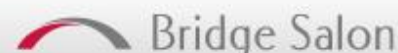


BRIDGE REPORT



Representative Director, President
Executive Officer
Masao Ono

KYB Corporation (7242)



Company Information

Market	TSE 1st Section
Industry	Equipment for transportation
Representative Director, President Executive Officer	Masao Ono
HQ Address	World Trade Center Bldg., 4-1, Hamamatsu-cho 2-chome, Minato-ku, Tokyo
Year-end	End of March
HOMEPAGE	https://www.kyb.co.jp/english/

Stock Information

Share Price	Number of shares issued		Total market cap	ROE Act.	Trading Unit
¥2,655	25,748,431 shares		¥68,362million	-55.4%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
undecided	-	¥19.57	135.7x	¥2,854.78	0.9x

* Share price as of closing on November 24. Number of shares issued, EPS, BPS were based on the results of the first half of the term ending March 2021. ROE is from the last year-end. The company's dividend forecast is still yet to be determined.

Earnings Trends

Fiscal Year	Net Sales	Operating Income	Pretax Income	Net Income	EPS	DPS
March 2017 (results)	355,316	19,247	18,852	14,544	56.93	12.00
March 2018 (results)	393,743	20,885	20,881	15,202	595.09	150.00
March 2019 (results)	412,214	-28,496	-29,510	-24,757	-969.18	0.00
March 2020 (results)	381,584	-40,298	-41,419	-61,819	-2,422.53	0.00
March 2021 (estimate)	310,000	4,000	2,300	500	19.57	-

* Unit: Million yen or yen. IFRS adjustment. Net income is profit attributable to owners of the parent. The company conducted 1-for-10 reverse share split on October 1, 2017. DPS for the term ending March. 2018 represent the amounts taking the 1-for-10 reverse split into account. EPS and DPS are not adjusted. The company's dividend forecast is still yet to be determined.

This Bridge Report presents details and analysis of KYB earnings results for the second quarter of the fiscal year ending March 2021.

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Key Points

- In the second quarter of the term ending Mar. 2021, KYB reported sales of 138.8 billion yen, down 29.8% year on year, and a segment loss of 1.4 billion yen. The COVID-19 pandemic worked as a heavy drag on earnings. Sales and profit decreased for both the AC business and the HC business. The company also posted an operating loss of 2.6 billion yen and a net loss of 3.8 billion yen. Sales performance was better than in the first quarter, with operations recovering across all regions since June. Efforts to bring seismic isolation/mitigation oil dampers up to conformity are proceeding as planned.
- For the term ending Mar. 2021, sales are estimated to decline 18.8% year on year to 310 billion yen and segment profit to fall 64.7% year on year to 6.2 billion yen. After posting net losses for two consecutive terms, the company estimates that the bottom line will move into the black for the first time in three terms, being 500 million yen, thanks to (1) mainstay operations hitting bottom on the back of a decrease in costs owing to lower sales and a demand recovery across all regions, and (2) the outlook for the conformity of seismic isolation/mitigation oil dampers taking shape. Following China, which was the first to start recovering, production has also been picking up in Europe, Japan, Asia, and the U.S. since the second quarter. Sales and segment profit are expected to recover following a bottom in the first quarter. The company's dividend forecast is still yet to be determined.
- As of October 30, 2020, the company has started work to bring nonconforming seismic isolation/mitigation oil dampers up to conformity at 916 buildings, or 92% of the total. This work has been completed at 808 buildings (or 82%). Efforts to bring all buildings up to conformity are progressing smoothly.
- While the company continued to post losses in the first half of the term, it expects to move back into the black in the full term. We will be monitoring performance in the third and fourth quarters. Meanwhile, impact of the COVID-19 pandemic remains unclear, with the number of patients increasing in Europe and Japan once again. However, investors' focus is shifting toward what type of company KYB is aiming to be amid and after the COVID-19 pandemic. In the next mid-term management plan, our focus is on how the company plans to overcome issues that need solving, as well as how it plans to move forward with the AC business and HC business.

1.Company Overview

The largest manufacturer of independent hydraulic equipment in Japan. Based on hydraulic technology, the company offers products and technologies in a wide range of fields such as "automobiles", "motorcycles", "construction machinery", "industrial vehicles", "aircraft", "railroads" and "special purpose vehicles".

KYB has a high market share with many products. For instance, shock absorbers for automobiles account for 42% of the domestic market and 16% of the global market.

BRIDGE REPORT



【1-1 Corporate history】

The roots come from “Kayaba Research Center”, which was established by Shiro Kayaba, who is an inventor and a founder, in November 1919.

In January 1927, a self-employed enterprise, Kayaba Seisakusho, was established for manufacturing hydraulic dampers, catapults, etc. for aircraft.

In March 1935, Kayaba Manufacturing Co., Ltd. was established.

After the end of World War II, in June 1956, Kayaba Auto Service Co., Ltd. was established for offering products and services.

In October 1959, company's stocks were listed on the Tokyo Stock Exchange.

In July 1974, KYB Corporation of America was established in the United States in order to enter the North American commercial market. Then, the company actively entered foreign markets such as Asia and Europe.

In October 1985, the company name “Kayaba” was changed from kanji (Chinese characters) to katakana (Japanese Characters).

In October 2015, the trade name was changed from Kayaba Manufacturing Co., Ltd. to KYB Corporation in order to further strengthen the brand image.

【1-2 Corporate Philosophy/Management Philosophy】

◎KYB Corporate Symbol

As they changed the corporate name from "Kayaba Manufacturing Co., Ltd." to "KYB Corporation" in 2015, they aim to popularize the KYB brand on a global basis.

Therefore, as shown below, the logo “KYB” has the meaning and spirit



(Taken from KYB's website)

Slanted slits in each letter represent comfortable sunlight cast through the trees and sunbeams illuminating the road ahead. The logo represents an image of unconstrained growth and flexible response to the trends of the era. The right side of the letter “B” represents liquid pressure indicating the origin of KYB. Using italic letters expresses a sense of speedy movement, progressiveness, growth potential, innovativeness.

(What the corporate color means)

The corporate color, red stands for love, enthusiasm and passion, etc. and it gives the image of a sun's warmth, heat and power to grow life that realize an epoch-making society. Red is also a positive color, and represents manufacturing that goes the extra mile.

(Taken from KYB's website)

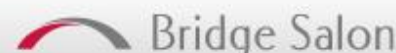
◎Corporate Statements

Our Precision, Your Advantage

The characteristics of products such as precise quality and reliable technology are expressed with the statement.

It means that not only providing reliable quality to general consumers and business partners leads to stakeholders' “advantage (superiority)”, but also the joy of manufacturing, which enables each employee to realize that they can change the world with sure quality, becomes “advantage (merit).”

