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August 28, 2020
Dexerials Corporation

Notice of Implementation of Organizational Reforms Aiming for Achievement of the Mid-term Management Plan 2023 "Challenges for Evolution" and Sustainable Growth

Dexerials Corporation (Headquarters: Shinagawa-ku, Tokyo, Representative Director and President: Yoshihisa Shinya; herein after called the "Company") will implement organizational reforms to achieve the FY2019 – FY2023 Mid-term Management Plan 2023 "Challenges for Evolution" and realize sustainable growth.

1. Purpose of Organizational reforms

The Company strives to be a company that achieves sustainable growth by addressing social issues through the delivery of high value-added products and technological solutions during the Mid-term Management Plan 2023 "Challenges for Evolution."

Last fiscal year, the first year of the Mid-term Management Plan, the Company reviewed its businesses and has been working on measures, including strengthening its businesses and more efficient management. At the same time, the Company reviewed its internal structure and functions, and determined that in a rapidly changing business environment such as the launch of 5G communication services, the use of AI, and the popularity of IoT for a wide range of devices, the Company needs a business promotion structure that further clarifies business responsibilities and enables prompt decision making to ensure that business opportunities can steadily lead to more businesses.

In addition, we recruit people who are capable of assuming next-generation managerial positions from both inside and outside the Company, promoting generational change within management, and build a lean and highly productive organization. Under the new management structure, we will aim for sustainable growth by accelerating growth in new domains and qualitatively changing the business in existing domains.

Key measures of the organizational reforms are summarized below.

(1) Change organizational structure to enhance business productivity and accelerate business growth

1) Reorganize structures to strengthen the authority of business units and enable prompt decision making.
2) Build a promotion system to accelerate growth in new business domains.

(2) Build a business execution framework looking ahead to the next generation

Strengthen the management base through generational change within management and further clarification of responsibilities.

(3) Implement a special early job transfer support program for managerial employees who are aged 50 and over.

(4) Establish a subsidiary and a manufacturing joint venture to enhance the category of Micro devices.

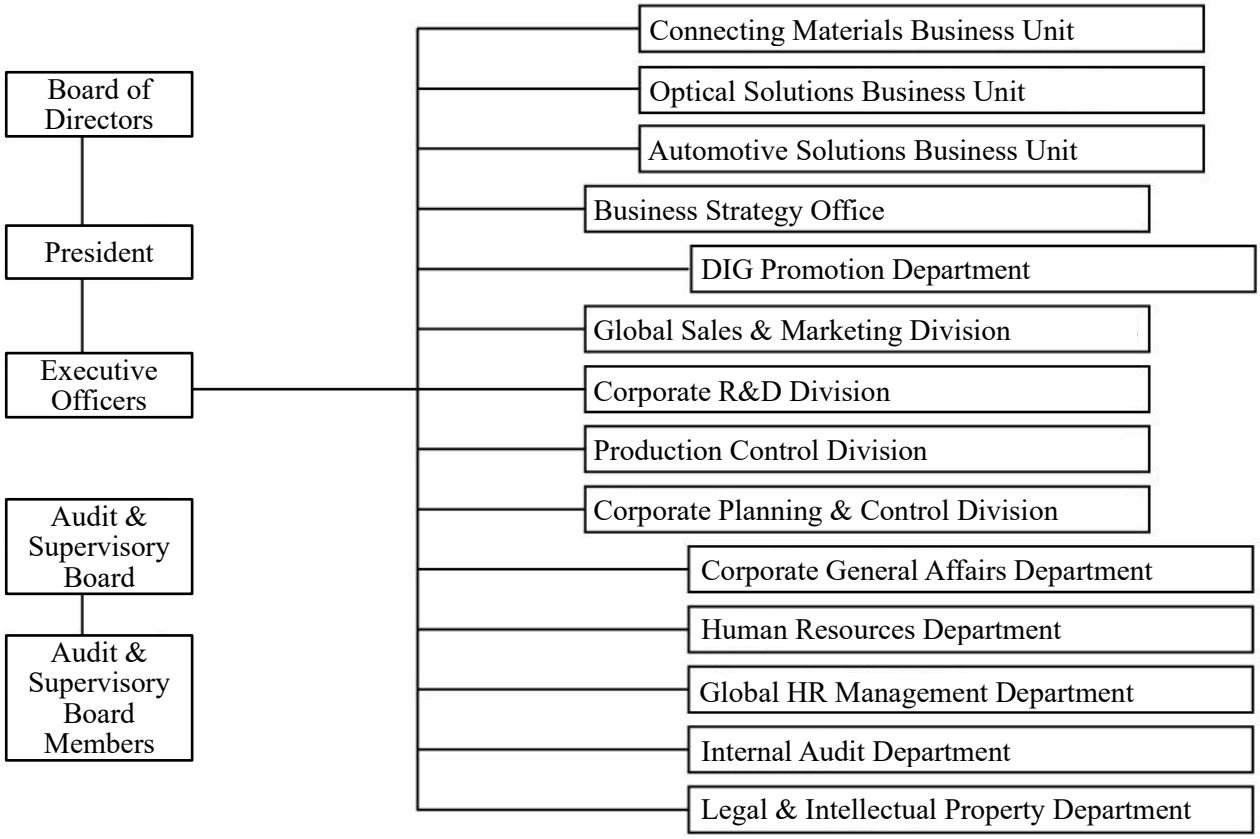
2. Outline of organizational reforms

(1) Change organizational structure to enhance business productivity and accelerate business growth

