

Consolidated Financial Results
for the Fiscal Year Ended March 31, 2020
〔Under Japanese GAAP〕



May 12, 2020

Company name: Dexerials Corporation Listing: Tokyo Stock Exchange
Security code: 4980 URL: <https://www.dexerials.jp/en>
Representative: Yoshihisa Shinya, Representative Director and President
Contact: Naoyuki Sanada, Senior Executive Officer, CFO, Corporate Planning & Control Division Head
Phone: +81-3-5435-3941
Date of ordinary general meeting of shareholders: June 19, 2020
Date of payment of year-end dividends: June 22, 2020
Annual Securities Report (*Yukashoken Hokokusho*) filing date: June 19, 2020
Preparation of supplementary briefing material on financial results: Yes
Investors meeting presentation for 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 fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

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

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2020	57,710	(4.7)	4,617	24.0	4,393	12.6	2,734	19.7
March 31, 2019	60,580	(13.6)	3,724	(39.7)	3,903	(31.3)	2,284	(33.3)

Note: Comprehensive income

For the fiscal year ended March 31, 2020: ¥2,328 million [46.6%]
For the fiscal year ended March 31, 2019: ¥1,588 million [(22.1)%]

Fiscal year ended	Basic earnings per share	Diluted earnings per share	Return on capital	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
March 31, 2020	45.05	44.83	5.5	5.1	8.0
March 31, 2019	37.73	37.43	4.6	4.3	6.1

Reference: Share of profit or loss of entities accounted for using equity method

For the fiscal year ended March 31, 2020: ¥(261) million
For the fiscal year ended March 31, 2019: —

Note: 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

As of	Total assets	Net assets	Capital to asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2020	86,279	49,567	57.5	814.68
March 31, 2019	87,586	49,055	56.0	809.40

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

As of March 31, 2020: ¥49,567 million As of March 31, 2019: ¥49,055 million

Note: 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.

(3) Consolidated cash flows

Fiscal year ended	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2020	9,656	(3,891)	(3,600)	13,779
March 31, 2019	7,826	(6,554)	(4,564)	11,826

2. Dividends

	Cash dividends per share					Total dividends (Annual)	Dividend payout ratio (Consolidated)	Dividend on equity (Consolidated)
	First quarter- end	Second quarter- end	Third quarter- end	Fiscal year- end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
March 31, 2019	—	20.00	—	14.00	34.00	2,168	90.2	4.2
March 31, 2020	—	17.00	—	17.00	34.00	2,173	75.6	4.2
Fiscal year ending March 31, 2021 (forecast)	—	17.00	—	17.00	34.00		295.5	

Reference: Dividend payout ratio (consolidated) before amortization of goodwill

Fiscal year ending March 31, 2021 (forecast): 82.7% (For more details, please see page 6 of the Attached Materials.)

- Notes: 1. The amounts of total dividends (annual) include the dividends (of ¥109 million for the fiscal year ended March 31, 2019 and ¥106 million for the fiscal year ended March 31, 2020) for the shares of the Company held by the Trust.
2. For the purpose of calculating the amounts of dividend on equity for the fiscal years ended March 31, 2019 and 2020, the number of shares of the Company held by the Trust was included in the number of shares of treasury stock.

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2021 (from April 1, 2020 to March 31, 2021)

(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
	58,000	0.5	4,000	(13.4)	3,500	(20.3)	700	(74.4)	11.53

- Notes: 1. The above forecast has been prepared on the assumption that economic activities will start resuming from the second quarter.
2. For the purpose of calculating the amount of earnings per share, the number of shares of the Company held by the Trust as at the end of the fiscal year ended March 31, 2020 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.

For more information on the consolidated financial results for the fiscal year ended March 31, 2020, please refer to the supplementary briefing material on financial results, Annual Securities Report (available in Japanese only) to be filed on June 19, 2020 and other materials, which you can find on our website at <https://www.dexerials.jp/en/ir/library/index.html>.

[Notes]

- (1) Changes in significant subsidiaries during the current period (Changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) 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: Yes
 - (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(Note) For more details, please refer to “3. Consolidated Financial Statements and Notes, (5) Notes to consolidated financial statements, (Changes in accounting policies)” on page 17 of the Attached Materials.
- (3) Number of shares of common stock issued
 - (a) Number of shares issued (including treasury stock)

As of March 31, 2020:	63,973,800 shares
As of March 31, 2019:	63,817,100 shares
 - (b) Number of shares of treasury stock

As of March 31, 2020:	3,131,103 shares
As of March 31, 2019:	3,209,900 shares
 - (c) Average number of shares of common stock during the period

Fiscal year ended March 31, 2020:	60,707,500 shares
Fiscal year ended March 31, 2019:	60,540,304 shares

