

Financial Results of 2020 2nd Quarter

KATAKURA INDUSTRIES CO., LTD.

(Code 3001, TSE 1st section)

August 28, 2020

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➤ **Financial Results of 2nd Quarter Exceeded Forecast (August 13 Release)**

- Net sales was lower than the forecast due to a decrease in tenant rent resulting from COVID-19 pandemic in real estate and postponement of shipments of fire engines to 2H in machinery.
- Each income figure exceeded its forecast as a result of a reduction of sales-related expenses in each business, despite lower sales in commercial facilities.

➤ **Slight Downward Revision to 2020 Forecast (August 13 Release)**

- Net sales and each income figure are expected to be lower than the initial forecast mainly due to the impact of COVID-19 in real estate, machinery and textiles.

➤ **Topics**

With the completion of the following measures, structural reforms have reached a certain level.

- Conducted an early retirement program (April 2020)
- Implemented significant downsizing of the apparel business and partial business transfer to our consolidated subsidiary (May 2020)

In addition, in machinery, which has reached a certain level of structural reforms, made a consolidated subsidiary (Nihon Kikai Kogyo Co., Ltd.) a wholly owned subsidiary (July 2020)

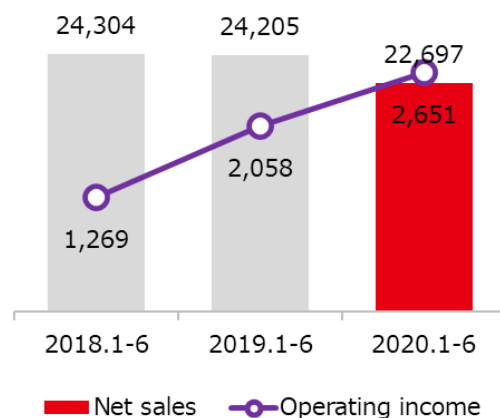
2. Financial Highlights of 2020 2nd Quarter

Consolidated Income Statement

(Million yen)

	2020.1-6Actual	2019.1-6Actual	YoY change	2020.1-6Forecast	Actual vs. Forecast
	A	B	A-B	C	A-C
Net sales	22,697	24,205	(1,508)	24,100	(1,403)
Operating income	2,651	2,058	593	1,800	851
Operating income ratio	11.7%	8.5%	3.2pt	7.5%	4.2pt
Ordinary income	3,068	2,548	520	2,100	968
Extraordinary income	0	255	(255)	—	—
Extraordinary loss	(1,273)	(599)	(674)	—	—
Profit before income taxes	1,794	2,204	(410)	—	—
Profit attributable to owners of parent	1,008	1,392	(384)	400	608

【Three-Year Summary】



【Net sales・Operating income】

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

【Extraordinary loss】

- Extra retirement payments:
2020 : (993)
2019 : (519)
- Loss on COVID-19 impact:
Down 280

【Net sales・Operating income】

- Lower sales mainly in real estate and machinery
- Increase in earnings due to a reduction of sales-related expenses in each business

【Profit attributable to owners of parent】

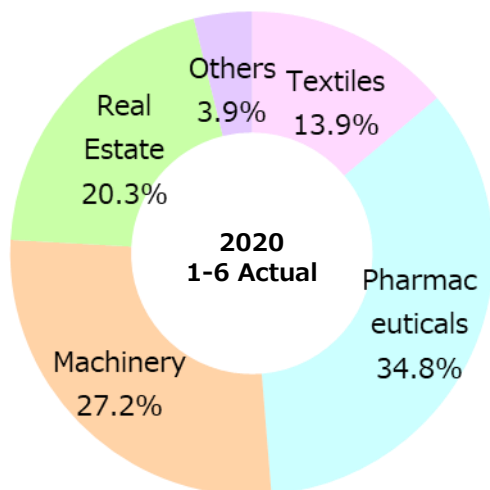
- Decrease in earnings due to a deterioration of extraordinary income (loss)

Consolidated Income Statement / Business Segment

(Million yen)

