

Consolidated Financial Results
for the Nine Months Ended December 31, 2017
〔Under Japanese GAAP〕



January 30, 2018

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: February 7, 2018

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 nine months ended December 31, 2017 (from April 1, 2017 to December 31, 2017)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
December 31, 2017	55,741	26.6	6,510	135.8	6,314	147.5	4,361	275.5
December 31, 2016	44,026	(9.6)	2,761	(58.6)	2,551	(62.1)	1,161	(74.2)

Notes: 1. Comprehensive income

For the nine months ended December 31, 2017: ¥4,610 million [350.6%]

For the nine months ended December 31, 2016: ¥1,023 million [(75.8)%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2017	72.50	71.53
December 31, 2016	19.39	19.18

Notes: 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 of common stock during the period.

(2) Consolidated financial position

	Total assets	Net assets	Capital to asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2017	95,795	52,370	54.7	869.44
March 31, 2017	96,075	50,682	52.8	843.56

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

As of December 31, 2017: ¥52,370 million As of March 31, 2017: ¥50,682 million

Note: 1. 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, 2017	—	27.50	—	27.50	55.00
Ending March 31, 2018	—	20.00	—		
Ending March 31, 2018 (forecast)				20.00	40.00

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

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2018 (from April 1, 2017 to March 31, 2018)

(Percentage indicates year-on-year changes)

Fiscal year	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
	70,000	11.8	6,600	89.0	6,400	121.2	4,400	363.4	73.12

Notes: 1. Revisions to earnings forecast published most recently: Yes

2. For the purpose of calculating the amount 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. The average number of shares of common stock 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 third 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 December 31, 2017: 63,451,800 shares
- As of March 31, 2017: 63,299,500 shares
- (b) Number of shares of treasury stock
- As of December 31, 2017: 3,217,500 shares
- As of March 31, 2017: 3,218,900 shares
- (c) Average number of shares of common stock during the period
- Nine months ended December 31, 2017: 60,152,790 shares
- Nine months ended December 31, 2016: 59,881,085 shares

Notes: 1. As a result of the exercise of stock options during the nine months ended December 31, 2017, the number of shares issued as of December 31, 2017 has increased by 152,300 shares.

2. 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 (3,217,500 shares as of December 31, 2017 and 3,218,900 shares as of March 31, 2017) 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 (3,218,398 shares for the nine months ended December 31, 2017; and 3,152,901 shares for the nine months ended December 31, 2016) 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 of common stock during the period.

* This financial results report is not subject to audit procedures.

* [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. Quarterly Consolidated Financial Statements and Notes	P. 4
(1) Quarterly consolidated balance sheets	P. 4
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income	P. 6
Quarterly consolidated statements of income	P. 6
Quarterly consolidated statements of comprehensive income	P. 7
(3) Notes to quarterly consolidated financial statements	P. 8
(Going concern assumption)	P. 8
(Significant changes in shareholders' equity)	P. 8
(Supplemental information)	P. 8
(Segment information)	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 nine months ended December 31, 2017 (from April 1, 2017 to December 31, 2017; hereinafter, “the current period”), the Group reported net sales of ¥55,741 million (up 26.6% year-on-year) and operating profit of ¥6,510 million (up 135.8% year-on-year). These results were caused by an increase in sales of the Optical films and the Adhesive materials product categories, which was partly offset by a decrease in sales of the Optical resin materials product category.

The Group reported ordinary profit of ¥6,314 million (up 147.5% year-on-year) primarily due to recognition of interest expenses. Consequently, profit attributable to owners of parent amounted to ¥4,361 million (up 275.5% year-on-year).

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

1) Optical Materials and Components business

(Millions of yen)

	Nine months ended December 31, 2017 (the current period)	Nine months ended December 31, 2016 (the same period of previous fiscal year)	Year-on-year change
Net sales	28,306	20,653	37.1%
Operating profit	2,735	1,543	77.2%

Note: Net sales include inter-segment transactions.

During the current period, the Optical films product category saw a substantial year-on-year increase in sales thanks to increased sales of the products for laptop PC displays, which were partly affected by a modification of transaction terms, as well as growth in demand for the products for in-vehicle applications. Nevertheless even without the modification of transaction terms, the product category would still have resulted in year-on-year increases in both sales and profits.

The Optical resin materials product category reported a year-on-year decrease in sales due to decreased sales of the existing SVR used mainly for smartphones, but a year-on-year increase in profits thanks to increased sales of smart precision adhesives and a weaker yen.

The Optical solutions product category has improved its earnings position as a result of efforts to improve its profitability primarily by lowering fixed costs in spite of a decrease in sales caused by reduced exposure to the existing consumer IT products business.

Consequently, the segment reported net sales and operating profit of ¥28,306 million (up 37.1% year-on-year) and ¥2,735 million (up 77.2% year-on-year), respectively.

2) Electronic Materials and Components business

(Millions of yen)

	Nine months ended December 31, 2017 (the current period)	Nine months ended December 31, 2016 (the same period of previous fiscal year)	Year-on-year change
Net sales	27,611	23,532	17.3%
Operating profit	5,124	2,565	99.7%

Note: Net sales include inter-segment transactions.

