

Financial Results of 2022 2nd Quarter

KATAKURA INDUSTRIES CO., LTD.

(Code 3001, TSE Standard Market)

August 30, 2022

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

1. Financial Highlights of 2022 2nd Quarter

Consolidated Income Statement

Consolidated Income Statement / Business Segment

Consolidated Balance Sheet

Consolidated Statement of Cash Flows

2. 2022 Forecast

Consolidated Income Statement / Forecast

Consolidated Income Statement / Business Segment Forecast

Pharmaceuticals

Machinery

Real Estate

3. Dividends and Dividend Policy

1. Financial Highlights of 2022 2nd Quarter

Consolidated Income Statement

(Million yen)	2022.1-6 Actual	2021.1-6 Actual	YoY change	2022.1-6 Forecast	Actual vs. Forecast
	A	B	A-B	C	A-C
Net sales	17,164	22,014	(4,850)	17,500	(336)
Operating income	14	3,060	(3,046)	100	(86)
Operating income ratio	0.1%	13.9%	(13.8)	0.6%	(0.5)pt
Ordinary income	639	3,526	(2,887)	750	(111)
Extraordinary income	1,097	3,874	(2,777)	—	—
Extraordinary loss	—	102	(102)	—	—
Profit before income taxes	1,737	7,298	(5,561)	—	—
Profit attributable to owners of parent	1,631	5,073	(3,442)	1,350	281

【Net sales・Operating income】

- Decreased (Details are given on next page)

【Extraordinary income】

- 2022
 - Gain on sales of non-current assets: 461M
 - Proceeds from sales of investment securities: 636M
- 2021
 - Gain on sales of non-current assets: 3,771M
 - Proceeds from sales of investment securities: 102M

【Extraordinary loss】

- 2021
 - Extra retirement payments: 102M

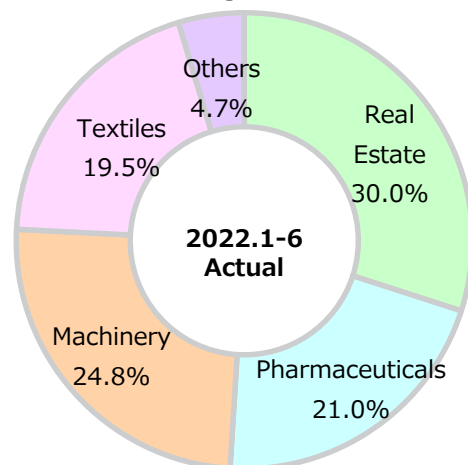
【Net sales・Operating income・Ordinary income】

In pharmaceuticals, although a temporary decrease in sales was expected to a certain extent due to transitioning to a proprietary sales system, net sales, operating income and ordinary income were lower than previously announced forecasts due to the impact of longer-than-expected delays in the consumption of inventory at existing sales consignment partners.

Consolidated Income Statement / Business Segment

(Million yen)	2022.1-6 Actual		2021.1-6 Actual		YoY change	
	A		B		A-B	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Real Estate	5,142	2,004	5,021	1,961	① 121	43
Pharmaceuticals	3,605	(1,995)	7,084	628	② (3,479)	(2,623)
Machinery	4,265	75	5,818	521	③ (1,553)	(446)
Textiles	3,350	269	3,160	398	④ 190	(129)
Others	800	113	928	118	⑤ (128)	(5)
Adjustments	–	(452)	–	(567)	–	115
Total	17,164	14	22,014	3,060	(4,850)	(3,046)

Business Segment Sales



① : Increase in sales and earnings in real estate

- Sales and earnings increased due to tenant sales at the COCOON CITY shopping center trending toward recovery and the opening of the Fukushima Shopping Center in October 2021.

② : Decrease in sales and earnings in pharmaceuticals

- Sales decreased significantly and operating losses were reported due to the temporary decrease in sales as a result of transitioning to a proprietary sales system.

③ : Decrease in sales and earnings in machinery

- Sales and earnings decreased due to the fire truck business facing reduced replacement demand from local governments due to 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 but decrease in earnings in textiles

- Sales increased as a result of strong performances in heat-resistant and other functional fibers and underwear in practical clothing.
- Earnings decreased due to higher purchase costs resulting from the rapid depreciation of the yen.

