

Consolidated Financial Results for the Nine Months Ended December 31, 2023 [Under Japanese GAAP]

February 5, 2024

Company name: Dexerials Corporation Listing: Tokyo Stock Exchange
 Security code: 4980 URL: <https://www.dexerials.jp/en>
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 Scheduled date of dividend payment: –
 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, 2023 (from April 1, 2023 to December 31, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
December 31, 2023	80,717	(7.5)	26,658	(9.0)	23,352	(14.2)	16,843	(9.7)
December 31, 2022	87,227	21.0	29,300	41.5	27,214	40.7	18,646	46.7

Note: Comprehensive income For the nine months ended December 31, 2023: ¥17,492 million [(11.1)%]

For the nine months ended December 31, 2022: ¥19,683 million [46.2%]

Note: EBITDA

For the nine months ended December 31, 2023: ¥31,627million [(8.0)%]

For the nine months ended December 31, 2022: ¥34,391 million [36.8%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended				
December 31, 2023	290.14		289.00	
December 31, 2022	314.25		312.56	

(2) Consolidated financial position

	Total assets		Net assets		Capital to asset ratio		Net assets per share	
	Millions of yen		Millions of yen		%		Yen	
As of								
December 31, 2023	135,074		84,994		62.9		1,461.68	
March 31, 2023	126,379		73,774		57.7		1,257.14	

Reference: Capital (Shareholders' equity + Accumulated other comprehensive income)

As of December 31, 2023: ¥84,994 million

As of March 31, 2023: ¥72,896 million

2. Dividends

	Cash dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year	Yen				
Ended March 31, 2023	–	30.00	–	35.00	65.00
Ending March 31, 2024	–	35.00	–		
Fiscal year					
Ending March 31, 2024 (forecast)				65.00	100.00

Note: Revisions to dividend forecast published most recently: Yes

For the forecast dividends for the fiscal year ending March 31, 2024, please refer to "Notice of Revised Year-End Dividend Forecast (Dividend Increase)" released on February 5, 2024.

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Percentage indicates year-on-year changes.)

Fiscal year	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
	103,500	(2.5)	32,000	(0.9)	28,000	(7.2)	20,000	(3.3)	338.99

Note: Revisions to earnings forecast published most recently: Yes

For the revision of the earnings forecast, please refer to "Notice of Revised Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2024" released on February 5, 2024.

For more information on the consolidated financial results for the nine months ended December 31, 2023, please refer to the supplementary briefing material on quarterly financial results, Quarterly Securities Report for the third quarter to be filed on February 14, 2024, and other materials, which you can find on our website at <https://www.dexerials.jp/en/ir/library/index.html>.

[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 the 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 shares)
- | | | | |
|--------------------------|-------------------|-----------------------|-------------------|
| As of December 31, 2023: | 61,170,500 shares | As of March 31, 2023: | 64,575,000 shares |
|--------------------------|-------------------|-----------------------|-------------------|
- (b) Number of treasury shares
- | | | | |
|--------------------------|------------------|-----------------------|------------------|
| As of December 31, 2023: | 3,022,411 shares | As of March 31, 2023: | 6,589,029 shares |
|--------------------------|------------------|-----------------------|------------------|
- (c) Average number of shares of common stock during the period
- | | | | |
|--------------------------------------|-------------------|--------------------------------------|-------------------|
| Nine months ended December 31, 2023: | 58,051,772 shares | Nine months ended December 31, 2022: | 59,336,426 shares |
|--------------------------------------|-------------------|--------------------------------------|-------------------|

Notes: 1. The number of shares issued as of December 31, 2023 decreased by 3,404,500 shares as the number of shares issued increased by 146,100 shares upon the exercise of stock options but decreased by 3,550,600 shares upon the retirement of treasury shares during the nine months ended December 31, 2023.

2. As the Company has introduced a stock compensation plan which delivers shares with restrictions on transfer, the Company's treasury shares held mainly for the purpose of allotting them as restricted shares are included in the number of treasury shares at the end of the period (293,800 shares as of December 31, 2023 and 293,800 shares as of December 31, 2022).

