

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending
November 30, 2022 [Japanese GAAP]

April 13, 2022

Company name: MORITO CO., LTD Stock exchange listing: Tokyo Stock Exchange
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Scheduled date of filing quarterly securities report: April 14, 2022 Scheduled date of commencing dividend payments: -
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: None scheduled
(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending November 30, 2022
(December 1, 2021 to February 28, 2022)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1Q of FY 2022	11,561	8.8	610	28.9	655	35.0	449	55.6
1Q of FY 2021	10,629	(4.9)	473	40.6	485	58.6	288	70.8

(Note) Comprehensive income: 1Q of FY 2022 ¥537million [97.8%] 1Q of FY 2021 ¥271million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
1Q of FY 2022	16.53	-
1Q of FY 2021	10.54	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
1Q of FY 2022	45,718	33,807	73.8
FY 2021	45,938	33,914	73.7

(Reference) Equity: 1Q of FY2022 ¥33,751 million FY2021 ¥33,858 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY 2021	-	9.00	-	17.00	26.00
FY 2022	-	-	-	-	-
FY 2022 (Forecast)	-	13.50	-	13.50	27.00

(Note) Revisions to the latest announcement of dividend forecast : None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending November 30, 2022
(December 1, 2021 to November 30, 2022)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	45,000	3.1	1,800	11.1	1,850	0.9	1,450	3.0	53.13

(Note) Revisions to the latest announcement of performance forecast : None

* Notes:

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in the scope of consolidation) : No
- (2) Adoption of special accounting treatment for preparing quarterly consolidated financial statements : No
- (3) Changes in accounting policies, changes in accounting estimates, and retrospective restatement
- 1) Changes in accounting policies due to the revision of accounting standards : Yes
 - 2) Changes in accounting policies other than 1) above : No
 - 3) Changes in accounting estimates : No
 - 4) Retrospective restatement : No
- (4) Total number of issued shares (common shares)
- 1) Total number of issued shares at the end of the period (including treasury shares):
February 28, 2022: 30,800,000 shares
November 30, 2021: 30,800,000 shares
 - 2) Total number of treasury shares at the end of the period:
February 28, 2022: 3,715,300 shares
November 30, 2021: 3,510,000 shares
 - 3) Average number of shares during the period:
1Q of the fiscal year ending November 30, 2022: 27,184,425 shares
1Q of the fiscal year ended November 30, 2021: 27,380,790 shares

* These quarterly consolidated financial results are outside the scope of audit by certified public accountants or audit firms.

* Explanation of the proper use of financial results forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information currently available and certain assumptions judged to be reasonable. Actual results may differ significantly from these forecasts due to a wide range of factors. As for suppositions that form the assumptions for the forecast of financial results and cautionary notes concerning the use thereof, please refer to “(2) Forecast of Consolidated Business Results and other Forward-looking Information” in “1. Qualitative Information for the Period under Review” on page 3.

The Company and some of the Morito Group companies have introduced the “Japanese version of the employee stock ownership plan (J-ESOP)” and the “officer remuneration board incentive plan (BIP) trust.” Consequently, the shares of the Company held by Custody Bank of Japan, Ltd. (trust account E) and The Master Trust Bank of Japan, Ltd. (officer remuneration BIP trust account), respectively, are included in treasury shares.

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1. Qualitative Information for the Period under Review

(1) Overview of Business Results for the Period under Review

In the first quarter of the fiscal year ending November 30, 2022 (December 1, 2021 to February 28, 2022), the business environment showed signs of recovery in a rebounding economy as economic activities mainly in Europe and the United States resumed despite the lingering effects of COVID-19. However, a combination of various downside risks, such as soaring raw material costs associated with rising crude oil prices, accelerating inflation in the U.S., and the worsening situation in Ukraine, has made the outlook for the future more uncertain than ever.

