COMPANY RESEARCH AND ANALYSIS REPORT

SAKATA INX CORPORATION

4633

Tokyo Stock Exchange Prime Market

26-Oct.-2022

FISCO Ltd. Analyst

Masanobu Mizuta

FISCO Ltd.

https://www.fisco.co.jp

Index

Summary

In FY2022/12 2Q, despite a double-digit increase in sales, profit declined due to the impact of increased raw materials costs

SAKATA INX CORPORATION <4633> (hereafter, "the Company") is the world's third largest printing ink manufacturer with a history of 126 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. 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 over 20 countries and regions in Japan, Asia, the Americas, and Europe. The Americas and Asia have plenty of room for market development, and 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 126 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. As the market for environmentally friendly products has plenty of room for growth, we at FISCO view the business environment as favorable to the Company, which possesses environmentally friendly products as a strength.

1. Outline of results for FY2022/12 2Q

In the FY2022/12 2Q consolidated results (despite the adoption of the Accounting Standard for Revenue Recognition, the impact on profit and loss was minimal), net sales increased by 16.8% YoY to ¥103,533mn, operating income fell by 59.8% to ¥2,028mn, ordinary income decreased by 57.2% to ¥2,503mn, and net income attributable to owners of parent decreased by 40.6% to ¥2,400mn. Sales increased by double digits as a result of factors such as an increase in the sales volume of ink, sales expansion of digital & specialty products, sales price revisions, and the effects of yen depreciation in currency exchanges. In terms of profit, sales price revisions were unable to make up for the increase in raw material costs, which was greater than anticipated, as well as the rise in personnel, logistics and utility costs in the Americas and Europe, resulting in significant decreases to each profit item. Furthermore, in conjunction with the termination of a capital alliance with Toyo Ink SC Holdings, the Company recorded gain on sale of investment securities of ¥1,442mn as extraordinary profit.

2. FY2022/12 full-year consolidated results forecast

The Company's FY2022/12 full-year consolidated results forecast is for net sales to increase by 21.8% YoY to ¥221,000mn, operating income to fall by 32.6% to ¥5,000mn, ordinary income to decrease by 31.8% to ¥5,800mn, and net income attributable to owners of parent to decrease by 4.7% to ¥4,700mn. On August 10, 2022, the Company made upward revisions to net sales and downward revisions to each profit item. Much like 1H, although it forecasts factors such as an increase in the sales volume of ink, sales expansion of digital & specialty products, sales price revisions, and the effects of yen depreciation in currency exchanges, it predicts a significant decrease in profit due to factors including an unanticipated increase in raw material costs and a rise in personnel, logistics and utility costs in the Americas and Europe. Looking at net sales and operating income by half-year, 1H net sales are forecast to rise by 16.8% YoY to ¥103,533mn while operating income is set to fall by 59.8% to ¥2,028mn. In the 2H, net sales are expected to increase by 26.6% to ¥117,467mn, and operating income is expected to increase by 25.5% to ¥2,972mn. For the 2H forecast, it is anticipated that the negative spread of sales price revisions in contrast to the increase in raw material costs will be reduced and that profit will increase compared to both 2H of the previous fiscal year and to 1H. Although profit is forecast to decrease on a full-year basis, in 2H, the impact of cost increases will be lessened through the advancement of sales price revisions, and we at FISCO think it is possible that operating income will bottom out in 1H and head toward recovery.

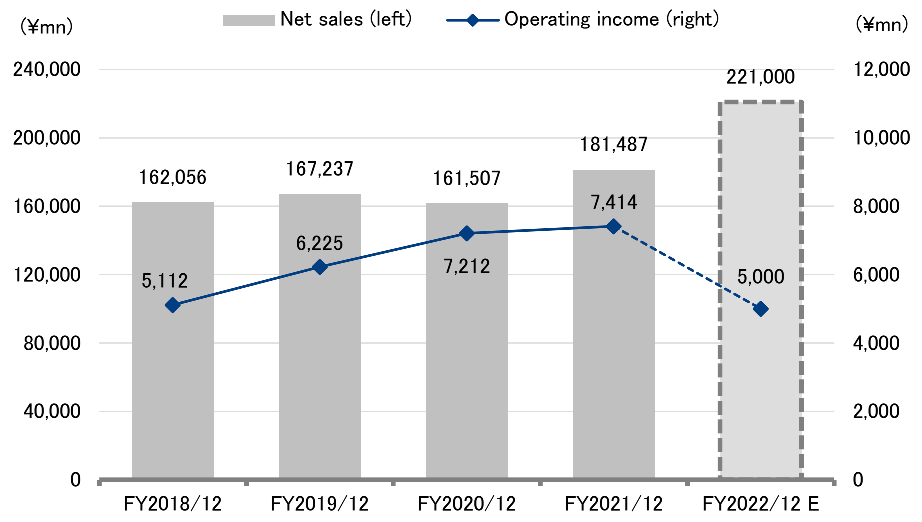
3. Long-term strategic vision and mid-term business plan

As the strategic direction in its long-term strategic vision SAKATA INX VISION 2030, the Company has set "Strengthen our ESG /sustainability efforts by 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 a foundation toward achieving its long-term strategic vision, and is actively working to strengthen sustainability management and commercialize new business areas with a focus on enhancement of sustainability and four chemical fields (environmental and biochemicals, electronics chemicals, energy chemicals, and optochemicals). Against the backdrop of rising interest in global environmental problems and SDGs, global demand is shifting to environmentally friendly products. Therefore, plenty of room remains for the market for environmentally friendly products, which is the Company's strength, to expand and develop. To respond to these market trends, the Company's policy is to further promote the development and market launch of environmentally friendly products, as well as the development of new areas. In FY2022/12, although the Company was affected by raw material costs and increases in personnel, logistics and utility costs, we believe that if these impacts lessen, there is a strong possibility that the Company will face a new growth stage in the medium to long term.

Key Points

- A major printing ink manufacturer whose main products are packaging printing ink and digital & specialty products
- Distinctive strengths include global business deployment and environmentally friendly products
- In FY2022/12, forecasts a decrease in profit due to the impact of increased material costs, but there is a possibility of bottoming out in 1H
- Entering a new growth stage through its strength of environmentally friendly products and active deployment into new areas

Results trends



Source: Reprinted 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 126 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 Prefecture) 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 FY2022/12 2Q) is comprised of 26 consolidated subsidiaries and 4 equity-method affiliates, and operates printing ink manufacturing and sales bases in over 20 countries and regions in Japan, Asia, the Americas and Europe. SIIX Corporation <7613>, an independent spin-off of the Company established in 1992, is an equity-method affiliate.

