

Financial Results of 2020

KATAKURA INDUSTRIES CO., LTD.

(Code 3001, TSE 1st section)

February 25, 2021

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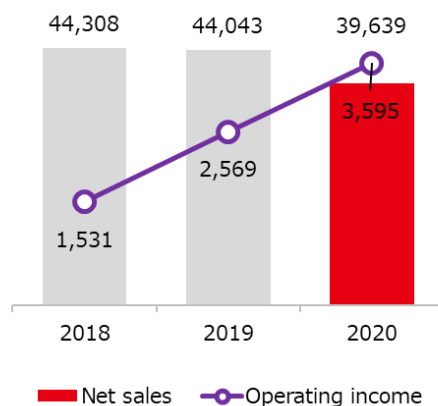
1. Financial Highlights of 2020

Consolidated Income Statement

Despite the impact of COVID-19, earnings increased as a result of structural reforms

(Million yen)	2020Actual	2019Actual	YoY change
	A	B	C=A-B
Net sales	39,639	44,043	▲ 4,404
Operating income	3,595	2,569	1,026
Operating income ratio	9.1%	5.8%	3.2pt
Ordinary income	4,544	3,430	1,114
Extraordinary income	1,752	853	899
Extraordinary loss	▲ 1,827	▲ 1,216	▲ 611
Profit before income taxes	4,469	3,067	1,402
Profit attributable to owners of parent	2,871	1,732	1,139

【Three-Year Summary】



【Net sales・Operating income】

- Net sales decreased significantly, but operating income increased (Details are given on next page)

【Extraordinary income】

- Proceeds from sales of investment securities: 1,106
- Gain on sales of non-current assets: 645

【Extraordinary loss】

- Extra retirement payments: (993)
- Loss on COVID-19 impact: (280)
- Impairment loss: (256)
- Loss on business withdrawal: (249)

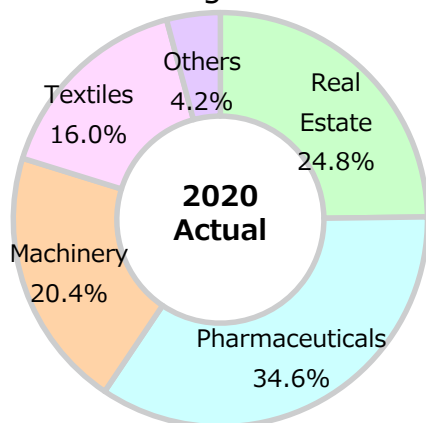
Consolidated Income Statement / Business Segment

Financial Results of 2020

Although earnings decreased in real estate due to the impact of COVID-19, all segments reported an operating profit

(Million yen)	2020Actual		2019Actual		YoY change	
	A		B		C=A-B	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Real Estate	9,827	3,691	10,731	4,101	① ▲ 904	▲ 410
Pharmaceuticals	13,729	579	14,191	552	② ▲ 462	27
Machinery	8,069	93	9,481	▲ 234	③ ▲ 1,412	327
Textiles	6,353	274	7,839	▲ 123	④ ▲ 1,486	397
Others	1,659	103	1,799	▲ 58	⑤ ▲ 140	161
adjustments	-	▲ 1,146	-	▲ 1,666	⑥	520
Total	39,639	3,595	44,043	2,569	▲ 4,404	1,026

Business Segment Sales



① : Decrease in sales and earnings in real estate

- Sales and earnings decreased due to temporary closures, shortened operating hours, etc. at shopping centers in response to COVID-19

② : Decrease in sales, but slight increase in earnings in pharmaceuticals

- Lower sales due to the impact of drug price revisions in April 2020. Despite the decrease in sales, earnings slightly increased due to reduced selling expenses

③ : Decrease in sales, but an upturn in machinery

- Sales decreased due to the fallback from vehicle orders received for ODA and an electric power company in the previous term
- Despite the decrease in sales, earnings increased due to the success of cost reduction initiatives

④ : Decrease in sales, but an upturn in textiles (the previous operating profit was in 2013)

- Despite the decrease in sales due to the downsizing for practical clothing, an upturn due to an improvement in profitability from reduced labor costs, selling, general and administrative expenses, etc.