The Morito Group (the "Group"), which is mainly engaged in apparel-, product-, and transportation-related businesses, faced a number of hurdles that kept profits low, including soaring prices and difficulties procuring raw materials for its mainstay products, production cutbacks and stoppages by automakers due to semiconductor shortages, delays in marine transportation, and rising transportation costs. On the other hand, the business related to medical wear and working wear remained firm. The Group focused on winning new business contracts as well as the development and sales of high-value-added products, such as accessories and products with superior functionality, including yoga, fishing, and other sporting goods, accessories for leisure boats and camping cars, and environmentally friendly accessories and products launched as part of "C.O.R.E.," the Group's commitment to the environment. The Group also made ongoing efforts to cut transportation and other costs, and this substantially improved its profitability.

As a result, for the first quarter of the fiscal year under review, net sales increased 8.8% year on year to ¥11,561 million. Operating profit was up 28.9% to ¥610 million, ordinary profit grew 35.0% to ¥655 million, and profit attributable to owners of the parent increased 55.6% to ¥449 million.

The Group has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. effective as of the beginning of the first quarter of the fiscal year under review. This change resulted in a decrease of ¥176 million in net sales, ¥45 million in operating profit, and ¥27 million in ordinary profit and profit attributable to owners of the parent respectively for the first quarter of the fiscal year under review.

Exchange rates used for the conversion of revenue and expenses of the Group's overseas subsidiaries during the preparation of consolidated financial statements for the first quarter of the fiscal year under review are as follows.

	1Q	
USD	113.71	(104.51)
EUR	130.04	(124.58)
CNY	17.78	(15.81)
HKD	14.60	(13.48)
TWD	4.09	(3.67)
VND	0.0050	(0.0045)
THB	3.41	(3.42)
MXN	5.48	(5.08)

(Note) The exchange rate of the same period in the previous fiscal year is stated in parentheses.

Business results by segment are as follows.

Japan

The apparel division saw increases in sales of accessories for working wear and medical wear sold in Europe and the U.S. as well as sportswear accessories.

The product division enjoyed increases in sales of products for one-coin shops (like 100-yen stores), construction safety products, and products related to snowboarding and surfing.

In the transportation division, sales of automotive interior components to Japanese automotive manufacturers increased.

As a result, net sales grew 7.7% year on year to total ¥7,912 million, and segment profit jumped 24.3% year on year to reach ¥478 million.

Due to the adoption of the Accounting Standard for Revenue Recognition, etc., net sales and segment profit fell ¥176 million and ¥45 million respectively.

Asia

In China and Hong Kong apparel operations, sales of working wear accessories for the European and U.S. markets were up.

In the transportation division, sales of automotive interior components to Japanese automotive manufacturers decreased in China.

As a result, net sales increased 6.2% year on year to total ¥2,212 million, and segment profit grew 285.8% year on year to reach ¥220 million.

Europe and the U.S.

In the apparel division, sales of accessories related to working wear and casual wear increased.

In the transportation division, sales of automotive interior components to Japanese automotive manufacturers fell.

As a result, net sales increased 19.9% year on year to total ¥1,436 million while segment loss came to ¥18 million (segment profit for the same period in the previous fiscal year was ¥22 million).