BRIDGE REPORT



◎Corporate Spirit

As the KYB Group, which aims to contribute to society by providing technologies and products for making the living of people safe and comfortable, it reflected on the improper act revealed in Oct. 2018, and revised its Corporate Spirit and Corporate Guiding Principles.

(Corporate Spirit)

We shall follow all rules and face all issues with honesty.
We shall build a corporate culture full of vitality, and hold high goals.
We shall value sincerity, cherish nature, care for the environment.
We shall constantly pursue creativity, contribute to the prosperity of customers, shareholders, suppliers and society.

(Management Vision)

Human Resources Development	To cultivate the talent to achieve the objectives with a thorough understanding of the principles and the strategy.
Technology and product development	To provide products that are impressive, comfortable and reliable to customers throughout the world.
Monozukuri (Manufacturing expertise)	To make our plants enjoyable, dynamic places to work, and at the same time full of discipline based on the field priority doctrine, in order to produce products satisfactory to the customer.
Management	Always keep social responsibilities of the corporation in mind and provide efficient group management.

(Corporate Guiding Principles)

See the following URL:

<https://www.kyb.co.jp/english/company/guidelines.html>

【1-3 Environment Surrounding the Company】

(1) Market Environment

The automobile market and the construction machinery market have a great effect on KYB's performance.

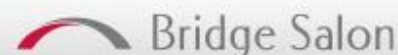
KYB recognizes the current and future situations of the two markets as follows.

①Automobile Market

The global demand for automobiles is expected to increase for Hybrid and EV cars in the middle to long-term, but as the COVID-19 effects are added to other issues such as the heating up of the trade war started by the U.S. and the negotiations for Brexit, the uncertainties for the short term are significant.

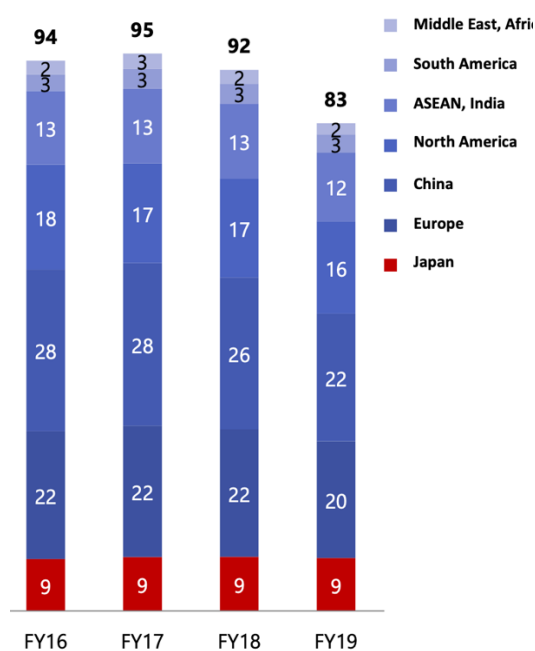
KYB supplies shock absorbers (SA) for new vehicles directly to automobile manufacturers as Tier 1, and also supplies them to auto parts stores, repair shops, etc. through agencies for aftermarket as well. The company calls the former "OEM" and the latter "marketed". Japanese cars are popular in Asia, the Middle East and others, and the commercial market is important for KYB.

BRIDGE REPORT



Automobile Production Forecast

(Million units)



Source: IHS (the end of Apr. 2020)

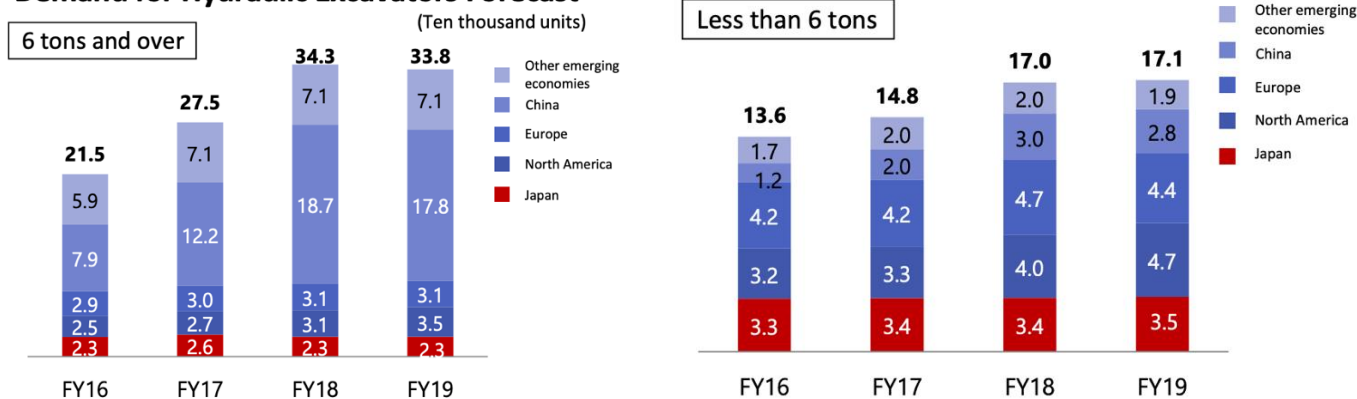
(Taken from the reference material of KYB)

② Construction Machinery Market

The slowdown in the Chinese and Indian markets is forecasted and due to the addition of COVID-19 effects, the uncertainties for the short term are strong.

Demand for Hydraulic Excavators Forecast

(Ten thousand units)



(Taken from the reference material of KYB)

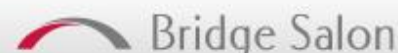
(2) Competitors

① AC Business

KYB's domestic competitors include Showa Corporation (7274, TSE 1st section), and Hitachi Automotive Systems, Ltd. (unlisted), a group company of Hitachi. Furthermore, Showa Corporation will be acquired by Hitachi Automotive Systems, Ltd. through absorption-type merger.

Its global competitors consist of ZF in Germany, Tenneco in the U.S., and so on. ZF has a long history and intimate relationships with European automobile manufacturers.

BRIDGE REPORT



The company's share in the commercial product market is slightly less than 20%. Monroe (a commercial brand of Tenneco), and Sachs, etc. are competitors in global.

KYB competes with Showa in the market of shock absorbers for motorcycles, and with JTEKT Corporation (6473, TSE 1st section) and NSK Ltd. (6471, TSE 1st section) in the steering market.

②HC Business

In the market of cylinders, which are the parts with the highest sales ratio in KYB, Chinese manufacturers and the like are extending their influences.

KYB's competitors include Nabtesco (6268, TSE 1st section) in the market of control valves for which KYB has the advanced technology, and Nabtesco and Nachi-Fujikoshi (6474, TSE 1st section) in the market of travel motors.

In addition, the largest construction machinery manufacturer in Japan manufactures a number of parts internally.

