

Financial Results of 2023

KATAKURA INDUSTRIES CO., LTD.

(Code 3001, TSE Standard Market)

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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.

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1. Financial Highlights of 2023

Consolidated Income Statement

Financial Results of 2023

(Million yen)	2023 Actual	2022 Actual	YoY Change	2023 Forecast	Actual vs. Forecast
	A	B	A-B	C	A-C
Net sales	39,972	34,274	5,698	38,500	1,472
Operating income	3,803	1,369	2,434	2,850	953
Operating income ratio	9.5%	4.0%	5.5pt	7.4%	2.1pt
Ordinary income	5,068	2,582	2,486	4,000	1,068
Extraordinary income	804	1,199	(395)	–	–
Extraordinary loss	1,309	–	1,309	–	–
Profit before income taxes	4,563	3,781	782	–	–
Profit attributable to owners of parent	3,045	2,817	228	2,600	445

■ YoY difference

Net sales & operating income

- Sales and earnings increased as a whole due to a recovery from the temporary decrease in sales as a result of transitioning to a proprietary sales system in pharmaceuticals.
(Details on each segment are given on the next page)

Extraordinary income

- Gain on sales of non-current assets: Down 463M
(FY2022: 463M → FY2023: None)

Extraordinary loss

- Impairment loss: Up 741M
(FY2022: None → FY2023: 741M)
- Extra retirement payments: Up 567M
(FY2022: None → FY2023: 567M)

■ Forecast difference

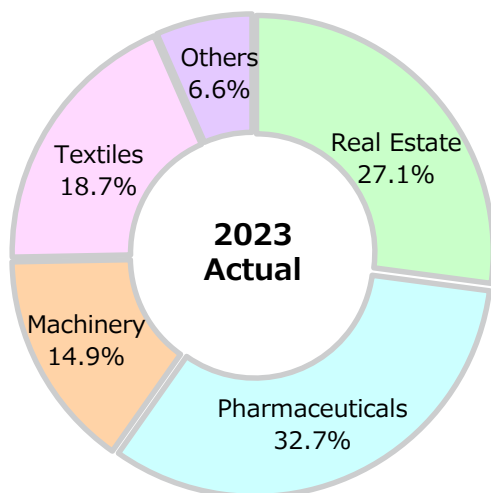
Net sales as well as operating income and other incomes exceeded the forecasts because of the strong sales at the COCOON CITY in real estate and favorable sales of high value-added functional fiber products in textiles.

Consolidated Income Statement / Business Segment

Financial Results of 2023

(Million yen)	2023 Actual		2022 Actual		YoY Change	
	A		B		A-B	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Real Estate	10,833	3,985	10,415	3,946	① 417	39
Pharmaceuticals	13,059	202	10,128	(1,940)	② 2,931	2,142
Machinery	5,972	(83)	5,187	(275)	③ 785	192
Textiles	7,481	706	7,045	443	④ 435	263
Others	2,625	144	1,497	150	⑤ 1,128	(6)
Adjustments	–	(1,152)	–	(955)	–	(197)
Total	39,972	3,803	34,274	1,369	5,698	2,434

Business Segment Sales



①Increases in sales and earnings in real estate

- Sales and earnings increased due to an increase in rental income from tenants at the COCOON CITY Shopping Center.

②Increases in sales and earnings in pharmaceuticals

- Sales and earnings increased due to a recovery from the temporary decrease in sales as a result of transitioning to a proprietary sales system in the previous fiscal year.

③Increases in sales and earnings in machinery

- Sales and earnings increased in fire truck business due to the contributions of deals brought forward due to delays in chassis* reception and sales of large vehicles.

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

④Increases in sales and earnings in textiles

- Sales and earnings increased as a result of strong sales in heat-resistant and other functional fibers and underwear in practical clothing.

⑤Increase in sales but decrease in earnings in others

- Sales increased due to the contributions of Tokinshiko Ltd. and Katakura CrossTechnology Co., Ltd. (formerly FPG Technology Co., Ltd.), both of which had been newly consolidated in FY2023.
- Earnings decreased due to the increase in labor costs in the building management services business and other factors.

