

Consolidated Quarterly Financial Results (Japanese Accounting Standards) for the First Quarter of the Fiscal Year Ending December 31, 2020

May 15, 2020

Name of Listed Company: TOYO INK SC HOLDINGS CO., LTD. Listings: Tokyo Stock Exchange
 Code: 4634 URL: <https://schr.toyoinkgroup.com>
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 Scheduled date of submission of quarterly report: May 15, 2020
 Scheduled date of commencement of dividend payments: –
 Supplementary documents for quarterly results: Yes
 Quarterly results briefing: No

(Amounts of less than million yen are omitted.)

1. Consolidated business results for the first quarter of fiscal 2020 ending December 31, 2020

(From January 1, 2020 to March 31, 2020)

(1) Business results (cumulative totals)

(Figures in percentages denote the year-on-year change.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First Quarter, Fiscal 2020	63,424	-8.2	3,004	7.8	1,989	-34.7	1,161	-51.5
First Quarter, Fiscal 2019	69,082	1.2	2,786	-27.6	3,044	-10.9	2,393	10.4

(Note) Comprehensive income: First quarter, fiscal 2020: -12.631 million yen (-%)
 First quarter, fiscal 2019: 2,316 million yen (-%)

	Profit per share (basic)	Profit per share (diluted)
	Yen	Yen
First Quarter, Fiscal 2020	19.89	19.86
First Quarter, Fiscal 2019	41.00	40.93

(2) Financial position

	Total assets	Net assets	Net worth/total assets
	Million yen	Million yen	%
First Quarter, Fiscal 2020	348,163	211,623	58.7
Fiscal 2019	376,130	226,892	58.3

(Note) Net worth: First quarter, fiscal 2020: 204,310 million yen
 Fiscal 2019: 219,439 million yen

2. Dividends

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal 2019	–	45.00	–	45.00	90.00
Fiscal 2020	–				
Fiscal 2020 (Forecast)		45.00	–	45.00	90.00

(Note) Revision to dividend forecasts published most recently: No

3. Forecasts for the year ending December 31, 2020 (From January 1, 2020 to December 31, 2020)

(Figures in percentages denote the year-on-year change.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	290,000	3.6	15,000	13.9	15,500	11.9	10,000	17.5	171.22

(Note) Revision to consolidated business performance forecasts published most recently: No

* Notes

- | | |
|---|-------------------|
| (1) Important changes of subsidiaries during the term (changes in specific subsidiaries accompanied by a change in the scope of consolidation): | No |
| (2) Application of special accounting treatment to the preparation of quarterly consolidated financial statements: | No |
| (3) Changes in accounting policies and changes or restatement of accounting estimates | |
| (i) Changes in accounting policies due to the modification in accounting methods: | No |
| (ii) Changes in accounting policies other than (i): | Yes |
| (iii) Changes in accounting estimates: | No |
| (iv) Restatement: | No |
| (4) Numbers of shares issued (common shares) | |
| (i) Numbers of shares issued at the end of the terms (including treasury shares): | |
| First quarter, fiscal 2020: | 60,621,744 shares |
| Fiscal 2019: | 60,621,744 shares |
| (ii) Numbers of treasury shares at the end of the terms: | |
| First quarter, fiscal 2020: | 2,215,931 shares |
| Fiscal 2019: | 2,218,965 shares |
| (iii) Average numbers of shares issued during the terms (consolidated accumulation periods): | |
| First quarter, fiscal 2020: | 58,404,135 shares |
| First quarter, fiscal 2019: | 58,391,705 shares |

* These quarterly financial results are not subject to quarterly audits by certified public accountants or audit corporations.

* Explanations about the proper use of financial forecasts and other important notes

1. The above forecasts are based on the information available on the date these materials are released and incorporate assumptions about uncertainties that may affect future earnings. The forecasts do not constitute an assurance that the Company promises to achieve the earnings. Actual earnings could differ materially from these forecasts due to various factors in the future. For notes about assumptions of earnings forecasts and the use of earnings forecasts, refer to “(3) Information on the consolidated earnings forecasts and other future forecasts” of “1. Qualitative Information on Financial Results, etc., for the First Quarter Ended March 31, 2020” on page 3 of the accompanying materials.
2. Supplementary documents for financial results will be posted on the Company’s website on May 15, 2020 (Friday).