At the end of FY2022/12 2Q, total assets were ¥183,130mn, net assets were ¥95,233mn, capital was ¥7,472mn, the equity ratio was 48.4%, and the total number of issued shares was 54,172,361 shares (including 4,143,284 treasury shares).

The capital alliance with Toyo Ink SC Holdings <4634>, which had become the Company's No. 1 shareholder through the alliance, was terminated in May 2022. As a result of terminating the capital alliance, the Company acquired the 8,428,800 of its shares which had been held by Toyo Ink SC Holdings as treasury shares on May 16, 2022, after which it extinguished them on May 31, 2022. At the same time, it sold the 2,335,200 shares it held in Toyo Ink SC Holdings. Although the capital alliance has been terminated, the Company will continue a business alliance which includes the logistics field, manufacturing outsourcing, and supplementary manufacturing during emergencies.

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. In April 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)

Year	Main Event
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)
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	Earned the TPM Advanced Special Award for its four main domestic plants (in Tokyo, Osaka, Shiga, and Hanyu)
2019	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
2021	Started the long-term strategic vision “SAKATA INX VISION 2030”
2022	Shifted listing to the Tokyo Stock Exchange Prime Market Terminated its capital alliance with Toyo Ink SC Holdings (will continue its business alliance)

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 January 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, 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, paper bags, 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. Although it develops 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.), the percentage of total sales provided by this business is declining due to a decrease in demand caused by the advancement of digitalization, and its impact on results as a whole continues to lessen.

In the digital & specialty products business, the Company manufactures and sells digital printing materials (inkjet ink for industrial printers 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 printing-related equipment mainly for the Japanese market.

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 for 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 (before consolidation adjustments), as a result of its early progress on global expansion, Asia and the Americas, in which there remains plenty of room to develop the markets, have provided over 50% in total from an early stage and are the main pillars of earnings.

For the percentages of operating income by segment in FY2022/12 1H, printing inks and graphic arts materials (Japan) provided 8.1%, printing inks (Asia) 24.9%, printing inks (Americas) 32.7%, printing inks (Europe) -17.2%, digital & specialty products 42.1%, and other businesses 9.3%. For FY2022/12 1H in total, operating income overall declined due to the impact of increased raw materials costs. In Japan, ink used for newspapers and offset ink decreased, while in Asia, the Company was impacted by the lockdowns in Shanghai, China. It was also affected by rising logistics and personnel costs in the Americas, and by the impact of rising utility costs in Europe. The digital & specialty products segment was also affected by increased raw materials costs, but as a result of the recovery in advertising demand and office demand from the impact of the COVID-19 pandemic, and the sales expansion of products with high-added-value, the scale of the decrease in profit remained small in comparison to other segments.

Trends in percentages of net sales and operating income by segment

	FY2018/12	FY2019/12	FY2020/12	FY2021/12	FY2022/12 2Q
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Printing inks and graphic arts materials (Japan)	32.3%	29.6%	28.4%	26.4%	23.3%
Printing inks (Asia)	18.9%	20.2%	19.3%	20.1%	20.8%
Printing inks (Americas)	26.5%	27.9%	29.3%	28.7%	33.2%
Printing inks (Europe)	5.5%	5.6%	6.0%	8.3%	8.8%
Digital & specialty products	7.2%	7.1%	7.0%	7.5%	7.3%
Other businesses	9.6%	9.6%	10.0%	9.0%	6.7%
Operating income	100.0%	100.0%	100.0%	100.0%	100.0%
Printing inks and graphic arts materials (Japan)	25.2%	15.0%	14.9%	19.1%	8.1%
Printing inks (Asia)	34.2%	44.0%	37.2%	31.4%	24.9%
Printing inks (Americas)	22.2%	35.4%	44.8%	20.5%	32.7%
Printing inks (Europe)	-17.7%	-17.9%	-6.6%	-2.6%	-17.2%
Digital & specialty products	27.4%	16.8%	7.3%	26.6%	42.1%
Other businesses	8.7%	6.7%	2.4%	4.9%	9.3%

Note 1: Net sales and operating income both calculated based on the total prior to consolidated adjustments
Note 2: Printing inks (North America) was changed to printing inks (Americas) from FY2019/12 onward
Note 3: Standards for the allocation of company-wide costs were reevaluated from FY2021/12 onward
Source: Prepared by FISCO from the Company's financial results

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 over a history of more than 120 years 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 is furthering the development of the Dream Cure series of UV curable inks which 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 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 are time lags between the time of increases in raw material prices and their reflection in sales prices, which may impact results. Main raw materials for pigments 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 lowered the supply volume 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 as a result of 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 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. We at FISCO have evaluated this as a good business environment for the Company, which has acquired high market shares because of its strengths of development capabilities and an extensive lineup of environmentally friendly products.

Results trends

In FY2022/12 2Q, despite significant profit decreases due to increased raw materials costs, sales increased in all businesses

1. FY2022/12 2Q consolidated results

In the FY2022/12 2Q consolidated results (despite the adoption of the Accounting Standard for Revenue Recognition, the impact on profit and loss was minimal), net sales increased by 16.8% YoY to ¥103,533mn, operating income fell by 59.8% to ¥2,028mn, ordinary income decreased by 57.2% to ¥2,503mn, and net income attributable to owners of parent decreased by 40.6% to ¥2,400mn. Sales increased by double digits as a result of factors such as an increase in the sales volume of ink, sales expansion of digital & specialty products, sales price revisions, and the effects of yen depreciation in currency exchanges. In terms of profit, sales price revisions were unable to make up for the increase in raw material costs, which was greater than anticipated, as well as the rise in personnel, logistics and utility costs in the Americas and Europe, resulting in significant decreases to each profit item. Gross profit declined by 3.4% YOY, and the gross profit margin fell 3.9 percentage points (pp) YoY to 18.4%. Selling, general and administrative expenses increased by 16.0%, and the selling, general and administrative expenses ratio fell 0.1pp to 16.5%. In non-operating income, equity in earnings of affiliates decreased by ¥211mn, and the Company recorded gain on sale of investment securities of ¥1,442mn as extraordinary profit in conjunction with the termination of the capital alliance with Toyo Ink SC Holdings.

