President
Yasuyuki Hotta

KITZ Corporation (6498)

KITZ CORPORATION

Company Information

Market	TSE 1st Section
Industry	Machinery (Manufacturing)
President	Yasuyuki Hotta
HQ Address	1-10-1 Nakase, Mihama-ku, Chiba, Japan
Year-end	March
HOMEPAGE	http://www.kitz.co.jp/english/

Stock Information

Share Price	Shares Outstanding		Market Cap.	ROE (Act.)	Trading Unit
¥759	92,661,782 shares		¥70,330million	7.4%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
¥20.00	2.6%	¥46.20	16.4 x	¥795.20	1.0 x

*Share price is as of closing on November 15. The number of issued shares is obtained by deducting the number of treasury stocks from the number of shares issued at the end of the latest quarter. ROE and BPS are the results of the previous term.

Consolidated Earnings Trends

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend (¥)
March 2016 Act	117,278	7,245	7,300	4,915	45.50	13.00
March 2017 Act	114,101	8,929	8,799	5,400	51.43	13.00
March 2018 Act	124,566	10,117	9,733	6,518	65.50	17.00
March 2019 Act	136,637	11,713	11,883	5,625	58.50	20.00
March 2020 Est.	124,000	6,500	6,300	4,300	46.20	20.00

(Units: ¥mn)

*Estimates are those of the Company

This Bridge Report presents details and analysis of KITZ Corporation’s earnings results for the first half of the fiscal year ending March 2020 and earnings estimates for the fiscal year ending March 2020.

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Key Points

- **In the first half of fiscal year ending March 2020, sales and operating income decreased 8.2% and 51.6%, respectively, year on year. The sales of the valve manufacturing business decreased 7.6% year on year due to struggle for semiconductor manufacturing equipment and for domestic building facilities. The sales of the brass bar manufacturing business decreased 12.3% year on year due to reducing sales prices. Profitability deteriorated due to a decrease in sales in high-profit products in the valve manufacturing business, an increase in depreciation expenses and issues when starting up a new IT system.**

- **The full-year forecasts indicate that sales and operating income will decrease 9.2% and 44.5%, respectively, year on year. In addition to reflecting the first-half results that were below the estimates, the forecast for the second half was lowered. In the valve manufacturing business, inventory adjustment for domestic building facilities will be completed, but recovery for semiconductor manufacturing equipment is delayed. Overseas markets are also affected by the prolonged trade friction between the U.S. and China. As for the brass bar manufacturing business, drop of sales prices and decline of sales volume are expected to continue. As for profits, sales will decline while profit rate deterioration due to changes in sales composition and an increase in depreciation expenses are anticipated. The year-end dividend is to be 10 yen/share, and the annual dividend is expected to be 20 yen/share when combined with the dividend at the end of the second quarter.**

- **As can be seen from the fact that the company lowered the forecast for the second half, the harsh business environment is likely to continue for the time being. However, adjustment of inventory for building facilities is currently progressing, and troubles associated with the launch of a new IT system are expected to be solved in the middle of the third quarter. As a result, the stagnant cost reduction activities will be activated in addition to normalization of shipments. Furthermore, in the brass bar manufacturing business, a significant improvement in productivity can be expected as mass production starts at KITZ Metal Works Corporation's new factory. Since the business for semiconductor manufacturing equipment remains uncertain, the company may not reach a full recovery. But it may bottom out in the second half.**

1. Company Overview

KITZ is an integrated manufacturer of valves and other fluid control equipment and devices. In valve manufacturing, it ranks highest in Japan and within the top 10 worldwide. Valves are made of various materials depending on their application, including bronze, brass, cast iron, ductile cast iron (cast iron with greater strength and ductility) and stainless steel. KITZ in principle assumes integrated production (casting, processing, assembling, inspecting, packaging and shipping) of products from raw materials. The KITZ Group consists of 36 domestic and overseas subsidiaries. In addition to the production and sale of brass bars used for valves, water faucets and gas equipment (KITZ is ranked among the top manufacturers of brass bars within Japan), the Group also operates a hotel business.

