COMPANY RESEARCH AND ANALYSIS REPORT

SAKATA INX CORPORATION

4633

Tokyo Stock Exchange First Section

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FISCO Ltd. Analyst

Masanobu Mizuta

FISCO

FISCO Ltd.

http://www.fisco.co.jp

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Summary

Earnings are growing from the acceleration of the global business deployment and the increase in sales of environmentally friendly and high-function, high-value-added products

SAKATA INX CORPORATION <4633> (hereinafter referred to as "the Company") is a major printing ink manufacturer, the third largest in Japan and North America, and the fourth largest globally. One of its strengths is its ability to develop environmentally friendly and high-function, high-value-added products that it has amassed over a 120-year history since it was founded in 1896. Moreover, it is applying and developing the basic technologies it has cultivated in ink development and production for its digital & specialty products business. The growth in earnings is forecast to continue in the medium term from higher sales volume through global business deployment and increase in 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 growing mainly from the increase in sales of environmentally friendly and high-function, high-value-added products in North America and Asia, which are markets that still have plenty of room to expand.

2. In FY2017/12 2Q accumulated, operating income and ordinary income declined due to the impact of temporary factors, but profit attributable to owners of parent increased

In the FY2017/12 2Q accumulated (January to June) consolidated results, net sales increased 2.6% year-on-year (hereinafter referred to as "YoY") to ¥77,272mn, operating income decreased 7.9% to ¥4,558mn, ordinary income declined 1.3% to ¥5,923mn, and profit attributable to owners of parent rose 12.4% to ¥4,630mn. Sales volume rose from higher sales of packaging-related ink and strong performance of digital & specialty products. However, results were below the forecasts due to the occurrence of unexpected and temporary factors in India, Indonesia and North America resulting to decline in operating income. An improvement in the foreign exchange profit/loss contributed to ordinary income, while profit attributable to owners of parent increased and exceeded its forecast following gain on sale of investment securities.

3. The forecasts for the FY2017/12 full year are for operating income to decline due to the effects of the temporary factors in 2Q accumulated, but for ordinary income and final profit to increase

The Company revised the FY2017/12 full year consolidated results forecasts on August 10 to net sales increasing 4.8% YoY to ¥158,500mn, operating income decreasing 5.1% to ¥9,600mn, ordinary income rising 1.1% to ¥12,000mn, and profit attributable to owners of parent growing 11.0% to ¥8,700mn. Sales volume of printing ink and digital & specialty products will increase, mainly from the growth in sales of environmentally friendly and high-function, high-value-added products, while the effects of the ongoing cost-reduction measures will also contribute to results. However, the Company concluded that these factors will not be enough to cover for the temporary factors that occurred in 2Q accumulated. As a result, the Company downwardly revised the forecasts for net sales, operating income, and ordinary income, and is forecasting a decline in operating income. However, it expects ordinary income and profit attributable to owners of parent to increase.

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

The domestic printing ink market strongly has the image of being mature due to the decline in paper media, such as newspapers. However, demand continues to increase in the packaging ink field, and the shift to environmentally friendly and high-function, high-value-added products has further progressed. Overseas printing ink market as a whole is expanding against the backdrop of increasing populations and economic growth. There is also a shift toward environmentally friendly and high-function, high-value-added products, particularly in Asia and North America, and there remains considerable room for these markets to expand. Against the backdrop of this global shift to environmentally friendly and high-function, high-value-added products, the Company, which has a track record of global business deployment in advance of its industry peers, intends to utilize its expertise in launching products tailored to the regional characteristics in each country and its high shares in the markets for environmentally friendly and high-function, high-value-added products. Therefore, the Company is forecasting earnings growth and even higher profitability in the medium term.

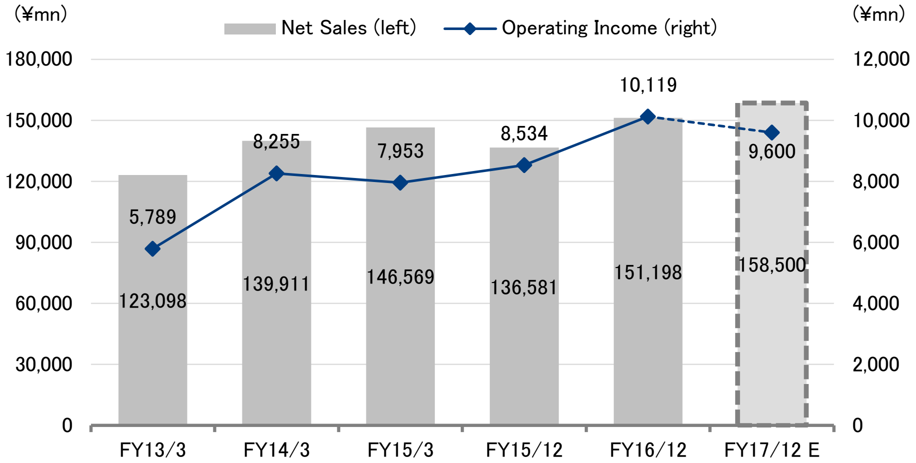
5. Targeting a consolidated dividend payout ratio in the range of 20% to 30%, the forecast is for the fifth consecutive fiscal year of higher dividends in FY2017/12

The Company targets a consolidated dividend payout ratio in the range of around 20% to 30%. On August 10, it upwardly revised the forecast for the FY2017/12 end-of-period dividend by ¥2 for an annual dividend of ¥30 (dividend at end of Q2 of ¥14 and end-of-period dividend of ¥16). This is an increase of ¥2 on FY2016/12 and will be the fifth consecutive fiscal year of higher dividends. The forecast dividend payout ratio is 20.2%. The Company also conducts a shareholder benefits program for shareholders registered at the end of December of each year.

