



President
Yasuyuki Hotta

KITZ Corporation (6498)



Company Information

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

Stock Information

Share Price	Shares Outstanding (End of period)	Market Cap.	ROE (Act.)	Trading Unit	
¥648	90,396,511 shares	¥58,576 million	2.8%	100 shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
¥14.00	2.2%	¥37.92	17.1x	¥828.76	0.8x

*Share price is as of closing on March 16. Each value is based on the consolidated earnings results for the fiscal year ended December 2020.

Consolidated Earnings Trends

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend (¥)
March 2018 Act	124,566	117,000	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 Act	127,090	6,950	7,241	4,937	53.06	20.00
December 2020 Act*	84,245	3,751	3,169	2,113	23.38	9.00
December 2021 Est.	117,000	5,700	5,400	3,400	37.92	14.00

*The estimated values are based on the forecasts made by the company. Unit: million-yen, yen. The fiscal year ended December 2020 was a nine-month period due to the change of the closing month. Net income is net income attributable to shareholders of the parent company. Same as below.

This Bridge Report presents details and analysis of KITZ Corporation's earnings results for the Fiscal Year ended December 2020 and earnings estimates for the Fiscal Year ending December 2021.

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Key Points

- Sales in the fiscal year ended December 2020 (nine-month fiscal year) were 84,245 million yen, down 10.5% year on year. All the three business segments, which are the Valve Manufacturing Business, the Brass Bar Manufacturing Business, and Other, saw the decline in sales. Operating income, too, dropped 25.1% year on year to 3,751 million yen. The sales decrease resulted in a drop in profit in the Valve Manufacturing Business while the company recorded operating loss in the Brass Bar Manufacturing Business and Other. Expenses of bond issuance and foreign exchange losses decreased ordinary income by 34.5% year on year to 3,169 million yen. Gain on sale of investment securities of the strategically held shares shrank, decreasing net income by 39.5% year on year to 2,113 million yen. Although both sales and profit dropped from the previous term, the company's business performance was recovering in the third quarter and sales and profit exceeded the forecasts.
- For the fiscal year ending December 2021 (for 12 months), sales are expected to grow 1.6% year on year to 117 billion yen, and operating income is projected to go up by 7.0% year on year to 5.7 billion yen. While sales and profit will decrease in the company's mainstay Valve Manufacturing Business, it is expected that the company will deliver stronger business performance in the Brass Bar Manufacturing Business and Other. KITZ Corporation plans to revise (raise) prices in some regions in domestic and overseas market from April 1st. The price change will produce effects in the second half of this term and the first half of the next term. A dividend is to be 5 yen per share in the second quarter and 9 yen per share at the end of the term, resulting in a total of 14 yen per share. The payout ratio is estimated to be 36.9%.
- Mr. Makoto Kohno, who will be named as the new president of KITZ Corporation, has framed policies, including the innovation of the revenue structure, further globalization of the company, and contribution to a decarbonized society and digital transformation, to rejuvenate the company's management structure. In innovating the revenue structure, the company will change its product portfolio through both aggressive and defensive management. In globalization, the new president will further propel forward the strategies that former president Yasuyuki Hotta had implemented, focusing particularly on North America, the ASEAN region, and China. The company will also give a focus on development of new businesses and digital transformation for creating a decarbonized society. We would like to keep an eye on how new president Kohno will lead the company amid the lasting impact of the COVID-19 crisis and in the business environment changing rapidly and significantly.
- Although both sales and profit decreased in the fiscal year ended December 2020, the market conditions for the Valve Manufacturing Business bottomed out in the third quarter (October-December) and are expected to improve gradually in this term. It is projected that it will take time for profit to return to the previous level; however, we would like to pay attention to positive effects brought about by the price change in April.

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.

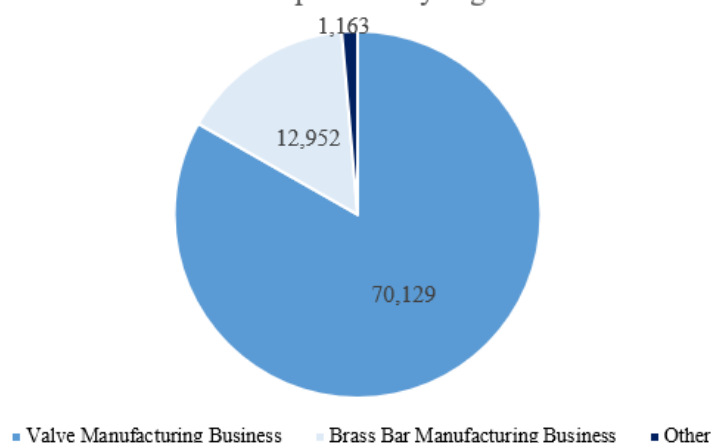
KITZ' Statement of Corporate Mission

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 December 2020, these segments accounted for 83.2%, 15.4%, and 1.4% of total sales, respectively.

Sales composition by segment



*FY12/20 Nine-month fiscal year Unit: million yen

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.

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.

