COMPANY RESEARCH AND ANALYSIS REPORT

SAKATA INX CORPORATION

4633

Tokyo Stock Exchange Prime Market

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Index

Summary

Entering a new growth stage through development in new areas leveraging strengths in environmentally friendly products

SAKATA INX CORPORATION <4633> (hereafter, "the Company") is the world's third largest printing ink manufacturer with a history of 125 years since it was founded in 1896. With the business theme of the "Creation of Visual Communication Technology," it is entering a new growth stage through developments for new business areas.

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

The Company's businesses include a printing ink business and a digital & specialty products business. In the printing ink business, the main products are packaging printing ink (for printing on paper packaging, such as corrugated cardboard, paper bags, and containers; on packaging film for food, cosmetic, toiletries, daily goods and other products; and on metal-deco cans, such as beverage cans). In the digital & specialty products business, the main products are digital printing materials (industrial printer inkjet ink, and color and monochrome toners for laser and multifunction printers) and image display materials for LCD panels (pigment dispersions for color filters). The Company also has a business in printing ink for information media (ink used for newspapers and offset ink used for a variety of commercial printing applications, such as books, magazines, catalogues, posters, brochures, and vouchers, etc.).

2. Distinctive strengths include global business deployment and environmentally friendly products

The Group's distinctive strengths are in its global business deployment and its environmentally friendly, high-function, high-value-added products. Currently, the Group operates manufacturing and sales bases in 20 countries and regions in Japan, Asia, the Americas, and Europe. The Americas and Asia have become its main pillars of earnings. In environmentally friendly, high-function, high-value-added products, the Group has acquired a high market share by utilizing the strengths it has cultivated over its 125-year history since its founding. These include development capabilities and extensive lineup, including its original brand "Botanical Ink" series containing plant-derived components, as well as products with high levels of reliability and quality.

3. In FY2021/12, sales increased, and operating and ordinary income increased

In the FY2021/12 consolidated results, net sales increased by 12.4% year over year (YoY) to ¥181,487mn, operating income increased by 2.8% to ¥7,414mn, ordinary income increased by 9.2% to ¥8,506mn, and net income attributable to owners of parent decreased by 6.5% to ¥4,933mn. Sales benefitted from a steady increase in ink sales volume and a double-digit increase in digital & specialty products driven by a recovery in demand. In profits, from 2Q onwards, the rise in raw materials and logistics costs was noticeable, but on a full-year basis, these increases were absorbed by increased sales volume, improvement in product mix, revisions to sales prices, and cost reductions in the Group as a whole. Net income attributable to owners of parent decreased due to the recording of extraordinary losses.

4. For FY2022/12 the Company forecasts a decrease in profits due to increase in raw materials costs, but profits should recover in 2H due to revision of sales prices

The Company's full year consolidated results forecasts for FY2022/12 is for net sales to increase by 9.1% YoY to ¥198,000mn, operating income to decrease by 5.6% to ¥7,000mn, ordinary income to decrease by 2.4% to ¥8,300mn, and net income attributable to the owners of the parent to grow by 15.5% to ¥5,700mn. Despite a forecast for sales growth reflecting increased sales volumes due to sales expansion and so forth, in profits, operating income and ordinary income are forecast to decrease due to impacts such as high raw materials and logistics costs, as well as increases in expenses associated with strategic investments such as digital transformation. Nevertheless, looking at the situation by half-year, 1H net sales are forecast to rise by 9.2% YoY to ¥96,800mn, with operating income to fall by 46.5% to ¥2,700mn. 2H net sales are expected to increase by 9.0% to ¥101,200mn, and operating income is expected to increase by 81.5% to ¥4,300mn. In 1H, the impact of high raw materials and logistics costs will emerge first; however, in 2H, this impact will be mitigated by progress on sales price revisions and the impact of increased sales volumes, with profits expected to begin recovering. We consider it highly possible that results will bottom out in FY2021/12 2H and FY2022/12 1H, and then begin to recover.

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

As the strategic direction in its long-term vision SAKATA INX VISION 2030, the Company has set "Strengthen our ESG /sustainability efforts emphasizing the global environment and local community," "Expand printing inks/digital & specialty products," and "Meet new market challenges." It has positioned the Mid-term Business Plan 2023 CCC-I as the first stage to build the foundation toward achieving the long-term strategic vision, and is actively working to strengthen sustainability management and commercialize new business areas with a focus on four chemical fields (environmental and biochemicals, energy chemicals, electronics chemicals, and optochemicals).

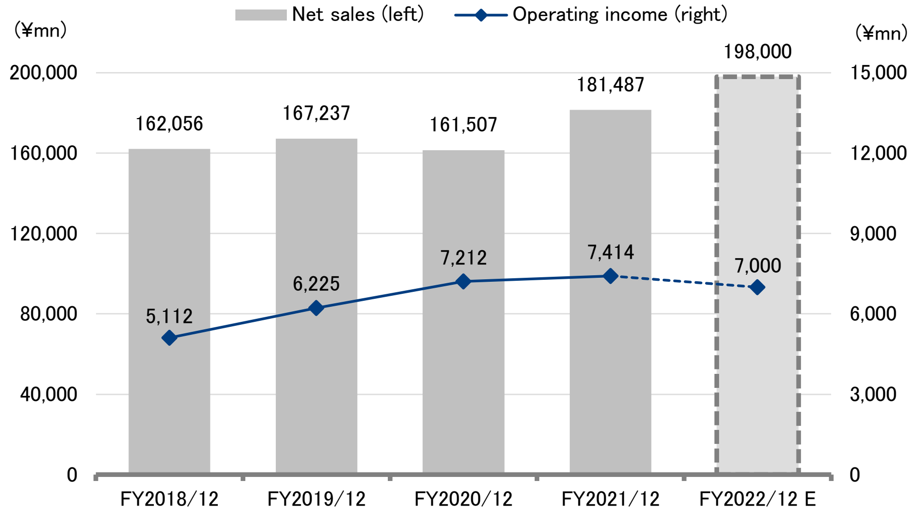
6. Entering a new growth stage from its strength of environmentally friendly products and business deployment in new areas

Against the backdrop of rising interest in global environmental problems and SDGs, global demand in the printing inks market is also shifting to environmentally friendly products. Therefore, plenty of room remains for the environmentally friendly products market to expand and develop. The Company is acquiring high market shares from its strengths of development capabilities for and an extensive lineup of environmentally friendly products, so the business environment can be said to be excellent for the Company. In addition, to respond to these market developments, its policy is to develop and market launch environmentally friendly products and to be even more active in deploying businesses for new areas. It has a track record of global business deployment in advance of its industry peers and an abundance of expertise in launching products tailored to the regional characteristics of each country. As it is entering a new growth stage, we, at FISCO, think that its growth potential is significant.

Key Points

- Main products are packaging printing ink and digital & specialty products
- Distinctive strengths include global business deployment and environmentally friendly products
- FY2022/12 forecast for decrease in profits due to high raw materials and logistics costs, with recovery in 2H
- Significant growth potential with entry into a new growth stage

Results trend



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

Company profile

A major global printing ink manufacturer with strengths in environmentally friendly products

1. Company profile

The Company is the world's third largest printing ink manufacturer with a history of 125 years since its establishment in 1896 and its strengths include environmentally friendly products. With the business theme of the "Creation of Visual Communication Technology," it is entering a new growth stage through business deployment in new areas.

