

Consolidated Financial Results
for the Six Months Ended September 30, 2016
〔Under Japanese GAAP〕



October 27, 2016

Company name: Dexerials Corporation Listing: Tokyo Stock Exchange
Security code: 4980 URL: <http://www.dexerials.jp/en>
Representative: Takashi Ichinose, Representative Director and President
Contact: Naoyuki Sanada, Senior Executive Officer, Corporate Planning & Control Division Head
Phone: +81-3-5435-3941
Quarterly securities report (*Shihanki Hokokusho*) issuing date: November 4, 2016
Scheduled date of dividend payment: December 1, 2016
Preparation of supplementary briefing material on quarterly financial results: Yes
Investors meeting presentation for quarterly financial results: Yes (for securities analysts and institutional investors)

(Note) Amounts less than one million yen have been omitted.

1. Consolidated financial results for the six months ended September 30, 2016 (from April 1, 2016 to September 30, 2016)

(1) Consolidated operating results (Percentage indicates year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2016	27,373	(13.4)	1,437	(67.0)	925	(78.5)	34	(98.7)
September 30, 2015	31,617	—	4,352	—	4,297	—	2,699	—

Notes: 1. Comprehensive income

For the six months ended September 30, 2016: ¥(1,292) million [—%]

For the six months ended September 30, 2015: ¥2,603 million [—%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2016	0.57	0.56
September 30, 2015	42.84	42.02

Notes: 2. As the Company did not prepare quarterly consolidated financial statements for the six months ended September 30, 2014, the year-on-year changes for the six months ended September 30, 2015 were not calculated.

3. As the Company conducted a stock split of 100 shares for each 1 share of common stock with an effective date of May 27, 2015, the amounts of earnings per share were calculated based on the assumption that the stock split had been conducted at the beginning of the fiscal year ended March 31, 2016.

4. For the purpose of calculating the amounts of earnings per share, the number of shares of the Company held by the Trust was included in the number of shares of treasury stock, which was to be deducted from the calculation of the average number of shares of common stock during the period.

(2) Consolidated financial position

	Total assets	Net assets	Capital to asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2016	87,902	48,659	55.4	812.90
March 31, 2016	87,316	52,062	59.6	868.96

Reference: Capital (Shareholders' equity + Accumulated other comprehensive income):

As of September 30, 2016: ¥48,659 million As of March 31, 2016: ¥52,062 million

Notes: 1. The amounts of net assets per share were calculated based on the assumption that the stock split with an effective date of May 27, 2015 had been conducted at the beginning of the fiscal year ended March 31, 2016.

2. For the purpose of calculating the amounts of net assets per share, the number of shares of the Company held by the Trust was included in the number of shares of treasury stock, which was to be deducted from the number of shares issued at the end of the period.

2. Dividends

	Cash dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year	Yen	Yen	Yen	Yen	Yen
Ended March 31, 2016	—	27.50	—	32.50	60.00
Ending March 31, 2017	—	27.50	—	—	—
Ending March 31, 2017 (forecast)	—	—	—	27.50	55.00

Note: 1. Revisions to dividend forecast published most recently: None

2. Annual dividends have been to reflect the stock split on May 27, 2015.

3. Breakdown of the year-end dividends for the fiscal year ended March 31, 2016:

Ordinary dividend: ¥27.50 per share Commemorative dividend: ¥5.00 per share

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2017 (from April 1, 2016 to March 31, 2017)
(Percentage indicates year-on-year changes)

Fiscal year	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
	57,700	(7.9)	1,900	(77.1)	1,280	(84.3)	(840)	—	(14.02)

- Notes: 1. Revisions to earnings forecast published most recently: Yes
2. For the purpose of calculating the amounts of earnings per share, the number of shares of the Company held by the Trust was included in the number of shares of treasury stock, which was to be deducted from the calculation of the average number of shares during the period. The average number of shares during the period was calculated based on the assumption that the numbers of shares issued and shares of treasury stock at the end of the second quarter would remain the same until the end of the fiscal year.