FY2022/12 2Q consolidated results

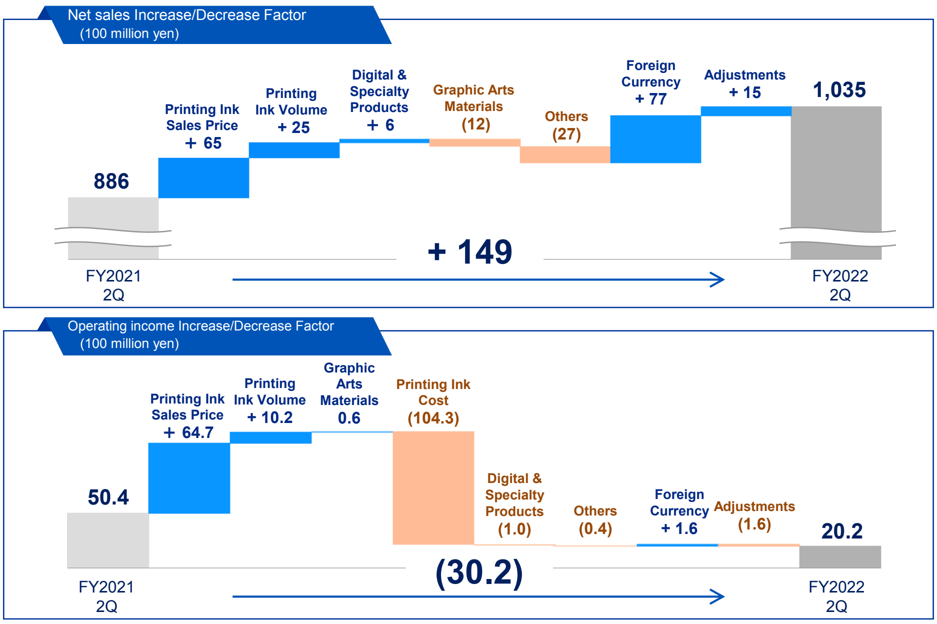
(¥mn)

	FY2021/12 2Q Results	FY2022/12 2Q				
		Results	YoY	Rate of change after excluding foreign currency translation impact	2Q forecast (dated May 13, 2022)	Achievement rate
Net sales	88,676	103,533	16.8%	8.1%	96,800	107.0%
Operating income	5,045	2,028	-59.8%	-62.9%	2,700	75.1%
Ordinary income	5,852	2,503	-57.2%	-59.5%	3,350	74.7%
Net income attributable to owners of parent	4,039	2,400	-40.6%	-42.5%	3,200	75.0%

Note: Average exchange rates (US$) during the period were ¥107.69 (FY2021/12 2Q) and ¥122.89 (FY2022/12 2Q)
Note 2: Quarterly net income revised upward by ¥1,000mn from the previous forecast on May 13, 2022
Source: Prepared by FISCO from the Company's financial results and supplemental briefing materials

The main factors behind the changes in net sales and operating income are as follows. Looking at the main factors behind the change in operating income (a decrease of ¥3.02bn YoY), the main factors increasing income were ¥6.47bn from printing ink by unit price, ¥1.02bn from printing ink volume, ¥60mn from graphic arts materials, and ¥160mn from exchange rates, while the main factors decreasing profit were ¥10.43bn in ink costs, ¥100mn in digital & specialty products, ¥40mn for other businesses, and ¥160mn in adjustments. Despite making advances in sales price revisions, the Company was unable to make up for rising costs.

YoY change factors in net sales and operating income

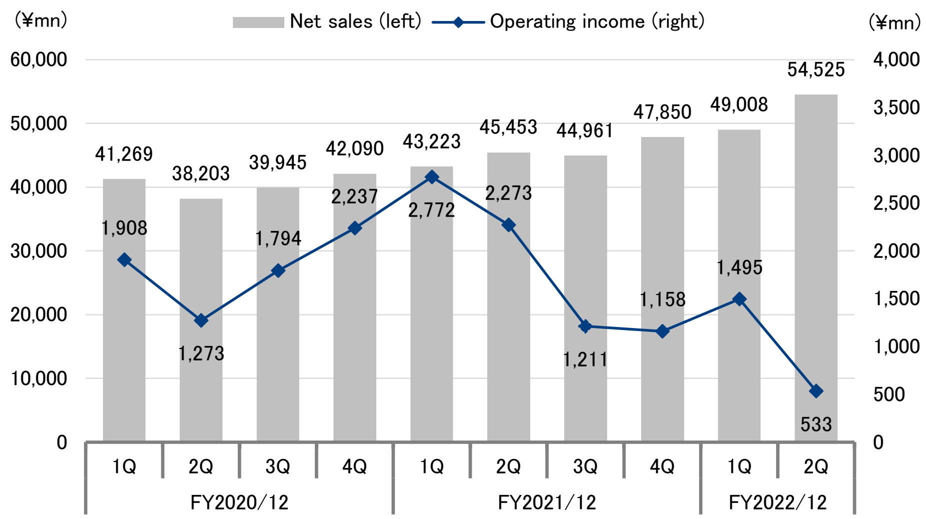


Source: Reprinted from the Company's results briefing materials

The average exchange rate during the period was ¥122.89 to US$1 (¥107.69 to US$1 in FY2021/12) and after excluding the effects of exchange rates, net sales increased by 8.1% YoY, operating income decreased by 62.9%, ordinary income declined by 59.5%, and net income attributable to owners of parent decreased by 42.5%. When compared to the previous forecast (on May 13, 2022, quarterly net income attributable to owners of parent was upwardly revised by ¥1,000mn, with net sales forecast at ¥96,800mn, operating income at ¥2,700mn, ordinary income at ¥3,350mn, and net income attributable to owners of parent at ¥3,200mn), although net sales exceeded the forecast by 7.0%, the remaining items each fell short of the forecast—operating income by 24.9%, ordinary income by 25.3%, and net income attributable to owners of parent by 25.0%.

Looking at each fiscal quarter, in 1Q, net sales were ¥49,008mn, with operating income of ¥1,495mn, while in 2Q, net sales were ¥54,525mn, with operating income of ¥533mn. In addition to increased demand and expanded sales brought on by the revitalization of economic activities and sales price revisions, the further depreciation of the yen in currency exchanges (¥116.20 to $1 in 1Q, and ¥129.57 to $1 in 2Q) was also a contributing factor that led net sales to trend toward an increase. However, due to increases in raw materials costs and miscellaneous costs (such as logistics and personnel costs), operating income declined significantly in 2Q.

