

Consolidated Financial Results for the Six Months Ended September 30, 2022 [Under Japanese GAAP]

October 31, 2022

Company name: Dexerials Corporation

Listing: Tokyo Stock Exchange

Security code: 4980

URL: <https://www.dexerials.jp/en>

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Quarterly Securities Report (Shihanki Hokokusho) filing date:

November 9, 2022

Scheduled date of dividend payment:

December 1, 2022

Preparation of supplementary briefing material on quarterly financial results: Yes

Investors meeting presentation for quarterly financial results:

Yes (For securities analysts and institutional investors)

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

1. Consolidated financial results for the six months ended September 30, 2022 (from April 1, 2022 - September 30, 2022)

(1) Consolidated operating results (cumulative)

(Percentage indicates year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2022	58,197	30.6	19,678	60.0	18,549	61.6	12,468	61.9
September 30, 2021	44,562	44.9	12,296	164.3	11,478	144.4	7,700	262.5

Note: Comprehensive income

For the six months ended September 30, 2022: ¥13,791 million [74.6%]

For the six months ended September 30, 2021: ¥7,900 million [307.8%]

Note: EBITDA

For the six months ended September 30, 2022: ¥22,960 million [49.7%]

For the six months ended September 30, 2021: ¥15,336 million [98.1%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2022	209.40	208.25
September 30, 2021	126.19	125.33

(2) Consolidated financial position

	Total assets	Net assets	Capital to asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
September 30, 2022	125,519	72,557	57.5	1,211.56
March 31, 2022	127,410	64,140	50.0	1,063.24

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

As of September 30, 2022:

¥72,112 million

As of March 31, 2022:

¥63,735 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, 2022	—	30.00	—	30.00	60.00
Ending March 31, 2023	—	30.00			
Fiscal year					
Ending March 31, 2023 (forecast)			—	35.00	65.00

Note: Revisions to dividend forecast published most recently: None

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2023 (from April 1, 2022 - March 31, 2023)

(Percentage indicates year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
Fiscal year	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
	110,000	14.9	35,000	31.4	32,300	29.1	22,000	32.0	362.43

Note: Revisions to earnings forecast published most recently: Yes

Regarding the revision of the earnings forecast, please refer to "Notice of Revised Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2023" published on October 31, 2022.

For more information on consolidated financial results, please refer to results briefing materials posted on our website (<https://www.dexerials.jp/en/ir/library/index.html>) and a quarterly securities report to be filed on November 9, 2022 and other materials.

[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 the 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 further details, please see “1. Quarterly Consolidated Financial Statements and Notes, (4) Notes to quarterly consolidated financial statements (Changes in accounting policies)” on page 7 of the attached materials.

(4) Number of shares of common stock issued

(a) Number of shares issued (including treasury shares)

As of September 30, 2022:	64,539,000 shares	As of March 31, 2022:	64,493,400 shares
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(b) Number of treasury shares

As of September 30, 2022:	5,019,129 shares	As of March 31, 2022:	4,548,709 shares
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(c) Average number of shares of common stock during the period

Six months ended September 30, 2022:	59,544,619 shares	Six months ended September 30, 2021:	61,019,042 shares
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Notes: 1. As a result of the exercise of stock options during the second quarter of the fiscal year ending March 31, 2023, the number of shares issued as of September 30, 2022 has increased by 45,600 shares.

2. As the Company has introduced a stock compensation plan which delivers shares with restrictions on transfer, the Company's shares are included in the number of treasury shares at the end of the period (293,800 shares as of September 30, 2022 and 293,800 shares as of September 30, 2021) mainly for the purpose of allotting them as restricted shares.

3. As the Company has introduced an Employee Stock Ownership Plan (“J-ESOP”) and a Board Benefit Trust (BBT), the number of shares of the Company held by the trust account is included in the number of treasury shares as of the end of the period. In addition, the number of shares of the Company held by the Trust (an average of 4,973,493 shares for the six months ended September 30, 2022 and an average of 3,315,362 shares for the six months ended September 30, 2021) was included in the number of treasury shares to be deducted in the calculation of the average number of shares of common stock during the period.

* This consolidated financial results report is not subject to a quarterly review by certified public accountants or an audit firm.

