

July 13, 2020

MORITO CO., LTD.
Financial Statement (Unaudited)
For the Second Quarter of the Fiscal Year ended November 30, 2020
(Translated from the Japanese original)

Corporate Information

Code : 9837 Listings in First Section of the Tokyo Stock Exchange

(URL : http://www.morito.co.jp/hd_en/)

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Representative Director and President

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Scheduled date of filing of Quarterly Report:

July 14, 2020

Scheduled date of dividend payment:

August 7, 2020

Supplementary explanation material for quarterly financial results:

Yes

Presentation meeting for quarterly financial results:

None

(Amounts rounded down)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year 2020(December 1, 2019 through May 31, 2020)

(1) Consolidated Financial Results

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2Q of FY 2020	21,198	△5.4	412	△45.5	401	△47.3	154	△70.5
2Q of FY 2019	22,402	7.1	757	△4.5	762	0.4	522	△6.9

(Note) Comprehensive income : △261 million yen (-%)(2Q of FY2020) △250 million yen (-%)(2Q of FY2019)

	Net income Per share	Fully diluted net Income per share
	Yen	Yen
2Q of FY 2020	5.64	—
2Q of FY 2019	19.05	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
2Q of FY 2020	43,822	31,994	72.9
FY 2019	47,185	32,725	69.2

(Reference) Equity capital : 31,941 million yen (2Q of FY2020) 32,667 million yen (FY2019)

2. Dividends

	Dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2019	-	13.00	—	13.00	26.00
FY 2020	-	13.25			
FY 2020 (Forecast)			—	4.75	18.00

(Note) Revisions of dividend forecast to the latest announcement: Yes

3. Consolidated Forecast for FY 2020 (December 1, 2019 through November 30, 2020)

(Percentages represent changes from corresponding period of previous year)

	Net Sales	Operating income	Ordinary profit	Net income	Net income per share

	Millions of yen	%	Yen						
Full year	40,000	△13.0	600	△65.4	600	△66.3	300	△78.6	10.96

(Note) Revision of performance forecast to the latest announcement: Yes

*Notes

(1) Changes of important subsidiaries during the period : None (changes of specific subsidiaries in accordance with changes in the scope of consolidation)

Newly included : None

Excluded : None

(2) Adoption of special accounting treatment for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies and changes or restatement of accounting estimates

(i) Changes in accounting policies caused by revision of accounting standards: Yes

(ii) Changes in accounting policies other than (i): None

(iii) Changes in accounting estimates: None

(iv) Restatements: None

(4) Number of outstanding shares (common shares)

(i) Number of outstanding shares, including treasury shares at end of period:

30,800,000 shares (as of May 31, 2020)

30,800,000 shares (as of November 30, 2019)

(ii) Number of shares of treasury stock at end of period:

3,420,060 shares (as of May 31, 2020)

3,420,060 shares (as of November 30, 2019)

(iii) Average outstanding number of shares during the period:

27,379,940 shares (the 2Q of FY2020)

27,452,023 shares (the 2Q of FY2019)

* This quarterly financial summary is not subject to quarterly review by certified public accountants or an audit firm.

* Disclosure and other special notes regarding performance forecasts.

The forecast in this cumulative quarterly statement is based on information available to Morito Group and certain premises which are deemed to be rational, and numbers we actually get may greatly differ from those in the forecasts due to various factors.

As for supporting premises to the performance forecasts or notes to be kept in mind for the usage of this forecasts, refer to "1. Qualitative Information for the Period under Review (2) Forecasts of Consolidated Business Results and other Forward-looking Information" on page 5.

In addition, we have introduced "Stock Granting Trust (J-ESOP)" and "Board Incentive Plan (BIP)". Consequently, the shares held by Trust and Custody Service Bank, Ltd. and the Master Trust Bank of Japan, Ltd are included in the treasury stock.

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1. Qualitative Information for the Period under Review

(1) Overview of Business Performance

In the first half of the consolidated cumulative second quarter (From December 1, 2019 through May 31, 2020), the Japanese economy showed a gradual recovery with steady increases in the employment rate and the income environment. However, in the second half of the period, the Japanese economy was in the difficult situation with a rapid recession by the global pandemic of the novel coronavirus. At the same time, the global economy has gotten worse and extremely uncertain in the future.

