

# Mid-term Management Plan for FY2019 - FY2023 “Challenges for Evolution”

April 25, 2019

Dexerials Corporation

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## Mid-term Management Plan 2018:

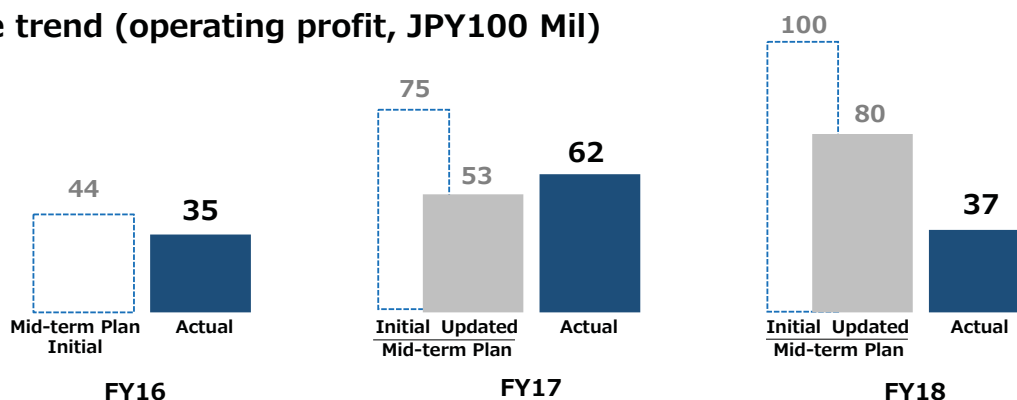
## Basic Policies and Performance Trend

### Basic policies

Two key policies
Policy 1: Accelerate growth in new domains and ensure the new domains contribute to earnings
Policy 2: Seek growth with the current ROE level as benchmark

Three action plans
Plan 1: Establish new growth drivers
Plan 2: Strengthen competitiveness in existing domains to ensure stable revenues
Plan 3: Bring forward structural reform to accelerate growth

### Performance trend (operating profit, JPY100 Mil)



\* The initial plan is the one released in April 2016 and the updated plan is the one released in April 2017.

## Mid-term Management Plan 2018: Achievements and Issues

Fell short of the targets due to delay in shift of resources from consumer IT to new domains and lack of adaptability to changing business environment

Action plan	Achievements	Issues
Establish new growth drivers	<ul style="list-style-type: none"> <li>Expanded the size of the anti-reflection film business to JPY10.0 billion in sales</li> <li>Established an organization dedicated to the automotive business and ultimately expanded the share of the automotive business in overall net sales to 10%</li> <li>Launched sale of thermal conductive sheets for 5G base stations</li> <li>Has entered into a partnership in the medical business segment through capital contribution</li> </ul>	<ul style="list-style-type: none"> <li>Business in new domains has not expanded as expected               <ul style="list-style-type: none"> <li>Delay in shift of resources from existing domains to new domains</li> <li>Little progress in alliance</li> <li>Lack of industry expertise and human resources</li> </ul> </li> </ul>
Strengthen competitiveness in existing domains to ensure stable revenues	<ul style="list-style-type: none"> <li>Expanded the market share of anisotropic conductive film (ACF) (with strong growth of particle-arrayed ACF)</li> </ul>	<ul style="list-style-type: none"> <li>Decelerated growth of the consumer IT product market</li> <li>Exposed to explicit risk of depending on a particular customer</li> </ul>
Bring forward structural reform to accelerate growth	<ul style="list-style-type: none"> <li>Integrated development resources into Tochigi Technology Center</li> <li>Withdrew from some businesses of the optical solutions category and consolidated the manufacturing sites in China</li> </ul>	<ul style="list-style-type: none"> <li>Lack of ability to adapt to changing business environments</li> </ul>

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◆ Basic policy 3: Strengthen management base

