COMPANY RESEARCH AND ANALYSIS REPORT

SAKATA INX CORPORATION

4633

Tokyo Stock Exchange First Section

17-Apr.-2018

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Summary

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

SAKATA INX CORPORATION <4633> (hereinafter also "the Company") is a major printing ink manufacturer, the third largest in Japan and North America, and the fourth largest globally. The Company's strengths lie in the development capabilities and extensive lineup of environmentally friendly products that it has amassed over a 120-year history since it was founded in 1896, and the reliability and quality of its products. Moreover, it is applying and developing core technologies it has cultivated in ink development and production for its digital & specialty products business. We can expect earnings to expand and even greater profitability in the medium term, as it accelerates its global business deployment and increases sales of environmentally friendly and high-function, high-value-added products.

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

The Company is deploying its businesses globally. In the printing ink business, which is the core business, it manufactures and sells ink for paper media (newspaper ink and offset ink) and packaging ink (flexo ink, gravure ink, and metal-deco ink). In the graphic arts materials business, it procures and sells plate making materials and related equipment. In the digital & specialty products business, it manufactures and sells products including inkjet ink, toner, pigment dispersions for color filters, and functional coating materials, etc. The Company also conducts other businesses (chemicals, display and color management businesses in the Japanese market) globally, and is increasing sales of environmentally friendly and high-function, high-value-added products, with Asia and North America, where there remains considerable room for market expansion and development, serving as the primary sources of revenue.

2. Operating income and ordinary income declined in FY2017/12, mainly due to the rise in raw-materials prices, but profit attributable to owners of parent increased

In the FY2017/12 consolidated results announced on February 14, 2018, net sales increased 4.0% year-on-year (hereinafter referred to as "YoY") to ¥157,302mn, operating income decreased 15.3% to ¥8,573mn, ordinary income declined 5.2% to ¥11,249mn, and profit attributable to owners of parent grew 7.0% to ¥8,383mn. Sales increased due to factors including the rise in ink sales volume, strong performance of digital & specialty products, and effects from exchange rates. However, sales growth was sluggish because of the impact up to 3Q (July to September) as customers refrained from purchasing due to the introduction of goods and services tax (GST) in India, and sales to new customers and to customers increasing production facilities on new lines in North America lagged behind the initial forecasts. Operating income and ordinary income declined due to the rise in raw-materials prices (particularly titanium oxide) and an increase in personnel costs. Profit attributable to owners of parent increased, primarily because of the recording of extraordinary income.

3. Profits are forecast to decline in FY2018/12, but results may exceed the forecasts due to recovery in the second half

The FY2018/12 consolidated results forecasts are for net sales to increase 4.6% YoY to ¥164,500mn, operating income to decrease 12.5% to ¥7,500mn, ordinary income to decline 15.6% to ¥9,500mn, and profit attributable to owners of parent to fall 21.3% to ¥6,600mn. The forecasts are for net sales to rise from the growth in sales volume, mainly for packaging-related, but for profits to fall, including due to the rise in raw-materials prices. While sales volume will be somewhat sluggish in the first half, and profits will be kept down due to rise in raw-materials prices and the increases in personnel costs and depreciation costs. In the second half, with the expansion in sales, effects from the rise in the operations rate following the increase in sales volume, and revisions to sales prices in some parts of Asia, will each contribute to results. The price revision to gravure ink in Japan was released on March 13, 2018. After bottoming-out in the first half, it seems likely that operating income will recover from the second half. Therefore, there seems room for the results to exceed the Company forecasts on a full fiscal year basis.

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 an image of being mature due to decline in paper media, such as newspapers and magazines. However, the newspaper ink market constitutes only about 10% of the total domestic printing ink market, meaning its impact is small. In contrast, the gravure ink market constitutes approximately 40% of the total market, and the flexo ink market is also trending strongly. Particularly in the packaging ink field, the shift to environmentally friendly and high-function, high-value-added ink is progressing globally even further, and the market is expanding. The printing ink market is expanding, mainly in emerging countries, driven by population increase and economic growth. With progress in the shift to environmentally friendly and high-function, high-value-added products, mainly in Asia and North America, there remains considerable room for market expansion and development.

5. Announced new medium-term business plan 2020

In November 2017, the Company announced the three-year new medium-term business plan 2020, which sets the numerical targets for FY2020/12 of net sales of ¥195,000mn, operating income of ¥13,000mn, ordinary income of ¥15,000mn, profit attributable to owners of parent of ¥9,800mn, and ROE of above 10%. It will expand the printing ink business, which is its core business, and the digital & specialty products business, and create new businesses through developing applications for the technologies it has cultivated in its core business. The worldwide shift toward environmentally friendly products is strengthening, and globally there remains plenty of room for market expansion and development. The Company has a track record of global business deployment ahead of its industry peers, and its strengths include its expertise in launching products tailored to local characteristics in each country, its development capabilities and extensive lineup of environmentally friendly and high-function, high-value-added products, and its high market shares for these products. We can expect earnings to expand and even greater profitability in the medium term, as it accelerates its global business deployment and increases sales of environmentally friendly and high-function, high-value-added products.