	2020.1-6Actual		2019.1-6Actual		YoY change	
	A		B		A-B	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Textiles	3,155	173	3,740	78	① (585)	95
Pharmaceuticals	7,899	953	7,146	468	② 753	485
Machinery	6,168	280	7,007	224	③ (839)	56
Real Estate	4,596	1,794	5,353	2,119	④ (757)	(325)
Others	877	68	957	(10)	(80)	78
adjustments	-	(619)	-	(821)	-	⑤ 202
Total	22,697	2,651	24,205	2,058	(1,508)	593

Business Segment Sales



①: Lower sales, but increase in earnings in textiles

- Business downsizing for practical clothing, lower sales due to the impact of COVID-19 and increase in earnings due to lower labor costs, etc.
- Sales and earnings were flat in functional fibers

②: Increase in sales and earnings in pharmaceuticals

- Increase in sales and earnings due to deliveries to distributors in preparation for a pandemic

③: Lower sales, but increase in earnings in machinery

- Lower sales due to spot orders for overseas ODA of fire engines in the previous term and high gross margin orders received from an electric power company
- Increase in earnings due to an improvement in profitability resulting from initiatives for cost reductions

④: Decrease in sales and earnings in real estate

- Decrease in sales and earnings due to lower rent revenue resulting from the impact of COVID-19

⑤: Decrease in amount of adjustments

- Decrease in labor costs in back-office departments by conducting an early retirement program

Consolidated Balance Sheet

(Million yen)

	2020.6	2019.12	YoY change
	A	B	A-B
Current assets	49,470	52,549	(3,079)
Non-current assets	84,591	88,444	(3,853)
Property, plant and equipment	47,219	47,979	(760)
Intangible assets	533	512	21
Investments and other assets	36,838	39,952	(3,114)
Investment securities	33,164	37,017	(3,853)
Total assets	134,061	140,993	(6,932)
Total liabilities	51,631	56,392	(4,761)
Loans	13,853	14,769	(916)
Lease and guarantee deposits	9,106	9,101	5
Deferred tax liabilities	9,114	10,591	(1,477)
Total net assets	82,430	84,601	(2,171)
Valuation difference on available-for-sale securities	14,852	17,289	(2,437)
Total liabilities and net assets	134,061	140,993	(6,932)

