

Financial Results of 2022

KATAKURA INDUSTRIES CO., LTD.

(Code 3001, TSE Standard Market)

February 28, 2023

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1. Financial Highlights of 2022

Consolidated Income Statement

(Million yen)	2022 Actual	2021 Actual	YoY change
	A	B	A-B
Net sales	34,274	37,627	(3,353)
Operating income	1,369	2,797	(1,428)
Operating income ratio	4.0%	7.4%	(3.4)pt
Ordinary income	2,582	3,855	(1,273)
Extraordinary income	1,199	3,914	(2,715)
Extraordinary loss	—	(278)	278
Profit before income taxes	3,781	7,491	(3,710)
Profit attributable to owners of parent	2,817	4,953	(2,136)

Net sales & operating income

- Net sales and operating income decreased
(Details are given on the next page)

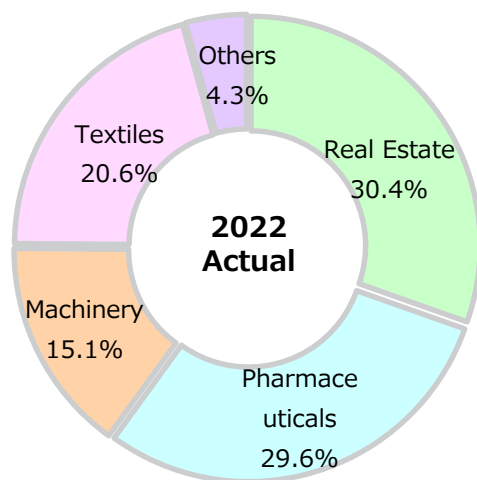
Major extraordinary income (loss)

- 2022
Gain on sales of non-current assets: 463M
Proceeds from sales of investment securities: 735M
- 2021
Gain on sales of non-current assets: 3,812M
Proceeds from sales of investment securities: 102M

Consolidated Income Statement / Business Segment

(Million yen)	2022 Actual		2021 Actual		YoY change	
	A		B		A-B	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Real Estate	10,415	3,946	10,125	3,590	① 290	356
Pharmaceuticals	10,128	(1,940)	12,132	105	② (2,004)	(2,045)
Machinery	5,187	(275)	7,171	47	③ (1,984)	(322)
Textiles	7,045	443	6,496	115	④ 549	328
Others	1,497	150	1,702	138	⑤ (205)	12
Adjustments	–	(955)	–	(1,200)	–	245
Total	34,274	1,369	37,627	2,797	(3,353)	(1,428)

Business Segment Sales



① Increase in sales and earnings in real estate

- Sales and earnings increased mainly due to tenant sales at the COCOON CITY Shopping Center trending toward recovery and the contribution of the Fukushima Shopping Center, which opened in October 2021, throughout this fiscal year.

② Decrease in sales and earnings in pharmaceuticals

- Sales and earnings decreased significantly mainly due to the temporary decrease in sales as a result of transitioning to a proprietary sales system and drug price revisions.

③ Decrease in sales and earnings in machinery

- Sales and earnings decreased mainly due to the fire truck business facing reduced replacement demand from local governments reflecting the impact of COVID-19 and lag periods due to delays in delivering chassis*.

*Refers to the basic parts (body) of an automobile pertaining to movement, including the engine and chassis frame.

④ Increase in sales and earnings in textiles

- Sales increased as a result of strong performances in heat-resistant and other functional fibers and underwear in practical clothing.
- Earnings increased in reaction to the additional estimation and recording of cost to remove asbestos in the previous fiscal year, despite the impact of higher purchase costs primarily resulting from the rapid depreciation of the yen.

⑤ Decrease in sales but increase in earnings in others

- Sales decreased due to reduced shipments of flower-visiting insects and other factors.
- Earnings inched up due to the decrease in labor costs in the building management services business and other factors.