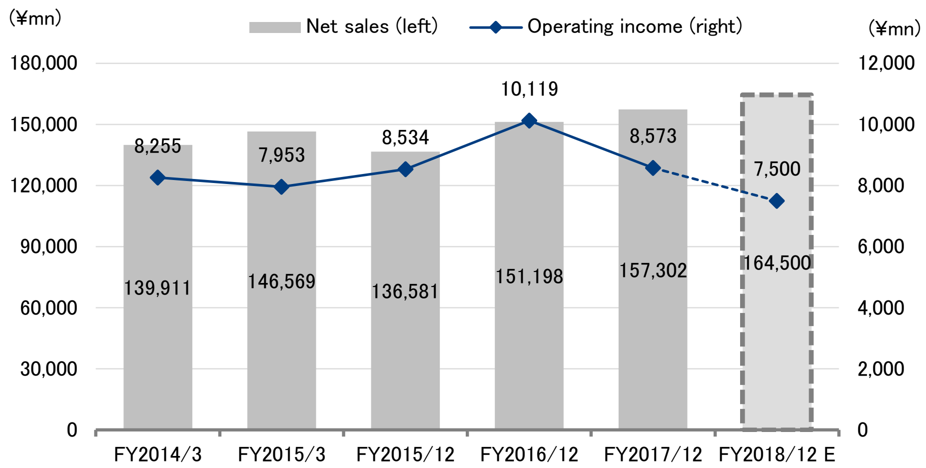
6. Targeting a consolidated dividend payout ratio in the range of about 20% to 30%

The Company aims for a consolidated dividend payout ratio in the range of around 20% to 30%. In FY2017/12, the annual dividend per share was ¥30 (¥14 at the end of first half, ¥16 at the end of the period), which is an increase of ¥2 on the annual dividend of ¥28 in FY2016/12 (of which, ¥2 was a commemorative dividend). The dividend payout ratio was 21.0%. The forecast for FY2018/12 is for the same as FY2017/12, with an annual dividend per share of ¥30 (¥15 at the end of first half, ¥15 at the end of the period), with a forecast dividend payout ratio of 26.5%.

Key Points

- Global business deployment, with the printing ink business as the core business
- Profits are forecast to decline in FY2018/12, but results may exceed the forecasts due to recovery in the second half
- The markets for environmentally friendly and high-function, high-value-added products, which are the Company's strength, are expanding domestically and overseas

Result trend



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

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 the development capabilities, extensive lineup and high market share for environmentally friendly and high-function, high-value-added products that it has cultivated over its 120-year history and the reliability and quality of its products. Furthermore, toward realizing its business theme of "Creation of Visual Communication Technology," the Company is applying and developing basic technologies that have been cultivated in the development and production of inks for its digital & specialty products business, which the Company is aiming to bring up as a new business pillar.

At the end of FY2017/12, capital was ¥7,472mn, the total number of issued shares was 62,601,161 shares (of which 4,201,482 were treasury shares). The Company had 4,068 employees on a consolidated basis.

2. History

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

In 1960, the Company established its very first overseas office in the Philippines (Manila), followed by a succession of major overseas offices and subsidiaries.

In December 2016, the Company was selected to be a constituent share of the JPX-Nikkei Mid and Small Cap Index, which is jointly calculated and distributed by Tokyo Stock Exchange, Inc. and Nikkei Inc. (calculation to start from March 13, 2017). Also, in January 2017, the Company also received the certification as “a leading company in Osaka City for empowering women.”

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

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, the SAKATA INX Group consisted of SAKATA INX CORPORATION, 23 consolidated subsidiaries, 6 equity method affiliates, and 3 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 November 2016, the Company acquired Creative Industria e Comercio Ltda. (hereinafter, referred to as “Creative Ltd.”) which is a Brazilian printing ink manufacture and sales company 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

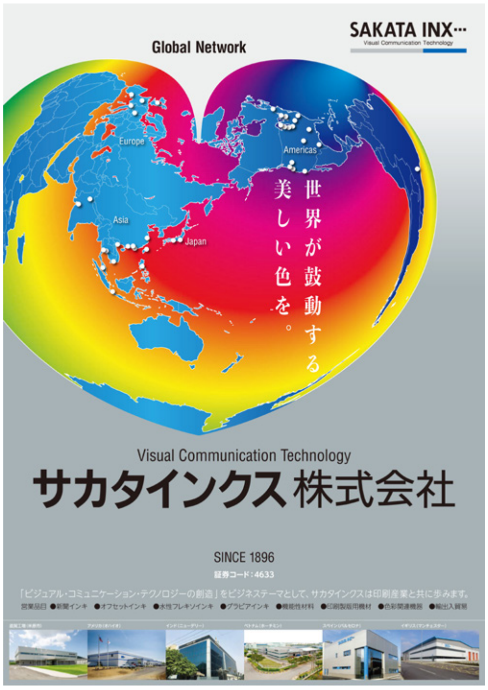
In 1999, the Company and Toyo Ink MFG. Co., (now, Toyo Ink SC Holdings <4634>) agreed to a business alliance for production, logistics, digital-related businesses, and international businesses. And then in 2000, they agreed to a capital alliance.

In February 2017, the Company announced that it would continue to promote the business alliance and maintain the capital alliance with Toyo Ink SC Holdings. In the business alliance, the two companies are pursuing further efficiency in the distribution field, aiming to complement each other in the production field, and promoting supplementary production at domestic and overseas bases for times of emergencies, based on BCP measures. In addition to increase the effectiveness of the business alliance and to build a long-term partnership, both companies have agreed to continue to hold around 80% of the ordinary shares that they had 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

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 cans, such as beverage cans).