In such circumstances, Morito Group who deals with apparel materials and consumer products has been pushing forward with the 8th mid-term management plan and aiming for continuous business growth by creating values new value for the Morito Group beyond the value-added our items, under the corporate vision of 『Create Morito's existence value, Realize "New Morito Group"』. However, in the consolidated cumulative second quarter, our business was in the difficult situation. Firstly, it was because that the business of apparel materials was affected by the warm winter last year and self-restraint of department stores and mass retailers to prevent the spread of the novel coronavirus. Secondly, it was because that the business of consumer products was affected by the suspension of automobile-related factories in Japan and overseas for a certain period time.

As a result, in the current quarterly performance reaches net sales ¥21,198 million (decreased by 5.4% from a year earlier), operating income ¥412 million (decreased by 45.5% from a year earlier), ordinary income ¥401 million (decreased by 47.3 % from a year earlier), net income ¥154 million (decreased by 70.5 % from a year earlier).

The exchange rate used for the oversea subsidiaries' consolidated financial statement of the current quarter end as below:

	1Q	2Q
USD	108.76 (112.91)	108.87 (110.23)
EUR	120.32 (128.82)	120.09 (125.16)
RMB	15.44 (16.32)	15.59 (16.33)
HKD	13.90 (14.42)	14.01 (14.05)
TWD	3.57 (3.66)	3.62 (3.58)
VND	0.0047 (0.0048)	0.0047 (0.0047)
THB	3.59 (3.44)	3.48 (3.49)
MXN	5.65 (5.70)	5.49 (5.74)

(Notes)

1. () is the exchange rate of the quarter of FY2019.

Segment information as below

[Japan]

As for the apparel division, sales of accessories for bags increased, but sales of accessories for casual wear, working wear and men's heavy clothing decreased.

In the consumer product division, sales of safety-related accessories for construction site and rental, sales and cleaning business of kitchen equipment increased, but sales of products related to shoes and automobile interior components decreased.

As a result, net sales reached 14,964 million yen (decreased by 8.9% from a year earlier).

[Asia]

As for the apparel division, sales of accessories to Japanese apparel manufacturers in Shanghai and EU and US/European manufacturers in Hong Kong decreased.

In the consumer product division, sales of accessories for video equipment in Thailand decreased, but sales of automobile interior components bound for Japanese manufactures increased in Shanghai. As a result, net sales reached 3,598 million yen (increased by 16.5% from the previous year).

[Europe and the U.S.]

As for the apparel division, sales of accessories to apparel manufacturers in Europe/US decreased.

In the consumer product division, sales of automobile interior components to Japanese auto manufacturers increased.

As a result, net sales reached 2,635 million yen (decreased by 8.7% from the previous year).

(2) Forecast of Consolidated Business Results and other Forward-looking Information

The consolidated financial forecast for the fiscal year ending November 31, 2020 is expected to fall below the initial forecast due to the spread of new coronavirus infections. For details, please refer to “Notice Concerning Revision of Consolidated Financial Results Forecast and Fiscal Year Ending Dividend Forecast for November 2020” released today (July 13, 2020).

