

## BRIDGE REPORT



Representative Director, President  
Executive Officer  
Masao Ono

KYB Corporation (7242)



## Company Information

Market	TSE Prime Market
Industry	Equipment for transportation
Representative Director, President Executive Officer	Masao Ono
HQ Address	World Trade Center Building South Tower.28F, 4-1, Hamamatsu-cho 2-chome, Minato-ku, Tokyo
Year-end	End of March
HOMEPAGE	<a href="https://www.kyb.co.jp/english/">https://www.kyb.co.jp/english/</a>

## Stock Information

Share Price	Number of shares issued		Total market cap	ROE Act.	Trading Unit
¥3,550	25,748,431 shares		¥91,406million	17.1%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
140.00	3.9%	¥761.88	4.7x	¥6,296.94	0.6x

\* Share price as of closing on November 18. Each figure is from the financial results for the first half of fiscal year ending March 2023. ROE is actual as of March 2022.

## Earnings Trends

Fiscal Year	Net Sales	Operating Income	Pretax Income	Net Income	EPS	DPS
March 2019 (results)	412,214	-28,496	-29,510	-24,757	-969.18	0.00
March 2020 (results)	381,584	-40,298	-41,419	-61,879	-2,422.53	0.00
March 2021 (results)	328,037	18,297	16,340	17,087	668.95	75.00
March 2022 (results)	388,360	30,001	28,817	22,549	854.96	105.00
March 2023 (estimate)	442,000	29,700	28,900	20,400	761.88	140.00

\* Unit: Million yen or yen. IFRS adjustment. Net income is profit attributable to owners of the parent. DPS is a dividend for common stock.

This Bridge Report presents details of KYB earnings results for the first half of fiscal year ending March 2023 and so on.

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## Key Points

- In the first half of the term ending March 2023, sales grew 12.9% year on year to 209.8 billion yen. The sales of the AC and HC businesses grew, and the sales in all regions increased, while the sales in the U.S. and Southeast Asia rose considerably. The profit of the segment increased by 0.2% year on year. Fixed costs augmented due to the inflation, but profit was unchanged because the company implemented measures for improving revenues. Due to the yen depreciation, etc., pretax income rose 14.7% and net income increased by 11.6%. The company will pay an interim dividend of 70 yen/share, up 10 yen/share from the initial forecast.
- For the term ending March 2023, it is expected that sales will increase 13.8% from the previous term to 442 billion yen and profit will grow 7.2% from the previous term to 26.5 billion yen. The company upwardly revised the sales forecast from the initial one: 410 billion yen. The company left the segment profit forecast unchanged, but upwardly revised the forecasts of operating income, pretax income, and net income, while considering the performance in the first half, the recent business environment, the provision and reversal of a reserve for product warranties related to seismic isolation/mitigation oil dampers, etc. As the term-end dividend for common shares has been increased by 10.00 yen/share, the company plans to pay an interim dividend of 70.00 yen/share and a term-end dividend of 70.00 yen/share for an annual dividend of 140.00 yen/share, up 35.00 yen/share from the previous term. The expected payout ratio is 17.5%. For class-A preferred shares, the company has paid an interim dividend of 3,760,274.00 yen/share and plans to pay a term-end dividend of 3,739,726.00 yen/share for an annual dividend of 7,500,000.00 yen/share.
- In the first half of the term, there were some concerns over the skyrocketing prices of raw materials, the economic slowdown of the EU, etc. However, the company maintained the recovery trend that continued from the previous term and secured the growth of sales and profit by taking advantage of the yen depreciation. Uncertainties will remain in the second half and the following terms, but the company revised the forecasts of annual sales and net income upwardly. The dividend amount, too, has been raised, reflecting their confidence. The company is about to finish making seismic isolation/mitigation oil dampers, etc. comply with regulations. We would like to pay attention to the progress in each quarter.

## 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 39% of the domestic market and 14% of the global market.

### 【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.

In April 2022, KYB got listed on the Prime Market of TSE through the market restructuring.

### 【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)

#### (What the logo means)

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)."

## ◎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)

<b>Human Resources Development</b>	To cultivate the talent to achieve the objectives with a thorough understanding of the principles and the strategy.
<b>Technology and product development</b>	To provide products that are impressive, comfortable and reliable to customers throughout the world.
<b>Monozukuri (Manufacturing expertise)</b>	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.
<b>Management</b>	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, including hybrids and EVs, is expected to increase in the medium to long term. The production output of automobiles dropped temporarily due to the novel coronavirus and recovered later, but the shortage of semiconductors became a bottleneck, so Toyota Motor suspended production at some factories in Japan. Like this, the business environment is uncertain despite the recent recovery trend.

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.

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## ②Construction Machinery Market

While the Chinese and Indian markets are expected to slow down, demand is forecasted to be strong despite the uncertainty in the short term due to the impact of COVID-19.

### (2) Competitors

#### ①AC Business

KYB's domestic competitors include Hitachi Astemo, Ltd. (unlisted).

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.

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 Hitachi Astemo, Ltd. in the market of shock absorbers for motorcycles, and with JTEKT Corporation (6473, TSE Prime Market) and NSK Ltd. (6471, TSE Prime Market) 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 Prime Market) in the market of control valves for which KYB has the advanced technology, and Nabtesco and Nachi-Fujikoshi (6474, TSE Prime Market) 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	40,000	2.7	200	-54.1	0.5%	1.2%	4,782	47.6	0.3
6268	Nabtesco	308,000	2.7	21,000	-30.0	6.8%	29.6%	404,354	19.6	1.7
6471	NSK	980,000	13.3	40,000	49.5	4.1%	2.8%	418,963	14.4	0.6
6473	JTEKT	1,700,000	19.0	60,000	41.7	3.5%	3.5%	347,405	13.9	0.6
6474	Nachi-Fujikoshi	250,000	9.1	17,000	15.5	6.8%	8.1%	99,303	8.6	0.7
7212	F-Tech	270,000	40.7	2,000	75.0	0.7%	0.5%	9,655	6.4	0.2
<b>7242</b>	<b>KYB</b>	<b>442,000</b>	<b>13.8</b>	<b>26,500</b>	<b>7.2</b>	<b>6.0%</b>	<b>17.1%</b>	<b>91,406</b>	<b>5.2</b>	<b>0.6</b>

\*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 18. The unit is million yen. PER (estimates) and PBR (results) are based on the closing price on June 7 with the unit being times. KYB's operating income is segment profit (calculated by deducting cost of sales and SG&A expenses from net sales).

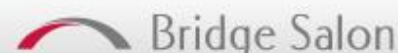
## 【1-4 Business contents】

### (1) Segments

KYB's business segments are composed of the following three 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, 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.

As a result of a review of the business management classification of System Products which produces theater equipment, equipment for military vessels and vibration suppression devices, etc. in accordance with the reorganization of the Group, it included in the HC business from the second quarter of the term ending Mar. 2022.