1) Reorganize structures to strengthen the authority of business units and enable prompt decision making.
   - Based on the results of the business review, the existing four business units will be reorganized into three business units.
   - At the same time, the Company will integrate the manufacturing and the quality assurance functions, which were previously handled by the Production & Quality Division, into each business unit and transfer the authority, enabling us to clarify business responsibilities and speed up decision-making in each business unit.
   - The Production & Quality Division will be reorganized as the Production Control Division, and promote production strategy and production process innovation from a company-wide perspective by working closely with each business unit.

2) Build a promotion system to accelerate growth in new domains.
   - The Business Innovation Division will be constructively dissolved. The Business Strategy Office will be responsible for alliance strategy, the Global Sales & Marketing Division will be responsible for new business creation, and the Corporate R&D Division will be responsible for R&D, respectively. With this change, the Company aims to operate business autonomously by further clarifying authority and responsibilities.
   - The Business Strategy Office, which reports directly to the president, will be responsible for functions including alliance strategy, digital transformation (DX), and will formulate and promote company-wide strategies for growth.
   - The Dexerials Innovation Group (DIG) Promotion Department will be newly established and in charge of developing and implementing company-wide technology strategies linking with roles from R&D to marketing.

Organization Chart on October 1, 2020



* The English name of each organization is a provisional name based on the Japanese name of the organization and may differ from the actual name.

(2) Build a business execution framework looking ahead to the next generation

To achieve sustainable growth, the Company will strengthen its management base by promoting generational change within management and clarify management responsibilities. The Company will revitalize the organization by recruiting a Business Strategy Office Head and a Technology Strategy Head with expertise in their fields from outside the Company as well as appointing a new business unit head and a division head from within the Company.

Executive Officers, Business Unit Heads and Division Heads effective as of October 1, 2020

Yoshihisa Shinya	Representative Director and President, President and Executive Officer Officer in charge of management and business operations
Toshiya Satake	Representative Director, Senior Managing Executive Officer Officer in charge of management, administration, and internal audits Representative Director and President, Dexerials Precision Components Corporation
Naoyuki Sanada	Senior Executive Officer CFO (Chief Financial Officer), Corporate Planning & Control Division Head Company Process Innovator
Takashi Yoshida	Executive Officer Optical Solutions Business Unit Head
Kozaburo Hayashi	Executive Officer Connecting Materials Business Unit Head
Yuji Kakiuchi	Executive Officer Global Sales & Marketing Division Head
Koichi Akeyama <New appointment>	Business Strategy Office Head
Kuo-Hua Sung <New appointment>	Technology Strategy Head Officer in charge of Dexerials Innovation Group (DIG) Promotion Department
Kentaro Oshima <New appointment>	Automotive Solutions Business Unit Head
Kazuya Hayashibe <New appointment>	Corporate R&D Division Head
Koji Yamagishi <New appointment>	Production Control Division Head

(3) Implement a special early job transfer support program for managerial employees who are aged 50 and over

The Company will continue to build a lean and highly productive organization to achieve the Mid-term Management Plan and realize sustainable growth. Taking this opportunity, the Company will implement a special early job transfer support program to provide new options and support autonomous career development for managerial employees with at least five years' service aged 50 and over who wish to use their expertise and strengths outside the Company group based on their own life plans.

(4) Establish a subsidiary and a manufacturing joint venture to enhance the category of Micro devices

In the Micro device category, the Company manufactures products such as inorganic polarizers, inorganic waveplates, and sputtering targets with highly competitive advantages and high global market share utilizing its unique microfabrication technologies. (the "Micro Devices Business")

However, the Company is faced with severe business environment where there is an increasing slowdown in the market of business projectors, which are the main applications of inorganic polarizers and inorganic waveplates, the core of the Micro Devices Business, and it has become difficult for the Company to make profits to continue to invest for growth.

In this business environment, in order for the Micro Devices Business to continue to grow, the Company believes that it's necessary to improve the earnings structure of the business itself, build a production system that is resistant to demand fluctuations, and achieve self-reliant business operations. As described below, the Company has decided to establish a whollyowned subsidiary to take charge of the design, technology, planning management, and manufacturing management of the Micro Devices Business, and a joint venture to carry out manufacturing operations at the Nakada Plant, aiming to start operations on January 1, 2021.

Through these measures, the Company will overcome the current challenging market environment and seize opportunities such as the increased popularity of high-end projectors using laser light sources and the increased personal use of smaller projectors, as well as creating new products in the future that leverage elemental technologies such as microfabrication technologies, aiming to create new products and enhance value of the business.

