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Formulation of Mid-Term Management Plan 2028 “Achieving Evolution” and Purpose

Dexerials Corporation (Headquarters: Shimotsuke-shi, Tochigi, Representative Director and President: Yoshihisa Shinya, hereinafter, “Dexerials” or the “Company”) announces that it has formulated Purpose and a new Mid-Term Management Plan 2028 “Achieving Evolution” (hereinafter referred to as the “plan”), spanning a five-year period from FY2024.

In April 2019, Dexerials formulated its previous Mid-Term Management Plan—“Challenges for Evolution”—to promote the growth of the automotive business, a new business domain. The Company also launched the photonics business as the next pillar of the automotive business, and took other measures to expand its business. In existing domains, too, Dexerials was able to achieve business growth at a pace that exceeded the growth of the smartphone market, by expanding its range of high value-added products developed and provided in anticipation of technology trends. The Company was also able to lay the foundation for sustainable growth and enhancement of corporate value, achieving record high operating profit for four consecutive years.

In the face of global supply chain disruptions, against the backdrop of the COVID-19 pandemic, Russia’s invasion of Ukraine, and various natural disasters, Dexerials implemented reforms to strengthen its management base, such as by relocating its head office to Tochigi Prefecture, providing company stock to employees, and introducing remote work and a job-type personnel system.

At the same time, as the external environment changes rapidly and grows increasingly complex, society is demanding that companies work toward business growth through the resolution of social issues. As a starting point for employees to come together and contribute to further growth and the creation of a sustainable society in this uncertain business environment, Dexerials has established Purpose—“Empower Evolution. Connect People and Technology.”—and Statement*¹. The Company has formulated the new five-year Mid-Term Management Plan 2028, as a first step toward realizing its ideal vision, which lies beyond continued efforts to embody its Purpose.

In the plan, which is positioned as a phase to realize further evolution and growth as a company, Dexerials will pursue the three basic policies of “expanding businesses in growth domains,” “qualitative strengthening of businesses in existing domains” and “evolution of the management base,” to expand its business portfolio. At the same time, the Company will achieve business growth while flexibly adapting to changes in the business environment, with an eye on trends such as geopolitical risks and social demand for ESG initiatives.

Going forward, Dexerials aims to contribute to the realization of a sustainable society, achieve sustainable growth, and increase corporate value by continuing to provide high value-added products, technologies, and solutions that are essential for the evolution of digital technologies that support the resolution of social issues, while adhering to its corporate philosophy, “Integrity Have Integrity and Sincerity,” even in a changing society and environment.

*1: [Dexerials Formulates Purpose and Statement “Empower Evolution. Connect People and Technology.” | Dexerials Corporation \(dexerials.jp/en\)](https://www.dexerials.jp/en)

Overview of Mid-Term Management Plan 2028 “Achieving Evolution”

1. Plan Period

The plan is a five-year plan from FY2024 to FY2028 (from April 1, 2024 to March 31, 2029).

2. Positioning of the Plan

Through the previous Mid-Term Management Plan— “Challenges for Evolution,” we believe that we were able to lay the foundation for sustainable growth. At the same time, the business portfolio expansion that we were working on during the previous plan is still in progress. In an increasingly complex business environment with heightened geopolitical risks, we recognize the need to continue evolving at a speed that will enable us to stay ahead of changes.

In view of this, we have positioned this plan as a stage to achieve our evolution as a company, and will continue working to further expand our business portfolio and drive efforts to build a management base that is resilient to changes.

3. Target Management Figures and Indices

(FY) (100 million yen)	FY2023 results (JGAAP)	FY2024 forecasts (IFRS)	FY2026 plan (IFRS)	FY2028 plan (IFRS)
Net sales	1,052	1,070	1,200	1,500
Operating profit (JGAAP)	334	—	—	—
Business profit (IFRS)	—	335	360	500
Net Profit ^{*2}	214	230	250	350
Exchange rate	144.6 JPY/US\$	140.0 JPY/US\$	135.0 JPY/US\$	135.0 JPY/US\$

Management indices				
EBITDA ^{*3}	400	395	480	640
ROE ^{*4}	27.1%	25.5%	Approx. 25% from FY2025 through FY2028	
ROIC ^{*5}	22.3%	18.8%	Approx. 14% from FY2025 through FY2028	

Note: From the first quarter of the fiscal year ending March 31, 2025 (FY2024), the Company has applied International Financial Reporting Standards (IFRS). The Company positions business profit as profit generated from its core business and sets it as profit equivalent to operating profit under Japanese accounting standards (Japanese GAAP).

*2: Net profit should be read as net profit attributable to shareholders of parent (for FY2023) and profit attributable to owners of parent (for FY2024 onward).

*3: Earnings (profit) before interest, taxes, depreciation, and amortization. It is used as an indicator of the company’s earning power. For FY2023,

EBITDA = Operating profit + Depreciation posted as operating expenses + Amortization of goodwill. For FY2024 onward, EBITDA = Business profit + Depreciation posted as operating expenses.

