COMPANY RESEARCH AND ANALYSIS REPORT

SAKATA INX CORPORATION

4633

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Summary

Earnings are Increasing from Higher Sales of Environmentally Friendly and High-Function, High-Value-Added Products

SAKATA INX CORPORATION <4633> (hereinafter referred to as "the Company") is a major printing ink manufacturer, the third largest in Japan and North America, and the fourth largest globally. One of its strengths is the ability to develop environmentally friendly and high-function, high-value-added products that it has amassed over a 120-year history since it was founded in 1896. In the medium term, earnings are forecast to increase from higher sales volume as a result of the rise in sales of these environmentally friendly and high-function, high-value-added products.

1. Global business deployment, with printing ink business as the core business

The Company is globally deploying its businesses. In the printing ink business which is the core business, it manufactures and sells ink for paper media (newspaper ink and offset ink) and packaging ink (flexo ink, gravure ink, and metal-deco ink); the graphic arts materials business, in which it procures and sells plate making materials and related equipment; and the digital & specialty products business, in which it primarily manufactures and sells inkjet ink, toner, pigment dispersions for color filters, and functional coating materials, etc. The Company also conducts other businesses (chemicals, display and color management businesses in the Japanese market).

2. Strength in environmentally friendly and high-function, high-value-added products

The Company's strengths lie in its ability to develop environmentally friendly, high-function, high-value-added products, and also high reliability and quality products. These strengths have been amassed over the course of the Company's 120-year history since its foundation in 1896.

3. Growth in Asia and North America as the primary sources of revenue, where considerable room for market expansion remains

The Company is growing through global business deployment and increased sales of environmentally friendly and high-function, high-value-added products, with the primary sources of revenue being Asia and North America where considerable room for the markets to expand remains.

4. Absorbed the impact of the yen's appreciation in FY2016/12 resulting in profits exceeding target

FY2015/12 was a 9-month fiscal period. To make a year-on-year comparison, the figures for that fiscal year have been adjusted to 12 months. In the FY2016/12 consolidated results, net sales decreased 2.8% year-on-year, operating income increased 8.1%, ordinary income grew 7.7%, and profit attributable to owners of parent rose 8.8%. Sales decreased due to the effects of foreign currency translation following the yen's appreciation, but the increase in printing ink sales volume and the effects of cost reductions absorbed the impact of the appreciated yen, and operating income rose and exceeded its target. After excluding the foreign currency translation effects, net sales increased 4.1%, operating income rose 18.1%, ordinary income grew 15.7%, and profit attributable to owners of parent increased 17.5%, meaning a double-digit growth in all the income items.

5. Higher sales and earnings forecast for FY2017/12

The FY2017/12 consolidated results forecasts (revised for an increase in profit attributable to owners of parent on February 24 following the recording of extraordinary income) are for net sales to increase 5.5% year-on-year, operating income to rise 3.8%, ordinary income to climb 4.5%, and profit attributable to owners of parent to grow 11.0%. Among the 2017 targets set in the mid-term business plan, the Company expects to achieve the targets for ordinary income, profit attributable to owners of parent and ROE. However, the strong impression is that its forecasts are conservative and there should be room for the results to exceed them. In this case, it is forecast that the Company will also achieve the 2017 operating income target set in the mid-term business plan.

6. The markets for environmentally friendly and high-function, high-value-added products are expanding in Japan and overseas.

The Japanese printing ink market has a strong image of being mature due to the decline in paper media, such as newspapers. However, demand is still trending upward in the packaging ink field, and moreover the shift to environmentally friendly and high-function, high-value-added products is continuing. The overseas printing ink market as a whole is expanding against the backdrop of population increases and economic growth. The shift to environmentally friendly and high-function, high-value-added products is particularly occurring in Asia and North America where considerable room for market expansion remains.

7. Earnings set to increase in the medium term

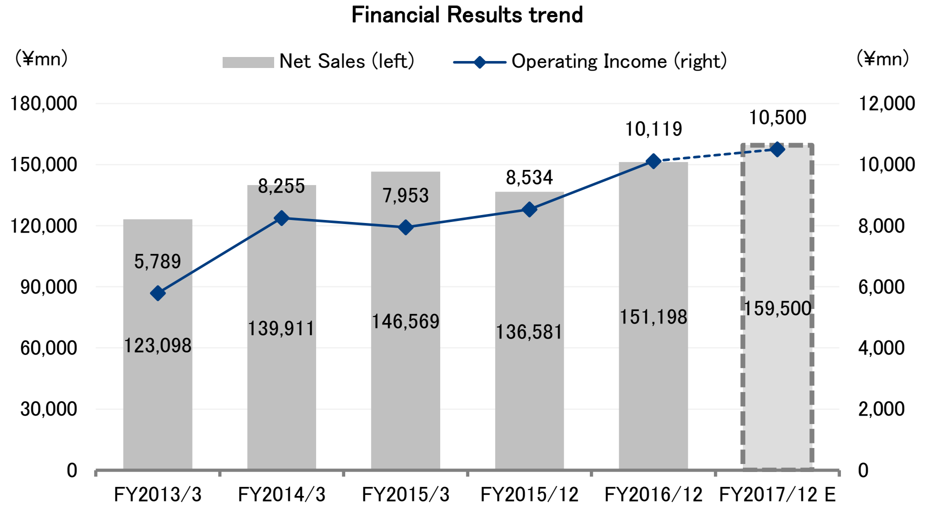
Against the backdrop of the worldwide shift toward environmentally friendly and high-function, high-value-added products, the Company is leveraging its track record of global business deployment ahead of its industry peers, its expertise in launching products tailored to the local characteristics in each country, and its high market share in the field of environmentally friendly and high-function, high-value-added products. It is expected to increase earnings and achieve even higher profitability in the medium term.

8. Targeting a consolidated dividend payout ratio in the range of about 20% to 30%

The Company targets a consolidated dividend payout ratio in the range of about 20% to 30%. The FY2017/12 annual dividend forecast is ¥28, which is the same amount as in FY2016/12, but the FY2016/12 dividend was comprised of a commemorative dividend of ¥2 as an ordinary dividend. The Company also implements a shareholder benefit program each year for shareholders registered at the end of December.

Key Points

- Global business deployment, with the printing ink business as the core business
- Higher sales and earnings forecast for FY2017/12
- The markets for environmentally friendly and high-function, high-value-added products are expanding in Japan and overseas



Source: Prepared by FISCO from the Company's financial results summary
Note: FY2015/12 (9 months)

Company profile

Third Largest Printing Ink Manufacturer in Japan and North America and Fourth Largest Globally

1. Company profile

The Company boasts a 120-year history dating back to its founding in 1896. Today, it is a major printing ink manufacturer that is the third largest in Japan and North America and the fourth largest globally. Its strengths lie in its ability to develop environmentally friendly and high function, high-value-added products and high reliability and quality products, which it has amassed over its 120-year history.

