



President
Makoto Kohno

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/en/ |

Stock Information

| Share Price | Shares Outstanding (End of period) | Market Cap. | ROE (Act.) | Trading Unit | |
|-------------|------------------------------------|-----------------|------------|--------------|------------|
| ¥1,052 | 90,396,511 shares | ¥95,097 million | 10.0% | 100 shares | |
| DPS (Est.) | Dividend Yield (Est.) | EPS (Est.) | PER (Est.) | BPS (Act.) | PBR (Act.) |
| ¥37.00 | 3.5% | ¥108.15 | 9.7x | ¥1,084.70 | 1.0x |

*Share price is as of closing on August 30. ROE is based on the financial report for the fiscal year ended December 2022. DPS, EPS and BPS are based on the financial report for second quarter of the fiscal year ending December 2023.

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.) | 169,000 | 12,900 | 13,300 | 9,700 | 108.15 | 37.00 |

*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 second quarter of the financial results of the fiscal year ending December 2023 and forecast for the fiscal year ending December 2023, etc.

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

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

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

Key Points

- Sales grew 5.6% year on year to 81.2 billion yen, exceeding the company’s forecast by 900 million yen. The Valve Manufacturing Business saw a 10.1% y/y increase in sales. In the Japanese market, the price revision conducted last year had an effect on sales growth, and the sales of valves for semiconductor manufacturing equipment also increased. In the overseas market, the sales of valves for the Americas grew significantly. The Brass Bar Manufacturing Business saw a 11.5% y/y decrease in sales. The market prices of raw materials, which affect selling prices, were unchanged from the same period of the previous year, but sales dropped due to the decrease in sales volume. Operating income rose 17.4% year on year to 6.57 billion yen. The operating income in the Valve Manufacturing Business rose 14.8% year on year thanks to the sales growth, while the operating income in the Brass Bar Manufacturing Business declined slightly by 1.1% year on year due to the drop in sales volume. Ordinary income grew 18.0% year on year to 7.23 billion yen, exceeding the company’s forecast like operating income. Net income increased 32.3% year on year to 5.48 billion yen, due to the posting of a gain on sale of strategically held shares as extraordinary income.
- There was no revision to the full-year earnings forecast, and it is expected that sales will grow 5.7% year on year to 169 billion yen and operating income will rise 16.7% year on year to 12.9 billion yen. At the time of announcement of the results for 1Q, they revised the forecasts for sales and profits upwardly, because the yen had been weakening more than assumed, products with high profit margins sold well in the overseas market, and the company curtailed SGA. It is projected that sales and profit will grow in the Valve Manufacturing Business while sales will drop and profit will rise in the Brass Bar Manufacturing Business. The dividend has not been changed from the upwardly revised forecast at the time of announcement of the results for 1Q. The company plans to pay a term-end dividend of 19.00 yen/share for a total of 37.00 yen/share/year. The expected payout ratio is 34.2%.
- 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).
- The progress rate toward the full-year forecast is 48.1% for sales, and 50.9% for operating income. In the same period of the previous year, the progress rates of sales and operating income were 48.1% and 50.7%, respectively. Considering the effects of price hikes, the full-year forecast can be said to be slightly conservative. The price hikes are expected to start contributing to profit on a full scale next term. It can be expected that sales and profit will keep growing in the next term, although performance depends on exchange rates, market conditions, etc. In addition, the ongoing medium-term plan may be completed one year earlier than expected. In particular, the sales and profit of the Valve Manufacturing Business, which is the mainstay, are expected to exceed the goals set in the medium-term plan this term. In addition to good condition in the semiconductor equipment business, as foreign enterprises have entered the Japanese market, the investment in semiconductors is projected to become more active. The medium-term outlook is bright. We look forward to the next strategy after completion of the medium-term plan.

