



Representative Director and President

新家由久

# Aiming for the Sustainable Growth Stage in our 10th Year

## Pursuing sustainable management that contributes to society through corporate growth

### Reflecting on Dexerials' first 10 years and the Mid-term Management Plan 2023 "Challenges for Evolution"

Ten years ago in 2012, we split off from the Sony Group and began a new start as Dexerials Corporation. Over the next three years, up to our listing on the First Section of the Tokyo Stock Exchange (TSE) in 2015, we worked to raise corporate value by accumulating experience while discussing with stakeholders both inside and outside the Company.

However, the road we travelled after becoming a listed company has not been smooth. We were unable to achieve the final year target of the mid-term management plan that started in 2016 due to the effects of slowing demand for smartphones and tablet PCs. By the time I took over as president in 2019, the reputation of the Company in the markets declined and employees were beginning to lose confidence.

At that time, the business environment was beginning to see huge, rapid changes, such as

the manifestation of many social issues and the accelerating development of technologies for solving these issues.

Within this environment, we had to find a way to make our presence felt and continue to grow. We decided that the most urgent and important issue for the management team was to evolve Dexerials into a company that is resilient to changes in the external environment and that can grow without relying on specific business areas.

Since my appointment, I have continually stressed to employees that in order to continue growing, we must become a company that can adapt to change. Furthermore, in order to change as a company, we need each and every employee to change. As we must change, we should aim to be transformation pioneers.

I thought that rather than taking a defensive stance against changes in the business environment, we should leverage our technological capabilities and ability to innovate in order to shrewdly adapt to changes in the external environment and turn that ability into a strength.

Since then, we have implemented a wide range of internal initiatives to transform ourselves.

On the business front, we have been making a qualitative shift in our existing businesses through selection and concentration, while actively investing resources into new business areas, including the automotive field. In terms of corporate governance, we have shifted the institutional design to a company with an Audit and Supervisory Committee to promote a monitoring model in the Board of Directors, while also delegating authority and accelerating decision making on a company-wide basis. Furthermore, we have also introduced total shareholder return (TSR) as an indicator for internal director remuneration in order to increase corporate value while ensuring that officers share risks together with shareholders.

In addition, the decision to relocate the head office to Tochigi Prefecture was made in the midst of reforming the way employees work by institutionalizing remote work (telework) at all business locations, starting with the COVID-19

pandemic. I feel that this relocation was the correct move in light of our aims to become more resilient to change, as it enables us to put top management decisions into practice at workplaces more swiftly, enhancing the sense of unity between management and the frontlines.

Although the pandemic had some negative aspects to the Company, such as the inability to conduct face-to-face sales activities, it also created a healthy sense of crisis among both management and employees that “We don’t know what will happen in the future, so we must adapt to the changes”.

Also, as business results recover, I believe that employees have begun to accept that working to become a company that is resilient to change is the right approach. We believe it is significant that progress is being made in changing the mindset of our employees, which is an important factor in our aim for sustainable growth and increased corporate value in the future.

Compared to previous three-year mid-term management plans, the Mid-term Management Plan “Challenges for Evolution”, which started in April 2019, covers a five-year period (fiscal 2019–2023). During the first two years, we focused on initiatives including the aforementioned selection and concentration, change in the institutional design, and transformation of employee awareness so as to build a business structure that is resistant to changes in the business environment.

As a result, our “earning power” has improved and in the second year of the plan, we achieved our five-year profit targets three years ahead of schedule. Furthermore, in fiscal 2021, the third year of the plan, we released an updated Mid-term Management Plan at the start of the year and then achieved the final targets for all KPIs of that plan two years ahead of schedule.

In terms of our engagement with stakeholders, as our performance has improved, we feel that investors have a greater sense of trust and

anticipation that than they did three years ago when the plan was first announced.

Although we have already achieved our final year KPI targets for the current Mid-term Management Plan, we will continue aiming to achieve sustainable year-on-year growth in business results over its remaining two years. We also plan to use this time as a preparatory period for the next mid-term management plan, which will begin in fiscal 2024, by further strengthening our management base and



**We have made steady progress on our evolution into a company that is resilient to changes and achieved our Mid-term Management Plan targets for all KPIs two years ahead of schedule.**

formulating financial strategies and capital policies that will support our next growth strategies.