Key Points

- Global business deployment, with the printing ink business as the core business
- The FY2017/12 dividend is forecast to increase, for the fifth consecutive fiscal year of higher dividends
- The markets for environmentally friendly and high-function, high-value-added products, which are the Company's strength, are expanding domestically and overseas

Financial Results trend



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

Company profile

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

1. Company profile

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

At the end of FY2017/12 2Q, capital was ¥7,472mn, the total number of issued shares was 62,601,161 shares (of which 4,201,353 were treasury stocks). The Company had 3,999 employees on a consolidated basis.

2. History

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

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

In January 2017, the Company also received the certification as “a leading company in Osaka City for empowering women.”

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 in Japan and overseas

As of the end of FY2017/12 2Q, the SAKATA INX Group consisted of SAKATA INX CORPORATION, 23 consolidated subsidiaries, 6 equity method affiliates, and 2 non-consolidated subsidiaries. SIIX Corporation <7613>, which undertakes international trading of electronic components and the Electronics Manufacturing Services (EMS) business, was spun-off from the Company and became an equity method affiliate.

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

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

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

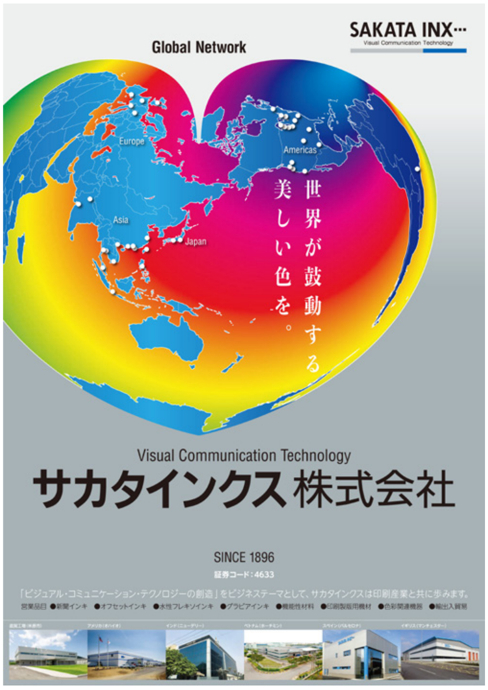
In 1999, the Company and Toyo Ink MFG. Co., (now, Toyo Ink SC Holdings <4634>) agreed to a business alliance for production, logistics, digital-related businesses, and international businesses. And then in 2000, they agreed to a capital alliance.

On 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 previously 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 new corporate advertising design

The Company created a new corporate advertising design, and it was posted at the JR Tokaido Shinkansen Tokyo Station southbound transfer gate in June 2017, and also at the JR Tokaido Sanyo Shinkansen Shin-Osaka Station concourse in August 2017. The global map with dynamic coloring is shaped as a heart that gives a visual impression of a beating "heart." This impression is utilized in the catchphrase in the advertisement as "Beautiful colors that the world beats to." This new design is expected to lead to enhancing the Company's corporate image.

Corporate advertising design



Source: Reprinted from Company materials published by SAKATA INX.

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 boxes and paper containers; gravure ink for printing on packaging film for food, cosmetics and toiletries, daily goods, and other products; and metal-deco ink for printing on metal, such as beverage cans).

In the graphic arts materials business, the SAKATA INX Group procures and sells plate making materials and related equipment, mainly in the Japanese market. Products include computer-to-plate (CTP) setters, CTP plates, inkjet proofers, inkjet proof paper, editing software, 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. Digital printing materials account for approximately 70% of net sales.

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.

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.

Reportable Segments and Main Products in the Consolidated Accounts

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

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

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

The FY2017/12 2Q accumulated consolidated net sales were ¥77,272mn. The percentages of sales by segment (before consolidated adjustments) were as follows; printing inks and graphic arts materials (Japan) contributed 33.7%, printing ink (Asia) 17.9%, printing ink (North America) 26.8%, printing ink (Europe) 5.4%, digital & specialty products 6.6%, and other businesses 9.6%. The FY2017/12 2Q accumulated operating income was ¥4,558mn. The percentages of operating income by segment (before consolidated adjustments) were as follows; printing inks and graphic arts materials (Japan) contributed 28.4%, printing ink (Asia) 26.1%, printing ink (North America) 23.7%, printing ink (Europe) 3.3%, digital & specialty products 14.0%, and other businesses 4.5%.