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

The consolidated financial forecast for the fiscal year ending November 30, 2022 remains unchanged from what was announced on January 14, 2022. In the event that COVID-19 or the situation in Ukraine is expected to affect the Group's business performance, information about such an impact will be disclosed as soon as it becomes evident.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of November 30, 2021	As of February 28, 2022
Assets		
Current assets		
Cash and deposits	11,103,207	9,179,260
Notes and accounts receivable - trade	10,649,689	11,080,787
Inventory	4,540,605	5,803,986
Other	707,446	852,234
Allowance for doubtful accounts	(43,235)	(45,710)
Total current assets	26,957,713	26,870,557
Non-current assets		
Property, plant and equipment		
Land	4,594,174	4,595,862
Other, net	5,282,796	5,356,313
Total property, plant and equipment	9,876,970	9,952,176
Intangible assets		
Goodwill	2,432,266	2,423,415
Other	1,037,483	1,055,803
Total intangible assets	3,469,750	3,479,219
Investments and other assets		
Investment securities	4,485,900	4,265,674
Retirement benefit asset	241,832	240,970
Other	1,014,733	1,020,926
Allowance for doubtful accounts	(108,676)	(110,525)
Total investments and other assets	5,633,790	5,417,046
Total non-current assets	18,980,511	18,848,441
Total assets	45,938,224	45,718,999
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,453,854	4,842,135
Short-term borrowings	50,000	50,000
Current portion of long-term borrowings	394,620	332,122
Income taxes payable	483,951	296,485
Provision for bonuses	286,425	227,672
Provision for bonuses for directors (and other officers)	86,065	36,184
Other	1,752,857	1,773,051
Total current liabilities	7,507,774	7,557,652
Non-current liabilities		
Long-term borrowings	1,703,302	1,633,300
Provision for share awards	32,274	30,913
Provision for retirement benefits for directors (and other officers)	32,158	34,708
Provision for share awards for directors (and other officers)	91,650	89,363
Provision for environmental measures	20,075	20,626
Retirement benefit liability	911,731	907,316
Other	1,724,387	1,637,701
Total non-current liabilities	4,515,579	4,353,930
Total liabilities	12,023,354	11,911,583

(Thousand yen)

	As of November 30, 2021	As of February 28, 2022
Net assets		
Shareholders' equity		
Share capital	3,532,492	3,532,492
Capital surplus	3,507,603	3,507,603
Retained earnings	26,726,521	26,674,697
Treasury shares	(2,289,615)	(2,433,252)
Total shareholders' equity	31,477,001	31,281,540
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,321,667	1,146,452
Deferred gains or losses on hedges	4,612	1,125
Revaluation reserve for land	451,115	451,115
Foreign currency translation adjustment	641,116	904,945
Remeasurements of defined benefit plans	(36,922)	(33,516)
Total accumulated other comprehensive income	2,381,589	2,470,121
Share acquisition rights	56,280	55,755
Non-controlling interests	-	-
Total net assets	33,914,870	33,807,416
Total liabilities and net assets	45,938,224	45,718,999

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

The First Quarter accounting period

(Thousand yen)

	December 1, 2020 – February 28, 2021	December 1, 2021 – February 28, 2022
Net sales	10,629,541	11,561,273
Cost of sales	7,834,483	8,503,016
Gross profit	2,795,057	3,058,257
Selling, general and administrative expenses	2,321,769	2,448,105
Operating profit	473,288	610,151
Non-operating profit		
Interest income	2,766	2,244
Dividend income	9,300	10,204
Rental income from real estate	16,087	18,945
Share of profit of entities accounted for using equity method	4,158	16,061
Subsidies for employment adjustment	24,955	1,054
Subsidy income	-	18,082
Other	8,424	8,754
Total non-operating profit	65,692	75,345
Non-operating expenses		
Interest expenses	2,601	2,224
Sales discounts	14,840	-
Foreign exchange losses	12,360	4,860
Other	23,427	22,800
Total non-operating expenses	53,230	29,885
Ordinary profit	485,750	655,612
Extraordinary income		
Gain on sale of non-current assets	-	261
Gain on reversal of share acquisition rights	420	525
Insurance claim income	-	70,016
Total extraordinary income	420	70,803
Extraordinary losses		
Loss on sale of non-current assets	29	-
Loss on retirement of non-current assets	171	52
Total extraordinary losses	200	52
Profit before income taxes	485,969	726,363
Income taxes - current	189,894	258,805
Income taxes - deferred	7,412	18,308
Total income taxes	197,306	277,114
Profit	288,663	449,249
Profit attributable to non-controlling interests	-	-
Profit attributable to owners of parent	288,663	449,249

Quarterly Consolidated Statements of Comprehensive Income

The First Quarter accounting period

(Thousand yen)

	December 1, 2020 – February 28, 2021	December 1, 2021 – February 28, 2022
Profit	288,663	449,249
Other comprehensive income		
Valuation difference on available-for-sale securities	88,693	(175,215)
Deferred gains or losses on hedges	(110)	(3,483)
Foreign currency translation adjustment	(111,659)	263,828
Remeasurements of defined benefit plans, net of tax	6,241	3,406
Share of other comprehensive income of entities accounted for using equity method	2	(3)
Total other comprehensive income	(16,832)	88,531
Comprehensive income	271,830	537,781
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	271,830	537,781
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Not applicable.