Code	Corporate name	Sales	Growth rate	Operating income	Growth rate	Operating income rate	ROE	Market cap	PER	PBR
5994	Fine Sinter	32,700	-18.9%	-800	-	-2.4%	3.4%	7,005	-	0.5
6268	Nabtesco	277,000	-4.4%	25,300	-0.1%	9.1%	9.8%	500,535	28.7	2.7
6471	NSK	720,000	-13.4%	1,000	-95.8%	0.1%	3.3%	472,988	-	0.9
6473	JTEKT	1,140,000	-19.7%	-20,000	-	-1.8%	-1.3%	296,599	-	0.6
6474	Nachi-Fujikoshi	196,000	-21.3%	5,800	-56.5%	3.0%	7.1%	106,156	57.7	0.9
7212	F-Tech	184,000	-15.9%	2,400	-41.3%	1.3%	0.8%	10,254	-	0.3
7242	KYB	310,000	-18.8%	6,200	-64.7%	2.0%	-55.4%	55,925	111.0	0.8

*The sales and growth rates are forecasts for this term estimated by the company with the unit being million yen. ROE is the results from the previous term.

The aggregate market capitals are the closing price on November 6. The unit is million yen. PER (estimates) and PBR (results) are based on the closing price on November 6 with the unit being times.

For KYB, operating income refers to segment profit (calculated by subtracting COGS and SG&A expenses from sales).

【1-4 Business contents】

(1) Segments

KYB's business segments are composed of the following four segments: the "AC Business" consisting of hydraulic shock absorbers for automobiles and motorcycles, power steering, etc., the "HC Business" including hydraulic equipment for industrial use mainly for construction machinery, "System products," which produces theater equipment, equipment for military vessels and vibration suppression devices, etc., and the "Aircraft components business," which produces devices for take-offs and landings of aircrafts, steering components, control devices, etc. It also has the "Others" segment which handles special purpose vehicles, electronics, and the like.

The second quarter of Fiscal Year ending March 2021 results

	Sales	Composition Ratio	Segment profit	Profit rate
AC Business	81,827	58.9%	-1,307	-
HC Business	48,600	35.0%	157	0.3%
System products	2,518	1.8%	282	11.2%
Aircraft components business	1,898	1.4%	-828	-
Others	3,982	2.9%	256	6.4%
Total	138,825	100.0%	-1,418	-

*Unit: million yen

① AC(Automotive Component)Business

This segment consists of shock absorbers for automobiles and motorcycles, hydraulic equipment for automobiles, and other products.

Composition ratio for the second quarter of Fiscal Year ending March 2021

Product	Sales	Composition ratio	Major products
Shock absorbers for automobiles	61,069	74.6%	Shock absorbers
Shock absorbers for motorcycles	9,274	11.3%	Front forks, rear cushion units
Hydraulic equipment for automobiles	9,747	11.9%	Vane pumps, CVT pumps, EPS
Others	1,737	2.1%	Shock absorbers for ATVs, Stay dumpers
Total	81,827	100.0%	-

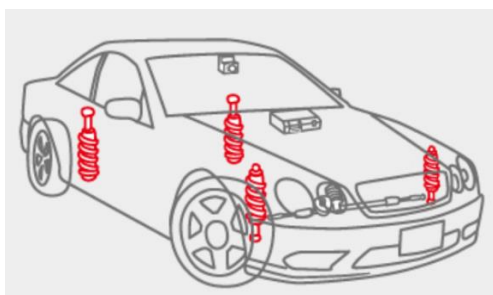
*unit: million yen

<Major Products>

◎Automobiles

(Shock absorbers)

A shock absorber is a device that absorbs vibration of the car body, being mounted between the body and the tires together with a spring.



(Taken from KYB's website)

Each automobile is equipped with a “suspension” which is the system that improves riding comfort and operational stability.

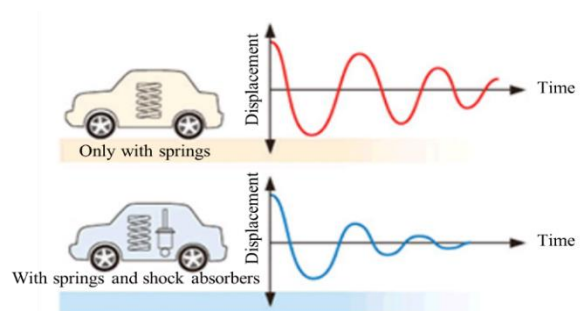
Suspensions have two main functions; one is, as buffers, to prevent transmission of rough road profiles to the car body and another is to set the position of the wheels and axles and press the wheels down on the roads.

Basically, a suspension is composed of a suspension arm which fixes the wheel position, a spring which supports the car weight and absorbs vibration, and a shock absorber (damper) which dampens vibration of the spring

Automobiles absorb shock caused by uneven road profiles by contracting the springs, but due to their characteristics, the springs rebound to get back to their original position after the contraction.

The top of a spring is connected to the car body and the bottom is coupled with a suspension that includes the heavy tires and brake, which results in, due to inertia, repetition of expansion and contraction of a spring in a range wider than one necessary for returning to its original position.

The role of shock absorbers is to reduce the above-mentioned excess vibration as soon as possible in order to stabilize the car body.



(Taken from KYB's website)

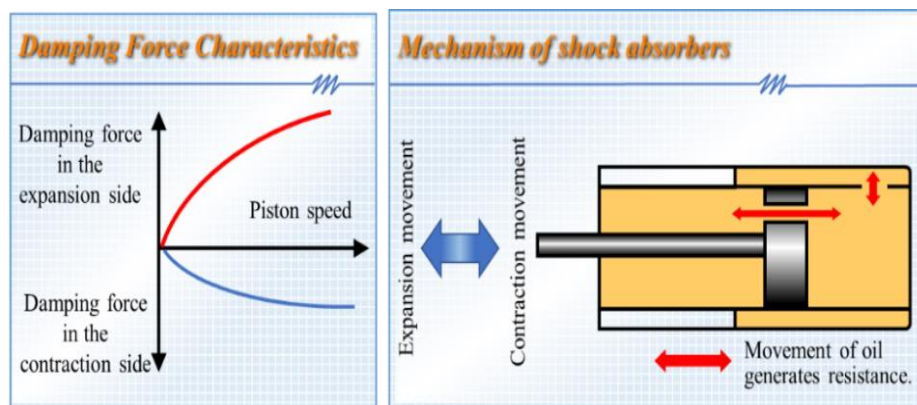
BRIDGE REPORT

The vehicle in which the shock absorber is functioning properly achieves the following:

- ☆ Reduction in unnecessary movement of springs to secure riding comfort
- ☆ Improvement of the brake performance
- ☆ Smoothness in taking corners

The force that controls expansion and contraction of springs and reduce vibration is called “damping force.” The “hydraulic technology,” which KYB has cultivated and improved since its inauguration, plays a significant role in generating “damping force.”