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## Fiscal Year ended March 2022 results

	Sales	Composition Ratio	Segment profit	Profit rate
AC Business	232,846	60.0%	15,406	6.6%
HC Business	141,572	36.5%	12,348	8.7%
Aircraft components business	3,655	0.9%	-3,960	-
Others	10,286	2.6%	918	8.9%
Total	388,360	100.0%	24,713	6.4%

\*Unit: million yen

## ① AC(Automotive Components)Business

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

## Composition ratio for Fiscal Year ended March 2022

Product	Sales	Composition ratio	Major products
Shock absorbers for automobiles	169,159	72.6%	Shock absorbers
Shock absorbers for motorcycles	34,868	15.0%	Front forks, rear cushion units
Hydraulic equipment for automobiles	23,875	10.3%	Vane pumps, CVT pumps, EPS
Others	4,944	2.1%	Shock absorbers for ATVs, Stay dumpers
Total	232,846	100.0%	-

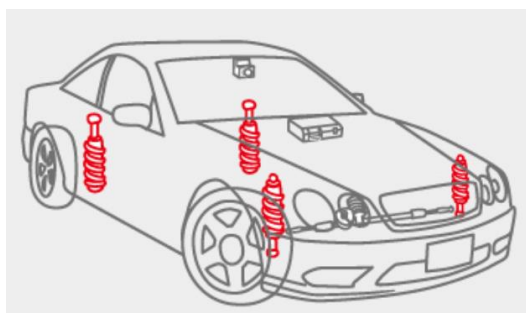
\*unit: million yen

## &lt;Major Products&gt;

## ◎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

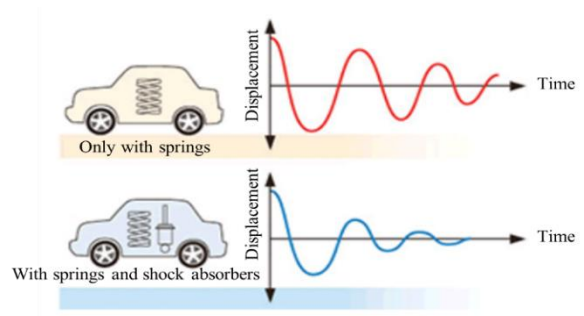


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Automobiles absorb shock caused by uneven road profiles by contracting the springs, but due to their characteristics, the springs rebound to get back to their original position after the contraction.

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.



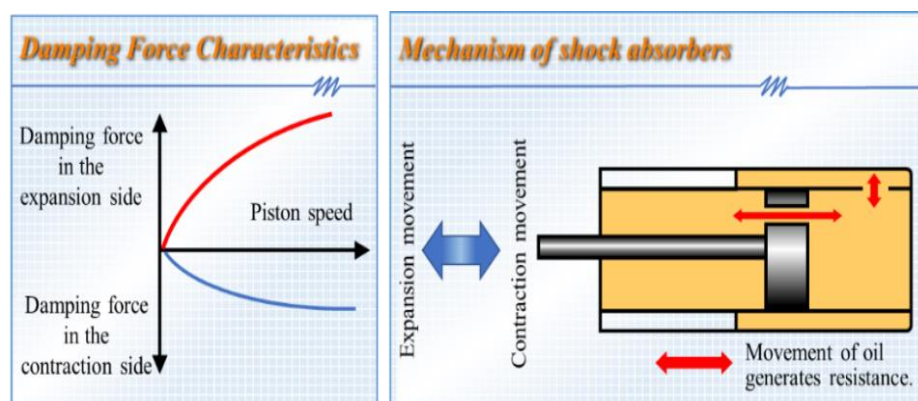
(Taken from KYB's website)

The vehicle in which the shock absorber is functioning properly achieves the following, making a comfortable driving experience possible

- ☆ 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)

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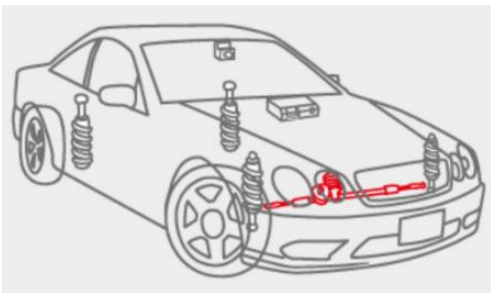
KYB's shock absorbers developed based on its sophisticated technology has earned reputation from a number of automobile manufacturers worldwide, leading to the large market share as mentioned below.

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 70,000 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.

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



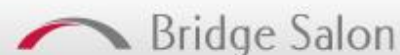
(Taken from KYB's website)

\*Hydraulic power steering vane pump for passenger vehicles





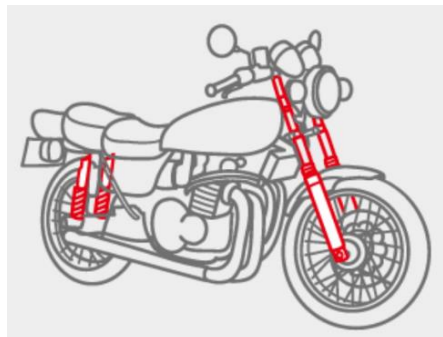
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## © Motorcycles

## (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)

## ② HC (Hydraulic Components) Business

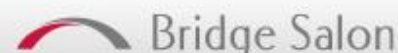
The HC Business consists of hydraulic equipment for industrial use and other products.

Composition ratio for the Fiscal Year ended March 2022

Products	Sales	Composition ratio	Major products
Hydraulic equipment for industrial use	128,716	90.9%	Cylinders, valves, pumps, motors
System Products	4,633	3.3%	theater equipment, equipment for military vessels and vibration suppression devices, etc.
Others	8,223	5.8%	Railroad dampers, railroad brakes
Total	141,572	100.0%	-

\* unit: million yen

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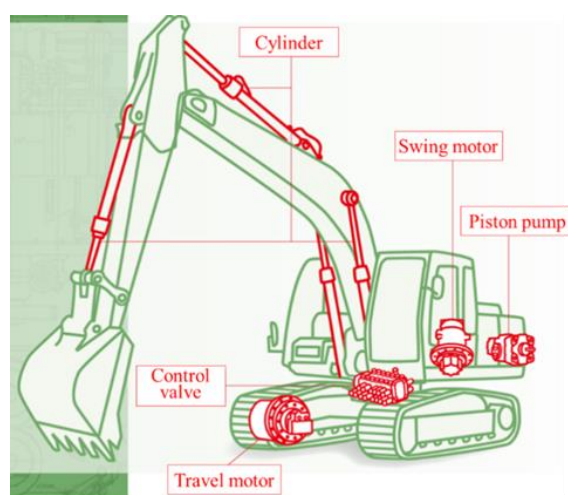
## &lt;Major Products&gt;

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 “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)

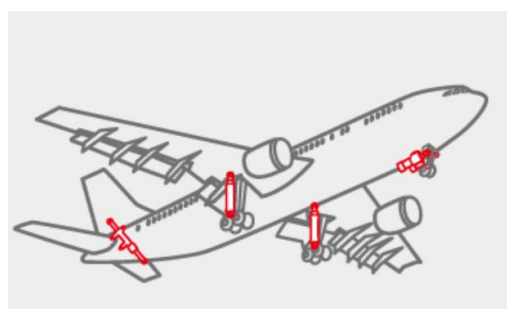
## ③ Segments other than the AC Business and the HC Business

Fiscal Year ended March 2022

Segments	Sales	Major products
Aircraft components business	3,655	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)	10,286	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 group and Honda, respectively, contributing to KYB's large market share.