Trends in net sales and operating income on a quarterly basis



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

2. Trends by segment

Net sales and operating income by segment

(¥mn)

	FY2021/12 2Q Results	FY2022/12 2Q Results	FY2022/12 2Q YoY	FY2022/12 2Q Rate of change after excluding foreign currency translation impact
Net sales	88,676	103,533	16.8%	8.1%
Printing inks and graphic arts materials (Japan)	24,439	24,918	2.0%	-
Printing inks (Asia)	18,135	22,241	22.6%	9.7%
Printing inks (Americas)	26,352	35,490	34.7%	17.3%
Printing inks (Europe)	8,003	9,372	17.1%	12.5%
Digital & specialty products	6,754	7,768	15.0%	9.2%
Reporting segments total	83,685	99,791	19.2%	10.0%
Other businesses	9,861	7,198	-27.0%	-27.0%
Adjustments	-4,871	-3,456	-	-
Operating income	5,045	2,028	-59.8%	-
Printing inks and graphic arts materials (Japan)	824	164	-80.0%	-
Printing inks (Asia)	1,221	502	-58.8%	-64.0%
Printing inks (Americas)	1,646	659	-59.9%	-65.1%
Printing inks (Europe)	47	-347	-	-
Digital & specialty products	927	847	-8.6%	-10.7%
Reporting segments total	4,667	1,827	-60.8%	-
Other businesses	224	187	-16.5%	-
Adjustments	153	13	-	-

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 increased by 2.0% YoY to ¥24,918mn and operating income decreased by 80.0% to ¥164mn. In terms of sales, ink for newspapers and offset ink decreased due to factors including sluggish advertising demand and the advancement of digitalization, and sales of plate-making materials and equipment were low. However, sales of gravure ink used for flexible packaging increased as a result of factors including the expansion of demand for eating at home and recovery of demand for convenience stores, as did sales of flexo inks for corrugated boards because of increased demand for processed foods and fruits and vegetables. Sales of flexo inks for paper bags increased thanks to the recovery of demand for paper bags, and sales price revisions also contributed to an increase in sales. Profit declined due to a decrease in sales of ink used for printing newspapers and offset ink and the impact of increased raw material costs.

(2) Printing inks (Asia)

In printing inks (Asia), net sales increased by 22.6% YoY to ¥22,241mn while operating income decreased by 58.8% to ¥502mn. Although sales decreased in China due to the impact of lockdowns in Shanghai, packaging-related gravure ink, which is a mainstay product, continued to expand in places like Indonesia and Vietnam, and business related to inks for package printing and information media in India continued to make a recovery from the slump it had fallen into due to the COVID-19 pandemic. Overall, the segment saw significant increases in sales as a result of increased sales volume, the effects of sales prices revisions, and the results of yen depreciation. Profit declined significantly as sales price revisions were unable to make up for the increase in raw materials costs.

(3) Printing inks (Americas)

In printing inks (Americas), net sales increased by 34.7% YoY to ¥35,490mn and operating income decreased by 59.9% to ¥659mn. In terms of sales, against the backdrop of strong demand, sales continued to expand for packaging-related business (flexo ink and gravure ink used in film and UV offset ink for paper containers) centered on environmentally products and for metal-deco ink for printing on cans thanks to increased demand for aluminum cans in conjunction with a reduction of environmental loads. Overall, the segment saw significant increases in sales as a result of increased sales volume, the effects of sales prices revisions, and the results of yen depreciation. Profit decreased significantly as sales price revisions were unable to make up for the increase in raw material costs on top of increases in personnel and logistics costs.

(4) Printing inks (Europe)

In printing inks (Europe), net sales increased by 17.1% to ¥9,372mn and operating loss was ¥347mn (compared to a profit of ¥47mn in the previous fiscal year). Sales continued to expand for packaging-related business (flexo and gravure inks for flexible packaging and UV offset ink for paper containers) centered on environmentally products and for metal-deco ink for printing on cans thanks to increased demand for aluminum cans brought on by a reduction of environmental loads. Overall, the segment saw significant increases in sales as a result of increased sales volume, the effects of sales prices revisions, and the results of yen depreciation. Profit decreased significantly as sales price revisions were unable to make up for the increase in raw material costs on top of increases in personnel, logistics and utility costs.

(5) Digital & specialty products

In digital & specialty products, net sales increased by 15.0% YoY to ¥7,768mn while operating income decreased 8.6% to ¥847mn. Although sales of pigment dispersions for color filters decreased due to a decline in demand for panel displays, sales volumes of inkjets and toners increased through recovery of office demand and advertising demand from the impact of the COVID-19 pandemic. The sales expansion of toners in the Americas was also a contributing factor. Additionally, the effects of sales price revisions and results of yen depreciation also helped sales to increase significantly. Profit decreased due to the impact of increased raw materials costs, but as a result of factors such as the effects of expanding sales of high-value-added products, the scale of the decrease remained small in comparison to other segments.

The Company's financial position is healthy

3. Financial position

At the end of FY2022/12 2Q, total assets were up ¥16,231mn compared with the end of the previous fiscal year to ¥183,130mn. Due to the impact of sales increases and foreign currency translation, notes and accounts receivable – trade increased by ¥5,600mn, merchandise and finished goods increased by ¥3,542mn, raw materials and supplies increased by ¥4,256mn, and intangible noncurrent assets increased by ¥1,039mn. Total liabilities increased by ¥13,462mn to ¥87,896mn. Loans payable (the total of short-term and long-term loans) were up ¥11,027mn to ¥27,051mn. Net assets increased by ¥2,768mn to ¥95,233mn. Retained earnings decreased ¥6,642mn, but foreign currency translation adjustment increased ¥9,766mn. As a result, the equity ratio decreased 3.4pp YoY to 48.4%. Although the financial composition worsened due to the acquisition of treasury shares, an increase in loans brought on by an increase in inventories, the decline in the equity ratio, and decreases in operating cash flow, these factors are temporary, and do not meet the standards to be a particular cause for concern, so it is our view that the Company continues to be financially sound.