[Notes]

- (1) Changes in significant subsidiaries during the current period (Changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of accounting methods used specifically for preparing the quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates and restatements of prior period financial statements
- (a) Changes in accounting policies due to application of new or revised accounting standards: None
- (b) Changes in accounting policies due to reasons other than above (a): None
- (c) Changes in accounting estimates: None
- (d) Restatements of prior period financial statements: None
- (4) Number of shares of common stock issued
- (a) Number of shares issued (including treasury stock)
- As of September 30, 2016: 63,077,600 shares
- As of March 31, 2016: 63,000,000 shares
- (b) Number of shares of treasury stock
- As of September 30, 2016: 3,219,000 shares
- As of March 31, 2016: 3,087,000 shares
- (c) Average number of shares of common stock during the period
- Six months ended September 30, 2016: 59,888,635 shares
- Six months ended September 30, 2015: 63,000,000 shares

- Notes: 1. The Company conducted a stock split of 100 shares for each 1 share of common stock with an effective date of May 27, 2015. The number of shares mentioned above was calculated based on the assumption that the stock split had been conducted at the beginning of the fiscal year ended March 31, 2016.
2. As a result of the exercise of stock options during the second quarter of the fiscal year ending March 31, 2017, the number of shares issued at the end of the second quarter has increased by 77,600 shares.
3. As the Company has introduced an Employee Stock Ownership Plan ("J-ESOP") and a Board Benefit Trust (BBT), the number of shares of the Company held by the Trust (3,219,000 shares as of September 30, 2016; and 3,087,000 shares as of March 31, 2016) was included in the number of shares of treasury stock as of such dates. In addition, the number of shares of the Company held by the Trust (3,119,672 shares for six months ended September 30, 2016; and nil shares for six months ended September 30, 2015) was included in the number of shares of treasury stock for such periods, which was to be deducted from the calculation of the average number of shares during the period.

[Indication regarding execution of quarterly review procedures]

This quarterly financial results report is not subject to the review procedures which are required by the Financial Instruments and Exchange Act, and the review procedures for the quarterly financial statements are in progress at the time of disclosure of this quarterly financial results report.

[Proper use of earning forecasts, and other special notes]

(Disclaimer with respect to earnings and other forecasts)

The forward-looking statements including earnings forecast contained in this document are based on information currently available to us and certain assumptions that we believe are reasonable. Accordingly, we can give no assurance that such statements will prove to be correct. Actual results may differ from the results anticipated in these forward-looking statements due to a variety of factors.

Contents of Attached Materials

1. Qualitative Information on Quarterly Financial Statements	P. 2
(1) Explanation of operating results	P. 2
(2) Explanation of financial position	P. 3
(3) Explanation of forward-looking statements including consolidated earnings forecast	P. 3
2. Matters Concerning Summary Information (Notes)	P. 3
(1) Supplemental information	P. 3
3. Quarterly Consolidated Financial Statements	P. 5
(1) Quarterly consolidated balance sheets	P. 5
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income	P. 7
Quarterly consolidated statements of income	P. 7
Quarterly consolidated statements of comprehensive income	P. 8
(3) Notes to quarterly consolidated financial statements	P. 9
(Going concern assumption)	P. 9
(Significant changes in shareholders' equity)	P. 9
(Segment information, etc.)	P. 9

1. Qualitative Information on Quarterly Financial Statements

(1) Explanation of operating results

Regarding the operating results of the Dexerials Group companies (hereinafter, “the Group”) for the six months ended September 30, 2016 (from April 1, 2016 to September 30, 2016, hereinafter, “the current period”), the Group reported net sales of ¥27,373 million (down 13.4% year-on-year) and operating income of ¥1,437 million (down 67.0% year-on-year). These results were caused by a stronger yen as well as a decrease in sales of the Anisotropic conductive films (ACF) and the Optical resin materials product categories. Meanwhile, the Group reported ordinary income of ¥925 million (down 78.5% year-on-year) primarily due to foreign exchange losses, and profit attributable to owners of parent of ¥34 million (down 98.7% year-on-year) primarily due to recognition of restructuring expenses as extraordinary losses that were incurred to optimize the business structure.

Operating results by segment and sales by product category are presented as follows.