Building facilities Valves, etc. used for air-conditioning, sanitary, and anti-disaster equipment when constructing hotels, hospitals, office buildings, and so on	Water supply/water supply facilities Devices and equipment for pipes for water supply and sewage systems, valves used for facilities for treating water and sludge, products for water supply equipment for detached house, housing complexes, etc.
Gas/energy facilities Valves, etc. used for liquefied natural gas (LNG) production facilities, pipelines, and so on	Industrial machinery/production equipment All kinds of valves used for industrial machinery and production equipment
Oil refining and oil complex facilities Valves, etc. used for the processing lines of oil refineries, petrochemical facilities, and chemical plants	Semiconductor manufacturing equipment Valves and joints for semiconductor manufacturing equipment (manufactured and sold by its group company, KITZ SCT Corporation)

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.

2. Fiscal Year Ended December 2020 Earnings Results

2-1 Consolidated Business Results(cumulative)

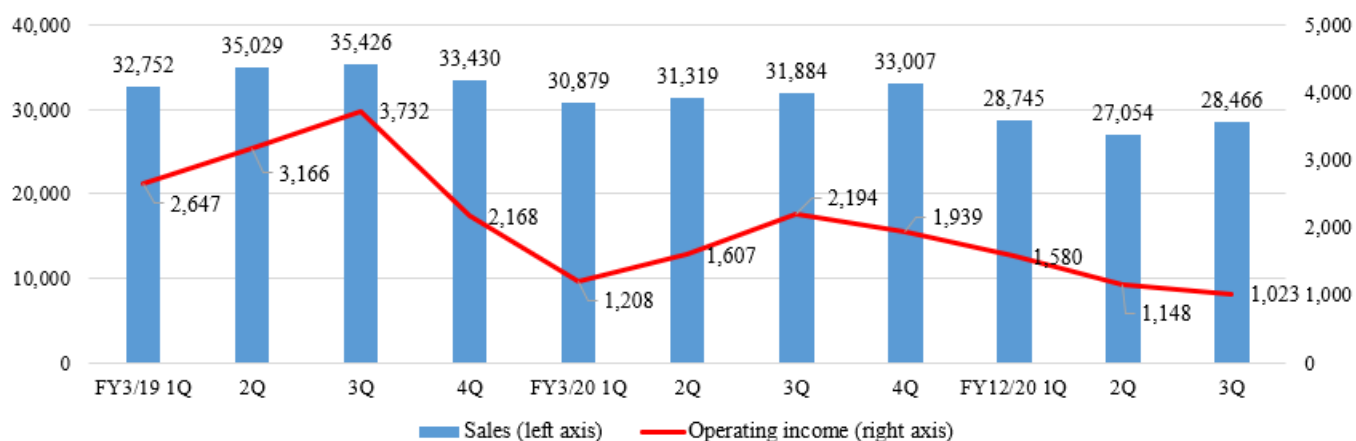
	3Q of FY 3/20 (cumulative)	Ratio to Sales	FY 12/20 (9-months)	Ratio to Sales	YoY Change	Divergence
Sales	94,083	100.0%	84,245	100.0%	-10.5%	+2.1%
Operating Income	5,010	5.3%	3,751	4.5%	-25.1%	+13.7%
Ordinary Income	4,842	5.1%	3,169	3.8%	-34.5%	+5.6%
Net Income	3,494	3.7%	2,113	2.5%	-39.5%	+5.7%

*(Units:¥mn)

Sales and Operating income dropped, however, exceeded the plan

Sales were 84,245 million yen, down 10.5% year on year. All the three business segments, which are the Valve Manufacturing Business, the Brass Bar Manufacturing Business, and Other, saw the decline in sales. Operating income, too, dropped 25.1% year on year to 3,751 million yen. The sales decrease resulted in a drop in profit in the Valve Manufacturing Business while the company recorded operating loss in the Brass Bar Manufacturing Business and Other. Expenses of bond issuance and foreign exchange losses decreased ordinary income by 34.5% year on year to 3,169 million yen. Gain on sale of investment securities of the strategically held shares shrank, decreasing net income by 39.5% year on year to 2,113 million yen. Although both sales and profit dropped from the previous term, the company's business performance was recovering in the third quarter and sales and profit exceeded the forecasts.

Trends of Quarterly Sales and Operating Income (unit: million yen)



Exchange and raw materials

	3Q of FY 3/20	FY 12/20	FY 12/20 Estimate
Yen / US Dollar	109.22	105.55	107.00
Yen / Euro	122.36	122.60	125.00
Electrolytic Copper, Yen / Ton	689,000	714,000	700,000

2-2 Business Segment Sales, Operating Income

	3Q of FY 3/20 (cumulative)	Composition /Ratio to Sales	FY 12/20 (9 months)	Composition /Ratio to Sales	YoY Change	Estimate	Divergence
Valve Manufacturing	75,792	80.6%	70,129	83.2%	-7.5%	68,800	+1.9%
Brass Bar Manufacturing	15,912	16.9%	12,952	15.4%	-18.6%	12,600	+2.8%
Other	2,378	2.5%	1,163	1.4%	-51.1%	1,100	+5.7%
Total Sales	94,083	100.0%	84,245	100.0%	-10.5%	82,500	+2.1%
Valve Manufacturing	7,666	10.1%	6,708	9.6%	-12.5%	6,340	+5.8%
Brass Bar Manufacturing	30	0.2%	-146	-	-	-230	-
Other	78	3.3%	-254	-	-	-250	-
Adjustments	-2,764	-	-2,555	-	-	-2,560	-
Total Operating Income	5,010	5.3%	3,751	4.5%	-25.1%	3,300	+13.7%

(Units: ¥mn)

Valve Manufacturing Business

Sales and profit decreased

Sales in domestic market shrank 5.3% year on year to 45,739 million yen. As for sales of valves for building facilities, the stock on the market is slightly large, but actual demand has been gradually growing after it bottomed out in the second quarter. Currently, however, the situation is uncertain due to the COVID-19 pandemic. In the industrial valve market, although many industries, other than some industries such as pharmaceuticals, made only small capital investment, demand for maintenance is steady. Sales of valves for the water market remained strong, particularly in Tokyo. Sales of valves for semiconductor manufacturing equipment leveled off slightly in the second quarter; however, the company steadily received orders from equipment manufacturers and business performance was on an upward trend in the third quarter.