[Corporate Philosophy: To contribute to the global prosperity, KITZ is dedicated to continually enriching its corporate value by offering originality and quality in all products and services.]
KITZ believes that corporate value is equivalent to shareholder value from a medium- to long-term perspective. To continue increasing this value, it says that it must achieve sustained growth accompanied by earnings through earning the trust of customers.
And by improving corporate value, the Company desires to help create a more prosperous and fulfilling society by providing many types of benefits to its shareholders, customers, employees, business partners, and society. Setting these goals in the KITZ Statement of Corporate Mission, the Company seeks to further progress in the future.

KITZ' Statement of Corporate Mission

To contribute to the global prosperity,
KITZ is dedicated to continually enriching its corporate value
by offering originality and quality
in all products and services.

1-1 Overview of KITZ's Business Segments

KITZ's businesses consist of the valve manufacturing, brass bar manufacturing and other (including hotel and restaurant management) segments. During the fiscal year ended March 2019, these segments accounted for 80.5%, 17.3%, and 2.2% of total sales, respectively.

Valve Manufacturing Business

Valves are used to pass, stop and adjust the flow of fluids in various pipe systems (water, air, gas and other substances). They are used in building facilities, residential utility systems, water supply facilities, fresh water and sewer systems, fire prevention equipment, machinery and industrial equipment manufacturing facilities, chemical, medical, and petrochemical product manufacturing facilities, semiconductor manufacturing facilities, oil refineries and other industrial complexes, among other applications. The Company operates an integrated production system that begins with the casting process (KITZ was the first Japanese company to acquire ISO 9001 international quality standard certification). The Company's product offerings include commercial valves, which are made of corrosion-resistant bronze and highly economical brass for use in the building construction sector, including building facilities and residential utility systems, and industrial stainless steel valves such as high-value-added ball valves. The Company has a high share of the domestic market in these mainstay product areas.

Building facilities In building facilities such as hotels, hospitals, and office buildings, the company handles valves used for air conditioning, sanitation, and disaster prevention equipment.	Water supply/water supply facilities It handles plumbing line equipment and devices in water supply and sewage systems, valves used in water treatment and sludge treatment facilities, and water supply products for detached houses and apartment buildings.
Gas/energy facilities It handles valves used in liquefied natural gas (LNG) production facilities and pipelines.	Industrial machinery/production equipment It handles valves used everywhere in industrial machinery and production equipment.
Oil refining and oil complex facilities It handles valves used in oil refining, petrochemical and chemical plant process lines.	Semiconductor manufacturing equipment It handles valves and joints for semiconductor manufacturing equipment (manufactured and sold by its group company, KITZ SCT Corporation)

In terms of sales, the company covers the country nationwide by expanding marketing bases in the domestic major cities and an elaborate network of distributors. As for overseas, the company has a global sales network where the company did not only establish representative offices in India and U.A.E but also marketing bases in China, Hong kong, South Korea, Singapore, Malaysia, Thailand, Vietnam, the U.S., Brazil, Germany, and Spain. Regarding the manufacturing, the company has a production network that helps achieve global cost and optimal production locations as the company has deployed production bases in China, Taiwan, Thailand, India, Germany, Spain, and Brazil in addition to the domestic factories.

Sales by Region

	FY3/18	Composition	FY3/19	Composition	YoY Change
Japan	64,202	65.4%	69,379	63.1%	+8.1%
Overseas	33,960	34.6%	40,589	36.9%	+19.5%
Total	98,162	100.0%	109,969	100.0%	+12.0%

(Units: ¥mn)

Brass Bar Manufacturing Business

Copper alloy can take many different shapes, including sheets, strips, pipes, bars and wires through hot or cold deformation processing such as dissolution, casting, rolling, extruding, and forging. It can be made with a range of different materials, including brass (copper with zinc), phosphor bronze (copper with tin and phosphorous), and nickel silver (copper with nickel and zinc). The KITZ Group's brass bar manufacturing business is led by KITZ Metal Works Corporation and Hokutoh Giken Kogyo Corporation. These companies manufacture and sell brass bars, which are used not only as material for valves, but also in the manufacture of water faucets, gas equipment, electrical appliances, and other brass-derived items.

