

**SAKATA INX
CORPORATION**4633 Tokyo Stock Exchange
First Section

15-Apr.-16

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Masanobu Mizuta**■ A Major Printing Ink Manufacturer: Third Largest in Japan and North America, and Fourth Largest Globally****Accelerate Growth in Sales of High-Function, High-Value-Added Products and Global Business Expansion**

Founded in 1896, SAKATA INX CORPORATION <4633> has a proud history of 120 years. Today, the company is a major printing ink manufacturer—the third largest in Japan and North America, and the fourth largest globally.

SAKATA INX positions the printing ink business as its core business. In this business, the company 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 Japanese, Asian, North American and European markets. In the graphic arts materials business, the company procures and sells plate making materials and related equipment. In the digital & specialty products business, the company primarily manufactures and sells inkjet ink, toner, pigment dispersions for color filters, functional coating materials, etc. The company also conducts other businesses (chemicals, display and color management businesses in the Japanese market).

The company's strengths lie in its ability to develop environmentally friendly, high-function, high-value-added products, and high reliability and quality products. These strengths have been amassed over the course of the company's 120-year history. Additionally, as the company is aiming for growth by expanding sales in high-function, high-value-added products and deploying business globally, the printing inks (Asia) segment that offers significant potential for market development in India and elsewhere has grown into a primary source of revenue.

Although the printing ink market in Japan is contracting, further technological advances are being made in environmentally friendly products and high-function, high-value-added products in the packaging field. The Asian region (excluding Japan) is a growing market. Especially in India, demand has been increasing not only in the packaging field, but also for newspapers against the backdrop of improving income levels and rising literacy rates. Considering that Indian newspapers have a high ratio of color pages, the Indian market offers prospects for growing demand for newspaper ink and other forms of printing ink over the medium term.

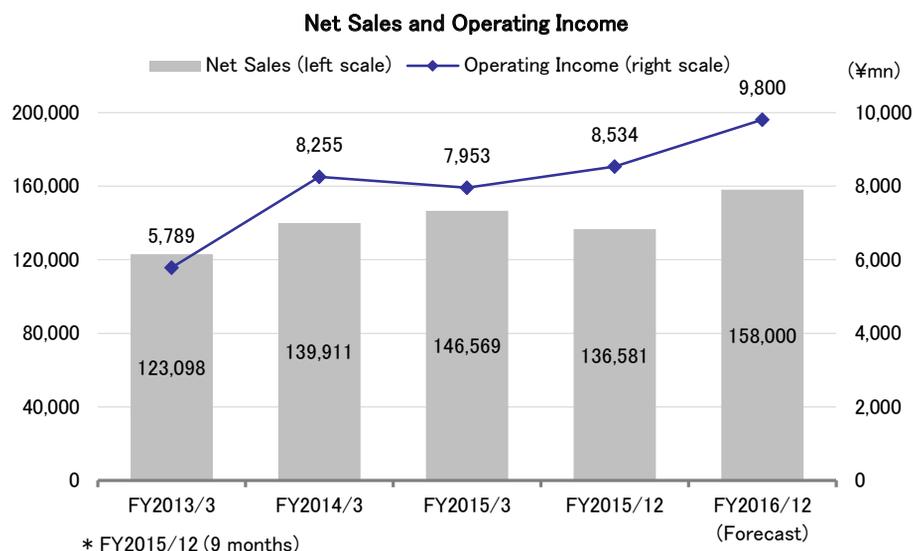
For FY2016/12 (a 12-month period spanning January-December 2016; FY2015/12 was a 9-month period due to the change in fiscal year-end), the company's consolidated financial forecast is net sales of ¥158,000mn, operating income of ¥9,800mn, ordinary income of ¥11,500mn and net income of ¥7,300mn. In comparison with results adjusted to correspond to the same period of the previous year (a 12-month period from January-December 2015), management is forecasting year-on-year increases of 1.6% in net sales, 4.7% in operating income, 4.3% in ordinary income, and 1.3% in net income. The exchange rate assumption for these forecasts is US\$1=¥120 (compared with US\$1=¥121.03 in the same period of the previous year).

In the company's mid-term business plan (April 2015 to December 2017), business targets for FY2017/12 are net sales of ¥185,000mn, operating income of ¥11,000mn, ordinary income of ¥12,000mn and net income of ¥7,600mn, as well as a ROE of 10% or more. The exchange rate assumption for these targets is US\$1=¥117. To reach these targets, the company will accelerate growth in sales of high-function, high-value-added products and global business expansion.

In regard to dividends, the company is targeting a consolidated dividend payout ratio in the range about 20% to 30%. A shareholder benefit program is also offered to shareholders recorded as of December 31 every year. In terms of the dividend forecast for FY2016/12, the company is forecasting an annual dividend of ¥24 per share (interim dividend of ¥12 per share and year-end dividend of ¥12 per share). Following four consecutive years of dividend increases, the dividend payout ratio forecast is 19.9%. And, with the company marking its 120th founding anniversary in November 2016, the company could decide to issue a commemorative dividend.

■ Check Point

- A major printing ink manufacturer—third largest in Japan and North America, fourth largest globally
- Conducts printing inks (ink for paper media, packaging ink) and digital & specialty products businesses
- Driving growth in sales of high-function, high-value-added products and global business expansion
- Management is forecasting higher net sales and earnings in FY2016/12, and could decide to issue a commemorative dividend
- Targeting operating income of ¥11,000mn for FY2017/12 in the mid-term business plan



■ Company Overview

A major printing ink manufacturer—third largest in Japan and North America, fourth largest globally

The company boasts a 120-year history dating back to its founding in 1896. Today, it is a major printing ink manufacturer—the third largest in Japan and North America and fourth largest globally. The company's strengths lie in its ability to develop environmentally friendly, high-function, high-value-added products, and high reliability and quality products.

Founded in 1896 in Osaka City as a private company (SAKATA INK SEIZOUSHO), the company started manufacture and sale of newspaper ink. In 1911, the company successfully industrialized 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, the company changed its corporate name to SAKATA INX CORPORATION. In 1988, the company listed its shares on the First Section of the Tokyo Stock Exchange. And, in November 2016, the company will celebrate its 120th founding anniversary.