⑤ : Upturn in others despite the decrease in sales due to withdrawing from unprofitable businesses

- Upturn in adjustments due to the decrease in labor costs from the early retirement program and other factors

Consolidated Balance Sheet

(Million yen)	2020.12	2019.12	YoY change
	A	B	A-B
Current assets	53,822	52,549	1,273
Non-current assets	80,561	88,444	▲ 7,883
Property, plant and equipment	46,143	47,979	▲ 1,836
Intangible assets	381	512	▲ 131
Investments and other assets	34,036	39,952	▲ 5,916
Investment securities	31,166	37,017	▲ 5,851
Total assets	134,384	140,993	▲ 6,609
Total liabilities	52,541	56,392	▲ 3,851
Loans	12,713	14,769	▲ 2,056
Lease and guarantee deposits	9,084	9,101	▲ 17
Deferred tax liabilities	8,622	10,591	▲ 1,969
Total net assets	81,843	84,601	▲ 2,758
Valuation difference on available-for-sale securities	14,264	17,289	▲ 3,025
Total liabilities and net assets	134,384	140,993	▲ 6,609

- Down due to depreciation

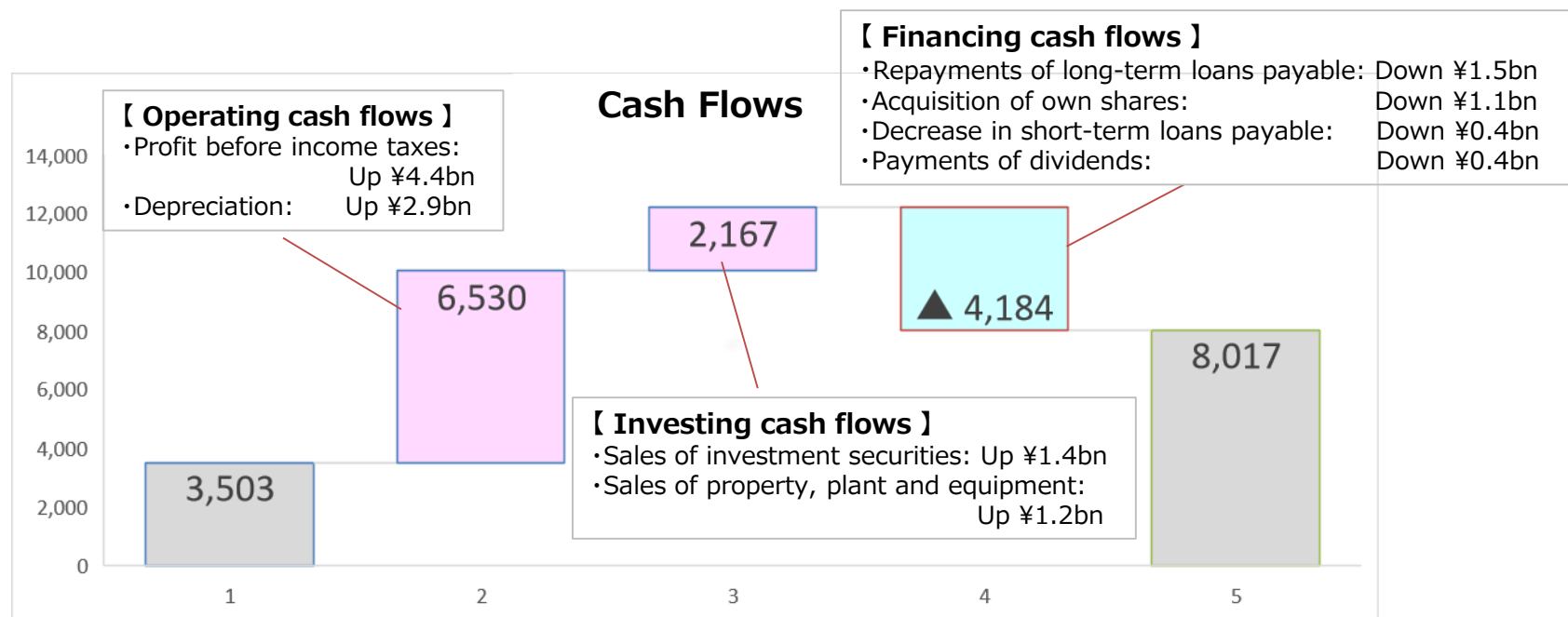
- Down due to repayment

- Fall in market values of investment securities
- Sale of cross-shareholdings

Consolidated Statement of Cash Flows

Financial Results of 2020

(Million yen)	2020Actual	2019Actual
Cash and cash equivalents at beginning of year	3,503	7,091
Operating cash flows	6,530	4,943
Investing cash flows	2,167	▲ 3,553
Financing cash flows	▲ 4,184	▲ 4,978
Net increase (decrease) in cash and cash equivalents	4,514	▲ 3,588
Cash and cash equivalents at end of year	8,017	3,503