1) Optical Materials and Components business

	(Millions of yen)		
	Six months ended September 30, 2016 (the current period)	Six months ended September 30, 2015 (the same period of previous fiscal year)	Year-on-year change
Net sales	12,162	13,522	(10.1)%
Operating income	860	1,302	(34.0)%

Note: Net sales include inter-segment transactions.

During the current period, the Optical films category saw a year-on-year increase in sales of products for display panels used for laptop PCs. However, the Optical resin materials category reported year-on-year decreases in both sales and profits due to a decrease in sales of conventional SVR used mainly for smartphones as well as a stronger yen, despite an increase in sales of Hybrid SVR.

Consequently, the segment reported net sales and operating income of ¥12,162 million (down 10.1% year-on-year) and ¥860 million (down 34.0% year-on-year), respectively.

2) Electronic Materials and Components business

	(Millions of yen)		
	Six months ended September 30, 2016 (the current period)	Six months ended September 30, 2015 (the same period of previous fiscal year)	Year-on-year change
Net sales	15,290	18,189	(15.9)%
Operating income	1,476	3,949	(62.6)%

Note: Net sales include inter-segment transactions.

During the current period, the Surface mounted type fuses category has seen a continued increase in sales of those for smartphones since the first quarter. However, both of the Anisotropic conductive films (ACF) category and the Adhesive materials category reported year-on-year decreases in both sales and profits as the former category suffered from intensified competition in the field of non-display applications such as ACF for camera modules as well as a stronger yen, and the latter category has faced a persistently difficult end-product market environment.

Consequently, the segment reported net sales and operating income of ¥15,290 million (down 15.9% year-on-year) and ¥1,476 million (down 62.6% year-on-year), respectively.

(2) Explanation of financial position

(Assets)

Total assets at the end of the current period amounted to ¥87,902 million, an increase of ¥585 million from the end of the fiscal year ended March 31, 2016 (hereinafter, “the end of the previous fiscal year”).

Current assets amounted to ¥33,773 million, an increase of ¥49 million from the end of the previous fiscal year. This increase can mainly be explained by increases in work in process by ¥493 million, deferred tax assets by ¥267 million and merchandise and finished goods by ¥190 million, which are partly offset by a decrease in cash and deposits by ¥938 million.

Non-current assets amounted to ¥54,128 million, an increase of ¥536 million from the end of the previous fiscal year. This increase can mainly be explained by a net increase in property, plant and equipment by ¥1,748 million caused primarily by an increase in construction in progress, which is partly offset by a decrease in intangible assets by ¥1,002 million due primarily to amortization of goodwill.

(Liabilities)

Total liabilities at the end of the current period amounted to ¥39,243 million, an increase of ¥3,988 million from the end of the previous fiscal year.

Current liabilities amounted to ¥15,432 million, a decrease of ¥71 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease in current portion of long-term debt by ¥3,000 million, which is partly offset by increases in notes and accounts payable – trade by ¥1,038 million, other payables by ¥1,046 million and other current liabilities by ¥832 million.

Non-current liabilities amounted to ¥23,811 million, an increase of ¥4,060 million from the end of the previous fiscal year. This increase can mainly be explained by an increase in long-term debt by ¥4,500 million, which is partly offset by a decrease in liability for retirement benefits by ¥482 million.

(Net assets)

Total net assets at the end of the current period amounted to ¥48,659 million, a decrease of ¥3,403 million from the end of the previous fiscal year. This decrease can mainly be explained by declaration of dividends of ¥2,047 million and a decrease in foreign currency translation adjustment by ¥1,314 million.

(3) Explanation of forward-looking statements including consolidated earnings forecast

In light of the operating results for the current period and the earnings forecast for the second half (from October 1, 2016 to March 31, 2017), we have revised the full-year consolidated earnings forecast for the fiscal year ending March 31, 2017 announced on April 27, 2016.

2. Matters Concerning Summary Information (Notes)

(1) Supplemental information

(Adoption of implementation guidance on recoverability of deferred tax assets)

Effective from the current period, the Company has adopted *Implementation Guidance on Recoverability of Deferred Tax Assets* (ASBJ Guidance No. 26, March 28, 2016).

