

 <p>President Makoto Kohno</p>	KITZ Corporation (6498)
	

Company Information

Market	TSE Prime Market
Industry	Machinery (Manufacturing)
President	Makoto Kohno
HQ Address	1-10-1 Nakase, Mihama-ku, Chiba, Japan
Year-end	December
HOME PAGE	https://www.kitz.com/english/

Stock Information

Share Price	Shares Outstanding (End of period)	Market Cap.	ROE (Act.)	Trading Unit
¥867	90,396,511 shares	¥78,373 million	10.0%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)
¥33.00	3.8%	¥95.91	9.0x	¥1,002.69
				PBR (Act.)
				0.9x

*Share price is as of closing on February 24. Each figure is based on the financial report for the fiscal year ended December 2022.

Consolidated Earnings Trends

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
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 (Act.)	135,790	8,990	8,975	4,954	55.26	20.00
December 2022 (Act.)	159,914	11,051	12,045	8,549	95.35	33.00
December 2023 (Est.)	167,000	11,900	12,300	8,600	95.91	33.00

*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 the owner of the parent company. Same as below.

This Bridge Report presents the financial results of the fiscal year ended December 2022 and forecast for the fiscal year ending December 2023, etc.

Table of Contents

[Key Points](#)

[1. Company Overview](#)

[2. Fiscal Year ended December 2022 Earnings Results](#)

[3. Fiscal Year ending December 2023 Earnings Forecasts](#)

[4. Progress of the First Medium-Term Management Plan 2024](#)

[5. Conclusions](#)

[<Reference1: Long-term Management Vision, Beyond New Heights 2030 – Change the ‘Flow’>](#)

[<Reference2: The first medium-term management plan 2024>](#)

[<Reference3: Regarding Corporate Governance>](#)

Key Points

- In the fiscal year ended December 2022, sales increased 17.8% year on year to 159.9 billion yen. In the Valve Manufacturing Business, sales increased 17.3% year on year. Sales of products for the semiconductor manufacturing equipment industry increased domestically and internationally. In the domestic market, the effect of price revisions contributed to an 8% year-on-year increase in sales. Overseas markets saw a 33% year-on-year increase in sales. Thanks to additional contribution of exchange rates, the performance in all areas except China grew. The Brass Bar Manufacturing Business had an 18.8% year-on-year increase in sales. Selling prices increased as the rise in raw material prices affected sales prices, and sales volume also increased. Operating income increased 22.9% year on year to 11 billion yen. The Valve Manufacturing Business achieved a 23.9% year-on-year increase in profit due to increased sales. However, the Brass Bar Manufacturing Business experienced a 66.6% year-on-year decrease in profit due to factors such as the decline in unit prices in the wake of the rapid drop in raw material prices and the rise in energy costs during the term. Overall sales and profit exceeded the forecasts.
- For the fiscal year ending December 2023, sales are expected to increase 4.4% year on year to 167 billion yen, and operating income is projected to rise 7.7% year on year to 11.9 billion yen. The Valve Manufacturing Business is forecast to increase sales and profit, while the Brass Bar Manufacturing Business is expected to experience a decrease in sales, but an increase in profit. As in the previous year, the company plans to absorb the effects of high raw material prices and cost increases by increasing the quantity and reducing costs to ensure increased profits. The expected dividend is 33.00 yen per share, unchanged from the previous year. The expected dividend payout ratio is 34.4%.
- As a basic policy for management, the company aims to achieve profitability in both core businesses and growing fields. The company is promoting the "First Mid-term Management Plan 2024," which focuses on active allocation of resources to growing fields and regions based on digitization and decarbonization, and business developments that emphasize return on invested capital (ROIC). Based on the fact that overall sales and segment sales for the fiscal year ended December 2022 exceeded the forecasts, the company has upwardly revised the quantitative targets (consolidated performance, segment sales, and segment operating income) for the fiscal year ending December 2024 to further improve performance, taking into account the outlook for the business environment and current performance trends. There are no changes to non-financial targets.
- Although growth rate is lower than that in the previous period, the company is expecting an increase in sales and profit this term. The company is planning for a significant expansion from the second half, following a decrease in sales and a slight increase in profit in the first half compared to the second half of the previous year. While there are uncertainties, including the risk of an economic slowdown due to inflation and rising interest rates and foreign exchange rate trends, like in 2022, a gradual economic recovery is expected as the effects of the COVID-19 pandemic fade away. In this environment, it will be interesting to see how the strong performance of semiconductor equipment and the hydrogen & clean energy market in the Valve Manufacturing Business will contribute to earnings growth as a driving force.

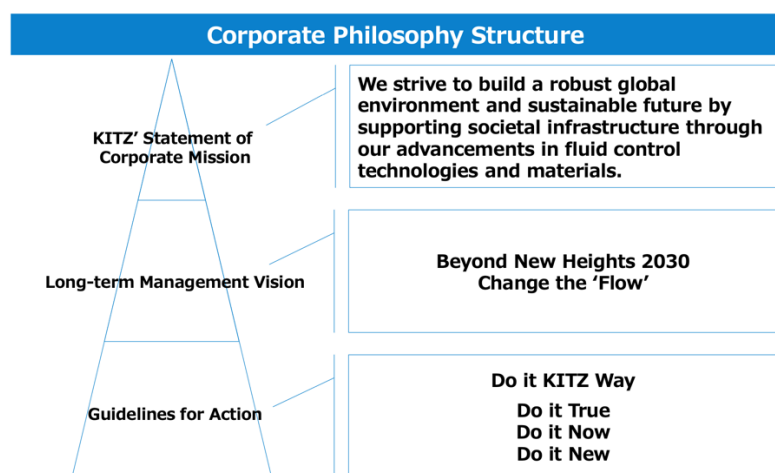
1. Company Overview

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 34 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.

1-1 Corporate Philosophy

In 2021, on the occasion of the 70th anniversary of its founding, the company held a series of discussions on its purpose as a company and its contribution to society, and when announcing its long-term management vision, the company revised its corporate philosophy: the KITZ’ Statement of Corporate Mission.

Recognizing that the creation of a prosperous global environment and a sustainable future is its mission to society, the company is deeply committed to continuing to support social infrastructure by further refining the fluid control technology and material development that the company has cultivated since its founding.

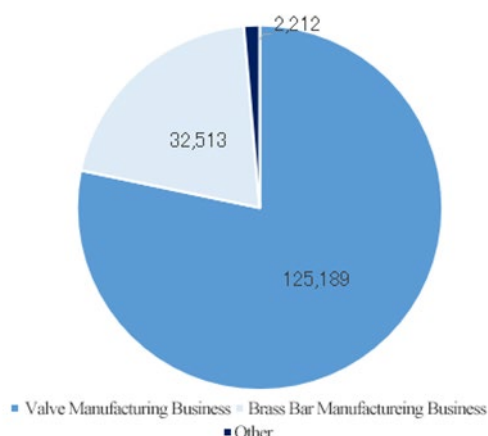


(Taken from the reference material of the company)

1-2 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 2022, these segments accounted for 78.3%, 20.3%, and 1.4% of total sales, respectively.

Sales Composition by Segment (FY 12/22, unit: million yen)



(1) 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, South Korea, 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)

(2) 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.

(3) Other

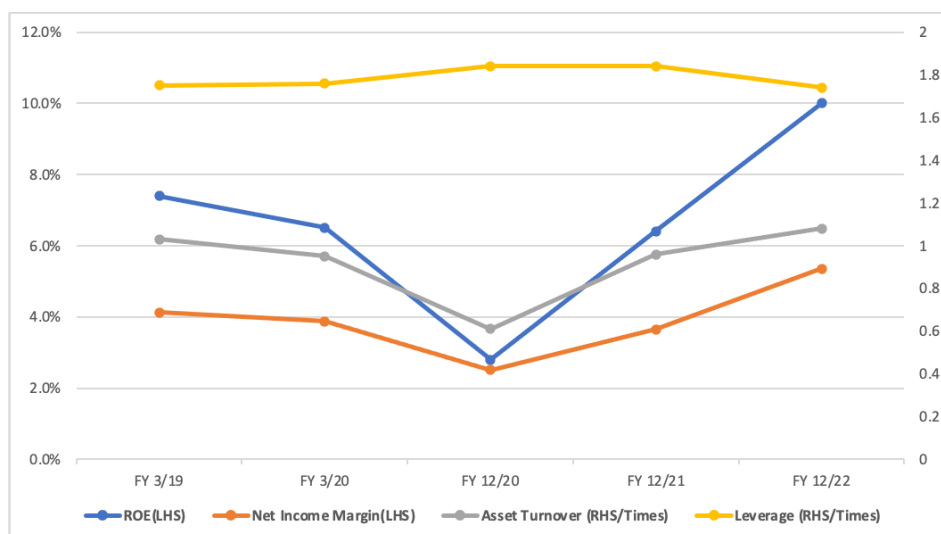
KITZ subsidiary Hotel Beniya Co., Ltd., operates a resort hotel in the city of Suwa, Nagano Prefecture. The hotel is located in a highly picturesque setting close to Lake Suwa with hot spring bathing facilities with sunset views and has a number of small and large banquet halls. The hotel also has a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

1-3 ROE Analysis

	FY3/19	FY3/20	FY12/20	FY12/21	FY12/22
ROE(%)	7.4	6.5	2.8	6.4	10.0
Net income margin (%)	4.12	3.88	2.51	3.65	5.35
Total asset turnover [times]	1.03	0.95	0.61	0.96	1.08
Leverage [times](x)	1.75	1.76	1.84	1.84	1.74

*The fiscal year ended December 2020 was a nine-month period.

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*Created by Investment Bridge based on disclosed material of the company.

In FY 12/2022, ROE exceeded the forecast by 1.0 point, reaching the double-digit level. In order to achieve a P/B ratio of 1 or higher, further improvement in ROE is expected in conjunction with improved profitability.

2. Fiscal Year ended December 2022 Earnings Results

2-1 Consolidated Business Results

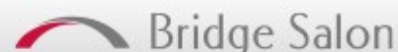
	FY 12/21	Ratio to Sales	FY12/22	Ratio to Sales	YoY	Revised forecast
Sales	135,790	100.0%	159,914	100.0%	+17.8%	+1.9%
Gross Profit	34,461	25.4%	38,819	24.3%	+12.6%	-
SG&A	25,470	18.8%	27,768	17.4%	+9.0%	-
Operating Income	8,990	6.6%	11,051	6.9%	+22.9%	+5.2%
Ordinary Income	8,975	6.6%	12,045	7.5%	+34.2%	+5.2%
Net Income	4,954	3.6%	8,549	5.3%	+72.6%	+11.0%

* Unit: million yen. Net income is net income attributable to owners of the parent company, same as below. Revised forecast ratio is the ratio to the earnings forecast announced by the company in November 2022.