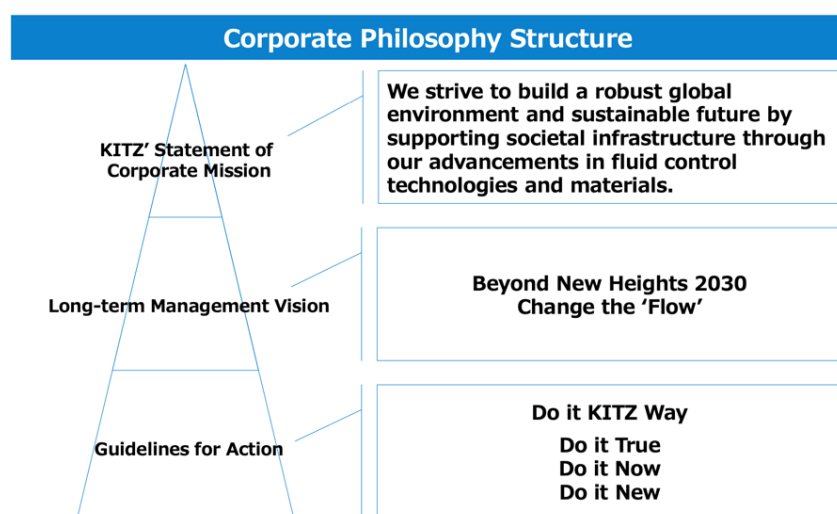
1. Company Overview

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.

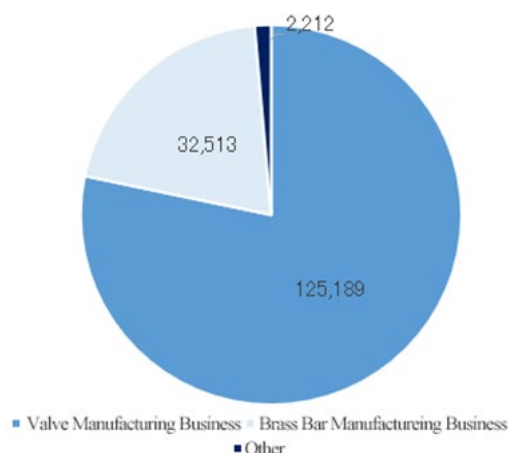


(Taken from the reference material of the company)

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.

| | |
|---|--|
| <p>Building facilities Valves, etc. used for air-conditioning, sanitary, and anti-disaster equipment when constructing hotels, hospitals, office buildings, and so on</p> | <p>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.</p> |
| <p>Gas/energy facilities Valves, etc. used for liquefied natural gas (LNG) production facilities, pipelines, and so on</p> | <p>Industrial machinery/production equipment All kinds of valves used for industrial machinery and production equipment</p> |
| <p>Oil refining and oil complex facilities Valves, etc. used for the processing lines of oil refineries, petrochemical facilities, and chemical plants</p> | <p>Semiconductor manufacturing equipment Valves and joints for semiconductor manufacturing equipment (manufactured and sold by its group company, KITZ SCT Corporation)</p> |

(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.

