

Consolidated Financial Results
for the Nine Months Ended December 31, 2018
〔Under Japanese GAAP〕



January 31, 2019

Company name: Dexerials Corporation Listing: Tokyo Stock Exchange
Security code: 4980 URL: <https://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 8, 2019
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, 2018 (from April 1, 2018 to December 31, 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	%
Nine months ended								
December 31, 2018	47,540	(14.7)	3,871	(40.5)	3,974	(37.1)	2,589	(40.6)
December 31, 2017	55,741	26.6	6,510	135.8	6,314	147.5	4,361	275.5

Note: Comprehensive income

For the nine months ended December 31, 2018: ¥2,393 million [(48.1)%]

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

	Basic earnings per share		Diluted earnings per share	
	Yen	Yen	Yen	Yen
Nine months ended				
December 31, 2018	42.77		42.40	
December 31, 2017	72.50		71.53	

(2) Consolidated financial position

	Total assets		Net assets		Capital to asset ratio		Net assets per share	
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	%	Yen	Yen	
As of								
December 31, 2018	92,937		49,853		53.6	822.70		
March 31, 2018	94,958		49,921		52.6	825.82		

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

As of December 31, 2018: ¥49,853 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)				14.00	34.00

Note: Revisions to dividend forecast published most recently: Yes

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	60,200	(14.1)	4,100	(33.6)	4,000	(29.6)	2,600	(24.1)	43.19

Note: Revisions to earnings forecast published most recently: Yes

[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, 2018:	63,808,600 shares
As of March 31, 2018:	63,668,000 shares
 - (b) Number of shares of treasury stock

As of December 31, 2018:	3,211,200 shares
As of March 31, 2018:	3,217,000 shares
 - (c) Average number of shares of common stock during the period

Nine months ended December 31, 2018:	60,520,664 shares
Nine months ended December 31, 2017:	60,152,790 shares

Notes: 1. As a result of the exercise of stock options during the nine months ended December 31, 2018, the number of shares issued as of December 31, 2018 has increased by 140,600 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 (3,211,200 shares as of December 31, 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 (3,214,589 shares for the nine months ended December 31, 2018; and 3,218,398 shares for the nine months ended December 31, 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.

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. 4
2. Quarterly Consolidated Financial Statements and Notes.....	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
(Supplemental information).....	P. 9
(Segment information).....	P.10

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, 2018 (from April 1, 2018 to December 31, 2018; hereinafter, “the current period”), the Group reported net sales of ¥47,540 million (down 14.7% year-on-year). This was caused by a change of base films used for anti-reflection 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 5% year-on-year.

In terms of profitability, products such as optical elasticity resins, Anisotropic Conductive Films (ACF), and smart precision adhesives (SA) were affected by continuingly weak market conditions for consumer IT products. Consequently, the Group reported operating profit of ¥3,871 million (down 40.5% year-on-year).

The Group reported ordinary profit of ¥3,974 million (down 37.1% year-on-year) primarily due to recognition of foreign exchange gains. Consequently, profit attributable to owners of parent amounted to ¥2,589 million (down 40.6% 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)		
	Nine months ended December 31, 2018 (the current period)	Nine months ended December 31, 2017 (the same period of previous fiscal year)	Year-on-year change
Net sales	20,263	28,306	(28.4)%
Operating profit	1,573	2,735	(42.5)%

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 both sales and profits 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 and improvement in profitability for the current period.

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

Consequently, the segment reported net sales and operating profit of ¥20,263 million (down 28.4% year-on-year) and ¥1,573 million (down 42.5% 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 14% year-on-year.

2) Electronic Materials and Components business

	(Millions of yen)		
	Nine months ended December 31, 2018 (the current period)	Nine months ended December 31, 2017 (the same period of previous fiscal year)	Year-on-year change
Net sales	27,449	27,611	(0.6)%
Operating profit	3,646	5,124	(28.8)%

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.

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 ¥27,449 million (down 0.6% year-on-year) and ¥3,646 million (down 28.8% year-on-year), respectively.

