

Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2020, and Update on the Medium-Term Management Plan

August 7, 2020
Hidekuni Kuroda
President and CEO
KOKUYO Co., Ltd.

1. Second Quarter FY2020 Results
2. Full-Year FY2020 Forecasts
3. Update on Second Medium-Term Management Plan
4. Reference Material

* Each domain is described as follows:

Spatial Value domain:	SV
Business Supplies domain:	BS
Global Stationery domain:	GS

* Unless otherwise indicated, monetary figures are rounded down to the nearest billion yen. As such, the sum of the figures in a breakdown may not match the stated total.

▶ Second Quarter FY2020 Results

- ✓ Revenues stymied by COVID-19: Sharp deterioration in April following SOE declaration; deliveries postponed in SV; GS suffered from overseas slump
- ✓ Income down due to smaller gross profit (reflecting lower revenues) coupled with higher SG&A expenses
- ✓ Income hurt further by heavier non-operating losses and extraordinary losses
- ✓ Business in recovery since SOE ended, but outlook remains unclear

▶ Full-Year FY2020 Forecasts

- ✓ Revenue/income will be down significantly given uncertain effects of efforts to secure orders in SV, but business units returning to normalcy
- ✓ The shifting business landscape presents a growth opportunity; we will proceed with reforms to transform the group into an organization that always generates new businesses
- ✓ In view of our performance, dividend policy, and fiscal needs, we will maintain last year's payout level, thus rewarding shareholders for their long-term commitment

Full-year performance forecasts have been voided due to uncertainties about COVID-19 impact on businesses.

Full-year dividend forecasts are voided too, as they are linked to performance.

(Billions of yen)

	Jan - Jun			Jan - Dec		
	2019	2020		2019	2020	
	Result	Initial forecast	Revised forecast	Result	Initial forecast	Revised forecast
Net sales	167.6	176.0	TBD	320.2	334.0	TBD
Operating income	11.6	12.1	TBD	16.7	17.4	TBD
Ordinary income	12.6	12.7	TBD	18.1	18.5	TBD
Profit	9.6	8.7	TBD	15.3	15.4	TBD
Dividend per share (Yen)	18.50	22.50	TBD	39.00	45.00	TBD

* Revised forecasts are as of the time of revision.

Prioritize customer and employee safety, balance business continuity with CSR

Customer safety

- Suspended deliveries and construction in domestic furniture business (during SOE)
- Suspended in-house customer briefings; communicated more online

Employee safety

- Issued guidelines for preventing airborne transmission at office
- Promoted workplace flexibility (in-office presence <50%, smart communications methods)
- Promoted flextime (staggered hours, review of workflows)

Business continuity

- Fulfill CSR as social infrastructure supplier
- Deliver goods embodying tech prowess and CSR

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Second Quarter FY2020 Results: Year-on-Year Comparisons



Performance was strong in Q1, but COVID-19 changed the situation, causing plunge in Q2
SG&A cuts staved off losses in Q2, but outlook remains unclear

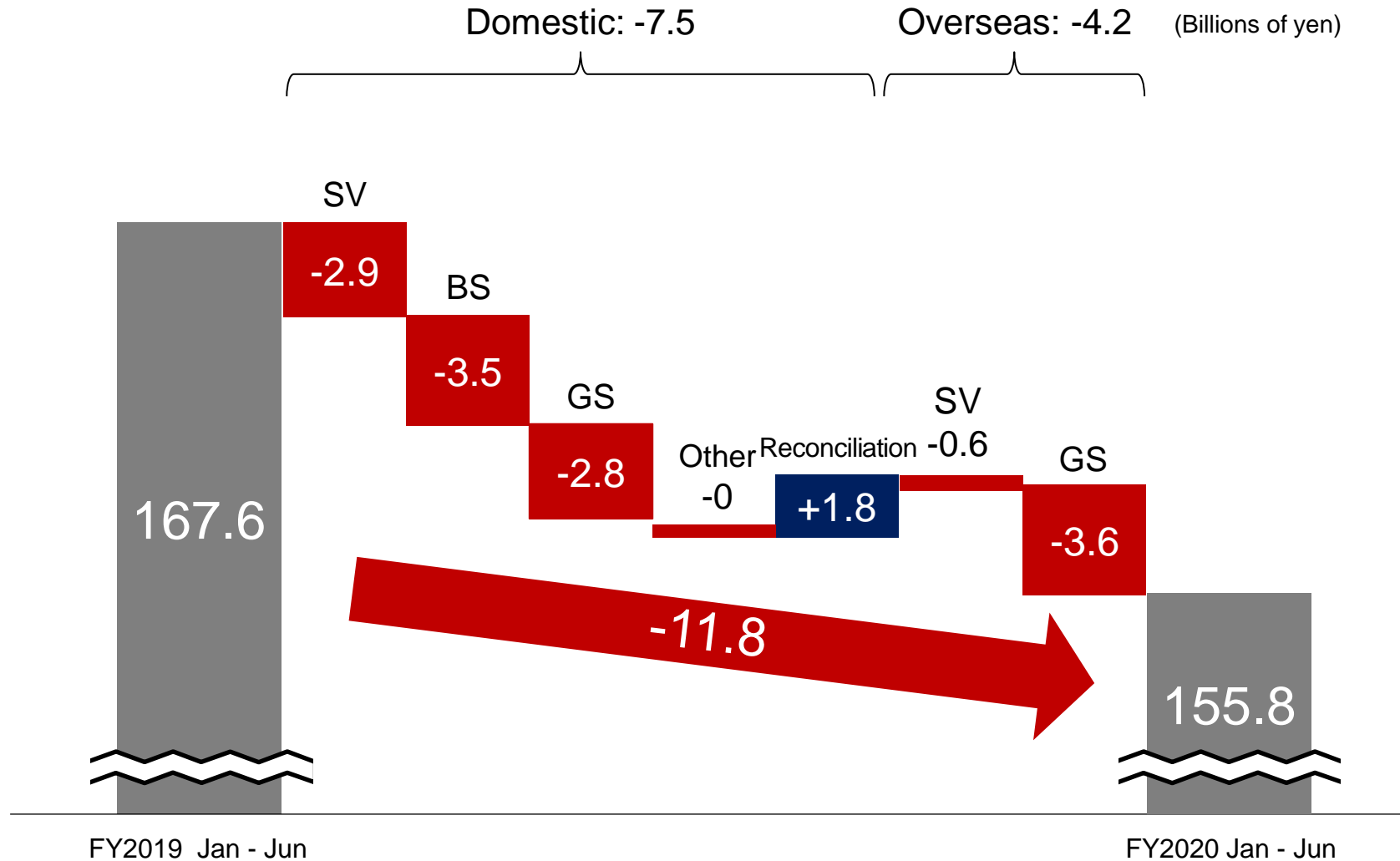
(Billions of yen)