Notes: 1. As a result of the exercise of stock options during the fiscal year ended March 31, 2020, the number of shares issued as of March 31, 2020 has increased by 156,700 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 (3,131,103 shares as of March 31, 2020 and 3,209,900 shares as of March 31, 2019) 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 (3,168,980 shares for the fiscal year ended March 31, 2020 and 3,213,625 shares for the fiscal year ended March 31, 2019) 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. Overview of Operating Results, etc.	P. 2
(1) Analysis of operating results	P. 2
(2) Analysis of financial position	P. 5
(3) Basic policy for profit distribution and dividends for the current and next fiscal years	P. 6
(4) Management policy	P. 7
2. Basic Policy Regarding Selection of Accounting Standards	P. 9
3. Consolidated Financial Statements and Notes	P. 10
(1) Consolidated balance sheets	P. 10
(2) Consolidated statements of income and consolidated statements of comprehensive income	P. 12
Consolidated statements of income	P. 12
Consolidated statements of comprehensive income	P. 13
(3) Consolidated statements of changes in net assets	P. 14
(4) Consolidated statements of cash flows	P. 16
(5) Notes to consolidated financial statements	P. 17
(Going concern assumption)	P. 17
(Significant changes in shareholders' equity)	P. 17
(Changes in accounting policies)	P. 17
(Supplemental information)	P. 17
(Segment information)	P. 18
(Per share information)	P. 19
(Significant subsequent events)	P. 20
4. Other	P. 20
(1) Change in Directors	P. 20

1. Overview of Operating Results, etc.

(1) Analysis of operating results

(Operating results for the current fiscal year)

During the current fiscal year (from April 1, 2019 to March 31, 2020), the global economy slowed down rapidly due to not only Brexit-related issues and the trade friction between the U.S. and China, but also the novel coronavirus (COVID-19) pandemic from the beginning of 2020, which hindered economic activity. Despite improvements in the employment environment, the Japanese economy grew increasingly severe, being heavily suppressed by the impact of COVID-19.

Among major industries served by the products of the Dexerials Group (hereinafter “the Group”), the business environment remained challenging, specifically in the consumer IT product market. While demand for laptop PC replacement arose with the end of OS support in the second half of the current fiscal year, the smartphone market’s slowdown became increasingly evident.

In this business environment, the Group strove towards the realization of the Mid-term Management Plan, and reviewed its businesses to identify which of them to withdraw from or continue. For businesses to be continued, the Group implemented plans to strengthen the production and sales promotion of differentiating technology products, and improved efficiency for certain products by integrating their production globally.

As a result, sales decreased year-on-year, negatively affected by the change of base films for anti-reflection films and a decrease in sales volume of optical elastic resins. However, profit increased year-on-year, reflecting the strength of smart precision adhesives (SA) and the expansion and improved production of anisotropic conductive film (ACF).

Consequently, we reported net sales for the current fiscal year of ¥57,710 million (down 4.7% year-on-year) with operating profit of ¥4,617 million (up 24.0% year-on-year). Excluding the impacts of the change of base films described above, net sales would have been down by approximately 3% year-on-year.

Ordinary profit was ¥4,393 million (up 12.6% year-on-year) primarily due to recognition of share of loss of entities accounted for using equity method of ¥261 million.

Profit before income taxes was ¥4,297 million (up 14.3% year-on-year) primarily due to recognition of loss on valuation of investment securities and restructuring expenses as extraordinary losses.

Consequently, profit attributable to owners of parent amounted to ¥2,734 million (up 19.7% year-on-year).

(Note) Since the third quarter of the fiscal year ended March 31, 2019, we have changed the base films that we had purchased, causing a decline in our purchase price. As a result, the selling price of our products also declined, but this change does not affect profits.

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

1) Optical Materials and Components business

	(Millions of yen)		
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019	Year-on-year change
Net sales	23,624	25,955	(9.0) %
Operating profit	1,832	1,679	9.1 %

(Note) Net sales include inter-segment transactions.

- The business segment reported net sales of ¥23,624 million (down 9.0% year-on-year) and operating profit of ¥1,832 million (up 9.1% year-on-year).
- **The Optical films product category** reported year-on-year decreases in both sales and profit because of a decrease in sales of the products for laptop PC displays, which was partially offset by a growth in sales of in-vehicle displays due to an increase in the number of newly adopted products.
- **The Optical resin materials product category** reported a year-on-year decrease in sales due to a decline in sales of optical elastic resins, especially for smartphones. However, profit increased year-on-year as smart precision adhesives (SA) for camera modules was favorably affected by the shift to multiple lenses for smartphones.

- **The Optical solutions product category** reported a year-on-year increase in sales from the in-vehicle display business with improved profitability.

Incidentally, the segment would have resulted in an approximately 4% year-on-year decrease in net sales without the impact of the change of base films.

2) Electronic Materials and Components business

	(Millions of yen)		
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019	Year-on-year change
Net sales	34,226	34,838	(1.8) %
Operating profit	4,583	3,843	19.2 %

(Note) Net sales include inter-segment transactions.

- The business segment reported net sales of ¥34,226 million (down 1.8% year-on-year) and operating profit of ¥4,583 million (up 19.2% year-on-year).
- **The Adhesive materials product category** reported a year-on-year decrease in sales due to weak sales of products mainly for laptop PCs. However, the decrease in profit was minimal as they were general-purpose items with low profitability.
- **The Anisotropic conductive films (ACF) product category** reported year-on-year increases in both sales and profit because of the expanding demand for particle-arrayed anisotropic conductive films (ACF) for smartphone applications on top of improved productivity.
- **The Surface mounted type fuses product category** reported year-on-year decreases in both sales and profit due to sluggish sales of products for electric power tools and reduced production volume of our customers who manufacture laptop PCs.
- **The Micro devices product category** reported year-on-year decreases in both sales and profit, which were affected by sluggish sales of projectors.