During the current period, the Adhesive materials product category saw increases in both sales and profits mainly because it continued to enjoy strong sales driven by adoption of functional products such as thermal conductive sheets and thermosetting tapes for smartphones.

The Anisotropic conductive films (ACF) and the Surface mounted type fuses product categories reported year-on-year increases in both sales and profits as the former category enjoyed a solid demand for the products for smartphones and the latter category experienced continued strong sales of the products for electric power tools.

Consequently, the segment reported net sales and operating profit of ¥27,611 million (up 17.3% year-on-year) and ¥5,124 million (up 99.7% year-on-year), respectively.

(2) Explanation of financial position

(Assets)

Total assets at the end of the current period amounted to ¥95,795 million, a decrease of ¥279 million from the end of the fiscal year ended March 31, 2017 (hereinafter, “the end of the previous fiscal year”).

Current assets amounted to ¥39,550 million, a decrease of ¥93 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases of ¥793 million in raw materials and supplies, ¥467 million in deferred tax assets, and ¥917 million in other, which were partly offset by increases of ¥1,936 million in notes and accounts receivable – trade, ¥584 million in merchandise and finished goods, and ¥55 million in electronically recorded monetary claims - operating.

Non-current assets amounted to ¥56,245 million, a decrease of ¥186 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥1,706 million in intangible assets due primarily to amortization of goodwill and an increase of ¥1,760 million in property, plant and equipment due primarily to an increase in construction in progress.

(Liabilities)

Total liabilities at the end of the current period amounted to ¥43,424 million, a decrease of ¥1,968 million from the end of the previous fiscal year.

Current liabilities amounted to ¥20,814 million, a decrease of ¥2,209 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases of ¥916 million in other payables, ¥849 million in provision for bonuses, ¥635 million in notes and accounts payable – trade, and ¥909 million in other, which were partly offset by an increase of ¥1,166 million in current portion of long-term debt.

Non-current liabilities amounted to ¥22,610 million, an increase of ¥241 million from the end of the previous fiscal year. This increase can mainly be explained by an increase of ¥1,083 million in long-term debt, which was partly offset by a decrease of ¥974 million in liability for retirement benefits.

(Net assets)

Total net assets at the end of the current period amounted to ¥52,370 million, an increase of ¥1,688 million from the end of the previous fiscal year. This increase can mainly be explained by a net increase of ¥1,352 million in retained earnings as a result of recording profit attributable to owners of parent of ¥4,361 million and a declaration of dividends of ¥3,009 million.

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

Regarding the full-year consolidated forecast for the fiscal year ending March 31, 2018, we have decided that the forecast net sales will be revised downwards from the previous forecast announced in last October. The decision has been made mainly because we factored in a decrease in purchase price and a corresponding decrease in selling price of our products in the Optical films product category in the periods to come as a result of a continued change of base films since the current third quarter (from October 1, 2017 to December 31, 2017). This revision will not affect profits.

(Reference) Full-year consolidated forecast for the fiscal year ending March 31, 2018

(Millions of yen, unless otherwise stated)

	Net sales	Operating profit	Ordinary profit	Profit (loss) attributable to owners of parent	Basic earnings (loss) per share (yen)
Previous forecast (A)	71,500	6,600	6,400	4,000	73.12
Revised forecast (B)	70,000	6,600	6,400	4,400	73.12
Change (B – A)	(1,500)	—	—	—	—
Change in percentage (%)	(2.1)	—	—	—	—
(Reference) Results for the fiscal year ended March 31, 2017	62,598	3,491	2,893	949	15.85

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

	(Millions of yen)	
	Previous fiscal year (As of March 31, 2017)	Current quarter (As of December 31, 2017)
Assets		
Current assets:		
Cash and deposits	16,432	16,205
Notes and accounts receivable - trade	11,715	13,651
Electronically recorded monetary claims - operating	74	129
Merchandise and finished goods	2,248	2,832
Work in process	2,804	2,536
Raw materials and supplies	2,308	1,514
Deferred tax assets	1,294	826
Other	2,775	1,857
Allowance for doubtful accounts	(9)	(3)
Total current assets	39,643	39,550
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	29,199	29,464
Accumulated depreciation	(18,518)	(19,215)
Buildings and structures, net	10,681	10,248
Machinery, equipment and vehicles	35,289	34,782
Accumulated depreciation	(28,826)	(28,815)
Machinery, equipment and vehicles, net	6,462	5,966
Land	3,620	3,620
Construction in progress	1,631	4,342
Other	5,363	5,453
Accumulated depreciation	(4,282)	(4,394)
Other, net	1,080	1,059
Total property, plant and equipment	23,477	25,237
Intangible assets:		
Goodwill	27,880	26,532
Patent rights	2,679	2,376
Other	1,392	1,336
Total intangible assets	31,951	30,245
Investments and other assets:		
Deferred tax assets	554	283
Other	447	492
Allowance for doubtful accounts	—	(13)
Total investments and other assets	1,002	762
Total non-current assets	56,431	56,245
Total assets	95,075	95,795

