

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	2-2-1 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
¥590	291,945,083shares		¥172,247million	6.0%	1,000shares
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 June 29. Number of shares outstanding is as of end of the previous term.

ROE and BPS are based on actual results of the previous term end.

As the account settlement month changed from March to December, the EPS of 34.25 yen is the value for 9 months.

— 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 (Actual)	268,484	19,222	19,257	12,687	42.95	16.00
December 2017 (Est.)	235,000	16,300	16,600	10,000	34.25	16.00

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

The values of December 2017 are for 9 months.

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

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1. Company Profile
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<Reference : 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 10 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 term ended March 2017 were 268.4 billion yen, down 5.2% year on year. Sales promotion was conducted in India, Turkey, Brazil, etc. and its business in the medical market grew, but the yen appreciation decreased sales by 15.5 billion yen, the performance of resale products including offset printing materials and devices and gravure solvents was sluggish, unprofitable products were disposed of, and selling prices were revised. Consequently, Sales dropped. Operating income was 19.2 billion yen, up 4.1% year on year. Exchange rate fluctuations, the decline of selling prices, and the decrease of highly functional products were covered by the effects of the growth of quantities sold thanks to the drop in material prices and the increase in quantity sold in overseas markets. Profit rate, too, improved.

•From this term, account settlement will be conducted in December, and so the period of this term is 9 months. Therefore, the year-on-year growth rates are just for reference, but performance is expected to be healthy. Sales are estimated to be 235 billion yen, up 2.7% year on year. Sales are forecasted to grow in all segments. Operating income is projected to rise 5.0% year on year to 16.6 billion yen. Profit, too, is estimated to increase in all segments. The dividend amount is to be 16.00 yen/share, equal to the amount in the previous term. Payout ratio is forecasted to be 46.7%. Assumed exchange rates are 1 US dollar = 100 yen, 1 euro = 115 yen, and 1 yuan = 16 yen. This fiscal year is recognized as the year in which the company will complete the mid-term management plan "SCC-III" and prepare for the next mid-term management plan.

•Sales dropped from the previous term, failing to reach the estimate, but profit grew as estimated. The progress of business was slow during the term, and so it can be said that the performance in the previous term was not bad. Its share price did not get weakened, but exceeded TOPIX healthily, but the company is lagging behind competitors. Partially due to the significant changes in the business environment, the results were well below the goals set in "SCC-III", but we would like to expect that the company will perform well and grow in the next long-term scheme "SIC27." In the existing business, the points of interest are overseas business expansion, for which their investment is bearing fruit, and how many new earning pillars the company will be able to build in its 3 business domains.

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 10 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	<p>We, the Toyo Ink Group, endeavor to be a company that contributes to the enrichment of life and culture throughout the world.</p> <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】

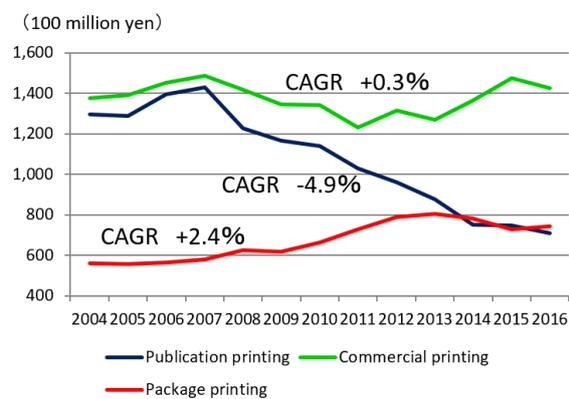
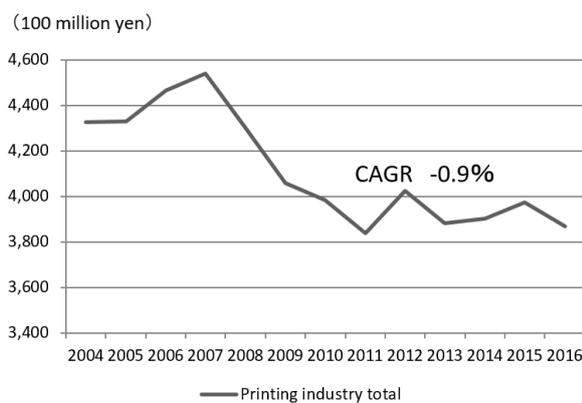
◎ Overview

(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 2016.