(The Group's Response to COVID-19)

At the end of January, shortly after the COVID-19 outbreak, the Group established a task force to promptly start measures to secure the safety of employees and business continuity. Subsequently, following the policies of governments in countries where the Group has a presence, we have continued our efforts to prevent the spread of infection by giving the top priority on measures to protect the health and safety of our customers, group employees, and all related parties inside and outside Japan. The current status of the Group's response, operating status of its bases, impact on production and sales, and the influence on its business performance are as follows.

(1) Current status of the Group's response

The Group has restricted its employees' business trips and recommended them to work home according to the type of job. When the employees need to go to the office for compelling reasons, the Group has them perform their duties according to the infection-prevention measures, including taking temperature before coming to the office for work, staggered commutation, mask-wearing during commutation and working at the office, and disinfection with alcohol or hand washing. As of the announcement date of these consolidated financial results, we have received no reports of any group employee being infected with COVID-19. However, we are continuing our business while focusing on the health of our employee and their families.

(2) Operating status of the Company's bases and its impact on production and sales

In February 2020 and onwards, the Company's manufacturing bases in China suspended their operation owing to the disruption in the supply chain of displays and IT mobile products and the policy of the executive branch in the country. Nevertheless, we complied with supply requests from customers by covering for those bases through production and shipment in and from bases in Japan and other countries.

On the announcement date of these financial results, maintaining to work from home, production bases and sales offices throughout the world are in operation. Since March 2020, the disruption in the supply chain in China has been eliminated. The Company continues to receive many inquiries about products with a high market share and with differentiating technologies, such as anisotropic conductive films (ACF) and smart precision adhesives (SA).

In addition, the Company will increase production of anti-reflection films moth-eye type used for medical eye shields and

surface-mounted type fuses for lithium-ion batteries used for ventilators, for which there is a rapidly growing demand due to the global spread of COVID-19 so that the products can contribute to the convergence of COVID-19.

(3) Influence on financial results

Regarding the consolidated financial results for the fiscal year ended March 31, 2020, the Company did not revise its full-year earnings forecast as of the announcement of the third quarter financial results because it was difficult to make a reasonable estimate of the amount affected by COVID-19 even though the cumulative operating profit as of the end of the third quarter had exceeded the full-year forecast and we had expected operating profit for the fourth quarter. Consequently, the impact of COVID-19 was insignificant and operating profit was recorded in the fourth quarter. Accordingly, the full-year operating profit exceeded the forecast as of the announcement of the third quarter financial results.

Please refer to “Earnings forecast for the next fiscal year” below for the consolidated earnings forecast for the fiscal year ending March 31, 2021.

(Earnings forecast for the next fiscal year)

Consolidated earnings forecasts for the fiscal year ending March 31, 2020 are presented as follows.

Consolidated earnings forecasts for the fiscal year ending March 31, 2021

(Millions of yen)

	Fiscal year ended March 31, 2020 (Actual)	Fiscal year ending March 31, 2021 (Forecast)	Year-on-year change
Consolidated net sales	57,710	58,000	0.5 %
Operating profit	4,617	4,000	(13.4) %
Ordinary profit	4,393	3,500	(20.3) %
Profit attributable to owners of parent	2,734	700	(74.4) %

(These forecasts are based on the assumed exchange rate of ¥105 per U.S. dollar.)

For the fiscal year ending March 31, 2021, we consider that the impact of COVID-19 will extend to demand for final products. The above earnings forecast assumes that economic activity will resume from the second quarter onward. The assumed exchange rate for the next fiscal year is ¥105 per U.S. dollar, compared to the actual exchange rate of ¥108.7 per U.S. dollar for the current fiscal year.

Despite the challenging assumption, the Group aims to achieve the above earnings forecasts through our ongoing cost cut efforts and with growing demand for 5G related products and surface mounted type fuses for lithium batteries. We will also ensure that our earnings will be underpinned by enhanced production and sales promotion of differentiating technology products.

Regarding our consolidated financial position, we maintain sufficient liquidity and a high level of financial soundness with cash and deposits of ¥13,779 million, a total unused balance of approximately ¥10,000 million under the committed line of credit and the overdraft agreements entered into with multiple financial institutions, and the equity ratio of 57.5% as of March 31, 2020.

(Disclaimer with respect to earnings forecasts)

The forward-looking statements including earnings forecast contained in this report 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) Analysis of financial position

1) Summary of assets, liabilities and net assets

(Assets)

Total assets at the end of the current fiscal year amounted to ¥86,279 million, a decrease of ¥1,306 million from the end of the previous fiscal year.

Current assets amounted to ¥31,466 million, an increase of ¥1,348 million from the end of the previous fiscal year. This increase can mainly be explained by increases of ¥1,952 million in cash and deposits and ¥393 million in other, which were partially offset by decreases of ¥688 million in notes and accounts receivable - trade and ¥258 million in merchandise and finished goods.

Non-current assets amounted to ¥54,813 million, a decrease of ¥2,654 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases of ¥1,801 million in goodwill, ¥1,015 million in machinery, equipment and vehicles, net, and ¥584 million in buildings and structures, net, which were partially offset by an increase of ¥663 million in shares of subsidiaries and associates.