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1. Qualitative Information on Financial Results, etc., for the First Quarter Ended March 31, 2020

(1) Details of operating results

During the first quarter of the consolidated fiscal year under review, the global economy was dealt a severe blow by the COVID-19 coronavirus pandemic at a time when it was already vulnerable due to the drawn-out trade dispute between the United States and China.

The Toyo Ink Group continued to face challenging conditions, with slow growth in sales resulting from stagnation of consumption globally and disruption to supplies of raw materials and production activities. The Group took action to address these developments and also implemented its policies of the fiscal year under review, which are “Steadily producing results by strengthening cooperation both within and beyond the Group and prioritizing investment in businesses to be actively expanded,” “Reliably implementing structural reforms in businesses and areas by reducing costs and generating profits through concerted action across production, sales and engineering,” and “Making bold changes by ceaselessly taking on challenges for business transformation.”

As a result, net sales for the first quarter under review decreased to 63,424 million yen (down 8.2% year on year). Operating profit increased to 3,004 million yen (up 7.8% year on year). However, due to the occurrence of foreign exchange losses, ordinary profit fell to 1,989 million yen (down 34.7% year on year) and profit attributable to owners of parent dipped to 1,161 million yen (down 51.5% year on year).

Operating results by segment are as follows.

(i) Colorants and Functional Materials Related Business

Sales of high-functional pigments and materials for LCD color filters grew, reflecting firm demand in China due mainly to growth in demand for computer displays and moves to accelerate production or procure raw materials by customers, despite the impact of the coronavirus.

In commodity-type pigments, sales of printing inks remained weak and sales of pigments for automobile coatings also grew at a sluggish pace as automobile sales remained lackluster. Sales of plastic colorants in Japan were weak due to decline in demand for mainstay plastic colorants for containers because of a lower inbound demand and a warm weather in winter, and sales of high-performance products such as plastic colorants for automobiles, construction materials and solar cells also showed slow growth. Sales of plastic colorants for office equipment in Southeast Asia were also lackluster.

As a result, net sales in the overall Colorants and Functional Materials Related Business decreased to 15,070 million yen (down 10.3% year on year), and operating profit fell to 828 million yen (down 10.8% year on year).

(ii) Polymers and Coatings Related Business

In the coating materials segment, both sales and operating profit grew at a sluggish pace in general due to decreased smartphone production associated with supply chain disruption, although the Group advanced the development and sales of electromagnetic shielding films for high-speed communication and other products.

In the adhesives segment, domestic sales of those for use in packaging remained firm, however, sales of those for use in lithium-ion batteries grew at a sluggish pace. In the overseas business, sales in China were weak, reflecting temporary suspension of business activities due to the coronavirus. In the adhesive compounds segment, demand for mainstay label adhesives was firm in Japan, but sales in China and South Korea were slack.

In the can coatings (finishers) segment, sales of those for alcoholic beverages grew in Japan as people refrained from going out but sales in China and North America were lackluster.

As a result, net sales in the overall Polymers and Coatings Related Business decreased to 14,847 million yen (down 5.8% year on year), and operating profit fell to 1,169 million yen (down 0.5% year on year).

(iii) Packaging Materials Related Business

In Japan, sales of mainstay gravure inks for packaging declined in connection with the mild winter and reduction of food loss. However, with people refraining from going out, demand for gravure inks for frozen food, retort pouched products and other home-use food products and demand for hygiene products held firm. Meanwhile, demand for gravure inks for publication continued to shrink, sales of gravure inks for construction materials were also weak, and solvent and equipment sales also fell.

Overseas, sales in China weakened due to the suspension of operations at customer production bases and the Group's own bases. However, sales of eco-friendly products expanded in Southeast Asia, India and elsewhere.