⑤ : Decrease in sales and earnings in others

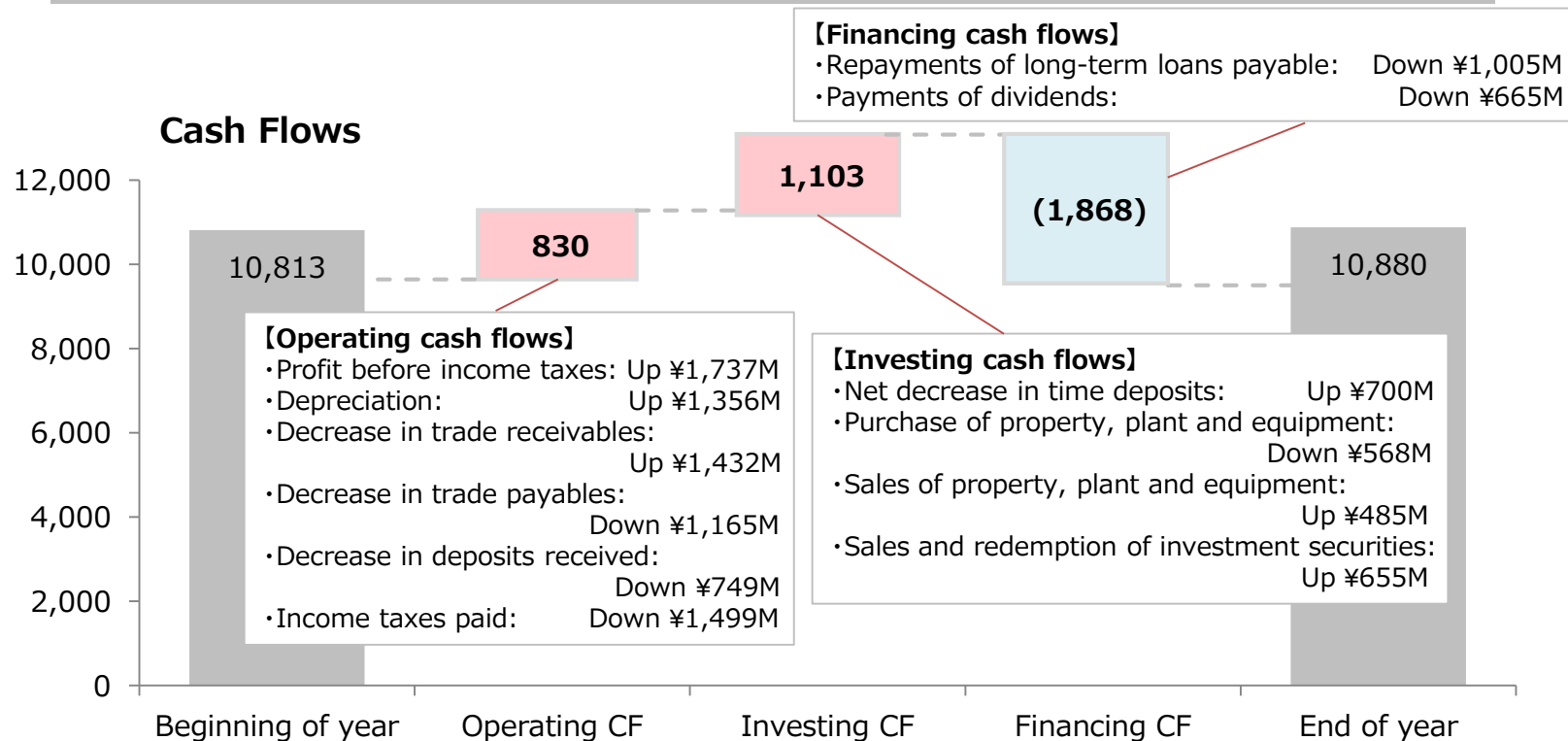
- Sales and earnings decreased due to reduced shipments of flower-visiting insects and other factors.

