

Bridge Report Toyo Ink SC Holdings, Co., Ltd. (4634)

 President Katsumi Kitagawa	Company	Toyo Ink SC Holdings, Co., Ltd.	
	Code No.	4634	
	Exchange	TSE 1st Section	
	Industry	Chemical (Manufacturing)	
	President and CEO	Katsumi Kitagawa	
	Address	3-7-1 Kyobashi, Chuo-ku, Tokyo	
	Business	Top printing ink manufacturer in Japan. A Toppan Printing Group company. Source of profit is coloring materials for LCD panels. Capital alliance with Sakata Inx.	
	Year-end	End of March	
	HP	http://schd.toyoinkgroup.com/en/index.html	

— Stock Information —

Share Price	Number of shares issued (excluding treasury shares)		Total market cap	ROE (Actual)	Trading Unit
¥514	295,874,052 shares		¥152,079 million	5.9%	100 shares
DPS (Est.)	Dividend yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
¥16.00	3.1%	¥40.53	12.7 times	¥697.57	0.7 times

* Share price as of closing on the end of November 21. Number of shares outstanding is as of quarter end from the most recent earnings briefing. ROE and BPS are based on actual results of the previous term end.

— Consolidated Earnings Trends —

(Unit: Million yen, yen)

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
March 2010 (Actual)	226,074	13,339	13,604	6,556	21.77	10.00
March 2011 (Actual)	245,958	19,145	19,002	11,517	38.60	12.00
March 2012 (Actual)	245,337	13,648	13,445	7,238	24.26	12.00
March 2013 (Actual)	248,689	17,547	18,468	8,714	29.20	12.00
March 2014 (Actual)	279,557	19,728	20,553	12,260	41.09	13.00
March 2015 (Actual)	286,684	18,210	19,411	13,304	44.60	14.50
March 2016 (Actual)	283,208	18,470	18,697	12,190	40.87	15.00
March 2017 (Est.)	290,000	19,500	20,000	12,000	40.53	16.00

* Estimates are those of the Company. Net income is net income attributable to owners of parent.

This Bridge Report provides overview of the first half of fiscal year March 2017 earnings results, etc.

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<Reference 1 : Midterm Business Management Plan, SCC-III>

<Reference 2 : Corporate governance>

Key Points

• **Toyo Ink SC Holdings, Co., Ltd. is Japan's top manufacturer of printing inks. Using the processing technologies of pigments and resins that are the raw materials of inks, the Company manufactures various products such as LCD color filters and electromagnetic shielding films. The Toyo Ink Group is comprised of Toyo Ink SC Holdings, 67 consolidated subsidiaries in and outside Japan, and 12 equity method affiliate companies. Their business is carried out in 24 countries around the world. In the "Midterm Business Plan SCC-III", the Company is aiming to "transform from a specialty chemical manufacturer to a science company". It aims to grow through development of new products and acceleration of overseas expansion.**

• **The sales for the 2nd quarter of the term ending Mar. 2017 were 133.1 billion yen, down 5.6% YoY. The sales declined because of the downturn of demand for printing and LCD-related business in Japan, the slowdown of the Chinese economy, and exchange rate fluctuations. Operating income grew 4.8% YoY to 8.8 billion yen. The effect of the decrease of highly functional products, exchange rate fluctuations, and the drop in selling prices was offset by the reduction in raw material cost, fixed cost, etc. and profit rate improved. Ordinary income decreased 10.0% YoY to 7.8 billion yen. For the previous term, an exchange gain of 12 million yen was posted, but for the current term, an exchange loss of 1.2 billion yen was posted.**

• **There is no change to the full-year earnings forecast. The sales for the term ending Mar. 2017 are estimated to grow 2.4% YoY to 290 billion yen. The business environment is forecasted to remain severe, but sales are projected to grow in all business segments. Operating income is estimated to rise 5.6% YoY to 19.5 billion yen. Profit, too, is forecasted to increase in all segments. The dividend is to be 16.00 yen/share, up 0.50 yen/share from the previous term. Payout ratio is forecasted to be 39.5%.**

• **The progress rate of the results for the 2nd quarter with respect to the full-year forecast is 45.9% for sales, and 45.5% for operating income. Compared with the results in the past 5 years, the progress of both sales and profit is not massively but slightly slow.**

It is difficult to predict the trend of exchange rates, but in the short term, we would like to pay attention to how much the company will increase sales and profit in the 3rd and 4th quarters. It became difficult to achieve the numerical goal for "SCC-III," but we look forward to seeing the outcomes of business in the fields of "life science," "communication science," and "sustainability science" for the term ending Dec. 2017.

1. Company Profile

Toyo Ink SC Holdings is Japan's top manufacturer of printing inks. Using the processing technologies of pigments and resins that are the raw materials of inks, the Company manufactures various products such as LCD color filters and electromagnetic shielding films, etc. The Toyo Ink Group is comprised of Toyo Ink SC Holdings, 67 consolidated subsidiaries in and outside Japan, and 12 equity method affiliate companies. They are operating business in 24 countries around the world. In the "Midterm Business Plan SCC-III", the Company is aiming to "transform from a specialty chemical manufacturer to a science company". It aims to grow through development of new products and acceleration of overseas expansion.

【History】

The origin of Toyo Ink dates back to 1896, when founder Kamataro Kobayashi opened *Kobayashi's Ink Shop* as sole proprietorship at Nihonbashi, Tokyo. In 1907, it was reorganized and renamed as *Toyo Ink Manufacturing Co., Ltd.* During the Meiji period, many newspapers and magazines, including the *Yomiuri Shimbun* (founded in 1874) and the *Asahi Shimbun* (founded in 1879), were launched. The government also printed increasing number of materials including textbooks to enhance educational levels under the policy of increasing wealth and military power. Under these circumstances, the demand for printing inks expanded rapidly.



Initially, inks in the Japanese market were mostly imported products; however, as the national policy favored high quality domestically produced inks, the Company, with its advanced technological skills, successfully expanded its business with clients such as the Printing Bureau of the Ministry of Finance and other government bodies, in addition to private printing companies. Exports also grew during the same time. The Company’s rapid growth was also due in part to the early introduction of integrated manufacturing system from raw materials (pigments, resins) to finished products (printing inks). Another contributing factor may be that the Company, since its inception, had strong ties with Toppan Printing Co., Ltd., which, by then, was among Japan's largest printing companies. The Company survived the difficult times of the Great Kanto Earthquake and the World War II and experienced rapid growth again during the period of high economic growth after the war. The Company was listed in the Second Section of the Tokyo Stock Exchange in 1961 and moved to the First Section of the Tokyo Stock Exchange in 1967.

The Company is expanding its businesses from manufacturing of printing inks to other fields such as LCD film materials, using its wide range of technologies and know-how cultivated through manufacturing and processing of raw materials such as pigments and resins. In 2011, the Company adopted a holding company system for further expansion and growth of the Group, and changed its name to Toyo Ink SC Holdings, Co., Ltd.