Capital Expenditures, Depreciation and R&D Expenditures

Financial Results of 2020

(Million yen)		2020Actual	2019Actual	YoY change
		A	B	A-B
	Real Estate	209	588	▲ 379
	Other Segment	1,318	2,107	▲ 789
Capital expenditures		1,527	2,695	① ▲ 1,168

① Due to the impact of COVID-19, the Company carefully considered how much capital expenditures to make.

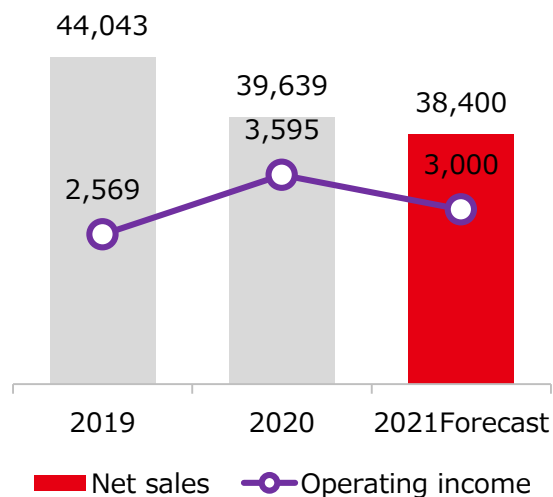
	Real Estate	1,569	1,676	▲ 107
	Pharmaceuticals	946	965	▲ 19
	Other Segment	440	457	▲ 17
Depreciation		2,955	3,098	▲ 143

	Pharmaceuticals	1,981	2,015	▲ 34
	Other Segment	65	129	▲ 64
R&D Expenditures		2,046	2,144	▲ 98

2. 2021 Forecast

(Million yen)	2021Forecast	2020Actual	YoY change	change ratio
	A	B	C=A-B	C/B
Net sales	38,400	39,639	▲ 1,239	-3.1%
Operating income	3,000	3,595	▲ 595	-16.6%
Operating income ratio	7.8%	9.1%	▲ 1.3pt	
Ordinary income	3,800	4,544	▲ 744	-16.4%
Extraordinary income	4,100	1,752	2,348	—
Extraordinary loss	▲ 1,400	▲ 1,827	427	—
Profit before income taxes	6,500	4,469	2,031	—
Profit attributable to owners of parent	4,400	2,871	1,529	53.3%

【Three-Year Summary】



【 Net sales・Operating income 】

- Expected decrease in sales and earnings
(Details are given on next page)

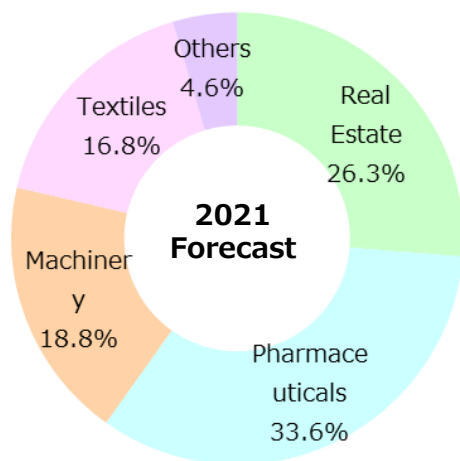
【 Major extraordinary income (loss) 】

- Gain on sales of non-current assets: 4,100
- Extraordinary loss: (1,400)
(Machinery and real estate)

(Million yen)	2021Forecast		2020Actual		YoY change	
	A		B		C=A-B	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Real Estate	10,100	3,450	9,827	3,691	① 273	▲ 241
Pharmaceuticals	12,900	300	13,729	579	②▲ 829	▲ 279
Machinery	7,200	0	8,069	93	③▲ 869	▲ 93
Textiles	6,450	250	6,353	274	97	▲ 24
Others	1,750	100	1,659	103	91	▲ 3
adjustments	-	▲ 1,100	-	▲ 1,146	-	46
Total	38,400	3,000	39,639	3,595	▲ 1,239	▲ 595