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

	FY 2019 (As of November 30, 2019) Thousands of yen	FY 2020 (As of May 31, 2020) Thousands of yen
Assets		
Current assets		
Cash and deposits	9,716,355	9,273,794
Notes and accounts receivable	11,773,061	9,859,271
Inventory	5,083,679	5,460,001
Other current assets	1,115,458	596,641
Allowance for doubtful accounts	△30,645	△28,201
Total current assets	27,657,908	25,161,508
Fixed assets		
Tangible fixed assets		
Land	4,074,904	4,075,383
Other tangible fixed assets	5,735,985	5,850,444
Total tangible fixed assets	9,810,890	9,925,827
Intangible fixed assets		
Goodwill	2,839,168	2,736,975
Other Intangible fixed assets	1,154,248	1,118,506
Total intangible fixed assets	3,993,417	3,855,481
Investments and other fixed assets		
Investment securities	4,396,289	3,638,748
Net defined benefit asset	268,300	265,578
Other fixed assets	1,120,508	1,038,790
Allowance for doubtful account	△67,253	△67,269
Total investments and other fixed assets	5,717,844	4,875,848
Total fixed assets	19,522,152	18,657,158
Deferred assets	5,601	3,501
Total assets	47,185,662	43,822,168
Liabilities		
Current liabilities		
Notes and accounts payable	4,859,108	3,857,065
Short-term loans payable	50,000	50,000
Current portion of bonds	400,000	400,000
Current portion of long-term debt	506,666	553,334
Accrued tax payable	441,253	241,917
Reserve for bonuses	229,983	168,188
Reserve for director's bonuses	71,595	25,306
Other current liabilities	2,333,488	1,540,270
Total current liabilities	8,892,095	6,836,081
Fixed liabilities		
Bonds payable	200,000	—
Long-term debt	2,674,590	2,362,922
Provision for retirement benefit by stock	31,824	38,948
Provision for director's retirement benefit	57,249	64,174
Provision for director's retirement benefit by stock	56,428	65,013
Provision for environmental measures	19,360	19,516
Net defined benefit liability	892,694	882,202
Other fixed liabilities	1,635,921	1,558,969
Total fixed liabilities	5,568,069	4,991,746
Total liabilities	14,460,164	11,827,828

(Unaudited)

	FY 2019 (As of November 30, 2019) Thousands of yen	FY 2020 (As of May 31, 2020) Thousands of yen
Net Assets		
Shareholders' equity		
Capital	3,532,492	3,532,492
Capital surplus	3,503,243	3,507,603
Retained earnings	26,072,687	25,760,288
Treasury stock	△2,222,696	△2,227,056
Total shareholders' equity	30,885,726	30,573,326
Other comprehensive income		
Valuation difference on available-for-sale securities	1,185,435	689,964
Deferred gains or losses on hedges	946	1,731
Difference in revaluation of land	451,115	451,115
Foreign currency translation adjustment	170,300	246,176
Remeasurement of defined benefit plans	△25,723	△20,977
Total other comprehensive income	1,782,074	1,368,010
Subscription rights to shares	57,697	57,277
Minority interests	—	△4,274
Total net assets	32,725,498	31,994,340
Total liabilities and net assets	47,185,662	43,822,168

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Quarterly Consolidated Statements of Income

The Second Quarter accounting period

	FY 2019 (December 1, 2018 through May 31, 2019) Thousands of yen	FY 2020 (December 1, 2019 through May 31, 2020) Thousands of yen
Net sales	22,402,663	21,198,721
Cost of sales	16,326,564	15,701,304
Gross profit	6,076,098	5,497,416
Total selling, general and administrative expense	5,318,329	5,084,570
Operating Income	757,768	412,846
Non-operating income		
Interest received	12,862	8,081
Dividends received	32,431	37,314
Rent on real estate	24,267	34,007
Equity in earnings of affiliates	33,113	24,792
Other non-operating income	29,817	35,885
Total non-operating income	132,493	140,082
Non-operating expenses		
Interest paid	4,090	7,485
Cash discount on sales	41,043	37,552
Foreign Exchange Loss	29,670	50,851
Others non-operating expense	53,157	55,483
Total non-operating expense	127,961	151,372
Ordinary Income	762,300	401,556
Extra ordinary income		
Gains on sales of fixed assets	29	408
Gains on sales of investment securities	81,849	—
Gain on reversal of subscription rights to shares	210	420
Total extra ordinary income	82,089	828
Extra ordinary loss		
Loss on disposal of fixed assets	3,867	2,246
Loss on sales of investment securities	415	—
Loss on sales of golf club memberships	—	1,080
Loss on valuation of investment securities	—	10,663
Loss on valuation of golf club membership	—	5,374
Loss of business restructuring	2,948	—
Loss of the novel coronavirus	—	26,144
Total extra ordinary loss	7,231	45,508
Net income before taxes and other adjustment	837,158	356,876
Corporate, inhabitant and business taxes	368,248	265,141
Adjustments to corporate and other taxes	△54,013	△60,899
Total income taxes	314,234	204,241
Net income	522,923	152,635
Profit(Loss) attributable to non-controlling interests	—	△1,789
Profit(Loss) attributable to owners of parent	522,923	154,424