Consolidated Balance Sheet

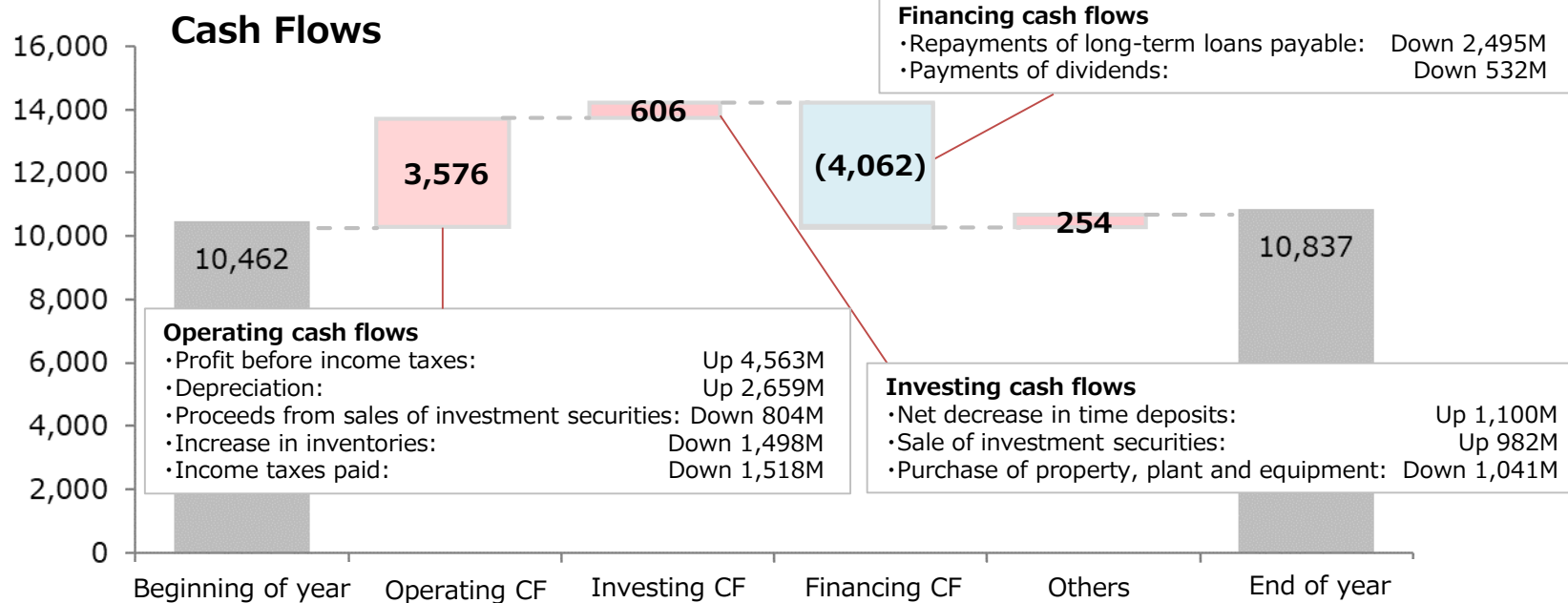
(Million yen)		Dec 31, 2023	Dec 31, 2022	YoY Change	
		A	B	A-B	
Current assets		57,151	56,379	772	
Non-current assets		82,459	81,734	725	
	Property, plant and equipment	41,573	43,171	(1,598)	• Down due to depreciation
	Intangible assets	632	337	295	
	Investments and other assets	40,253	38,226	2,027	
	Investment securities	35,657	34,408	1,249	• Up due to rise in market value of investment securities
Total assets		139,611	138,114	1,497	
Total liabilities		50,246	53,638	(3,392)	
	Notes and accounts payable - trade	4,279	4,823	(544)	
	Loans payable	11,105	13,912	(2,807)	• Down due to scheduled repayments
	Deferred tax liabilities	10,306	9,698	608	
Total net assets		89,365	84,475	4,890	
	Retained earnings	52,160	49,247	2,913	• Up due to recording of profit
	Valuation difference on available-for-sale securities	16,995	15,466	1,529	
Total liabilities and net assets		139,611	138,114	1,497	

