SAKATA INX CORPORATION

4633

Tokyo Stock Exchange First Section

17-Apr.-2019

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Summary

Earnings are expected to expand in the medium term due to global business deployment and sales promotion 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 products that are considered reliable and of good quality. 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 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 Company also conducts other businesses (chemicals, display and color management businesses in the Japanese market), and is increasing sales of digital & specialty products and 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.

2. Sales and profits increased in FY2018/12

In the FY2018/12 consolidated results, net sales increased 3.0% compared to FY2017/12 to ¥162,056mn, operating income decreased 40.4% to ¥5,112mn, ordinary income declined 38.6% to ¥6,910mn, and profit attributable to owners of parent fell 44.0% to ¥4,692mn. Sales increased, mainly in Asia and North America, due to the rise in packaging ink sales volume and the sales growth of digital & specialty products. However, profits decreased, primarily because of the soaring prices of raw materials and the impact of exchange rates. The effects of the revisions to sales prices were only partial.

3. Forecasting sales and profits to increase in FY2019/12

The FY2019/12 consolidated results forecasts are for net sales to increase 7.1% compared to FY2018/12 to ¥173,600mn, operating income to rise 17.4% to ¥6,000mn, ordinary income to grow 8.5% to ¥7,500mn, and profit attributable to owners of parent to increase 6.5% to ¥5,000mn. The Thai and Brazilian subsidiaries will newly be consolidated. Higher sales and profits are forecasted based on increase in sales volume, new consolidations, reduction in costs, and revisions to sales prices becoming fully fledged. In the 1H, profits are forecast to decrease because raw material prices in Japan are expected to rise even higher. However, it is anticipated that the prices of some raw materials will fall and the effects of the revisions to sales prices will become fully fledged in the 2H. Looking on a half-yearly basis, it is forecast that operating income will bottom-out in FY2019/12 1H and the improvement to earnings will be fully realized during the 2H.

4. The markets for environmentally friendly and high-function products are expanding, and there remains considerable room for further product development

The domestic printing ink market has a strong image of being mature due to 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. The packaging printing ink market that includes products such as gravure ink, which constitutes approximately 40% of the market, and also flexo ink, etc. is expanding. Against the backdrop of global environmental issues, the demands shifting towards environmentally friendly products is strengthening globally. There remains plenty of room for environmentally friendly, high function and high-value-added inks to expand and develop, mainly in the packaging field.

5. The target in the medium-term business plan 2020 is net sales of ¥195.0bn in FY2020/12

In November 2017, the Company formulated its three-year medium-term business plan. The plan's numerical targets 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 Company will continue to expand its printing ink business that is their core business and the digital & specialty products business, and will also create new businesses through applying technologies that has been cultivated in its core business. 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).

6. Strengthening measures for ESG

The Company is also strengthening measures for ESG (Environment, Society, Governance). The worldwide shift to environmentally friendly products is strengthening, and there remains plenty of room for market expansion and development globally. The Company has a track record of global business deployment ahead of its industry peers. Its strengths lie in its expertise in launching products tailored to local characteristics in each country, development capabilities 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.

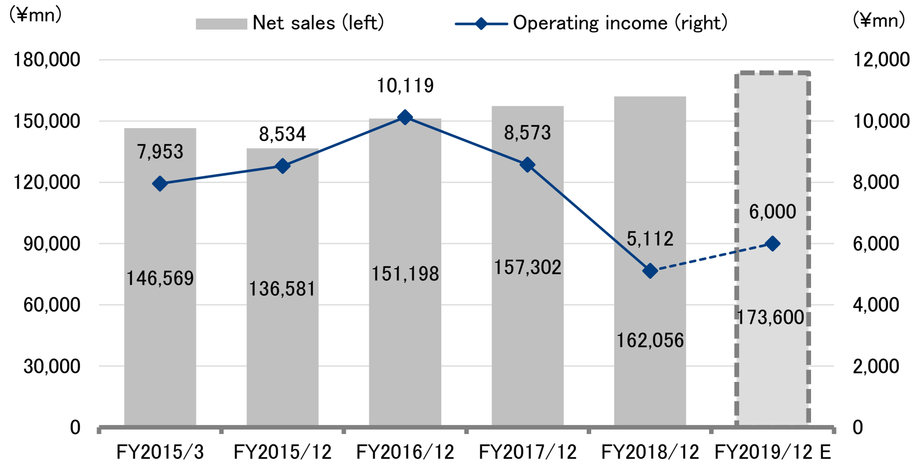
7. Targeting a consolidated dividend payout ratio in the range of about 20% to 30%

The Company aims for a consolidated dividend payout ratio in the range of around 20% to 30%. In FY2018/12, the annual dividend per share was ¥30 (¥15 at the end of the 1H, ¥15 at the end of the period), the same as FY2017/12. The dividend payout ratio was 37.3%. 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 35.0%. 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

- The third largest printing ink manufacturer in the world
- In FY2019/12, the forecasts are for higher sales and profits, as earnings will improve from the 2H from the increase in sales volume and the effects of the revisions to sales prices
- Plenty of room for the markets for environmentally friendly and high-function products, which are its strength, to expand and develop, so earnings are expected to increase in the medium term

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

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 the 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.

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 Tokyo Stock Exchange, Inc. and Nikkei Inc. (calculation started from March 13, 2017). Furthermore, in January 2019, the Company's share 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 Government Pension Investment Fund (GPIF).

