

 Satoru Takashima President	Toyo Ink SC Holdings, Co., Ltd. (4634)
	

Company Information

Market	TSE 1st Section
Industry	Chemical (Manufacturing)
President	Satoru Takashima
HQ Address	2-2-1 Kyobashi, Chuo-ku, Tokyo
Year-end	End of December
Homepage	https://schd.toyoinkgroup.com/en/index.html

Stock Information

Share Price	Shares Outstanding	Total market cap	ROE Act.	Trading Unit	
¥1,946	60,621,744 shares	¥117,969 million	2.8%	100 shares	
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR (x)
¥90.00	4.6%	¥128.37	15.2x	¥3,589.24	0.5x

* Share price as of closing on March 11. Numbers are taken from the financial statements for FY 12/20.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
December 2017 (Act.)	240,344	16,774	17,473	10,376	35.55	16.00
December 2018 (Act.)	290,208	15,276	15,429	11,847	202.93	85.00
December 2019 (Act.)	279,892	13,174	13,847	8,509	145.72	90.00
December 2020 (Act.)	257,675	12,909	12,543	6,019	103.06	90.00
December 2021 (Est.)	270,000	14,000	14,000	7,500	128.37	90.00

*Unit: million yen, yen. Estimates are those of the Company. Net income is net income attributable to the shareholders of the parent company.

The values of December 2017 are for 9 months. A 1-for-5 reverse split was conducted on July 1, 2018. No retroactive adjustment has been implemented.

This Bridge Report provides Toyo Ink SC Holdings, Co., Ltd.'s earnings results for Fiscal Year ended December 2020, and more.

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Key Points

- The sales for the term ended Dec. 2020 were 257.6 billion yen, down 7.9% year on year. Due to the novel coronavirus, consumption was sluggish around the world. The demand for offset inks and plastic colorants for automobiles shrank considerably. All segments saw a decline in sales. Operating income decreased 2.0% year on year to 12.9 billion yen. There were some positive factors, such as (1) the reduction of fixed costs, (2) the drop in material costs, and (3) the sales promotion of products with high added value, including environmentally friendly products, materials for sensors, and functional films, but the income was affected by the decline in sales volume, the drop in selling prices of materials for display, etc., which were caused by the novel coronavirus. Net income decreased 29.3% year on year to 6 billion yen. The company reorganized and integrated unprofitable facilities inside and outside Japan, posting a loss from business reorganization of 1 billion yen under the extraordinary loss. Sales were almost in line with the revised forecasts, while income exceeded the estimate.
- For the term ending Dec. 2021, sales are projected to rise 4.8% year on year to 270 billion yen and operating income is estimated to increase 8.4% year on year to 14 billion yen. As people are shifting to new lifestyles under the assumption that the novel coronavirus pandemic will linger for a long period of time, a gentle recovery is expected, but there is a growing concern over economic slowdown due to the continuous constraints on economic activities. While forecasting that the business environment will remain harsh due to the rise in material prices, etc., the company will implement measures in each segment and aim to increase sales and profit. The dividend is to be 90.00 yen/share, unchanged from the previous term. The estimated payout ratio is 70.1%.
- Under the 10-year long-term scheme, Scientific Innovation Chain 2027 (SIC27), aimed at achieving sustainable growth by 2027, the company breaks down the scheme into three 3-year mid-term management plans. They hope to clarify problems and roles in each stage, and to act steadily to realize an ideal future. Following the first stage of the scheme, Mid-Term Management Plan SIC-I (FY 2018-FY 2020), the second stage, Mid-Term Management Plan SIC-II (2021-2023) began in Jan. 2021.
- Assuming that the keywords of the promising markets are “Green”, “Digital”, and “Health”, the company will concentrate on the development of businesses related to “sustainability”, “communication”, and “life”. Under the three policies: (1) Improve the profitability of businesses, (2) Create more priority areas of development, and (3) Enhance the value of management resources for sustainable growth, the company aims to become “a company that contributes to a new era through the enrichment of life and culture.” In the term ending Dec. 2023, the company aims to achieve sales of 300 billion yen, an operating income of 22 billion yen, an operating income margin of 7% or higher, and a ROE of 7% or higher.
- We interviewed President Takashima about his missions as President, their competitive advantage and measures for brushing it up, their current issues and response to them, and his message to shareholders and investors.
- The Mid-Term Management Plan SIC-II (2021-2023) set the goal of achieving sales of 300 billion yen, an operating income of 22 billion yen, an operating income margin of 7% or higher, and a ROE of 7% or higher in the term ending Dec. 2023. It is essential to not only grow the top line, but also to enhance its earning capacity for raising operating income margin,

which stood at 5.0% in the previous term, and ROE, which was 2.8% in the previous term. The company needs to reform the structure of the printing&information business, but it is noteworthy how they will develop a strategic, highly profitable business portfolio.

- Furthermore, President Takashima's new business model, evolution from customer solutions to market solutions, would contribute significantly to the improvement in profitability through the increase in added value. We would like to expectantly see how they will reform employees' awareness and how swiftly they will proceed with their strategies.

1. Company Overview

Toyo Ink SC Holdings is Japan's top manufacturer of printing inks. Using the processing technologies of pigments and polymers that are the raw materials of inks, the Company manufactures various products such as LCD color filter materials and electromagnetic shielding films. The Toyo Ink Group is comprised of Toyo Ink SC Holdings, 63 consolidated subsidiaries in and outside Japan, and 7 equity method affiliate companies. They are operating business in 23 countries around the world (The end of December 2020).

Under the long-term scheme "Scientific Innovation Chain 2027 (SIC 27)," whose concept is to contribute to the improvement of sustainability of ordinary citizens, life, and the global environment by innovatively thinking, scientifically executing, and connecting each activity by each and every employee, it is aiming for a transformation to have a corporate structure that enables sustainable growth towards 2027.

1-1 Corporate History

The origin of Toyo Ink dates back to 1896, when founder Kamataro Kobayashi opened *Kobayashi's Ink Shop* as sole proprietorship in 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 an 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, polymers) 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 on 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 color filters, using its wide range of technologies and know-how cultivated through manufacturing and processing of raw materials such as pigments and polymers. 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.

1-2 Management Philosophy etc.

"The Toyo Ink Group's Corporate Philosophy System" was established in April 1993. It consists of three 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 Management 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 Management 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 management philosophy globally.

1-3 Market Environment

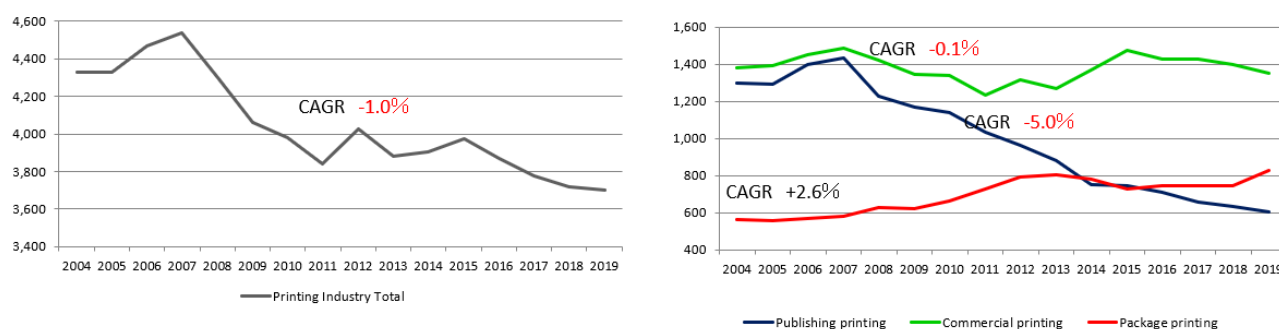
◎ Overview

(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 2.6% for 15 years from 2004 to 2019.

Transition of Production Value in the Printing Industry



*Created by Investment Bridge based on Ministry of Economy, Trade and Industry, “Yearbook of Current Production Statistics – Paper, Printing, Plastics Products and Rubber Products Statistics”

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) are 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.

Also, with the growing global awareness of the environment, the needs for environmentally friendly products such as biomass inks are expanding, and ink companies are working on the development of new products that utilize their unique technologies.

◎ Other companies in the industry

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

While (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 in 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 growth rate	Operating income	Profit growth rate	Operating margin	Total market value	PER	PBR	ROE
4116	Dainichiseika Color & Chemicals Mfg. Co., Ltd.	135,000	+13.0%	3,900	+19.6%	2.9%	46,011	8.5	0.5	4.1
4631	DIC	750,000	+7.0%	45,000	+13.5%	6.0%	275,859	13.7	0.9	4.2
4633	SAKATA INX	170,000	+5.3%	8,000	+10.9%	4.7%	68,548	10.0	0.8	6.9
4634	Toyo Ink SCHD	270,000	+4.8%	14,000	+8.4%	5.2%	117,969	15.2	0.5	2.8
4635	Tokyo Printing Ink Mfg. Co., Ltd.	38,500	-9.6%	200	-66.3%	0.5%	5,874	7.6	0.2	5.1
4636	T&K TOKA	41,600	-13.7%	-150	-	-	21,898	18.0	0.5	1.4

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

*Unit: Million Yen, Times. Total market value is as of closing on March 11, 2021.

1-4 Business Description

◎ 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 polymers, lipids, fluxing materials, etc.)	Varnish is a combination of lipids, natural polymers, synthetic polymers, 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 dispersion technologies are required when various inks are produced by combining the above three raw materials.

Since its foundation, the Company has also been expanding its business categories by exploring application of these raw materials in the process of manufacturing them.

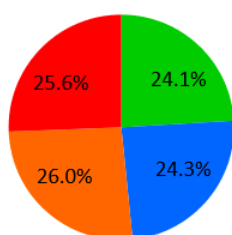
<Types and intended use of major printing inks>

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 gradation, 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 a 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

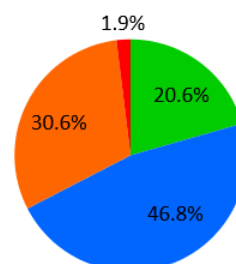
The business activities of the Company are classified into four segments: the “Colorants & Functional Materials Related Business,” “Polymers & Coatings Related Business,” “Printing & Information Related Business”, and “Packaging Materials Related Business”. The “Printing & Information Related Business” 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 polymers that are the main raw materials of inks and their design technologies.

Sales composition ratio
(FY December 2020)



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

Operating income composition ratio
(FY December 2020)



■ 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

	FY Dec.20
Sales	61,642
Operating Income	2,610
Operating Margin	4.2%

*Units: Million yen

Sub segment	Major products
General-purpose chemicals	Pigments and pigment dispersions
High-performance chemical products	High performance pigments, CF (color filter) paste
Display materials	Resist inks for LCD color filter
Plastic colorants	Plastic colorants, functional plastic colorants
Other Colorants/Functional Materials	Recording material coatings, functional dispersions, developed products



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

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Company’s dispersion processing technologies are used not only for organic pigments but also for inorganic materials such as carbon nanotube (CNT), which leads to expansion of its business in the new energy field such as secondary battery materials.

★Polymers & Coatings Related Business

	FY Dec.20
Sales	62,328
Operating Income	5,937
Operating Margin	9.5%

*Units: Million yen

Sub segment	Major products
Functional films and tapes	Adhesive tapes, marking films, electromagnetic shielding films
Adhesives	Pressure sensitive adhesives, Adhesives, laminating adhesives, hot-melts
Can coatings and polymers	Can coatings, polymers, functional hard coatings
Other Polymers/Coatings	Medical products, natural extracts, developed products



For this segment, the Company develops functional polymers 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

	FY Dec.20
Sales	66,589
Operating Income	3,885
Operating Margin	5.8%

*Units: Million yen

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



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

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★Printing & Information Related Business

	FY Dec.20
Sales	65,595
Operating Income	247
Operating Margin	0.4%

*Units: Million yen

Sub segment	Major products
Offset inks	Offset inks, newspaper inks, UV curable inks, metal decorating inks
Printing materials and equipment	Printing inspection devices, printing materials
Inkjet inks, others	Inkjet inks, screen inks, other developed products



This segment is the base 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.

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 local sites.

As of the end of December 2020, the Company has about 45 overseas consolidated subsidiaries in a wide range of countries around the world.

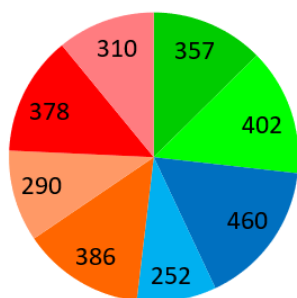
	Sales	YoY	Operating Income	YoY
Japan	1,618	-7.8%	64	-17.3%
Asia	945	-6.6%	59	+3.5%
Europe	180	-9.5%	5	-
The Americas	127	-9.2%	-1	-
Adjustment	-293	-	1	-
Consolidated total	2,577	-7.9%	129	-2.0%

*Units: 100 Million yen

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Domestic and Overseas Sales by Segment
(FY December 2020, 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.

1-5 ROE Analysis

	FY 3/ 13	FY 3/ 14	FY 3/ 15	FY 3/ 16	FY 3/ 17	FY 12/ 17	FY 12/ 18	FY 12/ 19	FY 12/ 20
ROE (%)	5.8	7.3	6.9	5.8	6.1	4.8	5.4	3.9	2.8
Net income margin (%)	3.50	4.39	4.64	4.17	4.73	4.32	4.08	3.04	2.34
Total asset turnover [times]	0.85	0.88	0.82	0.78	0.74	0.65	0.77	0.75	0.68
Leverage [times](x)	1.94	1.88	1.81	1.75	1.74	1.72	1.72	1.72	1.76

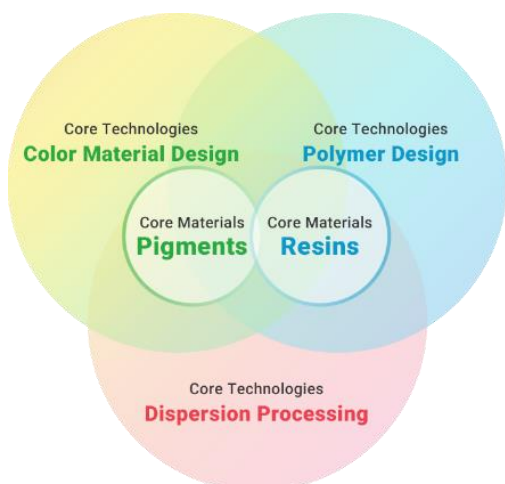
*The 12-months conversion value for the term ended December 2017 is 6.8%.

In general, it is desirable to continue to boost profitability and efficiency to achieve a ROE of 8%, which is said to be the value that should be pursued by Japanese companies.

1-6 Characteristics and Strengths

(1) Strong technological edge

As described above, the Company has been manufacturing in-house its core materials, pigments and polymers, 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.



(From the Company's HP)

(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-based 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. However, it is not intending to implement M&A just to increase the size of businesses. 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 ended December 2020 Earnings Results

(1) Business Results

	FY 12/ 19	Ratio to sales	FY 12/ 20	Ratio to sales	YoY	Compared with initial estimates	Compared with adjusted estimates
Sales	279,892	100.0%	257,675	100.0%	-7.9%	-11.1%	-0.9%
Gross profit	60,333	21.6%	57,196	22.2%	-5.2%	-	-
SG&A	47,159	16.8%	44,286	17.2%	-6.1%	-	-
Operating Income	13,174	4.7%	12,909	5.0%	-2.0%	-13.9%	+7.6%
Ordinary Income	13,847	4.9%	12,543	4.9%	-9.4%	-19.1%	+9.1%
Net Income	8,509	3.0%	6,019	2.3%	-29.3%	-39.8%	+0.3%

*Units: Million yen. Adjusted estimates was released in August 2020.

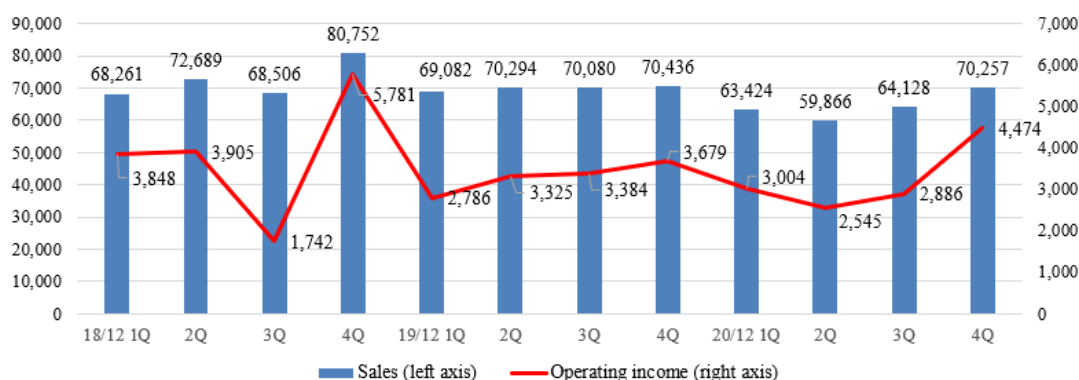
Sales and Profit decreased, but profit exceeded adjusted estimates.

Sales were 257.6 billion yen, down 7.9% year on year. Due to the novel coronavirus, consumption was sluggish around the world. The demand for offset inks and plastic colorants for automobiles shrank considerably. All segments saw a decline in sales. Operating income decreased 2.0% year on year to 12.9 billion yen. There were some positive factors, such as (1) the reduction of fixed costs, (2) the drop in material costs, and (3) the sales promotion of products with high added value, including environmentally friendly products, materials for sensors, and functional films, but the income was affected by the decline in sales volume, the drop in selling prices of materials for display, etc., which were caused by the novel coronavirus. Net income decreased 29.3% year on year to 6 billion yen. The company reorganized and integrated unprofitable facilities inside and outside Japan, posting a loss from business reorganization of 1 billion yen under the extraordinary loss. Sales were almost in line with the revised forecasts, while income exceeded the estimate.

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Trends of quarterly sales and operating income (units: million yen)



Quarterly sales and operating income are recovering after bottoming out in the second quarter.

The sales in the fourth quarter were nearly unchanged year on year, while operating income rose about 20%.

(2) Trend by Segment

Sales	FY 12/ 19	Ratio to sales	FY 12/ 20	Ratio to sales	YoY	Compared with estimates	Compared with adjusted estimates
Colorant/Functional materials	67,400	24.1%	61,642	23.9%	-8.5%	-15.0%	+1.1%
Polymers/Coatings	65,887	23.5%	62,328	24.2%	-5.4%	-11.6%	-3.4%
Packaging materials	68,071	24.3%	66,589	25.8%	-2.2%	-4.9%	-2.8%
Printing/Information	76,680	27.4%	65,595	25.5%	-14.5%	-13.7%	+2.5%
Others/Adjustment	1,852	0.7%	1,521	0.6%	-	-	-
Total	279,892	100.0%	257,675	100.0%	-7.9%	-11.1%	-0.9%
Operating Income							
Colorant/Functional materials	3,386	5.0%	2,610	4.2%	-22.9%	-31.3%	+0.4%
Polymers/Coatings	6,013	9.1%	5,937	9.5%	-1.3%	-8.7%	+4.2%
Packaging materials	3,058	4.5%	3,885	5.8%	+27.1%	+11.0%	-2.9%
Printing/Information	314	0.4%	247	0.4%	-21.2%	-83.5%	-
Others/Adjustment	401	21.7%	227	14.9%	-	-	-
Total	13,174	4.7%	12,909	5.0%	-2.0%	-13.9%	+7.6%

*Unit: million yen. Ratio to sales for operating income means the profit margin.

★Colorants and Functional Materials Related Business

Sales and profit decreased.

The sales of materials for display, which are priority products, declined 0.9%, being nearly unchanged from the previous term.

(Pigments)

The sales of pigments for printing inks were sluggish throughout the year. The sales of pigments for can coatings, too, were stagnant, due to the decline in the sale of automobiles.

(Materials for display)

Due to the trade friction between the U.S. and China, the spread of the novel coronavirus, etc., the sales of materials for displays of large-sized TV sets and smartphones were sluggish in the first half, but recovered in the second half. The sales of products for PCs and tablets, too, grew.

Outside Japan, sales expanded in the Chinese and Taiwanese markets.

(Plastic Colorants)

Inside Japan, the sales of plastic colorants for sanitation-related containers grew, but the sales of plastic colorants for beverage caps and cosmetic containers were sluggish, due to the restraint of going out and the shrinkage of the markets targeted at foreign visitors to Japan. The sales of plastic colorants for building materials, solar cells, etc. decreased, and the sales of products for office equipment in Southeast Asia and products for automobiles in North America and Europe were sluggish, too.

(Functional dispersions)

The company acquired the commercial right of materials for in-vehicle lithium-ion batteries in Europe and the U.S.

★Polymers & Coatings Related Business

Sales and profit decreased.

The sales of optical electronics products, which are the company's priority products, decreased by 3.9%.

(Functional films and tapes)

The sales of products for smartphones were stagnant due to the disruption of supply chains and the weakening of demand in the first half, but recovered in the second half. The company proceeded with the development and sales promotion of electromagnetic shielding films for high-speed telecommunication.

(Adhesives)

Inside Japan, products for packages performed well, but the sales of products for lithium-ion batteries were sluggish.

Outside Japan, the sales of products were stagnant in China and Southeast Asia, due to the suspension of business activities caused by the novel coronavirus.

(Pressure sensitive adhesives)

In Japan, the sales of products for automobiles were sluggish, but the products for labels performed well. The sales promotion for products for displays progressed inside and outside Japan.

(Can coatings)

Inside Japan, the sales of can coatings for alcoholic beverage cans grew due to the restraint of going out, but the sales of can coatings for coffee and soft drink cans for vending machines and convenience stores were sluggish. Their performance was stagnant also in China and North America.

★Packaging Materials Related Business

Sales decreased and profit increased.

The performance of overseas liquid inks, which are the company's priority products, increased by 6.4%

(Flexible packaging materials)

The demand from foreign customers in Japan shrank, but the sales of flexible packaging materials for food products to be consumed at home, such as frozen meals and retort pouches, and for hygienic goods were healthy due to the restraint of going out. The sales of biomass inks grew.

(Construction materials)

Demand declined due to the stagnation and delays in the construction and remodeling markets caused by the novel coronavirus crisis.

★Printing & Information Related Business

Sales and profits decreased.

The sales of functional inks, which are the company's priority products, decreased by 10.0%.

(Offset inks)

While the demand for printing was shrinking more rapidly, the company reformed its business structure through manufacturing alliance,

etc.

(Functional inks)

The sales of biomass and antibacterial products of UV curable inks for packages grew.

(3) Financial standing and cash flows

◎Main Balance Sheet

	End of December 2019	End of December 2020	Increase /decrease		End of December 2019	End of December 2020	Increase /decrease
Current Assets	199,969	214,097	+14,128	Current liabilities	106,747	91,411	-15,336
Cash	56,691	76,469	+19,778	Payables	59,543	54,608	-4,935
Receivables	90,173	87,126	-3,047	ST Interest Bearing Liabilities	30,315	19,379	-10,936
Inventories	48,508	46,188	-2,320	Noncurrent liabilities	42,490	71,491	+29,001
Noncurrent Assets	176,161	166,130	-10,031	LT Interest Bearing Liabilities	27,460	60,492	+33,032
Tangible Assets	99,577	102,616	+3,039	Total Liabilities	149,237	162,902	+13,665
Intangible Assets	4,202	3,113	-1,089	Net Assets	226,892	217,325	-9,567
Investment, Others	72,381	60,399	-11,982	Shareholders' Equity	205,891	206,706	+815
Total assets	376,130	380,227	+4,097	Total liabilities and net assets	376,130	380,227	+4,097
				Interest Bearing Liabilities Balance	57,775	79,871	+22,096

*Unit: million yen

Current assets increased 14.1 billion yen from the end of the previous fiscal year due to a rise in cash and deposits. However, total assets increased 4 billion yen from the end of the previous fiscal year to 380.2 billion yen due to a decline in investment and other assets.

Total liabilities augmented 13.6 billion yen from the end of the previous fiscal year to 162.9 billion yen due to an increase in long-term debt, etc. Net assets decreased 9.5 billion yen to 217.3 billion yen, due to the decline in valuation difference on available-for-sale securities, the augmentation of the deficit of foreign currency translation adjustment, etc.

As a result, equity ratio fell 3.1 points from 58.3% at the end of the previous fiscal year to 55.2%.

◎Cash Flow

	FY 12/19	FY 12/20	Increase/decrease
Operating Cash Flow	19,673	16,743	-2,930
Investing Cash Flow	-10,404	-13,294	-2,890
Free Cash Flow	9,269	3,449	-5,820
Financing Cash Flow	-6,247	16,221	22,468
Term End Cash and Equivalents	53,765	73,117	19,352

*Unit: million yen

The surpluses of operating and free CFs shrank, due to the decline of net income before taxes, etc. Financing cash flow turned positive due to an increase in long-term and short-term debts.

The cash position has risen.

3. Fiscal Year ending December 2021 Earnings Forecasts

(1) Business forecasts

	FY 12/ 20	Ratio to sales	FY 12/ 21 Est.	Ratio to sales	YoY
Sales	257,675	100.0%	270,000	100.0%	+4.8%
Operating Income	12,909	5.0%	14,000	5.2%	+8.4%
Ordinary Income	12,543	4.9%	14,000	5.2%	+11.6%
Net Income	6,019	2.3%	7,500	2.8%	+24.6%

*Unit: Million yen. Forecasts are the figures announced by the Company.

Sales and profits are estimated to increase.

For the term ending Dec. 2021, sales are projected to rise 4.8% year on year to 270 billion yen and operating income is estimated to increase 8.4% year on year to 14 billion yen.

As people are shifting to new lifestyles under the assumption that the novel coronavirus pandemic will linger for a long period of time, a gentle recovery is expected, but there is growing concern over economic slowdown due to the continuous constraints on economic activities.

While forecasting that the business environment will remain harsh due to the rise in material prices, etc., the company will implement measures in each segment and aim to increase sales and profit. The dividend is to be 90.00 yen/share, unchanged from the previous term. The estimated payout ratio is 70.1%.

(2) Trends by Segment

	FY 12/ 20	FY 12/ 21 Est.	YoY
Sales			
Colorant/Functional materials	616	675	+9.6%
Polymers/Coatings	623	665	+6.7%
Packaging materials	666	715	+7.4%
Printing/Information	656	645	-1.7%
Others/Adjustment	15	0	-
Total	2,577	2,700	+4.8%
Operating Income			
Colorant/Functional materials	26	30	+15.4%
Polymers/Coatings	59	65	+10.2%
Packaging materials	39	40	+2.6%
Printing/Information	2	10	+400.0%
Others/Adjustment	2	-5	-
Total	129	140	+8.4%

* Unit: 100 million yen.

(Priority measures in each segment)

☆Colorant/Functional materials

Sales and profit will grow.

Priority measure: To set an aggressive foothold for establishing a pillar of revenues

For EV-related materials, the company will accelerate business expansion inside and outside Japan.

As for sensor-related materials, the company will promote the business of resist inks and peripheral materials.

As for inkjet inks, the company will differentiate its products by fusing technologies through the business integration of inks and pigments.

☆Polymers/Coatings

Sales and profit will grow.

Priority measure: To promote environmentally friendly products and make inroads into the 5G market

As for packaging and industrial materials, the company will enrich the lineup of environmentally-friendly, highly-functional products through the fusion of adhesion technologies.

In the electronics field, the company aims to solve issues in the market by enriching the lineup of 5G and semiconductor-related products.

★Packaging materials

Sales and profit will grow.

Priority measure: To promote environmentally friendly solutions

For flexible packaging materials, the company will develop new environmentally friendly products for package recycling.

The company will accelerate overseas business expansion.

★Printing/Information

Sales will decrease, but profit will grow.

Priority measure: To accelerate the transformation into a profitable business

As for offset inks, the company will conduct thoroughgoing rationalization of manufacturing, distribution, and selling processes.

As for functional inks, the company will globally distribute environmentally friendly products of UV curable inks for packages, such as paper containers.

4. Mid-Term Management Plan SIC-II (2021–2023)

Under the 10-year long-term scheme, Scientific Innovation Chain 2027 (SIC27), aimed at achieving sustainable growth by 2027, the company breaks down the scheme into three 3-year mid-term management plans. They hope to clarify problems and roles in each stage, and to act steadily to realize an ideal future. Following the first stage of the scheme, Mid-Term Management Plan SIC-I (FY 2018-FY 2020), the second stage, Mid-Term Management Plan SIC-II (2021-2023) began in Jan. 2021.

<Summary of the Previous Mid-Term Management Plan SIC-I (2018-2020)>

Due to the significant changes in the external environment, including the skyrocketing of material prices, the changes in the market structure, and the coronavirus pandemic, the company failed to achieve its goals, but it was able to shift revenue sources to the polymers/coating and packaging material businesses, which are the prioritized area, and allocated resources to new businesses.

In addition, the company was able to proceed with the priority measure of promoting environmentally friendly products and distributed them in overseas areas too. With this, the company thinks they were able to produce results to some extent.

On the other hand, it was clarified that the company needs to further accelerate structural reform mainly in the Printing & Information Related Business, create pillars of new products and businesses, and respond to rapid changes in the market structure amid the coronavirus crisis.

<Recognition of the External Environment>

As for the novel coronavirus, the situation is improving gradually in FY 2021, but we must wait for the economic recovery to the pre-pandemic level until FY 2022 or later. The overseas market is expected to recover earlier than the domestic market.

The future outlook remains uncertain and the business and market environments will remain harsh, but the company recognizes this adverse condition as a chance to change.

They set the keywords of the growing markets as “Green”, “Digital”, and “Health”.

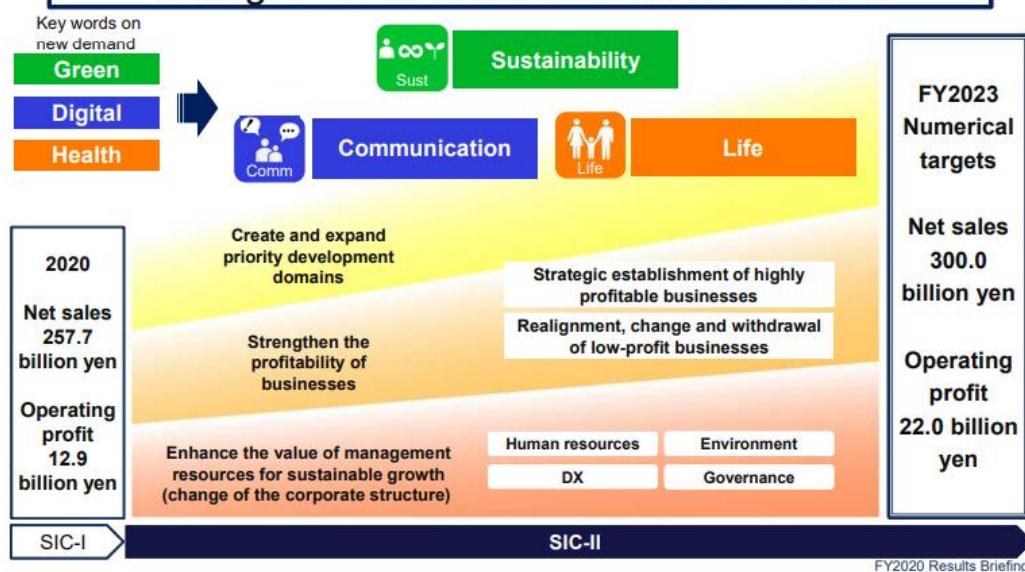
<Ideal State>

The company aims to become “a company that contributes to a new era through the enrichment of life and culture.”

As mentioned above, the company defined the keywords of the growing markets as “Green”, “Digital”, and “Health”, and set their priority development areas as “sustainability”, “communication”, and “life”.

The company aims to realize an ideal state under the three policies: (1) Improve the profitability of businesses (2) Create more priority areas of development, and (3) Enhance the value of management resources for sustainable growth.

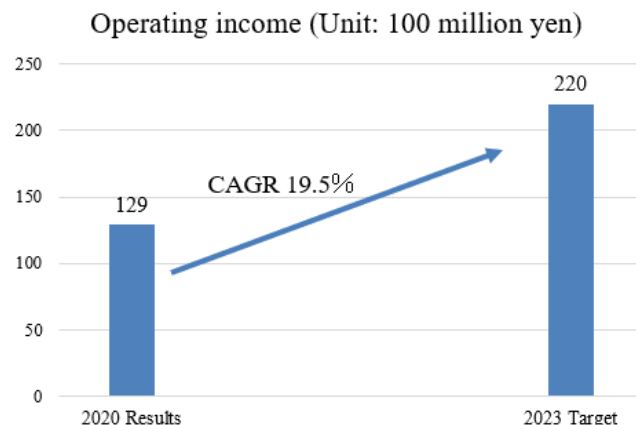
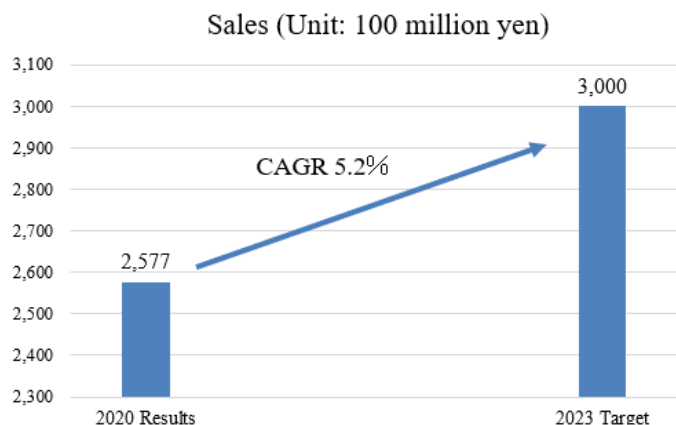
A company that contributes to a new era through the enrichment of life and culture



(Taken from the Company's material)

<Numerical Goals>

The company aims to achieve sales of 300 billion yen, an operating income of 22 billion yen, an operating income margin of 7% or higher, and a ROE of 7% or higher in the term ending Dec. 2023.



<Basic Policy 1: Measures to Strengthen Segments' Profitability>

⊙ Measures for increasing revenues in each segment

Colorant/Functional materials	<p>◆ Establish an earning pillar in growing markets</p> <ul style="list-style-type: none"> -EV: To handle materials related to lithium-ion batteries -Digital: To expand the market share of resist inks for flat panel display (FPD) in China, and handle resist inks for image sensors and inkjet inks -Plastic colorants: To reorganize facilities and promote products with high added value
Polymers/Coatings	<p>◆ Overseas expansion of the adhesives business and the entry to growing markets with new polymers</p> <ul style="list-style-type: none"> -Packaging/industrial materials: To expand business outside Japan, by enhancing its production capacity and enriching the lineup of environmentally friendly products -5G and IoT: To establish a position in the 5G market and enter the semiconductor market -Medical/healthcare: To expand and develop the lineup of related products

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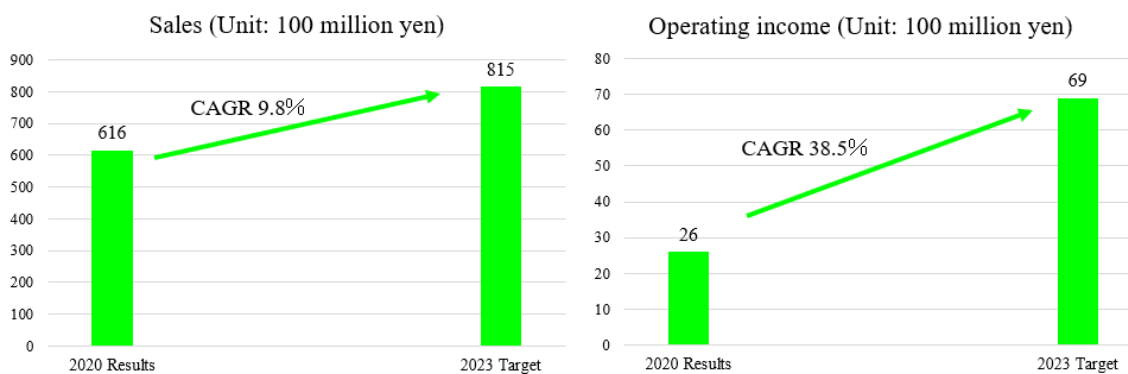


Packaging materials	<p>◆ Make products environmentally friendly and expand its business mainly in the Asian market</p> <ul style="list-style-type: none"> -To commercialize the recycling of packages -To intensively invest in overseas growing markets in China, India, Turkey, Southeast Asia, etc.
Printing/Information	<p>◆ Evolution into a profitable business that has adapted to the market environment</p> <ul style="list-style-type: none"> -To promote functional inks for packages, such as paper containers, and the industrial field -To launch the color/communication business

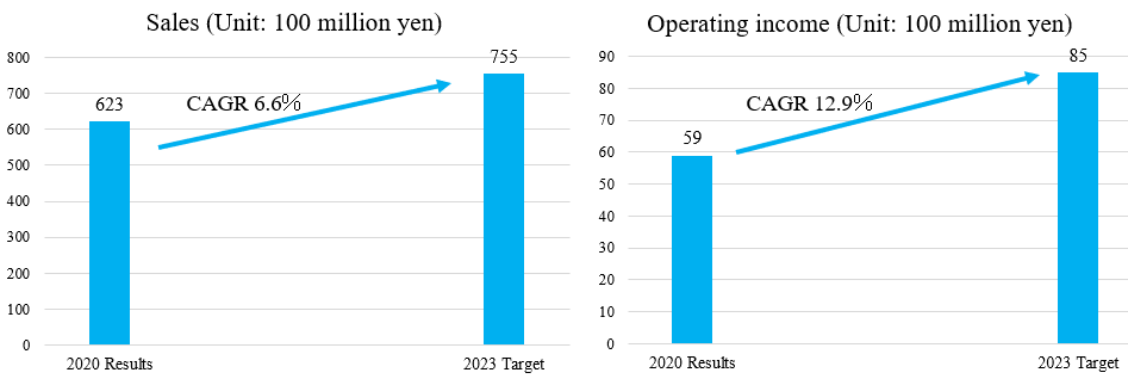
*From FY 2021, inkjet inks are included in the business of colorants/functional materials business rather than the printing/information business.

The target sales and operating income in each segment are as follows.

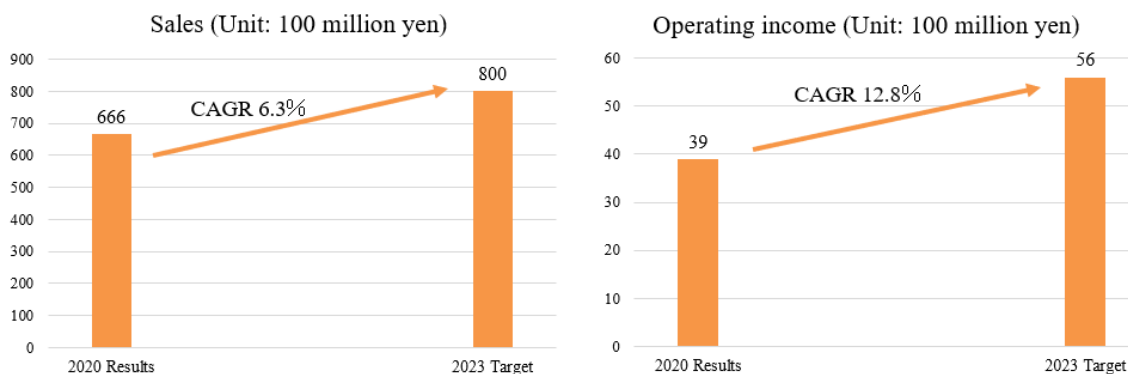
Colorant/Functional materials



Polymers/Coatings



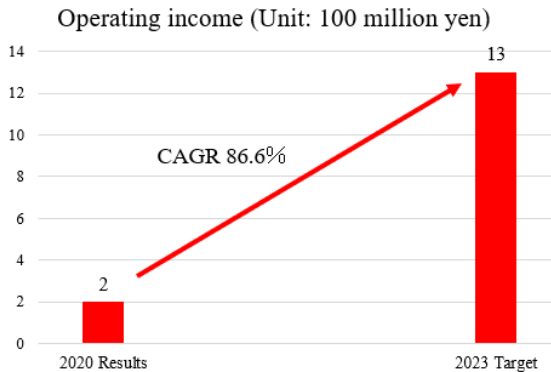
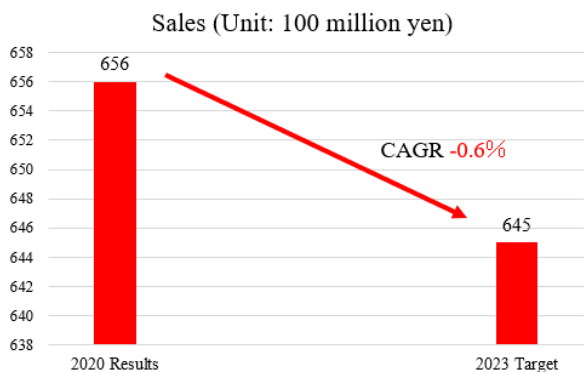
Packaging materials



BRIDGE REPORT



Printing Information

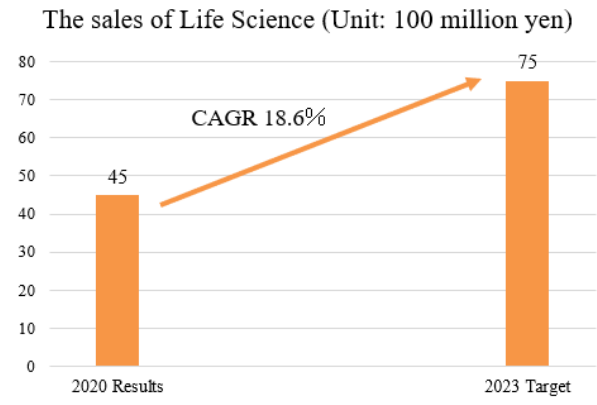


<Basic Policy 2: Create and Expand Priority Development Domains >

◎ Three priority development domains

In the three priority development domains, the company will focus on the following points.

<p>Sustainable Science</p>	<p>◆ Realization of a sustainable society</p> <p>(Major items to be developed)</p> <ul style="list-style-type: none"> -Environmentally friendly packages made from biomass and recycled materials -Materials of lithium-ion batteries for EVs and new energy <p>The sales of Sustainable Science (Unit: 100 million yen)</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Sales (Unit: 100 million yen)</th> </tr> </thead> <tbody> <tr> <td>2020 Results</td> <td>340</td> </tr> <tr> <td>2023 Target</td> <td>590</td> </tr> </tbody> </table> <p>CAGR 20.2%</p>	Year	Sales (Unit: 100 million yen)	2020 Results	340	2023 Target	590
Year	Sales (Unit: 100 million yen)						
2020 Results	340						
2023 Target	590						
<p>Communication Science</p>	<p>◆ Contribute to 5G and IoT societies with key materials</p> <p>(Major items to be developed)</p> <ul style="list-style-type: none"> -Optical control materials for IoT and sensors -Low-dielectric materials, functional films, etc. for 5G and semiconductors <p>The sales of Communication Science (Unit: 100 million yen)</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Sales (Unit: 100 million yen)</th> </tr> </thead> <tbody> <tr> <td>2020 Results</td> <td>54</td> </tr> <tr> <td>2023 Target</td> <td>130</td> </tr> </tbody> </table> <p>CAGR 34.0%</p>	Year	Sales (Unit: 100 million yen)	2020 Results	54	2023 Target	130
Year	Sales (Unit: 100 million yen)						
2020 Results	54						
2023 Target	130						

Life Science	<p>◆ Make the lives of people affluent and healthy</p> <p>(Major items to be developed)</p> <ul style="list-style-type: none"> -Patch-type medicines -Inkjet inks for digital printing 					
	<p style="text-align: center;">The sales of Life Science (Unit: 100 million yen)</p>  <table border="1" style="margin: 10px auto; border-collapse: collapse;"> <caption>Life Science Sales Data</caption> <thead> <tr> <th>Year</th> <th>Sales (Unit: 100 million yen)</th> </tr> </thead> <tbody> <tr> <td>2020 Results</td> <td>45</td> </tr> <tr> <td>2023 Target</td> <td>75</td> </tr> </tbody> </table>	Year	Sales (Unit: 100 million yen)	2020 Results	45	2023 Target
Year	Sales (Unit: 100 million yen)					
2020 Results	45					
2023 Target	75					

◎ **Reform of the development structure**

The company will strengthen the R&D structure in the priority development domains.

Research institutes will be established in the main company of each segment. These institutes will act as the specialized department for mid-term development strategies, dealing with them in a span of two to five years, and accelerate the creation of new products and businesses.

Colorants/Functional materials	Advanced Material Development Laboratory
Polymers/Coatings	Polymer Material Development Laboratory
Packaging materials	Functional Material Development Laboratory
Printing/Information	

For longer-term development, Holdings R&D laboratories and Production Technology Research Laboratory will be in charge, and proceed with R&D in cooperation with other institutes.

◎ **Investment plan**

The company will concentrate investments in growing markets.

For SIC-II, it plans to invest a total of 40 billion yen. In detail, 29% will be invested in colorants/functionals materials, 31% in polymers/coatings, 25% in packaging materials, and 11% in printing/information.

In six years, with the focus on the next three years (SIC-III), the company plans to invest about 20 billion yen in colorants/functional materials, about 30 billion yen in polymers/coatings, and about 40 billion yen in packaging materials.

The company plans to construct/upgrade factories for each segment as follows: (1) For colorants/functional materials, factories for EV-related materials in Japan, China, the U.S., and Europe, (2) for polymers/coating, factories for pharmaceuticals (Moriyama Factory), new polymer synthesis (Kawagoe Plant), and adhesives (the U.S., China, and India) and (3) for packaging materials, factories in Turkey, India, China, and Indonesia.

<**Basic Policy 3: Enhance the Value of Management Resources for Sustainable Growth**>

For reforming the corporate culture, the company will implement the following measures.

◎ **Reform of workstyles and HR systems**

The company will strengthen a performance-based evaluation system.

Based on the declaration of empowerment of women, the company will raise the ratio of female managers in Japan from 4% to 8%. It will recruit not only new graduates, but also various workers throughout the year. It will discern the optimal scale of workforce, and conduct appropriate staffing. As remote work has become common, the company will reform its offices for innovation.

◎ Promotion of Digital Transformation (DX)

The company recognizes DX as an important management mission for achieving sustainable growth, and will promote it in each department.

Department	Measures
Sales	-Digital marketing -Development of new business models
Production	-Smart factories -Improvement of processes by IoT
Technology development	-Materials informatics -Acceleration of development
Management	-Promotion of Robotic Process Automation (RPA) -Education for promoting DX

◎ Transformation of the governance structure

In particular, the company will improve the independence of directors and auditors, secure transparency, adopt a performance-based remuneration system, strengthen risk management, and reduce strategically held shares.

◎ Promotion of environment-conscious management

As the company is deeply aware of environmental issues, it will focus on the development and promotion of environmentally friendly products, and contribute to the development of a sustainable society.

Social issues	Products/services
Energy saving	-High-sensitive UV curing -EB (electron beam) curing
Measures for VOC	-To make them water-base -To make them solvent-free
Reduction of CO ₂ emissions	-Biomass products
Reduction of food loss	-To retain freshness -To supply of materials for retort pouches
Recycling of waste plastics	-Biodegradation -Recycling system

In addition, the company will actively address the problem of climate change, by reducing CO₂ emissions and saving energy, to realize the Carbon Neutrality 2050 vision, which is promoted by the government. In 2020, Kawagoe Plant received the Chairperson Award of The Energy Conservation Grand Prize, Japan.

◎ Cash flow policy

The company puts importance on the balance between financial soundness and investment/return to shareholders.

For financial soundness, the company will keep capital-to-asset ratio at the appropriate level and secure liquidity on hand.

It will actively conduct the investment in equipment, technologies, and human resources, and M&As.

It will also continue to pay dividends stably. In Feb. 2021, the company purchased treasury shares at a price of 5 billion yen, and will plan to purchase more treasury shares depending on the situation.

5. Interview with President Takashima

Mr. Satoru Takashima is 60 years old, born in April 1960.

Starting with the Overseas Business Division, he has served in overseas, sales, planning, and other departments and fields, including General Manager of the International Planning Department, General Manager of the International Sales Department, President and Representative Director of Toyo Ink (Thailand) Co., Ltd., General Manager of the President's Office, and President and Representative Director of Toyochem Co., Ltd. After serving as Managing Director and Senior Managing Director, he was appointed President and Representative Director, Group COO of Toyo Ink SC Holding Co., Ltd. in March 2020.

Q: "It's been almost a year since you took over as the President, but first, what do you recognize as your mission as the President? Can you describe it in relation to the Medium-Term Management Plan SIC-II (2021-2023) that was just announced?"

A: "In order to continue to fulfill our social responsibilities in the future, I recognize that my role as the President is to firmly rebuild our business foundation once again. It is also my mission to raise our earnings, which have been stagnant for the past several years, and improve our corporate value."

My appointment as the President last year happened to be the same time when the spread of the novel coronavirus caused a paradigm shift in various fields. It was an opportunity for me to think deeply about the role of a company and the role of a president who leads the company.

In the midst of all this, I once again asked myself about our company's social responsibility and significance of its existence, and whether we would be able to continue to fulfill that responsibility in the future.

Companies must continue to supply what is needed by society even under the novel coronavirus crisis. While we promote working from home to ensure the safety of our employees, we also have a responsibility to ensure uninterrupted supply of our products to customers who need them. We are very grateful to the factory staff for continuing to work despite their and their family members' anxiety, and for implementing appropriate infection control measures. Although it was a difficult decision to make during a difficult environment, it has made us recognize once again the importance of fulfilling our social responsibilities.

On the other hand, I believe that the issue of whether we can continue to supply what society really needs in the future has also become apparent.

Unfortunately, the need for paper inks and newspaper inks, which have been our core products since the company's foundation, has been declining over time. Even in such situation, we must create and supply what society truly needs. In other words, I strongly feel that it is essential to reform our product portfolio.

In the Medium-Term Management Plan SIC-II (2021-2023) announced this time, we have reiterated the phrase "an enterprise that creates new lifestyles and cultures," which was originally included in our corporate philosophy.

We have decided to recognize the policy, to become an enterprise that creates new lifestyles and cultures in the era of the New Normal, coexisting with the novel coronavirus, and post-pandemic, as the central focus of this medium-term management plan.

In addition, we will strive to increase sales and profit while fulfilling our social responsibilities. I believe that the social significance of a company's existence lies in its ability to balance, rather than trade off, responsibility and profit, exactly what Eiichi Shibusawa referred to as "the union of morality and economy." It is also related to Stakeholder Capitalism, which has been highlighted in recent years, but I use the phrase "the union of morality and economy" in the company because it is easier to understand.

I believe that there are roles and missions of a president that are common to all times, and those that vary depending on the situation and industry.

As I mentioned earlier, to continue fulfilling our social responsibilities in the future, I recognize that it is my role as the President to firmly rebuild our business foundation under the current circumstances. It is also my mission to raise our earnings, which have been stagnant for the past several years, and improve our corporate value.

Q: "I see, your appointment as the President unexpectedly coincided with the coronavirus disaster, and you became more aware of what your company should be aiming for. Next, could you explain what you consider to be the competitive advantage of your company?"

A: "First is technical capability. The other is customer solution capability. However, I believe that we need to build a system that

not only differentiates our products, but also provides superior value propositions.”

The first advantage is technical capability.

We have a great competitive advantage in processing and evaluation technologies, such as dispersion and coating technologies, which add value and functionality to our two core materials, pigments and polymers, and develop them into adhesives, functional films, tapes, resists, and so on.

The other advantage is customer solution capability.

One of our major strengths is our ability to solve problems by providing technical services to meet the various needs of our customers, and by using our network of service centers to visit customers' sites and provide meticulous support.

However, I also question whether this can go on like that in the future as well.

My perception of this era is that the source of value is shifting from tangible things to intangible things, such as information and intelligence. The fact that the total market capitalization of the U.S. tech giant GAFAM exceeds the TSE's market capitalization reflects such era.

Under such circumstances, I have been constantly thinking about how we should act as a manufacturer in the future.

Although we as a manufacturer have been able to differentiate our core products as our inks have strong coloring power, have excellent thickness, and are easy to print with, the major issue is how we can go beyond that to propose value that is not visible to the eyes.

I believe that we need to build a system that allows us to offer such value propositions not only on our own, but also in a way that involves the supply chain.

Q: “Now, please tell us how you are going to further refine those strengths.”

A: “In terms of technological capabilities, we will increase the number of core materials and expand applications. We have also strengthened our research and development system for this purpose. As for customer solutions, we aim to evolve into a market solution business by proposing value in anticipation of customer needs and building a business model that results in sales of our materials.”

First, we would like to brush up our technical capabilities and further increase the number of materials. In polymers, in addition to acrylics, polyesters, and urethanes, we will create a fourth and fifth material, and expand our technology platform to increase applications in the 5G and medical fields.

To lay the groundwork for this, we will enhance our R&D structure in priority development areas. We will accelerate the creation of new products and businesses by establishing the Advanced Material Development Laboratory, the Polymer Material Development Laboratory, and the Functional Material Development Laboratory as divisions dedicated to medium-term development strategies, which handle medium-term development themes over a span of two to five years at the companies in charge of each segment.

We will also focus on open innovation. To speed up R&D as much as possible, collaboration with academics and research institutes is essential, and we will also focus on the headhunting of human resources.

As for customer solutions, we aim to evolve it into market solutions.

In other words, we would like to build a business model that not only responds to the intentions of our customers, but also offers value proposals proactively anticipating the needs of our customers, and as a result, can sell our material.

When I talk to many customers, I strongly feel that many of them have problems in the printing field and have high expectations for our technical capabilities and network. To address these concerns, it is essential for us to evolve into market solutions business.

Q: “The evolution from customer solutions to market solutions business is a very important point of view. However, for your company which has strength in customer solutions business, evolving into a provider of market solutions must require major changes in awareness, thought processes, and behavior of your employees. What are your thoughts on that?”

A: “While taking initiatives myself, I have been repeatedly engaged in dialogues with employees to convey the message to the entire company.”

It is certainly difficult to change attitudes and behaviors overnight, but now that we are living in the novel coronavirus crisis, I can spend

more time talking with my employees than ever before.

I am having many conversations with the heads of each division, both domestic and overseas, about the direction we are going to take in the future and how we need to change.

I also visit many companies through various channels to provide market solutions and value proposals that go beyond selling materials to get further into data science.

While taking action by myself, I have been repeatedly engaged in dialogues with employees to convey the message to the entire company.

Q: “What are the key points that you would like to convey to investors regarding the current Medium-Term Management Plan SIC-II (2021-2023)?”

A: “In this medium-term plan, we have been conscious of our commitment to numbers. We are trying to make it our corporate culture to achieve the target numbers.”

There were several things that we focused on in the formulation of this medium-term plan, and one of them was to be conscious of our commitment to the numbers.

In the past, we had often set stretching and high targets, but in the end, we failed to achieve them many times. Therefore, we are trying to establish the management of budgets on a monthly basis as a norm and achieving the numerical targets as part of our corporate culture. We will manage budgets on a monthly basis, announce them to outsiders on a quarterly basis, pay taxes on an annual basis, promote medium-term business plans over three years, long-term plans over ten years, and pursue our goals over 100 years. This is the role that management will play in our efforts.

As for specific initiatives to increase sales and profits, we have identified “Green”, “Digital”, and “Health” as the keywords for future growth markets, and set our priority development areas as “Sustainable Science”, “Communication Science”, and “Life Science”.

In the area of “Sustainable Science”, we will focus on environmentally friendly packaging materials which are made by biomass or recycled materials, and lithium-ion battery materials for EVs and new energy sources, while in the area of “Communication Science”, we will focus on optical control materials for IoT and sensors, low-dielectric materials for 5G and semiconductors, and functional films. As for “Life Science”, the main themes will be patch-type medicines and inkjet inks for digital printing.

Q: “What are your company’s current challenges, and what measures are you taking to overcome or solve them?”

A: “We recognize that our major issue is that we are a little too dependent on two things: front-line capabilities and employees’ loyalty. We will change our mindset to become a global player while retaining our good culture through various methods such as pursuing diversity, reforming our R&D system, and strengthening the operation of the performance-based evaluation system.”

As I mentioned earlier, our strength in customer solutions business is supported by what we call our front-line capabilities, or in other words, our problem-solving abilities based on our strong relationships with our customers.

As the company has a long history, we are also characterized by employees’ high-level loyalty to the company that is unique to Japanese companies.

However, we recognize that our dependence on these two factors, front-line capabilities and employees’ loyalty is a little too high.

First, regarding the evolution of customer solutions into market solutions business, we need to fully establish diversity, which is essential for a company that innovates, in addition to the change in awareness through dialogues with employees as mentioned earlier.

Currently, our ratio of female employees in management positions in Japan is only 4%, and we would like to achieve 8% in about three years, or 10%, if possible. We will also pursue diversity not only in terms of gender but also in terms of nationality.

The reform of the R&D system that I mentioned earlier is also an action to raise awareness.

In the past, research laboratories of our Holding were characterized by their ability to conduct free research based on free ideas, but at the same time, there was a tendency to be less conscious of delivery deadlines and costs. Technology is originally incomplete until it is presented to the world and recognized as a product, but there was a tendency to present it at a halfway stage and acknowledge that as completion. To drastically change this situation, we established a research institute under the three operating companies and transferred many of our research staff to this institute. We will strengthen R&D that will contribute to profits in the medium term. However, as a manufacturer, it is also essential to conduct R&D from a longer-term perspective, so we will continue to promote incubator-like R&D in collaboration with academics and other research institutes at the R&D Center of the Holdings, although the scale has been reduced slightly.

About loyalty, the company and employees must develop an awareness that they are on equal footing and are needed by each other. To change the mindset of both the company and employees, we will strengthen the operation of a performance-based evaluation system linked to results produced by each employee.

Through these various methods, we will continue to change our mindset to become a global player while retaining our good culture.

Q: “Please tell us about your ESG initiatives.”

A: “For E (Environment), we will set targets to expand our lineup of environmentally friendly products and to reduce greenhouse gas emissions; for S (Society), we will focus on enhancing human capital; and for G (Governance), we will devise ways to make discussions at the Board of Directors more active. This year, we decided to make an integrated report for the first time, so that all our stakeholders can understand how we create value through these efforts, and how we are working to solve social issues and enhance our corporate value.”

As for E (Environment), we will expand our lineup of environmentally friendly products to create business opportunities. In terms of risk reduction, we will set targets and commit to reducing greenhouse gas emissions in our offices and factories.

For S (Society), we will focus on enhancing human capital. In addition to the introduction of a performance-based compensation system, we will actively recruit outside personnel and provide more active education and training for employees.

Regarding G (Governance), we plan to increase the number of outside directors from the current four to five at this general meeting of shareholders to meet the standard of more than one-third. With more outside directors speaking up, discussions have become more active, and the time of board meetings has significantly increased recently. It is very important for the Board of Directors to say “no” clearly, and not just giving pleasant opinions. Therefore, we would like to devise ways to have discussions at the Board of Directors meetings more actively in the future.

Considering these points, we have decided to make an integrated report for the first time this year to help all our stakeholders understand how we create value, solve social issues, and enhance our corporate value based on our corporate philosophy and social significance.

Q: “Lastly, please give us a message to your shareholders and investors.”

A: “I believe that the best indicator to evaluate a corporate manager is the stock price. I would like to meet the expectations of our shareholders and investors by increasing our corporate value and reflecting it in our stock price. We hope that you will continue to support our company over the long term.”

I believe that the best indicator to evaluate a corporate manager is the stock price. We would like to meet the expectations of our shareholders and investors by communicating what we are working on and at the same time producing results, which will enhance our corporate value and be reflected in our stock price.

In addition to achieving short-term earnings targets, we will also fulfill our responsibility for sustainability from medium/long-term perspective, and we hope that you will continue to support us over the long term.

6. Conclusions

The Mid-Term Management Plan SIC-II (2021-2023) set the goal of achieving sales of 300 billion yen, an operating income of 22 billion yen, an operating income margin of 7% or higher, and a ROE of 7% or higher in the term ending Dec. 2023. It is essential to not only grow the top line, but also to enhance its earning capacity for raising operating income margin, which stood at 5.0% in the previous term, and ROE, which was 2.8% in the previous term.

The company needs to reform the structure of the printing/information business, but it is noteworthy how they will develop a strategic, highly profitable business portfolio. Furthermore, President Takashima’s new business model, evolution from customer solutions to market solutions, would contribute significantly to the improvement in profitability through the increase in added value. We would like to expectantly see how they will reform employees’ awareness and how swiftly they will proceed with their strategies.

<Reference: Regarding Corporate Governance>

◎ Organization type, and the composition of directors and auditors

Organization type	Company with auditors
Directors	10 directors, including 5 external ones
Auditors	5 auditors, including 3 external ones

(As of March 24, 2021)

◎ Corporate Governance Report

The latest update: April 3, 2020.

<Basic policy>

Our corporate group shifted to the holding company structure on April 1, 2011. Under the holding company structure, our company aims to improve the value of the entire corporate group by strengthening its strategic function, promoting speedy business administration, and achieve a good balance between the optimization of the entire group and the optimization of each business.

Our group's framework for business administration is constituted by the "ethos of the Toyo Ink Group," which is composed of management philosophy and ethos, which summarize the basic policies for group management, and the course of action, and the "CSR value system," which is composed of the CSR charter and course of action, which clearly describe the stance toward social responsibility. Our group aims to contribute to the improvement of sustainability of residents, life, and the earth environment and become "an enterprise that can create lifestyles and cultures that would spread around the world" as set in the management ethos, through science-based manufacturing, by putting the "ethos of the Toyo Ink Group" and the "CSR value system" into practice.

In order to create tangible and intangible values as an enterprise and fulfill social responsibility, it is indispensable to self-evaluate corporate activities from the viewpoint of stakeholders and carry out well-balanced business administration for economic, social, personnel, and environmental affairs.

To do so, our company will:

- *transfer the business execution function to each business company, and appropriately enforce the regulations for internal memos and affiliate management, which are adapted to each group company, in order to fortify corporate governance, develop its internal control system,
 - *improve the instruction and monitoring functions by enhancing the legal functions and systems, such as general meetings of shareholders, the board of directors, the board of auditors, comptrollers, etc.,
 - *improve the transparency of business administration by disclosing information swiftly, accurately, and broadly,
 - *strengthen and enrich its compliance system,
 - *promote environmental conservation on a global scale, and so on,
- and foster good relationships with stakeholders, including shareholders, business partners, local communities, and employees, and enhance corporate governance.

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

Our company implements all the principles of the corporate governance code.

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

Principle	Disclosure contents
Principle 1-4.	The economic rationality of strategically held shares is discussed annually at the board of directors' meeting. The company will examine the benefits and transaction status associated with the cross-holding as compared to the cost of capital for each individual stock, and if the cross-holding of the stock is determined not to be appropriate, the company will proceed with reduction based on the status of the issuing company and market trends. In the previous fiscal year, all strategically held shares of four companies and part of strategically held shares of two companies were sold.

BRIDGE REPORT



	<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> <p>Furthermore, if there are special circumstances such as significant loss of corporate value or occurrence of a serious compliance violation at the issuing company, or if there is concern that our corporate value as a shareholder will be impaired, based on adequate amount of information collected through dialogue with the issuing company, etc., we will carefully determine the pros and cons of exercising the voting rights of strategically held shares.</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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