

Dexerials

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

April 25, 2019

Dexerials Corporation

- My name is Yoshihisa Shinya, serving as President and Executive Officer of Dexerials since March this year.
- I would like to start my presentation by talking about our Mid-term Management Plan for about 20 minutes.
- We are about to enter the new era “Reiwa” next week. I believe how we can evolve depends on our Mid-term Management Plan.

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○ I would like to first review our previous Mid-term Management Plan, and then talk about the current Mid-term Management Plan.

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

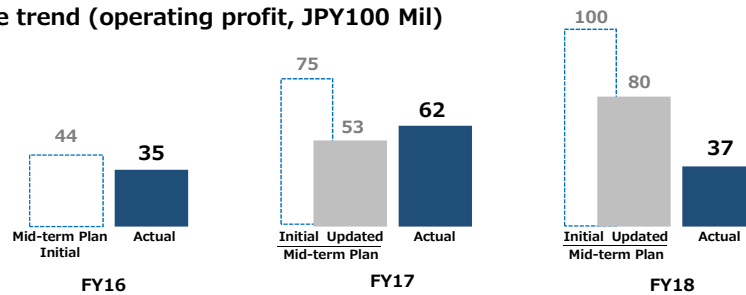
Three action plans

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.

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- This is the outline of our previous Mid-term Management Plan.
- We had strived to achieve the mid-term targets in line with two key policies and three action plans. Regrettably, however, we could neither meet the targets nor achieve growth during the period.

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

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○ Although we ended up falling short of the targets, we managed to make some achievements. We therefore sorted achievements and fundamental issues based on facts.

○ As achievements:

○ In the anti-reflection film business, we made a sizable investment, and as a result, the business grew to larger than 10.0 billion yen in sales.

• In the automotive business, we established an organization dedicated to this business segment, and as a result, the share of the automotive business in our overall net sales rose to 10% in fiscal year 2018.

• In the anisotropic conductive film (ACF) business, which is a highly challenging consumer IT products market, we successfully expanded sales of particle-arrayed ACF, our differentiating technology products.

• In addition, we pushed forward consolidation of business locations in China and other reform measures ahead of schedule.

○ That said, we still have some issues left unsolved. In fact, we could not expand business in new domains as expected.

• We, including all management members, regret that our commitment to new business domains was not strong enough.

• In addition, decelerated growth of the consumer IT products market and risk of heavy dependence on a particular customer became evident during the period. We are to blame especially for our too optimistic market assumptions.

• Further, we regret that we, as a corporate organization, lacked the ability to adapt flexibly to changing business environment.

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➤ Basic Policies and Key Initiatives

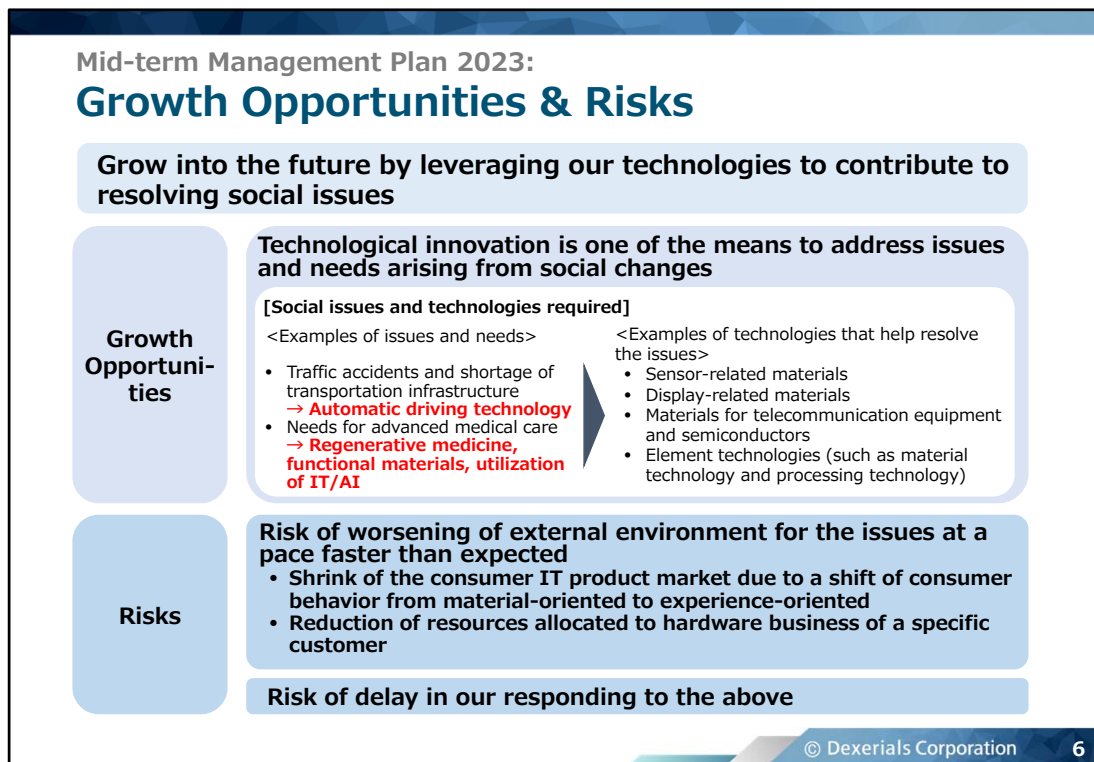
- ◆ Basic policy 1: Accelerate growth in new domains

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- ◆ Basic policy 3: Strengthen management base

➤ Management Targets

○ Now, let me talk about our current Mid-term Management Plan.



○ Before moving on to details, I would like to talk about our growth opportunities and risks taken into consideration in developing the current Mid-term Management Plan.

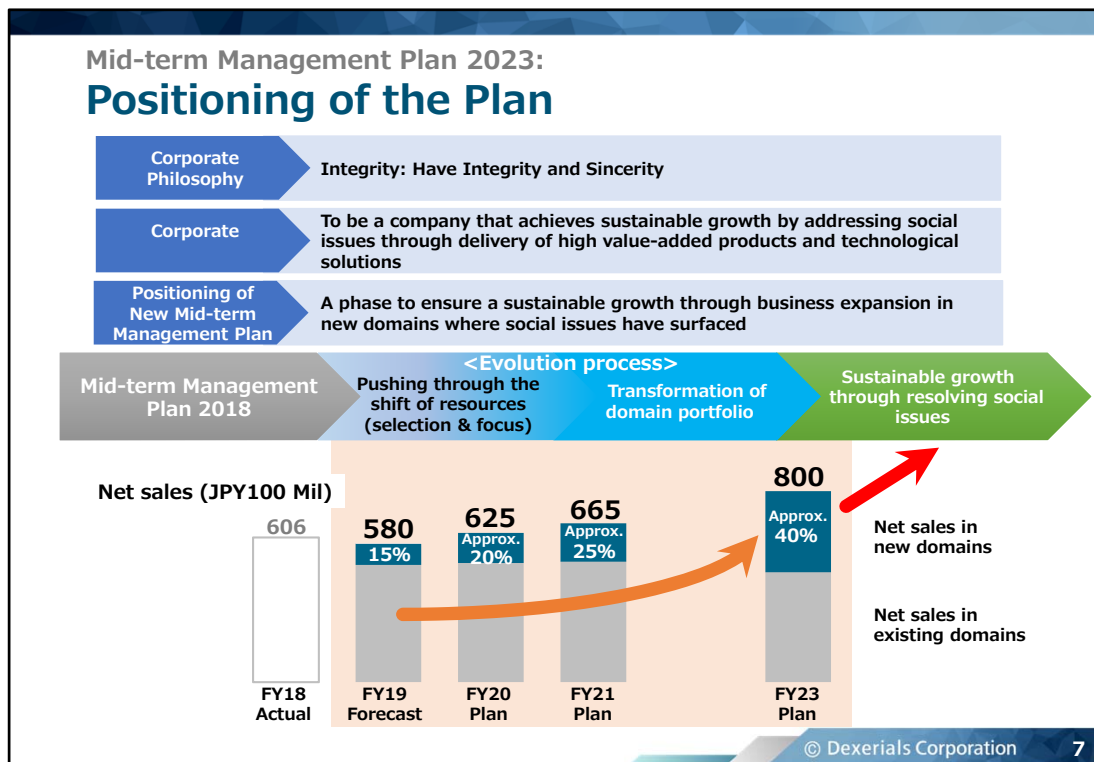
○ Today, we are pressed to address a number of issues arising from social changes. Such changes are especially notable in the automotive domain. Also, in the medical domain, needs for advanced medical care are on the rise.