	FY2019 Jan - Jun	FY2020 Jan - Jun	Change	% change	FY2019 Apr - Jun	FY2020 Apr - Jun	Change	% change
Net sales	167.6	155.8	-11.8	-7.1%	78.3	65.5	-12.8	-16.4%
Gross profit	61.3	57.6	-3.7	-6.1%	28.0	22.7	-5.2	-18.6%
(ratio)	(36.6%)	(37.0%)	(+0.4p)		(35.7%)	(34.8%)	(-1.0p)	
SG&A expenses	49.7	47.5	-2.2	-4.4%	24.6	21.6	-2.9	-12.2%
(ratio)	(29.7%)	(30.5%)	(+0.8p)		(31.4%)	(33.0%)	(+1.6p)	
Operating income	11.6	10.0	-1.5	-13.2%	3.3	1.1	-2.2	-65.8%
(ratio)	(6.9%)	(6.5%)	(-0.5p)		(4.3%)	(1.8%)	(-2.5p)	
Ordinary income	12.6	9.4	-3.1	-25.0%	3.5	0.5	-2.9	-83.9%
(ratio)	(7.5%)	(6.1%)	(-1.5p)		(4.5%)	(0.9%)	(-3.6p)	
Profit	9.6	6.2	-3.3	-35.0%	2.4	0.2	-2.2	-91.0%
(ratio)	(5.8%)	(4.0%)	(-1.7p)		(3.2%)	(0.3%)	(-2.8p)	

Second Quarter FY2020 Results: Net Sales Breakdown

Domestic: In all domains, sales entered sharp decline in April

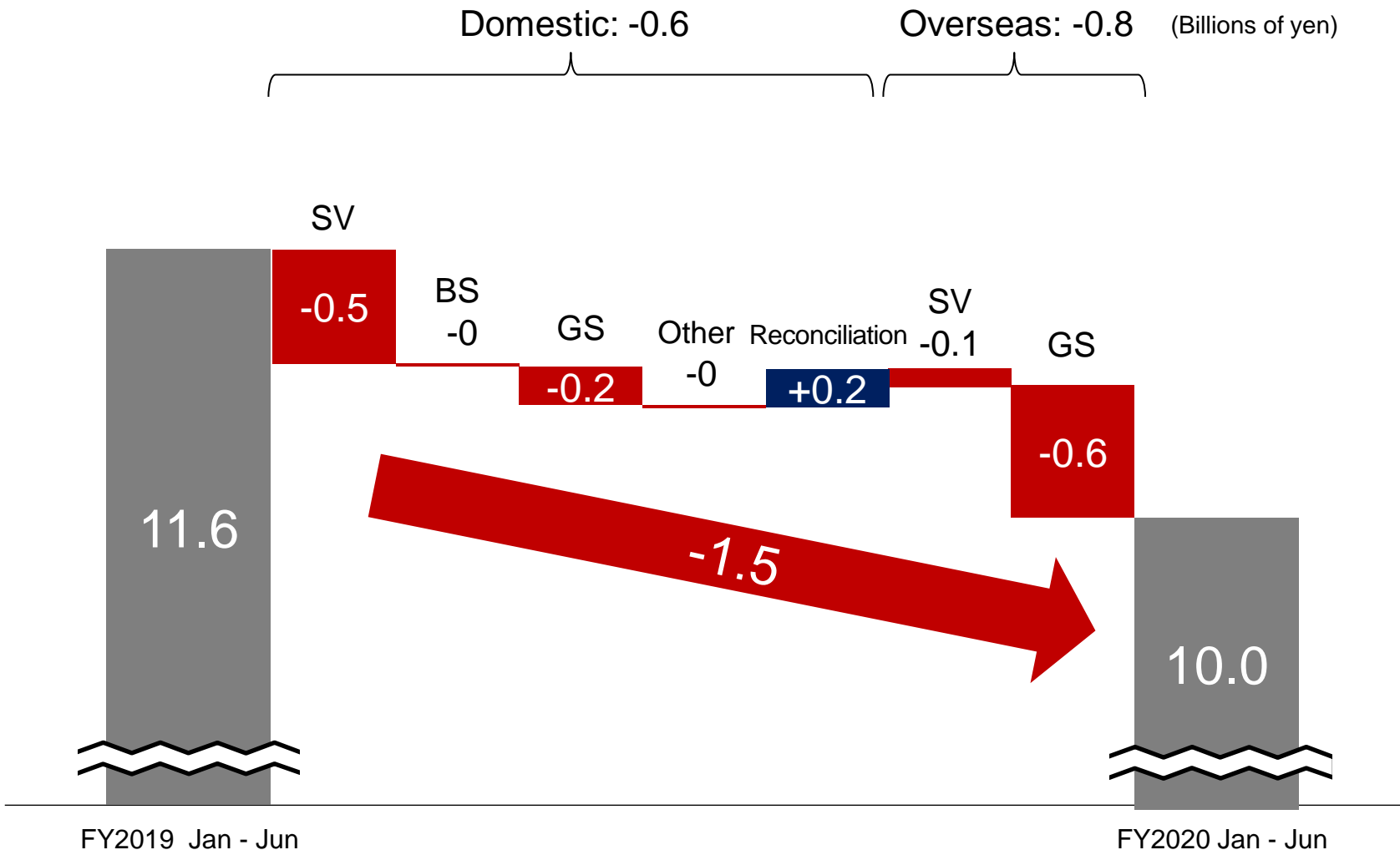
Overseas: Markets had already deteriorated in Q1, ahead of domestic markets



Second Quarter FY2019 Results: Operating Income Breakdown **KOKUYO**

Domestic: Income down because gross profit fell, and because SG&A expenses rose despite efforts to cut spending

Overseas: Business remained suspended under lockdowns

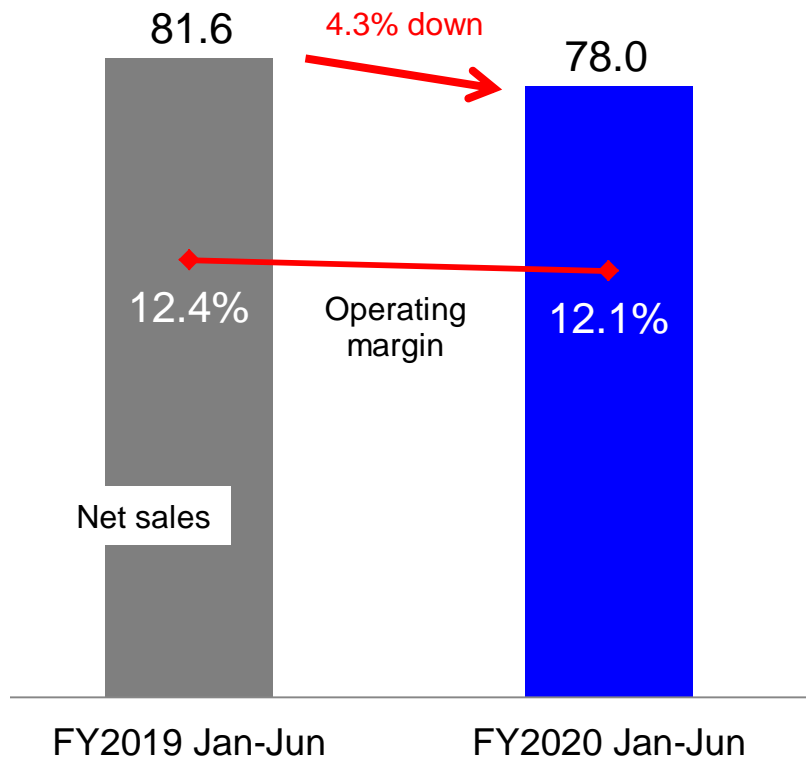


Focused on value-added proposals for growth

Focusing on need for safety / peace-of-mind, we marketed goods for preventing infection and for aiding telework.