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

The Group (as of the end of FY2021/12) is comprised of 26 consolidated subsidiaries and 4 equity-method affiliates, and it operates manufacturing and sales bases in 20 countries and regions in Japan, Asia, the Americas and Europe. It has also added a Germany-based A. M. Ramp & Co. GmbH (hereafter, "RUCO") to its consolidated subsidiaries from FY2021/12 following completion of the acquisition in June 2020. SIIX Corporation <7613>, an independent spin-off of the Company in 1992, is an equity-method affiliate.

At the end of the FY2021/12, total assets were ¥166,899mn, net assets were ¥92,465mn, capital was ¥7,472mn, the equity ratio was 51.8%, and the number of issued shares was 62,601,161 shares (including 4,164,408 treasury shares).

2. History

Founded in 1896 in Osaka as a small business under the name of SAKATA INK SEIZOUSHO, the Company started manufacturing and selling newspaper ink. In 1920, it was incorporated as a limited company. In 1961, the Company listed its shares on the Second Section of the Osaka Securities Exchange and was reassigned to the First Section in 1962. In 1987, it changed its corporate name to SAKATA INX CORPORATION. In 1988, it listed its shares on the First Section of the Tokyo Stock Exchange. Subsequently, the Company also utilized M&A to accelerate its global business deployment to Asia, the Americas, and Europe. On April 4, 2022, the Company transferred its listing to the Prime Market under the new market classification of the Tokyo Stock Exchange.

History

Year	Main Event
1896	Founded (under the name SAKATA INK SEIZOUSHO) as a private company in Osaka City, and started manufacture and sales of printing ink for newspapers
1906	Name changed to SAKATA SHOKAI
1911	Successfully industrialized the production of varnish for printing ink using linseed oil for the first time in Japan
1920	Changed to limited company
1947	Established SAKATA SANGYO, LIMITED by spinning off the industrial chemicals division into an independent company
1959	Constructed and commenced operation of Itami Plant (now Osaka Plant) in Itami City, Hyogo Prefecture
1960	Opened an overseas office in the Philippines (Manila) (a succession of major overseas offices and subsidiaries were established thereafter)
1961	Listed on the Second Section of the Osaka Securities Exchange
1962	Reassigned to the First Section of the Osaka Securities Exchange
1969	Constructed and commenced operation of Noda Plant (now Tokyo Plant) in Noda City, Chiba Prefecture
1982	Established SAKATA GENZOUSHO CO., LTD. (now SAKATA LABOSTATION CO., LTD.)
1987	Established SAKATA INX ESPANA, S.A. in Spain Corporate name changed to SAKATA INX CORP.
1988	INX INTERNATIONAL INC. (now THE INX GROUP LTD.) established in the U.S.A. as a holding company Acquired ACME PRINTING INK CO. in the U.S.A. Listed on the First Section of the Tokyo Stock Exchange
1989	Established PT. SAKATA INX INDONESIA as a joint venture in Indonesia that manufactures and sells printing ink Acquired MIDLAND COLOR CO. in the U.S.A. Acquired CHEMICAL PROCESS SUPPLY in the U.S.A.
1992	Consolidated ACME PRINTING INK CO. and MIDLAND COLOR CO. in the U.S.A. under the name of INX INTERNATIONAL INK CO. Established SAKATA INX INTERNATIONAL CORP. (now SIIX CORPORATION <7613>), and transferred businesses related to international trading of electronic components and other products to the Company Established THE INX GROUP (UK) LTD. that manufactures and sells printing ink (now INX INTERNATIONAL UK LTD.) in the U.K.
1993	Established MEGA FIRST SAKATA INX (now SAKATA INX (MALAYSIA) SDN. BHD) in Malaysia
1994	Constructed and commenced operation of Hanyu Plant in Hanyu City, Saitama Prefecture Renamed Tokyo Branch to Tokyo Head Office, and instituted a dual Osaka and Tokyo Head Office system
1995	Established MONTARI SAKATA INX LTD. (now SAKATA INX (INDIA) PRIVATE LTD.) in India
1996	Acquired ISO9001 certification at Tokyo Plant (Osaka Plant, Shiga Plant and Hanyu Plant later acquired certification)
1997	Completed construction of the Technology Building at Osaka Plant
1999	Agreed to strategic alliance with TOYO INK MFG. CO., LTD. (now Toyo Ink SC Holdings Co., Ltd. <4634>)
2000	Established the 50-50 joint venture company LOGI CO-NET CORP. with TOYO INK MFG. CO., LTD. (now Toyo Ink SC Holdings Co., Ltd.) Agreed to a capital alliance with TOYO INK MFG. CO., LTD. (now Toyo Ink SC Holdings Co., Ltd.)
2001	Acquired ISO14001 certification at the three main plants (Tokyo, Osaka and Hanyu) (subsequently also acquired for the Shiga Plant)
2002	Established ETERNAL SAKATA INX CO., LTD. in Thailand Established SAKATA INX SHANGHAI CO., LTD. in China (Shanghai)
2003	Completed construction of the Technology and Laboratory Building at Osaka Plant Established SAKATA INX VIETNAM CO., LTD. in Vietnam
2004	Established a holding company INX EUROPE LTD. in the U.K. Established MAOMING SAKATA INX CO., LTD. in China (Guangdong Province) The three main plants (Tokyo, Osaka and Hanyu) earned the Award for TPM Excellence, Category 1, in the 2004 TPM Excellence Awards
2005	Established TRIANGLE DIGITAL INX CO. in the U.S.A. (absorption merger with INX INTERNATIONAL in 2013)
2008	Acquired MEGAINK DIGITAL A.S. in Czech (now INX DIGITAL CZECH, A.S.) Acquired ANTEPRIMA S.R.L. in Italy (now INX DIGITAL ITALY S.R.L.) Acquired OSHMS certification at Tokyo Plant (including Hanyu Plant, subsequently also acquired for the Osaka and Shiga plants)

Year	Main Event
2009	Acquired OSHMS certification at Osaka Plant
2010	The three main plants (Tokyo, Osaka and Hanyu) earned the Award for Excellence in Consistent TPM Commitment in the 2010 TPM Excellence Awards
2012	The three main plants (Tokyo, Osaka and Hanyu) earned the Award for TPM Achievement in the 2012 TPM Excellence Awards
2014	Commenced operation at Shiga Plant in Maibara City, Shiga Prefecture
2015	Changed fiscal year-end from March to December
2016	Celebrated the120th founding anniversary Acquired CREATIVE INDUSTRIA E COMERCIO of Brazil (currently INX DO BRASIL) as its first production base in South America
2017	Received the certification as a leading company in Osaka City for empowering women Earned the TPM Advanced Special Award for its four main domestic plants (in Tokyo, Osaka, Shiga, and Hanyu)
2019	The plant in China (Maoming City, Guangdong Province) was certified as a “clean production-certified company.” Completed the second plant in Ho Chi Minh City, Vietnam
2020	Acquired a German company A.M. Ramp & Co. GmbH (hereafter, “RUCO”) Collaboration with Shiga University in the data science field Capital participation in R Plus Japan, Ltd.
2021	Started the long-term strategic vision “SAKATA INX VISION 2030”
2022	Shifted listing to the Tokyo Stock Exchange Prime Market

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

3. TPM activities

For the Company’s TPM (Total Productive Maintenance) activities, which it has been conducting continuously for more than 20 years, in December 2017, it received the TPM Advanced Special Award for its four main domestic plants (Tokyo, Osaka, Shiga, and Hanyu). TPM is advocated by the Japan Institute of Plant Maintenance, which has highly evaluated the Company for building innovative production methods and its business deployment overseas.