The Company is achieving growth by accelerating its global business deployment and increasing sales of environmentally friendly and high-function, high-value-added products in Asia and North America, where there remains considerable room for market growth, serving as the primary sources of revenue.

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

In terms of net sales rankings, SAKATA INX is a major printing ink manufacturer ranked third in Japan and North America (source: “North American Top 20 Ink Industry Report” (March 7, 2017) by INK WORLD) and fourth globally (source: “The 2016 Top International Ink Companies Report” (July 28, 2017) by INK WORLD).

The Global Top 10 in Ink Sales (2016)

Rank	Company	Country	Net sales (US$mn)
1	DIC/Sun Chemical	Japan	4,420
2	Flint Group	Luxembourg	2,300
3	Toyo Ink SC Holdings Co., Ltd.	Japan	1,300
4	SAKATA INX CORPORATION	Japan	1,290
5	Siegwerk Group	Germany	1,100
6	Huber Group	Germany	935
7	T&K TOKA	Japan	430
8	Fujifilm North America	America	400
9	Tokyo Printing Ink Mfg. Co., Ltd.	Japan	390
10	SICPA	Switzerland	375

Source: “The 2016 Top International Ink Companies Report” (July 28, 2017) by INK WORLD

4. Has high shares in environmentally friendly and high-function, high-value-added products

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

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

In offset ink, the Company has introduced environmentally friendly ink to the market as an industry pioneer, and in addition to providing ink and related products that meet a diverse range of customer needs, such as high-speed web-offset ink 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 cardboard, which it developed early as a pioneer in the industry. While in the paper industry, it is providing a range of new technologies, such as functional coating materials. In addition, in film packaging gravure ink which is mainly used for food packaging, it provides environmentally friendly, high-performance, high-quality inks.

In particular, Botanical Ink has been launched since 2016. This ink uses materials derived from plants, and is proving to be popular among major convenience stores including private brand products (food). Printed materials that use Botanical Ink has their own logo mark printed on packaging.

Botanical Ink mark

Source: Reprinted from Company materials published by SAKATA INX.

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 for the development of new markets 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 boxes and paper containers, the second leading share in Japan for gravure ink for printing on film packaging, such as for food, daily goods and other items, and the globally leading share for metal-deco ink for printing on metal such as beverage cans.

Financial Results Trend

Temporary factors impacted results in FY2017/12 2Q accumulated, but profit attributable to owners of parent still increased

1. Overview of the FY2017/12 2Q accumulated consolidated results

In the FY2017/12 2Q accumulated consolidated results announced on August 10, net sales increased 2.6% YoY to ¥77,272mn, operating income decreased 7.9% to ¥4,558mn, ordinary income declined 1.3% to ¥5,923mn, and profit attributable to owners of parent rose 12.4% to ¥4,630mn.

Compared to the forecasts (on February 24, the Company upwardly revised the forecast for profit attributable to owners of parent by ¥700mn following gain on sale of investment securities), net sales, operating income and ordinary income were below their forecasts by ¥1,128mn, ¥492mn and ¥77mn respectively. However, profit attributable to owners of parent exceeded its forecast by ¥80mn.

Sales volume increased due to growth in sales of packaging-related ink and the strong performance in digital & specialty products allowing sales to rise 2.6% YoY. However, both net sales and operating income were below their forecasts and operating income fell 7.9%. This was due to the impact from rise in the costs of raw materials (particularly titanium oxide), higher labor costs and also a number of unexpected temporary factors also occurred. Packaging materials volume temporarily declined following the abolition of high-value bills and the introduction of a new goods & services tax (GST) in India. There were effects from the reduction in the number of business days due to Ramadan in Indonesia, and also delays in operation of new production lines due to several customers' convenience and preceding costs occurring in North America.

Gross profit increased 0.3% YoY, and gross profit margin was 24.0% down 0.6 of a percentage point. SG&A expenses climbed 3.4% and SG&A expenses rate rose 0.1 of a percentage point to 18.1%. Operating income margin fell 0.7 of a percentage point to 5.9%. In non-operating items, equity method investment income declined, but foreign exchange profit/loss improved. As a result, the extent of the decline in ordinary income was small, falling only 1.3%. Ordinary income margin decreased 0.3 of a percentage point to 7.7%. Profit attributable to owners of parent exceeded forecast and increased 12.4% following gain on sale of investment securities of ¥1,117mn in extraordinary income. The rate of profit attributable to owners of parent rose 0.5 of a percentage point to 6.0%.

The average exchange rates during the period were as follows; ¥113.64 to US$1 in the 1Q (January to March), ¥111.09 to US$1 in the 2Q (April to June), and ¥112.37 to US$1 in the 2Q accumulated (January to June) (in the previous fiscal year, it was ¥115.06 to US$1 in the 1Q, ¥107.87 to US$1 in the 2Q, and ¥111.46 to US$1 in the 2Q accumulated). The negative effects of foreign currency translation amount at overseas subsidiaries were ¥126mn for net sales, ¥35mn for operating income, ¥29mn for ordinary income and ¥16mn for profit attributable to owners of parent. After excluding the effects of foreign currency translation, net sales increased 2.8% YoY, operating income decreased 7.2%, ordinary income fell 0.8%, and profit attributable to owners of parent grew 12.8%.