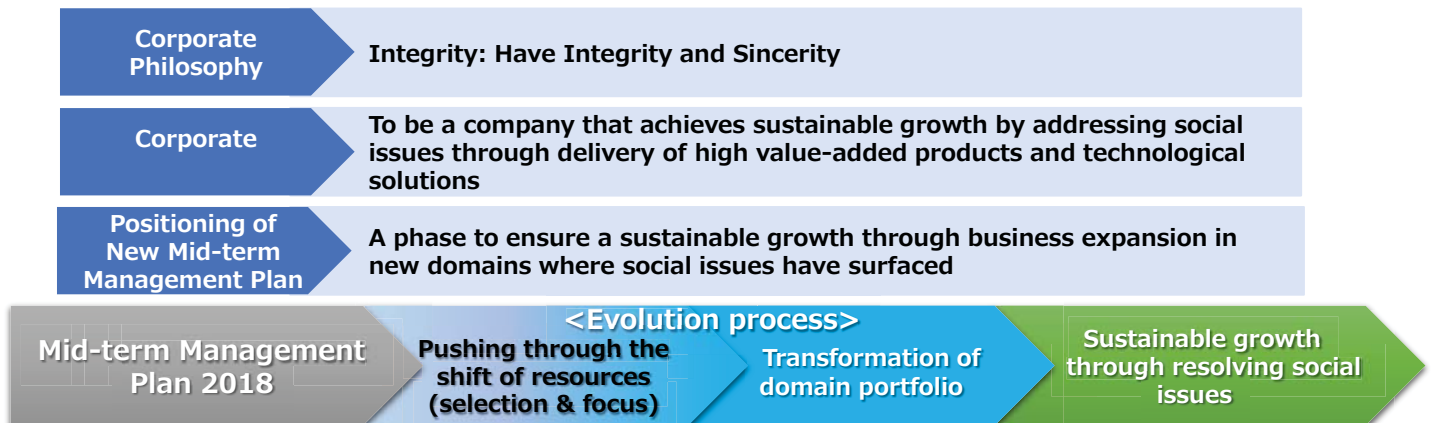
#### ➤ Management Targets

# Growth Opportunities & Risks

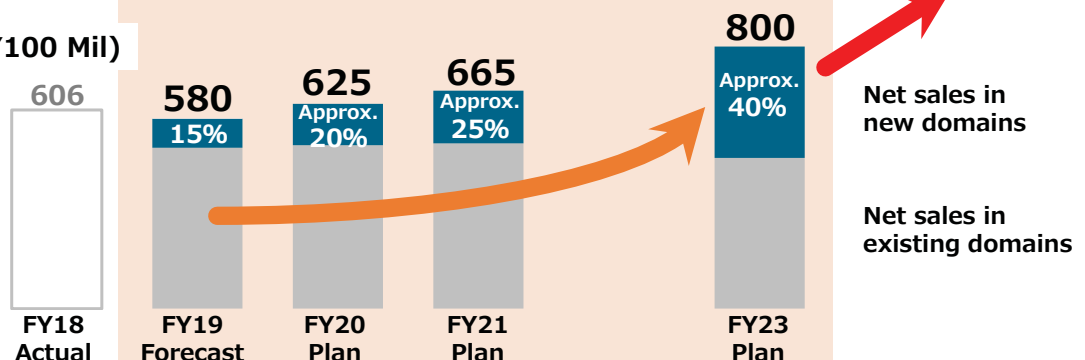
Grow into the future by leveraging our technologies to contribute to resolving social issues

<b>Growth Opportunities</b>	<p><b>Technological innovation is one of the means to address issues and needs arising from social changes</b></p> <p>[Social issues and technologies required]</p> <div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p>&lt;Examples of issues and needs&gt;</p> <ul style="list-style-type: none"> <li>Traffic accidents and shortage of transportation infrastructure → <b>Automatic driving technology</b></li> <li>Needs for advanced medical care → <b>Regenerative medicine, functional materials, utilization of IT/AI</b></li> </ul> </div> <div style="width: 45%;"> <p>&lt;Examples of technologies that help resolve the issues&gt;</p> <ul style="list-style-type: none"> <li>Sensor-related materials</li> <li>Display-related materials</li> <li>Materials for telecommunication equipment and semiconductors</li> <li>Element technologies (such as material technology and processing technology)</li> </ul> </div> </div>
<b>Risks</b>	<p><b>Risk of worsening of external environment for the issues at a pace faster than expected</b></p> <ul style="list-style-type: none"> <li>Shrink of the consumer IT product market due to a shift of consumer behavior from material-oriented to experience-oriented</li> <li>Reduction of resources allocated to hardware business of a specific customer</li> </ul> <p><b>Risk of delay in our responding to the above</b></p>

# Positioning of the Plan



Net sales (JPY100 Mil)



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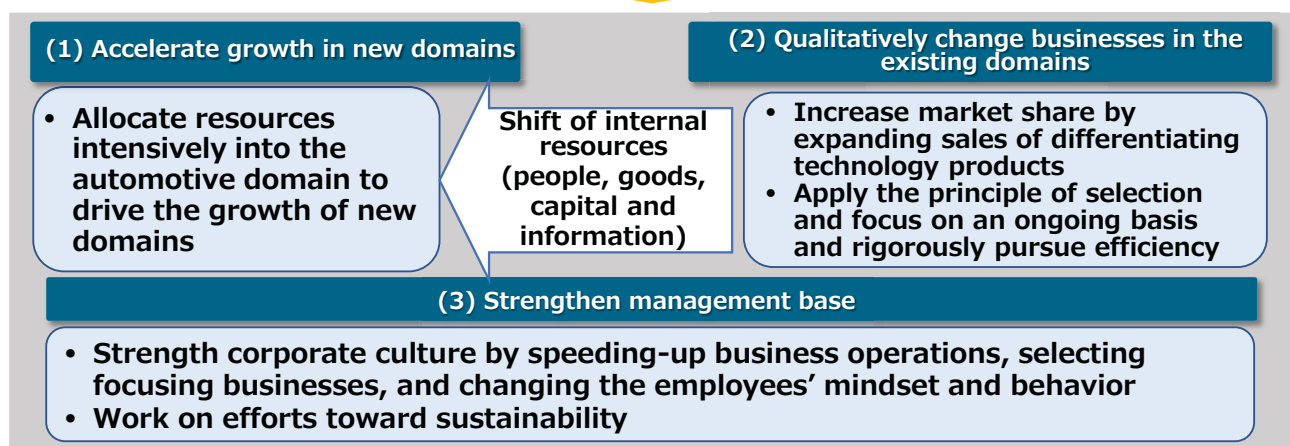
## Mid-term Management Plan 2023:

# Basic Policies and Key Initiatives

Basic policies  
Key initiatives

Overcome the issues and realize evolution by shifting resources and strengthening corporate culture