Consolidated Balance Sheet

(Million yen)	2022.12	2021.12	YoY change
	A	B	A-B
Current assets	56,379	57,059	(680)
Non-current assets	81,734	82,914	(1,180)
Property, plant and equipment	43,171	44,789	(1,618)
Intangible assets	337	361	(24)
Investments and other assets	38,226	37,763	463
Investment securities	34,408	34,151	257
Total assets	138,114	139,973	(1,859)
Total liabilities	53,638	52,362	1,276
Notes and accounts payable - trade	4,823	4,377	446
Loans payable	13,912	11,017	2,895
Income taxes payable	818	1,471	(653)
Other current liabilities	1,921	2,361	(440)
Total net assets	84,475	87,611	(3,136)
Capital surplus	5,977	516	5,461
Retained earnings	49,247	47,095	2,152
Valuation difference on available-for-sale securities	15,466	15,593	(127)
Non-controlling interests	14,571	25,042	(10,471)
Total liabilities and net assets	138,114	139,973	(1,859)

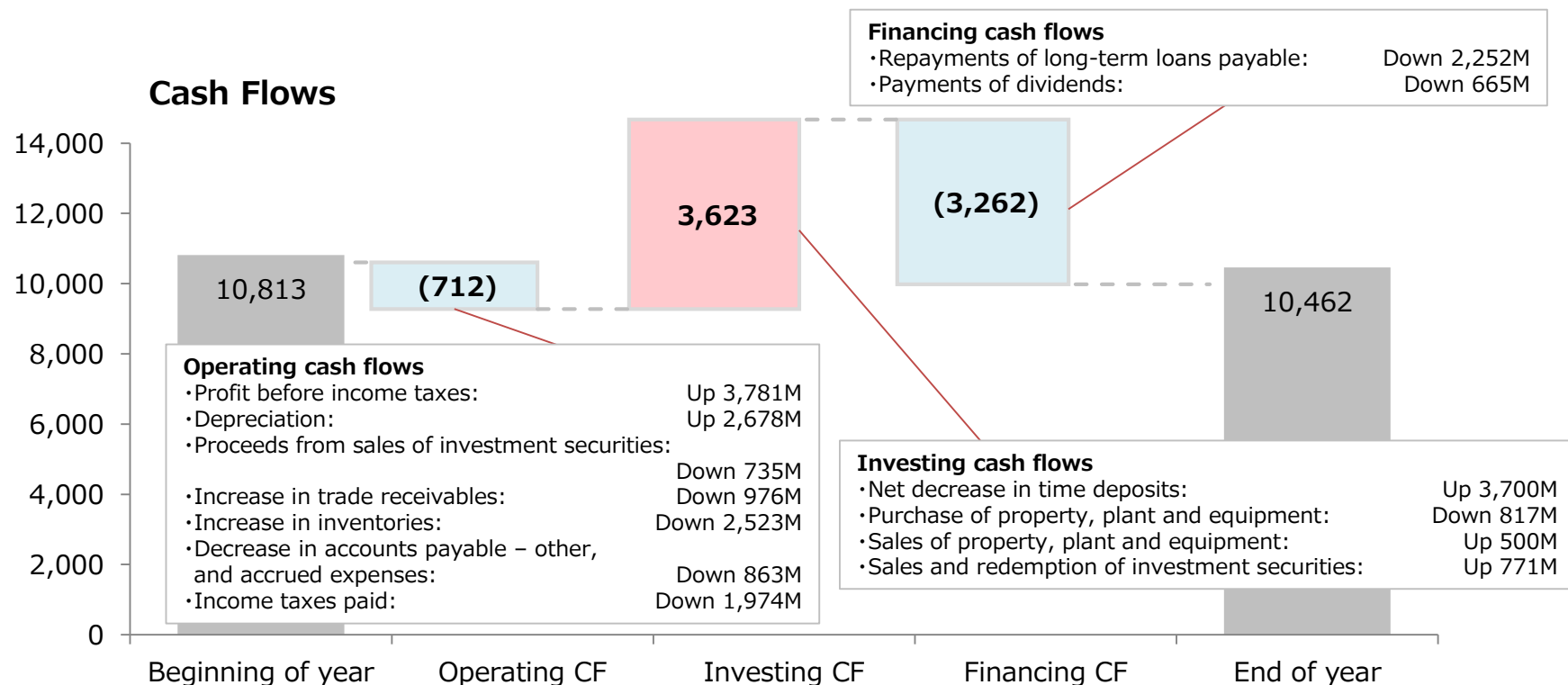
• Down due to depreciation

• Acquisition of additional shares of subsidiaries

• Up due to recording of profit

Consolidated Statement of Cash Flows

(Million yen)	2022 Actual	2021 Actual
Cash and cash equivalents at beginning of year	10,813	8,017
Operating cash flows	(712)	4,604
Investing cash flows	3,623	2,250
Financing cash flows	(3,262)	(4,059)
Net increase (decrease) in cash and cash equivalents	(351)	2,796
Cash and cash equivalents at end of year	10,462	10,813



Capital Expenditures, Depreciation and R&D Expenditures

(Million yen)		2022 Actual	2021 Actual	YoY change
		A	B	A-B
	Real Estate	103	311	(208)
	Pharmaceuticals	564	1,040	① (476)
	Other segments	283	832	② (549)
Capital expenditures		950	2,183	(1,233)

① Upgraded packaging machines and introduced video inspection devices in pharmaceuticals in FY2021

② Installed an additional firing furnace at a factory in textiles (functional fibers) in FY2021

	Real Estate	1,490	1,503	(13)
	Pharmaceuticals	791	810	(19)
	Other segments	397	945	③ (548)
Depreciation		2,678	3,258	(580)

③ Estimated and recorded additional costs to remove asbestos in textiles (functional fibers) in FY2021

	Pharmaceuticals	2,325	1,956	④ 369