Performance

(Billions of yen)



Goods for preventing infection, goods for aiding telework



20k acrylic sheets sold
in 6 months



Sales for B2C mail-order
furniture trebled year on year

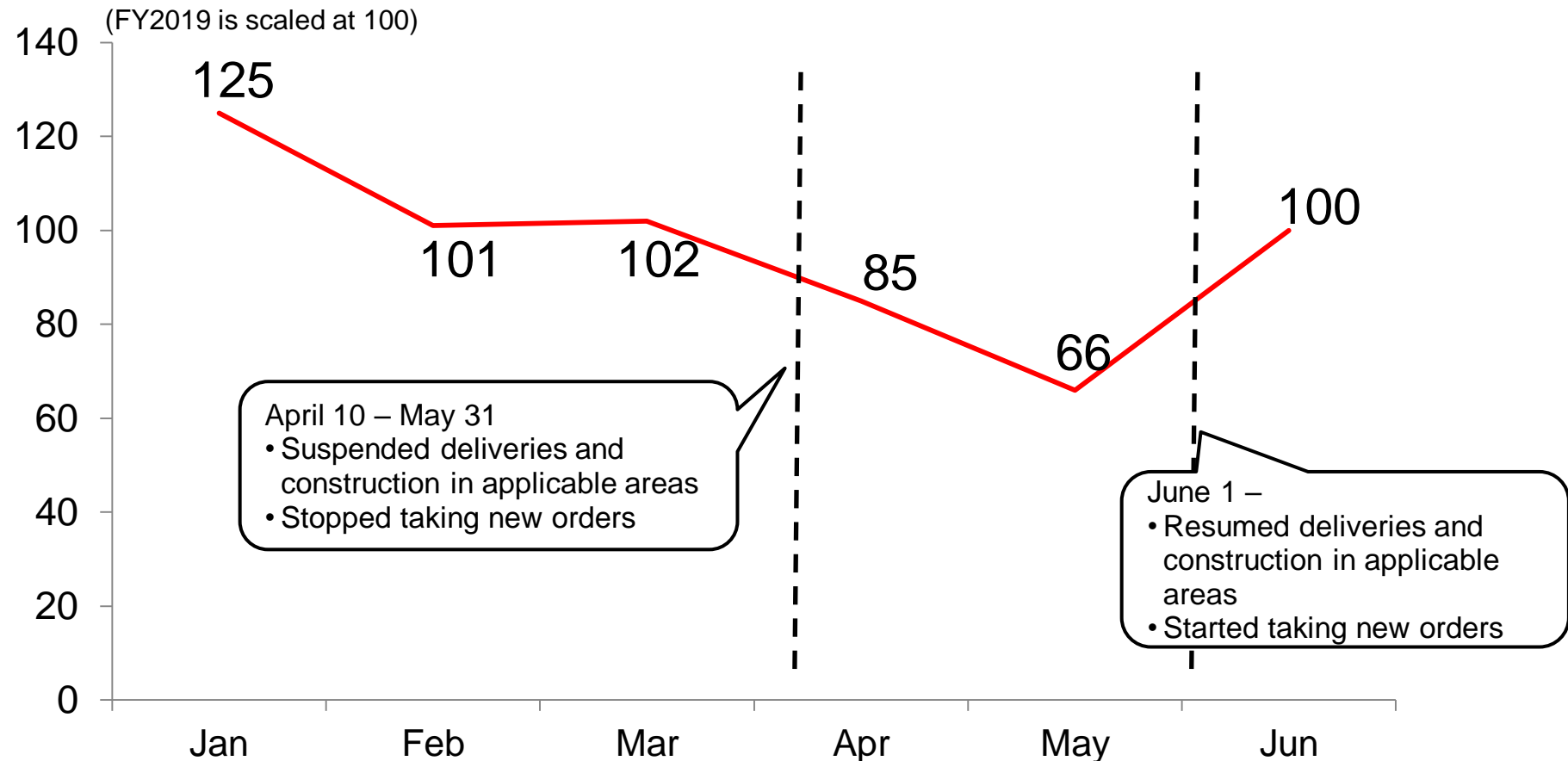
Slump in Demand in Domestic Furniture Business

Demand slumped amid COVID recession

During SOE, deliveries and construction were suspended to prevent infection among customers and staff

After SOE was lifted in June, business picked up with resumption of the work postponed in April/May

Monthly orders in domestic furniture business (year-on-year change)

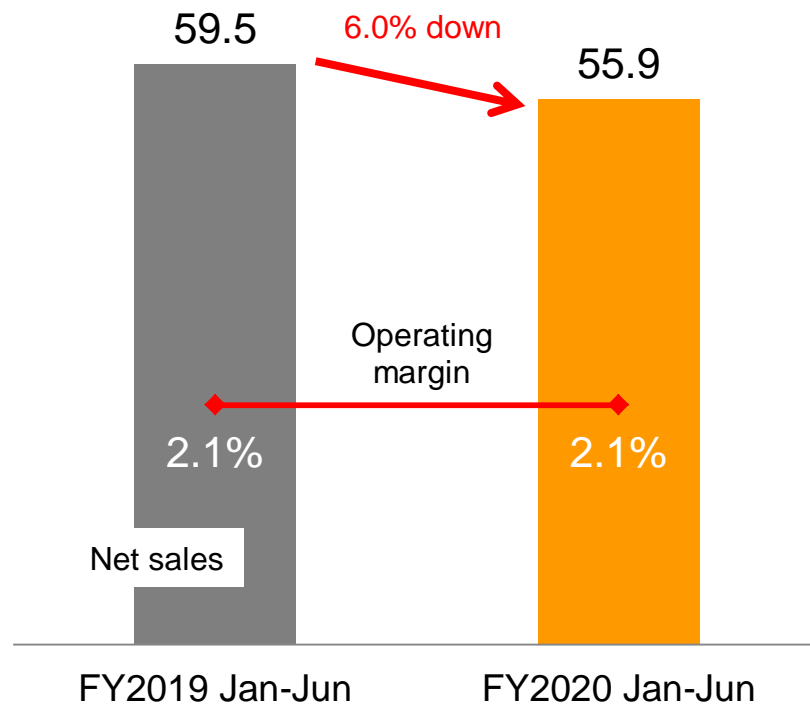


Conducted structural reform and strengthened customer base for greater business sustainability