(2) Explanation of financial position

(Assets)

Total assets at the end of the current period amounted to ¥92,937 million, a decrease of ¥2,020 million from the end of the fiscal year ended March 31, 2018 (hereinafter, “the end of the previous fiscal year”).

Current assets amounted to ¥34,324 million, a decrease of ¥422 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases of ¥3,304 million in cash and deposits, ¥402 million in merchandise and finished goods, and ¥275 million in work in process, which were partly offset by an increase of ¥3,756 million in notes and accounts receivable - trade.

Non-current assets amounted to ¥58,613 million, a decrease of ¥1,598 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥1,813 million in intangible assets due primarily to amortization of goodwill.

(Liabilities)

Total liabilities at the end of the current period amounted to ¥43,084 million, a decrease of ¥1,952 million from the end of the previous fiscal year.

Current liabilities amounted to ¥20,129 million, a decrease of ¥838 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥3,017 million in other payables, which was partly offset by an increase of ¥2,000 million in short-term debt.

Non-current liabilities amounted to ¥22,954 million, a decrease of ¥1,113 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥1,250 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 ¥49,853 million, a decrease of ¥68 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥155 million in deferred gains or losses on hedges, which was partly offset by increases of ¥40 million in common stock, ¥40 million in capital surplus, and ¥40 in retained earnings.

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

In view of the recent business trends, we have revised as follows the full-year consolidated earnings forecast and year-end dividend forecast for the fiscal year ending March 31, 2019 both announced on October 30, 2018.

Full-year consolidated earnings forecast for the fiscal year ending March 31, 2019

(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)	63,700	7,000	6,700	4,200	69.76
Revised forecast (B)	60,200	4,100	4,000	2,600	43.19
Change (B – A)	(3,500)	(2,900)	(2,700)	(1,600)	—
Change in percentage (%)	(5.5)%	(41.4)%	(40.3)%	(38.1)%	—
(Reference) Results for the fiscal year ended March 31, 2018	70,079	6,178	5,682	3,426	56.91

Reason for revision to the consolidated earnings forecast

In the Optical films product category, we expect the fourth quarter's demand for the anti-reflection films mainly used for laptop PCs to fall short of that of our previous forecast. We also expect sales of optical elasticity resins and smart precision adhesives (SA) mainly used for smartphones to decrease. However, in the Anisotropic conductive films (ACF) product category, the negative impact on sales will be insignificant because of an increase in our share of the existing market and further adoption to in-vehicle applications.

While we have been making efforts to further reduce operating expenses to accommodate the above-mentioned change in situations, we have revised the full-year consolidated earnings forecast as shown above as a result of performance review conducted in light of these factors.

It is noted that we also revised the assumed exchange rate for the fourth quarter to 108.5 yen to a US dollar.

Year-end dividend forecast for the fiscal year ending March 31, 2019

(Yen)

	Cash dividends per share				Total
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	
Previous forecast (announced on Oct. 30, 2018)	—	—	—	20.00	40.00
Revised forecast (announced on Jan. 31, 2019)	—	—	—	14.00	34.00
Results for the current fiscal year	—	20.00	—	—	—
Results for the previous fiscal year (ended Mar. 31, 2018)	—	20.00	—	20.00	40.00

Reason for revision to the year-end dividend forecast

Considering all the factors including the downward-revised earnings forecast for the current fiscal year, we have revised the forecast of the year-end dividend per share as shown above in accordance with our basic policy for profit distribution.

(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.

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 December 31, 2018)
Assets		
Current assets:		
Cash and deposits	14,887	11,583
Notes and accounts receivable - trade	10,692	14,448
Electronically recorded monetary claims - operating	155	97
Merchandise and finished goods	2,635	2,233
Work in process	2,235	1,960
Raw materials and supplies	1,817	1,853
Other	2,325	2,154
Allowance for doubtful accounts	(4)	(6)
Total current assets	34,746	34,324
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	29,689	31,449
Accumulated depreciation	(19,396)	(20,066)
Buildings and structures, net	10,292	11,383
Machinery, equipment and vehicles	34,921	39,784
Accumulated depreciation	(29,024)	(30,308)
Machinery, equipment and vehicles, net	5,896	9,475
Land	3,661	3,682
Construction in progress	6,253	677
Other	5,487	5,804
Accumulated depreciation	(4,403)	(4,513)
Other, net	1,084	1,290
Total property, plant and equipment	27,190	26,510
Intangible assets:		
Goodwill	26,072	24,730
Patent rights	2,275	1,972
Other	1,362	1,194
Total intangible assets	29,710	27,897
Investments and other assets:		
Asset for retirement benefits	985	1,751
Deferred tax assets	1,527	1,318
Other	810	1,147
Allowance for doubtful accounts	(12)	(11)
Total investments and other assets	3,311	4,206
Total non-current assets	60,211	58,613
Total assets	94,958	92,937