(Changes in Accounting Policies)

(Adoption of accounting standards for revenue recognition)

The Group has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. effective as of the beginning of the first quarter of the fiscal year under review. The Group now recognizes revenue when control of promised goods or services is transferred to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services

The Group also uses the alternative treatment specified in paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition, under which revenue is recognized when goods or products sold in Japan are shipped, as long as the period from the time of shipment to the time when control of the goods or products is transferred to customers is a normal period.

Major changes due to the adoption of the Accounting Standard for Revenue Recognition are as follows.

(Principal vs. agent)

For transactions in which the Group acts as an agent in providing goods or services to customers, the Group previously recognized revenue in the gross amount of consideration received from the customer, but now recognizes revenue as the net amount of such gross consideration less amounts paid to suppliers of goods or services.

(Variable consideration for transactions with potential discounts)

For sales that include discounts given to customers at a later date based on past sales, the Group previously reduced revenue based on historical experience of actual discounts given, but now recognizes revenue by excluding the amount equivalent to revenue from goods and products that are expected to be discounted at the time of sale. The price expected to be reduced is included in "other" under "current liabilities" as a refund liability.

(Transactions in which a certain level of returns is expected)

For transactions in which a certain level of returns is expected, the Group previously reduced revenue and cost of sales based on historical experience of actual customer returns, but now recognizes revenue and cost of sales by excluding the amount equivalent to revenue and cost of sales of goods and products expected to be returned at the time of sale. The consideration for goods and products expected to be returned is included in "other" under "current liabilities" as a refund liability, and the asset recognized as the right to recover the goods and products from customers upon settling the refund liability is included in "other" under "current assets" as a return asset.

(Consideration payable to customers)

The Group previously recognized consideration paid to customers, such as EDI commissions and center fees, as selling, general and administrative expenses, but now treats such consideration as a reduction in the transaction price.

(Transactions involving materials supplied by customers for a fee)

For transactions in which products processed from materials supplied by customers for a fee are sold to those customers, the Group previously recognized revenue and cost of sales by including the amount equivalent to materials supplied for a fee, but now recognizes the amount excluding the amount equivalent to materials supplied for a fee as revenue and cost of sales.

(Chargeable subcontracting)

For transactions involving chargeable subcontracting, the Group previously recognized the extinguishment of inventory for the goods supplied to its subcontractors for a fee. However, when the Group deems that it has an actual obligation to repurchase the supplied goods, it continues to recognize the inventory and includes the amount equivalent to the ending inventory of the supplied goods remaining with subcontractors in "other" under "current liabilities" as a liability related to chargeable subcontracting.

The Group uses the Accounting Standard for Revenue Recognition, etc. in accordance with the transitional treatment set forth in the proviso of paragraph 84 of the standard. The cumulative effect of retrospectively applying the new accounting policy to periods prior to the beginning of the first quarter of the fiscal year under review is added to or deducted from retained earnings at the beginning of the first quarter of the fiscal year under review, and the new accounting policy has been applied starting with the said beginning balance of retained earnings. However, in accordance with the method set forth in paragraph 86 of the Accounting Standard for Revenue Recognition, the new accounting policy was not applied retrospectively to contracts for which almost all revenue amounts were recognized using the previous treatment prior to the beginning of the first quarter of the fiscal year under review. In addition, the Group has applied the method set forth in (1) of the second part of paragraph 86 of the Accounting Standard for Revenue Recognition to account for contract changes made prior to the beginning of the first quarter of the fiscal year under review based on the contract terms after reflecting all contract changes. The cumulative effect of such changes has been added to or deducted from retained earnings at the beginning of the first quarter of the fiscal year under review.