Consolidated Statement of Cash Flows

Financial Results of 2023

(Million yen)	2023 Actual	2022 Actual
Cash and cash equivalents at beginning of period	10,462	10,813
Operating cash flows	3,576	(712)
Investing cash flows	606	3,623
Financing cash flows	(4,062)	(3,262)
Net increase (decrease) in cash and cash equivalents	120	(351)
Others*	254	—
Cash and cash equivalents at end of period	10,837	10,462

*Net increase (decrease) in cash and cash equivalents arising from change in the scope of consolidation



Capital Expenditures, Depreciation and R&D Expenditures

Financial Results of 2023

(Million yen)		2023 Actual	2022 Actual	YoY Change
		A	B	A-B
	Real Estate	302	103	199
	Pharmaceuticals	587	564	23
	Other Segments	324	283	41
Capital Expenditures		1,213	950	263

	Real Estate	1,359	1,490	(131)
	Pharmaceuticals	827	791	36
	Other Segments	473	397	76
Depreciation		2,659	2,678	(19)

	Pharmaceuticals	2,235	2,325	(90)
	Other Segments	145	78	67
R&D Expenditures		2,380	2,403	(23)

2. 2024 Forecast

Consolidated Income Statement / Forecast

Financial Results of 2023

(Million yen)	2024 Forecast	2023 Actual	YoY Change
	A	B	A-B
Net sales	40,700	39,972	728
Operating income	3,600	3,803	(203)
Operating income ratio	8.8%	9.5%	(0.7pt)
Ordinary income	4,600	5,068	(468)
Profit attributable to owners of parent	3,000	3,045	(45)

Net sales & operating income

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

Consolidated Income Statement / Business Segment Forecast

Financial Results of 2023

(Million yen)		2024 Forecast		2023 Actual		YoY Change	
		A		B		A-B	
		Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Real Estate	10,800	3,700	10,833	3,985	① (33)	(285)	
Pharmaceuticals	12,800	200	13,059	202	② (259)	(2)	
Machinery	6,700	100	5,972	(83)	③ 728	183	
Textiles	7,600	800	7,481	706	④ 119	94	
Others	2,800	100	2,625	144	175	(44)	
Adjustments	–	(1,300)	–	(1,152)	–	(148)	
Total	40,700	3,600	39,972	3,803	728	(203)	

- ① While expecting the same level of sales as FY2023 in real estate, operating income is forecast to decrease due to the rise in property tax, increase in maintenance costs for existing properties, and other factors.
- ② While expecting a decrease in sales in pharmaceuticals as the sales of new generic drugs fell short of making up for the impact of NHI drug price revisions, the same level of operating income as in FY2023 is expected due to various cost reduction efforts.
- ③ Expecting an increase in sales and earnings in machinery due to sales of high unit price products and streamlining of production systems.
- ④ Expecting an increase in sales and earnings in textiles due to the growth in sales of functional fibers and other factors.

➔ Details on each segment are given in the “Priority Issues to be Addressed” section beginning on page 13.