Financial statements

(¥mn)

	FY2018/12	FY2019/12	FY2020/12	FY2021/12	FY2022/12 2Q
Net sales	162,056	167,237	161,507	181,487	103,533
Cost of sales	128,824	131,507	126,049	143,803	84,454
Gross profit	33,232	35,730	35,458	37,684	19,078
Gross profit margin	20.5%	21.4%	22.0%	20.8%	18.4%
Selling, general and administrative expenses	28,120	29,504	28,245	30,269	17,050
Selling, general and administrative expenses ratio	17.4%	17.6%	17.5%	16.7%	16.5%
Operating income	5,112	6,225	7,212	7,414	2,028
Operating income margin	3.2%	3.7%	4.5%	4.1%	2.0%
Non-operating income	2,476	1,693	1,172	1,835	755
Non-operating expenses	678	600	596	743	280
Ordinary income	6,910	7,319	7,789	8,506	2,503
Ordinary income margin	4.3%	4.4%	4.8%	4.7%	2.4%
Extraordinary income	285	311	187	290	1,442
Extraordinary loss	71	448	221	1,013	-
Income before income taxes (quarterly)	7,125	7,181	7,755	7,784	3,945
Total income taxes	2,155	2,427	1,849	2,153	1,431
Net income attributable to owners of parent (quarterly)	4,692	4,114	5,275	4,933	2,400
Margin on net income attributable to owners of parent (quarterly)	2.9%	2.5%	3.3%	2.7%	2.3%
Comprehensive income	756	5,339	1,839	12,829	12,313
Total assets	145,495	148,292	145,272	166,899	183,130
(Current assets)	75,785	79,064	77,640	92,860	105,279
(Noncurrent assets)	69,709	69,227	67,632	74,039	77,850
Total liabilities	68,097	66,852	63,850	74,434	87,896
(Current liabilities)	49,233	46,317	42,315	55,258	66,160
(Noncurrent liabilities)	18,864	20,535	21,535	19,176	21,736
Total net assets	77,397	81,439	81,421	92,465	95,233
(Shareholders' equity)	77,528	79,494	83,035	86,104	79,456
Capital	7,472	7,472	7,472	7,472	7,472
Total number of issued shares at the end of period, excluding treasury shares	58,399,218	58,398,924	58,418,536	58,436,753	50,029,077
Cash flows from operating activities	5,239	9,819	10,599	7,556	-3,147
Cash flows from investment activities	-7,279	-5,106	-7,010	-5,352	1,555
Cash flows from financing activities	-122	-3,821	-980	-2,875	-600
Cash and cash equivalents at the end of the period	6,788	9,361	11,678	12,115	10,525

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

Business outlook

Despite downwardly revising FY2022/12 full-year profit forecasts, there is a possibility that profit will bottom out in 1H

The Company's FY2022/12 full-year consolidated results forecast is for net sales to increase by 21.8% YoY to ¥221,000mn, operating income to fall by 32.6% to ¥5,000mn, ordinary income to decrease by 31.8% to ¥5,800mn, and net income attributable to owners of parent to decrease by 4.7% to ¥4,700mn. On August 10, 2022, the Company made upward revisions to net sales and downward revisions to each profit item*. Much like 1H, although it forecasts factors such as an increase in the sales volume of ink, sales expansion of digital & specialty products, sales price revisions, and the effects of yen depreciation in currency exchanges, it predicts a significant decrease in profit due to factors including an unanticipated increase in raw material costs and a rise in personnel, logistics and utility costs in the Americas and Europe. The expected exchange rate (US$) is ¥138.00 in 2H, and ¥130.00 for the full year (¥109.80 in FY2021/12). The planned net sales and operating income for each segment on a full-year basis after revisions are as follows.

* In the previous forecast (dated May 13, 2022), the Company downwardly revised ordinary income by ¥100mn due to a decrease in equity in earnings of affiliates in conjunction with the termination of the capital alliance with Toyo Ink SC Holdings, and upwardly revised net income attributable to owners of parent by ¥900mn due to the recording of gain on sale of investment securities. As a result, it revised figures from the previous forecast, which called for net sales of ¥198,000mn, operating income of ¥7,000mn, ordinary income of ¥8,200mn, and net income attributable to owners of parent of ¥6,600mn, upward to net sales of ¥23,000mn, and downward to operating income of ¥2,000mn, ordinary income of ¥2,400mn, and net income attributable to owners of parent of ¥1,900mn.

FY2022/12 consolidated results forecasts

(¥mn)

	FY2021/12 Results	FY2022/12	
		Forecast	YoY
Net sales	181,487	221,000	21.8%
Operating income	7,414	5,000	-32.6%
Ordinary income	8,506	5,800	-31.8%
Net income attributable to owners of parent	4,933	4,700	-4.7%

Note 1: Forecast dated August 10, 2022
Note 2: The average exchange rate (US$) during the period was ¥109.80 in FY2021/12, and is expected to be ¥130.00 in FY2022/12 (¥138.00 in 2H)
Source: Prepared by FISCO from the Company's financial results and supplemental results briefing materials

Net sales and operating income forecast by segment

(¥mn)

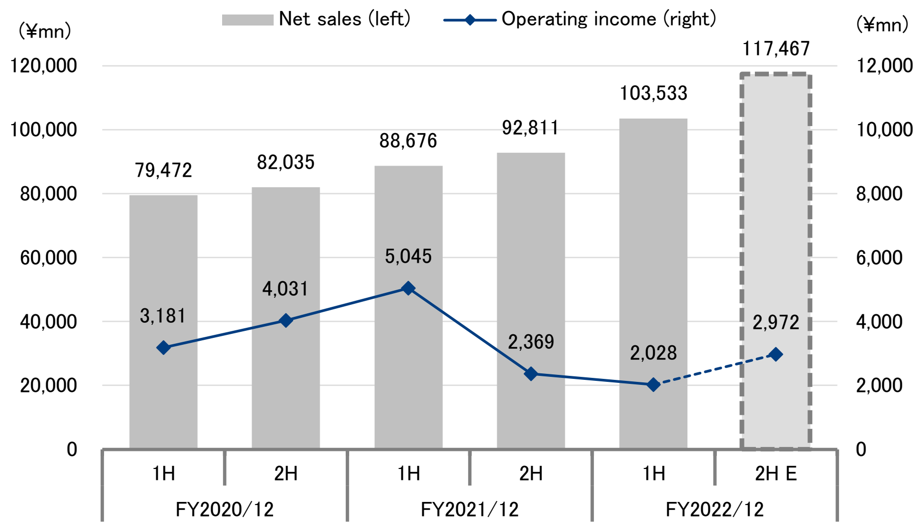
	FY2021/12 Results	FY2022/12 Results	FY2022/12 YoY
Net sales			
Printing inks and graphic arts materials (Japan)	5,044	52,900	5.0%
Printing inks (Asia)	38,574	49,900	29.4%
Printing inks (Americas)	54,930	75,500	37.5%
Printing inks (Europe)	15,929	19,500	22.8%
Digital & specialty products	14,328	16,500	15.5%
Reporting segments total	174,207	214,500	23.1%
Other businesses	17,229	13,300	-22.3%
Adjustments	-9,949	-6,900	-
Total	181,487	221,000	21.8%
Operating income			
Printing inks and graphic arts materials (Japan)	1,366	400	-68.8%
Printing inks (Asia)	2,244	1,700	-23.5%
Printing inks (Americas)	1,464	1,100	-18.2%
Printing inks (Europe)	-188	-500	-
Digital & specialty products	1,901	1,600	-14.3%
Reporting segments total	6,788	4,400	-34.5%
Other businesses	350	200	-33.7%
Adjustments	275	300	-
Total	7,414	500	-32.6%