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

- Fall in market values of investment securities

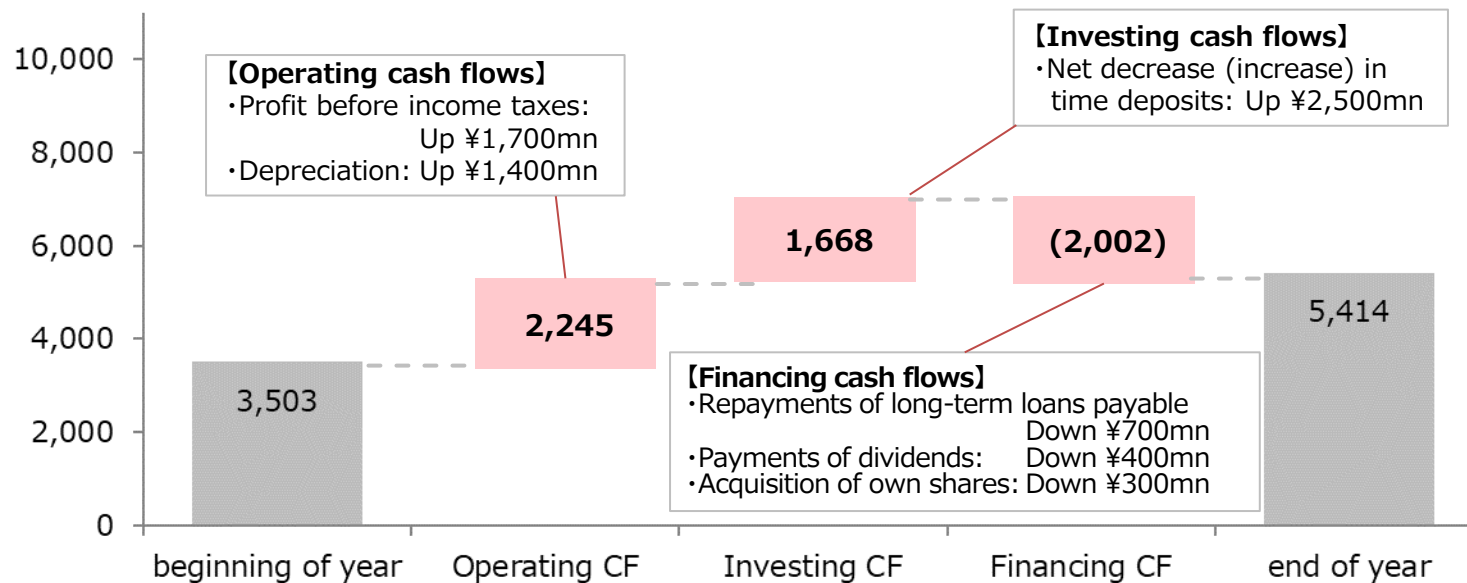
- Down due to repayment

Consolidated Statement of Cash Flows

(Million yen)

	2020.1-6Actual	2019.1-6Actual
Cash and cash equivalents at beginning of year	3,503	7,091
Operating cash flows	2,245	3,104
Investing cash flows	1,668	(1,652)
Financing cash flows	(2,002)	(4,089)
Net increase (decrease) in cash and cash equivalents	1,911	(2,637)
Cash and cash equivalents at end of year	5,414	4,454

Cash Flows



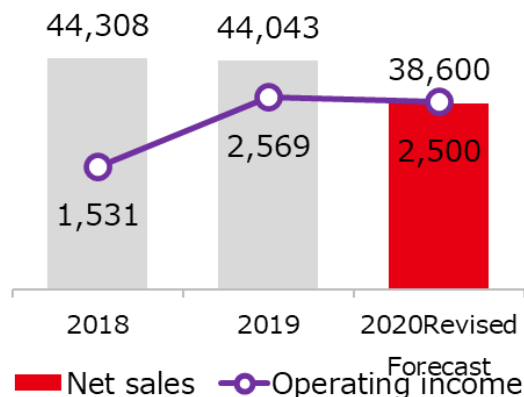
3. 2020 Forecast

Consolidated Income Statement / Forecast

(Million yen)

	2020 Revised Forecast	2019 Actual	YoY change
	A	B	A-B
Net sales	38,600	44,043	(5,443)
Operating income	2,500	2,569	(69)
Operating income ratio	6.5%	5.8%	0.7pt
Ordinary income	3,250	3,430	(180)
Extraordinary income	1,000	853	147
Extraordinary loss	(1,400)	(1,216)	(184)
Profit attributable to owners of parent	1,600	1,732	(132)

【Three-Year Summary】



【Net sales・Operating income】

- Net sales will decrease, but operating income 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)
- 2020: Plan to sell cross-shareholdings, company-owned land, etc.

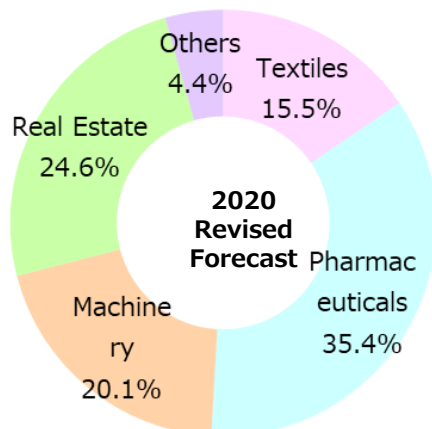
Extra retirement payments	(993)
Loss on COVID-19 impact	(280)

Consolidated Income Statement / Business Segment Forecast

Net sales will decrease due to downsizing or withdrawing from unprofitable businesses and the impact of COVID-19, but operating income is expected to be generally flat due to improved profitability in each business resulting from a significant drop in fixed costs as part of the early retirement program, review of expenses, etc.