Other

KITZ subsidiary Hotel Beniya Co., Ltd., operates a resort hotel in the city of Suwa, Nagano Prefecture. The hotel is located in a highly picturesque setting close to Lake Suwa with hot spring bathing facilities with sunset views and has a number of small and large banquet halls. The hotel also has a large convention hall, giving it the capacity to hold international conferences.

1-2 Long-term Vision and Target

Vision for 2030 (FY 3/2031)

- Providing world-class technology and engineering to customers and contributing to lowering of environmental burdens by responding to the energy shift and a move towards a recycling-oriented society.
- Reforming the business model and strengthening product development capacity through ICT and building a strong position in the growing market.
- Supporting the development of global societal infrastructure along with the growth of local economies in various countries.
- Aiming for a company where employees can improve their lifestyles and work safely and healthily under fair and transparent rules.

Management Vision

- Global synchronization of management information and execution of evolved consolidated management.
- Distribution and utilization of personnel, property and capital from the point of view of overall group optimization.
- “Visualization” of global supply chains, incorporation of simple decision-making into management, and the labor-saving investment to increase the labor productivity.

Mid/long-term targets

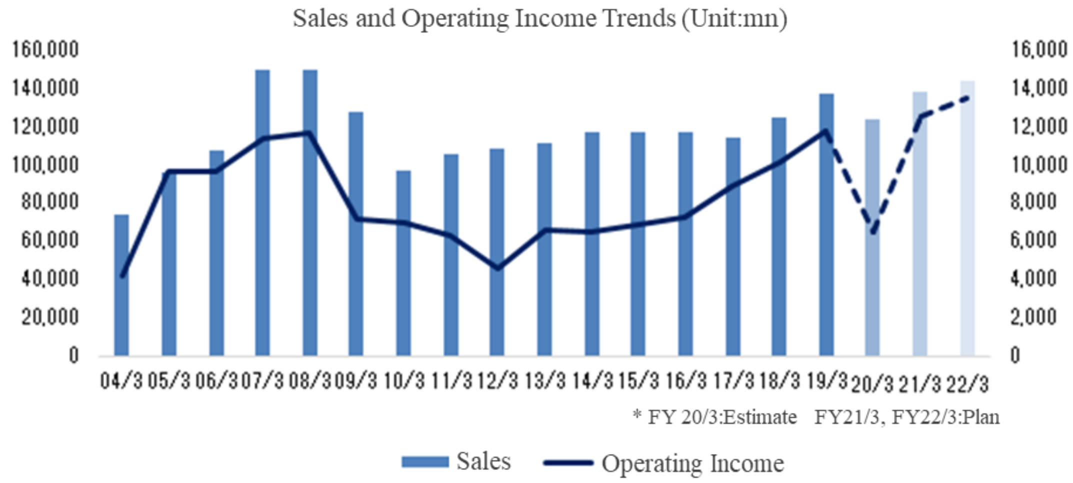
The target for growth is “an annual sales growth rate of 4%,” the target for profitability is “an annual EPS growth rate of 7%” and the efficiency target is “ROE of 12%.” Furthermore, sales and profit targets for FY 3/2031 are sales of 200 billion yen (165 billion yen from the valves manufacturing business, 32 billion yen from the brass bar manufacturing business and 3 billion from other).

Changes in ROE

	FY 3/15	FY 3/16	FY 3/17	FY 3/18	FY 3/19
ROE	9.83%	6.58%	7.26%	8.69%	7.41%
Net Income Margin	5.88%	4.19%	4.73%	5.23%	4.12%
Total Assets Turnover	1.05 times	1.00 times	0.96 times	0.99 times	1.03 times
Leverage	1.60 x	1.57 x	1.60 x	1.68 x	1.75 x

*ROE = Net income margin x total assets turnover x leverage.

*Total assets and shareholders' equity are classified as average balance during period.