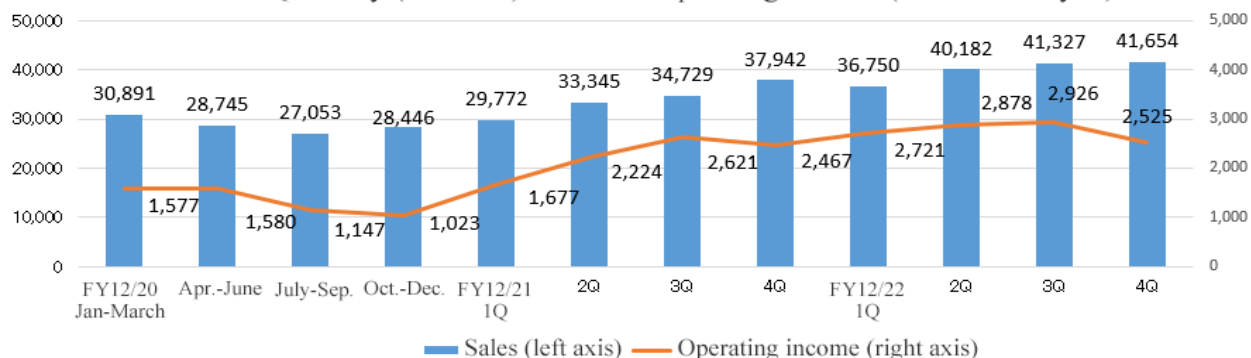
Sales and operating income increased. Exceeded plan.

In the fiscal year ended December 2022, sales increased 17.8% year on year to 159.9 billion yen. In the Valve Manufacturing Business, sales increased 17.3% year on year. Sales of products for the semiconductor manufacturing equipment industry increased domestically and internationally. In the domestic market, the effect of price revisions contributed to an 8% year-on-year increase in sales. Overseas markets saw a 33% year-on-year increase in sales. Thanks to additional contribution of exchange rates, the performance in all areas except China grew. The Brass Bar Manufacturing Business had an 18.8% year-on-year increase in sales. Selling prices increased as the rise in raw material prices affected sales prices, and sales volume also increased. Operating income increased 22.9% year on year to 11 billion yen. The Valve Manufacturing Business achieved a 23.9% year-on-year increase in profit due to increased sales. However, the Brass Bar Manufacturing Business experienced a 66.6% year-on-year decrease in profit due to factors such as the decline in unit prices in the wake of the rapid drop in raw material prices and the rise in energy costs during the term. Overall sales and profit exceeded the forecasts.

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Trends of Quarterly (3months) Sales and Operating Income (unit: million yen)



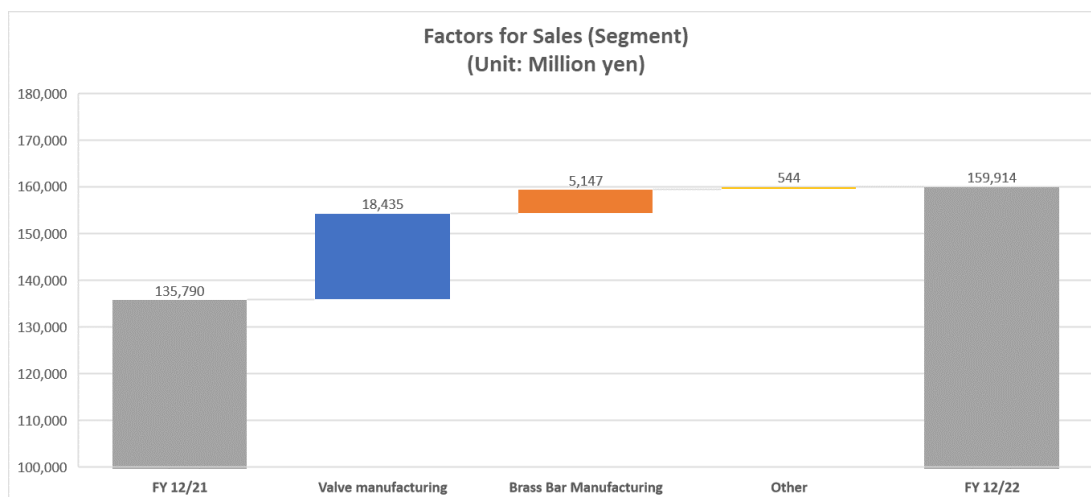
Exchange and raw materials

	FY 12/21	FY 12/22 Act	FY 12/22 Plan
Yen / US Dollar	110.39	132.09	133.31
Yen / Euro	130.36	138.49	138.03
Electrolytic Copper, Yen / Ton	1,067,000	1,194,750	1,178,750

2-2 Business Segments' results

	FY 12/21	Ratio to Sales	FY 12/22	Ratio to Sales	YoY	Compared to Revised forecast
Sales	135,790	100.0%	159,914	100.0%	+17.8%	+1.9%
Valve Manufacturing	106,754	78.6%	125,189	78.3%	+17.3%	+1.8%
Brass Bar Manufacturing	27,366	20.2%	32,513	20.3%	+18.8%	+1.6%
Other	1,668	1.2%	2,212	1.4%	+32.6%	+10.6%
Segment profit	8,990	6.6%	11,051	6.9%	+22.9%	+5.2%
Valve Manufacturing	12,088	11.3%	14,980	12.0%	+23.9%	+4.0%
Brass Bar Manufacturing	665	2.4%	222	0.7%	-66.6%	+122.0%
Other	-243	-	68	3.1%	-	-

* Unit: million yen. Composition of operating income is the ratio of profit to sales. Revised forecast is the ratio to the earnings forecast announced in November 2022.



*Created by Investment Bridge based on disclosed material of the company.

(1) Valve Manufacturing Business

Both sales and profit exceeded those of the previous year and the forecast.

Higher raw material prices and costs were absorbed by volume growth and cost reductions.

(Performance in each market)

This fiscal year, the medium- and long-term target markets have been divided into eight market segments. Based on the current core businesses (building & facilities, petrochemicals, water treatment, machinery & equipment), the company plans to promote the transfer of resources to growing and new fields (semiconductor equipment, semiconductor materials (filters), fine chemicals, hydrogen & clean energy) and change its revenue composition.

The sales of building & facilities slowed down slightly due to inventory accumulation in the distribution channel, partly caused by delays in the construction schedule. Petrochemicals and water treatment performed well. Machinery & equipment performed well but fell slightly short of the forecast. Semiconductor equipment and semiconductor materials performed well and achieved the plan. In fine chemicals, the company is focusing on the development of new products as well as market and customer analysis as a field to be expanded in the medium/long term.

In the hydrogen & clean energy business, the company focused on orders for projects and received 5 orders and offers.

(Performance in each area)

* Japan

Sales increased 8% year on year to 72.8 billion yen.

Although sales for building & facilities weakened, price revisions contributed to an increase in sales. Sales for semiconductor equipment also continued to be strong.

* Overseas

Sales increased 33% year on year to 52.3 billion yen, of which about 6 billion yen was due to exchange rates.

In ASEAN countries, sales increased due to recovery from COVID-19. In South Korea, sales for semiconductor equipment were strong.

In China, although the impact of the Shanghai lockdown was minor, the economy is slowing due to stagnation in the real estate industry and the zero-COVID policy.

In the Americas, exchange rates were favorable, and strong performance was seen in the industrial sector such as petrochemicals.

In Europe, the economy has been slowing down due to the impact of Russia's invasion of Ukraine, but there has been a recovery from the previous term.

(2) Brass Bar Manufacturing Business

Sales grew, but profit declined. Both sales and profit exceeded the forecast.

Production and sales volumes have remained at a high level. Raw material prices, which affect selling prices, rose again after falling sharply in early July.

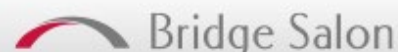
Higher energy costs and other factors resulted in a decrease in profit, although profit recovered from that in the cumulative Q3.

(3) Other

Sales grew, and return to the black.

In the hotel business, the number of hotel guests increased due to the easing of restrictions on transportation of people, such as the lifting of all priority measures to prevent the spread of COVID-19.

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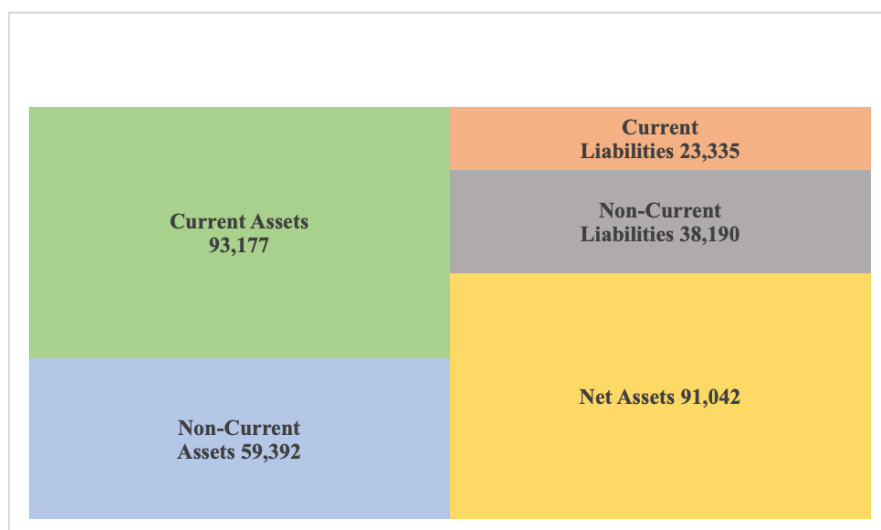


2-3 Financial Conditions and Cash Flows

◎BS

	Dec. 2021	Dec. 2022	Increase and Decrease		Dec. 2021	Dec. 2022	Increase and Decrease
Current Assets	86,621	93,177	+6,556	Current Liabilities	32,939	23,335	-9,604
Cash	27,943	24,370	-3,573	Payables	8,037	8,975	+938
Receivables	30,031	33,539	+3,508	Short-Term Debt	13,574	3,153	-10,421
Inventories	26,807	33,006	+6,199	Noncurrent Liabilities	29,226	38,190	+8,964
Noncurrent Assets	56,798	59,392	+2,594	Long-Term Debt	25,292	33,766	+8,474
Tangible Assets	41,436	45,200	+3,764	Total Liabilities	62,166	61,526	-640
Intangible Assets	4,590	3,164	-1,426	Net Assets	81,253	91,042	+9,789
Investments, Others	10,772	11,027	+255	Retained Earnings	51,708	57,911	+6,203
Total Assets	143,419	152,569	+9,150	Total Liabilities, Net Assets	143,419	152,569	+9,150

* Unit: million yen. Receivables include electronically recorded receivables.



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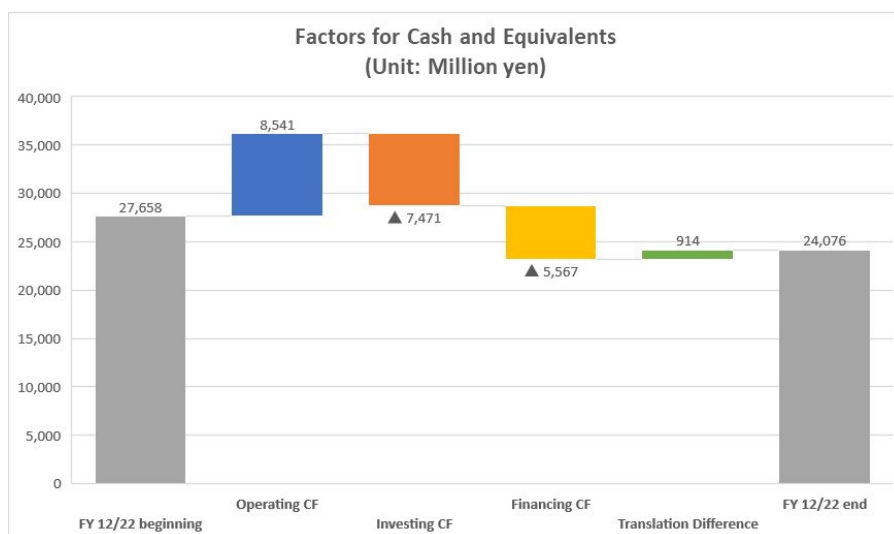
Receivables, inventories, and tangible assets increased, so total assets grew 9.1 billion yen year on year to 152.5 billion yen. Total liabilities decreased 0.6 billion yen year on year to 61.5 billion yen, mainly due to a decrease in debt. Net assets increased 9.7 billion yen year on year to 91 billion yen due to an increase in retained earnings and foreign currency translation adjustments.

