

Financial Results of 2023 2nd Quarter

KATAKURA INDUSTRIES CO., LTD.

(Code 3001, TSE Standard Market)

August 31, 2023

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1. Financial Highlights of 2023 2nd Quarter

Consolidated Income Statement

(Million yen)	Jan-Jun 2023 Actual	Jan-Jun 2022 Actual	YoY Change	Jan-Jun 2023 Forecast	Actual vs. Forecast
	A	B	A-B	C	A-C
Net sales	20,616	17,164	3,452	20,400	216
Operating income	2,104	14	2,090	1,450	654
Operating income ratio	10.2%	0.1%	10.1 pt	7.1%	3.1 pt
Ordinary income	2,726	639	2,087	2,100	626
Extraordinary income	671	1,097	(426)	–	–
Extraordinary loss	567	–	567	–	–
Profit before income taxes	2,829	1,737	1,092	–	–
Profit attributable to owners of parent	1,982	1,631	351	1,399	583

Net sales & operating income

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

Extraordinary income

- Gain on sales of non-current assets: Down 461M
(FY2022: 461M → FY2023: None)

Extraordinary loss

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

Net sales, operating income & ordinary income

■ YoY difference

Sales and earnings increased mainly due to a “recovery from the temporary decrease in sales as a result of transitioning to a proprietary sales system” in pharmaceuticals.

■ Forecast difference

Operating income and other incomes exceeded the forecasts because of the postponement of some repairs and strong sales at the COCOON CITY in real estate; and favorable sales of high value-added functional fiber products in textiles.

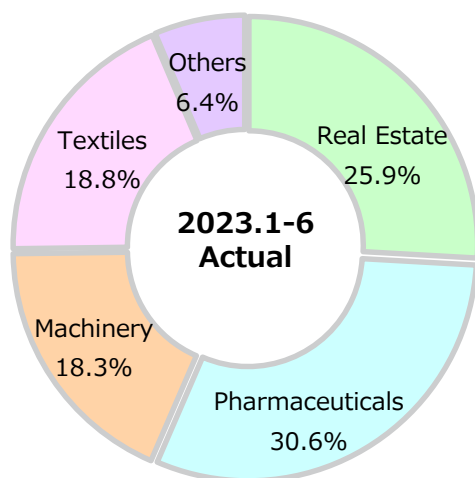
Consolidated Income Statement / Business Segment



Financial Results of 2023 2Q

(Million yen)	Jan-Jun 2023 Actual		Jan-Jun 2022 Actual		YoY Change	
	A		B		A-B	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Real Estate	5,341	2,160	5,142	2,004	① 199	156
Pharmaceuticals	6,306	(197)	3,605	(1,995)	② 2,701	1,798
Machinery	3,780	185	4,265	75	③ (485)	110
Textiles	3,884	425	3,350	269	④ 534	156
Others	1,303	107	800	113	⑤ 503	(6)
Adjustments	–	(576)	–	(452)	–	(124)
Total	20,616	2,104	17,164	14	3,452	2,090

Business Segment Sales



① Increases 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.

② Increases in sales and earnings in pharmaceuticals

- Sales and earnings increased significantly 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.

③ Decrease in sales but increase in earnings in machinery

- Sales decreased because of the fire truck business facing delays in chassis* reception mainly due to shortages of automotive semiconductors.
- Earnings increased due to improved productivity during off-season thanks to sales period being carried forward.

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

④ Increases in sales and earnings in textiles

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

⑤ Increase in sales but decrease in earnings in others

- Sales increased due to the contributions of Tokinshiko Ltd., which had been newly consolidated in the first quarter of the current fiscal year, and Katakura CrossTechnology Co., Ltd. (formerly FPG Technology Co., Ltd.), which had been newly consolidated in the second quarter of the current fiscal year.

