

 Emiko Takemoto, President	Takemoto Yohki Co., Ltd. (4248)
	

Company Information

Exchange	First Section, TSE
Industry	Chemical (Manufacturing)
President	Emiko Takemoto
HQ Address	2-21-5 Matsugaya, Taito-ku, Tokyo
Year-end	End of December
Homepage	http://www.takemotopkg.com/

Stock Information

Share Price	Shares Outstanding		Market Cap.	ROE (actual)	Trading Unit
¥863	12,528,400 shares		¥10,812 million	14.8%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥19.00	2.2%	¥93.91	9.2 x	¥679.43	1.3 x

*The share price is the closing price on September 11th 2019. Number of shares, DPS and EPS are actual results at the end of 1H FY12/19. ROE and BPS are actual results at the end of the previous terms.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend (¥)
FY12/15	12,221	1,250	1,275	827	72.82	14.00
FY12/16	12,799	1,259	1,279	836	73.65	15.00
FY12/17	14,201	1,412	1,440	986	82.29	17.00
FY 12/18	16,022	1,630	1,762	1,211	96.72	18.50
FY 12/19 Est.	16,934	1,678	1,706	1,176	93.91	19.00

*Unit: Million Yen

*Estimates are those of the company. A 1:2 stock split on January 1st, 2019 was implemented. EPS and DPS have been retroactively adjusted to reflect these splits. The definition for net income is net income attributable to parent company shareholders. The same applies hereinafter.

We present this Bridge Report by reviewing the first half of Fiscal Year ending December 2019 Earnings Result of Takemoto Yohki Co., Ltd.

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Key Points

- The sales for the first half of the fiscal year December 2019 were ¥7,840 million, up 2.0% year on year. In Japan, steady demand centered on cosmetics continued, but demand from foreign customers declined. Overseas sales fell short of the plan due to a decline in demand in China associated with e-commerce regulations and trade disputes between the U.S. and China. Operating profit was ¥839 million, down by 2.3% year on year. The price hike of raw materials was within the expected range, but the profit could not absorb the decrease in overseas sales and the increase in costs. It exceeded the estimates.
- There is no change in business forecast. For the fiscal year December 2019, sales are forecasted to rise 5.7% year on year to ¥16.9 billion. Due to increasingly diverse consumer needs and shorter product cycles, the demand for standard bottles continues to grow, while Takemoto should continue being focused on development cost and time reduction. The company will actively create proposals for development, and new molds will be made. Operating profit is estimated to rise 3.0% year on year to ¥1,678 million. Depreciation expenses associated with mold development, increased production, and labor-saving investments are expected to increase by 177 million yen.. Raw material expenses will grow due to increased production and rising raw material prices, but the company will strive to curb the SG&A expenses and raise profits. Both the interim and term-end dividends are to be ¥9.50/share. Taking the stock split into account, this is an increase of ¥0.5 /share from the previous term. The estimated payout ratio is 20.2%. The company aims to achieve a payout ratio of 20% or higher.
- Sales increased from the same period last year, but were lower than planned due to overseas factors such as a decrease in demand in China associated with e-commerce regulations, the U.S.-China trade friction, and a delay in the launch of new markets. The number of completed molds in the first half was about half of that of the same period last year, and the investment in molds exceeded the amount of the same period last year. However, progress toward the full year plan was only about 30%. The number of molds at the end of the term has been steadily increasing, but we would like to focus on further increasing the mold production process for the second half of the year.
- Meanwhile, “TOGETHER LAB”, which plays a central role in “synergy between data and physical operations”, was established. This project will become operational next fiscal year. We will report on the specific positive effect it will have.

1. Company Overview

Takemoto Yohki Co., Ltd. plans and designs “standard bottles.” A “Standard Bottle” is a term to refer to a packaging container when it is planned and designed in-house and, at the same time, when the mold necessary for manufacturing this packaging container is also owned in-house. Takemoto Yohki’s primary customers for standard bottles are companies in the fields of cosmetics and beauty, healthy foods, sundries, chemical and pharmaceuticals. Takemoto boasted of 3,551 molds for various packaging containers as of the end of June 2019. Amongst the unique characteristics of the company are its high proposal-based marketing capabilities, bountiful stock of molds, wide range of customers, and ability to provide a wide variety of products on a small lot basis in short delivery times. The company is actively operating business overseas as well. Two subsidiaries are operated in China and one in the United States, the Netherlands, Thailand, and India. 1-1 Corporate History.

1-1 Corporate History

Shigeru Takemoto (Grandfather of the current President Emiko Takemoto) started his business under the name of Takemoto Shoten in 1950, amidst the shortages of goods in the post-World War II era, for the recycling of glass products. In 1953, Mr. Takemoto converted his business into a limited company and renamed it Takemoto Yohki Co., Ltd. and began selling glass containers. In 1963, Takemoto started dealing in its signature brand “standard bottles.”

A regional sales office was opened in Osaka in 1980. Masahide Takemoto (Currently advisor to the company and the father of Emiko Takemoto) took the helm of the company and explored new markets in the Kansai region, where its main sales had been limited to “custom made” products, with bottle dealers and accessory dealers being separated. In its efforts, the company leveraged both the “standard bottles” and the “one stop shop” concept. The wide range of products allowed the company to capture demand from customers and expand its sales channels. After the expansion into the Osaka region, a groundbreaking feat back then, the company further expanded into Fukuoka, Sapporo, and Nagoya regions, and succeeded in building its nationwide sales and service coverage network.