(Liabilities)

Total liabilities at the end of the current fiscal year amounted to ¥36,711 million, a decrease of ¥1,818 million from the end of the previous fiscal year.

Current liabilities amounted to ¥15,755 million, a decrease of ¥1,145 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases of ¥1,461 million in notes and accounts payable - trade and ¥819 million in current portion of long-term debt, which were partially offset by increases of ¥305 million in provision for bonuses and ¥623 million in other.

Non-current liabilities amounted to ¥20,956 million, a decrease of ¥673 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥847 million in long-term debt, which was partially offset by an increase of ¥218 million in other.

(Net assets)

Total net assets at the end of the current fiscal year amounted to ¥49,567 million, an increase of ¥512 million from the end of the previous fiscal year. This increase can mainly be explained by increases of ¥755 million in retained earnings and ¥124 million in deferred gains or losses on hedges, which were partially offset by a decrease of ¥517 million in foreign currency translation adjustment.

2) Summary of cash flows

Cash and cash equivalents (hereinafter "cash") at the end of the current fiscal year increased ¥1,952 million from the end of the previous fiscal year to ¥13,779 million.

A summary of each category of cash flows and main causes of changes are presented as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥9,656 million (up 23.4% year-on-year), which mainly consisted of depreciation of ¥4,607 million and profit before income taxes of ¥4,297 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥3,891 million (down 40.6% year-on-year) due mainly to expenditures on purchase of property, plant and equipment of ¥2,801 million and purchase of shares of subsidiaries and associates of ¥700 million.

(Cash flows from financing activities)

Net cash used in financing activities was ¥3,600 million (down 21.1% year-on-year) due mainly to expenditures on repayments of long-term debt of ¥3,666 million.

(3) Basic policy for profit distribution and dividends for the current and next fiscal years

We regard return of profits to shareholders as one of the most important management tasks. With a recognition that increasing corporate value through investments for growth is the common interests of our shareholders, we have established a basic policy that we should first give priority to business investments leading to sustainable corporate value improvement and then make shareholder returns in line with profit growth with the target total payout ratio to consolidated profit before amortization of goodwill (See Note 1) of approximately 40%.

We determine the actual amount of dividends by comprehensively considering factors such as the amount of investments required for growth, the estimated free cash flow (See Note 2), the total payout ratio including share buyback and the importance of stable dividend distribution, while securing a sound financial base.

Regarding the profit distribution for the next fiscal year ending March 31, 2021, we will follow the above basic policy and plan to pay the annual ordinary dividends of 34.0 yen per share (consisting of an interim dividend of 17.0 yen per share and a year-end dividend of 17.0 yen per share).

As a basic policy for dividend payment from surplus, we will pay dividends twice a year in the form of an interim dividend and a year-end dividend. While it is stipulated in accordance with Article 459, Section 1 of the Companies Act that the Company can pay dividends from retained earnings based on resolution of the board of directors, the Company plans to pay a year-end dividend based on a resolution of the general shareholders' meeting.

(Reference) Distribution of profit

	Total payout ratio	
	Before amortization of goodwill	After amortization of goodwill
Current fiscal year ended March 31, 2020 (actual)	45.6%	75.6%
Next fiscal year ending March 31, 2021 (forecast)	82.7%	295.5%

$$\begin{aligned} \text{(Note 1)} \quad & \text{Total payout ratio to consolidated profit before amortization of goodwill} \\ & = \frac{\text{Total payout amount (=Annual total dividends paid + Annual total share buyback)}}{\text{Consolidated profit + Amortization of goodwill}} \times 100 \end{aligned}$$

$$\text{(Note 2)} \quad \text{Free cash flow} = \text{Operating cash flow} + \text{Investing cash flow}$$

(4) Management policy

1) Our perception of environment

Today's social and economic environments in the world are faced with a wide range of problems: the destruction of the natural environment and the frequent occurrence of disasters caused by accelerated global warming; resource and energy shortages due to the world's rising population; serious situations with labor shortage and nursing care associated with declining birth rates and aging populations, particularly in developed countries; growing needs for advanced medical care; and deterioration of urban environment due to frequent traffic accidents, congestion, and other factors. There are concerns that various problems will arise or become more evident in the future; therefore, companies are required more than ever to contribute to society by resolving or addressing these issues.

In the meantime, technological innovation is advancing at a rapid pace, such as the use of artificial intelligence (AI), the Internet of Things (IoT), which connects everything to the Internet, and the introduction of next-generation high-speed communication technology. These new technologies and technological solutions are expected to be a key driving force in resolving social issues. On the other hand, product penetration has reached a considerable level in the consumer IT product market, a major industry that has been served by our products. Given this fact, we cannot expect such rapid growth to occur in the future as occurred in the past.

Against this backdrop, we will take on the challenge of bringing technological innovation to new business domains ahead of others in the world and contribute to resolving social issues through the creation of new value. To this end, we intend to utilize the unique technologies and knowledge the Group has cultivated, and believe that it will also lead to the Group's new growth.