○ One of the keys to resolving social issues is technology. In fact, we see a general trend towards resolving social issues with technological innovation. Amid such a trend, the opportunities where we can capitalize on the element technology, we have nurtured in the existing domains are also increasing. The element technologies I just mentioned include:

- sensor-related materials for IoT applications,
- display-related materials to match the evolving human interface (output devices), and
- materials for telecommunication equipment.

○ So, we recognize that opportunities are expanding for us.

○ For the current Mid-term Management Plan, we have set very conservative assumptions for the consumer IT products market, predominantly smartphones. As the consumer behavior has been shifting from material-oriented to experience-oriented, we need to keep in mind that we may face more dramatic changes than we anticipate and should be ready to improve our corporate culture so that we can keep our business under own control regardless of whatever changes take place in the business environment. Based on this conviction, we are determined to carry through the current Mid-term Management Plan.



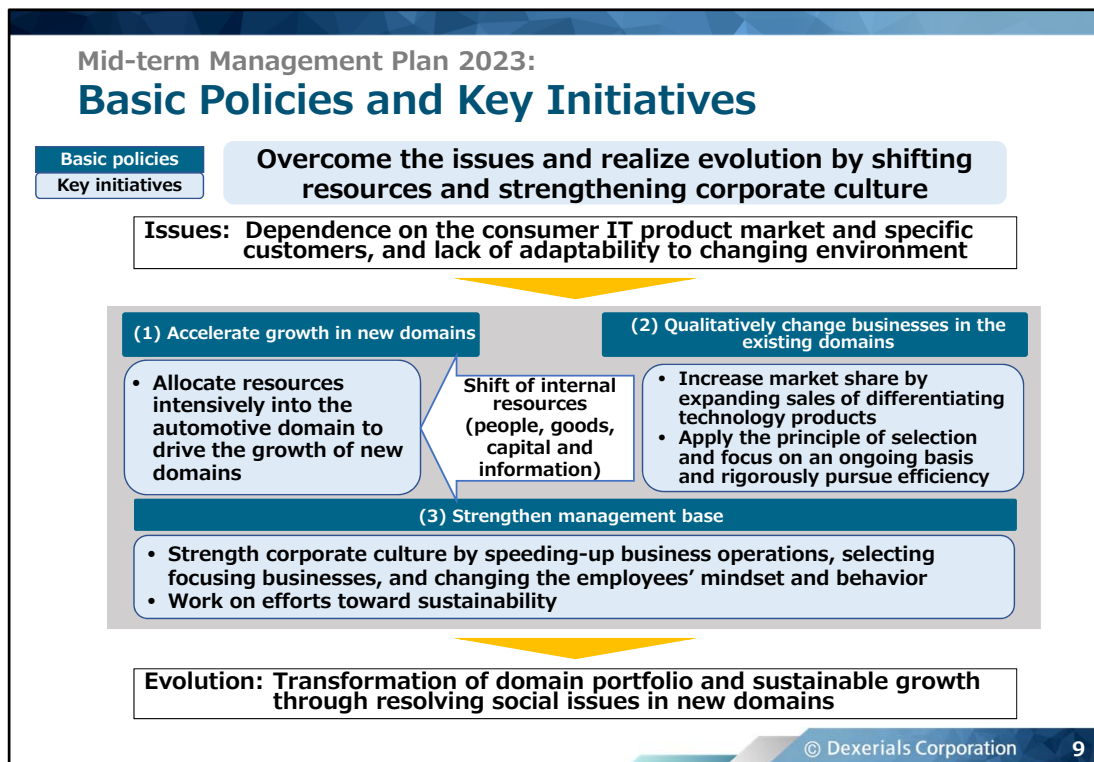
○ Next, I would like to talk about the positioning of the current Mid-term Management Plan. While the previous Mid-term Management Plan spanned three years, the current plan spans five years.

○ Our business portfolio is biased in that it is heavily dependent on the consumer IT products market and a particular customer.

○ For the current Mid-term Management Plan, we have extended the timeframe to five years because, during the first three years, we are committed to accelerating the shift of resources through selection and focus and other measures, and transforming our domain portfolio by expanding business in new domains including the automotive domain.

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○ Next, let me discuss our basic policies and key initiatives for the current Mid-term Management Plan.

○ We have put in place these basic policies and key initiatives to address our major issues I mentioned previously, which are:

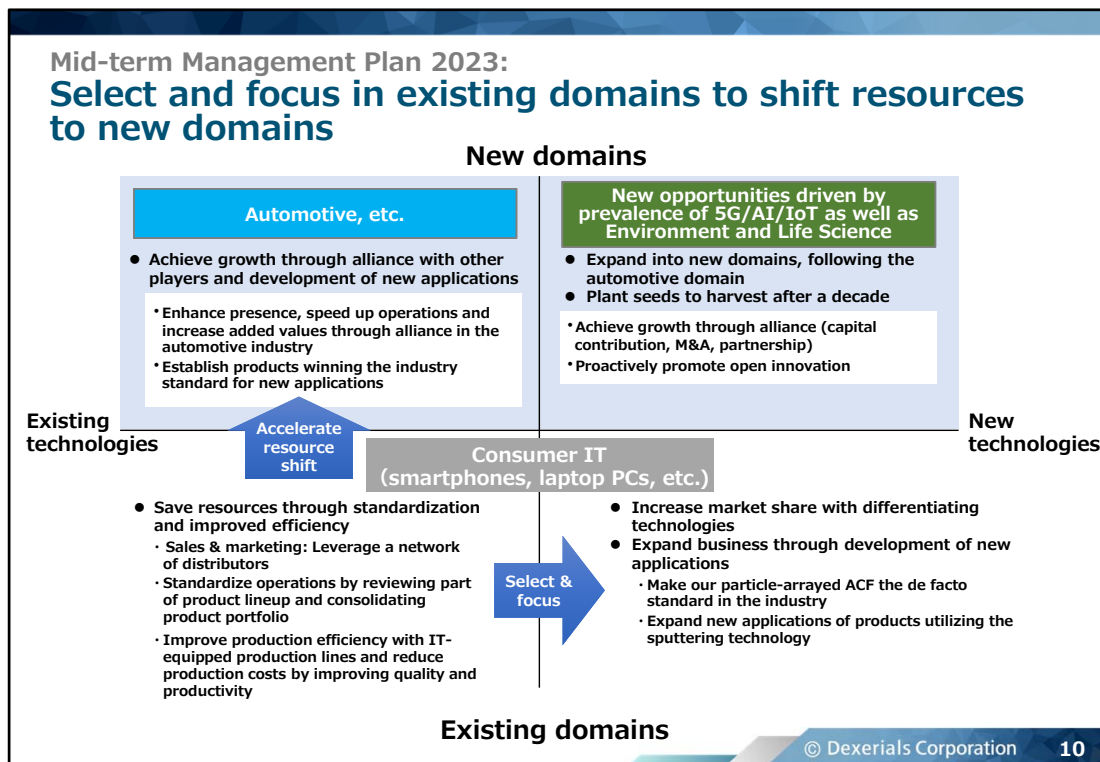
- heavy dependence on the consumer IT products market and a particular customer, and
- the lack of adaptability to changing business environment.