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 accounts is included in the number of treasury shares as of the end of the period. In addition, the number of shares of the Company held by the Trust (an average of 3,713,724 shares for the nine months ended December 31, 2023 and an average of 5,188,674 shares for the nine months ended December 31, 2022) was included in the number of treasury shares to be deducted in the calculation of the average number of shares of common stock during the period.

* This consolidated financial results report is not subject to a quarterly review by certified public accountants or an audit firm.

* [Proper use of earnings forecast, and other special notes]

(Disclaimer with respect to earnings and other forecasts)

The forward-looking statements including results forecasts contained in this document are based on information currently available to the Company and certain assumptions that the Company deems reasonable. Accordingly, the Company does not intend to promise their achievement. Actual results may differ from these forecasts and forward-looking statements due to various factors.

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1. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2023)	Current quarter (As of December 31, 2023)
Assets		
Current assets:		
Cash and deposits	29,286	34,012
Notes and accounts receivable - trade	13,126	20,452
Electronically recorded monetary claims - operating	342	481
Merchandise and finished goods	4,111	3,780
Work in process	2,883	2,869
Raw materials and supplies	4,358	3,449
Other	5,133	3,618
Allowance for doubtful accounts	(2)	(6)
Total current assets	59,238	68,657
Non-current assets:		
Property, plant and equipment		
Buildings and structures	27,709	28,664
Accumulated depreciation	(13,976)	(14,583)
Buildings and structures, net	13,732	14,080
Machinery, equipment and vehicles	40,475	41,024
Accumulated depreciation	(33,308)	(34,326)
Machinery, equipment and vehicles, net	7,167	6,698
Land	2,524	2,565
Construction in progress	6,646	7,810
Other	8,672	9,224
Accumulated depreciation	(6,458)	(6,870)
Other, net	2,214	2,353
Total property, plant and equipment	32,284	33,508
Intangible assets:		
Goodwill	21,444	19,732
Patent right	695	577
Customer-related intangible assets	2,884	2,749
Other	2,295	2,413
Total intangible assets	27,320	25,472
Investments and other assets:		
Shares of subsidiaries and associates	117	131
Retirement benefit asset	3,242	3,314
Deferred tax assets	2,389	2,153
Other	1,799	1,850
Allowance for doubtful accounts	(13)	(14)
Total investments and other assets	7,535	7,435
Total non-current assets	67,141	66,416
Total assets	126,379	135,074

(Millions of yen)

	Previous fiscal year (As of March 31, 2023)	Current quarter (As of December 31, 2023)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	5,972	8,014
Electronically recorded obligations - operating	2,569	2,066
Short-term borrowings	2,000	4,000
Current portion of long-term borrowings	6,560	2,709
Accounts payable - other	7,817	3,900
Accrued expenses	856	1,149
Income taxes payable	4,705	2,198
Provision for bonuses	2,558	1,491
Other	2,034	2,374
Total current liabilities	35,074	27,905
Non-current liabilities		
Long-term borrowings	11,152	15,471
Retirement benefit liability	4,273	4,186
Deferred tax liabilities	1,323	1,473
Other	780	1,043
Total non-current liabilities	17,530	22,174
Total liabilities	52,605	50,080
Net assets		
Shareholders' equity:		
Share capital	16,194	16,238
Capital surplus	16,147	14,860
Retained earnings	52,663	53,870
Treasury shares	(15,908)	(4,472)
Total shareholders' equity	69,097	80,497
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	(26)	25
Foreign currency translation adjustment	3,278	4,030
Remeasurements of defined benefit plans	547	440
Total accumulated other comprehensive income	3,799	4,496
Non-controlling interests	878	—
Total net assets	73,774	84,994
Total liabilities and net assets	126,379	135,074

