

Consolidated Financial Results for the Nine Months Ended December 31, 2022 [Under Japanese GAAP]

February 1, 2023

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: Shinji Tomita, General Manager, IR Department, Corporate Strategy Division Phone: +81-285-39-7950
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 Scheduled date of dividend payment: –
 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, 2022 (from April 1, 2022 - December 31, 2022)

(1) Consolidated operating results (cumulative) (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, 2022	87,227	21.0	29,300	41.5	27,214	40.7	18,646	46.7
December 31, 2021	72,115	46.6	20,713	141.3	19,336	133.7	12,710	208.0

Note: Comprehensive income For the nine months ended December 31, 2022: ¥19,683 million [46.2%]

For the nine months ended December 31, 2021: ¥13,461 million [236.9%]

Note: EBITDA

For the nine months ended December 31, 2022: ¥34,391 million [36.8%]

For the nine months ended December 31, 2021: ¥25,146 million [90.0%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2022	314.25	312.56
December 31, 2021	208.81	207.37

(2) Consolidated financial position

	Total assets	Net assets	Capital to asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2022	125,762	72,018	56.6	1,227.77
March 31, 2022	128,785	64,576	49.5	1,063.24

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

As of December 31, 2022:

¥71,149 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
	105,000	9.7	31,000	16.4	29,200	16.7	20,000	20.0	329.48

Note: Revisions to earnings forecast published most recently: Yes

For further details, please see “1. Quarterly Consolidated Financial Statements and Notes, (3) Notes to quarterly consolidated financial statements (Supplemental information) (Consolidated earnings forecast and other forward-looking statements)” on page 7 of the attached materials.

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 February 9, 2023 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, (3) Notes to quarterly consolidated financial statements (Changes in accounting policies)” on page 6 of the attached materials.

- (4) Number of shares of common stock issued
 - (a) Number of shares issued (including treasury shares)

As of December 31, 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 December 31, 2022:	6,589,229 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

Nine months ended December 31, 2022:	59,336,426 shares	Nine months ended December 31, 2021:	60,872,403 shares
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Notes: 1. As a result of the exercise of stock options during the nine months ended December 31, 2022, the number of shares issued as of December 31, 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 December 31, 2022 and 293,800 shares as of December 31, 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 5,188,674 shares for the nine months ended December 31, 2022 and an average of 3,482,184 shares for the nine months ended December 31, 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 December 31, 2022)
Assets		
Current assets:		
Cash and deposits	29,363	25,545
Notes and accounts receivable - trade	19,140	19,236
Electronically recorded monetary claims - operating	289	392
Merchandise and finished goods	3,794	4,074
Work in process	3,565	3,212
Raw materials and supplies	4,465	5,301
Other	4,468	4,896
Allowance for doubtful accounts	(2)	(3)
Total current assets	65,086	62,654
Non-current assets:		
Property, plant and equipment		
Buildings and structures	32,288	22,793
Accumulated depreciation	(21,693)	(13,759)
Buildings and structures, net	10,595	9,033
Machinery, equipment and vehicles	38,755	40,024
Accumulated depreciation	(31,651)	(32,804)
Machinery, equipment and vehicles, net	7,103	7,219
Land	3,634	2,524
Construction in progress	3,620	7,861
Other	7,664	8,279
Accumulated depreciation	(5,915)	(6,326)
Other, net	1,749	1,952
Total property, plant and equipment	26,703	28,591
Intangible assets:		
Goodwill	23,728	22,015
Patent right	831	735
Customer-related intangible assets	3,247	2,975
Other	1,541	1,786
Total intangible assets	29,348	27,512
Investments and other assets:		
Shares of subsidiaries and associates	160	119
Retirement benefit asset	3,250	3,447
Deferred tax assets	2,661	1,580
Other	1,586	1,869
Allowance for doubtful accounts	(12)	(12)
Total investments and other assets	7,647	7,004
Total non-current assets	63,699	63,108
Total assets	128,785	125,762

(Millions of yen)