	Japanese	Non-Japanese
<b>AC Business</b>	Toyota Motor Yamaha Motor Nissan Motor JATCO Suzuki Motor Honda Motor Daihatsu Motor SUBARU Isuzu Mitsubishi Motors Hino Motors	Stellantis Renault Volkswagen Daimler
<b>HC Business</b>	Hitachi Construction Machinery Kubota Sumitomo Construction Machinery Kobelco Construction Machinery Takeuchi Mfg Yanmar Komatsu Forklift	Caterpillar Sany Heavy Industry Doosan Sunward Trasmital 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.

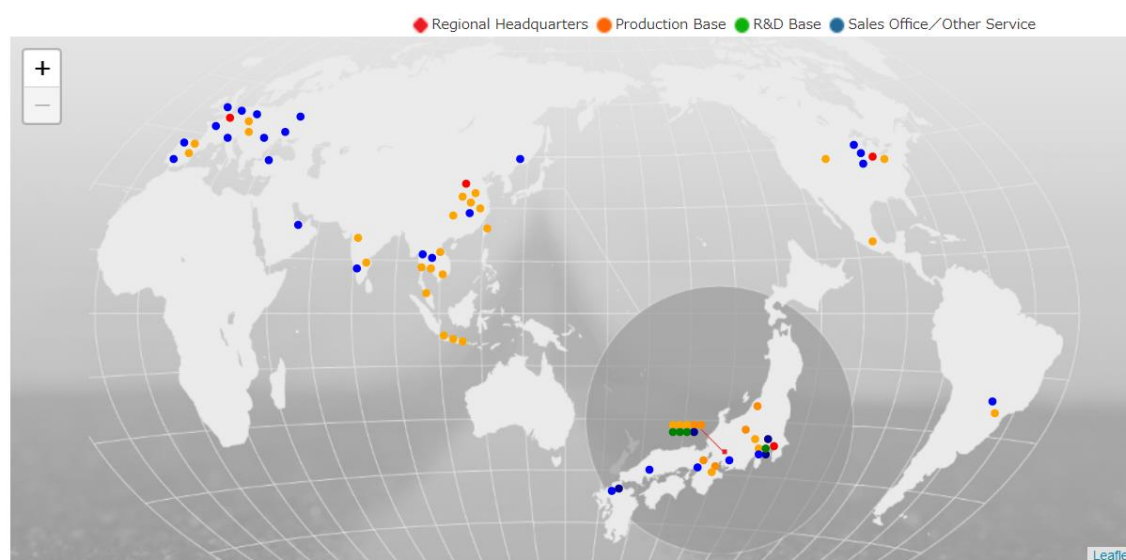
What is behind such a high coverage rate is the strong relationships KYB has with major automobile manufacturers including Toyota.

### (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	11
Asia	7	18
Europe	12	7
America	3	6
Total	23	42

(As of September, 2022)



(Taken from KYB's website)

### (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 Fundamental 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.

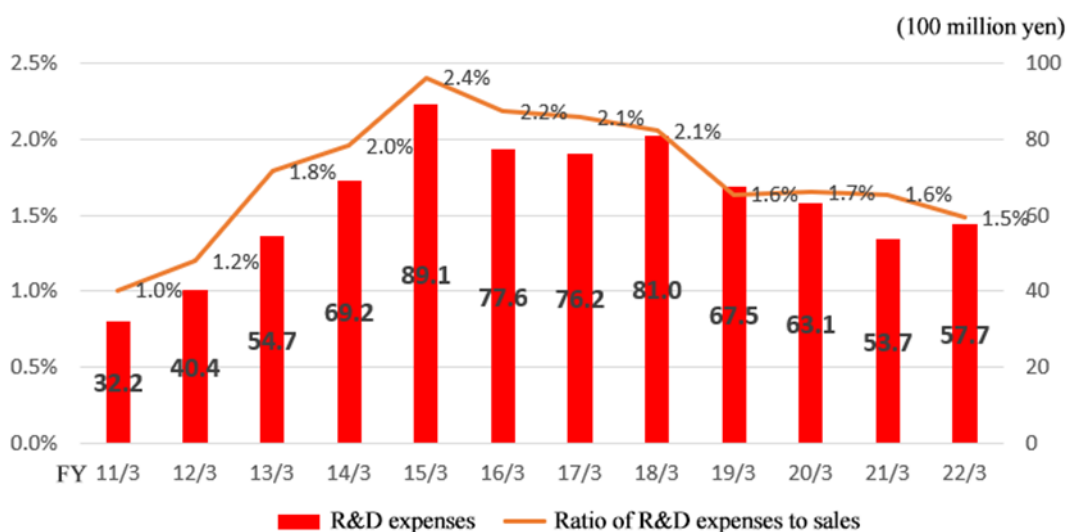
Regarding high-functionality and systematization of its products, KYB, in addition to independent development, propels joint research and development with its clients or related equipment manufacturers. The company is also endeavoring proactively to developing advanced technology through industry-academia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

(Variation in R&D expenses)

Since the term ended Mar. 2013, the awareness of R&D costs with respect to sales has been raised, and it is currently around 1.5%.

However, R&D costs are currently declining because of the incident of the nonconforming seismic isolation/mitigation oil dampers. It will be necessary to make aggressive investments again to achieve longer-term and sustainable growth.

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## (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】

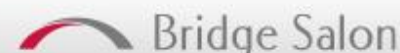
#### ◎ Large shares in various product markets

KYB has earned a large market share of multifarious products, with the domestic share of OEM shock absorbers for automobiles being 39% and its global share being 14%, the global share of hydraulic cylinders for construction machinery being 19%, the domestic share of concrete mixer trucks being 85%.

#### ◎ 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.

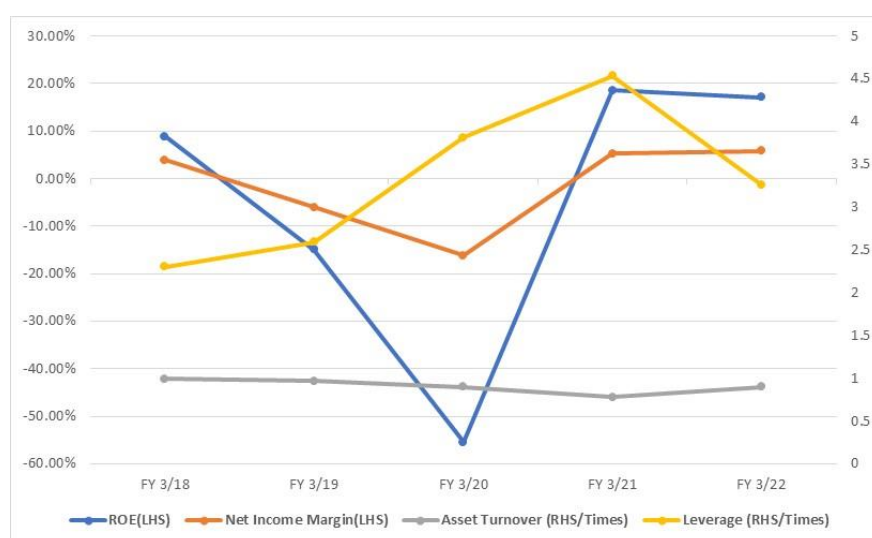
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KYB's two core technologies, the "vibration control technology" represented by its shock absorbers and oil dampers for seismic isolation and vibration suppression and the "power control technology" typified by its control valves for shovels and electric 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	FY 3/21	FY 3/22
<b>ROE [%]</b>	<b>-2.0</b>	<b>9.3</b>	<b>8.8</b>	<b>-15.0</b>	<b>-55.4</b>	<b>18.5</b>	<b>17.1</b>
Net income margin [%]	-0.89	4.09%	3.87	-6.01	-16.22	5.21	5.81
Total asset turnover [times]	0.95	0.96	0.99	0.97	0.90	0.78	0.90
Leverage [times]	2.35	2.37	2.30	2.59	3.81	4.53	3.26



\*Produced by Investment Bridge Co., Ltd. with reference to disclosed material.