The equity ratio increased 3.0 points from the end of the previous fiscal year to 59.0%.

◎CF

	FY 12/21	FY 12/22	Increase and Decrease
Operating Cash Flow(A)	8,280	8,541	+261
Investing Cash Flow(B)	-3,236	-7,471	-4,235
Free Cash Flow(A+B)	5,044	1,070	-3,974
Financing Cash Flow	-11,527	-5,567	+5,960
Cash and Equivalents at Term End	27,658	24,076	-3,582

* Unit: million yen.



*Created by Investment Bridge based on disclosed material of the company.

Operating CF was almost unchanged from the previous term. The cash outflow from investing activities augmented due to increase in purchase of property plant and equipment, resulting in a decrease in free cash flow. The cash position declined.

3. Fiscal Year ending December 2023 Earnings Forecasts

3-1 Full Year Consolidated Earnings Forecast

	FY 12/22	Ratio to Sales	FY 12/23 Est.	Ratio to Sales	YoY
Sales	159,914	100.0%	167,000	100.0%	+4.4%
Operating Income	11,051	6.9%	11,900	7.1%	+7.7%
Ordinary Income	12,045	7.5%	12,300	7.4%	+2.1%
Net Income	8,549	5.3%	8,600	5.1%	+0.6%

Units: million yen.

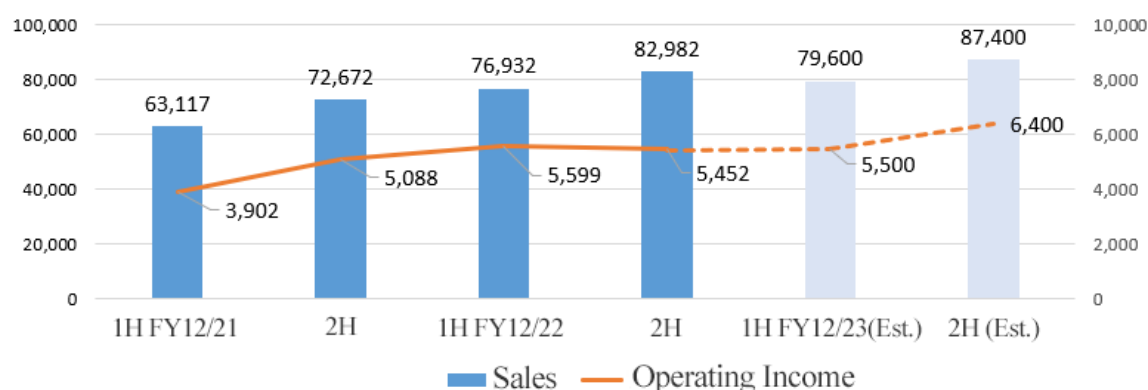
Exchange and raw materials assumptions

	FY 12/22	FY 12/23 Est.
Yen / US Dollar	132.09	128.00
Yen / Euro	138.49	139.00
Electrolytic Copper, Yen / Ton	1,194,750	1,250,000

Projected increase in sales and profit

For the fiscal year ending December 2023, sales are expected to increase 4.4% year on year to 167 billion yen, and operating income is projected to rise 7.7% year on year to 11.9 billion yen. The Valve Manufacturing Business is forecast to increase sales and profit, while the Brass Bar Manufacturing Business is expected to experience a decrease in sales, but an increase in profit. As in the previous year, the company plans to absorb the effects of high raw material prices and cost increases by increasing the quantity and reducing costs to ensure increased profits. The expected dividend is 33.00 yen per share, unchanged from the previous year. The expected dividend payout ratio is 34.4%.

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



*Created by Investment Bridge based on disclosed material of the company.

3-2 Sales and Operating Income by Segment

	FY 12/22	Composition Ratio to Sales	FY 12/23 Est.	Composition Ratio to Sales	YoY
Valve Manufacturing	125,189	78.3%	134,700	80.7%	+7.6%
Brass Bar Manufacturing	32,513	20.3%	30,000	18.0%	-7.7%
Other	2,212	1.4%	2,300	1.4%	+4.0%
Total Sales	159,914	100.0%	167,000	100.0%	+4.4%
Valve Manufacturing	14,980	12.0%	16,400	12.2%	+9.5%
Brass Bar Manufacturing	222	0.7%	400	1.3%	+80.2%
Other	68	3.1%	70	3.0%	+2.9%
Adjustments	-4,219	-	-4,970	-	-
Total Operating Income	11,051	6.9%	11,900	7.1%	+7.7%

* Unit: million yen. The composition ratio of operating income is the ratio of profit to sales.

(1) Valve Manufacturing Business

Sales and profit will grow

(By market)

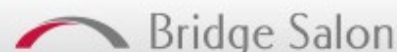
In the core markets, the sales of building & facilities and machinery & equipment are expected to be strong, while those of petrochemicals and water treatment are projected to decline.

In the growth markets, double-digit sales growth is expected in all markets, led by semiconductor equipment and hydrogen & clean energy.

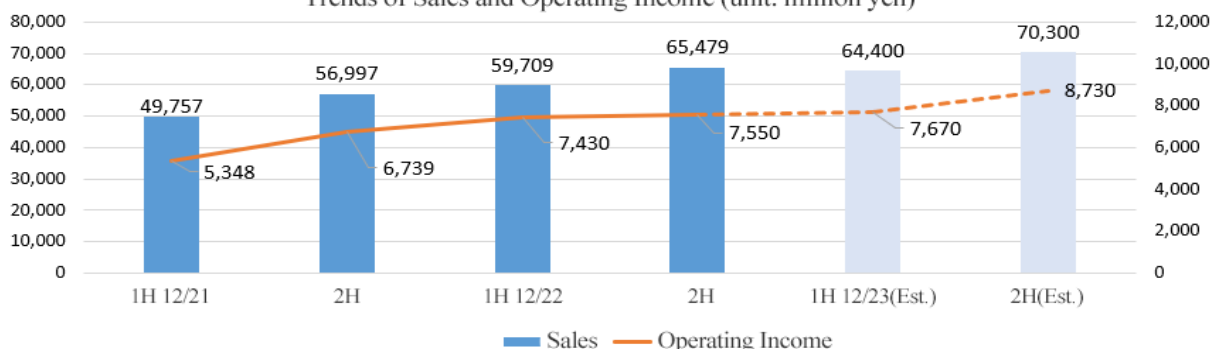
(By area)

Double-digit sales growth is expected in China and India. Sales in Europe and Others are forecast to remain flat, partly due to the situation in Ukraine, while sales in other markets are expected to increase.

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



*Created by Investment Bridge based on disclosed material of the company.

(2) Brass Bar Manufacturing Business

Sales are forecast to decrease, but profit is expected to grow.

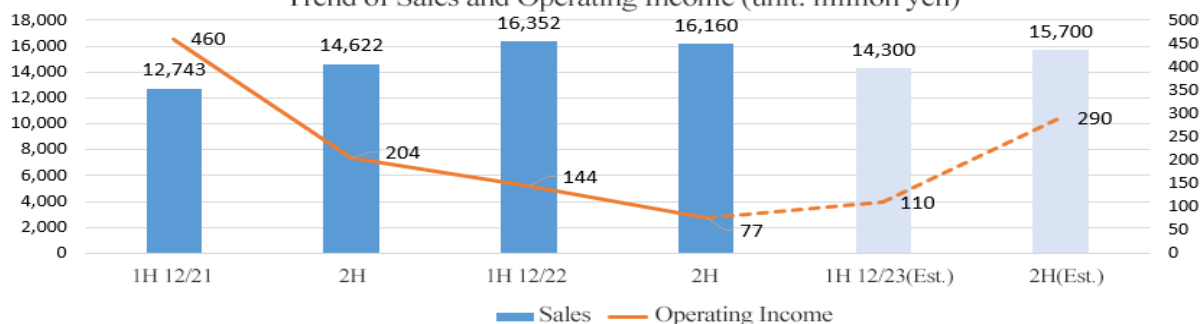
Copper price is projected to rise about 5% year on year.

To reduce material costs, the company will strengthen its casting C-line to have three furnaces, reduce wear and tear, and recycle brass slag.

The company will focus on the semiconductor, automotive, and construction/heavy/agricultural machinery industries and work to enter growing markets and promote sales there.

It will also work to streamline and automate operations through digital transformation, improving production management (production planning), visualizing ordering and manufacturing processes, and increasing productivity.

Brass Bar Manufacturing Business
Trend of Sales and Operating Income (unit: million yen)

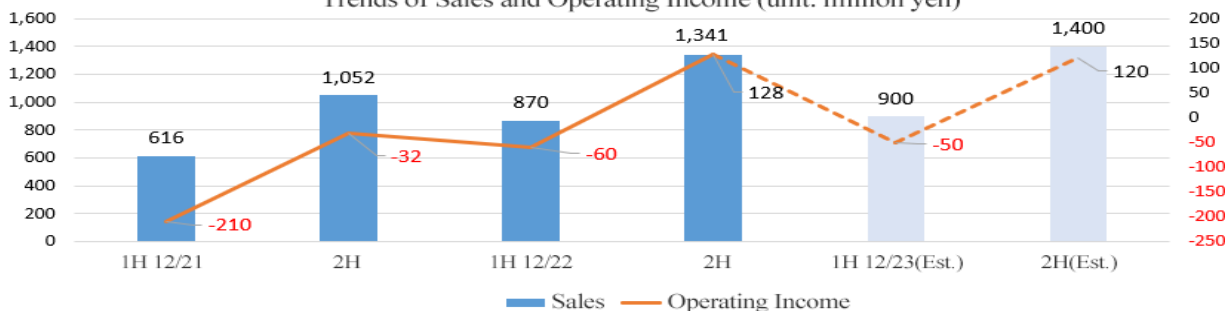


*Created by Investment Bridge based on disclosed material of the company.

(3) Other

Taking advantage of the improved business environment, the company will aim to increase sales and maintain profitability in the current fiscal year.

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

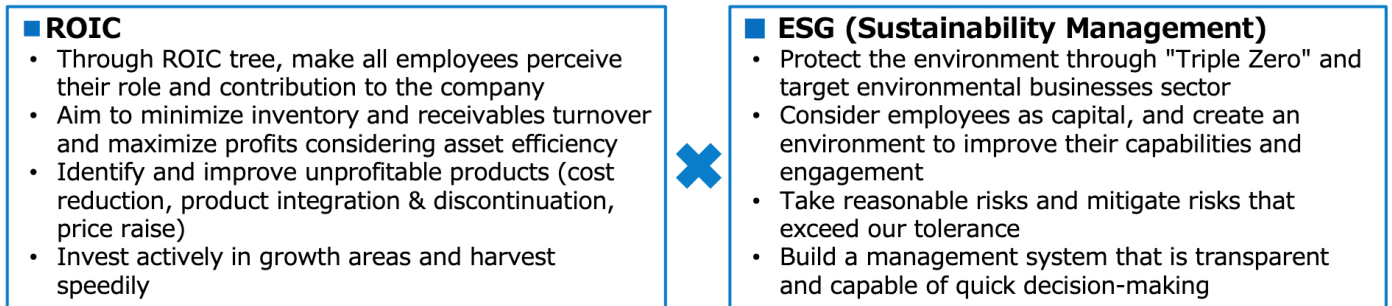


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[3-3 Management Policy, Financial Strategy, and Capital Policy]

The company has announced that it will pursue "ROIC x ESG management" in order to improve both corporate value and social value simultaneously.