○ As the first key initiative, we are committed to accelerating business growth in new domains.

○ As the second key initiative, we qualitatively change businesses in the existing domain and boldly push through the shift of our resources to new domains.

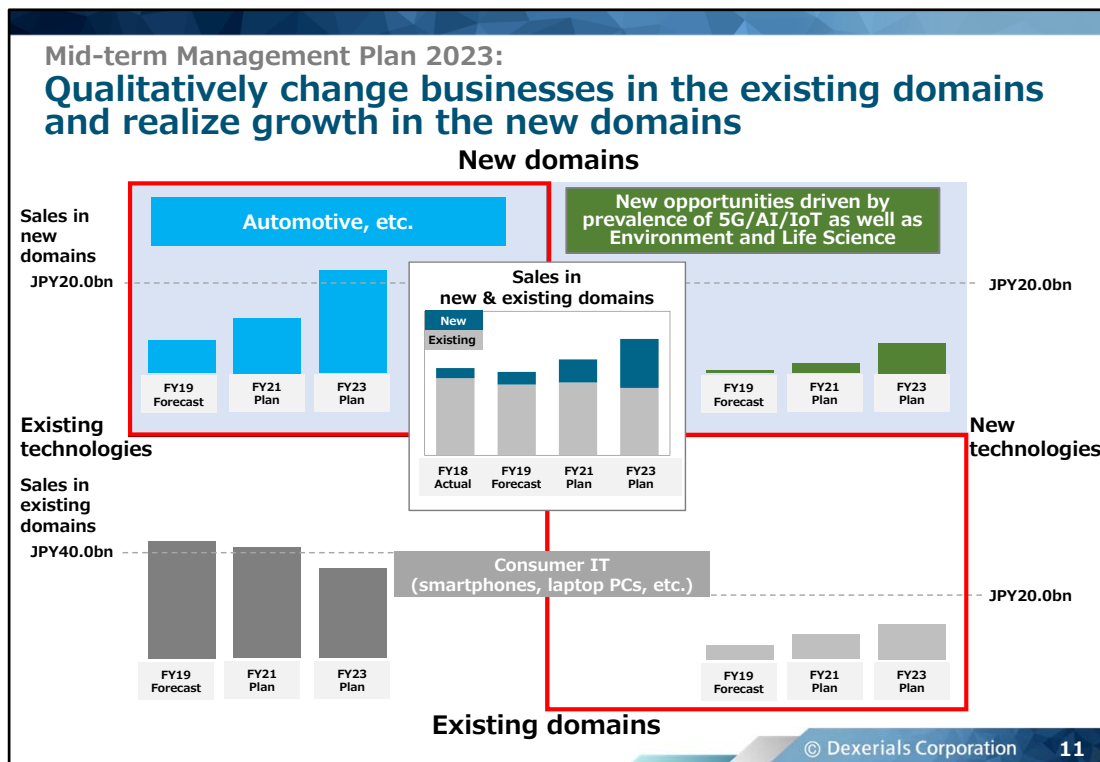
○ As the third key initiative, we strengthen our corporate culture as part of the efforts to strengthen our management base.

○ We are determined to carry through the mid-term management by pushing forward the evolution of the company based on these key initiatives.



○ The chart on this slide shows our existing domains, our main battlefields, on the lower part and new domains for our company on the upper part. In addition, existing technologies are shown on the left, while new technologies are shown on the right. Thus, the chart consists of four quadrants.

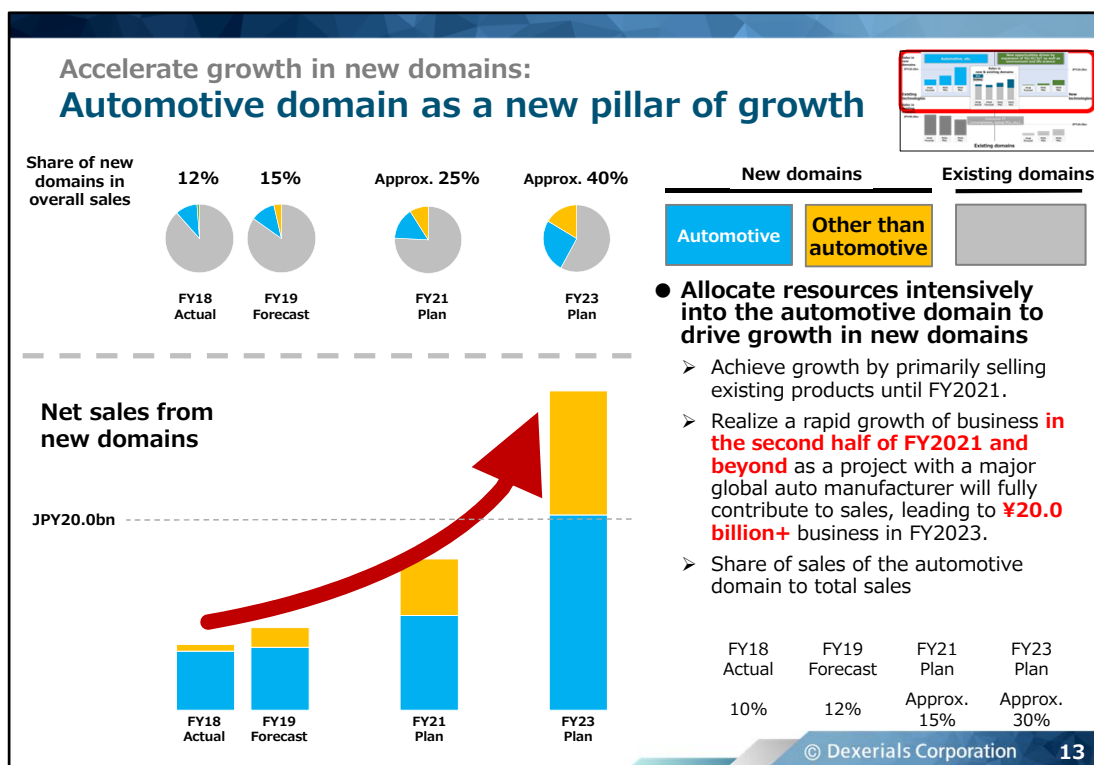
○ While rigorously pursuing the principle of selection and focus in the left lower quadrant in which we are engaged at the moment, we will increase our share even in the challenging consumer IT products market by identifying competitive and differentiable products and honing them further. Also, we are determined to boldly allocate the resources saved through this quadrant to new domains.