* [Proper use of earnings forecast, and other special notes]

(Disclaimer with respect to earnings and other forecasts)

The forward-looking statements including results forecasts contained in this document are based on information currently available to the Company and certain assumptions that the Company deems reasonable. Accordingly, the Company does not intend to promise their achievement. Actual results may differ from these forecasts and forward-looking statements due to various factors.

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1. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheet

(Millions of yen)

	Previous fiscal year (As of March 31, 2022)	Current quarter (As of September 30, 2022)
Assets		
Current assets:		
Cash and deposits	29,363	26,336
Notes and accounts receivable - trade	19,140	23,406
Electronically recorded monetary claims - operating	289	318
Merchandise and finished goods	3,794	4,017
Work in process	3,565	3,436
Raw materials and supplies	4,465	4,797
Other	4,468	3,081
Allowance for doubtful accounts	(2)	(4)
Total current assets	65,086	65,389
Non-current assets:		
Property, plant and equipment		
Buildings and structures	32,288	22,688
Accumulated depreciation	(21,693)	(13,691)
Buildings and structures, net	10,595	8,996
Machinery, equipment and vehicles	38,755	39,848
Accumulated depreciation	(31,651)	(32,577)
Machinery, equipment and vehicles, net	7,103	7,270
Land	3,572	2,462
Construction in progress	3,620	5,560
Other	7,664	8,286
Accumulated depreciation	(5,915)	(6,261)
Other, net	1,749	2,024
Total property, plant and equipment	26,642	26,315
Intangible assets:		
Goodwill	25,592	24,357
Patent right	831	774
Other	1,541	1,538
Total intangible assets	27,966	26,671
Investments and other assets:		
Shares of subsidiaries and associates	160	103
Retirement benefit asset	3,250	3,386
Deferred tax assets	2,730	1,984
Other	1,586	1,680
Allowance for doubtful accounts	(12)	(12)
Total investments and other assets	7,716	7,142
Total non-current assets	62,324	60,129
Total assets	127,410	125,519

(Millions of yen)

	Previous fiscal year (As of March 31, 2022)	Current quarter (As of September 30, 2022)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	13,087	11,905
Electronically recorded obligations - operating	2,928	2,706
Short-term borrowings	6,500	6,500
Current portion of long-term borrowings	4,465	6,758
Accounts payable - other	5,935	5,043
Accrued expenses	877	915
Income taxes payable	6,822	5,083
Provision for bonuses	3,084	1,799
Other	6,102	3,068
Total current liabilities	49,803	43,780
Non-current liabilities:		
Long-term borrowings	8,467	3,707
Retirement benefit liability	4,385	4,355
Deferred tax liabilities	297	449
Other	316	669
Total non-current liabilities	13,466	9,181
Total liabilities	63,270	52,961
Net assets		
Shareholders' equity:		
Share capital	16,170	16,184
Capital surplus	16,170	16,134
Retained earnings	35,733	46,314
Treasury shares	(7,444)	(10,909)
Total shareholders' equity	60,629	67,724
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	(359)	(345)
Foreign currency translation adjustment	2,691	3,997
Remeasurements of defined benefit plans	774	735
Total accumulated other comprehensive income	3,105	4,387
Non-controlling interests	404	445
Total net assets	64,140	72,557
Total liabilities and net assets	127,410	125,519

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

Quarterly consolidated statement of income

(Millions of yen)

	For the six months ended September 30, 2021 (From April 1, 2021 to September 30, 2021)	For the six months ended September 30, 2022 (From April 1, 2022 to September 30, 2022)
Net sales	44,562	58,197
Cost of sales	23,587	27,966
Gross profit	20,974	30,230
Selling, general and administrative expenses	8,677	10,552
Operating profit	12,296	19,678
Non-operating income:		
Interest income	3	13
Share of profit of entities accounted for using equity method	—	2
Rental income	27	9
Other	103	133
Total non-operating income	134	157
Non-operating expenses:		
Interest expenses	26	38
Foreign exchange losses	681	1,147
Share of loss of entities accounted for using equity method	87	—
Depreciation	83	30
Loss on investments in investment partnerships	22	19
Other	50	50
Total non-operating expenses	953	1,286
Ordinary profit	11,478	18,549
Extraordinary income:		
Gain on sale of non-current assets	0	12
Gain on liquidation of subsidiaries	242	—
Total extraordinary income	242	12
Extraordinary losses:		
Loss on sale of non-current assets	5	—
Loss on retirement of non-current assets	171	335
Compensation for damage	349	—
Total extraordinary losses	526	335
Profit before income taxes	11,194	18,226
Income taxes - current	3,202	4,796
Income taxes - deferred	291	927
Total income taxes	3,494	5,724
Profit	7,700	12,502
Profit attributable to non-controlling interests	—	33
Profit attributable to owners of parent	7,700	12,468