Sales in overseas countries were 24,389 million yen, down 11.3% year on year. Sales of valves for semiconductor manufacturing equipment in China and South Korea improved in the third quarter although they leveled off in the second quarter as in sales in domestic market. The company received fewer orders from all areas due to the spread of the COVID-19 infection. In Americas and Europe, sales shrank due to sluggish demand related to oil and gas following a decline in the price of crude oil, but Brazilian subsidiary MGA in South America delivered satisfactory business performance even amid the COVID-19 crisis. Sales in ASEAN countries dropped because of an uncertainty about when each country will fully restart the economy. Sales in China especially from data centers were healthy because the market conditions improved after the COVID-19 crisis was eased there.

Profit decreased because the sales decline was not offset despite the company's continuing efforts to not only reduce but also control costs.

Brass Bar Manufacturing Business

Sales decreased, and operating loss was recorded.

Although the volume of both sales and production significantly declined due to the sluggish demand in the wake of the COVID-19 pandemic, the downward trend bottomed out in the second quarter and recovered in the third quarter. Market prices of raw materials continued to be on the rise.

The company recorded operating loss because the decrease in sales volume was significant and depreciation and amortization expenses rose after operation of a new manufacturing line started.

Other

Sales dropped and operating loss was recorded.

In addition to temporary closure of the hotel in April and May due to the spread of the COVID-19, number of guest staying at hotel and visitor of service area decreased because a fireworks display scheduled for August was cancelled.

2-3 Financial Conditions and Cash Flows

Financial Conditions

	3/20	12/20		3/20	12/20
Cash	18,696	33,720	Payables	7,289	5,693
Receivables (Including Electronically Recorded Monetary Claims)	27,561	24,226	Income taxes payable	750	316
Inventories	23,975	22,236	Bonus and Bonus Reserve for Directors	2,393	1,425
Current Assets	73,351	81,765	Retirement Benefit Related	1,264	1,144
Tangible Assets	44,241	42,303	Interest-bearing Liabilities	37,814	48,266
Intangible Assets	7,639	6,211	Liabilities	58,184	65,514
Investments, Others	9,831	10,401	Net Assets	76,879	75,167
Noncurrent Assets	61,712	58,916	Total Liabilities, Net Assets	135,063	140,681

(Units: ¥mn)

Total assets increased 5.6 billion yen from the end of the previous term to 140.6 billion yen owing to rise in cash following issuance of corporate bonds. Total liabilities stood at 65.5 billion yen, up 7.3 billion yen from the end of the previous term also due to issuance of corporate bonds. Widening deficits in foreign currency translation adjustment decreased net assets by 1.7 billion yen from the end of the previous term to 75.1 billion yen.

Equity ratio was 52.8%, down 3.2% from the end of the previous term.

Cash Flows

	3Q of FY 3/20 (cumulative)	FY 12/20 (cumulative)	YoY Change
Operating Cash Flow	6,377	10,024	+3,646
Investing Cash Flow	-7,063	-2,379	+4,684
Free Cash Flow	-685	7,645	+8,331
Financing Cash Flow	-1,628	7,497	+9,126
Cash and Equivalents at Term End	10,312	33,364	+23,052

(Units: ¥mn)

Operating CF expanded, turning free CF into the black.

Financing CF went into the black through issuance of corporate bonds, and the cash position improved.

2-4 Topics and major initiatives

(1) Transfer of President

KITZ Corporation announced in February 2021 that Mr. Yasuyuki Hotta, President and Chief Executive Officer, would become Chairman and Mr. Makoto Kohno, Director, Managing Executive Officer, and General Manager of the Valve Manufacturing Business, would be appointed as President and Chief Executive Officer on March 30, 2021.

The transfer is aimed at further increasing the corporate value by rejuvenating the top management so that the company will have an absolute determination and power to carry out innovation under a business environment in which the industrial structure is changing globally and significantly.

New President Makoto Kohno is 55 years old, born in March 1966. After serving as the sales manager of the Valve Manufacturing Business project, the production manager and the business planning manager of the Valve Manufacturing Business headquarters, the management planning general manager, and the president of an overseas subsidiary, he was appointed in June 2019 to be the Director, the Executive Officer, and the General Manager of the Valve Manufacturing Business. President Kohno has cultivated experience in a wide range of business fields, mainly in the Valve Manufacturing Business.

His appointment will be officially confirmed in the 107th general shareholders' meeting scheduled for March 30, 2021 and a meeting of the Board of Directors that will be held after the shareholders' meeting.