Business overview

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

1. Business introduction

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

In the printing ink business, the SAKATA INX Group focuses primarily on packaging printing ink (for printing on paper packaging, such as corrugated boards and paper containers; packaging film for food, cosmetics, toiletries, daily goods, and other products; and metal-deco cans, such as beverage cans) for each market in Japan, Asia, the Americas and Europe. The percentage of total sales provided by printing ink for information media (ink used for printing newspapers and offset ink used for a variety of commercial printing applications, such as books, magazines, catalogues, posters, brochures, vouchers, etc.) is declining and its impact on results as a whole has lessened.

In the digital & specialty products business, the Company manufactures and sells digital printing materials (industrial inkjet ink used for large output items and textiles, and toners used for laser and multifunction printers), image display materials for LCD panels (pigment dispersions for color filters), and functional coating materials for each market in Japan, Asia, the Americas and Europe.

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

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

Asia and the Americas are pillars of earnings in the Company's global development

2. Composition of net sales and operating income by segment

In its consolidated accounts, the SAKATA INX Group has adopted the following reportable segments: printing inks and graphic arts materials (Japan), printing inks (Asia), printing inks (Americas), printing inks (Europe), digital & specialty products and other businesses. Looking at the percentages of total operating income by segment, as a result of its early progress on global expansion after establishing its first overseas representative office in 1960 (Manilla, Philippines), Asia and the Americas, in which there remains plenty of room to open-up the markets, have provided at least 50% in total from an early stage and are the main pillars of earnings.

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

	FY2017/12	FY2018/12	FY2019/12	FY2020/12	FY2021/12
Net sales					
Printing inks and graphic arts materials (Japan)	33.4%	32.3%	29.6%	28.4%	26.4%
Printing inks (Asia)	18.4%	18.9%	20.2%	19.3%	20.1%
Printing inks (Americas)	26.4%	26.5%	27.9%	29.3%	28.7%
Printing inks (Europe)	5.3%	5.5%	5.6%	6.0%	8.3%
Digital & specialty products	6.9%	7.2%	7.1%	7.0%	7.5%
Other businesses	9.6%	9.6%	9.6%	10.0%	9.0%
Totals before consolidated adjustments	100.0%	100.0%	100.0%	100.0%	100.0%
Operating income					
Printing inks and graphic arts materials (Japan)	28.4%	25.2%	15.0%	14.9%	19.1%
Printing inks (Asia)	29.5%	34.2%	44.0%	37.2%	31.4%
Printing inks (Americas)	23.0%	22.2%	35.4%	44.8%	20.5%
Printing inks (Europe)	0.3%	-17.7%	-17.9%	-6.6%	-2.6%
Digital & specialty products	14.3%	27.4%	16.8%	7.3%	26.6%
Other businesses	4.4%	8.7%	6.7%	2.4%	4.9%
Totals before consolidated adjustments	100.0%	100.0%	100.0%	100.0%	100.0%

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

For the percentages of operating income by segment in FY2021/12 (before consolidated adjustment), printing inks and graphic arts materials (Japan) provided 19.1%, printing inks (Asia) 31.4%, printing inks (Americas) 20.5%, printing inks (Europe) -2.6%, digital & specialty products 26.6% and other businesses 4.9%. In Japan, profits increased, partly from the contribution of cost reductions, and its percentage increased. The percentages of Asia and the Americas declined due to a decrease in profits caused by the impacts of the rise in raw materials and logistics costs. In Europe, losses narrowed, partly reflecting the effects of a new consolidation in Germany and the effects of the structural reforms. The digital & specialty products segment saw demand recover from the impacts of the novel coronavirus pandemic of FY2020/12 (“COVID-19 pandemic”) and its percentage also rose.

Has high market shares of environmentally friendly products, its strength

3. Features and strengths

The Company’s strengths lie in the development capabilities and extensive line-up of environmentally friendly, high-function and high-value-added products that it has amassed a 125-year history since it was founded in 1896, as well as the high reliability and quality of its products.

The Company has an abundant line-up of environmentally friendly, high-function and high-value-added products. These include Botanical Ink, which contains 10% or more of plant-derived components in its ink solid constituents; plant oil ink, which replaces mineral oil with various vegetable oils (such as soybean oil); non-VOC ink, which contains less than 1% high-boiling-point petroleum solvent among its constituents; non-toluene, non-MEK ink, which does not use organic-solvent toluene or MEK (methyl ethyl ketone); and water-based flexo ink, which offers high performance while being water based. In particular, the Company’s original brand Botanical Ink, launched at the end of 2016, uses plant-derived ingredients and is being used in the packaging of major convenience stores and food manufacturers. Furthermore, the product line-up in the Botanical Ink series is expanding. EcoPlata, a water-based flexo ink for paper bags, and EcoPino, a water-based gravure ink for paper cartons, have been launched. Printed items that use Botanical Ink can have the Company’s registered trademark printed on their packages.

Botanical Ink mark

Source: Reprinted from the Company’s website

In ink for information media, the percentage of environmentally friendly products has reached more than 95%. In newspaper ink, the Company has greatly earned the trust of newspaper companies, including for its high-coloration ink called NEWS WEBMASTER Ecopure (Eco Mark certified), and its color management system that manages colors in response to the shift to high quality color paper. For offset ink as well, it aims to introduce environmentally friendly products to the market as an industry pioneer, and it is progressing the development of the Dream Cure series of UV curable inks that are compatible with the high-sensitivity UV printers that have become popular in recent years.

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

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

4. Risk factors and measures

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

In particular, with regard to high raw material prices, there is time lags between the time of increases in raw material prices and their reflection in sales prices, which may impact results. Main raw materials are affected by conditions in China, which supplies the majority of global production, while resins and solvents are affected by the prices of crude oil and naphtha. Looking at the trends in raw material prices, with regard to pigment prices, from 2017 onwards factors such as the impact of stronger environmental regulations and changes in energy polices in China sharply lowered the supply capacity of Chinese manufacturers, resulting in continued high prices. Regarding prices of petroleum-derived materials, a temporary downtrend occurred in 2020 due to the drop in oil prices under the impact of the COVID-19 pandemic; however, the trend must be monitored carefully going forward as oil prices are rising with the subsequent easing of COVID-19 impacts and economic sanctions on Russia. The impact of raw material prices tends to have a time lag depending on the region (for example, in Japan it takes around six months longer than other areas). To respond to these fluctuations in the prices of raw materials, the Company is advancing optimization through revisions to sales prices, while it is also reducing raw material costs through Group synergies (including joint purchases of raw materials) and strengthening initiatives to improve productivity to mitigate the impact of the rise in the prices of raw materials.