Financial Results Trend

FY2017/12 2Q accumulated Consolidated Results

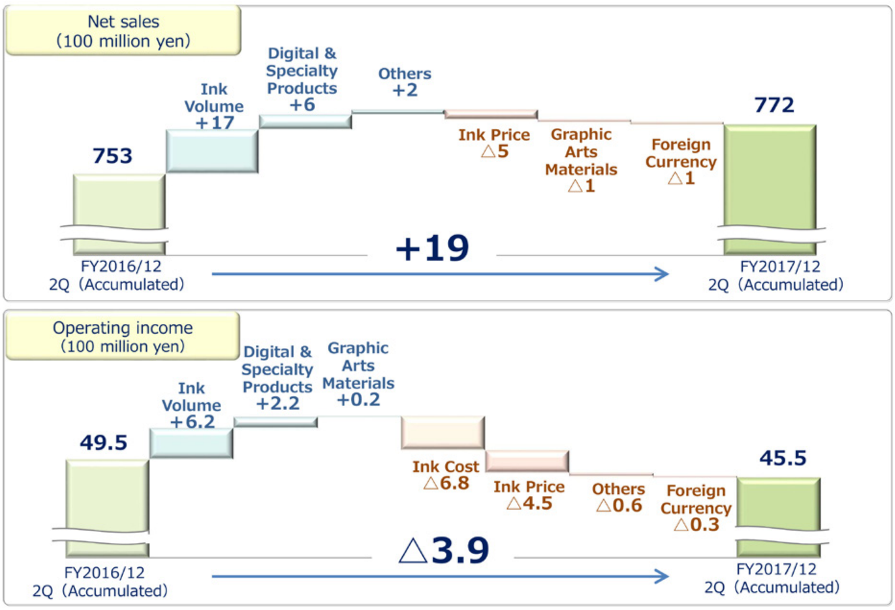
(Unit : million yen)

	FY2016/12 2Q (Accumulated)		FY2017/12 2Q (Accumulated)					
	Amount	Percentage of Sales	Amount	Percentage of Sales	Increase/ Decrease Amount	Increase/ Decrease Rate	Foreign Currency Translation Effect Amount	Foreign Currency Translation Effect Amount Rate
Net sales	75,305		**77,272**		1,967	2.6%	△126	2.8%
Operating income	4,952	6.6%	**4,558**	5.9%	△393	△7.9%	△35	△7.2%
Ordinary income	6,003	8.0%	**5,923**	7.7%	△80	△1.3%	△29	△0.8%
Quarterly profit attributable to owners of parent	4,120	5.5%	**4,630**	6.0%	509	12.4%	△16	12.8%
Exchange rate (US$)	JP¥111.46		**JP¥112.37**					

Source: Reprinted from Company presentation materials published by SAKATA INX

From the analysis of change factors comparing the same period in the previous fiscal year, the factors causing net sales (up ¥1,967mn) to increase were ink sales volume of ¥1,700mn, digital & specialty products of ¥600mn and other businesses of ¥200mn, while the factors causing them to decrease were the ink unit price of ¥500mn, graphics art materials of ¥100mn, and foreign currency of ¥100mn. Also, the factors causing operating income (down ¥393mn) to increase were ink sales volume of ¥620mn, digital & specialty products of ¥220mn and graphics art materials of ¥200mn, and the factors causing it to decrease were ink costs of ¥680mn, the ink unit price of ¥450mn, other businesses of ¥60mn and foreign currency of ¥30mn.

Factors Behind Changes in Net Sales and Operating Income in FY2017/12 2Q accumulated



Source: Reprinted from Company presentation materials published by SAKATA INX

Looking at business results by segment, (before consolidated adjustments and also before excluding the effects of foreign currency translation) compared to the same period in the previous fiscal year, in printing inks and graphic arts materials (Japan), net sales increased 0.9% to ¥27,294mn and operating income rose 17.9% to ¥1,210mn; in printing ink (Asia), net sales increased 0.8% to ¥14,525mn and operating income decreased 30.8% to ¥1,111mn; in printing ink (North America), net sales increased 1.4% to ¥21,697mn and operating income decreased 27.4% to ¥1,010mn; in printing ink (Europe), net sales increased 8.5% to ¥4,397mn and operating income was ¥142mn (compared to operating loss of ¥0mn in the same period in the previous fiscal year); in digital & specialty products, net sales increased 13.8% to ¥5,373mn and operating income rose 60.0% to ¥598mn; and in other businesses, net sales increased 3.2% to ¥7,727mn and operating income decreased 25.2% to ¥186mn.

Profits rose in printing inks and graphic arts materials (Japan) due to increase in ink sales volume and reduction in costs. Demands for newspaper ink and plate-making materials were sluggish, but in packaging-related particularly for foods- and beverages-related demand trended strongly. Gravure ink and flexo ink sales grew. Sales in Printing-related equipment also increased.