	Other segments	78	92	(14)
R&D expenditures		2,403	2,048	355

④ Increased primarily due to progress of research stage for the new drug pipeline

2. 2023 Forecast

Consolidated Income Statement / Forecast

(Million yen)	2023 Forecast	2022 Actual	YoY change
	A	B	A-B
Net sales	38,500	34,274	4,226
Operating income	2,850	1,369	1,481
Operating income ratio	7.4%	4.0%	3.4pt
Ordinary income	4,000	2,582	1,418
Profit attributable to owners of parent	2,600	2,817	(217)

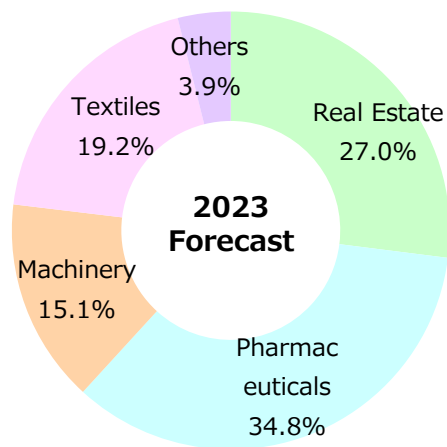
Net sales & operating income

- Expected increase in sales and earnings
(Details on each segment are given on the next page)

Consolidated Income Statement / Business Segment Forecast

(Million yen)	2023 Forecast		2022 Actual		YoY change	
	A		B		A-B	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Real Estate	10,400	3,650	10,415	3,946	① (15)	(296)
Pharmaceuticals	13,400	100	10,128	(1,940)	② 3,272	2,040
Machinery	5,800	(300)	5,187	(275)	③ 613	(25)
Textiles	7,400	450	7,045	443	355	7
Others	1,500	150	1,497	150	3	0
Adjustments	–	(1,200)	–	(955)	–	(245)
Total	38,500	2,850	34,274	1,369	4,226	1,481

Business Segment Sales



- ① **Same level of sales as FY2022 but decrease in earnings in real estate**
 - While expecting the same level of net sales as FY2022, operating income is forecast to decrease due to the effects of a time lag in some repair expenses, in addition to higher utilities expenses resulting from increased energy costs.
- ② **Increase in sales and earnings in pharmaceuticals**
 - An upturn is expected from the significant decrease in sales and operating loss posted in the wake of the transition to a proprietary sales system in FY2022.
- ③ **Increase in sales but operating income to remain at same level as FY2022 in machinery**
 - Despite budget reductions by local governments in the wake of the COVID-19 pandemic, sales are forecast to increase because of an expected recovery in replacement demand in FY2023. However, delays in chassis reception due to shortages of automotive semiconductors are expected to continue in FY2023.