【Corporate Philosophy】

The Toyo Ink Group’s Corporate Philosophy was established in April 1993. It consists of 3 parts, namely, corporate philosophy, corporate policies, and guiding principles. The Philosophy embodies the original roots of the brand of the corporate group and serves as guidelines that each employee of the Group should always keep in mind and act on as a business professional.

In April 2014, “improving shareholder satisfaction” was added to its guiding principles. With this revision, the Company is aiming to improve satisfaction of all stakeholders.

<Toyo Ink Corporate Philosophy>

Management philosophy	People-oriented management
Corporate policies	We, the Toyo Ink Group, endeavor to be a company that contributes to the enrichment of life and culture throughout the world. <ul style="list-style-type: none"> • Contribute to the affluence and culture of people worldwide. • Create lifestyle value for the new age. • Provide advanced technology and quality products and services.
Guiding principles	<ul style="list-style-type: none"> • Provide knowledge that enhances customer trust and satisfaction. • Respect the materialization of all employees' dreams. • Act as a responsible citizen in harmony with society and the environment • Respect shareholders' rights, improve shareholder value and enhance market valuation.

All employees must always carry this philosophy system printed on a credo card, read it out in the 5-minute meeting every week at each division, and repeatedly confirm its meaning through discussion. This way, the employees are expected to have deeper understanding and implement the philosophy.

Furthermore, the “Toyo Ink Group Corporate Philosophy” is printed on the first page of every single issue of the Company's in-house magazine, which is published for the Group's unity and circulated to the entire Group including the overseas locations. Also, the above-mentioned credo has “Japanese/English” version as well as “Chinese/English” version to share and spread the corporate philosophy globally.



【Market Environment】

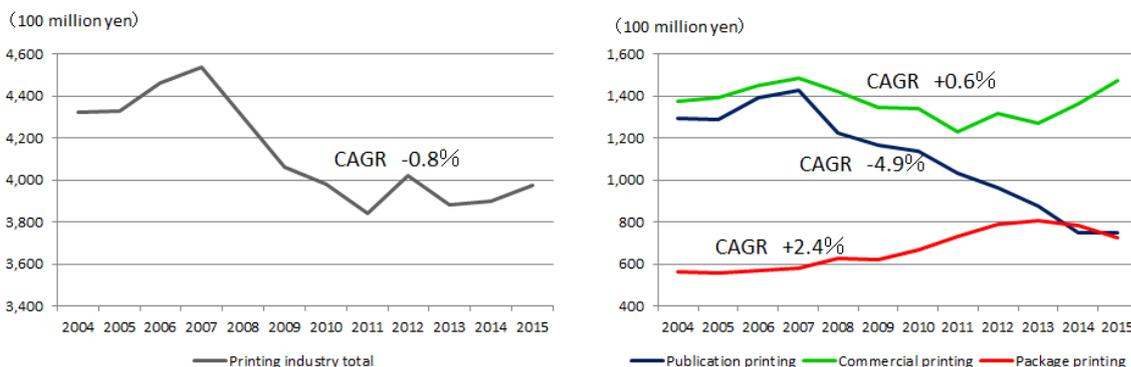
◎ Overview

(Market trend)

The production value of the Japanese printing industry is declining especially in the realm of publication printing of newspapers and magazines as a result of increasing digitization and aliteracy.

In the realm of commercial printing, on the other hand, of posters, catalogues, fliers, POP, etc. demand is fairly steady. Furthermore, printing on food and pharmaceutical packages and plastic containers is steadily increasing at the compound annual growth rate (CAGR) of 2.4% from 2004 to 2015.

Transition of Production value in the Printing Industry



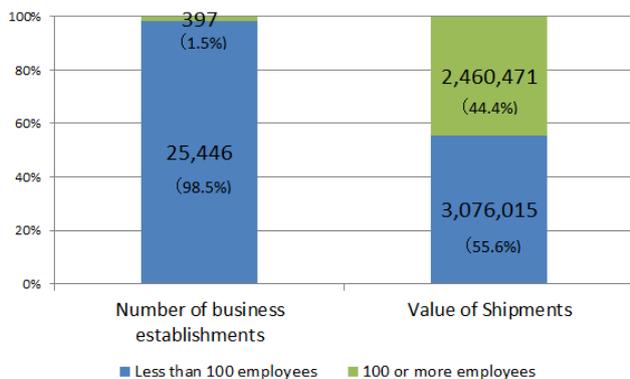
* Developed by Investment Bridge Co., Ltd. based on Current Survey of Production Annual Report "Paper, Printing, Plastic Products, Rubber Products" by Ministry of Economy, Trade and Industry (METI)

Meanwhile, overseas, especially in newly emerging countries, both printing on papers (offset printing) and printing on film of food packages (gravure printing, flexographic printing) is expected to grow, and the Company is focusing on responding to the demand.

As innovation of printing machine is progressing, quality of printing is enhancing. Overseas local inks, in many cases, cannot respond to such demand for high quality, which may lead to more demand of excellent Japanese ink.

(Printing houses and printing ink manufacturers)

According to the "Census of Manufactures 2014: Report by Industry" by METI, there were 25,843 business entities in the printing and related industries in 2014. 25,446 (98.5%) of them are small and medium-sized enterprises with fewer than 100 employees.



* Developed by Investment Bridge Co., Ltd. based on the data from "Census of Manufactures 2014: Report by Industry" by METI
 * The unit of the value of shipments is ¥million.

The Company's customers i.e. printing companies purchase printing inks and carry out printing. However, printing cannot be done simply by setting printing inks and papers and starting the machine. Printing companies are faced with needs such as "selection of the ink for the new types of paper", "producing special color" and "producing premium look" and challenges such as improving printing efficiency and taking environmental measures. The Company provides its

customers

with information on new products and various advices concerning these needs and challenges. Most of the 26,000 printing companies in Japan can hardly conduct business without such solutions. Therefore, printing ink manufacturers play a crucial role in the printing industry.

Thus, the Company's customers seek direct dealings with the Company. As a result, nearly 80% of the Company's domestic sales come from direct sales to its customers. These strong relationships with the customers are among the Company's major characteristics.

◎ Other companies in the industry

There are 6 major listed companies including Toyo Ink in the ink industry in Japan.

Whereas (4631) DIC is the number one company in the world, Toyo Ink is the top runner in Japanese printing ink industry, and ranks first or second by most product categories. Globally, the Company is ranked third (The second is a European firm).

(4633) SAKATA INX is the second largest shareholder of the Company. The Company and SAKATA INX complement each other mainly in logistical aspects. The two companies concluded a capital and business alliance agreement in 2000.

