COMPANY RESEARCH AND ANALYSIS REPORT

SAKATA INX CORPORATION

4633

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Index

Summary

Strengths include environmentally friendly products and is entering a new growth stage through new business areas

SAKATA INX CORPORATION <4633> (hereafter, "the Company") is the world's third largest printing ink manufacturer with a history of more than 120 years since it was founded in 1896. With the business theme of the "Creation of Visual Communication Technology," it is entering a new growth stage through developments for new business areas.

1. Packaging printing ink and digital & specialty products are its main businesses

The Company's businesses include printing ink business and a digital & specialty products business. In the printing ink business, the main products are packaging printing ink (for printing on paper packaging, such as corrugated boards and paper containers; on packaging film for food, cosmetic, toiletries, daily goods and other products; and on mental-deco cans, such as beverage cans) and also ink for information media (such as newspapers, magazines, catalogues, etc.). In the digital & specialty products business, the main products are digital printing materials (industrial inkjet ink for large output items, textiles, etc., and toners for laser and multifunction printers) and image display materials for LCD panels (pigment dispersions for color filters).

2. In global business deployment, the Americas and Asia are the main pillars of earnings, and environmentally friendly products are its strengths

The Group operates manufacturing and sales bases in 20 countries and regions in Japan, Asia, the Americas and Europe, and it is accelerating its global business deployment. The Americas and Asia have become its main pillars of earnings through the increase in sales of environmentally friendly, high-function, high-value-added products. On the 125th anniversary of its establishment, based on the technologies that the Group has cultivated over its long history, including its original brand "Botanical Ink" series containing plant-derived components, it is acquiring high market shares globally by utilizing its strengths of development capabilities and its extensive line-up of environmentally friendly products, and products with high levels of reliability and quality.

3. In FY2021/12 1H, sales and profits increased significantly and were higher than the initial forecasts

In the FY2021/12 1H consolidated results, net sales increased by 11.6% year-over-year (YoY) to ¥88,676mn, operating income rose by 58.6% to ¥5,045mn, ordinary income grew by 126.5% to ¥5,852mn, and net income attributable to owners of parent increased by 169.7% to ¥4,039mn. Net sales and profits increased significantly and were higher than the initial forecasts. Net sales were higher than initially forecast mainly due to the increase in printing ink sales volume and the sales recovery of digital & specialty products. In profits, from the 2Q onwards the rise in raw materials and logistics costs were noticeable, but these increases were absorbed, through improvement in product mix, revisions to sales prices, and cost reductions in the Group as a whole. As a result, profits significantly increased.

4. The FY2021/12 full year consolidated results has been upwardly revised the forecasts to significant increases in sales and profits

For the FY2021/12 full year consolidated results, in August 2021, the Company upwardly revised the forecasts to net sales to increase by 10.8% on FY2020/12 to ¥179,000mn, operating income to rise by 24.8% to ¥9,000mn, ordinary income to grow by 32.2% to ¥10,300mn, and net income attributable to owners of parent to increase by 38.4% to ¥7,300mn. For printing inks in Japan and Asia, due to the novel coronavirus pandemic (hereafter, COVID-19), sales volume is expected to be lower than the initial forecast, but in Europe and the United States, sales of packaging ink and digital & specialty products will be strong, while factors such as revisions to sales prices, improvement in product mix, cost improvements, and weak yen will also contribute. As such, compared to the initial forecasts, the revised forecasts are for significant increases in sales and profits. Due to the impact of the rapid increases in raw materials costs and logistics costs, the 2H forecasts for all the profit items are below the initial 2H forecasts. However, the impact of COVID-19 is lessening and demand is recovering globally, so at FISCO we think there is room for results to exceed the Company's full year fiscal forecasts.

5. The Mid-term Business Plan is the stage to build a foundation on which to achieve the long-term strategic vision

In the long-term strategic vision "SAKATA INX VISION 2030" and the Mid-term Business Plan 2023 CCC-I, the Company is aiming to realize its long-term strategic vision, it has set numerical targets for FY2030/12 of net sales on a scale of ¥300bn and an operating income margin of 8%. It has positioned the Mid-term Business Plan 2023 as the first stage to build the foundation toward achieving the long-term strategic vision, and the plan's targets for FY2023/12 are net sales of ¥195bn, operating income of ¥11.5bn, ordinary income of ¥13bn, and ROE of 10% or more. As its strategic direction, it has set "Strengthen ESG/sustainability efforts emphasizing the global environment and local community," "Expand printing inks/digital & specialty product businesses" and "Meet new market challenges," while it has also launched three innovation projects, "Strengthen global management cooperation," "Strengthen relationships with stakeholders" and "Strengthen human resource development and reform corporate culture."

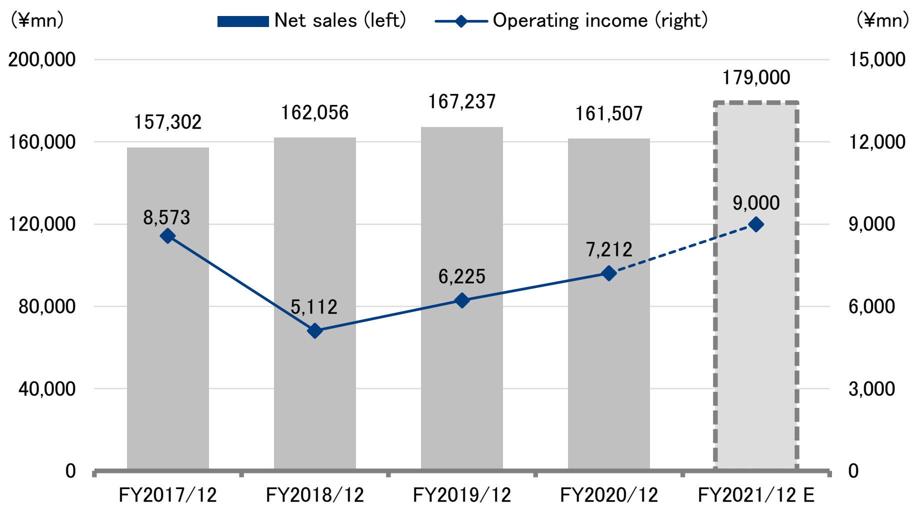
6. A new growth stage

Against the backdrop of the rising interest in global environmental problems and SDGs, the global shift in the printing ink market to environmentally friendly products is strengthening. The Group is acquiring high market shares due to its strengths of development capabilities and its extensive line-up of environmentally friendly products. The business environment can be said to be good for the Company. To respond to these market developments, its policy is to develop and market launch environmentally friendly products and to be even more active in deploying businesses for new areas. It has a track record of global business deployment in advance of its industry peers and an abundance of expertise in launching products tailored to the regional characteristics of each country. As it is entering a new growth stage, we, at FISCO, think that earnings can be expected to increase.

Key Points

- Main products are packaging printing ink and digital & specialty products, while its strengths include its environmentally friendly products
- For the FY2021/12 full year consolidated results, it has upwardly revised the forecasts to significant increases of sales and profits
- Is entering a new growth stage from its strength of environmentally friendly products and business deployment in new areas

Results trend



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

Company profile

The world's third largest printing ink manufacturer has strengths in environmentally friendly products

1. Company profile

The Company is the world's third largest printing ink manufacturer with a history of more than 120 years since its establishment in 1896 and its strengths include environmentally friendly products. With the business theme of the "Creation of Visual Communication Technology," it is entering a new growth stage through business deployment in new areas.