At the end of FY2016/12, its capital was ¥7,472mn, while the number of issued shares excluding treasury stocks was 60,507,951 shares.

2. History

Founded in 1896 in Osaka City as a private company (SAKATA INK SEIZOUSHO), the Company started manufacturing and selling newspaper ink. In 1911, it successfully industrialized the production of varnish for printing ink using linseed oil for the first time in Japan. In 1920, it was incorporated as a limited company. In 1961, the Company listed its shares on the Second Section of the Osaka Securities Exchange. In 1962, it was reassigned to the First Section of the Osaka Securities Exchange. In 1987, it changed its corporate name to SAKATA INX CORPORATION. In 1988, it listed its shares on the First Section of the Tokyo Stock Exchange, and, in November 2016, it celebrated the 120th anniversary of its founding.

In December 2016, the Company was selected to be a constituent share of the JPX-Nikkei Mid and Small Cap Index, which is jointly calculated and distributed by the Tokyo Stock Exchange, Inc. (TSE) and Nikkei, Inc. (calculation to start from March 13, 2017).

History

Year	Main Event
1896	Founded (under the name SAKATA INK SEIZOUSHO) as a private company in Osaka City, and started manufacture and sales of printing ink for newspapers
1906	Name changed to SAKATA SHOKAI
1911	Successfully industrialized the production of varnish for printing ink using linseed oil for the first time in Japan
1920	Changed to limited company
1947	Established SAKATA SANGYO, LIMITED by spinning off the industrial chemicals division into an independent company
1959	Constructed and commenced operation of Itami Plant (now Osaka Plant) in Itami City, Hyogo Prefecture
1960	Opened an overseas office in the Philippines (Manila) (a succession of major overseas offices and subsidiaries were established thereafter)
1961	Listed on the Second Section of the Osaka Securities Exchange
1962	Reassigned to the First Section of the Osaka Securities Exchange
1969	Constructed and commenced operation of Noda Plant (now Tokyo Plant) in Noda City, Chiba Prefecture
1975	Established SAKATA KIKI SEIBI KOGYO CO., LTD. (now SAKATA INX ENG. CO., LTD.)
1982	Established SAKATA GENZOUSHO CO., LTD. (now SAKATA LABOSTATION CO., LTD.)
1987	Established SAKATA INX ESPAÑA, S.A. in Spain Corporate name changed to SAKATA INX CORP.
1988	INX INTERNATIONAL INC. (now THE INX GROUP LTD.) established in the U.S. A. as a holding company Acquired ACME PRINTING INK CO. in the U.S.A. Listed on the First Section of the Tokyo Stock Exchange
1989	Established PT. SAKATA INX INDONESIA as a joint venture in Indonesia that manufactures and sells printing ink Acquired MIDLAND COLOR CO. in the U.S.A. Acquired CHEMICAL PROCESS SUPPLY in the U.S.A.
1992	Consolidated ACME PRINTING INK CO. and MIDLAND COLOR CO. in the U.S.A. under the name of INX INTERNATIONAL INK CO. Established SAKATA INX INTERNATIONAL CORP. (now SIIX CORPORATION), and transferred businesses related to international trading of electronic components and other products to the Company Established THE INX GROUP (UK) LTD. that manufactures and sells printing ink (now INX INTERNATIONAL UK LTD.) in the U.K
1993	Established MEGA FIRST SAKATA INX (now SAKATA INX (MALAYSIA) SDN. BHD) in Malaysia
1994	Constructed and commenced operation of Hanyu Plant in Hanyu City, Saitama Prefecture Renamed Tokyo Branch to Tokyo Head Office, and instituted a dual Osaka and Tokyo Head Office system
1995	Established MONTARI SAKATA INX LTD. (now SAKATA INX (INDIA) PRIVATE LTD.) in India
1996	Acquired ISO9001 certification at Tokyo Plant (Osaka Plant and Hanyu Plant and overseas affiliates later acquired certification)
1997	Completed construction of the Technology Building at Osaka Plant
1999	Agreed to strategic alliance with TOYO INK MFG. CO., LTD. (now Toyo Ink SC Holdings Co., Ltd.)
2000	Established the 50-50 joint venture company LOGI CO-NET CORP. with TOYO INK MFG. CO., LTD. (now Toyo Ink SC Holdings Co., Ltd.) Agreed to a capital alliance with TOYO INK MFG. CO., LTD. (now Toyo Ink SC Holdings Co., Ltd.) Established the 50-50 joint venture company ga city Corp. with TOYO INK MFG. CO., LTD. (now Toyo Ink SC Holdings Co., Ltd.)
2001	Acquired ISO14001 certification at the three main plants (Tokyo, Osaka and Hanyu) Established SAKATA LABOSTATION CO., LTD.
2002	Established ETERNAL SAKATA INX CO., LTD. in Thailand Established SAKATA INX SHANGHAI CO., LTD. in China (Shanghai)
2003	Established SAKATA INX ENG. CO., LTD. Completed construction of the Technology and Laboratory Building at the Osaka Plant Established SAKATA INX VIETNAM CO., LTD. in Vietnam.
2004	Established a holding company INX EUROPE LTD. in the U.K. Established INX INTERNATIONAL FRANCE SAS in France Established MAOMING SAKATA INX CO., LTD. in China (Guangdong) The three main plants (Tokyo, Osaka and Hanyu) earned the Award for TPM Excellence, Category 1, in the 2004 TPM Excellence Awards
2005	Established TRIANGLE DIGITAL INX CO. in the U.S.A. (Name changed to INX DIGITAL INTERNATIONAL CO. in 2009)
2008	Acquired MEGAINK DIGITAL A.S. in the Czech Republic (now INX DIGITAL CZECH, A.S.) Acquired ANTEPRIMA S.R.L. in Italy (now INX DIGITAL ITALY S.R.L.) Acquired OSHMS certification at Tokyo Plant (including Hanyu Plant)
2009	Acquired OSHMS certification at Osaka Plant
2010	The three main plants (Tokyo, Osaka and Hanyu) earned the Award for Excellence in Consistent TPM Commitment in the 2010 TPM Excellence Awards
2012	The three main plants (Tokyo, Osaka and Hanyu) earned the Award for TPM Achievement in the 2012 TPM Excellence Awards
2013	INX DIGITAL INTERNATIONAL CO. merged into INX INTERNATIONAL INK CO.
2014	Commenced operation at Shiga Plant in Maibara City, Shiga Prefecture
2015	Changed fiscal year-end from March to December Acquired ISO9001 & ISO14001 certification at Shiga Plant
2016	Celebrated the120th founding anniversary Acquired CREATIVE INDUSTRIA E COMERICO LTDA. in Brazil as the first production base in South America Selected as a constituent brand of the JPX-Nikkei Mid and Small Cap Index

Source: Compiled by FISCO based on materials published by SAKATA INX

3. Business description

The Company's core business is printing ink business, in which it manufactures and sells ink for paper media (newspaper ink and offset ink) and packaging ink (flexo ink, gravure ink, and metal-deco ink) for the Japanese, Asian, North American, and European markets. In the graphic arts materials business, it procures and sells plate making materials and related equipment for the Japanese market. In the digital & specialty products business, it manufactures and sells products including inkjet ink, toner, pigment dispersions for color filters, and functional coating materials for the Japanese, Asian, North American, and European markets. The Company also conducts other businesses (chemicals, display and color management businesses in the Japanese market).