	2020 Revised Forecast		2019 Actual		YoY change	
	A		B		A-B	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Textiles	6,000	50	7,839	(123)	① (1,839)	173
Pharmaceuticals	13,650	300	14,191	552	(541)	(252)
Machinery	7,750	(100)	9,481	(234)	② (1,731)	134
Real Estate	9,500	3,250	10,731	4,101	③ (1,231)	(851)
Others	1,700	100	1,799	(58)	(99)	158
adjustments	–	(1,100)	–	(1,666)	–	④ 566
Total	38,600	2,500	44,043	2,569	(5,443)	(69)

Business Segment Sales



①: Lower sales, but increase in earnings in textiles

- Lower sales due to business downsizing for practical clothing and the impact of COVID-19, but an increase in earnings due to lower labor costs, etc.

②: Lower sales and reporting of operating losses for the full year despite an upturn in machinery

- Lower sales due to orders for overseas ODA of fire engines and orders received from an electric power company in the previous term
- Lower sales in the machinery processing department mainly due to the large impact of COVID-19 and production cuts by major clients
- Operating losses due to lower sales in the machinery processing department despite an upturn due to initiatives for cost reductions and lower labor costs

③: Decrease in sales and earnings in real estate

- Decrease in sales and earnings due to lower rent revenue resulting from the impact of COVID-19

④: Decrease in amount of adjustments

- Decrease in labor costs, etc. in back-office departments by conducting an early retirement program

(Reference) 1H/2H Comparison by Segment

- In textiles, sales in 2H are expected to decline from 1H as the impact of COVID-19 is likely to continue for the time being. In particular, conservatively factoring in the effect of the slump in demand for high-margin functional fibers in the automotive industry, operating income is forecast to fall.
- In pharmaceuticals, the results in 2H are expected to be substantially lower due to the fallback after meeting the demands for building up inventory from clients in 1H in preparation for a pandemic and due to the impact of drug price revisions in April and thereafter.
- In machinery, because fire engine deliveries were concentrated in the period from January to March, 2H is on a downward trend in typical years.
- In real estate, although net sales in 2H and thereafter are expected to gradually recover from the impact of COVID-19, operating income is forecast to fall from 1H due to an increase in expenses for sales promotions, repairs, etc.

(Million yen)

	2020 First half		2020 Second half Forecast		Increase and decrease	
	A		B		B-A	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Textiles	3,155	173	2,845	(123)	(310)	(296)
Pharmaceuticals	7,899	953	5,751	(653)	(2,148)	(1,606)
Machinery	6,168	280	1,582	(380)	(4,586)	(660)
Real Estate	4,596	1,794	4,904	1,456	308	(338)
Others	877	68	823	32	(54)	(36)
adjustments	–	(619)	–	(481)	–	138
Total	22,697	2,651	15,903	(151)	(6,794)	(2,802)

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

(Million yen)

	2020 Revised Forecast	2019 Actual	YoY change	2020 Initial Forecast	Difference
	A	B	A-B	C	A-C
Real Estate	273	588	(315)	420	(147)
Other Segment	1,467	2,107	(640)	1,700	(233)
Capital expenditures	1,740	2,695	(955)	2,120	(380)

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

Real Estate	1,569	1,676	(107)	1,580	(11)
Pharmaceuticals	946	965	(19)	980	(34)
Other Segment	435	457	(22)	430	5
Depreciation	2,950	3,098	(148)	2,990	(40)

Pharmaceuticals	2,068	2,015	53	2,070	(2)
Other Segment	102	129	(27)	160	(58)
R&D Expenditures	2,170	2,144	26	2,230	(60)

4. Current Situation and Future Direction of the Company

(1) Current Situation

- The Company announced “Katakura 2021,” a medium-term management plan ending in FY2021, on February 14, 2017, and carried 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.
- As a result, because the business portfolio was significantly different from the one assumed when developing the plan, the Group withdrew the medium-term management plan “Katakura 2021” on June 25, 2020. However, as a result of promoting reform measures, such as the expansion of preferential retirement benefit system, early retirement program and review of expenses, the Company was able to substantially reduce fixed costs and improve the income structure. (Details are given on page 16.)
- While the Company was able to improve profitability through structural reforms, the COVID-19 pandemic that emerged at the beginning of 2020 greatly changed the business environment surrounding the Company and impacted the overall business performance of the Group. (Details are given on page 17.)