The locations of the Company's head offices are the Osaka Head Office (Nishi Ward, Osaka City) and the Tokyo Head Office (Bunkyo Ward, Tokyo), while its production bases in Japan are the Tokyo Plant (Noda City, Chiba Prefecture), the Osaka Plant (Itami City, Hyogo Prefecture), the Shiga Plant (Maibara City Shiga) and the Hanyu Plant (Hanyu City, Saitama Prefecture). In 1960, the Company established its first overseas office in the Philippines (Manila), followed by a succession of establishments of local subsidiaries in key overseas bases.

The Group (as of the end of 2Q FY2021/12) is comprised of 26 consolidated subsidiaries and 4 equity-method affiliates, and it operates manufacturing and sales bases in 20 countries and regions in Japan, Asia, the Americas and Europe. It has also added a Germany-based A. M. Ramp & Co. GmbH (hereafter, "RUCO") to its consolidated subsidiaries from FY2021/12 following completion of the acquisition in June 2020. SIIX Corporation <7613>, an independent spin-off of the Company, is an equity-method affiliate.

At the end of the 2Q FY2021/12, total assets were ¥156,290mn, net assets were ¥89,043mn, capital was ¥7,472mn, the equity ratio was 53.4%, and the number of issued shares was 62,601,161 shares (including 4,164,358 treasury shares).

With regards to the transition to the new market categories that is scheduled to be implemented by the Tokyo Stock Exchange (TSE) in April 2022, on July 9, 2021, the Company received the results from the TSE of its primary judgment on its conformance status for the standards to maintain a listing in the new market categories, which confirmed that it met the standards to maintain its listing on the prime market. Based on this result, the Company plans to proceed in prescribed application procedure to be selected for the new market category.

2. History

Founded in 1896 in Osaka as a small business under the name of SAKATA INK SEIZOUSHO, the Company started manufacturing and selling newspaper ink. 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 and was reassigned to the First Section in 1962. 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. Subsequently, the Company also conducted M&A to accelerate its global business deployment to Asia, the Americas and Europe, while in November 2016, it celebrated the 120th anniversary of its establishment.

History

Year	Main Event
1896	Founded (under the name SAKATA INK SEIZOUSHO) as a private company in Osaka City, and started manufacture and sales of printing ink for newspapers
1906	Name changed to SAKATA SHOKAI
1911	Successfully industrialized the production of varnish for printing ink using linseed oil for the first time in Japan
1920	Changed to limited company
1947	Established SAKATA SANGYO, LIMITED by spinning off the industrial chemicals division into an independent company
1959	Constructed and commenced operation of Itami Plant (now Osaka Plant) in Itami City, Hyogo Prefecture
1960	Opened an overseas office in the Philippines (Manila) (a succession of major overseas offices and subsidiaries were established thereafter)
1961	Listed on the Second Section of the Osaka Securities Exchange
1962	Reassigned to the First Section of the Osaka Securities Exchange
1969	Constructed and commenced operation of Noda Plant (now Tokyo Plant) in Noda City, Chiba Prefecture
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, Shiga 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.)

Year	Main Event
2001	Acquired ISO14001 certification at the three main plants (Tokyo, Osaka and Hanyu) (subsequently also acquired for the Shiga Plant)
2002	Established ETERNAL SAKATA INX CO., LTD. in Thailand Established SAKATA INX SHANGHAI CO., LTD. in China (Shanghai)
2003	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. (absorption merger with INX INTERNATIONAL in 2013)
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, subsequently also acquired for the Osaka and Shiga plants)
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
2014	Commenced operation at Shiga Plant in Maibara City, Shiga Prefecture
2015	Changed fiscal year-end from March to December
2016	Celebrated the120th founding anniversary Acquired CREATIVE INDUSTRIA E COMERCIO of Brazil (currently INX DO BRASIL) as its first production base in South America
2017	Received the certification as a leading company in Osaka City for empowering women 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 second plant in Ho Chi Minh City, Vietnam
2020	Acquired a German company A.M. Ramp & Co. GmbH (hereafter, “RUCO”) Collaboration with Shiga University in the data science field Capital participation in R Plus Japan, Ltd.
2021	Started the long-term strategic vision “SAKATA INX VISION 2030”

Source: Prepared by FISCO from the Company’s website, securities reports, news releases, and long-term strategic vision briefing materials

3. TPM activities

For the Company’s TPM (Total Productive Maintenance) activities, which it has been conducting continuously for more than 20 years, in December 2017, it received the TPM Advanced Special Award for its four main domestic plants (Tokyo, Osaka, Shiga, and Hanyu). TPM is advocated by the Japan Institute of Plant Maintenance, which has highly evaluated the Company for building innovative production methods and its business deployment overseas. In addition, its thesis entitled “Improving the Equipment Guarantee Level” was awarded second prize in the Production Category of the TPM Excellent Paper Awards.

Business overview

Conducts the printing ink business, whose main products are packaging printing inks, and the digital & specialty products business

1. Business introduction

The Company's businesses are the printing ink business that manufactures and sells packaging printing ink and ink for information media, and graphic arts materials business, digital & specialty products business and other businesses.

In the printing ink business, the SAKATA INX Group focuses primarily on packaging printing ink (for printing on paper packaging, such as corrugated boards and paper containers; packaging film for food, cosmetics, toiletries, daily goods, and other products; and metal-deco cans, such as beverage cans) for each market in Japan, Asia, the Americas and Europe. The percentage of total sales provided by printing ink for information media (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 lessened.

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 toners used for laser and multifunction printers), image display materials for LCD panels (pigment dispersions for color filters), and functional coating materials for each market in Japan, Asia, the Americas and Europe.

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 other businesses, the SAKATA INX Group primarily conducts chemicals business (SAKATA SANGYO, LIMITED) and a display-related service business (SAKATA LABOSTATION Co., Ltd.) mainly in the Japanese market.

Asia and the Americas are pillars of earnings

2. Composition 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 (Americas), printing inks (Europe), digital & specialty products and other businesses. Looking at the percentages of total operating income by segment, the Americas and Asia, in which there remains plenty of room to open-up the markets through accelerating global business deployment, provide around 60% in total and are the main pillars of earnings.

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

	FY2017/12	FY2018/12	FY2019/12	FY2020/12	FY2021/12 1H
Net sales					
Printing inks and graphic arts materials (Japan)	33.4%	32.3%	29.6%	28.4%	26.1%
Printing inks (Asia)	18.4%	18.9%	20.2%	19.3%	19.4%
Printing inks (Americas)	26.4%	26.5%	27.9%	29.3%	28.2%
Printing inks (Europe)	5.3%	5.5%	5.6%	6.0%	8.6%
Digital & specialty products	6.9%	7.2%	7.1%	7.0%	7.2%
Other businesses	9.6%	9.6%	9.6%	10.0%	10.5%
Totals before consolidated adjustments	100.0%	100.0%	100.0%	100.0%	100.0%
Operating income					
Printing inks and graphic arts materials (Japan)	28.4%	25.2%	15.0%	14.9%	16.8%
Printing inks (Asia)	29.5%	34.2%	44.0%	37.2%	25.0%
Printing inks (Americas)	23.0%	22.2%	35.4%	44.8%	33.7%
Printing inks (Europe)	0.3%	-17.7%	-17.9%	-6.6%	1.0%
Digital & specialty products	14.3%	27.4%	16.8%	7.3%	19.0%
Other businesses	4.4%	8.7%	6.7%	2.4%	4.6%
Totals before consolidated adjustments	100.0%	100.0%	100.0%	100.0%	100.0%

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

For the percentages of operating income by segment in FY2021/12 1H, printing inks and graphic arts materials (Japan) provided 16.8%, printing inks (Asia) 25.0%, printing inks (the Americas) 33.7%, printing inks (Europe) 1.0%, digital & specialty products 19.0% and other businesses 4.6%. In Japan, profits increased significantly, including from the contribution of cost reductions, and its percentage increased. The percentage of Asia declined, but even so the effects of sales growth absorbed the impact of COVID-19 and the rise in raw materials and logistics costs, so profits increased significantly. The percentage of the Americas also declined, but profits increased through the growth in sales of packaging-related and the steady revisions to prices. Europe became profitable, including from the effects of the structural reforms. The digital & specialty products segment was greatly impacted by COVID-19 in the previous period, but demand recovered and its percentage also rose.