In the gravure cylinder platemaking segment, changes in food labeling legislation resulted in spot demand for packaging products and sales from precision plate-making related to electronics expanded.

As a result, net sales of the overall Packaging Materials Related Business decreased to 16,321 million yen (down 0.7% year on year), but operating profit rose to 854 million yen (up 78.6% year on year).

(iv) Printing and Information Related Business

Given the shrinking information-related print market associated with the progress of digitization, the Group strongly sought to secure profit by optimizing its business scale by product, collaborating with other companies in the same industry and reducing costs in Japan, while bolstering sales overseas by expanding its global bases, which resulted in the advancement of sales expansion in India and South America. The Group also focused on the development and sale of highly sensitive UV ink and other products such as inkjet ink for on-demand printing and also undertook the revision of sales prices to pass on some of the increase in raw material costs associated with environmental regulations.

However, as the coronavirus crisis escalated and dragged on, people refrained from going out and events were cancelled, leading to decline in handouts, advertisements and other printed materials and causing ink demand to weaken in Japan. Meanwhile in China and some other regions, businesses were forced to temporarily suspend their activities.

As a result, net sales of the overall Printing and Information Related Business decreased to 16,874 million yen (down 13.7% year on year), but operating profit increased to 94 million yen (up 23.9% year on year).

(v) Others

This segment covers businesses not included in the above segments and services provided mainly by TOYO INK SC HOLDINGS CO., LTD. Net sales decreased to 1,551 million yen (down 13.8% year on year), and operating profit fell to 56 million yen (down 59.3% year on year) due to a review of consideration for services rendered and an increase in retirement benefit expenses, among other factors.

(2) Details of financial position

Total assets at the end of the first quarter under review stood at 348,163 million yen, down 27,967 million yen from the end of the previous consolidated fiscal year. Liabilities were 136,540 million yen, down 12,697 million yen from the end of the previous consolidated fiscal year. Net assets came to 211,623 million yen, down 15,269 million yen from the end of the previous consolidated fiscal year.

On the last day of the first quarter under review, the exchange value of the yen rose above its level on the last day of the previous consolidated fiscal year. As a result, assets and liabilities held by overseas subsidiaries and foreign currency translation adjustments fell. In addition, notes and accounts receivable - trade and notes and accounts payable - trade each fell. Investment securities, deferred liabilities and valuation difference on available-for-sale securities each decreased, reflecting falling stock prices in Japan. Short-term loans payable decreased because they reached maturity and were refinanced, and long-term loans payable increased.

(3) Information on the consolidated earnings forecasts and other future forecasts

The Company has not revised its consolidated financial forecast for the full year ending December 31, 2020 that was announced on February 17, 2020, given the uncertainty surrounding the outlook for an end to the coronavirus crisis and the post-coronavirus demand trend. The Company will promptly disclose any necessary revisions to its consolidated financial statements when it becomes possible to calculate the impact of the coronavirus on its performance.

2. Consolidated Financial Statements and Primary Notes
 (1) Consolidated balance sheet

(Million yen)

	End of the previous consolidated fiscal year (As of December 31, 2019)	End of the consolidated first quarter accounting period (As of March 31, 2020)
(Assets)		
Current assets		
Cash and deposits	56,691	49,439
Notes and accounts receivable - trade	90,173	84,705
Securities	29	71
Merchandise and finished goods	30,535	30,255
Work in process	1,319	1,805
Raw materials and supplies	16,654	17,370
Other	5,350	5,550
Allowance for doubtful accounts	-786	-817
Total current assets	199,969	188,379
Non-current assets		
Property, plant and equipment		
Buildings and structures	99,260	98,386
Accumulated depreciation	-63,319	-63,445
Buildings and structures, net	35,940	34,941
Machinery, equipment and vehicles	151,688	150,727
Accumulated depreciation	-129,921	-129,686
Machinery, equipment and vehicles, net	21,767	21,041
Tools, furniture and fixtures	24,798	24,770
Accumulated depreciation	-21,925	-21,859
Tools, furniture and fixtures, net	2,873	2,911
Land	30,669	30,321
Leased assets	5,006	4,883
Accumulated depreciation	-962	-1,031
Leased assets, net	4,043	3,851
Construction in progress	4,282	5,028
Total property, plant and equipment	99,577	98,096
Intangible assets	4,202	3,851
Investments and other assets		
Investment securities	61,071	46,311
Net defined benefit asset	7,964	8,033
Deferred tax assets	2,333	2,538
Other	1,194	1,138
Allowance for doubtful accounts	-182	-186
Total investments and other assets	72,381	57,835
Total non-current assets	176,161	159,783
Total assets	376,130	348,163

