

October 13, 2020

MORITO CO., LTD.
Financial Statement (Unaudited)
For the Third 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/)

Representative : Takaki Ichitsubo

Representative Director and President

Contact : Makoto Tsuji

Managing Director of General Affairs Dept

Telephone: +81-6-6252-3551

Scheduled date of filing of Quarterly Report:

October 14, 2020

Scheduled date of dividend payment:

—

Supplementary explanation material for quarterly financial results:

Yes

Presentation meeting for quarterly financial results:

None

(Amounts rounded down)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year 2020(December 1, 2019 through August 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	%
3Q of FY 2020	29,942	△12.4	418	△61.5	417	△62.1	167	△83.1
3Q of FY 2019	34,177	7.1	1,088	△4.5	1,100	△6.4	991	25.9

(Note) Comprehensive income : △180 million yen (-%)(3Q of FY2020) △119 million yen (-%)(3Q of FY2019)

	Net income Per share	Fully diluted net Income per share
	Yen	Yen
3Q of FY 2020	6.12	—
3Q of FY 2019	36.14	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
3Q of FY 2020	42,933	31,704	73.7
FY 2019	47,185	32,725	69.2

(Reference) Equity capital : 31,652 million yen (3Q 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: None

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: None

***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

* For details, please refer to “2. Quarterly Consolidated Financial Statements (3) Notes regarding Quarterly Consolidated Financial Statements” on page 10.

(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 August 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 August 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 3Q of FY2020)

27,427,884 shares (the 3Q 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 Custody Bank of Japan, Ltd., and the Master Trust Bank of Japan, Ltd., are included in the treasury stock.

Custody Bank of Japan, Ltd. was inaugurated by the merger of JTC Holdings, Ltd., Trust & Custody Services Bank, Ltd. and Japan Trustee Services Bank, Ltd. on July 27, 2020.

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1. Qualitative Information for the Period under Review

(1) Overview of Business Performance

In the Third quarter (from December 1, 2019 through August 31, 2020) of the fiscal year ended November 30th, 2020, the global epidemic of the novel coronavirus led to lockdowns and emergency declarations in many countries, which caused the global economy to stagnate at a level never before experienced. Therefore in the consolidated cumulative third quarter (from June 1, 2020 through August 31, 2020), there was growing concern about the downside risk of the economy due to the second wave of infection spread.

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"』. In the consolidated cumulative third quarter, our business was in the difficult situation. Firstly, it was because that the business of apparel materials was affected by self-restraint of department stores and mass retailers to prevent the spread of the novel coronavirus around the world. 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. On the other hand, we worked to expand our business by receiving orders for products related to new lifestyles in the corona disaster and capturing new needs in response to the growing demand for staying home.

As a result, in the current quarterly performance reaches net sales ¥29,942 million (decreased by 12.4% from a year earlier), operating income ¥418 million (decreased by 61.5% from a year earlier), ordinary income ¥417 million (decreased by 62.1 % from a year earlier), net income ¥167 million (decreased by 83.1 % from a year earlier).

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

	1Q	2Q	3Q
USD	108.76 (112.91)	108.87 (110.23)	107.63 (109.90)
EUR	120.32 (128.82)	120.09 (125.16)	118.58 (123.50)
RMB	15.44 (16.32)	15.59 (16.33)	15.17 (16.07)
HKD	13.90 (14.42)	14.01 (14.05)	13.89 (14.02)
TWD	3.57 (3.66)	3.62 (3.58)	3.60 (3.53)
VND	0.0047 (0.0048)	0.0047 (0.0047)	0.0046 (0.0047)
THB	3.59 (3.44)	3.48 (3.49)	3.37 (3.48)
MXN	5.65 (5.70)	5.49 (5.74)	4.63 (5.75)

(Notes)

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

Segment information as below

[Japan]

As for the apparel division, sales of items related to new demand for masks and other products increased, but sales of accessories for casual wear, working wear and men's heavy clothing decreased.

In the consumer product division, sales of skateboards and other sports-related products and products for one dollar shops increased by growing demand for staying home, but sales of products related to automobile interior components decreased.

As a result, net sales reached 21,105 million yen (decreased by 13.4% from a year earlier).

[Asia]

As for the apparel division, sales of accessories to apparel manufacturers decreased.

In the consumer product division, sales of automobile interior components to Japanese auto manufacturers increased in China. As a result, net sales reached 5,258 million yen (decreased by 2.4% from the previous

year).

[Europe and the U.S.]

As for the apparel division, sales of accessories to medical industry increased, but sales of accessories to apparel manufacturers decreased.