➔ Details of priority issues to be addressed for each segment are given from page 13 onward.

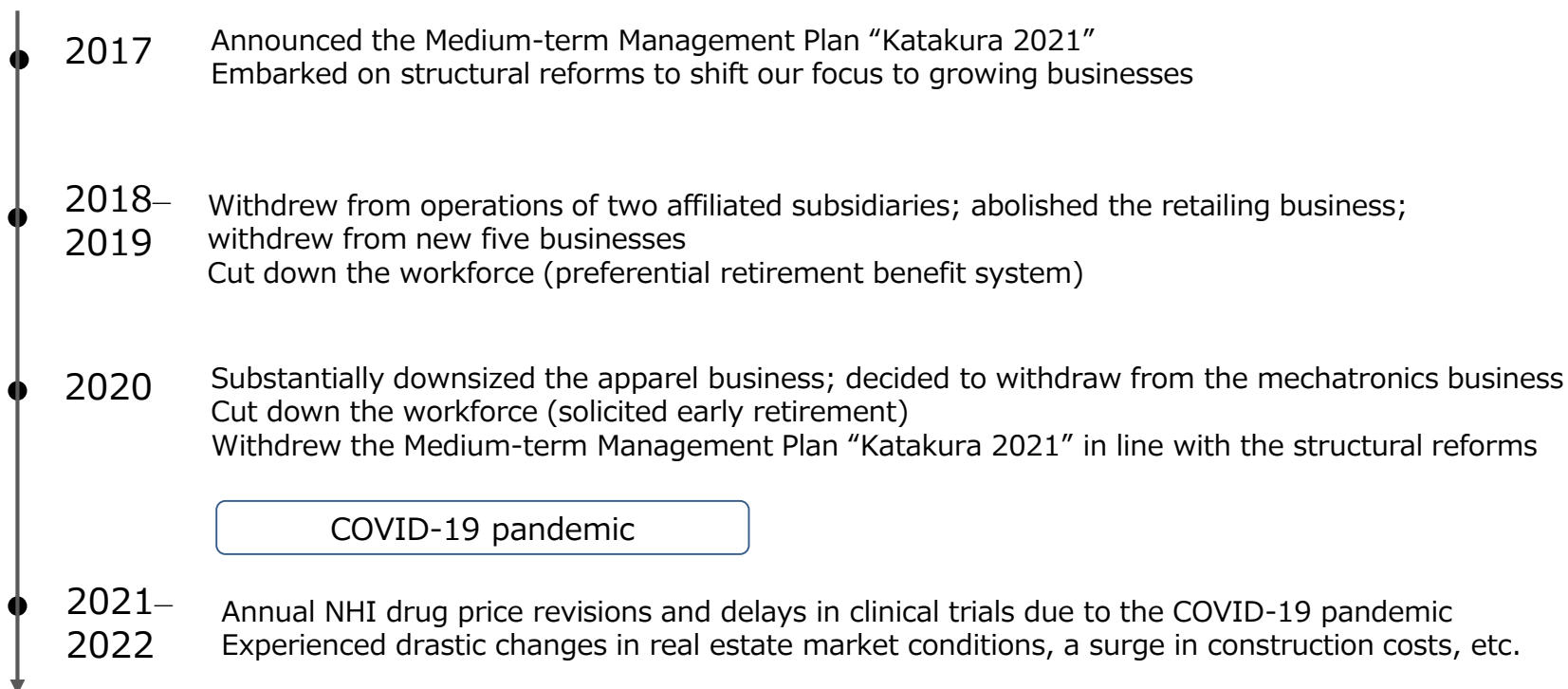
Capital Expenditures, Depreciation and R&D Expenditures Forecast