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

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

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

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

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: Prepared by FISCO from Company materials

2. 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

3. Its strengths include its development capabilities and extensive lineup of environmentally friendly products, and the reliability and quality of its products

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

The Company has an extensive lineup of environmentally friendly and high-function, high-value-added products. They include ink certified with the Eco Mark (the environmental labelling system operated by the Japan Environment Association); vegetable oil ink, which replaces high-boiling-point petroleum solvent with various types of vegetables oils (including soybean oil) in accordance with the definition and standards established by the Japan Printing Ink Makers Association; non-VOC ink, which contains less than 1% of high-boiling-point petroleum solvent among its constituents; rice ink, which contains constituents derived from rice bran oil from among the plant-derived materials; non toluene ink, which has an organic solvent toluene content of less than 0.3%; non-toluene, non-MEK ink, which in addition does not use MEK (methyl ethyl ketone); and water-based flexo ink which offers high performance while being water based.

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

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

In the packaging ink field, it boasts the leading market share domestically for water-based flexo ink used to print corrugated boxes, 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 was launched at the end of 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 can have the Company's registered trademark logo printed on packages.

Botanical Ink mark

Source: Reprinted from Company materials

4. High market shares of environmentally friendly and high-function, high-value-added that have plenty of room for expansion and development

Both domestically and overseas, the Company's mainstay products are its environmentally friendly and high-function, high-value-added products positioned above middle range, and it has high shares in each market. Against the backdrop of the global trend toward strengthening measures to address environment issues, there is still plenty of room for market expansion and development in the field of environmentally friendly and high-function, high-value-added products.

In the field of ink for paper media, the Company's ratios of environmentally friendly products for newspaper ink, and offset ink for magazines and brochures, and other paper media have reached 100%. Looking at its market share in the field of packaging ink, the Company boasts the leading share in Japan for flexo ink for printing on packaging, such as corrugated 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 cans such as beverage cans.

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

The FY2017/12 consolidated net sales were ¥157,302mn. The percentages of sales by segment (before consolidated adjustments) were as follows; printing inks and graphic arts materials (Japan) contributed 33.4%, printing inks (Asia) 18.4%, printing inks (North America) 26.4%, printing inks (Europe) 5.3%, digital & specialty products 6.9%, and other businesses 9.6%. The FY2017/12 operating income was ¥8,573mn. The percentages of operating income by segment (before consolidated adjustments) were as follows; printing inks and graphic arts materials (Japan) contributed 28.4%, printing inks (Asia) 29.5%, printing inks (North America) 23.0%, printing inks (Europe) 0.3%, digital & specialty products 14.3%, and other businesses 4.4%.

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

Results trends

Operating income and ordinary income declined in FY2017/12, mainly due to the rise in raw-materials prices, but profit attributable to owners of parent increased

1. Overview of the FY2017/12 consolidated results

In the FY2017/12 consolidated results announced on February 14, 2018, net sales increased 4.0% YoY to ¥157,302mn, operating income decreased 15.3% to ¥8,573mn, ordinary income declined 5.2% to ¥11,249mn, and profit attributable to owners of parent rose 7.0% to ¥8,383mn.

Compared to the forecast (On February 24, 2017, the profit attributable to owners of parent forecast was upwardly revised due to gain on sale of investment securities. While on August 10, 2017, the forecasts for net sales, operating income and ordinary income were downwardly revised), net sales were below its forecast by ¥1,198mn, operating income was below by ¥1,027mn, ordinary income was below by ¥751mn, and profit attributable to owners of parent was below by ¥317mn.

Net sales rose YoY due to the increase in ink sales volume, strong performance of digital & specialty products, and effects from exchange rates. However, sales growth was sluggish compared to the forecast (revised on August 10, 2017) due to greater than expected sluggish demand in advertising in Japan, the impact of customers refraining from purchasing because of the introduction of goods and services tax (GST) in India up to 3Q (July to September), and a lag behind intial forecasts in sales to new customers and to customers increasing production facilities on new lines in North America.

In addition, as net sales were lower than forecast, profits were impacted by the rise in raw-materials prices (particularly titanium oxide) and the increases in personnel costs and other costs. Both operating income and ordinary income were below forecasts, and declined YoY. Gross profit decreased 1.3% and the gross profit margin was 23.5%, down 1.3 percentage points. SG&A expenses rose 3.9%, but the SG&A expenses rate decreased 0.1 of a percentage point to 18.0%. Operating income margin fell 1.2 percentage points to 5.5%.

In non-operating items, equity method investment income increased ¥114mn and foreign exchange gain/loss improved ¥711mn (recorded a foreign exchange loss of ¥322mn in FY2016/12, and a foreign exchange gain of ¥389mn in FY2017/12). The ordinary income margin fell 0.6 of a percentage point to 7.2%. Profit attributable to owners of parent increased following gain on sale of investment securities of ¥1,124mn, which was recorded in extraordinary income, and also from the contribution of the reduction in income taxes. Margin on profit attributable to owners of parent rose by 0.1 of a percentage point to 5.3%.

The average exchange rate during the period was ¥112.19 to US$1 (¥109.27 to US$1in FY2016/12). The effects from foreign currency translation in the overseas consolidated subsidiaries were increase of ¥2,410mn in net sales, ¥51mn in operating income, ¥72mn in ordinary income, and ¥42mn in profit attributable to owners parent. When excluding the effect of foreign currency translation, net sales increased 2.4% YoY, operating income declined 15.8%, ordinary income fell 5.8%, and profit attributable to owners of parent rose 6.4%.

