

Consolidated Financial Results
for the Six Months Ended September 30, 2018
〔Under Japanese GAAP〕



October 30, 2018

Company name: Dexerials Corporation Listing: Tokyo Stock Exchange
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(Note) Amounts less than one million yen have been omitted.

1. Consolidated financial results for the six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)

(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	%
Six months ended								
September 30, 2018	30,378	(20.5)	1,952	(49.5)	2,253	(42.3)	1,463	(46.2)
September 30, 2017	38,225	39.6	3,867	169.0	3,907	321.9	2,722	—

Notes: 1. Comprehensive income

For the six months ended September 30, 2018: ¥1,379 million [(50.6)%]

For the six months ended September 30, 2017: ¥2,792 million [—%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
September 30, 2018	24.20	23.97
September 30, 2017	45.28	44.69

Notes: 2. The year-on-year change of profit attributable to owners of parent for the six months ended September 30, 2017 is indicated as “—” because the figure has exceeded one thousand percent.

(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, 2018	93,701	50,090	53.5	827.18
March 31, 2018	94,958	49,921	52.6	825.82

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

As of September 30, 2018: ¥50,090 million As of March 31, 2018: ¥49,921 million

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, 2018	—	20.00	—	20.00	40.00
Ending March 31, 2019	—	20.00			
Ending March 31, 2019 (forecast)			—	20.00	40.00

Note: Revisions to dividend forecast published most recently: None

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2019 (from April 1, 2018 to March 31, 2019)

(Percentage indicates year-on-year changes)

	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
Fiscal year	63,700	(9.1)	7,000	13.3	6,700	17.9	4,200	22.6	69.76

Note: Revisions to earnings forecast published most recently: None

[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, 2018:	63,768,600 shares
As of March 31, 2018:	63,668,000 shares
 - (b) Number of shares of treasury stock

As of September 30, 2018:	3,212,900 shares
As of March 31, 2018:	3,217,000 shares
 - (c) Average number of shares of common stock during the period

Six months ended September 30, 2018:	60,489,556 shares
Six months ended September 30, 2017:	60,116,497 shares

Notes: 1. As a result of the exercise of stock options during the six months ended September 30, 2018, the number of shares issued as of September 30, 2018 has increased by 100,600 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 (3,212,900 shares as of September 30, 2018 and 3,217,000 shares as of March 31, 2018) 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 (3,215,730 shares for the six months ended September 30, 2018; and 3,218,651 shares for the six months ended September 30, 2017) 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 to be performed by certified public accountants or an audit firm.

* [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.

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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, 2018 (from April 1, 2018 to September 30, 2018; hereinafter, “the current period”), the Group reported net sales of ¥30,378 million (down 20.5% year-on-year). This was caused by a change of base films used for antireflection films, as well as an impact of our decision to withdraw from the consumer IT products business in the Optical solutions product category. Without the change of base films and the impact of the Optical solutions product category, net sales would have increased by approximately 1% year-on-year.

In terms of profitability, products such as optical elasticity resins and Anisotropic Conductive Films (ACF) were affected by continually weak market conditions for consumer IT products. In addition, there was a temporary boost in ACF sales mainly for the first quarter of the previous fiscal year. Consequently, the Group reported operating profit of ¥1,952 million (down 49.5% year-on-year).

The Group reported ordinary profit of ¥2,253 million (down 42.3% year-on-year) primarily due to recognition of foreign exchange gains. Consequently, profit attributable to owners of parent amounted to ¥1,463 million (down 46.2% year-on-year).

(Note) As a result of the change of base films, we have experienced a decrease in purchase price and a corresponding decrease in selling price of our products. This revision will not, however, affect profits.

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, 2018 (the current period)	Six months ended September 30, 2017 (the same period of previous fiscal year)	Year-on-year change
Net sales	12,498	20,128	(37.9)%
Operating profit	503	1,552	(67.5)%

Note: Net sales include inter-segment transactions.

During the current period, the Optical films product category saw a substantial year-on-year decrease in sales of the products for laptop PC displays caused by the change of base films. However, without the change of base films, the product category would have resulted in a year-on-year increase in sales due to a continued increase in demand for the products including those used for in-vehicle applications.

The Optical solutions product category saw a substantial year-on-year decrease in sales due primarily to the withdrawal from the consumer IT products business, which accounted for a majority of sales in this category for the same period of the previous fiscal year. It is noted, however, that the business for the in-vehicle displays using our products achieved a year-on-year increase in sales for the current period.