Has high market shares of environmentally friendly products, its strength

3. Strengths

The Company's strengths lie in the development capabilities and extensive line-up of environmentally friendly, high-function and high-value-added products that it has amassed over a 120-year history since it was founded in 1896, as well as the high reliability and quality of its products.

The Company has an abundant line-up of environmentally friendly, high-function and high-value-added products. These include Botanical Ink, which contains 10% or more of plant-derived components in its ink solid constituents; plant oil ink, which replaces mineral oil with various vegetable oils (such as soybean oil); non-VOC ink, which contains less than 1% high-boiling-point petroleum solvent among its 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 particular, the Company's original brand Botanical Ink, launched at the end of 2016, uses plant-derived ingredients and is being used in the packaging of major convenience stores and food manufacturers. Furthermore, the product line-up 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 items that use Botanical Ink can have the Company's registered trademark printed on their packages.

Botanical Ink mark

Source: Reprinted from the Company's website

In ink for information media, the percentage of environmentally friendly products has reached more than 95%. In newspaper ink, the Company has greatly earned the trust of newspaper companies, including for its high-coloration ink called NEWS WEBMASTER Ecopure (Eco Mark certified), and its color management system that manages colors in response to the shift to high quality color paper. For offset ink as well, it aims to introduce environmentally friendly products to the market as an industry pioneer, and 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.

Both domestically and overseas, the Company's mainstay products are its environmentally friendly, high-function and high-value-added products positioned above midrange. It has acquired high market shares for its environmentally friendly products. In terms of market shares in the packaging printing ink field (the Company's estimates), it has the leading share in Japan for flexo ink for printing on packaging such as corrugated boards and paper containers, which it began developing at an early stage ahead of others in the industry. Also, it has 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 leading share worldwide for metal-deco ink for printing on beverage cans and other cans.

Strengthening measures for Group synergies to respond to the increases in raw material prices

4. Risk factors and measures

The major risk factors that could affect earnings include rise in raw material prices, decline in demand due to an economic downturn and the trend of using less paper, having to respond to environmental constraints and social issues, the intensification of competition, and the effects of exchange rates alongside the global business deployment.

In particular, there are delays and time lags between rapid increases in raw material prices and revisions to sales prices, which may impact results. Pigments, which are a raw material, are affected by conditions in China, which supplies the majority of global production, while resins and solvents are affected by the prices of crude oil and naphtha.

Looking at the trends in raw material prices, from 2017 onward rising crude oil prices drove up prices of materials derived from petroleum. Moreover, factors such as the impact of tougher environmental regulations and changes in energy policies in China sharply lowered the supply capacity of Chinese manufacturers, the supply-demand balance collapsed and prices of pigments soared. Furthermore, there was also an additional impact in 2018 from punitive tariffs stemming from the US-China trade friction and prices of pigments continued rising. Entering 2019, prices for pigments continued to rise in Japan, but started to settle down in overseas markets. In 2020, crude oil prices plummeted due to the impact of COVID-19 which caused prices of petroleum-derived materials to trend lower as well. However, the impact of COVID-19 is lessening and on entering 2021 the price of crude oil rose, so the prices of petroleum-derived materials have also been rising. In addition, pigment prices have remained high.

To respond to these fluctuations in the prices of raw materials, the Company is advancing optimization through revisions to sales prices, while it is also reducing raw material costs through Group synergies (including joint purchases of raw materials) and strengthening initiatives to improve productivity to mitigate the impact of the rise in the prices of raw materials.

With regards to the responses to environmental constraints and social issues, against the backdrop of the global trend to strengthen initiatives for environmental issues, a movement to impose environmental regulations is strengthening in the major countries. However, this means there is still plenty of room for the environmentally friendly products market to grow. This can be said to be a good business environment for the Company, which has acquired high market shares from its strengths of development capabilities and an extensive line-up of environmentally friendly products.

Results trends

In FY2021/12 1H, sales and profits significantly increased and were higher than the initial forecasts

1. Summary of the FY2021/12 1H consolidated results

In the FY2021/12 1H consolidated results, net sales increased by 11.6% YoY to ¥88,676mn, operating income rose by 58.6% to ¥5,045mn, ordinary income grew by 126.5% to ¥5,852mn, and net income attributable to owners of parent increased by 169.7% to ¥4,039mn. The exchange rate was ¥107.69 to US$1 (¥108.27 to US$1 in the same period in the previous fiscal year) and after excluding the effects of exchange rates, net sales increased by 10.8% YoY, operating income rose by 58.4%, ordinary income grew by 126.3%, and net income attributable to owners of parent increased by 169.3%.

Net sales and profits significantly increased and were higher than the initial forecasts (net sales of ¥82,400mn, operating income of ¥3,200mn, ordinary income of ¥3,800mn and net income attributable to owners of parent of ¥2,600mn).

Summary of the FY2021/12 1H consolidated results

(¥mn)

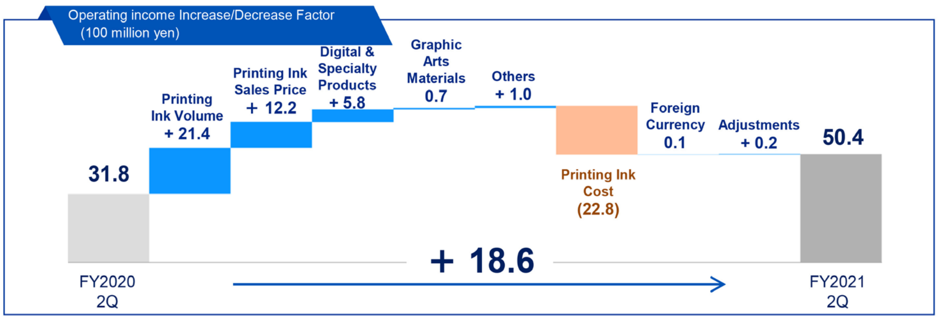
	FY2020/12 1H	FY2021/12 1H				
	Results	Results	Rate of change	Rate of change after excluding foreign currency translation impact	Initial forecast	Change compared to the initial forecast
Net sales	79,472	88,676	11.6%	10.8%	82,400	6,276
Operating income	3,181	5,045	58.6%	58.4%	3,200	1,845
Ordinary income	2,583	5,852	126.5%	126.3%	3,800	2,052
Net income attributable to owners of parent	1,497	4,039	169.7%	169.3%	2,600	1,439

Note: Average exchange rates during the period ¥108.27 (FY2020/12 2Q) and ¥107.69 (FY2021/12 2Q) to US$1
Source: Prepared by FISCO from the Company's results briefing materials and news releases

Net sales increased by 11.6% and were higher than the initial forecast due to the increase in printing ink volume and the sales recovery of digital & specialty products. In profits, from the 2Q onwards the rise in raw material and logistics costs were noticeable, but these increases were absorbed, including by the increase in sales volume, the improvement in product mix, the revisions to sales prices, and the cost reductions in the Group as a whole, so operating income increased by 58.6%. Gross profit increased by 13.3% and the gross profit margin rose 0.4 of a percentage point (pp) to 22.3%. SG&A expenses increased only by 3.2%, and the SG&A expenses ratio rose 1.3pp to 16.6%. The operating income margin rose 1.7pp to 5.7%.