Consolidated Balance Sheet

(Million yen)		Jun 30, 2023	Dec 31, 2022	YoY Change
		A	B	A-B
Current assets		56,428	56,379	49
Non-current assets		85,363	81,734	3,629
	Investment securities	37,837	34,408	3,429
Total assets		141,791	138,114	3,677
Total liabilities		51,999	53,638	(1,639)
	Notes and accounts payable - trade	4,474	4,823	(349)
	Loans payable	12,726	13,912	(1,186)
	Other current liabilities	6,813	7,447	(634)
	Deferred tax liabilities	10,914	9,698	1,216
	Retirement benefit liability	2,040	2,459	(419)
Total net assets		89,792	84,475	5,317
	Retained earnings	51,097	49,247	1,850
	Valuation difference on available-for-sale securities	17,793	15,466	2,327
	Non-controlling interests	15,315	14,571	744
Total liabilities and net assets		141,791	138,114	3,677

- Up due to valuation difference in market value

- Down due to scheduled repayments

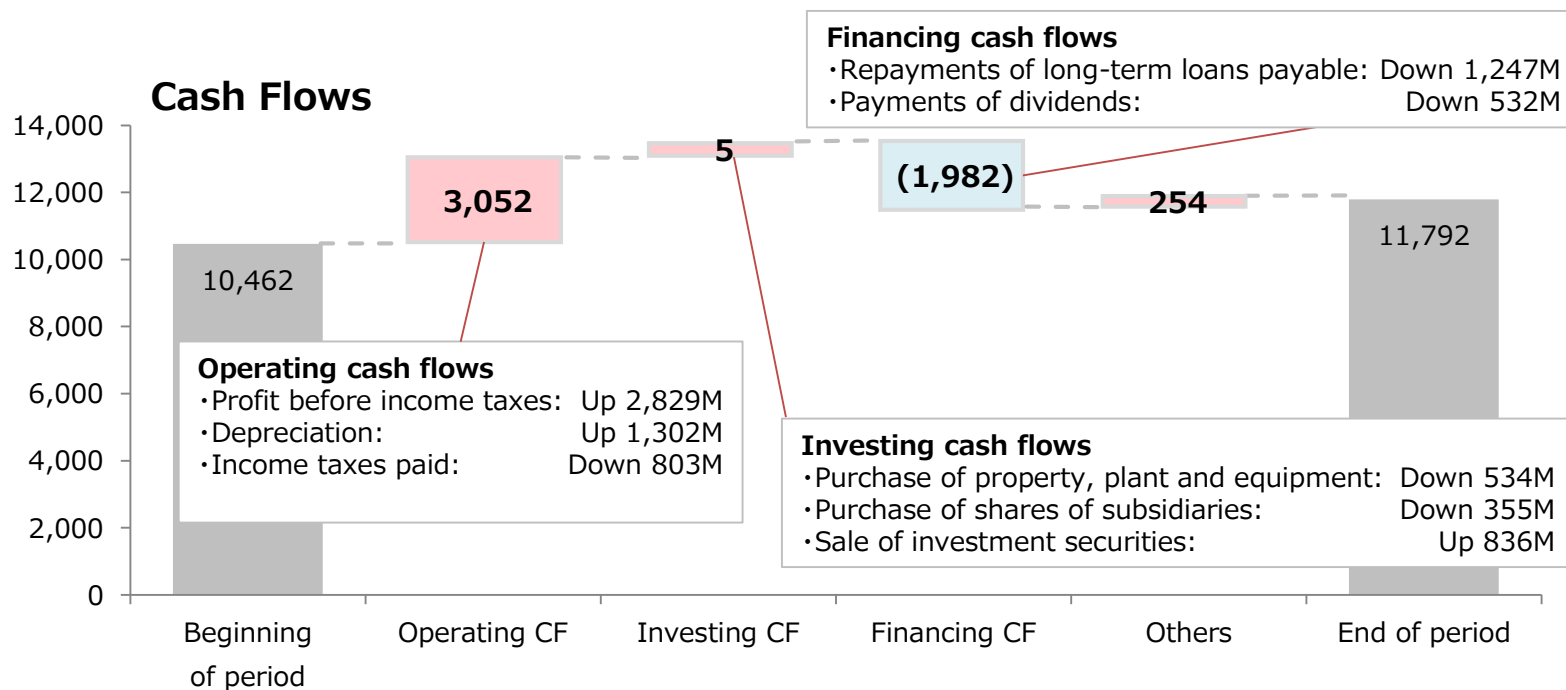
- Down due to the early retirement program implemented by Toa Eiyo