		Sales	Sales increase rate	Operating income	Profit increase rate	Operating income rate	Total market value	PER	PBR	ROE
4116	Dainichiseika Color & Chemicals Mfg. Co., Ltd.	161,000	+0.1%	10,000	+0.5%	6.2%	54,211	6.8	0.7	5.3
4631	DIC	750,000	-8.5%	54,000	+5.7%	7.2%	299,573	10.0	11.4	14.6
4633	SAKATA INX	150,600	-3.2%	9,700	+3.6%	6.4%	87,373	10.9	1.4	11.9
4634	Toyo Ink SCHLD	290,000	+2.4%	19,500	+5.6%	6.7%	150,896	12.6	0.7	5.9
4635	Tokyo Printing Ink Mfg. Co., Ltd.	45,200	-2.1%	1,100	+87.5%	2.4%	6,542	8.2	0.3	1.6
4636	T&K TOKA	47,000	+0.5%	2,600	+0.5%	5.5%	23,004	7.8	0.6	7.9

*Sales and operating income are based on estimations of each company for this FY. ROE and BPS are based on actual results of the previous term end.

Unit: Million, -fold. Total market value is based on the closing price as of November 17, 2016.

【Business Contents】

◎ Concerning “printing inks”

Followings are the summary of printing inks, one of the major product categories of the Company, categorized by “raw materials” and “types and purposes of use”.

<Composing elements of printing inks>

Pigments (organic pigments, inorganic pigments, etc.)	Pigments are powders that are used to provide color and are insolvent to water and oil.
Varnish (synthetic resins, lipids, fluxing materials, etc.)	Varnish is a combination of lipids, natural resins, synthetic resins, etc. in a solvent. It diffuses pigments, transfers and fixes them to printing materials.
Additives (lubricant, hardening agent, etc.)	Additives used to adjust so-called printability such as drying performance and fluidity, as well as printing effect.

High-level diffusion technologies are required when various inks are produced by combining the above 3 raw materials. Since its foundation, the Company also has been expanding its business categories by exploring application of these raw materials in the process of manufacturing them.

<Types and intended use of major printing inks>

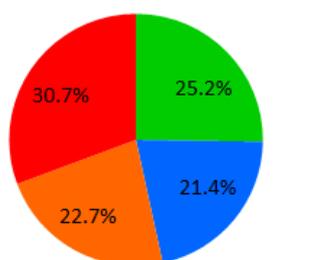
Types	Characteristics and Intended Use
Planographic inks	Typical printing ink on paper. They are used for printing magazines, posters, fliers, etc.
Gravure inks	Because of their capacity to express detailed graduation, it is suitable for printing photo images. Currently, they are mainly used for printing films such as food wrapping materials.
Screen inks	They are mainly used for printing on materials that are difficult to be printed with other methods, including industrial products such as meters and gauges of cars, circuit board formation, and CDs/DVDs.
Flexographic inks	They are used to print on the surface of cardboard boxes, films and clothes.
UV curing inks	Because they dry instantly without using heat drier in the drying process, they are used for UV curing printing that does not directly generate CO ₂ . They are environmentally friendly inks that do not generate Volatile Organic Compounds (VOC).

◎Business segments

The business activities of the Company are classified into 4 segments: the “Colorants & Functional Materials Related Business”, “Polymers & Coatings Related Business”, “Printing & Information Related Business”, and “Packaging Materials Related Business”.

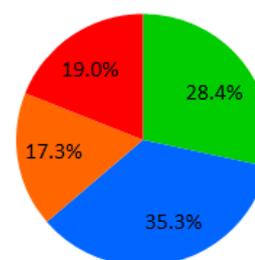
The “Printing & Information Related Business” mainly deals with planographic inks that are used for printing on papers (offset inks, etc.). The “Packaging Materials Related Business” deals with gravure inks and flexographic inks that are used for printing on films of food packages. The “Colorants & Functional Materials Related Business” deals with products related to pigments that are also the raw materials of printing inks as core materials. The “Polymers & Coatings Related Business” began with resins that are the main raw materials of inks and their design technologies.

Sales composition ratio
(FY March 2016)



■ Colorants and Functional Materials ■ Polymers/Coatings
■ Packaging Materials ■ Printing/Information

Operating income composition ratio
(FY March 2016)



■ Colorants and Functional Materials ■ Polymers/Coatings
■ Packaging Materials ■ Printing/Information

* "Other" segment is excluded. The inter-segment elimination is not taken into consideration for both sales and operating income.

★Colorants and Functional Materials Related Business

(Units: Million yen)

	FY 2015	FY 2016
Sales	78,465	71,878
Operating income	7,290	4,461
Profit rate	9.3%	6.2%

Sub segment	Major products
Chemicals	Pigments, high function pigments, color filters (CF), paste
Display materials	Resist inks for LCD color filter

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Colorants	Colorants, functional colorants
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Based on the organic pigments that are the main raw materials for printing inks, and by integrating their color material technologies, organic chemical synthetic technologies and high-level dispersion technologies, the Company offers materials that are used in various fields. Especially, it created higher functional LCD color filter materials using their nano-level dispersion technologies through integration of technologies that have been accumulated from their ink and painting materials production experiences.

Furthermore, the Company's dispersion processing technologies are used not only for organic pigments but also inorganic materials such as carbon nanotube (CNT), which lead to expansion of their business in the new energy field such as secondary battery materials. They constitute about 40% of the Company's operating income.

★Polymers & Coatings Related Business

(Units: Million yen)

	FY 2015	FY 2016
Sales	59,495	60,894
Operating income	3,646	5,547
Profit rate	6.1%	9.1%

Sub segment	Major products
Coating materials	Adhesive tapes, bonding tapes, marking films, electromagnetic shielding films
Adhesives	Adhesive compounds, adhesive bonds, laminating adhesives, hot-melt adhesives
Coatings, resins	Can coatings, resins



For this segment, the Company develops functional resins as the core materials with different functional features. Using unique technologies that have been developed for many years, the Company creates new functions to cultivate new demand and open new markets in electronics, energy, health care and other fields.

★Packaging Materials Related Business

(Units: Million yen)

	FY 2015	FY 2016
Sales	63,114	64,623

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Operating income	1,768	2,723
Profit rate	2.8%	4.2%

Sub segment	Major products
Liquid inks	Gravure inks, flexographic inks, screen inks, gravure solvent
Gravure equipment, plate making	Gravure equipment/plate making



For this segment, the Company deals with printing inks and equipment used in packages such as gravure printing, flexographic graphic printing and screen-printing. In the field of food packaging, etc., the Company is dedicated to developing environmentally friendly products using water-based ink to assure their safety to the consumers.

★Printing & Information Related Business

(Units: Million yen)

	FY 2015	FY 2016
Sales	87,468	87,439
Operating income	2,639	2,977
Profit rate	3.0%	3.4%

Sub segment	Major products
Offset inks	Offset inks, newspaper inks, UV curable inks, metal inks, hard coat
Printing materials and equipment	Printing machinery & equipment, printing materials
Inkjet inks, others	Inkjet inks, other development products



This segment is the core segment of the Company since its establishment. For this segment, the Company deals mainly with printing inks used for printing on paper.

The Company offers not only printing inks but also sales of machinery/equipment, support for streamlining customers' printing process, and support and tools for color management and color universal design.

◎Overseas expansion

While the Company is improving profitability by offering high-value-added products in the Japanese market, where a rapid growth is not expected, it is aggressively expanding its business from both production and sales perspectives in the overseas market where future growth is expected.