Business Segment Sales



① : Increase in sales, but decrease in earnings in real estate

- Despite the expected gradual improvement from the COVID-19, earnings are expected to decrease due to expenses for partially renewing a major property, COCOON City, and strategic investment for keeping existing facilities fresh, as well as expenses to be incurred for the Olympics and Paralympics

② : Decrease in sales and earnings in pharmaceuticals

- Sales and earnings are expected to decrease due to the impact of drug price revisions

③ : Decrease in sales and earnings in machinery

- Decreases in sales and earnings due to withdrawal from Mechatronics Division

(Million yen)		2021Forecast	2020Actual	YoY change
		A	B	A-B
Real Estate	1,540	209	①	1,331
Other Segment	1,370	1,318		52
Capital expenditures	2,910	1,527		1,383

①The Company expects to make strategic investments for developing Company-owned land in Fukushima, keeping existing facilities fresh, etc.

Real Estate	1,500	1,569		▲ 69
Pharmaceuticals	810	946		▲ 136
Other Segment	470	440		30
Depreciation	2,780	2,955		▲ 175

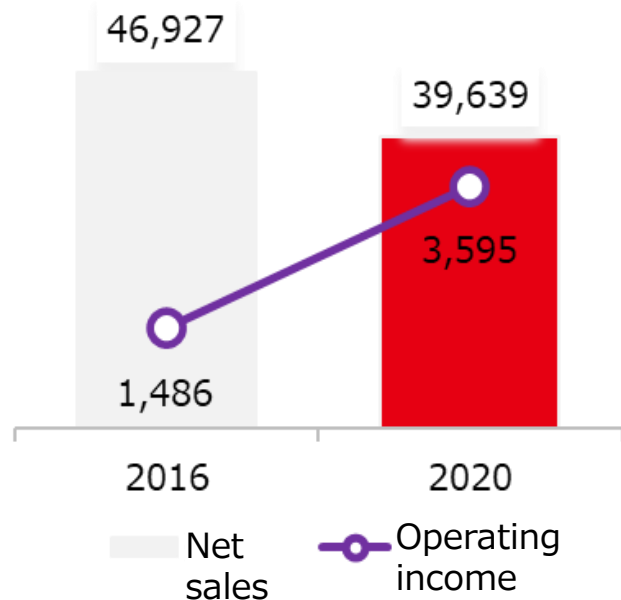
Pharmaceuticals	2,100	1,981		119
Other Segment	90	65		25
R&D Expenditures	2,190	2,046		144

3 . Summary of Structural Reforms and Future Direction

Summary of Structural Reforms

Due to the structural reforms carried out since 2017, earnings increased ¥2.1 billion despite the decrease in sales