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

Results trends

In FY2021/12, sales increased, and operating and ordinary income increased

1. Summary of the FY2021/12 consolidated results

In the FY2021/12 consolidated results, net sales increased by 12.4% YoY to ¥181,487mn, operating income rose by 2.8% to ¥7,414mn, ordinary income grew by 9.2% to ¥8,506mn, and net income attributable to owners of parent decreased by 6.5% to ¥4,933mn. Moreover, under extraordinary losses, the Company recorded loss on disposal of fixed assets of ¥425mn and provision of allowance for doubtful accounts of ¥565mn arising from inappropriate transactions occurring at a consolidated subsidiary (Sakata Sangyo, Limited). As a result, net income attributable to owners of parent decreased.

Summary of the FY2021/12 consolidated results

(¥mn)

	FY2020/12	FY2021/12				
	Results	Results	YoY	Rate of change after excluding foreign currency translation impact	Previous forecast dated November 12, 2021	Achievement rate of previous forecast
Net sales	161,507	181,487	12.4%	9.8%	181,000	100.3%
Operating income	7,212	7,414	2.8%	1.6%	7,500	98.9%
Ordinary income	7,789	8,506	9.2%	8.8%	8,600	98.9%
Net income attributable to owners of parent	5,275	4,933	-6.5%	-7.1%	6,000	82.2%

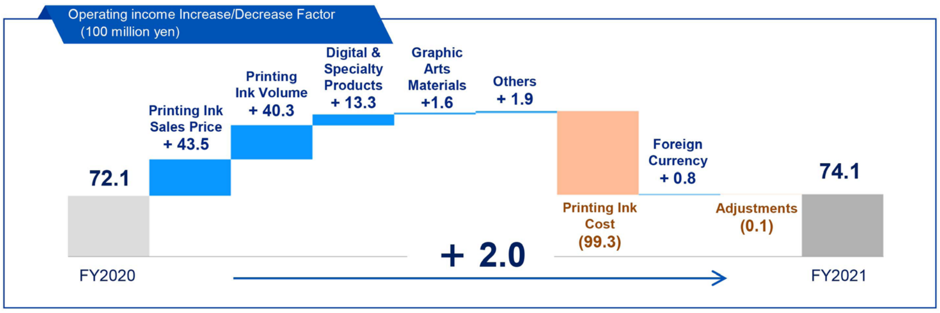
Note: Average exchange rates during the period ¥106.82 (FY2020/12) and ¥109.80 (FY2021/12) to US$1
Source: Prepared by FISCO from the Company's supplemental results briefing materials and news releases

The average exchange rate for the fiscal year was ¥109.80 to US$1 (¥106.82 to US$1 in FY2020/12) and after excluding the effects of exchange rates, net sales increased by 9.8% YoY, operating income rose by 1.6%, ordinary income grew by 8.8%, and net income attributable to owners of parent decreased by 7.1%. Net sales, operating income, ordinary income, and net income attributable to owners of parent were all more or less at the forecast level compared to the previous forecast (issued on November 12, 2021, with net sales revised upward and all profit levels revised downward at net sales of ¥181,000mn, operating income of ¥7,500mn, ordinary income of ¥8,600mn, and net income attributable to owners of parent of ¥6,000mn).

Sales benefitted from a steady increase in ink sales volume and a double-digit increase in digital & specialty products driven by a recovery in demand. In profits, from 2Q onwards, the rise in raw materials and logistics costs were noticeable, but on a full-year basis these increases were absorbed by increased sales volume, improvement in product mix, revisions to sales prices, and cost reductions in the Group as a whole. Gross profit increased by 6.3%. The gross profit margin decreased by 1.2 percentage points (pp) to 20.8%. SG&A expenses increased only by 7.2%, but the SG&A expenses ratio decreased 0.8 pp to 16.7%. In non-operating income, equity in earnings of affiliates increased by ¥678m (FY2020/12 ¥314mn, FY2021/12 ¥992mn).

The factors causing operating income to increase and decrease were as follows. The operating income increase factors were ¥4.35bn from the rise in the printing ink unit price (improvement in product mix and price revisions), ¥4.03bn from the increase in printing ink sales volume, ¥1.33bn from the sales of digital & specialty products, ¥0.16bn from the sales of graphic arts materials, ¥0.19bn from the sales in other businesses, ¥0.08bn due to the impact of foreign currency translations. The decrease factor was ¥9.93bn from the rise of printing ink costs (rise of raw materials prices and logistics and other costs), and ¥0.01bn as the adjustment amount.

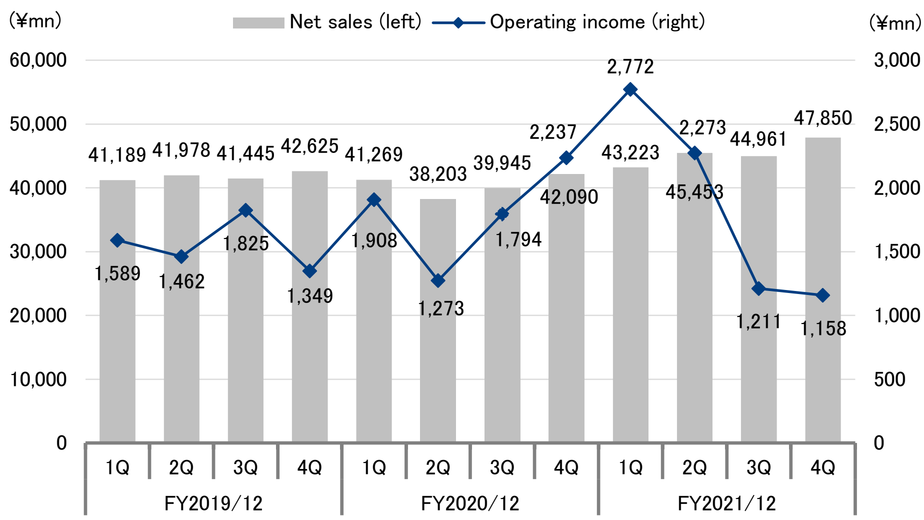
The operating income YoY change factors in FY2021/12



Source: Reprinted from the Company's results briefing materials

Looking on a half-year basis, in the 1H, net sales were ¥88,676mn and operating income was ¥5,045mn, while in the 2H net sales were ¥92,811mn and operating income was ¥2,369mn. Sales were steady due to increase in sales volume resulting from sales expansion; however, in the 2H, operating income was impacted by higher-than-expected increases in raw materials and logistics costs, which could not be offset by increase in sales volume, revision of sales prices, and controls on expenses.

