

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

November 13, 2020

Name of listed company: TOYO INK SC HOLDINGS CO., LTD.
 Listings: Tokyo Stock Exchange
 Stock code: 4634 URL <https://schr.toyoinkgroup.com>
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 Scheduled date of submission of quarterly report: November 13, 2020
 Scheduled date of commencement of dividend payment: —
 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 three quarters of fiscal 2020 ending December 31, 2020 (January 1, 2020 to September 30, 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	
	Millions yen	%	Millions yen	%	Millions yen	%	Millions yen	%
First Three Quarters, Fiscal 2020	187,418	-10.5	8,435	-11.2	7,466	-22.3	4,215	-22.1
First Three Quarters, Fiscal 2019	209,456	-1.9	9,495	-13.0	9,609	-11.1	5,410	-35.7

(Note) Comprehensive income:

First three quarters, fiscal 2020 - 8,819 million yen (-%)
 First three quarters, fiscal 2019 267 million yen (-88.7%)

	Profit per share (Basic)	Profit per share (Diluted)
	Yen	Yen
First Three Quarters, Fiscal 2020	72.18	72.03
First Three Quarters, Fiscal 2019	92.66	92.49

(2) Consolidated Financial Position

	Total assets	Net assets	Net worth/Total assets
	Millions yen	Millions yen	%
First Three Quarters, Fiscal 2020	364,824	212,500	56.2
Fiscal 2019	376,130	226,892	58.3

(Note) Shareholders' equity:

First Three Quarters, Fiscal 2020: 205,129 million yen
 Fiscal 2019: 219,439 million yen

2. Dividends

	Dividend per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal 2019	—	45.00	—	45.00	90.00
Fiscal 2020	—	45.00	—		
Fiscal 2020 (Forecast)				45.00	90.00

(Note) Revision to dividend forecasts published most recently: None

2. Forecasts for the fiscal year ending December 31, 2020 (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	260,000	-7.1	12,000	-8.9	11,500	-17.0	6,000	-29.5	102.72

(Note) Revisions to the most recently announced earnings forecasts: None

* 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 of accounting methods: No
 - (ii) Changes in accounting policies other than (i): Yes
 - (iii) Changes in accounting estimates: No
 - (iv) Restatements: No

(4) Number of shares issued (common shares)

(i) Number of shares issued at the end of the terms (including treasury shares)	First three quarters, fiscal 2020	60,621,744 shares	Fiscal 2019	60,621,744 shares
(ii) Numbers of treasury shares at the end of the term	First three quarters, fiscal 2020	2,207,292 shares	Fiscal 2019	2,218,965 shares
(iii) Average numbers of shares issued during the terms (consolidated accumulation periods)	First three quarters, fiscal 2020	58,410,196 shares	First three quarters, fiscal 2019	58,391,840 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 Three Quarters Ended September 30, 2020" on page 3 of the accompanying materials.
2. Supplementary materials will be posted on the Company's website on Friday, November 13, 2020.

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1. Qualitative Information on Financial Results, etc. for the First Three Quarters Ended September 30, 2020

(1) Details of operating results

The outlook for the global economy in the first three quarters of the current fiscal year remains unchanged due to the rapid deterioration mainly in consumer spending and corporate activities as a result of the spread and prolonged impact of the COVID-19 coronavirus.

The Group has steadily promoted its policies of "strengthening internal and external collaboration in business to actively expand and creating steady results through focused investment," "reducing costs through integrated production, sales and technology and steadily implementing business and regional structural reforms through profit creation," and "boldly change to respond to repeated challenges to business reform." However, the situation remained extremely challenging, given the occurrence of problems in raw materials procurement and production activities, in addition to sluggish sales growth due to worldwide stagnation in consumption activities.

As a consequence, consolidated net sales for the third quarter of the fiscal year under review declined to 187,418 million yen (down 10.5% year on year), and profit also fell with operating profit of 8,435 million yen (down 11.2% year on year), ordinary profit of 7,466 million yen (down 22.3% year on year), and profit attributable to owners of parent of 4,215 million yen (down 22.1% year on year).

Operating results by segment are as follows.

(i) Colorants and Functional Materials Related Business

In high performance pigments and LCD color filter materials, sales of products for large TVs and smartphones were sluggish in the first half due to U.S.-China trade friction and the COVID-19 corona virus. However, sales of these products recovered in the latter half, while sales of products for PCs and tablets also increased. On the other hand, demand for cost reductions became more severe due to the market shift to China, and profits were squeezed.