FY2017/12 consolidated results

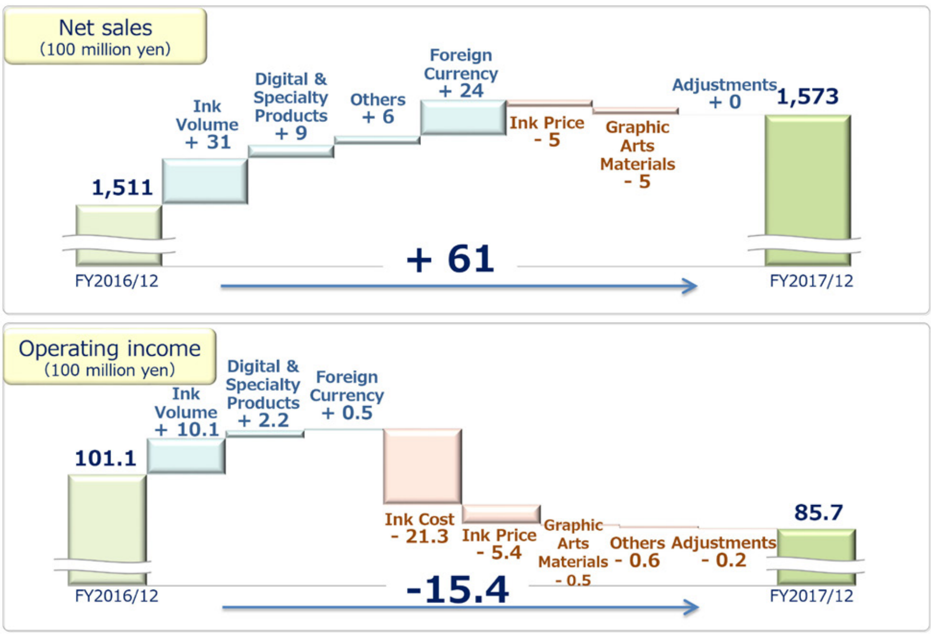
(¥mn)

	FY2016/12		FY2017/12					
	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	151,198		157,302		6,104	4.0	2,410	2.4
Operating income	10,119	6.7	8,573	5.5	-1,545	-15.3	51	-15.8
Ordinary income	11,868	7.8	11,249	7.2	-618	-5.2	72	-5.8
Profit attributable to owners of parent	7,837	5.2	8,383	5.3	545	7.0	42	6.4
Rate during the period (US$)	109.27		112.19					

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

On analyzing the increase and decrease factors through a comparison with the previous fiscal year, net sales rose ¥6,104mn. The increase factors were ink volume of ¥3,100mn, digital & specialty products of ¥900mn, other businesses of ¥600mn, foreign currency of ¥2,400mn, and adjustments of ¥0mn, while the decrease factors were ink unit prices of ¥500mn and graphic arts materials of ¥500mn. Operating income decreased ¥1,545mn. The increase factors were ink volume of ¥1,010mn, digital & specialty products of ¥220mn, and foreign currency of ¥50mn, while the decrease factors were ink costs of ¥2,130mn, ink unit prices of ¥540mn, graphic arts materials of ¥50mn, other businesses of ¥60mn, and adjustments of ¥20mn. Ink volume increased mainly in packaging-related, while the rise in raw-materials prices was particularly noticeable in Asia.

Analysis of the increase/decrease factors for net sales and operating income



Source: Reprinted from the Company's results briefing material

Looking at business results by segment, (before consolidated adjustments and also before excluding the effects of foreign currency translation) compared to previous fiscal year, in printing inks and graphic arts materials (Japan), net sales decreased 0.2% to ¥54,985mn and operating income decreased 10.4% to ¥2,253mn; in printing inks (Asia), net sales increased 6.8% to ¥30,245mn and operating income decreased 26.0% to ¥2,347mn; in printing inks (North America), net sales increased 3.6% to ¥43,560mn and operating income decreased 17.5% to ¥1,830mn; in printing inks (Europe), net sales increased 12.3% to ¥8,777mn and operating income decreased 88.3% to ¥25mn; in digital & specialty products, net sales increased 11.5% to ¥11,336mn and operating income rose 23.2% to ¥1,140mn; and in other businesses, net sales increased 4.1% to ¥15,790mn and operating income decreased 16.5% to ¥350mn.

In printing inks and graphic arts materials (Japan), both sales and profits were below forecasts and decreased YoY. Packaging-related gravure ink sales for food and beverage packaging were stable, while printing-related graphic arts materials also performed strongly. However, advertising demand declined more than expected, and sales of newspaper ink and offset ink were sluggish. In addition to the sluggish sales, profits were also affected by the rise in raw-materials prices in the 4Q (October to December).

In printing inks (Asia), sales increased and profits declined YoY, and both were below forecasts. While sales volume increased for gravure ink for packaging in Indonesia and Vietnam and for newspaper and offset ink in India and Vietnam, results were impacted by customers refraining from purchases up to 3Q (July to September) on the introduction of a new goods and services tax (GST) in India. Profits fell greatly due to the sluggish growth in sales volume, the rise in raw-materials prices (particularly titanium oxide) and higher personnel costs due to wage increases.

In printing inks (North America), sales increased and profits decreased, and both were below their forecasts. Sales of flexo ink for packaging, gravure ink, meta-deco ink and UV ink trended stably, while weaker yen also contributed. However, this was offset by negative factors including a greater than expected decline in demand for offset ink and a lag behind initial forecasts in sales to new customers and to customers increasing production facilities on new lines. Profits were affected by the Company's spending in advance on personnel costs in order to increase headcount to respond to higher production, and also by the rise in raw-materials prices.