(2) Current Situation (Improved Profitability Through Structural Reforms)

(Million yen)			2016	2017	2018	2019	2020	Details
			Actual	Actual	Actual	Actual	Forecast	
Textiles	Net sales		9,635	9,132	8,259	7,839	6,000	Improved profitability due to downsizing or withdrawing from unprofitable businesses despite lower sales
	Operating income		(250)	(135)	(114)	(123)	50	
Pharmaceuticals	Net sales		15,065	14,271	13,975	14,191	13,650	Improved profitability through initiatives for cost reductions despite lower sales due to the impact of drug price revisions, etc.
	Operating income		199	581	164	552	300	
Machinery	Net sales		9,412	9,689	9,052	9,481	7,750	Significant impact of COVID-19 on the contract manufacturing department despite improved earning power by withdrawing from unprofitable businesses and improving productivity
	Operating income		88	(168)	(456)	(234)	(100)	
Real Estate	Net sales		10,188	10,380	10,465	10,731	9,500	Improved profitability despite the impact of a decrease in tenant rent in 2020 due to COVID-19
	Operating income		3,176	3,575	3,774	4,101	3,250	
Others	Net sales		2,626	2,712	2,555	1,799	1,700	Improved profitability despite lower sales due to withdrawing from all five new businesses
	Operating income		(511)	(384)	(288)	(58)	100	
adjustments	Operating income		(1,216)	(1,566)	(1,548)	(1,666)	(1,100)	Reduced administrative department costs
Total	Net sales		46,927	46,185	44,308	44,043	38,600	Increased earnings and upturn in profit margin due to improved profitability in each business despite lower sales due to downsizing or withdrawing from businesses and the impact of COVID-19
	Operating income		1,486	1,901	1,531	2,569	2,500	
	Operating income ratio		3.2%	4.1%	3.5%	5.8%	6.5%	

		2016	2017	2018	2019	2020.6	Details
Number of employees	Consolidated	1,381	1,350	1,292	1,169	1,083	Significantly reduced fixed costs due to a reduction in personnel, etc. through the expansion of preferential retirement benefit system, early retirement program, etc.
	Non-consolidated (the company)	349	338	319	233	133	

(3) Current Situation (Impact of COVID-19 and Future Issues)

Business segment (listed by impact of COVID-19)		Impact of COVID-19	Future issue
Pharmaceuticals		Minimal impact	Continue aiming to establish a stable earning foundation by further revising the cost structure in sales, production and research
Machinery	Fire engines	Minimal impact	Further improve production efficiency, such as through measures for slow seasons, and improve earning rate
Textiles	Practical clothing	Medium-level impact Decrease in sales due to restrained purchases from clients	Leverage integrated synergies, strengthen earning power by enhancing high-value-added nursing care products and promote cost reductions by consolidating logistics functions
	Functional fibers	Medium-level impact Decrease in sales due to a drop in orders for automotive applications	Develop new high-functional materials and applications for heat-resistant fibers
Real estate		Large impact Decrease in tenant rent	Formulate a future development policy based on the real estate conditions in the “with COVID-19 era”
Machinery	Contract manufacturing, etc.	Large impact Impact of production cuts by major clients (automotive industry)	Acquire new orders and review the business

(4) Future Direction

- Although the Company was able to improve profitability by carrying out structural reforms, COVID-19 has had a significant impact on each business in the Group and it has become necessary to conduct a further business review depending on the business.
- In the future, in light of changes in the business environment brought about by COVID-19, the Company will conduct a further review of the businesses, as well as carefully consider allocating management resources to real estate and other growth businesses and creating new core businesses through business alliances with other companies, M&A investments, etc. In addition, the Company aims to improve medium- to long-term corporate value by further improving capital efficiency and raising dividends to an appropriate level.
- The Company will announce the plan for FY2021 and thereafter once it is able to formulate the plan again.

