

July 11, 2018

MORITO CO., LTD.
Financial Statement (Unaudited)
For the Second Quarter of the Fiscal Year ended November 30, 2018
(Translated from the Japanese original)

Corporate Information

Code : 9837 Listings in First Section of the Tokyo Stock Exchange
(URL [http : www.morito.co.jp/english/index.html](http://www.morito.co.jp/english/index.html))

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Scheduled date of filing of Quarterly Report: July 13, 2018
Scheduled date of dividend payment: August 8, 2018
Supplementary explanation material for quarterly financial results: Yes
Presentation meeting for quarterly financial results: Yes

(Amounts rounded down)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year 2018(December 1, 2017 through May 31, 2018)

(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 2018	20,922	4.3	793	20.2	759	12.8	561	Δ82.5
2Q of FY 2017	20,057	Δ1.4	659	Δ6.6	673	16.1	3,217	804.6

(Note) Comprehensive income : 40million yen (Δ99.1%) (2Q of FY 2018) 4,323million yen (-%)(2Q of FY 2017)

	Net income Per share	Fully diluted net Income per share
	Yen	Yen
2Q of FY 2018	20.42	20.37
2Q of FY 2017	115.26	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
2Q of FY 2018	46,686	32,274	69.0
FY 2017	43,473	32,615	74.9

(Reference) Equity capital : 32,231million yen (2Q of FY 2018) 32,581million yen (FY 2017)

2. Dividends

	Dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2017	-	14.00	-	14.00	28.00
FY 2018	-	12.50			
FY 2018 (Forecast)			-	12.50	25.00

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

3. Consolidated Forecast for FY 2018 (December 1, 2017 through November 30, 2018)

(Percentages represent changes from corresponding period of previous year)

	Net Sales		Operating income		Ordinary profit		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	44,000	6.3	2,000	17.1	1,900	11.5	1,300	△60.7	47.27

***Notes**

(1) Changes of important subsidiaries during the period (changes of specific subsidiaries in accordance with changes in the scope of consolidation) : Yes

Newly included : Maneuverline Inc.

Extended company : 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: None

(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, 2018)

30,800,000 shares (as of November 30, 2017)

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

3,294,100 shares (as of May 31, 2018)

3,300,100 shares (as of November 30, 2017)

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

27,501,883 shares (the 2Q of FY2018)

27,915,850 shares (the 2Q of FY2017)

*This quarterly financial summary does not need to undergo an audit.

*Disclosure and other special notes regarding performance forecasts

The forecast in this quarterly statement is based on information available to management as of the date on which these performance-related figures were disclosed, and various factors may cause actual results to differ from these forecasts.

For issues to keep in mind when using the forecasts and criteria conditioned upon the forecasts, please refer to "1. Qualitative Information for the Period under Review (2) Forecast of Consolidated Business Results and Other Forward-looking Information." on page 5.

We have also 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 second quarter (From 1st December, 2017 to 31st May, 2018) of the fiscal year ended November 30th, 2018 (From 1st December, 2017 to 30th November, 2018), the Japanese economy has shown signs of gradual recovery by improving employment situation and capital investment because corporate performance has continued stable.

In the global economy, the uncertain situation continued due to the uncertainty of overseas economies and instability of raw material prices, and increase of uncertain international circumstances in Asia although the improving economic in the U.S. was progressing.

In such a situation, our group is accelerating a growth strategy by the development of value-added Japanese items, expansion of a global sales channel under the 7th mid-term management plan, and will promote the realization of value creation which the era seeks, expand our business in not only existing market such ASEAN, china, western, but also in untapped market.

As a result, in the current quarterly performance reaches net sales ¥20,922 million (increased by 4.3% from a year earlier), operating income ¥793 million (increased by 20.2% from a year earlier), ordinary income ¥759 million (increased by 12.8% from a year earlier), net income ¥561 million (decreased by 82.5% from a year earlier).

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

	1Q Oct-Dec	2Q Jan-Mar
USD	112.98 (109.43)	108.23 (113.61)
EUR	133.01 (117.86)	133.15 (121.04)
RMB	17.08 (15.99)	17.04 (16.56)
HKD	14.47 (14.11)	13.83 (14.64)
TWD	3.75 (3.45)	3.70 (3.66)
VND	0.0050 (0.0048)	0.0048 (0.0050)
THB	3.43 (3.09)	3.43 (3.24)

*() is the exchange rate of the quarter of FY2017.

Segment information as below

[Japan]

As for the apparel division, sales of the accessories for sports apparel manufacturer was decreased, however sales of the accessories for uniform/working wear and mass retailer were increased.

In the consumer product division, sales of accessories for health-related items such as medical supporters, sales of products for footwear-related, hardware store/working wear store, retailers and automobile interior components, and rental/cleanup of kitchen supplies were increased.