The cornerstone of management is medium- to long-term improvement of return on invested capital, and as the main KPI for target management, ROE is used externally, while ROIC is used internally.



(Taken from the reference material of the company)

ROE target is “9% or more in 2024” and “10% or more in 2030” and the company aims to introduce ROIC management, implement aggressive strategic investments, and ensure future growth and profitability. The company maintains its optimal capital structure and secures borrowing capacity.

In ROIC management, efforts will be made to (1) improve profitability by visualizing and rearranging the product portfolio, implementing pricing strategies, and reviewing unprofitable products; (2) deploy ROIC trees and implement PDCA management; and (3) improve CCC and reduce assets.

The operating cash flow for the three-year period from 2022 to 2024 is expected to be 38 billion yen, and the company plans to execute investments, shareholder returns, debt repayment and fundraising as follows. They aim to achieve a free cash flow of zero or more.



(Taken from the reference material of the company)

4. Progress of the First Medium-Term Management Plan 2024

As a basic policy for management, the company aims to achieve profitability in both core businesses and growing fields. The company is promoting the "First Mid-term Management Plan 2024," which focuses on active allocation of resources to growing fields and regions based on digitization and decarbonization, and business development that emphasizes return on invested capital (ROIC).

(1) Review of the first period, FY 12/2022

Net sales significantly exceeded the forecast owing to the effect of material price hikes and price revisions, as well as the impact of foreign exchange rates.

Operating income achieved the forecast, despite higher raw material and purchased parts prices and energy costs, which were absorbed by increased volume and cost reductions.

The company is also working to achieve its non-financial targets for FY 12/2024.

BRIDGE REPORT



(Billions of Yen)

Management Indicators	FY2022	
	Plan	Results
Net Sales	143.0	159.9
Valve	112.2	125.1
Brass Bar	29.0	32.5
Other	1.8	2.2
Operating Income	10.0	11.0
Valve	13.3	14.9
Brass Bar	0.8	0.2
Other	0.0	0.0
Adjustment	(4.1)	(4.2)
ROE	7.6%	10.0%

Management Indicators	FY2021	FY2022
	Plan	Results
CO2 reduction rate (compared to FY2013, domestic group)	(28.1%)*2	(65%) (provisional figure)
Employee Engagement Score		
Rewarding work culture *3	48pt	48pt
Better work environment *4	43pt	44pt
Percentage of women employees	21.7%	22.0%
Percentage of women managers *5	3.4%	3.4%
Percentage of men taking childcare leave *1	29.0%	35.3%

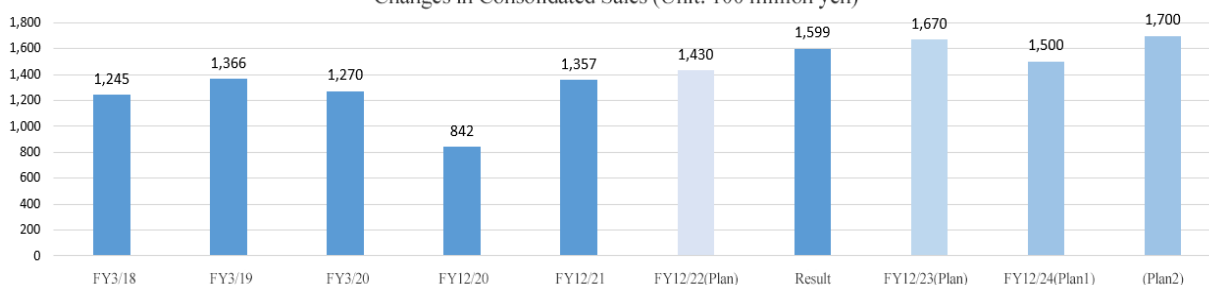
※1 KITZ(non-consolidated) excluding CO₂ reduction rate
 ※2 Replaced FY2020 results with FY2021 results (final figures, -26.9% to -28.1%)
 ※3 Scores on questions measuring willingness to contribute toward goals, sense of belonging, voluntary effort, etc.
 ※4 Scores on questions measuring opportunities to utilize skills and abilities, and a better work environment, etc.
 ※5 Managers: employees of the department manager

(Taken from the reference material of the company)

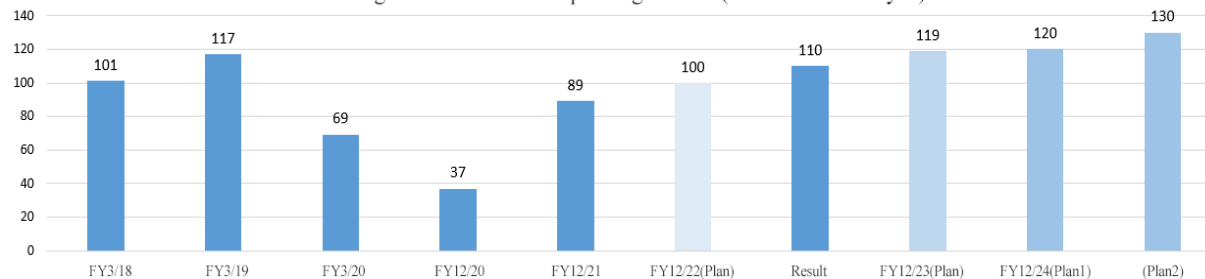
(2) Review of the quantitative targets of the medium-term management plan

As mentioned above, since the company-wide sales and segment sales exceeded the forecast figures, the company has decided to upwardly revise its quantitative targets (consolidated performance, segment sales, and segment operating income) for FY 12/2024 in order to further improve its performance, based on the outlook for the future business environment and current business performance trends. The non-financial targets remain unchanged.

Changes in Consolidated Sales (Unit: 100 million yen)



Changes in Consolidated Operating Income (Unit: 100 million yen)



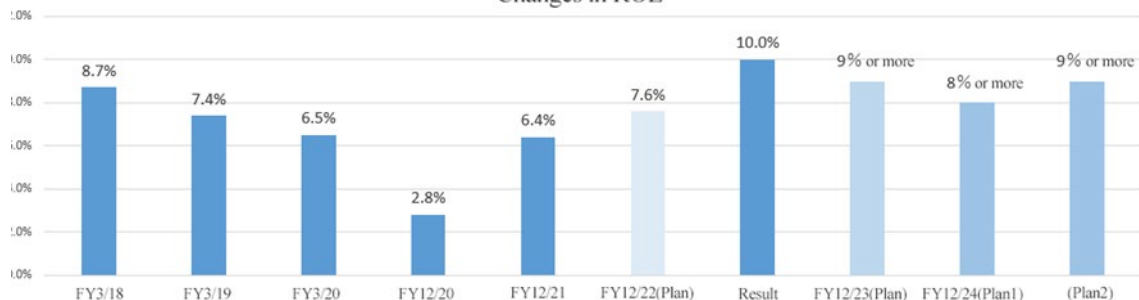
*FY20/12 was a nine-month period. FY22/12(Plan) was the original plan announced in February 2022; FY24/12 (Plan 1) was announced in February 2022; (Plan 2) was announced in February 2023.

*Created by Investment Bridge based on disclosed material of the company.

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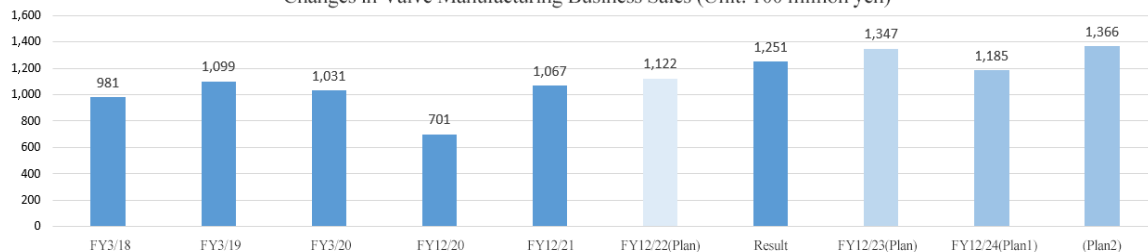
Changes in ROE



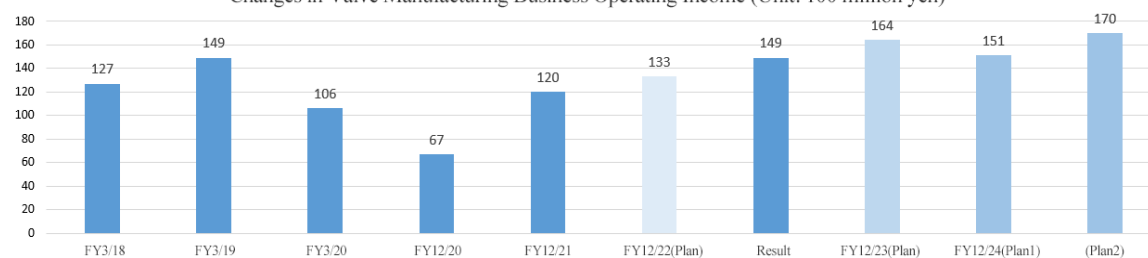
*FY20/12 was a nine-month period. FY22/12(Plan) was the original plan announced in February 2022; FY24/12 (Plan 1) was announced in February 2022; (Plan 2) was announced in February 2023.

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Changes in Valve Manufacturing Business Sales (Unit: 100 million yen)



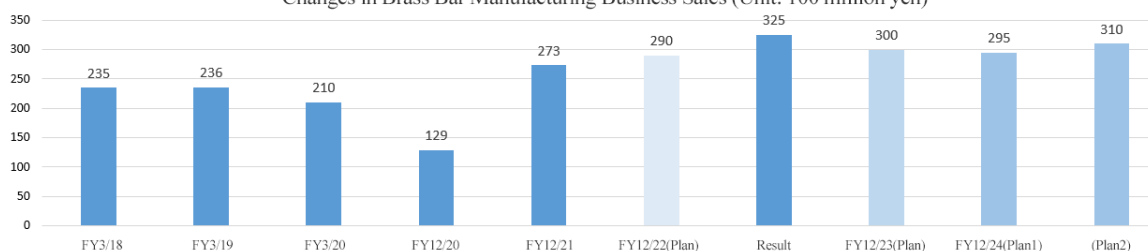
Changes in Valve Manufacturing Business Operating Income (Unit: 100 million yen)



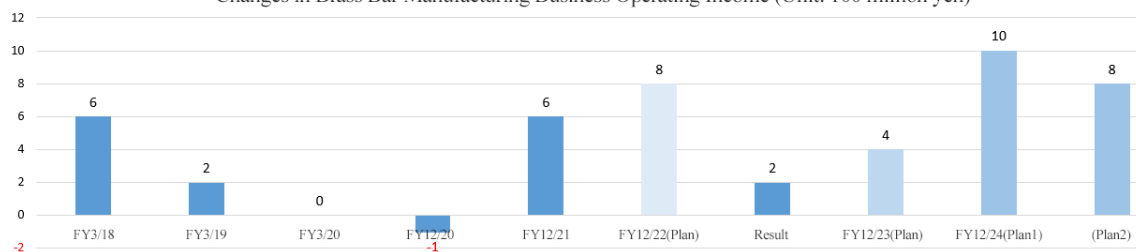
*FY20/12 was a nine-month period. FY22/12(Plan) was the original plan announced in February 2022; FY24/12 (Plan 1) was announced in February 2022; (Plan 2) was announced in February 2023.

