

Financial Results of 2019

KATAKURA INDUSTRIES CO., LTD.

(Code 3001, TSE 1st section)

February 26, 2020

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Capital Expenditures, Depreciation and R&D Expenditures Forecast

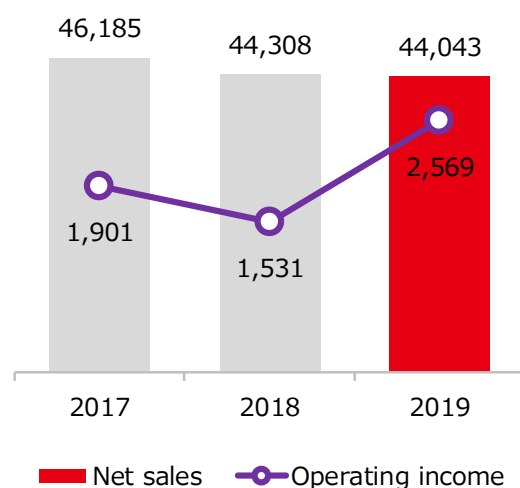
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1. Financial Highlights of 2019

(Million yen)	2019Actual	2018Actual	YoY change	change ratio
	A	B	C=A-B	C/B
Net sales	44,043	44,308	(265)	(0.6%)
Operating income	2,569	1,531	1,038	67.8%
Operating income ratio	5.8%	3.5%	2.4pt	
Ordinary income	3,430	2,456	974	39.7%
Extraordinary income	853	242	611	—
Extraordinary loss	(1,216)	(607)	(609)	—
Profit before income taxes	3,067	2,092	975	46.6%
Profit attributable to owners of parent	1,732	1,283	449	35.0%

【Three-Year Summary】



【Net sales·Operating income】

- Net sales slightly decreased, but earnings considerably increased (Details are given on next page)

【Extraordinary income】

- Proceeds from sales of investment securities: 727 (2018: 34)

【Extraordinary loss】

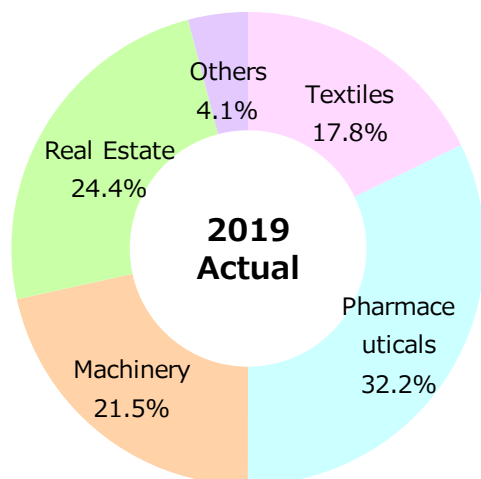
- Extra retirement payments: Down 519 (the Company)
- Impairment loss: Down 272 (Sales of subsidiary's company housing/dormitories)
- Loss on business withdrawal
 - 2018: Down 263 (foundation undergarments, Home Improvement Center business and others)
 - 2019: Down 257 (Agricultural machinery business and others)

Consolidated Income Statement / Business Segment

Financial Results of 2019

(Million yen)	2019Actual		2018Actual		YoY change		change ratio	
	A		B		C=A-B		C/B	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Textiles	7,839	(123)	8,259	(114)	① (420)	(9)	(5.1%)	—
Pharmaceuticals	14,191	552	13,975	164	② 216	388	1.5%	236.6%
Machinery	9,481	(234)	9,052	(456)	③ 429	222	4.7%	—
Real Estate	10,731	4,101	10,465	3,774	④ 266	327	2.5%	8.7%
Others	1,799	(58)	2,555	(288)	⑤ (756)	230	(29.6%)	—
adjustments	—	(1,666)	—	(1,548)	—	(118)	—	—
Total	44,043	2,569	44,308	1,531	(265)	1,038	(0.6%)	67.8%

Business Segment Sales



①: Decrease in sales and deficit level flat in textiles

- Lower sales due to, in addition to withdrawal from foundation undergarments processed two years ago, sluggish performance in practical clothing and functional fiber
- Deficit reported despite reductions in labor and logistics costs, etc.

②: Increase in sales and earnings in pharmaceuticals

- Despite a decline due to price revisions from consumption tax hike in October 2019, growth resulted from Biso Tape due to additional indications and from high-margin products such as those launched in June 2018

③: Increase in sales and upturn in machinery

- Increased spot orders for ODA overseas and orders received from electric power company
- Upturn due to reduced outsourcing and raw material costs

④: Increase in sales and earnings in real estate (earnings at record high)

- Good sales progress for major properties such as COCOON City and Tokyo Square Garden and depreciation declined

⑤: Lower sales but upturn in earnings in others

- Due to withdrawal from Home Improvement Center business and others two years ago

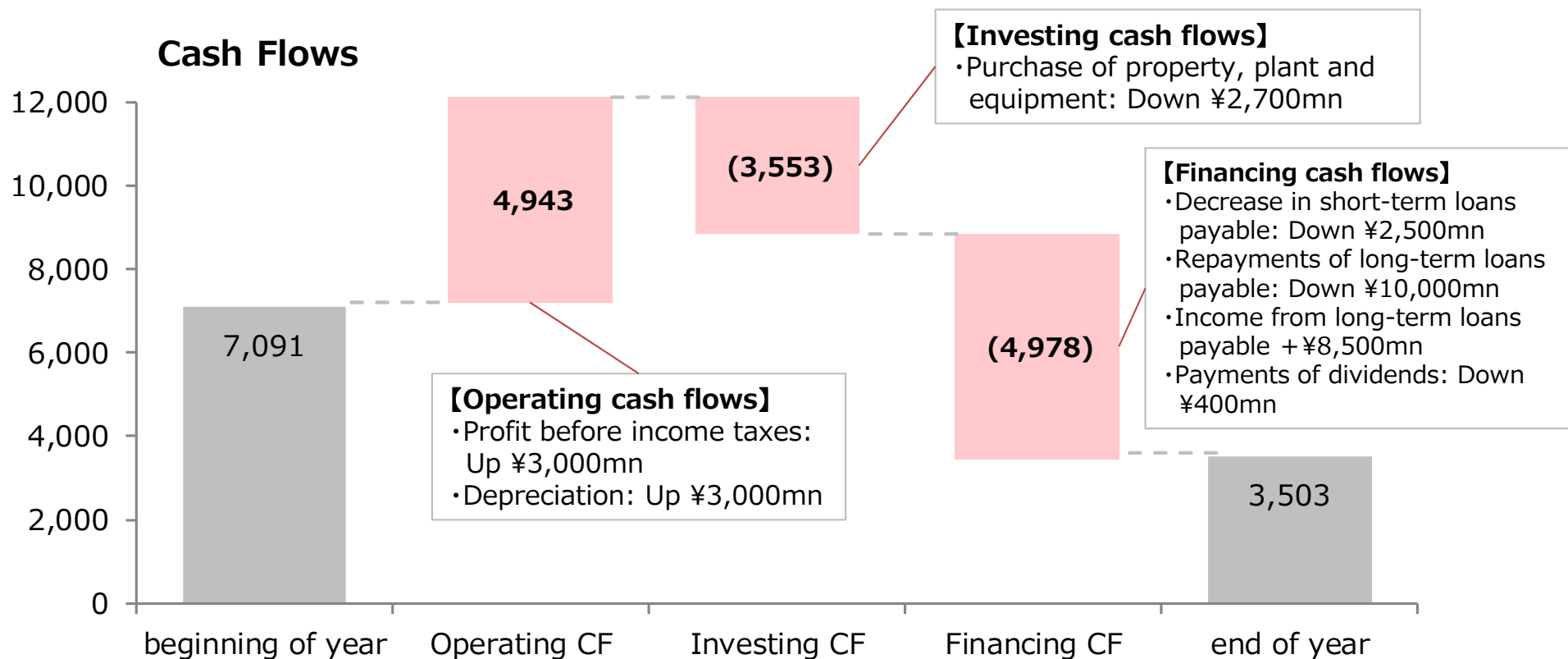
Consolidated Balance Sheet

(Million yen)		2019.12	2018.12	YoY change	
		A	B	A-B	
Current assets		52,549	56,637	(4,088)	<ul style="list-style-type: none"> Reduction in inventory assets from reduced inventories and business downsizing
Non-current assets		88,444	81,651	6,793	
	Property, plant and equipment	47,979	48,670	(691)	
	Intangible assets	512	732	(220)	
	Investments and other assets	39,952	32,247	7,705	
	Investment securities	37,017	30,186	6,831	<ul style="list-style-type: none"> Down due to repayment
	Total assets	140,993	138,288	2,705	
	Total liabilities	56,392	60,570	(4,178)	<ul style="list-style-type: none"> Changes due to valuation difference in market value of investment securities
	Loans	14,769	18,870	(4,101)	
	Lease and guarantee deposits	9,101	9,165	(64)	
	Deferred tax liabilities	10,591	8,156	2,435	
	Total net assets	84,601	77,718	6,883	
	Valuation difference on available-for-sale	17,289	13,848	3,441	
	Total liabilities and net assets	140,993	138,288	2,705	

(Note) "Partial Amendments to Accounting Standard for Tax Effect Accounting" and relevant guidances have been adopted and figures of previous fiscal year have been reclassified.

Consolidated Statement of Cash Flows

(Million yen)		2019Actual	2018Actual
Cash and cash equivalents at beginning of year		7,091	4,785
Operating cash flows		4,943	5,691
Investing cash flows		(3,553)	(1,840)
Financing cash flows		(4,978)	(1,544)
Net increase (decrease) in cash and cash equivalents		(3,588)	2,306
Cash and cash equivalents at end of year		3,503	7,091



Capital Expenditures, Depreciation and R&D Expenditures

(Million yen)		2019Actual	2018Actual	YoY change
		A	B	A-B
Real Estate		588	669	(81)
Other Segment		2,107	964	① 1,143
Capital expenditures		2,695	1,633	1,062

- ①
- Carried out seismic reinforcement work at plants for textile business (functional fibers)

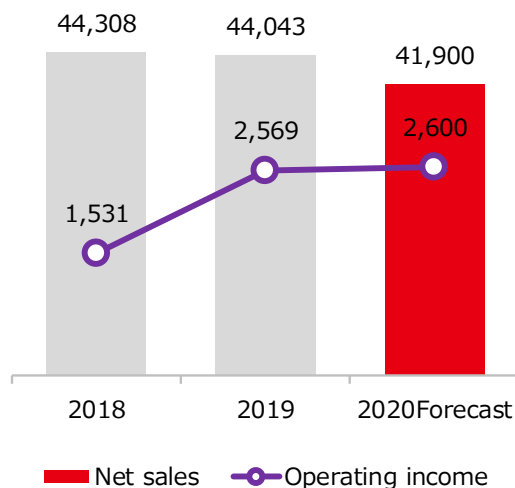
Real Estate		1,676	1,781	(105)
Pharmaceuticals		965	1,021	(56)
Other Segment		457	454	3
Depreciation		3,098	3,256	(158)

Pharmaceuticals		2,015	1,854	161
Other Segment		129	203	(74)
R&D Expenditures		2,144	2,057	87

2. 2020 Forecast

(Million yen)	2020Forecast	2019Actual	YoY change	change ratio
	A	B	C=A-B	C/B
Net sales	41,900	44,043	(2,143)	(4.9%)
Operating income	2,600	2,569	31	1.2%
Operating income ratio	6.2%	5.8%	0.4pt	
Ordinary income	3,300	3,430	(130)	(3.8%)
Extraordinary income	—	853	—	—
Extraordinary loss	—	(1,216)	—	—
Profit before income taxes	—	3,067	—	—
Profit attributable to owners of parent	2,200	1,732	468	27.0%

【Three-Year Summary】



【Net sales・Operating income】

- Net sales will decrease, but earnings will be flat (Details are given on next page)

【Major extraordinary income (loss)】

- 2019:

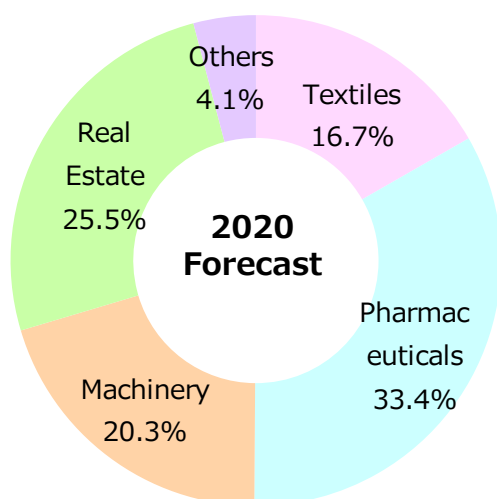
Proceeds from sales of investment securities	727
Extra retirement payments	(519)
Impairment loss	(272)
Loss on business withdrawal	(257)

※ As the time of forecast is prior to the application period of the early retirement program announced on January 27, the number of applicants cannot be estimated. Thus its possible impact is not taken into consideration. Any impact on the business performance will be immediately disclosed after March 19, the application closing date.

Consolidated Income Statement / Business Segment Forecast

(Million yen)	2020Forecast		2019Actual		YoY change		change ratio	
	A		B		C=A-B		C/B	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Textiles	7,000	300	7,839	(123)	① (839)	423	(10.7%)	–
Pharmaceuticals	14,000	100	14,191	552	② (191)	(452)	(1.3%)	(81.9%)
Machinery	8,500	0	9,481	(234)	③ (981)	234	(10.3%)	–
Real Estate	10,700	3,800	10,731	4,101	④ (31)	(301)	(0.3%)	(7.3%)
Others	1,700	0	1,799	(58)	(99)	58	(5.5%)	–
adjustments	–	(1,600)	–	(1,666)	–	66	–	–
Total	41,900	2,600	44,043	2,569	(2,143)	31	(4.9%)	1.2%

Business Segment Sales



①: Lower sales but earnings improvement in textiles

- We plan to significantly downsize our Apparel business and transfer part of the business to our subsidiary, Ogran Japan (scheduled for May 1), with the aim of achieving the growth in our core strength, nursing care area, while reducing cost by consolidating the logistics functions.

②: Lower sales and earnings in pharmaceuticals

- Despite upside from a new product, Urinorm tablet, for which we succeeded an approval of its production and marketing, lower sales and earnings are forecasted due to a lower sales from drug price revision and anticipatory expenses incurred out of jointly developed products.

③: Increase in sales but earnings improvement in machinery

- Despite a significant decline in sales in comparison to the previous term during which there were spot orders for ODA overseas, earnings improved from structural reforms
- Improvement stemming from the agricultural machinery business, which was withdrawn at the end of the previous term, also contributed

④: Decreases in earnings in real estate

- Decreases in earnings are expected due to expenses for renewing a major property, COCOON City, and developing plans of Stage 3 development of company-owned land at Saitama Shintoshin Ekimae as well as expenses to be incurred for Olympics and Paralympics

Capital Expenditures, Depreciation and R&D Expenditures **Forecast**

(Million yen)		2020Forecast	2019Actual	YoY change
		A	B	A-B
	Real Estate	420	588	(168)
	Other Segment	1,700	2,107	① (407)
Capital expenditures		2,120	2,695	(575)

	Real Estate	1,580	1,676	(96)
	Pharmaceuticals	980	965	15
	Other Segment	430	457	(27)
Depreciation		2,990	3,098	(108)

	Pharmaceuticals	2,070	2,015	55
	Other Segment	160	129	31
R&D Expenditures		2,230	2,144	86

①

- Carried out seismic reinforcement work at plants for textile business (functional fibers) in the previous term

3. Progress Report on “Katakura 2021”

(1) Looking back on the Structural Reforms (2017-2019)

- During the first two years, structural reforms had been carried out based on the basic strategy, “Shift to Growth Businesses,” including withdrawal from certain businesses. The business environment, however, further weakened after the development of the plan and sales of new products and merchandise strategically emphasized were sluggish.
 - Structural reforms of practical clothing in textiles, pharmaceuticals, and machinery were continued in FY2019. Businesses including new ones that may not likely turn profitable in FY2020 were planned for significant downsizing or withdrawal.
- **These three businesses and other segments have become likely to turn profitable and certain positive outcome from the structural reforms is in sight**

(Million yen)			2016	2017	2018	2019	2020	2021
			Actual	Actual	Actual	Actual	Forecast	Plan
Textiles	Net sales		9,635	9,132	8,259	7,839	7,000	11,500
	Operating income		(250)	(135)	(114)	(123)	300	500
Pharmaceuticals	Net sales		15,065	14,271	13,975	14,191	14,000	15,200
	Operating income		199	581	164	552	100	1,200
Machinery	Net sales		9,412	9,689	9,052	9,481	8,500	13,000
	Operating income		88	(168)	(456)	(234)	0	400
Real Estate	Net sales		10,188	10,380	10,465	10,731	10,700	10,800
	Operating income		3,176	3,575	3,774	4,101	3,800	4,000
Others	Net sales		2,626	2,712	2,555	1,799	1,700	6,100
	Operating income		(511)	(384)	(288)	(58)	0	300
adjustments	Operating income		(1,216)	(1,566)	(1,548)	(1,666)	(1,600)	(1,200)
Total	Net sales		46,927	46,185	44,308	44,043	41,900	56,600
	Operating income		1,486	1,901	1,531	2,569	2,600	5,200

(2) Initiatives of Businesses and Future Direction

Textiles

Practical
Clothing

Functional
Fibers

- Withdrawal from foundation undergarments (April 2018)
- Decision on significant downsizing of Apparel business and partial business transfer to our consolidated subsidiary (scheduled for May 2020)
→ **Strengthen earning power by enhancing highly value-added nursing care products and promote to reduce cost by consolidating logistics functions**
- Preferential implementation of seismic reinforcement work at plants and completion of building infrastructure
→ **Develop new high-functional materials and application of heat-resistant fibers**

Pharmaceuticals

- Expect business environment to remain difficult due to initiatives to curtail health care expenditures and drug price revision
 - Enhance generic drug product line-up
 - Launched Intravenous Amiodarone, Torsemide tablet, two ingredients and three products (June 2018)
 - Obtained approval of manufacturing and marketing Ezetimibe tablet (February 2020)
 - Expand sales through out-licensing:
 - Signed basic framework agreement in China for development and sale of Bisons Tape (April 2019)
 - Initiate development of efficient drug discovery methodology by in-licensing
 - Concluded an exclusive agreement with Osaka University over therapeutic drug for triglyceride deposit cardiomyovascularopathy "CNT-01" (February 2020)
- **Aim to establish a stable earning foundation by further revising cost structure in sales, production and research**

(2) Initiatives of Businesses and Future Direction

Other segments (former new businesses)

- Withdrawal from Home Improvement Center business (Discontinued operations of all two centers in December 2018)
- Decision and execution of withdrawal from all of the five new businesses launched during Katakura 2016 period
 - Withdrawal from cosmetics business (October 2018)
 - Withdrawal from Day Service direct management business (Changed into rental scheme by September 2018)
 - Transfer of wide-front toilet seat sales business to a third party (August 2019)
 - Withdrawal from cauliflower fungus business (January 2020)
 - Withdrawal from high-value added vegetables business (February 2020)

Machinery

Fire engines

Contract
manufacturing
Environmental
equipment
Agricultural
machinery

- Certain results attained through renewal of management structure and initiatives of rebuilding sales structure and productivity improvement
- Decision made to freeze production of some unprofitable vehicles after reviewing product line-up
 - **Further strive for improved profitability**
- Withdrawal from Agricultural machinery business (December 2019)
- Initiative to strengthen earning structure by further reducing expenses

Conducting an early retirement program

- Following significant business downsizing and withdrawal, required to restructure not only those business segments but the entire company including other business segments and administrative functions into more efficient organization and personnel deployment
 - **In the midst of major transformation, an early retirement program will be conducted as an option for employees who seek career change, etc.**

<Policy>

- With a certain level of prospects of positive outcome of the structural reforms in sight, plan to move forward to reallocate the management resources to such growth businesses as real estate business, while further improving profitability of those businesses that have already achieved a shift to stable earning structure
- In addition, aim to improve a medium- to long-term corporate value by exploring growth through business alliance with other companies and M&As, further improving capital efficiency and raising dividends to an appropriate level

<System basics, etc. to form foundation>

Strengthening the corporate governance structure

- Established Nomination and Compensation Advisory Committees (November 2017)
- Increased the number of Outside Directors (from FY2019)
- Reviewed the regulations on management of affiliates

Work style reform/Capability building

- Improvement of efficiency of business operation by such means as discontinuing low-productive meetings
- Introduction of programs of consecutive leaves and staggered working hours, utilization of satellite offices and other initiatives to improve productivity
- Initiatives to further strengthen human resource development

Strengthening the risk management structure

- Newly established Legal Affairs and Compliance Department and Compliance Subcommittee
- Constructed of immediate risk reporting system

Continual sale of cross-shareholdings

- Sold shares judged to be less significant
- 2018: ¥34 million, 2019: ¥727 million (All figures based on gain on sales)

(4) Initiatives for Growth Fields

Real Estate

- Position “Community creation business” in Saitama Shintoshin as a core business, and steadily push forward with planning of the Stage 3 development project while leveraging proven experience from COCOON City
- Continue working on enhancement of supplemental business relating to real estate primarily in the Saitama Shintoshin area
- On the real estate properties which have become available as a result of structural reforms, strive for more efficient use of assets, including those owned by its affiliates, in addition to other company-owned lands

◆ Most recent development of Saitama Shintoshin Ekimae Company-owned Land

Name of facility/plan	Opening	Land area	Content
cocoon athletics	September 2017	About 600㎡	<ul style="list-style-type: none"> • Provides services like yoga, bouldering, jogging & walking and cafe
COCOON Day-care Center for Children	April 2018	(in Parkside Building)	<ul style="list-style-type: none"> • As a company-led child day care services business, the service available to employees, partner companies like tenants and residents in the community
Stage 3 development			<ul style="list-style-type: none"> • Investigate development plan for entire area, and look to fast-track the finalization of the plan in time for the final year of the medium-term plan (2021).

- ◆ COCOON City won an Outstanding Efforts Award, at the 21st tenant-choice developer award, organized by Senken Shimbun
- We are awarded in recognition of initiatives of “COCOON City CREDO”, in addition to our contribution to creation of community by maximizing the convenient location of facilities directly connected to the station, and fostering an impression of transportation accessibility and a safe and secure city.



(Reference)

Saitama Shintoshin Ekimae Company-owned Land(2019/9)

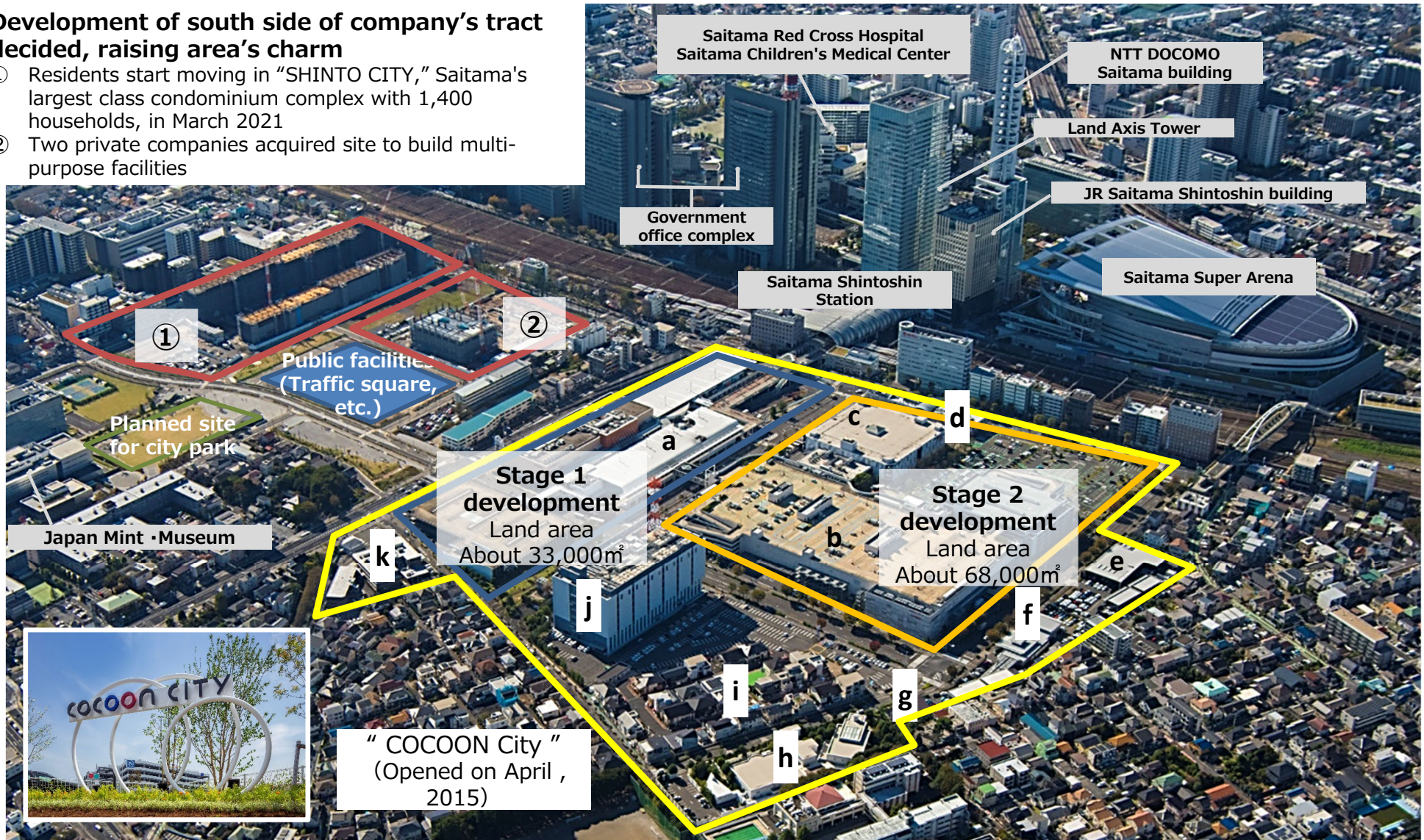
The entire company-owned land : About 147,000㎡
(The area of each sector does not include public streets.)



Financial Results of 2019

Development of south side of company's tract decided, raising area's charm

- ① Residents start moving in "SHINTO CITY," Saitama's largest class condominium complex with 1,400 households, in March 2021
- ② Two private companies acquired site to build multi-purpose facilities

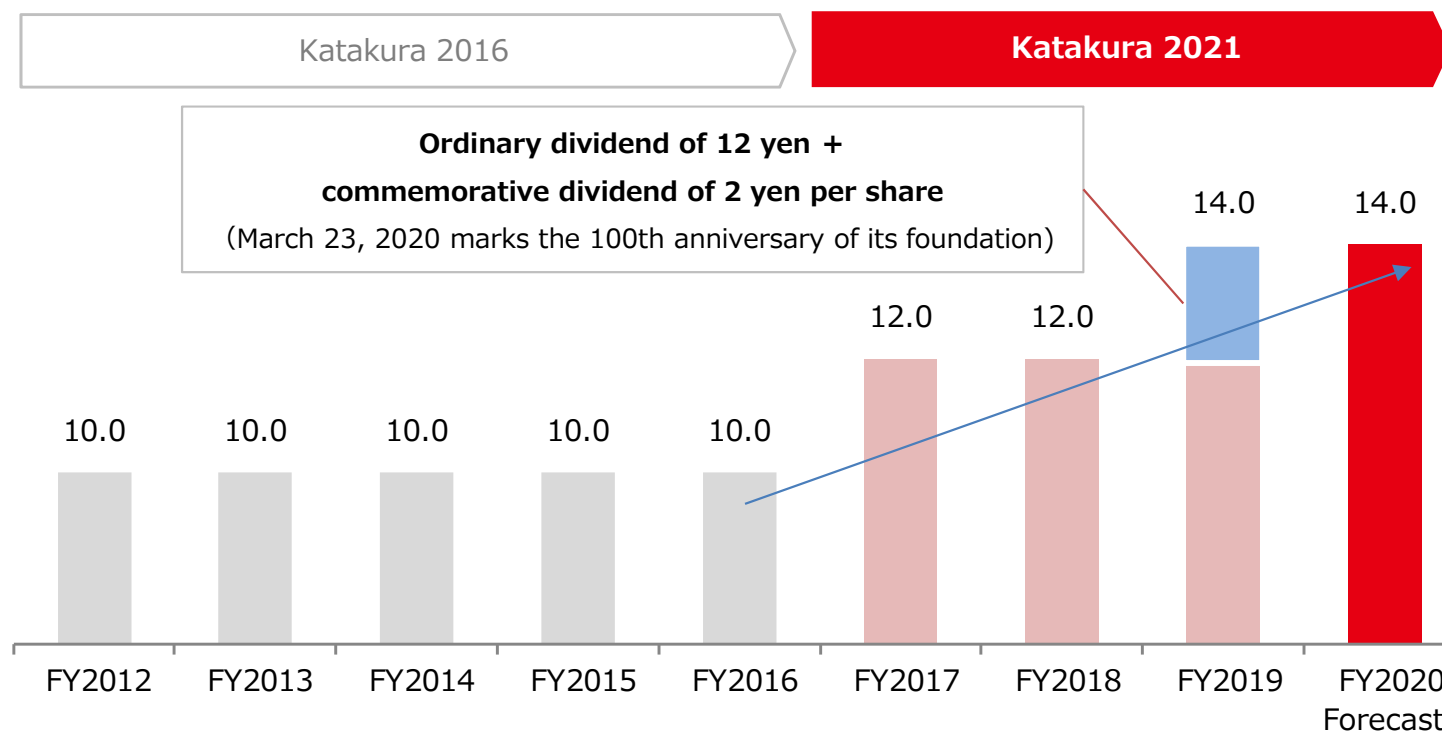


a. COCOON1 b. COCOON2 c. COCOON3 d. Park side building e. Lexus Saitama Shintoshin f. Volkswagen Saitama Shintoshin g. cocoon athletics
 h. Garden Hills Geihinkan i. COCOON City Housing exhibition space j. Office building k. Nursing care facility [Nichii Gakkan]

5. Dividends and Dividend Policy

< Dividend Policy >

- The Company regards returning profits to shareholders as one of our important management policy.
- The basic policy for allocating earnings is to pay a consistent and stable dividend to shareholders while taking into account results of operations as well as the need to fund upcoming business operations and maintain sufficient retained earnings and dividend payout ratio.



Net income (Million yen)	701	1,001	268	226	1,691	1,224	1,283	1,732	2,200
Net income per share (yen)	19.95	28.50	7.62	6.44	48.11	34.83	36.56	49.42	62.75
Dividend payout ratio (%)	50.1%	35.1%	131.2%	155.2%	20.8%	34.5%	32.8%	28.3%	22.3%

《Supplementary Information①》 The Source of Katakura's Diversification

Founded 1873
Established 1920

Silk thread production



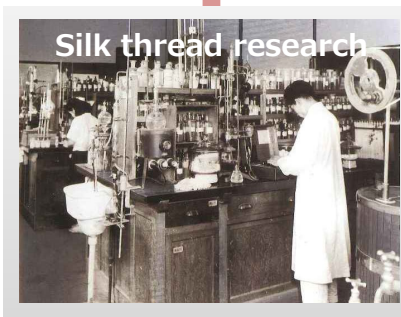
Raw silk



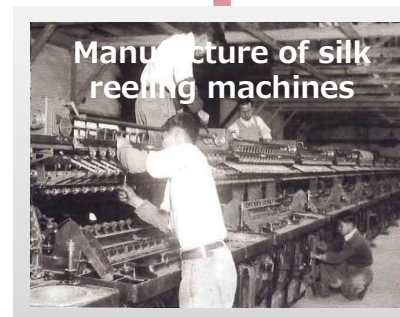
Ownership of Tomioka Silk Mill 1939-2005 (66 years)



Carrying on the tradition of raw silk production



Innovating originating from research to create outstanding silk products



Utilizing know-how for the internal development of manufacturing equipment



Utilizing the former sites of thread factories

Textiles

Apparel
Manufacture and sale of underwear and socks

Ogran Japan Co., Ltd.
Manufacture and sale of casual innerwear

Nitivity Co., Ltd.
Manufacture and sale of functional fibers

Pharmaceuticals

Toa Eiyo Ltd.
Manufacture and sale of prescription drugs

Machinery

Mechatronics
Manufacture and sale of automotive parts and other products

Nihon Kikai Kogyo Co., Ltd.
Manufacture and sale of fire engines

Real Estate

Real Estate
Operation of shopping centers, real estate leasing
Development and use of company-owned land

Textiles

Nursing care underwear



Apparel

Licensed products



Ogran Japan Co., Ltd.

Alumina fiber yarn (fire resistant)



Nitivity Co., Ltd.

Pharmaceuticals



Toa Eiyo Ltd.

Real Estate

Tokyo Square Garden



COCOON City



Real Estate

Machinery

Three-way valve



Vibration bubbling cleanser



Mechatronics

Fire truck



Nihon Kikai Kogyo Co., Ltd.

Life Solutions

(*) Included in "Others" segment

Agricultural and related products



Food



Life Solutions

Mulberry Garden



Building maintenance



Katakura Caron Service Corp.

<Disclaimer >

Sales and earnings forecasts and other forward-looking statements in this document are based on the economic forecast and other current assumptions. These statements are not guarantees or promises regarding future performance. Furthermore, forecasts may be revised at any time without prior notice.

Katakura has exercised care to be certain that all information in this document is correct. However, Katakura assumes no responsibility whatsoever for any errors in this information.

<Contact information>

Nobuyuki Kikuchi (Manager)

PR・IR Office, Corporate Planning Dept.

Katakura Industries Co., Ltd.

URL: <https://www.katakura.co.jp/>

Address: 6-4 Akashi-cho, Chuo-ku, Tokyo 104-8312

Tel : 03-6832-0223

Fax: 03-6832-0282

World Heritage Site "Tomioka Silk Mill"



Special WEB page "history walked the Katakura and Tomioka Silk Mill"

<https://www.katakura.co.jp/tomioka.htm>