(Transactions of delivering the Company’s own stock to employees, etc. through trusts)

1) Overview of the transaction

The Company has established an Employee Stock Ownership Plan (“J-ESOP”) as an incentive program granting employees shares of common stock of the Company to incentivize them to improve its financial results and, thus, stock prices by increasing linkage of their compensation to the stock price and financial results of the Company and sharing economic benefits with shareholders.

2) Shares of the Company remaining in the Trust

The shares of the Company remaining in the Trust are presented as shares of treasury stock in the net assets section at their carrying amount (excluding the amount of incidental expenses) in the Trust. The carrying amount and the number of shares of treasury stock at the end of the previous fiscal year and at the end of the current period are ¥3,235 million for 3,087 thousand shares and ¥3,235 million for 3,087 thousand shares, respectively.

(Performance-linked stock compensation plan)

In accordance with the resolution of the 4th annual general meeting of shareholders held on June 23, 2016, the Company has introduced a performance-linked stock compensation plan (hereinafter, “the System”), which clearly links the compensation of directors (excluding outside directors; the same applies hereinafter) to the Company’s results of operations and its share value. Under the System, directors experience both the benefit of high share prices and the risk of low share prices with the Company’s shareholders. Such plan thus would lead directors to continuously aim for better performances over a medium-to long-term period and more contributions to increasing corporate value.

1) Overview of the transaction

The System operates under a scheme called the Board Benefit Trust (hereinafter, “the Trust”). The System enables the Company’s stock and the amount of cash equivalent to the market price of the Company’s stock (hereinafter “the Company’s Stock, etc.”) to be granted through the Trust to directors based on their respective positions and performance targets achieved in accordance with the Directors’ Stock Compensation Rules established by the Company’s Board of Directors. The Trust uses funds contributed by the Company to acquire the Company’s Stock, etc., which will be, in principle, received by the Company’s Directors upon their retirement from the Company.

2) Shares of the Company remaining in the Trust

The shares of the Company remaining in the Trust are presented as shares of treasury stock in the net assets section at their carrying amount (excluding the amount of incidental expenses) in the Trust. The carrying amount and the number of shares of treasury stock at the end of the current period is ¥106 million for 132 thousand shares.

Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2016)	Current quarter (As of September 30, 2016)
Assets		
Current assets:		
Cash and deposits	16,259	15,321
Notes and accounts receivable - trade	10,278	10,322
Electronically recorded monetary claims - operating	39	39
Merchandise and finished goods	1,555	1,746
Work in process	1,551	2,045
Raw materials and supplies	1,114	1,117
Deferred tax assets	939	1,207
Other	2,000	1,987
Allowance for doubtful accounts	(13)	(12)
Total current assets	33,724	33,773
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	23,079	23,349
Accumulated depreciation	(17,713)	(18,040)
Buildings and structures, net	5,366	5,309
Machinery, equipment and vehicles	34,740	34,376
Accumulated depreciation	(30,313)	(30,073)
Machinery, equipment and vehicles, net	4,427	4,302
Land	3,620	3,620
Construction in progress	3,244	5,158
Other	842	858
Total property, plant and equipment	17,501	19,249
Intangible assets:		
Goodwill	29,679	28,761
Patent rights	3,083	2,881
Other	1,269	1,386
Total intangible assets	34,032	33,029
Investments and other assets:		
Deferred tax assets	1,649	1,460
Other	409	389
Total investments and other assets	2,058	1,849
Total non-current assets	53,592	54,128
Total assets	87,316	87,902

(Millions of yen)