2) Basic policy for corporate management

Corporate philosophy

"Integrity: Have Integrity and Sincerity"

Under the corporate philosophy "Integrity: Have Integrity and Sincerity," the Company strives to address its customers' needs and challenges, generate value that exceeds their expectations, and resolve social issues through developing and providing innovative functional materials and technological solutions with a combination of outstanding and unique technologies. The Company believes that this will realize sustainable business growth and improvement in business results, thereby leading to the enhancement of corporate value as a result.

Corporate vision

"Value Matters—Unprecedented innovation, unprecedented value."

The Company fulfills its customers' needs and resolves their challenges, constantly aiming to generate values that exceed its customers' expectations with unique and innovative technologies to develop and provide sophisticated functional materials. The Company believes that this will realize business growth and improvement in business results, leading to the enhancement of corporate value as a result.

With this vision in mind, we aim to be a company that contributes to the enhancement of the quality and richness of both life and our environment through providing high value-added products.

3) Medium to long-term corporate strategy

Toward the corporate image to be built up over a long period, the Company has formulated the Mid-term Management Plan "Challenges for Evolution" covering the five-year period from the fiscal year ended March 31, 2020 to the fiscal year ending March 31, 2024, which is positioned as a phase to ensure a sustainable growth through business expansion in new domains where social issues have surfaced. The Plan is summarized as follows:

a) Three basic policies

We will concentrate on the following three basic policies to evolve into a company that grows sustainably through business expansion in new domains.

- i) Accelerate growth in new domains: Allocate resources intensively into the automotive domain to drive the growth of new domains
- ii) Qualitatively change businesses in the existing domains: Shift resources by rigorously pursuing efficiency based on the principle of selection and focus, and increase market share of differentiating technology products

- iii) Strengthen management base: Create an organizational structure that can support the company-wide evolution and carry out behavioral change

b) Management targets

We aim to achieve record-high net sales and operating profit of ¥80.0 billion and ¥10.0 billion, respectively, and ROE of 10% or more in the fiscal year ending March 31, 2024—the final year of the Mid-term Management Plan (assuming a foreign exchange rate of ¥108 per US dollar).

The plan is to be updated in the fiscal year ending March 31, 2022, assuming that business environments in the final year of the Mid-term Management Plan will change dramatically.

For more details, please refer to “Notice of FY2019 – FY2023 Mid-term Management Plan ‘Challenges for Evolution’” released on April 25, 2019.

(Disclaimer)

The forward-looking statements contained in the description above on the Mid-term Management Plan are based on information currently available to the Company and certain assumptions that are believed to be reasonable, and no responsibility is borne as to the accuracy or completeness of the forward-looking statements. Actual results may differ from the results anticipated in these forward-looking statements due to a variety of factors, and the Company gives no assurance that such statements will prove to be correct. Additionally, regardless of actual results, etc., from the date of the publishing of this document, the Company has no obligation to continuously update the content of this document, nor does it have such a policy.

The description above is only disclosed with the intent of providing reference information to investors in making decisions; please make final decisions regarding investments on your own. The Company shall not be held liable for any losses resulting from the use of any part of this document in reaching an investment decision.

4) Target performance indicator

The Company considers ROE (return on equity) as an indicator that relates to the sustainable growth of corporate value. Specifically, we aim to achieve ROE of 10% as a medium to long-term target through balanced capital allocation among investment for business expansion, R&D activities as sources of future growth and profit distribution to our shareholders. Furthermore, we have introduced an equity spread (ES) with an assumption of 8% cost of equity as an indicator to enhance corporate value and will aim to maintain a positive ES over the medium to long-term.

(Note) $ROE = (\text{Profit attributable to owners of parent} / \text{net assets}) \times 100$
Equity spread = ROE – Cost of equity (assumed to be 8%)

From the fiscal year ended March 31, 2020, the indicators using adjusted profit, or profit before amortization of goodwill, are applied only for the purpose of describing the total payout ratio.

5) Issues to be addressed by the Company

To build up our desired corporate image, the Company is making an across-the-board effort to implement measures along with the Mid-term Management Plan. In particular considering the recent business environment, we will focus on addressing the issues and taking the initiatives that are described as follows.

i) Respond to COVID-19 and make efforts aimed at the resolution of new social challenges

The Group will follow the guidance of the governments in countries/regions where we have a presence. While ensuring business continuity, we will work hard to prevent the spread of COVID-19 infections by placing the highest priority on measures to protect the health and safety of our customers, employees, and all related parties both inside and outside Japan.

The impact of the COVID-19 pandemic has been transforming society in various ways, bringing not only changes to people’s value and industrial structure, but also new social challenges, which will be resolved by technological innovation. This suggests the possibility of expanding business opportunities for the Company. It is expected that innovation will particularly accelerate the spread of 5G communication and IoT, and sophistication of network infrastructure and devices

such as smartphones. We will catch the new wave of technological innovation through the development of technologies and products.

ii) Implement measures based on the Mid-term Management Plan

The fiscal year under review was the first year of the Mid-term Management Plan, and we reviewed our businesses and identified which of them to withdraw from or continue. For businesses to be continued, we implemented plans to strengthen the production, technological advantages, and sales promotion of differentiating technology products. Moreover, we improved efficiency in certain products by consolidating their production globally and developed measures to shift resources. In the fiscal year ending March 31, 2021, we will continue to transform the quality of our existing businesses and steadily accelerate business growth in new domains with the measures based on the principle of selection and focus.

iii) Make efforts to create an organizational structure that can support the evolution

We will strengthen our corporate culture so that we can preempt changing business environment and continue proactively changing ourselves by means of fostering a sound sense of urgency and nurturing employees who are willing to take on challenge for change, while speeding-up business operations as well as applying the principle of selection and focus on an ongoing basis. We will also take initiatives to realize sustainability of business such as strengthening personnel development to foster next-generation talent who can assume managerial positions, as well as engineers who are drivers of innovation.