Consolidated

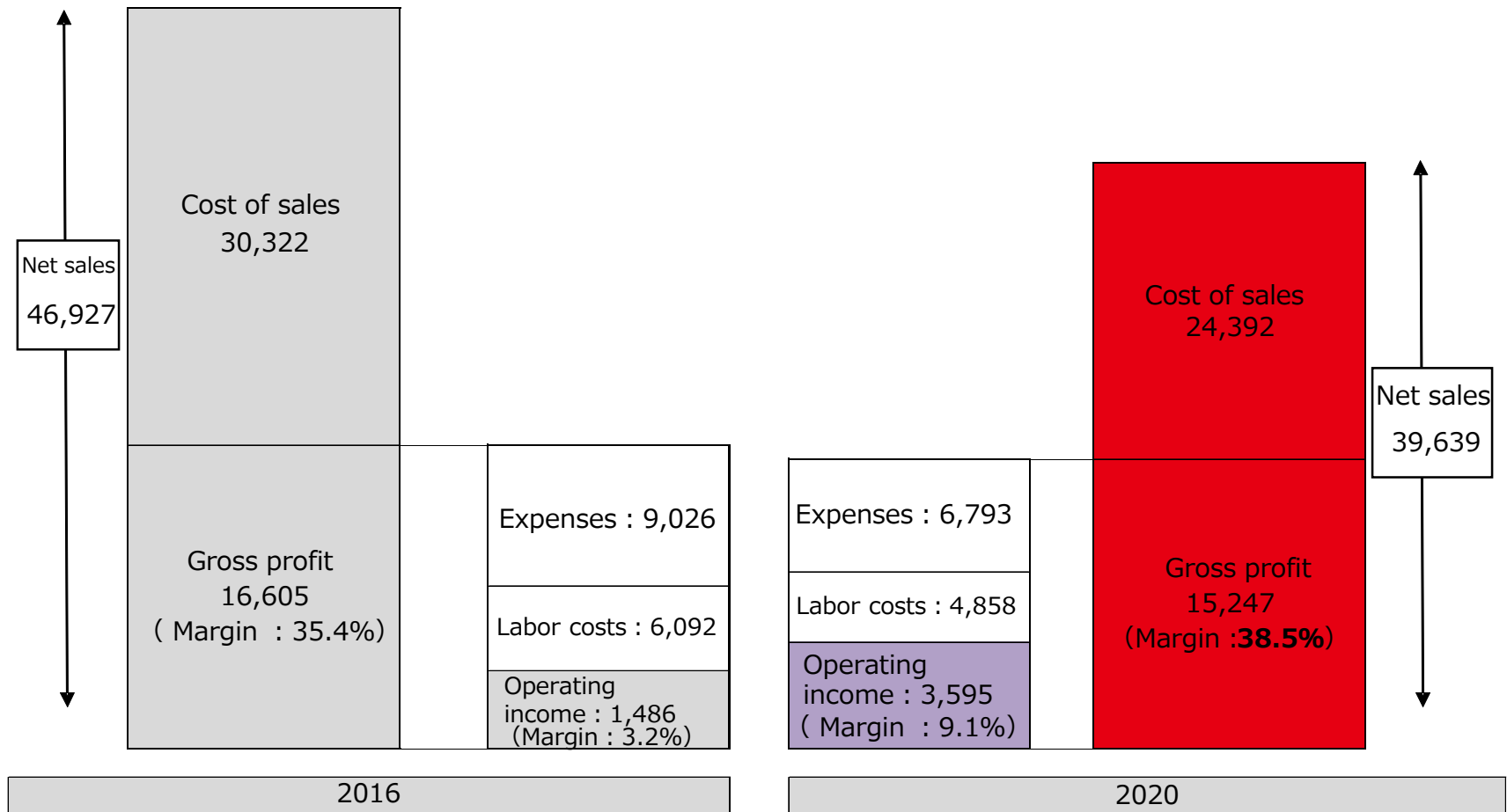


In February 2017, the Company announced “Katakura 2021,” a medium-term management plan ending in FY2021. The Company started to carry out structural reforms based on the basic strategy of “Shift to Growth Businesses.”

- Especially for unprofitable businesses, the Company extended the period for structural reforms by one year due to further weakening in the business environment after the development of the plan, and significantly downsized or withdrew from businesses that were not likely to become profitable in FY2020.
- By decisively carrying out structural reforms, even though “Katakura 2021” was withdrawn in June 2020 because the business portfolio was different from the one initially assumed, **the income structure improved significantly (Details are given on next page).**

Summary of Structural Reforms

The Company has strengthened its earnings-generating base by improving gross profit ratio by 3.1pt and operating income ratio by 5.9pt