A piston has holes through which oil passes when the piston moves following vibration, and the resistance of the oil generates “damping force.” In addition, the moving speed of pistons varies with the degree and velocity of vibration from the car body, and the faster a piston moves, the larger “damping force” becomes. This is called “damping force characteristics.”



(Taken from KYB's website)

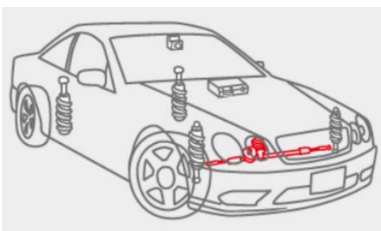
KYB's shock absorbers developed based on its sophisticated technology has earned reputation from a number of automobile manufacturers worldwide, leading to the large market share as mentioned below.

Furthermore, it is said that shock absorbers usually need to be replaced after 5 years from the date of first registration or when the travel distance reached 100,000 km as they deteriorate due to various factors including travel distance and lapse of time and the function decreases.

This replacement demand, which in other words is the commercial product market, is one of the greatest business opportunities for the company.

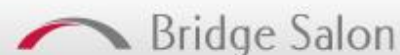
(Steering)

It is the steering system that provides “the function of taking curves,” one of the three basic functions of automobiles including “driving,” “taking curves,” and “stopping.”



(Taken from KYB's website)

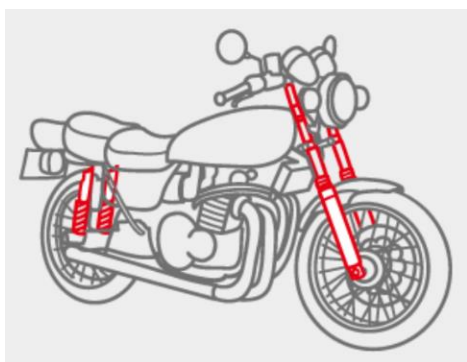
KYB's steering components include the “hydraulic power steering (PS)” that uses the hydraulic power assist unit to support turning of the steering wheel done by drivers and steer the tires, and the “electric power steering (EPS)” that uses the electric power assist unit composed of a motor, a controller, a torque sensor, etc. to support turning of the steering wheel and steer the tires.

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The “PS” enables steering operation by a mere movement thanks to hydraulic force and is an indispensable component for safe driving because of its ability to expeditiously avert risks, whereas the “EPS” whose power source is a battery improves fuel efficiency compared to the “PS” whose power source is the engine of a car.

High-performance EPS actuator**Hydraulic power steering vane pump for passenger vehicles****© Motorcycles
(Suspensions)**

Suspensions minimize shock to the car body regardless of road surface conditions, pursuing comfort.



(Taken from KYB's website)

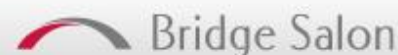
***Rear cushion unit (RCU)**

The company's RCUs boost riding comfort by maintaining the posture of vehicles and absorbing vibration and shock from the road surfaces.



(Taken from KYB's website)

BRIDGE REPORT



② HC (Hydraulic Components) Business

The HC Business consists of hydraulic equipment for industrial use and other products.

Composition ratio for the second quarter of Fiscal Year ending March 2021

Products	Sales	Composition ratio	Major products
Hydraulic equipment for industrial use	44,946	92.5%	Cylinders, valves, pumps, motors
Others	3,653	7.5%	Railroad dampers, railroad brakes
Total	48,600	100.0%	-

* unit: million yen

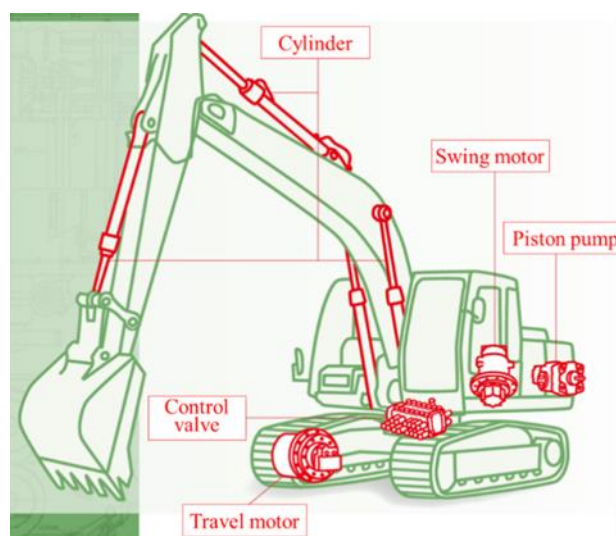
<Major Products>

The mechanism of the drive system of construction machinery such as shovels consists of various parts as shown below, including control valves, piston pumps, travel motors, swing motors, and cylinders; it is the control valve, which is the “brain” of construction machinery, that controls a variety of actuators (a drive unit which converts energy to translational or rotary motion through hydraulic pressure and electric motors) to enable smooth movement of driving, turning, and bending and stretching of the arms.

KYB's control valves have realized more advanced control by combining electric control with its special hydraulic technology.

In addition, KYB is one of the few manufacturers that manufacture all of the above-mentioned parts.

KYB's competitive edge is that it can make suggestion to construction machinery manufacturers because its manufacturers all kinds of parts as just mentioned.



*Control valve for shovels



*Travel motor

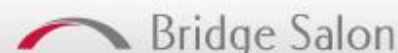


*Hydraulic cylinder



(Taken from KYB's website)

BRIDGE REPORT



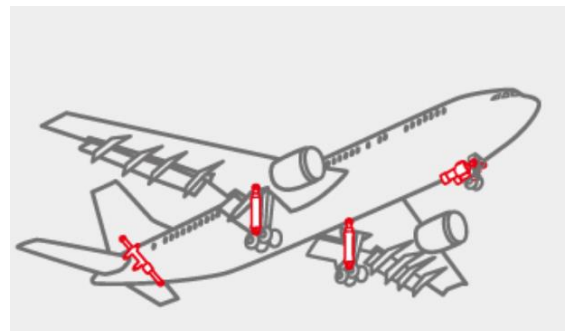
③ Segments other than the AC Business and the HC Business

The second quarter of Fiscal Year ending March 2021

Segments	Sales	Major products
System products	2,518	Theater equipment, equipment for military vessels, seismic isolation and vibration suppression devices, simulators, hydraulic systems, tunnel boring machines, and environmental devices
Aircraft components business	1,898	Devices for take-off and landing of aircrafts and its steering components, control devices, and emergency equipment
Others (special purpose vehicles, electronics, and the like)	3,982	Concrete mixer trucks, granule carriers, special purpose vehicles, and electronic devices

* unit: million yen

KYB's concrete mixer trucks have high mixing and emission performance, accounting for about 80% of the domestic market share. It offers highly-reliable products for aircraft, including various actuators, weight-saving accumulators, and wheel brakes.