[See Pages 22–25 for the details of Mid-term Management Plan 2023.](#) →

## Review of fiscal 2021

In fiscal 2021, we achieved record sales and profits despite a slowdown in the mobile IT product market. EBITDA, which we emphasize as a management indicator of our “earning power”, also increased significantly by 85% year on year, and EBITDA margin also improved.

We have always been solving the issues facing both our direct and end customers through a business model that leverages our strengths in “Design-in” and “Spec-in”. In our current Mid-term Management Plan, we have been especially focusing on identifying major technological trends through dialogue with both direct customers and end customers who are sensitive to change in order to develop and propose products that anticipate their needs in advance.

We believe that these activities have borne fruit, in the increased number of our products adopted in high-end applications, and then spread to use in middle-end applications. And with the contribution of new products, we are now able to grow our business despite a lack of strong growth in demand for end products. I feel that this is reflected not only in management figures, but above all in the confidence of our employees.

Also, as a step toward the next stage of growth following the automotive field, in February 2022 we welcomed Kyoto Semiconductor Co., Ltd. (“Kyosemi”) into the Group, enabling us to get an early start on the growth strategies of our next mid-term management plan.

We have been exploring next growth areas after automotive from both an “inside-out” and an “outside-in” perspectives to pursue business opportunities and opportunities that enable us to solve social issues. The key concept of these efforts has been to abandon a self-focused approach, by supplementing our capabilities through partnerships and alliances in areas where we do not have technologies.

Under this approach, we began discussions on a roadmap for future technological development, during which we identified the next-generation communications field as an area in which we need partners. The sensor technologies is another field, as this field will likely grow in line with the expansion of IoT applications. Based on these discussions, we joined up with Kyosemi, who we had already been carrying out technological exchange with for around two years.

Kyosemi possesses optical semiconductor technologies that are essential to next-generation infrastructure such as IoT and high-speed communications.

By leveraging our expertise in “combining technologies together”, we plan to create synergies between Kyosemi’s optical

**Welcoming Kyosemi as a new partner, we were able to start our growth strategies under the next mid-term management plan ahead of schedule.**



semiconductors and our own technologies, such as microfabrication, to fuel future technological innovation.

Kyosemi and Dexerials share many cultural similarities, such as a sincere attitude toward engineering and manufacturing. Even so, we have different cultures, so in order to steer the

Company in a direction that is in alignment with the rest of the Dexerials Group, I became a president of Kyosemi concurrently.

[See Pages 10 and 11 for the details of our business model \(Value Creation Process\).](#) →

## Dexerials' seeks sustainability management

It is extremely important that we use the remaining two years of the current mid-term management plan to draw up our next growth scenarios.

As a prerequisite for this, so-called “sustainability management”, which develops businesses that realize a sustainable society while synchronizing economic and social values, is required for companies both to achieve sustainable growth and to increase corporate value in this unpredictable era known as VUCA\*.

\*An acronym for volatility, uncertainty, complexity, and ambiguity.

We have only started discussing our sustainability management efforts with the members of the Board of Directors and others, but I personally believe that rather than attempting to tackle a wide range of social issues across the board, we should work to solve social issues through a business model in which we propose technologies, products, and solutions that are essential to the evolution of digital technology. I believe that this should be our approach to sustainable growth, and to achieve this, I will set an order of priority for allocating resources.

For example, we can contribute to building a congestion-free society by making automobiles themselves into a means of mobile communication that can connect people and goods, while working to make an inefficient society more efficient through digitalization and contributing to automotive decarbonization.

The foundation of our business model, which develops products, technologies, and solutions to realize these initiatives, is “technology” and “human resources”, and we will continue to invest in them to strengthen our business model and, contribute to our sustainable growth and the social evolution.

With a view to reinforcing our investment in human capital, we have diversified our workstyles, including the introduction of a remote working system, we have also raised the amount of investment per employee. Additionally, in July 2022, we granted the Company's shares to employees

in Japan to encourage them to become more involved in the management of the Company.