4. Global deployment in 18 countries and regions in Japan and overseas

As of the end of FY2016/12, the SAKATA INX Group consisted of SAKATA INX CORPORATION, 23 consolidated subsidiaries, 6 equity method affiliates, and 2 non-consolidated subsidiaries. SIIX Corporation <7613>, which undertakes international trading of electronic components and the Electronics Manufacturing Services (EMS) business, was spun-off from the Company and became an equity method affiliate.

In December 2016, the Company acquired Creative Industria e Comercio Ltda. (hereinafter referred to as "Creative Ltd.") which is a Brazilian printing ink manufacture and sales company through its U.S. subsidiary. It will be a non-consolidated subsidiary for the time being, and it will function as its first production base in South America.

The Company is deploying its businesses from manufacturing and sales bases including Creative Ltd., in 18 countries and regions in Japan and overseas.

5. Continuing business and capital alliance with Toyo Ink SC Holding

In 1999, the Company and Toyo Ink MFG. Co., (now, Toyo Ink SC Holdings <4634>) agreed to a business alliance for production, logistics, digital-related businesses and international businesses. And then in 2000, they agreed to a capital alliance. Toyo Ink SC Holdings is currently the Company's largest shareholder.

On February 20, 2017, the Company announced that it would continue to promote the business alliance and maintain the capital alliance with Toyo Ink SC Holdings. In the business alliance, the two companies are pursuing further efficiency in the logistics field, aiming to complement each other in the production field, and promoting supplementary production at domestic and overseas bases for times of emergencies based on BCP measures. In addition to increase the effectiveness of the business alliance and to build a long-term partnership, both companies have agreed to continue to hold around 80% of the ordinary shares that they had previously held in the other. With regards to the other 20%, on February 21, they each implemented a share buy-back and acquired these shares as treasury stock. While their mutual holding of shares and the share ownership ratios have been reduced as a result of this buy-back, their business-alliance relationship will continue. In addition, for the time being the Company has no plans to retire the acquired treasury stock.

Business overview

In the Core Printing Ink Business, its Strength is Environmentally Friendly and High-Function, High-Value-Added Products

1. Global business deployment focused on printing ink business

As of the end of FY2016/12, the SAKATA INX Group consisted of SAKATA INX CORPORATION, 23 consolidated subsidiaries, 6 equity method affiliates, and 2 non-consolidated subsidiaries, including Creative, Ltd., (a non-consolidated subsidiary) in Brazil that was acquired in November 2016. It is deploying its businesses from manufacturing and sales bases in 18 countries and regions in Japan and overseas.

The SAKATA INX Group is deploying its businesses globally. In the printing ink business, which is the core business, it manufactures and sells ink for paper media (newspaper ink and offset ink) and packaging ink (flexo ink, gravure ink, and metal-deco ink). In the graphic arts materials business, it procures and sells plate making materials and related equipment. In the digital & specialty products business, it manufactures and sells products including inkjet ink, toner, pigment dispersions for color filters, and functional coating materials, etc. The SAKATA INX Group also conducts other businesses (chemicals, display and color management businesses in the Japanese market).

In the printing ink business, the SAKATA INX Group manufactures and sells ink for paper media (newspaper ink used for printing newspapers, and offset ink used for a variety of commercial printing applications, such as books, magazines, catalogues, posters, brochures, vouchers, etc.), and packaging ink (flexo ink for printing on packaging, such as corrugated boxes and paper containers; gravure ink for printing on packaging film for food, cosmetics and toiletries, daily goods, and other products; and metal-deco ink for printing on metal, such as beverage cans).

In the graphic arts materials business, the SAKATA INX Group procures and sells plate making materials and related equipment, mainly in the Japanese market. Products include computer-to-plate (CTP) setters, CTP plates, inkjet proofers, inkjet proof paper, editing software, on-demand printing presses, color management systems and organic solvent recovery devices.

In the digital & specialty products business, it manufactures and sells digital printing materials (industrial-use inkjet ink used for train and bus wrapping advertisements and traffic advertisements, etc., color toner, and monochrome toner), image display materials (pigment dispersions for color filters) and functional coating materials for the Japanese, Asian, North American, and European markets. Digital printing materials account for about 70% of sales.

In the other businesses, the SAKATA INX Group primarily conducts a chemicals business (SAKATA SANGYO, LIMITED), a display service business (SAKATA LABOSTATION CO., LTD.) and a color management business (SAKATA INX ENG. CO., LTD.)

In the core printing ink business and the digital & specialty products business, the Company is aiming to increase sales by accelerating global business deployment, pursuing a strategy of products tailored to the local characteristics in each country, and realizing higher sales volume through expansion in sales of environmentally friendly and high-function, high-value-added products.

In its consolidated accounts, the SAKATA INX Group has adopted the following reportable segments: printing inks and graphic arts materials (Japan), printing inks (Asia), printing inks (North America), printing inks (Europe), digital & specialty product and other businesses.

Reportable Segments and Main Products in the Consolidated Accounts

Reportable Segments	Main Products
Printing inks and graphic arts materials (Japan)	Newspaper ink, offset ink, flexo ink, gravure ink, plate making equipment and materials
Printing inks (Asia)	Newspaper ink, offset ink, flexo ink, gravure ink, metal-deco ink
Printing inks (North America)	Offset ink, flexo ink, gravure ink, metal-deco ink
Printing inks (Europe)	Offset ink, flexo ink, gravure ink, metal-deco ink
Digital & Specialty products	Digital printing materials (ink jet ink, color toner, monochrome toner)
	Image display materials (pigment dispersions for color filters)
	Functional coating materials (various coating materials)
Other Businesses	Chemicals business (SAKATA SANGYO, LIMITED)
	Display service business (SAKATA LABOSTATION CO., LTD.)
	Color management business (SAKATA INX ENG. CO., LTD.)

Source: Compiled by FISCO based on materials published by SAKATA INX

2. Growth in Asia and North America as the primary sources of revenue

In the FY2016/12 consolidated results, net sales were ¥151,198mn and the percentages of sales by segments (before consolidated adjustments) were as follows; printing inks and graphic arts materials (Japan) contributed 34.7%, printing inks (Asia) 17.8%, printing inks (North America) 26.5%, printing inks (Europe) 4.9%, digital & specialty products 6.4% and other businesses 9.7%.