In commodity-type pigments, sales of printing inks continued to be sluggish, and sales of pigments for automobile coatings also remained weak due to a drop in sales of automobiles.

In plastic colorants, sales of products for hygiene-related containers grew in Japan, but growth in sales of products for beverage caps and cosmetics containers was sluggish due to people refraining from going out and a fall in inbound demand. Sales of products for building materials and solar cells also declined. Sales for office equipment in Southeast Asia and for automobiles in North America and Europe were also sluggish.

As a result, net sales in this segment overall decreased 13.3% year on year to 44,315 million yen, and operating profit decreased 37.0% year on year to 1,716 million yen.

(ii) Polymers and Coatings Related Business

In Functional films and tapes, sales for smartphones were sluggish in the first half due to supply chain disruptions and reduction of demand, but recovered in the second half of the fiscal year. In addition, we made progress in developing and expanding sales of high-speed communications-compatible electromagnetic shielding films.

In the adhesives segment, domestic sales of adhesives for use in packaging remained firm, while sales of adhesives for use in lithium-ion batteries grew at a sluggish pace. In the overseas business, sales in China and Southeast Asia were weak, reflecting the temporary suspension of business activities due to the COVID-19 coronavirus. Domestically, sales of pressure sensitive adhesives for labels applications were firm, but those for displays, consumer electronics, and automobile applications were sluggish. Sales in South Korea and Southeast Asia were also sluggish.

Sales of can coatings (finishes) for alcoholic beverage cans grew due to restrictions on travelling overseas, but sales of coffee and soft drink beverage cans for vending machines and convenience stores were sluggish. Sales were also sluggish in China and North America.

As a result, net sales in this segment overall decreased 7.2% year on year to 45,598 million yen, and operating profit decreased 6.1% year on year to 4,106 million yen.

(iii) Packaging Materials Related Business

In domestic gravure inks, although inbound demand fell for mainstay packaging applications, sales for home-use foods such as chilled foods and retort pouches, as well as for sanitary products, were firm due to the impact of people refraining from going out on the market. In particular, sales of biomass inks grew. Meanwhile, demand for gravure inks for publication continued to shrink, and sales of gravure inks for construction materials were also weak. Sales of solvents and equipment also fell.

Overseas, while sales in China, Southeast Asia, India and elsewhere were affected by the suspension of operations at customer production bases and the Group's own bases, the Group was relatively quick to restore operations because products

in this segment are daily necessities, and sales of eco-friendly products also expanded.

In the gravure cylinder platemaking segment, sales of products for packaging were sluggish in the latter half of the period, but sales of precision plate making related to electronics expanded.

As a result, net sales in this segment overall decreased to 49,177 million yen (down 2.6% year on year), but operating profit increased to 2,723 million yen (up 35.0% year on year).

(iv) Printing and Information Related Businesses

Given the continued shrinkage of the information-related print market associated with the progress of digitization, the Group worked to secure profits by optimizing the scale of its business, collaborating with other companies in the same industry and strongly reducing costs in Japan, while expanding global bases overseas. The Group also focused on the development and sales expansion of highly sensitive UV curable inks and other products such as inkjet inks for on-demand printing and revised sale prices to pass on some of the increase in raw materials costs associated with environmental regulations.

However, as the COVID-19 pandemic worsened and dragged on, people refrained from going out and events were cancelled, leading to a decline in handouts, advertisements and other printed materials and causing ink demand to weaken in Japan. Meanwhile in China, India and some other regions, businesses were forced to temporarily suspend activities.

As a result, net sales in this business overall decreased 17.6% year on year to 47,188 million yen, and operating loss was 341 million yen, compared with operating profit of 135 million yen in the same period of the previous fiscal year.

(v) Other

This segment includes businesses that are not included in the above segments and services provided by TOYO INK SC HOLDINGS CO., LTD. and others. However, net sales decreased to 4,654 million yen (down 15.0% year on year) and operating profit decreased to 220 million yen (down 16.5% year on year) due to a review of considerations for the provision of services and an increase in retirement benefit expenses.

(2) Details of financial position

Total assets at the end of the third quarter of the current fiscal year were 364,824 million yen, a decrease of 11,306 million yen from the end of the previous fiscal year. Liabilities were 152,324 million yen, an increase of 3,086 million yen from the end of the previous fiscal year. Net assets were 212,500 million yen, a decrease of 14,392 million yen from the end of the previous fiscal year.

