Dexerials

Consolidated Financial Results for the Nine Months Ended December 31, 2015 〔Under Japanese GAAP〕

January 28, 2016

Company name: Dexerials Corporation Listing: Tokyo Stock Exchange
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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, 2015 (from April 1, 2015 to December 31, 2015)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2015	48,677	—	6,676	—	6,726	—	4,509	—
December 31, 2014	—	—	—	—	—	—	—	—

Notes: 1. Comprehensive income
For the nine months ended December 31, 2015: ¥4,231 million [—%]
2. The Company did not prepare quarterly consolidated financial statements for the nine months ended December 31, 2014.

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2015	71.57	70.26
December 31, 2014	—	—

Note: The Company conducted a stock split of 100 shares for each 1 share of common stock with an effective date of May 27, 2015. Basic earnings per share for the nine months ended December 31, 2015 was calculated based on the assumption that the stock split had been conducted at the beginning of the fiscal year ending March 31, 2016.

(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, 2015	89,678	56,920	63.5	903.49
March 31, 2015	88,979	54,421	61.2	863.82

Notes: 1. Capital (Shareholders' equity + Accumulated other comprehensive income):
As of December 31, 2015: ¥56,920 million As of March 31, 2015: ¥54,421 million
2. Net assets per share as of December 31, 2015 and March 31, 2015 were calculated based on the assumption that the stock split on May 27, 2015 had been conducted at the beginning of the fiscal year ended March 31, 2015.

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, 2015	—	0.00	—	0.00	0.00
Ending March 31, 2016	—	27.50	—		
Ending March 31, 2016 (forecast)				32.50	60.00

Notes: 1. Revisions to dividend forecast published most recently: Yes

Breakdown of the year-end dividend (forecast) for the fiscal year ending March 31, 2016:
Ordinary dividend: ¥27.50 per share Commemorative dividend: ¥5.00 per share

For more information on the revision to the dividend forecast, please refer to "Notice of Revision to Forecast of the Year-end Dividend (Commemorative Dividend for Listing on the First Section of the Tokyo Stock Exchange)" (Japanese version only) that has been released today, January 28, 2016.

2. Annual dividends have been to reflect the stock split on May 27, 2015.

Reference: Dividend payout ratio (consolidated) for the fiscal year ending March 31, 2016 (forecast): 65.17%
Dividend payout ratio (consolidated) before amortization of goodwill for the fiscal year ending March 31, 2016 (forecast): 49.74%

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2016 (from April 1, 2015 to March 31, 2016)

(Percentage indicates year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year	68,500	4.6	9,000	(6.4)	8,700	(11.9)	5,800	(45.9)	92.06

Notes: 1. Revisions to earnings forecast published most recently: Yes
2. Basic earnings per share have been to reflect the stock split on May 27, 2015.

[Notes]

(1) Changes in significant subsidiaries during the current period (Changes in specified subsidiaries resulting in the change in scope of consolidation): No
Inclusion: None
Exclusion: None

(2) Application of accounting methods used specifically for preparing the quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and restatements of prior period financial statements
(a) Changes in accounting policies due to application of new or revised accounting standards: None
(b) Changes in accounting policies due to reasons other than above (a): None
(c) Changes in accounting estimates: None
(d) Restatements of prior period financial statements: None

(4) Number of common stock issued
(a) Number of shares issued (including treasury stock)
As of December 31, 2015: 63,000,000 shares
As of March 31, 2015: 63,000,000 shares
(b) Number of treasury stock
As of December 31, 2015: —
As of March 31, 2015: —
(c) Average number of common stock during the fiscal year
Nine months ended December 31, 2015: 63,000,000 shares
Nine months ended December 31, 2014: 63,000,000 shares
Note: The Company conducted a stock split of 100 shares for each 1 share of common stock with an effective date of May 27, 2015. The number of shares mentioned above was calculated based on the assumption that the stock split had been conducted at the beginning of the fiscal year ended March 31, 2015.

[Indication regarding execution of quarterly review procedures]

This quarterly financial results report is not subject to the review procedures which are required by “Financial Instruments and Exchange Act”. As of January 28, 2016, the review procedures for the quarterly financial statements are in progress.

[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.