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Development of its overseas manufacturing structures was almost completed during the previous Midterm Business Plan, and the Company is carrying out both raw material procurement and production at the local sites.

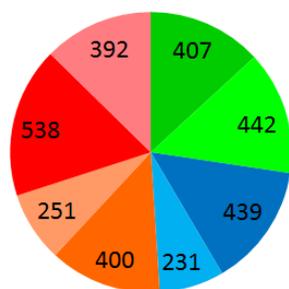
As of the end of March 2016, the Company has 50 overseas subsidiaries and 51 plants in 23 countries around the world.

<Segment trend by region>

(Units: Million yen)

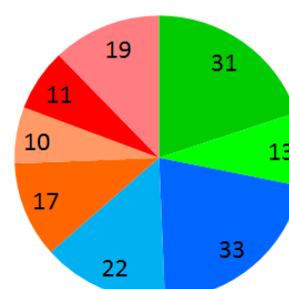
	Sales			Operating income		
	FY 2015	FY 2016	YoY	FY 2015	FY 2016	YoY
Japan	1,890	1,819	-3.8%	126	119	-6.0%
Asia & Oceania	1,022	1,007	-1.4%	57	63	+10.0%
Europe	142	145	+2.0%	2	4	+137.4%
The Americas	124	142	+14.6%	-4	-1	-
Adjustment	-311	-281	-	0	1	-
Consolidated total	2,867	2,832	-1.2%	182	185	+1.4%

Domestic and Overseas operating profit by segment
(FY March 2016, Unit:100 million yen)



* Elimination among regions is not taken into consideration.

Domestic and Overseas sales by segment
(FY March 2016, Unit:100 million yen)



* Elimination among regions is not taken into consideration.

【ROE Analysis】

	FY 2013	FY 2014	FY 2015	FY2016
ROE (%)	5.8	7.3	6.9	5.9
Net income to net sales ratio (%)	3.50	4.39	4.64	4.30
Total asset turnover rate (number of times)	0.85	0.88	0.82	0.78
Leverage (fold)	1.94	1.88	1.80	1.75

In the section of “Target Management Indicators” within the earnings result report, not only the expansion of sales and profit but also the improvement of ROA and ROE is mentioned among what is expected of a high-value added company. ROE is expected to increase by enhancing margin and efficiency (total asset turnover rate).

【Characteristics and Strengths】

(1) Strong technological edge

As described above, the Company has been manufacturing in-house pigments and resins, which are the raw materials of printing inks. Its technological capacities form the basis of high quality printing ink production and lead to expansion of business areas and product range such as, LCD color filter materials, adhesive bonds and adhesive compounds.

(2) Excellent problem solving skills

One of the reasons for the Company to be at the top of the Japanese printing inks industry is its excellent problem solving capability in all aspects of printing.

The Company not only produces and supplies printing inks but also studies elements related to “printing” as a whole including plate making and images. Such efforts enable the Company to make technological proposals, demonstrate advanced service skills, and obtain high customer satisfaction.

(3) Environmental concerns

The Company is a forerunner in CO₂ emission reduction as well as production of eco-friendly inks such as non-VOC inks, water-base inks, and UV inks. In the newly developed countries, too, the environmental regulations are becoming tighter, and the needs for environmentally friendly products are increasing. The Company is also working on assuring safety such as chemical substances control and manufacturing a line of products that meet the Swiss Ordinance, ahead of other companies.

(4) Uniqueness of management strategies

The Company considers M&A as one of the options for exploring new markets with its technological edge, if M&A is expected to bring synergy effects to the Company. It is also taking an initiative in the printing ink industry to establish “local production for local consumption” policy in the overseas market for enhancing efficiency (e.g. reduction in transport mileage) and social contribution (e.g. utilization of local products) purposes.

2. 1H of Fiscal Year March 2017 Earnings Results

(1) Business results overview

(Units: Million yen)

	1H FY 2016	Share	1H FY 2016	Share	YoY change	Initial forecast comparison
Sales	140,941	100.0%	133,113	100.0%	-5.6%	-4.9%
Gross margin	31,600	22.4%	31,878	23.9%	+0.9%	-
SG & A expenses	23,139	16.4%	23,015	17.3%	-0.5%	-
Operating income	8,460	6.0%	8,863	6.7%	+4.8%	-1.5%
Ordinary income	8,744	6.2%	7,871	5.9%	-10.0%	-15.4%
Quarterly Net income	5,679	4.0%	5,254	3.9%	-7.5%	-4.5%

Sales growth is slight, but operating income grew due to the improvement in profit rate, etc.

Sales decreased 5.6% YoY to 133.1 billion yen. The sales declined because of the downturn of demand for printing and LCD-related business in Japan, the slowdown of the Chinese economy, and exchange rate fluctuations.

Operating income grew 4.8% YoY to 8.8 billion yen. The effect of the decrease of highly functional products, exchange rate fluctuations, and the drop in selling prices was offset by the reduction in raw material cost, fixed cost, etc. and profit rate improved.

Ordinary income decreased 10.0% YoY to 7.8 billion yen. For the previous term, an exchange gain of 12 million yen was posted, but for the current term, an exchange loss of 1.2 billion yen was posted.

(2) Trend by segment

(Units: Million yen)

	Sales			Operating income		
	1H FY 2016	1H FY 2017	YoY change	1H FY 2015	1H FY 2016	YoY change
Colorant/Functional materials	36,828	32,142	-12.7%	2,374	1,492	-37.2%
Polymers/Coatings	30,113	29,083	-3.4%	2,474	3,194	+29.1%
Packaging	31,978	31,845	-0.4%	1,148	1,581	+37.7%
Printing/Information	42,991	40,485	-5.8%	889	1,577	+77.4%
Others	2,823	2,978	+5.5%	1,575	1,018	-35.4%
Adjustment	-3,794	-3,420	-	-1	-1	-
Total	140,941	133,113	-5.6%	8,460	8,863	+4.8%

★Colorants and Functional Materials Related Business

Sales and profit dropped.

<Chemical products>

The sales of pigments were sluggish in the printing field, but the sales of pigments for painting and coloring plastics grew. As for CF paste, demand weakened and profit decreased.

<Display panel materials>

The domestic business operation in the panel market has recovered. There are signs of recovery in China and Taiwan, but its business performance is still sluggish in South Korea. The company is striving to produce good results for the newly developed resist inks for panels and image sensors as soon as possible.

<Coloring agents>

The performance of automobile-related business has been healthy. Its share in the container-related market increased, and the beverage-related demand was strong and favorable.

The company is steadily proceeding with the horizontal expansion of products targeted at global key accounts and the promotion of solar cell-related products, which are being evaluated.

★Business related to polymers and printing

Sales decreased, but profit grew.

<Packages>

The overseas distribution of adhesives for packages progressed. The performance of paints for cans was healthy, thanks to continued sales promotion.

The sales of adhesives for paper, films, and labels declined in the lackluster market.

<Electronics and optics>

The new sales promotion of adhesives for ICT progressed.