(Million yen)		2023 Forecast	2022 Actual	YoY change
		A	B	A-B
Real Estate		322	103	219
Pharmaceuticals		634	564	70
Other segments		505	283	222
Capital expenditures		1,461	950	511

Real Estate		1,359	1,490	(131)
Pharmaceuticals		819	791	28
Other segments		424	397	27
Depreciation		2,602	2,678	(76)

Pharmaceuticals		2,351	2,325	26
Other segments		139	78	61
R&D expenditures		2,490	2,403	87

3. Priority Issues to be Addressed



Priority Issues to be Addressed

- Decisively carry out structural reforms in pharmaceuticals (revise the cost structure, including personnel expenses, and the business model)
- Strengthen initiatives to stabilize operations and improve profitability in existing businesses in the face of impacts from exchange rate fluctuations, surging energy prices, and semiconductor shortages
- Move forward with the exploration of new businesses through M&A and other means to create new pillars of our business

Note: As the implementation of the structural reforms and the creation of new businesses may lead to changes in our business portfolio, we will carefully decide when to consider future medium- to long-term plans by taking into account progress in such initiatives.

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">External Environment</p>	<ul style="list-style-type: none"> ❑ Annual NHI drug price revisions starting in FY2021 ❑ Quality issues arising in the generic drug market <ul style="list-style-type: none"> ➢ Concerns over quality and stable supply of generic drugs; eroded confidence in generic drugs ➢ Rise of authorized generics* ➢ Increasing difficulty in acquiring a larger share in the generic market <p style="text-align: right; margin-right: 20px;">} Rapid changes in environment</p> <p>* Generic drugs manufactured with approval from brand-name pharmaceutical companies.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Measures Taken</p>	<ul style="list-style-type: none"> ❑ Developed an orphan drug CNT-01 (a therapeutic drug for triglyceride deposit cardiomyovasculopathy) <ul style="list-style-type: none"> ➢ Launched phase II b and III clinical trials in Japan. Designated as an orphan drug by the Ministry of Health, Labour and Welfare in May 2022. ❑ Developed transdermal patch of β1 blocker “Bisono® Tape” in China <ul style="list-style-type: none"> ➢ Launched a phase III clinical trial ❑ Increased operational efficiency by transitioning to a proprietary sales system
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Future Measures</p>	<ul style="list-style-type: none"> ❑ Implement an early retirement program to develop a structure that adapts to the environmental changes (to be implemented in FY2023) ❑ Reduce other fixed costs, etc.

□ Practical clothing business

The Company will transfer its practical clothing business to a consolidated subsidiary Ogran Japan Co., Ltd. in May 2023 (to further drive the structural reforms started in 2020).

- Seek to expand our product line, such as nursing care products, and boost the top line by leveraging “material properties and functionality” cultivated by the Company’s apparel business for Ogran’s product development
- Pursue further cost reductions by consolidating common functions through organizational integration