The Optical resin materials product category reported year-on-year decreases both in sales and profits due to decreased sales of the products including optical elasticity resins used for tablet PCs and smartphones.

Consequently, the segment reported net sales and operating profit of ¥12,498 million (down 37.9% year-on-year) and ¥503 million (down 67.5% year-on-year), respectively. Without the change of base films and the impact of the Optical solutions product category mentioned above, net sales would have increased by approximately 5% year-on-year.

2) Electronic Materials and Components business

	(Millions of yen)		
	Six months ended September 30, 2018 (the current period)	Six months ended September 30, 2017 (the same period of previous fiscal year)	Year-on-year change
Net sales	17,982	18,202	(1.2)%
Operating profit	2,347	3,214	(27.0)%

Note: Net sales include inter-segment transactions.

During the current period, the Surface mounted type fuses product category saw increases in both sales and profits thanks to

strong sales of the products for electric power tools and others.

However, the Anisotropic conductive films (ACF) category reported year-on-year decreases in both sales and profits because we suffered the continuingly weak market conditions for the consumer IT products and there is no longer a positive impact of a front-loaded production of new smartphone models, which we experienced mainly during the first quarter of the previous fiscal year.

The Adhesive materials product category saw an increase in sales but a decrease in profits primarily because the sales composition for the current period has changed from that for the same period of the previous fiscal year, when sales of highly profitable functional products for popular models of smartphones at the time contributed greatly to the category performance.

Consequently, the segment reported net sales and operating profit of ¥17,982 million (down 1.2% year-on-year) and ¥2,347 million (down 27.0% year-on-year), respectively.

(2) Explanation of financial position

(Assets)

Total assets at the end of the current period amounted to ¥93,701 million, a decrease of ¥1,256 million from the end of the fiscal year ended March 31, 2018 (hereinafter, “the end of the previous fiscal year”).

Current assets amounted to ¥34,139 million, a decrease of ¥606 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases of ¥2,756 million in cash and deposits, ¥271 million in merchandise and finished goods, and ¥217 million in other, which were partly offset by an increase of ¥2,872 million in notes and accounts receivable - trade.

Non-current assets amounted to ¥59,561 million, a decrease of ¥649 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥1,275 million in intangible assets due primarily to amortization of goodwill, which was partly offset by an increase of ¥830 million in investments and other assets due primarily to an increase in assets for retirement benefit.

(Liabilities)

Total liabilities at the end of the current period amounted to ¥43,610 million, a decrease of ¥1,425 million from the end of the previous fiscal year.

Current liabilities amounted to ¥20,434 million, a decrease of ¥534 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥2,873 million in other payables, which was partly offset by an increase of ¥2,000 million in short-term debt.

Non-current liabilities amounted to ¥23,176 million, a decrease of ¥891 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥916 million in long-term debt.

Effective from the beginning of the current period, the Company applied *Partial Amendments to Accounting Standard for Tax Effect Accounting* (ASBJ Statement No. 28, February 16, 2018) and other related pronouncements. Accordingly, these pronouncements have been applied retrospectively to the prior period presented so that the financial position at the end of the current period can be comparable with that at the end of the previous fiscal year.

(Net assets)

Total net assets at the end of the current period amounted to ¥50,090 million, an increase of ¥168 million from the end of the previous fiscal year. This increase can mainly be explained by increases of ¥289 million in foreign currency translation adjustment and ¥190 million in retained earnings, which were partly offset by a decrease of ¥344 million in deferred gains or losses on hedges.

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

There is no revision to the earnings forecast for the fiscal year ending March 31, 2019 announced on April 26, 2018.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2018)	Current quarter (As of September 30, 2018)
Assets		
Current assets:		
Cash and deposits	14,887	12,131
Notes and accounts receivable - trade	10,692	13,564
Electronically recorded monetary claims - operating	155	101
Merchandise and finished goods	2,635	2,364
Work in process	2,235	2,248
Raw materials and supplies	1,817	1,627
Other	2,325	2,108
Allowance for doubtful accounts	(4)	(5)
Total current assets	34,746	34,139
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	29,689	30,588
Accumulated depreciation	(19,396)	(19,832)
Buildings and structures, net	10,292	10,756
Machinery, equipment and vehicles	34,921	37,668
Accumulated depreciation	(29,024)	(29,806)
Machinery, equipment and vehicles, net	5,896	7,861
Land	3,661	3,682
Construction in progress	6,253	3,426
Other	5,487	5,823
Accumulated depreciation	(4,403)	(4,565)
Other, net	1,084	1,257
Total property, plant and equipment	27,190	26,985
Intangible assets:		
Goodwill	26,072	25,184
Patent rights	2,275	2,073
Other	1,362	1,177
Total intangible assets	29,710	28,435
Investments and other assets:		
Asset for retirement benefits	985	1,483
Deferred tax assets	1,527	1,594
Other	810	1,075
Allowance for doubtful accounts	(12)	(12)
Total investments and other assets	3,311	4,141
Total non-current assets	60,211	59,561
Total assets	94,958	93,701