Trends in net sales and operating income on a quarterly basis



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

Printing inks (Americas) experienced a sharp decrease in profit due to the impact of high costs

2. Trends by segment

FY2021/12 net sales and operating income by segment

(¥mn)

	FY2020/12	FY2021/12	YoY
Net sales			
Printing inks and graphic arts materials (Japan)	48,071	50,444	4.9%
Printing inks (Asia)	32,597	38,574	18.3%
Printing inks (Americas)	49,510	54,930	10.9%
Printing inks (Europe)	10,164	15,929	56.7%
Digital & specialty products	11,844	14,328	21.0%
Reportable segment total	152,187	174,207	14.5%
Other businesses	16,984	17,229	1.4%
Total	169,171	191,437	13.2%
Adjustments	-7,664	-9,949	-
Consolidated net sales	161,507	181,487	12.4%
Operating income			
Printing inks and graphic arts materials (Japan)	1,252	1,366	9.1%
Printing inks (Asia)	2,451	2,244	-8.4%
Printing inks (Americas)	2,953	1,464	-50.4%
Printing inks (Europe)	-432	-188	-
Digital & specialty products	549	1,901	245.9%
Reportable segment total	6,774	6,788	0.2%
Other businesses	157	350	123.0%
Total	6,931	7,139	3.0%
Adjustments	281	275	-
Consolidated operating income	7,212	7,414	2.8%

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

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

In printing inks and graphic arts materials (Japan), net sales increase by 4.9% YoY to ¥50,444mn and operating income rose by 9.1% to ¥1,366mn. Sales increased overall due to growth in sales of packaging printing ink (gravure ink used for flexible packaging, flexo inks for corrugated boards, etc.) driven by increases in demand for eating at home and e-commerce purchases, and so forth, as well as a contribution from an increase in machinery sales; although newspaper ink sales decreased due to impacts such as the COVID-19 pandemic and the progress of digitalization. Profits increased overall, mainly reflecting the contribution from favorable performance in packaging printing inks, improvement in the product mix, including due to the growth of sales of environmental-responsive functional varnish and cost reductions (controlling SG&A expenses such as travel expenses). Furthermore, in Japan raw material cost increases tend take around six months longer to take effect than other regions, so the impact of the increase in raw materials costs was comparatively smaller than in other regions.

(2) Printing inks (Asia)

In printing ink (Asia), net sales increased by 18.3% YoY to ¥38,574mn and operating income decreased by 8.4% to ¥2,244mn. Sales increased sharply, mainly reflecting growth in sales volume for gravure ink used for flexible packaging due to a recovery in demand from the COVID-19 pandemic and the effects of sales expansion, while the sales price revision also contributed. Nevertheless, profits decreased due to the impact of high raw materials and logistics costs. Looking at demand trends by region, in India and Thailand, sales expansion of gravure ink made good progress. In India, newspaper ink saw a gradual recovery in demand, which had fallen due to the impact of the COVID-19 pandemic, while printing ink for packaging made steady progress. In China, demand flagged temporarily for a certain time in the 3Q, but sales expansion progressed on a full-year basis.

(3) Printing inks (Americas)

In printing ink (Americas), net sales increased by 10.9% YoY to ¥54,930mn and operating income fell by 50.4% to ¥1,464mn. In sales, sales volume increased from sales expansion in packaging-related, mainly environmentally friendly products (flexo and gravure inks for flexible packaging and UV offset ink for paper containers). Against the backdrop of the movement to reduce the burden on the environment, demand is rising for aluminum cans. As such, sales of metal-deco ink for printing on cans were also favorable. Overall sales demonstrated double-digit growth, but profits decreased sharply due to impacts including a rapid rise in raw material prices from the 3Q onward, high logistics costs resulting from logistics turmoil at ports, and a rise in personnel expenses, despite positive factors such as increase in sales volume, improvement in the product mix, and revision of sales pricing.

(4) Printing inks (Europe)

In printing ink (Europe), net sales increased by 56.7% YoY to ¥15,929mn and operating loss was ¥188mn (compared to a loss of ¥432mn in the previous fiscal year). For sales, in addition to the effects of the growth of sales of packaging-related, mainly environmentally friendly products (flexo and gravure inks for flexible packaging, UV offset ink for paper containers, and metal-deco ink for printing on cans) there was also a contribution from the new consolidation of RUCO in Germany, and sales increased significantly. In profits, the operating loss was narrowed compared to the previous fiscal year, thanks to the effects of the increase in sales volume and also of the structural reforms (productivity increase and cost reductions through rebuilding the production system), despite the impact of high raw materials prices.

(5) Digital & specialty products

In digital & specialty products, net sales increased by 21.0% YoY to ¥14,328mn and operating income increased by 245.9% to ¥1,901mn. Results fell significantly in the previous fiscal year due to the major impact of COVID-19, but alongside the restart of economic activities, demand is recovering, mainly overseas, and both net sales and operating income are on a recovery trend. Sales volume of inkjet ink, pigment dispersions for color filters and toners increased. For profits, in addition to the effect of the increase in sales volume, the increase is also due to other factors, including improvements to the cost structure in the Europe business (sales expansion of high-value-added products), the completion of an inventory valuation write-down, and a longer than expected delay in the impact of increased raw materials and logistics costs.

The Company's financial position is healthy

3. Financial position

At the end of FY2021/12, total assets were up ¥21,626mn compared with the end of FY2020/12 to ¥166,899mn. Alongside the increase in sales, trade receivables and inventories also increased, while following the capital investment, buildings and structures increased. Total liabilities increased ¥10,583mn to ¥74,434mn. Loans payable did not have large difference, but accounts payable increased in conjunction with the increase in sales. Total net assets increased ¥11,043mn to ¥92,465mn. This mainly reflected an increase in retained earnings and a decrease in foreign currency translation adjustment (a negative account).

As a result, the equity ratio decreased 0.8pp to 51.8%. Net assets per share increased ¥171.05 to ¥1,478.18. The equity ratio decreased slightly, but overall no major problems can be seen and it can be said that the Company is highly financially sound.

Financial statements

(¥mn)