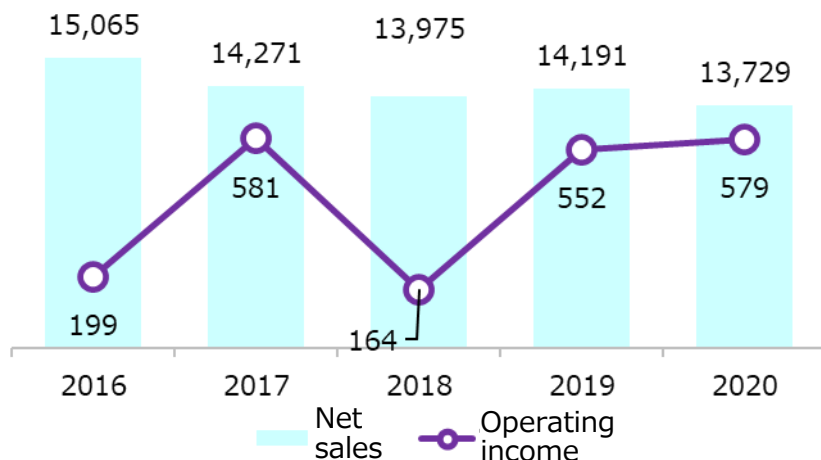
Summary of Structural Reforms

All segments were profitable in 2020

(Million yen)		2016	2017	2018	2019	2020
		Actual	Actual	Actual	Actual	Actual
Real Estate	Net sales	10,188	10,380	10,465	10,731	9,827
	Operating income	3,176	3,575	3,774	4,101	3,691
Pharmaceuticals	Net sales	15,065	14,271	13,975	14,191	13,729
	Operating income	199	581	164	552	579
Machinery	Net sales	9,412	9,689	9,052	9,481	8,069
	Operating income	88	▲ 168	▲ 456	▲ 234	93
Textiles	Net sales	9,635	9,132	8,259	7,839	6,353
	Operating income	▲ 250	▲ 135	▲ 114	▲ 123	274
Others	Net sales	2,626	2,712	2,555	1,799	1,659
	Operating income	▲ 511	▲ 384	▲ 288	▲ 58	103
adjustments	Operating income	▲ 1,216	▲ 1,566	▲ 1,548	▲ 1,666	▲ 1,146
Total	Net sales	46,927	46,185	44,308	44,043	39,639
	Operating income	1,486	1,901	1,531	2,569	3,595

Summary of Structural Reforms

Pharmaceuticals



【 Items to implement for structural reforms 】

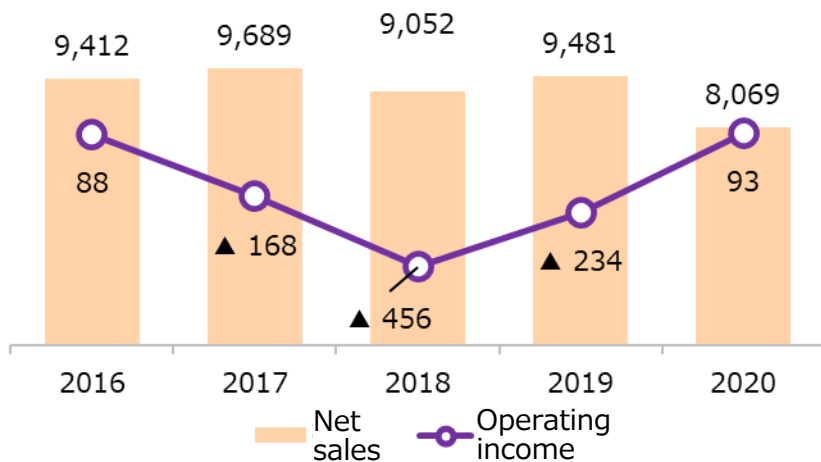
- Expect business environment to remain difficult due to initiatives to curtail health care expenditures and drug price revision
- Enhance generic drug product line-up
 - Launched Intravenous Amiodarone, Torsemide tablet, two ingredients and three products (June 2018)
 - Obtained approval of manufacturing and marketing Ezetimibe tablet (February 2020)
- Expand sales through out-licensing
 - Signed basic framework agreement in China for development and sale of Bisono 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 cardiomyovasculopathy “CNT-01” (February 2020)

【 Issues to be addressed 】

In the pharmaceutical industry, due to the impact of annual drug price revisions starting in April 2021 and other factors, the business environment will become even more challenging. Going forward, the Company will further strengthen its current initiatives for enhancing the generic drug product line-up, expanding sales through out-licensing and efficient drug discovery by in-licensing, such as joint research. In addition to these, the Company will work to establish a stable earning foundation by further revising the cost structure in sales, production and research.

Summary of Structural Reforms

Machinery



【 Items to implement for structural reforms 】

Withdrawal from agricultural machinery business

(December 2019)

Decision made to withdraw from the design, manufacturing and sale of automotive parts, industrial valves, etc. (November 2020)

- Certain results attained through renewal of management structure and initiatives of rebuilding sales structure and productivity improvement in the fire engine business
- Decision made to freeze production of some unprofitable vehicles after reviewing product line-up