Transition of Production value in the Printing Industry



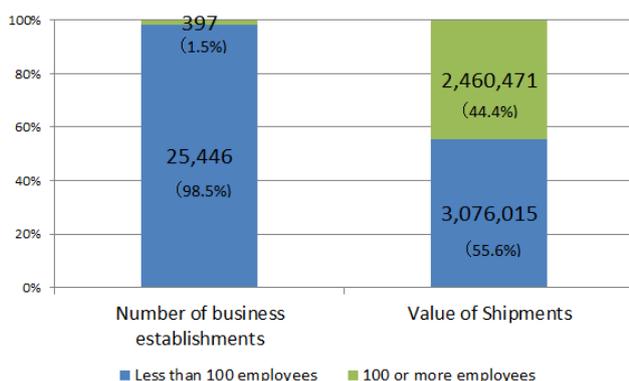
* Developed by Investment Bridge Co., Ltd. based on Current Survey of Production Annual Report "Paper, Printing, Plastic Products, Rubber Products" by Ministry of Economy, Trade and Industry (METI)
 * CAGR (Compound Annual Growth Rate)

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.

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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	2.4%	11,000	-8.2%	6.8%	77,429	9.3	0.9	12.5%
4631	DIC	790,000	5.1%	58,000	7.0%	7.3%	365,451	9.7	1.3	12.9%
4633	SAKATA INX	159,500	5.5%	10,500	3.8%	6.6%	101,032	11.7	1.5	11.3%
4634	Toyo Ink SCHLD	235,000	-	16,300	-	6.9%	164,657	-	0.8	6.0%
4635	Tokyo Printing Ink Mfg. Co., Ltd.	44,500	1.3%	800	-32.3%	1.8%	7,730	11.7	0.4	4.8%
4636	T&K TOKA	49,100	2.2%	2,600	7.1%	5.3%	27,323	10.3	0.6	7.6%

*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 Yen, Times. Total market value as of 2017 June 1st.

*Toyo Ink SCHLD has changed accounting periods this term, and so its sales growth rate, profit growth rate, or PER is not written.

【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>

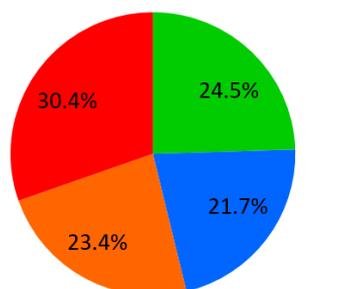
Types	Characteristics and Intended Use
Planographic inks	Typical printing ink on paper. They are used for printing magazines, posters, fliers, etc.
Gravure inks	Because of their capacity to express detailed graduation, it is suitable for printing photo images. Currently, they are mainly used for printing 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”.

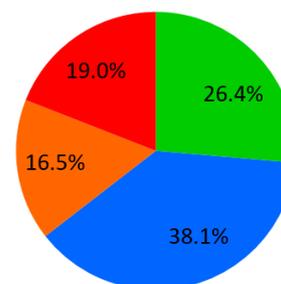
The “Printing & Information Related Business” mainly deals with planographic inks that are used for printing on papers (offset inks, etc.). The “Packaging Materials Related Business” deals with gravure inks and flexographic inks that are used for printing on films of food packages. The “Colorants & Functional 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 2017)



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

Operating income composition ratio
(FY March 2017)



■ 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 2016	FY 2017
Sales	71,878	65,935
Operating income	4,461	4,595
Profit rate	6.2%	7.0%

Sub segment	Major products
Chemicals	Pigments, high function pigments, color filters (CF), paste

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Display materials	Resist inks for LCD color filter
Colorants	Colorants, functional colorants



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 2016	FY 2017
Sales	60,894	58,325
Operating income	5,547	6,641
Profit rate	9.1%	11.4%

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 2016	FY 2017
Sales	64,623	62,965

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Operating income	1,768	2,871
Profit rate	4.2%	4.6%

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 2016	FY 2017
Sales	87,439	81,651
Operating income	2,977	3,317
Profit rate	3.4%	4.1%

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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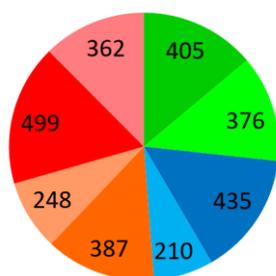
Development of its overseas manufacturing structures was almost completed during the previous Midterm Business Plan, and the Company is carrying out both raw material procurement and production at the local sites. As of the end of March 2017, the Company has about 50 overseas consolidated subsidiaries and 51 plants in 23 countries around the world.

