

Financial Results of 2024 2nd Quarter

KATAKURA INDUSTRIES CO., LTD.

(Code 3001, TSE Standard Market)

August 30, 2024

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 2024 2nd Quarter

Consolidated Income Statement

Financial Results of 2024 2Q

(Million yen)	Jan-Jun 2024 Actual	Jan-Jun 2023 Actual	YoY Change	Jan-Jun 2024 Forecast	Actual vs. Forecast
	A	B	A-B	C	A-C
Net sales	19,651	20,616	(965)	20,300	(649)
Operating income	2,110	2,104	6	1,700	410
Operating income ratio	10.7%	10.2%	0.5 pt	8.4%	2.3 pt
Ordinary income	2,856	2,726	130	2,300	556
Extraordinary income	17	671	(654)	—	—
Extraordinary loss	128	567	(439)	—	—
Profit before income taxes	2,745	2,829	(84)	—	—
Profit attributable to owners of parent	1,840	1,982	(142)	1,800	40

■ YoY difference

Net sales & operating income

- Although sales decreased, operating income was at the same level as in FY2023 (details are given on the next page).

Extraordinary income

- Proceeds from sales of investment securities:
Down 671M (FY2023: 671M → FY2024: None)

Extraordinary loss

- Extra retirement payments:
Down 567M (FY2023: 567M → FY2024: None)

■ Forecast difference

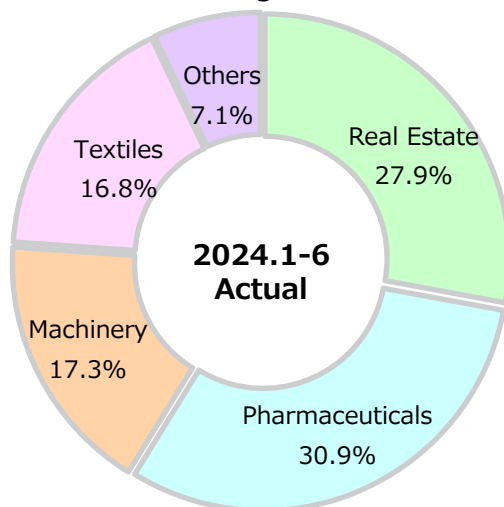
- Net sales, especially in machinery, fell short of the forecast.
- Operating income exceeded the forecast, owing primarily to the strong performance of COCOON CITY and the postponement of some repairs in real estate.

Consolidated Income Statement / Business Segment

Financial Results of 2024 2Q

(Million yen)	Jan-Jun 2024 Actual		Jan-Jun 2023 Actual		YoY Change	
	A		B		A-B	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Real Estate	5,484	2,276	5,341	2,160	(1) 143	116
Pharmaceuticals	6,066	(33)	6,306	(197)	(2) (240)	164
Machinery	3,398	(0)	3,780	185	(3) (382)	(185)
Textiles	3,294	364	3,884	425	(4) (590)	(61)
Others	1,407	94	1,303	107	(5) 104	(13)
Adjustments	—	(590)	—	(576)	—	(14)
Total	19,651	2,110	20,616	2,104	(965)	6

Business Segment Sales



(1) Increases in sales and earnings in real estate

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

(2) Decrease in sales but decrease in loss in pharmaceuticals

- Sales decreased due to the impact of National Health Insurance (NHI) drug price revisions despite contribution from Bepridil Hydrochloride Tablets released in February 2024.
- Operating profit and loss improved thanks to a decline in fixed costs such as labor cost for the employees who applied for early retirement and retired from the Company at the end of June 2023.

(3) Decreases in sales and earnings in machinery

- Sales and earnings decreased due to the impact of delays in chassis* reception caused mainly by shortages of automotive semiconductors and the model changes undertaken to comply with laws and regulations.

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

(4) Decreases in sales and earnings in textiles

- Sales and earnings decreased as Nitivu Co., Ltd. faced a slower recovery in demand for heat-resistant fibers and some changes were made to the distribution channels at Ogran Japan Co., Ltd. for underwear in practical clothing.

(5) Increase in sales but the same level of operating income as in FY2023 in others

- Sales increased as Katakura CrossTechnology Co., Ltd., a subsidiary consolidated at the beginning of the second quarter of the previous fiscal year, contributed throughout the half-year period in the current fiscal year.