On the last day of third quarter under review, the exchange value of the yen against foreign currencies rose above its level on the last day of the previous consolidated fiscal year. As a result, assets and liabilities held by overseas consolidated subsidiaries and foreign currency translation adjustment decreased. In addition, notes and accounts receivable - trade and notes and accounts payable - trade decreased due to a decrease in net sales. Moreover, investment securities, deferred tax liabilities and unrealized gains on available-for-sale securities decreased, reflecting falling stock prices in Japan. On the other hand, cash and deposits and long-term borrowings increased and short-term borrowings decreased as a result of new long-term borrowings and refinancing from short-term to long-term borrowings in preparation for the spread and prolongation of the new coronavirus.

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

The forecast for the fiscal year ending December 2020 remains unchanged from the one announced on August 7, 2020.

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 second quarter accounting period (As of September 30, 2020)
(Assets)		
Current assets		
Cash and deposits	56,691	70,608
Notes and accounts receivable - trade	90,173	80,887
Securities	29	32
Merchandise and finished goods	30,535	28,848
Work in process	1,319	1,428
Raw materials and supplies	16,654	16,504
Other	5,350	4,888
Allowance for doubtful accounts	-786	-985
Total current assets	199,969	202,212
Non-current assets		
Property, plant and equipment		
Buildings and structures	99,260	99,534
Accumulated depreciation	-63,319	-64,631
Buildings and structures, net	35,940	34,903
Machinery, equipment and vehicles	151,688	152,233
Accumulated depreciation	-129,921	-130,996
Machinery, equipment and vehicles, net	21,767	21,236
Tools, furniture and fixtures	24,798	25,291
Accumulated depreciation	-21,925	-22,099
Tools, furniture and fixtures, net	2,873	3,192
Land	30,669	30,455
Leased assets	5,006	4,970
Accumulated depreciation	-962	-1,188
Leased assets, net	4,043	3,782
Construction in progress	4,282	7,311
Total property, plant and equipment	99,577	100,881
Intangible assets	4,202	3,312
Investments and other assets		
Investment securities	61,071	46,860
Retirement benefit asset	7,964	8,132
Deferred tax assets	2,333	2,508
Other	1,194	1,075
Allowance for doubtful accounts	-182	-160
Total investments and other assets	72,381	58,417
Total noncurrent assets	176,161	162,612
Total assets	376,130	364,824

(Million yen)

	End of the previous consolidated fiscal year (As of December 31, 2019)	End of the consolidated second quarter accounting period (As of September 30, 2020)
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	59,543	44,780
Short-term borrowings	30,315	18,861
Income taxes payable	1,279	780
Other	15,608	16,519
Total current liabilities	106,747	80,942
Non-current liabilities		
Long-term borrowings	27,460	60,560
Deferred tax liabilities	9,584	5,450
Provision for environmental measures	2,348	2,336
Retirement benefit liability	1,885	1,928
Asset retirement obligations	31	31
Other	1,179	1,073
Total non-current liabilities	42,490	71,381
Total liabilities	149,237	152,324
(Net assets)		
Shareholders' equity		
Share capital	31,733	31,733
Capital surplus	32,500	32,498
Retained earnings	146,627	145,583
Treasury shares	-4,969	-4,943
Total shareholders' equity	205,891	204,871
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,273	4,495
Foreign currency translation adjustment	-2,843	-6,426
Remeasurements of defined benefit plans	2,118	2,188
Total accumulated other comprehensive income	13,548	257
Share acquisition rights	265	281
Non-controlling interests	7,187	7,089
Total net assets	226,892	212,500
Total liabilities and net assets	376,130	364,824

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

Consolidated statements of income

Consolidated third quarter

	(Million yen)	
	Previous third quarter period (From January 1, 2019 to September 30, 2019)	Third quarter under review (From January 1, 2020 to September 30, 2020)
Net sales	209,456	187,418
Cost of sales	164,815	146,242
Gross profit	44,641	41,176
Selling, general and administrative expenses		
Packing and transportation costs	5,280	4,880
Salaries and allowances	8,758	8,465
Bonuses	2,012	1,936
Welfare expenses	2,254	2,151
Depreciation	1,380	1,459
Research and development expenses	2,437	2,222
Other	13,021	11,624
Total selling, general and administrative expenses	35,146	32,740
Operating profit	9,495	8,435
Non-operating income		
Interest income	154	171
Dividend income	727	917
Other	361	301
Total non-operating income	1,243	1,390
Non-operating expenses		
Interest expenses	482	397
Foreign exchange losses	309	1,265
Share of loss of entities accounted for using equity method	11	176
Other	325	520
Total non-operating expenses	1,128	2,360
Ordinary profit	9,609	7,466
Extraordinary income		
Gain on sales of non-current assets	27	19
Gain on sales of investment securities	1,323	-
Other	-	0
Total extraordinary income	1,350	20
Extraordinary losses		
Loss on sales and retirement of non-current assets	120	200
Shutdown costs	-	363
Allowance for environmental measures	2,688	-
Other	294	29
Total extraordinary loss	3,102	592
Profit before income taxes	7,858	6,893
Income taxes - current	2,363	2,528
Income taxes - deferred	-171	-179
Total income taxes	2,191	2,349
Profit	5,666	4,544
Profit attributable to non-controlling interests	255	328
Profit attributable to owners of parent	5,410	4,215