In the consumer product division, sales of automobile interior components to Japanese auto manufacturers in Europe and the US decreased.

As a result, net sales reached 3,579 million yen (decreased by 18.8% 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 30, 2020 remains unchanged from the figures announced in the “Financial Statement For the Second Quarter of the Fiscal Year ended November 30, 2020” (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 August 31, 2020) Thousands of yen
Assets		
Current assets		
Cash and deposits	9,716,355	9,574,207
Notes and accounts receivable	11,773,061	8,859,817
Inventory	5,083,679	5,480,287
Other current assets	1,115,458	685,475
Allowance for doubtful accounts	△30,645	△32,751
Total current assets	27,657,908	24,567,036
Fixed assets		
Tangible fixed assets		
Land	4,074,904	4,074,783
Other tangible fixed assets	5,735,985	5,611,910
Total tangible fixed assets	9,810,890	9,686,694
Intangible fixed assets		
Goodwill	2,839,168	2,656,609
Other Intangible fixed assets	1,154,248	1,102,720
Total intangible fixed assets	3,993,417	3,759,330
Investments and other fixed assets		
Investment securities	4,396,289	3,781,186
Net defined benefit asset	268,300	264,975
Other fixed assets	1,120,508	938,938
Allowance for doubtful account	△67,253	△67,431
Total investments and other fixed assets	5,717,844	4,917,669
Total fixed assets	19,522,152	18,363,693
Deferred assets	5,601	2,450
Total assets	47,185,662	42,933,181
Liabilities		
Current liabilities		
Notes and accounts payable	4,859,108	3,807,577
Short-term loans payable	50,000	50,000
Current portion of bonds	400,000	400,000
Current portion of long-term debt	506,666	530,000
Accrued tax payable	441,253	134,296
Reserve for bonuses	229,983	179,051
Reserve for director's bonuses	71,595	30,567
Other current liabilities	2,333,488	1,269,404
Total current liabilities	8,892,095	6,400,898
Fixed liabilities		
Bonds payable	200,000	—
Long-term debt	2,674,590	2,230,422
Provision for retirement benefit by stock	31,824	37,664
Provision for director's retirement benefit	57,249	62,537
Provision for director's retirement benefit by stock	56,428	70,223
Provision for environmental measures	19,360	19,320
Net defined benefit liability	892,694	883,986
Other fixed liabilities	1,635,921	1,523,307
Total fixed liabilities	5,568,069	4,827,462
Total liabilities	14,460,164	11,228,360

(Unaudited)

	FY 2019 (As of November 30, 2019) Thousands of yen	FY 2020 (As of August 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	25,403,252
Treasury stock	△2,222,696	△2,227,056
Total shareholders' equity	30,885,726	30,216,291
Other comprehensive income		
Valuation difference on available-for-sale securities	1,185,435	810,915
Deferred gains or losses on hedges	946	△9
Difference in revaluation of land	451,115	451,115
Foreign currency translation adjustment	170,300	192,837
Remeasurement of defined benefit plans	△25,723	△18,604
Total other comprehensive income	1,782,074	1,436,254
Subscription rights to shares	57,697	57,172
Minority interests	—	△4,896
Total net assets	32,725,498	31,704,820
Total liabilities and net assets	47,185,662	42,933,181

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

Quarterly Consolidated Statements of Income

The Third Quarter accounting period

	FY 2019 (December 1, 2018 through August 31, 2019) Thousands of yen	FY 2020 (December 1, 2019 through August 31, 2020) Thousands of yen
Net sales	34,177,031	29,942,830
Cost of sales	25,021,525	22,192,423
Gross profit	9,155,505	7,750,406
Total selling, general and administrative expense	8,066,893	7,331,748
Operating Income	1,088,612	418,657
Non-operating income		
Interest received	20,829	11,245
Dividends received	53,232	53,229
Rent on real estate	50,507	50,178
Equity in earnings of affiliates	50,898	28,435
Other non-operating income	46,684	54,390
Total non-operating income	222,152	197,479
Non-operating expenses		
Interest paid	6,912	10,232
Cash discount on sales	63,422	51,534
Foreign Exchange Loss	44,087	58,111
Others non-operating expense	96,213	78,962
Total non-operating expense	210,635	198,841
Ordinary Income	1,100,129	417,295
Extra ordinary income		
Gains on sales of fixed assets	322,484	867
Gains on sales of investment securities	85,339	14,991
Gain on reversal of subscription rights to shares	367	525
Total extra ordinary income	408,191	16,383
Extra ordinary loss		
Loss on sales of fixed assets	67	17,526
Loss on disposal of fixed assets	4,037	3,798
Loss on sales of investment securities	415	—
Loss on sales of golf club memberships	—	1,080
Loss on valuation of investment securities	—	13,442
Loss on valuation of golf club membership	—	5,374
Loss of business restructuring	5,307	—
Loss of the novel coronavirus	—	26,561
Total extra ordinary loss	9,827	67,783
Net income before taxes and other adjustment	1,498,493	365,896
Corporate, inhabitant and business taxes	570,954	276,651
Adjustments to corporate and other taxes	△63,573	△75,829
Total income taxes	507,380	200,821
Net income	991,112	165,075
Profit(Loss) attributable to non-controlling interests	—	△2,411
Profit(Loss) attributable to owners of parent	991,112	167,486