- These charts are the sales versions of the charts on the previous page.
- As I mentioned previously, although the consumer IT products market is quite a challenging market, we will polish our proprietary technologies wherever possible, and drive significant growth of the automotive business as a priority domain.



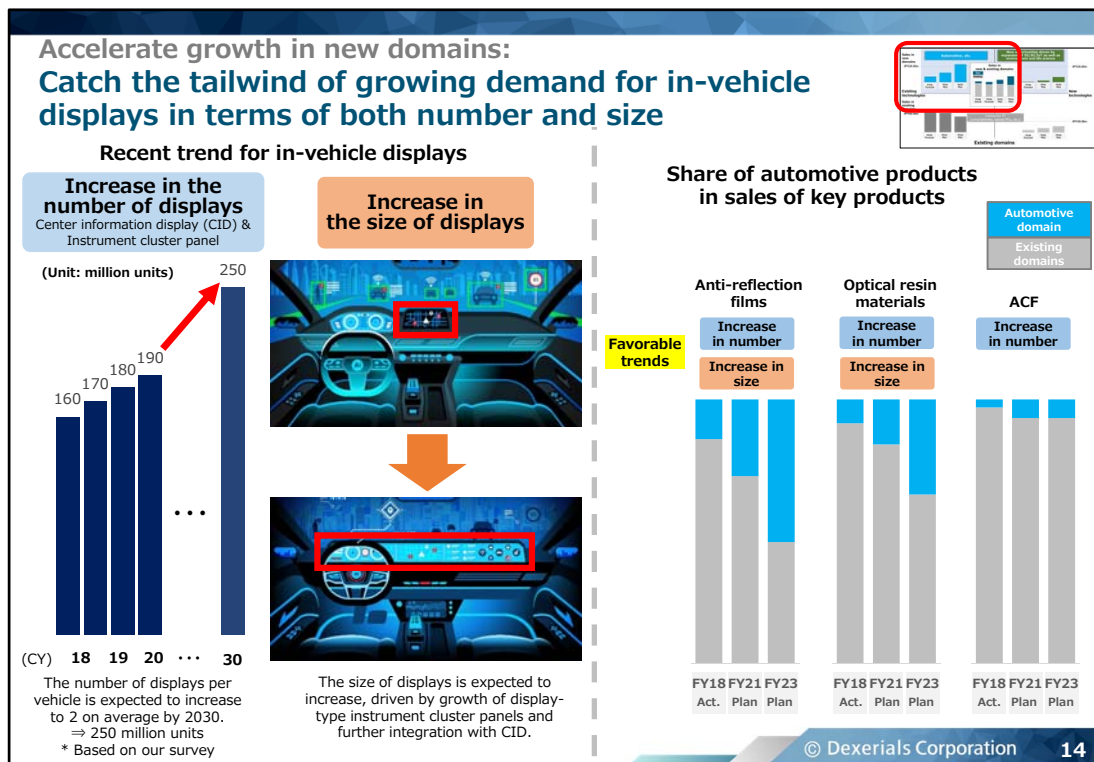
○ Here, let me move on to Basic Policy No. 1.



○ In the current Mid-term Management Plan, the key agenda is to turn the automotive business into a new pillar of growth.

○ As I mentioned, the automotive business accounted for about 10% of our overall net sales in fiscal year 2018. We plan to increase this percentage to about 30% in fiscal year 2023.

○ It's been two years since we launched the automotive business. Now, the business is expected to grow to larger than 20.0 billion yen, because a large-sized deal, which will be delivered in the latter half of fiscal year 2021, will likely contribute to earnings in fiscal years 2022 and 2023. The current Mid-term Management Plan differs from the previous one in that the factors contributing to earnings are more visible.



- A number of changes in the automotive industry are driving growth of the automotive business. Among others, the following are the tailwinds for our business:
 - growing demand for in-vehicle displays, and
 - increasing size of displays.
- As you are aware, the size of the global automotive market will likely remain relatively flat at 100 million vehicles per year or might shrink slightly in some cases. However, the number of displays per vehicle has continued to increase.
- Furthermore, the display size has increased from 7 to 8 inches to a dozen inches or even larger than 1 meter.
- Amid this trend, while sales of anisotropic conductive films (ACF), our key products, are expected to increase in keeping with the sales volume of in-vehicle displays, sales of optical elasticity resin and optical films are expected to surge driven by tailwinds, such as the upsizing of displays, as well as the increase in the number of displays per vehicle.

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

Provides high visibility and safety required for in-vehicle displays

- Anti-reflection film: Measure against head impact (anti-scattering)
- Optical elasticity resin: Impact absorption

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

- Anti-reflection film: DIN* Standard compliant, Applicable for curved surface
- Optical elasticity resin: OCR* is dominant for larger displays

* DIN Standard: German Industrial Standard
 * OCR: Optical Clear Resin

Materialized the solution by jointly working with MinebeaMitsumi for lamination

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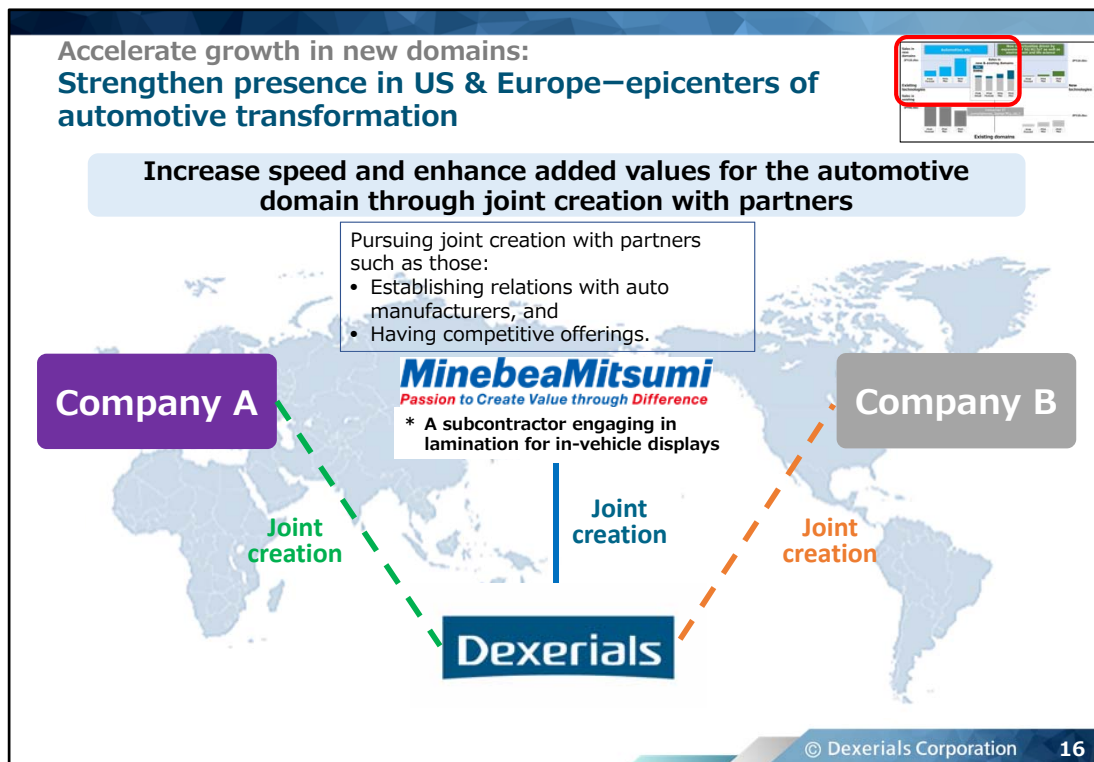
○ Then, why customers choose our products?

