Dexerials

Consolidated Financial Results for the Three Months Ended June 30, 2016 〔Under Japanese GAAP〕

July 28, 2016

Company name: Dexerials Corporation Listing: Tokyo Stock Exchange
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Quarterly securities report (*Shihanki Hokokusho*) issuing date: August 5, 2016
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 three months ended June 30, 2016 (from April 1, 2016 to June 30, 2016)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2016	12,832	(13.2)	553	(69.6)	158	(91.7)	91	(92.7)
June 30, 2015	14,782	—	1,824	—	1,901	—	1,247	—

Notes: 1. Comprehensive income
For the three months ended June 30, 2016: ¥(1,078) million [—%]
For the three months ended June 30, 2015: ¥1,456 million [—%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2016	1.52	1.50
June 30, 2015	19.80	—

Notes: 2. As the Company did not prepare quarterly consolidated financial statements for the three months ended June 30, 2014, the year-on-year changes for the three months ended June 30, 2015 were not calculated.
3. As 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 amounts of earnings per share were calculated based on the assumption that the stock split had been conducted at the beginning of the fiscal year ended March 31, 2016.
4. For the purpose of calculating earnings per share, the number of shares of the Company held by the Trust was included in the number of shares of treasury stock, which was to be deducted from the calculation of the average number of shares of common stock during the period.

(2) Consolidated financial position

	Total assets	Net assets	Capital to asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
June 30, 2016	84,288	48,936	58.1	816.78
March 31, 2016	87,316	52,062	59.6	868.96

Reference: Capital (Shareholders' equity + Accumulated other comprehensive income):
As of June 30, 2016: ¥48,936 million As of March 31, 2016: ¥52,062 million

Notes: 1. The amounts of net assets per share were calculated based on the assumption that the stock split with an effective date of May 27, 2015 had been conducted at the beginning of the fiscal year ended March 31, 2016.
2. For the purpose of calculating the amounts of net assets per share, the number of shares of the Company held by the Trust was included in the number of shares of treasury stock, which was to be deducted from the number of shares issued at the end of the period.

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, 2016	—	27.50	—	32.50	60.00
Ending March 31, 2017	—				
Ending March 31, 2017 (forecast)		27.50	—	27.50	55.00

Notes: 1. Revisions to dividend forecast published most recently: None
2. Annual dividends have been to reflect the stock split on May 27, 2015.
3. Breakdown of the year-end dividends for the fiscal year ended March 31, 2016:
Ordinary dividend: ¥27.50 per share Commemorative dividend: ¥5.00 per share

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2017 (from April 1, 2016 to March 31, 2017)

(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
First half	26,500	(16.2)	1,000	(77.0)	1,000	(76.7)	(400)	—	(6.67)
Fiscal year	60,300	(3.8)	4,400	(47.0)	4,300	(47.3)	700	(84.7)	11.68

Notes: 1. Revisions to earnings forecast published most recently: None

2. For the purpose of calculating the amounts of earnings per share for the first half and the fiscal year, the number of shares of the Company held by the Trust was included in the number of shares of treasury stock, which was to be deducted from the calculation of the average number of shares during the period.

[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 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 shares of common stock issued

(a) Number of shares issued (including treasury stock)
As of June 30, 2016: 63,000,000 shares
As of March 31, 2016: 63,000,000 shares

(b) Number of shares of treasury stock
As of June 30, 2016: 3,087,000 shares
As of March 31, 2016: 3,087,000 shares

(c) Average number of shares of common stock during the period
Three months ended June 30, 2016: 59,913,000 shares
Three months ended June 30, 2015: 63,000,000 shares

Notes: 1. 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, 2016.

2. As the Company introduced an Employee Stock Ownership Plan (“J-ESOP”), the number of shares of the Company held by the Trust (3,087,000 shares as of June 30, 2016; and 3,087,000 shares as of March 31, 2016) was included in the number of shares of treasury stock as of such dates. In addition, the number of shares of the Company held by the Trust (3,087,000 shares for three months ended June 30, 2016; and nil shares for three months ended June 30, 2015) was included in the number of shares of treasury stock for such periods, which was to be deducted from the calculation of the average number of shares during the period.

[Indication regarding execution of quarterly review procedures]

This quarterly financial results report is not subject to the review procedures which are required by the Financial Instruments and Exchange Act, and the review procedures for the quarterly financial statements are in progress at the time of disclosure of this quarterly financial results report.

[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 three months ended June 30, 2016 (from April 1, 2016 to June 30, 2016, hereinafter, "the current period"), the Group reported net sales of ¥12,832 million (down 13.2% year-on-year) and operating income of ¥553 million (down 69.6% year-on-year). These results were caused by a decrease in sales of the Anisotropic conductive films (ACF) and the Adhesive materials product categories as well as a stronger yen. Meanwhile, the Group reported ordinary income of ¥158 million (down 91.7% year-on-year) due to foreign exchange losses, and profit attributable to owners of parent of ¥91 million (down 92.7% year-on-year).