(Million yen)

	End of the previous consolidated fiscal year (As of December 31, 2019)	End of the consolidated first quarter accounting period (As of March 31, 2020)
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	59,543	50,377
Short-term loans payable	30,315	19,488
Income taxes payable	1,279	1,144
Other	15,608	15,690
Total current liabilities	106,747	86,701
Non-current liabilities		
Long-term loans payable	27,460	39,475
Deferred tax liabilities	9,584	5,041
Provision for environmental measures	2,348	2,348
Net defined benefit liability	1,885	1,823
Asset retirement obligations	31	31
Other	1,179	1,117
Total non-current liabilities	42,490	49,838
Total liabilities	149,237	136,540
(Net assets)		
Shareholders' equity		
Capital stock	31,733	31,733
Capital surplus	32,500	32,501
Retained earnings	146,627	145,160
Treasury shares	-4,969	-4,962
Total shareholders' equity	205,891	204,432
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,273	4,103
Foreign currency translation adjustment	-2,843	-6,367
Remeasurements of defined benefit plans	2,118	2,141
Total accumulated other comprehensive income	13,548	-122
Subscription rights to shares	265	257
Non-controlling interests	7,187	7,055
Total net assets	226,892	211,623
Total liabilities and net assets	376,130	348,163

(2) Consolidated statements of income and consolidated statements of comprehensive income

Consolidated statements of income

Consolidated first quarter

(Million yen)

	Previous first quarter period (From January 1, 2019 to March 31, 2019)	First quarter under review (From January 1, 2020 to March 31, 2020)
Net sales	69,082	63,424
Cost of sales	54,207	49,120
Gross profit	14,874	14,303
Selling, general and administrative expenses		
Packing and transportation expenses	1,708	1,665
Salaries and allowance	2,932	2,896
Bonuses	671	670
Welfare expenses	765	767
Depreciation	459	489
Research and development expenses	827	756
Others	4,722	4,053
Total selling, general and administrative expenses	12,088	11,299
Operating profit	2,786	3,004
Non-operating income		
Interest income	42	58
Dividend income	154	150
Foreign exchange gains	131	–
Share of profit of entities accounted for using equity method	14	–
Other	192	182
Total non-operating income	535	391
Non-operating expenses		
Interest expenses	162	140
Foreign exchange losses	–	1,007
Share of loss of entities accounted for using equity method	–	53
Other	114	204
Total non-operating expenses	277	1,405
Ordinary profit	3,044	1,989
Extraordinary income		
Gain on sales of non-current assets	21	3
Gain on sales of investment securities	360	–
Total extraordinary income	381	3
Extraordinary losses		
Loss on sales and retirement of non-current assets	22	30
Other	3	5
Total extraordinary loss	25	35
Profit before income taxes	3,400	1,957
Income taxes - current	1,058	1,170
Income taxes - deferred	-120	-424
Total income taxes	937	746
Profit	2,463	1,211
Profit attributable to non-controlling interests	69	49
Profit attributable to owners of parent	2,393	1,161

Consolidated statements of comprehensive income

Consolidated first quarter

(Million yen)

