Dexerials

Consolidated Financial Results for the Nine Months Ended December 31, 2016 〔Under Japanese GAAP〕

January 26, 2017

Company name: Dexerials Corporation Listing: Tokyo Stock Exchange
Security code: 4980 URL: http://www.dexerials.jp/en
Representative: Takashi Ichinose, Representative Director and President
Contact: Naoyuki Sanada, Senior Executive Officer, Corporate Planning & Control Division Head
Phone: +81-3-5435-3941

Quarterly securities report (*Shihanki Hokokusho*) issuing date: February 3, 2017
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, 2016 (from April 1, 2016 to December 31, 2016)

(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, 2016	44,026	(9.6)	2,761	(58.6)	2,551	(62.1)	1,161	(74.2)
December 31, 2015	48,677	—	6,676	—	6,726	—	4,509	—

Notes: 1. Comprehensive income
For the nine months ended December 31, 2016: ¥1,023 million [(75.8)%]
For the nine months ended December 31, 2015: ¥4,231 million [—%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2016	19.39	19.18
December 31, 2015	71.57	70.26

Notes: 2. As the Company did not prepare quarterly consolidated financial statements for the nine months ended December 31, 2014, the year-on-year changes for the nine months ended December 31, 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 the amounts of 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
December 31, 2016	95,204	49,259	51.7	822.42
March 31, 2016	87,316	52,062	59.6	868.96

Reference: Capital (Shareholders' equity + Accumulated other comprehensive income):
As of December 31, 2016: ¥49,259 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	—	27.50	—		
Ending March 31, 2017 (forecast)				27.50	55.00

Notes: 1. Revisions to dividend forecast published most recently: None
2. Annual dividends have been to reflect the stock split with an effective date of 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
Fiscal year	61,200	(2.3)	3,000	(63.9)	2,400	(70.6)	20	(99.6)	0.33

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

2. For the purpose of calculating the amounts of 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 during the period. The average number of shares during the period was calculated based on the assumption that the numbers of shares issued and shares of treasury stock at the end of the third quarter would remain the same until the end of the fiscal year.

[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 December 31, 2016: 63,114,700 shares
As of March 31, 2016: 63,000,000 shares

(b) Number of shares of treasury stock
As of December 31, 2016: 3,219,000 shares
As of March 31, 2016: 3,087,000 shares

(c) Average number of shares of common stock during the period
Nine months ended December 31, 2016: 59,881,085 shares
Nine months ended December 31, 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 a result of the exercise of stock options during the nine months ended December 31, 2016, the number of shares issued at the end of the third quarter has increased by 114,700 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 (3,219,000 shares as of December 31, 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 (3,152,901 shares for nine months ended December 31, 2016; and nil shares for nine months ended December 31, 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.

Contents of Attached Materials

1. Qualitative Information on Quarterly Financial Statements ····· P. 2
(1) Explanation of operating results ····· P. 2
(2) Explanation of financial position ····· P. 3
(3) Explanation of forward-looking statements including consolidated earnings forecast ····· P. 3
2. Matters Concerning Summary Information (Notes) ····· P. 4
(1) Supplemental information ····· P. 4
3. Quarterly Consolidated Financial Statements ····· P. 5
(1) Quarterly consolidated balance sheets ····· P. 5
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income ····· P. 7
Quarterly consolidated statements of income ····· P. 7
Quarterly consolidated statements of comprehensive income ····· P. 8
(3) Notes to quarterly consolidated financial statements ····· P. 9
(Going concern assumption) ····· P. 9
(Significant changes in shareholders' equity) ····· P. 9
(Segment information, etc.) ····· P. 9

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, 2016 (from April 1, 2016 to December 31, 2016; hereinafter, "the current period"), the Group reported net sales of ¥44,026 million (down 9.6% year-on-year) and operating income of ¥2,761 million (down 58.6% year-on-year). These results were caused by a stronger yen as well as a decrease in sales of the Anisotropic conductive films (ACF) and the Optical resin materials product categories, though partly offset by a growth in sales of the Optical films product category.