(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, 2022 (From April 1, 2022 to December 31, 2022)	For the nine months ended December 31, 2023 (From April 1, 2023 to December 31, 2023)
Net sales	87,227	80,717
Cost of sales	41,491	36,560
Gross profit	45,735	44,157
Selling, general and administrative expenses	16,434	17,498
Operating profit	29,300	26,658
Non-operating income:		
Interest income	48	162
Share of profit of entities accounted for using equity method	18	1
Compensation income	–	35
Rental income	14	12
Other	172	150
Total non-operating income	253	363
Non-operating expenses:		
Interest expenses	56	44
Foreign exchange losses	2,076	3,385
Depreciation	44	142
Loss on investments in investment partnerships	19	22
Other	142	73
Total non-operating expenses	2,339	3,669
Ordinary profit	27,214	23,352
Extraordinary income:		
Gain on sale of non-current assets	13	11
Gain on sale of shares of subsidiaries and associates	–	112
Subsidy income	42	–
Total extraordinary income	56	123
Extraordinary losses:		
Loss on retirement of non-current assets	346	24
Loss on tax purpose reduction entry of non-current assets	39	–
Total extraordinary losses	386	24
Profit before income taxes	26,884	23,452
Income taxes - current	7,273	6,353
Income taxes - deferred	937	302
Total income taxes	8,211	6,656
Profit	18,673	16,795
Profit (loss) attributable to non-controlling interests	26	(47)
Profit attributable to owners of parent	18,646	16,843

Quarterly consolidated statements of comprehensive income

(Millions of yen)

	For the nine months ended December 31, 2022 (From April 1, 2022 to December 31, 2022)	For the nine months ended December 31, 2023 (From April 1, 2023 to December 31, 2023)
Profit	18,673	16,795
Other comprehensive income:		
Deferred gains or losses on hedges	572	51
Foreign currency translation adjustment	496	751
Remeasurements of defined benefit plans, net of tax	(57)	(106)
Total other comprehensive income	1,010	696
Comprehensive income	19,683	17,492
Comprehensive income attributable to:		
Owners of parent	19,653	17,540
Non-controlling interests	30	(47)

(3) Notes to quarterly consolidated financial statements

(Going concern assumption)

Not applicable.

(Significant changes in shareholders' equity)

(Retirement of treasury shares)

At the Board of Directors' meeting held on May 10, 2023, the Company resolved matters pertaining to the retirement of its treasury shares pursuant to Article 178 of the Companies Act, and subsequently retired 3,550,600 treasury shares effective on May 24, 2023.

As a result, the balance of treasury shares stood at ¥4,472 million at the end of the third quarter of the current fiscal year.

(Additional acquisition of shares of a subsidiary)

Effective on December 25, 2023, the Company additionally acquired the shares of Kyoto Semiconductor Co., Ltd., a consolidated subsidiary of the Company, to make it wholly owned.

As a result, capital surplus decreased by ¥1,286 million during the nine months ended December 31, 2023 to ¥14,860 million at the end of the third quarter of the current fiscal year.

(Changes in scope of consolidation or scope of application of the equity method)

(Significant change in scope of application of the equity method)

During the third quarter of the current fiscal year, the Company sold all shares of ORTHOREBIRTH CO. LTD., a then equity-method associate of the Company, to exclude it from the scope of application of the equity method.

(Supplemental information)

(Employee Stock Ownership Plan ("J-ESOP"))

The Company has introduced an Employee Stock Ownership Plan ("J-ESOP") as an incentive program to grant employees the Company's shares for the purpose of increasing their motivation and morale to improve the Company's stock price and business performance by more strongly linking their compensation to the Company's stock price and financial results and sharing economic benefits with shareholders.

Shares of the Company held by the J-ESOP trust are presented as treasury shares in the net assets section of the consolidated balance sheet. The book value and the number of treasury shares at the end of the previous fiscal year and at the end of the third quarter of the current fiscal year were ¥2,544 million and 2,428 thousand shares and ¥2,541 million and 2,424 thousand shares, respectively.

(Board Benefit Trust (BBT))

The Company has introduced a Board Benefit Trust (BBT) as a performance-based stock compensation plan for directors and executive officers (excluding directors who are Audit and Supervisory Committee members and outside directors; the same applies hereinafter) to more clearly link their compensation to the Company's financial results and stock value and increase their awareness of contributing to better business performance and enhancing corporate value continuously over the medium to long term by sharing the benefits of rising stock prices and the risks of falling stock prices.

Shares of the Company held by BBT are presented as treasury shares in the net assets section of the consolidated balance sheet. The book value and the number of treasury shares at the end of the previous fiscal year and at the end of the third quarter of the current fiscal year are ¥1,038 million and 316 thousand shares and ¥988 million and 303 thousand shares, respectively.