In printing ink (Asia), gravure ink sales volume in Indonesia, Vietnam and China, and newspaper and offset ink sales volume in India increased. However, packaging-materials volume declined temporarily in India following the abolition of high-value bills and the introduction of a new goods & services tax (GST), while in Indonesia, the number of business days decreased due to Ramadan. As a result of these and other factors, net sales as a whole slumped and were below the forecast. In addition to this, profits declined due to the impact of higher costs including price increase in raw materials (particularly titanium oxide) and higher labor costs. However, the factors in India and Indonesia were temporary and results are recovering in 3Q (July to September).

In printing ink (North America), measures are being taken in the mainstay packaging-related business to increase sales of high-function inks, and each of gravure ink, flexo ink, and metal-deco ink basically performed well. UV ink also trended strongly, and as a whole, sales volume increased and net sales rose. However, sales volume was expected to increase from newly acquired customers and plant expasnion at existing customers, however, the plan was pushed back to 3Q because of these customers' convenience. Net sales were below the forecast. Costs were borne beforehand due to preceding costs to increase headcount in order to respond to growing sales volume. As a result, profits declined.

Printing ink (Europe) was affected by foreign currency translation. However, centered on packaging-related, production and sales structure are being reconstructed. As a whole, sales grew and the operating income improved from the effects of the higher sales volume.

Digital & specialty products performed well overall. Sales and profits greatly increased. Sales volumes rose in Japan, Europe and the U.S. including inkjet ink, pigment dispersions for color filters and toner.

Net Sales and Operating Income by Segment in FY2017/12 2Q accumulated

(Unit : million yen)

		FY2016/12 2Q (Accumulated)	FY2017/12 2Q (Accumulated)		
		Amount	Amount	Increase/Decrease Amount	Foreign Currency Translation Effect Amount
NET SALES	Printing inks and graphic arts materials (Japan)	27,046	**27,294**	248	–
	Printing inks (Asia)	14,414	**14,525**	111	4
	Printing inks (North America)	21,397	**21,697**	299	176
	Printing inks (Europe)	4,054	**4,397**	342	△294
	Digital & Specialty products	4,722	**5,373**	651	△10
	Reportable Segment Total	71,635	**73,288**	1,653	△125
	Other businesses	7,485	**7,727**	241	–
	Adjustments	△3,815	**△3,743**	72	△1
	Consolidated	75,305	**77,272**	1,967	△126
OPERATING INCOME	Printing inks and graphic arts materials (Japan)	1,026	**1,210**	183	–
	Printing inks (Asia)	1,606	**1,111**	△494	△3
	Printing inks (North America)	1,392	**1,010**	△381	5
	Printing inks (Europe)	△0	**142**	142	△38
	Digital & Specialty products	374	**598**	224	0
	Reportable Segment Total	4,399	**4,073**	△325	△35
	Other businesses	248	**186**	△62	–
	Adjustments	304	**298**	△5	0
	Consolidated	4,952	**4,558**	△393	△35

Source: Compiled by FISCO from Company presentation materials published by SAKATA INX

2. Financial position

Financially, the equity ratio at the end of FY2017/12 2Q, the equity ratio had risen 0.6 of a percentage point on the end of the previous fiscal year to 52.3%, and net assets per share had increased ¥30.16 to ¥1,209.54. In addition, the total balance of long-term and short-term debt had fallen ¥1,073mn to ¥15,285mn. The Company's financial soundness is steadily improving.

Financial Results Trend

Key Performance Indicators

(¥mn)