Quarterly Consolidated Statements of Comprehensive Income
The Second Quarter accounting period

	FY 2019 (December 1, 2018 through May 31, 2019) Thousands of yen	FY 2020 (December 1, 2019 through May 31, 2020) Thousands of yen
Net Income	522,923	152,635
Other comprehensive income		
Unrealized gain(loss) on available-for-sale securities	△539,108	△495,470
Deferred gains or losses on hedges	△193	781
Foreign currency translation adjustment	△246,924	75,876
Adjustments to retirement benefit	12,647	4,745
Share of other comprehensive income of associates accounted for using equity method	1	2
Total other comprehensive income	△773,578	△414,064
Comprehensive income	△250,654	△261,428
(Breakdown)		
Comprehensive income attribute to the parent	△250,654	△259,639
Comprehensive income attribute to the minority shareholders	—	△1,789

(3) Consolidated Cash Flows

	FY 2019 (December 1, 2018 through May 31, 2019) Thousands of yen	FY 2020 (December 1, 2019 through May 31, 2020) Thousands of yen
Cash flows from operating activities		
Income (loss) before income taxes	837,158	356,876
Depreciation of amortization	415,195	492,086
Depreciation of goodwill	121,327	119,499
Change in provision for bonus	△56,857	△62,728
Changes in net defined benefit asset	14,128	3,177
Changes net defined benefit liability	△3,990	△4,107
Change in reverse for retirement benefits for officers	4,216	6,925
Changes in reverse for employee stock ownership plan	8,154	7,123
Changes in board incentive plan	△25,507	8,584
Change in allowance for doubtful accounts	750	△2,667
Interest income and dividends income	△45,294	△45,396
Interest paid	4,090	7,485
Equity in net income of affiliates	△33,113	△24,792
Gain on reversal of subscription rights to shares	△210	△420
Gains from sale of fixed assets	△29	△408
Gains from sale of investment securities	△81,434	—
Loss on sales of golf club memberships	—	1,080
Loss on valuation of investment securities	—	10,663
Loss on retirement of noncurrent assets	3,867	2,246
Loss of business restructuring	2,948	—
Loss of the novel coronavirus	—	26,144
Change in notes and accounts	600,306	1,933,278
Change in inventory	△307,784	△357,055
Change in account payable	196,371	△1,014,064
Others	107,160	△439,068
Subtotal	1,761,455	1,024,463
Proceed from interest and dividends income	47,047	45,395
Payment of interest	△4,300	△7,379
Payment of corporate tax	△42,844	△478,066
Net cash(used in)/provided by operating activities	1,761,358	584,413
Cash flows from investing activities		
Decrease in time deposit	△22,558	—
Increase in time deposit	4,798	215,497
Purchase of investment securities	△14,135	△17,185
Increase of sale for investment securities	106,888	—
Purchase of tangible fixed assets	△637,249	△127,730
Proceeds from sale for tangible fixed assets	1,013	3,570
Purchase of intangible assets	△184,699	△36,543
Payments of loans receivable	△3,000	—
Proceeds from loans receivable	13,192	3,600
Others	△7,480	△174
Net cash provided by (used in) investing activities	△743,230	41,033
Cash flows from financing activities		
Changes in short-term debt	△100,000	—
Repayments of lease obligations	△30,080	△26,355
Repayments of lease liability	—	△73,585
Repayment of long-term loans	△851,951	△265,000
Redemption of bonds	△200,000	△200,000
Payments to acquire treasury stock	△151,148	—
Proceeds from exercise of stock option	12368	—
Payments of dividends	△350,753	△362,594
Net cash used in financing activities	△1,671,564	△927,535
Effects of exchange rate on cash and cash equivalents	△49,298	28,774
Net increase (decrease) in cash and cash equivalents	△702,735	△273,314
Cash and cash equivalents at beginning of year	8,525,759	9,442,330
Increase in cash and cash equivalents from newly consolidated subsidiary	32,021	32,779
Cash and cash equivalents at fiscal year-end	7,855,044	9,201,794

(4) Notes regarding Quarterly Consolidated Financial Statements

[Notes on assumption of going concern]

Not applicable.