## 2. First half of Fiscal Year ending March 2023 Earnings Results

### (1) Overview of consolidated results

	1H of FY3/22	Composition ratio	1H of FY3/23	Composition ratio	YoY
Sales	185,882	100.0%	209,886	100.0%	+12.9%
Gross Profit	38,025	20.5%	41,238	19.6%	+8.4%
SG&A Expenses	26,358	14.2%	29,545	14.1%	+12.1%
Segment Profit	11,667	6.3%	11,692	5.6%	+0.2%
Operating Profit	13,797	7.4%	14,826	7.1%	+7.5%
Profit before Taxes	12,674	6.8%	14,535	6.9%	+14.7%
Quarterly Profit	9,502	5.1%	10,604	5.1%	+11.6%

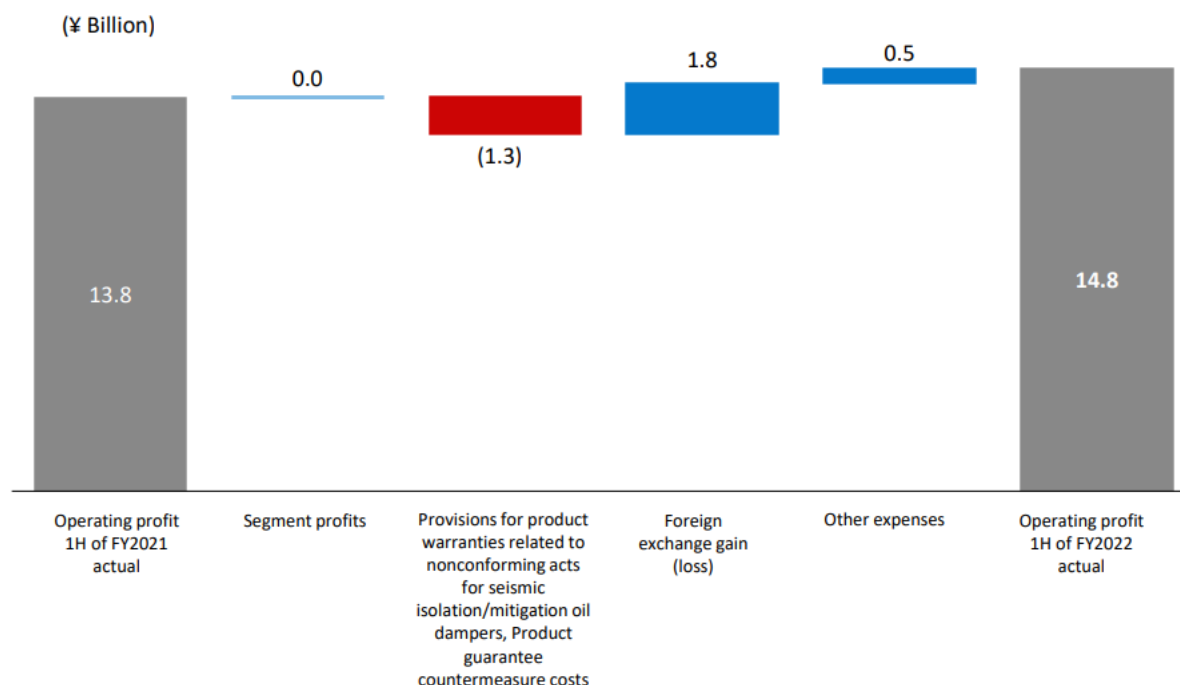
\* Unit: million yen. Segment profit corresponds to the operating income in the Japanese standard. Quarterly profit is the profit attributable to the owner of the parent company.



## BRIDGE REPORT



## 2Qs (1H) of FY2022 Changes in Operating Profit (Comparison with previous period)



(Taken from financial Results)

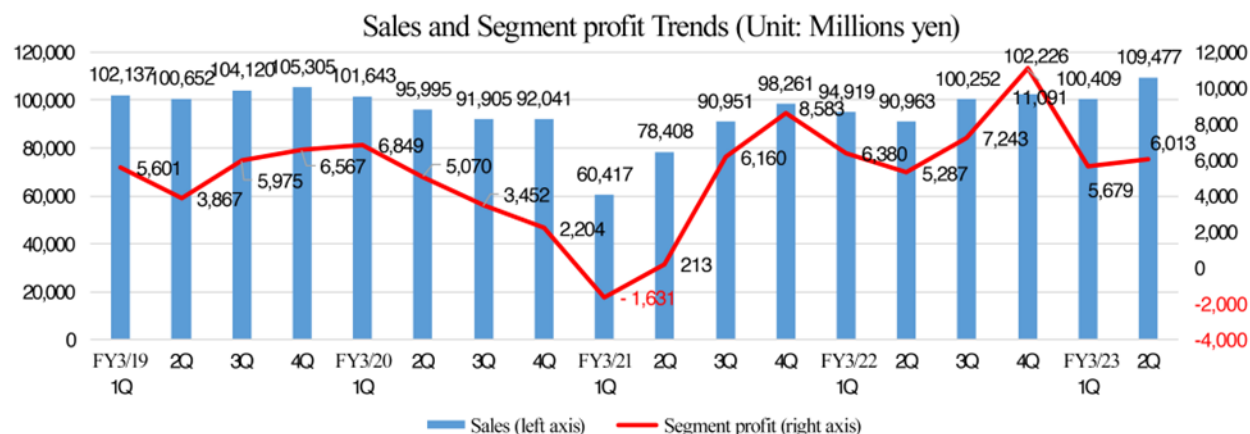
### Sales grew 12.9% and segment profit increased slightly.

Sales grew 12.9% year on year to 209.8 billion yen. The sales of the AC and HC businesses grew thanks to the recovery from the coronavirus pandemic.

Gross profit rose 8.4% year on year. Segment profit increased 0.2% year on year. Fixed costs augmented due to the inflation, but profit was unchanged because the company implemented measures for improving revenues. Due to the yen depreciation, operating income increased by 7.5% year on year. Due to the decrease in financial expenses, pretax income rose by 14.7% and net income increased by 11.6%.

For the term ending March 2023, the company will pay an interim dividend of 70 yen/share, up 10 yen/share from the initial forecast.