In addition, in FY2016/12, operating income was ¥10,119mn, and its percentages by segment (before consolidated adjustments) were as follows: printing inks and graphic arts materials (Japan) contributed 26.6%, printing inks (Asia) 33.5%, printing inks (North America) 23.4%, printing inks (Europe) 2.3%, digital & specialty products 9.8% and other businesses 4.4%. The Company is achieving growth by accelerating its global business deployment and increasing sales of environmentally friendly and high-function, high-value-added products in Asia and North America where there remains considerable room for market growth, serving as the primary sources of revenue.

3. The third largest printing ink manufacturer in Japan and North America, and the fourth largest globally

In terms of net sales rankings, SAKATA INX is a major printing ink manufacturer ranked third in Japan and North America (source: "North American Top 20 Ink Industry Report" (March 30, 2016) by INK WORLD) and fourth globally (source: "The 2016 Top International Ink Companies Report" (August 5, 2016) by INK WORLD).

The Global Top 10 in Ink Sales (2015)

Rank	Company	Country	Net sales (US$mn)
1	DIC/Sun Chemical	Japan	4,590
2	Flint Group	Luxembourg	2,400
3	Toyo Ink SC Holdings Co., Ltd.	Japan	1,260
4	SAKATA INX CORPORATION	Japan	1,230
5	Siegwerk Group	Germany	1,220
6	Huber Group	Germany	925
7	T&K TOKA CO., LTD.	Japan	460
8	Tokyo Printing Ink Mfg. Co., Ltd.	Japan	440
9	Fujifilm North America	U.S.A	400
10	SICPA	Switzerland	400

Source: "The 2016 Top International Ink Companies Report" (August 5, 2016) by INK WORLD

4. Strength is in environmentally friendly and high-function, high-value-added products

The Company's strengths lie in its ability to develop environmentally friendly and high-function, high value- added products, and also high reliability and quality products. These strenghts have been amassed over the 120 years since its foundation in 1896.

In newspaper ink, the Company has acquired a strong reputation for its high-coloration ink called "NEWS WEBMASTER Ecopure" that it developed in pursuit of the highest quality of newspaper. This has been achieved by expanding color reproduction range, improving dot reproduction, and optimizing dot gain in the quest for natural colors and bright coloration. Moreover, it has earned considerable trust from newspaper companies for its technical capabilities and track record in creating high-quality color pages and in its color management system for controlling the color aspects of newspaper production systems from upstream to downstream.

In offset ink, the Company has introduced environmentally friendly ink to the market as an industry pioneer, and in addition to providing ink and related products that meet a diverse range of customer needs, such as high-speed web-offset ink, sheet ink and fountain solutions. It is also propelling the development of UV curable ink, Dream Cure series. It is compatible with the high sensitivity UV printers that have become popular in recent years.

In the packaging ink field, it boasts the leading market share domestically for water-based flexo ink used to print corrugated cardboard, which it developed early as a pioneer in the industry. While in the paper industry, it is providing a range of new technologies, such as functional coasting materials. In addition, in film packaging gravure ink which is mainly used for food packaging, it provides environmentally friendly, high-performance, high-quality inks, including Botanical Ink that uses materials derived from plants.

Both domestically and overseas, the Company's mainstay products are its environmentally friendly and high-function, high-value-added products positioned above middle range. One of its main features is that it boasts a high market share in this field of environmentally friendly and high-function, high-value-added products, which offers significant potential for growth and market development.

In the field of ink for paper media, the Company's ratio of environmentally friendly products for newspaper ink, and offset ink for magazines and brochures, and other paper media have reached ratios of 100%. Looking at its market share in the field of packaging ink, the Company boasts the leading share in Japan for flexo ink for printing on packaging, such as corrugated boxes and paper containers, the second leading share in Japan for gravure ink for printing on film packaging, such as for food, daily goods and other items, and the globally leading share for metal-deco ink for printing on metal such as beverage cans.

Financial Results trend

Absorbed the Impact of the Yen's Appreciation in FY2016/12 resulting in profits exceeding target

1. Overview of the FY2016/12 consolidated results

In the FY2016/12 consolidated results announced on February 14, net sales were ¥151,198mn, operating income was ¥10,119mn, ordinary income was ¥11,868mn, and profit attributable to owners of parent was ¥7,837mn.

Compared to the revised forecasts of August 10 (the assumed exchange rate was revised to US$1 = ¥108.00, while for the forecasts, net sales were reduced ¥900mn to ¥150,600mn, operating income was reduced ¥100mn to ¥9,700mn, ordinary income was increased ¥200mn to ¥11,700mn, and profit attributable to owners of parent was increased ¥700mn to ¥8,000mn), profit attributable to owners of parent was ¥163mn below forecast, but net sales, operating income, and ordinary income exceeded their forecasts by ¥598mn, ¥419mn, and ¥168mn, respectively.

The gross profit margin was 24.8% and the SG&A rate was 18.1%. In non-operating income, equity in earnings of affiliates of ¥1,669mn was recorded. The operating income margin was 6.7%, the ordinary income margin was 7.8%, ROE (return on equity) was 11.3%, and the equity ratio was 51.7%.

As FY2015/12 was a 9-month period of April to December 2015 due to the change in the fiscal year-end, in the year-on-year comparison in which the figures have been adjusted to January to December 2015 (net sales of ¥155,580mn, operating income of ¥9,359mn, ordinary income of ¥11,025mn, and profit attributable to owners of parent of ¥7,203mn), net sales decreased 2.8%, operating income increased 8.1%, ordinary income rose 7.7%, and profit attributable to owners of parent increased 8.8%.

Net sales fell due to the effects of foreign currency translation on overseas subsidiaries following the yen's appreciation, but the Company was able to absorb the impact of the appreciated yen through higher printing ink sales volume and the effects of cost reductions, and operating income increased and exceeded the target. The average exchange rate during the period was US$1 = ¥109.27, meaning the yen appreciated ¥11.76 on the rate of US$1 =121.03 in the previous fiscal year.

In the year-on-year comparison, using the 2015 January-to-December adjusted values, the foreign currency translation effects due to the appreciated yen have been excluded. Net sales increased 4.1%, operating income rose 18.1%, ordinary income climbed 15.7%, and profit attributable to owners of parent increased 17.5%, meaning that sales increased and the income items grew by double digits once the impact of the foreign currency translation has been excluded.