Consolidated Balance Sheet

(Million yen)		2022.6	2021.12	YoY change	
		A	B	A-B	
Current assets		54,470	57,059	(2,589)	<ul style="list-style-type: none"> Reduction in trade receivables accompanying sales decrease and debt recovery Reduction in cash and deposits, etc.
Non-current assets		83,208	82,914	294	
	Property, plant and equipment	43,876	44,789	(913)	<ul style="list-style-type: none"> Down due to depreciation
	Intangible assets	344	361	(17)	
	Investments and other assets	38,986	37,763	1,223	
	Investment securities	35,287	34,151	1,136	<ul style="list-style-type: none"> Difference in market values of investment securities
	Total assets	137,678	139,973	(2,295)	
	Total liabilities	53,714	52,362	1,352	
	Notes and accounts payable - trade	3,212	4,377	(1,165)	
	Loans	15,068	11,017	4,051	<ul style="list-style-type: none"> Acquisition of additional shares of subsidiary
	Income taxes payable	867	1,471	(604)	
	Other current liabilities	7,369	8,213	(844)	
	Total net assets	83,963	87,611	(3,648)	
	Capital surplus	5,977	516	5,461	
	Retained earnings	48,061	47,095	966	
	Valuation difference on available-for-sale securities	16,068	15,593	475	
	Non-controlling interests	14,644	25,042	(10,398)	
	Total liabilities and net assets	137,678	139,973	(2,295)	

Consolidated Statement of Cash Flows

(Million yen)	2022.1-6 Actual	2021.1-6 Actual
Cash and cash equivalents at beginning of year	10,813	8,017
Operating cash flows	830	3,522
Investing cash flows	1,103	2,794
Financing cash flows	(1,868)	(2,549)
Net increase (decrease) in cash and cash equivalents	66	3,767
Cash and cash equivalents at end of year	10,880	11,785



2. 2022 Forecast

Consolidated Income Statement / Forecast

(Million yen)	2022 Forecast	2021 Actual	YoY change
	A	B	A-B
Net sales	34,600	37,627	(3,027)
Operating income	1,000	2,797	(1,797)
Operating income ratio	2.9%	7.4%	(4.5)pt
Ordinary income	2,100	3,855	(1,755)
Profit attributable to owners of parent	2,100	4,953	(2,853)



[Net sales·Operating income]

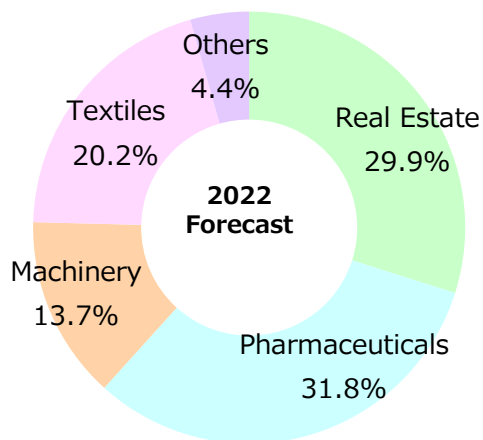
- Expected decrease in sales and earnings
(Details on each segment are given on next page)

Consolidated Income Statement / Business Segment Forecast

(Million yen)		2022 Forecast		2021 Actual		YoY change	
		A		B		A-B	
		Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Real Estate	10,350	3,850	10,125	3,590	① 225	260	
Pharmaceuticals	11,000	(1,650)	12,132	105	② (1,132)	(1,755)	
Machinery	4,750	(650)	7,171	47	③ (2,421)	(697)	
Textiles	7,000	400	6,496	115	504	285	
Others	1,500	150	1,702	138	(202)	12	
Adjustments	–	(1,100)	–	(1,200)	–	100	
Total	34,600	1,000	37,627	2,797	(3,027)	(1,797)	

*Net sales and operating income for each segment under “2022 Forecast” in the table above are estimates as of August 30, 2022.