Assembled line-up of sanitary goods to offset impact of emptier offices (more work-from-home)

Performance

(Billions of yen)



Line-up of sanitary goods



Facemask for easy talk
(Kaunet PB)



Hand sanitizer for reception spaces
(Kaunet PB)



Latex gloves: can be pulled out of box hygienically
(Kaunet PB)

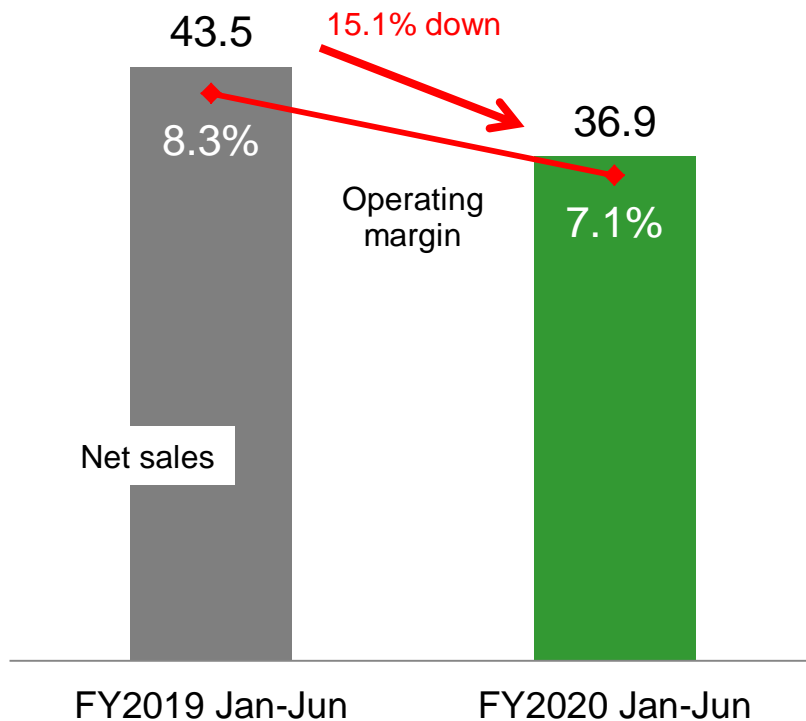
Sanitary goods sales: 10% up year-on-year

Gained foothold in new-growth areas to increase share in global stationery market

Weathered harsh conditions in Japan and overseas by balancing business continuity with CSR

Performance

(Billions of yen)



Offered simple plastic face shield for free



Face shield worn as headgear



Face shield fitted to mask

Total of 180,000 face shields delivered to hospitals and universities

Infections remain rampant in India; business has picked up with lifting of lockdowns
For Pentel, overseas sales account for 60% of all sales, and situation remains tough in US and Europe

1. KOKUYO

✓ Overseas stationery business

Area	Trend
China	E-commerce leading recovery
India	Demand will take more time to recover

✓ Overseas furniture business

Area	Trend
China	Shifting resources to growing markets (Shanghai, Shenzhen)

2. Pentel

- ✓ Exports in decline due to poor sales in Asia coupled with COVID-19 impact
- ✓ Business in US and Europe hit hard by COVID-19
- ✓ Pentel derecognized deferred tax assets, impacting our results

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COVID-19 impact will persist in H2

Income will be down significantly: Despite efforts to improve margins by cutting costs, share of SG&A expenses will grow

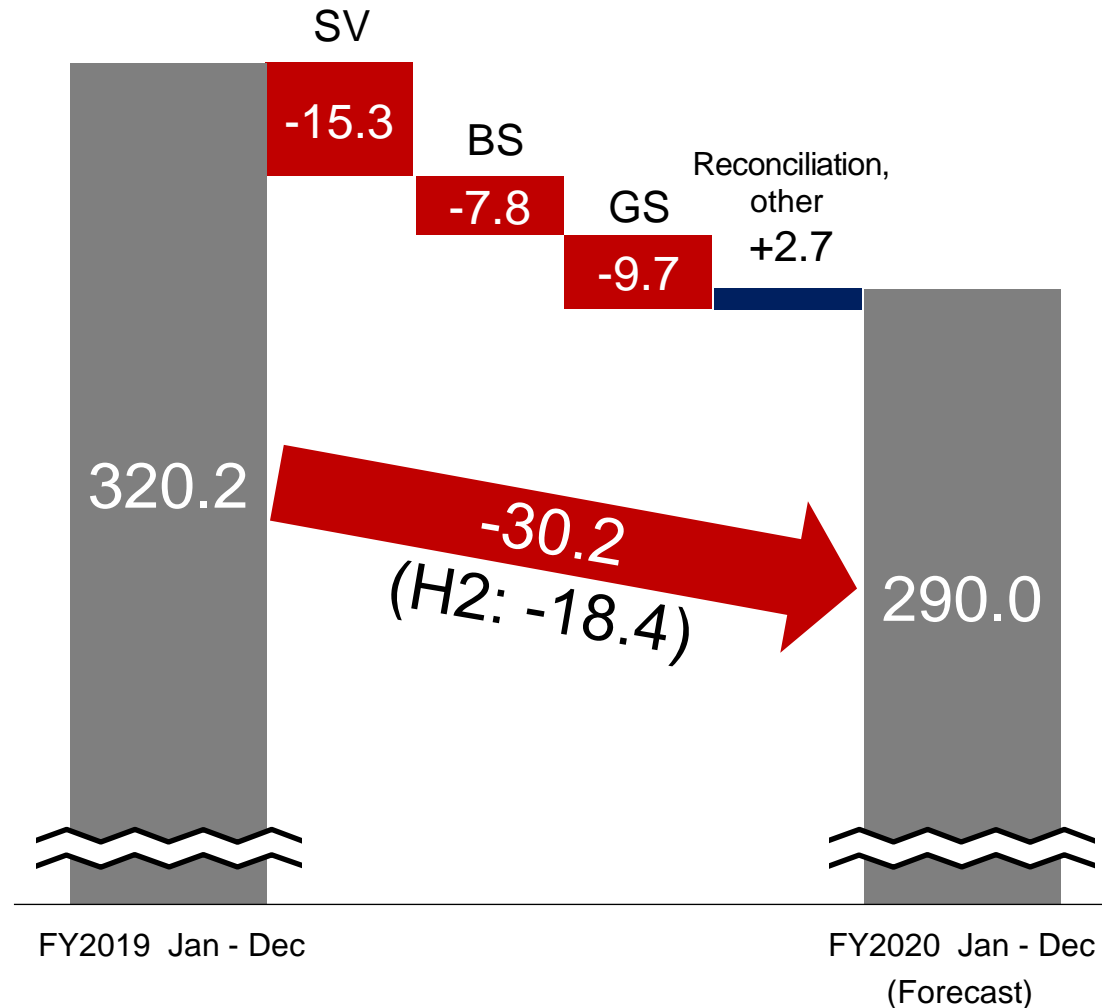
(Billions of yen)

