COMPANY RESEARCH AND ANALYSIS REPORT

SAKATA INX CORPORATION

4633

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Summary

Is accelerating growth through active investment, strengthening measures for ESG, and expanding earnings by increasing sales of environmentally friendly and high-function products

SAKATA INX CORPORATION <4633> (hereinafter also "the Company") is a major printing ink manufacturer - the third largest in the world. Since its founding in 1896, the Company has accumulated a versatile set of strengths for over 120 years, including its development capabilities for products that are environmentally friendly and high-function with high added value, an extensive lineup of those products, high market shares, and high reliability and quality of its products. Moreover, it is applying and developing core technologies it has cultivated in the development and production of ink for its digital & specialty products business. We can expect earnings to expand in the medium term as it accelerates its global business deployment and increases sales of 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 from manufacturing and sales bases in 18 countries and regions in Japan and overseas, with a focus on packaging printing ink (flexo ink for printing on paper packaging, such as corrugated boards and 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 cans, such as beverage cans). As it accelerates global development and expands sales for environmentally friendly high-function, high value-added products, the Company is growing its business with its primary sources of revenue focused in Asia and North America, which have considerable room for market expansion and development, as well as in functional materials.

2. In FY2019/12 1H, operating income and ordinary income increased and exceeded the forecasts

In the FY2019/12 1H (January to June) consolidated results, net sales increased 5.4% year-on-year (YoY) to ¥83,167mn, operating income rose 13.9% to ¥3,051mn, ordinary income grew 5.0% to ¥3,718mn, and profit attributable to owners of parent decreased 8.5% to ¥2,386mn. There were contributions from the effects of the increase in sales volume of packaging ink, mainly in Asia and the Americas, the effects of sales price revisions, and the effects of new consolidations (the Thai and Brazil subsidiaries), and also as in the overseas market, the rises in the prices of raw materials were less than expected. Compared to the initial forecasts, each profit item was significantly above forecast, and operating income and ordinary income, which had been forecast to decline, both recovered and increased.

3. For the FY2019/12 full year, the profit forecasts have been upwardly revised to forecasts of major increases in profits

The FY2019/12 full year consolidated results forecasts (on August 9, 2019, the Company downwardly revised the net sales forecast and upwardly revised each profit item forecast) are that net sales will increase 4.9% YoY to ¥170,000mn, operating income will rise 33.0% to 6,800mn, ordinary income will grow 18.7% to ¥8,200mn, and profit attributable to owners of parent will increase 11.9% to ¥5,250mn. Sales and profits are forecast to increase significantly due to factors including the effects of the increase in sales volume, the effects of sales price revisions, the effects of the improvement to the product mix, the effects of the new consolidations, the effects of cost reductions, and the effects of the rises in the prices raw materials settling down. Compared to the initial forecasts, each profit item is expected to be significantly above forecast due to the effects of the improvement to the product mix and also as the rises in the prices of raw materials have been less than expected. Looking at operating income by fiscal half, it bottomed-out in the 2H of FY2018/12 and is now recovering.

4. Is strengthening measures for ESG, while growth is expected in the medium term from the increase in sales of environmentally friendly and high-function products

The growth strategies set out in the Mid-term Plan 2020 are to expand the printing ink business, which is a core business, and the digital & specialty products business, and to promote the creation of new businesses through applying and developing the technologies cultivated in the core businesses. In addition, the Company is strengthening measures for ESG (Environment, Society, Governance) and SDGs (Sustainable Development Target), and it is also developing and working to increase sales of new products that contribute to protecting the global environment, such as the Botanical Ink series that includes plant-derived components, UV and EB curable inks that contribute to keeping-down emissions of greenhouses gases, and the Eco Stage series of gas barrier agents toward reducing food loss. The Company's strengths include its track record of global development ahead of its industry peers, its expertise in introducing products tailored to regional characteristics in various countries, and its development, lineup, and high market shares of environmentally friendly and high-function, high-value-added products. It is expected to grow earnings in the medium term by accelerating global business development and increasing sales of environmentally friendly and high-function products.

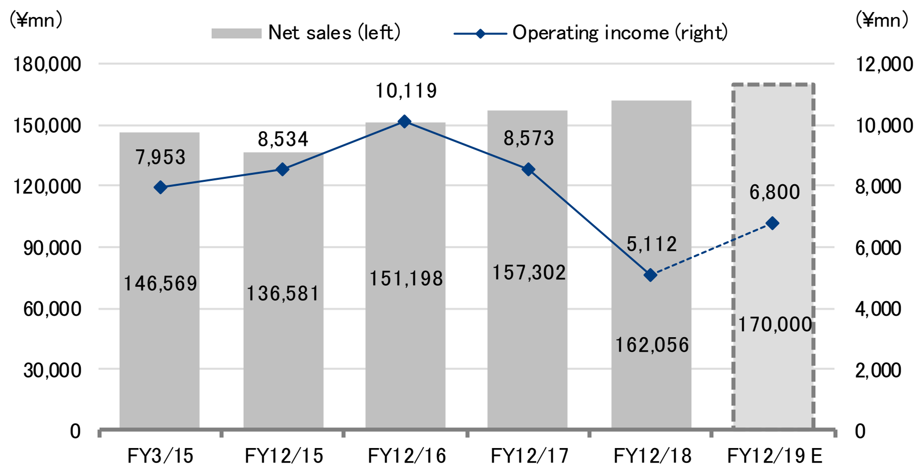
5. Aims for a consolidated dividend payout ratio of 20% to 30%. Offers a shareholder benefit program to shareholders at the end of December in each year.

The Company aims for a consolidated dividend payout ratio in the range of around 20% to 30%. Based on this basic policy, the forecast for FY2019/12 is the same as for FY2018/12, with an annual dividend per share of ¥30 (¥15 at the end of first half, ¥15 at the end of the period). Forecasted dividend payout ratio is 33.3%. The Company also offers a shareholder benefit program to shareholders who own one trading unit (100 shares) or more of shares as of December 31 every year. On December 31, 2018, the Company changed the shareholder benefit program from being based on shareholding to being based on the holding period.

Key Points

- Is focusing on packaging printing ink, as the third largest printing ink manufacturer in the world
- For the FY2019/12 full year, the profits forecasts have been upwardly revised to forecasts of major increases in profits
- Is accelerating global business development, and earnings are expected to grow in the medium-term from the increase in sales of environmentally friendly and high-function products

Result trend



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

Company profile

The third largest printing ink manufacturer in the world, boasting a history of over 120 years

1. Company profile

The Company has a history of more than 120 years since it was founded in 1896. It is the third largest printing ink manufacturer in the world. With the printing ink business as its core business, its strengths lie in the development capabilities, extensive lineup and high market share for environmentally friendly and high-function, high-value-added products that it has cultivated over its 120-year history and high reliability and quality of its products. Furthermore, toward realizing its business theme of "Creation of Visual Communication Technology," the Company is applying and developing basic technologies that have been cultivated in the development and production of inks for its digital & specialty products business, which the Company is aiming to bring up as a new business pillar.