	Previous fiscal year (As of March 31, 2022)	Current quarter (As of December 31, 2022)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	13,087	10,368
Electronically recorded obligations - operating	2,928	2,819
Short-term borrowings	6,500	2,000
Current portion of long-term borrowings	4,465	7,677
Accounts payable - other	5,935	4,424
Accrued expenses	877	1,012
Income taxes payable	6,822	3,376
Provision for bonuses	3,084	1,675
Other	6,102	2,307
Total current liabilities	49,803	35,660
Non-current liabilities:		
Long-term borrowings	8,467	11,678
Retirement benefit liability	4,385	4,357
Deferred tax liabilities	1,235	1,313
Other	316	734
Total non-current liabilities	14,405	18,083
Total liabilities	64,209	53,744
Net assets		
Shareholders' equity:		
Share capital	16,170	16,184
Capital surplus	16,170	16,136
Retained earnings	35,733	50,624
Treasury shares	(7,444)	(15,908)
Total shareholders' equity	60,629	67,036
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	(359)	212
Foreign currency translation adjustment	2,691	3,183
Remeasurements of defined benefit plans	774	716
Total accumulated other comprehensive income	3,105	4,112
Non-controlling interests	840	868
Total net assets	64,576	72,018
Total liabilities and net assets	128,785	125,762

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

Quarterly consolidated statement of income

(Millions of yen)

	For the nine months ended December 31, 2021 (From April 1, 2021 to December 31, 2021)	For the nine months ended December 31, 2022 (From April 1, 2022 to December 31, 2022)
Net sales	72,115	87,227
Cost of sales	37,998	41,491
Gross profit	34,117	45,735
Selling, general and administrative expenses	13,403	16,434
Operating profit	20,713	29,300
Non-operating income:		
Interest income	6	48
Share of profit of entities accounted for using equity method	–	18
Rental income	42	14
Other	116	172
Total non-operating income	165	253
Non-operating expenses:		
Interest expenses	37	56
Foreign exchange losses	1,160	2,076
Share of loss of entities accounted for using equity method	125	–
Depreciation	123	44
Loss on investments in investment partnerships	22	19
Other	72	142
Total non-operating expenses	1,542	2,339
Ordinary profit	19,336	27,214
Extraordinary income:		
Gain on sale of non-current assets	0	13
Gain on liquidation of subsidiaries	242	–
Subsidy income	–	42
Total extraordinary income	242	56
Extraordinary losses:		
Loss on sale of non-current assets	5	–
Loss on retirement of non-current assets	526	346
Loss on tax purpose reduction entry of non-current assets	–	39
Head office relocation expenses	102	–
Compensation for damage	349	–
Total extraordinary losses	984	386
Profit before income taxes	18,595	26,884
Income taxes - current	5,516	7,273
Income taxes - deferred	368	937
Total income taxes	5,884	8,211
Profit	12,710	18,673
Profit attributable to non-controlling interests	–	26
Profit attributable to owners of parent	12,710	18,646

Quarterly consolidated statement of comprehensive income

(Millions of yen)

	For the nine months ended December 31, 2021 (From April 1, 2021 to December 31, 2021)	For the nine months ended December 31, 2022 (From April 1, 2022 to December 31, 2022)
Profit	12,710	18,673
Other comprehensive income:		
Deferred gains or losses on hedges	572	572
Foreign currency translation adjustment	224	496
Remeasurements of defined benefit plans, net of tax	(45)	(57)
Total other comprehensive income	750	1,010
Comprehensive income	13,461	19,683
Comprehensive income attributable to:		
Owners of parent	13,461	19,653
Non-controlling interests	–	30

(3) Notes to quarterly consolidated financial statements

(Going concern assumption)

Not applicable.

(Significant changes in shareholders' equity)

(Purchase of treasury shares)

The Company repurchased 2,288,000 treasury shares worth 7,999 million yen in the nine months ended December 31, 2022 based on the resolutions adopted at the meeting of the Board of Directors held on May 10, 2022 and October 31, 2022.

In addition, following the additional contribution of funds to the Board Benefit Trust (BBT) system according to a resolution taken at the meeting of the Board of Directors on May 10, 2022, 252,900 shares of the Company that the Trust purchased for the price of 999 million yen in total during the nine months ended December 31, 2022 were recognized as treasury shares.

As a result, treasury shares were valued at 15,908 million yen as of the end of the third quarter under review.

(Acquisition of additional shares in subsidiary)

The Company acquired additional shares in Kyoto Semiconductor Co., Ltd., its consolidated subsidiary, in the nine months ended December 31, 2022. The amount of capital surplus decreased 47 million yen due to this additional acquisition. This reflects the effect of the determination of a provisional accounting process related to a business combination in the third quarter of the current fiscal year.

