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Security Code: 4980
Listing: First Section, Tokyo Stock Exchange
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Notice of FY2019 – FY2023 Mid-term Management Plan “Challenges for Evolution”

Dexerials Corporation (the “Company”) hereby announced the Mid-term Management Plan “Challenges for Evolution” with FY2023 (fiscal year ending March 31, 2024) as the final fiscal year.

1. Basic approach to formulating the Mid-term Management Plan

(1) Corporate philosophy and objective

- Corporate philosophy Integrity: Have Integrity and Sincerity
- Corporate objective To be a company that achieves sustainable growth by addressing social issues through delivery of high value-added products and technological solutions

The Company strives to address its customers’ needs and challenges, generate value that exceeds their expectations, and resolve social issues through developing and providing innovative functional materials and technological solutions with a combination of outstanding and unique technologies. The Company believes that this will realize sustainable business growth and improvement in business results, thereby leading to the enhancement of corporate value as a result.

(2) Positioning of Mid-term Management Plan

- A phase to ensure a sustainable growth through business expansion in new domains where social issues have surfaced

In the fiscal year ended March 31, 2019, the Company’s financial results were significantly affected by the deceleration in demand in the consumer IT product market that progressed at a faster pace than expected. The Company will push through transformation required to deal with such structural changes in the business environment and to evolve into a company that achieves sustainable growth towards its long-term vision. To make this happen, the Company will expand its business through contributing to resolving social issues in new domains including Automotive, Environment, Life Science and other new opportunities driven by 5G/AI/IoT by leveraging technologies and products that have been developed so far for the consumer IT product market.

2. Summary of Mid-term Management Plan “Challenges for Evolution”

(1) Three basic policies and key initiatives

1) Accelerate growth in new domains: Allocate resources intensively into the automotive domain to drive the growth of new domains
Specifically, we will: <ul style="list-style-type: none">• Expand key products steadily given the tailwind of growing demand for in-vehicle displays in terms of both number and size.• Enhance our presence in the US and European markets through joint creation with partners.• Aim to generate 30% of consolidated net sales from the automotive business and 40% from the new domains business including the automotive in the fiscal year ending March 31, 2024.
2) Qualitatively change businesses in the existing domains: Increase market share of differentiating technology products, and shift resources by rigorously pursuing efficiency based on the principle of selection and focus.
Specifically, we will: <ul style="list-style-type: none">• Increase market share by expanding sales of particle-arrayed ACF and other differentiating technology products with new functionalities, and also expand new applications of products utilizing the sputtering technology.• Reduce resources by rigorously pursuing efficiency and shift them to new domains while constantly maintaining a well-balanced and lean business structure by applying the principle of selection and focus on an ongoing basis.
3) Strengthen management base: Create an organizational structure that can support the company-wide evolution and carry out behavioral change.
Specifically, we will: <ul style="list-style-type: none">• Strengthen our corporate culture so that we can preempt changing business environment and continue proactively changing ourselves by means of fostering a sound sense of urgency and nurturing employees who are willing to take on challenge for change, while speeding-up business operations as well as applying the principle of selection and focus on an ongoing basis,• Take the following initiatives to realize sustainability of business.<ul style="list-style-type: none">• Strengthen personnel development to foster next-generation talent who can assume managerial positions, as well as engineers who are drivers of innovation.• Maintain a sound governance system with the majority of board members being outside directors to ensure transparency and objectivity of management.

(2) Management targets

The Company has set the management targets to achieve:

- Net sales and operating profit for the fiscal year ending March 31, 2024 of ¥80.0 billion and ¥10.0 billion, respectively (assuming a foreign exchange rate of ¥108 per US dollar),
- ROE of 10% or more with a positive equity spread^{*1}, and
- Operating cash flows of JPY10.0 billion or more annually for the fiscal year ending March 31, 2022 and later.

(Note 1) $ROE = \text{Profit attributable to owners of parent} \div \text{Net assets} \times 100$

Equity spread = ROE – Cost of equity (assumed at 8%)

From the fiscal year ending March 31, 2020, the indicators using adjusted profit, or profit before amortization of goodwill, are applied only for the purpose of describing the total payout ratio.

Regarding the operating results for the fiscal year ending March 31, 2020, sales are expected to decrease year-on-year due primarily to the impact of stronger yen, but profits are expected to increase year-on-year thanks to an increase in sales of optical films and an expansion in the business of thermal conductive sheets. In line with the policies stated in this Mid-term Management Plan, the Company will strive to increase our market share of differentiating technology products and improve

operational efficiency in the existing domains. Furthermore, the Company will push through the shift of its managerial resources to the automotive domain as a priority and expand business in the new domains in order to pursue transforming the business domain portfolio. With these initiatives in place, the Company plans to achieve net sales of ¥80.0 billion and operating profit of ¥10.0 billion for the fiscal year ending March 31, 2024. It is noted that the Plan is to be updated in three years' time, assuming that business environment will change dramatically in the next five years.

Additionally, by introducing an equity spread (ES) with an assumed cost of equity of 8% as an index for the enhancement of corporate value, the Company will aim to maintain a positive equity spread over the medium- to long-term.

As a shareholder return policy, the Company continues to distribute profit, aiming to achieve a ratio of total payout to adjusted profit attributable to owners of parent^{*2} of 40% while maintaining a sound financial base and comprehensively considering factors such as the estimated free cash flow^{*3}, the total payout ratio including share buyback and the importance of stable dividend distribution.

(Note 2) Adjusted profit attributable to owners of parent = Profit attributable to owners of parent + amortization of goodwill

(Note 3) Free cash flow = Cash flows from operating activities + Cash flows from investing activities

(3) Numerical targets and indices

(Billions of yen; Assumed exchange rate: \$1 = ¥108)

	FY2018 Actual	FY2019 Forecast	FY2020 Plan	FY2021 Plan	FY2023 Plan
Net sales	60.6	58.0	62.5	66.5	80.0
Operating profit	3.7	4.1	6.2	8.0	10.0
Profit attributable to owners of parent	2.3	2.5	2.2	4.8	7.0
Performance indices					
ROE	4.6%	4.9%	4.4%	9% or over	10% or over
Equity spread	(3.4) %	(3.1) %	(3.6) %	1% or over	2% or over
Operating cash flow	Aims to generate ¥10.0 billion or more annually from FY2021 and beyond				

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