*Created by Investment Bridge based on disclosed material of the company.

Changes in Brass Bar Manufacturing Business Sales (Unit: 100 million yen)



Changes in Brass Bar Manufacturing Business Operating Income (Unit: 100 million yen)



*FY20/12 was a nine-month period. FY22/12(Plan) was the original plan announced in February 2022; FY24/12 (Plan 1) was announced in February 2022; (Plan 2) was announced in February 2023.

*Created by Investment Bridge based on disclosed material of the company.

(3) Business environment

Regarding economic trends in 2023, the global economy is expected to remain uncertain due to the risk of economic slowdown caused by inflation and rising interest rates, as well as exchange rate fluctuations, like in 2022.

Manufacturing industries are expected to strengthen the trend of return to domestic production due to supply chain issues and economic security concerns. Additionally, due to the historically high prices, there is a strong trend of wage increases, which the government and the business community are working together to address.

With the lifting of restrictions on economic and social activities as a measure against COVID-19, a gradual economic recovery is expected.

In the medium/long term, the company assumes the following business environment.

Medium- and Long-term Business Environment

- The semiconductor market is slowing down. The outlook is uncertain, but recovery and expansion are expected in the medium term.
- Price competition intensifies due to improved product quality and overseas market development of China and India.
- Declining workforce, rising wages, and DX efficiencies will accelerate automation.
- Investments in data centers and large-scale redevelopment in the Tokyo metropolitan area will continue.
- Capital investment declines due to refinery consolidation and steel mill blast furnace shutdowns. Demand for maintenance will increase due to aging of plants.
- Business structure changes related to ESG investment. Demand for functional chemicals, hydrogen, and decarbonization will increase.

(Taken from the reference material of the company)

(4) Strategy by market for each business

◎ The Valve Manufacturing Business

The overview of each market and key measures for 2023 are as follows.

1) Building & Facilities

Investment projects decreased due to the global economic slowdown. Although domestic housing starts are on a downward trend, redevelopment of metropolitan areas is continuing, and overseas government investment projects and data center construction investment remain active.

In 2023, the company will work to expand its regionally complete business in China and ASEAN, capture demand in the data center market by meeting the need for short delivery times through strategic inventory, and develop products that respond to changes in piping construction methods and materials and to automation and smart technology.

2) Petrochemicals

In addition to the global trend toward decarbonization, the imbalance between supply and demand caused by the problems in Russia and Ukraine is expected to drive business restructuring.

Medium/long-term investment is expected to expand in emerging countries due to increased demand associated with economic growth, while investment in demonstration plants for decarbonization and chemical recycling is expected to increase in developed countries.

In 2023, the company will expand its API-certified product lineup for the North American market. In addition, in order to expand toward the commercialization of KISMOS, the company will work to obtain formal installation contracts from projects currently under evaluation and installation, horizontally expand the number of similar plants of companies that have obtained contracts, and utilize distributors and sales agents.

In addition, the company will work to capture maintenance and preservation demand and realize short delivery of high value-added Perrin products produced in Japan.

3) Water Treatment

The global demand for water infrastructure is increasing, but the price range and certification systems are barriers to entry. In Japan, demand will increase due to the need to replace aging water pipelines and to improve earthquake resistance, but there are budget limitations. Investment in pure water/ultrapure water plants continues due to increased demand for semiconductors, and KITZ expects demand for water recycling to meet environmental measures.

In 2023, the KITZ Group will provide solutions that comprehensively leverage its water-related technologies, products, and services. Specifically, the company will (1) launch the high-flow type of Pureculaser and build a service system, (2) expand the sales of the Butterfly Valve/Aqua Series and meet the demand for maintenance, and (3) enter the groundwater treatment field on a full-scale basis.

In addition, for full-scale entry into the pure water/ultrapure water treatment equipment market, the company will (1) launch PPS disc butterfly valves and (2) expand the sales of PFA lined butterfly valves.

4) Machinery & Equipment

Demand for product supply and parts procurement compliant with environmental regulations such as RoHS and REACH, and demand for switching to green refrigerants to reduce greenhouse gas emissions are expected to increase. The required specifications for machinery and equipment for the medical/food/battery/biotechnology industries are becoming more sophisticated.

In 2023, the company will work to strengthen the management of RoHS, REACH, and other environmentally regulated substances and expand the number of products compliant with these regulations, conduct deep market research through the Machinery Equipment Sales Department, develop compact, lightweight, and automated products that meet customer needs, and expand the sales of explosion-proof actuators.

5) Semiconductor Equipment

Although the semiconductor industry is currently in an investment adjustment phase and there is a sense of uncertainty due to the U.S.-China dispute, continued investment is expected over the medium/long term, and growth is expected to be maintained and expanded. In order to respond flexibly to customer needs, in addition to increasing production capacity, the company must strengthen its R&D structure and overseas sales capabilities.

In 2023, the company will work to increase its market share by launching a new plant, to achieve automation and labor savings by revamping its core system, and to promote the development of strategic products for the U.S. market.

6) Semiconductor Materials (Filters)

Against the backdrop of robust demand for semiconductors, solid growth is expected for filters for semiconductor photoresists (Polyfix). Customers' quality requirements for products, components, and environmental impact are becoming tougher.

In 2023, the company will focus on expanding sales by preparing for the launch of a new plant and obtaining user certification, establishing technologies for miniaturization and promoting user certification, and promoting NEDO projects related to CO₂ separation membranes.

7) Fine Chemicals

Active investment is expected to be continued globally in the pharmaceutical, food, and hygiene business and the secondary battery industry. As petrochemical companies, which are major customers, are focusing their business on high value-added fine chemicals, KITZ is required to expand its product lineups to meet increasingly sophisticated process requirements.

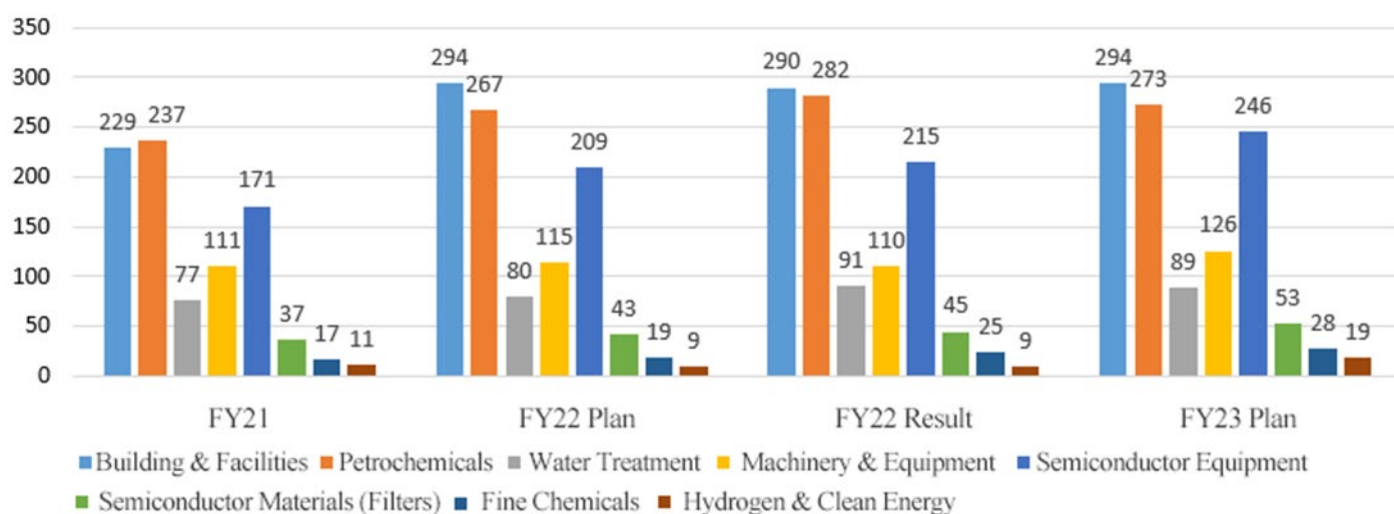
In 2023, the company will launch diaphragm valves, expand its lineup of lined valves, increase sales of extension bonnet ball valves, and continue market research in the pharmaceutical market.

8) Hydrogen & Clean Energy

In addition to the energy transition toward a decarbonized society, demand for clean energy (LNG/ammonia/hydrogen) and renewable energy (biomass/geothermal, etc.) will increase rapidly due to the Russia/Ukraine issue. Efforts are underway to build a supply chain for a hydrogen society.

In 2023, efforts will be focused on launching Hydrogen Business Division, including the development of a hydrogen station market through package units, the sale of valves for liquefied and high-pressure hydrogen, the execution of research and development projects (NEDO/JAXA), and consideration of maintenance businesses.

Changes in Valve Manufacturing Business Sales by Market (Unit: 100 million yen)



*FY22 plan is the revised plan announced in November 2022.

◎ Brass Bar Manufacturing Business

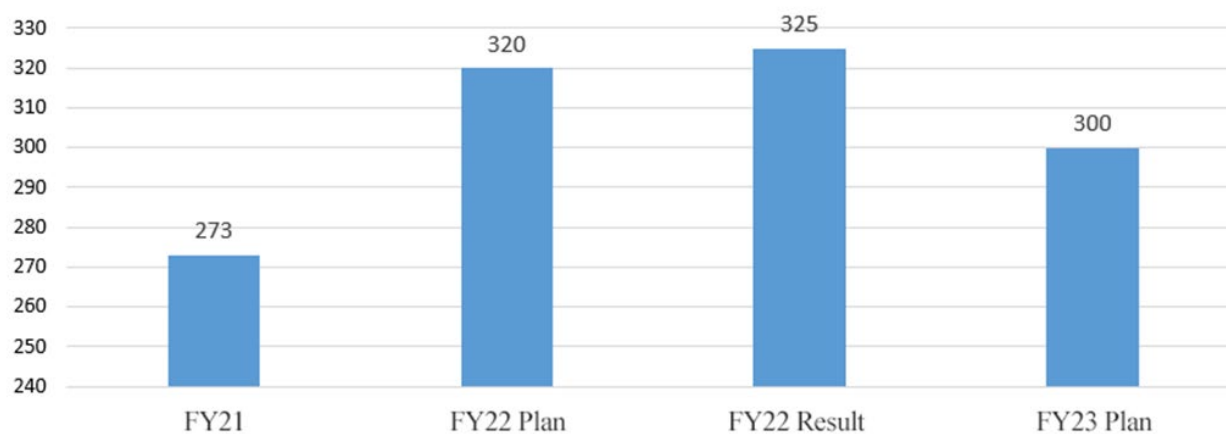
The existing fields are shrinking, but the company aims to increase profitability by expanding into growing areas such as semiconductors and automobiles, meeting demand for processed products through supply chain re-evaluation, and continuous cost reduction.

In 2023, the company plans to strengthen its casting C line to have three furnaces, reduce wear and tear, and reduce material costs by recycling brass slag.