The global top 10 in ink sales (2018)

(US$mn)

Rank	Company	Country	Net sales
1	DIC/Sun Chemical	Japan	4,850
2	Flint Group	Luxembourg	2,400
3	SAKATA INX CORPORATION	Japan	1,375
4	Toyo Ink SC Holdings Co., Ltd.	Japan	1,370
5	Siegwerk Group	Germany	1,080
6	Huber Group	Germany	890
7	T&K TOKA CO., LTD.	Japan	450
8	Tokyo Printing Ink Mfg. Co., Ltd.	Japan	402
9	Fujifilm North America	U.S.A	400
10	SICPA	Switzerland	375

Source: Prepared by FISCO from "The 2018 Top International Ink Companies Report" (August 2, 2019) by INK WORLD

2. History

Founded in 1896 in Osaka City as a small business under the name of 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 1960, the Company established its first overseas office in the Philippines (Manila), followed by a succession of major overseas offices and subsidiaries.

In January 2017, the Company also received certification as “a leading company in Osaka City for empowering women.” The Company also received the TPM Advanced Special Award for its four main domestic plants (in Tokyo, Osaka, Shiga, and Hanyu) in December 2017. TPM (Total Productive Maintenance) is advocated by the Japan Institute of Plant Maintenance, and it has highly evaluated the Company for its construction of innovative production methods and its business deployment overseas. Also, its thesis on “Improving the equipment guarantee level” was awarded the second prize in the TPM Excellent Paper Awards, Production Category.

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
1953	Upgraded Nagoya Office to Nagoya Branch
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.)

Year	Main Event
1982	Established SAKATA GENZOUSHO CO., LTD. (now SAKATA LABOSTATION CO., LTD.)
1987	Established SAKATA INX ESPANA, 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 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. <4634>)
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. and transferred photography-related businesses to the company
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. and transferred color management businesses to the company Completed construction of the Technology and Laboratory Building at 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 Province) 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 Czech (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 and ISO14001 certification at Shiga Plant
2016	Celebrated the120th founding anniversary Acquired CREATIVE INDUSTRIA E COMERCIO. in Brazil as the first production base in South America Acquired OSHMS certification at Shiga Plant
2017	Received the certification as a leading company in Osaka City for empowering women Further promotion of business and capital alliance with Toyo Ink SC Holdings Earned the TPM Advanced Special Award for its four main domestic plants (in Tokyo, Osaka, Shiga, and Hanyu)
2019	The plant in China (Maoming City, Guangdong Province) was certified as a "clean production-certified company." Completed the expansion of the R&D facility (West Chicago, Illinois) in the United States Completed the second plant in Ho Chi Minh City, Vietnam

Source: Prepared by FISCO from Company materials

3. Global deployment

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), and it is developing its printing-related materials business, its functional materials business, and other businesses.

As of the end of FY2018/12 2Q accumulated, the SAKATA INX Group consisted of SAKATA INX CORPORATION, 23 consolidated subsidiaries, 6 equity method affiliates, and 3 non-consolidated subsidiaries. The Company is deploying its businesses from manufacturing and sales bases in 18 countries and regions in Japan and overseas. In FY2019/12, ETERNAL SAKATA INX CO., LTD. (ETERNAL) in Thailand and CREATIVE INDUSTRIA E COMERCIO LTDA. (CREATIVE) in Brazil entered the scope of consolidation. SIIX Corporation <7613> which is an importer and exporter of electronic components and conducts an EMS business, was spun-off from the Company and is an equity-method affiliate.

Business overview

In the core printing ink business, its strength is environmentally friendly and high-function, high-value-added products

1. Is focusing on packaging printing ink

In the printing ink business, the SAKATA INX Group focuses primarily on packaging ink (flexo ink for printing on paper packaging, such as corrugated cardboard, gravure ink for printing on packaging film for food, cosmetics, and toiletries, and metal deco ink for printing on metal cans, such as beverage cans) for each market in Japan, Asia, North America, and Europe. The percentage of total sales provided by printing 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.) is declining and its impact on results as a whole has become smaller.

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, color management systems and ink dispensers.

In the digital & specialty products business, the Company manufactures and sells digital printing materials (industrial inkjet ink used for large output items and textiles, and color toner and monochrome toner used for laser printers and multifunction printers), image display materials (pigment dispersions for color filters), and functional coating materials for the Japanese, Asian, North American and European markets.

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

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

Asia and North America, and digital & specialty products are growing to be pillars of earnings

2. Percentages of net sales and operating income by segment

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 products and other businesses. From FY2019/12, the former printing ink (North America) was changed to printing ink (Americas) after CREATIVE of Brazil entered the scope of consolidation.

Trends in the percentages of net sales and operating income by segment before consolidated adjustments

(%)

	FY2017/12	FY2018/12	FY2019/12
Net sales			
Printing inks and graphic arts materials (Japan)	33.4	32.3	29.5
Printing inks (Asia)	18.4	18.9	20.0
Printing inks (North America)	26.4	26.5	27.9
Printing inks (Europe)	5.3	5.5	5.7
Digital & Specialty Products	6.9	7.2	7.3
Other businesses	9.6	9.6	9.6
Totals before consolidated adjustments	100.0	100.0	100.0
Operating income			
Printing inks and graphic arts materials (Japan)	28.4	25.2	9.9
Printing inks (Asia)	29.5	34.2	42.2
Printing inks (North America)	23.0	22.2	34.6
Printing inks (Europe)	0.3	-17.7	-13.8
Digital & Specialty Products	14.3	27.4	19.4
Other businesses	4.4	8.7	7.6
Totals before consolidated adjustments	100.0	100.0	100.0

Note: Printing ink (North America) was changed to printing ink (Americas) from FY2019/12
Source: Prepared by FISCO from the Company's financial results

The percentages of operating income by segment (before consolidated adjustments) in FY2018/12 were as follows; printing inks and graphic arts materials (Japan) contributed 25.2%, printing inks (Asia) 34.2%, printing inks (North America) 22.2%, printing inks (Europe) -17.7%, digital & specialty products 27.4%, and other businesses 8.7%. The Company is achieving growth by accelerating its global business deployment and increasing sales of environmentally friendly and high-function, high-value-added products, with Asia and North America, where there remains considerable room for market expansion and development, serving as the primary sources of revenue. Moreover, in FY2019/12 1H, printing ink (Asia) provided 42.2% and printing ink (Americas) 34.6%, so the percentages from Asia and the Americas are rising even further. Printing ink (Europe) is currently undergoing a production-system restructuring.

Strengths include its environmentally friendly and high-function, high-value-added products, and it has acquired high market shares

3. Strengths

The Company's strengths lie in the development capabilities and extensive lineup of environmentally friendly products that it has amassed over a 120-year history since it was founded in 1896 and the reliability and quality of its products.

The Company's abundant lineup of environmentally friendly and high-function, high-value-added products include vegetable oil ink, which replaces high-boiling-point petroleum solvent with various types of vegetables oils (including soybean oil); non-VOC ink, which contains less than 1% of high-boiling-point petroleum solvent among its constituents; botanical ink, which contains 10% or more of plant-derived components in its ink solid constituents; non-toluene, non- MEK ink, which does not use organic-solvent toluene or MEK (methyl ethyl ketone); and water-based flexo ink, which offers high performance while being water based.