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.)
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.)
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

Year	Main Event
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 Selected as a composition stock of the JPX-Nikkei Mid and Small Cap Index 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)
2018	Jointly developed an insect repellent coating agent with Earth Corporation <4985>

Source: Prepared by FISCO from Company materials

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 Group also conducts other businesses (chemicals, display and color management businesses in the Japanese market).

4. Global deployment in 18 countries and regions

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.

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 November 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 and it functions as its first production base in South America.

From FY2019/12, ETERNAL SAKATA INX in Thailand and Creative Ltd. in Brazil have been consolidated. In January 2019, the Company also acquired land in Bangladesh (a long-term lease contract) for the construction of a new plant in order to respond to the increase in demand for packaging ink through local production. The details of the construction have yet to be decided, but is scheduled to be completed during 2020.

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

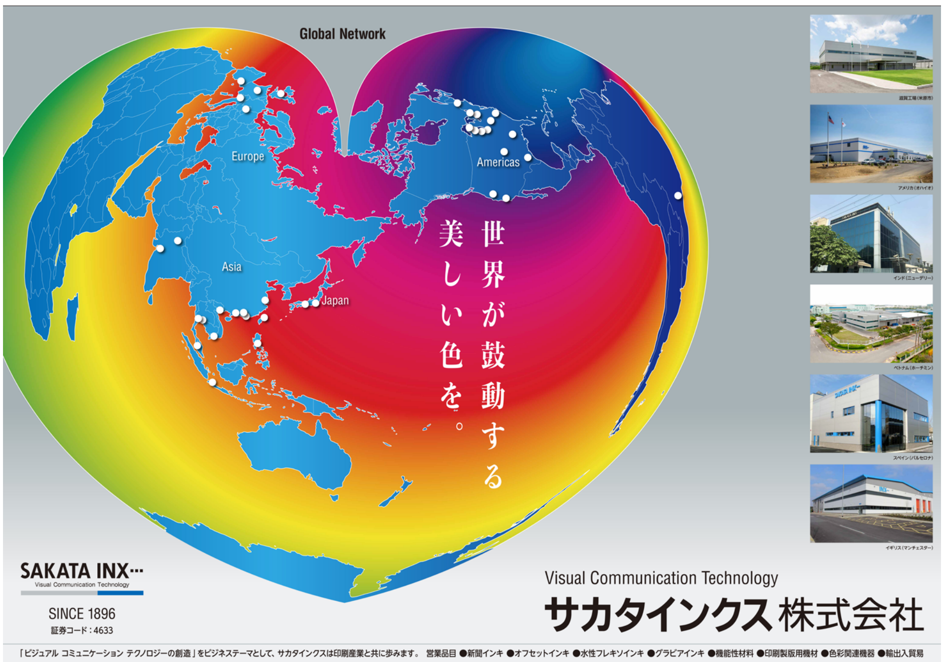
In 1999, the Company and Toyo Ink MFG. Co., (now, Toyo Ink SC Holdings <4634>) agreed to a business alliance for production, logistics, digital-related businesses, and international businesses. And then in 2000, they agreed to a capital alliance.

In February 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 distribution 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 held in the other. With regards to the other 20%, they each implemented a share buy-back and acquired these shares as treasury stock. Even though they have reduced their cross-shareholding and mutual shareholding ratios, Toyo Ink SC Holdings continues to be the Company's leading shareholder, and they will continue their capital and business alliance.

6. Enhancing its corporate image by posting a corporate advertising design

In 2017, a new corporate advertising design was created for the Company and corporate advertisements were posted in major JR train stations. In March 2019, a corporate advertisement was posted in the passage in front of Daimaru, a department store, at the JR Tokyo Station's North Exit (the Yaesu side). It features a global map with dynamic coloring shaped as a heart that gives a visual impression of a beating "heart." This impression is utilized in the catchphrase in the advertisement, of "Beautiful colors that the world beats to." It is expected to lead to the enhancement of the Company's corporate image.

Corporate advertisement



Source: Reprinted from Company materials

Business overview

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

1. Global deployment focused on the printing ink business

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 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).

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.)

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.

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

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. The trends in the percentages of net sales and operating income by segment before consolidated adjustments are shown below.

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

(%)

	FY2016/12	FY2017/12	FY2018/12
Net sales			
Printing inks and graphic arts materials (Japan)	34.7	33.4	32.3
Printing inks (Asia)	17.8	18.4	18.9
Printing inks (North America)	26.5	26.4	26.5
Printing inks (Europe)	4.9	5.3	5.5
Digital & Specialty Products	6.4	6.9	7.2
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)	26.6	28.4	25.2
Printing inks (Asia)	33.5	29.5	34.2
Printing inks (North America)	23.4	23.0	22.2
Printing inks (Europe)	2.3	0.3	-17.7
Digital & Specialty Products	9.8	14.3	27.4
Other businesses	4.4	4.4	8.7
Totals before consolidated adjustments	100.0	100.0	100.0

Source: Prepared by FISCO from Company materials

The percentages of operating income by segment (before consolidated adjustments) 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. Printing ink (Europe) recorded a loss, as it is in the middle of restructuring the production system, and also from the soaring prices of raw materials.

3. The third largest printing ink manufacturer in the world

In terms of net sales rankings, SAKATA INX is a major printing ink manufacturer ranked third in the world (source: “The 2017 Top International Ink Companies Report” (August 1, 2018) by INK WORLD).