(2) Initiatives in the hydrogen market

While a momentum toward using hydrogen is building up globally to resolve issues of climate change, KITZ Corporation is putting forward proactive efforts.

① KITZ Corporation has been selected by the Ministry of Economy, Trade and Industry as one of the companies taking on the Zero Emissions Challenge

In October 2020, KITZ Corporation's efforts through (1) development of technologies for reducing cost of hydrogen stations in the research, and development project on full-scale expansion of ultra-high pressure hydrogen infrastructure and (2) development of technologies for large-size valves for liquefied hydrogen by New Energy and Industrial Technology Development Organization (NEDO) were highly valued and the company was selected by the Ministry of Economy, Trade and Industry as one of the companies that take on the Zero Emission Challenge.

② KITZ Corporation joined the Japan Hydrogen Association

KITZ Corporation joined the Japan Hydrogen Association, a new organization that promotes global cooperation and formation of hydrogen supply chains in the hydrogen technology sector, in February 2021.

(Reasons for the participation and future prospects)

While countries are making efforts to realize a hydrogen economy at an accelerating rate, but to bear fruit, there are such issues as creation of demand for hydrogen, cost reduction through technological innovation, and provision of funds to operators.

The Japan Hydrogen Association was established in December 2020 for the purpose of resolving these issues. As a cross-industrial and open organization that sees an overall supply chain with a bird's-eye view, the Association aims to build a hydrogen society as early as possible by carrying out projects to implement hydrogen in society.

KITZ Corporation began to sell valves for hydrogen stations that supply hydrogen gas for fueling fuel-cell vehicles in July 2012 and established a hydrogen station for in-house use at Nagasaka Plant in 2018. The company launched a package unit business for hydrogen refueling station in April 2020.

KITZ will contribute to creating a clean hydrogen society through activities of the Japan Hydrogen Association.

③ Package unit hydrogen station business

The current situation surrounding the package unit hydrogen station business mentioned above is as follows:

*In domestic market, although KITZ bid tenders for several station projects, it did not win orders. Meanwhile, the company received an order of equipment units for overseas projects. It will strive to get orders mainly for projects in which the characteristics of KITZ packaged units can be utilized.

(3) Revision (Increase) of Selling Prices in Domestic Market

The company announced in March 2021 that it would revise the selling prices in domestic market.

Rising costs of parts, auxiliary materials, logistics, as well as raw materials are making the business environment harsher. Although the company strives to reduce costs and cut down on various expenses in earnest through productivity improvement and rationalization, they decided to increase prices because they need other ways other than their corporate efforts to maintain prices.

The revised prices will take effect on April 1, 2021 with the rate of price change being 5 to 20%.

(4) Development of Valve Maintenance Solutions by Using AI and IoT

The company is developing solutions from a perspective of whether it is possible to monitor valve conditions and predict malfunctions by using AI and IoT.

A system of attaching an IoT sensor to a valve, collecting data accumulated by the sensor on the cloud wirelessly, and analyzing them is being developed to predict valve conditions and detect abnormalities based on angular velocity.

The system allows users to check conditions via tablets and other similar devices, and the company is currently gathering data using several fluids in cooperation with users. It aims to establish an algorithm of condition prediction and abnormality detection by making AI learn from the data obtained.

(5) Strategies for Data Centers

The company will focus on taking in demand and expanding sales for data center (DC) market that is expected to boom in the medium and long term while a momentum toward capital investment is slowing both in domestic and overseas market.

(Data center market that is expected to grow)

According to reference materials of KITZ Corporation, several data centers for cloud services were built in 2020 mainly in the Tokyo metropolitan area with an amount invested being 183 billion yen which significantly exceeded 101.9 billion yen in the previous year 2019. Although an investment amount is projected to drop to 151 billion yen in 2021 as a reaction to the significant growth in the previous year, it is forecasted that a scale of investment will be 200 billion yen per year in 2022 and subsequent years. The scale of the market for air conditioning and cooling facilities, on which valves are mainly installed, is estimated to be about 80 billion yen.

Big data-based digitalization with cloud computing and 5G are expanding the DC-related services market on a global level with continuing basis. The market scale is expected to increase from 20.3 trillion yen in 2019 to 26.8 trillion yen in 2025 and further to 36.4 trillion yen in 2030. It is projected that the market will expand significantly in the Asian region after 2025, with the Japanese market scale forecasted to account for about 10% of the global market.

(Efforts by KITZ Corporation)

KITZ Corporation's policies and efforts toward taking in demand for the aforementioned booming market are as follows:

The elements required for data centers include a building structure that can withstand disaster, air conditioning and cooling facilities, perfect security, power supply facilities in an emergency, network redundancy, and rack specifications and cost performance, of which air conditioning and cooling facilities, sanitary facilities, firefighting equipment, and emergency power supply facilities are the major fields related to valves.

In particular, the majority of the electric power in data centers is consumed for cooling equipment, which means that it is important to optimize air conditioning and cooling facilities, and the company will give a focus on enriching the lineup of butterfly valves that are used in great numbers in air conditioning and cooling facilities and expanding sales of the valves. In addition, it will develop products for emergency power supply facilities.

Regarding overseas markets, although the company has already yielded satisfactory business results in China, they are expecting to grow in other areas so the company will formulate strategies to expand sales.