	FY2019 full-year result	FY2020 full-year forecast	Change	% change	H2 FY2019 result	H2 FY2020 forecast	Change	% change
Net sales	320.2	290.0	-30.2	-9.4%	152.5	134.1	-18.4	-12.0%
Gross profit	113.9	103.2	-10.7	-9.4%	52.5	45.5	-7.0	-13.3%
(ratio)	(35.6%)	(35.6%)	(+0.0p)		(34.4%)	(33.9%)	(-0.5p)	
SG&A expenses	97.1	93.7	-3.4	-3.6%	47.4	46.1	-1.3	-2.7%
(ratio)	(30.4%)	(32.3%)	(+2.0p)		(31.1%)	(34.4%)	(+3.3p)	
Operating income	16.7	9.5	-7.2	-43.3%	5.1	-0.5	-5.6	-
(ratio)	(5.2%)	(3.3%)	(-2.0p)		(3.4%)	(-0.4%)	(-3.8p)	
Ordinary income	18.1	9.1	-9.0	-50.0%	5.5	-0.3	-5.8	-
(ratio)	(5.7%)	(3.1%)	(-2.5p)		(3.7%)	(-0.3%)	(-3.9p)	
Profit	15.3	5.0	-10.3	-67.3%	5.6	-1.2	-6.8	-
(ratio)	(4.8%)	(1.7%)	(-3.1p)		(3.7%)	(-1.0%)	(-4.7p)	

Full-Year FY2020 Forecasts: Net Sales

Sales revenue will be down amid ongoing COVID-19 recession

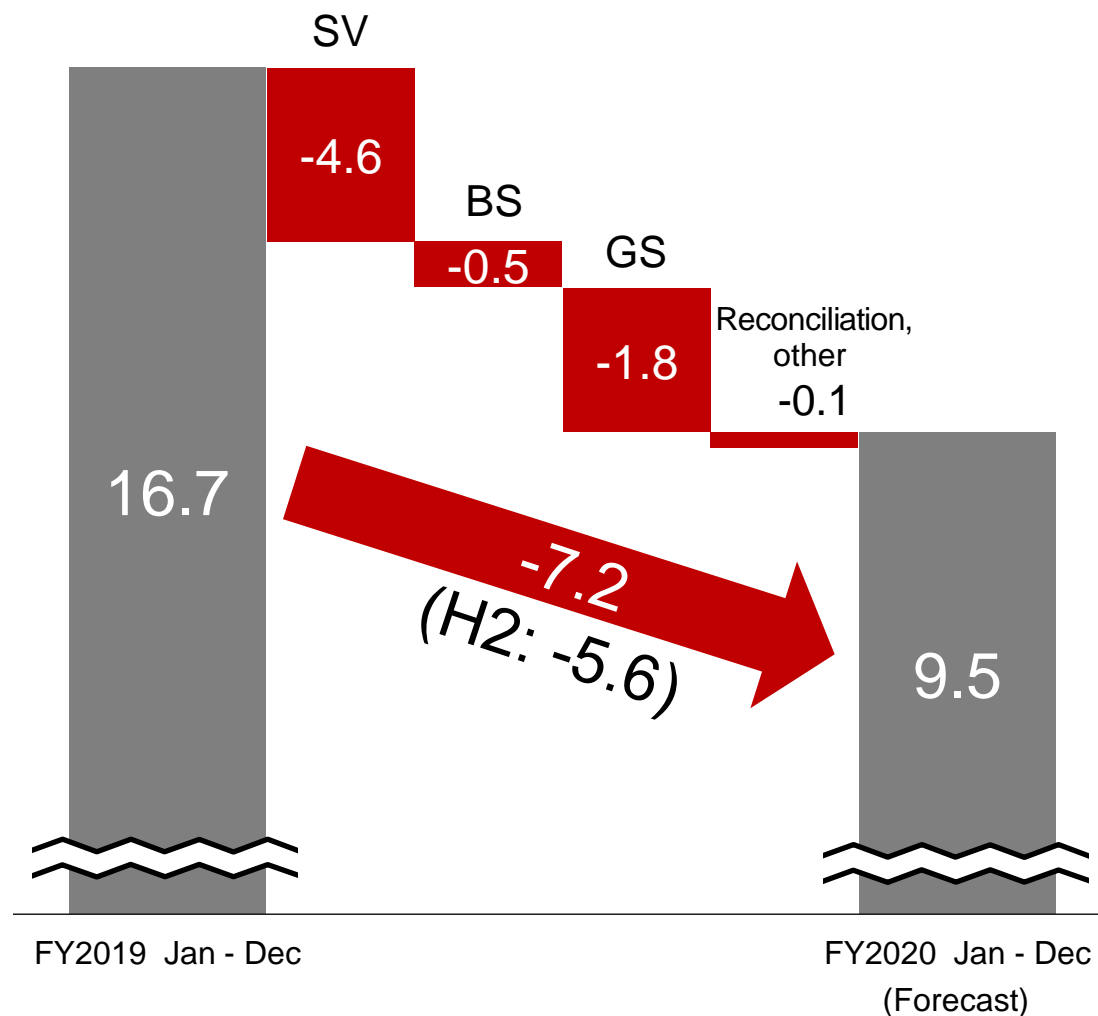
(Billions of yen)



Full-Year FY2020 Forecasts: Operating Income

Income will be down in all domains

(Billions of yen)

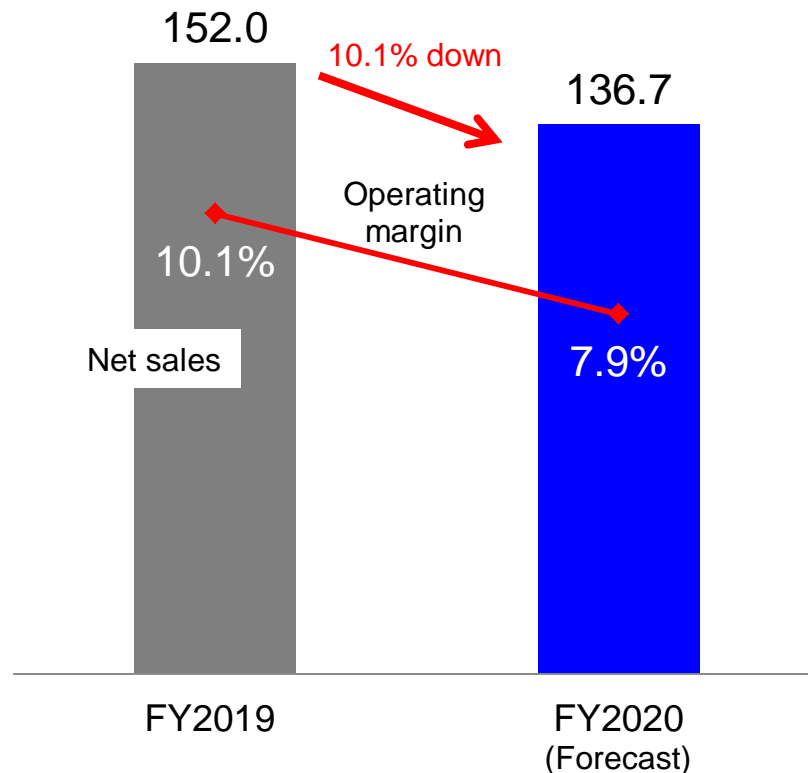


Revenue and income will be down, as it takes time to regain orders in domestic furniture business