The global top 10 in ink sales (2017)

Rank	Company	Country	Net sales (US$mn)
1	DIC/Sun Chemical	Japan	4,600
2	Flint Group	Luxembourg	2,500
3	SAKATA INX CORPORATION	Japan	1,310
4	Toyo Ink SC Holdings Co., Ltd.	Japan	1,300
5	Siegwerk Group	Germany	1,080
6	Huber Group	Germany	990
7	T&K TOKA CO., LTD.	Japan	432
8	Tokyo Printing Ink Mfg. Co., Ltd.	Japan	408
9	Fujifilm North America	U.S.A	400
10	SICPA	Switzerland	375

Source: Prepared by FISCO from "The 2017 Top International Ink Companies Report" (August 1, 2018) by INK WORLD

4. Its strengths lie in its development capabilities and extensive lineup of environmentally friendly products, and the reliability and quality of its products

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 newspaper ink, the Company has acquired a strong reputation for its high-coloration ink called "NEWS WEBMASTER Ecopure" (Eco Mark certified) 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 and sheet ink. 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 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.

5. High market shares of 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. 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.

In the field of ink for paper media, the Company’s ratios of environmentally friendly products for newspaper ink, and offset ink for magazines and brochures, and other paper media have reached 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 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.

6. 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. In addition, prices of resins and solvents are increasing along with the rise in the price of crude oil. Moreover, a situation of the high prices of raw materials is continuing, including due to the effects of sanction tariffs resulting from the US-China trade dispute in 2018.

In response to these risk factors, the Company is progressing optimization through revisions to sales prices. It is also working to mitigate the impact of the high prices of raw materials by reducing the costs of raw materials through leveraging group synergies and improving productivity.

Results trends

In FY2018/12, sales increased but profits decreased due to the soaring prices of raw materials despite higher sales volume

1. In FY2018/12, sales increased but profits decreased due to the soaring prices of raw materials despite higher sales volume

In the FY2018/12 consolidated results announced by the Company on February 14, 2019, net sales increased 3.0% compared to FY2017/12 to ¥162,056mn, operating income decreased 40.4% to ¥5,112mn, ordinary income declined 38.6% to ¥6,910mn, and profit attributable to owners of parent fell 44.0% to ¥4,692mn. Sales increased, mainly in Asia and North America, including due to the rise in packaging ink sales volume and the sales growth of digital & specialty products. But profits decreased, primarily because of the soaring prices of raw materials and the impact of exchange rates. The effects of the revisions to sales prices were only partial.

Gross profit declined 10.0% and the gross profit margin fell 3.0 percentage points (PP) to 20.5%. SG&A expenses declined 0.8% and the SG&A expenses ratio was 17.4%, down 0.6 of a PP. In non-operating income, equity-method investment income of ¥1,572mn (¥1,783mn in FY2017/12) was recorded. The foreign exchange gain-loss deteriorated by ¥628mn (recorded a foreign exchange gain of ¥389mn in FY2017/12 and a foreign-exchange loss of ¥239mn in FY2018/12). In extraordinary income, a ¥1,124mn gain on the sale of investment securities recorded in FY2017/12 was not recorded in this fiscal year.

After excluding the impact of exchange rates, net sales increased 3.9%, operating income decreased 39.2%, ordinary income declined 37.5%, and profit attributable to owners of parent fell 42.9%. The average exchange rate during the period was ¥110.43 to US$1 in FY2018/12, compared to ¥112.19 to US$1 in FY2017/12, so the yen appreciated by ¥1.76 against the dollar. The impact of exchange rates reduced net sales by ¥1,438mn, operating income by ¥103mn, ordinary income by ¥115mn, and profit attributable to owners of parent by ¥98mn.

FY2018/12 consolidated results

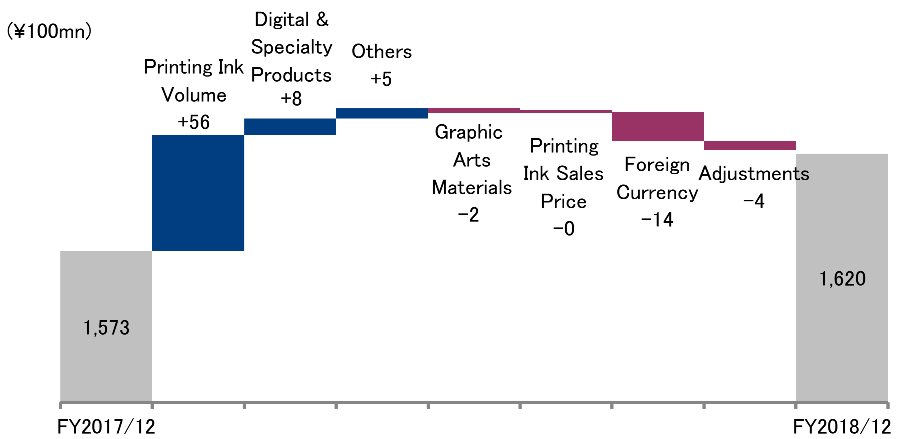
(¥mn)

	FY2017/12		FY2018/12					
	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	157,302		162,056		4,753	3.0%	-1,438	3.9%
Operating income	8,573	5.5%	5,112	3.2%	-3,460	-40.4%	-103	-39.2%
Ordinary income	11,249	7.2%	6,910	4.3%	-4,339	-38.6%	-115	-37.5%
Profit attributable to owners of parent	8,383	5.3%	4,692	2.9%	-3,690	-44.0%	-98	-42.9%
Rate during the period (US$)	112.19		110.43					