Financial Results trend

FY2016/12 Consolidated Results

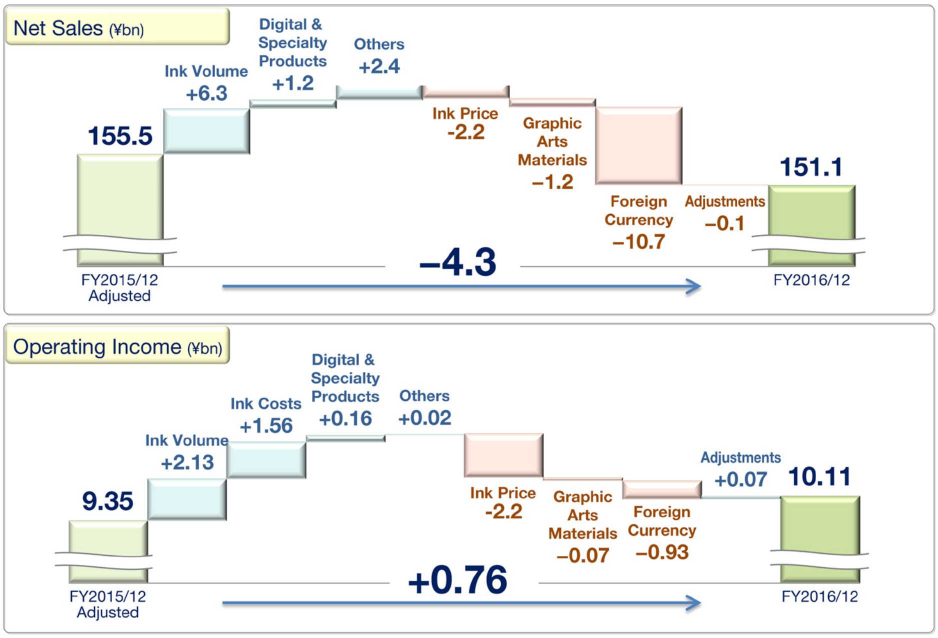
(Units: ¥mn, %)

	FY2015/12	FY2016/12			
	Adjusted Amount	Amount	Increase/Decrease Amount	Increase/Decrease Rate	After excluding foreign currency translation effects
Net Sales	155,580	151,198	-4,381	-2.8	4.1
Operating Income	9,359	10,119	760	8.1	18.1
Ordinary Income	11,025	11,868	843	7.7	15.7
Profit attributable to owners of parent company	7,203	7,837	633	8.8	17.5
Exchange rate (US$/¥)	121.03	109.27			

Source: Compiled by FISCO based on materials published by SAKATA INX

From the analysis of change factors, the factors causing net sales (down ¥4,300mn) to increase were ink volume of ¥6,300mn, digital & specialty products of ¥1,200mn, and other businesses of ¥2,400mn, while the decrease factors were the ink price of ¥2,200m, printing and graphics arts materials of ¥1,200mn, foreign currency of ¥10,700mn and the adjustment of ¥100mn. The factors causing operating income (up ¥760mn) to increase were ink volume of ¥2,130mn, ink costs of ¥1,560mn, digital & specialty products of ¥160mn, other businesses of ¥20mn, and the adjustment of ¥7mn, while the decrease factors were the ink price of ¥2,200mn, graphics arts materials of ¥70mn and foreign currency of ¥930mn.

Factors Behind Changes in Net Sales and Operating Income in FY2016/12



Source: reprinted from Company presentation materials published by SAKATA INX

Looking at business results by segment (before consolidated adjustments), in the year-on-year comparison with the adjusted values for the January to December 2015 period, in printing inks and graphic arts materials (Japan), net sales decreased 2.4% to ¥55,114mn, but operating income increased 13.4% to ¥2,516mn; in printing inks (Asia), net sales fell 6.6% to ¥28,308mn, while operating income rose 6.5% to ¥3,170mn; in printing inks (North America), net sales decreased 6.4% to ¥42,044mn, and operating income fell 3.2% to ¥2,218mn; in printing inks (Europe), net sales decreased 13.4% to ¥7,817mn, and operating income increased 98.1% to ¥218mn; in digital & specialty products, net sales rose 7.8% to ¥10,162mn, and operating income climbed 21.0% to ¥925mn; and in other businesses, net sales increased 18.9% to ¥15,168mn, and operating income grew 5.5% to ¥419mn.

In printing inks and graphic arts materials (Japan), newspaper ink, plate making materials, and plate making-related equipment sales were sluggish overall resulting in net sales to decline. However, in packaging-related products, gravure ink sales, particularly for food and drinks, trended strongly, and profits increased from higher ink sales volumes and effects of cost reductions.

In printing inks (Asia), net sales decreased due to the impact of the foreign currency translation following the appreciation of the yen, but as a whole, sales of the mainstay product of packaging-related gravure ink increased, including the new factory in Vietnam rebuilt in October 2015. In India and China, sales of newspaper ink and offset ink are growing. Profits increased from the rise in ink sales volume and the effects of cost reductions.

In printing inks (North America), net sales declined due to the impact of the foreign currency translation following the appreciation of the yen, but in the mainstay packaging-related products, against the backdrop of the increased production capacity, gravure ink, flexo ink, and metal-deco ink each performed favorably. UV ink sales for packaging were also strong. The increase in ink sales volume and the expansion in sales of high value-added products contributed to profits, but profits still declined due to the impact of higher personnel costs and also costs relating to the acquisition of Creative Ltd., in Brazil. However, profits also increased once the foreign currency translation effects following the appreciation of the yen are excluded.

In printing inks (Europe), net sales also declined due to the impact of the foreign currency translation following the appreciation of the yen, but demand seemed to recover and strengthen across the 2nd half. Profits rose significantly, despite the higher advertising expenses due to the contribution of the sharp depreciation of the pound.

Net sales increased as a whole in digital & specialty products. Inkjet ink sales were somewhat sluggish in Europe and the U.S., but this was also due to the impact of the foreign currency translation following the appreciation of the yen. In Japan, sales of inkjet ink toner and pigment dispersions for color filters all grew. Profits also increased because of the higher sales volume.

In the year-on-year comparison, using the 2015 January-to-December adjusted values, the foreign currency translation effects due to the appreciated yen have been excluded. In printing inks and graphic arts materials (Japan), operating income increased 13.4%; in printing inks (Asia), operating income rose 23.7%; in printing inks (North America), operating income grew 7.8%; in printing inks (Europe), operating income climbed 226.5%; in digital & specialty products, operating income rose 21.7%; and in other businesses, operating income increased 5.5%. Operating income increased in every business segment after the foreign currency translation effects have been excluded.