SAKATA INX positions the printing ink business as its core business. In this business, the company manufactures and sells printing ink such as newspaper ink, offset ink flexo ink, gravure ink, metal-deco ink, etc. in the Japanese, Asian, North American and European markets. In the graphic arts materials business, the company procures and sells plate making materials and related equipment in the Japanese market. In the digital & specialty products business, the company manufactures and sells inkjet ink, color toner, monochrome toner, pigment dispersions for color filters, functional coating materials, etc. in the Japanese, Asian, North American and European markets. The company also conducts other businesses (chemicals, display and color management businesses in the Japanese market).



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In FY2015/12 (a 9-month period due to the change in fiscal year-end), the composition of sales by reportable segment (sales to external customers) was as follows: printing inks and graphic arts materials (Japan) segment accounted for 31.3% of sales, printing inks (Asia) segment 20.5%, printing inks (North America) segment 31.6%, printing inks (Europe) segment 6.6%, digital & specialty products segment 6.0% and other businesses segment 4.0%.

The composition of operating income (before consolidation adjustments) by reportable segment was as follows: printing inks and graphic arts (Japan) segment accounted for 23.4% of operating income, printing inks (Asia) segment 36.3%, printing inks (North America) segment 29.6%, printing inks (Europe) segment 1.6%, digital & specialty products segment 5.4% and other businesses segment 3.7%. Through sales expansion in high-function, high-value-added products and deployment in global business, the printing inks (Asia) segment that offers significant potential for market development has grown into a primary source of revenue.

In 1999, the company and TOYO INK MFG. CO., LTD. (now Toyo Ink SC Holdings Co., Ltd. <4634>) agreed to a strategic alliance in production, logistics and digital-related businesses and international business. In 2000, the two companies agreed to a capital alliance. Currently, Toyo Ink SC Holdings Co., Ltd. is the company's largest shareholder.

As of December 31, 2015, the SAKATA INX Group was consisted of SAKATA INX CORPORATION, 25 consolidated subsidiaries and 6 equity-method affiliates. SAKATA INX Group operates in 17 countries and regions, both in Japan and overseas. SIIX Corporation <7613>, which undertakes international trading of electronic components and the Electronics Manufacturing Services (EMS) business, was spun off from SAKATA INX into an independent company. SIIX Corporation is currently an equity-method affiliate of SAKATA INX. As of December 31, 2015, the company's capital stock was ¥7,472mn and the total number of issued shares excluding treasury shares was 60,508,154.



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Company 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 newspaper |
| 1906 | Name changed to SAKATA SHOKAI |
| 1911 | Successfully industrialized production of varnish for printing ink using linseed oil for the first time in Japan |
| 1920 | Changed to limited company |
| 1923 | Opened the Fukuoka Branch and Plant |
| 1924 | Completed the first phase of construction of Tokyo Plant |
| 1928 | Completed the second phase of construction of Tokyo Plant |
| 1947 | Established SAKATA SANGYO, LIMITED by spinning off the industrial chemicals division into an independent company Opened the Nagoya Office |
| 1953 | Upgraded Nagoya Office to Nagoya Branch |
| 1959 | Constructed and commenced operation of Itami Plant (now Osaka Plant) in Itami City, Hyogo Prefecture |
| 1960 | Opened Kodak Color Film Development Center in Osaka (successively opened centers in Tokyo and Fukuoka thereafter) Overseas office opened in the Philippines (Manila) (a succession of major overseas offices and subsidiaries were established thereafter) |
| 1961 | Listed on the Second Section of the Osaka Securities Exchange |
| 1962 | Reassigned to the First Section of the Osaka Securities Exchange |
| 1969 | Constructed and commenced operation of Noda Plant (now Tokyo Plant) in Noda City, Chiba Prefecture |
| 1975 | Established SAKATA KIKI SEIBI KOGYO CO., LTD. (now SAKATA INX ENG. CO., LTD.) |
| 1982 | Established SAKATA GENZOUSHO CO., LTD. (now SAKATA LABOSTATION CO., LTD.) |
| 1987 | Established SAKATA INX ESPAÑA, S.A. in Spain Corporate name changed to SAKATA INX CORP. |
| 1988 | INX INTERNATIONAL INC. (now THE INX GROUP LTD.) established in the U.S.A. as a holding company Acquired ACME PRINTING INK CO. in the U.S.A. Listed on the First Section of the Tokyo Stock Exchange |
| 1989 | Established PT. SAKATA INX INDONESIA as a joint venture in Indonesia that manufactures and sells printing ink Acquired MIDLAND COLOR CO. in the U.S.A. Acquired CHEMICAL PROCESS SUPPLY in the U.S.A. |
| 1992 | Consolidated ACME PRINTING INK CO. and MIDLAND COLOR CO. in the U.S.A. under the name of INX INTERNATIONAL INK CO. Established SAKATA INX INTERNATIONAL CORP. (now SIIX CORPORATION), and transferred businesses related to international trading of electronic components and other products to the company Established THE INX GROUP (UK) LTD. that manufactures and sells printing ink (now INX INTERNATIONAL UK LTD.) in the U.K. |
| 1993 | Established MEGA FIRST SAKATA INX (now SAKATA INX (MALAYSIA) SDN. BHD) in Malaysia |
| 1994 | Constructed and commenced operation of Hanyu Plant in Hanyu City, Saitama Prefecture Renamed Tokyo Branch to Tokyo Head Office, and instituted a dual Osaka and Tokyo Head Office system |
| 1995 | Established MONTARI SAKATA INX LTD. (now SAKATA INX (INDIA) PRIVATE LTD.) in India Absorbed DAIEIKAKO FUDOSAN CO., LTD. through a merger |
| 1996 | Acquired ISO9001 certification at Tokyo Plant (Osaka Plant and Hanyu Plant later acquired certification) |
| 1997 | Completed construction of the Technology Building at Osaka Plant |
| 1999 | Agreed to strategic alliance with TOYO INK MFG. CO., LTD. (now Toyo Ink SC Holdings Co., Ltd.) |
| 2000 | Established the 50-50 joint venture company LOGI CO-NET CORP. with TOYO INK MFG. CO., LTD. (now Toyo Ink SC Holdings Co., Ltd.) Agreed to capital alliance with TOYO INK MFG. CO., LTD. (now Toyo Ink SC Holdings Co., Ltd.) Established the 50-50 joint venture company ga city Corp. with TOYO INK MFG. CO., LTD. (now Toyo Ink SC Holdings Co., Ltd.) |
| 2001 | Acquired ISO14001 certification at the three main plants (Tokyo, Osaka and Hanyu) Established SAKATA LABOSTATION CO., LTD. and transferred photography-related businesses to the company |
| 2002 | Established ETERNAL SAKATA INX CO., LTD. in Thailand Established SAKATA INX SHANGHAI CO., LTD. in China (Shanghai) |
| 2003 | Established SAKATA INX ENG. CO., LTD. and transferred color management businesses to the company Completed construction of the Technology and Laboratory Building at the Osaka Plant Established SAKATA INX VIETNAM CO., LTD. in Vietnam |
| 2004 | Established a holding company INX EUROPE LTD. in the U.K. Established INX INTERNATIONAL FRANCE SAS in France Established MAOMING SAKATA INX CO., LTD. in China (Guangdong) The three main plants (Tokyo, Osaka and Hanyu) earned the Award for TPM Excellence, Category 1 in the 2004 TPM Excellence Awards |
| 2005 | Established TRIANGLE DIGITAL INX CO. in the U.S.A. (Name changed to INX DIGITAL INTERNATIONAL CO. and acquired TRIANGLE DIGITAL (U.S.A) in 2009) |
| 2008 | Acquired MEGAINK DIGITAL A.S. in the Czech Republic (now INX DIGITAL CZECH, A.S.) Acquired ANTEPRIMA S.R.L. in Italy (now INX DIGITAL ITALY S.R.L.) Acquired OSHMS certification at Tokyo Plant (including Hanyu Plant) |
| 2009 | Acquired OSHMS certification at Osaka Plant |
| 2010 | The three main plants (Tokyo, Osaka and Hanyu) earned the Award for Excellence in Consistent TPM Commitment in the 2010 TPM Excellence Awards |
| 2012 | The three main plants (Tokyo, Osaka and Hanyu) earned the Award for TPM Achievement in the 2012 TPM Excellence Awards |
| 2013 | INX DIGITAL INTERNATIONAL CO. merged into INX INTERNATIONAL INK CO. |
| 2014 | Commenced operation at Shiga Plant in Maibara City, Shiga Prefecture |
| 2015 | Changed fiscal year-end from March to December Acquired ISO9001 & ISO14001 certification at Shiga Plant |