Business Segment Sales



- ① : Increase in sales and earnings in real estate
 - Details are given on pages 17 to 18
- ② : Decrease in sales and earnings in pharmaceuticals
 - Details are given on pages 11 to 13
- ③ : Decrease in sales and earnings in machinery
 - Details are given on pages 14 to 16

FY2022 1H (January to June)

(Million yen)

Item	Net sales	Operating income
① First half actual results	3,605	(1,995)
② Same period of prev. FY	7,084	628
③ Initial forecast*	4,000	(1,700)
④ YoY difference	(3,479)	(2,623)
⑤ Forecast difference	(395)	(295)

Comment on YoY difference

- The transition to a proprietary sales system for all products, which is being worked on as a part of structural reforms, commenced from April 2022.
- Along with this, the period from January to March 2022 was positioned as a period for the consumption of inventory by existing sales consignment partners. As a result, sales were insignificant, and fixed costs such as labor costs could not be absorbed, resulting in a significant decrease in sales and the reporting of operating losses.

Comment on forecast difference

- Pharmaceuticals landed with lower sales and earnings compared to forecasts due to the impact of longer-than-expected delays in the consumption of inventory at sales consignment partners in existing distribution channels.

*Forecast figures in summary of financial results (dated 2/14/2022)

FY2022 (January to December)

(Million yen)

Item	Net sales	Operating income
① Full year projection	11,000	(1,650)
② Same period of prev. FY	12,132	105
③ Initial forecast*	11,200	(1,600)
④ YoY difference	(1,132)	(1,755)
⑤ Forecast difference	(200)	(50)

Comment on YoY difference

- The primary factor behind the difference is the impact of decreased sales and earnings due to the shift to proprietary sales. (Refer to the previous page)
- In addition, a decrease in sales due to drug price revisions and an increase in R&D expenditures due to factors such as the progress of research stage for the new drug pipeline also contributed to this difference, and pharmaceuticals landed with a significant decrease in sales and earnings year on year.

Comment on forecast difference

- Approval of manufacturing and marketing for Tolvaptan OD Tablets 15mg "TE" was obtained on August 15, and an additional application has been filed for the indication of fluid accumulation during cardiac arrest for 7.5mg "TE" of the same product, which launched in June 2022.
- Sales and operating income for the fiscal year are expected to be slightly lower than the forecast due to the contribution of Tolvaptan OD Tablets and other factors.

*Forecast figures in summary of financial results (dated 2/14/2022)

□ New drug pipeline

- CNT-01(*), a joint research project with OSAKA UNIVERSITY, is progressing comparatively well despite some delays.
- The Company's policy is to obtain sources for generating earnings in the medium to long term and continue to pursue highly efficient joint research with external partners in academia.
- The Company will also look to utilize development grants in exploring rare illnesses and incurable diseases in the field of cardiovascular medicine.

(*): A therapeutic drug for triglyceride deposit cardiomyovasculopathy

□ Product succession and sales collaborations

- Improve base earning power through succession and sales collaborations that immediately contribute to profits.

□ Highly efficient production and sales system

- Promote investigations focusing on the following two topics in order to improve profitability.
 - ① Improve efficiency of factory operations by reviewing products produced.
 - ② Establish sales system tailored to the business environment surrounding the Company.

FY2022 1H (January to June)

(Million yen)

Item	Net sales	Operating income
① First half actual results	4,265	75
② Same period of prev. FY	5,818	521
③ Initial forecast*	4,400	150
④ YoY difference	(1,553)	(446)
⑤ Forecast difference	(135)	(75)

Comment on YoY difference

- The number of orders received decreased due to budget reductions by local governments.
- Delays in chassis reception resulted in excess man-hours and part of the expected delivery periods being carried forward to the next fiscal year.
- Costs increased due to the sharp rise in raw material costs.

Comment on forecast difference

- Differences resulted from longer-than-expected delays in chassis reception.

*Forecast figures in summary of financial results (dated 2/14/2022)

FY2022 (January to December)

(Million yen)

Item	Net sales	Operating income
① Full year projection	4,750	(650)
② Same period of prev. FY	7,171	47
③ Initial forecast*	5,000	(400)
④ YoY difference	(2,421)	(697)
⑤ Forecast difference	(250)	(250)

Comment on YoY difference

- The number of orders received decreased due to budget reductions by local governments.
- Delays in chassis reception resulted in excess man-hours and part of the expected delivery periods being carried forward to the next fiscal year.
- Costs increased due to the sharp rise in raw material costs.