	FY2017/12	FY2018/12	FY2019/12	FY2020/12	FY2021/12
Net sales	157,302	162,056	167,237	161,507	181,487
Cost of sales	120,371	128,824	131,507	126,049	143,803
Gross profit	36,931	33,232	35,730	35,458	37,684
Gross profit margin	23.5%	20.5%	21.4%	22.0%	20.8%
Selling, general and administrative expenses	28,358	28,120	29,504	28,245	30,269
Selling, general and administrative expenses ratio	18.0%	17.4%	17.6%	17.5%	16.7%
Operating income	8,573	5,112	6,225	7,212	7,414
Operating income margin	5.5%	3.2%	3.7%	4.5%	4.1%
Non-operating income	3,048	2,476	1,693	1,172	1,835
Non-operating expenses	371	678	600	596	743
Ordinary income	11,249	6,910	7,319	7,789	8,506
Ordinary income margin	7.2%	4.3%	4.4%	4.8%	4.7%
Extraordinary income	1,424	285	311	187	290
Extraordinary loss	317	71	448	221	1,013
Income before income taxes	12,356	7,125	7,181	7,755	7,784
Total income taxes	3,466	2,155	2,427	1,849	2,153
Net income attributable to owners of parent	8,383	4,692	4,114	5,275	4,933
Margin on net income attributable to owners of parent	5.3%	2.9%	2.5%	3.3%	2.7%
Comprehensive income	9,946	756	5,339	1,839	12,829
Total assets	145,489	145,495	148,292	145,272	166,899
(Current assets)	76,199	75,785	79,064	77,640	92,860
(Noncurrent assets)	69,290	69,709	69,227	67,632	74,039
Total liabilities	66,723	68,097	66,852	63,850	74,434
(Current liabilities)	47,968	49,233	46,317	42,315	55,258
(Noncurrent liabilities)	18,754	18,864	20,535	21,535	19,176
Total net assets	78,766	77,397	81,439	81,421	92,465
(Shareholders' equity)	74,737	77,528	79,494	83,035	86,104
Capital	7,472	7,472	7,472	7,472	7,472
Total number of issued shares at the end of period, excluding treasury shares	58,399,679	58,399,218	58,398,924	58,418,536	58,436,753
Cash flows from operating activities	9,201	5,239	9,819	10,599	7,556
Cash flows from investing activities	-2,737	-7,279	-5,106	-7,010	-5,352
Cash flows from financing activities	-6,259	-122	-3,821	-980	-2,875
Cash and cash equivalents at the end of period	9,351	6,788	9,361	11,678	12,115

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

Business outlook

For FY2022/12 both operating income and ordinary income are forecast to recover in the 2H with the effect of sales price revisions

1. FY2022/12 consolidated results outlook

For the FY2022/12 full-year consolidated results, the Company forecasts net sales to increase by 9.1% on FY2021/12 to ¥198,000mn, operating income to fall by 5.6% to ¥7,000mn, ordinary income to fall by 2.4% to ¥8,300mn and net income attributable to owners of parent to increase by 15.5% to ¥5,700mn.

Overview of FY2022/12 consolidated results forecasts

(¥mn)

	FY2021/12			FY2022/12 (E)			YoY		
	1H	2H	Full year	1H	2H	Full year	1H	2H	Full year
Net sales	88,676	92,811	181,487	96,800	101,200	198,000	9.2%	9.0%	9.1%
Operating income	5,045	2,369	7,414	2,700	4,300	7,000	-46.5%	81.5%	-5.6%
Ordinary income	5,852	2,654	8,506	3,350	4,950	8,300	-42.8%	86.5%	-2.4%
Net income attributable to owners of parent	4,039	894	4,933	2,200	3,500	5,700	-45.5%	291.5%	15.5%
EPS (¥)	69.14	-	84.43	37.64	-	97.52	-	-	-
The exchange rate (US$ / ¥)	-	-	109.80	-	-	115.00	-	-	-

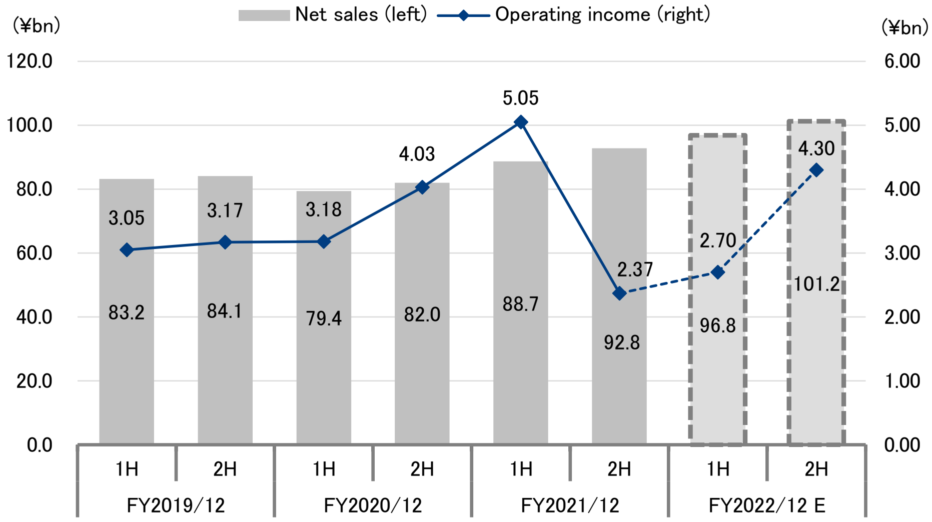
Note: The exchange rate (US$) was ¥109.80 in FY2021/12 and ¥115.00 in FY2022/12
Source: Prepared by FISCO from the Company's financial results and supplemental results briefing materials

Overall, demand is expected to be firm, with sales volumes increasing due to sales expansion, while the yen's depreciation is also expected to contribute to higher sales. However, in profits, operating income and ordinary income are forecast to decrease, mainly due to the impact of increased raw materials and logistics costs, and impacts including an increase in expenses associated with strategic investments such as digital transformation. The expected exchange rate (US$) is ¥115.00 (¥109.80 in FY2021/12).

The forecast operating income change amounts by factor are as follows. The increase factors are ¥8.67bn from the rise in the printing ink unit price (improvement in product mix and price revisions), ¥2.40bn from the increase in printing ink sales volume, ¥0.19bn from the impact of foreign currency exchange rates, and ¥0.06bn from adjustments. The decrease factors are ¥0.55bn from functional materials, ¥0.10bn from graphic arts materials, ¥0.17bn from other, and ¥10.95bn from the rise in printing ink costs.

Looking at net sales and operating income by half-year, 1H net sales are forecast to rise by 9.2% YoY to ¥96,800mn, with operating income to fall by 46.5% to ¥2,700mn. 2H net sales are expected to increase by 9.0% to ¥101,200mn, and operating income is expected to increase by 81.5% to ¥4,300mn. In 1H, the impact of high raw materials and logistics costs will emerge first; however, in 2H, this impact will be mitigated by progress on sales price revisions and the impact of increased sales volumes, with profits expected to begin recovering. We consider it highly possible that results will bottom out in FY2021/12 2H and FY2022/12 1H, and then begin to recover.

Trends in net sales and operating income by half year



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

2. Forecasts by segment

Net sales and operating income forecast by segment for FY2022/12

(¥mn)

	FY2021/12	FY2022/12 (E)	YoY
Net sales			
Printing inks and graphic arts materials (Japan)	50,444	51,800	2.7%
Printing inks (Asia)	38,574	44,800	16.4%
Printing inks (Americas)	54,930	63,500	15.6%
Printing inks (Europe)	15,929	16,800	5.8%
Digital & specialty products	14,328	15,100	5.6%
Reportable segment total	174,207	192,200	10.3%
Other businesses	17,229	15,100	-11.8%
Total	191,437	207,300	8.3%
Adjustments	-9,949	-9,400	-
Consolidated net sales	181,487	198,000	9.1%
Operating income			
Printing inks and graphic arts materials (Japan)	1,366	500	-57.4%
Printing inks (Asia)	2,244	2,200	-0.9%
Printing inks (Americas)	1,464	2,400	65.2%
Printing inks (Europe)	-188	-100	-
Digital & specialty products	1,901	1,300	-28.2%
Reportable segment total	6,788	6,600	-4.4%
Other businesses	350	100	-49.1%
Total	7,139	6,700	-6.1%
Adjustments	275	300	-
Consolidated operating income	7,414	7,000	-5.6%

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

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

In printing inks and graphic arts materials (Japan), net sales are forecast to increase by 2.7% YoY to ¥51,800mn and operating income to decrease by 57.4% to ¥500mn. In sales, packaging printing ink is expected to perform strongly, while profits are projected to decrease sharply due to the impact of increasing materials and logistics costs. The impacts of higher raw materials prices tend to emerge later in Japan than in other regions, and the impact for 1H has been comparatively smaller than other regions, however, for FY2022/12, a significant impact is expected, which sales volume increase and sales price revisions are not expected to be able to offset. Furthermore, an increase in expenses is also forecast due to strategic investments, such as digital transformation.