In addition, the company aims to enter and expand into growing markets such as semiconductors, automobiles, construction machinery, heavy machinery, and agricultural machinery.

The company will work toward business rationalization and automation through digital transformation in production management (production planning) and order management, aiming for visualization of the manufacturing site and productivity improvement.

Changes in Brass Bar Manufacturing Business Sales (Unit: 100 million yen)



*FY22 plan is the revised plan announced in November 2022.

5. Conclusions

Although growth rate is lower than that in the previous period, the company is expecting an increase in sales and profit this term. The company is planning for a significant expansion from the second half, following a decrease in sales and a slight increase in profit in the first half compared to the second half of the previous year. While there are uncertainties, including the risk of an economic slowdown due to inflation and rising interest rates and foreign exchange rate trends, like in 2022, a gradual economic recovery is expected as the effects of the COVID-19 pandemic fade away. In this environment, it will be interesting to see how the strong performance of semiconductor equipment and the hydrogen & clean energy market in the Valve Manufacturing Business will contribute to earnings growth as a driving force.

<Reference1: Long-term Management Vision, Beyond New Heights 2030 - Change the 'Flow'>

In February 2022, in order to realize the new KITZ' Statement of Corporate Mission, for the purpose of further long-term growth and enhancement of corporate value along with the contribution to the realization of a sustainable society, we have formulated our long-term management vision, Beyond New Heights 2030 - Change the 'Flow', as well as our first Mid-Term Management Plan 2024.

(1) Our Aspirations for 2030

The following are the four ideals.

Technology/Solutions	KITZ will continue to challenge in Stream, Block and Squeeze by leveraging its one-of-a-kind technology and exceeding the user's expectations through its powerful proposal capability.
Core Business/Growth Business	KITZ will strengthen the foundation of its core business for the information and the sustainable society, while also accelerating its entry into growth businesses without fear of risk.
Environmental Conservation Through Business	KITZ will garner favor of society by contributing to a sustainable future, pursuing environmentally friendly product and material development and production processes.
Diverse Human Resources	KITZ will ensure each and every employee, regardless of gender, age, nationality, or culture, can work in high spirits of maximum performance as professionals.

(2) Ideal Management Structure and Quantitative Goals

① Quantitative goals

The two goals for FY2030 are as follows.

☆ Average sales growth rate: 4% or higher (Consolidated sales of 200 billion yen for FY2030)

☆ ROE: 10% or higher (Consolidated net income of 10 billion yen for FY2030)

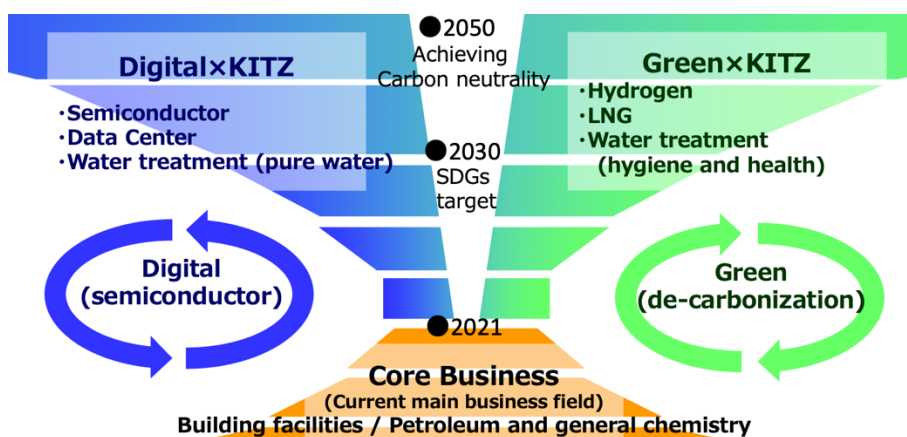
② Management structure

The company aims to expand the business domain toward the growing fields of semiconductors, fine chemicals, hydrogen, etc. based on its current core businesses such as building facilities and petroleum/general chemistry.

The company will proactively allocate resources to growing fields and regions against the backdrop of digitalization and de-carbonization with emphasis on return on invested capital (ROIC).

(3) Ideal State for 2030: Shift in Business Domains

They aim for two-sided management that can generate earnings in core businesses and growing areas.



(Taken from the reference material of the company)

① Long-term strategic investment policy

The total investment budget (for nine years) is set at 80 billion yen, of which approximately 60% will be for strategic investment in growing and new areas (including DX and M&A).

Management resources will be intensively allocated for shifting from core businesses.

(4) Sustainability

① Basic sustainability policy and sustainability slogan

The following are the basic sustainability policies and slogans.

◎ Basic sustainability policy

KITZ Group is committed to realizing its corporate philosophy, the KITZ' Statement of Corporate Mission, through the following activities

- ① Work to solve social issues through our business and enhance our corporate value and social value
- ② Achieve efficient, fair, and transparent corporate management and become a company trusted by society.
- ③ Build strong trusting relationships through dialogue with all stakeholders

◎ Sustainability slogan

Create the Future, Preserve the Future

Create the Future

The KITZ Group will create a new future by acting with integrity and taking on challenges without fear of change, aiming to realize a recycling-oriented society that is friendly to the earth and people.

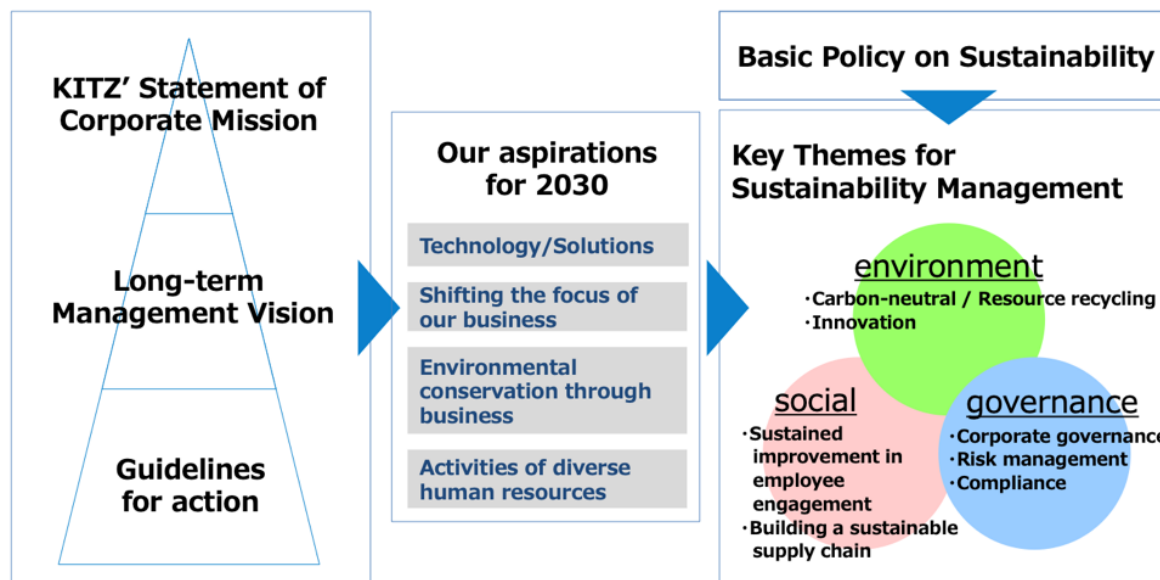
Preserve the Future

The KITZ Group will continue to protect the Earth's limited resources and human life and strive to realize a society that we can pass on to the next generation.

◎ Sustainability management

① Overall view

In our long-term strategy toward 2030, we have placed sustainability management at the core of our business strategy.



(Taken from the reference material of the company)

② Key themes for sustainability management

We will establish key management themes for each of E (Environment), S (Society), and G (Governance) and work on concrete measures to address them.

	Key Themes for Sustainability Management	Specific Initiatives
E	Carbon Neutral/Resource Recycling	Development of KPI targets to achieve Triple Zero (CO ₂ reduction rate/water discharge/waste landfill disposal rate)
	Innovation	Development of Fluid Control Technology to Support a Decarbonized/Hydrogen Society Development of materials that contribute to reducing the environmental footprint
S	Sustainable Improvement in Employee Engagement	Instillation of corporate philosophy/vision To promote D&I and foster a culture of collaboration Human resource development and system reform to support global management Creating a work environment in which employees can work with enthusiasm
	Building a Sustainable Supply Chain	Emphasizing CSR procurement To establish a stable raw material and parts procurement system
G	Corporate Governance Risk Management Compliance	Further transparency in management decision-making Risk management focused on both risk reduction and opportunity creation Global Compliance for Sustainability Management

◎ E (environment)

The company aims to realize a sustainable, recycling-oriented society in FY2050 by promoting Triple-Zero initiatives: zero CO₂ emissions, zero environmental impact, and zero risk.

The goals for FY2030 are i) a CO₂ reduction rate of 90%, ii) a waste to landfill ratio of less than 1.0%, and iii) 100% reduction of water resources discharge.

(All figures are comparisons with FY2013 in the domestic group)

◎ S (society)

To create an environment where each and every employee works professionally and energetically at their best performance, regardless of gender, age, nationality, culture, etc., with the aim of achieving the success of diversified human resources.

◎ G (governance)

In terms of corporate governance, the Company will strengthen portfolio management by incorporating an evaluation yardstick for the cost of capital and enhance the monitoring function and strengthen the implementation system by establishing a Sustainability Committee.

In risk management, we will identify and assess risks, and implement, verify, and continuously update countermeasures throughout the Group, as well as seek to discover new business opportunities by shifting our thinking from risks related to social needs and market changes.

In the area of compliance, we will shift to a compliance program that meets the needs of society (strengthening our measures for human rights, labor, the environment, anti-corruption, etc.) and aim to spread autonomous compliance throughout the Group, with each employee taking responsibility for his or her own compliance.

(5) Toward DX

Achieve business transformation (BX) by linking DX and business innovation activities.

They aim to transform into a customer-oriented and agile organization by thoroughly streamlining existing businesses and visualizing and mobilizing management resources in order to support the world's social infrastructure and create a prosperous future through fluid control and digital technology.

<Reference2: First Mid-Term Management Plan 2024>

(1) Overview

① Basic management policy

The company aims for a two-pronged management approach that can generate earnings in both core businesses and growing fields.

*Actively allocate resources to growing fields and regions against a backdrop of digitalization and decarbonization.

*Business operation with emphasis on return on invested capital (ROIC).

② Quantitative targets

As mentioned above, the target financial KPIs for FY 2024 were revised. Non-financial KPIs were not revised.

Financial KPI	FY2021(results)	FY2024(targets)
Sales	1,357	1,700
Operating Income	89	130
ROE	6.4%	9% or more
Dividend Payout Ratio	36.2%	About 35%

Unit: 100 million yen

*Segments

	FY2021(results)	FY2024(targets)
Valve Manufacturing Business	1,067	1,366
Brass Bar Manufacturing Business	273	310
Other	16	24
Total Sales	1,357	1,700
Valve Manufacturing Business	120	170
Brass Bar Manufacturing Business	6	8
Other	-2	1
Adjustment	-35	-49
Total Operating Income	89	130

Unit: 100 million yen

Non-financial KPIs	FY2021(results)	FY2024(targets)
CO ₂ reduction rate	-28.1%	-80%
Employee Engagement Score		
Worthwhile place to work	48pt	56pt
Ease of working	43pt	55pt
Ratio of female employees	21.7%	23%
Ratio of female managers	3.4%	10%
Ratio of male employees who took childcare leave	29.0%	50%

CO₂ reduction rate is the reduction amount of domestic group companies, compared to 2013. The results in FY 2020 replaced with those in FY 2021 (finalized value) (-26.9% → -28.1%), all numbers refer to KITZ alone.