	FY2014/3	FY2015/3	FY2015/12 (9 months)	FY2016/12	FY2016/12 2Q	FY2017/12 2Q
Net Sales	139,911	146,569	136,581	151,198	75,305	77,272
Cost of Sales	107,430	112,581	103,826	113,773	56,799	58,705
Gross Profit	32,480	33,988	32,754	37,425	18,506	18,567
Gross Profit Margin (%)	23.2	23.2	24.0	24.8	24.6	24.0
Selling, general and administrative expenses	24,225	26,034	24,219	27,305	13,553	14,009
Selling, general and administrative expenses ratio (%)	17.3	17.8	17.7	18.1	18.0	18.1
Operating Income	8,255	7,953	8,534	10,119	4,952	4,558
Operating Income Margin (%)	5.9	5.4	6.2	6.7	6.6	5.9
Non-Operating Income	1,773	2,131	2,601	2,531	1,350	1,525
Non-Operating Expenses	584	712	1,067	782	299	161
Ordinary Income	9,443	9,372	10,068	11,868	6,003	5,923
Ordinary Income Margin (%)	6.7	6.4	7.4	7.8	8.0	7.7
Extraordinary Income	6	779	1,539	801	46	1,117
Extraordinary Loss	0	1,128	2	386	-	246
Income before Income Taxes and Non-controlling Interest	9,450	9,023	11,604	12,283	6,050	6,794
Total Income Taxes	3,124	4,206	3,258	3,798	1,581	1,924
Profit attributable to owners of parent	5,964	4,338	7,745	7,837	4,120	4,630
Margin on Profit attributable to owners of parent (%)	4.1	3.0	5.7	5.2	5.5	6.0
Comprehensive Income	11,133	11,508	6,265	6,381	-2,983	3,800
Total Assets	115,407	129,912	136,564	138,012	122,955	135,073
Current Assets	62,876	69,346	72,554	71,716	64,030	69,817
Noncurrent Assets	52,530	60,565	64,010	66,295	58,924	65,256
Total Liabilities	60,723	65,126	66,944	63,698	57,219	61,635
Current Liabilities	43,116	43,753	46,574	45,304	40,931	41,961
Noncurrent Liabilities	17,606	21,373	20,370	18,393	16,287	19,674
Total Net Assets	54,684	64,785	69,619	74,313	65,735	73,438
Shareholders' Equity	55,724	58,756	65,230	71,555	68,624	71,802
Capital	7,472	7,472	7,472	7,472	7,472	7,472
Total Number of Issued Shares at the End of Period, Excluding Treasury Shares	60,509,187	60,508,675	60,508,154	60,507,951	60,507,953	58,399,808
EPS (¥)	98.57	71.71	128.01	129.53	68.10	78.47
Net Assets per share (¥)	877.85	1,034.84	1,107.63	1,179.38	1,047.30	1,209.54
Dividends per share (¥)	18.00	20.00	22.00	28.00	13.00	14.00
Equity ratio (%)	46.0	48.2	49.1	51.7	51.5	52.3
ROE (%)	12.2	7.5	11.9	11.3	-	-
Cash Flows from Operating Activities	7,203	6,487	11,254	11,697	4,193	2,728
Cash Flows from Investing Activities	-3,920	-9,156	-3,214	-6,727	-3,394	-575
Cash Flows from Financing Activities	-3,943	2,745	-5,973	-3,552	-2,806	-5,606
Cash and Cash Equivalents at the End of Period	5,514	5,923	7,888	9,297	5,356	5,649
Ratio of Cash Flow to Interest-Bearing Debt (year)	2.6	3.7	1.8	1.5	-	-
Interest Coverage Ratio (times)	20.2	17.3	34.6	44.9	-	-

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

Business outlook

The forecasts for the FY2017/12 full year are for operating income to decline, but for ordinary income and final profit to increase

1. FY2017/12 outlook

On August 10, the Company revised the FY2017/12 full year consolidated results forecasts to net sales to increase 4.8% YoY to ¥158,500mn, operating income to decrease 5.1% to ¥9,600mn, ordinary income to rise 1.1% to ¥12,000mn, and profit attributable to the owners of the parent to grow 11.0% to ¥8,700mn.

Compared to the previous forecasts (announced on February 24), net sales, operating income and ordinary income were respectively revised downwardly by ¥1,000mn, ¥900mn and ¥400mn. The forecast for profit attributable to owners of parent was left unchanged. The assumed exchange rate was also left unchanged at ¥112 to US$1 for the full fiscal year.

The Company upwardly revised the dividend forecast on August 10, with a fiscal year-end dividend being increased by ¥2 for an annual dividend of ¥30 (dividend at end of 2Q of ¥14 and fiscal year-end dividend of ¥16).This is an increase of ¥2 on the FY2016/12 annual dividend of ¥28 (which included a commemorative dividend of ¥2) and is the fifth consecutive fiscal year of higher dividends. The forecast dividend payout ratio is 20.2%.

Consolidated results trend

(¥mn)

	FY2014/3	FY2015/3	FY2015/12 (9 months)	FY2016/12	FY2017/12 Forecast
Net Sales	139,911	146,569	136,581	151,198	158,500
Operating Income	8,255	7,953	8,534	10,119	9,600
Ordinary Income	9,443	9,372	10,068	11,868	12,000
Profit attributable to owners of parent	5,964	4,338	7,745	7,837	8,700
EPS (¥)	98.57	71.71	128.01	129.53	148.15
Dividends (¥)	18.00	20.00	22.00	28.00	30.00
BPS (¥)	877.85	1,034.84	1,107.63	1,179.38	-

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

Sales volume is set to increase for printing ink and digital & specialty products from expansion in sales, particularly of environmentally friendly and high-function, high-value-added products, while the effects of the continuous measures to reduce costs will also contribute. However, the Company concluded that this was not enough to cover for the delay in sales expansion from temporary decrease in demand that occurred in 2Q accumulated, occurrence of preceding costs, rise in raw material prices and higher labor costs. As a result, it downwardly revised the forecasts for net sales, operating income and ordinary income.

Operating income is forecast to decline. Since there is a time lag between the increase in raw material prices and such increase being transferred onto sales prices, this has not been incorporated into the FY2017/12 consolidated results forecasts. Also, for ordinary income, in non-operating items, foreign exchange profit/loss is expected to improve, so compared to operating income, the extent of the downward revision was less, and ordinary income and profit attributable to owners of parent are forecast to increase.