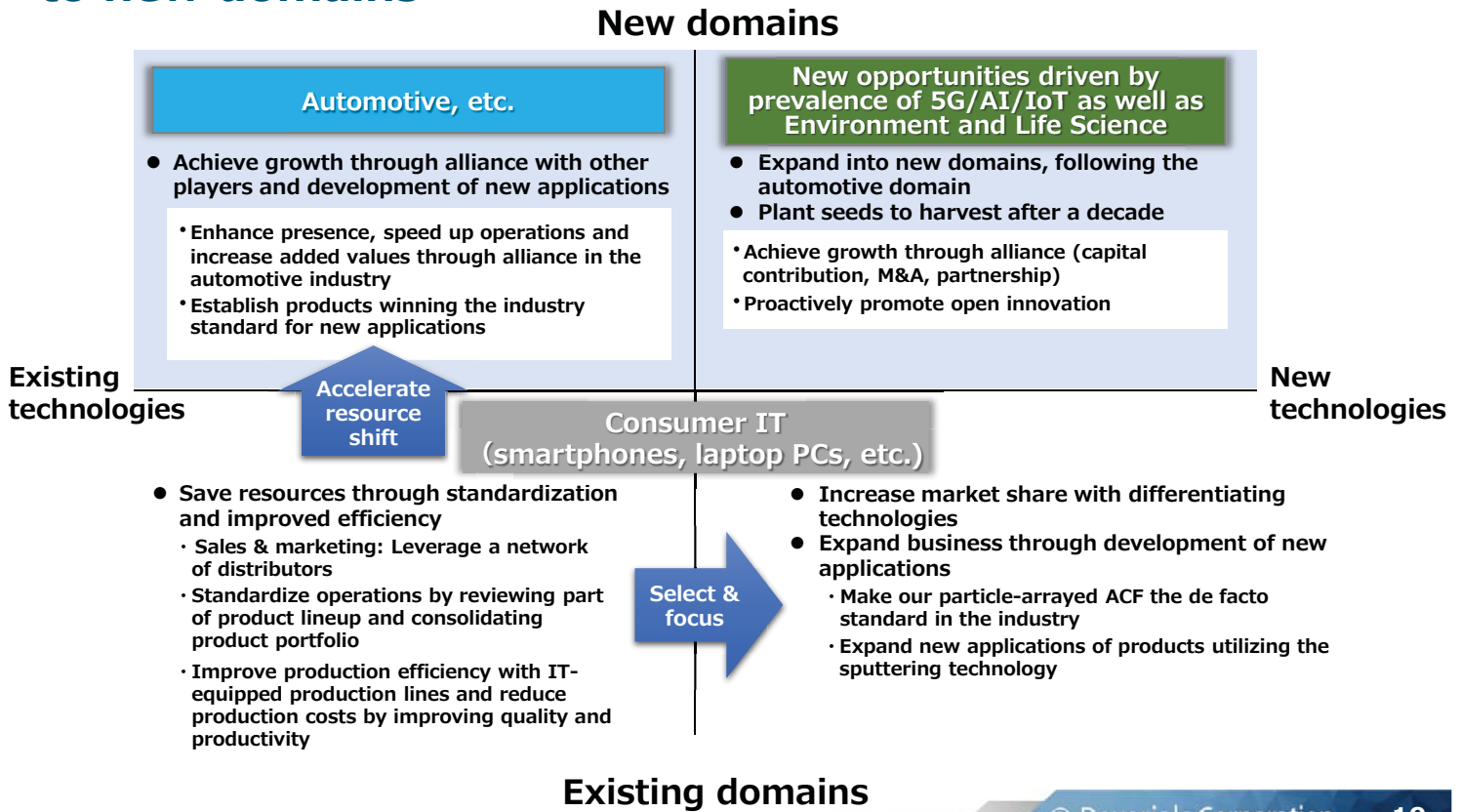
**Issues:** Dependence on the consumer IT product market and specific customers, and lack of adaptability to changing environment



**Evolution:** Transformation of domain portfolio and sustainable growth through resolving social issues in new domains

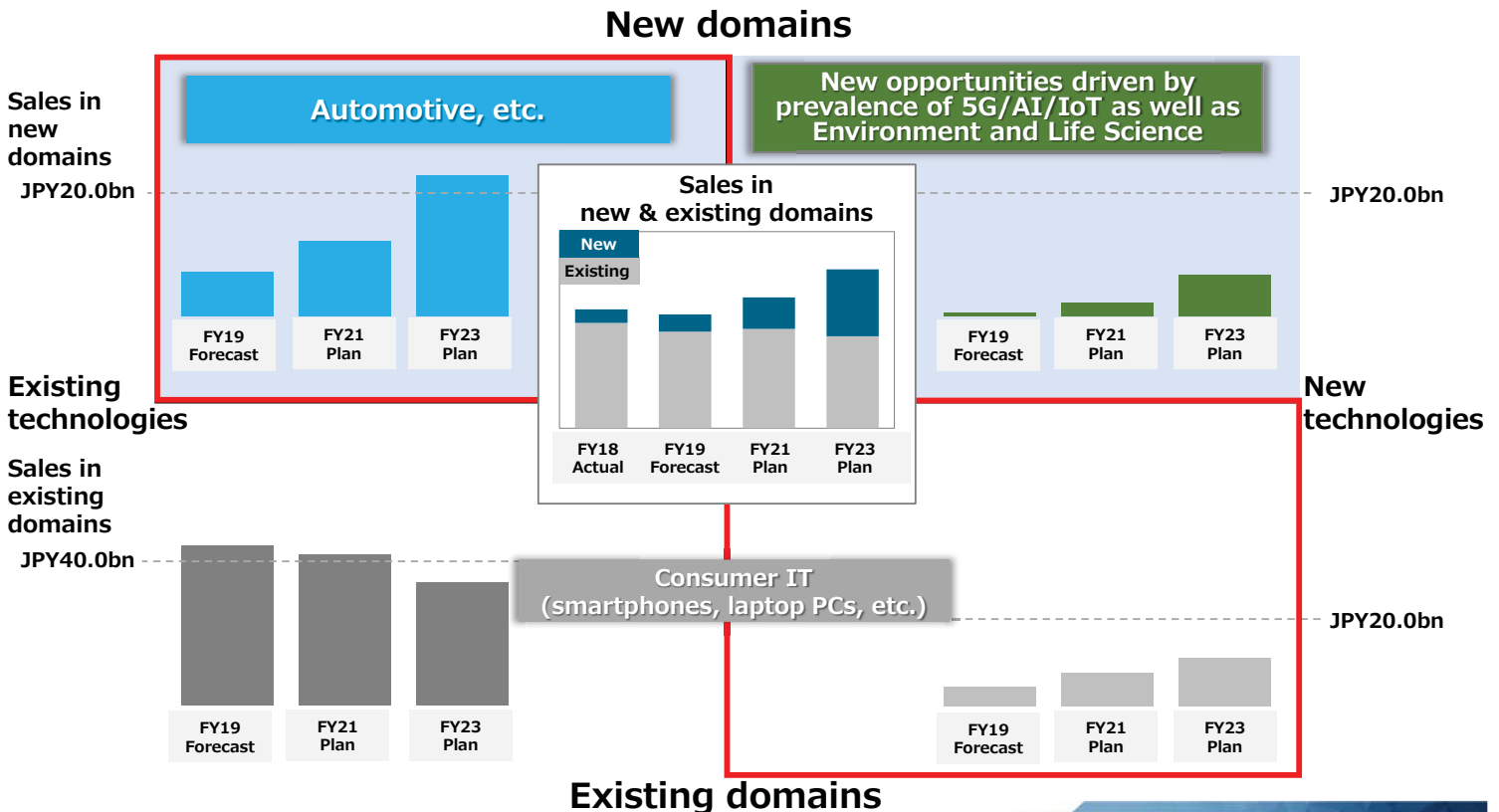
Mid-term Management Plan 2023:

# Select and focus in existing domains to shift resources to new domains



Mid-term Management Plan 2023:

# Qualitatively change businesses in the existing domains and realize growth in the new domains



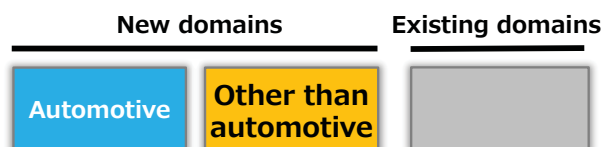
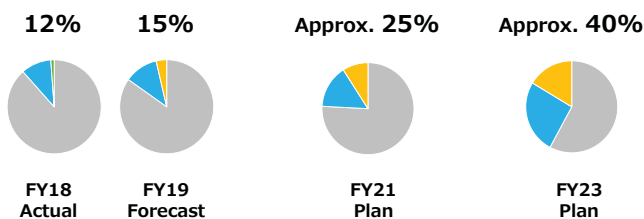
## Basic Policy 1:

# Accelerate growth in new domains

## Accelerate growth in new domains: Automotive domain as a new pillar of growth



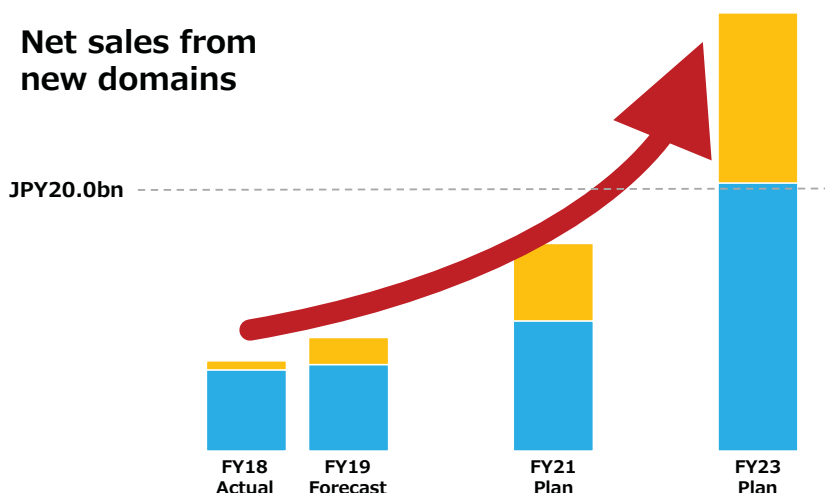
Share of new domains in overall sales



- **Allocate resources intensively into the automotive domain to drive growth in new domains**

- Achieve growth by primarily selling existing products until FY2021.
- Realize a rapid growth of business **in the second half of FY2021 and beyond** as a project with a major global auto manufacturer will fully contribute to sales, leading to **¥20.0 billion+** business in FY2023.
- Share of sales of the automotive domain to total sales

## Net sales from new domains



Year	FY18 Actual	FY19 Forecast	FY21 Plan	FY23 Plan
Share of sales of the automotive domain to total sales	10%	12%	Approx. 15%	Approx. 30%



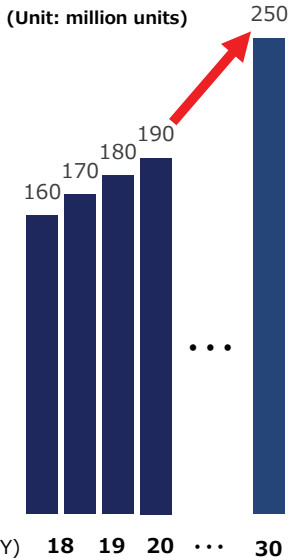
# Accelerate growth in new domains: Catch the tailwind of growing demand for in-vehicle displays in terms of both number and size



## Recent trend for in-vehicle displays

**Increase in the number of displays**  
Center information display (CID) & Instrument cluster panel

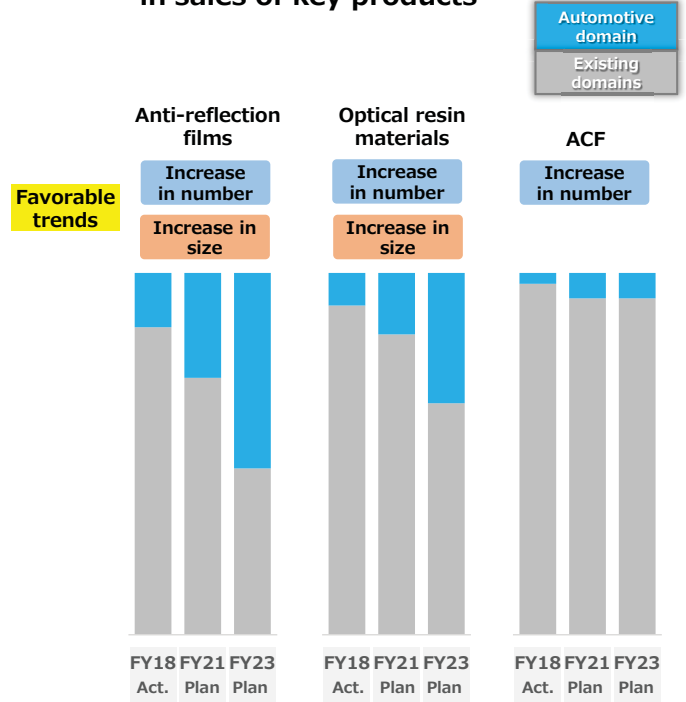
**Increase in the size of displays**



The size of displays is expected to increase, driven by growth of display-type instrument cluster panels and further integration with CID.