(Business combinations)

(Transactions under common control)

Acquisition of additional shares of a subsidiary

1. Outline of the transaction

(1) Name of the company involved in the business combination and its line of business

Company name

Kyoto Semiconductor Co., Ltd.

Description of business

Research and development, manufacturing and sales of opto semiconductor devices including opto semiconductor elements and optical and opto sensors, optical communications-use devices, and other semiconductor-related products

(2) Date of the business combination

December 25, 2023 (deemed date of acquisition: December 31, 2023)

(3) Legal form of the business combination

Acquisition of shares from a non-controlling shareholder

(4) Name of the company after the business combination

No change

(5) Other details on the outline of the transaction

The Company acquired all shares held by a non-controlling shareholder, resulting in Koyo Semiconductor Co., Ltd. being a wholly owned subsidiary of the Company.

2. Summary of accounting procedures implemented

The Company applied the Accounting Standard for Business Combinations (ASBJ Statement No. 21, January 16, 2019) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019) to account for the transaction, which was treated as a transaction with a non-controlling shareholder among transactions under common control.

3. Matters on acquisition of additional shares of a subsidiary

Consideration for acquisition: Cash and deposits of 2,160 million yen

Acquisition cost: 2,160 million yen

4. Matters related to a change in the Company's equity share resulting from the transaction with a non-controlling shareholder

(1) Main factor of a change in capital surplus

Additional acquisition of shares of a subsidiary

(2) Amount of capital surplus reduced by the transaction with a non-controlling shareholder

1,330 million yen

(Segment information)

I. For the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

Information on amounts of net sales and profit (loss) by reportable segment

(Millions of yen)

	Reportable Segment			Adjustment (Note 1)	Consolidated (Note 3)
	Optical Materials and Components	Electronic Materials and Components (Notes 2 & 3)	Total		
Net sales					
Sales to external customers	45,788	41,439	87,227	(0)	87,227
Intersegment sales or transfers	322	235	558	(558)	–
Total	46,111	41,674	87,785	(558)	87,227
Segment profit	16,279	14,362	30,641	(1,340)	29,300

Notes: 1. The amount of adjustment for segment profit of ¥1,340 million is the amount of amortization of goodwill that does not belong to any reportable segment.

2. The Group made Kyoto Semiconductor Co., Ltd. its consolidated subsidiary in March 2022. Accordingly, the company's opto semiconductor business was included in the Electronic Materials and Components segment.

3. Segment information for the nine months ended December 31, 2022 includes amounts that reflect a significant revision to the initial allocations of the acquisition cost due to the determination of a provisional accounting process related to a business combination.

(Reference) Net sales by region: Japan ¥22,845 million China ¥21,754 million South Korea ¥14,444 million
Taiwan ¥19,540 million Other ¥8,642 million

II. For the nine months ended December 31, 2023 (from April 1, 2023 to December 31, 2023)

Information on amounts of net sales and profit (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	39,228	41,489	80,717	–	80,717
Intersegment sales or transfers	361	129	491	(491)	–
Total	39,590	41,619	81,209	(491)	80,717
Segment profit	12,927	15,071	27,998	(1,340)	26,658

Note: The amount of adjustment for segment profit of ¥1,340 million is the amount of amortization of goodwill that does not belong to any reportable segment.

(Reference) Net sales by region: Japan ¥16,974 million China ¥24,644 million South Korea ¥15,113 million
Taiwan ¥14,349 million Other ¥9,635 million

(Significant subsequent events)

(Decision regarding details of repurchase and retirement of treasury shares)

At the Board of Directors' meeting held on February 5, 2024, the Company resolved matters pertaining the repurchase of its treasury shares pursuant to Article 156 of the Companies Act, as applied by replacing terms pursuant to paragraph 3, Article 165 of the said Act, and at the same time resolved matters pertaining the retirement of the treasury shares pursuant to Article 178 of the said Act.