<Segment trend by region>

(Units: Million yen)

	Sales			Operating income		
	FY 2016	FY 2017	YoY	FY 2016	FY 2017	YoY
Japan	1,819	1,763	-3.1%	119	127	+6.6%
Asia & Oceania	1,007	866	-14.0%	63	62	-2.3%
Europe	145	184	+26.8%	4	6	63.6%
The Americas	142	128	-9.9%	-1	-1	-
Adjustment	-281	-256	-	1	-1	-
Consolidated total	2,832	2,685	-5.2%	185	192	+4.1%

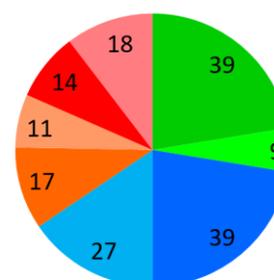
Domestic and Overseas sales by segment
(FY March 2017, Unit:100 million yen)



■ Colorants and Functional Materials (Japan) ■ Colorants and Functional Materials (Overseas)
■ Polymers/Coatings (Japan) ■ Polymers/Coatings (Overseas)
■ Packaging Materials (Japan) ■ Packaging Materials (Overseas)
■ Printing/Information (Japan) ■ Printing & Information (Overseas)

* Elimination among regions is not taken into consideration.

Domestic and Overseas operating profit by segment
(FY March 2017, Unit:100 million yen)



■ Colorants and Functional Materials (Japan) ■ Colorants and Functional Materials (Overseas)
■ Polymers/Coatings (Japan) ■ Polymers/Coatings (Overseas)
■ Packaging Materials (Japan) ■ Packaging Materials (Overseas)
■ Printing/Information (Japan) ■ Printing & Information (Overseas)

* Elimination among regions is not taken into consideration.

【ROE Analysis】

	FY 2013	FY 2014	FY 2015	FY2016	FY2017
ROE (%)	5.8	7.3	6.9	5.9	6.0
Net income to net sales ratio (%)	3.50	4.39	4.64	4.30	4.73
Total asset turnover rate (number of times)	0.85	0.88	0.82	0.78	0.74
Leverage (fold)	1.94	1.88	1.80	1.75	1.72

ROE was nearly unchanged from the previous term, as margin improved somewhat, but total asset turnover decreased. In general, it is desirable to boost profitability and efficiency to achieve an ROE of 8%, which is said to be the value that should be pursued by Japanese companies.

【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. Fiscal Year March 2017 Earnings Results**(1) Business results overview**

(Unit: Million Yen)

	FY 2016	Share	FY 2017	Share	YoY change	Initial forecast comparison
Sales	283,208	100.0%	268,484	100.0%	-5.2%	-7.4%
Gross margin	65,130	23.0%	65,390	24.4%	+0.4%	-
SG & A expenses	46,660	16.5%	46,167	17.2%	-1.1%	-
Operating income	18,470	6.5%	19,222	7.2%	+4.1%	-1.4%
Ordinary income	18,697	6.6%	19,257	7.2%	+3.0%	-3.7%
Net income	12,190	4.3%	12,687	4.7%	+4.1%	+5.7%

Sales dropped, but operating income grew thanks to the improvement in profit rate, etc.

Sales were 268.4 billion yen, down 5.2% year on year. Sales dropped, as sales promotion was conducted in India, Turkey, Brazil, etc. (+ 7.9 billion yen) and its business in the medical market grew (+ 700 million yen), but the yen appreciation decreased sales by 15.5 billion yen, the performance of resale products including offset printing materials and devices and gravure solvents was sluggish (- 3 billion yen), unprofitable products were disposed of, and selling prices were revised.

Operating income was 19.2 billion yen, up 4.1% year on year. Exchange rate fluctuations (- 1.1 billion yen), the decline of selling prices (- 900 million yen), and the decrease of highly functional products (- 200 million yen) were covered by the effects of the growth of quantities sold thanks to the drop in material prices (+ 3.1 billion yen) and the increase in quantity sold in overseas markets (+300 million yen). Profit rate, too, improved.