1-2 Corporate Motto and Mission Statement

Corporate Motto
Creating bottles with our customers’ hearts in mind

Mission Statement
Ensuring the safety of our customers’ products and increasing the value and individuality of the contents through the packaging containers which are imperative to people’s daily lives

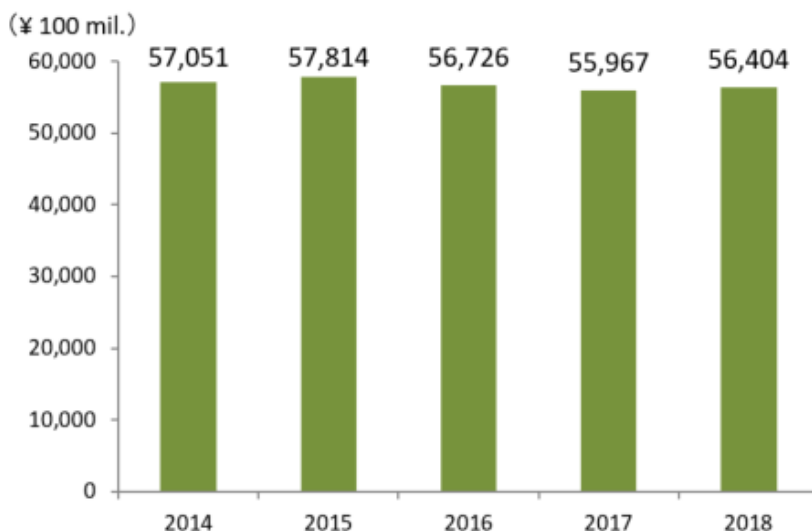
The company founder’s dream of conducting business in China, the birthplace of the container culture, through collaborative partnerships with local companies came to fruition with the launch of business in 1996. The current president Emiko Takemoto also places a high emphasis upon instilling and diffusing both the corporate philosophy and mission to employees through training and various other occasions.

1-3 Market Environment

A growing domestic market

As demonstrated in the graph shown below, the market value of the shipments of packaging containers has remained unchanged in recent years. Since the population decline is expected to continue in the future, it is difficult to expect significant growth in the domestic demand

Packaging Container Shipment Market Value Trends




(Source: Japan Packaging Institute)

Having said that, demand for the company's "standard bottles" is expected to keep growing due to the following circumstances:

- * Maturing of the consumer market, diversification of consumer tastes and expansion in sales over the internet have contributed to a shortening of the product lifecycle, signaling the end of the era of "mass production, mass sales" and the start of the era of "high-mix low-volume production."
- * Furthermore, Takemoto's customers, namely cosmetics and toiletries manufacturers, are undergoing trends that call for "shorter product development periods" and "cost reductions."
- * Consequently, customers confronted by these trends are expected to rely less on in-house packaging container development and more on Standard Bottle products, which can be procured at the required time and in the required volumes.

At the same time, companies' shares of the ¥155.8 billion cosmetics and toiletry container market in 2008 were as follows:

Company Name	Share
Company A	36.4%
Company B	9.0%
Takemoto Yohki	4.2%
Company C	3.7%
Company D	3.6%
Others	43.1%



Bidirectional Share Expansion

The 'custom bottle' segment of the market, where customers own the rights and bear the cost of metal molds, is estimated to account for 70% to 80% of the total market, with 'standard bottles' accounting for the remaining 20% to 30% of total market. Furthermore, Takemoto Yohki estimates that its Standard Bottle brand of generic bottles account for about 20% of the total generic bottle segment of the market.

The main customers of company A and company B, the top two companies with the largest market shares, are large cosmetics companies which invest in their own molds. Considering this fact, Takemoto Yohki, focused on its proposal-based marketing capabilities, which have been developed over a long time as its distinctive strength, and it has established a mass production structure that delivers products speedily and at a low price, while working with reliable partner manufacturers. With this structure, the company seeks to expand the sales of products made from molds manufactured by customers.

Takemoto Yohki, a company which possesses both trading and manufacturing capabilities, has an advantage in terms of its product variety while most low market-share companies sell Standard Bottles through trading companies. In addition, as a manufacturer, the company will work to reduce development costs, thereby improving price competitiveness and raising its market share. In addition, for standard bottles which require mold investment, strong financial strength is essential for continuous investment. In this aspect, Takemoto Yohki, the only listed company in its industry, holds a major advantage.

This way, the company aims to expand its market share compared with upper and lower competitors. As mentioned below, the sales of products for cosmetics and beauty for the fiscal year December 2018 increased by 13.4% versus those in the previous term, with a higher growth rate than the average in the cosmetic market. The current market share is considered to be higher than the above mentioned 4.2% as of 2008.

A growing overseas market

The cosmetics market in developing nations, primarily in Asia, is rapidly growing.

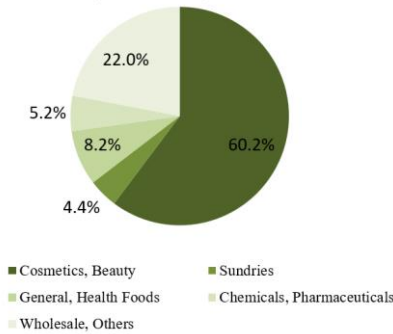
In five years, the Chinese market has grown in scale by 50%. Surpassing the Japanese market in 2017, India along with other ASEAN countries are expected to experience a high rate of growth as well.

There is a high level of trust in Japanese-made bottles in developing countries which means huge potential for business.

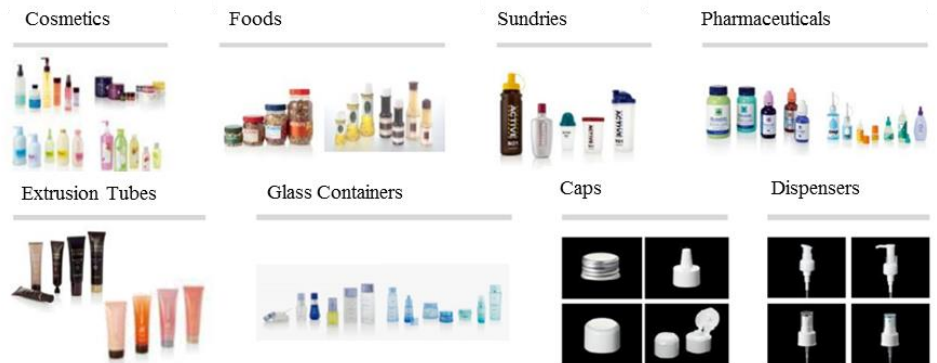
1-4 Business Description

Takemoto Yohki Co., Ltd. manufactures and sells containers and accessories such as caps and dispensers, for use by customers in the cosmetics and beauty, healthy foods, sundries, chemical, and pharmaceuticals industries. The company does not manufacture merely containers to hold substances; it primarily creates high added-value products while paying close attention to design, function, barriers, safety, and environmental issues.