Quarterly consolidated statement of comprehensive income

(Millions of yen)

	For the six months ended September 30, 2021 (From April 1, 2021 to September 30, 2021)	For the six months ended September 30, 2022 (From April 1, 2022 to September 30, 2022)
Profit	7,700	12,502
Other comprehensive income:		
Deferred gains or losses on hedges	388	14
Foreign currency translation adjustment	(158)	1,313
Remeasurements of defined benefit plans, net of tax	(29)	(38)
Total other comprehensive income	199	1,289
Comprehensive income	7,900	13,791
Comprehensive income attributable to:		
Owners of parent	7,900	13,751
Non-controlling interests	–	40

(3) Quarterly consolidated cash flow statement

(Millions of yen)

	For the six months ended September 30, 2021 (From April 1, 2021 to September 30, 2021)	For the six months ended September 30, 2022 (From April 1, 2022 to September 30, 2022)
Cash flows from operating activities		
Profit before income taxes	11,194	18,226
Depreciation	2,229	2,077
Amortization of goodwill	894	1,234
Interest and dividend income	(3)	(13)
Interest expenses	26	38
Foreign exchange losses (gains)	(45)	(521)
Loss (gain) on sale of non-current assets	5	(12)
Loss on retirement of non-current assets	171	335
Loss (gain) on investments in investment partnerships	22	19
Loss (gain) on liquidation of subsidiaries	(242)	—
Loss on compensation for damage	349	—
Increase (decrease) in provision for bonuses	(754)	(1,305)
Increase/decrease in retirement benefit asset/liability	(133)	(221)
Share of loss (profit) of entities accounted for using equity method	87	(2)
Decrease (increase) in trade receivables	(5,637)	(3,305)
Decrease (increase) in inventories	(2,167)	(63)
Increase (decrease) in trade payables	3,793	(2,538)
Decrease (increase) in accounts receivable - other	(578)	105
Increase (decrease) in accounts payable - other	386	(15)
Increase (decrease) in income taxes payable - factor based tax	31	(38)
Other, net	(188)	358
Subtotal	9,440	14,357
Interest and dividends received	3	14
Interest paid	(26)	(39)
Compensation for damage paid	(348)	—
Income taxes paid	(1,806)	(6,678)
Net cash provided by (used in) operating activities	7,262	7,653
Cash flows from investing activities		
Purchase of investment securities	(50)	(53)
Purchase of property, plant and equipment	(3,445)	(6,075)
Purchase of intangible assets	(299)	(456)
Proceeds from sale of property, plant and equipment	1	2,569
Purchase of shares of subsidiaries	—	(60)
Other, net	(3)	1
Net cash provided by (used in) investing activities	(3,796)	(4,075)
Cash flows from financing activities		
Repayments of long-term borrowings	(2,797)	(2,468)
Dividends paid	(1,727)	(1,888)
Purchase of treasury shares	(0)	(3,999)
Repayments of lease obligations	(34)	(57)
Proceeds from exercise of employee share options	62	38
Net cash provided by (used in) financing activities	(4,496)	(8,374)
Effect of exchange rate change on cash and cash equivalents	213	1,768
Net increase (decrease) in cash and cash equivalents	(817)	(3,027)
Cash and cash equivalents at beginning of period	20,531	29,363
Cash and cash equivalents at end of period	19,714	26,336

(4) Notes to quarterly consolidated financial statements

(Going concern assumption)

Not applicable.

(Significant changes in shareholders' equity)

(Purchase of treasury shares)

Based on a resolution adopted at the meeting of the Board of Directors held on May 10, 2022, the Company decided to acquire treasury shares during the period from June 1, 2022 to March 31, 2023 on the condition of the total number or purchase price of stock to be acquired not exceeding 1,800,000 shares or 5,000 million yen. During the six months ended September 30, 2022, it acquired 717,500 shares for a total purchase price of 2,999 million yen.