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

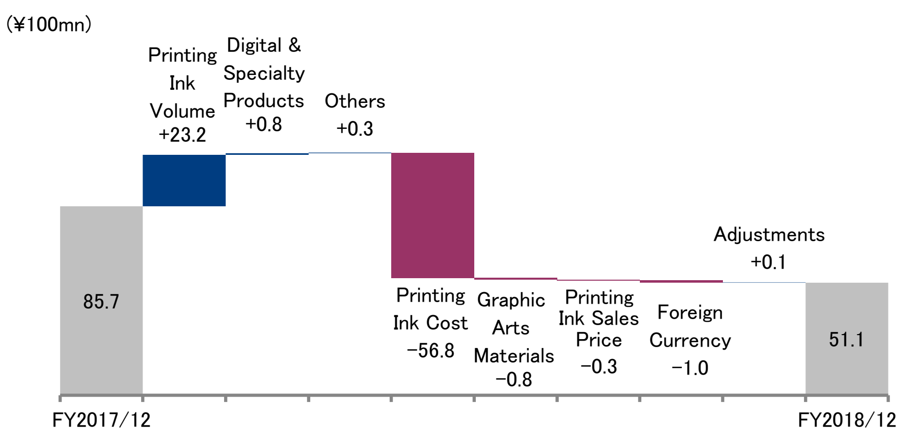
According to an analysis of the change factors through a comparison with the previous fiscal year, the factors behind the ¥4.7bn increase in net sales were as follows. The increase factors were ink volume of ¥5,600mn, digital & specialty products of ¥800mn, and other businesses of ¥500mn. The decrease factors were graphics arts materials of ¥200mn, ink unit prices of ¥0, exchange rates of ¥1,400mn, and adjustments of ¥400mn. The factors causing the ¥3,460mn decrease in operating income were as follows. The increase factors were ink volume of ¥2,320mn, digital & specialty products of ¥80mn, other businesses of ¥30mn, and adjustments of ¥10mn. The decrease factors were ink costs of ¥5,680mn, graphics arts materials of ¥80mn, ink unit prices of ¥30mn , and exchange rates of¥100mn.

Net sales Increase/Decrease factor



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

Operating income Increase/Decrease factor



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

Compared to the revised forecasts (on November 13, 2018, net sales and each profit item were downwardly revised to net sales of ¥161,600mn, operating income of ¥5,500mn, ordinary income of ¥7,300mn, and profit attributable to owners of parent of ¥5,300mn), net sales were ¥456mn above forecast, but all of the profit items were below forecast, with operating income by ¥388mn, ordinary income by ¥390mn, and profit attributable to owners of parent by ¥608mn. This was because the prices of raw materials rose more than expected, while the effects of the revisions to sales prices were partial.

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 0.1% to ¥54,950mn and operating income declined 50.1% to ¥1,125mn. Packaging-related sales trended stably for gravure ink for food and beverage use. However, sales were sluggish for flexo ink, which was affected by the unseasonable weather, and also for newspaper ink, offset ink and graphics arts materials (plate making materials and plate making related equipment). In profits, in packaging-related, the revisions to sales prices had a partial effect, but profits still decreased significantly due to the soaring prices of raw materials and the fall in demand for newspaper and offset ink.

In printing ink (Asia), net sales increased 6.3% to ¥32,156mn and operating income decreased 34.8% to ¥1,529mn. Sales rose because sales volume increased for packaging gravure ink in India, Indonesia, and Vietnam, and for newspaper and offset ink in India and China, which absorbed the impact of exchange rates. On the other hand, profits decreased significantly due to soaring prices of raw materials, depreciation of local currencies, and intensification of competition. Effects from revisions to sales prices were partial.

In printing ink (North America), net sales increased 3.2% to ¥44,957mn and operating income decreased 45.8% to ¥992mn. Sales increased because of strong performance of flexo ink, gravure ink, metal-deco ink, and UV ink for packaging, despite lower sales of offset ink which was affected by the contraction of the printing market, and absorbed the impact of exchange rates. Profits decreased substantially, mainly due to the impact of higher prices of raw materials and increase in costs alongside the sales growth. However, there were positive factors, including the increase in sales volume and growth in sales for high value-added products. Raw material prices rose even higher in the 2H due to the additional impact of sanctions tariffs resulting from the US-China trade dispute.

In printing ink (Europe), net sales increased 6.2% to ¥9,321mn and operating loss was ¥791mn (compared to operating income of ¥25mn in FY2017/12). Sales increased due to the growth in sales volume of gravure ink, flexo ink, and metal-deco ink, while the depreciation of the yen against local currencies also contributed. In profits, the segment recorded a loss due to the soaring prices of raw materials and an increase in costs from the restructuring of the production system, which exceeded the positive factor of an increase in the sales volume.

In digital & specialty products, net sales increased 7.5% to ¥12,185mn and operating income rose 7.2% to ¥1,222mn. Sales of inkjet ink dispersions for color filters and toners grew steadily, and the effects of the high sales volume and the rationalization exceed the impact of the soaring prices of raw materials, for higher sales and profits.

In other businesses, net sales increased 3.5% to ¥16,335mn and operating income grew 11.4% to ¥390mn.