	Previous fiscal year (As of March 31, 2016)	Current quarter (As of September 30, 2016)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	5,377	6,416
Electronically recorded obligations - operating	1,202	1,237
Current portion of long-term debt	3,000	—
Other payables	2,277	3,324
Accrued expenses	693	830
Provision for bonuses	1,578	1,418
Deferred tax liabilities	10	9
Other	1,362	2,195
Total current liabilities	15,503	15,432
Non-current liabilities:		
Long-term debt	12,500	17,000
Liability for retirement benefits	6,915	6,432
Deferred tax liabilities	36	32
Other	299	345
Total non-current liabilities	19,751	23,811
Total liabilities	35,254	39,243
Net assets		
Shareholders' equity:		
Common stock	15,747	15,769
Capital surplus	15,747	15,769
Retained earnings	21,487	19,473
Treasury stock	(3,235)	(3,341)
Total shareholders' equity	49,747	47,670
Accumulated other comprehensive income:		
Foreign currency translation adjustment	2,005	690
Remeasurements of defined benefit plans	310	298
Total accumulated other comprehensive income	2,315	988
Total net assets	52,062	48,659
Total liabilities and net assets	87,316	87,902

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income

Quarterly consolidated statements of income

(Millions of yen)

	For the six months ended September 30, 2015 (From April 1, 2015 to September 30, 2015)	For the six months ended September 30, 2016 (From April 1, 2016 to September 30, 2016)
Net sales	31,617	27,373
Cost of sales	18,335	17,354
Gross profit	13,281	10,019
Selling, general and administrative expenses	8,929	8,581
Operating income	4,352	1,437
Non-operating income:		
Interest income	3	5
Foreign exchange gains	136	—
Other	36	38
Total non-operating income	176	44
Non-operating expenses:		
Interest expenses	59	43
Going public expenses	143	—
Foreign exchange losses	—	471
Other	28	41
Total non-operating expenses	231	556
Ordinary income	4,297	925
Extraordinary losses:		
Loss on retirement of property, plant and equipment	31	4
Restructuring expenses	—	686
Total extraordinary losses	31	690
Profit before income taxes	4,266	235
Income taxes - current	587	281
Income taxes - deferred	979	(79)
Total income taxes	1,567	201
Profit	2,699	34
Profit attributable to owners of parent	2,699	34

Quarterly consolidated statements of comprehensive income

(Millions of yen)

	For the six months ended September 30, 2015 (From April 1, 2015 to September 30, 2015)	For the six months ended September 30, 2016 (From April 1, 2016 to September 30, 2016)
Profit	2,699	34
Other comprehensive income:		
Deferred gains or losses on hedges	101	—
Foreign currency translation adjustment	(154)	(1,314)
Remeasurements of defined benefit plans	(43)	(11)
Total other comprehensive income	(95)	(1,326)
Comprehensive income	2,603	(1,292)
Comprehensive income attributable to:		
Owners of parent	2,603	(1,292)
Non-controlling interests	—	—

(3) Notes to quarterly consolidated financial statements

(Going concern assumption)
Not applicable.

(Significant changes in shareholders' equity)
Not applicable.

(Segment information, etc.)
[Segment information]

1) For the six months ended September 30, 2015 (from April 1, 2015 to September 30, 2015)

Information on amounts of net sales and income (loss) by reportable segment

(Millions of yen)

	Reportable Segment			Adjustment (Note)	Consolidated
	Optical Materials and Components	Electronic Materials and Components	Total		
Net sales					
Sales to external customers	13,519	18,097	31,617	—	31,617
Intersegment sales or transfers	2	92	95	(95)	—
Total	13,522	18,189	31,712	(95)	31,617
Segment income (loss)	1,302	3,949	5,252	(899)	4,352

Note: The amount of adjustment for segment income of ¥899 million is the amount of amortization of goodwill that is not attributable to any reportable segment.

Reference: Consolidated overseas net sales: ¥22,836 million

2) For the six months ended September 30, 2016 (from April 1, 2016 to September 30, 2016)

Information on amounts of net sales and income (loss) by reportable segment

(Millions of yen)

	Reportable Segment			Adjustment (Note)	Consolidated
	Optical Materials and Components	Electronic Materials and Components	Total		
Net sales					
Sales to external customers	12,162	15,211	27,374	(1)	27,373
Intersegment sales or transfers	—	78	78	(78)	—
Total	12,162	15,290	27,453	(79)	27,373
Segment income (loss)	860	1,476	2,336	(899)	1,437

Note: The amount of adjustment for segment income of ¥899 million is the amount of amortization of goodwill that is not attributable to any reportable segment.

Reference: Consolidated overseas net sales: ¥19,820 million