[Notes on a Significant Change in Shareholders' Equity]

Not applicable

[Changes in accounting statements]

Some overseas consolidated subsidiaries have applied IFRS 16 "Leases" from the beginning of the first quarter consolidated accounting period, and in principle, lessees recognize all leases as assets and liabilities. Regarding the application of this accounting standard, the method of recognizing the cumulative effect of the application of this standard, which is permitted as a transitional measure, on the date of initial application is adopted.

The impact of this change on the quarterly consolidated financial statements for the current second quarter consolidated cumulative period is immaterial.

[Additional Information]

(Impact of the Novel Coronavirus on Accounting Estimate)

Due to the global epidemic of the novel coronavirus, the economy is rapidly decelerating and uncertain about future.

In such circumstances, Morito group who deals with apparel materials and consumer has continued our business by taking measures to prevent infection and adopt new way to work such as telework at both sales and production bases. In this place, we have many uncertain factors about the impact on our business result and difficulty to reasonably calculate business forecasts. However, in each of Japan, Asia, Europe and the United States, considering the impact of the sudden economic downturn, we have estimated future cash flows and made accounting estimates regarding the application of impairment accounting to fixed assets (including goodwill) for the second quarter of the current consolidated cumulative period, based on the following assumptions.

In Japan, it is assumed that the difficult situation will continue during this term due to production adjustments by various manufacturers. And it is assumed that our business in Japan will begin to recover gradually from the end of this term, and will reach the level of the previous year in the middle of the next term.

In Asia, it is assumed the difficult condition as in Japan. However, business of automotive interior parts tends to recover. Therefore it is assumed that our business in Asia will reach the level of the previous year in the middle of the next fiscal year.

In Europe/US, the novel coronavirus is still spreading, especially in North America and Latin America, so it is assumed that the difficult situation will continue during this term. And it is assumed that our business in Europe/US will begin to recover gradually from the middle of next term, and will reach the level of the previous year later the end of the next term.

We made the above assumptions for each segment, though it was difficult to uniformly forecast the impact of the economic downturn and the period as we have various industries of our targets.

At the time of writing the quarterly report, the estimates are based on available information. However, if there is a difference between the assumptions of recovery trend and the actual trend in the future, it may affect Morito Group's business performance and your financial position.

[Segment Information]

I. The Second Quarter of FY 2019 (December 1, 2018 through May 31, 2019)

1. The information on net sales, income or loss by reportable segment

(Thousands of yen)

	Reportable Segment				Adjustment (Note 1)	Consolidated Statement Amount (Note 2)
	Japan	Asia	EU and US	Total		
Net Sales						
Sales to external customers	16,427,985	3,088,046	2,886,631	22,402,663	—	22,402,663
Inter segment sales and transfer	1,226,164	1,515,961	11,741	2,753,866	△2,753,866	—
Total	17,654,149	4,604,007	2,898,372	25,156,530	△2,753,866	22,402,663
Segment income	709,308	225,300	14,777	949,386	△191,618	757,768

(Notes)

1. Adjustment of △191,618 thousand yen includes corporate expenses of △167,751 that are not distributed to each reportable segment and other △23,867 thousand yen.
2. The amount of segment income is adjusted with operating profits on the consolidated quarterly profit and loss statements.

II. The Second Quarter of FY2020 (December 1, 2019 through May 31, 2020)

1. The information on net sales, income or loss by reportable segment

(Thousands of yen)

	Reportable Segment				Adjustment (Note 1)	Consolidated Statement Amount (Note 2)
	Japan	Asia	EU and US	Total		
Net Sales						
Sales to external customers	14,964,133	3,598,624	2,635,963	21,198,721	—	21,198,721
Inter segment sales and transfer	671,139	1,172,818	29,468	1,873,426	△1,873,426	—
Total	15,635,272	4,771,443	2,665,432	23,072,148	△1,873,426	21,198,721
Segment income	389,481	147,457	△30,633	506,305	△93,459	412,846

(Notes)

1. Adjustment of △93,459 thousand yen includes corporate expenses of △103,425 that are not distributed to each reportable segment and other 9,965 thousand yen.
2. The amount of segment income is adjusted with operating profits on the consolidated quarterly profit and loss statements.