(2) Clients and sales channels

◎Clients

The following is a list of KYB's major clients.

Its shock absorbers are mounted on about 60% of automobiles manufactured by Toyota globally. They are also adopted to about 30% and about 10% of automobiles manufactured by Nissan and Honda, respectively, contributing to KYB's large market share.

	Japanese	Non-Japanese
AC Business	Toyota Motor Nissan Motor Yamaha Motor JATCO Suzuki Motor Honda Motor Daihatsu Motor SUBARU Isuzu Mitsubishi Motors Hino Motors	PSA Renault Volkswagen Daimler Chrysler
HC Business	Hitachi Construction Machinery Kubota Sumitomo Construction Machinery Kobelco Construction Machinery Takeuchi Mfg Yanmar Komatsu Forklift	Caterpillar Sany Heavy Industry Doosan Sunward Trasmittel Bonfiglioli

◎Sales channels

As previously mentioned, KYB supplies its shock absorbers through 2 sales channels including the OEM production system for new vehicles and sale on the market for used vehicles.

Although sales of OEM products are higher, its commercially-available products sold as its private brand show great profitability and thus the company will expand the business to the global markets.

KYB's commercially-available shock absorbers can be mounted on about 90% of Japanese, American, and European automobiles used worldwide today. What is behind such a high coverage rate is the strong relationships KYB has with major automobile manufacturers including Toyota.

(3) Global network

In 23 countries worldwide including Japan, KYB has 46 group companies, establishing strong global networks.

	No. of Countries	No. of group companies
Japan	1	13
Asia	7	18
Europe	12	8
America	3	7
Total	23	46

(As of the end of September 2020)



(4) Research and Development

(Structure)

KYB has established a global and optimum research and development (R&D) structure by setting R&D bases in 2 regions, Japan and Europe.

While the R&D bases in regions other than Japan basically engage in development of model products and development for enhancing product appeal such as performance improvement and cost reduction, R&D from the long-term perspectives are carried out mainly in Basic Technology R&D Center (Sagamihara-shi, Kanagawa) and Production Technology R&D Center (Kani-shi, Gifu) in Japan and R&D of highly unique prior art, etc are performed.

In addition, the know-how about production equipment designing which has been cultivated in Production Technology R&D Center and each plant is gathered in Machine Tools Center (Kani-shi, Gifu) in order to strengthen and propel internal manufacturing of equipment, jigs, and tools for which KYB has strived to boost innovative spirit and reliability.

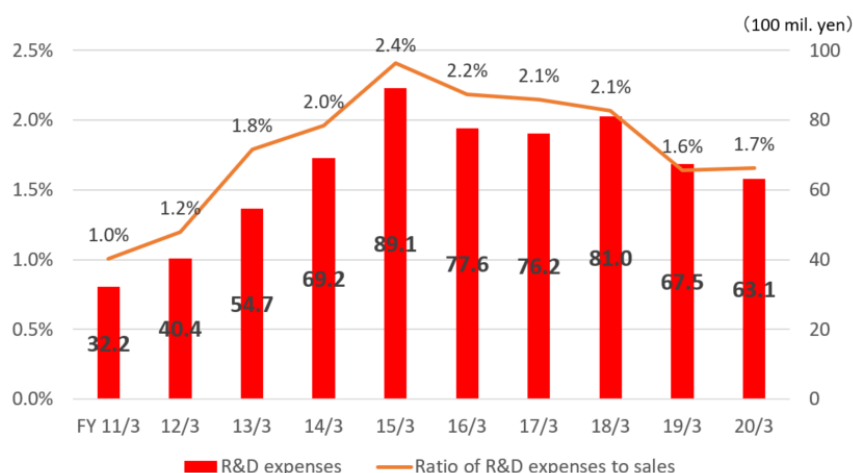
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Regarding high-functionality and systematization of its products, KYB, in addition to independent development, propels joint research and development with its clients or related equipment manufacturers. The company is also endeavoring proactively to developing advanced technology through industry-academia collaboration.

(Variation in R&D expenses)

Since the term ended Mar. 2013, the company has raised its awareness about the ratio of R&D expenses to sales, maintaining the ratio at about 2%.



(Area of focus)

KYB is propelling the development of products by dealing with performance improvement, high functionality, and systematization and considering eco-friendliness with respect to energy and environmental issues through weight saving, energy saving, reduction in environmentally hazardous substances. At the same time, it is striving to strengthen its production technology capabilities.

In addition, following the accelerated globalization, it aims to set up a strategic and global production, sales, and technological structure, including development of human resources with global outlooks and establishment of a standardized management system.

Lately, the company has focused on product development related to autonomous driving systems.

One example is the technology that integrates EPS (electronic steering) and shock absorbers.

KYB considers that the technology, which enables more comfortable and smoother driving in any road surface conditions independently of the drivers' skills and judgment, is definitely indispensable for automobiles with the autonomous driving system.

Furthermore, KYB deems the "steering by wire" system is another technology whose importance will grow in the future.

In the conventional steering operation, movement is transmitted to the steering gear box and tires through the steering shaft, whereas the "steering by wire" system conveys steering movement via electronic signals.

Some of the system's advantages include the capability of relieving drivers' fatigue due to less vibration from the tires, and the capability of automatically adjusting sideslips of the car body due to strong winds which conventionally needed to be adjusted through an intentional steering operation by drivers. In addition, thanks to the "steering by wire" system, the steering wheel may not necessarily be mounted on the right front of a car, and therefore, the system's potential for considerably changing the way automobiles are, including the design and functions, has attracted much attention.

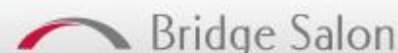
Although several issues still exist, KYB is further brushing up the system as its unique EPS technology.

【1-5 Characteristics and strengths】

◎ Large shares in various product markets

KYB has earned a large market share of multifarious products, with the domestic share of OEM shock absorbers for automobiles being 42% and its global share being 16%, the global share of hydraulic cylinders for construction machinery being 28%, the domestic share of concrete mixer trucks being 86%.

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◎ Superior core technology

Such large market shares are attributed to the great trust in its products from clients as indicated by the fact that KYB has about 60% share on a global basis in Toyota Motor which vies with Volkswagen and GM for the position of the world's largest automobile manufacturer. The basis of the clients' trust is nothing else but the superior "hydraulic" technology that KYB has cultivated and enhanced for the past 100 years since its foundation.

KYB's two core technologies, the "vibration control technology" represented by its shock absorbers and oil dampers for seismic isolation and vibration suppression and the "power control technology" typified by its control valves for shovels and electric power steering, have gained high reputation from clients and thus are used in diverse circumstances.