In printing inks (Europe), sales increased and profits decreased. Both were below the forecasts. The Company is rebuilding its production and sales structure, centered on packaging-related gravure ink and flexo ink, and sales growth has been progressing as a whole. However, sales growth in the second half (July to December) was slightly sluggish, raw-materials prices increased and also personnel costs rose along with rebuilding its production and sales structure. Also, a profit contribution from the weakening of the British pound in the previous fiscal year came to an end. Profits declined significantly and the improvement in earnings was delayed.

In digital & specialty products, sales and profits both increased, and they also exceeded their forecasts. In Japan and North America, sales volumes increased for inkjet ink and pigment dispersions for color filters. The rise in costs to rebuild the inkjet ink production system in North America was absorbed, and profits increased significantly.

Net sales and operating income by segment

(¥mn)

		FY2016/12 Amount	FY2017/12 Amount	FY2017/12 Increase/ decrease amount	FY2017/12 Foreign currency translation effect amount
Net sales	Printing inks and graphic arts materials (Japan)	55,114	54,985	-128	-
	Printing inks (Asia)	28,308	30,245	1,937	894
	Printing inks (North America)	42,044	43,560	1,515	1,134
	Printing inks (Europe)	7,817	8,777	960	172
	Digital & specialty products	10,162	11,336	1,173	218
	Reportable segment total	143,447	148,904	5,457	2,419
	Other businesses	15,168	15,790	622	-
	Adjustments	-7,416	-7,392	23	-8
	Total	151,198	157,302	6,104	2,410
Operating income	Printing inks and graphic arts materials (Japan)	2,516	2,253	-262	-
	Printing inks (Asia)	3,170	2,347	-823	69
	Printing inks (North America)	2,218	1,830	-388	41
	Printing inks (Europe)	218	25	-193	-52
	Digital & specialty products	925	1,140	214	-10
	Reportable segment total	9,049	7,596	-1,452	47
	Other businesses	419	350	-68	-
	Adjustments	650	626	-24	3
	Total	10,119	8,573	-1,545	51

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

2. Financial position

Financially, the equity ratio at the end of FY2017/12, the equity ratio had risen 0.3 of a percentage point from the end of the previous fiscal year to 52.0%, and net assets per share had increased ¥116.01 to ¥1,295.39. In addition, the total balance of long-term and short-term debt had fallen ¥670mn to ¥15,688mn. The Company's financial soundness is steadily improving.

Key Performance Indicators

(¥mn)

Item	FY2014/3	FY2015/3	FY2015/12 (9 months)	FY2016/12	FY2017/12
Net sales	139,911	146,569	136,581	151,198	157,302
Cost of sales	107,430	112,581	103,826	113,773	120,371
Gross profit	32,480	33,988	32,754	37,425	36,931
Gross profit margin (%)	23.2	23.2	24.0	24.8	23.5
Selling, general and administrative expenses	24,225	26,034	24,219	27,305	28,358
Selling, general and administrative expenses ratio (%)	17.3	17.8	17.7	18.1	18.0
Operating income	8,255	7,953	8,534	10,119	8,573
Operating income margin (%)	5.9	5.4	6.2	6.7	5.5
Non-operating income	1,773	2,131	2,601	2,531	3,048
Non-operating expenses	584	712	1,067	782	371
Ordinary income	9,443	9,372	10,068	11,868	11,249
Ordinary income margin (%)	6.7	6.4	7.4	7.8	7.2
Extraordinary income	6	779	1,539	801	1,424
Extraordinary loss	0	1,128	2	386	317
Income before income taxes and non-controlling interest	9,450	9,023	11,604	12,283	12,356
Total income taxes	3,124	4,206	3,258	3,798	3,466
Profit attributable to owners of parent	5,964	4,338	7,745	7,837	8,383
Margin on profit attributable to owners of parent (%)	4.1	3.0	5.7	5.2	5.3
Comprehensive income	11,133	11,508	6,265	6,381	9,946
Total assets	115,407	129,912	136,564	138,012	145,489
Current assets	62,876	69,346	72,554	71,716	76,199
Noncurrent assets	52,530	60,565	64,010	66,295	69,290
Total liabilities	60,723	65,126	66,944	63,698	66,723
Current liabilities	43,116	43,753	46,574	45,304	47,968
Noncurrent liabilities	17,606	21,373	20,370	18,393	18,754
Total net assets	54,684	64,785	69,619	74,313	78,766
Shareholders' equity	55,724	58,756	65,230	71,555	74,737
Capital	7,472	7,472	7,472	7,472	7,472
Total number of issued shares at the end of period, excluding treasury shares	60,509,187	60,508,675	60,508,154	60,507,951	58,399,679
EPS (¥)	98.57	71.71	128.01	129.53	142.76
Net assets per share (¥)	877.85	1034.84	1107.63	1179.38	1295.39
Dividends per share (¥)	18.00	20.00	22.00	28.00	30.00
Equity ratio (%)	46.0	48.2	49.1	51.7	52.0
ROE (%)	12.2	7.5	11.9	11.3	11.4
Cash flows from operating activities	7,203	6,487	11,254	11,697	9,201
Cash flows from investing activities	-3,920	-9,156	-3,214	-6,727	-2,737
Cash flows from financing activities	-3,943	2,745	-5,973	-3,552	-6,259
Cash and cash equivalents at the end of period	5,514	5,923	7,888	9,297	9,351
Ratio of cash flow to interest-bearing debt (year)	2.6	3.7	1.8	1.5	1.8
Interest coverage ratio (times)	20.2	17.3	34.6	44.9	36.9

Source: Prepared by FISCO from Company materials

Business outlook

Profits are forecast to decline in FY2018/12, but results may exceed the forecasts due to recovery in the second half

● FY2018/12 outlook

The forecasts for the FY2018/12 consolidated results are for net sales to increase 4.6% YoY to ¥164,500mn, operating income to decrease 12.5% to ¥7,500mn, ordinary income to decline 15.6% to ¥9,500mn, and profit attributable to owners of parent to fall 21.3% to ¥6,600mn. The assumed exchange rate (average during the period) is ¥112 to US$1 (the actual rate in FY2017/12 was ¥112.19 to US$1).