※AC: Automotive Components Business HC: Hydraulic Components Business



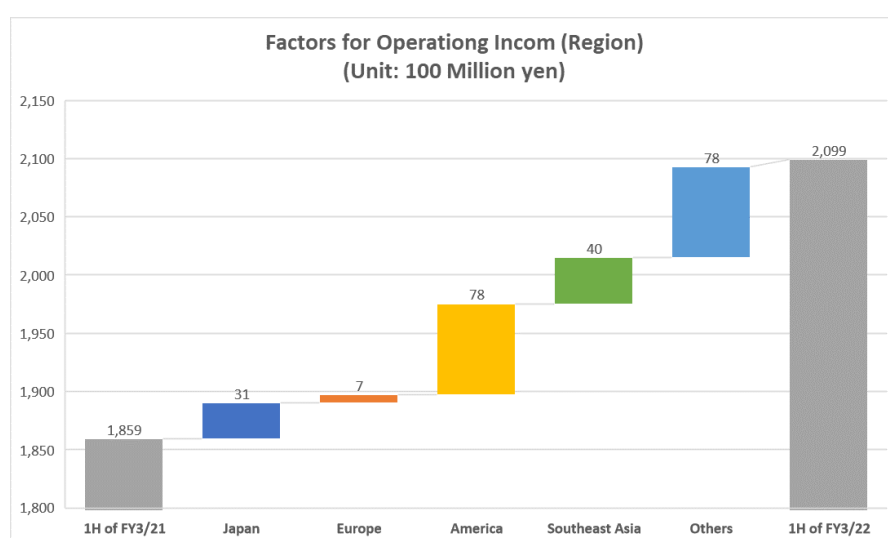
## BRIDGE REPORT



## ◎Sales Trends in each region

Region	1H of FY3/21	1H of FY3/22	YoY
Japan	794	825	+3.9%
Europe	326	333	+2.1%
America	170	248	+45.8%
China	172	179	+3.9%
Southeast Asia	135	175	+29.7%
Others	262	340	+29.7%
<b>Total</b>	<b>1,859</b>	<b>2,099</b>	<b>+12.9%</b>

\* unit: 100 million yen. Each value is from the consolidated financial results.



\*Produced by Investment Bridge Co., Ltd. with reference to disclosed material.

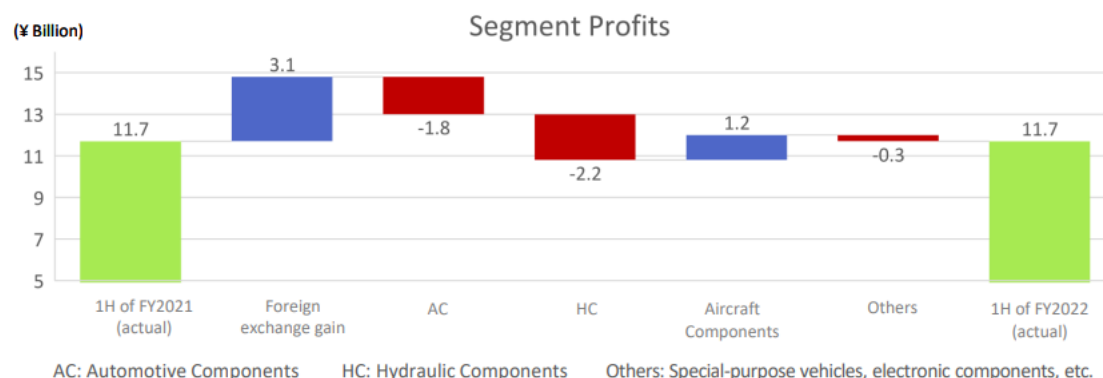
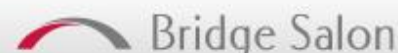
Sales increased in all regions. Overseas sales ratio increased 3.4% from the previous year 57.3% to 60.7%.

## 2) Trend in each segment

Sales	1H of FY21	Composition ratio	1H of FY22	Composition ratio	YoY
AC business	113,475	61.0%	135,746	64.7%	+19.6%
HC business	65,468	35.2%	66,977	31.9%	+2.3%
Aircraft Components business	1,910	1.0%	2,546	1.2%	+33.3%
Others	5,029	2.7%	4,617	2.2%	-8.2%
<b>Total</b>	<b>185,882</b>	<b>100.0%</b>	<b>209,886</b>	<b>100.0%</b>	<b>+12.9%</b>
Segment profit					
AC business	7,248	6.4%	8,374	6.2%	+15.5%
HC business	5,738	8.8%	3,786	5.7%	-34.0%
Aircraft Components business	-1,879	-	-697	-	-
Others	526	10.5%	177	3.8%	-66.3%
Adjustment	34	-	53	-	+55.9%
<b>Total</b>	<b>11,667</b>	<b>100.0%</b>	<b>11,692</b>	<b>100.0%</b>	<b>+0.2%</b>

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

## BRIDGE REPORT



(Taken from financial Results)

## ① AC Business

Product	Sales	Composition ratio	YoY
Shock Absorbers for Automobiles	99,019	72.9%	+22.3%
Shock Absorbers for Motorcycles	20,851	15.4%	+32.2%
Hydraulic Equipment for Automobiles	10,739	7.9%	-9.6%
Others	5,138	3.8%	+6.3%
Total	135,746	100.0%	+19.6%

\* Unit: million yen. Each value is from the consolidated financial results.

Region	Sales	Composition ratio	YoY
Japan	329	24.2%	+12.3%
Europe	292	21.5%	+1.0%
America	196	14.4%	+49.6%
China	107	7.9%	+5.9%
Southeast Asia	154	11.3%	+29.4%
Others	279	20.6%	+39.5%
Total	1,357	100.0%	+19.6%

\* Unit: 100 million yen. Each value is from financial Results

The sales of hydraulic shock absorbers for automobiles and motorcycles grew thanks to the recovery from the stagnation of economic activities caused by the COVID-19 crisis.

Sales grew in all regions.

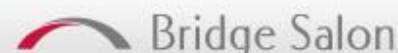
## ② HC Business

Products	Sales	Composition ratio	YoY
Hydraulic Equipment for Industrial Use	63,879	95.4%	+3.7%
System Products	1,364	2.0%	-33.8%
Others	1,733	2.6%	-3.7%
Total	66,977	100.0%	+2.3%

\* Unit: million yen. Each value is from the consolidated financial results.

Region	Sales	Composition ratio	YoY
Japan	446	66.6%	-0.4%
Europe	41	6.1%	+10.8%
America	48	7.2%	+33.3%

## BRIDGE REPORT



China	72	10.7%	+1.4%
Southeast Asia	20	3.0%	+33.3%
Others	43	6.4%	-10.4%
Total	670	100.0%	+2.3%

\* Unit: 100 million yen. Each value is from financial results.

The sales of hydraulic equipment for industrial use increased owing to the continuation from the stagnation of economic activities caused by the COVID-19 crisis.

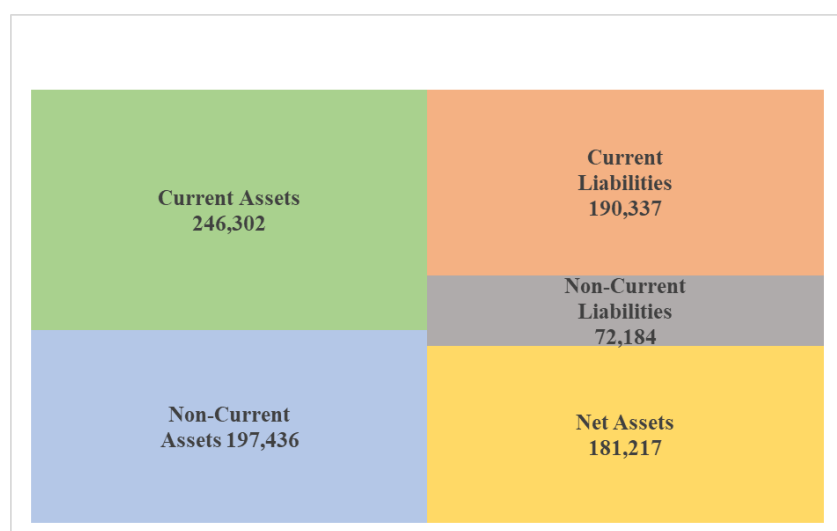
Sales increased considerably in the U.S. and Southeast Asia.