In addition, following the additional contribution of funds to the Board Benefit Trust (BBT) system according to a resolution taken at the said meeting of the Board of Directors, 252,900 shares of the Company that the Trust purchased for the price of 999 million yen in total during the six months ended September 30, 2022 were recognized as treasury shares.

As a result, treasury shares were valued at 10,909 million yen as of the end of the second quarter under review.

(Acquisition of additional shares in subsidiary)

The Company acquired additional shares in Kyoto Semiconductor Co., Ltd., its consolidated subsidiary, in the second quarter under review. The amount of capital surplus decreased ¥50 million due to this additional acquisition.

To complete the relevant transaction, a conditional stock transfer agreement was concluded, to be effective as of March 24 2022, between the holders of acquisition rights for the shares of Kyoto Semiconductor Co., Ltd. and Kyoto Semiconductor Co., Ltd., whereby such holders of stock acquisition rights transfer shares to the Company after they exercise their rights. Based on this agreement, shares were transferred to the Company on May 16, 2022 subsequent to the exercise of rights on April 22, 2022.

(Changes in accounting policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company started to apply the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021; hereinafter the "Fair Value Measurement Implementation Guidance") at the beginning of the first quarter and decided to implement the new accounting policy stipulated in the Fair Value Measurement Implementation Guidance according to the provisional treatment provided for in Paragraph 27-2 of the Fair Value Measurement Implementation Guidance into the future.

The impact of applying this Implementation Guidance on the quarterly consolidated financial statements for the six months ended September 30, 2022 is minor.

(Application of the FASB Accounting Standards Codification (ASC) Topic 842 - Leases)

Starting from the beginning of the first quarter, the Company's overseas consolidated subsidiaries that adopt the U.S. accounting standard applied the "FASB Accounting Standards Codification (ASC) Topic 842 - Leases," which dictates that lessees recognize assets and liabilities for all leases in the balance sheet, in principle.

As a result, as of the beginning of the first quarter, "Other" under "Property, plant and equipment," "Other" under "Current liabilities" and "Other" under "Non-current liabilities" increased by 180 million yen, 79 million yen, and 100 million yen, respectively.

The amount of impact of applying this accounting standard on the quarterly consolidated statement of income for the six months ended September 30, 2022 is minor.

(Supplemental information)

(Employee Stock Ownership Plan (“J-ESOP”))

The Company has introduced an Employee Stock Ownership Plan (“J-ESOP”) as an incentive program to grant employees the Company’s shares for the purpose of increasing their motivation and morale to improve the Company’s stock price and business performance by more strongly linking their compensation to the Company’s stock price and financial results and sharing economic benefits with shareholders.

Shares of the Company held by the J-ESOP trust are presented as treasury shares in the section of net assets in the consolidated balance sheet. The book value and the number of the treasury shares at the end of the previous fiscal year and at the end of the second quarter of the fiscal year under review are ¥3,065 million, 2,925 thousand shares and ¥2,545 million, 2,428 thousand shares, respectively.

(Board Benefit Trust (BBT))

The Company has introduced a Board Benefit Trust (BBT) as a performance-based stock compensation plan for directors and executive officers (excluding directors who are Audit and Supervisory Committee members and outside directors; the same applies hereinafter) to more clearly link their compensation to the Company’s financial results and stock value and increase their awareness of contributing to better business performance and enhancing corporate value continuously over the medium to long terms by sharing the benefits of rising stock price and the risks of falling stock prices.

Shares of the Company held by BBT are presented as treasury shares in the section of net assets in the consolidated balance sheet. The book value and the number of the treasury shares are ¥54 million, 67 thousand shares at the end of the previous fiscal year, and ¥1,038 million, 316 thousand shares, at the end of the second quarter of the fiscal year under review.

(Segment information)

I. For the six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

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	21,612	22,949	44,562	—	44,562
Intersegment sales or transfers	54	170	224	(224)	—
Total	21,666	23,120	44,786	(224)	44,562
Segment profit	5,713	7,477	13,191	(894)	12,296

(Note) The amount of adjustment for segment profit of ¥894 million is the amount of amortization of goodwill that does not belong to any reportable segment.