The number of displays per vehicle is expected to increase to 2 on average by 2030.  
⇒ 250 million units  
\* Based on our survey

## Share of automotive products in sales of key products



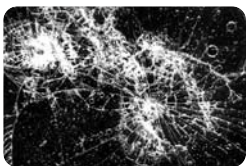
# Accelerate growth in new domains: Reasons why we are chosen in the automotive business



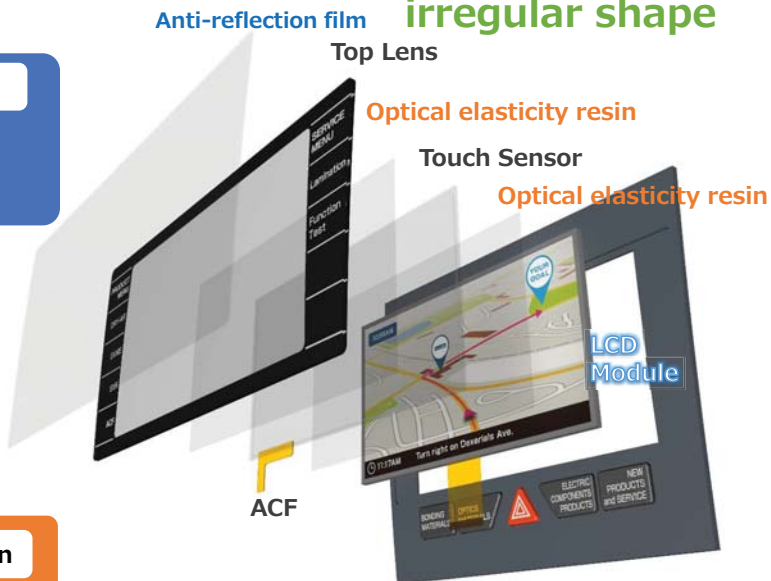
Provides **high visibility and safety** required for in-vehicle displays

Accommodates needs for **higher resistance, larger size, and applications for curved surface & irregular shape**

**Anti-reflection film**  
Measure against head impact (anti-scattering)



**Optical elasticity resin**  
Impact absorption



**Anti-reflection film**  
DIN\* Standard compliant  
Applicable for curved surface

\* DIN Standard: German Industrial Standard



**Optical elasticity resin**  
OCR\* is dominant for larger displays

\* OCR: Optical Clear Resin

Materialized the solution by jointly working with MinebeaMitsumi for lamination



Accelerate growth in new domains:  
**Strengthen presence in US & Europe—epicenters of automotive transformation**



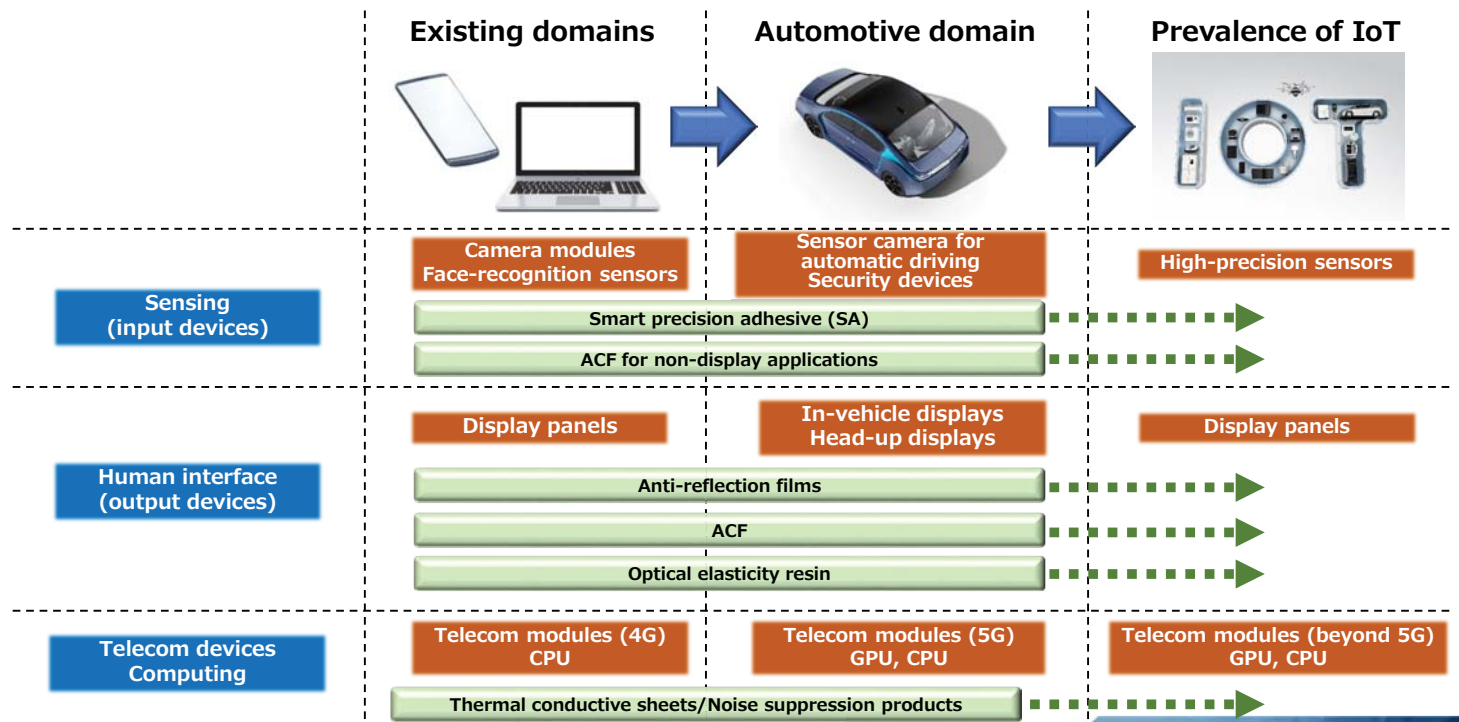
**Increase speed and enhance added values for the automotive domain through joint creation with partners**