Capital Expenditures, Depreciation and R&D Expenditures Forecast

Financial Results of 2023

(Million yen)		2024 Forecast	2023 Actual	YoY Change
		A	B	A-B
	Real Estate	581	302	279
	Pharmaceuticals	400	587	(187)
	Textiles	855	158	697
	Other Segments	366	166	200
Capital Expenditures		2,202	1,213	989

	Real Estate	1,410	1,359	51
	Pharmaceuticals	793	827	(34)
	Other Segments	584	473	111
Depreciation		2,787	2,659	128

	Pharmaceuticals	2,070	2,235	(165)
	Other Segments	125	145	(20)
R&D Expenditures		2,195	2,380	(185)

3. Priority Issues to be Addressed

Real Estate

■ Outlook for FY2024

- ◆ Expecting the same level of sales as in FY2023, with strong performance of the COCOON CITY owing to strategic replacement of tenants and holding of events to attract customers as well as smooth replacement of tenants at the Tokyo Square Garden.
- ◆ Meanwhile, operating income is expected to decrease from FY2023, under the impact of the rise in tax on the land owned by the Company in Saitama Shintoshin and increase in maintenance costs of buildings and facilities due to repair works on aging properties mainly in provincial areas.

■ Future initiatives

- ◆ Constantly strengthen the competitive power of the COCOON CITY.
- ◆ Formulate the Company's own development plan for the land it owns in Saitama Shintoshin in step with the growth and development of the town, including office and condominium development projects in the surrounding areas, the relocation plan of Saitama City Office (FY2031), and other factors.
- ◆ As for other real estate properties, sustain their values as income-yielding properties through appropriate maintenance in accordance with the life cycle of each property, such as by fixing deterioration over time.
- ◆ Accelerate the concretization of utilizing the Group's real estate properties acquired as a result of the structural reforms, such as the Tokyo Research Laboratories of Toa Eiyo Ltd. (Saitama City, Saitama Pref.), without delay.

Pharmaceuticals

Business conditions	<ul style="list-style-type: none"> ◆ Experienced a decline in selling prices due to NHI drug price revisions in Japan ◆ Impact of the placing of long-listed drugs under the selective treatment category on sales volume
Sales of new drugs	<ul style="list-style-type: none"> ◆ Released Tolvaptan tablets 7.5mg formulation in June 2022 and 15mg formulation in December 2022 ◆ Released Bepridil tablets 50mg/100mg on February 5, 2024
Development	<ul style="list-style-type: none"> ◆ Conducted phase II b and III clinical trials of an orphan drug CNT-01 (a therapeutic drug for triglyceride deposit cardiomyovasculopathy) in Japan ◆ Rolled out transdermal patch of β1 blocker Biso[®] Tape in China. Conducted a phase III clinical trial ◆ Expanded indication of existing drugs
Other	<ul style="list-style-type: none"> ◆ Continue structural reforms (Close down Tokyo Research Laboratories. Streamline sales structures. Suspend the plan to build a new factory block.) ◆ Initiatives to maximize the value of an orphan drug CNT-01 (Conducted enlightenment and other activities for rare diseases by setting up a dedicated team.) ◆ Explore the possibility of overseas expansion for existing and pipeline products.

Machinery

■ Outlook for FY2024

The decline in orders received has ended, while delays in chassis reception will likely continue

- ◆ The decline in demand from local governments reflecting the impact of COVID-19 came to an end in the previous fiscal year.
- ◆ Meanwhile, the delays in chassis reception are still going on, owing to the shortages of automotive semiconductors and the model changes undertaken to comply with laws and regulations, and it may take several years to be solved completely.

Expecting a return to profit in 2024, with increases in sales and earnings over the previous year

- ◆ Increase in sales driven by sales of high unit price products
- ◆ Expecting an increase in earnings by improving production efficiency by means of make-to-stock production in advance as well as by furthering the aggregation and standardization of body types under way since the previous fiscal year to address the delays in chassis reception.

■ Future initiatives

Carry out measures to expand revenue, in addition to continuing production efficiency improvement

- ◆ Enhance sales of high unit price products
- ◆ Streamline sales systems and revise rules
- ◆ Strengthen development of sales personnel

Textiles

■ Functional fibers business

Expecting increase in sales mainly in heat-resistant fibers for factory facility applications and water-soluble fibers for automotive interior applications

- ◆ Develop new customers including in overseas markets
- ◆ Drive the development of applications based on the potential of each material
- ◆ Plan to increase production capacity to accommodate further growth of the business

■ Practical clothing business

Further expand sales and product development of functional underwear

- ◆ Work to boost the top line by pushing on with channel-by-channel sales promotion of functional underwear
- ◆ Pursue further cost reductions through the consolidation of common functions achieved through the organizational integration in practical clothing business carried out in May 2023, and draw on the knowledge and know-how of the two companies to promote product development.