As an even more important initiative to strengthen our human resources, we are currently discussing reform of our personnel system.

When thinking about what our company-wide human resources portfolio should be, we need a framework that puts systems in place that provide employee with company support, including for reskilling. At the same time, we are encouraging company-wide discussion about our “corporate purpose” and “vision for the future” to get a picture of what the meaning of our existence is from a social perspective and what kind of role we will play in future society.

In my opinion, when there is a lot of overlap between what our individual employees want to achieve at the Company, that is to say their individual purpose, and the Company's purpose, our efforts will drive both a change in employee mindsets and the Company's growth. Therefore, I would like to consider the reform of personnel systems to include employees' individual pursuit of happiness as part of the package.

Responding to various types of risks is also important in corporate management. We are beginning to see new risks emerge, such as the need to address a manufacturing BCP(Business Continuity Plan), particularly in Japan due to the frequency of natural disasters, and the need to change supply chain structures due to the manifestation of geopolitical risk. We will therefore deepen our discussions in these areas.

In addition, the move toward carbon neutrality is an irreversible trend for any country or company.

We have committed to the goal of eliminating CO<sub>2</sub> emissions from electricity consumed in our business activities by 2030 and we think that advancing environmental initiatives ahead of schedule will not only fulfill our social responsibilities, but also lead to business opportunities with our global customers who are

also working to achieve carbon neutrality.

Therefore, we will continue engaging in environmentally friendly business and energetically working to achieve targets while at the same time enhancing information disclosure in accordance with the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD).

[See Pages 42 and 43 for the details of disclosure in accordance with the TCFD recommendations.](#) →

[See Pages 46–51 for the details of initiatives for strengthening human resources.](#) →

## In conclusion

As we enter our 10th year as a company, I would like to once again express my gratitude to each of our stakeholders for your support.

We believe that, after many experiences and times, I think we have finally reached the starting line for sustainable growth. We will move forward, united as a company, with a renewed determination to become a presence that can contribute to society through our corporate growth, so we look forward to your continuing support.

December 2022

Representative Director and President

**Yoshihisa Shinya**

**We will continue investing in “technology” and “human resources”, which are fundamental elements of our business model, to contribute to our sustainable growth and the evolution of society.**



Outside Director

**Satoshi Taguchi**Outside Director  
(Chairperson of the Nomination and Remuneration Committee)**Takashi Yokokura**Outside Director  
(Chairperson of the Audit and Supervisory Committee)**Rika Sato**

Outside Director

**Tetsuyuki Kagaya**

Representative Director and President

**Yoshihisa Shinya**

Representative Director and Senior Managing Executive Officer

**Toshiya Satake**[See Pages 64 and 65 for detailed information about officers. →](#)

## Toward Further Growth and Enhancement of Corporate Value of Dexerials

A frank exchange of opinions between executive management members and outside directors about achieving sustainable growth, increasing corporate value, and realizing a sustainable society in times where the future is uncertain.

## To present: Reviewing the last three years and issues to be addressed

**Satake** First of all, let's look at our five-year mid-term management plan that started in 2019. What is your assessment of the last three and a half years? Also, please tell us which current issues you are focusing on.

**Shinya** Three and a half years ago, amid difficult business conditions, I felt a strong sense of crisis that the path we had been following up to that point had no future, and that we must change in order to survive. Since then, we have advanced efforts such as decisive structural reform, as well as the transformation of the Company's structure, systems, and management framework.

As a result, I think we are now finally standing on the starting line for our growth.



**Satake** While focusing on recovering our “earning power” through business portfolio reviews and structural reforms, we changed our workstyles by early adoption of a remote work system at company-wide during the COVID-19 pandemic, and also have integrated management and front-line operations by relocation of our head office to Tochigi Prefecture.

Also, in 2021 we transitioned to a company with an Audit and Supervisory Committee and revised the structure of our Nomination and Remuneration Committee.

I believe that the results of these reforms have been reflected in the business results, and as a result, the employees have gained confidence and the ability to take on new challenges.