2.First Half of the Fiscal Year Ending March 2020 Earnings Results

2-1 Consolidated Business Results for the first half

	1H FY 3/19	Composition	1H FY 3/20	Composition	YoY Change	Initial Est.	Divergence
Sales	67,781	100.0%	62,199	100.0%	-8.2%	65,000	-4.3%
Gross Income	18,827	27.8%	16,170	26.0%	-14.1%	-	-
SG&A	13,013	19.2%	13,354	21.5%	+2.6%	-	-
Operating Income	5,813	8.6%	2,816	4.5%	-51.6%	3,600	-21.8%
Ordinary Income	5,788	8.5%	2,733	4.4%	-52.8%	3,400	-19.6%
Net Income	3,926	5.8%	2,033	3.3%	-48.2%	2,200	-7.6%

(Units: ¥mn)

Sales and operating income decreased 8.2% and 51.6%, respectively, year on year.
Sales decreased 8.2% year on year to 62,199 million yen. The sales of the valve manufacturing business decreased 7.6% year on year due to a decrease in sales of valves for semiconductor manufacturing equipment in both domestic and overseas markets and for building facilities in domestic market. The sales of the brass bar manufacturing business also decreased 12.3% year on year due to a decline in sales volume and a drop in sales prices associated with a decline in raw material prices. Overseas sales ratio was 29.5% (29.4% in the same period of the previous year).

Operating income decreased 51.6% year on year to 2,816 million yen. While gross profit margin deteriorated due to a decline in sales of highly profitable products, SG&A expenses increased mainly in depreciation expenses, and operating income margin decreased 4.1 points. Net income decreased 48.2% year on year to 2,033 million yen due to the recording of gain on sale of investment securities (331 million yen).

Exchange and raw materials

	1H FY 3/19	1H FY 3/20	1H FY 3/20 Estimate
Yen / US Dollar	108.52	109.98	110.00
Yen / Euro	130.66	124.07	130.00
Electrolytic Copper, Yen / Ton	760,000	692,000	750,000

2-2 Business Segment Sales, Operating Income

	1H FY 3/19	Composition	1H FY 3/20	Composition	YoY Change	Initial Est.	Divergence
Valve Manufacturing	53,844	79.4%	49,760	80.0%	-7.6%	51,500	-3.4%
Brass Bar Manufacturing	12,237	18.1%	10,737	17.3%	-12.3%	11,800	-9.0%
Other	1,698	2.5%	1,701	2.7%	+0.1%	1,700	+0.1%
Total Sales	67,781	100.0%	62,199	100.0%	-8.2%	65,000	-4.3%
Valve Manufacturing	7,306	13.6%	4,524	9.1%	-38.1%	5,400	-16.2%
Brass Bar Manufacturing	191	1.6%	72	0.7%	-62.1%	200	-63.7%
Other	120	7.1%	91	5.3%	-23.9%	100	-8.5%
Adjustments	-1,804	-	-1,872	-	-	-2,100	-
Total Operating Income	5,813	8.6%	2,816	4.5%	-51.6%	3,600	-21.8%

(Units: ¥mn)

Valve Manufacturing Business

Domestic sales were 31,680 million yen, down 2,579 million yen (down 7.5%) year on year. For building facilities, although it picked up slightly in the second quarter, sales volume decreased due to continuous adjustment of inventory in the market as well as a delay in shipment caused by initial troubles with the new IT system that was launched in May. Temporary demand due to the consumption tax hike did not occur. The sales of valves for semiconductor manufacturing equipment continued to be sluggish from the fourth quarter of the previous fiscal year. Meanwhile, the sales for the water market remained strong thanks to the recovery of Tokyo, and industrial valves maintained the same level as the previous year.

Overseas sales decreased 1,504 million yen (down 7.7%) year on year to 18,080 million yen. Like in the domestic market, sluggishness for semiconductor manufacturing equipment in China and South Korea continued. In China, both commercial valves and industrial valves are stagnant due to the effects of the trade friction between the U.S. and China, but the sales for data centers remained strong. In South Korea, the market seems to be stagnant, but sales increased thanks to contributions made by subsidiaries that were acquired during the previous fiscal year. In ASEAN countries, although elections that were a suppression factor for capital investment ended in each country, recovery is delayed due to the slowdown in the Chinese economy. Sales in Vietnam and India, however, increased thanks to the effect of opening new marketing bases. Sales in the Middle East decreased in reaction to the ending of large-scale projects for Iran. In Americas, stock orders from distributers were weak in North America, but South America (Brazil) remained strong. In Europe, stock orders from distributers remained strong mostly in Germany.