Consolidated Statements of Comprehensive Income

Third Quarter Consolidated Cumulative Period

	(Million yen)	
	Previous third quarter period (From January 1, 2019 to September 30, 2019)	Third quarter under review (From January 1, 2020 to September 30, 2020)
Profit	5,666	4,544
Other comprehensive income		
Valuation difference on available-for-sale securities	-1,593	-9,784
Foreign currency translation adjustment	-3,735	-3,485
Remeasurements of defined benefit plans, net of tax	62	70
Share of other comprehensive income of entities accounted for using equity method	-133	-164
Total other comprehensive income	-5,399	-13,363
Comprehensive income	267	-8,819
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	418	-9,074
Comprehensive income attributable to non-controlling interests	-150	255

(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)

Previously, domestic consolidated subsidiaries primarily used the last purchase price method (the balance sheet value is calculated by writing down the book value based on a decline in profitability) as the method of merchandise valuation. From the first quarter of the current fiscal year, however, they have changed from this method to the cost method based on the gross average method (the balance sheet value is calculated by writing down the book value based on a decline 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 appropriately.

Because the impact of this change was immaterial, it has not been applied retroactively.

(Additional Information)

(Application of Tax Effect Accounting in the Transition from the Consolidated Taxation System to the Group Tax Sharing System)

In regard to the items for which the review of the non-consolidated taxation system was carried out together with the transition to the Group Tax Sharing System established in the Act for Partial Revision of the Income Tax Act and other Acts (Act No. 8 of 2020), based on Article 3 of the 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, March 31, 2020), the Company and some domestic consolidated subsidiaries do not apply the provisions set forth in Article 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018) and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law before revisions.

(Accounting estimates regarding the impact of the COVID-19 coronavirus pandemic)

We have made estimates and judgments regarding the pandemic's impairment of non-current assets and the recoverability of deferred tax assets on the assumption that the economy will gradually recover as economic activities resume as we adjust to a new normal, even if the risk of infection has not been eliminated.

However, as these assumptions entail uncertainty, the estimates and judgments may be affected by future events.

(Segment information, etc.)

I. Consolidated cumulative third quarter of the previous fiscal year (from January 1, 2019 to September 30, 2019)

Information on net sales and income (loss) by reportable segment

(Millions of yen)

	Reported segments					Other (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 Businesses	Total				
Net sales									
Sales to customers	49,413	48,967	49,942	57,259	205,582	3,874	209,456	—	209,456
Intersegment sales	1,700	179	563	30	2,473	1,600	4,073	-4,073	—
Total	51,114	49,146	50,505	57,290	208,056	5,474	213,530	-4,073	209,456
Segment profit	2,725	4,371	2,017	135	9,249	263	9,512	-17	9,495

(Note)

1. The "Other" 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 -17 million yen in segment profit (loss) mainly represents the elimination of intersegment transactions.
3. Segment profits have been adjusted with operating profit recorded in the consolidated quarterly income statement.

II. Consolidated cumulative third quarter under review (January 1, 2020 to September 30, 2020)

Information on net sales and income (loss) by reportable segment

(Millions of yen)

	Reported segments					Other (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 Businesses	Total				
Net sales									
Sales to customers	42,588	45,409	48,725	47,171	183,894	3,524	187,418	—	187,418
Intersegment sales	1,727	189	452	16	2,385	1,130	3,516	-3,516	—
Total	44,315	45,598	49,177	47,188	186,280	4,654	190,934	-3,516	187,418
Segment profit (loss) (-)	1,716	4,106	2,723	-341	8,204	220	8,424	11	8,435

(Note)

1. The "Other" 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 profit (loss) mainly represents the elimination of intersegment transactions.
3. Segment profit(loss) has been adjusted with operating profit recorded in the consolidated quarterly income statement.