【1-6 ROE analysis】

	FY 3/16	FY 3/17	FY 3/18	FY 3/19	FY 3/20
ROE [%]	-2.0	9.3	8.8	-15.0	-55.4
Net income margin [%]	-0.89	4.09	3.87	-6.01	-16.22
Total asset turnover [times]	0.95	0.96	0.99	0.97	0.90
Leverage [times]	2.35	2.37	2.30	2.59	3.81

2.The second quarter of Fiscal Year ending March 2021 Earnings Results

(1) Overview of consolidated results

	2Q of FY3/20	Composition ratio	2Q of FY3/21	Composition ratio	YoY
Sales	197,638	100.0%	138,825	100.0%	-29.8%
Gross profit	38,787	19.6%	20,699	14.9%	-46.6%
SG&A expenses	26,868	13.6%	22,118	15.9%	-17.7%
Segment profit	11,919	6.0%	-1,418	-	-
Operating profit	4,498	2.3%	-2,671	-	-
Profit before taxes	4,205	2.1%	-3,432	-	-
Quarterly profit	1,666	0.8%	-3,757	-	-

* unit: million yen

*Segment profit corresponds to the operating income in the Japanese standard. Quarterly profit is the profit attributable to the owner of the parent company.

Sales dropped and recorded a loss

KYB reported sales of 138.8 billion yen, down 29.8% year on year, and a segment loss of 1.4 billion yen. The COVID-19 pandemic worked as a heavy drag on earnings. Sales and profit decreased for both the AC business and the HC business. The company also posted an operating loss of 2.6 billion yen and a net loss of 3.8 billion yen. Sales performance was better than in the first quarter, with operations recovering across all regions since June. Efforts to bring seismic isolation/mitigation oil dampers up to conformity are proceeding as planned.

◎Trend in each region

Region	Sales	Composition ratio	YoY
Japan	620	44.7%	-30.9%
Europe	214	15.4%	-36.1%
America	142	10.2%	-20.2%
China	163	11.7%	+1.2%
Southeast Asia	77	5.5%	-45.7%
Others	173	12.5%	-34.7%
Total	1,388	100.0%	-29.8%

* unit: 100 million yen

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Sales fell in all regions except for China, which recovered quickly. Overseas sales ratio accounted for 55.3% of total sales, up 0.7% year on year.

(2) Trend in each segment

Sales	2Q of FY3/20	Composition ratio	2Q of FY3/21	Composition ratio	YoY
AC business	118,892	60.2%	81,827	58.9%	-31.2%
HC business	66,507	33.7%	48,600	35.0%	-26.9%
System products	4,441	2.2%	2,518	1.8%	-43.3%
Aircraft components business	2,570	1.3%	1,898	1.4%	-26.2%
Others	5,228	2.6%	3,982	2.9%	-23.8%
Total	197,638	100.0%	138,825	100.0%	-29.8%
Segment profit					
AC business	6,927	5.8%	-1,307	-	-
HC business	4,071	6.1%	157	0.3%	-96.1%
System products	864	19.5%	282	11.2%	-67.4%
Aircraft components business	-445	-	-828	-	-
Others	509	9.7%	256	6.4%	-49.7%
Adjustment	-7	-	21	-	-
Total	11,919	6.0%	-1,418	-	-

* unit: million yen. The composition ratio for profit is a profit margin.

① AC Business

Product	Sales	Composition ratio	YoY
Shock absorbers for automobiles	611	74.6%	-29.0%
Shock absorbers for motorcycles	93	11.3%	-27.1%
Hydraulic equipment for automobiles	97	11.9%	-44.3%
Others	17	2.1%	-34.0%
Total	818	100.0%	-31.2%

* unit: 100 million yen

Region	Sales	Composition ratio	YoY
Japan	221	27.0%	-33.8%
Europe	194	23.7%	-33.8%
America	110	13.4%	-22.5%
China	85	10.4%	+4.9%
Southeast Asia	69	8.4%	-46.9%
Others	138	16.9%	-34.0%
Total	818	100.0%	-31.2%

* unit: 100 million yen

② HC Business

Products	Sales	Composition ratio	YoY
Hydraulic equipment for industrial use	449	92.5%	-27.7%
Others	37	7.5%	-16.5%
Total	486	100.0%	-26.9%

* unit: 100 million yen

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Region	Sales	Composition ratio	YoY
Japan	328	67.5%	-28.5%
Europe	19	3.9%	-53.7%
America	25	5.1%	-16.7%
China	78	16.0%	-2.5%
Southeast Asia	8	1.6%	-33.3%
Others	28	5.8%	-33.3%
Total	486	100.0%	-26.9%

* unit: 100 million yen

(3) Financial standing and cash flows

◎ Major BS

	End of Mar. 2020	End of Sep. 2020		End of Mar. 2020	End of Sep. 2020
Current assets	216,635	211,531	Current liabilities	237,931	203,913
Cash, etc.	50,423	63,828	Trade payables	69,661	53,185
Trade receivables	95,547	83,872	Debts	88,714	82,087
Inventories	56,252	52,499	Noncurrent liabilities	92,707	120,124
Noncurrent assets	193,818	190,748	Debts	33,268	60,149
Property, plant and equipment	165,825	161,397	Total liabilities	330,639	324,036
Intangible assets	4,874	4,507	Net assets	79,815	78,243
Other financial assets	14,230	17,586	Retained earnings	19,617	15,863
Total assets	410,454	402,279	Total liabilities and net assets	410,454	402,279

* unit: million yen. "Cash, etc." means cash and cash equivalents. "Trade receivables" means trade receivables and other receivables. "Trade payables" mean trade payables and other payables

Current assets decreased 5.1 billion yen from the end of the previous term due to the decline in trade receivables, etc. Noncurrent assets decreased 3.1 billion yen from the end of the previous term, due to the decline in property, plant and equipment, etc., and total assets were 402.3 billion-yen, down 8.2 billion yen from the end of the previous term.

Total liabilities decreased 6.6 billion yen to 324 billion yen from the end of the previous term due to the decrease in trade payables, etc. Net asset was 78.2 billion-yen, down 1.6 billion yen from the end of the previous term due to the decrease in retained earnings, etc. As a result, the ratio of equity attributable to owners of parent is 18.1% which is equivalent to the end of the previous term.

◎ Cash Flow

	2Q of FY3/20	2Q of FY3/21	Increase/decrease
Operating CF	896	908	+12
Investing CF	-11,500	-6,640	+4,860
Free CF	-10,604	-5,732	+4,872
Financing CF	-5,142	18,943	+24,085
Cash and equivalents	39,454	63,828	+24,374

* unit: million yen

The deficit of investing CF and free CF shrank, due partly to a decrease in purchase of property, plant and equipment. Financing CF turned positive thanks to an increase in proceeds from long-term debts. The cash position increased.