(Millions of yen)

	Previous fiscal year (As of March 31, 2017)	Current quarter (As of December 31, 2017)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	8,965	8,330
Electronically recorded obligations - operating	1,414	1,389
Current portion of long-term debt	1,916	3,083
Other payables	4,674	3,757
Accrued expenses	846	805
Provision for bonuses	1,785	936
Deferred tax liabilities	1	1
Other	3,419	2,510
Total current liabilities	23,024	20,814
Non-current liabilities:		
Long-term debt	18,083	19,166
Liability for retirement benefits	3,669	2,694
Deferred tax liabilities	169	130
Other	446	619
Total non-current liabilities	22,368	22,610
Total liabilities	45,393	43,424
Net assets		
Shareholders' equity:		
Common stock	15,830	15,873
Capital surplus	15,830	15,873
Retained earnings	18,654	20,006
Treasury stock	(3,341)	(3,339)
Total shareholders' equity	46,974	48,414
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	127	6
Foreign currency translation adjustment	1,713	2,187
Remeasurements of defined benefit plans	1,867	1,762
Total accumulated other comprehensive income	3,707	3,956
Total net assets	50,682	52,370
Total liabilities and net assets	96,075	95,795

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

Quarterly consolidated statements of income

(Millions of yen)

	For the nine months ended December 31, 2016 (From April 1, 2016 to December 31, 2016)	For the nine months ended December 31, 2017 (From April 1, 2017 to December 31, 2017)
Net sales	44,026	55,741
Cost of sales	28,409	36,230
Gross profit	15,617	19,511
Selling, general and administrative expenses	12,856	13,000
Operating profit	2,761	6,510
Non-operating income:		
Interest income	8	17
Other	63	82
Total non-operating income	72	99
Non-operating expenses:		
Interest expenses	61	68
Foreign exchange losses	118	42
Depreciation	39	157
Other	62	27
Total non-operating expenses	281	295
Ordinary profit	2,551	6,314
Extraordinary income:		
Gain on sale of non-current assets	3	30
Subsidy income	—	153
Total extraordinary income	3	183
Extraordinary losses:		
Loss on sale of non-current assets	—	0
Loss on retirement of property, plant and equipment	38	43
Restructuring expenses	744	102
Other	—	0
Total extraordinary losses	783	147
Profit before income taxes	1,772	6,350
Income taxes - current	543	1,190
Income taxes - deferred	67	798
Total income taxes	610	1,989
Profit	1,161	4,361
Profit attributable to owners of parent	1,161	4,361

Quarterly consolidated statements of comprehensive income

(Millions of yen)

	For the nine months ended December 31, 2016 (From April 1, 2016 to December 31, 2016)	For the nine months ended December 31, 2017 (From April 1, 2017 to December 31, 2017)
Profit	1,161	4,361
Other comprehensive income:		
Deferred gains or losses on hedges	(83)	(120)
Foreign currency translation adjustment	(36)	473
Remeasurements of defined benefit plans	(17)	(105)
Total other comprehensive income	(138)	248
Comprehensive income	1,023	4,610
Comprehensive income attributable to:		
Owners of parent	1,023	4,610
Non-controlling interests	—	—

(3) Notes to quarterly consolidated financial statements

(Going concern assumption)

Not applicable.

(Significant changes in shareholders' equity)

Not applicable.

(Supplemental information)

(Employee Stock Ownership Plan ("J-ESOP"))

The Company has introduced 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.

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 3,086 thousand shares and ¥3,233 million for 3,085 thousand shares, respectively.

(Board Benefit Trust (BBT))

The Company has introduced a performance-linked stock compensation plan through a Board Benefit Trust (BBT). The plan more 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 plan, 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.

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 ¥106 million for 132 thousand shares and ¥106 million for 132 thousand shares, respectively.

(Segment information)

1) For the nine months ended December 31, 2016 (from April 1, 2016 to December 31, 2016)

Information on amounts of net sales and profit (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	20,653	23,374	44,028	(1)	44,026
Intersegment sales or transfers	—	158	158	(158)	—
Total	20,653	23,532	44,186	(159)	44,026
Segment profit (loss)	1,543	2,565	4,109	(1,348)	2,761

Note: The amount of adjustment for segment profit of ¥1,348 million is the amount of amortization of goodwill that is not attributable to any reportable segment.

Reference: Consolidated net sales from markets other than Japan: ¥29,818 million

2) For the nine months ended December 31, 2017 (from April 1, 2017 to December 31, 2017)

Information on amounts of net sales and profit (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	28,305	27,437	55,742	(1)	55,741
Intersegment sales or transfers	0	174	175	(175)	—
Total	28,306	27,611	55,918	(176)	55,741
Segment profit (loss)	2,735	5,124	7,859	(1,349)	6,510

Note: The amount of adjustment for segment profit of ¥1,349 million is the amount of amortization of goodwill that is not attributable to any reportable segment.

Reference: Consolidated net sales from markets other than Japan: ¥30,019 million