(2) Trend by Segment

(Unit: Million Yen)

	Sales			Operating income		
	FY 2016	FY 2017	YoY Change	FY 2016	FY 2017	YoY Change
Colorant/Functional materials	71,878	65,935	-8.3%	4,461	4,595	+3.0%

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Polymers/Coatings	60,894	58,325	-4.2%	5,547	6,641	+19.7%
Packaging	64,623	62,965	-2.6%	2,723	2871	+5.4%
Printing/Information	87,439	81,651	-6.6%	2977	3317	+11.4%
Others	5,980	6,115	+2.3%	2,754	1,777	-35.5%
Adjustment	-7,608	-6,509	-	5	18	-
Total	283,208	268,484	-5.2%	18,470	19,222	+4.1%

☆Colorants and Functional Materials Related Business

Sales and profit declined from the previous term. Neither sales nor profit reached the estimate.

<Chemical products>

Sales and profit dropped.

As for pigments, the performance of products used in the printing field was sluggish, but profit grew thanks to the improvement of the production process and the integration of models.

The profit from CF paste decreased, due to the downturn of demand.

<Display materials>

Sales and profit dropped.

As larger panels became popular and domestic performance was favorable, the sales of display materials recovered in the second half, but profit decreased.

The partial adoption of new green resist started, and the performance is expected to improve from the next term.

<Colorants>

Sales dropped, but profit grew.

Functional products, such as CNT compounds and design polymer alloy, sold well.

☆Polymers & Coatings Related Business

Sales declined and profit grew from the previous term. Sales did not reach the estimate, but profit exceeded the estimate.

<Coating materials>

Sales and profit declined. The release of new functional films was delayed.

Tapes for industrial materials sold well in South Korea and Taiwan.

<Adhesives and adhesive compounds>

Sales decreased, but profit increased.

The products for displays were adopted by some new clients, and so their performance was favorable.

The products for industrial use sold well in North America.

- Hot melt adhesives have a significant share in the use for packages.

<Coating resins >

Sales dropped, but profit grew.

The sales of coating agents for cans were healthy inside and outside Japan.

High value-added resins sold well.

<Healthcare>

In July 2016, the company started operating the business of patch-type medicines.

☆Packaging Materials Related Business

Sales dropped and profit grew from the previous term. Neither sales nor profit reached the estimate.

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<Japan>

Sales and profit decreased.

The package market was healthy, but the publication market was sluggish. Enterprises from other business fields are making inroads into the field of flexography.

<Overseas>

Sales declined, but profit rose.

The technological centers in Asia and China got into gear, and the sales promotion of middle-grade ink progressed.

In Turkey, M&A-based business expanded. In Taiwan and China, water-based gravure and flexographic inks started to sell well.

☆Printing & Information Related Business

Sales dropped, but profit grew from the previous term. Neither sales nor profit reached the estimate.

<Japan>

Sales declined, but profit grew.

In the markets of offset rotary presses, sheet-fed presses, and newspaper, quantity sold and sales decreased due to the shrinkage of demand, but profit grew thanks to the reform of the production system, cost reduction measures for material, etc.

As for UV, the shift from sheet-fed presses to UV progressed, increasing demand, and the company increased sales by meeting the needs for electric power saving.

<Overseas>

Sales and profit dropped.

The sales promotion of sheet-fed presses is progressing in India and Brazil, but the market is shrinking in Europe and the U.S.

The performance of UV-LED was healthy as it expanded globally.

(3) Financial Situation and Cash Flow

◎Main BS

(Units: Million Yen)

	End of March 2016	End of March 2017		End of March 2016	End of March 2017
Current assets	184,064	181,955	Current liabilities	85,686	95,949
Cash and deposits	44,470	44,903	Trade payables	48,369	49,320
Trade receivables	90,949	89,049	Short-term loans	20,401	29,364
Inventories	44,391	43,211	Noncurrent liabilities	60,166	49,573
Noncurrent assets	176,462	183,259	Long-term loans	46,037	33,262
Property, plant and equipment	100,698	101,806	Total liabilities	145,853	145,523
Intangible assets	5,683	4,487	Net assets	214,673	219,691
Investments, others	70,080	76,964	Equity	187,972	192,775
Total Assets	360,526	365,214	Total liabilities, net assets	360,526	365,214
			Capital adequacy ratio	57.7%	58.4%

Current assets decreased 2.1 billion yen from the end of the previous term, mainly due to the decline in trade receivables and inventories. Noncurrent assets grew 6.7 billion yen, due to the increase in property, plant and equipment, investments, others. Total assets grew 4.6 billion yen to 365.2 billion yen.