New Businesses

■ Companies recently acquired

- ◆ Katakura CrossTechnology Co., Ltd. (KXT)・・・IT business
- ◆ Garden Express Co., Ltd. (GE)・・・Planting business

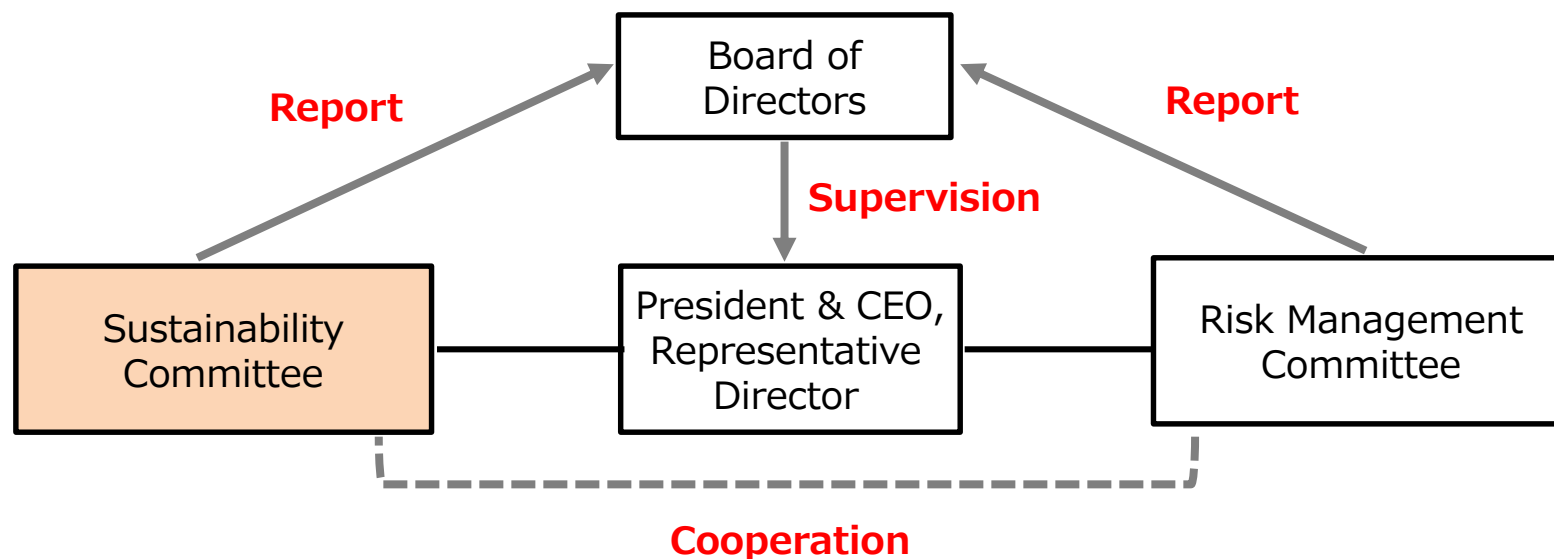
■ Developments since acquisition

Company	Current state and future directions
KXT	<p>Promote strengthening of personnel structure to create a stable business foundation.</p> <p>Aiming to achieve synergy within the Group, discussions have begun in preparation for future enhancement in digital transformation in the real estate business and strengthening of production management systems and customer relationship management in other Group companies.</p>
GE	<p>Currently at a stage of steady PMI process.</p> <p>Focusing on adding new agents in pursuit of corporate growth</p>

- Going forward, with an eye to the growth of the Group in the medium to long term, we intend to further look into new business opportunities carefully and constructively, while closely examining the details of each M&A project.