2. Basic Policy Regarding Selection of Accounting Standards

With respect to applying International Financial Reporting Standards (IFRS), the Company is currently assessing differences between International Financial Reporting Standards (IFRS) and Japanese GAAP, as well as impacts of a change in accounting standards on the Company. As of the date of filing this report, we have not yet made any decision on this matter.

3. Consolidated Financial Statements and Notes

(1) Consolidated balance sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Assets		
Current assets:		
Cash and deposits	11,826	13,779
Notes and accounts receivable - trade	10,306	9,617
Electronically recorded monetary claims - operating	89	77
Merchandise and finished goods	2,257	1,998
Work in process	2,062	2,035
Raw materials and supplies	1,656	1,642
Other	1,923	2,317
Allowance for doubtful accounts	(4)	(3)
Total current assets	30,118	31,466
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	31,548	31,813
Accumulated depreciation	(20,323)	(21,173)
Buildings and structures, net	11,224	10,640
Machinery, equipment and vehicles	40,048	39,575
Accumulated depreciation	(30,835)	(31,378)
Machinery, equipment and vehicles, net	9,213	8,197
Land	3,682	3,696
Construction in progress	649	1,118
Other	5,936	6,150
Accumulated depreciation	(4,602)	(4,848)
Other, net	1,333	1,302
Total property, plant and equipment	26,103	24,954
Intangible assets:		
Goodwill	24,281	22,479
Patent rights	1,871	1,514
Other	1,122	1,080
Total intangible assets	27,274	25,075
Investments and other assets:		
Shares of subsidiaries and associates	74	738
Asset for retirement benefits	1,460	1,604
Deferred tax assets	1,531	1,728
Other	1,035	722
Allowance for doubtful accounts	(11)	(10)
Total investments and other assets	4,089	4,782
Total non-current assets	57,467	54,813
Total assets	87,586	86,279

(Millions of yen)

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	7,212	5,750
Electronically recorded obligations - operating	1,074	1,157
Current portion of long-term debt	3,666	2,847
Other payables	2,043	2,101
Accrued expenses	562	627
Provision for bonuses	1,194	1,500
Other	1,147	1,770
Total current liabilities	16,901	15,755
Non-current liabilities:		
Long-term debt	15,333	14,486
Liability for retirement benefits	5,442	5,259
Deferred tax liabilities	100	238
Other	752	971
Total non-current liabilities	21,629	20,956
Total liabilities	38,530	36,711
Net assets		
Shareholders' equity:		
Common stock	15,977	16,021
Capital surplus	15,977	16,021
Retained earnings	18,807	19,562
Treasury stock	(3,331)	(3,255)
Total shareholders' equity	47,431	48,349
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	30	155
Foreign currency translation adjustment	1,676	1,159
Remeasurements of defined benefit plans	(83)	(96)
Total accumulated other comprehensive income	1,624	1,218
Total net assets	49,055	49,567
Total liabilities and net assets	87,586	86,279

(2) Consolidated statements of income and consolidated statements of comprehensive income

Consolidated statements of income

(Millions of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Net sales	60,580	57,710
Cost of sales	39,395	36,309
Gross profit	21,185	21,400
Selling, general and administrative expenses	17,460	16,783
Operating profit	3,724	4,617
Non-operating income:		
Interest income	40	51
Foreign exchange gains	266	174
Rent income	80	98
Other	162	110
Total non-operating income	549	434
Non-operating expenses:		
Interest expenses	90	81
Share of loss of entities accounted for using equity method	—	261
Loss on investments in investment partnerships	16	50
Depreciation	234	237
Other	29	28
Total non-operating expenses	370	657
Ordinary profit	3,903	4,393
Extraordinary income:		
Gain on sale of non-current assets	2	2
Subsidy income	100	50
Compensation income	—	137
Settlement received	—	42
Total extraordinary income	102	231
Extraordinary losses:		
Loss on retirement of property, plant and equipment	160	24
Loss on valuation of investment securities	—	199
Restructuring expenses	—	103
Settlement package	86	—
Total extraordinary losses	247	328
Profit before income taxes	3,758	4,297
Income taxes - current	1,141	1,719
Income taxes - deferred	332	(157)
Total income taxes	1,473	1,562
Profit	2,284	2,734
Profit attributable to owners of parent	2,284	2,734

Consolidated statements of comprehensive income

(Millions of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Profit	2,284	2,734
Other comprehensive income:		
Deferred gains or losses on hedges	(214)	124
Foreign currency translation adjustment	11	(517)
Remeasurements of defined benefit plans	(491)	(12)
Total other comprehensive income	(695)	(405)
Comprehensive income	1,588	2,328
Comprehensive income attributable to:		
Owners of parent	1,588	2,328
Non-controlling interests	—	—