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

In terms of the monetary impact of cost increases and sales price revisions on operating income, the Company forecasts a decrease of ¥8.6bn in 1H due to rising raw material costs, and an increase of ¥6.5bn because of sales price revisions, but in 2H (expected), forecasts a decrease of ¥5.9bn due to rising raw material costs and an increase of ¥6.8bn because of sales price revisions. For the full year (expected), it forecasts a decrease of ¥14.5bn due to rising raw material costs and an increase of ¥13.2bn because of sales price revisions. It predicts that the negative spread of sales price revisions in contrast to the increase in raw material costs will be reduced in 2H.

Looking at net sales and operating income by half year, 1H net sales are forecast to rise by 16.8% YoY to ¥103,533mn while operating income is set to fall by 59.8% to ¥2,028mn. Net sales in 2H are forecast to increase by 26.6% to ¥117,467mn, and operating income is expected to increase by 25.5% to ¥2,972mn. In 1H, sales price revisions were unable to make up for the increase in raw material costs as well as the rise in personnel, logistics and utility costs in the Americas and Europe, but the Company predicts that in 2H, the negative spread of sales price revisions in contrast to the increase in raw material costs will be reduced, and that profit will increase compared to both 2H of the previous fiscal year and to 1H. Although profit is forecast to decrease on a full-year basis, in 2H, the impact of cost increases will be lessened through the advancement of sales price revisions, and we at FISCO think it is possible that operating income will bottom out in 1H and head toward recovery.

Trends in net sales and operating income by half year



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

Growth strategy

Promoting new business fields, sustainability management, and DX to achieve its long-term strategic vision

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 the long-term strategic vision "SAKATA INX VISION 2030" and Mid-term Business Plan 2023 (CCC-I) in FY2021/12.

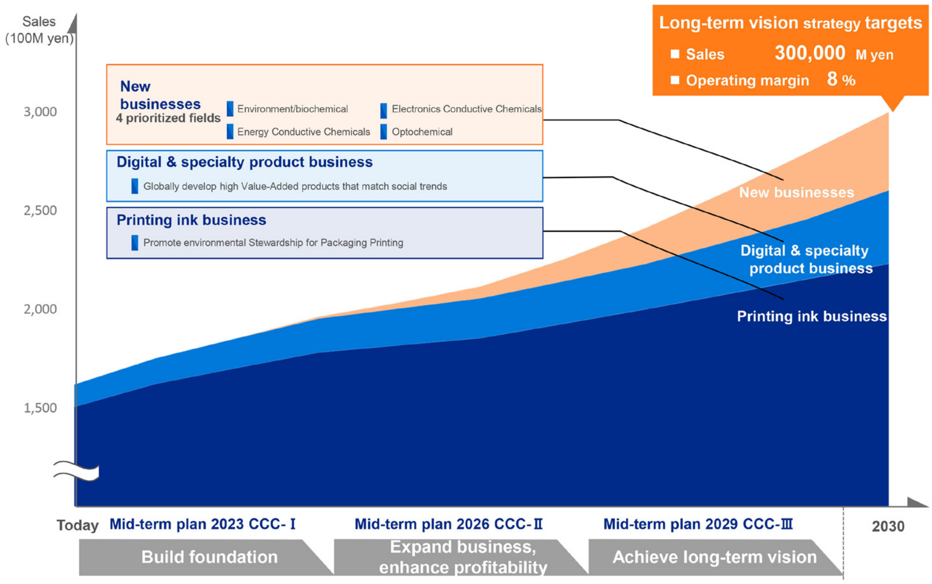
With "Create and Innovate, Care for the Earth, Color for Life" as a catch phrase, it is aiming to be a group that "Creates innovations and new opportunities, with earth-friendly technology that adds color and happiness to life."

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

The Company's awareness of the changes to the business environment are as follows: changes in the markets and the competitive environments in Japan and overseas (downward in demand for ink because 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 by emphasizing the global environment and local community," "Business expansion of printing inks and digital & specialty products" and "Meet market challenges with solutions that create new business opportunities," while it has also launched three innovation projects, "Strengthening of global management cooperation and collaboration," "Strengthening relations with stakeholders" and "Strengthening recruitment and human resource development and reforming a cohesive corporate culture." 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 as an ideal vision.

Image aiming to become by 2030



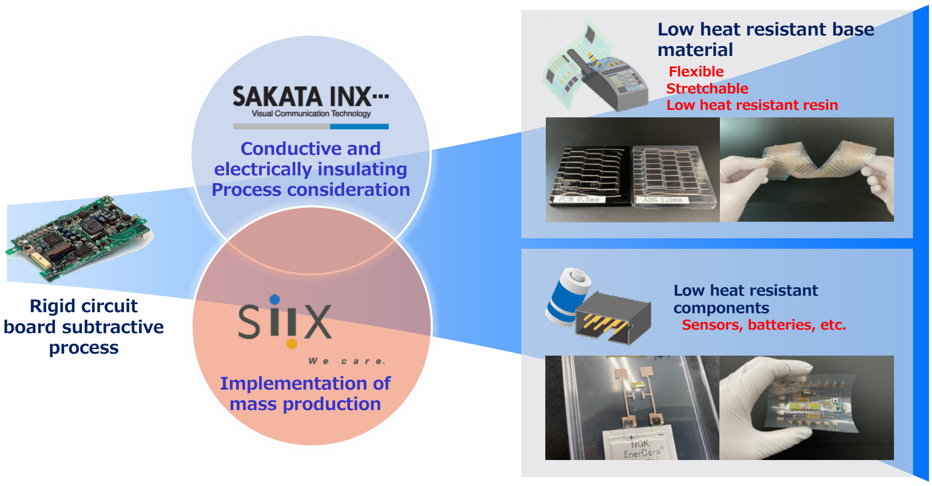
Source: Reprinted from the Company's long-term strategic vision briefing materials

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 develop high- value-added products that respond to social trends, further strengthen global collaboration, bolster sales and profitability in each market, and enhance brand power.