In the packaging ink field, it boasts the leading market share domestically for water-based flexo ink used to print corrugated boards, which it developed early as a pioneer in the industry. In addition, it is providing a range of new technologies such as functional coating materials for the paper industry. For gravure ink used for printing on packaging, such as on food packaging, and flexo ink used for paper containers, the Company provides high performance, high quality inks that are environmentally friendly, and it has high market shares in the industry.

In particular, Botanical Ink was launched at the end of 2016. This ink uses plant-derived ingredients and is becoming popular among major convenience stores including private brand products. Furthermore, the product lineup in the Botanical Ink series is expanding. EcoPlata, a water-based flexo ink for paper bags, and EcoPino, a water-based gravure ink for paper cartons, have been launched. Printed matters that use Botanical Ink can use the Company's registered trademark on their packages.

Botanical Ink mark

Source: Reprinted from Company materials

In addition, the Company has become an accredited partner for "Pantone LIVE™" provided by a U.S. company named Pantone LLC that makes accurate communication of PANTONE color samples possible in the entire packaging supply chain regardless of the printing method and substrate, which is common throughout the world.

In printing ink for paper media, the percentage of environmentally friendly products has reached practically 100%. In newspaper ink, the high-coloration ink called NEWS WEBMASTER Ecopure (Eco Mark certified) has acquired an excellent reputation. Moreover, the Company has earned considerable trust from newspaper companies for its technical capabilities and track record in responding to the shift to high quality for color pages and in its color management system for controlling the color aspects of newspaper production systems. For offset ink also, it aims to introduce environmentally friendly products onto the market as an industry pioneer, and in addition to providing inks and related products that can meet a diverse range of customer needs, such as high-speed web-offset ink and sheet ink, it is progressing the development of the Dream Cure series of UV curable inks that are compatible with the high sensitivity UV printers that have become popular in recent years.

4. Products being environmentally friendly and high-function, high-value-added that have plenty of room for expansion and development

Both domestically and overseas, the Company's mainstay products are its environmentally friendly and high-function, high-value-added products positioned above middle range, and it has high shares in each market. 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 boards 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 cans such as beverage cans.

Against the backdrop of the global trend toward strengthening measures to address environment issues, there is still plenty of room for market expansion and development in the field of environmentally friendly and high-function, high-value added products.

Is strengthening measures for Group synergies to respond to the rises in raw materials prices

5. Risk factors and measures

Major risk factors that could affect earnings are fluctuations in the prices of raw materials and the impact of exchange rates alongside global developments.

In particular, there is a time lag between the rapid rises in the prices of raw materials and the revisions to sales prices, and this may impact results. The main raw materials, white pigment (titanium oxide) and color pigments, are affected by the supply capacities of Chinese manufacturers, which account for the majority of world production, while resins and solvents are affected by the prices of crude oil and naphtha. Since 2017, the supply capacities of Chinese manufacturers have dropped sharply due to the strengthening of environmental regulations and the change in energy policy in China, and the balance of supply and demand has collapsed, and the prices of white and color pigments are rising. There was also an additional impact from sanction tariffs resulting from the US-China trade friction in 2018. In 2019, prices continued to rise compared to in the previous year, but in the overseas market, the prices of some materials have started to settle down.

In response to these risk factors, the Company is progressing optimization through revisions to sales prices. It is also strengthening initiatives to mitigate the impact of the high prices of raw materials by reducing the costs of raw materials (such as global procurement of raw materials, etc.) through leveraging group synergies and improving productivity.

Results trends

In FY2019/12 1H, operating income and ordinary income increased and exceeded the forecasts.

1. FY2019/12 1H results

In the FY2019/12 1H (January to June) consolidated results, net sales increased 5.4% YoY to ¥83,167mn, operating income grew 13.9% to ¥3,051mn, ordinary income rose 5.0% to ¥3,718mn, and profit attributable to owners of parent decreased 8.5% to ¥2,386mn. The Thai subsidiary (ETERNAL) and the Brazil subsidiary (CREATIVE) newly entered the scope of consolidation. The average exchange rate during the period was ¥110.05 to US$1 (¥108.68 in the same period in the previous fiscal year), and after excluding foreign currency translation effects, net sales increased 6.0%, operating income rose 13.3%, ordinary income grew 4.4%, and profit attributable to owners of parent decreased 9.4%.

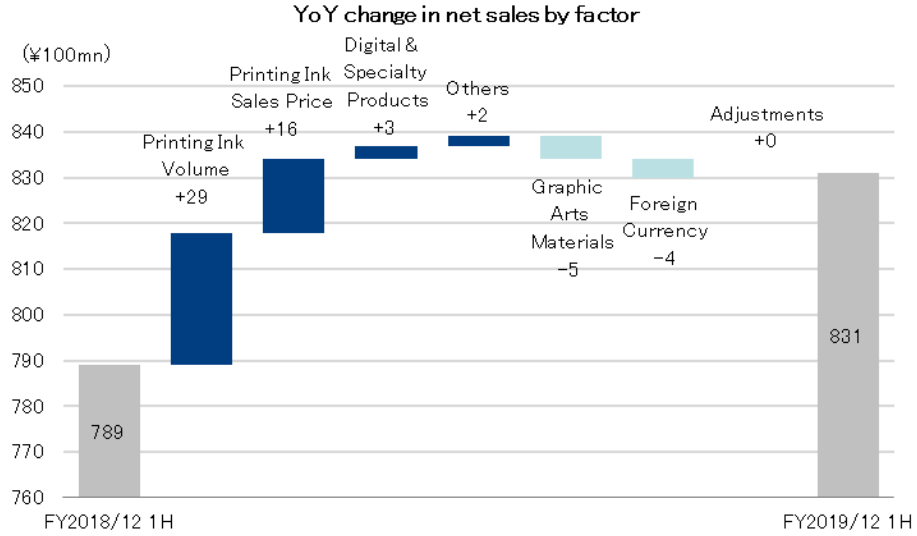
FY2019/12 consolidated results

(¥mn)

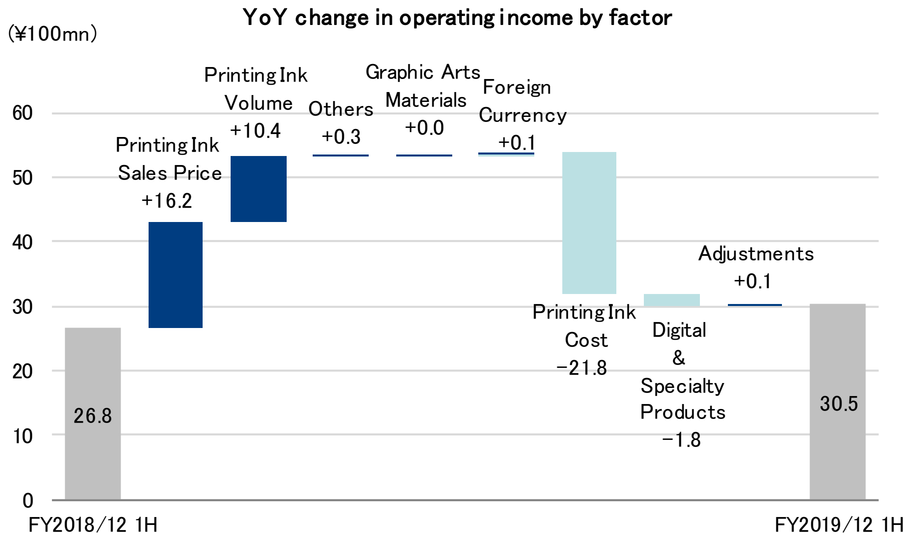
	FY2018/12 1H		FY2019/12 1H					
	Amount	Percentage of sales	Amount	Percentage of sales	Increase/ decrease amount	Increase/ decrease rate	Foreign currency translation effect amount	After excluding foreign currency translation effects
Net sales	78,938	-	83,167	-	4,228	5.4%	-479	6.0%
Operating income	2,680	3.4%	3,051	3.7%	371	13.9%	15	13.3%
Ordinary income	3,540	4.5%	3,718	4.5%	177	5.0%	20	4.4%
Profit attributable to owners of parent	2,609	3.3%	2,386	2.9%	-223	-8.5%	22	-9.4%