Net sales and operating income by segment in FY2018/12

(¥mn)

		FY2017/12 Amount	FY2018/12		
			Amount	Increase/decrease amount	Foreign currency translation effect amount
Net sales	Printing inks and graphic arts materials (Japan)	54,985	54,950	-34	-
	Printing inks (Asia)	30,245	32,156	1,911	-951
	Printing inks (North America)	43,560	44,957	1,397	-709
	Printing inks (Europe)	8,777	9,321	543	171
	Digital & Specialty Products	11,336	12,185	849	41
	Reportable segment total	148,904	153,571	4,666	-1,447
	Other businesses	15,790	16,335	545	-
	Adjustments	-7,392	-7,851	-458	9
	Total	157,302	162,056	4,753	-1,438
Operating income	Printing inks and graphic arts materials (Japan)	2,253	1,125	-1,127	-
	Printing inks (Asia)	2,347	1,529	-817	-57
	Printing inks (North America)	1,830	992	-837	-26
	Printing inks (Europe)	25	-791	-817	-16
	Digital & Specialty Products	1,140	1,222	82	-
	Reportable segment total	7,596	4,078	-3,517	-101
	Other businesses	350	390	39	-
	Adjustments	626	643	17	-2
	Total	8,573	5,112	-3,460	-103

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

3. Financial position

In finances, compared to the end of FY2017/12, total borrowing increased ¥2bn and the equity ratio fell 1.1 PP. However, these levels are not particularly negative and there does not seem to be any problems with the Company's financial soundness.

Key performance indicators

(¥mn)

Item	FY2015/3	FY2015/12 (9 months)	FY2016/12	FY2017/12	FY2018/12
Net sales	146,569	136,581	151,198	157,302	162,056
Cost of sales	112,581	103,826	113,773	120,371	128,824
Gross profit	33,988	32,754	37,425	36,931	33,232
Gross profit margin (%)	23.2	24.0	24.8	23.5	20.5
Selling, general and administrative expenses	26,034	24,219	27,305	28,358	28,120
Selling, general and administrative expenses ratio (%)	17.8	17.7	18.1	18.0	17.4
Operating income	7,953	8,534	10,119	8,573	5,112
Operating income margin (%)	5.4	6.2	6.7	5.5	3.2
Non-operating income	2,131	2,601	2,531	3,048	2,476
Non-operating expenses	712	1,067	782	371	678
Ordinary income	9,372	10,068	11,868	11,249	6,910
Ordinary income margin (%)	6.4	7.4	7.8	7.2	4.3
Extraordinary income	779	1,539	801	1,424	285
Extraordinary loss	1,128	2	386	317	71
Income before income taxes and non-controlling interest	9,023	11,604	12,283	12,356	7,125
Total income taxes	4,206	3,258	3,798	3,466	2,155
Profit attributable to owners of parent	4,338	7,745	7,837	8,383	4,692
Margin on profit attributable to owners of parent (%)	3.0	5.7	5.2	5.3	2.9
Comprehensive income	11,508	6,265	6,381	9,946	756
Total assets	129,912	136,564	138,012	145,489	145,857
Current assets	69,346	72,554	71,716	76,199	76,241
Noncurrent assets	60,565	64,010	66,295	69,290	69,615
Total liabilities	65,126	66,944	63,698	66,723	68,459
Current liabilities	43,753	46,574	45,304	47,968	49,233
Noncurrent liabilities	21,373	20,370	18,393	18,754	19,226
Total net assets	64,785	69,619	74,313	78,766	77,397
Shareholders' equity	58,756	65,230	71,555	74,737	77,528
Capital	7,472	7,472	7,472	7,472	7,472
Total number of issued shares at the end of period, excluding treasury shares	60,508,675	60,508,154	60,507,951	58,399,679	58,399,218
EPS (¥)	71.71	128.01	129.53	142.76	80.36
Net assets per share (¥)	1,034.84	1,107.63	1,179.38	1,295.39	1,272.41
Dividends per share (¥)	20.00	22.00	28.00	30.00	30.00
Equity ratio (%)	48.2	49.1	51.7	52.0	50.9
ROE (%)	7.5	11.9	11.3	11.4	6.3
Cash flows from operating activities	6,487	11,254	11,697	9,201	5,239
Cash flows from investing activities	-9,156	-3,214	-6,727	-2,737	-7,279
Cash flows from financing activities	2,745	-5,973	-3,552	-6,259	-122
Cash and cash equivalents at the end of period	5,923	7,888	9,297	9,351	6,788
Ratio of cash flow to interest-bearing debt (year)	3.7	1.8	1.5	1.8	3.6
Interest coverage ratio (times)	17.3	34.6	44.9	36.9	19.9

Source: Prepared by FISCO from Company materials

Business Outlook

Forecasting higher sales and profits for FY2019/12 from the increase in sales volume and the effects of the revisions to sales prices

1. Forecasting higher sales and profits for FY2019/12 from the increase in sales volume and the effects of the revisions to sales prices

For the FY2019/12 consolidated results, the Company is forecasting that net sales will increase 7.1% compared to FY2018/12 to ¥173,600mn, operating income will rise 17.4% to ¥6,000mn, ordinary income will grow 8.5% to ¥7,500mn, and profit attributable to owners of parent will increase 6.5% to ¥5,000mn. From FY2019/12, the Thai subsidiary (ETERNAL SAKATA INX) and the Brazilian subsidiary (Creative Ltd.) have been newly consolidated. The assumed exchange rate (average during the period) is ¥110 to US$1 (¥110.43 to US$1 in FY2018/12). In addition to factors such as the effects of higher sales volume, the new consolidations, and the reduction in costs, the effects from revisions to sales prices are expected to become fully fledged.