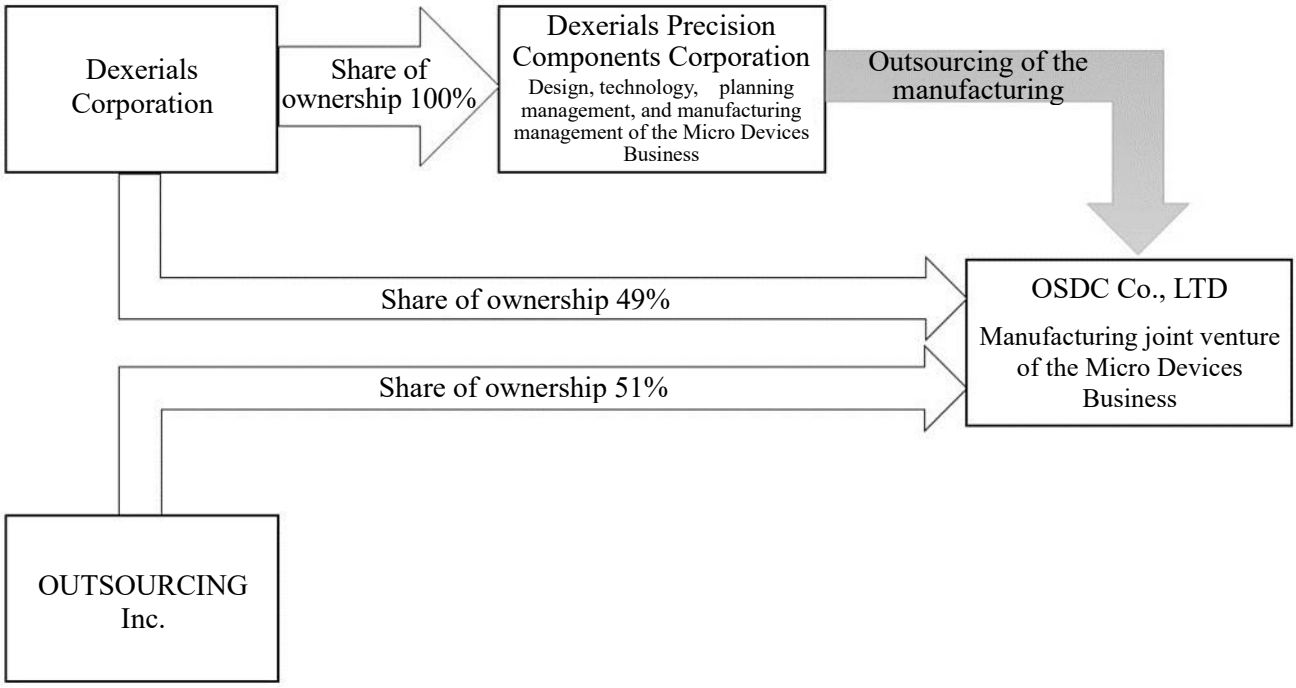
1) Establish a subsidiary in charge of the design, technology, planning management, and manufacturing management of the Micro Devices Business.

- The Company will integrate the design, technology, planning management, and **manufacturing** management of the Micro Devices Business, and establish the whollyowned subsidiary, Dexerials Precision Components Corporation, on October 1, 2020.
- From now on, Dexerials Precision Components Corporation will prepare to start operations on January 1, 2021.
- Mr. Toshiya Satake, Representative Director and Senior Managing Executive Officer of the Company is expected to assume the position of Representative Director and President of Dexerials Precision Components Corporation. In addition, Mr. Satoshi Ishiguro, Senior Executive Officer of the Company, is expected to assume the position of Representative Director and Deputy President, with Mr. Hisaya Tamura, Executive Officer of the Company as a Director to manage Dexerials Precision Components Corporation, respectively.
- Regarding manufacturing operations, the Dexerials Precision Components Corporation will outsource its services to a manufacturing joint venture as described in 2) below.

2) Establish a manufacturing joint venture

- OUTSOURCING Inc. ("OS") and the Company reached a basic agreement on August 28, 2020, to establish the manufacturing joint venture, OSDC Co., LTD, which will be in charge of manufacturing of the Micro Devices products. OSDC Co., LTD expects to start operations on January 1, 2021.
- OSDC Co., LTD aims at building a system capable of responding to demand fluctuations flexibly and of carrying out efficient production by utilizing OS's knowledge of mass-production processes in the manufacturing industry and our experience and know-how of manufacturing in the Micro Devices Business.
- OS and the Company will hold 51% and 49% of the shares in OSDC Co., LTD, respectively and both will continue discussions to reach a final agreement at the end of October.

(Reference) Business structure of the Micro Devices Business after January 1, 2021.



3. Effect of organizational reforms on business results

Concerning the forecast of consolidated financial results for the fiscal year ending March 31, 2021, as expenses for implementation of the mid-term management plan, which includes the above measures, the Company has incorporated a total of approximately ¥2.6 billion in operating expenses and extraordinary losses (of which, extraordinary losses account for approximately ¥2.45 billion).

The extraordinary losses include approximately ¥1.1 billion in expenses to strengthen the Micro Devices Business and approximately ¥1.05 billion in estimated expenses related to the special early job transfer support program.

(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.

* The contents of this news release is the information as of the date of the announcement and is subject to change without notice.