Note: exchange rates during the period ¥108.68 (FY2018/12 1H) and ¥110.05 (FY2019/12 1H) to US$1
Source: Prepared by FISCO from the Company's results briefing materials

Driven by the strong performances of Asia and the Americas, each of sales, operating income, and ordinary income increased YoY. Sales slumped in Japan due to the impact of the bad weather and the rises in the prices of raw materials. But there were contributions from the effects of the increase in packaging ink sales volume, mainly in Asia and the Americas, the effects of sales price revisions, and the effects of the new consolidations (the Thai and Brazil subsidiaries), and also as in the overseas market, the rises in the prices of raw materials were less than expected.



Source: Prepared by FISCO from the Company's results briefing materials



Source: Prepared by FISCO from the Company's results briefing materials

Gross profit increased 5.9% YoY and the gross profit margin rose 0.1 of a percentage point (pp) to 21.2%. SG&A expenses increased 4.3% and the SG&A expenses ratio declined 0.2 pp to 17.5%. In non-operating earnings, equity method investment income of ¥449mn was recorded, declining ¥377mn from ¥826mn in the same period in the previous fiscal year. Profit attributable to owners of parent decreased, including due to the recording of an impairment loss of ¥190mn in relation to welfare facilities for employees.

Compared to the initial forecasts (net sales of ¥85,000mn, operating income of ¥2,250mn, ordinary income of ¥3,000mn, and profit attributable to owners of parent of ¥2,000mn), net sales were slightly sluggish (¥1,833mn below forecast), but each profit item greatly exceeded their respective forecasts. Operating income (¥801mn above forecast) and ordinary income (¥718mn above forecast) had been forecast to decline, but both increased, while the decline in profit attributable to owners of parent was reduced compared to the forecast (¥386mn above forecast). Even though the prices of raw materials continue to rise, these rises have been less than expected in the overseas market, which also contributed.

Asia and the Americas performed strongly.

2. Trends by segment

Trends by segment (before consolidated adjustments and the exclusion of foreign currency, YoY) are as follows.

In printing inks and graphics arts materials (Japan), net sales decreased 2.9% YoY to ¥25,655mn and operating income declined 25.2% to ¥266mn. In sales, gravure ink for soft packaging materials for food and beverage use trended stably, but sales of flexo ink for corrugated boards for fresh food use were sluggish due to the impact of the bad weather, while demand declined and sales were low of newspaper and offset ink and of printing plate making materials and printing plate making-related equipment. In profits, the Company revised sales price and reduced costs, but profits still declined due to factors including the fall in sales and the rises in raw materials prices. Raw materials prices have started to settle down in the overseas market, but they are continuing to rise in the Japanese market due to the time lag.

In printing ink (Asia), net sales increased 12.2% YoY to ¥17,384mn and operating income rose 62.7% to ¥1,138mn. In sales, demand in Indonesia was somewhat sluggish and they were also impacted by foreign currency translation effects due to the strong yen. But sales still increased by double digits from the effects of the increase in gravure ink sales volume in India and Vietnam, the effects of the new consolidation of the Thai subsidiary, and also the steady performance of newspaper and offset ink. Profits grew significantly, mainly from the effects of the increase in sales volume, the effects of sales price revisions, and the effects of the new consolidation of the Thai subsidiary. The rises in the prices of raw materials were less than expected.

In printing ink (Americas), net sales increased 9.8% YoY to ¥24,271mn and operating income rose 49.0% to ¥932mn. In sales, demand for offset ink fell and sales decreased. But sales trended favorably for flexo ink for packaging printing, gravure ink, metal-deco ink for metal cans, and highly functional, high value-added UV inks, while the acquisition of new customers and the new consolidation of the Brazil subsidiary also contributed. Profits grew greatly, including due to effects of the increase in sales volume, the effects of sales price revisions, and the effects of the improvement to the product mix. The rises in the prices of raw materials were less than expected.

In printing ink (Europe), net sales increased 7.3% YoY to ¥4,994mn and the operating loss was ¥371mn (compared to a loss of ¥215mn in the same period in the previous fiscal year). Sales increased, because the rise in the sales volume of gravure ink and metal-deco ink for metal cans absorbed the impact of foreign currency translation effects due to the strong yen. In profits, the rise in sales volume was a positive factor, but the operating loss still increased, mainly because of higher personnel expenses and outsourcing expenses due to the expansion of production facilities and the rises in prices of raw materials. However, profits were still basically at the same level as forecast.

In digital & specialty products, net sales increased 5.6% to ¥6,321mn and operating income decreased 25.6% to ¥522mn. Sales increased due to the steady growth in sales of UV inkjet ink and inkjet ink dispersions for color filters and toner. But profits declined, mainly because of the rises in the prices of raw materials and the deterioration of the product mix.

In other businesses, net sales increased 3.1% to ¥8,353mn and operating income grew 17.0% to ¥206mn.

Net sales and operating income by segment in FY2019/12 1H

(¥mn)

		FY2018/12 2Q Amount	FY2019/12 2Q		
			Amount	Increase/decrease amount	Foreign currency translation effect amount
Net sales	Printing inks and graphic arts materials (Japan)	26,422	25,655	-766	-
	Printing inks (Asia)	15,499	17,384	1,885	-428
	Printing inks (North America)	22,114	24,271	2,157	282
	Printing inks (Europe)	4,656	4,994	338	-271
	Digital & Specialty Products	5,987	6,321	333	-58
	Reportable segment total	74,680	78,628	3,948	-476
	Other businesses	8,106	8,353	247	-
	Adjustments	-3,848	-3,815	33	-3
	Total	78,938	83,167	4,228	-479
Operating income	Printing inks and graphic arts materials (Japan)	356	266	-89	-
	Printing inks (Asia)	699	1,138	438	-15
	Printing inks (North America)	625	932	306	13
	Printing inks (Europe)	-215	-371	-155	14
	Digital & Specialty Products	702	522	-179	2
	Reportable segment total	2,168	2,488	320	14
	Other businesses	176	206	30	-
	Adjustments	335	356	21	1
	Total	2,680	3,051	371	15

Note: In FY2019/12, the former affiliates in Thailand and Brazil became consolidated subsidiaries.
Source: Prepared by FISCO from the Company's results briefing materials

3. Financial position

Looking at the Company's financial position, due to the new consolidations and other factors, total assets increased ¥259mn on the end of the previous fiscal year to ¥145,754mn. Liabilities declined ¥784mn to ¥67,313mn due to the reductions in accounts payable and borrowing. Net assets rose ¥1,043mn to ¥78,441mn, including because of the increase in retained earnings. The equity ratio declined 0.4 pp to 50.7%, but this is not particularly at a level to be viewed negatively and there does not seem to be any problems with the Company's financial soundness.