As a result, net sales decreased ¥176,150 thousand, cost of sales by ¥98,334 thousand, selling, general and administrative expenses by ¥31,981 thousand, operating profit by ¥45,835 thousand, ordinary profit and profit before income taxes by ¥27,840 thousand yen respectively in the first quarter of the fiscal year under review. The beginning balance of retained earnings decreased ¥27,800 thousand.

In accordance with the transitional treatment set forth in paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information on disaggregated revenue from contracts with customers for the first quarter of the previous fiscal year is not provided.

(Adoption of accounting standards for fair value measurement)

The Group has adopted the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), etc. effective as of the beginning of the first quarter of the fiscal year under review. In accordance with the transitional treatment set forth in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Group will apply the new accounting policy stipulated by the Accounting Standard for Fair Value Measurement, etc. prospectively. This has no effect on the consolidated financial statements for the first quarter of the fiscal year under review.

(Additional Information)

(Impact of COVID-19 pandemic on accounting estimates)

The assumptions used in the accounting estimates for the impact of COVID-19 have not changed from those described in the additional information section of the financial results for the previous fiscal year.

(Segment Information, etc.)

Segment information

I For the first quarter of the fiscal year ended November 30, 2021

1. Information on amounts of net sales and profit (loss) by reportable segment

(Thousand yen)

	Reportable Segment				Adjustment (Note 1)	Amount recorded in Consolidated Financial Statements (Note 2)
	Japan	Asia	Europe & the U.S.	Total		
Net sales						
Net sales to external customers	7,347,816	2,083,234	1,198,490	10,629,541	-	10,629,541
Intersegment sales or transfers	403,514	530,745	9,263	943,522	(943,522)	-
Total	7,751,330	2,613,979	1,207,754	11,573,064	(943,522)	10,629,541
Segment profit	384,893	57,180	22,892	464,965	8,322	473,288

(Note) 1 The adjustment of ¥8,322 thousand to segment profit includes corporate expenses of ¥(49,034) thousand not allocated to the reportable segments, and other in the amount of ¥57,356 thousand.

2 The amount of segment profit has been adjusted with operating profit in the Quarterly Consolidated Statements of Income.

II. For the first quarter of the fiscal year ending November 30, 2022

1. Information on amounts of net sales and profit (loss) by reportable segment and disaggregated revenue

(Thousand yen)

	Reportable Segment				Adjustment (Note 1)	Amount recorded in Consolidated Financial Statements (Note 2)
	Japan	Asia	Europe & the U.S.	Total		
Net sales						
Apparel	2,459,489	1,417,126	1,166,113	5,042,730	-	5,042,730
Product	4,354,531	186,903	13,833	4,555,268	-	4,555,268
Transportation	1,098,026	608,584	256,664	1,963,274	-	1,963,274
Revenue from contracts with customers	7,912,047	2,212,614	1,436,611	11,561,273	-	11,561,273
Net sales to external customers	7,912,047	2,212,614	1,436,611	11,561,273	-	11,561,273
Intersegment sales or transfers	376,825	763,000	23,710	1,163,536	(1,163,536)	-
Total	8,288,872	2,975,614	1,460,322	12,724,809	(1,163,536)	11,561,273
Segment profit (loss)	478,574	220,578	(18,182)	680,969	(70,817)	610,151

(Note) 1 The adjustment of ¥(70,817) thousand to segment profit (loss) includes corporate expenses of ¥(52,084) thousand not allocated to the reportable segments, and other in the amount of ¥(18,733) thousand.

2 The amount of segment profit (loss) has been adjusted with operating profit in the Quarterly Consolidated Statements of Income.

2. Change of reportable segments

As described in "Changes in Accounting Policies," the Group has applied the Accounting Standard for Revenue Recognition, etc., from the beginning of the first quarter of the fiscal year under review and changed its accounting method for revenue recognition. Accordingly, the method of calculating profit or loss by geographic segment has also been changed.

As a result of this change, net sales and segment profit for Japan for the first quarter of the fiscal year under review are respectively ¥176,150 thousand and ¥45,835 thousand less than what they would be when calculated using the previous method.