(6) Nagasaka Plant Received the Awarding of Excellent Energy Conservation Factory and Building

In February 2021, the company received the Awarding of Excellent Energy Conservation Factory and Building from the Kanto Bureau of Economy, Trade and Industry for its efforts and performance of energy conservation at Nagasaka Plant.

The company has set objectives of reducing energy by 3%, water use by 1%, and industrial waste by 3% at Nagasaka Plant compared to the previous fiscal year on an intensity basis. As a result of its ongoing efforts at energy-efficient activities through implementation of environment management programs and operating improvement according to compressor upgrading, the company reduced an energy intensity by an average of 5.7% for five years.

3. Fiscal Year Ending December 2021 Earnings Estimates

3-1 Full Year Consolidated Earnings Forecast

	FY 12/20	Ratio to Sales	FY 12/21 Est.	Ratio to Sales	YoY Change
Sales	115,139	100.0%	117,000	100.0%	+1.6%
Operating Income	5,329	4.6%	5,700	4.9%	+7.0%
Ordinary Income	5,372	4.7%	5,400	4.6%	+0.5%
Net Income	3,365	2.9%	3,400	2.9%	+1.0%

(Units: ¥mn FY20/12 is the same period of the previous year, January-December 2020, unaudited. Change is from the same period of the previous year. Same as below.)

Sales and operating income are projected to increase

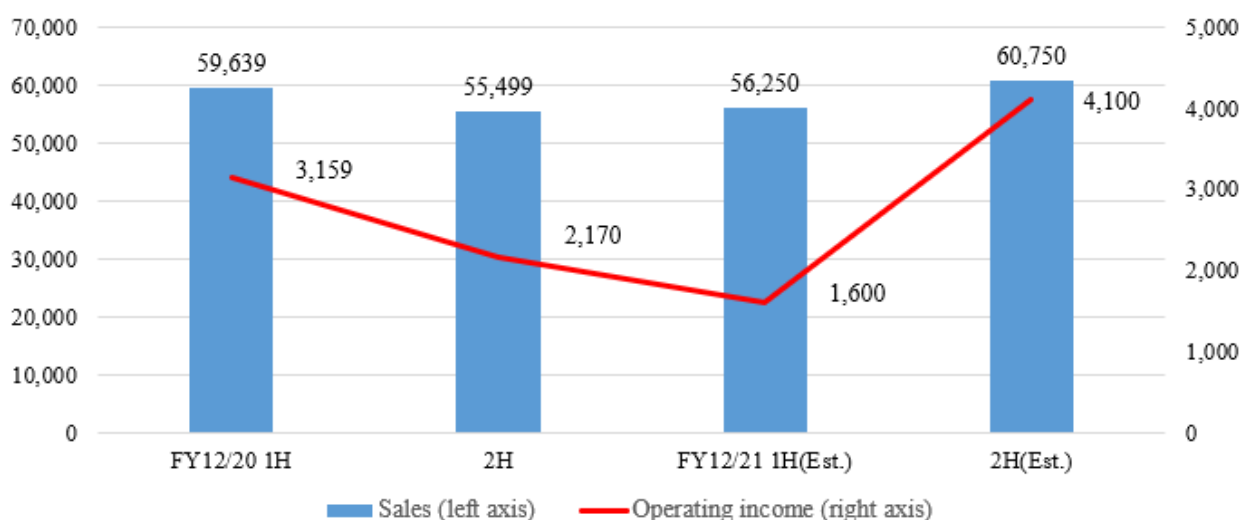
Sales are expected to grow 1.6% year on year to 117 billion yen, and operating income is projected to go up by 7.0% year on year to 5.7 billion yen. While sales and profit will decrease in the company's mainstay Valve Manufacturing Business, it is expected that the company will deliver stronger business performance in the Brass Bar Manufacturing Business and Other. KITZ Corporation plans to revise (raise) prices in domestic and overseas market from April 1st. The price change will produce effects in the second half of this term and the first half of the next term. A dividend is to be 5 yen per share in the second quarter and 9 yen per share at the end of the term, resulting in a total of 14 yen per share. The payout ratio is estimated to be 36.9%.

Exchange and raw materials assumptions

	FY 12/20 Act.	FY 12/21 Est.
Yen / US Dollar	106.44	104.00
Yen / Euro	121.97	126.00
Electrolytic Copper, Yen / Ton	700,000	850,000

On a half-term basis, the company thinks that sales and operating income bottomed out in the second half of the previous term (July-December) and the first half of the current term, respectively.

Trends of Sales and Operating Income (unit: million yen)



3-2 Sales and Operating Income by Segment

	FY 12/20 Act.	Composition /Ratio to Sales	FY 12/21 Est.	Composition /Ratio to Sales	YoY
Valve Manufacturing	95,336	82.8%	95,000	81.2%	-0.4%
Brass Bar Manufacturing	18,102	15.7%	19,600	16.8%	+8.3%
Other	1,700	1.5%	2,400	2.1%	+41.2%
Total Sales	115,139	100.0%	117,000	100.0%	+1.6%
Valve Manufacturing	9,306	9.8%	9,000	9.5%	-3.3%
Brass Bar Manufacturing	-185	-	400	2.0%	-
Other	-344	-	20	0.8%	-
Adjustments	-3,449	-	-3,720	-	-
Total Operating Income	5,329	4.6%	5,700	4.9%	+7.0%

(Units: ¥mn)

Valve Manufacturing Business

Sales are expected to be almost the same as in the previous term. The company will strive to reduce costs; however, profit is projected to shrink because not only of an expected delay in recovery of sales volumes, but also of soaring raw material prices, the impact of foreign currency exchange, and a rise in operating expenses which dropped in the previous term due to the COVID-19 pandemic.