○ In-vehicle displays are required to provide higher visibility and safety than consumer IT products. In fact, recently, in some car accidents, drivers are injured by flying fragments of upsized in-vehicle displays.

○ Under these circumstances, automakers have shown strong interest in the proprietary features of our products, such as the anti-scattering feature, which can be obtained by coating the outermost surface of displays with anti-reflection films; and the impact absorption feature of our optical elasticity resin.

○ Moreover, we have received inquiries from the type of customers who need larger and/or irregular shaped displays. In fact, we are the only manufacturer that can provide both anti-reflection films and related laminating materials. Although we are a late entrant into the automotive industry, we have been given a plenty of opportunities to talk directly with auto manufacturers.

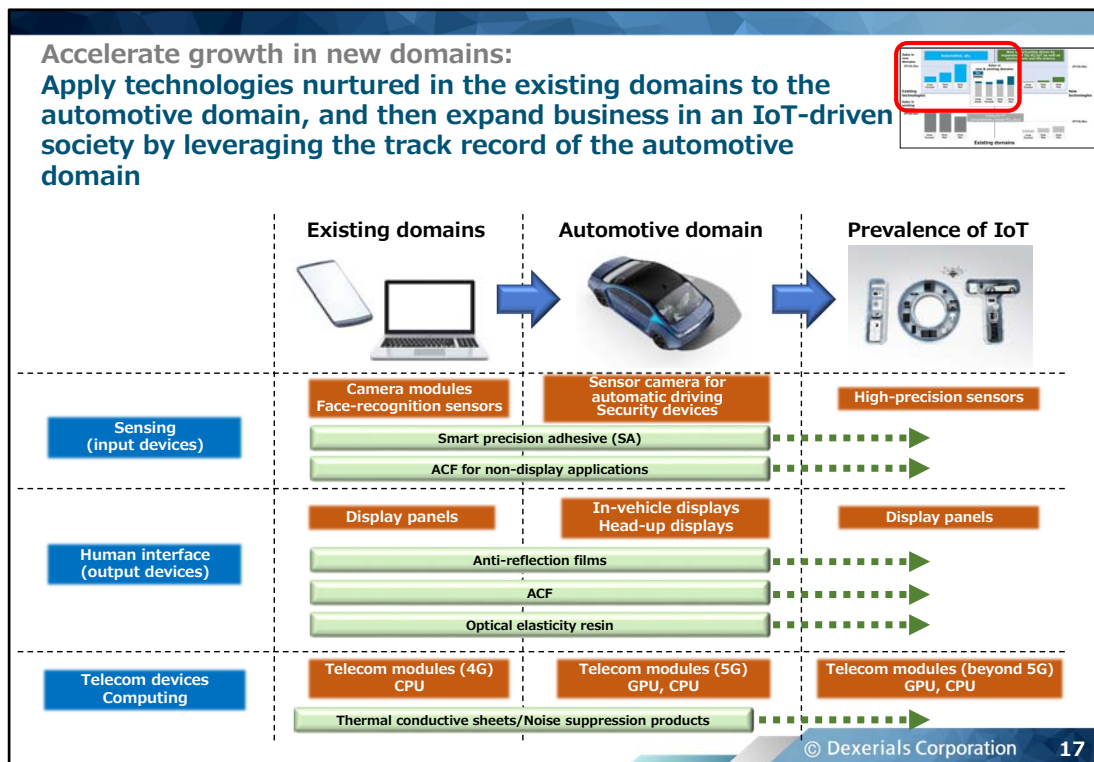
○ When promoting these products, we not only market products alone but also propose total solutions which span from the supply of display materials to the assembly and mass-production of panels by MinebeaMitsumi, our partnering lamination subcontractor. Actually, we feel like we have established some presence in the automotive domain.



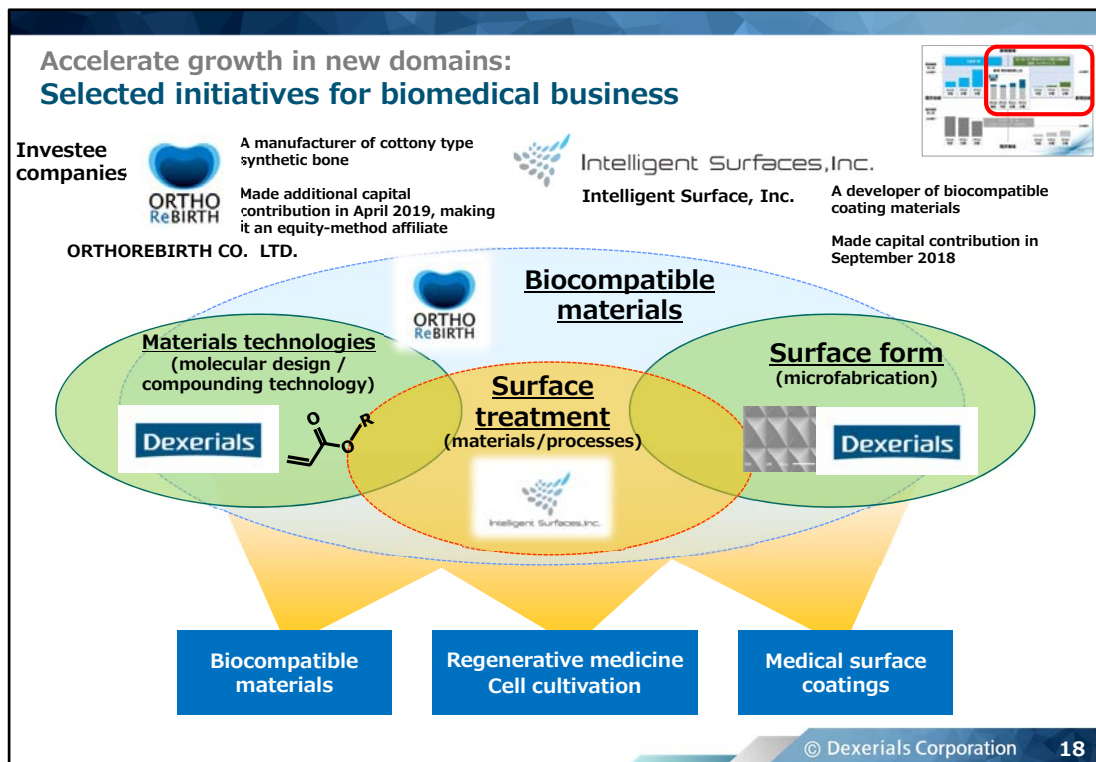
○ That said; however, we had wondered how we could build presence in Europe and the U.S., the epicenters of automotive transformation.

○ Currently, we are working on a project for supplying our products to an auto manufacturer, though we are afraid we cannot disclose the name of the auto manufacturer at this stage. We are doing this project jointly with partners who have strong relations with the auto manufacturer or competitive technologies and products for automotive use that we lack.

○ We would carry through our plan by breaking away from the “all-by-ourselves” mentality, which will help speed up business operations, and also by accelerating activities to deliver new added values to customers.