(4) The Progress in the adaption of seismic isolation/mitigation oil dampers

(Overview)

In October 2018, it was revealed that the performance inspection records for seismic isolation/mitigation oil dampers products, which are manufactured and sold by KYB and its subsidiary named Kayaba System Machinery Co., Ltd., were falsified and then the products that do not comply with the criteria approved by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) or clients' specs were attached to buildings.

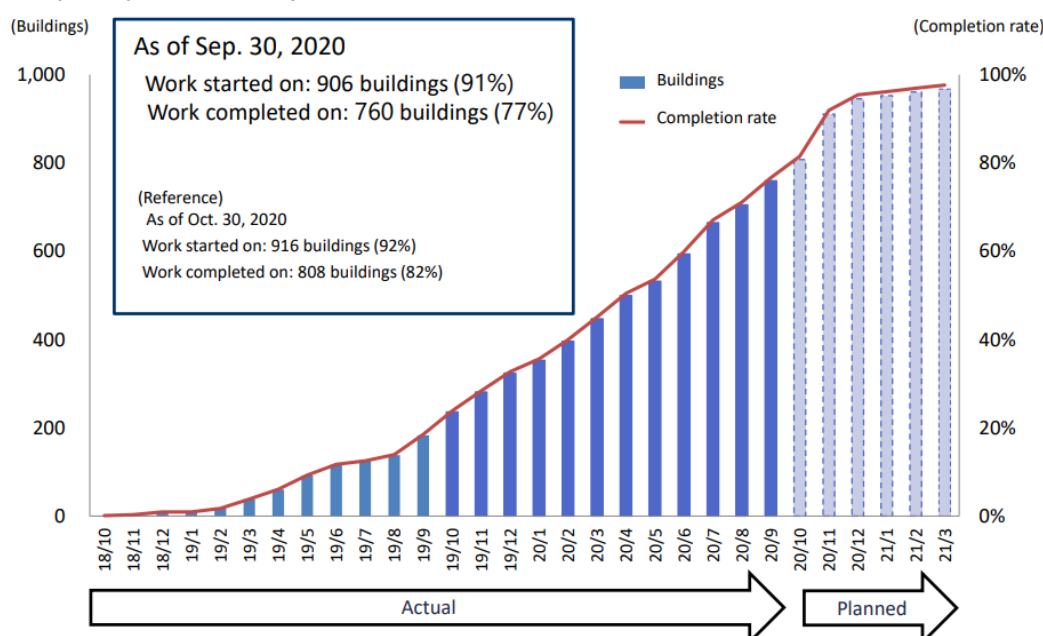
As a result of the investigation, 991 buildings in subject were found as of September 30, 2020.

(Correspondence and Progress)

As of October 30, 2020, the company has started work to bring nonconforming seismic isolation/mitigation oil dampers up to conformity at 916 buildings, or 92% of the total. This work has been completed at 808 buildings (or 82%).

Efforts to bring all buildings up to conformity are progressing smoothly.

Progress Plan for Bringing Nonconforming Seismic Isolation/Mitigation Dampers up to Conformity



(Effects on business performance)

Regarding the expenses for this incident, the company posted 57.6 billion yen as provision of reserve for product warranties and 18.2 billion yen as measures for product warranties which amounts to 75.8 billion yen in the two terms, FY2018 and FY2019.

In the first half of the current term, the company booked 3.5 billion yen in product guarantee countermeasure costs. However, versus the 100 million yen in provisions for product guarantee recorded in the first quarter, it posted 3.3 billion yen as the reversal of such provisions in the second quarter. The company believes that the outlook for the booking of expenses for the incident is taking shape.

The total cash outflow came to 39.4 billion yen.

3.Fiscal Year ending March 2021 Earnings Estimates

(1) Full-year earnings forecast

	FY3/20 Results	Composition ratio	FY3/21 Forecast	Composition ratio	YoY
Sales	381,584	100.0%	310,000	100.0%	-18.8%
Segment profit	17,575	4.6%	6,200	2.0%	-64.7%
Operating profit	-40,298	-	4,000	1.3%	-
Net income	-61,879	-	500	0.2%	-

* unit: 100 million yen

*The forecast was announced by the company. Segment income corresponds to the operating income in the Japanese standards.

*Net income is profit attributable to owners of the parent.

	1H of FY3/21 Result	2H of FY3/21 Forecast
Sales	138,825	171,175
Segment profit	-1,418	7,618
Operating profit	-2,671	6,671
Net income	-3,757	4,257

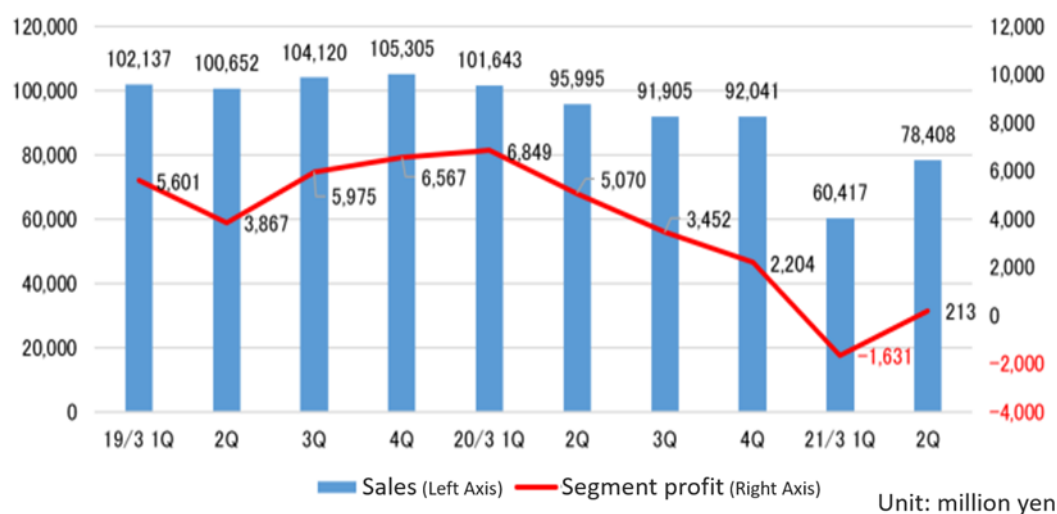
* unit: 100 million yen

*The forecast was announced by the company. Segment income corresponds to the operating income in the Japanese standards.

*Net income is profit attributable to owners of the parent.

Sales and segment profit are estimated to drop, but net income to move into black

Sales are estimated to decline 18.8% year on year to 310 billion yen and segment profit to fall 64.7% year on year to 6.2 billion yen. After posting net losses for two consecutive terms, the company estimates that the bottom line will move into the black for the first time in three terms, being 500 million yen, thanks to (1) mainstay operations hitting bottom on the back of a decrease in costs owing to lower sales and a demand recovery across all regions, and (2) the outlook for the conformity of seismic isolation/mitigation oil dampers taking shape. The company's dividend forecast is still yet to be determined.