Key performance indicators

(¥mn)

Item	FY2015/12 (9 months)	FY2016/12	FY2017/12	FY2018/12	FY2019/12 2Q
Net sales	136,581	151,198	157,302	162,056	83,167
Cost of sales	103,826	113,773	120,371	128,824	65,545
Gross profit	32,754	37,425	36,931	33,232	17,621
Gross profit margin (%)	24.0	24.8	23.5	20.5	21.2
Selling, general and administrative expenses	24,219	27,305	28,358	28,120	14,569
Selling, general and administrative expenses ratio (%)	17.7	18.1	18.0	17.4	17.5
Operating income	8,534	10,119	8,573	5,112	3,051
Operating income margin (%)	6.2	6.7	5.5	3.2	3.7
Non-operating income	2,601	2,531	3,048	2,476	882
Non-operating expenses	1,067	782	371	678	215
Ordinary income	10,068	11,868	11,249	6,910	3,718
Ordinary income margin (%)	7.4	7.8	7.2	4.3	4.5
Extraordinary income	1,539	801	1,424	285	208
Extraordinary loss	2	386	317	71	192
Income before income taxes and non-controlling interest	11,604	12,283	12,356	7,125	3,733
Total income taxes	3,258	3,798	3,466	2,155	1,032
Profit attributable to owners of parent	7,745	7,837	8,383	4,692	2,386
Margin on profit attributable to owners of parent (%)	5.7	5.2	5.3	2.9	2.9
Comprehensive income	6,265	6,381	9,946	756	1,310
Total assets	136,564	138,012	145,489	145,495	145,754
Current assets	72,554	71,716	76,199	75,785	78,020
Noncurrent assets	64,010	66,295	69,290	69,709	67,734
Total liabilities	66,944	63,698	66,723	68,097	67,313
Current liabilities	46,574	45,304	47,968	49,233	46,756
Noncurrent liabilities	20,370	18,393	18,754	18,864	20,556
Total net assets	69,619	74,313	78,766	77,397	78,441
Shareholders' equity	65,230	71,555	74,737	77,528	78,639
Capital	7,472	7,472	7,472	7,472	7,472
Total number of issued shares at the end of period, excluding treasury share	60,508,154	60,507,951	58,399,679	58,399,218	58,399,024
Cash flows from investing activities	-3,214	-6,727	-2,737	-7,279	-2,317
Cash flows from financing activities	-5,973	-3,552	-6,259	-122	-1,553
Cash and cash equivalents at the end of period	7,888	9,297	9,351	6,788	7,447

Source: Prepared by FISCO from the Company's financial results

Business Outlook

For the FY2019/12 full year, the profit forecasts have been upwardly revised to forecasts of major increases in profits

1. FY2019/12 full year outlook

The FY2019/12 full year consolidated results forecasts (on August 9, 2019, the Company downwardly revised the net sales forecast and upwardly revised each profit item forecast) are that net sales will increase 4.9% YoY to ¥170,000mn, operating income will grow 33.0% to ¥6,800mn, ordinary income will rise 18.7% to ¥8,200mn, and profit attributable to owners of parent will climb 11.9% to ¥5,250mn. Compared to FY2018/12, the forecasts are for sales to rise and profits to increase greatly due to factors including the effects of the increase in sales volume, the effects of sales price revisions, the effects of the improvement to the product mix, the effects of the new consolidations, the effects of cost reductions, and the effects of the rises in the prices of raw materials settling down.

Compared to the initial forecasts (net sales of ¥173,600mn, operating income of ¥6,000mn, ordinary income of ¥7,500mn, and profit attributable to owners of parent ¥5,000mn), net sales will be ¥3,600mn below forecast, mainly due to foreign currency translation effects and the impact of the sluggish demand in Indonesia in the 1H. But in addition to the effects of the improvement to the product mix, the rises in the prices of raw materials have been less than expected, so operating income, ordinary income, and profit attributable to owners of parent are expected to be respectively ¥800mn, ¥700mn, and ¥250mn above forecast. At the time of the initial forecasts, the anticipated exchange rate (average during the period) for the full fiscal year was ¥110 per US$1, which has been revised to ¥108 per US$1 for the 2H and to ¥109 per US$1 for the full fiscal year (the FY2018/12 full year result was ¥110.43 per US$1).

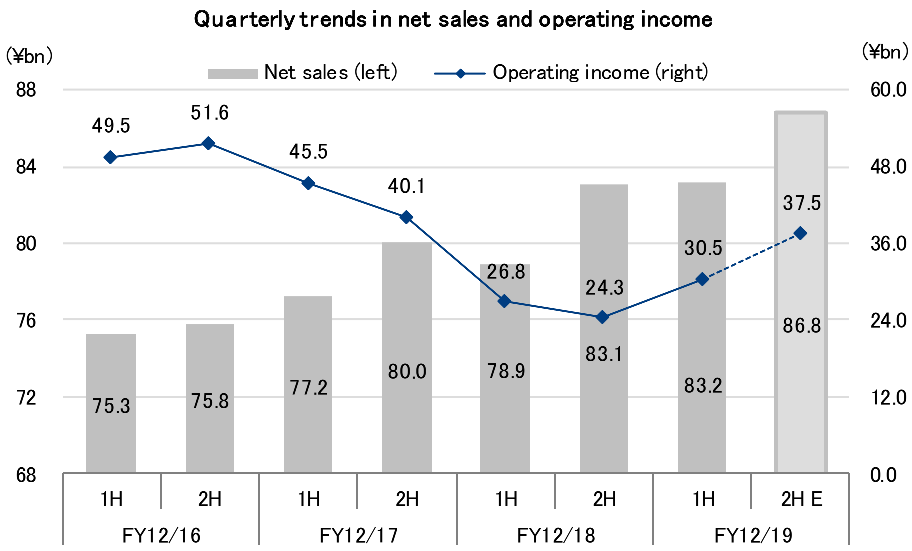
Consolidated results trend

(¥mn)

Fiscal year	FY2015/12 (9 months)	FY2016/12	FY2017/12	FY2018/12	FY2019/12 forecast (revised)	(FY2019/12 initial forecasts)
Net sales	136,581	151,198	157,302	162,056	170,000	173,600
Operating income	8,534	10,119	8,573	5,112	6,800	6,000
Ordinary income	10,068	11,868	11,249	6,910	8,200	7,500
Profit attributable to owners of parent	7,745	7,837	8,383	4,692	5,250	5,000
EPS (¥)	128.01	129.53	142.76	80.36	89.90	85.62
Dividend (¥)	22.00	28.00	30.00	30.00	30.00	30.00
BPS (¥)	1,107.63	1,179.38	1,295.39	1,272.41	-	-

Source: Prepared by FISCO from the Company's financial results

Looking at the quarterly trends in net sales and operating income, net sales have been trending upward due to the effects of the increase in sales volume. On the other hand, operating income has been affected by the soaring prices of raw materials and it declined from the 1H of FY2017/12. However, this decline bottomed-out in FY2018/12 2H and it is now recovering. The prices of raw materials continue to rise, but the pace of these rises settled down somewhat on entering 2019, while the spread of the sales price revisions and the improvement to the product mix are also contributing to results.