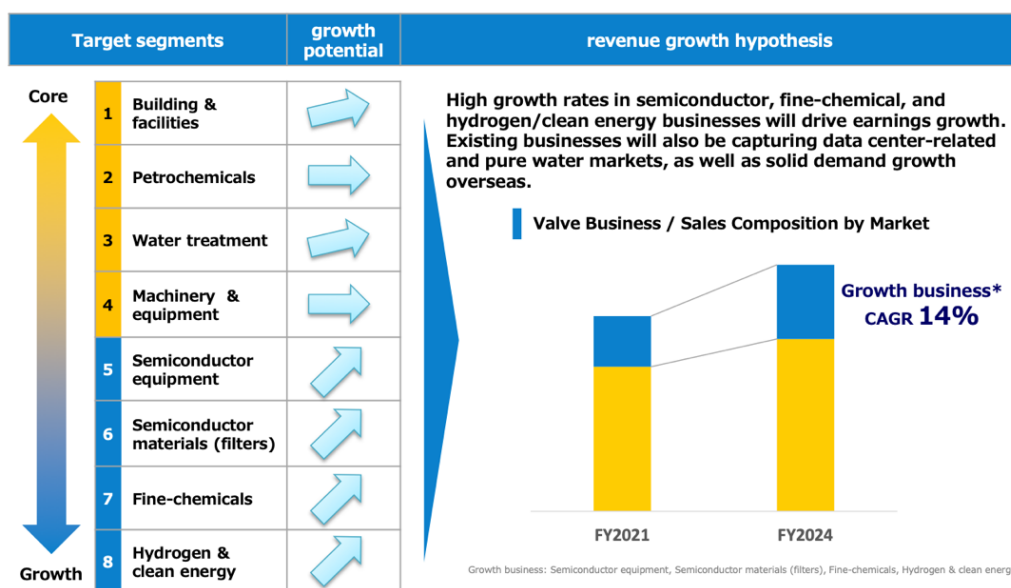
*“Female managers” refers to women who hold positions as department heads.

(2) Mid-term Plan for Each Business

(2)-1 Valve Manufacturing Business

(2)-1-1 Strategy in Each Market

Medium- to long-term target markets were classified into eight market segments. Based on the current core businesses (building & facilities, petrochemicals, water treatment, and machinery & equipment), the company will shift resources to growing and new fields (semiconductor equipment, semiconductor materials [filters], fine chemicals, and hydrogen & clean energy) and change its profit-earning structure.



(Taken from the reference material of the company)

① Building & facilities

Although new housing starts are on a downward trend domestically, overseas markets will continue to grow, especially in ASEAN countries. In developed countries, the needs for simplified construction are increasing. Globally, demand for data centers is expected to grow rapidly.

(Key measures)

The company will promote the stocking of products to respond to the need for quick delivery in order to capture demand in the data center market.

In addition to the development of products with connection methods compatible with simplified installation, the company will develop products that are compatible with changes in piping construction methods and materials, as well as automation and smart construction.

② Petrochemicals

Global oil demand is expected to increase in emerging markets as they recover from the COVID-19 pandemic. Petrochemical demand is expected to remain strong in developed countries as well, despite the shift to clean energy.

(Key measures)

- To develop products that follow user trends such as the shift to clean energy and environmental measures.
- To improve services and MRO order rates for key account users, especially Japanese-affiliated companies.
- To raise the implementation rate of the KITZ predictive diagnostic system.
- To promote compliance with global standards and customer certifications.

③ Water treatment

Global demand for water infrastructure will increase, but price ranges and certification systems are barriers to entry. Investment in pure water/ultrapure water plants will increase due to rising demand for semiconductors.

(Key measures)

- To develop marketing activities closely tied to pure water plant manufacturers and pure water equipment manufacturers.
- To develop resin-based products and promote the compliance with the strict prohibition on the elution of metal ions.
- To provide solutions for the water infrastructure field, focusing on purification equipment (Pureculaser, AquaRescue, etc.).

④ Machinery & equipment

The company will provide new customer value by accurately grasping the increasingly sophisticated environmental needs for RoHS/REACH, green refrigerants, etc. in the machinery and equipment sector.

(Key measures)

- To establish a new Machinery & Equipment Sales Department.
- To develop machinery and equipment that is smaller, lighter, and better suited to automation, and introduce them to the market.
- To expand the number of products compliant with environmental regulations such as RoHS and REACH.
- To capture demand for switching to next-generation (green) refrigerants.

⑤ Semiconductor equipment

Against the backdrop of the solid expansion of the semiconductor market, the company will expand its production capacity of clean valves for semiconductor equipment and promote the development of its research and development system.

(Key measures)

- New building construction at the Nitta SC Plant to increase production capacity.
- To implement DX (automation and labor saving) investment on the production side.
- To reinforce the R&D system.

⑥ Semiconductor materials (filters)

Against the backdrop of strong semiconductor demand, the company also expects steady growth in semiconductor photoresist filters (Polyfix). Production capacity will be expanded to meet growing demand.

(Key measures)

- To expand the production capacity of industrial filters such as Polyfix.
- To work on the development of next-generation membranes compatible with semiconductor sub-nano.
- To develop methods of applying precision filters to other fields (other than photoresists).

⑦ Fine chemicals

Chemical companies, which are the company's major customers, are focusing on high value-added fine chemical fields. The company will expand its product lineup to meet increasingly sophisticated process requirements and increase earnings.

(Key measures)

To expand its product lineup to meet the demand for high cleanliness and easy maintenance, such as diaphragm valves.

Form a cross-functional sales and engineering organization dedicated to fine chemicals and pursue synergies with KITZ SCT.

To build and strengthen process and production technology networks with fine chemical/equipment and machinery manufacturers, etc.

⑧ Hydrogen & clean energy

Hydrogen energy-related market potential is expected to expand rapidly toward a decarbonized society. The company aims to expand its business by entering the hydrogen supply chain, which is being implemented in society.

(Key measures)

The company will capture the hydrogen station market with packaged units. Also, they will enter the small-scale, locally produced and consumed green hydrogen energy chain business.

Large-scale demonstration plant for liquefied hydrogen (shipping and receiving terminals, carriers), and research and development for entry into the hydrogen aircraft market (NEDO project) will be promoted.

To capture new hydrogen energy demand for hydrogen power generation, hydrogen pipelines, etc.

To expand the lineup of ultra-low temperature valves for LNG for overseas markets and strengthen sales.

(2)-1-2 Group Strategy

The company aims to increase revenues by focusing on three key areas: creating group synergies, strengthening user contact points, and global product and area strategies.

(2)-1-3 Area Business Strategy

① North American market

◎ Key Target Markets

Building & facilities, petrochemicals, water treatment, semiconductor equipment, fine chemicals, and hydrogen & clean energy

◎ Business opportunities

*Expansion of oil, petrochemical, and gas markets in the oil-producing U.S.

*Trend of strengthening environmental regulations (decarbonization, lead-free, etc.)

◎ Key measures

The U.S. marketing base is positioned as a control tower for market strategies for oil and gas.

Aiming to develop and launch low-cost ball valves to enter the chemical market.

Regarding industrial use valves, the sale of three-piece trunnion ball valves and high-performance butterfly valves will be expanded.

Regarding general use commercial valves, the company aims to expand sales in the commercial valve market.

② Chinese market

◎ Key target markets

Building & facilities, petrochemicals, water treatment, machinery & equipment, semiconductor equipment, fine chemicals

◎ Business opportunities

*Expansion of the data center market, etc., against the backdrop of the new infrastructure policy.

*Expansion of ethylene and other production capacity in line with policy guidance (chemical shift) in the petroleum industry.

*Market expansion through policy-oriented domestic production of semiconductors.

◎ Key measures

*Building & facilities, petrochemical, and fine chemicals markets

In the area of general use commercial valves, the company will actively utilize its integrated system of design, production, and sales: it will strengthen its ability to respond to the speed of market demand.

Regarding industrial use valves, the company will expand sales of industrial products, which have a large market size, by utilizing its production plant in China.

For automatic valves, an assembly and inspection system will be established at the production base in China.

*Semiconductor Equipment Market

To increase local production capacity and expand sales.

③ ASEAN and Indian markets

◎ Key target markets

Building & facilities, petrochemicals, water treatment, machinery & equipment, fine chemicals, and hydrogen & clean energy

◎ Business opportunities

*Expansion of Middle-Zone economy in parallel with the growth of emerging middle-class markets, including urban infrastructure.

*Expanding key account marketing opportunities in parallel with the entry of Japanese users.

◎ Key measures

*ASEAN

To establish a network of key accounts with a focus on Japanese users.

To identify hot-selling products through community-based marketing and develop an integrated local supply system (development, production, and sales).

To maximize revenues through collaboration between local brands and Unimech, Inc.

*India

To establish a regional strategy for region completion following the domestic production policy.

(2)-2 Brass Bar Manufacturing Business

Although existing business domains are shrinking, the company will increase profitability through continuous cost reduction by cultivating growing areas (automotive, semiconductors, etc.), capturing demand for processed products in line with supply chain reviews, promoting manufacturing cost reduction and recycling, and improving operational efficiency through DX and other measures.

(2)-3 Other Business (Services: Hotel Beniya)

To shift the sales policy to target individual customers and the nearby prefectures' trading areas to secure profits during the COVID-19 pandemic. To take the opportunity presented by environmental changes to drastically reform and establish service productivity.

(3) Digital Transformation (DX)

DX will be introduced in the areas of design and development, production and assurance, marketing, sales and customer service and back office. Reduction of operation ratio and shift to value-added operations will be promoted.

DX improves EX (employee value) and CX (customer value).

(4) Financial Strategy and Capital Policy

The cornerstone of management is medium- to long-term improvement of return on invested capital, and as the main KPI for target management, ROE is used externally, while ROIC is used internally.

To execute strategic investments and raise necessary funds for future growth and ROE improvement.

The thick liquidity on hand for contingency planning during the COVID-19 pandemic will be returned to the normal mode, and consolidated cash and deposits will be reduced to about a month (compared to consolidated monthly sales).

BRIDGE REPORT



Item	Goals and Plans
ROE	2024: 9% or higher. 2030: 10% or higher.
ROIC	Adoption of ROIC management ① To improve profitability (implement pricing strategy, reconsider unprofitable products) ② ROIC Tree deployment and PDCA management ③ CCC improvement and asset reduction
Operating CF	38 billion yen (cumulative total for 2022-2024)
Investment	Total investment: 37 billion yen. Strategic investment: 24 billion yen.
Shareholder return	Dividend payout ratio: mid-term policy of 35% continued
Interest-bearing debt	Bond redemption: 10 billion yen (September 2022)

<Reference3: Regarding Corporate Governance>

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

Organizational structure	Company with board of company auditors
Board of directors	7 directors (4 are outside directors)
Company auditors	5 auditors (3 are outside auditors)

◎ Corporate governance report (Updated on: March 30 2022)

Basic policy

We recognize that a well-functioning corporate governance allows the company to fulfil their social responsibility, elevates the efficiency and transparency of the management and contributes to a sustainable improvement of the corporate value. That is why our group aims for an effective corporate governance system based on the KITZ' Statement of Corporate Mission by placing importance on compliance and building and operating a precise and swift management system as well as a business execution system which can swiftly respond to changes in the management environment while living up to the trust of all kinds of stakeholders and fulfilling the social mission and responsibility as a company.