Comment on forecast difference

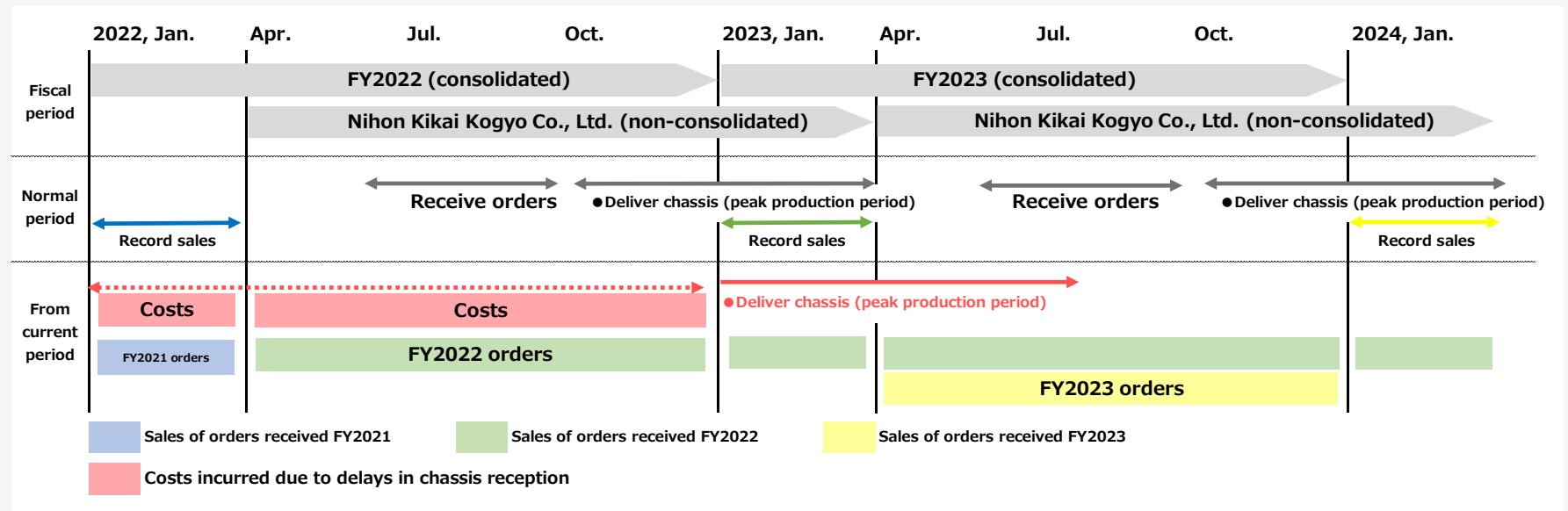
- Large-scale projects were carried forward to next fiscal year due to delays in chassis reception.
- Inspection projects that were scheduled to be performed by the end of the year were carried forward to next fiscal year.

*Forecast figures in summary of financial results (dated 2/14/2022)

□ Factors behind delays in chassis reception

- Semiconductor shortages
- Quality issues of chassis manufacturers

□ Sales period carried forward



□ Future measures

- Reduce excess man-hours during peak season by conducting production in advance during off-season
- Aggregate and standardize body types



Further improve production efficiency

【Real Estate】 Priority Issues

□ Stage 3 development in Saitama Shintoshin

- After placing a temporary freeze due to the impact of the COVID-19 pandemic, it was determined that investigations would be continued based on factors including the status of the spread of infections being brought under control, changes in a rapidly transforming society, etc.
- Although the Company is still earnestly investigating potential development, it will be difficult to immediately launch any projects due to the following factors.
 - ① **Uncertain demand for real estate in offices, hotels, etc.**
 - ② **Sharp rise in construction costs** (impacting dismantling costs and new investments)
 - ③ **Must ascertain appropriate timing for projects because of the assumption that existing facilities should be temporarily closed**

□ Other new projects

- New projects will be investigated after gathering the appropriate information. At the same time, the Company will proceed with investigations into the effective use of Company-owned real estate, including Company-owned land newly available for development as a result of structural reforms and real estate owned by Group companies.