(1) Reasons for repurchase and retirement of treasury shares

To improve capital efficiency and enhance shareholder returns as part of the capital policy

(2) Details of repurchase of treasury shares

- (i) Class of shares to be repurchased : Common stock of the Company
- (ii) Total number of shares to be repurchased : Up to 1,800,000 shares
(2.96% of the total number of shares outstanding (excluding treasury shares))
- (iii) Total amount of repurchase price : Up to ¥6,000 million
- (iv) Repurchase period : From February 6, 2024 to March 19, 2024
- (v) Method of repurchase : Purchase from the open market on the Tokyo Stock Exchange (through discretionary trading by a securities company)

(3) Details of retirement of treasury shares

- (i) Class of shares to be retired : Common stock of the Company
- (ii) Number of shares to be retired : All treasury shares to be repurchased through the transaction as described in item (2) above
- (iii) Scheduled date of retirement : March 27, 2024

(Reference) Holding status of treasury shares as of December 31, 2023

- (i) Total number of shares outstanding (excluding treasury shares) : 60,876,389 shares
- (ii) Number of treasury shares : 294,111 shares

(Note) The treasury shares as disclosed above do not include 2,728,300 shares of the Company held by a Board Benefit Trust (BBT) for directors and other officers and an Employee Stock Ownership Plan ("J-ESOP") for employees in Japan. Note that the Company has introduced a stock compensation plan, which delivers shares with restrictions on transfer, and the treasury shares as disclosed above include 293,800 treasury shares held under the plan mainly for the purpose of allotting them as restricted shares.

The Company continues to hold treasury shares held for the incentive plans for employees and officers because we believe that the plans contribute to the Company's sustainable growth and corporate value enhancement.

(Change in specified subsidiaries (share transfer))

At the Board of Directors' meeting held on February 5, 2024, the Company resolved to conclude the share transfer agreement and the shareholders' agreement for the purpose of converting Dexerials Hong Kong Limited into a joint venture and subsequently concluded these agreements with Restar Holdings Corporation. In conjunction with the share transfer in accordance with these agreements, Dexerials Hong Kong Limited will be no longer a consolidated subsidiary and a specified subsidiary of the Company. Instead, it will become an equity-method associate of the Company. The detail of the transaction is described as below.

1. Reasons for the change

The Company has reached a conclusion that the efficiency of its sales operations in the Asian region can be optimized by collaborating with Restar Holdings Corporation, a trading company with an extensive track record specializing in the sales of semiconductors and electronic components in Japan and abroad. In doing so, the Company has decided to transfer the shares of Dexerials Hong Kong Limited, its sales subsidiary in Hong Kong, for the purpose of converting it into a joint venture. In conjunction with the share transfer, Dexerials Hong Kong Limited will be no longer a consolidated subsidiary and a specified subsidiary of the Company. Instead, it will become an equity-method associate of the Company.

If any matters that need to be disclosed arise as a result of future developments in the discussions, the Company will promptly announce them.

2. Outline of the change

- (1) Name, location, name and job title of representative, description of business, and amount of share capital of the specified company subject to the change

(i) Name	Dexerials Hong Kong Limited
(ii) Location	Suites 1201-2, 12F, Tower 3, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong
(iii) Name and job title of representative	Takashi Kasamatsu, Managing Director
(iv) Description of business	Sale of Optical Materials and Components and Electronic Materials and Components
(v) Share capital	USD4,300,000

- (2) Number of shares to be transferred, transfer price and shareholding status before and after the transfer

(i) Number of shares held before the transfer	4,300,000 shares (Shareholding ratio: 100.0%)
(ii) Number of shares to be transferred	2,193,000 shares (Shareholding ratio: 51.0%)
(iii) Transfer price	USD7,105,320
(iv) Number of shares held after the transfer	2,107,000 shares (Shareholding ratio: 49.0%)

- (3) Timetable

(i) Date of conclusion of the share transfer agreement and the shareholders' agreement for the conversion of Dexerials Hong Kong Limited into a joint venture	February 5, 2024
(ii) Scheduled date of transfer of shares	July 1, 2024
(iii) Scheduled date of change in the specified subsidiary	July 1, 2024
(iv) Scheduled date of commencement of operations of the joint venture	July 1, 2024

3. Effect on business performance

The effect of the above transaction on the consolidated financial results for the fiscal year ending March 31, 2024 will be immaterial. Note that the consolidated earnings forecast for the fiscal year ending March 31, 2024 was revised on February 5, 2024. For details, please refer to the "Notice of Revised Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2024" released on the same day.