The Company forecasts higher sales from the increase in sales volume, particularly packaging-related. However, profits are forecast to be lower than previous fiscal year due to rise in raw-materials prices. As for the revisions in sales prices, the forecasts reflect price increase in solvent-type ink in some parts of Asia (India, Indonesia and Vietnam), but sales price revisions are not included in other regions. The revision in price of gravure ink in Japan was announced on March 13, 2018.

Financial results trend by segment

Net sales (¥mn)

	FY2014/3	FY2015/3	FY2015/12 (9 months)	FY2016/12	FY2017/12	FY2018/12
Printing inks and graphic arts materials (Japan)	60,124	57,304	42,727	55,114	54,985	56,064
Printing inks (Asia)	25,155	28,299	28,071	28,308	30,245	33,869
Printing inks (North America)	34,230	38,712	44,920	42,044	43,560	44,986
Printing inks (Europe)	7,571	8,637	9,031	7,817	8,777	9,283
Digital & specialty products	6,832	8,311	8,230	10,162	11,336	12,510
Reportable segment total	133,913	141,266	132,981	143,447	148,904	156,712
Other businesses	13,244	13,645	9,598	15,168	15,790	15,389
Adjustments	-7,247	-8,342	-5,999	-7,416	-7,392	-7,601
Amount posted on financial statements	139,911	146,569	136,581	151,198	157,302	164,500

Source: Prepared by FISCO from Company materials

Operating income (¥mn)

	FY2014/3	FY2015/3	FY2015/12 (9 months)	FY2016/12	FY2017/12	FY2018/12
Printing inks and graphic arts materials (Japan)	3,487	2,439	1,856	2,516	2,253	1,449
Printing inks (Asia)	2,337	2,239	2,875	3,170	2,347	2,361
Printing inks (North America)	1,442	1,525	2,344	2,218	1,830	1,684
Printing inks (Europe)	-118	0	126	218	25	-254
Digital & specialty products	449	961	432	925	1,140	1,310
Reportable segment total	7,599	7,166	7,636	9,049	7,596	6,550
Other businesses	303	299	295	419	350	319
Adjustments	352	486	602	650	626	631
Amount posted on financial statements	8,255	7,953	8,534	10,119	8,573	7,500

Source: Prepared by FISCO from Company materials

To break net sales and operating income down into the first half (January to June) and the second half (July to December), the Company forecasts net sales of ¥80,400mn and operating income of ¥3,300mn in the first half, and net sales of ¥84,100mn and operating income of ¥4,200mn in the second half as they are weighted more in the second half.

In the first half, net sales of ¥80,400mn is an increase of 4.0% compared to FY2017/12 first half and of 0.5% compared to FY2017/12 second half, while operating income of ¥3,300mn is a decrease of 27.6% FY2017/12 first half and of 17.8% compared to FY2017/12 second half. Whereas, In the second half, net sales of ¥84,100mn is an increase of 5.1% compared to FY2017/12 second half and of 4.6% compared to FY2018/12 first half, while operating income of ¥4,200mn is an increase of 4.6% FY2017/12 second half and of 27.3% compared to FY2018/12 first half.

In the first half, profits will be kept down due to slightly sluggish sales volume, the rise in raw-materials prices, and the increase in personnel costs and depreciation costs. However, in the second half, sales growth will progress and the operations rate will rise along with the increase in sales volume, while the effects of sales-price revisions in some parts of Asia will also contribute. After bottoming-out in the first half, operating income seems likely to recover in the second half. Considering the price revision for gravure ink in Japan released on March 13, 2018, there seems to be room for results to exceed the Company's forecasts on a full fiscal year basis.

Net sales and operating income by segment

(¥mn)

		FY2017/12	FY2018/12			
			Increase/decrease amount			Full year
			First half	Second half	Full year	
Net sales	Printing inks and graphic arts materials (Japan)	54,985	-104	1,183	1,079	56,064
	Printing inks (Asia)	30,245	1,710	1,913	3,623	33,869
	Printing inks (North America)	43,560	726	701	1,426	44,986
	Printing inks (Europe)	8,777	234	271	505	9,283
	Digital & specialty products	11,336	590	583	1,174	12,510
	Reportable segment total	148,904	3,156	4,651	7,807	156,712
	Other businesses	15,790	68	-470	-402	15,389
	Adjustments	-7,392	-97	-111	-208	-7,601
	Total	157,302	3,128	4,069	7,197	164,500
Operating income	Printing inks and graphic arts materials (Japan)	2,253	-724	-79	-804	1,449
	Printing inks (Asia)	2,347	-84	97	13	2,361
	Printing inks (North America)	1,830	-149	2	-146	1,684
	Printing inks (Europe)	25	-285	5	-280	-254
	Digital & specialty products	1,140	-6	176	170	1,310
	Reportable segment total	7,596	-1,248	200	-1,047	6,550
	Other businesses	350	-32	0	-32	319
	Adjustments	626	23	-18	5	631
	Total	8,573	-1,258	184	-1,073	7,500

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

The full fiscal year forecasts for each segment (before consolidated adjustments and excluding the effects of exchange rates) and the priority policies are as follows.