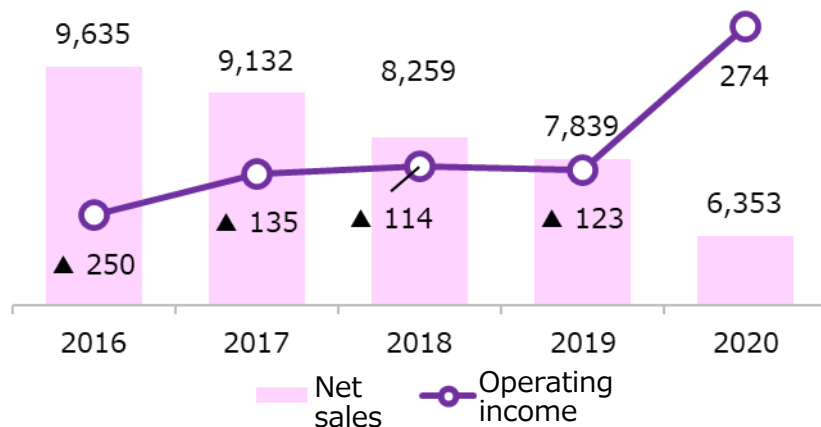
【 Issues to be addressed 】

In the **fire engine business**, the Company will continue to improve profitability through initiatives for improving productivity while increasing the accuracy of orders.

In addition, the Company is working to **further strengthen the earning foundation** by expanding new business areas.

Summary of Structural Reforms

Textiles



【 Items to implement for structural reforms 】

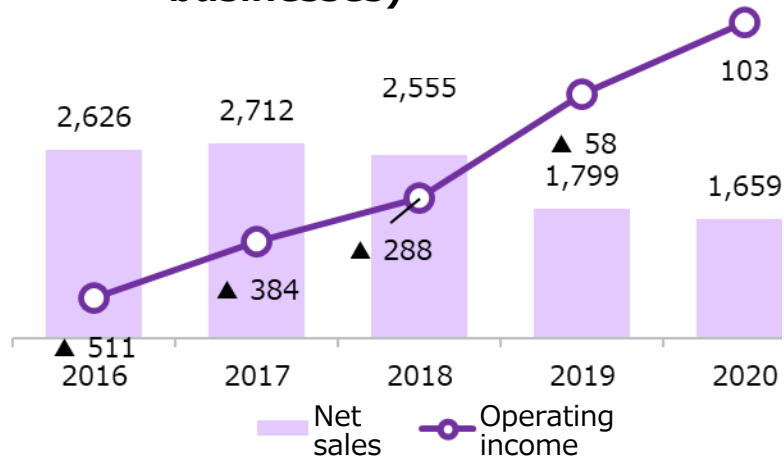
- Withdrawal from foundation undergarments (April 2018)
- Decision on significant downsizing of Apparel business and partial business transfer to our consolidated subsidiary (May 2020)
- Consolidation of logistics centers to reduce logistics costs (December 2020)

【 Issues to be addressed 】

- In the **practical clothing business**, in addition to significantly downsizing the Company's apparel business, the Company implemented a partial business transfer to a consolidated subsidiary, as well as a consolidation of domestic logistics centers. Going forward, **in addition to reducing costs and expanding sales channels through consolidation, the Company will further strengthen its earning power by enhancing its lineup of nursing care products and other high value-added products.**
- **For functional fibers, the Company will further develop new high-functional materials and applications for heat-resistant fibers, and expand sales channels.**

Summary of Structural Reforms

Other segments (former new businesses)



[Items to implement for structural reforms]

- 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)

Summary of Structural Reforms

Expanded preferential retirement benefit system and conducted 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 a major transformation, employees who seek to change careers, etc. were provided with options

		2016	2017	2018	2019	2020	Change from 2016 to 2020
Number of employees	Consolidated	1,381	1,350	1,292	1,169	1,069	▲ 312
	Non-consolidated (the Company)	349	338	319	233	137	▲ 212

Decrease in labor costs by reducing the number of employees, and decrease in rent expenses by reducing office space

Revision of work, and improvement of productivity

Future Direction

< 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
- Continue to have a cautious stance in the short term, and respond flexibly. Develop plans in the medium to long term while confirming and considering whether the COVID-19 pandemic has been brought under control, changes in society, etc.