In addition, our company has set Basic Policy for Corporate Governance, which is disclosed on the company website alongside Compliance Table of the Governance Code.

We have established the Basic Policy on Corporate Governance, which can be accessed through our company website alongside the "Status of Implementation of the Corporate Governance Code" and the information on sustainability initiatives.

https://www.kitz.com/english/sustainability/kitz_sustainability.html

<https://www.kitz.com/english/sustainability/governance.html#t01/>

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

Our company follows all principles of the Corporate Governance Code revised by the Tokyo Stock Exchange (hereinafter referred to as "TSE") in June 2021.

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

【Principle 1-4】 Cross-shareholdings

We have established a "Policy on Cross-shareholdings," which stipulates that, in principle, any shares for the purpose of forming stable shareholders will not be held, and that we will reduce, as much as possible, the number of the shares that are deemed not to meet this policy.

In addition, at the meeting of the Board of Directors held every year at the beginning of the fiscal year, we scrutinize the purpose of holding individual strategically held shares, the quantitative economic rationality associated with holding, and the risks of holding such shares, etc. and check their appropriateness based on this policy.

Regarding the exercise of voting rights regarding strategically held shares, we comprehensively take into consideration the management situation and suitability of decision-making for improving the governance system and corporate value in a mid-to long-term of the share-issuing company, and whether an improvement of our company group's corporate value can be expected or not and pass a judgement for or against in regard to each proposal.

Please refer to the "Basic Policy for Corporate Governance" and "Policy Regarding Cross-shareholdings" disclosed on our company's website for the policy regarding Cross-shareholdings, and to the Financial Statements for the number of shares of each specific investment stock respectively.

【Supplementary Principle 2-4-1】 Human Resources Development Policy and In-house Environment Development Policy for Ensuring the Diversity of Core Human Resources, and the State of Achievement

[1]Policy for ensuring diversity in regard to promotion, etc. of core personnel

Our company has been promoting diversity since FY2015 as one of important strategies for management. We believe that it is the mission of a company to treat their employees as assets of the company (human resources), respect the individuality of employees with diverse characteristics (age, sex, nationality, occupation, position, workstyle, etc.) and values, recognize each other and build an environment where each employee can demonstrate their respective abilities.

Moreover, our company has been promoting personnel based on the individual, placing importance on their ability and achievements, regardless of sex or nationality. We believe that respecting diverse viewpoints and values is vital for the realization of sustainable growth and the improvement of corporate value, and alongside proactive recruitment of human resources with different experiences, skills, and careers, we are developing a workplace environment that allows such personnel to flourish.

[2]Promotion of women to managerial positions

Our company views the empowerment of women as one of management challenges. In order to promote diversity, we have forged ahead with various initiatives for achieving further growth of female employees by implementing measures such as support for the career development of women and endeavors for expanding the range of work where women can participate in addition to improving the ratio of female employees in recruitment and creating an environment easy for women to work in. We will keep upholding our policy to forge ahead with further initiatives in order to become a company where women can achieve their full potential. Moreover, while the current ratio of female employees in our company is 21.7%, our goal is to increase it to 23% by FY2024 and to 25% by FY2030.

Regarding the promotion of women to managerial positions, the current ratio of women in managerial positions is 3.4% and there is a difference between men and women in regard to promotion to positions that involve decision-making, such as managerial positions. Our company views this as an item to be addressed. From now on, we plan to gradually raise the ratio of women in managerial positions, to 10% by FY2024, 16% by FY2027 and 20% by FY2030 through steady implementation of measures concerning the promotion of women to managerial positions in regard to female mid-career recruits, etc. in addition to engaging in initiatives to bring more women to leadership positions (semi-managerial positions), which also form the pool for the next managerial position candidates, by enriching the education and development of female employees, alongside further promotion of the recruitment of female employees.

[3]Promotion of foreign nationals to managerial positions

In order to accurately grasp different demands of various customers and quickly provide quality products and services, our company group has developed bases for manufacturing and sales in 18 countries, including Japan. Moreover, foreign employees working at bases other than Japan account for 54.5% of all of our company group's employees.

However, while our company has been putting efforts into the recruitment of mid-career recruits and new graduates of foreign nationalities since FY2015, the average number of recruited foreign employees in the last five years is 3.8 and the overall ratio of foreign employees stands at 2% as of the end of FY2021. In this situation, we have not quite reached the point where we could set a goal for the promotion of foreign nationals to managerial positions and our company recognizes this as a task to be addressed. From now on, we shall consider the promotion of foreign employees to managerial positions in the process of forging ahead with the recruitment of even more foreign employees.

Furthermore, it is our company's policy to place importance on further acceleration of the business globalization, promote the localization of the operation spreading into the whole world and proceed with streamlining of business from the perspective of total optimization, toward FY2030. In order to accomplish this, we shall proactively promote the communication between human resources beyond the barriers of countries and regions and aim for realizing a globally optimal utilization of human resources alongside promoting outstanding personnel in each region who have a good understanding of the particular region's characteristics, regardless of the nationality, race, sex, etc., based on the KITZ Global HR Policy.

[4]Promotion of mid-career hires to management positions

The ratio of mid-career hires in management positions has already reached 45%. Therefore, we will make efforts to maintain the current ratio.

【Supplementary Principle 3-1-3】 Initiatives Concerning Sustainability (Investment in Human Capital, Investment in Intellectual Property, and Climate Change Risks)

Upgrading the quality and quantity of information disclosure based on frameworks such as TCFD

[1] Initiatives concerning the promotion of sustainability

Our company believes that sustainability management is important in order to realize both sustainable development of the society and mid-to long-term growth of our company group, and tackling challenges concerning ESG (environment, society, governance) can bring about an impulse for creating new corporate value. With regard to promoting sustainability management, our company has established Basic Policy on Sustainability and Slogan on Sustainability, and based on them, we have set the priority sustainability themes.

Moreover, regarding the system for promoting sustainability, we have set up Corporate Committee for the Promotion of Sustainability, where the head of the Management Planning Dept. serves as committee chairman, and the executives of our company as well as Presidents of the domestic group companies are involved as permanent members, alongside establishing Group for the Promotion of Sustainability within the Management Planning Dept.

The objective of the Corporate Committee for the Promotion of Sustainability is to powerfully boost sustainability management in the whole group by sharing priority challenges as well as KPIs (key performance indicators) concerning respective challenges, reflecting them on the formulation of KPIs in each company and corrections of the plan.

[2] Investment in human capital, intellectual property, etc.

The "KITZ Group Long-Term Management Vision" and "Medium-Term Management Plan" announced in February 2022 give the information on our strategies related to the allocation of management resources and business portfolios, including quantitative targets for growth, profitability, capital efficiency and payout ratio, as well as the investments related to human capital and development (including intellectual property investment) as the steps toward growth to realize the long-term management vision.

[3] Impact on business activities, income, etc. of the company brought about by risks and opportunities for gaining income related to climate changes

Our company set a mid-term environmental goal regarding the reduction of emissions of greenhouse gases such as CO₂ by 2030, outlined below, in FY2021. In order to upgrade gradual disclosure of information concerning the impact of climate changes on business activities in terms of financial affairs alongside quicker realization of the relevant mid-term environmental goals, we expressed our approval of the TCFD (Task Force on Climate-related Financial Disclosures) proposal in December 2021.

Consequently, our policy is to conduct analysis based on data and upgrade the quality and quantity of information disclosure in step with TCFD, in addition to grasping risks and opportunities related to climate changes.

In addition, the information on our responses to the climate change is disclosed on our website.

https://www.kitz.co.jp/environment/env_warming.htm

1. Governance

Our company formulated Long-Term Environmental Vision in 2021, based on the philosophy of the Group Environment Management. The progress and accomplishments regarding the mid-term management plan, long-term environmental vision and the main items of the disclosed environmental goals are checked at a management meeting involving the executives, with decisions passed on the direction, challenges, and especially important measures. In addition, especially important items are discussed with the board of directors, who then deliberate and pass the decision.

2. Strategy

Our company recognizes the importance of the consideration of risks and opportunities related to climate changes using future environmental changes (scenario) and the resiliency of our strategies.

A working group conducted a qualitative analysis of risks and opportunities of our important businesses related to climate changes in regard to the influence and impact of climate changes on management strategy, business, and financial affairs in FY2021, while taking into consideration the long-term environmental vision based on the long-term management vision, and made an evaluation at a management meeting, while taking into account the results of this analysis.

It is our company's policy to build a mechanism for evaluating and managing risks related to climate changes, use a scenario of future environmental changes based on data analysis and upgrade the quality and quantity of information disclosed in step with the TCFD proposal, alongside considering risks and opportunities related to climate changes and inspecting the resiliency of our company's strategies.

3. Risks and management

The process consists of an in-house working group analyzing risks and opportunities related to climate changes in regard to important businesses, evaluating these analysis results at a management meeting and formulating/implementing measures as well as grasping the results thereof. From now on, we shall rebuild the mechanism for evaluating and managing risks related to climate changes and use future environmental changes (scenario) to disclose countermeasures and the influence on financial affairs.

4. Indicators and goal

Regarding the mid-term environmental goal of reducing the emissions of greenhouse gases such as CO₂ by 2030 set by our company group, we are aiming for a production system that is both efficient and environment-friendly, intending to achieve a 90% reduction in the domestic group companies by 2030 with the year 2013 being the reference year, and decreasing the energy consumption rate as well as the output level of CO₂ by 50% at our overseas manufacturing bases.

【Principle 5-1】 Constructive Dialogue with Shareholders

Our company engages in following initiatives in order to promote dialogue with shareholders.

1. We establish IR department and nominate an executive in charge of IR in order to promote dialogue with shareholders.
2. We formulate Disclosure Policy and disclose it on our website to provide information to all shareholders and investors in a timely, accurate, impartial way.
https://www.kitz.com/english/ir/disclosure_policy.html
3. As a general rule, we hold a results briefing session targeted at institutional investors and analysts every quarter, and a company briefing session targeted at individual investors every year, with the President or executive in charge of IR taking care of the explanation. In addition, directors, including outside directors, and auditors participate if required and promote dialogue with shareholders.
4. In case of a request for an interview from a shareholder, the head of the division in charge of IR will deal with it as a general rule. Based on the intent of the interview, the number of held shares, etc., the President or the executive officer in charge of IR will take care of the interview.
5. In case of dialogue with shareholders, we appropriately manage information in order to prevent insider transactions.
6. We explain the group management vision, mid-term management plan, etc. in a way that is easy to understand.
7. In order to support dialogue with shareholders, we work toward an organic cooperation of the Publicity and IR Promotion Office, the Corporate Planning Department, the Accounting and Finance Department, the Sustainability Promotion Office, the General Administration Department, the Legal Department, etc. as required.
8. We regularly report the opinions, requests, etc. earned from dialogue with institutional investors and analysts to the President and the executive officer in charge of IR. The President reports the contents thereof at the board of directors meeting as well as management meeting as required and utilizes them in improving management.
9. We disclose IR information regarding management information, shares, general meetings of shareholders, etc. on our website in addition to settlement information such as financial statements and Annual Securities Reports.
10. We organize the information on the shareholder structure every year at the end of June and the end of December.

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