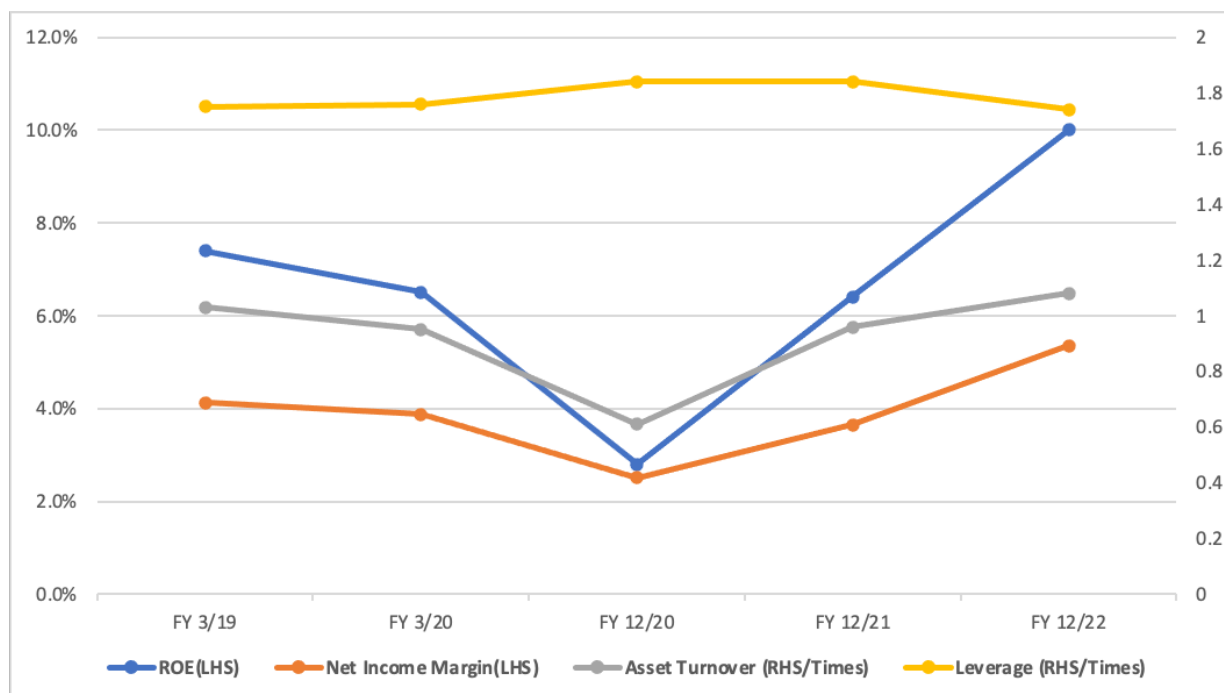
(3) Others

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.



*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 establish a P/B ratio of 1 or higher, further improvement in ROE is expected in conjunction with improved profitability.

2. Second quarter of Fiscal Year ending December 2023 Earnings Results

2-1 Consolidated Business Results

| | FY 12/22 2Q | Ratio to Sales | FY12/23 2Q | Ratio to Sales | YoY | Ratio to Plan |
|------------------|-------------|----------------|------------|----------------|--------|---------------|
| Sales | 76,932 | 100.0% | 81,274 | 100.0% | +5.6% | +1.2% |
| Gross Profit | 18,845 | 24.5% | 20,767 | 25.6% | +10.2% | - |
| SG&A | 13,246 | 17.2% | 14,194 | 17.5% | +7.2% | - |
| Operating Income | 5,599 | 7.3% | 6,572 | 8.1% | +17.4% | +1.1% |
| Ordinary Income | 6,133 | 8.0% | 7,237 | 8.9% | +18.0% | +5.7% |
| Net Income | 4,147 | 5.4% | 5,485 | 6.7% | +32.3% | +3.5% |

* Unit: million yen. Net income is net income attributable to owners of the parent company, same as below. Ratio to plan is the ratio to company's forecast.

Sales and operating income increased. Exceeded plan.

Sales grew 5.6% year on year to 81.2 billion yen, exceeding the company's forecast by 900 million yen. The Valve Manufacturing Business saw a 10.1% y/y increase in sales. In the Japanese market, the price revision conducted last year had an effect on sales growth, and the sales of valves for semiconductor manufacturing equipment also increased. In the overseas market, the sales of valves for the Americas grew significantly. The Brass Bar Manufacturing Business saw a 11.5% y/y decrease in sales. The market prices of raw materials, which affect selling prices, were unchanged from the same period of the previous year, but sales dropped due to the decrease in sales volume.

Operating income rose 17.4% year on year to 6.57 billion yen. The operating income in the Valve Manufacturing Business rose 14.8% year on year thanks to the sales growth, while the operating income in the Brass Bar Manufacturing Business declined slightly by 1.1% year on year due to the drop in sales volume. Ordinary income grew 18.0% year on year to 7.23 billion yen, exceeding the company's forecast like operating income. Net income increased 32.3% year on year to 5.48 billion yen, due to the posting of a gain on sale of strategically held shares as extraordinary income.

The company paid an interim dividend of 18.00 yen/share, following the forecast revised upwardly in May.