Sales Composition by Industry (FY Dec.18)



(Source: Takemoto Yohki)



Stylishly Designed Products



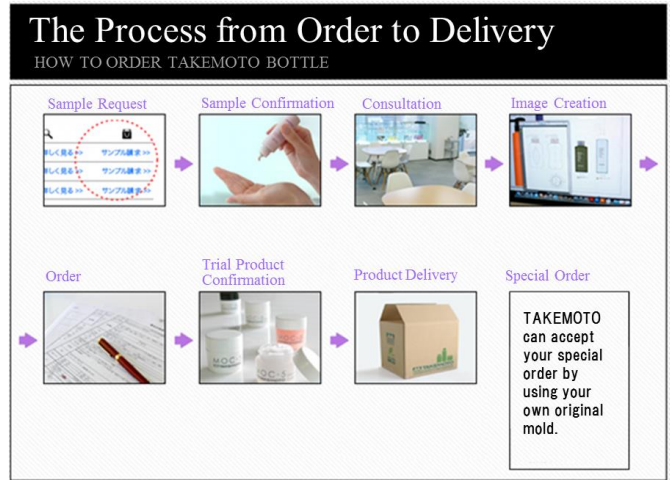
(Source: Takemoto Yohki)

Business Model

When a cosmetics and toiletry product manufacturer or customer commissions a container manufacturer to produce a unique and differentiated type of container, in most cases the container manufacturer is responsible for designing and manufacturing custom-made products while the customer shoulders the cost of creating molds. The time and cost of creating molds, however, is usually a heavy burden when sourcing containers because they may take about three months and cost about several million yen.

In contrast to the above, Takemoto Yohki creates molds in-house on behalf of the customer. By allowing the customer to choose molds of its preference from a wide range of products, Takemoto manufactures and delivers the desired products. Therefore, the delivery time and development costs of packaging containers are reduced, and customers can purchase only the required number of containers as needed at that time. In this manner, Takemoto Yohki is able to plan and create its own brand of containers, called “**standard bottles,**” through this strategy of creating and owning the molds in-house.

As of the end of June 2019, the company boasts 3551 different types of molds, which is the largest number in the industry, worldwide. At the same time, Takemoto can offer customized products that match customers’ needs by using different caps and other accessory parts, and by changing the color and printing used on the Standard Bottle products. Furthermore, the company maintains inventories of certain products, thus being able to realize short delivery times of a wide variety of products in small lots.

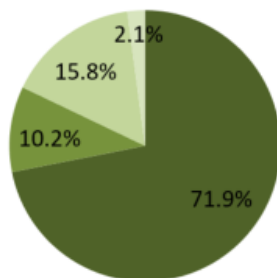


(Source: Takemoto Yohki website)

The company sells its products in Japan, China, the United States, and other regions throughout the world, and the entire Takemoto Yohki group conducted business with about 4,500 customers in fiscal year December 2018.

Standard Bottle sales comprise approximately 70% of total sales. In addition, the company deals with custom-made products manufactured with molds paid for/owned by customers and, as a trading company, it purchases products made by other companies.

Sales Composition by Product
(FY Dec. 18)



- In-House Products
- Customer Molds
- Other Cos Products
- Materials, Others

In-House Products: Products made from molds owned by Takemoto (Standard Bottle)
 Customer Molds : Molds which are purchased by customers
 Other Company Products : Products sourced from other manufactures at the request of customers
 Materials, Others : Sales of materials, goods from partnering companies

(Taken from the material of the company)

Production System

The company has established a global production system that includes 6 bases in Japan, 2 bases in China, 1 base in India, and 1 manufacturing affiliate in the Netherlands. In June 2019, the renovation work for the existing building at the Okayama branch was completed, and there are now two buildings for production.

Its domestic manufacturing thoroughly meets the needs of its clients, such as small batches and multi-products, short deadlines, stable quality, wide range of product lines, sudden orders, and mass production.

In China, the company is concentrating on upgrading its production capabilities and improving product quality.

1-5 ROE Analysis

	FY 12/14	FY 12/15	FY 12/16	FY 12/17	FY 12/18
ROE (%)	13.1	15.5	14.5	14.3	14.8
Net Profit to Sales Ratio	5.25	6.77	6.53	6.94	7.56
Asset Turnover Ratio (x)	1.19	1.16	1.08	1.04	1.02
Leverage (x)	2.09	1.98	2.04	1.97	1.91

The company achieved high ROE with rising profit to sales ratio also in the fiscal year December 2018. It will endeavor to achieve a stable level of ROE 15% or above over the medium term.

1-6 Characteristics and strengths

①Broad Customer Base

Takemoto Yohki boasts of an extremely wide range of clients with some 4,500 customers within and outside Japan. In addition, no single client contributes more than 10% of the total sales and the stable cash flow secured from this client base enables continuous investment into molds. Furthermore, the company's high-quality proposal-based marketing capability contributes to high levels of customer satisfaction and repeat business.

②Bountiful Stock of Molds

As explained earlier, the bountiful stock of 3,551 molds allow Takemoto Yohki to respond flexibly to customers' needs. In addition, the company is fortifying its product lineup and promoting development of high-added-value-container products with design and functionality taken into consideration. At the same time, efforts are being made to reduce investment burden and risks by standardizing, communizing, and miniaturizing.