Consolidated results trend

(¥mn)

Fiscal year	FY2015/3	FY2015/12 (9 months)	FY2016/12	FY2017/12	FY2018/12	FY2019/12 forecast
Net sales	146,569	136,581	151,198	157,302	162,056	173,600
Operating income	7,953	8,534	10,119	8,573	5,112	6,000
Ordinary income	9,372	10,068	11,868	11,249	6,910	7,500
Profit attributable to owners of parent	4,338	7,745	7,837	8,383	4,692	5,000
EPS*1	71.71	128.01	129.53	142.76	80.36	85.62
Dividend	20.00	22.00	28.00	30.00	30.00	30.00
BPS*2	1,034.84	1,107.63	1,179.38	1,295.39	1,272.41	1,295.39

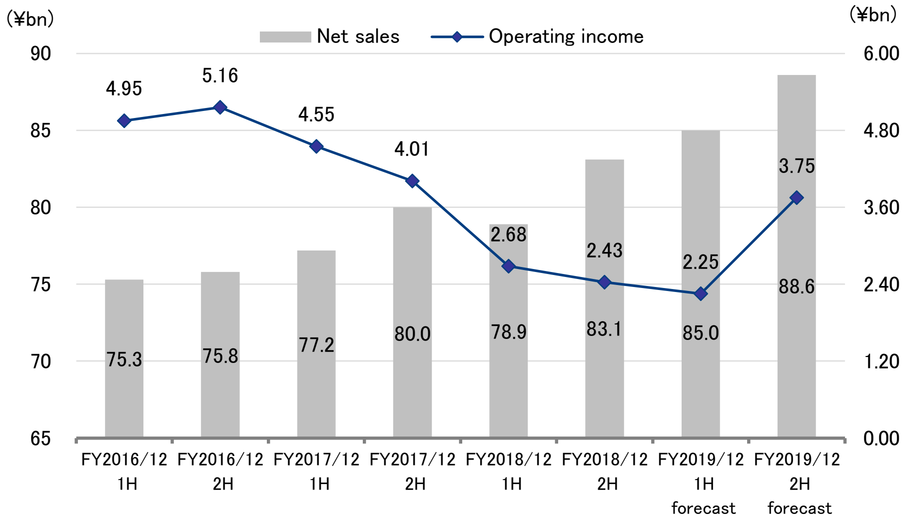
*1 EPS = Earnings Per Share
*2 BPS = Book value Per Share
Source: Prepared by FISCO from Company materials

For the FY2019/12 1H consolidated results, the Company is forecasting that net sales will increase 7.7% year-on-year (YoY) to ¥85,000mn, operating income will decrease 16.1% to ¥2,250mn, ordinary income will decline 15.3% to ¥3,000mn, and profit attributable to owners of parent will fall 23.3% to ¥2,000mn. Results in the 1H will be affected by high raw material prices, continuing from the previous year, so the forecast is for sales to increase but profits to decrease in the 1H. However, the Company expects higher sales and profit in the 2H due to the fall in the prices of some raw materials and the effects from revisions to sales prices.

2. In FY2019/12, operating income will bottom-out in the 1H and earnings are expected to recover in the 2H

Looking at the quarterly trends in net sales and operating income, although the percentage of net sales tends to be slightly higher in the 2H, they have been trending steadily in general from the effects of higher sales volume. On the other hand, operating income has been affected by soaring prices of raw materials since FY2017/12 1H, and moreover in FY2018/12, it was additionally affected by the sanction tariffs due to the US-China trade dispute, and the profit level has fallen.

Quarterly trends in net sales and operating income



Source: Prepared by FISCO from Company materials

For FY2019/12, the Company is forecasting a decline in profits in the 1H due to continued high price levels of raw materials. However, in the 2H, it expects prices of some raw materials to fall and effects from revisions to sales prices to become fully fledged. On a half-yearly basis, it is expected that operating income will bottom-out in FY2019/12 1H and the improvement to earnings will be fully realized in the 2H.

3. Segment trends

The FY2019/12 full year forecasts for each segment (before consolidated adjustments and the exclusion of the effects of exchange rates, compared to FY2018/12) and the priority measures are as follows. The Brazilian subsidiary, Creative Ltd., has been newly consolidated, and alongside this, the former segment name, printing ink (North America) has been changed to printing ink (Americas).

In printing inks and graphics arts materials (Japan), the Company projects net sales to decrease 0.6% to ¥54,626mn and operating income to increase 2.4% to ¥1,153mn. Profits are forecast to increase mainly from sales growth, cost reductions, and the effects of the revisions to sales prices. For the priority policies, in addition to proposing total solutions, in the newspaper and offset inks fields, the Company intends to grow sales of high-color, high-rendering ink and highly sensitive UV offset ink, while in the packaging field, it will work to grow sales of the Botanical Ink series that uses plant-derived ingredients. Furthermore, demand for paper bags is forecast to increase in the future against the backdrop of global environmental problems. As a new development, it will pursue sales growth for EcoPlata and EcoPino, which are inks for paper containers in the Botanical Ink series.

In printing ink (Asia), the Company forecasts net sales to increase 19.5% to ¥38,430mn and operating income to rise 45.7% to ¥2,227mn. Higher sales and profits are forecast, mainly due to the effects of higher sales volume, particularly in the packaging field; the Thai subsidiary (ETERNAL SAKATA INX) newly consolidated; and the revisions to sales prices. In the packaging field, the Company will enhance its lineup of high-performance, environmentally friendly products for global customers. The priority measures are developing and launching high performance, high quality products that are tailored to local characteristics, promoting local production for local consumption, utilizing the group network to grow sales, reducing raw materials costs by leveraging group synergies, and expanding the businesses into areas it has not yet entered. In January 2019, the Company acquired land in Bangladesh in order to construct a new plant. Up until the present time, packaging ink has been exported from the Indian subsidiary, but the Company intends to respond to the rising demand through local production. The plant is scheduled to be completed during 2020.