Consolidated Balance Sheet

Financial Results of 2024 2Q

(Million yen)		Jun 30, 2024	Dec 31, 2023	Change
		A	B	A-B
Current assets		55,779	57,151	(1,372)
	Cash and deposits	28,743	29,743	(1,000)
Non-current assets		82,776	82,459	317
	Buildings and structures	22,564	23,275	(711)
	Investment securities	36,499	35,657	842
Total assets		138,555	139,611	(1,056)
Total liabilities		48,593	50,246	(1,653)
	Notes and accounts payable - trade	3,574	4,279	(705)
	Loans payable	10,843	11,105	(262)
	Other current liabilities	6,762	7,386	(624)
Total net assets		89,962	89,365	597
	Retained earnings	53,337	52,160	1,177
	Valuation difference on available-for-sale securities	17,695	16,995	700
	Non-controlling interests	13,298	14,641	(1,343)
Total liabilities and net assets		138,555	139,611	(1,056)

- Down due to depreciation

- Up due to valuation difference in market value of investment securities

- Up due to recording of profit

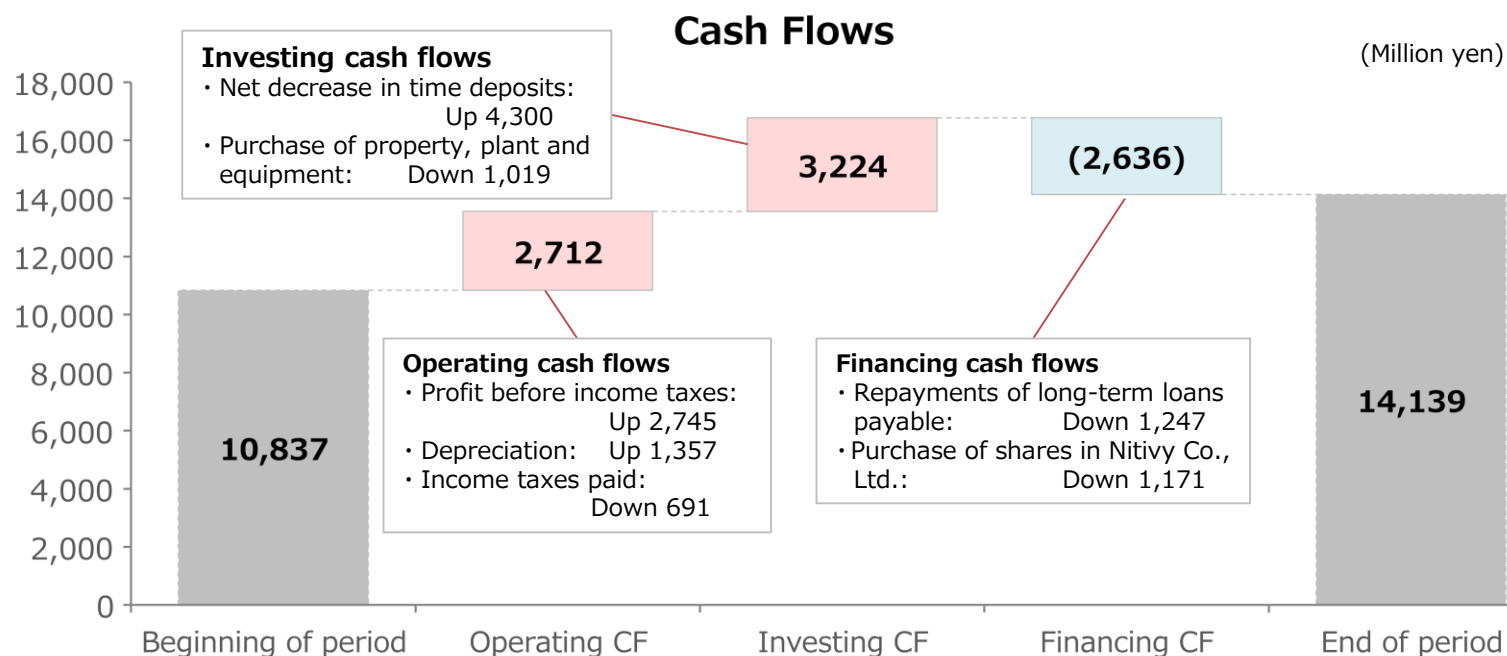
- Down due to acquisition of shares in Nitivy Co., Ltd.