The sales of functional films were promoted in South Korea and China. New products contributed to sales expansion, but the effect of exchange rates got stronger.

<Automobiles/industrial purposes>

The sales promotion of adhesives for automobiles and industrial use, including building materials, progressed.

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<Healthcare>

In Jul. 2016, the company started operating the business of poultices.

★Package-related business

Sales decreased slightly, but profit grew.

<Inside Japan>

The domestic package market has been healthy. The shift from rigid containers to pouches is progressing, and the needs for the packaging of individual products are growing.

The company will develop gravure inks for highly functional face and reverse printing, and strive to attract new clients in the field of flexographic printing.

<Outside Japan>

Toyo Ink SC Holdings proposed solutions of environmentally friendly products (water-based/EB) at “Drupa,” the world’s largest exposition for printing and cross-media solutions. Water-based products sold well in Asia, as the VOC regulations were enforced and so on.

In Asia, including India, the performance of middle-grade products was healthy. The performances of new business establishments in the inland of China, Brazil, etc. are improving.

★Printing and information-related business

Sales dropped, but profit grew.

<Inside Japan>

The scale of the offset printing market (commerce, publication, and newspaper) is still shrinking. The scale of the entire market dropped 3% in the first half.

The rationalization of inkjet ink, offset ink, etc. is progressing, and the sales promotion of UV ink progressed further, as new business establishments were built.

As for LCD coating agents, the sales of antistatic HC for OLED-TV targeted at the Korean market grew considerably. The demand for optical HC is growing, as the smartphone market in China is thriving.

<Outside Japan>

While the offset printing market is shrinking structurally, the UV ink market is growing due to the needs for package printing and electric power saving.

The production outputs at factories in Brazil and India are growing. The production process of UV ink is being transferred around the world.

(3) Financial Situation and Cash Flow

◎Main BS

(Units: Million yen)

	End of March 2016	End of Sep. 2016		End of March 2016	End of Sep. 2016
Current assets	184,064	173,163	Current liabilities	85,686	92,672
Cash and deposits	44,470	41,067	Trade payables	48,369	46,642
Trade receivables	90,949	85,999	Short-term loans	20,401	30,840
Inventories	44,391	41,671	Noncurrent liabilities	60,166	46,695
Noncurrent assets	176,462	170,530	Long-term loans	46,037	33,576
Property, plant and equipment	100,698	96,849	Total liabilities	145,853	139,367
Intangible assets	5,683	5,332	Net assets	214,673	204,325
Investments, others	70,080	68,347	Equity	187,972	189,890
Total assets	360,526	343,693	Total liabilities, net	360,526	343,693

			assets		
			Capital adequacy ratio	57.7%	57.8%

Current assets decreased 10.9 billion yen from the end of the previous term, due to the declines in cash and deposits, trade receivables, etc. Noncurrent assets dropped 5.9 billion yen from the end of the previous term, because property, plant and equipment and investments and others decreased. Total assets were 343.6 billion yen, down 16.8 billion yen from the end of the previous term.

Total liabilities decreased 6.4 billion yen from the end of the previous term to 139.3 billion yen, due to the decline in long-term loans, etc.

Net assets declined 10.3 billion yen from the end of the previous term to 204.3 billion yen, as retained earnings grew, but foreign currency translation adjustment dropped through the yen appreciation.

As a result, equity ratio rose 0.1 points from 57.7% at the end of the previous term to 57.8%.

◎Cash flow

(Units: Million yen)

	1H FY 2016	1H FY 2017	YoY change
Operating CF	8,368	8,134	-234
Investing CF	-10,404	-5,759	+4,645
Free CF	-2,036	2,375	+4,411
Financing CF	-2,524	-2,841	-317
Cash and Equivalents at Term End	38,075	40,339	+2,264

Operating CF is nearly equal to the previous value.

Investing CF recovered, due to the decrease in expenditure through the acquisition of investment securities, etc. As a result, free CF became positive.

Financing CF declined due to the increase of treasury shares.

The cash position improved.

(4) Topics

◎ The accounting period changed

As a “science company that contributes to the world,” Toyo Ink SC Holdings promotes the integrated operation of global business, tries to improve the transparency of business administration by disclosing the information on business administration timely and properly, and decided to end each accounting period in December rather than March, following the global standards, so that the financial results can be compared with competitors’ more easily.

The 179 th term	Apr. 1, 2016—Mar. 31, 2017 (12 months)
The 180 th term	Apr. 1, 2017—Dec. 31, 2017 (9 months)
The 181 st term	Jan. 1, 2018—Dec. 31, 2018 (12 months)

This change will be conducted for consolidated subsidiaries whose accounting period currently ends on a date other than Dec. 31.

The term ending Dec. 2017 is recognized as the final period for the mid-term plan “SCC-III,” and the term ending Dec. 2018 will become the first period of the next mid-term plan.

The next plan is to be announced in Nov. 2017.

3. Fiscal Year March 2017 Earnings Estimate

(1) Business forecast

(Units: Million yen)

	FY 2016	Composition rate	FY 2017 (Est.)	Composition rate	YoY change	Progress rate
Sales	283,208	100.0%	290,000	100.0%	+2.4%	45.9%
Operating income	18,470	6.5%	19,500	6.7%	+5.6%	45.5%
Ordinary income	18,697	6.6%	20,000	6.9%	+7.0%	39.4%
Net income	12,190	4.3%	12,000	4.1%	-1.6%	43.8%

*Forecasts are the figures announced by the Company.

No change to the earnings forecast. Sales and operating income estimated to grow.

The sales for the term ending Mar. 2017 are estimated to grow 2.4% YoY to 290 billion yen. The business environment is forecasted to remain severe, but sales are projected to grow in all business segments.

Operating income is estimated to rise 5.6% YoY to 19.5 billion yen. Profit, too, is forecasted to increase in all segments.

The dividend is to be 16.00 yen/share, up 0.50 yen/share from the previous term. Payout ratio is forecasted to be 39.5%.

(2) Trend by segment

(Units: 100 Million yen)

	Sales				Operating income			
	FY 2016	FY 2017 (Est.)	YoY change	Progress rate	FY 2016	FY 2017 (Est.)	YoY change	Progress rate
Colorant/Function materials	719	725	+0.8%	44.4%	45	48	+6.7%	31.3%
Polymers/Coatings	609	635	+4.3%	45.8%	55	63	+14.5%	50.8%
Packaging	646	675	+4.5%	47.3%	27	34	+25.9%	47.1%
Printing/Information	874	885	+1.3%	45.8%	30	40	+33.3%	40.0%
Others, Adjustment	-16	-20	-	-	28	10	-	-
Total	2832	2900	+2.4%	45.9%	185	195	+5.4%	45.5%

*YoY changes are the figures calculated by Investment Bridge Co., Ltd. (Units: 100 Million yen)

◎Growth Strategy of Each Segment

★Colorants and Functional Materials Related Business

Increasing the revenue of CF business ① Cultivating the Chinese market	Development & marketing aimed at the Chinese panel market, which is growing due to the popularization of 4K and the demand for large size items <ul style="list-style-type: none"> ◇ Understanding their demand for higher quality and offering a new line-up of our uniquely developed pigments ◇ A 2-grade (general-purpose & high-quality) strategy for the Chinese market, strengthened by the wide-ranging line-up ◇ Expanding into the promising organic EL display market (keeping up with diversification of displays)
Increasing the revenue of CF business ② Practical application of developed products	On-chip resists for image sensors <ul style="list-style-type: none"> ◇ By 2022, the “trillion-sensors” era (market) will begin. The production of 10 billion or more image-sensors is expected. ◇ With the coloring material development technologies and diepersoid technologies, we will develop new resists for image sensors.