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

■ Description of Business, and Features and Strengths

Expanding the Core Printing Ink Business, along with Digital & Specialty products and Other Businesses

As of December 31, 2015, the SAKATA INX Group was consisted of SAKATA INX CORPORATION, 25 consolidated subsidiaries and 6 equity-method affiliates. SAKATA INX Group is globally expanding the printing ink business as its core business, along with expanding the graphic arts materials business, digital & specialty products business and other businesses. In both the printing ink business and the digital & specialty products business, the SAKATA INX Group aims to attain growth by increasing sales of high-value-added products and expanding business globally.

In the printing ink business, the SAKATA INX Group manufactures and sells ink for paper media (newspaper ink used for printing newspapers, offset ink used for a variety of commercial printing applications such as books, catalogues, posters, brochures, 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, daily goods and other products, and metal-deco ink for printing on metal such as beverage cans). These printing inks are supplied to customers in the Japanese, Asian, North American and European markets.

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, on-demand printing presses, color management systems, organic solvent recovery devices, etc.

In the digital & specialty products business, the SAKATA INX Group manufactures and sells digital printing materials (inkjet ink, color toner, monochrome toner), image display materials (pigment dispersions for color filters) and functional coating materials in the Japanese, Asian, North American, and European markets. Digital printing materials account for about 70% of sales. In the other businesses, the SAKATA INX Group primarily conducts chemicals business (SAKATA SANGYO, LIMITED), display service business (SAKATA LABOSTATION CO., LTD.) and color management business (SAKATA INX ENG. CO., LTD.).

Printing Ink: Third in Japan and North America, Fourth Globally

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, plate making 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 (inkjet 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 based on materials published by SAKATA INX

In FY2015/12 (a 9-month period due to the change in fiscal year-end), the composition of sales by reportable segment (sales to external customers) was as follows: printing inks and graphic arts materials (Japan) segment accounted for 31.3% of sales, printing inks (Asia) segment 20.5%, printing inks (North America) segment 31.6%, printing inks (Europe) segment 6.6%, digital & specialty products segment 6.0% and other businesses segment 4.0%.

The composition of operating income (before consolidation adjustments) by reportable segment was as follows: printing inks and graphic arts materials (Japan) segment accounted for 23.4% of operating income, printing inks (Asia) segment 36.3%, printing inks (North America) segment 29.6%, printing inks (Europe) segment 1.6%, digital & specialty products segment 5.4% and other businesses segment 3.7%. With the company aiming for growth by expanding sales in high-function, high-value-added products and deploying business globally, the printing inks (Asia) segment that offers significant potential for market development in India and elsewhere has grown into a primary source of revenue.

Looking at the company 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 23, 2015) by INK WORLD) and fourth globally (source: "The 2015 Top International Ink Companies Report" (July 30, 2015) by INK WORLD).

The Global Top 10 in Ink Sales (2014)

| Rank | Company | Country | Net sales (US\$m) |
|------|------------------------------------|-------------|-------------------|
| 1 | DIC/Sun Chemical | Japan | 3,470 |
| 2 | Flint Group | Luxembourg | 2,900 |
| 3 | Toyo Ink SC Holdings Co., Ltd. | Japan | 1,410 |
| 4 | SAKATA INX CORPORATION | Japan | 1,300 |
| 5 | Siegwerk Group | Germany | 1,100 |
| 6 | Huber Group | Germany | 1,020 |
| 7 | T&K TOKA CO., LTD. | Japan | 405 |
| 8 | SICPA | Switzerland | 400 |
| 9 | Tokyo Printing Ink Mfg. Co., Ltd. | Japan | 400 |
| 10 | FUJIFILM North America Corporation | U.S.A | 375 |

Source: "The 2015 Top International Ink Companies Report" (July 30, 2015) by INK WORLD

Strengths lie in the ability to develop Environmentally Friendly, High-Function Products, and High Reliability and Quality

The company's strengths lie in its ability to develop environmentally friendly, high-function, high-value-added products, and high reliability and quality products. These strengths have been amassed over the company's 120-year history since its founding.