- Up due to recording of profit

Consolidated Statement of Cash Flows

(Million yen)	Jan-Jun 2023 Actual	Jan-Jun 2022 Actual
Cash and cash equivalents at beginning of period	10,462	10,813
Operating cash flows	3,052	830
Investing cash flows	5	1,103
Financing cash flows	(1,982)	(1,868)
Net increase (decrease) in cash and cash equivalents	1,075	66
Others*	254	—
Cash and cash equivalents at end of period	11,792	10,880

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



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%	3.4 pt
Ordinary income	4,000	2,582	1,418
Profit attributable to owners of parent	2,600	2,817	(217)

(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	(15)	(296)
Pharmaceuticals	13,400	100	10,128	(1,940)	3,272	2,040
Machinery	5,800	(300)	5,187	(275)	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

3. Priority Issues by Business Segment

FY2023 1H

Drug price revisions	<ul style="list-style-type: none"> ◆ Experienced a decline in selling prices due to NHI drug price revisions in Japan
Sales of new drugs	<ul style="list-style-type: none"> ◆ Released Tolvaptan 7.5mg formulation in September 2022 and 15mg formulation in December 2022
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 cardiomyovascuopathy) in Japan ◆ Rolled out transdermal patch of β1 blocker Biso[®] Tape in China. Conducted a phase III clinical trial
Other initiatives	<ul style="list-style-type: none"> ◆ Initiatives to maximize the number of diagnoses for an orphan drug CNT-01 (Conducted enlightenment and other activities for rare diseases by setting up a dedicated team.) ◆ Situation after the transition to a proprietary sales system (The top line has been minorly affected by the transition and performs strongly. The transition also resulted in cost reductions.) ◆ Solicitation of early retirement (The Company called for early retirement of about 50 employees, and 61 employees applied for the program. The eligible employees retired at the end of June.) ◆ Review of internal systems (The review includes the elimination and consolidation of sales branches, the consideration of optimizing sales and other bases, and the assignment of human resources after the implementation of the early retirement program.)

■ Practical clothing business

The Company consolidated its Apparel Division and its consolidated subsidiary Ogran Japan Co., Ltd. in May 2023. We will mobilize the strengths of both companies to reinforce ongoing initiatives and promote new product development.

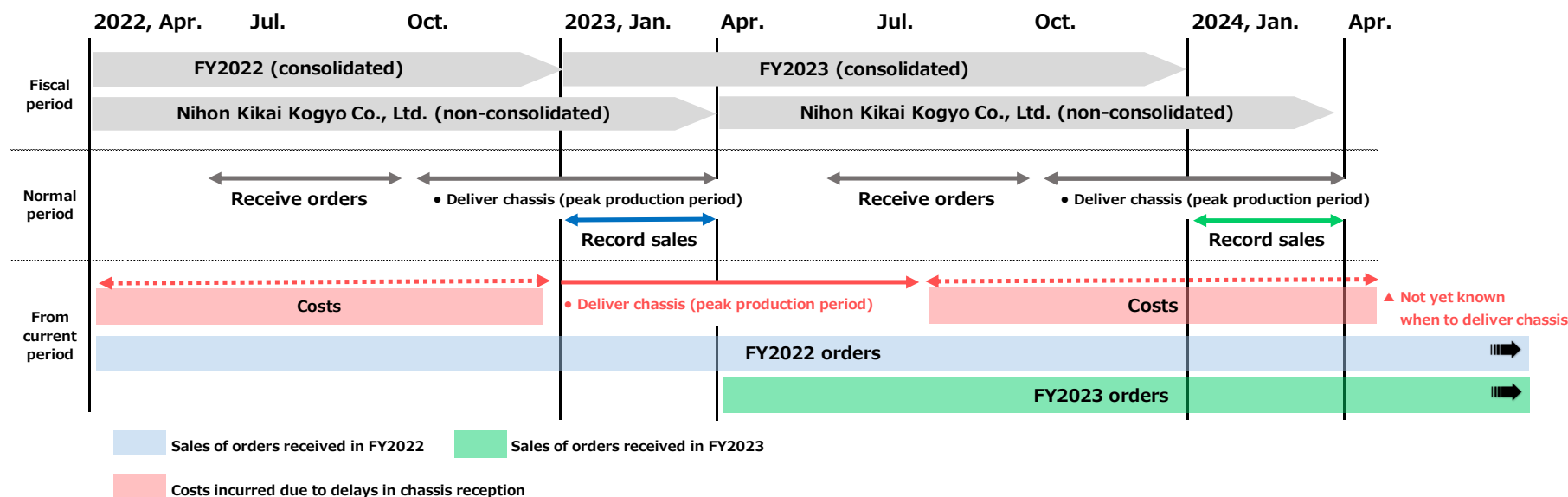
- ◆ Expand the sales of functional underwear (underwear for active seniors, femtech products, etc.) by exploring new sales channels
- ◆ Promote new product development by leveraging the knowledge of our Apparel Division in “material properties and functionality”