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1. Qualitative Information on Quarterly Financial Statements

(1) Explanation of operating results

Regarding the operating results of the Dexerials Group companies (hereinafter, "the Group") for the nine months ended December 31, 2015 (from April 1, 2015 to December 31, 2015, hereinafter, "the current period"), the Group reported net sales of ¥48,677 million (down 2.6% year-on-year) and operating income of ¥6,676 million (down 22.6% year-on-year). These results were caused by a decrease in sales from the Adhesive materials and other categories under deteriorated conditions of the end-product market such as for smartphones, tablet PCs and laptop PCs, which could not be offset by an increase in sales from the Anisotropic conductive films (ACF) category, our mainstay business. Meanwhile, the Group reported ordinary income of ¥6,726 million thanks mainly to foreign exchange gains, and profit attributable to owners of parent of ¥4,509 million.

(Reference)

Consolidated and segment results of operations for the nine months ended December 31, 2014 (in millions of yen)

Consolidated operating results:

Net sales	49,996
Operating income	8,622

Segment operating results:

Optical Materials and Components		Electronic Materials and Components	
Net sales	21,973	Net sales	28,165
Operating income	3,592	Operating income	6,378

Notes: 1. As the amounts of net sales and operating income for the nine months ended December 31, 2014 were neither audited nor reviewed by PricewaterhouseCoopers Aarata, the above results are presented in the attached materials of this quarterly financial results report as a reference for the purpose of a year-on-year comparative analysis.

2. Net sales of the segment include inter-segment transactions.

3. The difference between the total amount of segment operating income and the consolidated operating income is equal to the amount of amortization of goodwill.

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

1) Optical Materials and Components business

(Millions of yen)

	Nine months ended December 31, 2015 (the current period)	Nine months ended December 31, 2014 (the previous period)	Year-on-year change
Net sales	21,784	21,973	(0.9)%
Operating income	2,431	3,592	(32.3)%

Note: Net sales include inter-segment transactions.

During the current period, the Optical solutions category saw a year-on-year increase in sales thanks to winning new contracts. However, as both the Optical films and Optical resin materials categories saw a year-on-year decrease in sales, the Optical Materials and Components business segment as a whole ended up with sales of ¥21,784 million, which is only slightly lower than those for the previous period, or down 0.9 % year-on-year, and operating income of ¥2,431 million (down 32.3% year-on-year).

2) Electronic Materials and Components business

(Millions of yen)

	Nine months ended December 31, 2015 (the current period)	Nine months ended December 31, 2014 (the previous period)	Year-on-year change
Net sales	27,036	28,165	(4.0)%
Operating income	5,595	6,378	(12.3)%

Note: Net sales include inter-segment transactions.

During the current period, the ACF category saw a year-on-year increase in sales thanks to continued favorable demand for the products used in applications other than the display panels such as ACF for camera modules. On the other hand, however, both

the Adhesive materials and Li-ion battery secondary protection devices categories were affected by a decrease in demand for end-products, resulting in a year-on-year decrease in sales. Consequently, the Electronic Materials and Components business segment reported net sales and operating income of ¥27,036 million (down 4.0% year-on-year) and ¥5,595 million (down 12.3% year-on-year), respectively.

(2) Explanation of financial position

(Assets)

Total assets at the end of the current period amounted to ¥89,678 million, an increase of ¥698 million from the end of the fiscal year ended March 31, 2015 (hereinafter, "the end of the previous fiscal year").

Current assets amounted to ¥36,520 million, a decrease of ¥430 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases in deferred tax assets, and merchandise and finished goods by ¥1,119 million and ¥477 million, respectively, which are partly offset by increases in cash and deposits, and notes and accounts receivable - trade by ¥591 million and ¥283 million, respectively.

Non-current assets amounted to ¥53,157 million, an increase of ¥1,129 million from the end of the previous fiscal year. This increase can mainly be explained by increases in construction in progress and land by ¥1,567 million and ¥1,187 million, respectively, which are partly offset by a decrease in intangible assets by ¥1,579 million due primarily to amortization of goodwill.

(Liabilities)

Total liabilities at the end of the current period amounted to ¥32,758 million, a decrease of ¥1,800 million from the end of the previous fiscal year.