The factors causing operating income to increase and decrease were as follows. The operating income increase factors were ¥2.14bn from the increase in printing ink sales volume, ¥1.22bn from the rise in the printing ink unit price (improvement in product mix and price revisions), ¥0.58bn from the increase in sales of digital & specialty products, ¥0.07bn from the increase in sales of graphic arts materials, ¥0.1bn from the increase in sales in other businesses, ¥0.01bn due to the impact of foreign currency translations, and ¥0.02bn as the adjustment amount. The decrease factor was ¥2.28bn from the rise of printing ink costs (rise of raw materials prices and other costs).

The operating income YoY change factors in FY2021/12 1H



Source: Reprinted from the Company's results briefing materials

In non-operating income, the equity-method investment income (an investment loss of ¥249mn in the same period in the previous year became investment income of ¥542mn in FY2021/12 2Q, an improvement of ¥791mn YoY). In addition, the foreign exchange losses of ¥616mn, which was recorded in non-operating expenses in the same period in the previous fiscal year, was eliminated. As a result, ordinary income increased by 126.5% and the ordinary income margin rose 3.3pp to 6.6%. Net income attributable to owners of parent increased by 169.7% and the net income margin rose 2.7pp to 4.6%.

Looking on a fiscal quarterly basis, in the 1Q, net sales were ¥43,223mn and operating income was ¥2,772mn, while in the 2Q, net sales were ¥45,453mn and operating income was ¥2,273mn. Sales were steady due to the effects of the recovery of demand and the sales growth. However, on entering the 2Q, the rise in raw materials and logistics costs became noticeable, and in the 2Q, operating income declined compared to 1Q.

Sales and profits increased in every segment

2. Trends by segment

The trends by segment (the values are before impact of foreign currency fluctuations) are as follows.

(1) Printing inks and graphic arts materials (Japan)

In printing inks and graphic arts materials (Japan), net sales increased by 2.7% YoY to ¥24,439mn and operating income rose by 63.9% to ¥824mn. Sales increased, if only slightly, from the rise in sales of printing ink, while the increase in sales of graphic art materials also contributed. Among the packaging printing inks, gravure ink used for flexible packaging, food-related demand were strong, but due to the self-restraint on going out, leisure-related and convenience store-related sales slumped, while there was a decline as a rebound to the stay-at-home demand in the previous period. Sales of flexo ink for corrugated boards and paper packaging increased due to demand for home deliveries and home drinking. Sales of newspaper ink decreased, mainly due to the progress of digitalization. Offset ink sales increased as a rebound to the decline in the previous period. In profits, as a whole packaging-related trended strongly, while factors such as the improvement in product mix, including due to the growth of sales of environmental-responsive functional varnish and cost reductions (business trip expenses and other SG&A expenses were kept down) also contributed, and profits increased significantly. In Japan, the rise in the prices of raw materials tends to take place around half a year later than in other regions, and therefore in the 1H, the impact of the rise of raw material costs was comparatively small.

(2) Printing inks (Asia)

In printing ink (Asia), net sales increased by 18.0% YoY to ¥18,135mn and operating income rose by 41.9% to ¥1,221mn, for significant increases in sales and profits. There were regional differences in sales. In India, sales were impacted by factors such as the slump in newspaper sales due to COVID-19. However, overall, economic activities are recovering and against this backdrop, sales volume also recovered, centered on gravure ink for flexible packaging. In China, offset ink and metal-deco ink sales were strong. Profits were impacted by the rise in raw materials and logistics costs, but these increases were absorbed through the increase in sales volume, improvement in product mix, revisions to sales prices and cost reductions, so profits increased significantly.

(3) Printing inks (Americas)

In printing ink (the Americas), net sales increased by 6.0% to ¥26,352mn and operating income rose by 11.1% to ¥1,646mn. In sales, sales volume increased from the growth of sales of packaging-related, mainly environmentally friendly products (flexo and gravure inks for films and UV offset ink for paper containers). Against the backdrop of the movement to reduce the burden on the environment, demand is rising for aluminum cans, so sales of metal-deco ink for printing on cans were also strong. Profits were affected by the rise in raw material and logistics costs, but these increases were absorbed by factors including the improvement to the product mix and the revisions to sales prices.

(4) Printing inks (Europe)

In printing ink (Europe), net sales increased by 55.5% YoY to ¥8,003mn and operating income was ¥47mn (compared to a loss of ¥254mn in the same period in the previous fiscal year). For sales, in addition to the effects of the growth of sales of packaging-related, mainly environmentally friendly products (flexo and gravure inks for films, UV offset ink for paper containers, and metal-deco ink for printing on cans) and new consolidation of RUCO, in Germany, contributed, and sales increased significantly. In profits, operating income was achieved compared to a loss in the previous period, thanks to the effects of the increase in sales volume and also of the structural reforms (cost reductions through rebuilding the production system).

(5) Digital & specialty products

In digital & specialty products, net sales increased by 17.6% YoY to ¥6,754mn and operating income increased by 177.7% to ¥927mn. Results fell in the previous period due to the major impact of COVID-19, but alongside the good business conditions in the display market and the restart of economic activities, advertising demand and office demand are recovering, mainly overseas, and the sales volume of inkjet ink, pigment dispersions for color filters and toners increased. In addition to the effect of the increase in sales volume, other factors, including improvements to the cost structure in Europe, the completion of an inventory valuation write-down, and various costs being kept down also contributed.

FY2021/12 1H net sales and operating income by segment

(¥mn)

	FY2020/12 1H	FY2021/12 1H	Rate of change
Net sales			
Printing inks and graphic arts materials (Japan)	23,802	24,439	2.7%
Printing inks (Asia)	15,365	18,135	18.0%
Printing inks (Americas)	24,868	26,352	6.0%
Printing inks (Europe)	5,146	8,003	55.5%
Digital & specialty products	5,744	6,754	17.6%
Reportable segment total	74,927	83,685	11.7%
Other businesses	8,628	9,861	14.3%
Total	83,555	93,547	12.0%
Adjustments	-4,083	-4,871	-
Consolidated net sales	79,472	88,676	11.6%
Operating income			
Printing inks and graphic arts materials (Japan)	503	824	63.9%
Printing inks (Asia)	861	1,221	41.9%
Printing inks (Americas)	1,481	1,646	11.1%
Printing inks (Europe)	-254	47	-
Digital & specialty products	333	927	177.7%
Reportable segment total	2,924	4,667	59.6%
Other businesses	127	224	75.9%
Total	3,052	4,891	60.3%
Adjustments	129	153	-
Consolidated operating income	3,181	5,045	58.6%

Note: the values are before impact of foreign currency translations and after the values were retroactively adjusted following the review of the Company-wide cost allocation criteria.
Source: Prepared by FISCO from the Company's financial results

3. Financial position

At the end of FY2021/12 2Q, total assets were up ¥11,018mn compared with the end of FY2020/12 to ¥156,290mn. Alongside the increase in sales, trade receivables and inventories also increased, while following the capital investment, the land and construction in progress increased. Total liabilities increased ¥3,396mn to ¥67,246mn. Borrowing decreased, but accounts payable increased. Total net assets increased ¥7,622mn to ¥89,043mn. Retained earnings and total other comprehensive income both increased. As a result, the equity ratio rose 0.8pp to 53.4%. No major problems can be seen and it can be said that the Company is highly financially sound.