■ Functional fibers

Despite the continued effects of higher raw material prices and increasing power and gas rates, we succeeded in not only increasing sales but also passing on the surging costs to product selling prices, leading to steady growth in business performance.

- ◆ Performance of mainstay textiles
 - Heat-resistant fibers: The sales of products for automotive/aircraft applications increased in overseas markets
 - Water-soluble fibers: The sales of products for automotive interior applications grew steadily
- ◆ Plan to increase production capacity in keeping with the further growth of the business

Sales period carried forward due to delays in chassis reception



Structural reforms

Measures to improve production efficiency	Measures to increase sales
<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 <p style="text-align: center;">▼</p> <p style="text-align: center;">Progressed as planned</p>	<ul style="list-style-type: none"> ◆ Control product costs by closely monitoring the movements in costs, including those for chassis, raw materials and energy ◆ Refine the analyses of sales channels (direct sales /agents) and marketing methods <p style="text-align: center;">▼</p> <p style="text-align: center;">Conduct strategic pricing</p>

■ Business conditions

In real estate, sales and earnings increased from the previous fiscal year. We saw steady growth in sales and earnings from the COCOON CITY, Tokyo Square Garden, and other properties.

- ◆ Saw an increase in rental income from the COCOON CITY mainly due to the steady growth in the number of visitors and tenant sales against a backdrop of, among other things, the full lifting of the COVID-19 movement restrictions
- ◆ Also achieved steady growth in both net sales and operating income from Tokyo Square Garden and other properties, exceeding those of the previous fiscal year

■ Real estate development in the future

Aiming to utilize real estate properties owned by the entire Group, including those in Saitama Shintoshin

- ◆ With progress in condominium and office development around the land owned by the Company in Saitama Shintoshin, Saitama City Office is planned to be relocated to the current bus terminal site in FY2031. Despite the continued uncertainty in the outlook for the environment surrounding real estate development, such as construction costs and demand, the Company plans to develop real estate to take advantage of market potential.
- ◆ As for other existing real estate properties, we will continue to secure stable revenue by utilizing real estate properties acquired as a result of the structural reforms (including the Group's properties)

■ What we have done and will do in the future

カタクラ・クロステクノロジー

Katakura CrossTechnology Co., Ltd.



1本からのお庭サービス ガーデンエクスプレス®

Garden Express Co., Ltd.



- ◆ Recently, the Company has acquired Katakura CrossTechnology Co., Ltd. (hereinafter, “KXT”), which is engaged in the IT business, and Garden Express Co., Ltd. (hereinafter, “GE”), which is engaged in the planting business.
- ◆ The major objectives of the acquisition of these two companies are as follows:
 - KXT: To tap into the growing business area as well as to undertake digital transformation and other initiatives in our core real estate business in the future
 - GE: To strengthen businesses peripheral to the real estate business
 - ▶ Aim to further enhance the corporate value of the entire Group by maximizing the synergy
- ◆ Going forward, with an eye to the growth of the Company in the medium to long term, we intend to further look into new business opportunities carefully and constructively, while closely examining the details of individual projects.