In printing ink (Americas), the Company projects net sales to increase 8.9% to ¥48,965mn and operating income to rise 7.9% to ¥1,070mn. The Company will pursue sales growth for products including high performance flexo ink for laminate, new gravure ink products, and high sensitivity UV and EB inks. Higher sales and profits are forecast, mainly from the effects of increased sales volume, particularly in the packaging field, and the revisions to sales prices. The priority measures are actively expanding business into the South American market and working to improve productivity and reduce costs through progressing TPM activities. The Brazilian subsidiary Creative Ltd. has been consolidated.

In printing ink (Europe), the Company expects net sales to increase 3.9% to ¥9,668mn and operating loss to be ¥624mn (a loss of ¥791mn in FY2018/12). The Company will pursue sales growth in gravure ink, UV flexo ink and UV offset ink, particularly in France and Spain. Costs will be duplicated due to the restructuring of the production structure, but improvements will progress during the year and the Company aims to reduce losses through higher sales volume. Priority measures are strengthening the sales structure; improving efficiency through restructuring the production structure; expanding the business into areas it has yet to be entered, including Eastern Europe, the Middle East, and Africa; and strengthening its brand.

In digital & specialty products, the Company forecasts net sales to increase 11.8% to ¥13,624mn and operating income to decrease 10.1% to ¥1,098mn. Higher sales are projected with the strong demand trend, but profits are forecasted to decline due to change in product mix because of the market environment, and falling prices alongside the intensification of competition. 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, the Company will enter the energy, optical and electronics-properties coating fields.

Net sales and operating income by segment

(¥mn)

Net sales	FY2015/3	FY2015/12 (9 months)	FY2016/12	FY2017/12	FY2018/12	FY2019/12 forecast
Printing inks and graphic arts materials (Japan)	57,304	42,727	55,114	54,985	54,950	54,626
Printing inks (Asia)	28,299	28,071	28,308	30,245	32,156	38,430
Printing inks (Americas)	38,712	44,920	42,044	43,560	44,957	48,965
Printing inks (Europe)	8,637	9,031	7,817	8,777	9,321	9,688
Digital & Specialty Products	8,311	8,230	10,162	11,336	12,185	13,624
Reportable segment total	141,266	132,981	143,447	148,904	153,571	165,333
Other businesses	13,645	9,598	15,168	15,790	16,335	16,317
Adjustments	-8,342	-5,999	-7,416	-7,392	-7,851	-8,051
Total	146,569	136,581	151,198	157,302	162,056	173,600

Source: Prepared by FISCO from Company materials

(¥mn)

Operating income	FY2015/3	FY2015/12 (9 months)	FY2016/12	FY2017/12	FY2018/12	FY2019/12 forecast
Printing inks and graphic arts materials (Japan)	2,439	1,856	2,516	2,253	1,125	1,153
Printing inks (Asia)	2,239	2,875	3,170	2,347	1,529	2,227
Printing inks (Americas)	1,525	2,344	2,218	1,830	992	1,070
Printing inks (Europe)	0	126	218	25	-791	-624
Digital & Specialty Products	961	432	925	1,140	1,222	1,098
Reportable segment total	7,166	7,636	9,049	7,596	4,078	4,924
Other businesses	299	295	419	350	390	383
Adjustments	486	602	650	626	643	693
Total	7,953	8,534	10,119	8,573	5,112	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 globally shifting to environmentally friendly products

The domestic printing ink market has a strong 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. The packaging printing inks market is expanding. This market includes gravure ink that constitutes around 40% of the market and flexo 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).

Against the backdrop of the global environmental problems, the trend of worldwide demand shifting to environmentally friendly products is strengthening. There remains plenty of room for the environmentally friendly and high-function, high-value-added ink markets to expand and develop in Asia and North America. In particular, market expansion is forecasted centered on the packaging field.

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 been in demand in North America to the same extent as in Japan in the packaging film field for foods, cosmetics and toiletries, daily goods and other products, so there is still considerable room for the market to expand and to be developed.

In the context of increasing populations and economic growth in the Asian market, the printing ink market as a whole is expanding in emerging countries such as India, Indonesia and Vietnam. In India, the demand for newspapers has been increasing against the backdrop of improving income levels and rising literacy rates. In China, the need for environmentally friendly products is also rising following the implementation of environmental regulations.

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

2. The target in the medium-term business plan is net sales of ¥195.0bn in FY2020/12

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 enter markets yet to be entered (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.

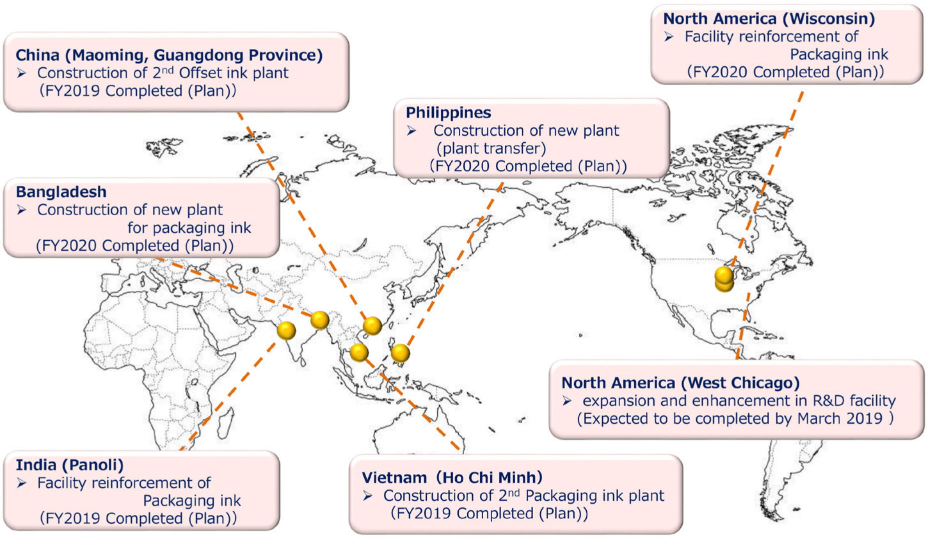
4. Strengthening production capacity by active capital investment

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.