Operating results by segment and sales by product category are presented as follows. The product category which was referred to as "Li-ion battery secondary protection devices" until the end of the previous fiscal year has been renamed "Surface mounted type fuses" from the current period. However, the renaming of the product category does not affect the product categorization itself.

1) Optical Materials and Components business

(Millions of yen)

	Three months ended June 30, 2016 (the current period)	Three months ended June 30, 2015 (the same period of previous fiscal year)	Year-on-year change
Net sales	5,583	5,863	(4.8)%
Operating income	307	408	(24.6)%

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 an increase in sales from a panel laminating business for electronic book terminals. In the Optical resin materials category, sales of Hybrid SVR used mainly for tablet PCs increased year-on-year, but those of conventional SVR used mainly for smartphones decreased year-on-year. Consequently, the segment reported net sales of ¥5,583 million (down 4.8% year-on-year). In terms of profitability, operating income amounted to ¥307 million (down 24.6% year-on-year) mainly because a change in product mix in the Optical solutions category has lowered the profit margin.

2) Electronic Materials and Components business

(Millions of yen)

	Three months ended June 30, 2016 (the current period)	Three months ended June 30, 2015 (the same period of previous fiscal year)	Year-on-year change
Net sales	7,282	8,964	(18.8)%
Operating income	695	1,865	(62.7)%

Note: Net sales include inter-segment transactions.

During the current period, the Surface mounted type fuses category saw a year-on-year increase in sales thanks to an increase in sales of products used for smartphones, and so did the Micro devices category as sales of inorganic polarizers and inorganic wave plate used for projectors remained solid. However, both of the Anisotropic conductive films (ACF) and the Adhesive materials categories saw a year-on-year decrease in sales and profits due to a stronger yen, as well as a difficult end-product market environment that has taken place since the second half of the previous fiscal year. Consequently, the segment reported net sales and operating income of ¥7,282 million (down 18.8% year-on-year) and ¥695 million (down 62.7% year-on-year), respectively.

(2) Explanation of financial position

(Assets)

Total assets at the end of the current period amounted to ¥84,288 million, a decrease of ¥3,028 million from the end of the fiscal year ended March 31, 2016 (hereinafter, "the end of the previous fiscal year").

Current assets amounted to ¥30,207 million, a decrease of ¥3,516 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases in cash and deposits by ¥1,909 million, and notes and accounts receivable - trade by ¥1,737 million.

Non-current assets amounted to ¥54,080 million, an increase of ¥487 million from the end of the previous fiscal year. This increase can mainly be explained by an increase in property, plant and equipment by ¥703 million, which is partly offset by a decrease in intangible assets by ¥411 million due primarily to amortization of goodwill.

(Liabilities)

Total liabilities at the end of the current period amounted to ¥35,352 million, an increase of ¥97 million from the end of the previous fiscal year.

Current liabilities amounted to ¥15,811 million, an increase of ¥308 million from the end of the previous fiscal year. This increase can mainly be explained by increases in other payable by ¥810 million and accrued expenses by ¥425 million, which are partly offset by a decrease in provision for bonuses by ¥767 million.

Non-current liabilities amounted to ¥19,540 million, a decrease of ¥210 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease in liability for retirement benefits by ¥253 million.

(Net assets)

Total net assets at the end of the current period amounted to ¥48,936 million, a decrease of ¥3,126 million from the end of the previous fiscal year. This decrease can mainly be explained by declaration of dividends of ¥2,047 million and a decrease in foreign currency translation adjustment by ¥1,164 million.

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

Regarding the earnings forecasts for the first half and the full year of the fiscal year ending March 31, 2017, there is no change from the ones which we announced on April 27, 2016.

2. Matters Concerning Summary Information (Notes)

(1) Supplemental information

(Adoption of implementation guidance on recoverability of deferred tax assets)

Effective from the current period, the Company has adopted *Implementation Guidance on Recoverability of Deferred Tax Assets* (ASBJ Guidance No. 26, March 28, 2016).

(Transactions of delivering the Company's own stock to employees, etc. through trusts)

1) Overview of the transaction

The Company has established an Employee Stock Ownership Plan ("J-ESOP") as an incentive program granting employees shares of common stock of the Company to incentivize them to improve its financial results and, thus, stock prices by (1) increasing linkage of their compensation to the stock price and financial results of the Company and (2) sharing economic benefits with shareholders.

2) Shares of the Company remaining in the Trust

The shares of the Company remaining in the Trust are presented as shares of treasury stock in the net assets section at their carrying amount (excluding the amount of incidental expenses) in the Trust. The carrying amount and the number of shares of treasury stock at the end of the previous fiscal year and at the end of the current period are ¥3,235 million for 3,087 thousand shares and ¥3,235 million for 3,087 thousand shares, respectively.

3. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2016)	Current quarter (As of June 30, 2016)
Assets		
Current assets:		
Cash and deposits	16,259	14,350
Notes and accounts receivable - trade	10,278	8,541
Electronically recorded monetary claims - operating	39	44
Merchandise and finished goods	1,555	1,623
Work in process	1,551	1,883
Raw materials and supplies	1,114	1,117
Deferred tax assets	939	806
Other	2,000	1,853
Allowance for doubtful accounts	(13)	(12)
Total current assets	33,724	30,207
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	23,079	23,361
Accumulated depreciation	(17,713)	(17,883)
Buildings and structures, net	5,366	5,477
Machinery, equipment and vehicles	34,740	34,369
Accumulated depreciation	(30,313)	(30,122)
Machinery, equipment and vehicles, net	4,427	4,246
Land	3,620	3,620
Construction in progress	3,244	4,016
Other	842	843
Total property, plant and equipment	17,501	18,205
Intangible assets:		
Goodwill	29,679	29,214
Patent rights	3,083	2,982
Other	1,269	1,424
Total intangible assets	34,032	33,620
Investments and other assets:		
Deferred tax assets	1,649	1,857
Other	409	396
Total investments and other assets	2,058	2,254
Total non-current assets	53,592	54,080
Total assets	87,316	84,288

(Millions of yen)

	Previous fiscal year (As of March 31, 2016)	Current quarter (As of June 30, 2016)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	5,377	5,361
Electronically recorded obligations - operating	1,202	1,096
Current portion of long-term debt	3,000	3,000
Other payable	2,277	3,087
Accrued expenses	693	1,118
Provision for bonuses	1,578	810
Deferred tax liabilities	10	9
Other	1,362	1,327
Total current liabilities	15,503	15,811
Non-current liabilities:		
Long-term debt	12,500	12,500
Liability for retirement benefits	6,915	6,661
Deferred tax liabilities	36	32
Other	299	345
Total non-current liabilities	19,751	19,540
Total liabilities	35,254	35,352
Net assets		
Shareholders' equity:		
Common stock	15,747	15,747
Capital surplus	15,747	15,747
Retained earnings	21,487	19,531
Treasury stock	(3,235)	(3,235)
Total shareholders' equity	49,747	47,790
Accumulated other comprehensive income:		
Foreign currency translation adjustment	2,005	840
Remeasurements of defined benefit plans	310	304
Total accumulated other comprehensive income	2,315	1,145
Total net assets	52,062	48,936
Total liabilities and net assets	87,316	84,288

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

Quarterly consolidated statements of income

(Millions of yen)

	For the three months ended June 30, 2015 (From April 1, 2015 to June 30, 2015)	For the three months ended June 30, 2016 (From April 1, 2016 to June 30, 2016)
Net sales	14,782	12,832
Cost of sales	8,623	8,007
Gross profit	6,159	4,824
Selling, general and administrative expenses	4,334	4,270
Operating income	1,824	553
Non-operating income:		
Interest income	2	1
Foreign exchange gains	117	―
Other	22	12
Total non-operating income	141	13
Non-operating expenses:		
Interest expenses	29	22
Going public expenses	26	―
Foreign exchange losses	―	374
Other	8	12
Total non-operating expenses	64	408
Ordinary income	1,901	158
Extraordinary losses:		
Loss on retirement of property, plant and equipment	16	0
Total extraordinary losses	16	0
Profit before income taxes	1,885	158
Income taxes - current	152	146
Income taxes - deferred	484	(79)
Total income taxes	637	66
Profit	1,247	91
Profit attributable to owners of parent	1,247	91

Quarterly consolidated statements of comprehensive income

(Millions of yen)

	For the three months ended June 30, 2015 (From April 1, 2015 to June 30, 2015)	For the three months ended June 30, 2016 (From April 1, 2016 to June 30, 2016)
Profit	1,247	91
Other comprehensive income:		
Deferred gains or losses on hedges	1	―
Foreign currency translation adjustment	230	(1,164)
Remeasurements of defined benefit plans	(22)	(5)
Total other comprehensive income	209	(1,170)
Comprehensive income	1,456	(1,078)
Comprehensive income attributable to:		
Owners of parent	1,456	(1,078)
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]

1) For the three months ended June 30, 2015 (from April 1, 2015 to June 30, 2015)
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	5,863	8,919	14,782	—	14,782
Intersegment sales or transfers	—	45	45	(45)	—
Total	5,863	8,964	14,828	(45)	14,782
Segment income (loss)	408	1,865	2,274	(449)	1,824

Note: The amount of adjustment for segment income of ¥449 million is the amount of amortization of goodwill that is not attributable to any reportable segment.
Reference: Consolidated overseas net sales: ¥10,393 million

2) For the three months ended June 30, 2016 (from April 1, 2016 to June 30, 2016)
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	5,583	7,248	12,832	—	12,832
Intersegment sales or transfers	—	34	34	(34)	—
Total	5,583	7,282	12,866	(34)	12,832
Segment income (loss)	307	695	1,003	(449)	553

Note: The amount of adjustment for segment income of ¥449 million is the amount of amortization of goodwill that is not attributable to any reportable segment.
Reference: Consolidated overseas net sales: ¥9,513 million