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	◇ As applied developments, we will pioneer in the field of spatial-recognition sensors using infrared control technologies.
Expansion of sales of pigment dispersoids & coloring agents	◇ Promoting applied usages of the unique materials and technologies in the industries of automobiles, energy & healthcare.

★Polymers & Coatings Related Business

With the 3 pillars for growth – “new products/markets: electronics/optics, new energy market and environmental measures”, “global expansion” and “new business: expanding into the field of medical science” – the company has set up the following priority targets.

Expansion of sales in the electronics/optics market (in Japan, South Korea, Taiwan and China)	<ul style="list-style-type: none"> ◇ Entry to the OLED market & expansion of sales Sales expansion of functional films & adhesives ◇ Expansion of sales in the Chinese Market Sales expansion of adhesives for electronic displays & functional resins <p>FY2017 sales target (Apr-Dec) Painting products: ¥2.4 billion Polymer products: ¥2.1 billion</p>
Expanding the medical science product range	<ul style="list-style-type: none"> ◇ Expanding the healthcare product range ◇ Enriching the cataplasm product range ◇ Improving the pre-mixed processing of medicines <p>FY2017 sales target (Apr-Dec): ¥2.1 billion</p>

★Packaging Materials Related Business & ★Printing & Information Related Business

<Market Environments>

Printing/Information	(Domestic) Though the offset market (commercial, publishing, newspapers) is shrinking (4-5% per year), the market of UV has grown.
	(Overseas) Though the market for sheet-feeders/offset cylinder press is shrinking, the market of UV has grown (3-4% growth per year).
Packages	(Domestic) Gravure inks for packaging are performing well (+2% growth per year). Many enterprises have entered the flexo market.
	(Overseas) The market is performing well (+3-4% growth per year). Especially in the developing countries, a growth of over 5% is maintained. Due to VOC regulations, the demand for aqueous inks and non-solvent adhesives is growing in China.

<Measures>

Quest for thorough streamlining	<ul style="list-style-type: none"> ◇ Promoting unification & integration ◇ Uniting domestic SCM bases ◇ Shortening production processes
Faster response speed	<ul style="list-style-type: none"> ◇ Establishing overseas R&D bases (China & Thailand) ◇ Promotional activities towards the expansion of sales of food grade offset ink
Investing resources in the growing markets	<ul style="list-style-type: none"> ◇ Faster development of UV, EB & aqueous inks ◇ Overseas local procurement and expansion of sales in UV ink products



<Growing Domains>

<p>Metallic Ink: fortified overseas expansion</p>	<p>Speeding up the global development in the 2-piece cans market Increased presence in the multi-color printers market</p> <p>FY2015 result: ¥4.7 billion FY2020 sales target: ¥6.8 billion</p>
<p>Inkjet Ink: developing diverse uses</p>	<p>For textile printing, labels for the European/American markets, and cardboard printing Seeking new UV sign clients</p> <p>FY2015 result: ¥2.1 billion FY2020 sales target: ¥5.2 billion</p>
<p>Screen Ink: products for brand differentiation</p>	<p>Decorative film molding area Markets: dummy molding, amusement Carbon nanotubes Markets: Automobile use</p> <p>FY2015 result: ¥1.4 billion FY2020 sales target: ¥2.0 billion</p>

4. Conclusions

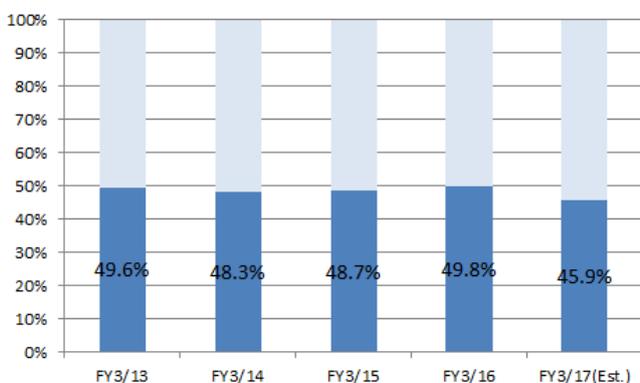
The progress rate of the results for the 2nd quarter with respect to the full-year forecast is 45.9% for sales, and 45.5% for operating income.

Compared with the results in the past 5 years, the progress of both sales and profit is not massively but slightly slow.

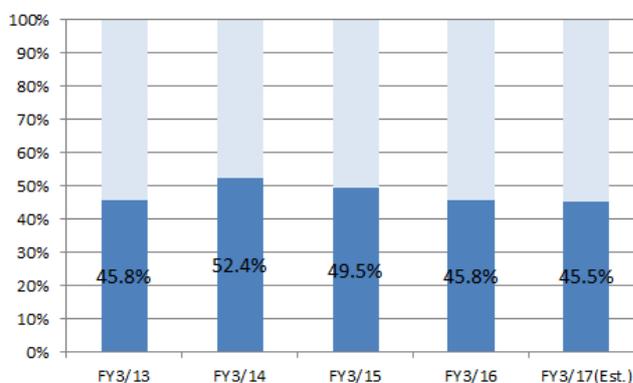
It is difficult to predict the trend of exchange rates, but in the short term, we would like to pay attention to how much the company will increase sales and profit in the 3rd and 4th quarters.

It became difficult to achieve the numerical goal for “SCC-III,” but we look forward to seeing the outcomes of business in the fields of “life science,” “communication science,” and “sustainability science” for the term ending Dec. 2017.

Progress rate of 1H in each FY(Sales)



Progress rate of 1H in each FY(Operating income)



<Reference : Midterm Business Management Plan, SCC-III>

(1) Midterm Business Management Plan, SCC-III

The Midterm Business Management Plan, called Science Company Change (SCC), began in April 2008. In April 2014, its 3rd term, “SCC-III Evolution Plan” for April 2014 to March 2017 began.

Goal	To be a corporate group that will create enriched life and culture together with various people in the world based on innovation of advanced technologies and group networks.
3 principles	Continuous innovation and strengthening of global network
	Drastic increase in earnings rate
	Strengthening governance

◎Business domains and technology platforms

In the SCC-III, the Company is aiming to “transform from Specialty Chemical Manufacturer to a Science Company” and established 3 business domains and 5 technology platforms. Through collaboration between the “Group Technology Center”, which is the laboratory facility of the Holdings, and business departments of each group company in Japan and overseas, the Group will carry out basic research and product development.