(Millions of yen)

	Previous fiscal year (As of March 31, 2018)	Current quarter (As of September 30, 2018)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	7,599	7,710
Electronically recorded obligations - operating	1,123	1,271
Short-term debt	—	2,000
Current portion of long-term debt	3,083	3,583
Other payables	5,207	2,333
Accrued expenses	551	772
Provision for bonuses	1,298	1,311
Other	2,106	1,451
Total current liabilities	20,968	20,434
Non-current liabilities:		
Long-term debt	18,000	17,083
Liability for retirement benefits	5,333	5,296
Deferred tax liabilities	83	55
Other	651	740
Total non-current liabilities	24,067	23,176
Total liabilities	45,036	43,610
Net assets		
Shareholders' equity:		
Common stock	15,934	15,963
Capital surplus	15,934	15,963
Retained earnings	19,071	19,262
Treasury stock	(3,339)	(3,335)
Total shareholders' equity	47,601	47,854
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	245	(98)
Foreign currency translation adjustment	1,665	1,955
Remeasurements of defined benefit plans	408	378
Total accumulated other comprehensive income	2,320	2,235
Total net assets	49,921	50,090
Total liabilities and net assets	94,958	93,701

(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, 2017 (From April 1, 2017 to September 30, 2017)	For the six months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Net sales	38,225	30,378
Cost of sales	25,683	19,689
Gross profit	12,542	10,688
Selling, general and administrative expenses	8,674	8,736
Operating profit	3,867	1,952
Non-operating income:		
Interest income	12	16
Foreign exchange gains	125	411
Other	65	73
Total non-operating income	203	502
Non-operating expenses:		
Interest expenses	44	46
Depreciation	103	117
Other	14	38
Total non-operating expenses	163	201
Ordinary profit	3,907	2,253
Extraordinary income:		
Gain on sale of non-current assets	22	—
Subsidy income	153	100
Total extraordinary income	175	100
Extraordinary losses:		
Loss on sale of non-current assets	0	—
Loss on retirement of property, plant and equipment	37	4
Restructuring expenses	100	—
Settlement package	—	86
Other	0	—
Total extraordinary losses	139	91
Profit before income taxes	3,943	2,261
Income taxes - current	856	724
Income taxes - deferred	364	72
Total income taxes	1,221	797
Profit	2,722	1,463
Profit attributable to owners of parent	2,722	1,463

Quarterly consolidated statements of comprehensive income

(Millions of yen)

	For the six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	For the six months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Profit	2,722	1,463
Other comprehensive income:		
Deferred gains or losses on hedges	(134)	(344)
Foreign currency translation adjustment	274	289
Remeasurements of defined benefit plans	(70)	(29)
Total other comprehensive income	69	(84)
Comprehensive income	2,792	1,379
Comprehensive income attributable to:		
Owners of parent	2,792	1,379
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 ¥3,233 million for 3,085 thousand shares and ¥3,228 million for 3,080 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.

(Application of *Partial Amendments to Accounting Standard for Tax Effect Accounting*, etc.)

Effective from the beginning of the current period, the Company applied *Partial Amendments to Accounting Standard for Tax Effect Accounting* (ASBJ Statement No. 28, February 16, 2018) and other related pronouncements. Accordingly, deferred tax assets and deferred tax liabilities have been presented in the investments and other assets section and the non-current liabilities section of the balance sheet, respectively.

(Segment information)

1) For the six months ended September 30, 2017 (from April 1, 2017 to September 30, 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	20,127	18,099	38,226	(1)	38,225
Intersegment sales or transfers	0	103	103	(103)	—
Total	20,128	18,202	38,330	(105)	38,225
Segment profit	1,552	3,214	4,766	(899)	3,867

Note: The amount of adjustment for segment profit of ¥899 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: ¥19,715 million

2) For the six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)

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	12,495	17,883	30,378	—	30,378
Intersegment sales or transfers	3	98	101	(101)	—
Total	12,498	17,982	30,480	(101)	30,378
Segment profit	503	2,347	2,851	(899)	1,952

Note: The amount of adjustment for segment profit of ¥899 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: ¥19,164 million