As a result, net sales were ¥14,804 million (increased by 6.6% from a year earlier).

[Asia]

As for the apparel division, sales of the accessories for Japanese apparel manufacturers in Shanghai were increased, however sales of the accessories for Europe and the US apparel manufacturers in Hong Kong were decreased.

In the consumer product division, sales of the automobile interior component for Japanese auto makers in Shanghai were increased, however sales of accessories for video equipment in Hong Kong and Thailand were decreased.

As a result, net sales were ¥3,093 million (decreased by 9.6% from a year earlier).

[Europe and the U.S.]

As for the apparel division, sales of the accessories in Europe and the US were increased.

In the consumer product division, sales of accessories for video equipment in Europe were decrease , however sales of automobile interior component for Japanese auto maker in Europe and the US was increased.

As a result, net sales were ¥3,023 million (increased by 10.0% from a year earlier).

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

Currently, there has been no change in the consolidated forecast of FY2018 which was announced in 12th January, 2018.

2. Matters Concerning Summary Information

(1) Changes in Important Subsidiaries during the period under Review

In Consolidated Financial Results of the Second Quarter of the Fiscal Year 2018, as a result of acquiring of shares of Manueverline Inc., Manueverline Inc. and its 3 subsidiaries are included in the scope of Consolidated Financial Results of the Second Quarter of the Fiscal Year 2018.

Since the date of the fiscal year end of these subsidiaries and our consolidated closing date are different, only the balance sheet is consolidated using the financial statements based on the provisional settlement that considers March 31, 2018 as the settlement date of the Second Quarter of the Fiscal Year 2018.

(2) Adoption of Special Accounting Treatment for Preparing Quarterly Consolidated Financial Statement

Not applicable

(3) Changes in Accounting Policies, Changes in Accounting Estimates and Revision Restated

Not applicable

(4) Additional Information

Not applicable

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

	FY 2017 (As of November 30, 2017) Thousands of yen	FY 2018 (As of May 31, 2018) Thousands of yen
Assets		
Current assets		
Cash and deposits	12,235,613	10,284,228
Notes and accounts receivable	10,797,872	11,011,347
Inventory	4,305,396	5,115,107
Other current assets	730,080	1,005,413
Allowance for doubtful accounts	△35,215	△39,906
Total current assets	28,033,747	27,376,189
Fixed assets		
Tangible fixed assets		
Land	2,526,981	3,173,309
Other tangible fixed assets	3,356,661	5,046,804
Total tangible fixed assets	5,883,643	8,220,114
Intangible fixed assets		
Goodwill	2,728,172	3,716,210
Other Intangible fixed assets	1,276,348	1,147,180
Total intangible fixed assets	4,004,521	4,863,390
Investments and other fixed assets		
Investment securities	4,551,840	4,831,755
Net defined benefit asset	289,728	290,309
Other fixed assets	765,704	1,167,723
Allowance for doubtful account	△70,037	△75,155
Total investments and other fixed assets	5,537,236	6,214,632
Total fixed assets	15,425,400	19,298,137
Deferred assets	14,004	11,903
Total assets	43,473,152	46,686,230
Liabilities		
Current liabilities		
Notes and accounts payable	4,317,325	4,424,001
Short-term loans payable	50,000	200,000
Current portion of bonds	400,000	400,000
Current portion of long-term debt	161,081	616,519
Accrued tax payable	481,935	283,542
Reserve for bonuses	208,130	169,147
Reserve for director's bonuses	66,799	56,228
Other current liabilities	1,266,606	1,402,526
Total current liabilities	6,951,879	7,551,965
Fixed liabilities		
Bonds payable	1,000,000	800,000
Long-term debt	—	2,695,423
Provision for retirement benefit by stock	24,761	27,869
Provision for director's retirement benefit	41,083	44,833
Provision for director's retirement benefit by stock	51,552	61,296
Provision for environmental measures	20,217	19,057
Net defined benefit liability	916,630	906,890
Other fixed liabilities	1,851,890	2,304,264
Total fixed liabilities	3,906,135	6,859,632
Total liabilities	10,858,014	14,411,597

(Unaudited)

	FY 2017 (As of November 30, 2017) Thousands of yen	FY 2018 (As of May 31, 2018) Thousands of yen
Net Assets		
Shareholders' equity		
Capital	3,532,492	3,532,492
Capital surplus	3,498,724	3,498,724
Retained earnings	24,713,167	24,881,982
Treasury stock	△2,122,115	△2,119,772
Total shareholders' equity	29,622,267	29,793,425
Other comprehensive income		
Valuation difference on available-for-sale securities	1,577,017	1,548,880
Deferred gains or losses on hedges	△1,203	1,222
Difference in revaluation of land	621,625	621,625
Foreign currency translation adjustment	789,883	291,000
Remeasurement of defined benefit plans	△28,110	△25,087
Total other comprehensive income	2,959,211	2,437,641
Subscription rights to shares	33,658	43,566
Minority interests	—	—
Total net assets	32,615,138	32,274,633
Total liabilities and net assets	43,473,152	46,686,230