(2) Printing inks (Asia)

In printing ink (Asia), net sales are forecast to increase by 16.4% YoY to ¥44,800mn and operating income to fall by 0.9% to ¥2,200mn. The Company expects a significant increase in sales with an increase in sales volume due to sales expansion for packing printing ink and progress on sales price revisions. However, the Company expects profits to trend sideways, being offset by increased raw materials and logistics costs.

(3) Printing inks (Americas)

In printing ink (Americas), net sales are forecast to increase by 15.6% YoY to ¥63,500mn and operating income to increase by 65.2% to ¥2,400mn. The Company expects a significant increase in sales with an increase in sales volume due to sales expansion for packing printing ink and progress on sales price revisions. In profits, however, in FY2021/12 the impact of increased raw materials and logistics costs had a direct and significant impact on reducing profit, but in FY2022/12, profit is expected to follow a recovery trend due to the effects of sales price revisions.

(4) Printing inks (Europe)

For printing inks (Europe), net sales are forecast to increase by 5.8% YoY to ¥16,800mn, and operating income to be a loss of ¥100mn (loss of ¥188mn in FY2021/12). The Company expects sales to increase with sales expansion of packaging printing ink. On the profit front, the effects of increased sales volume and structural reforms are expected to absorb the impact of increased raw material and logistics costs to narrow the segment's losses.

(5) Digital & specialty products

In digital and specialty products, net sales are forecast to increase by 5.6% to ¥15,100mn and operating income to decrease by 28.2% to ¥1,300mn. While sales are expected to increase due to a recovery trend in demand, profits are projected to decrease due to the impact of high raw materials and logistics costs and aggressive investment in development expenses, and so forth, looking ahead to the high-end market.

Growth strategy

Currently promoting the Mid-term Business Plan for achieving the long-term vision for FY2030/12

1. Business theme

As its corporate philosophy, based on the business theme of “Creation of Visual Communication Technology” and the Group’s purpose of “Develop a communication culture that makes people’s lives more enjoyable,” the Company formulated and started the long-term strategic vision “SAKATA INX VISION 2030” and Mid-term Business Plan 2023 (CCC-I) in FY2021/12.

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

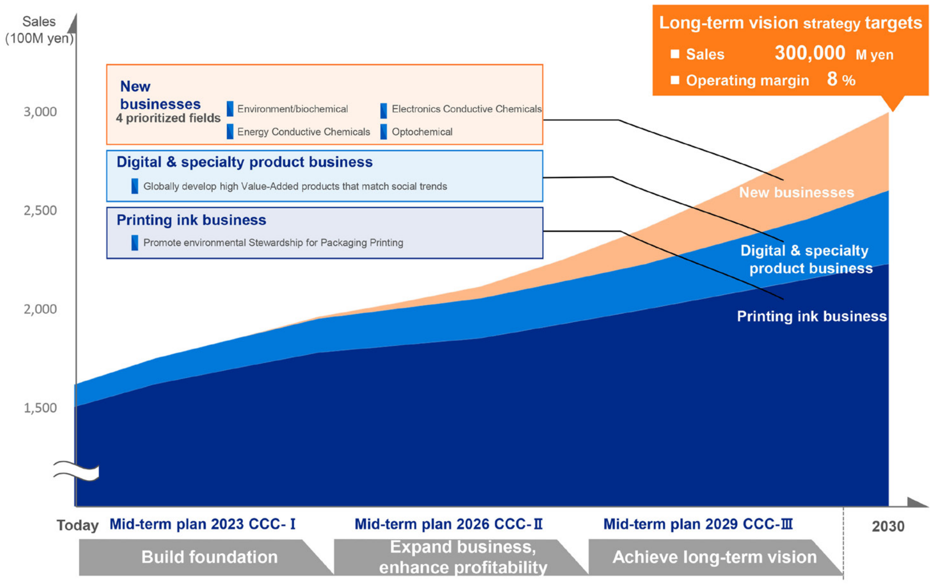
Promoting new business fields, sustainable management, and Digital Transformation to achieve long-term strategic vision

2. Long-term strategic vision

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

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

Image aiming to become by 2030



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

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

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

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

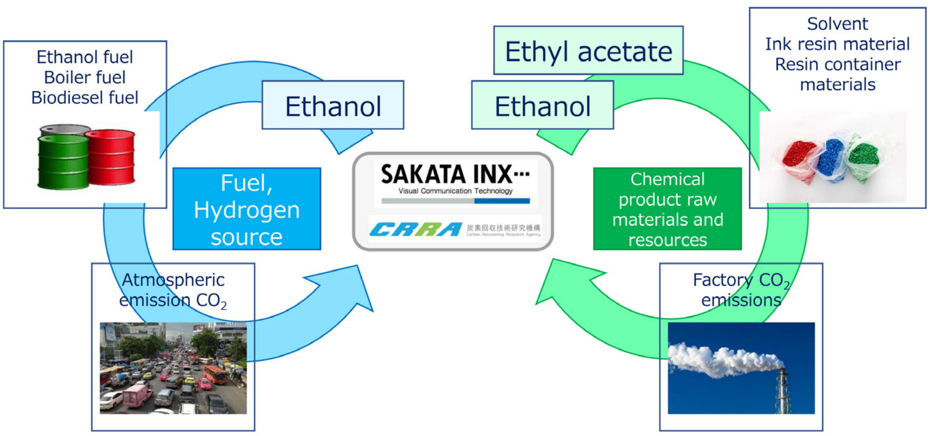
An example of an initiative for a new business is the societal implementation of printed electronics. Through a collaboration between three companies, the Company, the equity-method affiliate SIIX Corporation, and Wonder Future Corporation (a non-equity method affiliate) that develops and sells IH (induction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

New Business Initiative 1
(Providing societal implementation of printed electronics through Sakata Inx and SIIX Corporation)

Source: Reprinted from the Company's results briefing materials

Moreover, the Company aims to use technology of the Carbon Recovering Research Agency (CRRA), and build a resource cycling system that recovers CO_2 and uses it for chemical products such as bioethanol and fuel.