- While our peers are shifting their focus to the automotive domain, why we also focus on automobiles?
- The automotive industry is required to not only provide a means of transportation but also evolve dramatically around new technologies, such as 5G and automatic driving.
- These new technologies are highly compatible with the technologies we have nurtured so far. This is why we believe we are better positioned to have close communication with auto manufacturers despite our late entry into the industry.
- Automobile is one of important IoT applications, and therefore, we believe, by establishing a unique position in the challenging automotive domain, we will have more chances to expand business in the society where IoT is spreading.



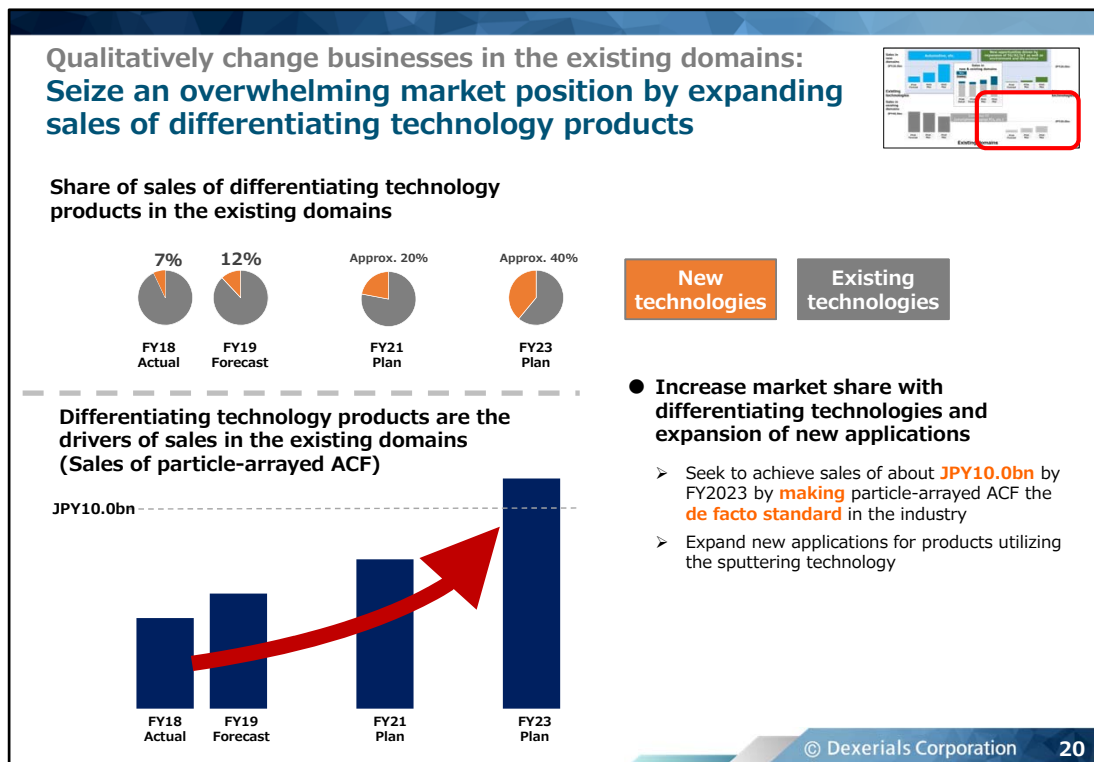
○ Looking ahead our future in 10 years from now and beyond, we are engaged in some initiatives for the biomedical business as one of the new domains.

○ We will acquire primarily materials and microfabrication related technologies and supply chains that we do not currently own through investment in other companies. We also push forward activities with an eye to new domains that we will focus on after the automotive domain.

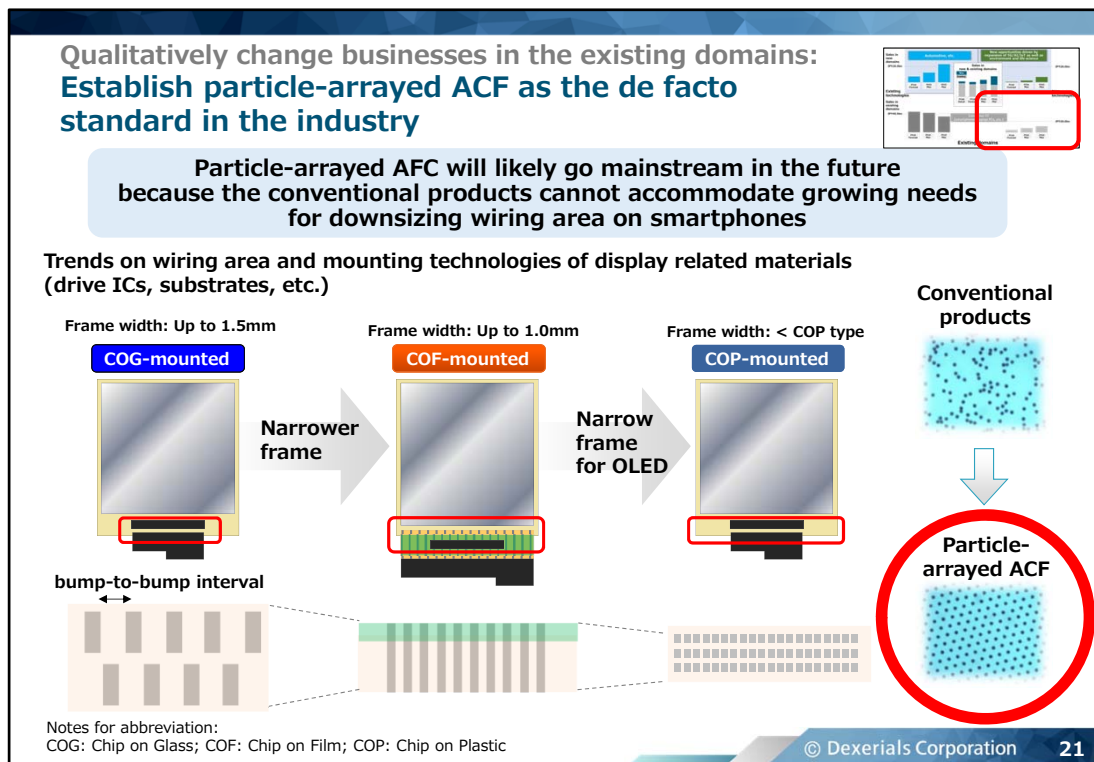
Basic Policy 2:

Qualitatively change businesses in the existing domains

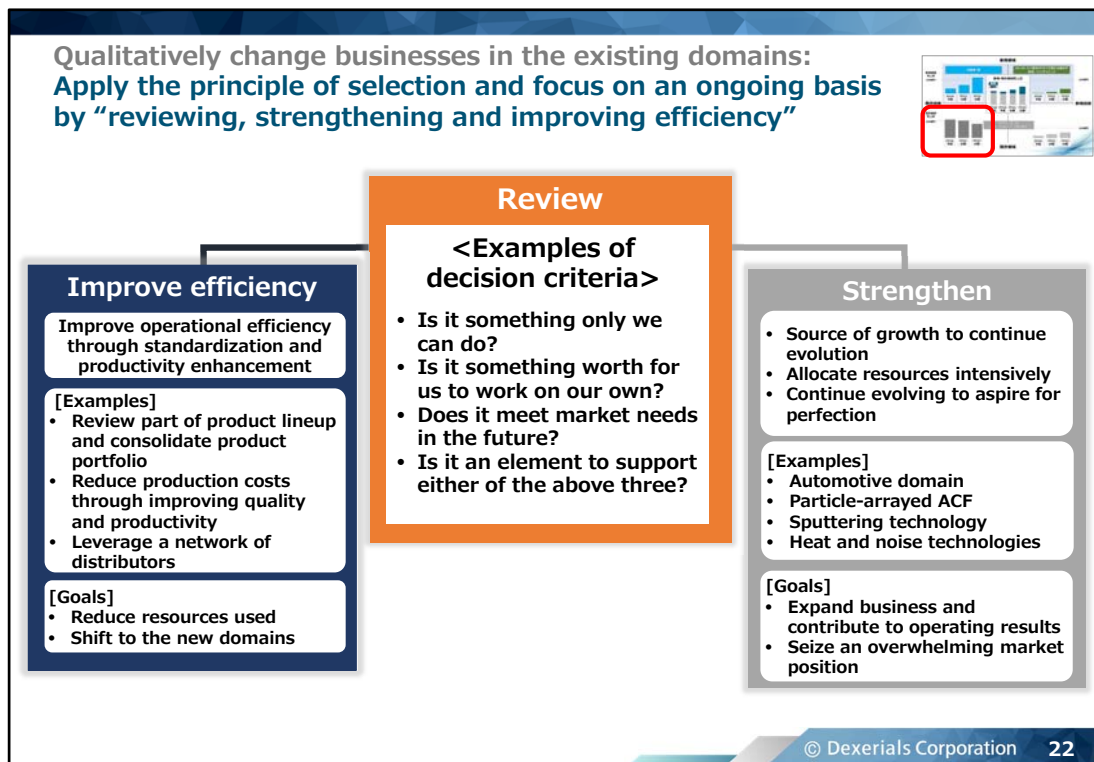
- Next, I would like to talk about Basic Policy No. 2.



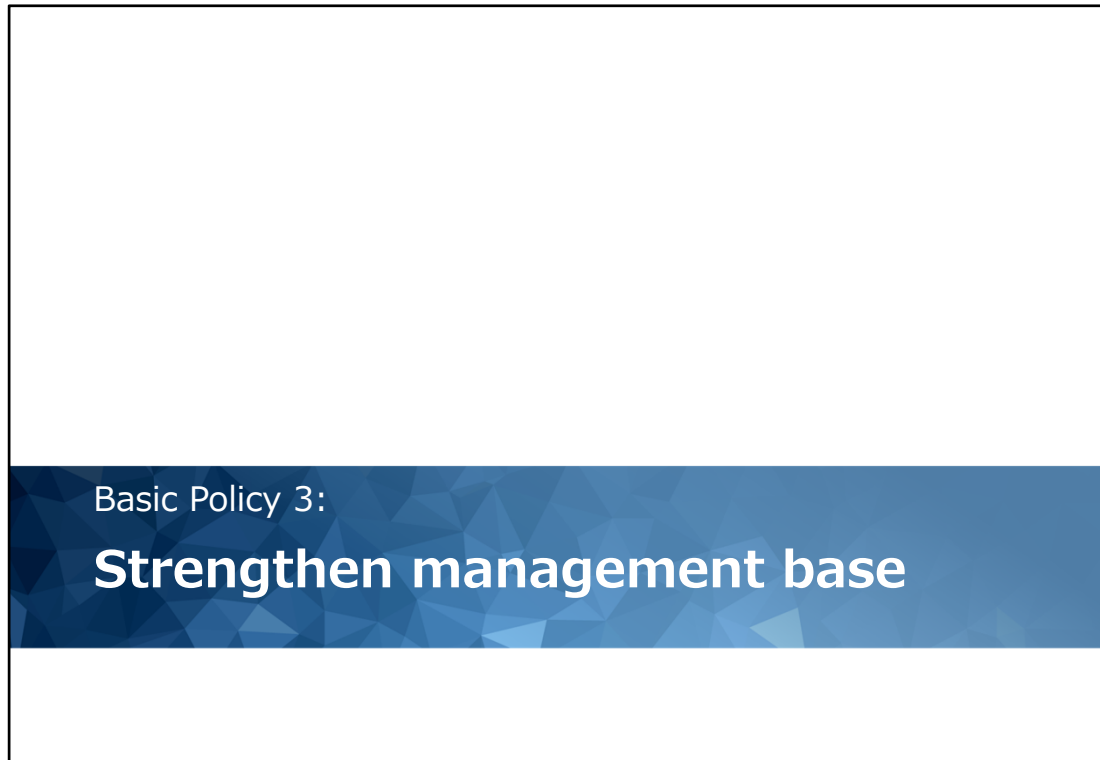
- In the existing domains, it is a prerequisite for us to rigorously pursue the principle of “selection and focus.”
- We will thoroughly strengthen differentiating products and technologies and strive to expand our market shares.
- We expect that “particle-arrayed ACF,” one of major differentiating technologies, will grow to a size larger than 10.0 billion yen in fiscal year 2023.
- Also, for the sputtering technology, we strive to develop new applications besides anti-reflection films.



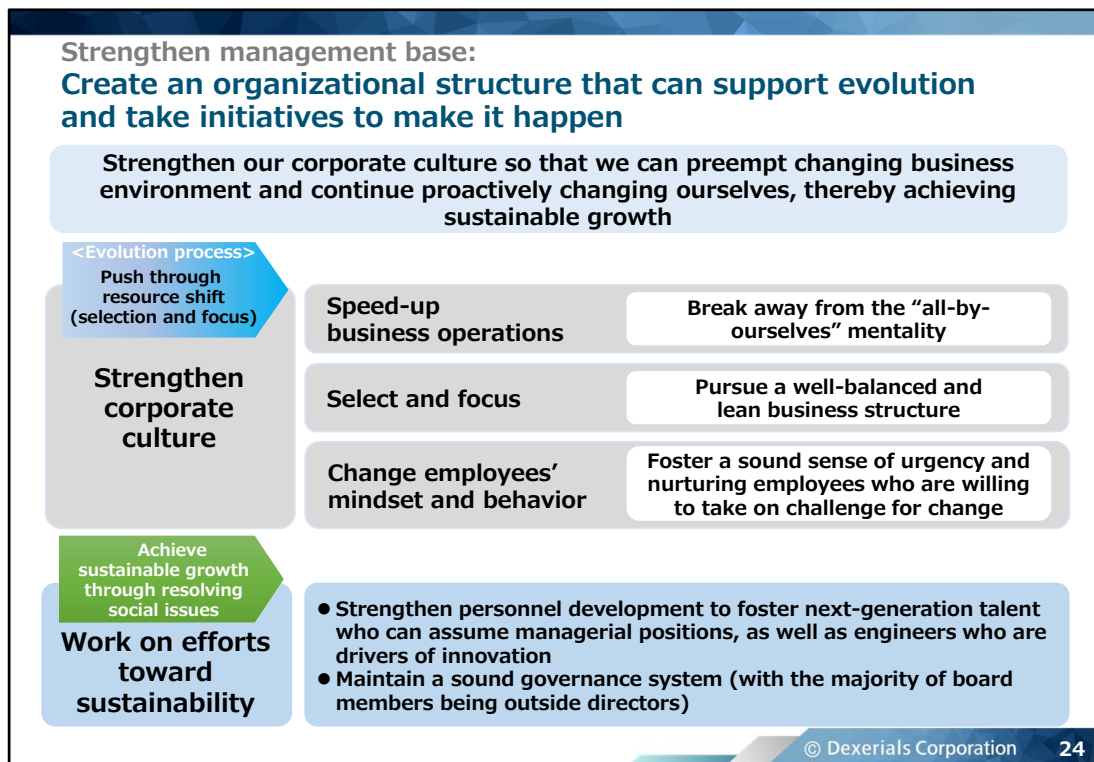
- Now, let me explain why we expect the particle-arrayed ACF to grow.
- Currently, as an evolution trend of displays, the width of frames is getting narrower. We see an ongoing shift from LCD (Liquid Crystal Display) to OLED (Organic EL) and also a shift in display substrates from glass to plastic.
- The width of and interval between semiconductor electrodes are getting smaller (finer), and it is difficult to accommodate this trend with the conventional ACF which distribute particles. In fact, we see an emerging trend that only our particle-arrayed ACF can satisfy the requirements of high-end products.
- This is why our particle-arrayed ACF has been growing dramatically in the industry. We will promote sales of our particle-arrayed ACF to ultimately establish the product as the de facto standard in the ACF industry.