Pursuing joint creation with partners such as those:

- Establishing relations with auto manufacturers, and
- Having competitive offerings.



Accelerate growth in new domains:  
**Apply technologies nurtured in the existing domains to the automotive domain, and then expand business in an IoT-driven society by leveraging the track record of the automotive domain**



# Accelerate growth in new domains: Selected initiatives for biomedical business



Investee companies



A manufacturer of cottony type synthetic bone  
Made additional capital contribution in April 2019, making it an equity-method affiliate

ORTHOREBIRTH CO. LTD.

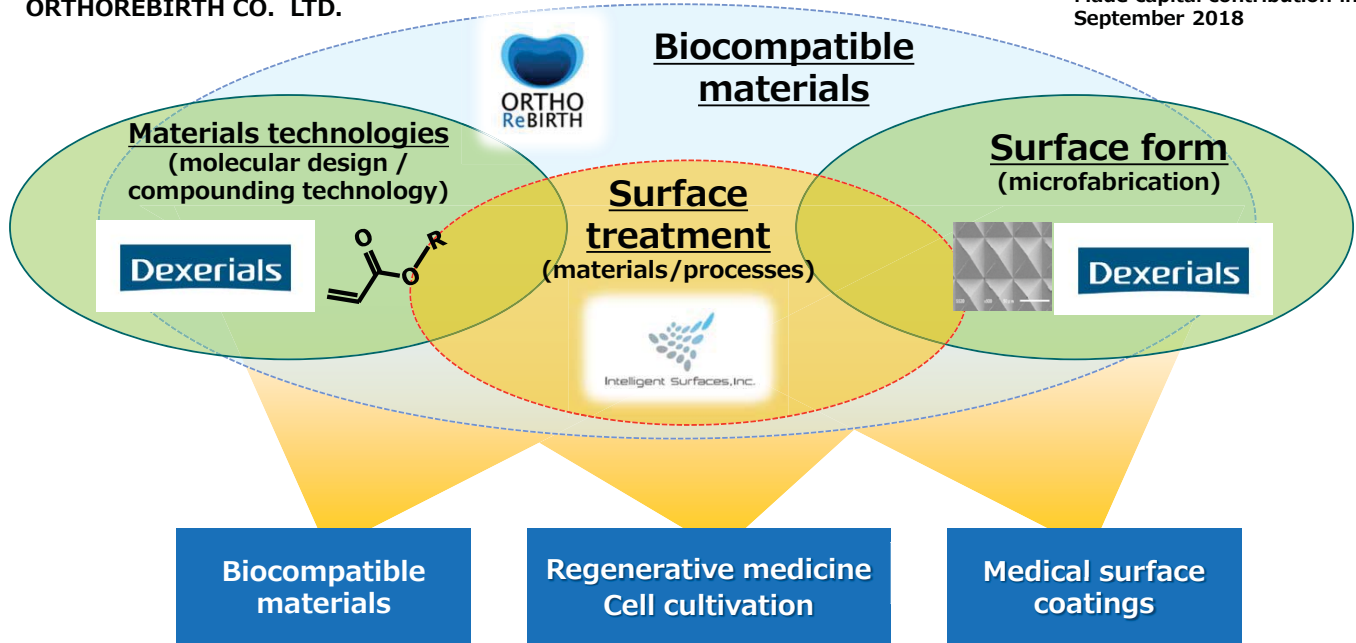


Intelligent Surfaces, Inc.

Intelligent Surface, Inc.

A developer of biocompatible coating materials

Made capital contribution in September 2018



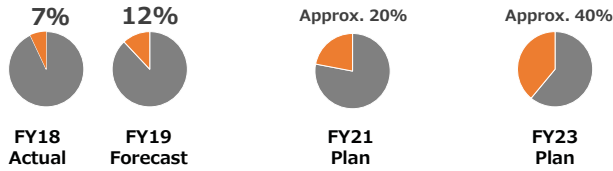
Basic Policy 2:

# Qualitatively change businesses in the existing domains

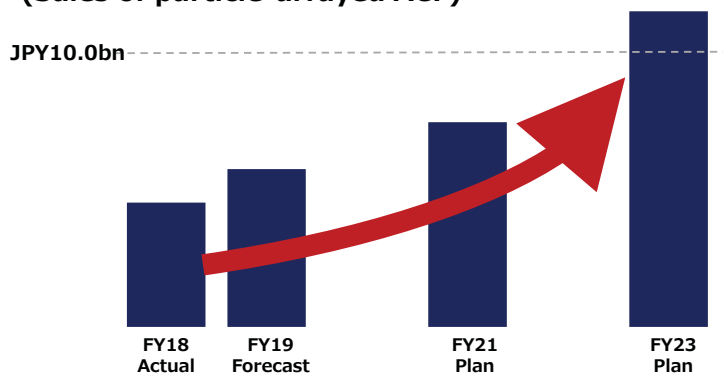
# Qualitatively change businesses in the existing domains: Seize an overwhelming market position by expanding sales of differentiating technology products