**Yokokura** I agree. I think that over these past three years, the Company has vigorously strengthened its management base. Even during the pandemic, the Company consistently worked to further enhance the technological capabilities and business model that are its strengths, which led to an improvement in results. I also think that efforts to facilitate more frequent exchanges of opinions between officers, which included meetings and retreats for outside directors, and further sharing of information and materials required for discussions, have led to an improvement in the quality of discussions by the Board of Directors.

**Taguchi** Over the 18 months I have served as an outside director, I have been able to participate in dynamic discussion and appropriate decision making by the Board of Directors concerning not only company-wide strategies and policies, but also important individual projects. Amid a highly uncertain business environment, it is important for us to envision what the Company wants to be in the future based on its purpose, formulate and execute strategic scenarios that leverage the Company's strengths to achieve this vision, and to practice robust risk management, while properly monitoring whether business operations and management decisions are in alignment with strategic scenarios.



**Satake** What is your assessment of our efforts to date as a member of the Audit and Supervisory Committee?

**Sato** In regard to the Company's transition to a company with an Audit and Supervisory Committee structure, I feel that the effects began to emerge once the relevant employees, including executive officers, outside directors, and the staff that support them, were working with a shared awareness of what constitutes a good governance structure.

I think it is important that we act with a strong awareness of the need to continue working hard to make this structure even better.

**Kagaya** Recent discussions have pointed out a lack of information, a lack of time and resources, and limited motivation as the limitations of outside directors on monitoring boards. However, in the case of the Company, company-specific information required by Audit and Supervisory Committee members is shared promptly and openly, and we are also provided opportunities to observe technical facilities and so on. This makes it easier for us in terms of both information sharing and time. Also, the decision to allow us to hold shares in the Company through an officer's shareholding association to ensure that outside directors share the same perspective as our shareholders and investors, has also helped to mitigate limits on motivation. In this sense, there has been a steady evolution in the



monitoring model over the 18 months that I have served as outside director.



**Sato** As chairperson of the Audit and Supervisory Committee, I would like to contribute to enhancing the supervisory function of the Board of Directors and strengthening the monitoring model, including by facilitating important discussions of the Board through the sharing of information and materials that goes beyond the scope required under Japan's Companies Act. This will be based on the confirmation of matters ranging from internal audits through to audit results, with a particular focus placed on demonstrating the functions of illegality and validity audits.

**Satake** Our president also serves as chairperson of the Board of Directors. What is your assessment of Board of Directors operations since becoming a company with an Audit and Supervisory Committee?

**Shinya** Even as chairperson of the Board of Directors, I am keenly aware that the Board has changed significantly over the last 18 months. Discussions have become deeper, taking a medium- to long-term perspective that focuses more on the entire company and is conscious of changes in the external environment. This has also influenced the executive side, leading to better quality discussions at meetings of the Board of Executive Officers and other venues. One of the factors behind this improvement in

discussion quality has been the fact that we were able to build stronger relationships of trust with outside directors through discussions with them.

The decision to make Kyoto Semiconductor Co., Ltd. ("Kyosemi") into a subsidiary required multiple discussions over the course of nearly a year, and I feel that the supportive push we received from the outside directors was ultimately a major factor.

**Taguchi** Through deep discussions on Kyosemi from a medium- to long-term perspective, the Board of Directors has concluded that Kyosemi possesses significant technologies for the new fields in which we were planning to enter, and that combining this with our own technologies and human resources, it could produce great results and help us to realize our vision for the future.

The main issue going forward will be whether we can produce a concrete business, but I am convinced that it will become the first chapter of our future success story.

**Yokokura** By transitioning into a company with an Audit and Supervisory Committee, we have become able to share the audit status with the Board of Directors, which I think has improved our governance functions. Kyosemi has appealing technological fields with high potential, and I feel this M&A was the correct decision from a long-term perspective.

On the other hand, this was a large investment so we must think carefully about how we will guide its growth and development going forward.



**Satake** The Board of Directors has become able to discuss the overall direction of management, such as medium- to long-term strategy, from the initial thoughts and policy stage. However, I think it is important to further deepen and improve the quality of these discussions.

### Going forward: Realizing sustainable growth and enhancement of corporate value over the medium- to long-term

**Satake** The Board of Directors has been having dynamic discussions regarding sustainability. What do you think will be the most important and material issues for the Company to address in the future in a way that expresses our character?