Consolidated Statement of Cash Flows

Financial Results of 2024 2Q

(Million yen)		Jan-Jun 2024 Actual	Jan-Jun 2023 Actual
Cash and cash equivalents at beginning of period		10,837	10,462
	Operating cash flows	2,712	3,052
	Investing cash flows	3,224	5
	Financing cash flows	(2,636)	(1,982)
Net increase (decrease) in cash and cash equivalents		3,301	1,075
Others*		–	254
Cash and cash equivalents at end of period		14,139	11,792

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



2. Priority Issues by Business Segment

■ Business conditions

◆ COCOON CITY

- Sales increased driven by strong tenant sales thanks in part to having attracted tenants with rarity or topicality.
- Earnings growth was achieved through a consistent increase in sales despite yearly rises in property tax, city planning tax, and lease costs.

◆ Other properties

- Performance remained strong, including high occupancy at Tokyo Square Garden.
- Proper capital expenditures were made to maintain the value and freshness of aging properties.



■ Future initiatives

- ◆ Enhance the area value through continuous strategic renovation of COCOON CITY.
- ◆ Make capital expenditures to prepare for frequent natural disasters.
- ◆ Engage in new developments with careful monitoring of rising construction costs, market trends, and other factors.
 - Continue to examine the land the Company owns in Saitama Shintoshin for further utilization of its potential while closely monitoring market conditions.
 - Aim to develop the Tokyo Research Laboratories of Toa Eiyo Ltd.* in collaboration with COCOON CITY.

* Development by Sanzen Co., Ltd., our wholly owned subsidiary that owns the site; scheduled to start demolition in September.

Pharmaceuticals (TOA EIYO LTD.)

Financial Results of 2024 2Q

Business conditions	<ul style="list-style-type: none"> ◆ Experienced a decline in selling prices due to NHI drug price revisions in Japan
Sales of new products	<ul style="list-style-type: none"> ◆ Released Bepridil Hydrochloride 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 cardiomyovascuopathy) in Japan, where the incidence of cardiovascular events, a primary endpoint, has not reached the criterion. ◆ Rolled out transdermal patch of $\beta 1$ blocker Bisono® Tape in China. Conducted a phase III clinical trial. ◆ Added new dosage forms and expanded indication of existing drugs. ◆ Accelerated the development for continuous generic drugs release.
Other	<ul style="list-style-type: none"> ◆ Reviewed the cost structure. (Solicited early retirement applications from about 100 employees to make the organizational structure more efficient while firmly maintaining stable supply.) ◆ Explored the possibility of overseas expansion for existing and pipeline products. ◆ Considered the expansion of contract manufacturing to raise the factory operating rate.



Machinery (Nihon Kikai Kogyo Co., Ltd.)

Financial Results of 2024 2Q

■ Business conditions

Orders recovered but the delivery period continued to be carried forward due to delays in chassis reception

- ◆ Shortages of automotive semiconductors were being resolved. However, the model changes undertaken to comply with laws and regulations kept the timing of chassis reception unclear. The delays are expected to be gradually resolved over the next several years.

A recovery is forecast for FY2024 full-year results

- ◆ The sale of small-sized vehicles, the business's mainstay, was delayed to the second half due to delays in chassis reception. We have received a large-scale order for vehicles, and thus expect a recovery in the full-year results for FY2024.
- ◆ We forecast sales increase from FY2023 due to the receipt of orders for special-purpose vehicles, which are high unit price products.