Source: Prepared by FISCO from Company materials

The profit forecasts for Asia and the Americas have been significantly upwardly revised

2. Forecasts for each segment

The trends in the adjusted forecasts by segment (before consolidated adjustments and before the exclusion of foreign currency translation effects) and the priority measures are described below.

In printing inks and graphics arts materials (Japan), the Company projects net sales to decrease 2.6% to ¥53,313mn and operating income to decrease 6.4% to ¥1,055mn. It is progressing various measures, including to increase sales, revise sales price, and reduce costs. But due to the impact of the declines in sales and profits in the 1H, for the full fiscal year, sales and profits are expected to decline to below forecast. However, the rises in the prices of raw materials have settled down in the 2H, and on a fiscal half year basis, results are expected to recover in the 2H. The priority measures are to progress the provision of total solutions and to grow sales in the packaging field of the Botanical Ink series that include plant-derived components. Furthermore, demand for paper bags is forecast to increase in the future against the backdrop of global environmental problems, so as a new development, the Company will pursue sales growth for EcoPlata and EcoPino, which are inks for paper containers in the Botanical Ink series.

In printing ink (Asia), net sales are forecast to increase 12.5% YoY to ¥36,190mn and operating income to rise 68.8% to ¥2,581mn. Net sales will be below the initial forecast due to foreign currency translation effects and the impact of the sluggish demand in Indonesia in the 1H. But operating income will be greatly above forecast, with contributions from the effects of the increase in sales volume, mainly of packaging printing ink, the effects of the new consolidation of the Thai subsidiary, the effects of sales price revisions, the effects of costs reductions, and also as the rises in the prices of raw materials have been less than expected. Demand in Indonesia is expected to recover in the 2H.

The priority measures that the Company is progressing including building a system able to carry out each aspect from product development through to local production, developing a strategy targeting middle- to high-end range products in the packaging printing ink field, increasing sales that utilize the Group network, reducing the costs of raw materials through Group synergies, developing products that are tailored to local characteristics, and enhancing technical services. It acquired a site in January 2019 to build a new plant in Bangladesh, which is scheduled to be completed in December 2020.

In printing ink (Americas), the forecasts are for net sales to increase 7.9% YoY to ¥48,503mn and operating income to grow 75.1% to ¥1,737mn. Net sales will be slightly below the initial forecast, including due to the decline in demand for offset ink, but operating income is expected to be significantly above forecast. The contributions will be from the effects of the increase in sales volume, mainly of packaging printing ink (flexo ink, gravure ink, metal-deco ink for metal cans, and UV ink), the effects of the new consolidation of the Brazil subsidiary, the effects of sales price revisions, the effects of costs reductions, and also as the rises in the prices of raw materials have been less than expected. The priority measures the Company is progressing include working to increase sales of products like a high performance flexo ink for laminate, a new gravure ink product, and UV and EB curable inks; actively developing the business for the South American market; and improving productivity and reducing costs through advancing TPM activities.

In printing ink (Europe), the forecasts are for net sales to increase 6.4% YoY to ¥9,921mn and an operating loss of ¥690mn (compared to a loss of ¥791mn in FY2018/12). The Company is restructuring the production and sales systems, and the operating loss will be reduced through the effects of higher sales from the increase in sales volume. Compared to the initial forecasts, net sales will be above forecast, but the operating loss is expected to rise due to the higher costs alongside the increase in production. As the priority measures, it is working to increase sales and improve efficiency through restructuring the production system, with the aim of achieving profitability in FY2020/12.

In digital & specialty products, the forecasts are for net sales to increase 8.9% YoY to ¥13,264mn and operating income to decline 10.5% to ¥1,094mn. These forecasts of higher sales but lower profits are basically at the same level as the initial forecasts. Demand is trending strongly, but profits are expected to decline because of factors including the deterioration of the product mix, the decline in sales price due to the market environment and the competitive environment, and the rises in the prices of raw materials. As the priority measures, for inkjet ink, the Company will strengthen relations with printer manufacturers, bolster the global production and sales systems, and expand uses for industrial applications; for pigment dispersions for color filter, it will launch high quality products, strengthen relationships with resist manufacturers, develop new light emitting materials for displays, and research new materials that will contribute to the filming of displays and IoT; and for functional coating materials, it will enter into the energy, optical and electronics-properties coating fields.

Net sales and operating income by segment

Net sales (¥mn)

	FY2015/12 (9 months)	FY2016/12	FY2017/12	FY2018/12	FY2019/12 forecast	(FY2019/12 initial forecasts)
Printing inks and graphic arts materials (Japan)	42,727	55,114	54,985	54,950	53,313	54,626
Printing inks (Asia)	28,071	28,308	30,245	32,156	36,190	38,430
Printing inks (Americas)	44,920	42,044	43,560	44,957	48,503	48,965
Printing inks (Europe)	9,031	7,817	8,777	9,321	9,921	9,688
Digital & Specialty Products	8,230	10,162	11,336	12,185	13,264	13,624
Reportable segment total	132,981	143,447	148,904	153,571	161,390	165,333
Other businesses	9,598	15,168	15,790	16,335	16,442	16,317
Adjustments	-5,999	-7,416	-7,392	-7,851	-7,832	-8,051
Total	136,581	151,198	157,302	162,056	170,000	173,600

Source: Prepared by FISCO from Company materials

Operating income (¥mn)

	FY2015/12 (9 months)	FY2016/12	FY2017/12	FY2018/12	FY2019/12 forecast	(FY2019/12 initial forecasts)
Printing inks and graphic arts materials (Japan)	1,856	2,516	2,253	1,125	1,055	1,153
Printing inks (Asia)	2,875	3,170	2,347	1,529	2,581	2,227
Printing inks (Americas)	2,344	2,218	1,830	992	1,737	1,070
Printing inks (Europe)	126	218	25	-791	-690	-624
Digital & Specialty Products	432	925	1,140	1,222	1,094	1,098
Reportable segment total	7,636	9,049	7,596	4,078	5,778	4,924
Other businesses	295	419	350	390	363	383
Adjustments	602	650	626	643	659	693
Total	8,534	10,119	8,573	5,112	6,800	6,000

Source: Prepared by FISCO from Company materials

Medium and long-term growth strategy

Demand is globally shifting to environmentally friendly products

1. Demand is shifting to environmentally friendly products

Looking at the trends in the printing ink market, the market is expanding for packaging printing ink (packaging printing flexo ink, such as for corrugated boards and paper cartons; packaging printing gravure ink, including for foods, cosmetics, toiletries, and daily necessity items; and metal-deco ink for printing on beverage cans and other metal cans). Packaging printing ink, which the Company is focusing on, constitutes approximately 40% of the Japanese printing ink market.