*Latest achievements: October 2021
April 2022

Fukushima Shopping Center opened
Matsumoto Housing Exhibition Area opened

→ **While it is necessary to ascertain the appropriate timing of new development, in Saitama Shintoshin, the Company will seek to keep existing facilities fresh in both soft and hard aspects and maximize utilization in order to improve value in the long term.**

【Real Estate】 Initiatives at COCOON CITY

Annual net sales are recovering to pre-pandemic levels with the success of tenant renewals, sales promotion measures, and other initiatives connected to “with COVID-19” consumption.

The Company will continue to brush up in both soft and hard aspects to improve the area’s charm.

Keep renewing tenants

Following 40 stores last year, 25 stores will be renewed in the current year. In August, three new stores will open for international brands Polo Ralph Lauren, Tommy Hilfiger, and Calvin Klein, and in the fall, 10 new stores will open, including Jump Shop, a store that can be enjoyed by all generations.



Introducing open outdoor relaxation space

An open area where visitors can have a meal, read a book, or just take a break from shopping. Based around the concept of a “PARK MALL,” the Company is working on developing an outdoor relaxation space for next spring where visitors can feel free to spend their time however they please.

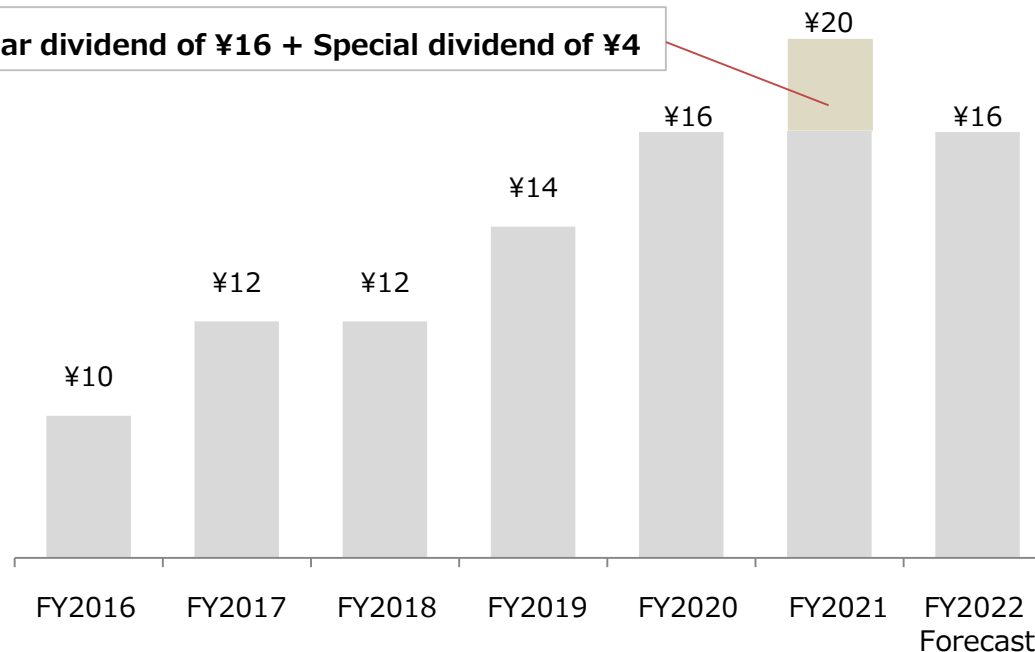


3. Dividends and Dividend Policy

<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.

Regular dividend of ¥16 + Special dividend of ¥4



Net income (Million yen)	1,691	1,224	1,283	1,732	2,871	4,953	2,100
Net income per share (Yen)	48.11	34.83	36.56	49.42	82.71	147.56	63.22
Dividend payout ratio (%)	20.8%	34.5%	32.8%	28.3%	19.3%	13.6%	25.3%