Financial statements

(¥mn)

	FY2017/12	FY2018/12	FY2019/12	FY2020/12	FY2021/12 1H
Net sales	157,302	162,056	167,237	161,507	88,676
Cost of sales	120,371	128,824	131,507	126,049	68,928
Gross profit	36,931	33,232	35,730	35,458	19,747
Gross profit margin	23.5%	20.5%	21.4%	22.0%	22.3%
Selling, general and administrative expenses	28,358	28,120	29,504	28,245	14,701
Selling, general and administrative expenses ratio	18.0%	17.4%	17.6%	17.5%	16.6%
Operating income	8,573	5,112	6,225	7,212	5,045
Operating income margin	5.5%	3.2%	3.7%	4.5%	5.7%
Non-operating income	3,048	2,476	1,693	1,172	974
Non-operating expenses	371	678	600	596	168
Ordinary income	11,249	6,910	7,319	7,789	5,852
Ordinary income margin	7.2%	4.3%	4.4%	4.8%	6.6%
Extraordinary income	1,424	285	311	187	71
Extraordinary loss	317	71	448	221	22
Income before income taxes	12,356	7,125	7,181	7,755	5,901
Total income taxes	3,466	2,155	2,427	1,849	1,530
Net income attributable to owners of parent	8,383	4,692	4,114	5,275	4,039
Margin on net income attributable to owners of parent	5.3%	2.9%	2.5%	3.3%	4.6%
Comprehensive income	9,946	756	5,339	1,839	8,460
Total assets	145,489	145,495	148,292	145,272	156,290
(Current assets)	76,199	75,785	79,064	77,640	85,942
(Noncurrent assets)	69,290	69,709	69,227	67,632	70,348
Total liabilities	66,723	68,097	66,852	63,850	67,246
(Current liabilities)	47,968	49,233	46,317	42,315	45,438
(Noncurrent liabilities)	18,754	18,864	20,535	21,535	21,807
Total net assets	78,766	77,397	81,439	81,421	89,043
(Shareholders' equity)	74,737	77,528	79,494	83,035	86,087
Capital	7,472	7,472	7,472	7,472	7,472
Total number of issued shares at the end of period, excluding treasury shares	58,399,679	58,399,218	58,398,924	58,418,536	58,436,803
Cash flows from operating activities	9,201	5,239	9,819	10,599	2,669
Cash flows from investing activities	-2,737	-7,279	-5,106	-7,010	-2,388
Cash flows from financing activities	-6,259	-122	-3,821	-980	-1,692
Cash and cash equivalents at the end of period	9,351	6,788	9,361	11,678	11,352

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

Business outlook

For the FY2021/12 full year consolidated results, it has upwardly revised the forecasts to significant increases in sales and profits

1. FY2021/12 consolidated results outlook

For the FY2021/12 full year consolidated results, in August 2021, the Company upwardly revised the forecasts to net sales to increase by 10.8% on FY2020/12 to ¥179,000mn, operating income to rise by 24.8% to ¥9,000mn, ordinary income to grow by 32.2% to ¥10,300mn and net income attributable to owners of parent to increase by 38.4% to ¥7,300mn. The expected exchange rates (US$) are ¥109.00 for the 2H and ¥108.00 for the full fiscal year (¥106.82 for the FY2020/12 full year).

Overview of FY2021/12 consolidated results forecasts

(¥mn)

	FY2020/12	FY2021/12 Forecast	Rate of change	Initial forecast	Change compared to the initial forecast
Net sales	161,507	179,000	10.8%	170,000	9,000
Operating income	7,212	9,000	24.8%	8,000	1,000
Ordinary income	7,789	10,300	32.2%	9,200	1,100
Net income attributable to owners of parent	5,275	7,300	38.4%	6,400	900
EPS (¥)	90.32	124.94	-	109.53	-
Dividend (¥)	30.00	30.00	-	30.00	-
BPS (¥)	1,307.13	-	-	-	-

Note: the exchange rate (US$) was ¥106.82 in FY2020/12and is forecast to be ¥108.00 in FY2021/12
Source: Prepared by FISCO from the Company's financial results and results briefing materials

In Japan and Asia, printing ink sales volume is expected to be less than the initial forecast due to the impact of COVID-19. However, in Europe and the United States, sales of packaging ink and digital & specialty products will trend strongly, while factors including the revisions to sales prices, improvement in product mix, cost improvements, and weak yen will also contribute, so the current forecasts are for sales and profits to increase more than in the initial forecasts. In particular, the forecasts for Europe are higher than the initial forecasts due to the improvement to the earnings structure and the recovery of digital & specialty products.

The forecast operating income change amounts by factor compared to in FY2020/12 are as follows. The increase factors are ¥3.3bn from the increase in printing ink sales volume, ¥3.37bn from the rise in the printing ink unit price (improvement in product mix and price revisions), ¥1.03bn from the increase in sales of digital & specialty products, ¥0.13bn from the increase in sales of graphic arts materials, ¥0.18bn from the increase in sales of other businesses, and ¥0.08bn from the impact of foreign currency exchange rates. The decrease factors are ¥6.3bn from the rise in printing ink costs (rise in the prices of raw materials and other costs) and ¥0.03bn for the adjustment amount.

Compared to the amounts that results exceeded the forecasts in the 1H (¥6,276mn for net sales, ¥1,845mn for operating income, ¥2,052mn for ordinary income, and ¥1,439mn for net income attributable to owners of parent), the amounts that the full year forecasts have been upwardly revised are ¥9,000mn for net sales, ¥1,000mn for operating income, ¥1,100mn for ordinary income, and ¥900mn for net income attributable to owners of parent. As the amounts that the forecasts for the profit items have been upwardly revised are less than the amounts that their results exceeded the forecasts in the 1H, the 2H profit item forecasts have effectively been downwardly revised. This is because in the 2H, raw material and logistics costs are expected to rise more than was initially forecast due to the rise in the prices of crude oil and naphtha, and also due to the global container shortage, the rise in maritime transportation costs, and the increase in costs for measures to respond to the strengthening of environmental regulations in various countries. More progress was made for the price revisions than was initially anticipated, but the impact of the rise in costs is expected to be greater than the effects of the price revisions.

To respond to the rising raw material and logistics costs, the Company has already released price revisions in the 1H and is advancing negotiations with customers. The impact of COVID-19 is lessening and demand is recovering globally, so at FISCO, we think there is room for results to exceed the Company's full year forecasts due to the effects of the increase in sales volume, improvement in product mix, price revisions and cost reductions.

2. Forecasts by segment

The revised FY2021/12 full year net sales forecasts and operating income forecasts for each segment are as follows.

(1) Printing inks and graphic arts materials (Japan)

In printing inks and graphic arts materials (Japan), net sales will increase by 3.8% YoY to ¥49,893mn and operating income will grow by 58.1% to ¥1,554mn. Compared to the initial forecasts, both the net sales forecast and operating income forecast have been downwardly revised. Due to the impact of COVID-19, sales volume is expected to be less than initially forecast, while the profit forecasts take into account the impact of the rise in costs and other factors. However, compared to in the previous period, the forecasts are for sales to increase and profits to increase significantly due to the increase in sales volume, improvement in product mix, revisions to sales prices and the cost reductions.