	Previous first quarter period (From January 1, 2019 to March 31, 2019)	First quarter under review (From January 1, 2020 to March 31, 2020)
Profit	2,463	1,211
Other comprehensive income		
Valuation difference on available-for-sale securities	-855	-10,174
Foreign currency translation adjustment	628	-3,542
Remeasurements of defined benefit plans, net of tax	20	23
Share of other comprehensive income of entities accounted for using equity method	59	-148
Total other comprehensive income	-147	-13,842
Comprehensive income	2,316	-12,631
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,146	-12,508
Comprehensive income attributable to non-controlling interests	170	-123

(3) Notes to consolidated quarterly financial statements

(Notes on assumption of going business)

Not applicable

(Notes on significant changes in the amount of shareholders' equity)

Not applicable

(Changes in accounting policies)

(Change in method of inventory valuation)

Starting from the first quarter under review, domestic consolidated subsidiaries that previously mainly adopted the last purchase price method (balance sheet amount is calculated by writing down the book value of assets which decreased in profitability) changed to the cost method in the form of the weighted average method (balance sheet amount is calculated by writing down the book value of assets which decreased in profitability).

The aim of this change is to take the review of the inventory management system as an opportunity to calculate income for the period more reasonably.

The impact of this change is insignificant and it has not been applied retroactively.

(Additional information)

(Adoption of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System)

With respect to items subject to the review of the Non-Consolidated Taxation System conducted to coincide with transition from the Consolidated Taxation System to the Group Tax Sharing System, which was created under the Act on Partial Revision of the Income Tax Act, etc. (Act No. 8 of 2020), the Company and some of its domestic consolidated subsidiaries have not applied the provisions of Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28 issued February 16, 2018) in accordance with the treatment set out in Paragraph 3 of Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (PITF No.39 issued March 31, 2020) and the amounts of deferred tax liabilities and deferred tax assets are based on the provisions of tax laws before the revision.

(Segment information, etc.)

I. From January 1, 2019 to March 31, 2019

1. Information on net sales and profits or losses by reported segment

(Million yen)

	Reported segments					Others (Note) 1	Total	Adjustment (Note) 2	Amount recorded in consolidated statements of income (Note) 3
	Colorants and Functional Materials Related Business	Polymers and Coatings Related Business	Packaging Materials Related Business	Printing and Information Related Business	Total				
Net sales									
Sales to customers	16,256	15,709	16,252	19,549	67,768	1,314	69,082	-	69,082
Intersegment sales	551	51	186	13	802	485	1,288	-1,288	-
Total	16,807	15,761	16,439	19,562	68,570	1,799	70,370	-1,288	69,082
Segment profits	928	1,174	478	76	2,658	139	2,798	-11	2,786

(Notes) 1. The "Others" segment comprises business segments that are not included in the reportable segments, which include sales of raw materials, other profit-earning business activities carried out by the Company as a parent, and delivery of services.

2. An adjustment of -11 million yen in segment profits mainly represents the deduction of intersegment transactions.
3. Segment profits have been adjusted with operating income recorded in the consolidated quarterly income statement.

II. From January 1, 2020 to March 31, 2020

1. Information on net sales and profits or losses by reported segment

(Million yen)

	Reported segments					Others (Note) 1	Total	Adjustment (Note) 2	Amount recorded in consolidated statements of income (Note) 3
	Colorants and Functional Materials Related Business	Polymers and Coatings Related Business	Packaging Materials Related Business	Printing and Information Related Business	Total				
Net sales									
Sales to customers	14,468	14,797	16,178	16,866	62,310	1,113	63,424	-	63,424
Intersegment sales	602	49	142	7	802	437	1,240	-1,240	-
Total	15,070	14,847	16,321	16,874	63,113	1,551	64,664	-1,240	63,424
Segment profits	828	1,169	854	94	2,947	56	3,004	-0	3,004

(Notes) 1. The "Others" segment comprises business segments that are not included in the reportable segments, which include sales of raw materials, other profit-earning business activities carried out by the Company as a parent, and delivery of services.

2. An adjustment of -0 million yen in segment profits mainly represents the deduction of intersegment transactions.
3. Segment profits have been adjusted with operating income recorded in the consolidated quarterly income statement.