Meanwhile, the Group reported ordinary income of ¥2,551 million (down 62.1% year-on-year) primarily due to recognition of foreign exchange losses as contrasted by foreign exchange gains recognized for the same period of the previous fiscal year. Profit attributable to owners of parent amounted to ¥1,161 million (down 74.2% year-on-year) primarily due to recognition of restructuring expenses as extraordinary losses that were incurred to optimize the business structure.

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, 2016 (the current period)	Nine months ended December 31, 2015 (the same period of previous fiscal year)	Year-on-year change
Net sales	20,653	21,784	(5.2)%
Operating income	1,543	2,431	(36.5)%

Note: Net sales include inter-segment transactions.

During the current period, the Optical films product category saw a year-on-year increase in sales thanks to a growth in sales of products for display panels used for laptop PCs, which was partly affected by a modification of transaction terms. Nevertheless even without impact of the modification, the product category resulted in year-on-year increases in both sales and profits as production facilities newly introduced in the Tochigi Office have been operational since last October in order to meet an increase in demand going forward.

On the other hand, the Optical resin materials product category reported year-on-year decreases in both sales and profits due to a decrease in sales of SVR used mainly for smartphones as well as a stronger yen, despite an increase in sales of Hybrid SVR.

Consequently, the segment reported net sales and operating income of ¥20,653 million (down 5.2% year-on-year) and ¥1,543 million (down 36.5% year-on-year), respectively.

2) Electronic Materials and Components business

(Millions of yen)

	Nine months ended December 31, 2016 (the current period)	Nine months ended December 31, 2015 (the same period of previous fiscal year)	Year-on-year change
Net sales	23,532	27,036	(13.0)%
Operating income	2,565	5,595	(54.1)%

Note: Net sales include inter-segment transactions.

During the current period, the Surface mounted type fuses product category saw increases in both sales and profits thanks to a continued strong sales of products for smartphones.

However, the Anisotropic conductive films (ACF) and the Adhesive materials product categories reported year-on-year decreases in both sales and profits as the former category suffered from intensified competition in the field of non-display applications such as ACF for camera modules as well as a stronger yen, and the latter category has faced a persistently difficult end-product market environment.

Consequently, the segment reported net sales and operating income of ¥23,532 million (down 13.0% year-on-year) and ¥2,565 million (down 54.1% year-on-year), respectively.

(2) Explanation of financial position

(Assets)

Total assets at the end of the current period amounted to ¥95,204 million, an increase of ¥7,887 million from the end of the fiscal year ended March 31, 2016 (hereinafter, "the end of the previous fiscal year").

Current assets amounted to ¥40,886 million, an increase of ¥7,162 million from the end of the previous fiscal year. This increase can mainly be explained by increases in notes and accounts receivable - trade by ¥2,699 million, raw materials and supplies by ¥1,504 million, work in process by ¥1,056 million, cash and deposits by ¥776 million, as well as merchandise and finished goods by ¥592 million.

Non-current assets amounted to ¥54,318 million, an increase of ¥725 million from the end of the previous fiscal year. This increase can mainly be explained by net increases in machinery, equipment and vehicles by ¥2,241 million; and buildings and structures by ¥2,060 million, which are partly offset by decreases in construction in progress by ¥1,861 million, and intangible assets by ¥1,562 million due primarily to amortization of goodwill.

(Liabilities)

Total liabilities at the end of the current period amounted to ¥45,944 million, an increase of ¥10,690 million from the end of the previous fiscal year.

Current liabilities amounted to ¥20,027 million, an increase of ¥4,524 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 ¥4,537 million.

Non-current liabilities amounted to ¥25,916 million, an increase of ¥6,165 million from the end of the previous fiscal year. This increase can mainly be explained by an increase in long-term debt by ¥6,750 million, which is partly offset by a decrease in liability for retirement benefits by ¥680 million.

(Net assets)

Total net assets at the end of the current period amounted to ¥49,259 million, a decrease of ¥2,802 million from the end of the previous fiscal year. This decrease can mainly be explained by declaration of dividends of ¥3,782 million, which is partly offset by reporting of profits attributable to owners of parent of ¥1,161 million.