Total liabilities shrank 300 million yen to 145.5 billion yen, as short-term debts augmented, but long-term debts decreased. Net assets rose 5 billion yen to 219.6 billion yen, due to the increase in retained earnings.

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Consequently, equity ratio rose 0.7 points from 57.7% at the end of the previous term to 58.4%.

◎Cash Flow

(Units: Million Yen)

	FY 2016	FY 2017	YoY Change
Operating CF	25,886	23,197	-2,689
Investing CF	-17,457	-10,611	+6,846
Free CF	8,429	12,586	+4,157
Financing CF	-5,975	-11,059	-5,084
Cash and Equivalents at Term End	43,744	44,132	+388

The surplus of operating CF shrank due to the decline in net income before taxes and other adjustments, etc.

The deficit of investing CF decreased, as the expenditure for acquiring securities and investment securities decreased and there was no longer expenditure for acquiring the shares of subsidiaries, which was posted in the previous term. Accordingly, the surplus of free CF expanded.

The deficit of financing CF expanded due to the augmentation of treasury shares. The cash position improved.

(4) Topics

◎ Resolved to propel business alliance and continue capital alliance with Sakata Inx

On February 20, 2017, the Company resolved to propel a business alliance and continue a capital alliance with Sakata Inx Corporation.

(Reasons for and details of the alliances)

Since the formation of a business alliance in 1999, the Company and Sakata Inx have discussed and propelled collaboration in various fields, including production, logistics, digital related business, and international business. The environment, however, which surrounds the industry has considerably changed in the past 18 years since the establishment of the alliance. Under these circumstances, taking into account possible changes in the market environment, both companies agreed to propel an alliance in the following business fields, attaching weight to cost reduction with the aim of strengthening the business foundation:

- ① Further improvement of efficiency in the logistics field
- ② Development of a complementary relationship in the production field
- ③ Provision of complementary support in the production process at bases inside and outside Japan in case of emergency based on the BCP measures

In addition to boosting efficiency in the business alliance, both companies agreed to continuously hold 80% of the currently held common shares in the other company that are held by each other to forge long-term partnership.

*The number of shares in each company held by the other company as of December 31, 2016

Number of common shares of Sakata Inx held by Toyo Ink SC Holdings: 10,536 thousand (16.83% of the total number of issued shares)

Number of common shares of Toyo Ink SC Holdings held by Sakata Inx: 14,595 thousand (4.82% of the total number of issued shares)

◎ Updated anti-takeover measures

The Company resolved at the meeting of the Board of Directors held on May 12, 2017 to submit, at the 179th shareholders' meeting scheduled to be held on June 29, 2017, a bill (including some revisions) that approves update to the measures against large-scale takeover (anti-takeover measures) whose validity will expire on the day of the 179th meeting.

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At the 170th shareholders' meeting held on June 27, 2008, the Company introduced countermeasures against the takeover of the Company's shares in a scale larger than a prescribed scale by a shareholder or a group of shareholders. Afterwards, the countermeasures were approved by shareholders at the 173rd shareholders' meeting on June 29, 2011 and the 176th shareholders' meeting on June 27, 2014 and continue to be valid today.

The Company presented the resolution based on the discussion it had held about details, and advantages and disadvantages in continuing the anti-takeover measures which aim to maintain and increase value of the Corporate Group of the Company and the common benefit of shareholders, considering the changing social and economic conditions and the progress in discussion about the anti-takeover measures.

3. Fiscal Year December 2017 Earnings Estimate

(1) Business forecast

(Units: Million yen)

	FY March 2017	Composition rate	FY December 2017 (Est.)	Composition rate	YoY change	Reference(1) 9 month adjustment	Reference(2) 12 month adjustment
Sales	2,685	100.0%	2,350	100.0%	+2.7%	2,288	2,747
Operating income	192	7.2%	163	6.9%	+5.0%	155	200
Ordinary income	193	7.2%	166	7.1%	+7.4%	155	204
Net income	127	4.7%	100	4.3%	+19.8%	83	144

* Forecasts are the figures announced by the Company.