Net Sales and Operating Income by Segment in FY2016/12

(Unit: ¥mn, %)

	FY2015/12	FY2016/12			
	Adjusted Amount	Amount	Increase/Decrease Amount	Increase/Decrease Rate	After excluding foreign currency translation effects
Net Sales					
Printed inks and graphic arts materials (Japan)	56,463	55,114	-1,349	-2.4	-2.4
Printing inks (Asia)	30,292	28,308	-1,984	-6.6	7.4
Printing inks (North America)	44,919	42,044	-2,874	-6.4	3.7
Printing inks (Europe)	9,031	7,817	-1,214	-13.4	3.9
Digital & specialty products	9,430	10,162	731	7.8	12.8
Reportable Segment Total	150,138	143,447	-6,691	-4.5	2.8
Other Businesses	12,752	15,168	2,416	18.9	18.9
Adjustments	-7,310	-7,416	-106	-	-
Total	155,580	151,198	-4,381	-2.8	4.1
Operating Income					
Printed inks and graphic arts materials (Japan)	2,219	2,516	296	13.4	13.4
Printing inks (Asia)	2,977	3,170	192	6.5	23.7
Printing inks (North America)	2,291	2,218	-73	-3.2	7.8
Printing inks (Europe)	110	218	108	98.1	226.5
Digital & specialty products	764	925	160	21.0	21.7
Reportable Segment Total	8,364	9,049	684	8.2	19.1
Other Businesses	397	419	21	5.5	5.5
Adjustments	596	650	53	-	-
Total	9,359	10,119	760	8.1	18.1

Source: Compiled by FISCO based on materials published by SAKATA INX

Making Progress Toward Higher Earnings and Profitability

2. Making progress toward higher earnings and profitability from the rise in the gross profit margin

While the results are somewhat irregular as FY2015/12 was a 9-month period due to the change in fiscal year-end, we can see that the gross profit margin is trending upward. The FY2016/12 gross profit margin was 24.8%, which is a 2.4 percentage point increase to 22.4% in FY2013/3. On the other hand, the selling, general and administrative expenses rate was 18.1%, which was an increase of only 0.4 of a percentage point over the same period. As a result, operating income margin is also trending upward and progress is being made toward realizing higher earnings and profitability. This is considered to be as a result of the expansion in sales of environmentally friendly and high-function, high-value-added products, and also the Company's continuous efforts to reduce costs. In addition, ROE is being maintained at above 10%, apart from in FY2015/3 when the extraordinary loss increased.

In profits, the equity ratio is steadily rising and exceeded 50% in FY2016/12. In addition, at the end of FY2016/12, long-term borrowing was ¥16,358mn, down ¥2,087mn compared to the end of FY2015/12. The improvement in operating cash flow and the reduction in interest-bearing debt have greatly improved the ratio of cash flow to interesting-bearing debt. The Company's financial soundness has also further improved.

Financial Results trend

Key Performance Indicators

(Unit: ¥mn)

Item	FY2013/3	FY2014/3	FY2015/3	FY2015/12 (9 months)	FY2016/12
Net Sales	123,098	139,911	146,569	136,581	151,198
Cost of Sales	95,521	107,430	112,581	103,826	113,773
Gross Profit	27,576	32,480	33,988	32,754	37,425
Gross Profit Margin	22.4	23.2	23.2	24.0	24.8
Selling, general and administrative expenses	21,786	24,225	26,034	24,219	27,305
Selling, general and administrative expenses ratio (%)	17.7	17.3	17.8	17.7	18.1
Operating Income	5,789	8,255	7,953	8,534	10,119
Operating Income Margin (%)	4.7	5.9	5.4	6.2	6.7
Non-Operating Income	1,615	1,773	2,131	2,601	2,531
Non-Operating Expenses	595	584	712	1,067	782
Ordinary Income	6,809	9,443	9,372	10,068	11,868
Ordinary Income Margin (%)	5.5	6.7	6.4	7.4	7.8
Extraordinary Income	2,168	6	779	1,539	801
Extraordinary Loss	103	0	1,128	2	386
Income before Income Taxes and Non-controlling Interests	8,874	9,450	9,023	11,604	12,283
Total Income Taxes	3,103	3,124	4,206	3,258	3,798
Profit attributable to owners of parent company	5,588	5,964	4,338	7,745	7,837
Margin on Profit attributable to the owners of the parent company (%)	4.5	4.1	3.0	5.7	5.2
Comprehensive Income	9,177	11,133	11,508	6,265	6,381
Total Assets	99,649	115,407	129,912	136,564	138,012
Current Assets	57,222	62,876	69,346	72,554	71,716
Property, plant and equipment	42,427	52,530	60,565	64,010	66,295
Total Liabilities	54,115	60,723	65,126	66,944	63,698
Current Liabilities	40,592	43,116	43,753	46,574	45,304
Noncurrent Liabilities	13,522	17,606	21,373	20,370	18,393
Total Net Assets	45,533	54,684	64,785	69,619	74,313
Shareholders' Equity	50,589	55,724	58,756	65,230	71,555
Capital	7,472	7,472	7,472	7,472	7,472
Total Number of Issued Shares at the End of the Period, Excluding Treasury Shares	60,511,273	60,509,187	60,508,675	60,508,154	60,507,951
EPS (¥)	92.35	98.57	71.71	128.01	129.53
Net Assets per share (¥)	735.56	877.85	1034.84	1107.63	1179.38
Dividends per share (¥)	14.00	18.00	20.00	22.00	28.00
Equity ratio (%)	44.7	46.0	48.2	49.1	51.7
ROE (%)	13.8	12.2	7.5	11.9	11.3
Cash Flows from Operating Activities	6,574	7,203	6,487	11,254	11,697
Cash Flows from Investing Activities	-3,132	-3,920	-9,156	-3,214	-6,727
Cash Flows from Financing Activities	-3,162	-3,943	2,745	-5,973	-3,552
Cash And Cash Equivalents at the End of Period	5,861	5,514	5,923	7,888	9,297
Ratio of Cash Flow to Interest-Bearing Debt (year)	3.1	2.6	3.7	1.8	1.5
Interest Coverage Ratio (times)	15.4	20.2	17.3	34.6	44.9

Source: Compiled by FISCO based on materials published by SAKATA INX

Business outlook

Higher Sales and Earnings Projected for FY2017/12

• **FY2017/12 outlook**

The outlook for the FY2017/12 consolidated results (with regard to the values announced on February 14, due to the recording of extraordinary income, on February 24 the Company upwardly revised profit attributable to owners of parent by ¥700mn for 2nd half and by ¥700mn for the full fiscal year), in 1st half (January to June), net sales are forecast to increase 4.1% year-on-year to ¥78,400mn, operating income to rise 2.0% to ¥5,050mn, ordinary income to decrease 0.1% to ¥6,000mn, and profit attributable to owners of parent to increase 10.4% to ¥4,550mn. For the full fiscal year (January to December), net sales are forecast to increase 5.5% to ¥159,500mn, operating income to grow 3.8% to ¥10,500mn, ordinary income to rise 4.5% to ¥12,400mn, and profit attributable to owners of parent to increase 11.0% to ¥8,700mn. The assumption for the exchange rate for the full fiscal year is US$1= ¥112.