Current liabilities amounted to ¥15,723 million, an increase of ¥111 million from the end of the previous fiscal year. This increase can mainly be explained by an increase in notes and accounts payable - trade by ¥374 million.

Non-current liabilities amounted to ¥17,034 million, a decrease of ¥1,912 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases in long-term debt and liability for retirement benefits by ¥1,500 million and ¥461 million, respectively.

(Net assets)

Total net assets at the end of the current period amounted to ¥56,920 million, an increase of ¥2,499 million from the end of the previous fiscal year. This increase can mainly be explained by reporting of profit attributable to owners of parent of ¥4,509 million, which was partly offset by declaration of dividends of ¥1,732 million.

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

In light of the operating results for the nine months ended December 31, 2015 (from April 1, 2015 to December 31, 2015, hereinafter, "the current period") and the earnings forecast for the fourth quarter of the fiscal year ending March 31, 2016 (January 1 to March 31, 2016), we have revised the earnings forecast announced on July 29, 2015 as follows.

Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2016

(Millions of yen)

	Current forecast as of Jan. 28, 2016	Year-on-year percentage change	Percentage change from previous forecast as of Jul. 29, 2015	(Ref.) Previous forecast as of Jul. 29, 2015	Year-on-year percentage change	Results for previous fiscal year
Consolidated net sales	68,500	4.6%	(9.4)%	75,600	15.4%	65,508
Operating income	9,000	(6.4)%	(24.4)%	11,900	23.8%	9,611
Ordinary income	8,700	(11.9)%	(24.3)%	11,500	16.5%	9,870
Profit attributable to owners of parent	5,800	(45.9)%	(17.1)%	7,000	(34.7)%	10,721

As a manufacturer of highly functional materials, the Group supplies products in the field of optical and electronic materials business. Due to a nature of the business, the Group is highly influenced by market trends in small- and mid-sized display panels as well as in the electronic components used for end-products such as smartphones, tablet PCs and laptop PCs. Since the fall of 2015, we have been facing a rapid change in the business environment surrounding the Company as a result of the consumer IT products market experiencing a growth slowdown or even a shrinkage since the start of the second half of the current fiscal year.

Due to the above-mentioned change in the trend of the end-products market and other factors, we have reported net sales for the current period of ¥48,677 million, which is 13% below the initial plan.

The following description explains the business situation by segment and also by category as its component, which has required us to revise the earnings forecast for the fiscal year ending March 31, 2016

The Optical Materials and Components business segment reported net sales of ¥21,784 million for the current period, which is 18% below the initial plan, due to the situation where sales of both the Optical solutions and the Optical resin materials categories fell substantially below our expectation.

- Optical solutions category: At the start of the current period, we expected that revenue from display panels for electronic book terminals, which we obtained as new contracts of its display panel laminating business, would make a substantial contribution to this category. However, as the competitive environment in the electronic book terminals industry has got tougher than ever, given the situation where the tablet PC has emerged as a strong substitute for the electronic book terminal, sales of the category fell 34% below the plan due to the fact that the volume of orders for our panel laminating service fell about 40% below our expectation.
- Optical resin materials category: At the start of the current period, we expected that revenue from Hybrid SVR for tablet PCs would increase because of an increase in the number of our end-product customers' models incorporating it. However, as the growth rate for the tablet PC market has further slowed down since the summer of 2015, sales of this category fell 9% below the plan due to the fact that the number of our products sold fell about 20% below our expectation although this shortage can partly be explained by postponement of some customer orders to the fourth quarter.

The Electronic Materials and Components business segment reported net sales of ¥27,036 million for the current period, which is 8% below the initial plan, due to the situation where sales of both the Adhesive materials and Li-ion battery secondary protection devices categories fell below our expectation, while the Anisotropic conductive films (ACF) category achieved the sales largely as planned.