(2) Printing inks (Asia)

In printing inks (Asia), net sales will increase by 15.2% YoY to ¥37,540mn and operating income will rise by 4.9% to ¥2,570mn. Compared to the initial forecasts, the net sales forecast has been upwardly revised and the operating income has been forecast downwardly revised. For sales, sales volume is expected to be less than initially forecast due to the impact of COVID-19, but factors such as the revisions to sales prices and the effects of the weak yen will contribute. The profit forecasts take into consideration of factors including the rise in raw material and logistics costs, so operating income is forecast to increase less than was initially forecast. However, the forecasts are still for sales and profits to increase compared to in the previous period.

(3) Printing inks (Americas)

In printing inks (Americas), net sales will increase by 6.4% YoY to ¥52,685mn and operating income will decrease by 8.9% to ¥2,691mn. Compared to the initial forecasts, the net sales forecast has been upwardly revised and the operating income forecast has been downwardly revised. In sales, sales growth will be strong for packaging-related, mainly environmentally friendly products. However, the profit forecasts take into consideration of factors including the rise in raw material and logistics costs and the increases in investment and in other costs.

(4) Printing inks (Europe)

For printing ink (Europe), the forecasts are for net sales to increase by 57.0% YoY to ¥15,962mn and operating income of ¥3mn (compared to a loss of ¥432mn in FY2020/12). Both the net sales forecast and the operating income forecast have been upwardly revised. In sales, progress will be made for the sales growth of packaging-related, mainly environmentally friendly products, while the new consolidated company in Germany, RUCO, will also contribute. The forecast is for operating income to recover and to achieve profitability from the effects of the increase in sales volume and also of the structural reforms (costs reductions through rebuilding the production system).

(5) Digital & specialty products

In digital & specialty products, net sales will increase by 13.9% YoY to ¥13,492mn and operating income will grow by 229.9% to ¥1,587mn. Both the net sales forecast and operating income forecast have been upwardly revised. In FY2020/12, results declined due to the major impact of COVID-19, but alongside the restart of economic activities, demand is recovering, particularly overseas. As such, the sales volumes of products including inkjet ink and toners are also recovering, while the completion of an inventory valuation write-down and the reduction in fixed costs in Europe will also contribute, so the forecast is for profits to increase significantly.

Net sales and operating income forecast by segment for FY2021/12

(¥mn)

	FY2020/12	FY2021/12 E	Rate of change
Net sales			
Printing inks and graphic arts materials (Japan)	48,071	49,893	3.8%
Printing inks (Asia)	32,597	37,540	15.2%
Printing inks (Americas)	49,510	52,685	6.4%
Printing inks (Europe)	10,164	15,962	57.0%
Digital & specialty products	11,844	13,492	13.9%
Reportable segment total	152,187	169,571	11.4%
Other businesses	16,984	19,170	12.9%
Total	169,171	188,741	11.6%
Adjustments	-7,664	-9,742	-
Consolidated net sales	161,507	179,000	10.8%
Operating income			
Printing inks and graphic arts materials (Japan)	983	1,554	58.1%
Printing inks (Asia)	2,451	2,570	4.9%
Printing inks (Americas)	2,953	2,691	-8.9%
Printing inks (Europe)	-432	3	Returning to profitability
Digital & specialty products	481	1,587	229.9%
Reportable segment total	6,437	8,405	30.6%
Other businesses	156	338	116.7%
Total	6,594	8,743	32.6%
Adjustments	618	257	-
Consolidated operating income	7,212	9,000	24.8%

Note: the values are before impact of foreign currency translations and after the values were retroactively adjusted following the review of the Company-wide cost allocation criteria.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Growth strategy

Creation of Visual Communication Technology

As its corporate philosophy, based on the business theme of "Creation of Visual Communication Technology" and the Group's purpose of "Develop a communication culture that makes people's lives more enjoyable," the Company formulated and started the long-term strategic vision "SAKATA INX VISION 2030" and Mid-term Business Plan 2023 (CCC-I) in February 2021.

With "Create and Innovate, Care for the Earth, Color for Life" as a catch phrase, it is aiming to be a group that "Creates innovations and new opportunities, with earth-friendly technology that adds color and happiness to life."

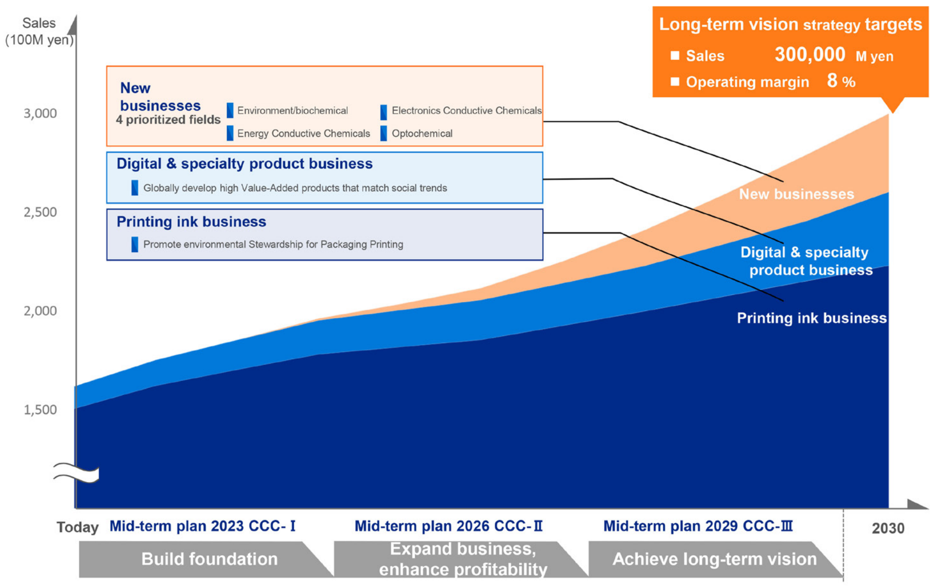
In the long-term strategic vision, it is taking on the challenge of entering new business areas

1. Long-term strategic vision "SAKATA INX VISION 2030"

The Company's awareness of the changes to the business environment are as follows: changes in the markets and the competitive environments in Japan and overseas (downward in demand for ink because people are using less paper, intensifying competition in markets in emerging countries, and rising awareness of consideration for the environment, such as using less plastic), changes in the value chain due to digitalization (significant increase in digital media and the diversification and customization of printing), and responding to environmental constraints and social issues (consideration of long-term sustainability, rising importance of measures for SDGs, increase in risks relating to resource constraints and rising prices of raw materials, and the growing influence of ESG investment).

To respond to these sorts of changes to its business environment, in the long-term strategic vision "SAKATA INX VISION 2030," the Company has set "Strengthen ESG/sustainability efforts emphasizing the global environment and local community," "Expand printing inks/digital & specialty product businesses" and "Meet new market challenges," while it has also launched three innovation projects, "Strengthen global management cooperation," "Strengthen relationships with stakeholders" and "Strengthen human resource development and reform corporate culture." For these, its policy is to work on management with an awareness of capital costs and promoting digital transformation. It is aiming to reach net sales of around ¥300bn and an operating income margin of 8% by FY2030/12.