* Reference (1) indicates the amounts for the 9-month period from April to December 2016 in Japan, and for the 12-month period from January to December outside Japan. Reference (2) indicates the amounts for the 12-month period from January to December both inside and outside Japan. The y/y growth rate means the rate of increase/decrease from the amount in Reference (1).

Sales and profit are estimated to grow.

From this term, account settlement will be conducted in December, and so the period of this term is 9 months. Therefore, the year-on-year growth rates are just for reference, but performance is expected to be healthy. Sales are estimated to be 235 billion yen, up 2.7% year on year. Sales are forecasted to grow in all segments.

Operating income is projected to rise 5.0% year on year to 16.6 billion yen. Profit, too, is estimated to increase in all segments.

The dividend amount is to be 16.00 yen/share, equal to the amount in the previous term. Payout ratio is forecasted to be 46.7%.

Assumed exchange rates are 1 US dollar = 100 yen, 1 euro = 115 yen, and 1 yuan = 16 yen.

This fiscal year is recognized as the year in which the company will complete the mid-term management plan "SCC-III" and prepare for the next mid-term management plan.

(2) Trends by Segment

* Sales

(Unit: Million Yen)

	FY March 2017	FY December 2017 (Est.)	YoY change	Reference(1) 9 month adjustment	Reference(2) 12 month adjustment
Colorant/Function materials	659	590	2.6%	575	674
Polymers/Coatings	583	510	4.7%	487	606
Packaging	630	560	4.5%	536	654
Printing/Information	817	710	1.7%	698	829
Others, Adjustment	-4	-20	-	-8	-16

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Total	2,685	2,350	2.7%	2,288	2,747
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* Operation Income

(Unit: Million Yen)

	FY March 2017	FY December 2017 (Est.)	YoY change	Reference(1) 9 month adjustment	Reference(2) 12 month adjustment
Colorant/Function materials	46	44	+29.4%	34	56
Polymers/Coatings	66	58	+3.6%	56	68
Packaging	29	28	+12.0%	25	32
Printing/Informati on	33	30	+7.1%	28	35
Others, Adjustment	18	3	-	12	9
Total	192	163	5.2%	155	200

◎ Priority Policy for Each Segment

★Colorants and Functional Materials Related Business

Increase earnings in the CF Business	<p>(Expected market conditions)</p> <p>Demand for resist inks will rise as larger panels become popular. In addition, the commencement of operation of the new panel production line in China will result in a decline in the panel price.</p> <p>(Priority policy)</p> <p>Increase the market share with general-purpose and high-quality products that satisfy the needs of the Chinese market</p> <p>Enhance development of new colorants of RGB, violet, and yellow</p> <p>Further improve the aptitude for photolithography</p> <p>Reduce cost by introducing new manufacturing methods</p>
Increase sales of new dispersion through strengthening of development of unique pigments and innovative manufacturing process	<p>Realize the market needs for high glossiness, high transparency, and high coloring power, with new manufacturing methods and the nano-level dispersion technology.</p> <p>Strive for application to a wide range of use, including coatings for automobiles, inkjet inks, toners, and water-based flexographic inks.</p>

★Polymers & Coatings Related Business

With three key points of the growth strategy: “new products and new market: electronics optical, new energy market, and eco-friendliness,” “global expansion,” and “new business: launching the medical science business,” the Company has set the following priority goals:

Increase sales in the electronics optical market	<ul style="list-style-type: none"> ◇ Enter the market of next-generation panels and increase sales in the market, with products such as functional films and adhesives. ◇ Expand the business to the Chinese market from the Japanese, Korean, and Taiwanese markets, and increase sales of adhesives for displays and functional resins.
Expand business in priority areas	<ul style="list-style-type: none"> ◇ Enrich the SCM bases in North America and India to increase sales of the product group in the adhesive business. ◇ Enrich the business foundation of coating agents for cans to expand the business in Turkey and the Middle East.
Enrich medical science products	<ul style="list-style-type: none"> ◇ Strengthen development of the business of patch-type medicines.

◇ Enrich the product group in the healthcare field.