By business segment (before consolidated adjustments and also before excluding the effects of foreign currency translation), compared to the previous fiscal year, the forecasts are as follows: in printing inks and graphic arts materials (Japan), net sales to increase 1.5% to ¥55,940mn and operating income to decrease 2.3% to ¥2,458mn; in printing ink (Asia), net sales to increase 9.6% to ¥31,019mn and operating income to decrease 19.2% to ¥2,560mn; in printing ink (North America), net sales to increase 5.3% to ¥44,277mn and operating income to decrease 3.1% to ¥2,150mn; in printing ink (Europe), net sales to increase 15.0% to ¥8,993mn and operating income to rise 17.4% to ¥256mn; in digital & specialty products, net sales to increase 8.8% to ¥11,052mn and operating income to grow 32.0% to ¥1,221mn; and in other businesses, net sales to decrease 1.5% to ¥14,945mn and operating income to fall 16.5% to ¥350mn.

Financial Results trend by Segment

Net Sales (¥mn)

	FY2014/3	FY2015/3	FY2015/12 (9 months)	FY2016/12	FY2017/12 Forecast
Printing inks and graphic arts materials (Japan)	60,124	57,304	42,727	55,114	55,940
Printing inks (Asia)	25,155	28,299	28,071	28,308	31,019
Printing inks (North America)	34,230	38,712	44,920	42,044	44,277
Printing inks (Europe)	7,571	8,637	9,031	7,817	8,993
Digital & Specialty products	6,832	8,311	8,230	10,162	11,052
Reportable Segment Total	133,913	141,266	132,981	143,447	151,281
Others	13,244	13,645	9,598	15,168	14,945
Adjustments	-7,247	-8,342	-5,999	-7,416	-7,726
Total	139,911	146,569	136,581	151,198	158,500

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

Operating Income (¥mn)

	FY2014/3	FY2015/3	FY2015/12 (9 months)	FY2016/12	FY2017/12 Forecast
Printing inks and graphic arts materials (Japan)	3,487	2,439	1,856	2,516	2,458
Printing inks (Asia)	2,337	2,239	2,875	3,170	2,560
Printing inks (North America)	1,442	1,525	2,344	2,218	2,150
Printing inks (Europe)	-118	0	126	218	256
Digital & Specialty products	449	961	432	925	1,221
Reportable Segment Total	7,599	7,166	7,636	9,049	8,645
Others	303	299	295	419	350
Adjustments	352	486	602	650	604
Total	8,255	7,953	8,534	10,119	9,600

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

The priority measures being conducted in FY2017/12 are as follows. In printing inks and graphic arts materials (Japan), the Company is proposing total solutions, including for products and commodities, and promoting cost reductions through innovative production technologies. In printing ink (Asia), while profits are forecasted to decline due to the effects from rise in raw material prices, higher labor costs and other temporary factors, however, efforts to increase sales particularly in India, Vietnam and Indonesia are being propelled. In printing ink (North America), although 2Q accumulated results were affected by temporary factors. The Company is pursuing sales expansion by launching new products and utilizing Ohio Plant, and also enhancing productivity. In printing ink (Europe), it is aiming for sales growth by launching cost-competitive products. In digital & specialty products, it will launch next generation inkjet ink on a timely basis, launch high quality pigment dispersions for color filters, and enter the functional coating material field related to energy, optical and electronics properties and coating.

2. Market trends

Newspaper ink constitutes approximately 10% of the total domestic printing ink market, while offset ink used for magazines, leaflets and other printed materials constitutes around 30%. As paper media are declining, the offset ink market is gradually contracting. On the other hand, flexo ink and gravure ink used for paper containers, corrugated boxes, packaging film and other packaging accounts for approximately 50% of the total market. It is trending steadily.

According to chemical-industry statistics, domestic printing ink shipments increased by 1.1% in 2016 (January to December) compared to 2015 (January to December). Newspaper ink decreased 3.8%, but the overall increase was driven by the strong performance of gravure ink rose 2.3%.

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

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

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

Medium-term growth strategy

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

1. In 2017, which is the final year of the mid-term business plan, the targets for ordinary income, profit attributable to owners of parent, and ROE are expected to be achieved

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

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

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

2. Implementing capital investment focusing on increasing production capacity and reconstructing the logistics and production systems

The Company is planning capital investment of ¥20,000mn for the three years on a cumulative basis. The main components are capital investment of ¥13,100mn in the printing ink business (¥7,200mn to increase the overseas production capacity and ¥5,900mn to reconstruct the logistics and production systems), ¥1,400mn to increase production capacity in the digital & specialty products business, ¥1,400mn on information infrastructure, and ¥4,100mn on ordinary investments and other investments and others. It also plans to record deprecation of ¥12,000mn over the three years on a cumulative basis.

The main capital investment projects will be to reinforce newspaper and offset ink facilities in Shiga Plant, to increase production in UV & EB ink by expanding Kansas Plant in the U.S., to reinforce inkjet production facility at Ohio Plant in the U.S., to transfer and reinforce facility for metal-deco ink in China (Guangzhou), and to construct a second offset ink plant in China (Maoming).

In the results briefing for the current 2Q for 2017, which is the final year of the mid-term business plan, the Company announced that it expects cumulative capital investment amount for the three years to be around ¥16.5bn and depreciation to be approximately ¥10.5bn.

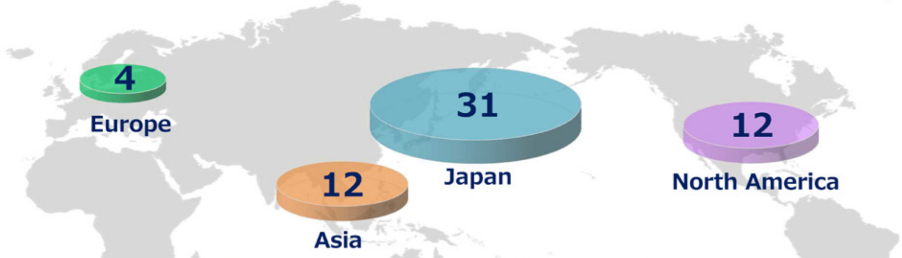
Main capital investment projects

Field	Item
Reinforcement of production capacity in existing business fields	Japan: Facility reinforcement of Newspaper & Offset ink in Shiga plant (Plan : January 2018) U.S.A.: Plant expansion in Kansas due to production increase in UV & EB ink (Completed : April 2017) Indonesia: Increase in production capacity for Gravure ink (Completed : May 2017)) Guangzhou, China: Transfer & facility reinforcement of Metal-deco ink plant (Plan : 2017) Maoming, China: Construction of Second Offset ink plant (Plan :2019)
Facility reinforcement in digital & specialty products business field	U.S.A.: Facility reinforcement of inkjet ink in Ohio Plant (Plan: 2017) Czech : Function enhancement at inkjet ink plant in Prague (Completed : 2017)
Strengthening R&D structure	U.S.A.: Expansion & enhancement in R&D facility at West Chicago (Plan: March 2018) Japan: New "technical building" in Tokyo plant (Plan : May 2018)

Source: Compiled by FISCO from Company presentation materials published by SAKATA INX

Capital investment performance and plan (including non-consolidated)

FY2017/12 Regional Capital Investment Plan (Unit : 100 million yen)



Region	FY2015/12 (Change in Fiscal year-end)	FY2016/12	FY2017/12 Plan
Japan	36	15	**31**
Asia	19	7	**12**
North America	13	13	**12**
Europe	2	2	**4**
Total	70	37	**58**
Depreciation Expense	30	36	**39**

Source: Reprinted from Company presentation materials published by SAKATA INX

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

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

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

In November 2017, the Company plans to announce a new mid-term business plan for FY2018/12 and onwards. Even in this new mid-term business plan, it is expected to continue accelerating its global business deployment and to further sales expansion in environmentally friendly and high-function, high-value-added products. Against the backdrop of the global shift toward environmentally friendly products, the Company, which has a track record of global business deployment in advance of its industry peers, intends to utilize its expertise in launching products tailored to the regional characteristics in each country and its high shares in the markets for environmentally friendly and high-function, high-value-added products. Therefore, the Company is forecasting earnings growth and even higher profitability in the medium term.

Shareholder return policy

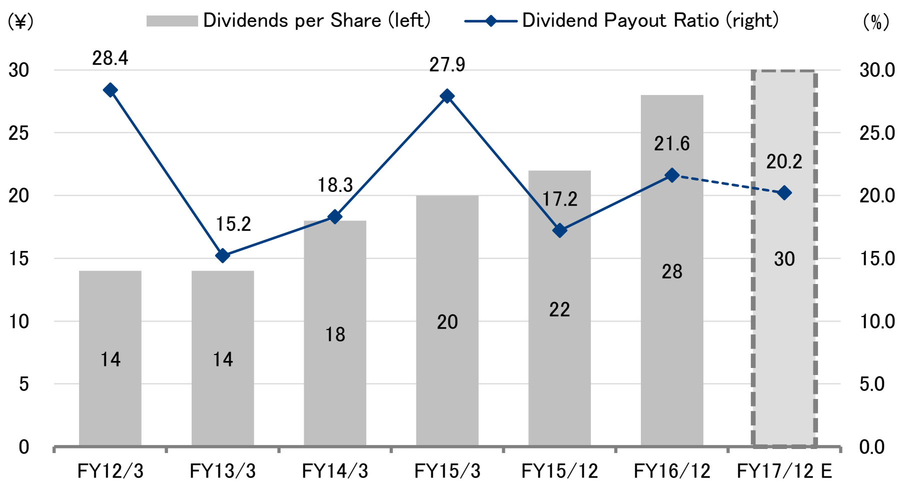
FY2017/12 dividend forecast has been upwardly revised for the fifth consecutive fiscal year of higher dividends

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%. It is forecasting earnings to grow and even higher profitability in the medium term. It seems possible that it may raise the target consolidated dividend payout ratio.

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

It upwardly revised the FY2017/12 dividend forecast on August 10 with a fiscal year-end dividend being increased by ¥2 for an annual dividend of ¥30 (dividend at the end of 2Q of ¥14 and fiscal year-end dividend of ¥16).This is an increase of ¥2 on the FY2016/12 annual dividend of ¥28 (which included a commemorative dividend of ¥2), and is the fifth consecutive fiscal year of higher dividends. The forecast dividend payout ratio is 20.2%.

Dividends per Share and Dividend Payout Ratio



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

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