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

Quarterly Consolidated Statements of Income

The Second Quarter accounting period

	FY 2017 (December 1, 2016 through May 31, 2017) Thousands of yen	FY 2018 (December 1, 2017 through May 31, 2018) Thousands of yen
Net sales	20,057,043	20,922,099
Cost of sales	14,681,976	15,351,623
Gross profit	5,375,066	5,570,476
Total selling, general and administrative expense	4,715,146	4,777,322
Operating Income	659,919	793,154
Non-operating income		
Interest received	11,908	12,919
Dividends received	32,424	33,479
Rent on real estate	25,869	21,049
Equity in earnings of affiliates	32,093	34,742
Other non-operating income	32,659	27,358
Total non-operating income	134,956	129,549
Non-operating expenses		
Interest paid	3,740	1,800
Cash discount on sales	40,827	40,095
Foreign Exchange Loss	11,121	68,635
Others non-operating expense	65,511	52,569
Total non-operating expense	121,201	163,101
Ordinary Income	673,674	759,602
Extra ordinary income		
Gains on sales of fixed assets	3,291,757	16,368
Gains on sales of investment securities	—	5,419
Total extra ordinary income	3,291,757	21,788
Extra ordinary loss		
Loss on sales of fixed assets	576	273
Loss on disposal of fixed assets	52,068	3,818
Loss of business restructuring	8,963	4,970
Loss on golf membership rights	700	—
Total extra ordinary loss	62,308	9,063
Net income before taxes and other adjustment	3,903,124	772,327
Corporate, inhabitant and business taxes	719,711	332,172
Adjustments to corporate and other taxes	△34,157	△121,503
Total income taxes	685,554	210,668
Net income	3,217,570	561,658
Profit(Loss) attributable to non-controlling interests	—	—
Profit(Loss) attributable to owners of parent	3,217,570	561,658

Quarterly Consolidated Statements of Comprehensive Income
The Second Quarter accounting period

	FY 2017 (December 1, 2016 through May 31, 2017) Thousands of yen	FY 2018 (December 1, 2017 through May 31, 2018) Thousands of yen
Net Income	3,217,570	561,658
Other comprehensive income		
Unrealized gain(loss) on available-for-sale securities	68,609	△28,137
Deferred gains or losses on hedges	△796	2,427
Foreign currency translation adjustment	1,020,729	△498,882
Adjustments to retirement benefit	17,634	3,023
Share of other comprehensive income of associates accounted for using equity method	—	△1
Total other comprehensive income	1,106,176	△521,570
Comprehensive income	4,323,746	40,088
(Breakdown)		
Comprehensive income attribute to the parent	4,323,746	40,088
Comprehensive income attribute to the minority shareholders	—	—

(3) Consolidated Cash Flows

	FY 2017 (December 1, 2016 through May 31, 2017) Thousands of yen	FY 2018 (December 1, 2017 through May 31, 2018) Thousands of yen
Cash flows from operating activities		
Income (loss) before income taxes	3,903,124	772,327
Depreciation of amortization	327,292	333,761
Depreciation of goodwill	112,998	87,613
Change in provision for bonus	△41,387	△46,793
Changes in net defined benefit asset	8,613	△4,059
Changes net defined benefit liability	22,174	△1,904
Change in reverse for retirement benefits for officers	6,900	3,750
Changes in reverse for employee stock ownership plan	9,178	3,107
Changes in board incentive plan	8,246	9,744
Change in allowance for doubtful accounts	△4,983	4,318
Interest income and dividends income	△44,333	△46,398
Interest paid	3,740	1,800
Equity in net income of affiliates	△32,093	△34,742
Gains from sale of fixed assets	△3,291,180	△16,094
Gains from sale of investment securities	—	△5,419
Loss on retirement of noncurrent assets	52,068	3,818
Restructuring Loss	8,963	4,970
Change in notes and accounts	724,247	60,576
Change in inventory	△67,092	△353,868
Change in account payable	△342,095	129,582
Others	△277,055	△10,227
Subtotal	1,087,326	895,864
Proceed from interest and dividends income	56,773	48,508
Payment of interest	△6,685	△1,820
Payment of corporate tax	△391,403	△468,382
Net cash(used in)provided by operating activities	746,011	474,169
Cash flows from investing activities		
Decrease in time deposit	△243,126	△652,846
Increase in time deposit	190,519	696,041
Purchase of investment securities	△18,527	△124,343
Increase of sale for investment securities	117,473	9,308
Purchase of tangible fixed assets	△278,513	△1,859,000
Proceeds from sale for tangible fixed assets	3,900,406	37,499
Purchase of intangible assets	△65,907	△26,587
Proceeds from loans receivable	25,134	53,472
Purchase of stocks of subsidiaries and affiliates	—	△57,596
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	△2,152,461
Others	△7,914	△10,529
Net cash provided by (used in) investing activities	3,619,544	△4,087,044