(Reference) Net sales by region: Japan ¥12,460 million China ¥12,348 million South Korea ¥6,060 million
Taiwan ¥8,409 million Other ¥5,282 million

II. For the six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

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

(Millions of yen)

	Reportable Segment			Adjustment (Note) 1	Consolidated
	Optical Materials and Components	Electronic Materials and Components (Note) 2	Total		
Net sales					
Sales to external customers	30,466	27,730	58,197	(0)	58,197
Intersegment sales or transfers	197	164	362	(362)	—
Total	30,664	27,895	58,559	(362)	58,197
Segment profit	10,924	9,647	20,571	(893)	19,678

(Notes) 1. The amount of adjustment for segment profit of minus ¥893 million is the amount of amortization of goodwill that does not belong to any reportable segment.

2. The Group made Kyoto Semiconductor Co., Ltd. its consolidated subsidiary in March 2022. Accordingly, the company's optical semiconductor business was included in the Electronic Materials and Components segment.

(Reference) Net sales by region: Japan ¥15,731 million China ¥14,467 million South Korea ¥9,037 million
Taiwan ¥13,503 million Other ¥5,457 million

(Significant subsequent event)

(Expansion of limit for share buyback)

At a meeting of the Board of Directors held on October 31, 2022, the Company has decided to expand the limit of its share buyback, following a resolution at a meeting of the Board of Directors held on May 10, 2022 with respect to matters concerning the share buyback pursuant to the provisions of Article 156 of the Companies Act that are applied by replacing the relevant terms pursuant to the provisions of Article 165, paragraph 3 of the Act.

(1) Reasons for the revision

Taking into comprehensive consideration a range of factors such as investment in growth, financial conditions and the Company's share price levels, the Company has decided to expand the limit for the total number of acquirable shares and the total value of share acquisition, so that it can improve capital efficiency and enhance corporate value through the flexible share buyback in line with the business environment.

(2) Resolution of the Board of Directors on the purchase of treasury shares (after revision)

- i. Class of share: Common stock of the company
- ii. Total number of shares to be acquired:
Up to 2,500,000 shares (700,000 shares added to the resolution passed on May 10, 2022)
(3.97% of the total number of shares issued, excluding treasury shares)
- iii. Total value of shares to be acquired:
Up to ¥8,000 million (added ¥3,000 million to the resolution passed on May 10, 2022)
- iv. Period of acquisition: June 1, 2022 to March 31, 2023 (excluding the period from five business days prior to the last day of the fiscal period to the last day of the same fiscal period (including each quarter))
- v. Method of acquisition: Purchase from the open market on the Tokyo Stock Exchange (through discretionary trading by a securities company)

(For reference 1)

Total number of treasury shares acquired based on the resolution of a meeting of the Board of Directors held on May 10, 2022 (as of October 28, 2022)

- i. Total number of shares acquired: 717,500 shares
- ii. Total value of shares acquired: ¥2,999,988,000

(For reference 2)

As announced in the "Notice Regarding Additional Contribution to Board Benefit Trust" on May 10, 2022, the Company made an additional cash contribution to the Board Benefit Trust (hereinafter referred to as the "Trust") created under the trust agreement concluded with Mizuho Trust & Banking Co., Ltd. The Trust purchased 252,900 shares of the Company, amounting to ¥999 million, and these shares are recognized as treasury shares.

Regarding this share buyback and Company's shares acquired through the additional contribution to the BBT during this fiscal year described above, the total number of shares and the total value of shares acquired are as follows.

	This share buyback	Company's shares acquired through the additional contribution to the BBT during this fiscal year	Total
(1) Shares acquired (A)	717,500 shares ¥2,999 million	252,900 shares ¥999 million	970,400 shares ¥3,999 million
(2) Shares to be acquired (maximum) (B)	2,500,000 shares ¥8,000 million		2,752,900 shares ¥8,999 million
(3) Remaining to the maximum (B – A)	1,782,500 shares ¥5,000 million	—	1,782,500 shares ¥5,000 million

(Notes) 1. Figures are rounded down to the indicated unit.

2. The Trust has started to acquire up to 300,000 shares with an additional trust amount of ¥1,000 million and has already completed the acquisition. Therefore, the total of (2) Shares to be acquired (maximum) (B) is calculated based on the actual number of shares acquired and the actual amount.

(For reference 3) Status of treasury shares held as of September 30, 2022

i. Number of shares issued excluding treasury shares: 62,264,971 shares

ii. Number of treasury shares: 2,274,029 shares

(Note) The treasury shares above excludes the 2,745,100 shares of the Company held by the Trust for directors and domestic employees.