While continuing efforts to regain orders and prevent infection, we will also step up efforts in non-focal markets

Performance

(Billions of yen)



Example of action for education market



Tablet charging station for schools

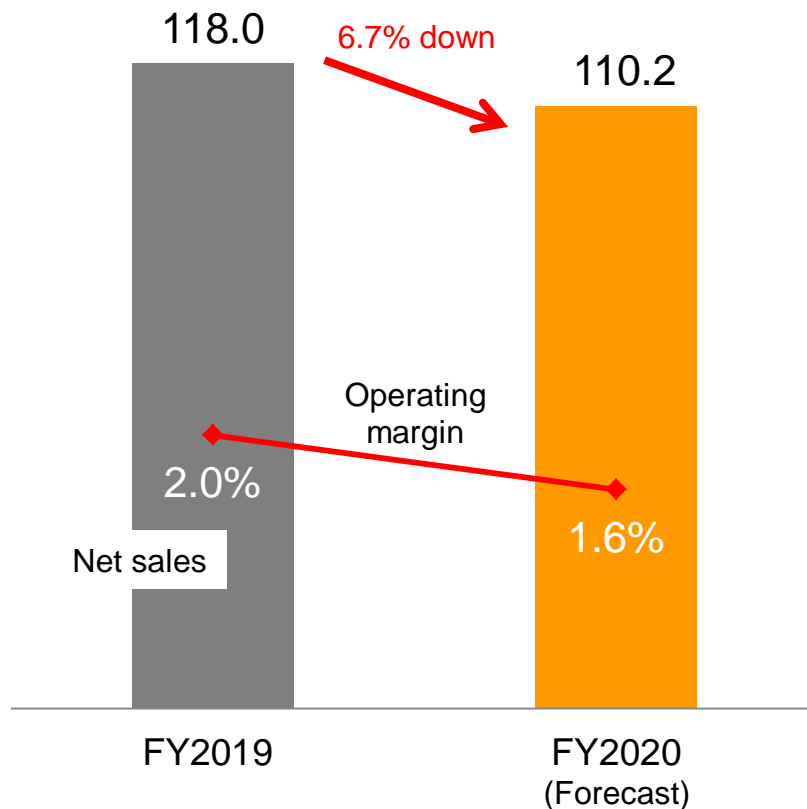
Product part of MEXT's GIGA School Program

Revenue and income will be down, as customers continue work-from-home programs and cost-cutting

We will do more to market COVID-related goods and provide cost-cutting solutions

Performance

(Billions of yen)



Examples of COVID-related goods (Kaunet PB)



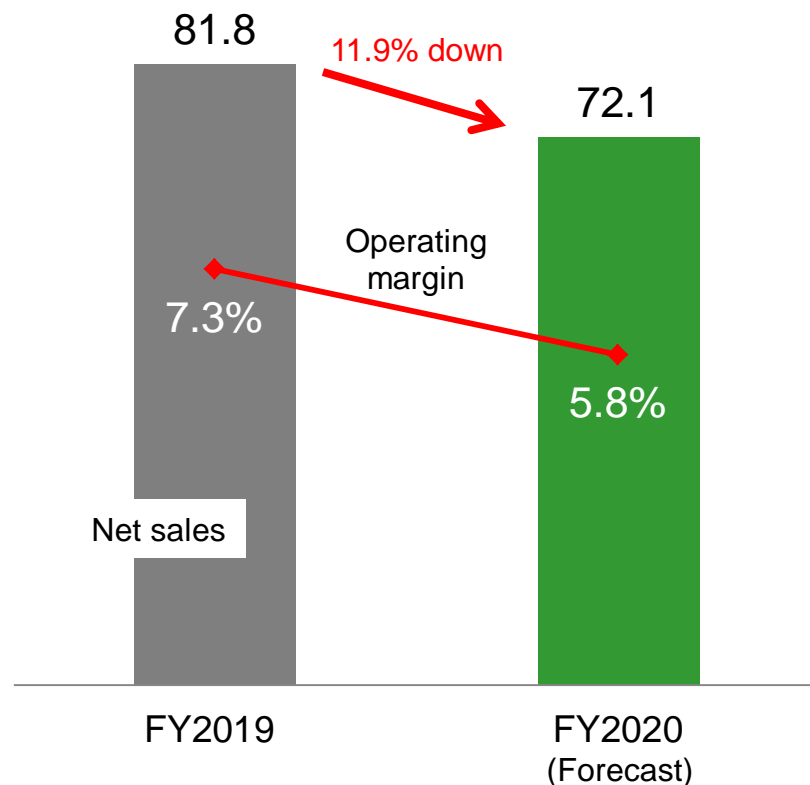
More goods for work-from-home needs

Domestic: As COVID-19 reshapes the business landscape, we will do more to adapt at a sales-channel level and product level.

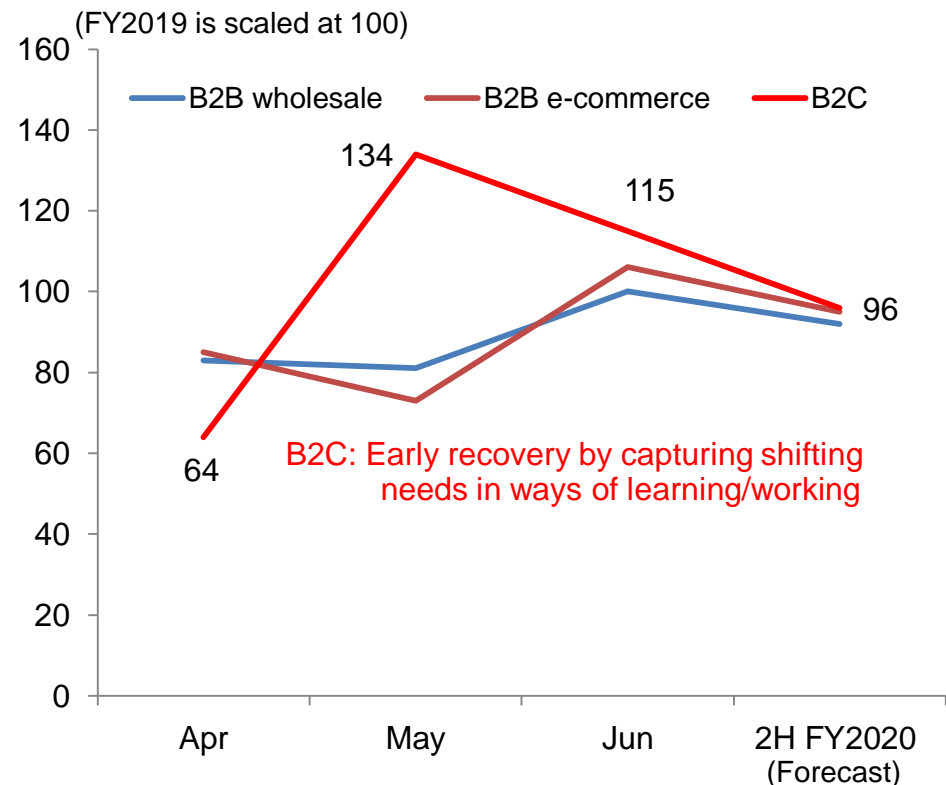
Overseas: We will aim to restore the growth trend by leading China's e-commerce market.