<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

Strengthening the risk management structure

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

Work style reform/Capability building

- Actively appoint personnel to higher positions from within and outside the Company and systematically develop personnel through training, etc.
- Introduction of programs for consecutive leave and staggered working hours, satellite offices, etc. to create a work environment where each and every employee can continue to work with peace of mind and maximize their potential

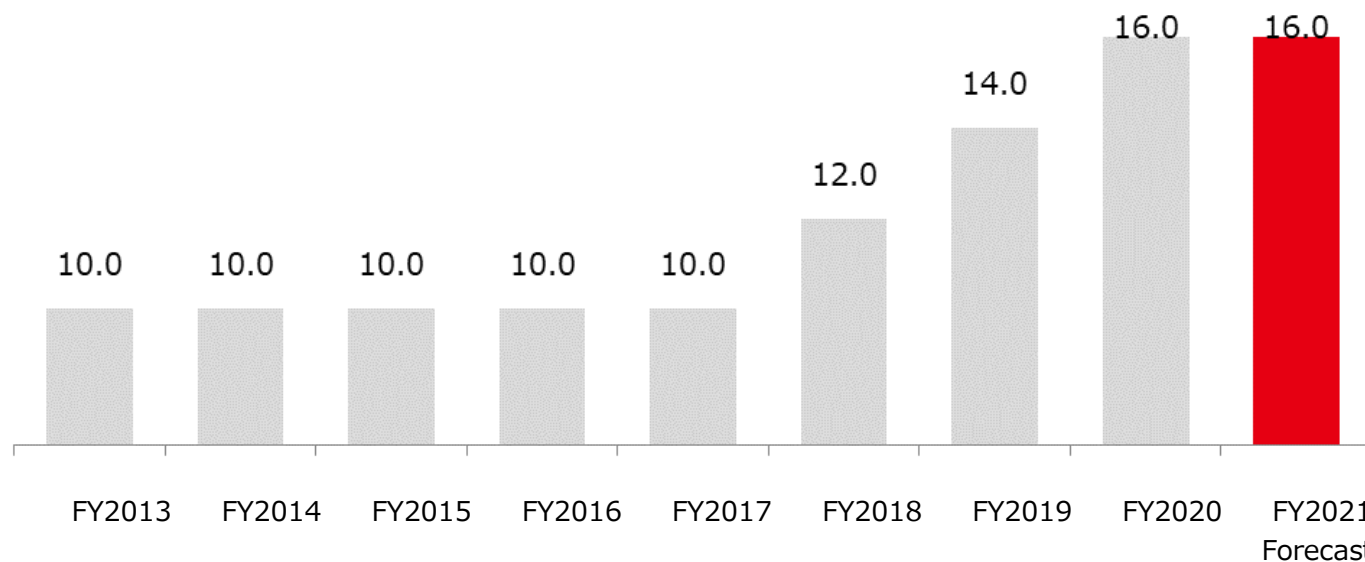
Continual sale of cross-shareholdings

- Sold shares judged to be less significant
 - 2018: ¥34 million,
 - 2019: ¥727 million
 - 2020: ¥1,106 million
- (All figures based on gain on sales)

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)	1,001	268	226	1,691	1,224	1,283	1,732	2,874	4,400
Net income per share(yen)	28.50	7.62	6.44	48.11	34.83	36.56	49.42	82.71	126.74
Dividend payout ratio(%)	35.1%	131.2%	155.2%	20.8%	34.5%	32.8%	28.3%	28.3%	12.6%

By the end of January 2021, the Company had acquired 1,032,000 shares of its own shares for ¥1,253 million.

➤ **< Acquisition of Own Shares >**

- The Company carries out the acquisition of its own shares in order to enhance shareholder returns as well as improve capital efficiency.

Total number of shares to be acquired: 2,500,000 shares (upper limit)

Total cost for share acquisition: ¥2.5 billion (upper limit)

Acquisition period: April 2020 to March 2021

Shares acquired from April 1, 2020 to January 31, 2021

	Number of shares (shares)	Amount (Million yen)
Upper limit	2,500,000	2,500
Shares acquired during the period	1,032,500	1,253
Progress rate	41.3%	50.1%
Remaining	1,467,500	1,247

Founded 1873
Established 1920

Silk thread production



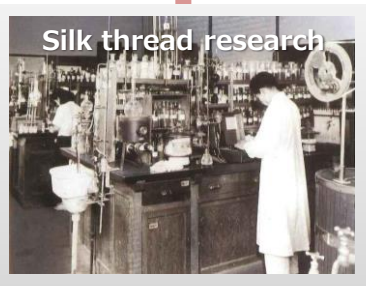
Raw silk



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



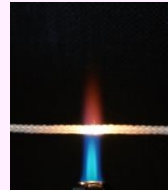
Apparel

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



Mechatronics

Vibration bubbling cleanser



Fire truck



Nihon Kikai Kogyo Co., Ltd.

Other segments

(*) 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. —

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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>