Consolidated results trend

(Unit: ¥mn, ¥)

Fiscal year	FY2014/3	FY2015/3	FY2015/12 (9 months)	FY2016/12	FY2017/12 Forecast
Net Sales	139,911	146,569	136,581	151,198	159,500
Operating Income	8,255	7,953	8,534	10,119	10,500
Ordinary Income	9,443	9,372	10,068	11,868	12,400
Profit attributable to owners of parent	5,964	4,338	7,745	7,837	8,700
EPS	98.57	71.71	128.01	129.53	148.53
Dividend	18.00	20.00	22.00	28.00	28.00
BPS	877.85	1,034.84	1,107.63	1,179.38	-

Source: Compiled by FISCO based on materials published by SAKATA INX

Although printing ink costs will increase due to the rise in the prices of raw materials, this will be absorbed by the higher printing ink sales volume, particularly for environmentally friendly and high-function, high-value-added products, and also by the growth in the sales volume of digital & specialty products. As a result, the full fiscal year forecast is expected for sales and profits to increase. Compared to the previous fiscal year, the yen is expected to trend at a slightly weaker level, but this will also be a positive factor, while the Company's continuous efforts to reduce costs are also expected to contribute. For the forecast of higher profit attributable to owners of parent (upwardly revised on February 24), this will include the contribution from the sale of multiple shares of policy shareholding stocks resulting to gain on sale of investment securities recorded as extraordinary gain.

As there will be a time lag between the rise in the prices of raw materials and the transfer of this onto sales prices, the Company's forecasts for the FY2017/12 consolidated results do not incorporate this transfer to sales prices, which reduces the extent of the operating income growth rate. However, given the fact that the effects of this transfer to sales prices are expected to be realized in the 2nd half, the Company's forecasts would seem to be strongly conservative and there remains room for results to exceed them.

Segment forecasts (before consolidated adjustments) are as follows: in printing inks and graphic arts materials (Japan), net sales are forecast to increase 2.4% to ¥56,421mn, and operating income to rise 1.2% to ¥2,546mn; in printing inks (Asia), net sales are set to grow 11.0% to ¥31,420mn, and operating income to fall 6.8% to ¥2,953mn; in printing inks (North America), net sales are forecast to rise 5.8% to ¥44,493mn, and operating income to increase 12.8% to ¥2,501mn; in printing inks (Europe), net sales are expected to increase 6.9% to ¥8,356mn, and operating income to decrease 25.7% to ¥163mn; in digital & specialty products, net sales are set to climb 17.7% to ¥11,958mn, and operating income to rise 49.9% to ¥1,387mn; and in other businesses, net sales are forecast to decrease 4.6% to ¥14,470mn, and operating income to decline 14.8% to ¥358mn.

The priority measures for FY2017/12 are as follows. In printing inks and graphic arts materials (Japan), the Company will propose total solution including for products and commodities, and promote cost reductions through innovative production technologies. In printing inks (Asia), while the forecast is for profits to decline due to the rise in the prices of raw materials and higher labor costs, it will promote sales expansion, particularly in India, Vietnam, and Indonesia, and it is anticipated that sales volume will increase by around 10%. In printing inks (North America), the Company will pursue sales expansion by launching new products and by utilizing Ohio plant, which will also contribute to improve productivity. In printing inks (Europe), the outlook is lower profits due to weak pound, but it will pursue sales expansion by launching cost competitive products. In digital & specialty products, the Company will launch next generation inkjet ink in a timely manner, launch high quality pigment dispersions for color filters, and enter the functional coating material field relating to energy, optical and electronics properties and coating.

The Markets for Environmentally Friendly and High-Function, High-Value-Added Ink are Expanding in Japan and Overseas

The domestic printing ink market strongly has the image of being mature due to the decline in paper media, such as newspapers and magazines. However, the newspaper ink market constitutes only about 10% of the total domestic printing ink market meaning its impact is small. In contrast, the gravure ink market constitutes approximately 40% of the total market, and the offset ink market constitutes around 30%. Both markets are trending strongly.

According to the chemical industry statistics, domestic printing ink shipments decreased by 2.3% in 2015 compared to 2014, but increased by 1.1% in 2016 compared to 2015, and the recovery trend is strengthening. In 2016, newspaper ink decreased 3.8% year-on-year, but gravure ink and offset ink both performed solidly, increasing 2.3% and 1.0% respectively.

Particularly in the packaging ink field (flexo ink for printing on packaging, such as corrugated boxes and paper containers; gravure ink for printing on packaging film for food, cosmetics and toiletries, daily goods, and other products; and metal-deco ink for printing on metal, such as beverage cans), the shift to environmentally friendly and high-function, high-value-added ink is progressing even further and the market is expanding.

In the North American market, the printing ink market as a whole is expanding due to a continuing population increase and strong personal consumption. Moreover, environmentally friendliness and high functionality have not been developed in North America to the same extent as Japan in the packaging film field for foods, cosmetics and toiletries, daily goods, and other products. There is still considerable room for the market for environmentally friendly and high-function, high-value-added ink to grow.

In the context of growing economies and population in the Asian market, demand is expected to increase in emerging countries such as India and Vietnam, where printing ink markets as a whole are expanding, particularly for packaging ink, which is being supported by the shift to environmentally friendly and high-function, high-value-added ink. In China and India, the demand for newspapers has been increasing against the backdrop of improving income levels and rising literacy rates. Considering that Indian newspapers have a high ratio of color pages, the Indian market offers prospects for growing demands for newspaper ink and other forms of printing ink over the medium term.

Medium-term growth strategy

Accelerating Global Business Deployment and Expanding Sales of Environmentally Friendly and High-Function, High-Value-Added Products

1. Expected to achieve the profit targets in the final fiscal year of the mid-term business plan 2017

The basic policies in the mid-term business plan 2017 (April 2015 to December 2017) are to enhance CSR activities, attain steady growth through global business expansion, provide total solutions that include products and merchandise, innovate manufacturing technologies, and advance core technologies and develop applications.