In printing inks and graphic arts materials (Japan), the Company forecasts net sales to increase 2.0% to ¥56,064mn, but operating income is expected to decrease 35.7% to ¥1,449mn. The growth in sales will continue for environmentally friendly products including high sensitivity UV offset ink, Botanical Ink series for film packaging, and Ecoplada and Ecopino, which are Botanical Inks for paper containers. On a full fiscal year basis, profits are forecast to decrease greatly due to rise in raw-materials prices. However, cost reductions are expected from the full-scale operations at the additional production facilities in Shiga Plant from the second half. Earnings are forecast to improve significantly.

In printing inks (Asia), the Company forecasts net sales to increase 12.0% YoY to ¥33,869mn and operating income to rise 0.6% to ¥2,361mn. In the packaging field, sales will grow by highly functional, environmentally friendly products to global customers. In profits, in addition to the effects of the higher sales volume, the Company will advance improvements to productivity and cost reductions through TPM activities, which will absorb the rise in raw-materials prices and the increase in personnel costs. The effects of the improvements will be fully realized in second half, so the forecast on a full fiscal year basis is for a slight increase in profits. The special factor in FY2017/12, of customers refraining from purchases on the introduction of a GST in India, will end, and the price increases of gravure ink in India, Indonesia, and Vietnam are also expected to become widespread.

In printing inks (North America), the Company forecasts net sales to increase 3.3% to ¥44,986mn, but for operating income to decrease 8.0% to ¥1,684mn. For sales, the offset ink market will continue to contract, but in the packaging field, sales to new customers and to customers increasing production facilities on new lines, which lagged behind the initial forecasts in FY2017/12, will gradually grow. Going forward also, the Company will pursue sales growth for products including high performance flexo ink for laminate, new gravure ink products, and UV and EB inks. Profits are expected to improve in second half as it improves productivity and reduces costs through TPM activities. The bad-debt costs that were incurred in FY2017/12 will have run their course, and this is also expected to contribute to profits.

In printing inks (Europe), the Company forecasts net sales to increase 5.8% YoY to ¥9,283mn and an operating loss of ¥254mn (operating income of ¥25mn in FY2017/12). Net sales will increase due to higher sales volume, but forecasts lower profits because of the rise in raw-materials prices and lower profit margin due to intense competition. Toward improving earnings in the second half, the Company will develop and launch cost-competitive products and pursue sales growth for global customers.

For digital & specialty products, demand is expected to be strong and the Company forecasts are for net sales to increase 10.4% to ¥12,510mn and operating income to rise 14.9% to ¥1,310mn. As for inkjet ink, the Company will launch next-generation products in a timely manner, strengthen relationships with printer manufacturers, and bolster its global production and sales systems. The Company will launch high-quality pigment dispersions for color filters, and strengthen its relationships with resist manufacturers, while for functional coating materials, it will enter into the energy, optical and electronics-properties coating fields.

Medium-term growth strategy

Demand is globally shifting to environmentally friendly products

1. Market trends

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

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

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

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

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

2. Formulation of the new mid-term business plan 2020

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

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

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

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

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

As for the creation of new businesses, the Company will develop and launch products targeting fields other than the existing printing industry fields such as residential and architecture, the lifestyle environment, energy, automotive, and electronics. These products will include low-carbon printing inks, energy curing inks, new sensor materials, functional dispersants, and optical and energy colorants.

Expanding existing businesses and creating new businesses

Source: Reprinted from the Company's results briefing materials

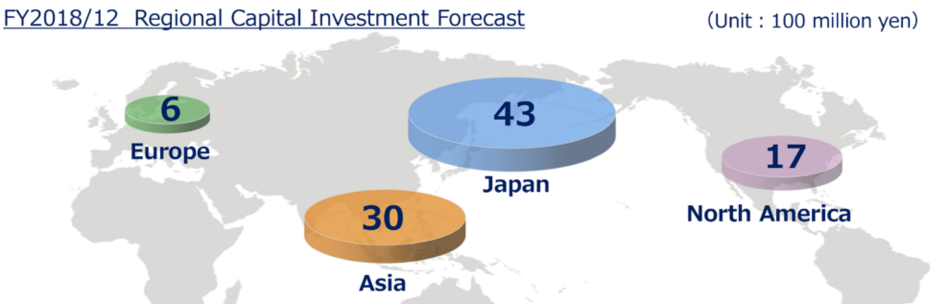
Segment targets (before consolidated adjustments) are as follows: in printing inks and graphic arts materials (Japan), net sales of ¥59,900mn and operating income of ¥2,600mn; in printing inks (Asia), net sales of ¥46,600mn and operating income of ¥3,900mn; in printing inks (North America), net sales of ¥52,700mn and operating income of ¥2,500mn; in printing inks (Europe), net sales of ¥9,800mn and operating income of ¥500mn; in digital & specialty products, net sales of ¥17,400mn and operating income of ¥2,400mn; and in other businesses, net sales of ¥16,200mn and operating income of ¥400mn. The adjustments will have a negative effect on net sales of ¥7,600mn and a positive effect on operating income of ¥700mn.

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

The total capital investment planned during the three-year period is ¥18,000mn (printing ink business, ¥8,000mn; digital & specialty products business, ¥3,900mn; to rebuild the domestic plants, ¥1,600mn; and other regular investment, ¥4,500mn). By region, it plans to invest ¥8,500mn in Japan, ¥4,300mn in Asia, ¥4,700mn in North America, and ¥500mn in Europe. The total depreciation cost for the three-year period is expected to be ¥14,100mn.