Initiatives to Enhance Human Capital

Personnel system/treatment



Personnel development



Working environment



Corporate culture



From 2019

- ◆ Personnel system/treatment
 - Staggered working hours system, hourly paid leave system
 - Encouragement of taking consecutive leave
 - Revisions to the personnel treatment system
 - Revisions to the awards system
- ◆ Working environment
 - Launch of a satellite office, setting up of additional meeting spaces within the Company
- ◆ Personnel development
 - Position-based training, training for management positions

From 2020 (amid the pandemic)

- ◆ Personnel system/treatment
 - Work-from-home system
 - Mentorship program
 - Rise in starting salary for new graduates for two straight years
 - Strengthening of mid-career hiring
- ◆ Working environment
 - Setting up of a new space for concentrating on work
 - Liberalization of the dress code
- ◆ Personnel development
 - Introduction of communication support tools
 - Internal control training
 - Training for management and instructors

Toward the new era

Changes

- Environment surrounding the Company
- People's values

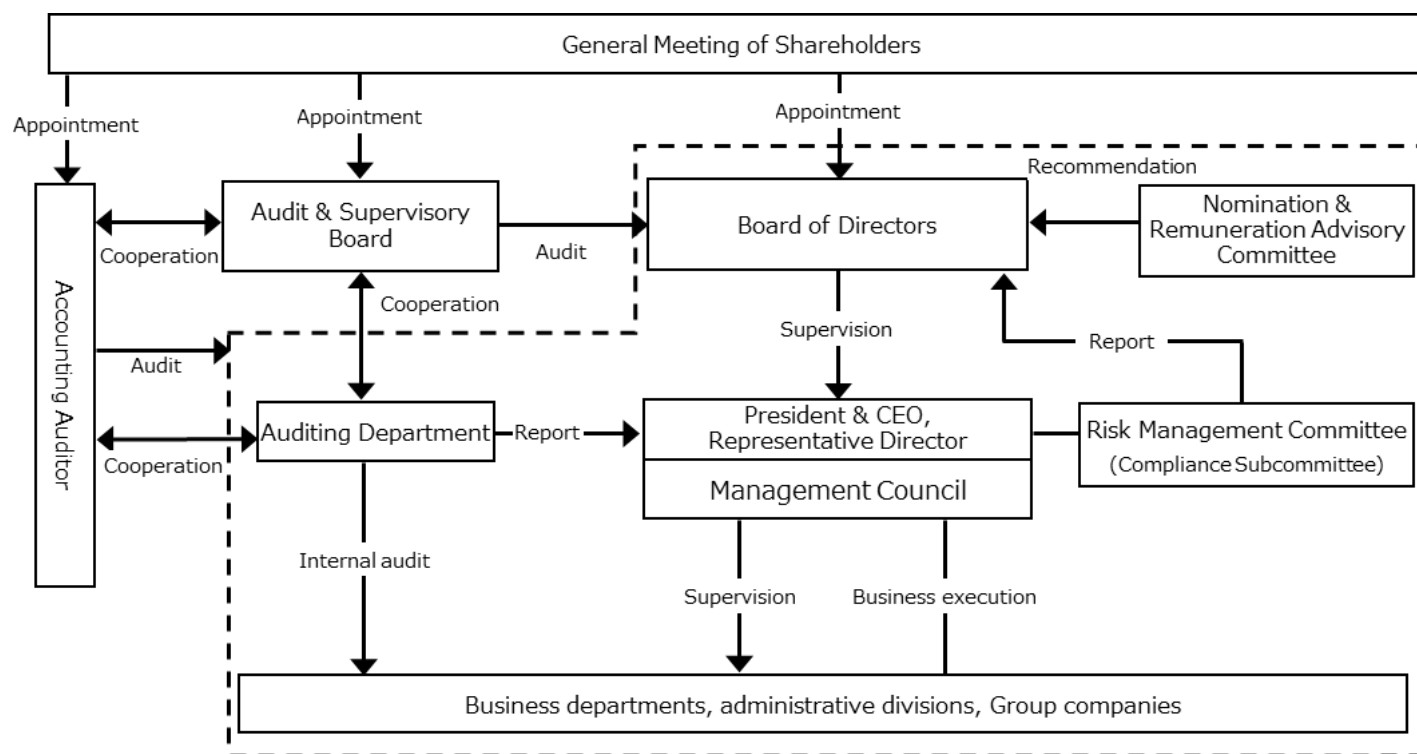
Activities/measures