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

	Enhancement of manufacturing systems	Improvement of product development
Japan	<ul style="list-style-type: none"> ◇ Establish a system to boost the production capacity for liquid inks. ◇ Optimize production bases for offset inks. 	(Promotion of development of new products) <ul style="list-style-type: none"> ◇ Liquid inks: Develop next-generation eco-friendly inks ◇ IJ inks: Focus on development of new products ◇ Screen inks: Strengthen development of products for industrial use (Early achievement of results and increase in sales of new products) <ul style="list-style-type: none"> ◇ Gravure inks: Achieve results in new major products for general purposes. ◇ UV inks: Increase sales of new high-performance products.
Overseas	<ul style="list-style-type: none"> ◇ Integrate raw material, establish a complementary production structure, and develop capacity for dealing with BCM (Business Continuity Management) in order to ensure global SCM. ◇ Set up a production base for water-base inks in China. 	(Improvement of technical service) <ul style="list-style-type: none"> ◇ Strengthen functions of overseas technological centers. (Early achievement of results and increase in sales of new products) <ul style="list-style-type: none"> ◇ Liquid inks: Introduce new middle-grade products. ◇ Flexographic inks: Increase sales of water-base inks for high-speed printing. ◇ Sheet-fed inks: Introduce food-grade products for the European market. ◇ UV inks: Introduce new products for packages, and increase sales in the UV-LED market. ◇ Inks for metal: Increase sales in the two-piece can market.

(3) Long-term scheme SIC27

For achieving the goal of “SCC (Science Company Change) 2017,” the Company carried out 3 Midterm Business Plans starting in the term ended March 2009 and completed the final plan, “SCC-III,” in the term ended March 2017.

In addition to development and sales increase of new products which are environmentally friendly and satisfy needs of each part of the world, the Company endeavored to enter new business fields such as the energy related field and healthcare field; however, the sluggish demand in the Japanese printing market and the intensified competition in the market for liquid crystal related materials hindered the Company from establishing business that could be a core of the next source of earnings, whereas the Company expanded its business to overseas, including India, Turkey, Brazil, and inland areas in China, to break into promising markets and enrich products for such markets, successfully augmenting the number of business areas and strengthening networks.

Accordingly, considering the term ending December 2017 as the final term of SCC2017, the Company has set a goal for the next 10 years as a new long-term plan with the term ending December 2018 as the first fiscal year, and will engage in activities to realize the plan.

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Goal for FY 2027	Aim to “change the corporate structure to one that can sustainably thrive for 100 years, and become a corporate group that contributes to the world where all living people, lives, global environment lively coexist with each other.” — For A Vibrant World —
Concept of corporate activities	“Scientific Innovation Chain 2017”(SIC27) <ul style="list-style-type: none"> ➤ Scientific implementation ➤ Innovative ideas ➤ Chain of activities

SIC-I	Term ending December 2018 – Term ending December 2020	Take on challenges over and over again.
SIC-II	Term ending December 2021 – Term ending December 2023	Accumulate new results.
SIC-III	Term ending December 2024 – Term ending December 2026	Establish a sustainable corporate structure.

With five key points: “technology and products,” “business model,” “network,” “manufacturing,” and “management foundation,” the Company aims to change its corporate structure to one that sustainably thrives through innovative ideas, scientific implementation of such ideas, and a chain of such activities.

In addition, the Company will strategically expand the framework for the traditional domains (3 business fields including life science, communication science, and sustainability science) and focus on not only growing markets but also fields that may lead to solutions to social issues and sustainable growth of life and global environment.

Sales under the Midterm Business Plan for the next term, “SIC-I,” are forecasted to be 350 billion yen. The Company plans to make an announcement after details are confirmed.

4. Conclusions

Sales dropped from the previous term, failing to reach the estimate, but profit grew as estimated. The progress of business was slow during the term, and so it can be said that the performance in the previous term was not bad. Its share price did not get weakened, but exceeded TOPIX healthily, but the company is lagging behind competitors.

Partially due to the significant changes in the business environment, the results were well below the goals set in “SCC-III”, but we would like to expect that the company will perform well and grow in the next long-term scheme “SIC27.” In the existing business, the points of interest are overseas business expansion, for which their investment is bearing fruit, and how many new earning pillars the company will be able to build in its 3 business domains.

(Relative Stock Price: 1 Year)



Blue: Toyo Ink, Red : DIC, Green : Dainichiseika, Yellow : Sakata Inks

<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 latest update: 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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