■ Future initiatives

Continue carrying out measures to expand revenue

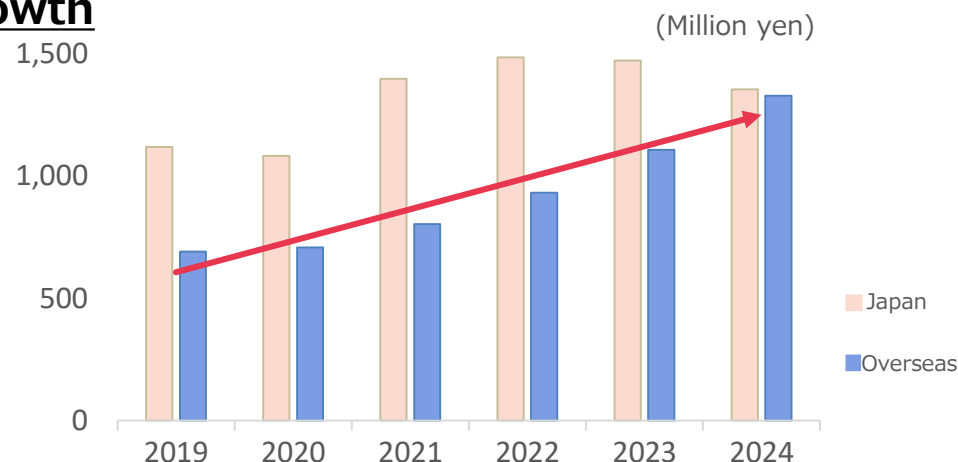
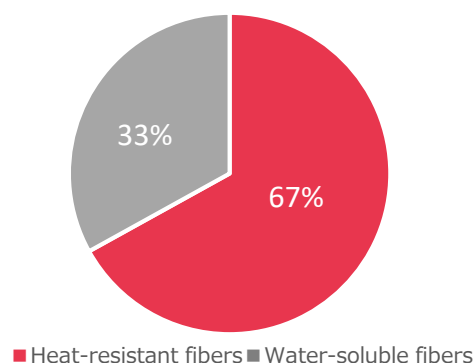
- ◆ Keep working to improve production efficiency by means of make-to-stock production in advance and to aggregate and standardize body types.
- ◆ Deepen information sharing and cooperative relationships with key customers and agents.



Textiles (Functional fibers business: Nitivy Co., Ltd.)

Financial Results of 2024 2Q

Sales composition and overseas growth



Business conditions

Heat-resistant fibers: A later-than-expected recovery in semiconductor demand-supply cycles

- ◆ Sales for semiconductor applications were temporarily sluggish but are expected to recover by the year-end.
- ◆ Sales for construction applications (for manufacturing facilities such as steelmaking furnaces) grew, driven by newly developed overseas sales channels. Sales for aircraft applications were also strong.

Water-soluble fibers: Automotive interior applications were strong but apparel applications were minus

- ◆ Weak sales for apparel applications are likely to continue into the second half. However, overall sales are expected to recover, buoyed by strong sales for high-end towel applications overseas.

Other initiatives

- ◆ Develop new customers including in overseas markets.
- ◆ Progress in efforts to increase production capacity (scheduled to begin construction works to enhance ancillary equipment by the year-end).
- ◆ Made Nitivy Co.,Ltd. a wholly owned subsidiary of the Company (completed in May 2024).

Textiles (Practical clothing business: Ogran Japan Co., Ltd.)

Financial Results of 2024 2Q

■ Business conditions

Practical clothing business recorded declines in sales and earnings due to partial changes to distribution channels

- ◆ Addressed sharp increases in raw material prices due to exchange rate fluctuations by passing the increases on to the product prices.
- ◆ Achieved cost reductions through the organizational integration in the practical clothing business carried out in May 2023.

■ Future initiatives

Continue to engage in channel-by-channel sales promotion for functional underwear products (for nursing care and active seniors, namely femtech)

- ◆ Dedicate more energy to light incontinence underwear for active seniors (men), one of growth fields, in order to develop products reflecting customer needs and wants and gain more shelf space.
- ◆ For femtech products, utilize the know-how cultivated through private-label products to develop highly functional products and promote sales activities to sales channels.



Note: Image generated by artificial intelligence (ChatGPT).



New Businesses

■ Approach to newly acquired companies

- ◆ Ensure corporate governance as a group company through appropriate PMI.
- ◆ Maximize corporate value and increase revenue.

■ Business conditions of individual companies

Company name	Current state and future directions
Katakura CrossTechnology Co., Ltd. (IT business)	<ul style="list-style-type: none"> • The company's business is performing solidly. • We aim to maximize synergy by promoting IT throughout the Group (introducing a generative artificial intelligence system developed by the company to Katakura). ➤ We will continue working to expedite the Group's digital transformation.
Garden Express Co., Ltd. (planting business)	<ul style="list-style-type: none"> • The company endeavors to add new agents as its priority issue. • Measures are also taken to improve service quality.

- Going forward, we will continue to consider inorganic strategies carefully and constructively, with an eye to the growth of the Group in the medium to long term.