- In the existing domains, we should always bear in mind that we will rigorously pursue the principle of “selection and focus.”
- We review and reflect on our activities not only business-wise but in all aspects so that we can improve and sophisticate technologies and products and streamline operations as needed and wherever possible.
- As the business environment surrounding us is undergoing a drastic change, the above should not be just temporary measures. On the contrary, we work on these measures at regular intervals to keep ourselves best prepared for changes in business environment.



○ Next, let me talk about Basic Policy No. 3.

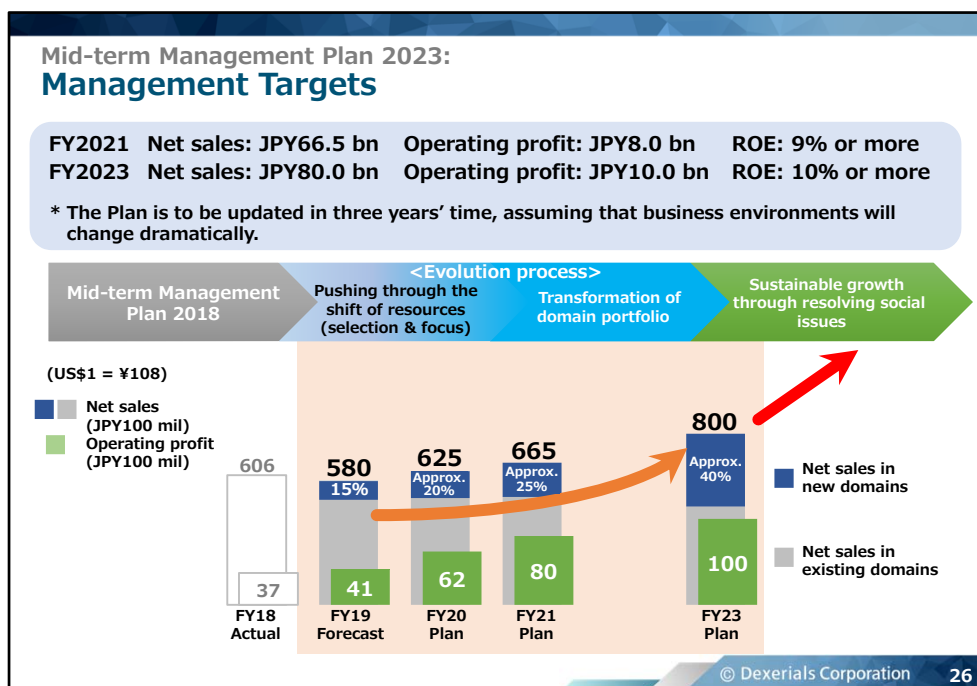


- Strengthening the corporate culture is key to building a strong management base. Breaking away from the “all-by-ourselves” mentality is important especially for accelerating business expansion in new domains.
- In the existing domains, “Select and Focus.” The most important thing here is to build a well-balanced and lean organizational structure.
- To make this happen, change of mind and behavior of not only employees but also the management members is quite important. To this end, we will foster personnel who are willing to take on challenge for change.
- We are also committed to making efforts to pursue sustainability for us to be a business organization that can grow sustainably.

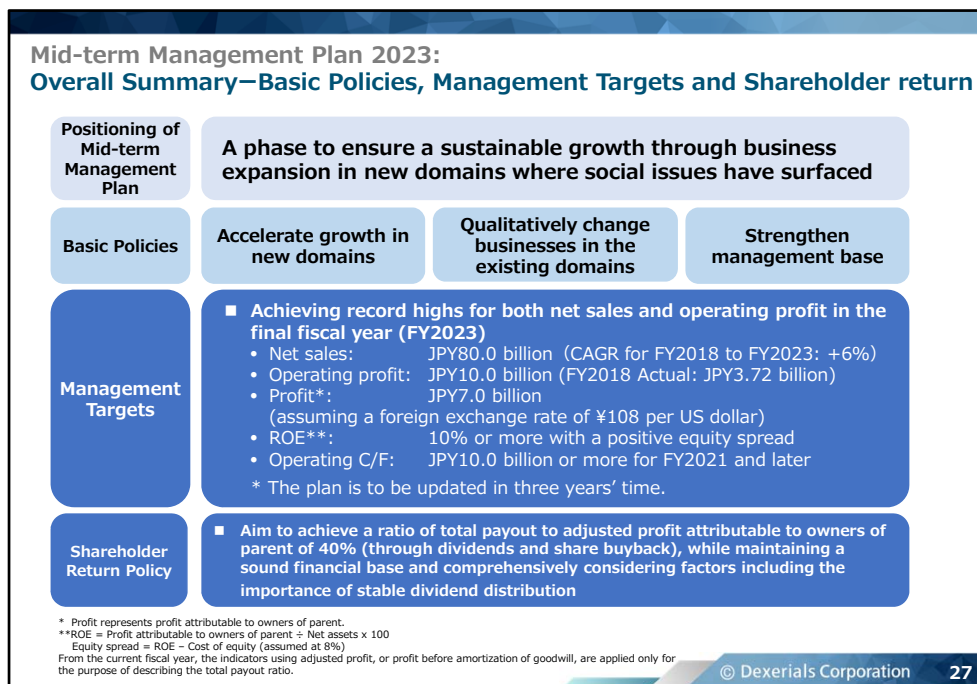
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 - **Management Targets**

○ Lastly, our management targets.



- In fiscal year 2021, we aim to achieve net sales of 66.5 billion yen, operating profit of 8.0 billion yen and ROE of 9% or more.
- In fiscal year 2023, we aim to achieve net sales of 80.0 billion yen, operating profit of 10.0 billion yen and ROE of 10% or more.
- Although we are striving to achieve these targets, we intend to review and update the plan in three years' time because the business environment surrounding us in the future is unforeseeable and will likely fluctuate.



○ Lastly, I believe a change of mind and behavior of both the management members and employees is critical to fulfilling the current Mid-term Management Plan.

○ I believe my mission is to carry through the plan and produce results that make the company more trusted and to ensure that the company can keep growing after the current Mid-term Management Plan period.

○ I know we have a lot of room for improvement, and appreciate your continued support and understanding.

○ This is the end of my presentation. Thank you very much for your attention.

(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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unprecedented value.