Image aiming to become by 2030



Source: Reprinted from the Company's long-term strategic vision briefing materials

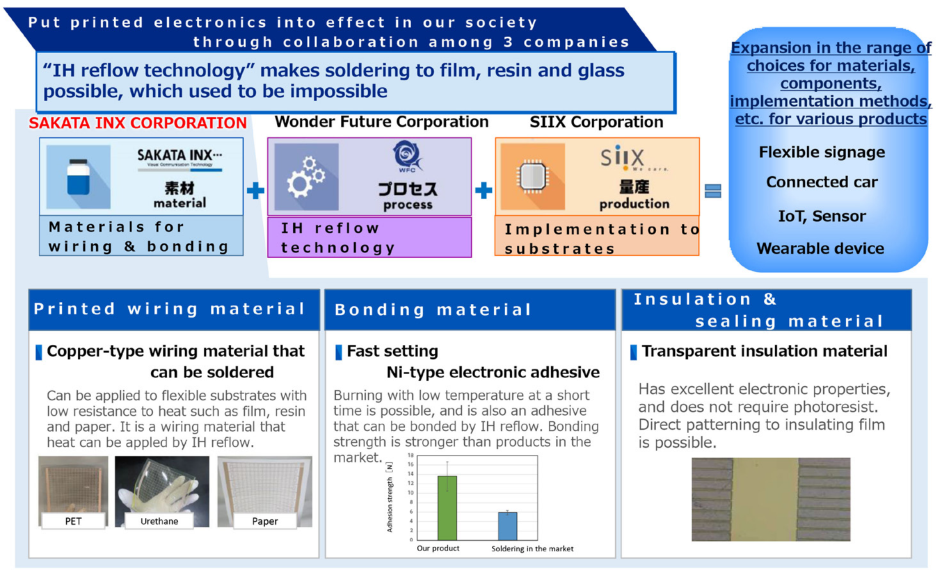
In the printing ink business, centered on the mainstay packaging printing field, the Group will work to promote environmental management, fortify the value chain as a whole, strengthen relations with global partners, develop and deploy high-value-added products, bolster optimized management that crosses countries and businesses, and invest management resources in growth markets and new markets.

In the digital & specialty products business, the Group will work to globally deploy high-value-added products that are tailored to social trends, further strengthen collaborations globally, enhance sales and profitability, and improve brand power in each market.

In new businesses, the aim is to respond to social problems by utilizing core competencies based on the strategic keywords of "safety and security, convenient and comfortable, health maintenance, low-carbon society, and sustainability." With a focus on four chemical fields (environmental and biochemicals, energy chemicals, electronics chemicals, and optochemicals), it is promoting open innovation toward the commercialization of strategic products, including biomass-related digital & specialty products, CO_2 absorbing materials, semiconductors and sensitizing materials, conductive materials, insulating materials, conductive bonding materials, low dielectric materials, sensor materials, refraction index adjustment materials, and LED sealing materials.

An example of an initiative for a new business is the societal implementation of printed electronics. Through a collaboration between three companies, the Company, the equity-method affiliate SIIX Corporation, and Wonder Future Corporation (a non-equity method affiliate) that develops and sells IH (induction heating) reflow devices and other products, the policy is to utilize the technologies of each company to put to practical use of innovative process technologies and new designs in the electronic-chemicals field.

A new business initiative (introducing an example)



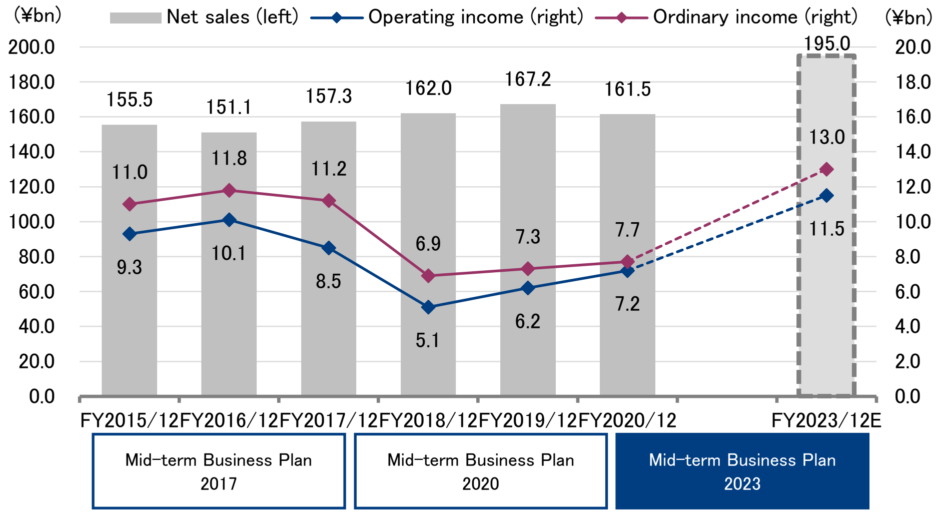
Source: Reprinted from the Company's results briefing materials

Mid-term Business Plan 2023 is the stage of building a foundation toward achieving the long-term strategic vision

2. Mid-term Business Plan 2023 (CCC-I)

The Company has positioned Mid-term Business Plan 2023 (CCC-I) as the first stage to build the foundation toward achieving the long-term strategic vision "SAKATA INX VISION 2030." The plan's targets for FY2023/12 are net sales of ¥195bn, operating income of ¥11.5bn, ordinary income of ¥13bn and ROE of 10% or more.

Consolidated net sales and profit targets in the Mid-term Business Plan 2023 (CCC-I)



Note: due to the change of fiscal period from 2015, based on the fiscal periods of each company in the past, from 2016 onwards the values have been adjusted so that the consolidated periods are the same 12 month fiscal period.
Source: Prepared by FISCO from content in the long-term strategic vision "SAKATA INX VISION 2030" and the Mid-term Business Plan 2023 CCC-I

The targets for printing inks and graphic arts materials (Japan) are net sales of ¥51.8bn and operating income of ¥1.8bn. As its initiatives to respond to the environment and for societal issues, the Company is actively developing environmentally friendly products (Botanical Ink), improving the efficiency of the information media business, developing SDGs-compliant recycling-type inks for packaging, and continuing to propel TPM activities and activities to improve occupational health and safety.

The targets for printing inks (Asia) are net sales of ¥45bn and operating income of ¥2.9bn. The Company is actively developing environmentally friendly and sustainable products, entering-into new markets, conducting capital investments and growing sales, and promoting the stable supply of raw materials through global purchasing.

The targets for printing inks (Americas) are net sales of ¥53.5bn and operating income of ¥3bn. The Company is actively developing environmentally friendly and sustainable products, strengthening sales to global customers, strengthening sales to and actively investing in the South America market, and propelling capital investments and sales growth.

The targets for printing inks (Europe) are net sales of ¥17.5bn and operating income of ¥0.2bn. The Company is actively developing environmentally friendly and sustainable products, strengthening sales to global customers, improving profitability by rebuilding production bases, entering-into new markets, and propelling capital investments and sales growth.

The targets for the digital & specialty products business are net sales of ¥17.2bn and operating income of ¥2.3bn. The Company is developing high-value-added products tailored to social trends (developments of inkjet inks for growth industries centered on clothing, food and housing; development of high value-added flat panel display materials; business expansion of digital products into peripheral areas, such as the touch-panel market), and it is promoting local production of digital & specialty products in growth markets.

The targets for other businesses are net sales of ¥17.1bn and operating income of ¥0.6bn.

Plans to invest a cumulative total of ¥30bn over three fiscal periods

3. Investment plan

The investment plan calls for a cumulative total of ¥30bn to be invested during the three fiscal periods (capital investment of ¥15bn and a strategic investment framework to accelerate growth of ¥15bn). The breakdown of the capital investment plan by region is ¥4.9bn for Japan, ¥5.6bn for Asia, ¥3.8bn for the Americas, and ¥0.7bn for Europe (of which, the plan for FY2021/12 is for ¥2.2bn for Japan, ¥4.1bn for Asia, ¥1.4bn for the Americas and ¥0.4bn for Europe).