In newspaper ink, the company has developed a high-coloration ink called "NEWS WEBMASTER Ecopure" in pursuit of the highest quality of newspaper. This has been achieved by expanding color range, improving dot reproduction and optimizing dot gain in the quest for natural colors and bright coloration. The company has earned a strong reputation as a pioneer of bright coloration ink in the newspaper production. The company's 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 has earned considerable trust from newspaper companies.

In offset ink, the company has introduced environmentally friendly ink to the market as an industry pioneer. The company has developed various ink products addressing a diverse spectrum of customer needs such as high-speed web-offset ink, waterless sheet-fed offset ink, ink for perfector, etc. The company has also developed "Ecopure" series using environmentally friendly aromatic-free solvents.

In the packaging ink field, customers require environmentally friendlier systems in various packaging industries to address priorities such as resource conservation, container recycling and industrial waste measures, etc. Accordingly, the company has developed various high-function inks, including ink for corrugated boxes and paper containers, along with ink for packaging film, as part of efforts to supply environmentally friendly products. In water-based gravure ink, the company is working to promote broader penetration of environmentally friendly ink by undertaking development activities encompassing printing systems.

A High Market Share in High-Function and High-Value-Added Products

In Japan, the printing and printing ink markets are contracting due to declining demand in newspapers, magazines, brochures and other paper media. However, one main feature of the company is that it boasts a high market share in the field of high-function, high-value-added products, which offers significant potential for growth and market development.

In the field of ink for paper media, the company's ratio of environmentally friendly products for newspaper ink, and offset ink for magazines and brochures, etc. have reached a ratio of 100%.

Looking at its market share in the field of packaging ink, the company boasts the No.1 share in Japan for flexo ink for printing on packaging such as corrugated boxes, paper containers, etc., the No.2 share in Japan for gravure ink for printing on film packaging such as for food, daily goods and other items, and the world's No.1 share for metal-deco ink for printing on metal such as beverage cans.

■ Business Performance Trends

Earnings are impacted by Sales Volume and Prices, Raw Materials Prices and Exchange Rates

On the earnings front, the company is impacted by trends in sales volume and sales prices for printing ink worldwide, as well as the impact of trends in raw materials prices, most of which are reliant on petrochemical products. In addition, the company is also susceptible to the impact of exchange rate changes due to its high ratio of overseas sales.

Higher Sales and Earnings in FY2015/12 (a 9-Month Period)

Looking at consolidated business results for FY2015/12 (a 9-month period due to the change in fiscal year-end), net sales were ¥136,581mn, operating income was ¥8,534mn, ordinary income was ¥10,068mn and net income was ¥7,745mn.

In comparison with results adjusted to correspond to the same period of the previous year (a 9-month period from April-December 2014), net sales increased 7.1% year-on-year, operating income increased 20.5% year-on-year, ordinary income increased 18.8% year-on-year, and net income increased 59.6% year-on-year. These increases were underpinned by strong performances in the printing inks (Asia) and printing inks (North America) segments, as well as the yen's depreciation, a decrease in raw material prices and an increase in equity in earnings of affiliates. The average exchange rate was US\$1= ¥121.03 (US\$1=¥106.46 in the same period of the previous year). Excluding the impact of exchange rate changes, net sales increased 0.7% year-on-year.

Looking at the analysis of factors behind changes in net sales, the factors pushing up sales were the increase in ink volume of ¥2.1bn and digital & specialty products of ¥0.9bn, along with positive impacts of ¥8.0bn from the yen's depreciation and adjustments of ¥1.1bn. The factors pushing down net sales were decrease in printing ink prices of ¥1.6bn, ¥0.6bn from graphic arts materials and ¥0.8bn from others. Consequently, these factors led to an increase in net sales of ¥9.0bn.

Looking at the analysis of factors behind changes in operating income, the factors pushing up operating income were cost reductions in the printing ink field (including raw materials costs, productivity enhancements, etc.) of ¥1.6bn, increases in printing ink volume of ¥0.83bn and others of ¥0.09bn, along with adjustments of ¥0.15bn. The factors pushing down operating income were the decrease in printing ink prices of ¥1.61bn, ¥0.20bn from digital & specialty products, and ¥0.08bn from graphic arts materials. Consequently, these factors led to an increase in operating income of ¥1.45bn.

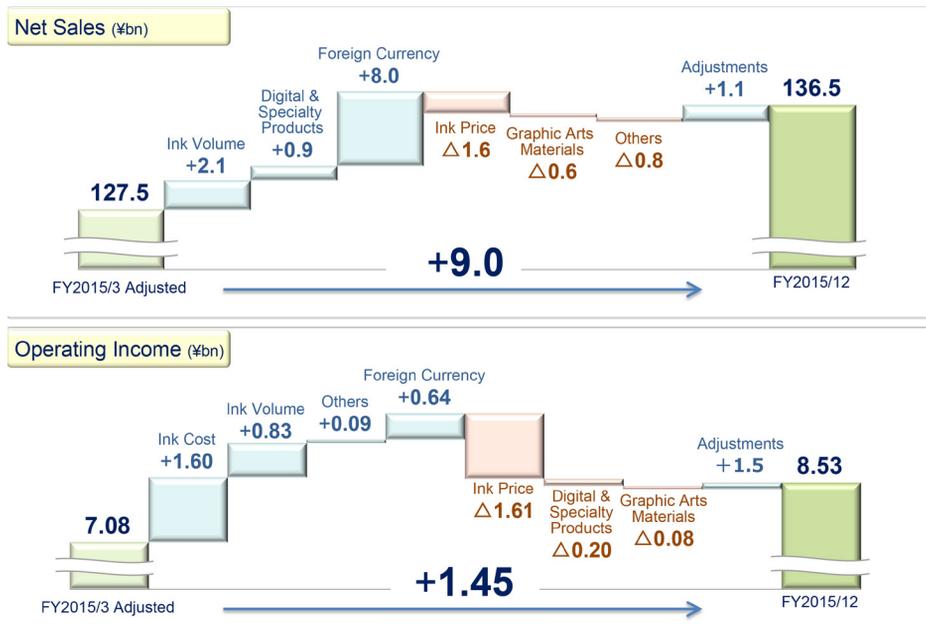


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Factors Behind Changes in Net Sales and Operating Income in FY2015/12