In terms of profit, the major reason for the drop of profit was the impact of decrease of sales volume and change of product mix(2,780 million yen). Increased depreciation expenses (510 million yen) also accounted for the profit decline. Meanwhile, the cost reduction effect was lower than expected at 480 million yen.

Brass Bar Manufacturing Business

Copper market, which affect sales prices, fell throughout the first half. Together with volume reduction, sales decreased 1,500 million yen (12.3%) year on year to 10,737 million yen. Operating income declined 119 million yen (62.1%) year on year to 72 million yen due to deterioration of profitability associated with decreased market rates of raw materials.

Other

Net sales increased 2 million yen (0.1%) year on year to 1,701 million yen as the number of guests in service areas increased. However, operating income decreased 28 million yen (23.9%) year on year to 91 million yen due to an increase in expenses caused by cost increases.

2-3 Financial Conditions and Cash Flows

Financial Conditions

	3/19	9/19		3/19	9/19
Cash	13,660	10,952	Payables	6,625	5,853
Receivables	30,199	27,368	Unpaid Corporate Tax, Unpaid Consumption tax, etc.	1,434	791
Inventories	24,465	23,760	Bonus and Bonus Reserve for Directors	2,735	1,968
Current Assets	71,226	63,409	Allowance for retirement benefits for directors and retirement benefit liabilities	1,111	1,093
Tangible Assets	41,677	44,152	Interest-bearing Liabilities	33,457	34,794
Intangible Assets	9,420	8,522	Liabilities	54,827	51,568
Investments, Others	9,332	10,421	Net Assets	76,829	74,936
Noncurrent Assets	60,430	63,096	Total Liabilities, Net Assets	131,657	126,505

(Units: ¥mn)

Tangible assets increased due to the change in the accounting standards (IFRS No.16: Lease assets and lease obligations were recorded in the balance sheet for lease transactions by the overseas group companies) and capital investment. Furthermore, investment securities increased 1,029 million yen as a result of acquiring shares of Unimech Group Berhad of Malaysia (to be described later). Equity ratio is 58.2% (57.4% at the end of the previous term).

Cash Flows

	1H FY 3/19	1H FY 3/20	YoY Change	
Operating Cash Flow	4,067	5,668	+1,601	+39.4%
Investing Cash Flow	-4,757	-5,713	-956	-
Financing Cash Flow	-6,541	-2,446	+4,095	-
Cash and Equivalents at Term End	14,613	10,193	-4,420	-30.2%

(Units: ¥mn)

Profit before taxes was 2,992 million yen (5,714 million yen in the same period of the previous year), and depreciation costs were 3,085 million yen (2,216 million yen in the same period of the previous year). Trade receivables decreased 2,675 million yen (64 million yen in the same period of the previous year), changes in inventory amount was positive 459 million yen (negative 2,122 million yen in the same period of the previous year), and corporate tax payments were negative 1,559 million yen (negative 2,600 million yen in the same period of the previous year). As a result, the company secured an operating cash flow of 5,668 million yen.
The investing cash flow came from capital investment (4,365 million yen) and acquisition of the shares of Unimech Group Berhad (approximately 1,600 million yen), while the financing cash flow came from repayment of cash dividends (1,146 million yen) and acquisition of treasury stock (1,984 million yen).

2-4 Topics

Capital and business alliance agreement with Unimech Group Berhad, Malaysia

The company concluded a capital and business alliance agreement with Unimech Group Berhad (Listed on the Malaysia Stock Exchange, hereinafter Unimech), which is a major valve manufacturer and distributor in Malaysia. The company acquired 25.1% of the total number of issued shares of Unimech.
One of the priority targets of KITZ in the 4th Medium-Term Management Plan is "full-freighted expansion in Asia's middle class (volume) zone (until now, sales of KITZ and TOYO brands were targeting only the high-end class). Unimech, on the other hand, has a wide sales network and procurement capabilities, mainly in the ASEAN/China region, and has strengths especially in light industries such as palm oil, centered on ARITA brand products.

KITZ and Unimech reached a capital and business alliance in order to enhance product users' convenience by establishing capital relationships, integrating KITZ Group's technological capabilities, Unimech's sales capabilities and branding capabilities of both companies, and complementing each other's management resources.