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



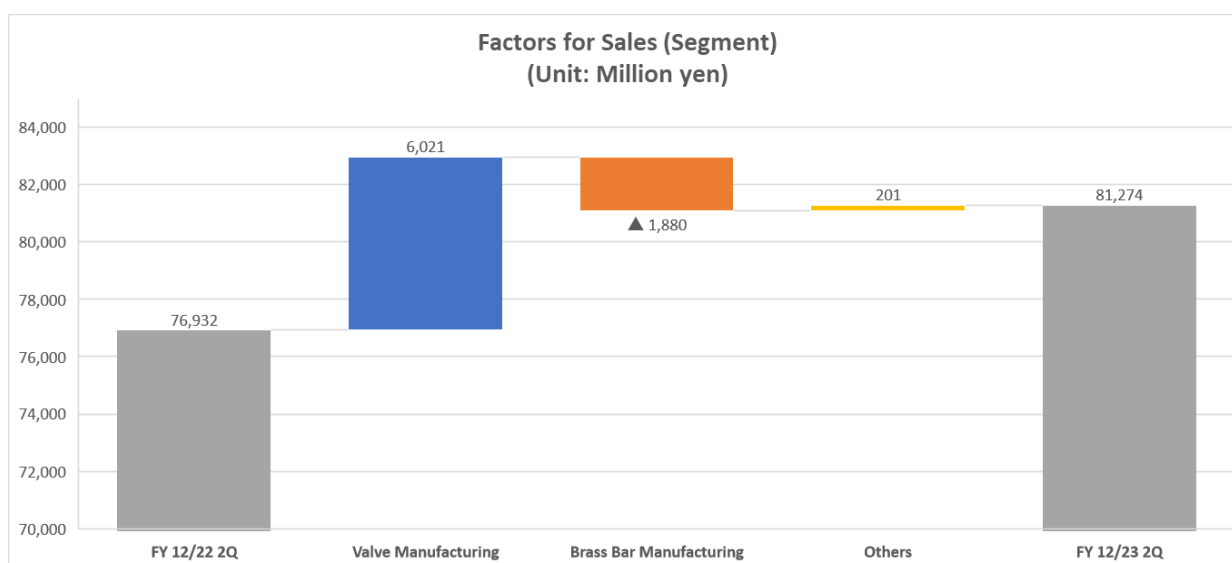
Exchange and raw materials

| | FY 12/22 2Q | FY 12/23 2Q Act | FY 12/23 2Q Plan |
|--------------------------------|-------------|-----------------|------------------|
| Yen / US Dollar | 124.54 | 136.54 | 134.00 |
| Yen / Euro | 135.14 | 147.89 | 146.00 |
| Electrolytic Copper, Yen / Ton | 1,249,167 | 1,228,167 | 1,240,000 |

2-2 Business Segments' results

| | FY 12/22 2Q | Ratio to Sales | FY 12/23 2Q | Ratio to Sales | YoY | Ratio to Plan |
|-------------------------|-------------|----------------|-------------|----------------|--------|---------------|
| Sales | 76,932 | 100.0% | 81,274 | 100.0% | +5.6% | +1.2% |
| Valve Manufacturing | 59,709 | 77.6% | 65,730 | 80.9% | +10.1% | +0.8% |
| Brass Bar Manufacturing | 16,352 | 21.3% | 14,472 | 17.8% | -11.5% | +2.6% |
| Others | 870 | 1.1% | 1,071 | 1.3% | +23.1% | - |
| Segment profit | 5,599 | 7.3% | 6,572 | 8.1% | +17.4% | +1.1% |
| Valve Manufacturing | 7,430 | 12.4% | 8,531 | 13.0% | +14.8% | -1.0% |
| Brass Bar Manufacturing | 144 | 0.9% | 143 | 1.0% | -1.1% | +2.4% |
| Others | -60 | - | -2 | - | - | - |

* Unit: million yen. Composition of operating income is the ratio of profit to sales. Ratio to plan is the ratio to company's forecast.



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

(1) Valve Manufacturing Business

Sales grew year on year, but profit slightly fell below the forecast.

In the Japanese market, the price revision conducted in 2Q of the previous term produced some effects and the sales of valves for semiconductor manufacturing equipment increased. In the overseas market, the sales of valves for the Americas increased.

(Performance in each market)

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.