<Business Domain>

Each business domain sets priority areas and will continuously develop and offer products that respond to the changing tide and market needs. Although the progress thus far is uneven, development of secondary battery related parts in the “Sustainability Science” domain reportedly started showing good results from this FY.

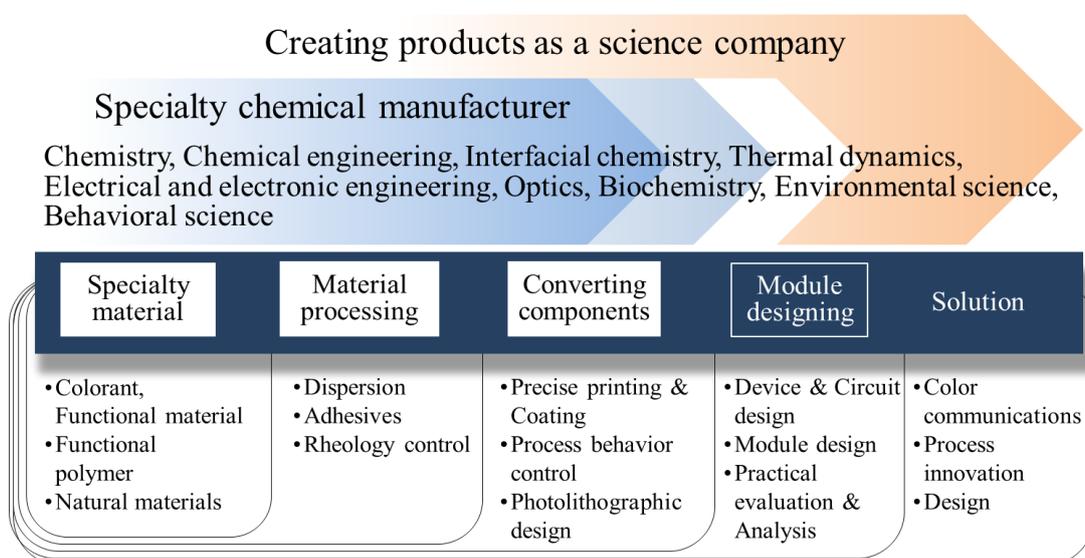
New Business Domain	Priority Areas of the Midterm Business Plan
“Life Science” that contributes to healthy living	<Packaging> In addition to the expansion of gravure inks and flexographic inks, the Company aims to come up with solutions for new packages by further integrating its own products such as coatings and colorants. Design is another key element. The Company aims to achieve the global standard of safety and security.
	<Healthcare> The Company aims to contribute to people’s health maintenance and promotion by using functional materials and integration technologies. By leveraging synthetic resin technologies, it will develop transdermal therapeutic drugs and medical devices using biocompatible resins.
“Communication Science” that contributes to richness in mind	<Electronics> The Company will lead the ultra-high-definition high-speed communication era by using the latest material development and integration technologies. Following the resist inks for color filters and electromagnetic shielding films, the Company will continue to respond to the demand for display-related parts.
	<Fine imaging> The Company pursues advancement of colorants, printing and processing technologies and offers colors to various scenes in people’s lives. It will also work in product development that responds to the advancement of digital printing.
“Sustainability Science” that contributes to sustainable society	<Environmental consciousness> The Company aims to coexist with nature through the development of natural materials as well as products that contribute to improvement and conservation of environment. It will proactively work on environmental issues through, for example, land and water quality improvement using resin technologies.
	<Energy-related operations> The Company will contribute to future society through creation, accumulation and utilization of natural resources and energy such as power and heat. It aims at expanding business of solar batteries, secondary batteries and fuel batteries.



<Expansion of Technology Platform (TPF) >

Technology platform refers to technology accumulation and basic technologies that will be the basis and foundation for developing new products.

The Company initially had three conventional TPFs: 1) “Specialty Materials” that advance existing materials to special materials, 2) “Material Processing” that adds functions and values with unique processing technologies to specialty materials, and 3) “Converting Components” that process materials to meet diversifying and advancing needs. Then Company added two more TPFs. One is “Module Designing,” which is a technology for examining products from customers’ point of view and reflecting the results in the downstream expansion of products and development of new products. The other is “Solution,” which is aimed at creating products that are valuable for the users by proposing design and formation. Thus, the Company has a total of five TPFs.



◎Plans for each business segment

The Company aims to expand its four business segments in a well-balanced manner.

The potential growth of “Colorants and Functional Materials Related Business” with a focus on LCD color filter, which occupies about 40% of the current operating income, is high but subject to economic trends. Printing inks, on the other hand, can expect little of their market growth, but they are less likely to be affected by the changing economic environment. The Company will pursue market development in newly emerging countries based on the principle of “local production for local consumption” to obtain stable income base for the “Printing and Information Related Business” and “Packaging Materials Related Business” segments. At the same time, it will pursue growth by developing and selling new high-value-added products for the “Colorants and Functional Materials Related Business” and “Polymers and Coatings Related Business” segments.

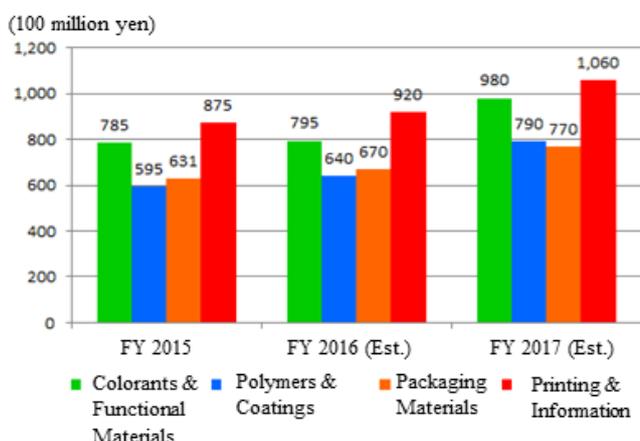
Segment	Basic principles
<p>Colorants and Functional Materials Related Business</p>	<p>(1) Business structure reform through new product development and overseas market expansion for general-purpose products</p> <ul style="list-style-type: none"> • Business expansion in the healthcare market and energy market • Promotion of general-purpose products (pigments, colorants, etc.) overseas <p>(2) Establishment of next generation production structure by converting functions of domestic bases and creating overseas networks</p> <ul style="list-style-type: none"> • Establishment of efficient production structure of existing products • Establishment of infrastructure for new businesses <p>(3) Establishment of business operation structure from global perspectives</p> <ul style="list-style-type: none"> • Business expansion through collaboration with overseas local companies and overseas