In new businesses, the Company aims to respond to social issues by utilizing core competencies based on the strategic keywords of "safe & security, convenient & pleasant, health maintenance, low-carbon society and sustainability." It focuses on four chemical fields (environment and biochemicals, energy conductive chemicals, electronics conductive chemicals, energy chemicals and optochemicals). In the environment and biochemicals field, it strives to develop and commercialize botanical materials, environmentally friendly new print drying methods, digital print methods equipped for small lots, and materials for promoting development of mono-materials and recycling. In the electronic conductive chemicals field, it strives to develop and commercialize conductive and electrically insulating materials and adhesives, substrate protection agents, and new sensing technologies. In the energy conductive chemicals field, it strives to develop and commercialize thermosensitive batteries, perovskite solar cells, new materials for secondary batteries, and new technologies that will raise combustion efficiency. In the optochemicals field, it aims to develop and commercialize high/low refraction optic materials and next-generation light emitting materials, and promote open innovation by strengthening collaborations with corporations and universities.

As an example of an initiative for new business, in the environment and biochemicals field, the Company aims to develop sustainable products that will contribute to society, and is working to develop new materials using non-edible biomass raw materials that will avoid competition with food materials. Additionally, in the field of electronic conductive chemicals, it promotes the development of printed electronics materials and processes through a collaboration with the equity-method affiliate SIIX Corporation.

Development of printed electronics materials and processes



Source: Reprinted from the Company's results briefing materials

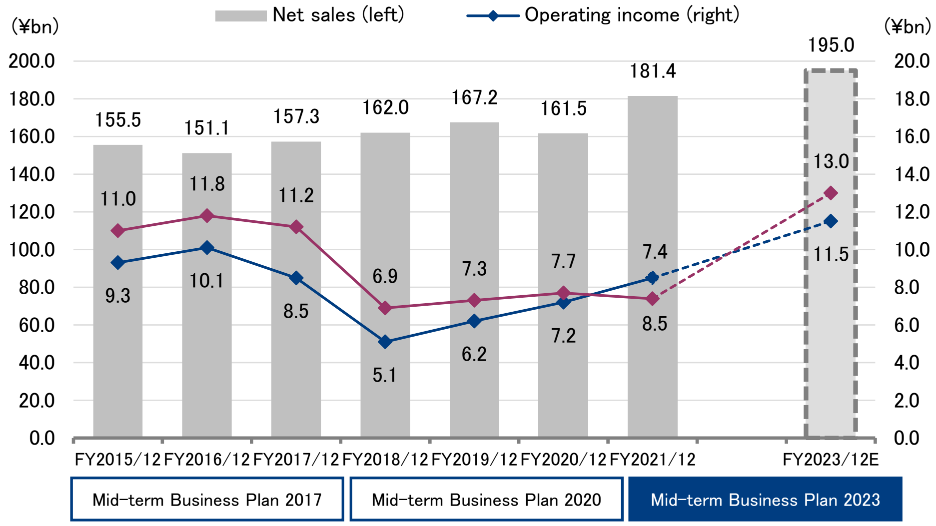
Mid-term Business Plan 2023 is the stage of building a foundation toward achieving the long-term strategic vision

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 ¥195.0bn, operating income of ¥11.5bn, ordinary income of ¥13.0bn and ROE of 10% or more. In terms of the plan according to segment, the targets for printing inks and graphic arts materials (Japan) are net sales of ¥51.8bn and operating income of ¥1.8bn; for printing inks (Asia), net sales of ¥45.0bn and operating income of ¥2.9bn; for printing inks (Americas), net sales of ¥53.5bn and operating income of ¥3.0bn; for printing inks (Europe), net sales of ¥17.5bn and operating income of ¥0.2bn; for the digital & specialty products business, net sales of ¥17.2bn and operating income of ¥2.3bn; and for other businesses, net sales of ¥17.1bn and operating income of ¥0.6bn.

For the FY2022/12 full-year consolidated results forecast, in net sales, the Company expected to achieve its FY2023/12 target ahead of schedule, but due to the impact of increased raw materials costs and personnel, logistics and utility costs, operating income and ordinary income will end up diverging negatively from their targets. In regard to this point, the Company is not currently reevaluating its mid-term business plan.

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

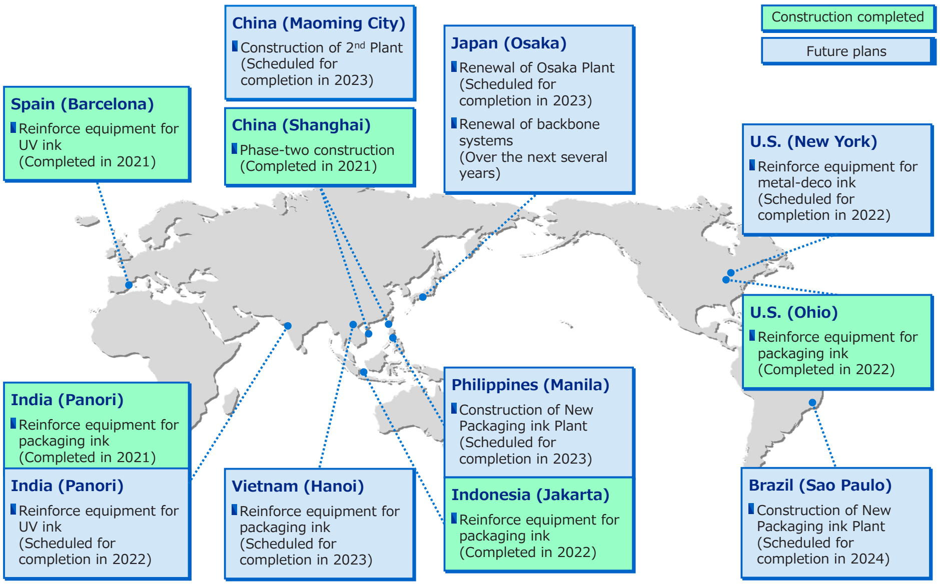


Note: Due to the change of fiscal period from 2015, based on the fiscal periods of each company in the past, from 2016 onwards, the values have been adjusted so that the consolidated periods are the same 12-month fiscal period.
Source: Prepared by FISCO from content in the long-term strategic vision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

The investment plan calls for a cumulative total of ¥30.0bn to be invested during the three fiscal periods (capital investment of ¥15.0bn and a strategic investment framework to accelerate growth of ¥15.0bn). 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 results of investment in FY2021/12 were ¥2.2bn for Japan, ¥3.0bn for Asia, ¥1.5bn for the Americas, and ¥0.1bn for Europe, while the forecast of investment for FY2022/12 is ¥2.0bn for Japan, ¥3.7bn for Asia, ¥1.8bn for the Americas, and ¥0.5bn for Europe.

