on monitoring executive activities through separating execution and supervision.

In preparation for the transition, including outside directors we have spent a lot of time discussing the role of the Board of Directors, the roles to be played by individual directors and Audit Committee members,

and the themes to be discussed by the Board of Directors on an annual basis, and I believe that this process will become the cornerstone under the new governance and contribute to further improvement in effectiveness.

See Page 31 for the details on the transition to the new governance structure.

In conclusion

Faced with dramatic and rapid changes in the social and economic environment and huge changes in people's values and behavior, it is essential to increase diversity and inclusiveness throughout the Group and operate businesses with all employees under the same awareness in order to promote corporate management and CSR activities. We value communication and will make every effort to have our stakeholders understand our environmental and social initiatives, and would be happy to hear any opinions.