Quarterly Consolidated Statements of Comprehensive Income
The Third Quarter accounting period

	FY 2019 (December 1, 2018 through August 31, 2019) Thousands of yen	FY 2020 (December 1, 2019 through August 31, 2020) Thousands of yen
Net Income	991,112	165,075
Other comprehensive income		
Unrealized gain(loss) on available-for-sale securities	△533,091	△374,520
Deferred gains or losses on hedges	△677	△956
Foreign currency translation adjustment	△595,798	22,536
Adjustments to retirement benefit	18,971	7,118
Share of other comprehensive income of associates accounted for using equity method	△0	0
Total other comprehensive income	△1,110,597	△345,820
Comprehensive income	△119,484	△180,745
(Breakdown)		
Comprehensive income attribute to the parent	△119,484	△178,334
Comprehensive income attribute to the minority shareholders	—	△2,411

(3) 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 third quarter consolidated cumulative period is immaterial.

[Additional Information]

(Impact of the Novel Coronavirus on Accounting Estimate)

In the Third quarter (from December 1, 2019 through August 31, 2020) of the fiscal year ended November 30th, 2020, the global epidemic of the novel coronavirus led to lockdowns and emergency declarations in many countries, which caused the global economy to stagnate at a level never before experienced. Therefore in the consolidated cumulative third quarter (from June 1, 2020 through August 31, 2020), there was growing concern about the downside risk of the economy due to the second wave of infection spread.

In such circumstances, the assumptions used in the accounting estimates associated with the novel coronavirus infections in the Japan, Asia, Europe and the United States segments remain unchanged from those included in the additional information for the Financial Statement (Unaudited) For the Second Quarter of the Fiscal Year ended November 30, 2020.

[Segment Information]

I. The Third Quarter of FY 2019 (December 1, 2018 through August 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	24,381,730	5,389,914	4,405,385	34,177,031	—	34,177,031
Inter segment sales and transfer	1,825,944	1,914,478	13,340	3,753,763	△3,753,763	—
Total	26,207,675	7,304,393	4,418,726	37,930,795	△3,753,763	34,177,031
Segment income	1,118,025	385,196	147,667	1,650,889	△562,277	1,088,612

(Notes)

- Adjustment of △562,277 thousand yen includes corporate expenses of △434,647 thousand yen that are not distributed to each reportable segment and other △127,629 thousand yen.
- The amount of segment income is adjusted with operating profits on the consolidated quarterly profit and loss statements.

2. Change in reportable segments

(Change in method of measuring income or loss by reportable segments)

From the consolidated cumulative third quarter (from June 1, 2020 through August 31, 2020), the criteria for allocation of corporate expenses have been changed by the transition to a holding company structure. Group management costs mainly incurred by the holding company, are not distributed to each reportable segment and are used as corporate expenses.

Therefore, the segment income of the "Japan" segment increased by 182,203 thousand yen and the adjustment of segment income decreased by 182,203 thousand yen compared to the previous method.

II. The Third Quarter of FY2020 (December 1, 2019 through August 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	21,105,182	5,258,336	3,579,312	29,942,830	—	29,942,830
Inter segment sales and transfer	935,972	1,662,987	43,153	2,642,114	△2,642,114	—
Total	22,041,154	6,921,323	3,622,465	32,584,944	△2,642,114	29,942,830
Segment income	434,018	214,803	△70,164	578,658	△160,000	418,657

(Notes)

1. Adjustment of △160,000 thousand yen includes corporate expenses of △156,061 thousand yen that are not distributed to each reportable segment and other △3,938 thousand yen.
2. The amount of segment income is adjusted with operating profits on the consolidated quarterly profit and loss statements.