Accelerating the development and launch of environmentally friendly products toward realizing high growth in the emerging-countries market

2. The medium-term business plan 2020

In November 2017, the Company announced its three-year medium-term business plan 2020 (2018 to 2020) ~ Innovation for the Future.

Toward realizing the business theme of the "Creation of Visual Communication Technology," and against the backdrop of the diversification of information media, the growing awareness in food safety and security, and the strengthening of environmental regulations, the plan sets out the Company's basic policies of strengthening the corporate structure and the management foundation by responding flexibly to changes in the printing market, enhancing CSR activities, and promoting environmental management. The Company will work to expand the printing ink business, which is its core business, and the digital & specialty products business, and to create new businesses through applying technologies it has cultivated in its core business.

The target figures for FY2020/12 are net sales of ¥195,000mn, operating income of ¥13,000mn, ordinary income of ¥15,000mn, profit attributable to owners of parent of ¥9,800mn, and ROE of 10% or more. The figures do not incorporate the new businesses. The assumed exchange rate is ¥112 to US$1.

In the Company's growth strategy for the printing ink business, the core policies are to develop and launch environmentally friendly products in the existing printing market and to grow sales of products that improve productivity and products that are tailored to local characteristics. During the three-year period, the Company is aiming for growth of 10% in the developed countries market and 40% in the emerging-countries market. The strategic products for sales growth are environmentally friendly products (including water-based flexo ink and gravure ink, non-toluene and non-VOC ink and high-solid ink), products using plant-derived ingredients (such as botanical ink and rice ink), products that improve productivity (including highly sensitive UV ink and EB curing ink, etc.), and products tailored to local characteristics (such as gravure ink, and newspaper and offset ink, etc.).

The growth strategy for the digital & specialty products business is as follows: in the digital printing materials field, global deployment of industrial inkjet ink and new markets (including building and wall-covering materials, home & textile, and apparel); for the image display materials field, develop pigment dispersions for color filters that match cutting-edge specifications and actively enter the Chinese market; and in the functional coating materials field, develop and launch new digital & specialty products.

Furthermore, to create new businesses, the Company is targeting fields other than the existing printing industry such as housing, architecture, living environment, energy, automotive and electronics, etc. It is working to develop and launch businesses for a range of products including gas-barrier coating agents for functional films, inorganic materials pigment dispersions in the display field, transparent insulator materials for optics used as touch-panel materials in the sensor field, inspection glass coating materials used as clinical testing materials in the medical field, and decoration molding coloring material dispersions used as new coloring agents.

3. Targets and priority measures by segment

Segment targets (before consolidated adjustments) are as follows: in printing inks and graphic arts materials (Japan), net sales of ¥59,900mn and operating income of ¥2,600mn; in printing inks (Asia), net sales of ¥46,600mn and operating income of ¥3,900mn; in printing inks (the Americas), net sales of ¥52,700mn and operating income of ¥2,500mn; in printing inks (Europe), net sales of ¥9,800mn and operating income of ¥500mn; in digital & specialty products, net sales of ¥17,400mn and operating income of ¥2,400mn; and in other businesses, net sales of ¥16,200mn and operating income of ¥400mn.

In terms of the priority measures, for printing inks and graphic arts materials (Japan), they include active development of environmentally friendly and energy saving products, and reducing costs through deepening TPM activities and optimizing logistics; for printing inks (Asia), advancing the development of products tailored to local characteristics and further expanding the packaging field, and actively developing environmentally friendly and energy saving products; for printing inks (the Americas), growing sales of flexo, gravure and meal-deco inks, bolstering packaging-related production facilities, and strengthening development through consolidating R&D bases; for printing inks (Europe), strengthening the production and sales structures by reconstructing the bases, and enhancing brand power; and in the digital & specialty products business, developing differentiated products in a timely manner and strengthening strategic partnerships.

Strengthening production capacity by active capital investment on a scale of ¥28bn

4. Strengthening production capacity by capital investment

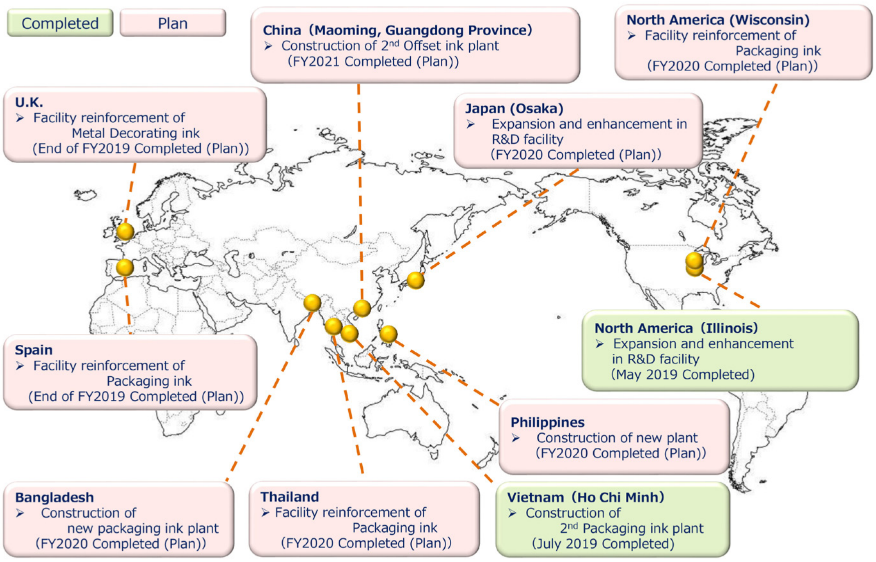
A total of ¥28,000mn is set as an investment framework to accelerate growth (¥18,000mn for capital investment and ¥10,000mn for strategic investment).

Cumulative capital investment in the three-year is set at ¥18,000mn (printing ink business ¥8,000mn, digital & specialty products business ¥3,900mn, domestic plant reconstruction-related ¥1,600mn, and other regular investment ¥4,500mn). By region, it anticipates investing ¥8,500mn in Japan, ¥4,300mn in Asia, ¥4,700mn in North America, and ¥500mn in Europe. It assumes three-year cumulative depreciation expenses will be ¥14,100mn.

As of the end of FY2019/12 Q2, the details of the capital investment are as follows. In May 2019, the expansion and reinforcement of the R&D facility in West Chicago in Illinois, USA was completed, while in July 2019, the second packaging ink plant in Vietnam was completed.

In terms of the schedule going forward, in Japan, the expansion and enhancement of the Osaka R&D facility is scheduled to be completed in 2020; in North America, the reinforcement of the packaging ink facilities in Wisconsin, the United States, is scheduled to be completed in 2020; in Asia, the second offset ink plant in Maoming City, Guangdong Province, China, is scheduled to be completed in 2021, the new plant in the Philippines is scheduled to be completed in 2020, the reinforcement of packaging ink facilities in Thailand is scheduled to be completed in 2020, and the new packaging ink plant in Bangladesh is scheduled to be completed in 2020; and in Europe, both the reinforcement of the ink facilities for printing on cans in the UK and the new packaging ink plant in Spain are scheduled to be completed by the end of 2019.