- Creation of opportunities to reflect on organizational climate and culture and the tendency and characteristics of employees
- Strengthening of mid-career hiring of highly professional personnel
- Creation of educational opportunities (continued)

Vision

Further enhance the corporate value by aiming to become a well-organized organization where employees mutually recognize diversity

Corporate governance system

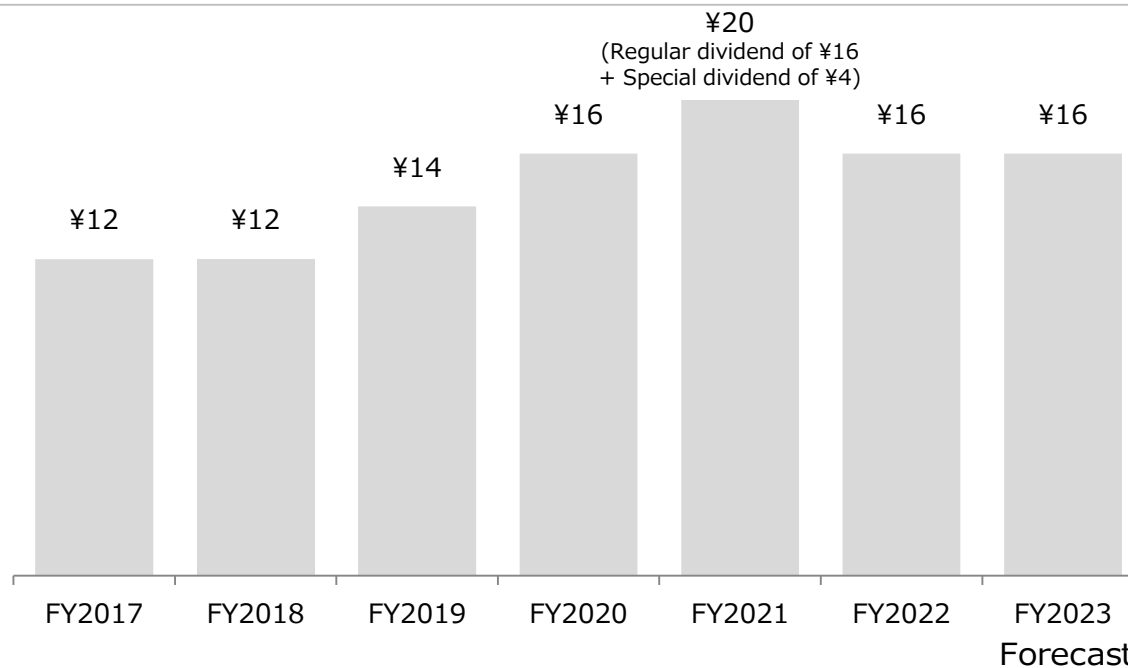


Improve compliance	Strengthen risk management
<ul style="list-style-type: none"> ◆ Promote PDCA activities through compliance programs ◆ Enrich the content of the compliance awareness survey; enhance the monitoring system by making efforts to make the whistleblowing system known by employees ◆ Increase the awareness of compliance among employees by enhancing internal control training 	<ul style="list-style-type: none"> ◆ Develop a risk management structure for the entire Group through the “Risk Management Committee” ◆ Take preventive measures in consideration of the nature of business of each Group company ◆ Implement PDCA for immediate reporting and drawing up of recurrence prevention measures based on the risk management manual when a risk arises

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%