Overview of Unimech Group Berhad

Location	Penang Island, Malaysia
Establishment	October 1996
Capital	107 million Ringgit (approximately 2,708 million yen)
Business categories	Purchase, manufacture and sale of industrial valves, pipes, joints and other fluid control equipment, combustors, meters and pumps
Results (FY 2018)	Net sales: 6,873 million yen

KITZ Corporation of Taiwan, Lost wax precision casting factory, is ready.

The construction of the fifth factory (Pingtun factory) of KITZ Corporation of Taiwan (KCT), which is the lost wax precision casting factory, was completed.

In 2003, KCT established KITZ Corporation of Kunshan (KCK) in Kunshan City, Jiangsu Province, China. KCK uses stainless steel precision castings and also supplies them to group companies. However, the production capacity reached its limit, and regulations on safety and environment in China were becoming stricter. The Pingtun factory was built with the aim of minimizing Chinese risks on KCK, passing down technology, and reducing production lead time and inventory through KCT's in-house production.

Lost wax is a casting method using wax. A mold is created by wax, and its surrounding is covered by casting sand and plaster. The wax inside is melted and removed by heating to create a hollow core. When the molten metal is poured into the hollow core, a casting with the same shape as the original is completed.

Factory view

(Taken from the reference material of the company)

3. Fiscal Year Ending March 2020 Earnings Estimates

3-1 Consolidated Earnings

	FY3/19 Act.	Composition	FY3/20 Est.	Composition	YoY Change	Initial Est.	Divergence
Sales	136,637	100.0%	124,000	100.0%	-9.2%	133,000	-6.8%
Operating Income	11,713	8.6%	6,500	5.2%	-44.5%	10,000	-35.0%
Ordinary Income	11,883	8.7%	6,300	5.1%	-47.0%	9,700	-35.1%
Net Income	5,625	4.1%	4,300	3.5%	-23.6%	6,400	-32.8%

(Units: ¥mn)

Sales and operating income are forecast to decrease 9.2% and 44.5% year on year, respectively

In addition to reflecting the first-half results, the forecast for the second half was lowered. On the sales side, in the mainstay valve manufacturing business, the recovery for semiconductor manufacturing equipment, which was anticipated in the second half, is expected to shift to the next fiscal year or later. Furthermore, the inventory adjustment for building facilities is delayed in domestic market, and overseas markets are also generally sluggish partially due to the effects of the trade friction between the U.S. and China. For the brass bar business, sales prices and sales volume are expected to continue to decline as the market rate of raw materials decline.

In terms of profits, the estimates reflect the decrease in profits due to the decline in sales, deterioration of product mix due to decreases in sales for commercial valves and valves for semiconductor manufacturing equipment in domestic market, the effects of troubles of the new IT system, and cost reduction delays.

Assumptions of exchange rates and market rates of raw materials:

	FY3/18 Actual	FY3/19 Actual	FY3/20 Estimate
Yen / US Dollar	112.04	110.37	109.00
Yen / Euro	127.19	130.00	120.00
Electrolytic Copper, Yen / Ton	757,000	748.000	660,000

3-2 Sales and Operating Income by Segment

	FY3/19 Actual	Composition	FY3/20 Estimate	Composition	YoY Change	Initial Est.	Divergence
Valve Manufacturing	109,969	80.5%	100,200	80.8%	-8.9%	106,000	-5.5%
Brass Bar Manufacturing	23,643	17.3%	20,900	16.9%	-11.6%	24,000	-12.9%
Other	3,025	2.2%	2,900	2.3%	-4.1%	3,000	-3.3%
Total Sales	136,637	100.0%	124,000	100.0%	-9.2%	133,000	-6.8%
Valve Manufacturing	14,938	13.6%	10,200	10.2%	-31.7%	13,500	-24.4%
Brass Bar Manufacturing	287	1.2%	200	1.0%	-30.3%	500	-60.0%
Other	90	3.0%	0	0.0%	-	50	-100.0%
Adjustments	-3,602	-	-3,900	-	-	-4,050	-
Total Operating Income	11,713	8.6%	6,500	5.2%	-44.5%	10,000	-35.0%

(Units: ¥mn)

Valve Manufacturing Business

Japan

For building facilities, inventory adjustments in the market are progressing and recovery is expected from the second half. The water market (water supply and sewage) will remain strong due to recovery of sales in Tokyo and price revisions. There are several projects for industrial valves despite the effect of the trade friction between the U.S. and China, and the company will focus on obtaining orders. Meanwhile, for semiconductor manufacturing equipment, there is little chance of recovery during the current fiscal year. The impact of worsening relations between Japan and South Korea is also a concern. The initial troubles due to the operation of the new IT system is being addressed.