### (3) Financial standing and cash flows

#### ◎ Major BS

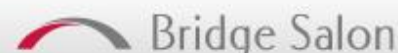
	End of Mar. 2022	End of Sep. 2022	Increase /Decrease		End of Mar. 2022	End of Sep. 2022	Increase /Decrease
Current Assets	240,421	246,302	+5,881	Current Liabilities	198,371	190,337	-8,034
Cash, etc.	52,118	42,803	-9,315	Trade Payables	81,737	77,145	-4,592
Trade Receivables	108,823	118,699	+9,876	Short-term Favorable Sub Liabilities	65,815	66,848	+1,033
Inventories	66,114	70,261	+4,147	Noncurrent Liabilities	74,902	72,184	-2,718
Noncurrent Assets	193,766	197,436	+3,670	Long-term Favorable Sub Liabilities	25,041	23,383	-1,658
Property, Plant and Equipment	159,803	162,329	+2,526	Total Liabilities	273,273	262,521	-10,752
Intangible Assets	3,549	3,468	-81	Net Assets	160,914	181,217	+20,303
Other Financial Assets	14,545	14,537	-8	Retained Earnings	76,007	84,496	+8,489
Total assets	434,187	443,738	+9,551	Total Liabilities and Net Assets	434,187	443,738	+9,551

\* 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



\*Produced by Investment Bridge Co., Ltd. with reference to disclosed material.

## BRIDGE REPORT

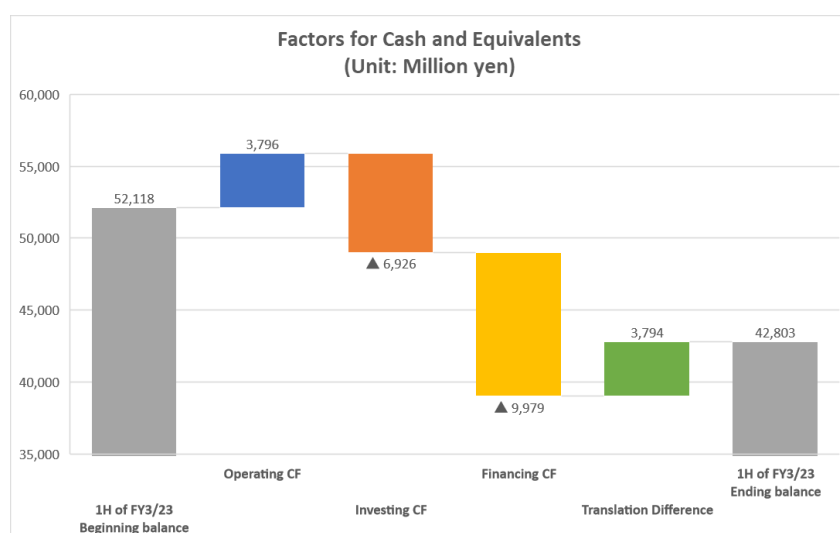


Total assets increased 9.6 billion yen YoY to 443.7 billion yen, mainly due to an increase in trade receivables, despite a decrease in cash and other financial assets. Total liabilities decreased 10.8 billion yen YoY to 262.5 billion yen, mainly due to decreases in provisions, trade, and other payables. Total shareholders' equity increased 20.3 billion yen YoY to 181.2 billion yen, mainly due to an increase in retained earnings. As a result, the ratio of equity attributable to owners of the parent rose 3.8 percentage points from the end of the previous period to 39.1%.

## ◎ Cash Flow

	1H of FY3/22	1H of FY3/23	Increase/decrease
Operating CF	7,297	3,796	-3,501
Investing CF	-5,896	-6,926	-1,030
Free CF	1,401	-3,130	-4,531
Financing CF	-3,044	-9,979	-6,935
Cash and equivalents	67,412	42,803	-24,609

\* Unit: million yen



\*Produced by Investment Bridge Co., Ltd. with reference to disclosed material.

Operating CF decreased, due to the augmentation of operating and other receivables. The cash outflow from investing activities augmented due to the increase in the purchase of property, plant, and equipment, etc.

The cash outflow from financing activities augmented, due to the decrease in short-term debt, etc. Cash position declined.

## (4) Topics

## ◎ 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.

## (Response and Progress)

Of the 991 subject buildings, 973 properties, or 98.2% of the eligible buildings, have been brought into compliance as of the end of October 2022. A total of 12 (1.2%) are under construction, awaiting construction (adjusting construction schedule), or waiting for production to meet the construction schedule, 3(0.3%) are under administrative adjustment and 3(0.3%) are undergoing detailed coordination with the parties concerned for conformity, indicating that completion is nearing.

### 3.Fiscal Year ending March 2023 Earnings Estimates

#### Full-year earnings forecast

	FY3/22	Composition ratio	FY3/23 Forecast	Composition ratio	YoY	Forecast at beginning of term	Change from forecast
Sales	388,360	100.0%	442,000	100.0%	+13.8%	410,000	+7.8%
Segment profit	24,713	6.4%	26,500	6.0%	+7.2%	26,500	0.0%
Operating profit	30,001	7.7%	29,700	6.7%	-1.0%	26,500	+12.1%
Profit before taxes	28,817	7.4%	28,900	6.5%	+0.3%	26,000	+11.2%
Net profit	22,549	5.8%	20,400	4.6%	-9.5%	18,000	+13.3%

\* Unit: 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.

#### The forecasts of sales, operating income, pretax income, and net income revised upwardly

For the term ending March 2023, it is expected that sales will increase 13.8% from the previous term to 442 billion yen and profit will grow 7.2% from the previous term to 26.5 billion yen. The company upwardly revised the sales forecast from the initial one: 410 billion yen. The company left the segment profit forecast unchanged, but upwardly revised the forecasts of operating income, pretax income, and net income, while considering the performance in the first half, the recent business environment, the provision and reversal of a reserve for product warranties related to seismic isolation/mitigation oil dampers, etc. As the term-end dividend for common shares has been increased by 10.00 yen/share, the company plans to pay an interim dividend of 70.00 yen/share and a term-end dividend of 70.00 yen/share for an annual dividend of 140.00 yen/share, up 35.00 yen/share from the previous term. The expected payout ratio is 17.5%. For class-A preferred shares, the company has paid an interim dividend of 3,760,274.00 yen/share and plans to pay a term-end dividend of 3,739,726.00 yen/share for an annual dividend of 7,500,000.00 yen/share.