*4: Return on equity. An indicator that measures the ratio of profit to shareholders' equity, i.e., capital efficiency. For FY2023, ROE = Net profit attributable to shareholders of parent / Equity capital x 100. For FY2024 onward, ROE = Profit attributable to owners of parent / Equity capital x 100.

*5: Return on invested capital. An indicator that measures the ratio of profit gained from invested capital, i.e., investment efficiency. For FY2023, ROIC = (Operating profit x (1 - Effective tax rate)) / (Capital + Interest-bearing debts) x 100. For FY2024 onward, ROIC = (Business profit x (1 - Effective tax rate)) / (Capital + Interest-bearing debts) x 100.

4. Strategies for Mid-Term Management Plan 2028

To achieve the targets of this plan, we will take on the challenges of creating new value leveraging the strengths we have cultivated so far in the automotive and photonics domains, which are expected to grow in the future. During the plan period, we will drive growth in sales of the automotive business to 30 billion yen (CAGR of 16.5%), and sales of the photonics business to 15 billion yen (CAGR of 16.5%). We will more than double sales in growth domains to 45 billion yen, and increase the percentage of total sales from 20% in FY2023 to 30%.

To further strengthen the core of revenue drivers, we will seek to deepen and qualitatively strengthen existing businesses, through the expansion of high value-added products. Sales of high value-added products—mainly Anisotropic Conductive Film (ACF) and surface mounted type fuses—will plan to increase by approximately 1.2 times to 105 billion yen during the plan period. We also believe that the business environment will continue to undergo rapid changes, making the future difficult to predict. In view of this, we will continue to evolve into a company with a strong management base supporting sustainable growth that is not affected by changes. By doing so, we aim to achieve net sales of 150 billion yen, business profit of 50 billion yen, and ROE of approximately 25% in FY2028.

5. Three Basic Policies and Key Initiatives

(1) Basic Policy 1: Challenge to Create New Value through Business Expansion in Growth Domains

■ Key initiatives

<p><Automotive> Further growth of anti-reflection films for automotive displays</p> <p>Expand business for sensor modules</p>	<p>- While global automobile production has not increased significantly, CASE*6 is progressing, representing a transformation in the automobile industry. Due to the need to convey vehicle behavior to drivers, it is expected that the number of automotive displays installed will increase, and display areas will also expand as a result of the digitalization of display functions. Viewing this development as a business opportunity for anti-reflection films, Dexerials will commence operation of a new production line in April to steadily capture the ever-growing demand.</p> <p>- As the shift toward IoT-based automobiles progresses, the need for high-performance sensor devices is increasing due to the need for vehicles to acquire information and data with a high degree of accuracy. We will seek to expand business in smart precision adhesives and Anisotropic Conductive Films (ACF) for sensor modules through technology and solutions developed in the existing electronics domain, and through</p>
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	collaboration with our customer base and partners built up through our work in anti-reflection films for automotive applications.
<Photonics> Increasing production of high-speed PDs for optical transceivers and accelerating the development of next-generation technologies	<ul style="list-style-type: none"> - With the increase in data traffic resulting from spread of generative AI and the increase in data centers, the demand for high-speed photodiodes (PDs) for optical transceivers is growing rapidly, and the next generation of high-speed communication technology is also in demand. - Dexerials Photonics Solutions Corporation (DXPS)*7, the core of the photonics business, was launched on April 1, 2024. The company aims to expand its production capacity and grow its business in response to strong demand for high-speed PDs from major customers. In addition to accelerating the development of high-speed PDs for next-generation optical transceivers, DXPS will also begin the development of composite semiconductor devices combining various technologies, in anticipation of the evolution of high-speed communication technologies.

*6: A word symbolizing the transformation of the automobile industry, which is said to occur once every 100 years. It is an acronym formed from the initial letters of the words Connected, Autonomous / Automated, Shared, and Electric, coined to express advanced technologies and services in the automotive industry, such as the shift of automobiles toward IoT, autonomous driving, car sharing, and electrification.

*7: An integrated company formed from Dexerials Precision Components (previously a Japanese consolidated subsidiary of Dexerials) and Kyoto Semiconductor Co., Ltd. [Notice of Commencement of Operation of Dexerials Photonics Solutions Corporation as Integrated Company Leading Growth in the Photonics Domain | Dexerials Corporation \(dexerials.jp/en\)](#)

(2) Basic Policy 2: Deepen and Qualitatively Strengthen Businesses in Existing Domains

■ Key initiatives

Anisotropic conductive film (ACF)	<ul style="list-style-type: none"> - Demand for organic light-emitting diode (OLED) displays continues to grow as their adoption in smartphones continues to expand, and their adoption for other applications has also increased. - Demand for particle-arrayed Anisotropic Conductive Films (ACF)—which has become the <i>de facto</i> mounting material for flexible OLED displays—is also growing, and the company will invest in increasing production, starting operation of a new production line in 2026 with the aim of achieving medium-to-long-term business growth. - We will also accelerate development with a view to adoption in micro LED displays as a new application. For sensor modules, we will offer pre-cut ACF with a high degree of design freedom to grow faster than application growth.
Surface mounted type fuse	<ul style="list-style-type: none"> - Against the backdrop of growing awareness of carbon neutrality, the number of applications equipped with lithium-ion batteries is increasing, and the trend of installing secondary protection circuits in such applications for safety reasons is expected to grow stronger worldwide. - Against the backdrop of this boost, for surface mounted type fuses for high value-added high-current products, we will grow our business through global expansion of our customer base for power tools and electric motorcycles.