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

In view of the recent business trends, we have revised the full-year consolidated earnings forecast for the fiscal year ending March 31, 2017 announced on October 27, 2016 (hereinafter, "the previous forecast").

Full-year consolidated forecast for the fiscal year ending March 31, 2017

(Millions of yen, unless otherwise stated)

	Net sales	Operating income	Ordinary income	Profit (loss) attributable to owners of parent	Basic earnings (loss) per share (yen)
Previous forecast (A)	57,700	1,900	1,280	(840)	(14.02)
Revised forecast (B)	61,200	3,000	2,400	20	0.33
Change (B – A)	3,500	1,100	1,120	860	―
Change in percentage (%)	6.1%	57.9%	87.5%	―	―
(Reference) Results for the fiscal year ended March 31, 2016	62,654	8,306	8,163	4,587	73.16

Reason for revision

While we prepared the previous forecast based on an assumption that the average exchange rate for the second half of the current fiscal year was 100 yen against the U.S. dollar, the yen actually developed weaker than we had assumed during the third quarter (from October 1, 2016 to December 31, 2016) with the average exchange rate at 109 yen against the U.S. dollar. In addition, each of the business segments performed largely better than we had expected in the previous forecast with operating income for the nine months ended December 31, 2016 exceeding the full-year forecast figure.

As we expect the weak-yen trend and the strong sales of the Optical films product category to continue in the fourth quarter (from January 1, 2017 to March 31, 2017), we have revised upward the full-year consolidated net sales and operating income of the previous forecast with the assumed exchange rate for the fourth quarter changed from 100 yen to 110 yen against the U.S. dollar. In line with the revision of operating income, ordinary income and profit attributable to owners of parent have been revised upward accordingly.

(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. 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 increasing linkage of their compensation to the stock price and financial results of the Company and 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.

(Performance-linked stock compensation plan)
In accordance with the resolution of the 4th annual general meeting of shareholders held on June 23, 2016, the Company has introduced a performance-linked stock compensation plan (hereinafter, "the System"), which clearly links the compensation of directors (excluding outside directors; the same applies hereinafter) to the Company's results of operations and its share value. Under the System, directors experience both the benefit of high share prices and the risk of low share prices with the Company's shareholders. Such plan thus would lead directors to continuously aim for better performances over a medium- to long-term period and more contributions to increasing corporate value.

1) Overview of the transaction
The System operates under a scheme called the Board Benefit Trust (hereinafter, "the Trust"). The System enables the Company's stock and the amount of cash equivalent to the market price of the Company's stock (hereinafter "the Company's Stock, etc.") to be granted through the Trust to directors based on their respective positions and performance targets achieved in accordance with the Directors' Stock Compensation Rules established by the Company's Board of Directors. The Trust uses funds contributed by the Company to acquire the Company's Stock, etc., which will be, in principle, received by the Company's Directors upon their retirement from the Company.

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 current period is ¥106 million for 132 thousand shares.

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 December 31, 2016)
Assets		
Current assets:		
Cash and deposits	16,259	17,035
Notes and accounts receivable - trade	10,278	12,978
Electronically recorded monetary claims - operating	39	67
Merchandise and finished goods	1,555	2,148
Work in process	1,551	2,608
Raw materials and supplies	1,114	2,619
Deferred tax assets	939	1,192
Other	2,000	2,246
Allowance for doubtful accounts	(13)	(9)
Total current assets	33,724	40,886
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	23,079	25,773
Accumulated depreciation	(17,713)	(18,347)
Buildings and structures, net	5,366	7,426
Machinery, equipment and vehicles	34,488	36,723
Accumulated depreciation	(30,106)	(30,100)
Machinery, equipment and vehicles, net	4,381	6,622
Land	3,620	3,620
Construction in progress	3,244	1,383
Other	4,941	5,262
Accumulated depreciation	(4,053)	(4,288)
Other, net	888	973
Total property, plant and equipment	17,501	20,026
Intangible assets:		
Goodwill	29,679	28,336
Patent rights	3,083	2,780
Other	1,269	1,352
Total intangible assets	34,032	32,469
Investments and other assets:		
Deferred tax assets	1,649	1,374
Other	409	448
Total investments and other assets	2,058	1,822
Total non-current assets	53,592	54,318
Total assets	87,316	95,204