The FY2018/12 planned investment by region and the details of capital investment are shown in the following chart. In Japan, the expansion of the newspaper and offset ink production facilities in Shiga Plant was completed in January 2018. This is expected to improve earnings from the second half, which is when it will become fully operational. In North America, the expansion and enhancement of the R&D facility in West Chicago is scheduled to be completed in 2018. Development will be strengthened through consolidating the R&D bases for printing ink and inkjet ink. In Vietnam, the second liquid ink plant is due to be completed in 2019, while in China, the second offset ink plant is also scheduled for completion in 2019. Both will contribute to further sales growth.

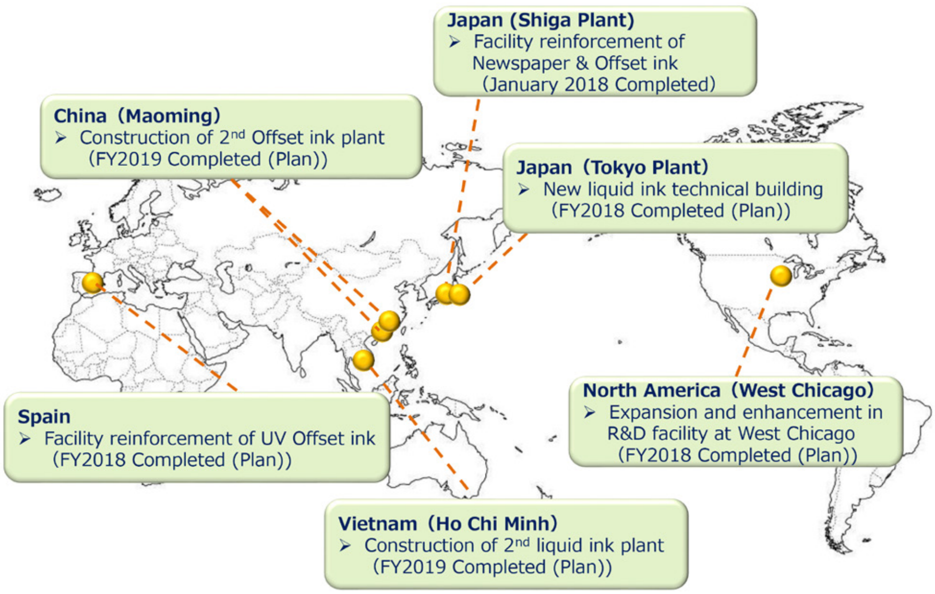
Planned investment by region



Region	Fy2016/12	FY2017/12	FY2018/12 Plan
Japan	15	26	**43**
Asia	7	9	**30**
North America	13	13	**17**
Europe	2	2	**6**
Total	37	50	**95**
Depreciation Expense	36	38	**44**

Source: Reprinted from the Company's results briefing materials

Content of capital investment



Source: Reprinted from the Company's results briefing materials

Also, the assumption for the total investment framework to accelerate growth is ¥28,000mn. Breaking this down, the capital investment plan is for ¥18,000mn and the strategic investment framework is ¥10,000mn.

Earnings set to increase in the medium term

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

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

Shareholder return policy

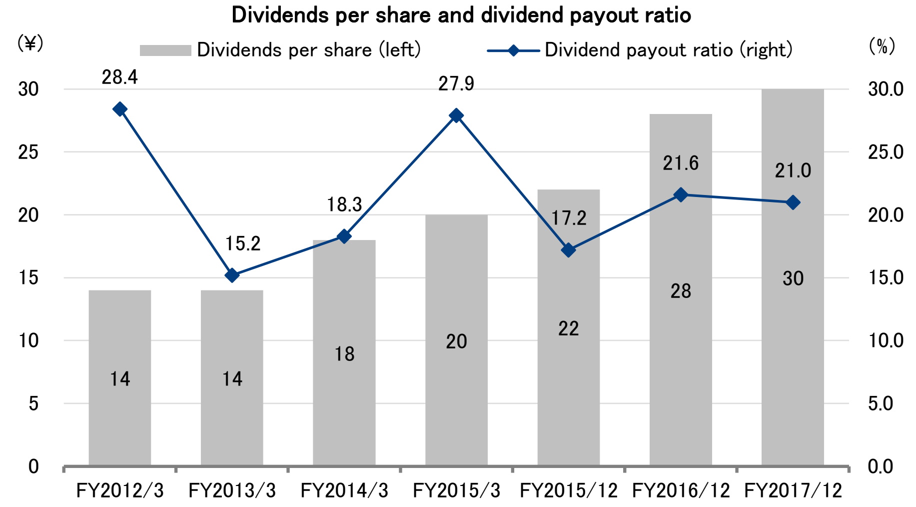
Targeting a consolidated dividend payout ratio in the range of about 20% to 30%, and also implements a shareholder benefit program

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

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

Based on this basic policy, in FY2017/12 it paid an annual dividend of ¥30 per share (¥14 at the end of first half, ¥16 at the end of the fiscal year), which is an increase of ¥2 from ¥28 in FY2016/12 (of which, ¥2 was a commemorative dividend). The dividend payout ratio was 21.0%.

The dividend forecast for FY2018/12 is for the same as FY2017/12 with an annual dividend of ¥30 per share (¥15 at the end of first half, ¥15 at the end of the fiscal year), for a dividend payout ratio of 26.5%



Note: FY2015/12 (9 months)
Source: Reprinted from the Company's results briefing materials

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

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

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