At the end of FY2021/12 2Q, the main items in the capital investment plan were as follows. In Asia, the Company is mainly planning to invest in the second stage of plant construction at Shanghai and in constructing the second offset ink plant at Maoming City, Guangdong Province, in China, and in strengthening packaging ink facilities in India. In Japan, it is planning to renew the Osaka Plant and upgrade the core system. In the Americas, it is planning investment including strengthening packaging ink facilities and facilities for metal-deco ink for printing on cans, and constructing a new plant in Brazil.

4. A new growth stage

Against the backdrop of rising interest in global environmental problems and SDGs, global demand in the printing inks market is also shifting to environmentally friendly products. Therefore, plenty of room remains for the environmentally friendly products market to expand and develop. The Company is acquiring high market shares from its strengths of development capabilities and extensive line-up of environmentally friendly products, so the business environment can be said to be good for the Company.

To respond to these market trends, the Company's policy is to develop and market launch environmentally friendly products and to be even more active in deploying businesses for new areas. It has a track record of global business deployment in advance of other companies and a wealth of expertise in launching products that are tailored to the regional characteristics of each country. At FISCO, we think that the Company is entering a new growth stage and that its earnings can be expected to increase.

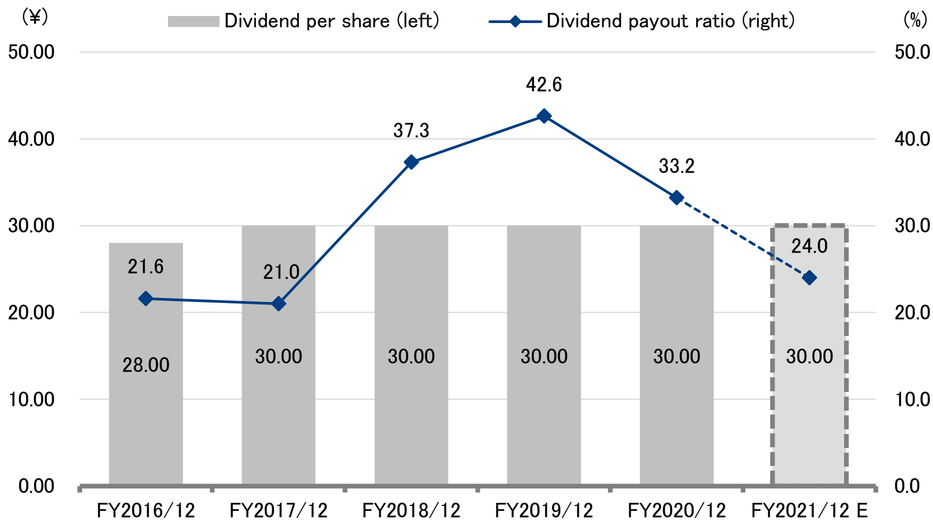
Shareholder return policy

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

In accordance with this basic policy, the FY2021/12 forecast is an annual dividend per share of ¥30 (end of 2Q dividend ¥15, period-end dividend ¥15), which is the same as in FY2020/12. The forecast dividend payout ratio is 24.0%. 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. Under this program, eligible shareholders receive a QUO card after the Annual General Meeting of Shareholders with a value corresponding to the period of time they have held their shares.

Divided per share and dividend payout ratio



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

Initiatives for ESG management and for SDGs

In the long-term strategic vision, the Company recognizes the importance of responding to environmental constraints and social issues (consideration of long-term sustainability, rising importance of measures for SDGs, increasing risk of tightened resource constraints and rising raw material prices, and growing influence of ESG investment), and its policy is to strengthen measures for ESG and SDGs.

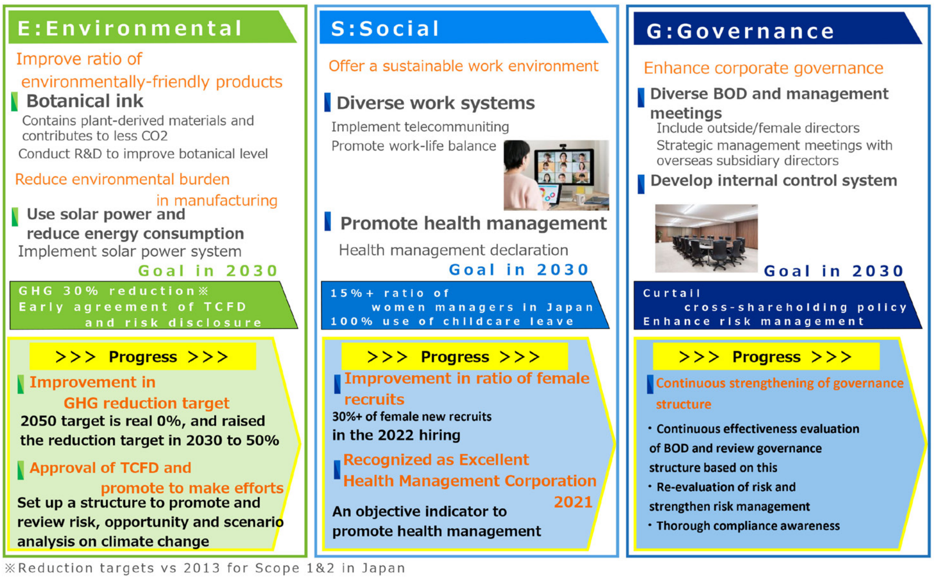
In environmentally friendly products, which are the Group's strengths, packaging that is considerate to the environment is required, and in this situation, its proprietary "Botanical Ink" series, which contains 10% or more of plant-derived components in its ink solid constituents, is already being widely used in various paper packaging. Furthermore, the Company's policy is to push R&D forward to improve the ratio of the botanical components (the ratio of inclusion of plant-derived components). For the problem of food loss, it is working to develop products that will contribute to longer preservation periods of food using gas-barrier agents that prevent oxidation.

In January 2019, the Company's stock was selected for the S&P/JPX Carbon Efficient Index, which is a stock index for ESG investment newly adopted by the Government Pension Investment Fund (GPIF). It is also participating in the Japan Clean Ocean Material Alliance, which was established by the Ministry of Economy, Trade and Industry in January 2019. In November 2020, the Company undertook a capital participation in R Plus Japan, Ltd. (started business in June 2020), which is a joint venture that is propels the development and commercialization of recycling technologies for used plastics.

In March 2021, the Company concluded an underwriting contract with MUFG Bank, Ltd., for the issue of ESG evaluation-type unsecured private-placement bonds (issuance amount, ¥1bn) and it issued ESG management-support private-placement bonds. In June 2021, it concluded an agreement with The HAVI Group, LP (hereinafter, HAVI), which is a food packaging supply chain partner company, on strengthening global initiatives toward realizing a sustainable society. "Eco Plata" in the Botanical Ink series and "INXhrcTM Ink," which was developed in the United States, have been designated environmentally considerate products in HAVI's supply chain.

In relation to sustainability, at the end of FY2021/12 2Q, the Company has set respective issues and targets for Environmental, Society and Governance. In order to achieve these targets, it has launched and is working on multiple innovation projects. In terms of the progress to be made in the future, these projects will be conducted through its websites and reports, and also by increasing opportunities for dialogue with stakeholders and feedback to management.

Sustainability targets and progress made



Source: Reprinted from the Company's results briefing materials

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