Performance

(Billions of yen)



Channel-specific sales trends in domestic stationery



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The plan is titled *Enabling Sustainable Growth—Smart & Sustainable Transformation 2021*. It outlines a strategy for boosting “smart” earning potential, which involves diversifying revenue streams. It also outlines a program of business streamlining, which will lead to growth over the medium and long term.

Second Medium-Term Management Plan:
*Enabling Sustainable Growth—
Smart & Sustainable Transformation 2021*

Boost “smart” earning potential by diversifying
revenue streams
Streamline business processes to enable growth
over the medium and long term

FY2021 targets are under review in light of current performance.
New targets will be disclosed when the Q3 results are released.

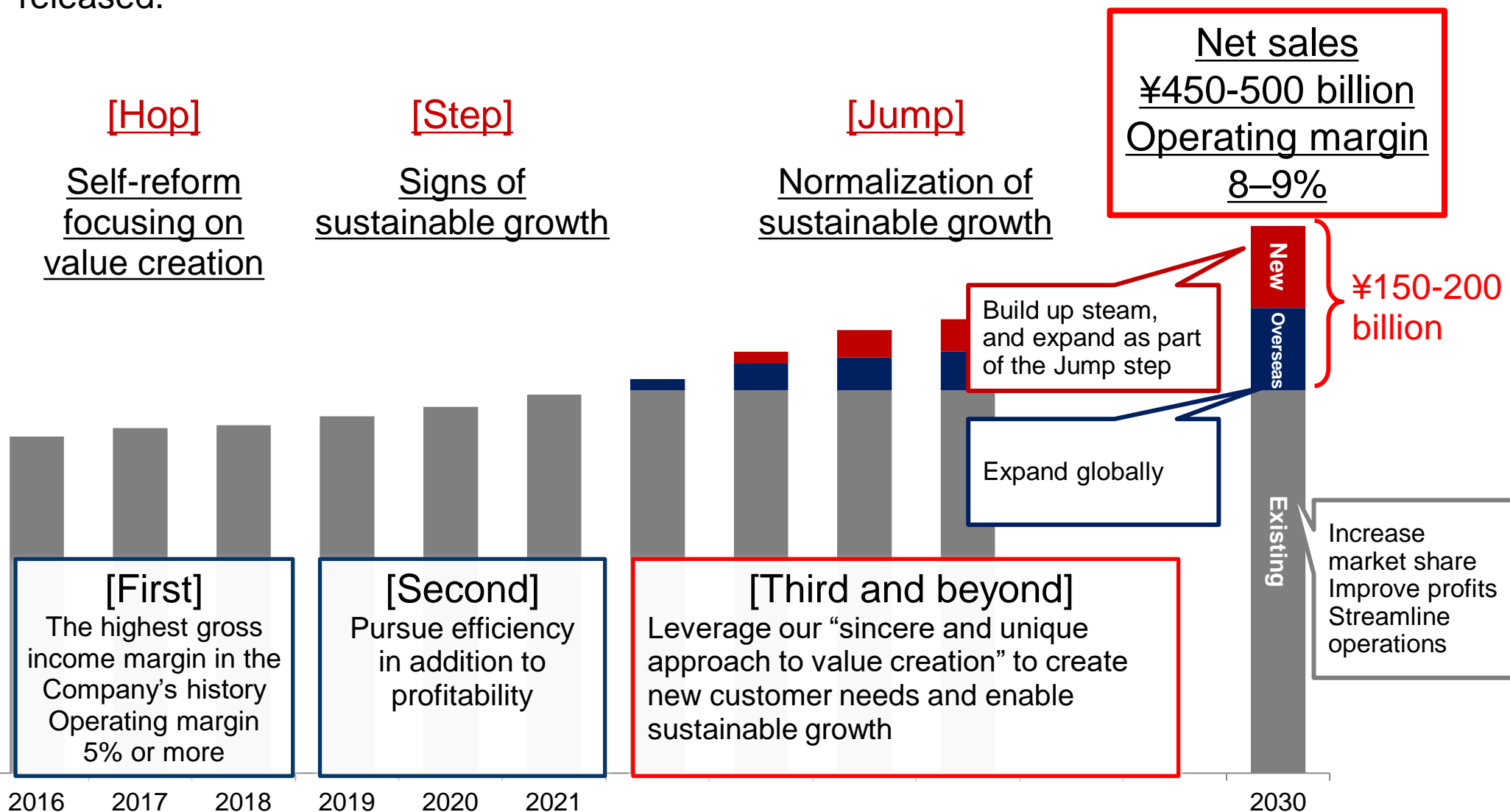
Performance targets

(Billions of yen)

	FY2018	FY2019	FY2020		FY2021
	Result	Result	Initial forecast	Revised forecast	Target
Net sales	315.1	320.2	334.0	290.0	346.0→Under review
Operating income	18.2	16.7	17.4	9.5	21.5→Under review
Capital expenditure (Strategic investments)	4.0	4.8	10.0 (5.0)	8.0 (3.0)	15.0→Under review (10.0)
Dividend per share (Yen)	32.0	39.0	45.0	39.0	—
Dividend payout ratio (%)	26.6	30.1	34.6	92.3	40.0→Under review

We aim to have achieved net sales of ¥450–500 billion by FY2030.

The strategic roadmap to this goal will be disclosed when the full-year results for FY2020 are released.