③Flexible Product Supply Structure and Production Capabilities

6 bases in Japan and 3 bases overseas (2 in China and 1 in India), the company has recently established a manufacturing affiliate in the Netherlands. Through a production network that cooperates and complements each other, the company has built a global product supply system capable of delivering a large variety of high-quality products quickly and in small lots.

Moreover, new manufacturing technologies are being actively introduced with product cost, strength and quality in mind, in order to respond to customers' needs for customized products.

④“High Levels of Development and Proposal-Based Marketing”

The high levels of development and proposal-based marketing capabilities are the source of the sustained increase in corporate value and contribute to the establishment of a wide customer base. Through planning, development and technology about 30 staff endeavor to realize various ideas for products, taking materials, shapes, functionality, and safety into consideration. About 1,000 types of Standard Bottle brand products are on display at the Kappabashi Showroom which reflects the high levels of development and proposal-based marketing capabilities of the company.



Kappabashi Show Room

By using its Standard Bottle development foundation and its bountiful stock of molds, the company has been offering development proposals to customers while providing them with high-quality original molds with low prices and short delivery times. The company calls such an endeavor "custom bottle innovation" and has been promoting it expansively.

In September 2019, "TOGETHER LAB," a facility to strengthen the "custom bottle innovation," was completed in Higashi-Ueno. The official operation is scheduled for March 2020.

At "TOGETHER LAB," which means collaboration with customers, various simulation images including idea sketches and product display images can be presented through high-quality 3D CAD to customers who come to the LAB.

This enables more efficient and higher quality communication with customers than ever before, making it possible to develop a product in line with customers' development philosophy.

⑤ Four aspects highly evaluated by customers

Based on the above-mentioned "broad and multi-layered customer base," Takemoto is highly evaluated for its ability to meet customer needs with its high-quality proposal-based marketing capability; abundant mold stock, options for customization, and flexible product supply structure, and ability to meet production needs.

2. First Half of Fiscal Year December 2019 Earnings Results

2-1 Earnings Overview

	1H FY 12/18	Share	1H FY 12/19	Share	YY	Compared with the initial forecasts
Sales	7,685	100.0%	7,840	100.0%	+2.0%	-5.8%
Gross profit	2,410	31.4%	2,428	31.0%	+0.8%	-
SG&A	1,551	20.2%	1,589	20.3%	+2.5%	-
Operating Income	858	11.2%	839	10.7%	-2.3%	+9.8%
Ordinary Income	886	11.5%	859	11.0%	-3.1%	+10.1%
Net Income	600	7.8%	565	7.2%	-5.8%	+6.4%

*Unit: Million Yen

Revenue in Japan was steady, but overseas sales declined. Profit decreased due to decrease in overseas sales and increase in expenses.

The sales were ¥7,840 million, up 2.0% year on year. In Japan, a steady demand centered on cosmetics continued, but demand from foreign customers declined. Overseas sales fell short of the plan due to a decline in demand in China associated with e-commerce regulations and trade disputes between the U.S. and China. Operating profit was ¥839 million, down 2.3% year on year. The price hike of raw materials was within the expected range, but the profit could not absorb the decrease in overseas sales and increase in costs. It exceeded the estimates.

Capital Investment, Depreciation

	1H FY 12/18	1H FY 12/19
Depreciation	499	540
Capital Investment	969	938
Out of which Molds	219	236

*Unit: Million Yen

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Sales by Product Type

	1H FY 12/18	Share	1H FY 12/19	Share	YY
Products Made by the Company (Standard Bottle)	5,632	73.3%	5,800	74.0%	+3.0%
Products Made with Molds Paid for/Owned by Customers (Custom Bottle)	767	10.0%	743	9.5%	-3.1%
Products Manufactured by Other Companies	1,141	14.9%	1,153	14.7%	+1.0%
Materials and others<	143	1.9%	143	1.8%	-0.2%
Total	7,685	100.0%	7,840	100.0%	+2.0%

*Unit: Million Yen

Demand increased mainly for cosmetic products, centering on standard bottles, in Japan and overseas.

As for custom bottles, sales in Japan increased but declined in China, where there were many large-scale orders.

Sales by Field Type

	1H FY 12/18	Share	1H FY 12/19	Share	YY
Cosmetic, beauty	4,623	60.2%	4,636	59.1%	+0.3%
Sundries,	341	4.4%	357	4.6%	+4.7%
Foods, health foods	598	7.8%	691	8.8%	+15.4%
Chemical and pharmaceuticals	412	5.4%	381	4.9%	-7.4%
Wholesale, others	1,709	22.2%	1,773	22.6%	+3.7%
Total	7,685	100.0%	7,840	100.0%	+2.0%

*Unit: million yen

Through sales activities based on proposals for development, sales grew for cosmetic and beauty products including the ones that were recorded in other categories (due to classification by customer industry).

In the foods and health foods category, sales for real cosmetics grew. Although sales promotion targeting foods was carried out, sales remained at the same level.

Regional Trends

Sales	1H FY 12/18	1H FY 12/19	YoY	Divergence from Est.
Japan	5,803	6,131	+5.6%	-0.1%
China (JPY base)	1,872	1,714	-8.4%	-16.7%
China (RMB base)	109	105	-3.5%	-17.7%
Other areas	160	110	-31.0%	-61.9%
Operating Income				
Japan	605	718	+18.8%	+25.5%
China (JPY base)	285	213	-25.3%	-17.7%
China (RMB base)	16	13	-21.2%	-18.7%
Other areas	-32	-94	-	-

*Unit: million yen

(Japan)

Both sales and profit grew. Sales did not reach the target. Profit exceeded the estimates.

Demand from customers to whom sales activities based on proposals for development were carried out with a focus on cosmetic products continued to increase, leading to sales growth. However, demand from foreign customers decreased reflecting the impact of regulations on e-commerce in China in January 2019. As a result, sales did not reach the target.

In addition to investment to increase production and automation, the company continued to invest in the development of products with high functionality to strengthen supply capabilities.

In terms of profit, sales of standard bottles and custom bottles increased, and both gross profit amount and gross profit rate increased. The price of plastic raw materials was assumed to rise 10% year on year, but the rise was actually only 2.6%. The burden increase was 11 million yen.

The increase in sales absorbed an increase in logistics costs and an increase in the cost of exhibitions, resulting in an increase in operating profit, which exceeded the target.

(China)

Sales and profit decreased, and they were lower than expected.

Sales decreased, due to inventory adjustments among customers in China caused by the impact of e-commerce regulations, as well as currency translation effect. Sales to the U.S. also decreased ¥30 million year on year due to the U.S.-China trade friction.

Sales of both standard bottles and custom bottles declined.

As for profit, gross profit declined due to a decrease in product sales. Although the rate of increase in SG&A expenses was held down, operating profit margin fell to 12.5% due to a decline in gross profit. Plastic raw material prices declined ¥13 million year on year.

(Other areas)

Sales and profit decreased, and they were lower than the targets.

The company's Indian plant started full-scale operation in July 2018, and depreciation of the plant and production machinery began. Molds were also transferred from Japan and China.

The local production consignment system in the Netherlands has already been established. In addition to transferring existing molds, new molds are being produced locally.

In India, several projects are continuing since last year. Commercialization of customer molds is progressing, but full-scale sales have not been achieved. The company is incurring up-front expenditures.

In the Netherlands, the number of inquiries has increased due to the effects of exhibitions, but sales did not reach the planned level in the first half. Although local mold production is progressing, the company has not completed its own mold. Contribution to sales will be seen from the second half.

In the U.S., although there were inquiries, the number of large-scale projects in the cosmetics field that contributed in the previous fiscal year decreased, and the sales amount halved.

2-2 Financial Conditions and Cash Flow

Balance Sheet

	End of December 2018	End of June 2019		End of December 2018	End of June 2019
Current Assets	8,184	8,178	Current liabilities	4,689	4,242
Cash	3,020	2,993	Payables	2,593	2,415
Receivables	3,422	3,380	LT Interest Bearing Liabilities	531	573
Inventories	1,566	1,582	Taxes Payable	306	229
Noncurrent Assets	8,546	8,510	Noncurrent liabilities	3,486	3,568
Tangible Assets	7,573	7,641	ST Interest Bearing Liabilities	3,184	3,256
Buildings and structures (Net Depreciation)	3,474	3,343	Total Liabilities	8,175	7,810
Intangible Assets	428	432	Net Assets	8,555	8,877
Investment, Others	544	436	Shareholders' Equity	8,356	8,796
Total assets	16,730	16,688	Total Liabilities and Net Assets	16,730	16,688
			Total Interest-bearing Liabilities	3,716	3,830
			Capital Adequacy Ratio	50.9%	52.9%

*Unit: million yen

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Current assets and noncurrent assets remained the same from the end of the previous fiscal year. Total assets decreased ¥42 million from the end of the previous fiscal year to ¥16,688 million. Total liabilities decreased ¥365 million from the end of the previous fiscal year to ¥7,810 million, due to a decrease in trade payables.

Net assets increased ¥322 million from the end of the previous fiscal year to ¥8,877 million, due to the rise in retained earnings.

As a result, capital adequacy ratio grew 2.0% from the end of the previous fiscal year to 52.9%.

Cash Flow

	1H FY12/18	1H FY12/19	YY Change
Operating Cash Flow	855	861	+5
Investing Cash Flow	-1,369	-888	+480
Free Cash Flow	-513	-27	+486
Financing Cash Flow	780	-11	-791
Term End Cash and Equivalents	2,521	2,778	+256

*Unit: Million Yen

Operating CF remained almost the same.

The deficit of investing CF and free CF decreased as a result of decreased spending due to acquisition of tangible assets.

The revenue from long-term borrowing decreased, and financing CF turned negative.

The cash position improved.

2-3 Topics

Progress of mold development

The number of molds of the company is 3,551 as of the end of June 2019.

The molds of the company in India and the Netherlands are carefully manufactured with quality control in accordance with Japanese standards.

	The Number of Completed Molds in 1H FY 12/19			The Number of Holding Molds in 1H FY 12/19	In Progress		
	Standard	Customs	Total		Standard	Customs	Total
Japan	45	7	52	2,366	32	18	50
China	27	10	37	1,142	37	7	44
India	6	-	6	37	27	2	29
Netherlands	-	2	2	6	22	-	22
Total	78	19	97	3,551	118	27	145

*Unit: Molds. Standard is standard bottle, custom is custom bottle.

Renovation of the existing building at the Okayama branch was completed and operation commenced.

In June 2019, renovation of the existing building at the Okayama branch was completed, and operation began in July.

The company plans to install production machines in the future to secure supply systems that can respond to demand and to strengthen product supply capabilities to meet the diverse needs of the food market.

3.Fiscal Year ending December 2019 Earnings Forecasts

3-1 Earnings Estimates

	FY 12/18	Ratio to sales	FY 12/19 Est.	Ratio to sales	YoY	Progress rate
Sales	16,022	100.0%	16,934	100.0%	+5.7%	46.3%
Operating Income	1,630	10.2%	1,678	9.9%	+3.0%	50.0%
Ordinary Income	1,762	11.0%	1,706	10.1%	-3.2%	50.4%
Net Income	1,211	7.6%	1,176	6.9%	-2.9%	48.0%

*Unit: Million Yen. Estimates are based on the source from the company.

No change to earnings forecast. Sales and operating profit will increase.

Sales are forecast to rise 5.7% year on year to ¥16.9 billion. Due to increasingly diverse consumer needs and shorter product cycles, the demand for standard bottles continues to grow, and Takemoto must continue working on reducing development time and costs. The company will actively make proposals for development, and new molds will be made. Improvements will be made to the current Okayama Plant, and the Yuki Plant will be expanded and increase its production capacity.

Operating profit is estimated to rise 3.0% year on year to ¥1,678 million. Depreciation expenses are expected to rise up to ¥177 million, due to the development of new molds, which measures the increase in production, and investment into labor-saving equipment. Raw material expenses will grow due to increased production and rising raw material prices, but the company will strive to curb SG&A expenses and raise profits.

Both the interim and term-end dividends are to be ¥9.50 /share. Taking the stock split into account, this is an increase of ¥0.5/share from the previous term. The estimated payout ratio is 20.2%. The company aims to achieve a payout ratio of 20% or higher.

3-2 Capital Investment, Depreciation

	FY 12/18 Act.	FY 12/19 Est.	Progress rate
Depreciation	1,021	1,198	45.1%
Capital Investment	1,946	3,585	26.2%
Out of which Molds	476	700	33.7%
EBITDA	2,651	2,876	47.9%

*Unit: million yen

The company plans to increase investment in plants and equipment by 84.2% over the previous term, in order to cope with increased demand and labor shortages, and to lay the foundation for future growth.

Investment in molds is estimated to increase significantly by 47.1%, but the amount of the investment was low in the first half because it was necessary to make changes to or switch from the original plan.

Catch-up is expected from the second half.

4. Future policies

(1) Overview

In pursuing the mission of Takemoto Yohki, in order to appropriately respond to sudden changes in the three aspects of “customer responsiveness,” “overseas expansion,” and “initiatives for environmental issues,” it is imperative to develop a foundation by making use of “synergy between data and physical operations” and work on “speed-up,” “response improvement,” and “enhanced creativity for added value” based on the foundation.

(2) What is “synergy between data and physical operations”?

“Synergy between data and physical operations” is what the company is aiming for in order to accumulate experience and knowledge and share internal information via open access by utilizing digital tools.

“Synergy between data and physical operations” will produce many benefits such as “reduction of time from proposal to commercialization,” “digitization of the planning and development process,” “creation of added value by accumulating data and experiments,” “improvement of operating efficiency,” “strengthening responsiveness to overseas clients,” and “utilization of the simulation for design, quality, and production.” These benefits will enable the company to strengthen competitiveness further through “speed-up,” “response improvement,” and “enhanced creativity for added value.”

“TOGETHER LAB” is scheduled to start in March 2020. It plays a central role in realizing “synergy between data and physical operations,” which is the key to improving the company’s corporate value.

Using “TOGETHER LAB,” which means collaboration with customers, various simulation images including idea sketches and product display images can be presented to customers at the LAB using high-quality 3D CAD.

Until now, it has been necessary to repeat the procedure of bringing back customer's requests and resubmitting the correction proposal until the company reaches a specific product development stage. With this procedure, there was a limit to speeding up the process. By using "TOGETHER LAB," the company and customers can communicate more efficiently and with higher quality than ever before. Furthermore, since 3D data are linked to the mold design drawing, it becomes possible to develop products in accordance with the customer's development philosophy, and the product development time can be greatly shortened.

TOGETHER LAB (Joint development base): Virtual image (Digitization of planning and development process)



(Source: the company)

(3) Measures for “customer responsiveness,” “overseas expansion,” and “initiatives for environmental issues”

① Customer responsiveness

The company's customers, such as cosmetic manufacturers and food manufacturers, want to “procure containers that enhance product value,” “develop products in a timely manner and reduce development risks and costs,” “procure containers that enhance individuality (brand)” and “safe packaging, in the required amount, at the right time”

To meet these needs, the company is implementing four measures including “Proposal-based marketing capability: The development of a proposal in line with a concept,” “Assortment of molds: Appropriate containers,” “Customization capability: Optimal customization,” and “Production capability: Small lots/quick turnaround/instant delivery.”

It provides comprehensive “packaging solutions = solutions for customer issues.”

② Overseas expansion

Over the past five years, each market has grown as shown below.

	FY12/13	Ratio to sales	FY12/18	Ratio to sales	CAGR
Japan	7,831	77.2%	12,063	74.0%	+9.0%
China	2,176	21.4%	3,921	24.0%	+12.5%
Others	139	1.4%	322	2.0%	+18.3%
Total	10,146	100.0%	16,306	100.0%	+10.0%

*Unit: Million Yen

The future market composition ratio is assumed to be 50% for the Japanese market, 30% for China, and 20% for India/Europe. The company will strive to develop the European and American markets where there is room for expansion and the Indian market, which is growing rapidly.

By applications for domestic and overseas combined, the “Cosmetics and Beauty Division,” which has been driving growth so far, will continue to grow with the composition ratio rising to 63%.

	FY12/13	Ratio to sales	FY12/18	Ratio to sales	CAGR
Cosmetic, beauty	5,710	57.0%	9,651	60.2%	+11.1%
Sundries,	510	5.1%	697	4.4%	+6.5%
Foods, health foods	936	9.3%	1,310	8.2%	+7.0%
Chemical and pharmaceuticals	553	5.5%	838	5.2%	+8.7%
Wholesale, others	2,306	23.0%	3,523	22.0%	+8.9%
Total	10,017	100.0%	16,022	100.0%	+9.9%

*Unit: million yen

③ Initiatives for environmental issues

(Current situation)

EU regulations ban the use of single-use plastics (e.g. disposable straws), and plastic products such as packaging containers that are not prohibited are expected to be reduced, reusable, recyclable and renewable with the aim of sustainable economic growth.

The company believes that the development standards and values of conventional packaging containers will change significantly.

(Efforts of the company)

Currently, the company is developing and providing products that contribute to reducing and reusing efforts such as “refillable containers” and “thin containers.” It is also working on the development and provision of recyclable and renewable products, such as “containers using a single material” and “containers using bioplastics.”

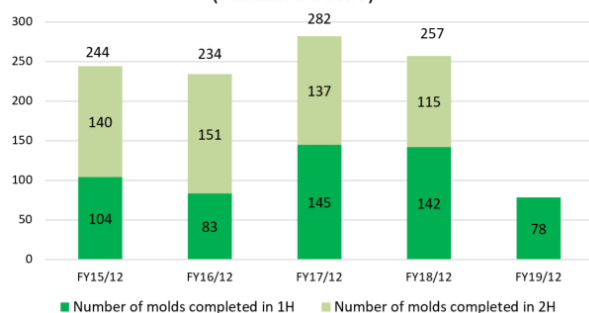
In the future, it will strengthen its ability to respond to the needs through an integrated system of sales, development and production. Furthermore, it will strengthen the system to be able to make development proposals ahead of the market by collecting information on global trends and most up-to-date information using its European bases.

In addition to thoroughly strengthening its ability to respond to customers including speed and efficiency and its ability to create added value, it is making efforts to create new businesses. For example, by having discussions with external experts regarding the creation of a mechanism for cleaning and repeatedly using containers from the perspective of reusability and renewability.

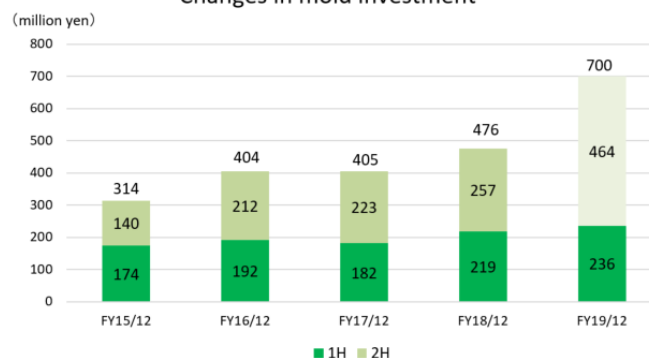
5. Conclusions

Sales increased from the same period last year, but were lower than planned due to overseas factors such as a decrease in demand in China associated with e-commerce regulations, the U.S.-China trade friction, and a delay in the launch of new markets. The number of completed molds in the first half was about half of that of the same period last year, and the investment in molds exceeded the amount of the same period last year. However, progress toward the full year plan was only about 30%. We will focus on how much mold production, which has become a somewhat slow pace despite steady increase in the number of molds at the end of the term, will increase in the second half. Meanwhile, “TOGETHER LAB,” which plays a central role in “synergy between data and physical operations,” was established. The operation will start the next fiscal year. We hope to be able to report concrete results, hopefully positive ones.

Changes in the number of finished molds
(standard bottle)



Changes in mold investment



* Actual results until the first half of FY19/12

<Reference: 1: Medium Term Management Plan>

(1) Numerical Targets

① Group Trend

	FY12/19 (Plan)	YoY	FY12/20 (Plan)	YoY	FY12/21 (Plan)	YoY
Sales	16,934	+5.7%	17,952	+6.0%	19,173	+6.8%
Operating Profit	1,678	+2.9%	1,712	+2.0%	1,830	+6.9%
Operating Profit on Sales	9.9%	-0.3p	9.5%	-0.4p	9.5%	0.0p
Ordinary Income	1,706	-3.2%	1,722	+0.9%	1,836	+6.6%
Net Income	1,176	-2.9%	1,203	+2.3%	1,281	+6.5%
Depreciation	1,198	+17.3%	1,555	+29.8%	1,825	+17.4%
Capital Investment	3,585	+84.2%	3,189	-11.0%	2,410	-24.4%
Out of which Molds	700	+47.1%	759	+8.4%	749	-1.3%
EBITDA	2,876	+8.5%	3,267	+13.6%	3,655	+11.9%

*Unit: million yen

***To increase production capacity to meet rising demand**

In the first half of the fiscal year December 2019, renovation work on the existing building at the Okayama branch was completed, and production in two buildings began.

In 2020, Takemoto will expand the Kunshan Plant (China) and construct an automated warehouse. They will also launch a new business.

In 2021, a new plant will be built in China, and the company will launch another new business.

During these three years, the company will continue to invest in molds, production facilities, and labor-saving equipment.

***To conduct global sales, development, and production activities**

The company will coordinate sales, development, and production across Japan, China, Thailand, Europe, the U.S., and India in order to meet the demand.

Plastic raw material prices are expected to rise by double-digits from the previous year in 2019, and increase gradually thereafter.

The estimated exchange rate is 1 RMB to ¥16, and 1 USD to ¥110.

② Regional trend
(Japan)

	FY12/19 (Plan)	YoY	FY12/20 (Plan)	YoY	FY12/21 (Plan)	YoY
Sales	12,431	+3.1%	13,045	+4.9%	13,758	+5.5%
Operating Profit	1,192	-4.0%	1,224	+2.7%	1,445	+18.1%
Operating Profit on Sales	9.6%	-0.7p	9.4%	-0.2p	10.5%	+1.1p

*Unit: million yen

Sales are expected to continue growing. The company will continue to invest in molds for standard bottle development, and in plant and equipment in order to boost production capacity.

It is estimated that sales will increase in 2019, but high material costs and depreciation expenses will cause profits to decline. Profitability is forecasted to improve from 2021.

(China)

	FY12/19 (Plan)	YoY	FY12/20 (Plan)	YoY	FY12/21 (Plan)	YoY
Sales	4,207	+7.3%	4,548	+8.1%	4,914	+8.0%
Operating Profit	586	+13.8%	569	-2.9%	450	-20.9%
Operating Profit on Sales	13.9%	+0.8p	12.5%	-1.4p	9.2%	-3.3p

*Unit: million yen

In 2019, the company will invest in molds and work to increase productivity, and the company anticipates a rise in sales and profits. From 2020 onwards, depreciation expenses will increase with the expansion of the Kunshan Plant and the construction of the new plant in China, resulting in a decline in profits.

(Others)

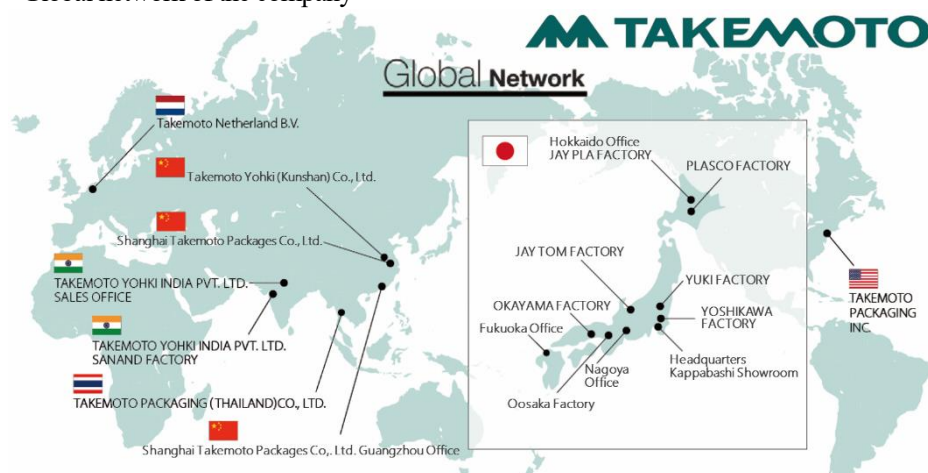
	FY12/19 (Plan)	YoY	FY12/20 (Plan)	YoY	FY12/21 (Plan)	YoY
Sales	564	+75.2%	892	+58.2%	1,125	+26.1%
Operating Profit	-101	-	-81	-	-66	-
Operating Profit on Sales	-	-	-	-	-	-

*Unit: million yen

In India, full-scale production and sales targeted at the domestic market will begin in 2019. The company will respond to inquiries and work to secure new projects, leading to an increase in sales. Its aim is to turn a profit by 2024.

In the Netherlands, the company will begin locally outsourcing production in 2019. It will commence full-scale investment in molds, leading to an increase in sales.

*Global network of the company



(Source: the company)

<Reference: 2: Regarding Corporate Governance>

◎"Organization type"

Organization Structure	Company with audit and supervisory committees
Directors	7 directors of whom 4 are outside directors

◎Corporate Governance Report

Last update date: : March 27, 2019.

<Basic policy>

"Creating bottles with our customers' hearts in mind" is our "corporate motto," and our mission is ensuring the safety of our customers' products of various substances and contents and increasing its value and individuality through the provision of packaging containers, which are imperative to people's daily lives. In order to realize this management philosophy, increase medium- to long-term corporate value, and ensure the soundness and transparency of corporate activities, we will work on enhancing corporate governance in accordance with the following basic policies.

(1) Ensuring shareholders rights and equality

We will promptly disclose information in compliance with relevant laws and regulations to ensure substantial equality for all shareholders and ensure the rights of shareholders.

(2) Appropriate collaboration with stakeholders other than shareholders

In order to increase corporate value over the medium to long term, we will practice appropriate collaboration not only with shareholders but also with stakeholders such as customers, business partners, employees, and local communities. To become a good corporate citizen, the Board of Directors and the management team are complying with laws and regulations, striving to achieve the corporate philosophy and employee code of conduct, and working for fair and clear business operation based on our management philosophy.

(3) Ensuring appropriate information disclosure and transparency

We recognize that proper and accurate information disclosure is imperative for continuing corporate activities with the understanding of various stakeholders. In addition to timely and appropriate disclosure based on laws and regulations, we will proactively disseminate information on the operational status of the Group's business through our website and business reports.

(4) Responsibilities of the Board of Directors

We recognize that the decision-making function and supervisory function of the Board of Directors need to be effectively utilized in order to control all risks that threaten business continuity and reduce and resolve undesirable events.

We have selected a company with an audit and supervisory committee under the companies act. The audit and supervisory committee, which consists of outside directors, plays a role in management supervision and strives to achieve highly transparent management.

(5) Dialogue with shareholders

We recognize that it is important to conduct constructive dialogue with shareholders and reflect its opinions and requests in management to achieve growth as a company for sustainable growth and corporate value strengthening.

In implementing the capital policy, we ensure proper procedures and provide sufficient explanations to shareholders so as not to unduly harm existing shareholders.

In order for shareholders and investors to gain an understanding of our management strategies and plans, the department in charge of IR plays a central role and provides venues for dialogue.

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

Principles	Reasons for not implementing the principles
[Supplementary Principle 1-2-4 Electronic Exercising of Voting Rights to Shareholder's Meeting/English Translation of Convocation of Notice] [Supplementary Principle 3-1-2 Disclosure and Provision of Information in English]	We recognize the necessity to provide information in English for investors outside Japan and establishing an environment in which it is easy to exercise voting rights in accordance with the state of the shareholding structure of corporate investors, etc. In the future, we will consider creating an environment that enables electronic exercise of voting rights (use of a platform to electronically exercise voting rights etc.) and translating the Convocation of Notice and other documents while taking the ratio of overseas investors in shareholders into account.
[Supplementary Principle 4-11-3 Evaluating Effectiveness of Board of Directors]	The board of directors will have regular meetings once a month and when deemed necessary will hold adequate meetings to decide and report important matters related to the execution of operations. Moreover, the board of directors will actively discuss issues in managerial strategies, governance and administration, as well as exchange opinions on the management situation of the board of directors. However, the Board of Directors' effectiveness has yet to be evaluated.

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

Principles	Disclosure contents
[Principle 1-4 So-called strategically held shares]	Our company will retain shares of clients if we conclude that building a stable and long-term business relationship or collaborating would contribute to improving the mid- to long-term value of our company. Currently, strategically held shares account for less than 0.1% of the company's total assets, so the financial impact is extremely low. The strategically held shares, which place high importance in funds, will be regularly examined by the Board of Directors to determine the necessity and the sense in continuing to retain them. As for shares that have begun to lose their strategic importance, we will open dialogues with our business partners and work to reduce the number of such shares. In terms of exercising voting rights on them, judgment on the vote will be made from the perspective of whether it will contribute to improving the mid- to long-term value of said company and our company.

This report is intended solely for information purposes, and, it is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the company, and they come from sources that we consider to be reliable. However, we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and/or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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