Source: Company presentation materials published by SAKATA INX

Looking at business results by segment (before consolidation adjustments), in comparison with the same period of the previous year (adjusted), printing inks and graphic arts materials (Japan) segment posted net sales of ¥42,727mn, down 1.9% year-on-year, and operating income of ¥1,856mn, down 10.1% year-on-year. In the printing inks (Asia) segment, net sales were ¥28,071mn, up 7.6% year-on-year, and operating income was ¥2,875mn, up 33.6% year-on-year. In the printing inks (North America) segment, net sales were ¥44,920mn, up 16.0% year-on-year, and operating income was ¥2,344mn, up 47.0% year-on-year. In the printing inks (Europe) segment, net sales were ¥9,031mn, up 4.5% year-on-year, and operating income was ¥126mn, 6.7 times higher year-on-year. In the digital & specialty products segment, net sales rose 15.7% year-on-year to ¥8,230mn, and operating income declined 31.6% year-on-year to ¥432mn. In the other businesses segment, net sales were ¥9,598mn, down 8.5% year-on-year, while operating income was ¥295mn, up 49.5% year-on-year. Consolidation adjustments were a negative ¥5,999mn at the net sales level and positive ¥602mn at the operating income level.

Segment Net Sales and Operating Income in FY2015/12

(Unit : ¥mn, %)

| | | FY2015/3 Adjusted | FY2015/12 | | |
|------------------|--|-------------------|----------------|--------------------------|------------------------|
| | | Amount | Amount | Increase/Decrease Amount | Increase/Decrease Rate |
| Net Sales | Printing inks and graphic arts materials (Japan) | 43,568 | 42,727 | -841 | -1.9 |
| | Printing inks (Asia) | 26,081 | 28,071 | 1,990 | 7.6 |
| | Printing inks (North America) | 38,722 | 44,920 | 6,197 | 16.0 |
| | Printing inks (Europe) | 8,643 | 9,031 | 388 | 4.5 |
| | Digital & Specialty products | 7,115 | 8,230 | 1,115 | 15.7 |
| | Reportable Segment Total | 124,131 | 132,981 | 8,849 | 7.1 |
| | Other Businesses | 10,491 | 9,598 | -892 | -8.5 |
| Adjustments | -7,042 | -5,999 | 1,043 | — | |
| | Total | 127,580 | 136,581 | 9,000 | 7.1 |
| Operating Income | Printing inks and graphic arts materials (Japan) | 2,064 | 1,856 | -207 | -10.1 |
| | Printing inks (Asia) | 2,153 | 2,875 | 722 | 33.6 |
| | Printing inks (North America) | 1,595 | 2,344 | 749 | 47.0 |
| | Printing inks (Europe) | 18 | 126 | 107 | 570.9 |
| | Digital & Specialty products | 631 | 432 | -199 | -31.6 |
| | Reportable Segment Total | 6,462 | 7,636 | 1,173 | 18.2 |
| | Other Businesses | 197 | 295 | 97 | 49.5 |
| Adjustments | 421 | 602 | 180 | — | |
| | Total | 7,082 | 8,534 | 1,452 | 20.5 |

Source: Prepared by FISCO based on company presentation materials published by SAKATA INX



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In the printing inks and graphic arts materials (Japan) segment, there was steady increase in gravure ink for food and beverage use, and effect from the decline in demand of offset ink associated with the increase in consumption tax came to an end. However, the demand in newspaper ink and graphic arts materials was sluggish, and flexo ink was impacted by unseasonable weather.

In the printing inks (Asia) segment, unit prices declined in line with a drop in demand due to the impact of economic slowdown in China. In addition, a fire at the Vietnam Plant also had a negative impact. However, the demand trended favorably for newspaper ink, offset ink and gravure ink in India and elsewhere. Coupled with contributions from the positive impacts of foreign currency translation due to the yen's depreciation and cost reductions, the segment saw large increase in both net sales and operating income.

In the printing inks (North America) segment, net sales and operating income increased significantly, supported mainly by growing demand for flexo ink and gravure ink, along with increase in sales volume and positive impacts of foreign currency translation due to the yen's depreciation and cost reductions. In the printing inks (Europe) segment, operating income improved mainly as sales of printing ink expanded and the initial cost burden of a new plant in the U.K. came to an end, although the segment was negatively impacted by a drop in sales prices due to the pound's appreciation. In the digital & specialty products segment, sales volume of mainstay inkjet ink rose in Japan, although demand in North America and Europe was lackluster. On the earnings front, the segment was also impacted by the temporary cost associated with the reconstruction of overseas production structure.

In FY2015/12, the gross profit margin rate was 24.0% (versus 23.2% for a 12-month period of FY2015/3). The selling, general and administrative expenses rate was 17.7% (versus 17.8% in FY2015/3). Under non-operating income, the company recorded equity in earnings of affiliates of ¥1,746mn (versus ¥1,130mn in FY2015/3). Under non-operating expenses, the company recorded foreign exchange losses of ¥497mn (versus ¥176mn in FY2015/3). Under extraordinary income, the company recorded a gain on change in equity of ¥462mn (none in FY2015/3) and a gain on sales of investment securities of ¥721mn (none in FY2015/3). Under extraordinary loss, the impairment loss of ¥292mn and the loss on disaster of ¥809mn recorded in FY2015/3 were no longer recorded in FY2015/12. ROE was 11.9% (versus 7.5% in FY2015/3) and capital ratio was 49.1% (versus 48.2% in FY2015/3).

Higher Sales and Earnings Projected for FY2016/12

For FY2016/12 (a 12-month period spanning January-December 2016; FY2015/12 was a 9-month period due to the change in fiscal year-end), the company's consolidated financial forecast is net sales of ¥158,000mn, operating income of ¥9,800mn, ordinary income of ¥11,500mn and net income of ¥7,300mn. In comparison with results adjusted to correspond to the same period of the previous year (a 12-month period from January-December 2015), net sales is forecasted to increase 1.6% year-on-year, operating income is to increase 4.7% year-on-year, ordinary income is to increase 4.3%, and net income is to increase 1.3% year-on-year.

The exchange rate assumption for this forecast is US\$1=¥120 (US\$1=¥121.03 in the same period of the previous year). Although the positive impact of the yen's depreciation will come to an end, the company is forecasting higher sales and earnings based on a projected increase in sales of high-value-added products in Japan and a projected increase in overseas sales volume in Asia and North America.