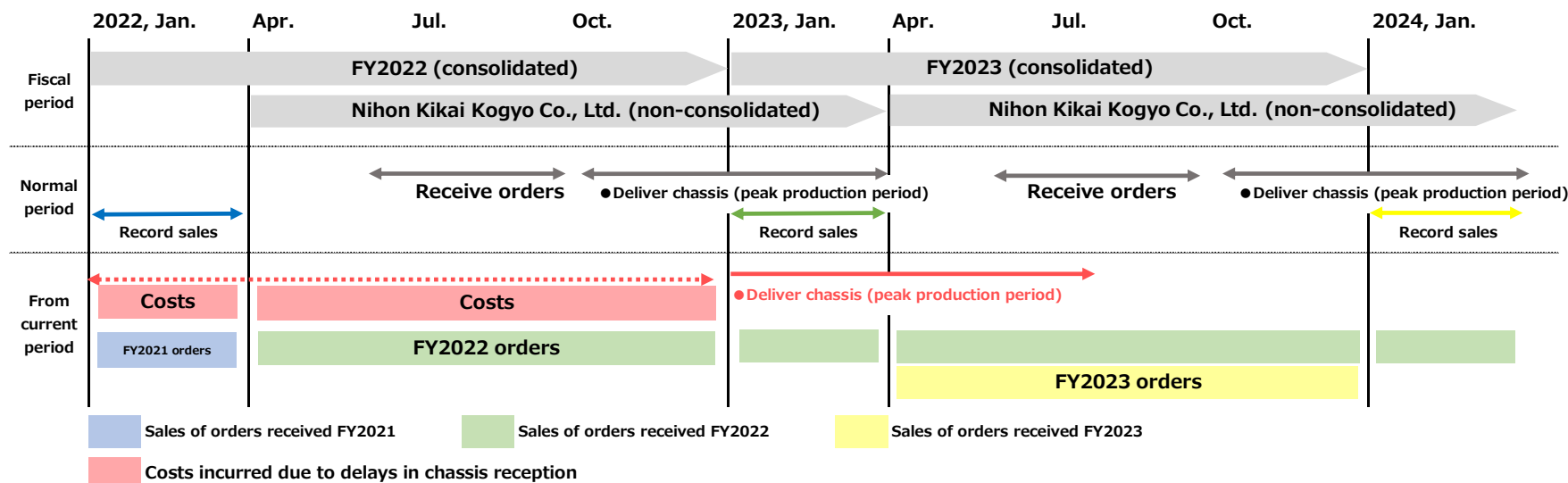
□ Functional fibers

Despite being negatively affected by the surge in raw material and energy costs, we succeeded in passing on the surging costs to the selling prices of some competitive products, leading to steady growth in business performance.

- Expand the application of heat-resistant fibers (seek to grow sales of products for automotive/aircraft applications; enter into new fields)
- Enhance the sale of water-soluble fibers for automotive interior applications

Machinery: Sales Period Carried Forward and Structural Reforms (Future Measures)

□ Sales period carried forward due to delays in chassis reception



□ Structural reforms (future measures)

<p>① Production efficiency improvement, etc.</p>	<ul style="list-style-type: none"> ■ Seek to reduce excess man-hours during peak season to improve production efficiency by conducting make-to-stock production in advance during off-season ■ Reduce product costs by aggregating and standardizing body types ■ Reflect the increases in costs, including those for chassis, raw materials and energy, in the bidding prices
<p>② Reinforcement of initiatives to increase sales</p>	<ul style="list-style-type: none"> ■ Expand the scope of bidding through improved production efficiency as described in ① ■ Aim to win new maintenance projects (overhaul, inspection projects, etc.) in pace with the increase in the number of fire trucks delivered



We will improve the medium- to long-term profitability, while addressing one of our FY2023 issues: delays in production period due to the model change of chassis as a result of the regulations imposed by the Ministry of Land, Infrastructure, Transport and Tourism.

- ❑ Saw a steady recovery in sales at the COCOON CITY, seeking to further improve its freshness and attractiveness

Sales at the shopping center steadily recovered to the pre-pandemic level thanks to initiatives taken with an eye to the future after COVID-19, such as proactive renewals. We will pursue attractive facilities to further improve sales.

- Secure customers in the surrounding trade area, such as those who have moved into new large-scale condominiums
- Increase customer traffic by promoting proactive tenant renewals
- Increase customers' dwell and promenade times, in addition to their shopping time, by developing the indoor and outdoor environment
- Cooperate with the local community in area management and other activities
- Respond to the high cost of living and surging energy costs

- ❑ Look into the new development of existing real estate properties

We will secure stable revenue by promoting the optimal utilization of real estate properties owned by the entire Group, including those in Saitama Shintoshin.