#### ©Full-year earnings forecast by segments

Sales	FY3/22	FY3/23 Forecast	YoY	Previous Forecast
AC business	237,783	282,000	+21.1%	255,700
HC business	136,636	142,800	+0.9%	139,300
Aircraft Components business	3,655	6,600	+80.6%	4,700
Others	10,286	10,700	+4.0%	10,300
Total	388,360	442,000	+13.8%	410,000
Segment profit				
AC business	15,979	17,800	+15.5%	16,900
HC business	11,776	9,500	-23.1%	9,900
Aircraft Components business	-3,960	-1,200	-	-1,200
Others	918	400	-56.5%	900
Total	24,713	26,500	+7.2%	26,500

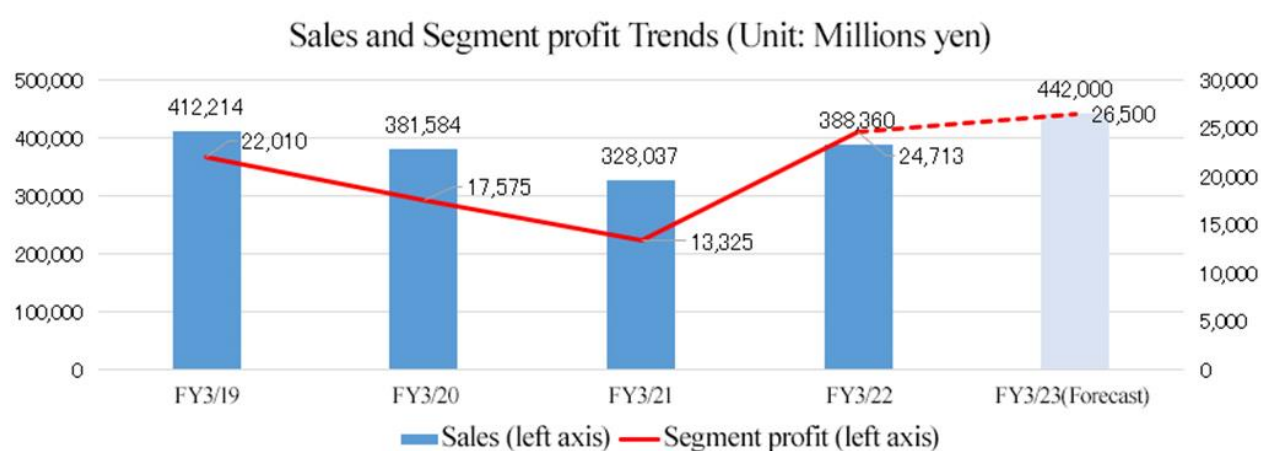
\* Unit: million yen.



## 4.Conclusions

In the first half of the term, there were some concerns over the spread of coronavirus infections, skyrocketing prices of raw materials, the economic slowdown of the EU due to the situation in Ukraine, etc. However, the company maintained the recovery trend that continued from the previous term and secured the growth of sales and profit by taking advantage of the yen depreciation. Uncertainties will remain in the second half and the following terms, but the company revised the forecasts of annual sales and net income upwardly, while some competitors revised their forecasts downwardly. The dividend amount, too, has been raised, reflecting their confidence. In the term ending March 2023, sales and segment profit are expected to hit a record high. The company remains extremely underrated, so there is room for a rise in share price.

The company is about to finish making seismic isolation/mitigation oil dampers, etc. comply with regulations. We would like to pay attention to the progress in each quarter.



### <Reference1: 2020 Medium-Term Management Plan>

After conducting a review considering the external environment, such as the impact of COVID-19, the company announced the 2020 Medium-Term Management Plan at the beginning of the term.

The theme of the plan is “aiming to transform the company into a highly profitable structure based on moral awareness and strict compliance as the basis of management”, and (1) strict compliance and strengthening of governance, (2) stabilization of the profit base (withdrawal from unprofitable businesses, bases, and products), (3) growth strategy, and (4) evolving into ESG management are listed as focus items.

Strict compliance and improvement of governance is described in the “Progress of making seismic isolation/mitigation oil dampers compliant with the standards.” The entire company will work to establish a moral consciousness as part of the corporate culture.

### 【Stabilization of the Earnings Base (Withdrawal from Unprofitable Businesses, Bases, and Products) & the Growth Strategy】

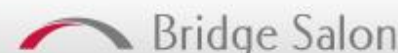
#### (1) Financial Goals

The following financial targets are set for the term ending Mar. 2022.

	2019 Results	2022 Goals
Sales	3,816	3,780
AC business	2,321	2,290
HC business	1,253	1,300
Segment profit	176	250
Segment profit ratio	4.6%	6.6%
Capital adequacy ratio	18.1%	34%

\* Unit: 100 million yen.

## BRIDGE REPORT



Sales will not reach the level of sales in the term ended Mar. 2019, but the company aims to have record-high segment profit and profit margin. They will also work to transform KYB into an agile company.

## (2) About Segment Profit

The profit improvement measures and expected improvement effects for segment profit are as follows.

The total amount is expected to improve 7.4 billion yen from 17.6 billion yen in the term ended Mar. 2019 to 25 billion yen in the term ended Mar. 2022.

Measures	Amount of improvement	Outline of measures
Productivity improvement (reduction of manufacturing cost)	+34	Innovative manufacturing (improvement of the automation level), promotion of labor-saving, etc.
Withdrawal and reduction of unprofitable fields	+17	Withdrawal from domestic production of unprofitable EPS for passenger cars, closure of the European PS base, etc.
Variable cost reduction	+10	VA, VE, promotion of the localization of procurement activities, etc.
Consolidation of production bases and establishment of an optimal production system	+7	Reorganization of European bases, construction of CVT global optimum production systems, etc.
Promotion of sales expansion activities	+6	Expansion of sales of mini excavators by adopting electronic control, improving the sales network of commercial products, etc.

\*Unit: 100 million yen

## (3) Ideal State

The company continues to position the AC business and HC business as the two major core businesses that support KYB, and it has set out its goals as follows.

### ① AC Business

The goal for the term ending Mar. 2022 is to establish the company's position as a core supplier by enhancing existing businesses and core technologies.

The three basic strategies are (1) enhancement: stabilizing the earnings base, (2) evolution: innovative manufacturing, and (3) renovation: creating high-value-added products.

### ◎ Strengthening the Earnings Base

The company's concrete initiatives include production optimization by consolidating and reorganizing major bases, cost reduction activities, and structural reforms of commercial businesses.

In production optimization, the company aspires to achieve optimal production that matches the shift in customer demand areas.

In Europe, the PS base will be closed, and the SA base in the region will be reorganized from Western Europe centered to Eastern Europe centered.

In EPS production, the company will withdraw from domestic production of unprofitable passenger cars and shift its focus to China. The company will build a CVT global optimum production system. The surplus production capacity of the two-wheeled Asian base will also be reduced through production restructuring.

### ◎ Innovative Manufacturing

The company will further promote robotization and labor-saving, reduce processing costs, and strengthen competitiveness.

Innovative manufacturing efforts will be adopted sequentially at all domestic and overseas bases, centering on the commercial line.

### ◎ Creation of High Value-Added Products

The company will enhance its unique technology in response to the ever-increasing trend toward EV, CASE, and MaaS.

## BRIDGE REPORT



As their technology strategies set as (1) next-generation platform support, (2) enhancing core technology (vibration control/power control technology), (3) hydraulic technology application, and (4) electric and digital system support, the company will create high-value-added products that meet market needs such as quietness, spaciousness, high performance, low vibration, and ride comfort.