The main items in the capital investment plan are as follows. As primary projects, the Company promotes the renewal of the Osaka Plant and its backbone systems in Japan; in Asia, phase-two construction of a plant in Shanghai, China, and the construction of the second plant for offset ink in Maoming City, China; reinforce equipment for packaging ink in Indonesia and Vietnam; in the Philippines, construction of a new plant for packaging ink; in the Americas, reinforce equipment for packaging ink in the state of Ohio and reinforce equipment for metal-deco ink in the state of New York, in the U.S.; construction of a new plant for packaging ink in Brazil; and in Europe, reinforce equipment for UV ink in Spain.

Main items in capital investment plan



Source: Reprinted from the Company's results briefing materials

If the impact of increased raw materials costs settles, the Company may face a new growth stage

4. Heading to a growth stage in the medium to long term

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 lineup of environmentally friendly products, so the business environment can be said to be good for the Company. To respond to these market trends, the Company's policy is to develop and market launch environmentally friendly products and to be even more active in deploying businesses for new areas. In FY2022/12, although the Company was affected by raw material costs and increases in personnel, logistics and utility costs, we believe that if these impacts lessen, there is a strong possibility that the Company will face a new growth stage in the medium to long term.

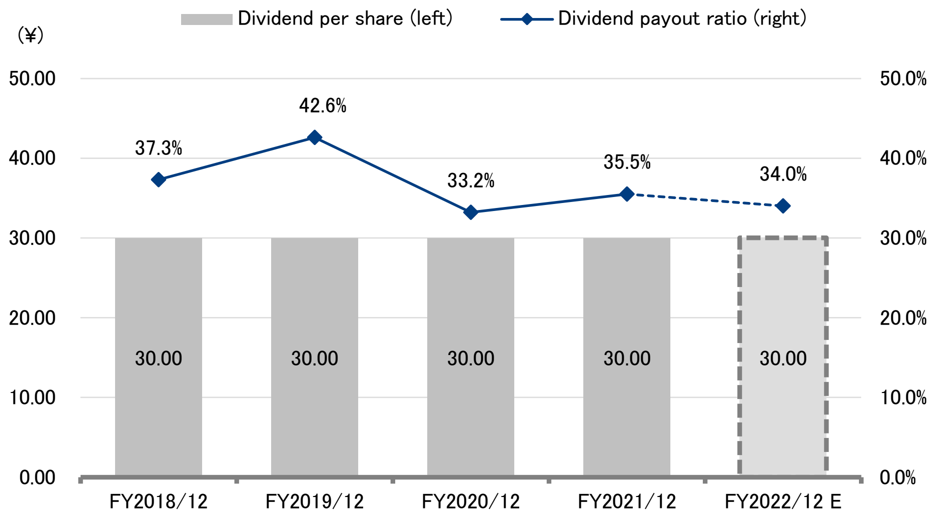
Shareholder return policy

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

In accordance with this basic policy, in FY2022/12, the dividend forecast per share is ¥30 (end of 2Q dividend of ¥15, period-end dividend of ¥15), which is the same as FY2021/12. The forecasted dividend payout ratio is 34.0%. 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 with a value corresponding to the period of time they have held their shares.

Dividend per share and dividend payout ratio



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

Initiatives for ESG management and for SDGs

Demonstrates enhancement of solutions for social issues and promotes various initiatives in its long-term strategic vision

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, amid demand for packaging that is considerate to the environment, its proprietary "Botanical Ink" series, which contains more than 10% of plant-derived components in its ink solid constituents, is already being 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 gas-barrier agents that prevent oxidation as products that will contribute to longer preservation periods of food. It is also working to develop new materials using non-edible biomass raw materials that will avoid competition with food materials.

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). In August 2022, it was selected for the FTSE Blossom Japan Sector Relative Index, compiled by global index provider FTSE Russell. This index has been adopted as one of the GPIF's measures of ESG investment, and will be adopted as the next measure among ESG indices targeting domestic stocks used by the GPIF following the S&P/JPX Carbon Efficient Index.

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 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 of ¥1.0bn) and 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, for strengthening global initiatives to realize a sustainable society. "Eco Plata" in the Botanical Ink series and "INXhrc™ Ink," which was developed in the U.S., 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 KPI

Materiality (Key Issues)

Activities to maintain a sustainable global environment	Safe and secure product supply	R&D and strengthening technical capabilities	Strengthening corporate governance and compliance	Respect for human rights, promotion of DE&I

	Individual issues (some issues excluded)	Progress and Initiatives in FY2021	2030 Target KPIs
E	(1) Activities related to climate change and preservation of natural environments (2) Information disclosure in line with TCFD recommendations (3) Botanical Ink Contributes to reduction of CO_2 emissions through the use of plant-derived components	(1) Reduced CO_2 emissions by 25.0% (at domestic plants compared to FY2013) (2) Endorsed the recommendations of the TCFD (3) Botanical Ink for domestic film packaging Series sales percentage of approximately 60%	(1) Reduce GHG emissions by 50% (Scope 1&2) (2023: 29% reduction, 2026: 35% reduction) (2) Improve the sales percentage of Botanical products Improve the degree of Botanical products Enhance lineup of sustainable products
S	(1) Emphasis on human rights and DE&I (2) Promotion of health management (3) Career paths and human rights policies to develop global human resources	(1) Formulated a human rights policy for the SAKATA INX Group (2) Signed the UN Global Compact (3) Certified as a Health & Productivity Management Outstanding Organization 2022 (4) Achieved a rate of new female graduate employment of over 30% (FY2022)	(1) Zero major human rights violations (2) Certification as a Health & Productivity Management Outstanding Organization (White 500) (3) Domestic percentage of women in managerial positions of 15% or more
G	(1) Reduction of cross-shareholdings (2) Strengthening risk management (3) Compliance training and awareness	(1) Terminated capital alliance with Toyo Ink SC Holdings Co., Ltd. (2) Enhanced business continuity plans (BCP) including those for overseas subsidiaries (3) Considered implementing a global internal reporting system which includes overseas subsidiaries	(1) Gradually decrease cross-shareholdings (2) Establish a global risk management system (3) Zero major compliance violations

Source: Reprinted from the Company's results briefing materials

FISCO

Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp