

Financial Results of 2019 2nd Quarter

KATAKURA INDUSTRIES CO., LTD.

(Code 3001, TSE 1st section)

August 21, 2019

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- **Financial Results of 2nd Quarter Exceeded Initial Forecast (August 7 Release)**
 - Net sales was in line with initial forecast as higher-than-forecasted growth in Pharmaceuticals and Machinery was balanced by a slump in practical clothing and declining demand for functional fibers in Textiles.
 - Each income figure exceeded its initial forecast because, in addition to Real Estate performing strongly and repairs and other expenses being delayed to 2H, the profitability of Machinery and Pharmaceuticals improved.
- **Slight Upward Revision to 2019 Forecast (August 7 Release)**
 - Net sales is expected to be lower than initial forecast due to a slump in practical clothing and declining demand in functional fibers in Textiles and delay in some deliveries in Machinery, which is expected to outweigh higher-than-forecasted growth in Pharmaceuticals.
 - Each income figure is expected to exceed initial forecast because, in addition to strong performances in Real Estate, Pharmaceuticals is growing and profitability in Machinery is improving, despite the expected decline in earnings due to the aforementioned decrease in sales in Textiles.
- **Topics**
 - Efforts to centralize operations in the three businesses of Textiles (practical clothing), Pharmaceuticals and Machinery, are underway, led by the “Structural Reform Department,” newly established in February this year. Profitability is already improved in some areas and it is planned to decide on fundamental reform by the end of the year.

2. Financial Highlights of 2018 2nd Quarter

Consolidated Income Statement

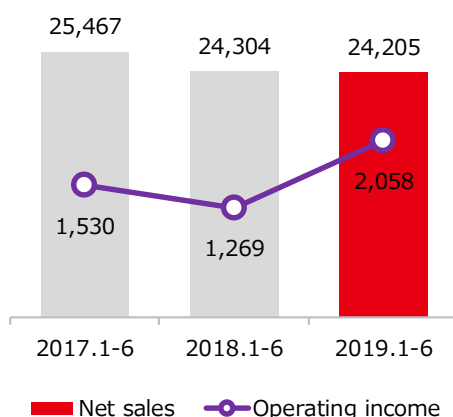


Financial Results of 2019 2Q

(Million yen)

	2019.1-6Actual	2018.1-6Actual	YoY change	2019.1-6Forecast	Actual vs. Forecast
	A	B	A-B	C	A-C
Net sales	24,205	24,304	(99)	24,100	105
Operating income	2,058	1,269	789	1,150	908
Operating income ratio	8.5%	5.2%	3.3pt	4.8%	3.7pt
Ordinary income	2,548	1,790	758	1,550	998
Extraordinary income	255	16	239	—	—
Extraordinary loss	(599)	(184)	(415)	—	—
Profit before income taxes	2,204	1,622	582	—	—
Profit attributable to owners of parent	1,392	950	442	850	542

【Three-Year Summary】



【Net sales·Operating income】

- Net sales was flat, but earnings increased (Details are given on next page)

【Extraordinary income】

- Proceeds from sales of investment securities: Up 240

【Extraordinary loss】

- Extra retirement payments: Down 519
- Loss on business withdrawal (foundation undergarments) was recorded in the previous term: Up 86

【Net sales·Operating income】

- Net sales was in line with forecast, but earnings was larger than initial forecast (Details are given on next page)

【Profit attributable to owners of parent】

- Increase in tax expenses due to increase in earnings

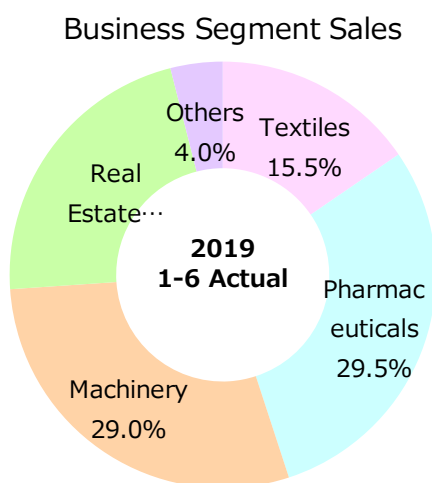
Consolidated Income Statement / Business Segment



Financial Results of 2019 2Q

(Million yen)

	2019.1-6Actual		2018.1-6Actual		YoY change		2019.1-6Forecast		Actual vs. Forecast	
	A		B		A-B		C		A-C	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Textiles	3,740	78	4,118	76	① (378)	2	3,900	0	① (160)	78
Pharmaceuticals	7,146	468	7,305	300	② (159)	168	7,000	250	② 146	218
Machinery	7,007	224	6,458	(44)	③ 549	268	6,900	0	③ 107	224
Real Estate	5,353	2,119	5,132	1,802	④ 221	317	5,300	1,850	④ 53	269
Others	957	(10)	1,289	(128)	⑤ (332)	118	1,000	(100)	(43)	90
adjustments	—	(821)	—	(736)	—	(85)	—	(850)	—	29
Total	24,205	2,058	24,304	1,269	(99)	789	24,100	1,150	105	908



①: Lower sales but earnings was flat in textiles

- Lower sales due to withdrawal from foundation undergarments in the previous term
- Functional fiber sales/earnings down due to weak semiconductor demand
- Lower labor and logistics costs, etc. despite unseasonal weather-related slump for practical clothing

②: Lower sales but increase in earnings in pharmaceuticals

- Sales down due to drug price revision in April 2018 but earnings up due to growth in profitable products like those launched in June 2018

③: Increase in sales and earnings in machinery

- Increased spot orders for ODA overseas and high gross margin orders received from electric power company

④: Increase in sales and earnings in real estate

- Good sales progress for major properties and depreciation declined

⑤: Lower sales but increase in earnings in others

- Due to withdrawal from Home Improvement Center business and others in the previous term

①: Lower sales but increase in earnings in textiles

- Lower costs in functional fibers despite lower sales due to weak semiconductor demand
- Lower logistics and other costs despite unseasonal weather related slump for practical clothing

②: Increase in sales and earnings in pharmaceuticals

- Growth in profitable products like those launched in June 2018

③: Increase in sales and earnings in machinery

- Fire engines performed over forecast

④: Increase in sales and earnings in real estate

- Due to slightly increased sales and some repairs and other expenses being delayed to 2H

Consolidated Balance Sheet



Financial Results of 2019 2Q

(Million yen)

	2019.6	2018.12	YoY change
	A	B	A-B
Current assets	50,838	56,637	(5,799)
Non-current assets	81,635	81,651	(16)
Property, plant and equipment	48,423	48,670	(247)
Intangible assets	601	732	(131)
Investments and other assets	32,610	32,247	363
Investment securities	30,154	30,186	(32)
Total assets	132,473	138,288	(5,815)
Total liabilities	53,533	60,570	(7,037)
Loans	15,458	18,870	(3,412)
Lease and guarantee deposits	9,130	9,165	(35)
Deferred tax liabilities	8,213	8,156	57
Total net assets	78,940	77,718	1,222
Valuation difference on available-for-sale securities	13,454	13,848	(394)
Total liabilities and net assets	132,473	138,288	(5,815)

• Reduction in inventories and notes and accounts payable - trade due to shipments of term-end inventories (fire engines)

• Down due to repayment

(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

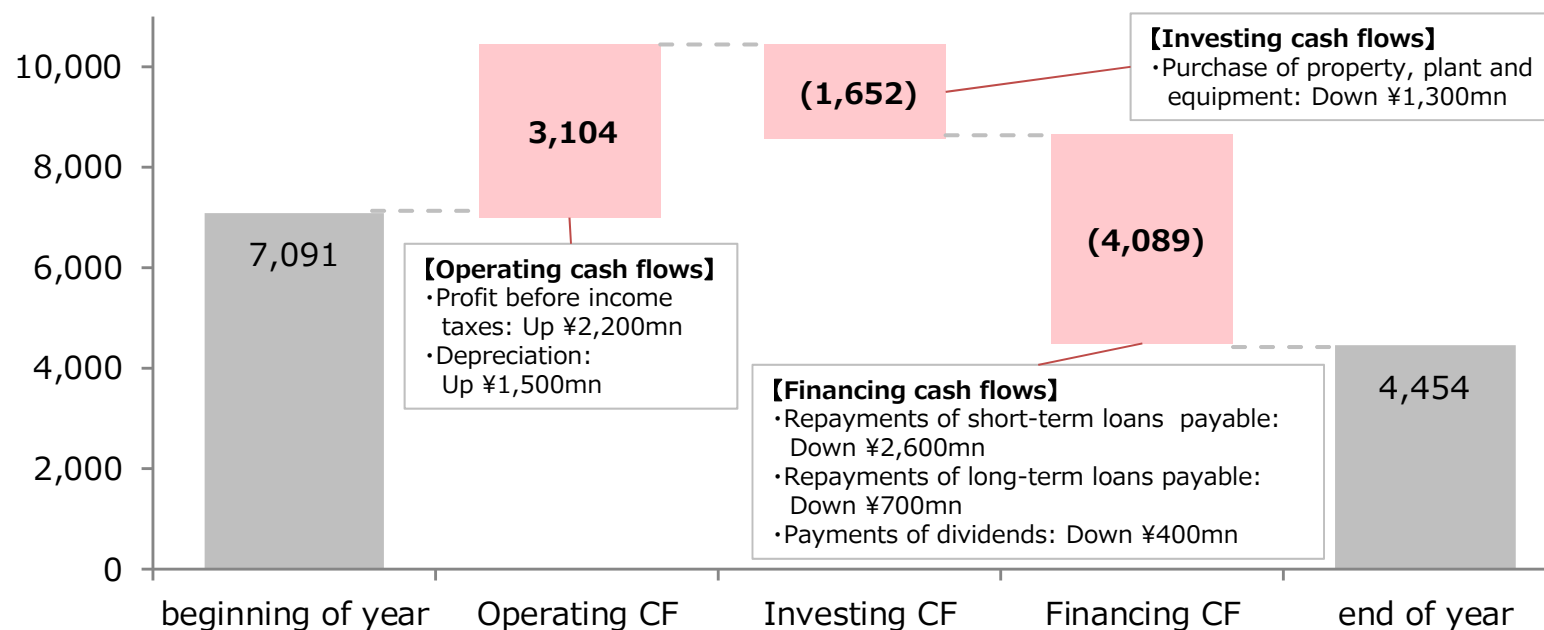


Financial Results of 2019 2Q

(Million yen)

	2019.1-6Actual	2018.1-6Actual
Cash and cash equivalents at beginning of year	7,091	4,785
Operating cash flows	3,104	3,633
Investing cash flows	(1,652)	(922)
Financing cash flows	(4,089)	(2,691)
Net increase (decrease) in cash and cash equivalents	(2,637)	19
Cash and cash equivalents at end of year	4,454	4,804

Cash Flows



3. 2019 Forecast

Consolidated Income Statement / Forecast

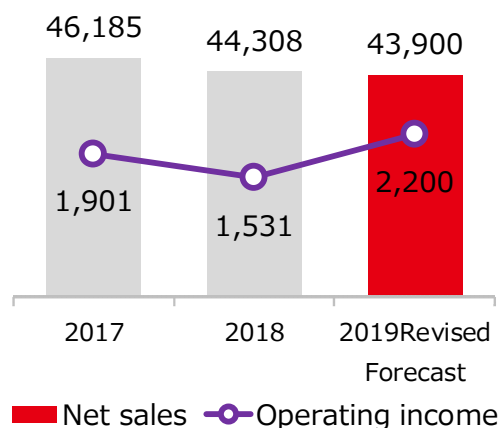


Financial Results of 2019 2Q

(Million yen)

	2019 Revised Forecast	2018 Actual	YoY change	2019 Initial Forecast	Difference
	A	B	A-B	C	A-C
Net sales	43,900	44,308	(408)	44,100	(200)
Operating income	2,200	1,531	669	2,000	200
Operating income ratio	5.0%	3.5%	1.6pt	4.5%	0.5pt
Ordinary income	2,800	2,456	344	2,600	200
Extraordinary income	–	242	–	–	–
Extraordinary loss	–	(607)	–	–	–
Profit before income taxes	–	2,092	–	–	–
Profit attributable to owners of parent	1,700	1,283	417	1,500	200

【Three-Year Summary】



【Net sales·Operating income】

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

【Major extraordinary income (loss)】

- 2018: Gains on sales from company-owned land [207], loss on business withdrawal [(263)], loss on disposal of non-current assets [(235)]
- 2019: Proceeds from sales of investment securities [253] in 1H, 2H+Q, extra retirement payments [(519)]

【Net sales·Operating income】

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

Consolidated Income Statement / Business Segment Forecast

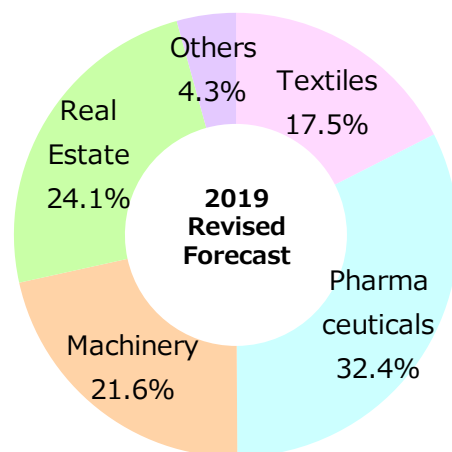


Financial Results of 2019 2Q

(Million yen)

	2019 Revised Forecast		2018 Actual		YoY change		2019 Initial Forecast		Difference	
	A		B		A-B		C		A-C	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Textiles	7,700	(100)	8,259	(114)	① (559)	14	8,100	100	① (400)	(200)
Pharmaceuticals	14,200	250	13,975	164	② 225	86	13,700	150	② 500	100
Machinery	9,500	(200)	9,052	(456)	③ 448	256	9,800	(300)	③ (300)	100
Real Estate	10,600	3,900	10,465	3,774	135	126	10,600	3,700	④ 0	200
Others	1,900	(100)	2,555	(288)	④ (655)	188	1,900	(100)	0	0
adjustments	-	(1,550)	-	(1,548)	-	(2)	-	(1,550)	-	0
Total	43,900	2,200	44,308	1,531	(408)	669	44,100	2,000	(200)	200

Business Segment Sales



①: Lower sales but earnings flat in textiles

- Lower sales due to withdrawal from foundation undergarments in the previous term
- Functional fiber sales/earnings down due to weak semiconductor demand
- Lower logistics and other costs despite unseasonal weather-related slump for practical clothing

②: Increase in sales and earnings in pharmaceuticals

- Price revisions from consumption tax hike in October 2019 will reduce some sales, but growth expected from Biso Tape due to additional indications and from high-margin products such as those launched in June 2018

③: Increase in sales and earnings in machinery

- Increased spot orders for ODA overseas and high gross margin orders received from electric power company

④: Lower sales but increase in earnings in others

- Due to withdrawal from Home Improvement Center business and others in the previous term

①: Decreases in sales and earnings in textiles

- Functional fiber sales/earnings down due to weak semiconductor demand
- Practical clothing sales/earnings down due to unseasonal weather despite lower logistics and other costs

②: Increase in sales and earnings in pharmaceuticals

- Expected increase in sales and earnings due to high-margin products such as those launched in June 2018

③: Decrease in sales and upturn in machinery

- Delivery delay to 2H for some fire engines but upturn due to improved profitability

④: Increase in earnings in real estate

- Due to various cost reductions

(Reference) 1H/2H Comparison by Segment



Financial Results of 2019 2Q

- **1H was favorable and similar figures expected for 2H**
 - Pharmaceuticals to be negatively impacted by drug price revision accompanying consumption tax hike
 - In Machinery, fire engine deliveries are concentrated throughout the period of January to March and 2H is down on typical year
 - In Real Estate, some costs were delayed from 1H to 2H

(Million yen)

	2019First half		2019Second halfForecast		Increase and decrease		2018Second half		Increase and decrease	
	A		B		B-A		C		B-C	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Textiles	3,740	78	3,960	(178)	220	(256)	4,141	(190)	(181)	12
Pharmaceuticals	7,146	468	7,054	(218)	(92)	(686)	6,670	(136)	384	(82)
Machinery	7,007	224	2,493	(424)	(4,514)	(648)	2,594	(412)	(101)	(12)
Real Estate	5,353	2,119	5,247	1,781	(106)	(338)	5,333	1,972	(86)	(191)
Others	957	(10)	943	(90)	(14)	(80)	1,266	(160)	(323)	70
adjustments	-	(821)	-	(729)	-	92	-	(812)	-	83
Total	24,205	2,058	19,695	142	(4,510)	(1,916)	20,004	262	(309)	(120)

Capital Expenditures, Depreciation and R&D Expenditures Forecast



Financial Results of 2019 2Q

(Million yen)

	2019 Revised Forecast	2018 Actual	YoY change	2019 Initial Forecast	Difference
	A	B	A-B	C	A-C
Real Estate	810	669	141	860	(50)
Other Segment	2,270	964	① 1,306	1,840	① 430
Capital expenditures	3,080	1,633	1,447	2,700	380

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

Real Estate	1,690	1,781	(91)	1,680	10
Pharmaceuticals	970	1,021	(51)	940	30
Other Segment	460	454	6	480	(20)
Depreciation	3,120	3,256	(136)	3,100	20

Pharmaceuticals	2,130	1,854	② 276	1,900	② 230
Other Segment	150	203	(53)	160	(10)
R&D Expenditures	2,280	2,057	223	2,060	220

- ②
- Costs are expected to rise due to increase in new internally-developed products and jointly-developed products

4. Progress Report on “Katakura 2021”

(1) Measures for Structural Reforms

Structural reforms policy

- Businesses that fail to establish stable income bases due to factors like worse business environment
 - **Tackle conversion of business models and further improvement of earnings**
- Businesses that are not likely to turn profitable in FY2020
 - **Consider sharp downsizing of business scale or withdrawal during FY2019**

<System basics, etc. to form foundation>

Strengthening the corporate governance structure

- Textiles/Machinery subsidiary president roles assigned to Directors of the Company
- Steady promotion of structural reforms by Structural Reform Department
- Review of the regulations on management of affiliates

Strengthening the risk management structure

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

Improvement in productivity

- Streamlining through abolishment and revision of various meetings
- Change staggered working hour system to achieve greater efficiency

Gradual sale of cross-shareholdings

- Gradually sold shares judged to be less significant
- 2018: ¥34 million, 2019: ¥253 million in 1H · 2H+ α (All figures based on gain on sales)

(2) Initiative to Structurally Reform 3 Businesses

Pharmaceuticals

- Business environment is worse than assumed due to initiatives to curtail health care expenditures and drug price revision resulting from consumption tax hike
- Secure more sales by enhancing generics lineup: Launch of two ingredients and three products in June 2018
- Expand sales through out-licensing: Signed basic framework agreement in China for development and sale of Bisofo Tape
- Further expansion of product line-up by in-licensing and business succession
 - **Continuation of measures to secure sales to supplement negative effect of price revisions and to improve efficiency of R&D investment through in-/out-licensing**

Textiles (Practical Clothing)

- Identification of low-margin clients and steady cancellation of deals with about 20% of parties.
- Withdrawal from product categories with chronically poor margins (Silk NB, Care Cotton NB)
- Reduce logistics costs including consideration on the integration of domestic in-house logistics centers
 - **Centralize business resources for widening business fields while reducing the business scale (for volume sales PB, nursing care)**

Machinery

Fire engines

- Hire, as directors, two experts (e.g. production control) from major manufacturers in Japan
- Unify management of information from bidding to delivery and construct integrated manufacturing and sales structure focusing on profitability
 - **Enhance transparency of production processes, reduce idle labor through anticipatory production, and use process management to outsource and reduce material costs to improve profitability at earliest possible stage**

Contract manufacturing
Environmental equipment
Agricultural machinery

- Restructuring of business assuming a scaling down of business
- Aim at shifting to stable income structure by reducing expenses further

(3) Initiatives for Growth Fields

Real Estate

- Reorganization on March 1
- Working toward an efficient and intensive structure for carrying out action aimed at achieving steady progress in important issues in Real Estate business, such as enhancing attractiveness of COCOON City as part of “Saitama Shintoshin Town Promotion Project,” planning third stage of the development project and rebuilding existing facilities

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

Name of facility/plan	Opening	Land area	Content
COCOON athletics	September 2017	About 600m ²	<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 athletics」
(Operator : BEACH TOWN CORPORATION)

Textiles (Functional fibers)

- Develop new high-functional materials and application of heat-resistant fibers

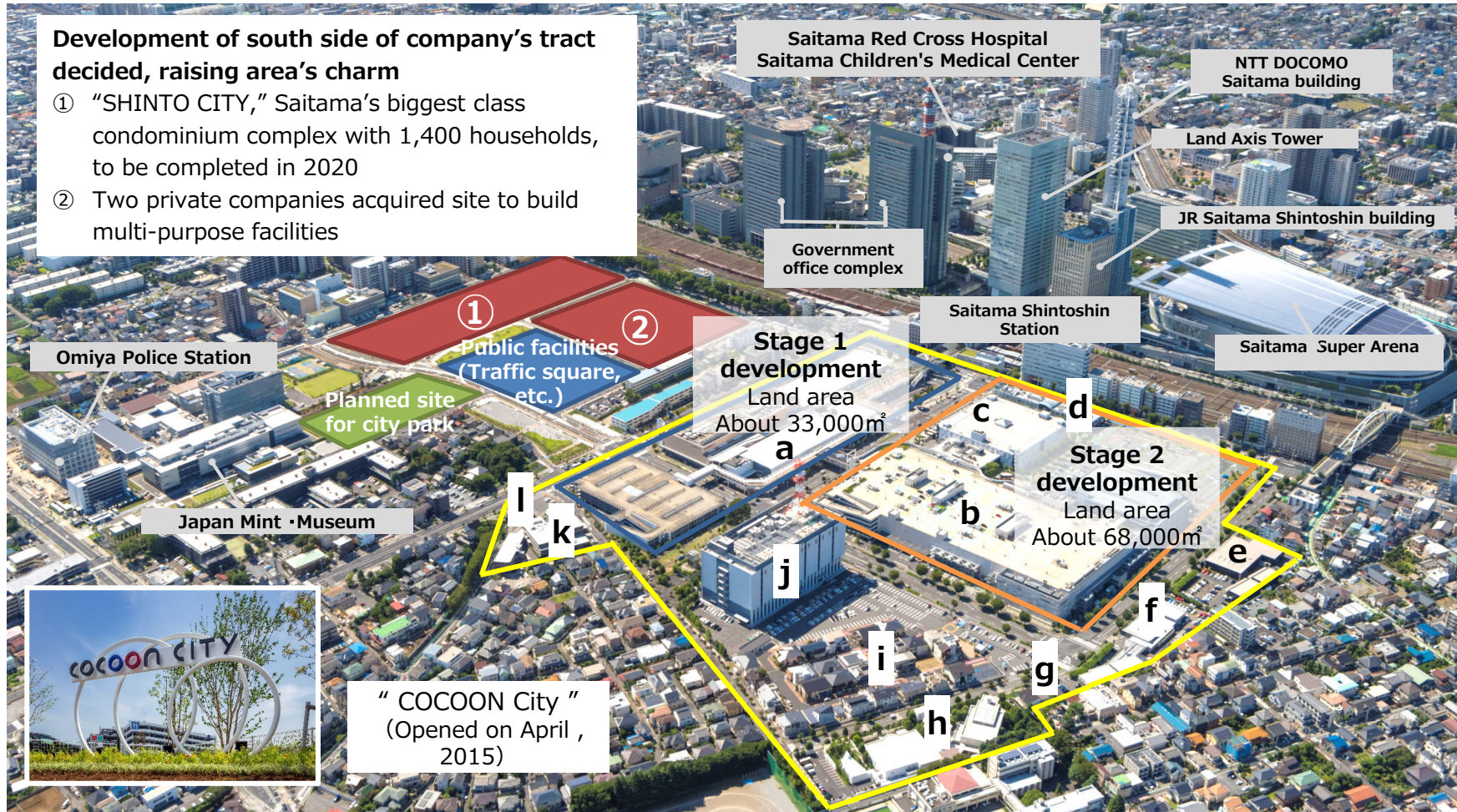
Life Solutions

- Integrated intra-group businesses that have competitive or original products or services into “Life Solutions Department,” aiming at expansion including use of external resources through business alliances and M&A
- Made decision that the transfer of wide-front toilet seat sales business to a third party was the best option to popularize and expand the wide-front toilet seat. (Implemented August 16)

(Reference) Saitama Shintoshin Community Creation

■ Saitama Shintoshin Ekimae Company-owned Land

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



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] l. convenience store

(Reference) Business Results and 2017-2018 Initiatives



Financial Results of 2019 2Q

<Business Results>

Katakura 2021

Net sales

(Million yen)

	2016	2017	2018	2019	2021
	Actual	Actual	Actual	Forecast	Plan
Textiles	9,635	9,132	8,259	7,700	11,500
Pharmaceuticals	15,065	14,271	13,975	14,200	15,200
Machinery	9,412	9,689	9,052	9,500	13,000
Real Estate	10,188	10,380	10,465	10,600	10,800
Others	2,626	2,712	2,555	1,900	6,100
	46,927	46,185	44,308	43,900	56,600

Operating income

(Million yen)

	2016	2017	2018	2019	2021
	Actual	Actual	Actual	Forecast	Plan
Textiles	(250)	(135)	(114)	(100)	500
Pharmaceuticals	199	581	164	250	1,200
Machinery	88	(168)	(456)	(200)	400
Real Estate	3,176	3,575	3,774	3,900	4,000
Others	(511)	(384)	(288)	(100)	300
adjustments	(1,216)	(1,566)	(1,548)	(1,550)	(1,200)
	1,486	1,901	1,531	2,200	5,200

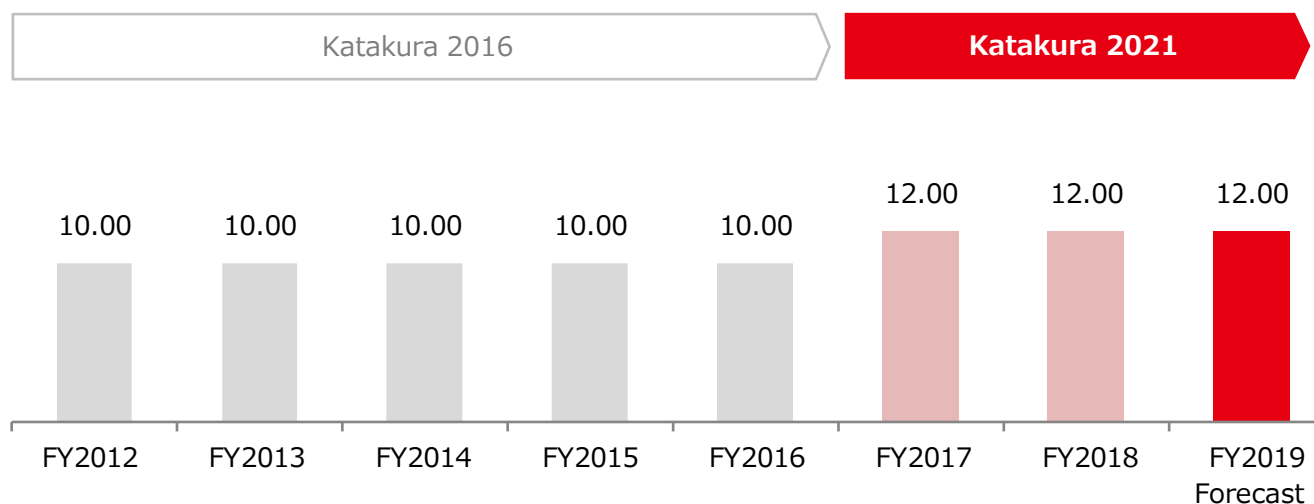
<2017-2018 Initiatives>

- [Pharmaceuticals] Reduced labor cost by conducting an early retirement program (February 2017)
- [Textiles] Withdrawal from foundation undergarments (April 2018)
- [Others] Withdrawal from cosmetics business (October 2018)
- [Others] Withdrawal from DS direct management business (Changed into rental scheme by September 2018)
- [Others] Withdrawal from Home Improvement Center business (Stopped operations of all two centers at the end of 2018)
- Strengthened the corporate governance and promoting structure (Established Nomination and Compensation Advisory Committees and increased the number of Outside Directors)
- Gradually sold unused company-owned land and cross-shareholdings

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	1,700
Net income per share (yen)	19.95	28.50	7.62	6.44	48.11	34.83	36.56	48.49
Dividend payout ratio (%)	50.1%	35.1%	131.2%	155.2%	20.8%	34.5%	32.8%	24.7%

《Supplementary Information①》 The Source of Katakura's Diversification



Financial Results of 2019 2Q

Founded 1873
Established 1920

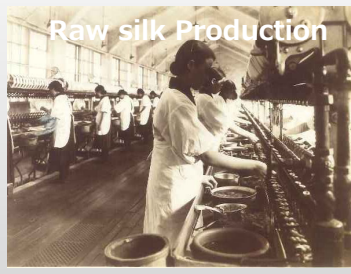
Silk thread production



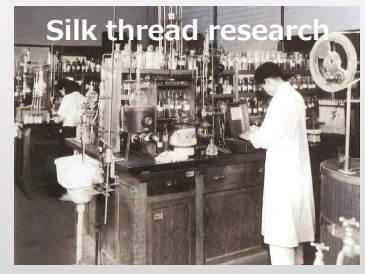
Raw silk



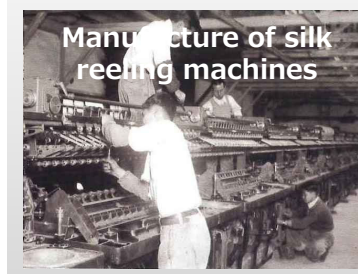
Ownership of Tomioka Silk Mill 1939-2005 (66 years)



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

Katakura Machinery Industries Co., Ltd.
Manufacture and sale of agricultural machinery

Real Estate

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

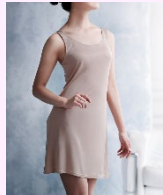
《Supplementary Information②》 The Business Activities of Katakura Group



Financial Results of 2019 2Q

Textiles

Silk innerwear



Apparel

Nursing care underwear

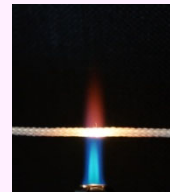


Licensed products



Ogran Japan Co., Ltd.

Alumina fiber yarn (fire resistant)



Nitivity Co., Ltd.

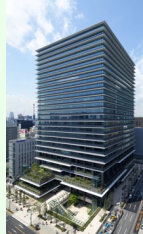
Pharmaceuticals



Toa Eiyo Ltd.

Real Estate

Tokyo Square Garden



COCOON City



Real Estate

Machinery

Three-way valve



Mechatronics

Vibration bubbling cleanser



Two-wheel power tiller



Katakura Machinery Industries Co., Ltd.

Fire truck with a ladder



Nihon Kikai Kogyo Co., Ltd.

Life Solutions

(*) Included in "Others" segment

Agricultural and related products



Food



Mulberry Garden



Building maintenance



Katakura Caron Service Corp.

Life Solutions

<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.

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World Heritage Site "Tomioka Silk Mill"



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

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