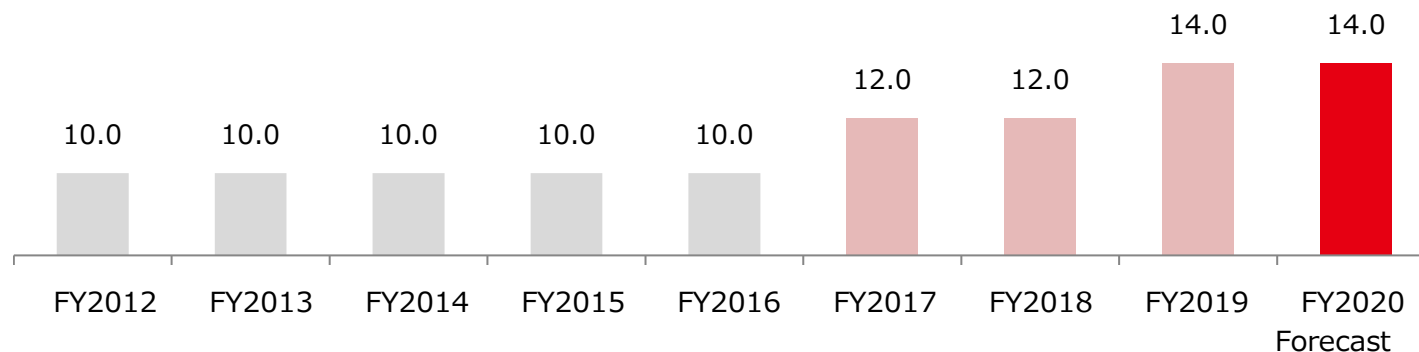
5. Dividends and Dividend Policy

< 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.

< 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),
and acquisition period: April 2020 to March 2021



Net income (Million yen)	701	1,001	268	226	1,691	1,224	1,283	1,732	1,600
Net income per share (yen)	19.95	28.50	7.62	6.44	48.11	34.83	36.56	49.42	45.90
Dividend payout ratio (%)	50.1%	35.1%	131.2%	155.2%	20.8%	34.5%	32.8%	28.3%	30.5%

《参考資料①》カタクラグループの多角化起源

創業 1873年 (明治6年)

設立 1920年 (大正9年)

カイト
垣外製糸場



生糸



富岡製糸場の保有
1939～2005年
(66年間)



生糸製造

生糸製造の伝統を受け継ぐ

繊維事業

衣料品事業室
肌着、靴下の製造・販売

オグランジャパン(株)
カジュアルインナーの製造・販売

(株)ニチビ
水溶性繊維、耐熱性繊維の
製造・販売

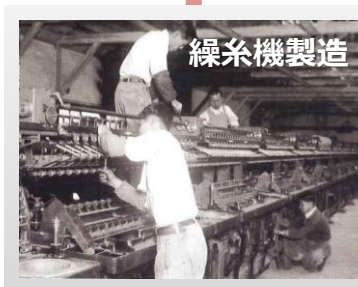


蚕糸関連研究

優良蚕品種研究を活かす

医薬品事業

トーアエイヨー(株)
医療用医薬品の製造・販売



繰糸機製造

自社開発の製造ノウハウを活かす

機械関連事業

機械電子事業部
自動車部品の製造・販売
石油製品等の輸入販売

日本機械工業(株)
消防自動車の製造・販売



製糸工場

跡地を有効利用する

不動産事業

不動産事業部
社有地の開発・活用
ショッピングセンターの運営
不動産賃貸

《参考資料②》カタクラグループの事業構成

繊維事業

介護肌着

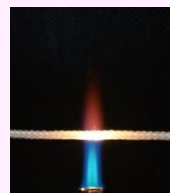


衣料品事業室／オグランジャパン(株)

ライセンス製品



アルミナ長繊維
(耐熱性繊維)



(株)ニチビ

医薬品事業



トーアエイヨー(株)

不動産事業

複合施設 東京スクエアガーデン



不動産事業部

商業施設 コクーンシティ



機械関連事業

三岐弁



機械電子事業部

振動ハブリング
洗浄器



消防自動車



日本機械工業(株)

その他の事業

(※) 会計セグメントの「その他」に該当

交配専用みつばち



国産はちみつ



不動産事業部

植物とペットの専門 マルベリーガーデン



ビルの清掃等



(株)片倉キャロサービス

<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>