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 nine months ended December 31, 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 nine months ended December 31, 2022 is minor.

(Business combinations)

(Determination of a provisional accounting related to a business combination)

In the previous fiscal year, the Company performed a provisional accounting process for the business combination with Kyoto Semiconductor Co., Ltd. on March 24, 2022 (the deemed acquisition date is March 31, 2022). The provisional accounting was determined in the third quarter of the current fiscal year.

A significant revision to the allocation of the acquisition cost due to the determination of the provisional accounting is reflected in the comparative information included in the quarterly consolidated financial statements for the nine months ended December 31, 2022. Details are as follows.

Type	Provisional amount (Millions of yen)	Determined amount (Millions of yen)	Change (Millions of yen)	Amortization period
Goodwill	6,825	4,960	(1,864)	10 years
Customer-related intangible assets	Backlog of orders	–	182	1 year
	Excluding a backlog of orders	–	3,065	17 years
	Total	–	3,247	–
Land	210	271	61	–
Deferred tax liabilities	–	1,007	1,007	–
Non-controlling interests	404	840	435	–

(Supplemental information)

(Consolidated earnings forecast and other forward-looking statements)

Since the third quarter, the business environment has changed significantly from the previous forecast in October due to the suspension of customer plants due to lockdowns in China, inventory adjustments of high-end products due to market deterioration, and the rapid appreciation of the yen.

In this environment, net sales of certain products for high-end laptop PCs and products for high-end smartphones, which were affected by lockdowns in China, in the third quarter fell below the forecast in October. Moreover, in the fourth quarter, expected net sales are lower than the forecast in October due to significant adjustments of inventories of high-end tablets and laptop PCs and increased adjustments of inventories of smartphones in the Chinese market and power tools. In addition, the Company has changed the assumed exchange rate in the fourth quarter from 145.0 yen/US\$ to 127.0 yen/US\$.

For these reasons, the Company has revised its full-year consolidated financial forecasts for the fiscal year ending March 31, 2023 as follows.

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

	Net sales (Millions of yen)	Operating profit (Millions of yen)	Ordinary profit (Millions of yen)	Profit attributable to owners of parent (Millions of yen)	Basic earnings per share (Yen)
Previous forecast (A)	110,000	35,000	32,300	22,000	362.43
Revised forecast (B)	105,000	31,000	29,200	20,000	329.48
Amount changed (B-A)	(5,000)	(4,000)	(3,100)	(2,000)	–
Percent change (%)	(4.5%)	(11.4%)	(9.6%)	(9.1%)	–
[Reference] Results for previous fiscal year	95,712	26,642	25,023	16,669	274.61

(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 third quarter of the fiscal year under review are 3,065 million yen, 2,925 thousand shares and 2,544 million yen, 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 yen, 67 thousand shares at the end of the previous fiscal year, and 1,038 million yen, 316 thousand shares, at the end of the third quarter of the fiscal year under review.

(Segment information)

I. For the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 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	36,174	35,941	72,115	–	72,115
Intersegment sales or transfers	82	306	388	(388)	–
Total	36,256	36,247	72,504	(388)	72,115
Segment profit	9,706	12,348	22,054	(1,341)	20,713

(Note) The amount of adjustment for segment profit of minus ¥1,341 million is the amount of amortization of goodwill that does not belong to any reportable segment.

(Reference) Net sales by region: Japan ¥20,832 million China ¥17,805 million South Korea ¥10,526 million
Taiwan ¥14,803 million Other ¥8,147 million

II. For the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

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

(Millions of yen)

	Reportable Segment			Adjustment (Note 1)	Consolidated (Note 3)
	Optical Materials and Components	Electronic Materials and Components (Note 2) (Note 3)	Total		
Net sales					
Sales to external customers	45,788	41,439	87,227	(0)	87,227
Intersegment sales or transfers	322	235	558	(558)	–
Total	46,111	41,674	87,785	(558)	87,227
Segment profit	16,279	14,362	30,641	(1,340)	29,300

(Notes) 1. The amount of adjustment for segment profit of minus ¥1,340 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.

3. Segment information for the nine months ended December 31, 2022 includes amounts that reflect a significant revision to the initial allocations of the acquisition cost due to the determination of a provisional accounting process related to a business combination.

(Reference) Net sales by region: Japan ¥22,845 million China ¥21,754 million South Korea ¥14,444 million
Taiwan ¥19,540 million Other ¥8,642 million