(3) Basic Policy 3: Evolution towards the Company with a Strong Business Foundation Unaffected by Environmental Changes

■ Enhancing the sales functions

- To further strengthen our business model, we will strengthen our design-in and spec-in*⁸ activities in Asia and other regions outside Japan.
- Through strategic partnerships, we will work to strengthen our distribution function, improve our ability to respond to exchange rate fluctuations, and reduce working capital.

*8: “Design-in” refers to approaching customers who produce finished products. “Spec-in” refers to approaching customers who use Dexterity products.

■ Strengthening technologies and people

- We will continue working to evolve into a company that can differentiate itself through technologies by strengthening our technologies and human capital, which is the most important management issue (Materiality) for our company.
- We will accelerate R&D activities centered on the photonics domain, and improve our abilities to acquire and retain technical and global human resources through the development of a Group-wide job-based personnel system*⁹.

*9: A personnel system in which persons with the necessary skills and experience are assigned to jobs provided by the company to maximize the abilities of employees, and roles and job content are determined accordingly. [Notice Regarding Introduction of a Job-Type Personnel System for Entire Dexterity Group | Dexterity Corporation \(dexterity.jp/en\)](#)

■ Enhancing the manufacturing functions

- Based on the belief that Japan’s working-age population will decline in the future, we will advance the construction of smart factories through digital transformation (DX)—such as at the newly constructed building next to Kanuma Plant No.2—and implement strategies to maximize the value of human capital.
- We will strengthen the BCP functions of each site.

6. Capital Allocation, Financial Strategy, Capital Policy, and Management Approach with an Awareness of Cost of Capital

We will work to maximize corporate value by balancing sustainable growth and shareholder returns. Specifically, in our capital allocation for the plan period, we will balance investments for sustainable growth with a high level of shareholder returns, and achieve an optimal capital structure through capital cost management in line with the nature of our investments (aiming for net D/E of 0.45 and a capital to asset ratio of 50% in FY2028). In our shareholder return policy, we have introduced dividend on equity (DOE) ratio with a focus on stable dividends and capital efficiency.

We also position ROE as an indicator that relates to sustainable improvement of corporate value, and will work to maintain a high level of ROE through business growth and capital efficiency. At the same time, we will aim to maintain and expand positive equity spread in the medium to long term by reducing the cost of shareholders’ equity, by lowering the volatility of our business results through both achieving sustainable growth by expanding our business portfolio and reducing our sensitivity to foreign exchange fluctuation.

■ Capital allocation policy

- Under the new plan, we will generate operating cash flow of approximately 170 billion yen over a five-year period, approximately double that of the previous mid-term management plan, and make growth investments of approximately 130 billion yen, more than triple those made under the previous plan.
- In addition, to achieve sustainable growth from FY2029 onward, we have secured an investment quota of approximately 50 billion yen for growth measures such as increasing production capacity and alliances. We will implement these measures gradually going forward, as investment certainty increases.
- In terms of shareholder returns, we reviewed our return policy against the backdrop of an increase in earning power, and will make returns of approximately 80 billion yen over a five-year period, more than doubling the amount of returns made under the previous mid-term management plan.

■ New shareholder return policy and capital policy

- Increase of total return ratio (previously 40%): We will aim to return 60% of net profit in terms of cumulative total payout ratio for the five-year period.
- Cash dividends: We aim to achieve a consolidated dividend payout ratio of 40% and set a DOE of 7% or higher*¹⁰ as the lower limit, based on long-term stable dividends.
- Purchase of treasury shares: We will flexibly implement purchase of treasury shares with consideration for our financial situation, share price level, cash position, and other factors.
- Capital policy: On May 13, 2024, a resolution was made to implement a three-for-one stock split effective on October 1, 2024, with the objective of boosting the liquidity of the Company's stock and widely expanding investors by lowering the amount per unit investment*¹¹.

*10: 7% of net assets as of the end of the previous fiscal year

*11: [Notice Regarding Stock Split and Partial Revision of the Articles of Incorporation Associated with the Stock Split, a timely disclosure dated May 13, 2024 | Dexerials Corporation \(dexerials.jp/en\)](#)

(Precautions regarding outlook)

The forward-looking statements contained in this document 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.

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