- Utilize real estate properties newly acquired as a result of the structural reforms (including the Group's properties)
- Seek to achieve sustainable growth and increase in value of the town of Saitama Shintoshin over the long term
(Carefully determine the details and timeline of the development taking into account, among other factors, persistently high construction costs, market demand, the impact of temporary shutdown of existing facilities during the development)

Improve compliance

- ▶ Implement the PDCA cycle by introducing compliance programs
- ▶ Provide position-based training on general issues of internal control and theme-based compliance training
- ▶ Enhance the whistleblower protection system and the personal information management system to comply with the revised laws

Strengthen risk management

- ▶ Strengthen the risk management structure by expanding the authority of the “Risk Management Committee” to cover the entire Group
- ▶ Take preventive measures in consideration of the nature of business of each Group company
- ▶ Establish a risk management manual to develop a structure where risk events are immediately reported to management, allowing them to monitor the process through to the development of recurrence prevention measures

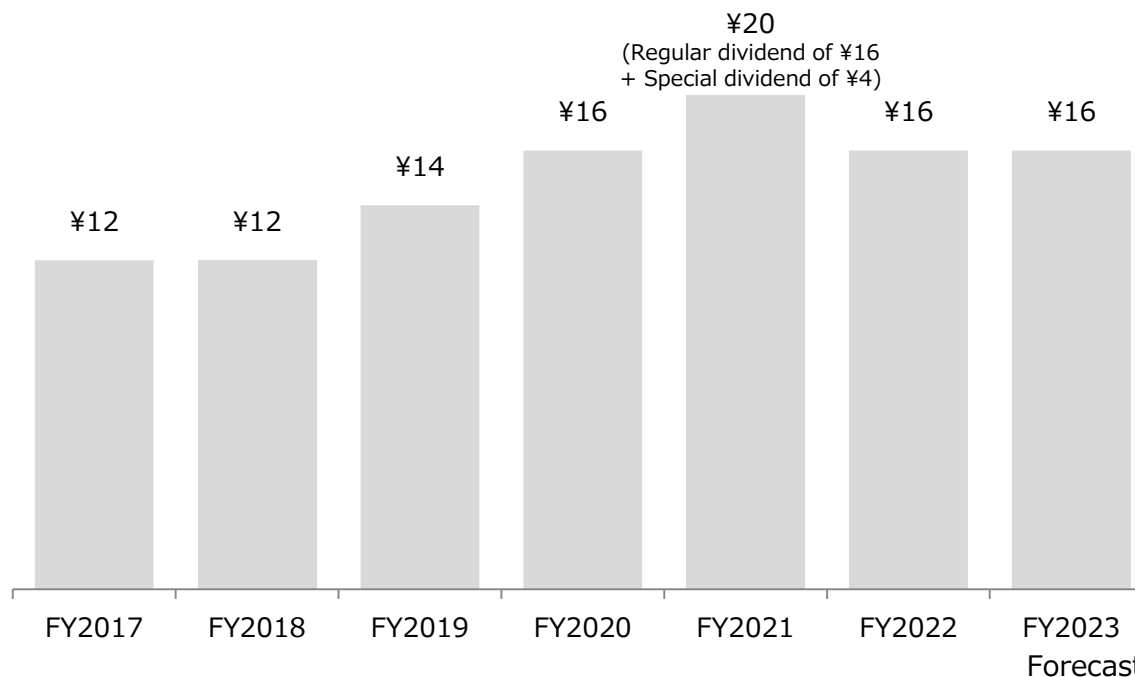
Secure personnel supporting our sustainable growth and promote their active participation

- ▶ Strengthen measures to recruit industry-ready personnel, such as those with experience, in addition to new graduate hires
- ▶ Enrich the OJT support system through mentorship and other such programs as well as provide training for management positions, etc.
- ▶ Create a comfortable working environment by introducing remote work, staggered working hours, hourly paid leave system, etc.

4. Dividends and Dividend Policy

Dividend Policy

- The Company regards returning profits to shareholders as one of our important management policies.
- 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.



Profit (Million yen)	1,224	1,283	1,732	2,871	4,953	2,817	2,600
Earnings per share (Yen)	34.83	36.56	49.42	82.71	147.56	84.91	78.42
Dividend payout ratio (%)	34.5%	32.8%	28.3%	19.3%	13.6%	18.8%	20.4%