**Shinya** I think the important issues we should address going forward will be strengthening our business model, investing in the technologies and human resources to support these efforts, and becoming able to respond with agility to the dizzying change seen in the external environment.

**Yokokura** I think the Company's strength is largely shaped by our human and intellectual capital. Therefore, strengthening our technological capabilities and human resources is unquestionably important. In addition to this, I think it is crucial that it creates systems that will generate dynamic and energetic organizational activity.

**Taguchi** In particular, with regard to strengthening human resources, it will be essential that its medium- to long-term strategic scenarios contain a clear picture of the kind of person we require, and clearly set out what we should be doing and how we should do it.

**Sato** Also, it will be important to promote diversity, including in terms of gender and nationality, as part of its efforts to strengthen human resources. This will be

the key to continue to understand the needs of a diverse society.



**Kagaya** Going forward, the Company needs to capitalize the business model that is its strength as leverage to propel it onto a growth path. I think that this process will be driven by its technological capabilities and human resources. It will be particularly key to secure and nurture core human resources who can demonstrate leadership and realize value creation. I think that providing these types of people with challenges will lead to the creation of unprecedented value.

**Shinya** In recent years, we have increased opportunities for exchange with people from a variety of other companies and participated in meetings with Kyosemi's major customers and the like. These interactions have generated strong interest from people who had not come across our company before.

I feel that combining our technologies with other new technologies has potential to create growth opportunities and solutions for social issues in industries that we have yet to engage.

**Satake** Please share your thoughts on the role the Board of Directors should fulfill and what role you will try to play in pursuit of sustainability management.

**Yokokura** I think that out of the fields described by the ESG acronym, corporate governance is the most important and so I will continue to ensure that the Company practices high-level governance. In particular, succession planning for key management positions is the priority issue to be addressed to realize sustainable growth.

Also, as a company that is developing its business alongside the evolution of a digital society, it has a responsibility to contribute to social development and peoples' lives, even if it is not in a direct way. As I think this is also the meaning for its existence from a social perspective, it will be important for the Company to continue to create new value through its business.

**Taguchi** In order to practice "offensive" management in line with its growth strategy, it is important to also practice "defensive" management to support these efforts. The Company needs to build structures and systems to prevent compliance issues, including ethical issues, from occurring, and then properly evaluate their effects and performance.

This falls under risk management and requires appropriate monitoring by the Board of Directors. I would like to leverage my own experience on this point.

**Sato** As a legal professional, I would like to contribute to the achievement of the Company vision by monitoring discussions and exchanges of opinions by the Board of Directors from a medium- to long-term perspective, specifically by identifying and sharing potential legal risks.

**Kagaya** While in general, synchronizing corporate and social sustainability is considered difficult, I believe that the role of an outside director is to encourage decision making for the benefit of society without being biased solely toward corporate interests.

I would like to use my knowledge and insight into finance, accounting, and corporate evaluation to identify the Company's areas of expertise and make

recommendations on what the Company should do for society from both a financial and non-financial perspective.

**Satake** One management issue is to visualize the non-financial value of the technologies, intellectual property, and human resources that are the source of our competitiveness. I would like to ask the chairperson of the Nomination and Remuneration Committee for the opinion on incorporating sustainability-related KPIs as indicators for evaluating officers' remuneration.

**Yokokura** As a member of society, this is definitely something we should consider. In addition, there are many areas in which the Company can contribute to society in its areas of expertise, and I believe that the Company can fully synchronize its sustainability with that of society.

**Satake** Finally, I would like to hear the president's thoughts about how we will work to contribute to the realization of a sustainable society.

**Shinya** To date, we have steadily contributed to solving the issues facing our customers by preempting their needs to develop and supply materials that are essential to the evolution of electronics.

Now, there is a future vision in which the progress of digitalization will greatly contribute to solving a wide range of social issues. I believe that becoming a company that is crucial to realizing this progress is a key concept toward synchronizing corporate and social sustainability.

We will work together as a company to make Dexerials an essential presence for future society so that we can realize both sustainable growth and enhancement of corporate value.