(Millions of yen)

	Previous fiscal year (As of March 31, 2016)	Current quarter (As of December 31, 2016)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	5,377	9,915
Electronically recorded obligations - operating	1,202	1,303
Current portion of long-term debt	3,000	750
Other payables	2,277	3,226
Accrued expenses	693	880
Provision for bonuses	1,578	991
Deferred tax liabilities	10	11
Other	1,362	2,948
Total current liabilities	15,503	20,027
Non-current liabilities:		
Long-term debt	12,500	19,250
Liability for retirement benefits	6,915	6,235
Deferred tax liabilities	36	36
Other	299	395
Total non-current liabilities	19,751	25,916
Total liabilities	35,254	45,944
Net assets		
Shareholders' equity:		
Common stock	15,747	15,778
Capital surplus	15,747	15,778
Retained earnings	21,487	18,866
Treasury stock	(3,235)	(3,341)
Total shareholders' equity	49,747	47,082
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	—	(83)
Foreign currency translation adjustment	2,005	1,968
Remeasurements of defined benefit plans	310	292
Total accumulated other comprehensive income	2,315	2,177
Total net assets	52,062	49,259
Total liabilities and net assets	87,316	95,204

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

Quarterly consolidated statements of income

(Millions of yen)

	For the nine months ended December 31, 2015 (From April 1, 2015 to December 31, 2015)	For the nine months ended December 31, 2016 (From April 1, 2016 to December 31, 2016)
Net sales	48,677	44,026
Cost of sales	28,621	28,409
Gross profit	20,056	15,617
Selling, general and administrative expenses	13,379	12,856
Operating income	6,676	2,761
Non-operating income:		
Interest income	4	8
Foreign exchange gains	281	―
Other	55	63
Total non-operating income	341	72
Non-operating expenses:		
Interest expenses	85	61
Foreign exchange losses	―	118
Going public expenses	154	―
Other	51	101
Total non-operating expenses	291	281
Ordinary income	6,726	2,551
Extraordinary income:		
Gain on sale of non-current assets	0	3
Total extraordinary income	0	3
Extraordinary losses:		
Loss on retirement of property, plant and equipment	31	38
Restructuring expenses	―	744
Total extraordinary losses	31	783
Profit before income taxes	6,695	1,772
Income taxes - current	854	543
Income taxes - deferred	1,331	67
Total income taxes	2,186	610
Profit	4,509	1,161
Profit attributable to owners of parent	4,509	1,161

Quarterly consolidated statements of comprehensive income

(Millions of yen)

	For the nine months ended December 31, 2015 (From April 1, 2015 to December 31, 2015)	For the nine months ended December 31, 2016 (From April 1, 2016 to December 31, 2016)
Profit	4,509	1,161
Other comprehensive income:		
Deferred gains or losses on hedges	10	(83)
Foreign currency translation adjustment	(221)	(36)
Remeasurements of defined benefit plans	(66)	(17)
Total other comprehensive income	(277)	(138)
Comprehensive income	4,231	1,023
Comprehensive income attributable to:		
Owners of parent	4,231	1,023
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 nine months ended December 31, 2015 (from April 1, 2015 to December 31, 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	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

2) For the nine months ended December 31, 2016 (from April 1, 2016 to December 31, 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	20,653	23,374	44,028	(1)	44,026
Intersegment sales or transfers	—	158	158	(158)	—
Total	20,653	23,532	44,186	(159)	44,026
Segment income (loss)	1,543	2,565	4,109	(1,348)	2,761

Note: The amount of adjustment for segment income of ¥1,348 million is the amount of amortization of goodwill that is not attributable to any reportable segment.
Reference: Consolidated overseas net sales: ¥29,818 million