Following China, which was the first to start recovering, production has also been picking up in Europe, Japan, Asia, and the U.S. since the second quarter. Sales and segment profit are expected to recover following a bottom in the first quarter.

4. Conclusions

While the company continued to post losses in the first half of the term, it expects to move back into the black in the full term. We will be monitoring performance in the third and fourth quarters. Meanwhile, impact from the COVID-19 pandemic remains unclear, with the number of patients increasing in Europe and Japan once again. However, investors' focus is shifting toward what type of company KYB is aiming to be amid and after the COVID-19 pandemic. In the next mid-term management plan, our focus is on how the company plans to overcome issues that need solving, as well as how it plans to move forward with the AC business and HC business.

<Reference: Regarding Corporate Governance>

◎ Organization type and the composition of directors and auditors

Organization type	Company with auditors
Directors	7 directors, including 3 outside ones
Auditors	4 auditors, including 2 outside ones

◎ Corporate Governance Report

Last update date: July. 8, 2020

<Basic approach>

In order to respond to the expectations of the stakeholders through realization of sustainable growth and corporate value improvement as well as fulfill the corporate social responsibility of contributing to society, it is our basic approach to pursue the development of a rapid and efficient management structure centered on the Board of Directors and establishment of fair and transparent management supervision functions and work on strengthening and enhancing corporate governance based on the following management philosophy and basic policies.

(Management philosophy)

“KYB group contributes to the society, by serving technologies and products that make people's life safe and comfortable.”

1. Handle all matters with sincerity while adhering to the normative consciousness.
2. We shall build a corporate culture that holds high goals and full of vitality.
3. We shall maintain kindness and sincerity, cherish nature and care for the environment.
4. We shall constantly pursue creativity and contribute to the prosperity of customers, shareholders, business partners and society.

(Basic policies)

1. We shall respect the rights of shareholders and ensure their equality.
2. We shall take the benefits of stakeholders including our shareholders into consideration and endeavor to appropriately collaborate with those stakeholders.
3. We shall disclose not only the information in compliance with the relevant laws and regulations, but also actively provide the important and/or useful information to the stakeholders for their well-informed decision making.
4. The Board of Directors shall be aware of its fiduciary responsibility and accountability to the shareholders and shall appropriately fulfill its roles and responsibilities in order to promote sustainable and stable corporate growth and increase corporate value, profitability and capital efficiency.
5. We shall engage in constructive dialogue with the shareholders and make efforts to obtain their support regarding the company's business policies and also reflect their opinions in the improvement of management.

To regain trust

As we announced in 2018, regarding nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers for buildings, and issuing invoices based on false production figures for the defense equipment by our company and our subsidiary, we give our deepest and most sincere apology for all the related parties, whom we've caused trouble and worry. Regarding the nonconforming acts of the seismic isolation/mitigation oil dampers, we have sincerely accepted the suggestions by the external investigation committee, designed measures to prevent recurrence in the future, and we are publicly disclosing the progress every 3 months. Eliminating the related parties' worries and concerns as fast as possible is the management's most important issue, which we are handling in all sincerity. Moreover, regarding the nonconforming acts related to defense equipment, we have proactively reported it to the Ministry of Defense on January 28, 2019, and on January 24, 2020, we finalized the payment of 8,033 million yen as a refund to the National Treasury.

One of the measures for preventing recurrence is that we revised the management philosophy on October 1, 2019. The management philosophy is established based on the "the spirit of creation and development," which is inherited from the founder, Shiro Kayaba. While the revision sticks to the basic philosophy, it responds to the issues pointed out by the external investigation committee, "lack of awareness of the rules," "corporate culture in which staff avoid facing the truth," by adding new ideas of "compliance with norms" and "facing the truth" and we strongly expressed our firm resolve to not let any nonconforming acts happen ever again. Furthermore, as adhering to the normative consciousness by all individuals is what best supports "quality management," which we have raised as the foundation of management from the beginning, we will take action while considering that nurturing and maintaining it as the first principle.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principles	Reasons for not implementing the principles
(Supplementary principle 4-1-3 Successive plan for CEO, etc.)	Our company deems successive plans for CEO and the like as an important issue for sustainable growth and medium to long-term improvement of our corporate value. From 2016 we have established a committee of nomination formed with an internal director and an unaffiliated director so we can improve our transparency in terms of the process of nomination. From now on we will consider requirements and development policy regarding CEO and other positions, taking account of the management environment surrounding our company and the corporate culture. At the same time, we will give consideration to the supervision system by the board of directors.
(Principle 4-11 Precondition for ensuring effectiveness of the board of directors and board of corporate auditors)	The Company does not have female directors. However, we appoint people we judge suitable for incorporating diverse values into management as directors, sufficiently considering the balance in knowledge of the whole board of directors, experience (including international experience), abilities, etc., without distinguishing them based on personal attributes such as gender, as stated in 4-11-1.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
Principle 1-4【So-called strategically held shares】	(1.) Policy on strategic shareholding From the perspective of medium to long-term improvement of corporate value, our company, when judging as necessary, strategically holds shares through which the relationship of trust and the business relationship are expected to be maintained or strengthened regarding business strategies and operations after comprehensively judging the growth potential and economic rationality of such shares. With regard to strategically held shares, we check the rationality of continued holdings in consideration of whether or not the benefits of holdings are commensurate with the Company's cost of capital, etc., at a meeting of the board of directors every year. We plan to sell shares when we consider that the rationality in holding them has weakened. (2.) Policy on exercise of voting rights Before exercising the voting rights of shares that our company strategically holds, we

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	consider for each case whether the strategic shareholding contributes to medium to long-term improvement of our corporate value and increase in shareholder return and make judgment after giving thorough consideration to the management policies and business strategies of the company that issues relevant shares.
Principle 5-1【Policy on constructive dialogue with shareholders】	In our company, the global finance executive presides, and the IR office of the accounting head department deals with shareholders and investors in order to encourage constructive dialogue with shareholders and the like. The IR office has established a system that allows appropriate response in collaboration with related departments of our company to enrich such dialogue. We hold financial results briefings for analysts and institutional investors, where the president and the global finance executive describe our management strategies and financial conditions, once in every half year. In addition, we carry out individual interviews as requested, and strive for proactive communication with overseas shareholders and institutional investors through attendance at conferences in and outside Japan and individual IR activities abroad. Opinions and requests obtained from shareholders and investors through our IR activities are conveyed on a regular basis to the board of directors and the management as feedback in order to share information. Our company gives meticulous attention to handling of insider information not to inflict losses on each other in dialogue with shareholders and investors. Accordingly, for a period beginning with the week before the date of settlement and ending with the day when financial statements are announced, which is called a quiet period, our company refrains from having dialogue with shareholders and investors and endeavors to conduct thorough internal information management.

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