(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

[Segment Information]

(Segment Information)

1. The Second quarter of FY 2017 (December 1, 2016 through May 31, 2017)

(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	13,883,590	3,423,616	2,749,836	20,057,043	—	20,057,043
Inter segment sales and transfer	1,136,080	1,197,574	30,739	2,364,394	Δ2,364,394	—
Total	15,019,670	4,621,190	2,780,576	2,241,437	Δ2,364,394	20,057,043
Segment income	567,395	172,118	70,638	810,152	Δ150,232	656,919

(Notes)

Adjustment of Δ150,232 thousand yen includes Δ154,263 thousand yen-corporate expenses that are not distributed to each reportable segment and other 4,030 thousand yen.

The amounts for income or losses in the reportable segments were subsequently adjusted with the amount of operating income on the quarterly consolidated profit and loss statement.

2. The Second Quarter of FY 2018 (December 1, 2017 through May 31, 2018)

(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	14,804,879	3,093,753	3,023,467	20,922,099	—	20,922,099
Inter segment sales and transfer	1,234,781	1,594,290	28,870	2,857,943	Δ2,857,943	—
Total	16,039,660	4,688,043	3,052,338	23,780,042	Δ2,857,943	20,922,099
Segment income	674,103	199,292	80,206	953,602	Δ160,448	793,154

(Notes)

1. Adjustment of Δ160,448 thousand yen includes Δ143,858 thousand yen-corporate expenses that are not distributed to each reportable segment and other Δ16,589 thousand yen.

2. The amounts for income or losses in the reportable segments were subsequently adjusted with the amount of operating income on the consolidated profit and loss statement.

(2) Impairment loss on fixed assets or information on goodwill for each reporting segment

(Significant fluctuation in the amount of goodwill)

Goodwill is posted in Japan segment by acquiring Manueverline Inc.

The increase in goodwill due to this event is 1,218,724 thousands yen in Consolidated Financial Results of the Second Quarter of FY2018. However, the above amount is the provisionally calculated amount.

(Business Combinations)

<Business combinations through acquisition>

1. Outline of business combination

(1) Name of the acquired company and its business

Manueverine Inc.

Import and sell of goods for Marine leisure, Snowboarding, and apparel supplies.

(2) Main reasons for the business combination

Morito Group has been steadily developing business so far with its basic policy of management specializing in apparel-related accessories for clothing and footwear, and consumer products for personal belongings.

We position M&A as one of the priority measures under the 7th mid-term management plan. Our target of M&A is that the business of the target company are within the scope of our organic business area or its surrounding area, a niche top, its stability, and some synergies with our business.

On the other hand, although the Company is maintaining a very stable achievement in the wholesale industry as a top runner in importing and selling goods for marine leisure, snowboarding, apparel supplies, etc., the Company was heirless. Then, as a result of these, the speculation of two companies matched.

In addition, we anticipate the synergy of switching accessories used for products that the Company purchases from third-party to our core products such as metal, plastic and fiber accessories, or of an increase opportunities for sales at each other's sales channels.

(3) Date of business combination

April 2, 2018

(4) Legal form of the business combinations

Acquisition of 100% share of Maneuverline Inc.

(5) Name of the entity after the business combination

No changes

(6) Percentage share of voting rights of acquired entity

100%

(7) Main reason for deciding to acquire the company

It is because Morito Co., Ltd. has acquired 100% share of Maneuverline Inc. in cash.

2. Period of the acquired company's financial results included in the consolidated statements of income

The results of Manueverline Inc. are not included in the consolidated income statement for Consolidated Financial Results of the Second Quarter of FY2018.

3. Acquisition cost of the acquired company

		(thousands of yen)
Consideration for the acquisition company	Cash (incl. accounts payable)	3,542,715
<hr/>		
Acquisition cost of the acquired company		3,542,715

Based on the share transfer agreement, the acquisition cost may fluctuate with the occurrence of certain events in the future.

4. Goodwill, reason for recognizing goodwill, amortization method and amortization period

(1) Amount of goodwill

1,218,724 thousand yen

This amount is the provisionally calculated amount.

(2) Reason for recognizing goodwill

We accounted for the difference between the acquisition cost and Net assets of Maneuverline Inc. as goodwill.

(3) Method and term to amortize goodwill

Straight-line method over 10 years