Looking at segment forecasts (before consolidation adjustments), in comparison with the same period of the previous year (adjusted), in the printing inks and graphic arts materials (Japan) segment the company is forecasting net sales of ¥55,732mn, down 1.3% year-on-year, and operating income of ¥2,415mn, up 8.8% year-on-year. In the printing inks (Asia) segment, the company is forecasting net sales of ¥31,439mn, up 3.8% year-on-year, and operating income of ¥2,951mn, down 0.9% year-on-year. In the printing inks (North America) segment, the company is forecasting net sales of ¥45,931mn, up 2.3%, and operating income of ¥2,477mn, up 8.1% year-on-year. In the printing inks (Europe) segment, the company is forecasting net sales of ¥8,731mn, down 3.3% year-on-year, and operating income of ¥102mn, down 8.1% year-on-year. In the digital & specialty products segment, the company is forecasting net sales of ¥10,508mn, up 11.4%, and operating income of ¥1,045mn, up 36.6% year-on-year. In the other businesses segment, the company is projecting net sales of ¥12,973mn, up 1.7% year-on-year, and operating income of ¥303mn, down 23.7% year-on-year. Forecasted consolidation adjustments are a negative ¥7,314mn at the net sales level and positive ¥508mn at the operating income level.



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In terms of key measures, in the printing inks and graphic arts materials (Japan) segment, the company will work to expand sales of high-value-added products (high density, high color-rendering ink; high sensitivity UV offset ink; high-function, environmentally friendly gravure ink for lamination and surface printing gravure ink; water-based flexo ink with excellent printability). In the printing inks (Asia) segment, the company will expand sales in high-performance, environmentally friendly products to global customers; develop and launch regionally focused products featuring outstanding cost competitiveness; ensure stable supply by increasing production capacity, and begin full-scale operation at the Vietnam Plant.

In the printing inks (North America) segment, key measures will include launching new products for flexo and gravure ink for high-performance lamination; increasing supply capabilities by starting full-scale operation of a new plant in Ohio; expanding sales of UV and EB ink in the offset and packaging fields; establishing a stable supply framework through plant expansion in the field of metal-deco ink; and enhancing productivity and cost reductions through TPM activities. In the printing inks (Europe) segment, the company will work to increase its market share in the metal-deco ink field by taking full advantage of its new plant in the U.K., and expanding sales to global customers in the packaging field. In the digital & specialty products segment, the company will strengthen its ties and collaboration with printer manufacturers and resist manufacturers, and will propel development of next-generation and high-quality products.

Consolidated Financial Forecast for FY2016/12: Segment Net Sales and Operating Income

(Unit : ¥mn)

| | | FY2015/12 Adjusted | FY2016/12 Forecast | |
|------------------|--|--------------------|--------------------|--------------------------|
| | | Amount | Amount | Increase/Decrease Amount |
| Net Sales | Printing inks and graphic arts materials (Japan) | 56,463 | 55,732 | -731 |
| | Printing inks (Asia) | 30,292 | 31,439 | 1,147 |
| | Printing inks (North America) | 44,919 | 45,931 | 1,011 |
| | Printing inks (Europe) | 9,031 | 8,731 | -301 |
| | Digital & Specialty products | 9,430 | 10,508 | 1,077 |
| | Reportable Segment Total | 150,138 | 152,341 | 2,203 |
| | Other Businesses | 12,752 | 12,973 | 221 |
| | Adjustments | -7,310 | -7,314 | -3 |
| | Total | 155,580 | 158,000 | 2,420 |
| Operating Income | Printing inks and graphic arts materials (Japan) | 2,219 | 2,415 | 195 |
| | Printing inks (Asia) | 2,977 | 2,951 | -28 |
| | Printing inks (North America) | 2,291 | 2,477 | 185 |
| | Printing inks (Europe) | 110 | 102 | -9 |
| | Digital & Specialty products | 764 | 1,045 | 280 |
| | Reportable Segment Total | 8,364 | 8,990 | 623 |
| | Other Businesses | 397 | 303 | -95 |
| | Adjustments | 596 | 508 | -89 |
| | Total | 9,359 | 9,800 | 441 |

Source: Prepared by FISCO based on company presentation materials published by SAKATA INX

Business Performance Trends

(Unit : ¥mn, ¥)

| Fiscal Year | FY2013/3 (12 months) | FY2014/3 (12 months) | FY2015/3 (12 months) | FY2015/12 (9 months) | FY2016/12 (12 months) Forecast |
|------------------|----------------------|----------------------|----------------------|----------------------|--------------------------------|
| Net Sales | 123,098 | 139,911 | 146,569 | 136,581 | 158,000 |
| Operating Income | 5,789 | 8,255 | 7,953 | 8,534 | 9,800 |
| Ordinary Income | 6,809 | 9,443 | 9,372 | 10,068 | 11,500 |
| Net Income | 5,588 | 5,964 | 4,338 | 8,346 | 7,300 |
| EPS | 92.35 | 98.57 | 71.71 | 128.01 | 120.64 |
| Dividend | 14.00 | 18.00 | 20.00 | 22.00 | 24.00 |
| BPS | 735.56 | 877.85 | 1034.84 | 1,107.63 | - |

Source: Prepared by FISCO based on materials published by SAKATA INX



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Segment Net Sales (Before Consolidation Adjustments)

(Unit : ¥mn)

| | FY2013/3 | FY2014/3 | FY2015/3 | FY2015/12 9 months | FY2016/12 Forecast |
|--|----------|----------|----------|-----------------------|-----------------------|
| Printing inks and graphic arts materials (Japan) | 58,830 | 60,124 | 57,304 | 42,727 | 55,732 |
| Printing inks (Asia) | 19,080 | 25,155 | 28,299 | 28,071 | 31,439 |
| Printing inks (North America) | 28,010 | 34,230 | 38,712 | 44,920 | 45,931 |
| Printing inks (Europe) | 5,837 | 7,571 | 8,637 | 9,031 | 8,731 |
| Digital & Specialty products | 5,689 | 6,832 | 8,311 | 8,230 | 10,508 |
| Other Businesses | 12,144 | 13,244 | 13,645 | 9,598 | 12,973 |
| Adjustments | -6,494 | -7,247 | -8,342 | -5,999 | -7,314 |
| Total | 123,098 | 139,911 | 146,569 | 136,581 | 158,000 |

Source: Prepared by FISCO based on materials published by SAKATA INX

Segment Operating Income (Before Consolidation Adjustments)