(3) Consolidated statements of changes in net assets

Previous fiscal year (from April 1, 2018 to March 31, 2019)

(Millions of yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance, April 1, 2018	15,934	15,934	19,071	(3,339)	47,601
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights	43	43			86
Dividends of surplus			(2,548)		(2,548)
Profit attributable to owners of parent			2,284		2,284
Purchase of treasury stock					
Disposal of treasury stock				7	7
Net change of items other than shareholders' equity					
Total changes of items during period	43	43	(264)	7	(170)
Balance, March 31, 2019	15,977	15,977	18,807	(3,331)	47,431

	Accumulated Other Comprehensive Income				Total Net Assets
	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total	
Balance, April 1, 2018	245	1,665	408	2,320	49,921
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights					86
Dividends of surplus					(2,548)
Profit attributable to owners of parent					2,284
Purchase of treasury stock					—
Disposal of treasury stock					7
Net change of items other than shareholders' equity	(214)	11	(491)	(695)	(695)
Total changes of items during period	(214)	11	(491)	(695)	(866)
Balance, March 31, 2019	30	1,676	(83)	1,624	49,055

Current fiscal year (from April 1, 2019 to March 31, 2020)

(Millions of yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance, April 1, 2019	15,977	15,977	18,807	(3,331)	47,431
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights	43	43			86
Dividends of surplus			(1,979)		(1,979)
Profit attributable to owners of parent			2,734		2,734
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock				76	76
Net change of items other than shareholders' equity					
Total changes of items during period	43	43	755	76	918
Balance, March 31, 2020	16,021	16,021	19,562	(3,255)	48,349

	Accumulated Other Comprehensive Income				Total Net Assets
	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total	
Balance, April 1, 2019	30	1,676	(83)	1,624	49,055
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights					86
Dividends of surplus					(1,979)
Profit attributable to owners of parent					2,734
Purchase of treasury stock					(0)
Disposal of treasury stock					76
Net change of items other than shareholders' equity	124	(517)	(12)	(405)	(405)
Total changes of items during period	124	(517)	(12)	(405)	512
Balance, March 31, 2020	155	1,159	(96)	1,218	49,567

(4) Consolidated statements of cash flows

(Millions of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Cash flows from operating activities:		
Profit before income taxes	3,758	4,297
Depreciation	4,390	4,607
Amortization of goodwill	1,798	1,798
Interest and dividend income	(40)	(51)
Interest expenses	90	81
Foreign exchange (gains) losses	(207)	(101)
(Gain) loss on sale of non-current assets	(2)	(2)
Loss on retirement of property, plant and equipment	160	24
Restructuring expenses	—	103
(Gain) loss on investments in investment partnerships	16	50
Subsidy income	(100)	(50)
Compensation income	—	(137)
Settlement received	—	(42)
Settlement package	86	—
Increase (decrease) in provision for bonuses	(102)	314
Changes in asset/liability for retirement benefits	(1,074)	(345)
Share of loss (profit) of entities accounted for using equity method	—	261
Loss (gain) on valuation of investment securities	—	199
(Increase) decrease in notes and accounts receivable - trade	476	554
(Increase) decrease in inventories	732	262
Increase (decrease) in notes and accounts payable - trade	(467)	(1,281)
(Increase) decrease in other receivables	(21)	(82)
Increase (decrease) in other payables	96	34
Increase (decrease) in income taxes payable (size-based business tax)	(20)	15
Other, net	(21)	260
Subtotal	9,547	10,772
Interest and dividends received	34	51
Interest paid	(90)	(84)
Subsidies received	104	50
Settlement package received	—	30
Settlement package paid	(361)	—
Income taxes paid	(1,406)	(1,162)
Net cash provided by (used in) operating activities	7,826	9,656
Cash flows from investing activities:		
Purchase of investment securities	(309)	(150)
Purchase of property, plant and equipment	(6,044)	(2,801)
Purchase of intangible assets	(205)	(244)
Purchase of shares of subsidiaries and associates	—	(700)
Other, net	4	5
Net cash provided by (used in) investing activities	(6,554)	(3,891)
Cash flows from financing activities:		
Proceeds from long-term debt	1,000	2,000
Repayments of long-term debt	(3,083)	(3,666)
Purchase of treasury stock	—	(0)
Cash dividends paid	(2,548)	(1,979)
Repayments of lease obligations	(19)	(41)
Proceeds from exercise of stock options	86	86
Net cash provided by (used in) financing activities	(4,564)	(3,600)
Effect of exchange rate change on cash and cash equivalents	232	(211)
Net increase (decrease) in cash and cash equivalents	(3,060)	1,952
Cash and cash equivalents at beginning of period	14,887	11,826
Cash and cash equivalents at end of period	11,826	13,779

(5) Notes to consolidated financial statements

(Going concern assumption)

Not applicable.

(Significant changes in shareholders' equity)

Not applicable.

(Changes in accounting policies)

(Application of IFRS 16 *Leases*)

Some of our overseas subsidiaries have applied IFRS 16 *Leases* since the beginning of the fiscal year ended March 31, 2020. The standard requires a lessee to recognize in principle all leases as asset and liability on the balance sheet.

The impact of applying the standard on the consolidated financial statements is insignificant.