## Share of sales of differentiating technology products in the existing domains



Differentiating technology products are the drivers of sales in the existing domains (Sales of particle-arrayed ACF)



### ● Increase market share with differentiating technologies and expansion of new applications

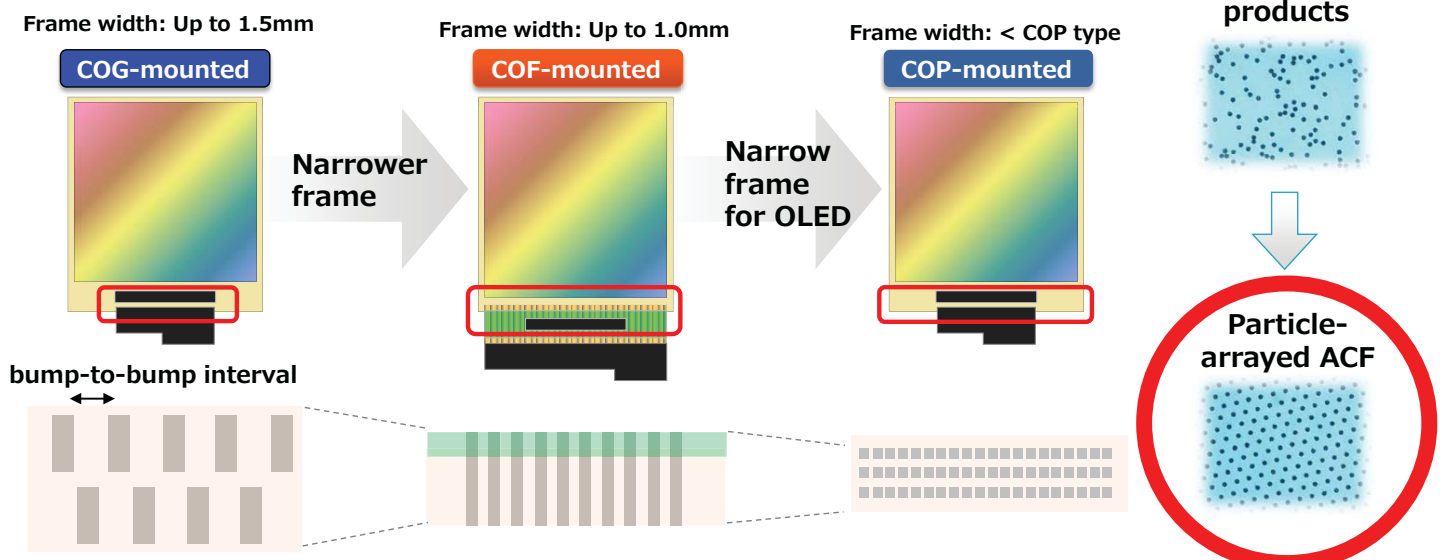
- Seek to achieve sales of about **JPY10.0bn** by FY2023 by **making** particle-arrayed ACF the **de facto standard** in the industry
- Expand new applications for products utilizing the sputtering technology

# Qualitatively change businesses in the existing domains: Establish particle-arrayed ACF as the de facto standard in the industry



Particle-arrayed AFC will likely go mainstream in the future because the conventional products cannot accommodate growing needs for downsizing wiring area on smartphones

## Trends on wiring area and mounting technologies of display related materials (drive ICs, substrates, etc.)



Notes for abbreviation:  
COG: Chip on Glass; COF: Chip on Film; COP: Chip on Plastic

Qualitatively change businesses in the existing domains:  
**Apply the principle of selection and focus on an ongoing basis by “reviewing, strengthening and improving efficiency”**



## Review

### <Examples of decision criteria>

- Is it something only we can do?
- Is it something worth for us to work on our own?
- Does it meet market needs in the future?
- Is it an element to support either of the above three?

## Improve efficiency

Improve operational efficiency through standardization and productivity enhancement

### [Examples]

- Review part of product lineup and consolidate product portfolio
- Reduce production costs through improving quality and productivity
- Leverage a network of distributors

### [Goals]

- Reduce resources used
- Shift to the new domains

## Strengthen

- Source of growth to continue evolution
- Allocate resources intensively
- Continue evolving to aspire for perfection

### [Examples]

- Automotive domain
- Particle-arrayed ACF
- Sputtering technology
- Heat and noise technologies

### [Goals]

- Expand business and contribute to operating results
- Seize an overwhelming market position

Basic Policy 3:

# Strengthen management base

Strengthen management base:

## Create an organizational structure that can support evolution and take initiatives to make it happen

Strengthen our corporate culture so that we can preempt changing business environment and continue proactively changing ourselves, thereby achieving sustainable growth

<Evolution process>

Push through resource shift (selection and focus)

Strengthen corporate culture

Speed-up business operations

Break away from the “all-by-ourselves” mentality

Select and focus

Pursue a well-balanced and lean business structure

Change employees’ mindset and behavior

Foster a sound sense of urgency and nurturing employees who are willing to take on challenge for change

Achieve sustainable growth through resolving social issues

Work on efforts toward sustainability

- 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)