Overseas

In China, both commercial and industrial valves are affected by the trade friction between the U.S. and China, but sales for data centers continue to be strong. In ASEAN, recovery from capital investment is delayed, and sales in its mainstay Thailand and Indonesia are sluggish. On the other hand, in Malaysia, an alliance effect with Unimech can be expected, and demand accompanying factory relocation from China can be expected in Vietnam. For semiconductor manufacturing equipment, just like domestic market, overseas markets are expected to remain sluggish, especially in South Korea.

In the North American market, the harsh environment continues as major distributers continue to reduce inventory. The company will focus on expanding sales to new distributers. Meanwhile, the South American market (Brazil) continues to be strong due to demand recovery. The European market continues to be strong due to increased inventory at major distributers, but the Spanish subsidiary, which mainly deals with oil and gas, continues to struggle.

3-3 Capital investment and deprecation expenses

The major capital investment of fiscal year ending March 2020 includes the KITZ Micro Filter Corporation's new factory with approximately 1,000 million yen and updating the facilities of KITZ Metal Works Corporation with approximately 3,000 million yen (it was planned in FY 3/2019, but it was partially carried over). On per segment basis, the valve manufacturing business was 6,700 million yen (6,200 million yen in FY 3/2019), the brass bar manufacturing business was 3,400 million yen (3,700 million yen in the previous term), and other was 100 million yen (100 million yen in the previous term). The depreciation expenses and the amortization of goodwill made a total of 6,700 million yen (5,100 million yen in the previous term).

3-4 Shareholder return

In formulating the 4th Medium-Term Management Plan, with the aim of further enhancing profit returns through dividends to shareholders, the company modified the desired level of dividend payout ratio from 25% to 35% of profit attributable to owners of parent. Dividends calculated based on this modification will be 17 yen per share per year, but considering the continuity and stability of dividends, it plans to pay 20 yen per share, which is the same as the previous year. The consolidated payout ratio will be 43.3% (34.2% in the previous term). The total payout ratio will be 86.5% (70.1% in the same period of the previous year) reflecting the number of shares acquired since April out of 2,500,000 common shares (2.62% of the number of issued shares excluding treasury stock) acquired from March 19, 2019 to June 11, 2019 for a total of 1,936,292,600 yen.

3-5 Enhancement of shareholder benefits program

The shareholder benefits program was expanded so that shareholders who own 100 shares or more of the company can enjoy the shareholder special benefits (from the end of March 2020).

Shareholder benefits		
Vesting date		March 31
Number of shares owned	Before change	1,000 shares or more
	After change	100 shares or more
Benefits		・Discounts on water purifiers and replacement cartridges ・Discount coupon to stay at Hotel Beniya ・Discount coupon of Kisekinoyu (Hot bath facility including bedrock bath. It is an annex of Hotel Beniya.) ・Tickets for Kitazawa Museum of Art Invitation

※ There is no change in the benefits for shareholders who own 1,000 shares or more.

- Original Quo Card, Kitazawa Museum of Art Calendar (Vesting date: March 31）
- Special benefits for long-term shareholders (Vesting date: March 31）
- Special benefits for new shareholders (Vesting date: September 30)