4. Development of Foundational Structures

Development of Foundational Structures



■ Governance

- ◆ The Company established the Sustainability Committee in October 2023 to effectively promote sustainability measures. The Committee formulates the Group's policy related to sustainability, discusses the Group's common issues, and monitors the status of promotion.
- ◆ A structure is being developed in which the Sustainability Committee works in close cooperation with the Risk Management Committee to comprehensively grasp all risks and report to the Board of Directors.

■ Approach to human capital

- ◆ Various measures to revitalize human capital have been introduced in stages and implemented continuously since 2019.
- ◆ Aiming to become a well-organized organization where employees mutually recognize diversity, the Company hires personnel with emphasis on the ability, professional skills and personality of the candidates with no regard to age, gender or background. The Company is pouring efforts into developing personnel, which it believes is the source of competitive power.

5. Dividends and Dividend Policy

Shareholder Returns (Dividends)

Shareholder Return Policy

With regard to the distribution of profits, the Company strives to implement stable dividends and flexibly repurchase treasury shares as appropriate for the purpose of improving capital efficiency, etc. With regard to the total payout ratio, excluding special factors(*), the Company will strive to return profits with a target of **approximately 30% of profit attributable to owners of parent.**

(*) Assumes significant changes in net income due to temporary recording of losses or profits

Reason for the change

The Company positions the return of profits to shareholders as one of the key issues for management. The Company has been discussing its shareholder return policy with a view to achieving continued growth and medium- to long-term improvement of corporate value and striking a balance between the results of operations, as well as the need to fund upcoming business operations, with shareholder returns.

As a result of these discussions, the Company decided to change the policy as stated above, which aims to provide enhanced shareholder returns based on the existing policy of the “continuation of stable dividend,” while comprehensively taking into account the results of operations, financial standing, stock price level, and other factors.

	FY2022	FY2023	FY2024 (Forecast)
Dividends per share (Yen)	16	20	20
Total dividend payment (Million yen)	532	663	—
Amount of share repurchase (Million yen)	165	239	(Note)
Total payout ratio	24.8%	29.7%	—

(Note) Repurchase will be considered as and when appropriate.

6. New Corporate Identity

Renewal of Corporate Identity and Launching of Trade Name and Logo

Financial Results of 2023

■ Background

Since its founding in 1873, the Company has engaged in a variety of businesses while changing itself along with the time.

On the occasion of its 150th anniversary in 2023, we looked ahead ten, twenty years into the future in this time of rapid change and clarified afresh what we should hold dear, and put it together so that it could serve as a guiding compass for the entire staff and management and be shared with all our stakeholders.

Mission

**To be needed more than ever
today more than yesterday**

Our Values

Every step counts

Value the basics

Work is a build-up of doing what may seem basic.
Always be sincere. Engage in tasks with a sense of ownership. Doing so will allow you to grasp the essence of matters.

A build-up of everyone's small steps can lead to making big differences.

Take on challenges that create value

Taking on challenges creates value and helps you grow. Update yourself every day and keep moving forward.

The challenges of each and every employee are the driving force behind KATAKURA's growth.

Reach for the best as a united team

Have respect for everyone and engage in candid conversations. Then, once a matter is decided, the whole team must strive to reach that goal.

Give it your all, for the sake of everyone on the team. Even if you cannot achieve something alone, bringing together everyone's strengths can make the impossible possible.

■ Adoption of trade name

We have adopted "KATAKURA" as our trade name. We will use this trade name extensively on our website and printed materials.

*Our official company name remains unchanged as "Katakura Industries Co., Ltd."

▽Corporate logo

KATAKURA

▽Corporate color



Integrity Red

We adopted as corporate color "Integrity Red," which reminds us to live righteously and look to reasoning and morals to make the right decisions and take the right actions. The corporate color embodies our stance of not fearing change and tackling challenges with integrity, our passion to continue striving to be an integral part of people's lives, and the warmth we share as a united team.