## ② HC Business

The vision for the term ending Mar. 2022 is HC business that is trusted by customers and continues to be used worldwide—to be a trusted manufacturer and the first to be contacted by customers.

The company's two basic strategies are, meeting automation and complex needs, and promoting cost reduction and the localization of procurement activities.

## ◎ Excavator Growth Strategy: Meeting Automation and Complex Needs

For excavators, the company's technology strategies are digitization, expansion of the pump lineup, and electronic control of control valves.

In addition, a vital technology strategy for mini excavators is to expand the lineup and electronically control by the load sensing system.

In the HC business, the company will further refine the power control technology, which is one of their strengths, to fuse the pump, the heart of the excavator, and the valve, its brain, based on KYB's unique technology, to create new added value and demonstrate a competitive advantage.

The critical technology to realize the cooperation and fusion of the pump and valve is electronically controlled load sensing.

Load sensing is a mechanism that feeds back the load sensed by the valve to the pump to supply the required flow rate and pressure.

The advantages of load sensing are (1) simultaneous or combined operations that rely on the experience of the operator become easy, (2) can be used not only in construction work but also in disaster relief because it can use various attachments, (3) saves energy, and (4) can be digitized and automated without being affected by load.

## ◎ Promotion of Cost Reduction and the Localization of Procurement

The company will improve market competitiveness by introducing a cost reduction model and localizing procurement.

## (4) Enhancing the ESG Management

Currently, the company is proceeding with the following efforts.

Reducing energy consumption and CO <sub>2</sub> emissions Energy saving	The company installed a solar power generation facility at the KYB-YS Ueda Plant. The total power generation in 2020 was about 700,000 kW.
Reducing industrial waste	The company uses waste materials generated at factories and related business partners as in-house casting materials.
Creating a rewarding workplace	The company is promoting health management and has been certified as an excellent health management corporation for the second consecutive year.

Going forward, the company will reduce CO<sub>2</sub> emissions per unit by 3% from the previous year, raise the composition ratio of renewable energy usage to 15% in 2025, and promote product development that contributes to the sustainable development of society. In addition, the company will set up an ESG promotion office to strengthen the chain of policies and implementation. (ESG promotion office was established in July 2021.)

## <Reference2: Regarding Corporate Governance>

### ◎ Organization type and the composition of directors and auditors

Organization type	Company with auditors
Directors	10 directors, including 4 outside ones
Auditors	5 auditors, including 3 outside ones

## © Corporate Governance Report

Last update date: October 7, 2022

### <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.

In the new medium-term management plan starting in fiscal 2020, the company is striving to prevent the recurrence of inappropriate events in seismic isolation/mitigation oil dampers and other products, and to transform itself into a highly profitable organization under the slogan "Restore trust and pride" while placing awareness of norms and compliance as part of corporate culture reform at the core of management.

### (Management philosophy)

"Kayaba 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.

### (Corporate Governance 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. The company shall promote constructive dialogues with shareholders to obtain their understandings of the company's management policies, etc., and shall strive to take appropriate actions, such as utilizing their opinions of the company for improving management.

As for our company's sustainability, it is indicated in our management philosophy.

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

These are based on the Corporate Governance Code revised in June 2021, including the provisions for the Prime Market, which have been applied from April 2022.

Principles	Reasons for not implementing the principles
(Principle 2-4-1 Promotion of women, non-Japanese nationals, and mid-career workers to managerial posts, promotion of core personnel, etc.)	<p>We have actually promoted some women, mid-career workers, and non-Japanese nationals to managerial posts, although we have not disclosed the number of them.</p> <p>In particular, we focus on measures for increasing female managers. While increasing the number of female employees at posts to be promoted to executives, we conduct activities for enriching training systems and obtaining public qualifications, such as Kurumin and Eruboshi, to motivate female employees to aim to become a manager and develop an environment for them.</p> <p>Our basic policy is to evaluate personnel based on their abilities and performances regardless of nationality and gender. In parallel with the expansion</p>

## BRIDGE REPORT



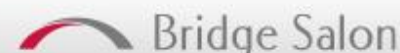
	of our business and corporate scale, we will discuss the disclosure of actual numbers.
(Supplementary Principle 3-1-3 Initiatives for sustainability, etc.)	<p><b>【Initiatives for sustainability】</b></p> <p>While the environment surrounding our company regarding ESG (environment, society, and governance) is changing considerably, we established ESG Promotion Division in July 2021 and CN Promotion Division in January 2022, and are proceeding with ESG initiatives, including those for carbon neutrality. Furthermore, in March 2022, we established a Sustainability Committee, which is chaired by the president, to discuss medium and long-term issues in the ESG field and improve our business administration. From now on, ESG-oriented management will be the base for formulating policies.</p> <p>In particular, we recognize the response to climate change as the most important issue our corporate group should address. We are preparing for the start of full-scale activities following the recommendations from TCFD by the end of this fiscal year, and will clarify risks and opportunities arising out of climate change, and analyze their impact on our financial standing.</p> <p><b>【Initiatives for investment in human capital】</b></p> <p>Our corporate group defined the purpose of education as “the development of human resources who can contribute to the realization of our corporate ethos,” and educates necessary skills and qualification to personnel through programs for respective classes ranging from new employees (or mid-career workers) to executives, programs for personnel who have been promoted, e-learning, correspondence courses, etc.</p> <p><b>【Initiatives for investment in intellectual property】</b></p> <p>Through the cooperation between the R&amp;D Department and the Intellectual Property Department, our corporate group implements intellectual property strategies based on technological strategies, actively creates intellectual property for securing global business competitiveness, and carries out the appropriate protection and utilization of intellectual property rights and corporate brands. In addition, in order to further grow our business, we utilize intellectual property information for R&amp;D and engage in activities for developing new technologies. We recognize the investment in intellectual property as an important issue for improving corporate value, so we will continue such investment.</p> <p>For further information on sustainability, please refer to the integrated report.  <a href="https://www.kyb.co.jp/company/integrated_report.html">https://www.kyb.co.jp/company/integrated_report.html</a></p>

## &lt;Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)&gt;

These are based on the Corporate Governance Code revised in June 2021, including the provisions for the Prime Market, which have been applied from April 2022.

Principles	Reasons for not implementing the principles
Principle 1-4【So-called strategically held shares】	<p>(1.) Policy on strategic shareholding</p> <p>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</p>

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	<p>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.</p> <p>(2.) Policy on exercise of voting rights</p> <p>Before exercising the voting rights of shares that our company strategically holds, we 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.</p>
Principle 5-1 【Policy on constructive dialogue with shareholders】	<p>(1) Policy for strategic shareholding</p> <p>From the viewpoint of improving mid/long-term corporate value, our company holds shares that would help maintain or cement trusting and transaction relationships for business strategy or operation when necessary, while comprehensively considering growth potential and economic rationality. For strategically held shares, the board of directors examines the rationality of holding them while considering whether the merits of holding them can cover our capital cost, and if it is judged that the rationality weakens, we will consider selling them.</p> <p>(2) Policy for exercising voting rights</p> <p>When exercising voting rights for strategically held shares, our company carefully checks the management policy and business strategy of the issuing company and discusses whether each proposal would help improve our mid/long-term corporate value.</p>

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