4. Conclusions

As can be seen from the fact that the company lowered the forecast for the second half, the harsh business environment is likely to continue for the time being. However, the adjustment of inventory for building facilities in the market is currently progressing, and troubles associated with the launch of a new IT system are expected to be solved in the middle of the third quarter. As a result, the stagnant cost reduction activities will be activated in addition to normalization of shipments. Furthermore, in the brass bar manufacturing business, a significant improvement in productivity can be expected as mass production starts at the new factory of KITZ Metal Works Corporation. However, as for semiconductor investment, although positive reports such as a recovery driven by 5G-related investment are increasing, there are no signs of recovery according to the company. Also, some semiconductor manufacturers in South Korea seem to be boycotting Japanese products.
As the business for semiconductor manufacturing equipment remains uncertain, the company may not reach a full recovery. But it may bottom out in the second half. According to an economic magazine, “the concentration of redevelopment will reach a landing around March next year, but the peak will be in 2023 and 2024” (by an executive of a major general contractor). In addition, large-scale development centering on the Tokyo metropolitan area is still continuing. Furthermore, the incidental facilities and hotel construction for Osaka Expo and Integrated Resort (IR) can be expected. From bottoming out to recovery. We are looking forward to seeing the company’s next fiscal year’s performance.

<Reference: Regarding Corporate Governance>

◎ Organizational structure, Composition of board of directors and company auditors

Organizational structure	Company with board of company auditors
Board of directors	7 directors (3 are outside directors)
Company auditors	5 auditors (3 are outside auditors)

Corporate governance report（Updated on：October 24 2019）
Basic policy
Our corporate ethos is to continuously improve our corporate value by offering creative, high-quality products and services. Under this ethos, we strive to achieve business administration that takes care of the interests of shareholders and all other stakeholders as a socially responsible company. Moreover, in order to increase business administration efficiency and enhance our compliance with laws, we will listen to requests from stakeholders and consider the social trends, etc. in order to swiftly and efficiently achieve a sound and highly transparent business administration by implementing a variety of measures, and intend to enrich corporate governance.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>
1. Cross-held shares (Principle 1-4)
(1) Basic policy on cross-held shares
We established the “Policy on cross-held shares” and do not hold cross-held shares for the purpose of forming stable shareholders. However, our main business, the valve manufacturing business, is a business for which the comprehensive strength of technologies from materials to products is needed, and it is essential to maintain good cooperative relationships with business partners in all processes including product development, manufacturing, sales and logistics. Therefore, we may hold some shares of business partners for that purpose.

(2) Verification regarding cross-held shares
We review our cross-held shares annually based on the “Policy on cross-held shares”. We will proceed with appropriate sale of shares that are deemed insignificant to hold and, for those we hold, we will make efforts to reduce cross-held shares as much as possible.

(3) Criteria for exercising voting rights for cross-held shares
Based on the “Policy on cross-held shares”, we determine the pros and cons of each cross-held share based on a comprehensive view including the issuing company’s management status, governance structure, presence of appropriate decision making that leads to medium- to long-term increase in corporate value, and whether or not they will lead to enhancement of our Group’s corporate value.

11. Policy for Constructive Dialogue with Shareholders (Principle 5-1)

We recognize that, in order to achieve sustainable growth and enhance medium- to long-term corporate values, it is important to be aware of the accountability as a trustee of management, disclose information to stakeholders such as shareholders and investors in a timely and appropriate manner, and maintain fairness and transparency in management. Therefore, sincere and constructive dialogues are held so that we can gain understanding of shareholders on our management strategies and plans, and we use their opinions and requests obtained through such dialogues to improve our management. We are implementing the following measures to vigorously carry out IR activities.

(1) In addition to appointing an executive officer in charge of IR, we established the IR Department to actively promote constructive dialogues with shareholders.

(2) The Company conducts meetings for institutional investors and analysts each quarter, with financial results briefings in March (end of the term) and September (2nd quarter), and analyst meetings regarding financial results in the 1st and 3rd quarters. In addition, company briefings for individual investors are held every year. At these company briefings, explanations are given by the president himself. In addition to information regarding financial results, such as summary of financial results and securities report, other information is also disclosed on the Company website, regarding IR topics such as management information, information on shares and shareholders meetings, and reports on corporate governance.

(3) The Company periodically reports opinions gathered from dialogue with institutional investors and analysts to the representative director and IR executive officer. If necessary, the representative director will inform the Board of Directors and management committee.

(4) The Company pays close attention to managing insider information and considers the executive officer in charge of the accounting department to be responsible for handling information. The accounting executive officer, IR department, and management planning department discuss details regarding information disclosure prior to opening a dialogue with institutional investors and analysts.

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