(Millions of yen)

	Previous fiscal year (As of March 31, 2018)	Current quarter (As of December 31, 2018)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	7,599	8,300
Electronically recorded obligations - operating	1,123	1,162
Short-term debt	—	2,000
Current portion of long-term debt	3,083	3,416
Other payables	5,207	2,189
Accrued expenses	551	743
Provision for bonuses	1,298	840
Other	2,106	1,475
Total current liabilities	20,968	20,129
Non-current liabilities:		
Long-term debt	18,000	16,750
Liability for retirement benefits	5,333	5,334
Deferred tax liabilities	83	81
Other	651	787
Total non-current liabilities	24,067	22,954
Total liabilities	45,036	43,084
Net assets		
Shareholders' equity:		
Common stock	15,934	15,975
Capital surplus	15,934	15,975
Retained earnings	19,071	19,111
Treasury stock	(3,339)	(3,333)
Total shareholders' equity	47,601	47,729
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	245	90
Foreign currency translation adjustment	1,665	1,664
Remeasurements of defined benefit plans	408	369
Total accumulated other comprehensive income	2,320	2,124
Total net assets	49,921	49,853
Total liabilities and net assets	94,958	92,937

(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, 2017 (From April 1, 2017 to December 31, 2017)	For the nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)
Net sales	55,741	47,540
Cost of sales	36,230	30,370
Gross profit	19,511	17,169
Selling, general and administrative expenses	13,000	13,298
Operating profit	6,510	3,871
Non-operating income:		
Interest income	17	22
Foreign exchange gains	—	248
Rent income	28	53
Other	53	60
Total non-operating income	99	384
Non-operating expenses:		
Interest expenses	68	68
Foreign exchange losses	42	—
Depreciation	157	175
Other	27	37
Total non-operating expenses	295	281
Ordinary profit	6,314	3,974
Extraordinary income:		
Gain on sale of non-current assets	30	2
Subsidy income	153	100
Total extraordinary income	183	102
Extraordinary losses:		
Loss on sale of non-current assets	0	—
Loss on retirement of property, plant and equipment	43	15
Restructuring expenses	102	—
Settlement package	—	86
Other	0	—
Total extraordinary losses	147	102
Profit before income taxes	6,350	3,974
Income taxes - current	1,190	1,091
Income taxes - deferred	798	294
Total income taxes	1,989	1,385
Profit	4,361	2,589
Profit attributable to owners of parent	4,361	2,589

Quarterly consolidated statements of comprehensive income

(Millions of yen)

	For the nine months ended December 31, 2017 (From April 1, 2017 to December 31, 2017)	For the nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)
Profit	4,361	2,589
Other comprehensive income:		
Deferred gains or losses on hedges	(120)	(155)
Foreign currency translation adjustment	473	(1)
Remeasurements of defined benefit plans	(105)	(39)
Total other comprehensive income	248	(195)
Comprehensive income	4,610	2,393
Comprehensive income attributable to:		
Owners of parent	4,610	2,393
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 ¥3,227 million for 3,079 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 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	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

2) For the nine months ended December 31, 2018 (from April 1, 2018 to December 31, 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	20,252	27,288	47,540	—	47,540
Intersegment sales or transfers	10	160	171	(171)	—
Total	20,263	27,449	47,712	(171)	47,540
Segment profit	1,573	3,646	5,220	(1,348)	3,871

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: ¥29,743 million