(Domestic market)

Sales will stand at 61.8 billion yen, down 1% year on year.

Although sales are gradually growing, the rate of improvement will continue to be slow because of sluggish momentum toward capital investment due to deteriorating business performance and uncertainty about the future caused by the COVID-19 crisis.

In the industrial valve market, demand for maintenance of plants and other facilities remain huge even amid the COVID-19 crisis, and the company will expand the maintenance, repair, and operations (MRO) business through expansion of sales of parts and control valves. It is expected that the semiconductor market will show a medium- and long-term growth both in domestic and overseas market, and investment will surge following the rising demand for digital technologies, such as data centers, 5G communication facilities, and logistics facilities as a response to expanding e-commerce.

The company will focus on increasing its share and expanding sales of stainless ball valves, as well as butterfly valves, ductile iron valves, and automatically operating valves, which are focused products in KITZ's fourth mid-term management plan.

(Overseas market)

Sales will grow 2% year on year to 33.2 billion yen.

It is forecasted that countries will have to brace themselves for the second and third waves of the COVID-19 infection and the impact of COVID-19 will continue during the first half of the year 2021.

While the rate of business recovery is slow in all regions but China, the company will give a focus on taking in demand mainly in data centers as in domestic market.

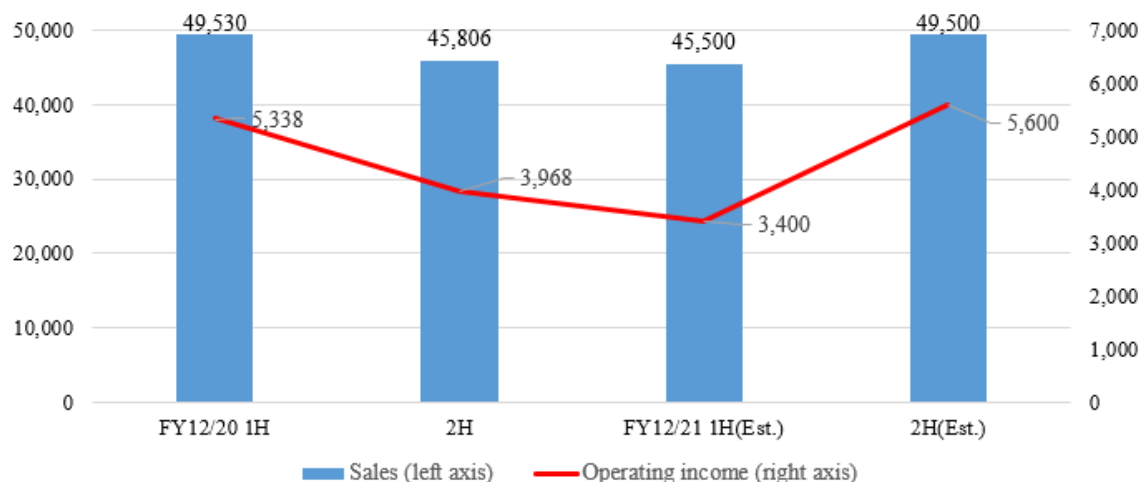
The semiconductor markets in China and South Korea are projected to boom as in domestic market.

Regarding entry into the middle zones of ASEAN countries (middle-price-range markets), the company will develop and sell products according to local needs, as well as create synergistic effects with Unimech Group Berhad, a capital and business alliance partner in Malaysia.

Although the business situation is harsh in North America because demand related to oil and gas is low, the company will expand sales by taking advantage of the contracts that it has entered globally with major distributors.

In Europe, the company expects that the business situation will continue to be severe because of the economic downturn caused by the COVID-19 crisis.

Valve Manufacturing Business Trends of Quarterly Sales and Operating Income (unit: million yen)



Brass Bar Manufacturing Business

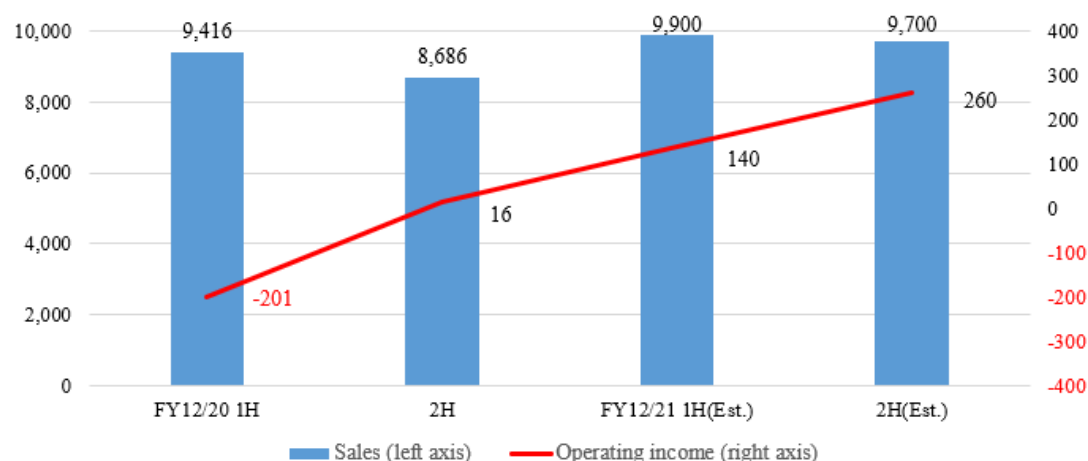
Sales are expected to increase, going into the black.