The shifting landscape is transforming two categories of consumer needs we target: ways of working, ways of learning

Each domain has formidable growth prospects

Autonomy + cooperation / Ways of working and learning

Societal shift to autonomy + cooperation

Ways of working



Ways of learning



Establish long-term vision outlining new opportunities for sustainable growth
Launch structural reform for dynamic growth and bold reallocation of resources

Domain-specific tasks

Spatial Value Domain

- Prepare/accomplish, and enact growth strategies for three businesses (central offices, dwelling spaces, dispersed workplaces)

Business Supplies Domain

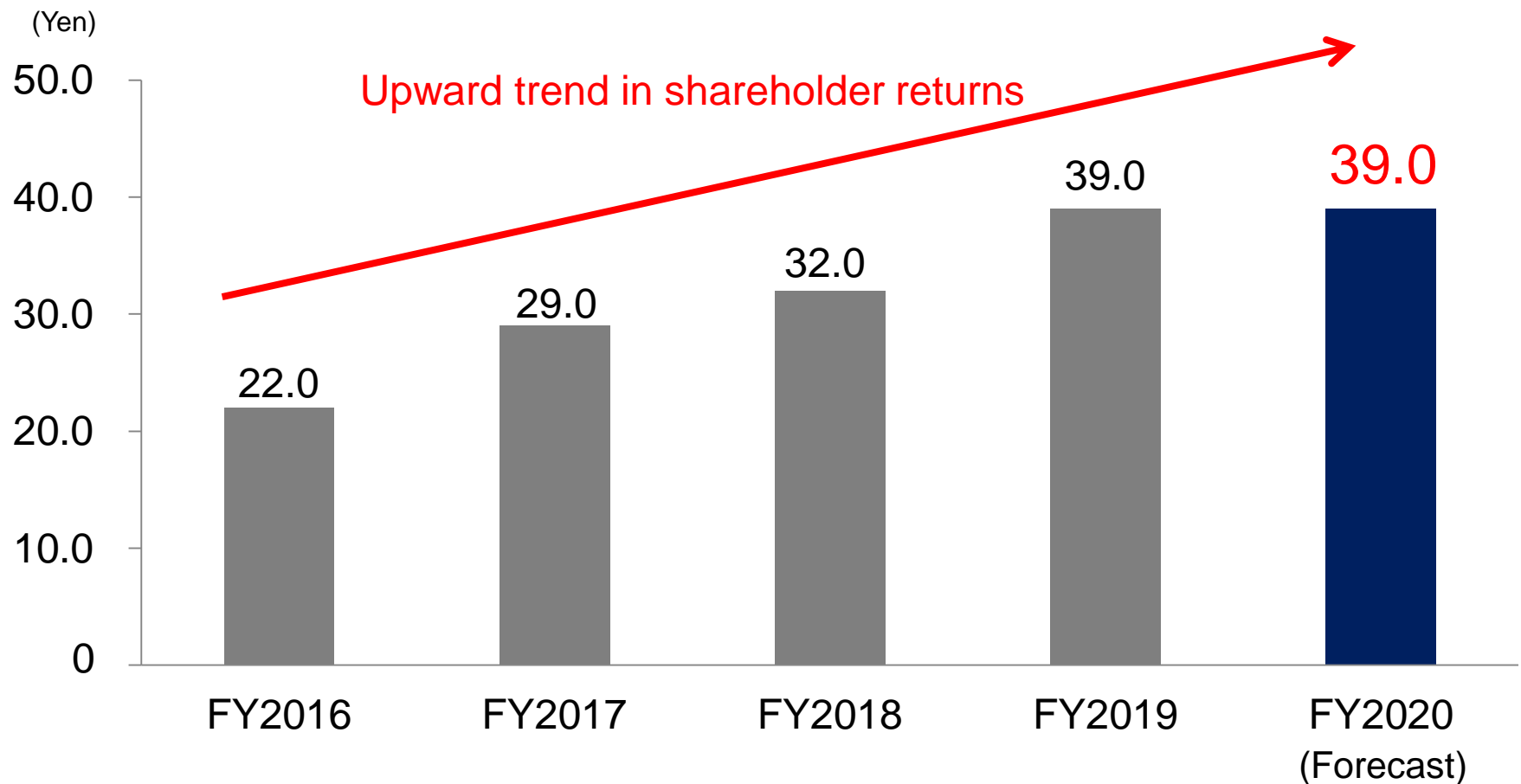
- Target needs of individual workers (“B2W”)
- Boost efficiency of whole distribution network

Global Stationery Domain

- Explore potential partnerships with other companies
- Develop services and solutions that deliver intangible value

The second medium-term management plan commits us to making shareholder returns more generous. FY2020's full-year dividend is ¥39.0: This payout was set in consideration of performance trends, our policy on shareholder returns, and our fiscal needs.

Dividend-per-share by year



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(Billions of yen)

	FY2019 Jan - Jun	FY2020 Jan - Jun	Change	% change
Net sales	167.6	155.8	-11.8	-7.1%
Spatial Value	81.6	78.0	-3.5	-4.3%
Business Supplies	59.5	55.9	-3.5	-6.0%
Global Stationery	43.5	36.9	-6.5	-15.1%
Other	1.2	1.2	-0.0	-3.5%
Reconciliation	-18.3	-16.4	+1.8	-
Operating income	11.6	10.0	-1.5	-13.2%
(ratio)	(6.9%)	(6.5%)	(-0.5p)	
Spatial Value	10.1	9.4	-0.7	-7.1%
(ratio)	(12.4%)	(12.1%)	(-0.4p)	
Business Supplies	1.2	1.1	-0.0	-11.1%
(ratio)	(2.1%)	(2.1%)	(-0.0p)	
Global Stationery	3.5	2.6	-0.9	-26.5%
(ratio)	(8.3%)	(7.1%)	(-1.1p)	
Other	0.0	0.0	-0.0	-
(ratio)	(5.3%)	(4.9%)	(-0.4p)	
Reconciliation	-3.4	-3.2	+0.2	-

(Billions of yen)

	FY2019 full-year result	FY2020 full-year forecast	Change	% change
Net sales	320.2	290.0	-30.2	-9.4%
Spatial Value	152.0	136.7	-15.3	-10.1%
Business Supplies	118.0	110.2	-7.8	-6.7%
Global Stationery	81.8	72.1	-9.7	-11.9%
Other	2.6	2.4	-0.2	-9.2%
Reconciliation	-34.4	-31.4	+3.0	-
Operating income	16.7	9.5	-7.2	-43.3%
(ratio)	(5.2%)	(3.3%)	(-2.0p)	
Spatial Value	15.3	10.7	-4.6	-30.0%
(ratio)	(10.1%)	(7.9%)	(-2.2p)	
Business Supplies	2.3	1.7	-0.5	-24.5%
(ratio)	(2.0%)	(1.6%)	(-0.4p)	
Global Stationery	6.0	4.1	-1.8	-31.0%
(ratio)	(7.3%)	(5.8%)	(-1.5p)	
Other	0.1	0.0	+0.0	-100.0%
(ratio)	(5.3%)	(0.0%)	(-5.3p)	
Reconciliation	-7.0	-7.1	-0.0	-



Note: Forecasts of future KOKUYO earnings included in this presentation contain various inherent risks and uncertainties.
Actual earnings may differ substantially from these forecasts.