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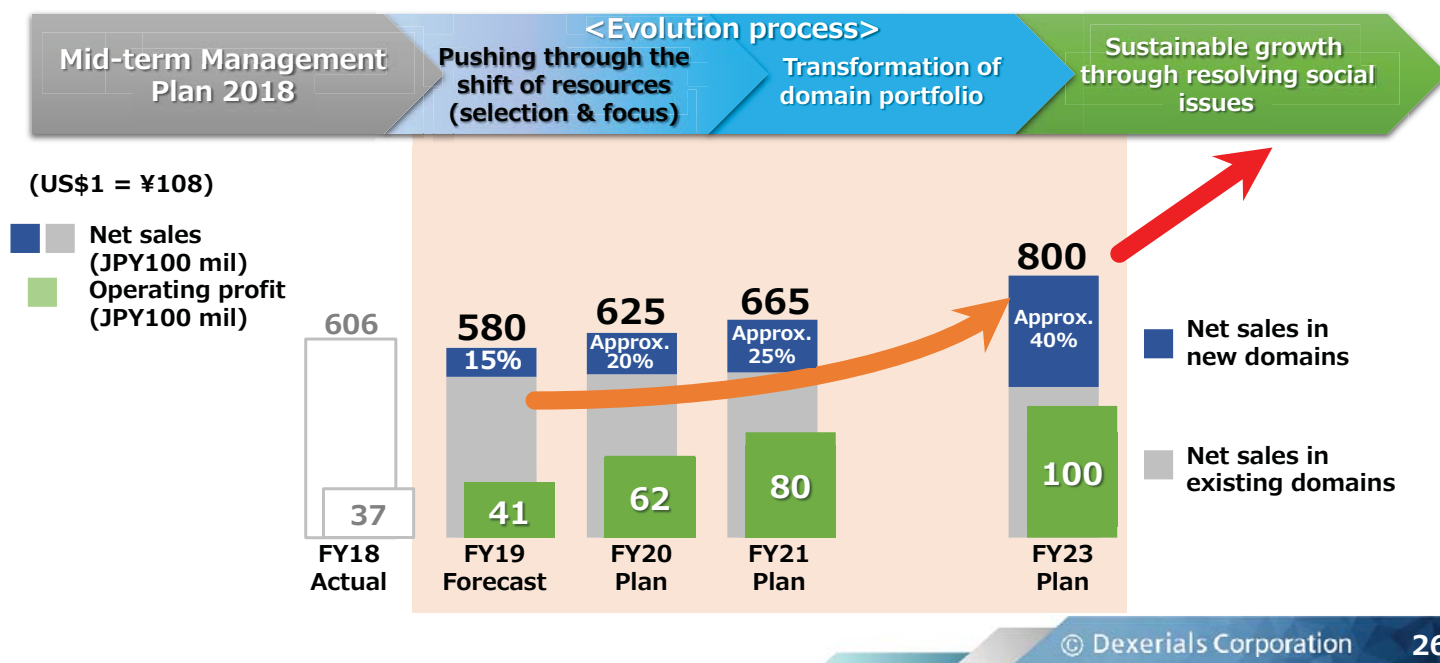
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## Mid-term Management Plan 2023: Management Targets

FY2021 Net sales: JPY66.5 bn    Operating profit: JPY8.0 bn    ROE: 9% or more  
 FY2023 Net sales: JPY80.0 bn    Operating profit: JPY10.0 bn    ROE: 10% or more

\* The Plan is to be updated in three years' time, assuming that business environments will change dramatically.



## Mid-term Management Plan 2023: Overall Summary—Basic Policies, Management Targets and Shareholder return

<b>Positioning of Mid-term Management Plan</b>	A phase to ensure a sustainable growth through business expansion in new domains where social issues have surfaced		
<b>Basic Policies</b>	Accelerate growth in new domains	Qualitatively change businesses in the existing domains	Strengthen management base
<b>Management Targets</b>	<ul style="list-style-type: none"> <li>■ Achieving record highs for both net sales and operating profit in the final fiscal year (FY2023)               <ul style="list-style-type: none"> <li>• Net sales: JPY80.0 billion (CAGR for FY2018 to FY2023: +6%)</li> <li>• Operating profit: JPY10.0 billion (FY2018 Actual: JPY3.72 billion)</li> <li>• Profit*: JPY7.0 billion (assuming a foreign exchange rate of ¥108 per US dollar)</li> <li>• ROE**: 10% or more with a positive equity spread</li> <li>• Operating C/F: JPY10.0 billion or more for FY2021 and later</li> </ul> </li> <li>* The plan is to be updated in three years' time.</li> </ul>		
<b>Shareholder Return Policy</b>	<ul style="list-style-type: none"> <li>■ Aim to achieve a ratio of total payout to adjusted profit attributable to owners of parent of 40% (through dividends and share buyback), while maintaining a sound financial base and comprehensively considering factors including the importance of stable dividend distribution</li> </ul>		

\* Profit represents profit attributable to owners of parent.

\*\*ROE = Profit attributable to owners of parent ÷ Net assets × 100  
 Equity spread = ROE - Cost of equity (assumed at 8%)

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



## (Reference) Numerical Targets / Indices

### Consolidated earnings / indices

(JPY100 mil)

	FY18 Act	FY19 Fcst	FY20 Plan	FY21 Plan	FY23 Plan
Net sales	606	580	625	665	800
Operating profit	37	41	62	80	100
Profit	23	25	22	48	70
Performance indices					
ROE	4.6%	4.9%	4.4%	9% or more	10% or more
Equity spread	-3.4%	-3.1%	-3.6%	1% or more	2% or more

\* Profit represents profit attributable to owners of parent.

\*\* ROE = Profit attributable to owners of parent ÷ Net assets x 100  
Equity spread = ROE – Cost of equity (assumed at 8%)

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

### Earnings by segment

(JPY100 mil)

	FY18 Act	FY19 Fcst	FY20 Plan	FY21 Plan	FY23 Plan
Optical Materials & Components					
Net sales	260	235	249	266	363
Operating profit	17	24	28	38	51
Electronic Materials & Components					
Net sales	348	345	378	400	437
Operating profit	38	35	52	60	67

Note: Difference between the sum of segment profits and consolidated operating profit is equal to the amount of goodwill amortization.

## Disclaimer on Forward-Looking Statements

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# Value Matters

Unprecedented innovation,  
unprecedented value.