(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 fiscal year are ¥3,225 million for 3,077 thousand shares and ¥3,170 million for 3,025 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 and senior executive officers (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 and senior executive officers 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 fiscal year are ¥106 million for 132 thousand shares and ¥85 million for 105 thousand shares, respectively.

(Segment information)

Information on amounts of net sales, profit (loss), assets, liabilities and other items by reportable segment

Previous fiscal year (from April 1, 2018 to March 31, 2019)

(Millions of yen)

	Reportable Segment			Adjustment (Note)	Consolidated
	Optical Materials and Components	Electronic Materials and Components	Total		
Net sales					
Sales to external customers	25,944	34,636	60,580	—	60,580
Intersegment sales or transfers	11	202	214	(214)	—
Total	25,955	34,838	60,794	(214)	60,580
Segment profit	1,679	3,843	5,523	(1,798)	3,724
Segment assets	21,399	15,780	37,179	50,406	87,586
Other items					
Depreciation	2,186	2,203	4,390	1,798	6,189
Increase in property, plant and equipment and intangible assets	450	1,450	1,901	935	2,837

Note: The amount of adjustment for segment profit of ¥1,798 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: ¥37,827 million

Current fiscal year (from April 1, 2019 to March 31, 2020)

(Millions of yen)

	Reportable Segment			Adjustment (Note)	Consolidated
	Optical Materials and Components	Electronic Materials and Components	Total		
Net sales					
Sales to external customers	23,622	34,087	57,710	—	57,710
Intersegment sales or transfers	2	138	140	(140)	—
Total	23,624	34,226	57,851	(140)	57,710
Segment profit	1,832	4,583	6,415	(1,798)	4,617
Segment assets	15,563	13,733	29,296	56,982	86,279
Other items					
Depreciation	2,380	2,226	4,607	1,798	6,405
Increase in property, plant and equipment and intangible assets	1,044	1,416	2,460	569	3,029

Note: The amount of adjustment for segment profit of ¥1,798 million is the amount of amortization of goodwill that is not attributable to any reportable segment.

Reference: Net sales from markets other than Japan: ¥37,257 million

(Per share information)

	Previous fiscal year (from April 1, 2018 to March 31, 2019)	Current fiscal year (from April 1, 2019 to March 31, 2020)
Net assets per share	809.40 yen	814.68 yen
Basic earnings per share	37.73 yen	45.05 yen
Diluted earnings per share	37.43 yen	44.83 yen

(Notes) 1. For the purpose of calculating the amounts of “net assets per share,” the number of shares of the Company held by the Trust (3,209 thousand shares and 3,131 thousand shares at the end of the previous and current fiscal years, respectively) 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 fiscal year.

For the purpose of calculating “basic earnings per share” and “diluted earnings per share,” the number of shares of the Company held by the Trust (3,213 thousand shares and 3,168 thousand shares for the previous and current fiscal years, respectively) 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. The calculation basis for basic earnings per share and diluted earnings per share are shown as follows.

	Previous fiscal year (from April 1, 2018 to March 31, 2019)	Current fiscal year (from April 1, 2019 to March 31, 2020)
Basic earnings per share		
Profit attributable to owners of parent (millions of yen)	2,284	2,734
Profit not attributable to common shareholders (millions of yen)	—	—
Profit attributable to common shareholders of parent (millions of yen)	2,284	2,734
Average number of shares of common stock during the fiscal year (shares)	60,540,304	60,707,500
Diluted earnings per share		
Adjustment to profit attributable to owners of parent (millions of yen)	—	—
Number of shares of common stock to be increased (share)	490,837	298,567
(Of which, number of subscription rights to shares) (share)	(490,837)	(298,567)
Summary of potentially dilutive shares not included in the calculation of diluted earnings per share due to their anti-dilutive effect	—	—

(Significant subsequent events)

Not applicable.

4. Other

(1) Change in Directors

1) Election of six candidates for Director

The Company resolved to nominate the candidates for Director at the Board of Directors meeting held on May 12, 2020. The term of office of all seven incumbent Directors will expire at the conclusion of the Annual General Meeting of Shareholders scheduled for June 2020. Accordingly, the Company proposes to elect the following six reappointed Directors at the said General Meeting. The election is subject to the approval at the Annual General Meeting of Shareholders scheduled for June 2020, and at the subsequent Board of Directors meeting.

	Name	Position
Reappointment	Yoshihisa Shinya	Representative Director and President
Reappointment	Toshiya Satake	Representative Director
Reappointment	Masao Hirano	Outside Director
Reappointment	Takao Tsuji	Outside Director
Reappointment	Takashi Yokokura	Outside Director
Reappointment	Rika Sato	Outside Director

Notes:

- * In light of the independence standards stipulated by the Tokyo Stock Exchange and the Company's independence standards, none of the attributes that may cause conflict of interest with general shareholders applies to Mr. Masao Hirano, Mr. Takao Tsuji, Mr. Takashi Yokokura and Ms. Rika Sato. Thus, if their reelection is approved as proposed, the Company intends to continue their designation as an Independent Officer as prescribed by the Tokyo Stock Exchange.
- * Mr. Hisashi Ando will resign as Director after the Annual General Meeting of Shareholders scheduled for June 2020.