Demand for brass bars in domestic market will grow 7% year on year. The production volume is returning to the level before the COVID-19 pandemic, and the company will focus on expanding sales of environmentally friendly materials, such as lead-free and cadmium-free materials, as well as general materials.

Furthermore, it will cut down on costs mainly by improving productivity through operation of a new manufacturing line, increasing the yield rate, and reducing the cost of materials.

The price of copper is based on the premise that the average price quotation of copper will increase to 850,000 yen per ton from 700,000 yen per ton in the previous term.

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Other

Sales will increase, going into the black.

The impact of the COVID-19 pandemic will continue up until the fall, and prospects that affect the company’s earnings will remain uncertain in the next year, such as when the Go To Travel campaign will be resumed or whether the campaign will be postponed, and whether or not the Tokyo Olympics and Paralympics Games will be held.

The company will strive to restore profitability by reducing cost and revising prices following the repair of the main building.

3-3 Financial Strategies and Capital Policies

The company continues to be in an emergency mode in this term on the basis of the financial strategies and capital policies set forth in the fourth mid-term management plan. Attaching a particular focus on creating cash flows, it will realize financial stability through such measures as reducing increased interest-bearing liabilities, securing borrowing margin for medium- and long-term strategic investment, including M&A and alliances, and preparing for redemption of corporate bonds in view of the post COVID-19 era.

The company will secure a liquidity ratio of about three months of consolidated monthly sales, including the commitment line of notes payable to banks.

It will make investment mainly in rationalization, development and IT, and facility maintenance and upgrading within the range of depreciation and amortization expenses.

Equipment investment and Depreciation

	FY 12/20 (12 months)	FY 12/21 Est.
Equipment investment	39	57
Depreciation	68	68

(Units: 100 million yen)

4. Conclusions







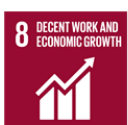


Mr. Makoto Kohno, who will be named as the new president of KITZ Corporation, has framed policies, including the innovation of the revenue structure, further globalization of the company, and contribution to a decarbonized society and digital transformation, to rejuvenate the company's management structure. In innovating the revenue structure, the company will change its product portfolio through both aggressive and defensive management. In globalization, the new president will further propel forward the strategies that former president Yasuyuki Hotta had implemented, focusing particularly on North America, the ASEAN region, and China. The company will also give a focus on development of new businesses and digital transformation for creating a decarbonized society. We would like to keep an eye on how new president Kohno will lead the company amid the lasting impact of the COVID-19 crisis and in the business environment changing rapidly and significantly.

Although both sales and profit decreased in the fiscal year ended December 2020, the market conditions for the Valve Manufacturing Business bottomed out in the third quarter (October-December) and are expected to improve gradually in this term. It is projected that it will take time for profit to return to the previous level; however, we would like to pay attention to positive effects brought about by the price change in April.

<Reference: Initiatives based on ESG and SDGs>

In the 4th mid-term management plan, whose initial year is fiscal 2019, "further enhancement of ESG" is one of important themes, and in March 2020, the company visualized the SDGs that are closely related to its important initiatives. The company plans to intensify ongoing initiatives and speed up sustainable business administration, to contribute to the attainment of SDGs.

Furthermore, the company agreed with "Nagano Prefecture's system for registering enterprises that pursue SDGs," and Ina and Chino Plants were registered by the prefecture as business establishments that pursue SDGs.

Large category	Medium category	Concrete activities	SDGs
Environment To contribute to the conservation of the global environment through business activities	1. Development and provision of environmentally friendly products and services	(1) Development of environmentally friendly materials, such as lead-less materials and cadmium-less materials (2) Development of sterilization and purification devices (3) Provision of products that comply with the RoHS Directive and REACH (4) Development of products for the clean energy field	   
	2. Promotion of reduction, reuse, and recycling of industrial waste	(1) Promotion of reduction of the emissions of CO ₂ and other greenhouse gases (2) Curtailment of emissions of environmental burdens	
	3. Global, group-wide prevention of environmental pollution	(1) Identification of chemical products, including harmful substances, and promotion of use of alternate products (2) Visualization of environmental laws and regulations and measures for dealing with them at each marketing base	
Social To put importance on human resources, safety, and local communities	1. Empowerment of a variety of human resources (diversity & inclusion)	(1) Adoption of comfortable HR systems and retention (2) Initiatives for achieving equal pay for equal work (3) Empowerment of female employees (4) Empowerment of senior workers (5) Recruitment and training of global personnel (6) Enrichment of systems for supporting a work-life balance	 
	2. Fostering of a corporate culture that puts importance on safety, health, and human rights	(1) Development of a working environment where employees can work safely while keeping in shape (2) Sticking to the policy of not having a prejudice, discriminating, or committing human-rights infringements or wrongdoing against a nation, a religion, a race, or the like	
	3. Appropriate business activities	(1) Promotion of supply chain management based on fair transactions (2) Pursuit of customer satisfaction by securing quality and safety	
	4. Social contribution activities	(1) Promotion of social contribution activities	
Governance Impartial management	1. Establishment of a sound corporate governance system	(1) Effective operation of the nomination committee and the remuneration committee 16. Peace and fairness to everyone (2) Recruitment of female executives (3) Tightening of internal control defined in the Companies Act (internal audit) in addition to the J-SOX Act	
	2. Improvement in transparency of business administration and strengthening of the management overseeing system	(1) Sharing of information through the meeting of four kinds of auditing/overseeing members/boards (the board of auditors, comptrollers, the internal audit division, and outside directors) (2) Audit and overseeing of group companies by outside executives (3) Strengthening of the internal audit division	
	3. Enhancement of the effectiveness of the board of directors	(1) Increase of outside executives in the board of directors (2) Evaluation of the effectiveness of the board of directors and solutions to problems with it	