・Adhesive materials category: As many of our products in this category are used for laptop PCs and tablet PCs, sales of the category are heavily dependent on the demand for these end-products. Unfortunately, since the beginning of 2015, the growth rates of both the laptop PC and tablet PC markets have been reduced significantly more than expected, and since last summer it is evident that the market condition has clearly deteriorated with the growth rates for both markets falling into negative figures in terms of the number of units sold. Accordingly, as a result of a decrease in the number of end-products manufactured and the resulting intensified price competition, the number of our product units sold fell about 30% below our expectation and sales of the category fell 26% below the plan.
・Li-ion battery secondary protection devices category: As our products in this category are highly competitive in applications for laptop PCs and tablet PCs, sales of the category are heavily dependent on the demand for these end-products. As already described in the business situation of the Adhesive materials category, the category has also suffered from recent deterioration of the end-product market condition. Accordingly, as a result of a decrease in the number of end-products manufactured and the resulting intensified price competition, the number of our product units sold fell about 20% below our expectation and sales of the category fell 22% below the plan.
・Anisotropic conductive films (ACF) category: Although sales of our highly competitive ACFs used mainly for small- and mid-sized display panels were somewhat affected by weakening demand for the end-products, sales of products for applications other than the display panels such as ACF for camera modules remained strong enough to compensate for the relatively weak sales of ACFs for display panels and helped achieve sales of the category largely as planned.

In terms of profitability, the Group reported operating income of ¥6,676 million for the current period, which was 22% below the initial plan. This result was caused by decreased profit from the Adhesive materials, Optical resin materials and Li-ion battery secondary protection devices categories, all of which fell short of their sales target; and by loss reported by the Optical solutions category, which also fell short of its sales target. Consequently, ordinary income and profit attributable to owners of parent were also influenced by a decrease in the amount of operating income, with the amounts of ¥6,726 million and ¥4,509 million, respectively.

Against this backdrop, we have responded to such a situation by implementing measures to recover financial performance. As a result, we expect net sales for the fourth quarter to achieve the level largely as initially planned and net sales for the full year ended March 31, 2016 to be ¥68,500 million, which is 9% below the plan.

The following description explains the expected business situation by segment and also by category as its component.

While sales of the Optical Materials and Components business segment for the fourth quarter will increase by about 25% as compared with the initial plan, sales for the full year ended March 31, 2016 are expected to be ¥34,200 million, which is 6% below the plan.

- Since sales of the Optical solutions category for the fourth quarter will increase by about 120% as compared with the plan thanks to winning new contracts for panel laminating for end-products other than electronic book terminals, sales for the full year ended March 31, 2016 are expected to slightly exceed the plan.
- Sales of the Optical resin materials category for the full year ended March 31, 2016 are expected to fall slightly short of the plan due to an impact of strategic pricing with an aim to expand sales in the future although part of Hybrid SVR sales that were expected to make during the third quarter will be shifted to the fourth quarter.

While sales of the Electronic Materials and Components business segment for the fourth quarter will decrease by about 25% as compared with the initial plan, sales for the full year ended March 31, 2016 are expected to be ¥34,500 million, which is 13% below the plan.

- We plan to gradually introduce new products going forward in order to improve sales of the Adhesive materials and Li-ion battery secondary protection devices categories. However, as considerable period of time will be required for the customers to evaluate new products and complete other procedures, we expect that the difficult situation will continue during the fourth quarter. Consequently, sales for the full year ended March 31, 2016 of the Adhesive materials and Li-ion battery secondary protection devices categories will fall about 30% and 25% below the plan, respectively.
- Sales of the Anisotropic conductive films (ACF) category for the full year ended March 31, 2016 are expected to fall slightly below the plan as it will be influenced by a decrease in the number of end-product units manufactured during the fourth quarter.

In terms of profitability, operating income for the full year ended March 31, 2016 is expected to fall 24% below the initial plan as operating income for the fourth quarter will fall short of the plan despite further group-wide efforts to cut costs including curtailment of personnel expenses and capital investments.

(Note) We assume the foreign exchange rate for the fourth quarter to be 120 yen to the U.S. dollar.

(Disclaimer with respect to earnings forecasts)
The forward-looking statements including earnings forecast contained in this document are based on information currently available to us and certain assumptions that we believe are reasonable. Accordingly, we can give no assurance that such statements will prove to be correct. Actual results may differ from the results anticipated in these forward-looking statements due to a variety of factors.

2. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2015)	Current quarter (As of December 31, 2015)
Assets		
Current assets:		
Cash and deposits	16,456	17,048
Notes and accounts receivable - trade	11,951	12,235
Electronically recorded monetary claims - operating	-	47
Merchandise and finished goods	1,906	1,429
Work in process	1,495	1,483
Raw materials and supplies	1,298	1,474
Deferred tax assets	2,270	1,151
Other	1,588	1,668
Allowance for doubtful accounts	(16)	(17)
Total current assets	36,951	36,520
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	23,011	23,204
Accumulated depreciation	(17,504)	(17,835)
Buildings and structures, net	5,506	5,369
Machinery, equipment and vehicles	37,460	34,976
Accumulated depreciation	(32,860)	(30,141)
Machinery, equipment and vehicles, net	4,599	4,835
Land	2,432	3,620
Construction in progress	472	2,040
Other	868	879
Total property, plant and equipment	13,879	16,745
Intangible assets:		
Goodwill	31,488	30,142
Patent rights	3,498	3,193
Other	1,225	1,297
Total intangible assets	36,212	34,633
Investments and other assets:		
Deferred tax assets	1,601	1,416
Other	334	362
Total investments and other assets	1,935	1,779
Total non-current assets	52,028	53,157
Total assets	88,979	89,678

(Millions of yen)

	Previous fiscal year (As of March 31, 2015)	Current quarter (As of December 31, 2015)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	5,367	5,742
Electronically recorded obligations - operating	1,431	1,285
Current portion of long-term debt	3,000	3,000
Other payable	2,424	2,130
Accrued expenses	1,030	994
Provision for bonuses	1,718	1,162
Deferred tax liabilities	7	7
Other	631	1,401
Total current liabilities	15,611	15,723
Non-current liabilities:		
Long-term debt	12,500	11,000
Liability for retirement benefits	6,177	5,716
Deferred tax liabilities	21	21
Other	247	295
Total non-current liabilities	18,946	17,034
Total liabilities	34,558	32,758
Net assets		
Shareholders' equity:		
Common stock	15,747	15,747
Capital surplus	15,747	15,747
Retained earnings	18,632	21,408
Total shareholders' equity	50,127	52,903
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	22	32
Foreign currency translation adjustment	2,915	2,694
Remeasurements of defined benefit plans	1,356	1,289
Total accumulated other comprehensive income	4,293	4,016
Total net assets	54,421	56,920
Total liabilities and net assets	88,979	89,678

(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, 2015 (From April 1, 2015 to December 31, 2015)
Net sales	48,677
Cost of sales	28,621
Gross profit	20,056
Selling, general and administrative expenses	13,379
Operating income	6,676
Non-operating income:	
Interest income	4
Foreign exchange gains	281
Other	55
Total non-operating income	341
Non-operating expenses:	
Interest expenses	85
Going public expenses	154
Other	51
Total non-operating expenses	291
Ordinary income	6,726
Extraordinary income:	
Gain on sales of non-current assets	0
Total extraordinary income	0
Extraordinary losses:	
Loss on retirement of property, plant and equipment	31
Total extraordinary losses	31
Income before income taxes	6,695
Income taxes - current	854
Income taxes - deferred	1,331
Total income taxes	2,186
Profit	4,509
Profit attributable to owners of parent	4,509

Quarterly consolidated statement of comprehensive income

(Millions of yen)

	For the nine months ended December 31, 2015 (From April 1, 2015 to December 31, 2015)
Profit	4,509
Other comprehensive income:	
Deferred gains or losses on hedges	10
Foreign currency translation adjustment	(221)
Remeasurements of defined benefit plans	(66)
Total other comprehensive income	(277)
Comprehensive income	4,231
Comprehensive income attributable to:	
Owners of parent	4,231
Non-controlling interests	—

(3) Notes to quarterly consolidated financial statements

(Going concern assumption)
Not applicable.

(Significant changes in shareholders' equity)
Not applicable.

(Segment information, etc.)
[Segment information]
For the nine months ended December 31, 2015 (from April 1, 2015 to December 31, 2015)
1) Information on amounts of net sales and income (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	21,778	26,899	48,677	—	48,677
Intersegment sales or transfers	6	136	143	(143)	—
Total	21,784	27,036	48,821	(143)	48,677
Segment income (loss)	2,431	5,595	8,026	(1,349)	6,676

Note: The amount of adjustment for segment income of ¥1,349 million is the amount of amortization of goodwill that is not attributable to any reportable segment.

Reference: Consolidated overseas net sales: ¥35,683 million