The capital investment plan going forward



Source: Reprinted from the Company's results briefing materials

Strengthening measures for ESG and expects to increase earnings in the medium-term with expansion of sales for environmentally friendly products

5. Measures for ESG, and expanding sales of environmentally friendly and high-function products

The Company is strengthening measures for ESG (Environment, Society, Governance) and SDGs (Sustainable Development Target), and it is developing new products that will contribute to protecting the global environment.

Measures for ESG

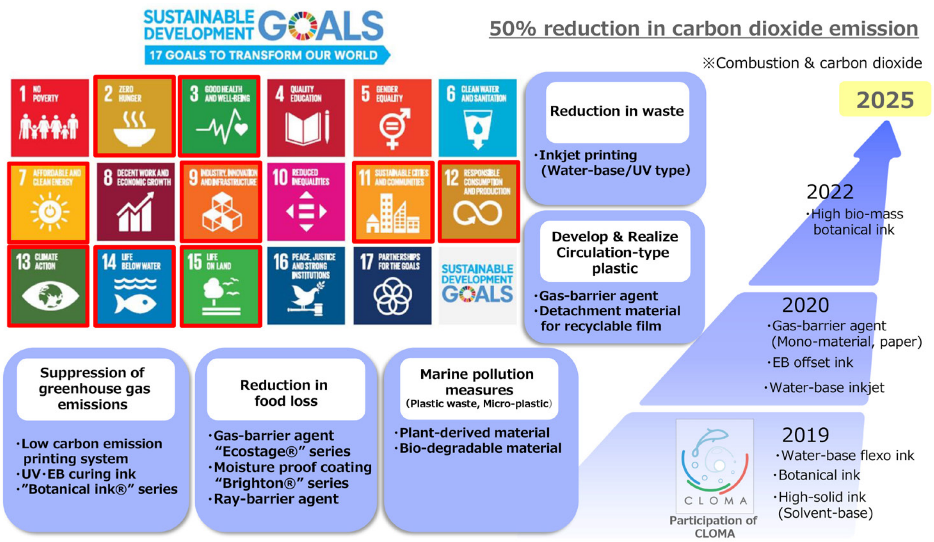
Source: Reprinted from the Company's results briefing materials

For E (Environment), the Company is strengthening its environmental management system, growing sales of its environmentally friendly products, which are one of its strengths; and progressing the introduction of renewable energy (such as installing a solar power facility at the Shiga Plant). For S (Society), its measures include improving working environments by reducing overtime and enhancing occupational health and safety to ensure the safety of employees. For G (Governance), it has established a corporate governance structure (decision making and business execution systems, an audit system and an international advisory board), and is working to strengthen its functions.

In January 2017, the Company also received certification as “a leading company in Osaka City for empowering women.” Furthermore, in January 2019, its stock was selected as a constituent issue of the S&P/JPX Carbon Efficient Index, which is a stock index for ESG investment newly adopted by the GPIF.

Moreover, the Company is participating in the Clean Ocean Material Alliance, which was established by the Ministry of Economy, Trade and Industry in January 2019. Toward solving the problem of marine plastic waste, which is a new global issue, it will promote the sustainable use of plastic products and the development and introduction of alternative materials and accelerate innovation through partnerships between the public and private sectors. As of September 3, 2019, the Alliance had 258 participating companies and organizations.

Measures to protect the global environment



Source: Reprinted from the Company's results briefing materials

The Company is working to develop new products with an awareness of being considerate to the environment. For example, on the point of reducing waste, one development it is progressing as a solution to a societal problem is an inkjet technology that makes possible the production of small lots without having to use a plate. For the problem of food loss, it is developing products that will contribute to increasing the length of time that food can be stored through the use of gas barrier agents that prevents oxidation. Toward reducing emissions of global greenhouses gases, instead of traditional inks that are cured by drying, it is developing inks that are cured by energy, such as UV and EB. In addition to the above products, it is also working to build recyclable plastics and develop products that address the need to prevent marine pollution.

Some examples of products that the Company has developed and whose sales are growing are the Botanical Ink series that include plant-derived components, UV and EB curable inks that contribute to a reduction in emissions of global greenhouse gases, and the Eco Stage series of gas barrier agents toward reducing food loss. Also, in October 2018, the Company jointly developed an insect repellent coating agent with Earth Corporation <4985>. The agent combines Earth Corporation's insect repellent, which has very long-lasting effects, and evasion technologies, with the Company's printing and coating evaluation technologies, to realize high levels of safety, processing, optimization, and excellent effects. The product is scheduled to be commercialized in 2020.

The worldwide shift towards environmentally friendly products is strengthening, and there remains plenty of room for the markets to expand and develop globally. The Company has a track record of global business deployment ahead of its industry peers, and its strengths lie in its expertise in launching products tailored to local characteristics in each country, development and extensive lineup of environmentally friendly and high-function, high-value-added products, and high market shares for these products. We can expect earnings to expand in the medium term as it accelerates its global business deployment and increases sales of environmentally friendly and high-function, high-value-added products.

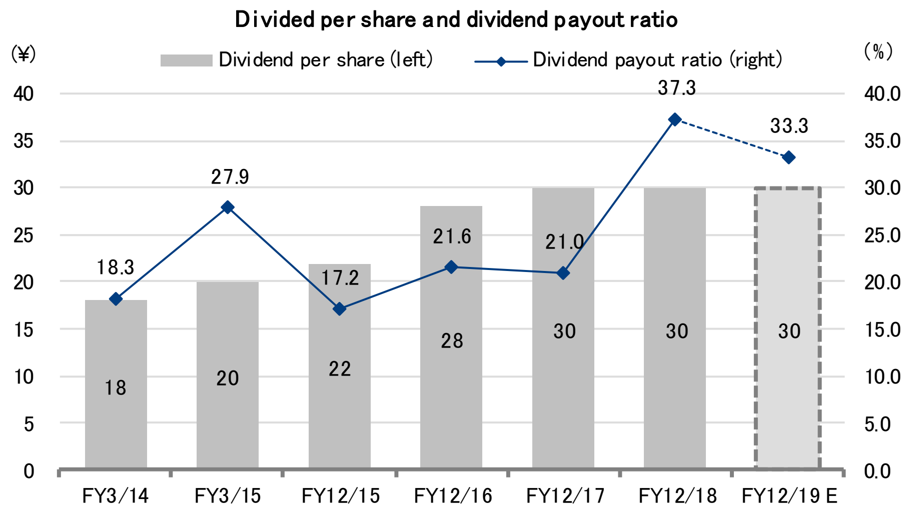
Shareholder return policy

Targeting a consolidated dividend payout ratio in the range of about 20% to 30%, and also implements a shareholder benefit program

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 20% to 30%.

Based on this basic policy, the forecast for FY2019/12 is the same as for FY2018/12, with an annual dividend per share of ¥30 (¥15 at the end of first half, ¥15 at the end of the period). Forecasted dividend payout ratio is 33.3%.

Shareholder return policy



Source: Prepared by FISCO from the Company's financial results

The Company also offers a shareholder benefit program to shareholders who own one trading unit (100 shares) or more of shares as of December 31 every year. On December 31, 2018, the Company changed the shareholder benefit program from being based on shareholding to holding period.

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