New Business Initiative 2
(Building a resource recycling system that contributes to a recycling society)



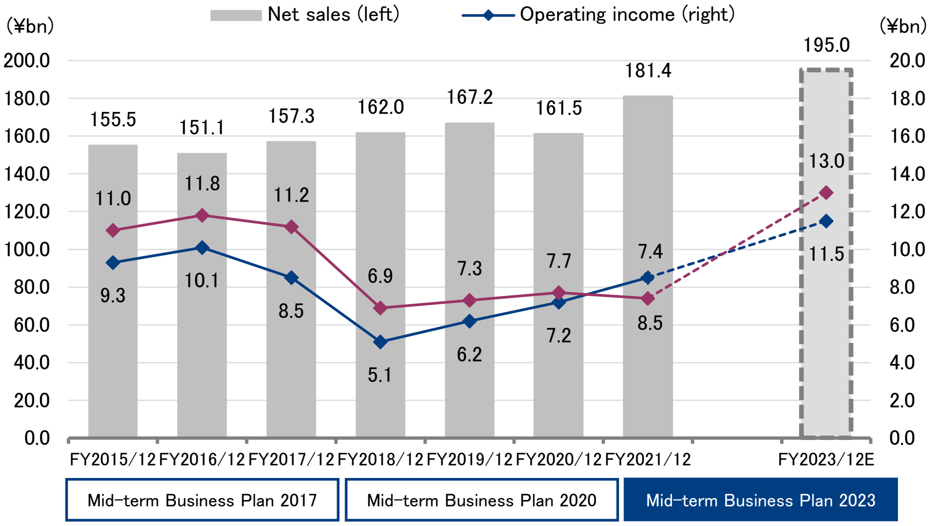
Source: Reprinted from the Company's results briefing materials

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

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

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

Consolidated net sales and profit targets in the Mid-term Business Plan



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

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

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

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

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

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

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

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

4. Investment plan

The investment plan calls for a cumulative total of ¥30bn to be invested during the three fiscal periods (capital investment of ¥15bn and a strategic investment framework to accelerate growth of ¥15bn). The breakdown of the capital investment plan by region is ¥4.9bn for Japan, ¥5.6bn for Asia, ¥3.8bn for the Americas, and ¥0.7bn for Europe. The forecast of investment from FY2021/12 to Y2022/12 is ¥4bn for Japan, ¥6.1bn for Asia, ¥2.9bn for the Americas, and ¥0.6bn for Europe.

The main items in the capital investment plan as of December 31, 2021, were as follows. In Japan, the renewal of the Osaka Plant and its backbone systems, in Asia, reinforced facilities for packaging ink in Indonesia and Vietnam, in the Americas, strengthened metal decorating ink facility in the state of New York, in the United States, and constructing a new plant for packaging ink in Brazil.

5. A new growth stage

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

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

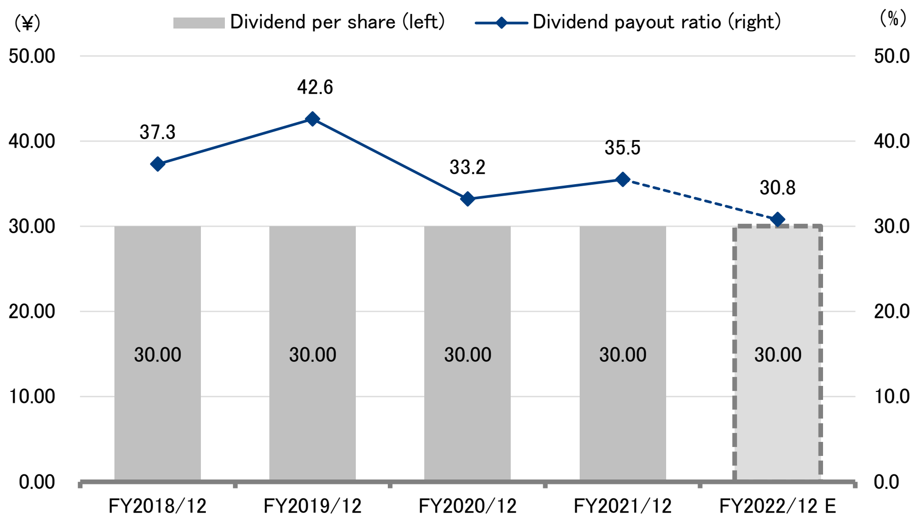
Shareholder return policy

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

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

In accordance with this basic policy, in FY2021/12, the annual dividend per share was ¥30 (end of 2Q dividend ¥15, period-end dividend ¥15), which is the same as FY2020/12. The dividend payout ratio was 35.5%. The forecast for FY2022/12 is for the same dividend as FY2021/12, with an annual dividend per share of ¥30 (end of 2Q dividend ¥15, period-end dividend ¥15). The forecasted dividend payout ratio is 30.8%. The Company also offers a shareholder benefit program to shareholders who own one trading unit (100 shares) or more of shares as of June 30 and December 31 every year. Under this program, eligible shareholders receive a QUO card after the Annual General Meeting of Shareholders with a value corresponding to the period of time they have held their shares.

Divided per share and dividend payout ratio



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

Initiatives for ESG management and for SDGs

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

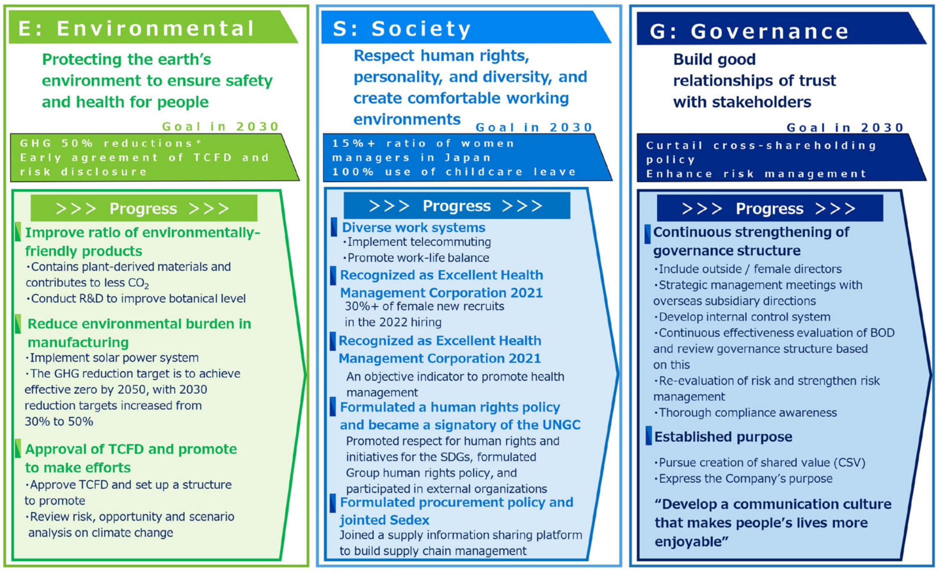
In environmentally friendly products, which are the Group's strengths, packaging that is considerate to the environment is required, and in this situation, its proprietary "Botanical Ink" series, which contains 10% or more of plant-derived components in its ink solid constituents, is already being widely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

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

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

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

Sustainability targets and progress made



*Reduction targets vs 2013 for Scope 1&2 in Japan

Source: Reprinted from the Company's results briefing materials

FISCO

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