The details of the capital investment as of the end of FY2018/12 are as shown in the diagram. In Japan, the addition of newspaper and offset ink facilities at the Shiga Plant was completed in January 2018. In North America, the expansion and enhancement of the R&D facility in West Chicago was scheduled to be completed in March 2019, while the expansion of packaging ink facilities at the Wisconsin base is scheduled to be completed during 2020. Moreover, the second offset ink plant in China, the second packaging ink plant in Vietnam, and the expansion of packaging ink facilities in India are each expected to be completed in 2019. The new plant in the Philippines (relocation) and the new plant in Bangladesh are scheduled to be completed in 2020.

Capital investment



Source: Reprinted from the Company's results briefing materials

Strengthening measures for ESG and expects to increase earnings in the medium term

5. Strengthening measures for ESG and expects to increase earnings in the medium term

The Company is strengthening measures for ESG.

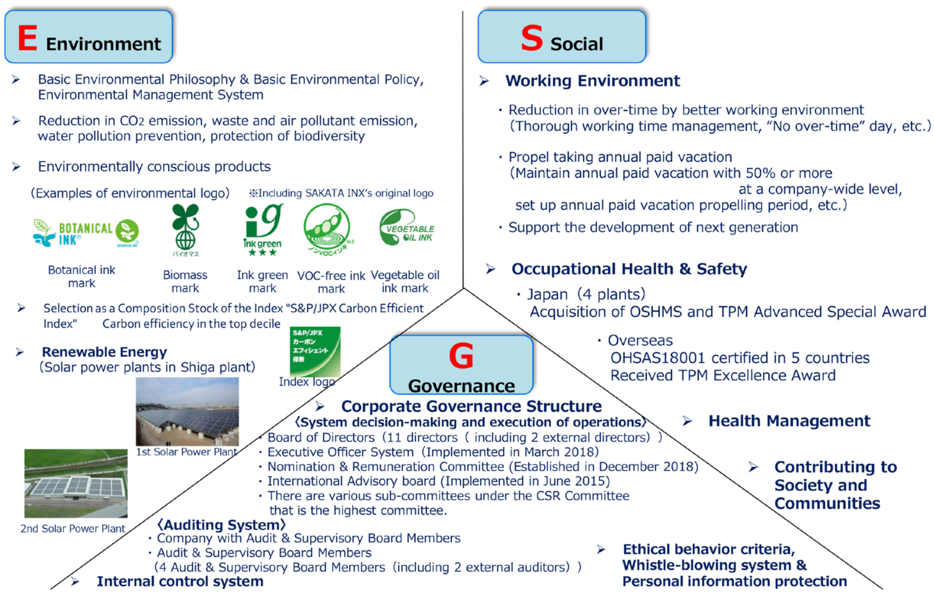
For E (Environment), the Company is strengthening its environmental management system, growing sales of its environmentally friendly products, which are one of its strengths; and progressing the introduction of renewable energy (such as installing a solar power facility at the Shiga Plant). For S (Society), 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.

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 commercialization is scheduled for 2020.

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 January 11, 2019, the Alliance had 159 participating companies and organizations.

Measures for ESG



Source: Reprinted from the Company's results briefing materials

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.

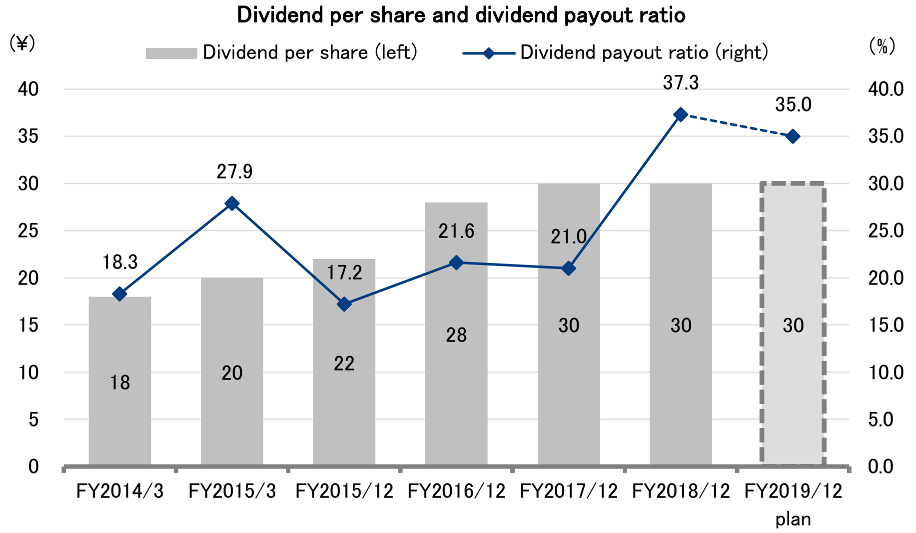
Shareholder return policy

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

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

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, in FY2018/12, the annual dividend per share was ¥30 (¥15 at the end of 1H, ¥15 at the end of the period), the same as FY2017/12. The dividend payout ratio was 37.3%. 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 35.0%.



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

2. Conducts a shareholder benefits program every year at the end of December

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.

Disclaimer