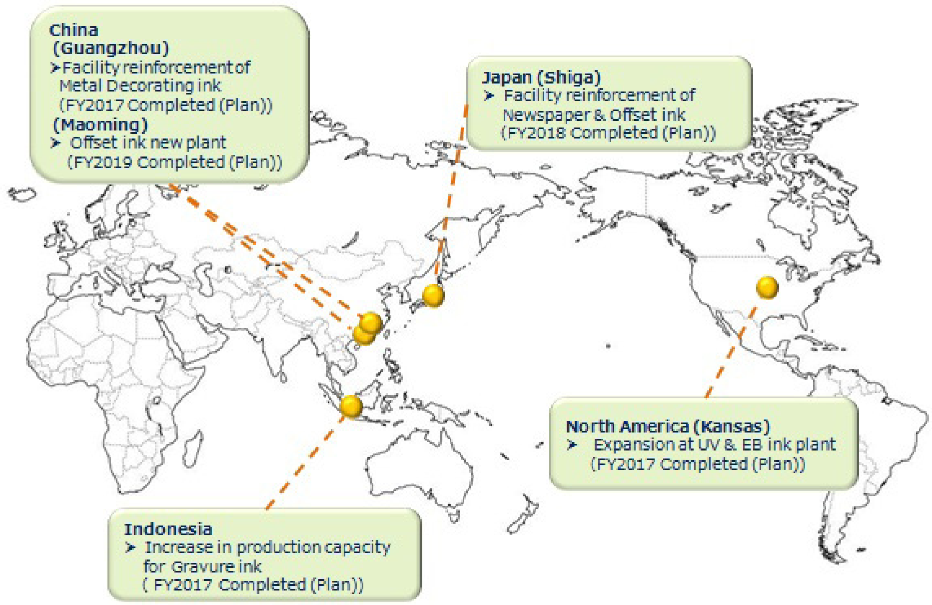
Furthermore, the Company has embraced the following strategic themes: strengthen corporate governance; enhance risk and compliance management system; foster global human resources; effective use of assets; strengthen the SAKATA INX brand; propel global procurement; develop and launch environmentally friendly, safe and secure products; improve information infrastructure; respond to market diversification; make strategic moves for the next generation by capital investment; reconstruct logistics and production system; improve manufacturing capabilities by optimizing production processes; and build partnerships with external organizations, including industry, government, academia and others.

The Company's policy is to increase profits by realizing higher sales volume by accelerating global business deployment, implementing a strategy of tailoring products to local characteristics, and expanding sales of environmentally friendly and high-function, high-value-added products. The management targets for FY2017/12 are net sales of ¥185,000mn, operating income of ¥11,000mn, ordinary income of ¥12,000mn, profit attributable to owners of parent of ¥7,600mn, and ROE of 10% or above. It is assumed that the exchange rate will be US$1 = ¥117.

Segment forecasts (before consolidated adjustments) are as follows: in printing inks and graphic arts materials (Japan), net sales of ¥63,000mn and operating income of ¥3,100mn; in printing inks (Asia), net sales of ¥44,500mn and operating income of ¥3,500mn; in printing inks (North America), net sales of ¥45,400mn and operating income of ¥1,900mn; in printing inks (Europe), net sales of ¥10,300mn and operating income of ¥200mn; in digital & specialty products, net sales of ¥15,700mn and operating income of ¥1,400mn, and in other businesses, net sales of ¥14,300mn and operating income of ¥300mn. The adjustments will have a negative effect on net sales of ¥8,200mn and a positive effect on operating income of ¥600mn.

The Company is planning capital investment of ¥20,000mn for the three years on a cumulative basis. The main components are capital investment of ¥13,100mn in the printing ink business (¥7,200mn for increasing overseas production capacity, ¥5,900mn for reconstructing logistics and production systems), ¥1,400mn for increasing production capacity in the digital & specialty products business, ¥1,400mn in information infrastructure, and ¥4,100mn in ordinary investments and others. The main projects will be the second phase of construction at Shiga Plant and information infrastructure investment; expansion of plants in North America (metal-deco ink, UV and EB ink), facility reinforcement for metal-deco ink in China (Guangzhou), construction of a new offset ink plant in China (Maoming), and facility reinforcement for newspaper ink in India. The Company plans to record depreciation of ¥12,000mn over the three years on a cumulative basis.

Content of capital investment



Source: reprinted from Company presentation materials

2. Earnings set to increase in the medium term from accelerating global business deployment and expanding sales of environmentally friendly and high-function, high-value-added products

The Company's priority strategies for printing inks and graphic arts materials (Japan) are to expand sales by launching high-quality and differentiated products, to propose total solutions, to reduce costs through innovative manufacturing technologies, and to advance reconstruction of logistics and production systems to strengthen its domestic foundations. For printing inks (Asia), it is aiming to increase sales by policies including supplementing its lineup of environmentally friendly products, launching products tailored to local characteristics, and propelling TPM activities.

In the printing inks (North America) segment, the Company aims to expand sales primarily by strengthening the packaging field, offering total solution proposals and conducting TPM activities. In the printing inks (Europe) segment, it will seek to expand sales and bolster earnings by increasing sales of packaging ink and metal-deco ink, making inroads into Eastern Europe, Russia, Africa and the Middle East, and pursuing sales to global customers. In the digital & specialty products segment, key measures will include expanding sales of digital printing materials, image display materials and functional coating materials, as well as strengthening the global sales structure and entering into new fields.

Against the backdrop of the worldwide shift toward environmentally friendly products, the Company is leveraging its track record of global business deployment ahead of its industry peers, its expertise in launching products tailored to the local characteristics in each country, and its high market share in the field of environmentally friendly and high-function, high-value-added products. It is expected to achieve earnings growth and even higher profitability in the medium term.

Shareholder return policy

Targeting a Consolidated Dividend Payout Ratio in the Range of about 20% to 30%, and also Implements a Shareholder Benefit Program

1. Consolidated dividend payout ratio

With regards to distributing profits, the Company considers returning profits to shareholders, including dividends, to be an important management issue, in conjunction with working to strengthen its financial position and business infrastructure. The basic dividend policy is to steadily return profits to shareholders through dividend payments, while targeting a consolidated dividend payout ratio in the range of about 20% to 30%.

Higher earnings and profitability are forecast in the medium term. It seems likely that the Company will raise the consolidated dividend payout ratio.

2. Shareholder benefit program

The Company also offers a shareholder benefit program. A QUO card for ¥1,000 is awarded to shareholders who own one trading unit (100 shares) or more of shares as of December 31 every year.

The FY2017/12 dividend forecast, in which the commemorative dividend has been added to the ordinary dividend, is for ¥28 that is unchanged year-on-year.

3. FY2017/12 dividend

The FY2016/12 dividend included a year-end commemorative dividend of ¥2 to mark the 120th anniversary of the Company's foundation, for an annual dividend of ¥28 (a dividend of ¥13 at the end of 2Q, and a fiscal year-end dividend of ¥15 comprised of an ordinary dividend of ¥13 and a commemorative dividend of ¥2). This was the fourth consecutive fiscal year of higher dividends, for a consolidated dividend payout ratio of 21.6%.

In the FY2017/12 dividend forecast, the FY2016/12 commemorative dividend of ¥2 has been added to the ordinary dividend for a full-year dividend of ¥28, which is unchanged year-on-year (comprised of a dividend of ¥14 at the end of 2Q, and a fiscal year-end dividend of ¥14). The consolidated dividend payout ratio is forecast to be 21.2%.

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