3. Development of Foundational Structures

Corporate Governance System and Risk Management

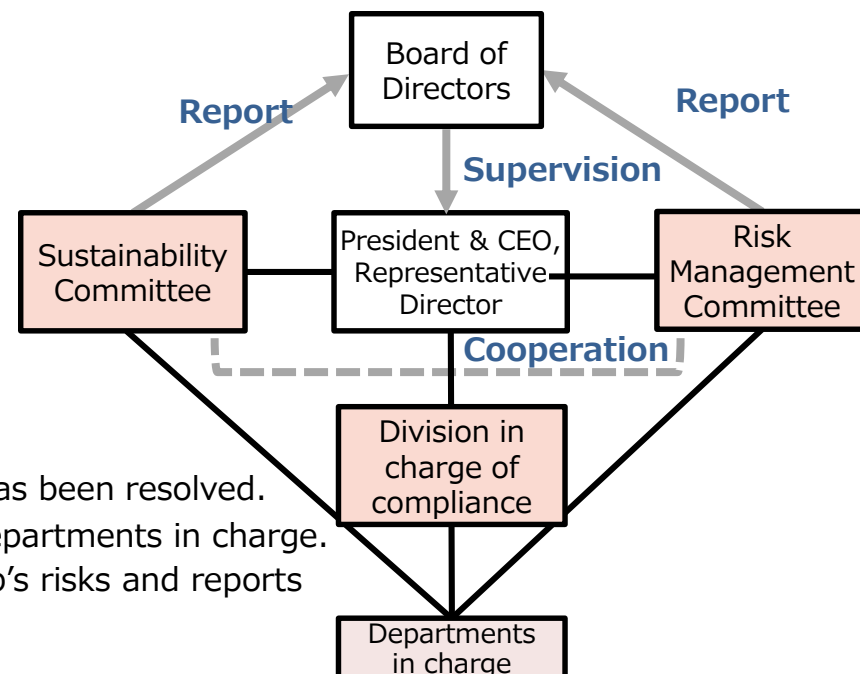
Financial Results of 2024 2Q

■ Governance

- ▶ A Sustainability Committee is in place, which formulates the Group's policy, discusses its common issues, monitors the status of promotion, and reports to the Board of Directors.
 - ⇔ The feedback is utilized to enhance the effectiveness of the committee's activities.

■ Risk management

- ▶ The Risk Management Committee regularly collects risk information, and shares it with executives and relevant departments depending on the level of urgency.
 - ⇔ The committee controls the risk until the situation has been resolved.
- ▶ Business and other risks are constantly monitored by departments in charge.
 - ⇔ The committee comprehensively identifies the Group's risks and reports to the Board of Directors.



■ Compliance promotion

- ▶ We are committed to maintaining and strengthening the Group-wide comprehensive compliance system, establishing a division in charge of compliance.
- ▶ Individual divisions and Group companies work to ensure and improve compliance in accordance with the following internal rules: Compliance Regulations, which set out our compliance policy, system, and management methods; and Katakura Group Compliance Manual, which is designed to help employees understand basic approach to compliance.

We aim to continue to be a company that is loved and trusted by customers, local communities, and society, in keeping with our mission:

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

Human Capital

Financial Results of 2024 2Q

The Company believes that outstanding personnel should be actively promoted regardless of age, gender, background, and other factors, with all employees evaluated on an equal footing and given opportunities for promotion to managerial positions. Based on this belief, we endeavor to create the necessary internal environment and systems.

Average age of employees

39.1

Average monthly overtime hours

18.5

Average number of days of paid leave taken

11.1

■ Indicators: Current status and targets for 2030

Parental leave take-up rate

Both men and women

100%

▼
Maintain 100%

Rate of return to work after parental leave

Both men and women

100%

▼
Maintain 100%

Ratio of women hired

Among new-graduate and mid-career hires in the most recent three years

53%

▼
Maintain 50% or higher

Ratio of women in managerial positions

Note: Not including team leaders

12.5%

▼
30%

Note: Figures are nonconsolidated basis as of December 31, 2023.

4 . 2024 Forecast, and Dividends and Dividend Policy

2024 Forecast

Financial Results of 2024 2Q

(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)

Supplementary notes

- The 2024 forecast remains unchanged from that announced at the beginning of the fiscal year.
- For dividend forecast, see the next page.

Shareholder Returns (Dividends)

Financial Results of 2024 2Q

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.

Recent dividends paid and 2024 forecast

	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.

In FY2024, the Company conducted a share repurchase on August 9, 2024, as outlined below.

- ◆ Total no. of shares repurchased: 700,000 (2.11% of the total number of issued shares [excluding treasury shares])
- ◆ Total share repurchase cost: Approx. 1,301 million yen