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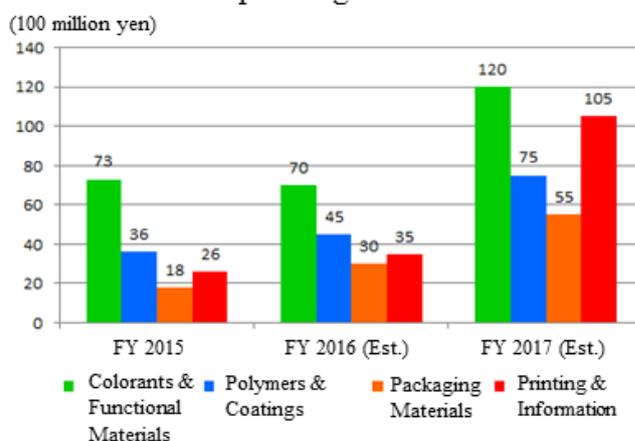


	manufacturers
Polymers & Coatings Related Business	<p>(1) Promotion of growth strategies</p> <ul style="list-style-type: none"> Promotion of new products and new businesses (package, ICT, natural materials, etc.) Establishment of marketing networks in the priority areas Strengthening development of healthcare products <p>(2) Strengthening business foundation</p> <ul style="list-style-type: none"> Strengthening sales in Japan (e.g. coatings for cans, optics adhesives, etc.) Strengthening the foundation for manufacturing (e.g. improvement of operation capacity of the Kawagoe Factory). Strengthening earning power based on planned costs. <p>(3) Expansion of business through new converging products group</p> <ul style="list-style-type: none"> Expansion of business fields by enhancement of converting technologies
Packaging Materials Related Business	<p>(1) Connect the foundation strengthening actions that were carried out during the SCC-II to the actual performance results</p> <ul style="list-style-type: none"> Strengthening sales in newly emerging countries Improving profit for the liquid ink business in the USA <p>(2) Formation of new business groups</p> <ul style="list-style-type: none"> Expansion of film flexographic business Development of inks and coating agents for construction materials Development of silk screen high-value-added products <p>(3) Establishment of products made to globally common specifications and materialization of SCM</p> <ul style="list-style-type: none"> Setting strategic gravure inks and flexographic inks Strengthening responses to global account Development of products that meet various environmental regulations
Printing & Information Related Business	<p>(1) Connecting foundation strengthening actions that were carried out during the SCC-II to the performance results</p> <ul style="list-style-type: none"> Strengthening sales in the newly emerging countries Strengthening profitability by shifting to high function products <p>(2) Formation of new business groups</p> <ul style="list-style-type: none"> Expansion of UV inks business through synergy with the Arets Group. Expansion of IJ business through intensifying high functionality and diversifying product lines. <p>(3) Establishment of products made to globally common specifications and materialization of SCM</p> <ul style="list-style-type: none"> Setting offset inks and UV inks Overseas expansion of metal inks Enhancing technological capacities of overseas locations and connecting their networks

Sales



Operating income



◎Overseas expansion

The goal of SCC-III for the overseas sales ratio is 50% (it was 43% during FY 2015).

The local manufacturing structure of printing inks in India and Brazil has been almost completed during the previous Medium Term Plan. From this FY on, the Company is planning to accelerate production and strengthen production and sales of adhesives in Asia and the United States for diversification.

Furthermore, in an effort to explore new markets, the Company will also work on marketing in Mekong Basin area and Mexico and strengthen sales in Turkey for the possible future local production.

In the market of emerging countries, the Company will make efforts to expand sales by selling high-spec products just like the ones sold in Japan, as well as lowering costs of the Company's unique middle-spec products that are high quality and eco-friendly.

In developed countries, the Company will make efforts to expand sales of UV inks, which is the Company's strength, taking advantage of growing number of Japanese printing machinery sold in Europe and the U.S. The UV inks for packaging made by Arets International NV (current Toyo Aretz International NV), which was acquired by the Company in April 2013, will also be a strong asset for the Company.

◎Strengthening management foundation

In addition to the above-mentioned actions to expand the business, the Company is making efforts to strengthen management base through “strengthening the manufacturing base” with a focus on cost reduction, “promotion of environmental management” to reduce CO₂ emission, “development and utilization of human resources” by expanding diversity, and “streamlining management” by introducing integrated systems on a global scale.

◎Numerical targets

Indicators	FY 2015 (Actual)	FY 2017 (Plan)
Sales	2,867	3,600
Operating income	182	360
Operating margin	6.4%	10.0%
Overseas sales rate	43.0%	50.0%
ROE	6.9%	10%
ROA	5.6%	6%
Interest-bearing debt	669	500
Operating cash flow	257	800

*Unit: ¥100 million. ROA means “Return on Assets (Ordinary income / Total assets).”

(2) Message from the Company to the investors

As stated in our management philosophy, we Toyo Ink, a lifestyle creating company, is always aiming to develop products from the consumers' perspective.

Even if you have never heard of our name, we would like you to know that our products are used in various situations in your life.

Not as a mere ink manufacturer but as a science company, we will continue looking towards the client companies' future and plan to expand the range of products that are essential to the society.

We added “improving shareholders' value” last year in its Guiding Principle, and are successfully changing the corporate minds and the mind of employees.

We would like our investors to see our steady growth through new product development and overseas expansion, and seek support from our investors from mid- to long-term perspectives.

<Reference 2: Regarding Corporate Governance>

◎ **Organization type, and the composition of directors and auditors**

Organization type	Company with audit and supervisory board
Directors	14 directors, including 3 external ones
Auditors	5 auditors, including 3 external one

◎ **Corporate Governance Report**

The corporate governance report was updated on Jul. 5, 2016.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principle	Reasons for not implementing the principles
Supplementary Principle 4-1-3	Toyo Ink SC Holdings has not yet determined who will succeed the president, who is chief executive. The company will select a person from adequate personnel, while considering their personalities, insights, and achievements.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principle	Disclosure contents
Principle 1-4.	<p>Toyo Ink SC Holdings strategically holds the shares of companies, which are considered necessary, as part of managerial strategies for maintaining and cementing business tie-ups and transaction relations, procuring raw materials, etc. The economic rationality of strategically held shares is examined by the board of directors from the mid to long-term viewpoint.</p> <p>The voting rights of strategically held shares are exercised appropriately for each bill, after considering qualitatively and comprehensively whether the bill would contribute to the mid/long-term improvement in the value of the share issuing company, whether the bill would contribute to the common interests of shareholders, including Toyo Ink SC Holdings, and the effects on the corporate group and business, etc.</p>
Principle 5-1.	<p>Toyo Ink SC Holdings considers shareholders and investors as important stakeholders, respects shareholders' rights, and strives to improve shareholder value, with the aim of "enhancing the satisfaction level of shareholders" as a course of action. Especially, the constructive dialogue with shareholders and investors is recognized as an important factor. The company appoints directors in charge of financial affairs, general affairs, and IR, realizes the information sharing among related sections through organic cooperation, promotes the dialogue with shareholders through the general affairs section and the dialogue with investors through the publicity section, and reports their opinions that are considered important to directors in charge, when necessary.</p> <p>As for the management of insider information, the company produced the regulations for the prevention of insider transactions, the regulations for protecting and managing information, etc. The management of insider information is included in the standards for business activities as a concrete course of action. A guidebook is distributed to all employees of the corporate group, and the employees are educated regularly, to diffuse the rules for managing insider information.</p>

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