(Taken from the website of the company)

*The company has published a webpage on sustainability on its website:

<https://www.kitz.co.jp/english/sustainability/>

<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	8 directors (4 are outside directors)
Company auditors	5 auditors (3 are outside auditors)

Corporate governance report (Updated on: July 1 2020)

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.

<Reasons for Non-Compliance with the Principles of the Corporate Governance Code>

Kitz complies with all principles of the Corporate Governance Code.

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

4. Full disclosure (Principle 3-1)

(3) We disclose our policies on determining the compensation of our directors and company auditors, etc., in our annual securities report, etc. Compensation for our directors (excluding outside directors) and executive officers is based on a performance-based stock compensation scheme. The compensation amount, methods of distribution and stock allocation are determined by internal rules. In addition, bonuses are paid if certain conditions required by the internal rules are met, and the company has secured enough profit. Regarding determining compensation, we have established a Compensation Committee, consisting mainly of outside directors, as a voluntary advisory body to the Board of Directors. The committee deliberates compensation policies and other matters of particular importance, and reports the results back to the Board of Directors.

(4) Regarding our policies for nominating director and company auditor candidates, dismissing directors and company auditors, and appointment or dismissal of officers, we have established a Nomination Committee, consisting mainly of outside directors, as a voluntary advisory body to the Board of Directors. Based on the “Policy on the composition of the Board of Directors and the Board of Company Auditors, and the appointment and dismissal of officers (directors, company auditors, CEO, executive officers),” determined by the company (hereinafter, “Officer Selection and Dismissal Policy”), candidates are examined from various perspectives such as personality, ability, insight, experience, expertise, achievements, fairness and age, as well as gender and internationality, and the Board of Directors makes a decision based on the Nomination Committee’s report.

Our Officer Selection and Dismissal Policy is disclosed on the company website.

(5) Regarding candidates for directors and company auditors, their brief histories and the reasons for their nomination are disclosed in the notice of convocation of shareholders’ meeting. When directors and company auditors are dismissed, these reasons will also be disclosed.

9. Details of initiatives to enhance the effectiveness of the Board of Directors (Supplementary principle 4-11-3)

The company conducts a questionnaire survey on the effectiveness of the Board of Directors every year for the purpose of enhancing the effectiveness of corporate governance and improving the functions of the Board of Directors as a whole. The Board of Directors analyzes and evaluates these results. For the survey, the purpose of the evaluation is explained to all directors and company auditors in advance, and based on the principles of the Corporate Governance Code, a questionnaire on particularly important matters is handed out, in which respondents provide their name along with their answers. The Board of Directors analyzes and evaluates effectiveness based on the responses obtained, and also conducts open discussions on key issues. The survey on the effectiveness of the Board of Directors conducted in May 2020 asked about (1) the formulation and execution of management strategies, (2) the composition of the

Board of Directors, (3) the nomination and compensation of directors, (4) encouraging lively discussion by company auditors, outside directors and the Board of Directors, and (5) meeting the interests of shareholders and other stakeholders. As a result, the Board of Directors was ensured to have its effectiveness overall. However, some constructive criticisms including areas for improvement were given in regards to the succession plan for the CEO and the diversity of the Board of Directors. As such, the Board of Directors will discuss these issues going forward and strive to ensure further effectiveness.

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.

We also believe that providing necessary information continuously, and conducting IR activities for improving management by utilizing the opinions and requests from outsiders are vital. As such, we have established an IR system centered on the President and the executive officer in charge of IR in order to promote constructive dialogue with shareholders so that they can understand our management strategies and plans, and are implementing the following measures.

- (1) We have appointed an executive officer in charge of IR in order to realize constructive dialogue with shareholders.
- (2) We are striving to achieve efficient coordination led by the executive officer in charge of IR, by holding meetings among the IR department, the corporate planning department, the accounting department, the general affairs personnel department, the legal department, etc., as necessary and such.
- (3) The Company conducts meetings for institutional investors and analysts each quarter. At these company briefings, explanations are given by the president himself or the executive director of IR. 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.
- (4) The Company periodically reports opinions gathered from dialogue with institutional investors and analysts to the president and IR executive officer. If necessary, the president will inform the Board of Directors and management committee.
- (5) 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.

This report is intended solely for information purposes and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company and comes from sources that we judge to be reliable. However, we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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