(Unit: ¥mn)

| | FY2013/3 | FY2014/3 | FY2015/3 | FY2015/12 9 months | FY2016/12 Forecast |
|--|----------|----------|----------|-----------------------|-----------------------|
| Printing inks and graphic arts materials (Japan) | 3,667 | 3,487 | 2,439 | 1,856 | 2,415 |
| Printing inks (Asia) | 1,039 | 2,337 | 2,239 | 2,875 | 2,951 |
| Printing inks (North America) | 574 | 1,442 | 1,525 | 2,344 | 2,477 |
| Printing inks (Europe) | -60 | -118 | 0 | 126 | 102 |
| Digital & Specialty products | 31 | 449 | 961 | 432 | 1,045 |
| Other Businesses | 334 | 303 | 299 | 295 | 303 |
| Adjustments | 203 | 352 | 486 | 602 | 508 |
| Total | 5,789 | 8,255 | 7,953 | 8,534 | 9,800 |

Source: Prepared by FISCO based on materials published by SAKATA INX

■ Business Environment

Japan: Advances in High-Function, High-Value-Added Products despite a Contracting Market; Overseas: Asia is a Growing Market

The Japanese printing ink market is contracting. According to the chemical industry statistics in 2014, the printing ink market decreased by 4.4% from 2013 on a volume basis, and decreased by 1.5% on a value basis. However, further penetration of environmentally friendly products and high-function, high-value-added products in the packaging field.

The Asian region (excluding Japan) is a growing market. Especially in India, demand has been increasing not only in the packaging field, but also for newspapers against the backdrop of improving income levels and rising literacy rates. Considering that Indian newspapers have a high ratio of color pages, the Indian market offers prospects for growing demand for newspaper ink and other forms of printing ink over the medium term.

■ Medium-Term Growth Strategy

Accelerate Growth in Sales of High-Function, High-Value-Added Products and Global Business Expansion

In its mid-term business plan (April 2015 to December 2017), the company has adopted the following basic policy: Enhance CSR activities; Attain steady growth through global business expansion; Provide total solutions including products and merchandise; Drive manufacturing technology innovation; and Continuously develop and advance core technologies.

Furthermore, the company has embraced the following strategic themes: Strengthen corporate governance; Enhance risk and compliance management system; Foster global human resources; Effective use of assets; Strengthen SAKATA INX brand; Propel global procurement; Develop and launch environmentally friendly, safe and secure products; Improve information infrastructure; Respond to market diversification; Strategic move for the next generation by capital investment; Reconstruction of production and logistics system; Improve manufacturing capabilities by optimizing production processes; and Build partnerships with external organizations, including industry, government, academia and others.

Business targets for FY2017/12 are net sales of ¥185,000mn, operating income of ¥11,000mn, ordinary income of ¥12,000mn and net income of ¥7,600mn, as well as a ROE of 10% or more. The exchange rate assumption for these targets is US\$1=¥117.

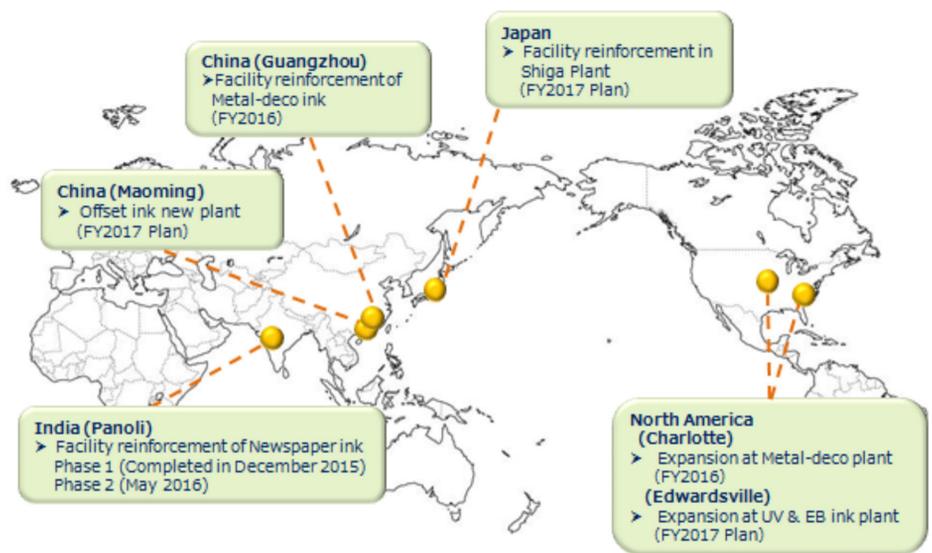
Looking at segment forecasts (before consolidation adjustments), in the printing inks and graphic arts materials (Japan) segment, the company is forecasting net sales of ¥63,000mn and operating income of ¥3,100mn. In the printing inks (Asia) segment, the company is forecasting net sales of ¥44,500mn and operating income of ¥3,500mn. In the printing inks (North America) segment, the company is forecasting net sales of ¥45,400mn and operating income of ¥1,900mn. In the printing inks (Europe) segment, the company is forecasting net sales of ¥10,300mn and operating income of ¥200mn. In the digital & specialty products segment, the company is forecasting net sales of ¥15,700mn and operating income of ¥1,400mn. In the other businesses segment, the company is forecasting net sales of ¥14,300mn and operating income of ¥300mn. Forecasted consolidation adjustments are a negative ¥8,200mn at the net sales level and positive ¥600mn at the operating income level.

In the printing inks and graphic arts materials (Japan) segment, the company will bolster its business platform in Japan by expanding sales by launching high-quality, differentiated products, offering total solution proposals, reducing costs through innovative manufacturing technologies, and reconstructing logistics and production systems. In the printing inks (Asia) segment, the company seeks to expand sales primarily by expanding environmentally friendly products, launching regionally focused products and propelling TPM activities.

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

The company is planning capital investment of ¥20,000mn for the next three years on a cumulative basis. The main components are capital investments of ¥13,100mn in the printing ink business (¥7,200mn for increasing overseas production capacity, ¥5,900mn for reconstructing logistics and production systems), ¥1,400mn for increasing production capacity in the digital & specialty products business, ¥1,400mn in information infrastructure, and ¥4,100mn in ordinary investments and others. The main projects will be the second phase of construction at Shiga Plant and information infrastructure investment; expansion of plants in North America (metal-deco ink, UV and EB ink); facility reinforcement of metal-deco ink in China (Guangzhou); construction of a new offset ink plant in China (Maoming), facility reinforcement of newspaper ink in India (Panoli). The company plans to record depreciation of ¥12,000 over the next three years on a cumulative basis.

Capital Investment Plan



Source: Company presentation materials published by SAKATA INX

■ Shareholder Returns

Targeting a Consolidated Dividend Payout Ratio in the range about 20% to 30%, along with offering a Shareholder Benefit Program

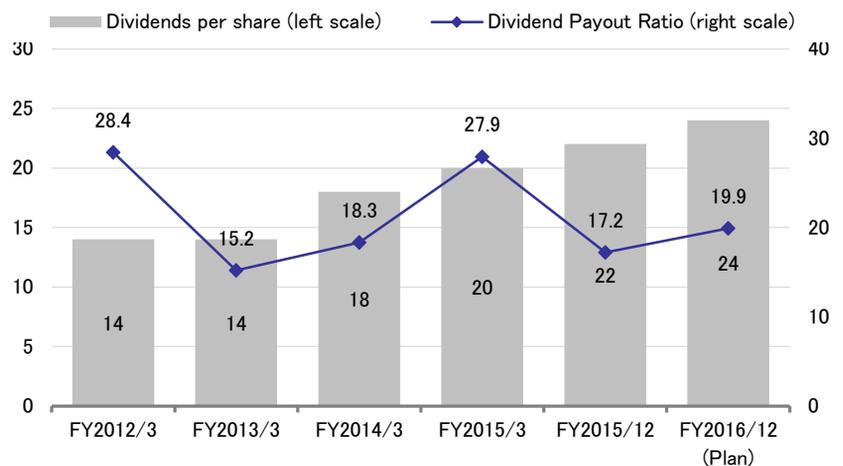
In regard to profit distribution, management positions returning profits to shareholders, including dividends, as an important issue in conjunction with working to strengthen the company's financial position and business infrastructure. The basic policy on dividends is to maintain a steady return of profits through dividend payments, while targeting a consolidated dividend payout ratio in the range about 20% to 30%.

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

In FY2015/3 (12 months earnings), the annual dividend was ¥20 per share (interim dividend of ¥9 per share and year-end dividend of ¥11 per share), representing a dividend payout ratio of 27.9%. In 2015/12 (9 months earnings), the annual dividend was ¥22 per share (interim dividend of ¥10 per share and year-end dividend of ¥12 per share), representing a dividend payout ratio of 17.2%.

Moreover, in FY2016/12 (12 months earnings) the dividend plan is an annual dividend of ¥24 per share (interim dividend of ¥12 per share and year-end dividend of ¥12 per share). This will represent fourth consecutive years of dividend increases and a dividend payout ratio of 19.9%. And, with the company marking its 120th founding anniversary in November 2016, the company could decide to issue a commemorative dividend.

Dividends per share and Dividend Payout Ratio



* FY2015/12 (9 months)



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Key Performance Indicators

| Item | (Unit:¥mn) | | | |
|---|------------|------------|------------|-----------------------|
| | FY2013/3 | FY2014/3 | FY2015/3 | FY2015/12 9 months |
| Net Sales | 123,098 | 139,911 | 146,569 | 136,581 |
| Cost of Sales | 95,521 | 107,430 | 112,581 | 103,826 |
| Gross Profit Margin | 27,576 | 32,480 | 33,988 | 32,754 |
| Selling, general and administrative expenses | 21,786 | 24,225 | 26,034 | 24,219 |
| Operating Income | 5,789 | 8,255 | 7,953 | 8,534 |
| Non-Operating Income | 1,615 | 1,773 | 2,131 | 2,601 |
| Non-Operating Expenses | 595 | 584 | 712 | 1,067 |
| Ordinary Income | 6,809 | 9,443 | 9,372 | 10,068 |
| Extraordinary Income | 2,168 | 6 | 779 | 1,539 |
| Extraordinary Loss | 103 | 0 | 1,128 | 2 |
| Income before Income Taxes and Minority Interests | 8,874 | 9,450 | 9,023 | 11,604 |
| Total Income Taxes | 3,103 | 3,124 | 4,206 | 3,258 |
| Net Income | 5,588 | 5,964 | 4,338 | 8,346 |
| Comprehensive Income | 9,177 | 11,133 | 11,508 | 6,265 |
| Total Assets | 99,649 | 115,407 | 129,912 | 136,564 |
| (Current Assets) | 57,222 | 62,876 | 69,346 | 72,554 |
| (Noncurrent Assets) | 42,427 | 52,530 | 60,565 | 64,010 |
| Total Liabilities | 54,115 | 60,723 | 65,126 | 66,944 |
| (Current Liabilities) | 40,592 | 43,116 | 43,753 | 46,574 |
| (Noncurrent Liabilities) | 13,522 | 17,606 | 21,373 | 20,370 |
| Total Net Assets | 45,533 | 54,684 | 64,785 | 69,619 |
| Shareholders' Equity | 50,589 | 55,724 | 58,756 | 65,230 |
| Capital | 7,472 | 7,472 | 7,472 | 7,472 |
| Total number of issued shares at the end of the period, excluding treasury shares | 60,511,273 | 60,509,187 | 60,508,675 | 60,508,154 |
| EPS (¥) | 92.35 | 98.57 | 71.71 | 128.01 |
| Net Assets per share (¥) | 735.56 | 877.85 | 1034.84 | 1,107.63 |
| Dividends per share (¥) | 14.00 | 18.00 | 20.00 | 22.00 |
| Equity ratio (%) | 44.7 | 46.0 | 48.2 | 49.1 |
| ROE (%) | 13.8 | 12.2 | 7.5 | 11.9 |
| Cash Flows from Operating Activities | 6,574 | 7,203 | 6,487 | 11,254 |
| Cash Flows from Investing Activities | -3,132 | -3,920 | -9,156 | -3,214 |
| Cash Flows from Financing Activities | -3,162 | -3,943 | 2,745 | -5,973 |
| Cash and Cash Equivalents at the end of the period | 5,861 | 5,514 | 5,923 | 7,888 |
| Number of employees (including average number of temporary staff) | 4,085 | 4,241 | 4,409 | 4,530 |

Source: Prepared by FISCO based on materials published by SAKATA INX

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