In the building & facilities market, the demand for valves for small and medium-sized properties remained strong, and profit margin improved although sales declined. The valves for water treatment sold well. In the petrochemical market, which is the core market, sales grew significantly by 15.1% year on year. The sales of valves for semiconductor equipment kept growing year on year, thanks to the favorable number of orders received in the previous term. In the market of fine chemicals, sales were healthy thanks to domestic pharmaceutical projects. In the hydrogen & clean energy market, it takes time to post sales after receiving orders, so sales are expected to be concentrated in 4Q, and may be posted in the next term.

(Performance in each region)

Domestic sales account for 59%, while overseas sales make up 41%. Both domestic and overseas sales grew 10% year on year.

*In the U.S., the industrial valves for petrochemistry, etc. performed well, and saw a 22% increase in sales.

*In ASEAN countries and South Korea, the markets of industrial valves and commercial valves remained sluggish, so sales decreased 6% year on year.

*In China, the real estate industry remained in recession, but the sales of industrial valves grew between 1Q and 2Q and increased 8% in the cumulative 2Q.

*In India, the group company Micro Pneumatics started handling valves for plants, expanding its business domain, and sales increased considerably by 68%, although the amount is small.

(2) Brass Bar Manufacturing Business

Sales and profit declined. But, both sales and profit exceeded the forecast.

The market prices of raw materials, which affect selling prices, were unchanged from the same period of the previous year, but sales dropped 11.5% year on year due to a decline in sales volume. Operating income decline 1.1% year on year, as sales volume decreased although the company revised prices in April 2023 in response to the augmentation of energy costs and the rise in prices of secondary materials.

(3) Others

Sales rose significantly, and loss shrank.

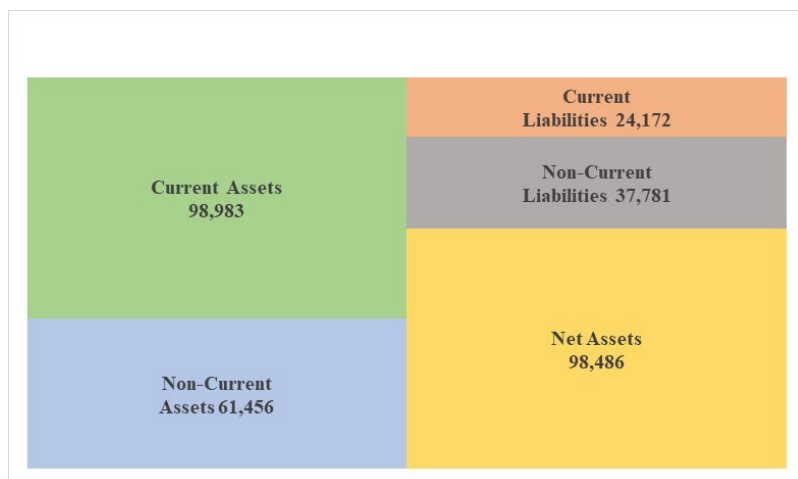
In the hotel business, the restrictions on activities for coping with COVID-19 were lifted, so the number of hotel guests increased.

2-3 Financial Conditions and Cash Flows

◎BS

| | Dec. 2022 | Jun. 2023 | Increase and Decrease | | Dec. 2022 | Jun. 2023 | Increase and Decrease |
|---------------------|-----------|-----------|-----------------------|----------------------------------|-----------|-----------|-----------------------|
| Current Assets | 93,177 | 98,983 | +5,806 | Current Liabilities | 23,335 | 24,172 | +836 |
| Cash | 24,370 | 26,675 | +2,305 | Payables | 8,975 | 9,170 | +195 |
| Receivables | 33,539 | 33,061 | -478 | Short-Term Debt | 3,153 | 3,013 | -140 |
| Inventories | 33,006 | 36,356 | +3,350 | Noncurrent Liabilities | 38,190 | 37,781 | -409 |
| Noncurrent Assets | 59,392 | 61,456 | +2,063 | Long-Term Debt | 33,766 | 33,493 | -273 |
| Tangible Assets | 45,200 | 48,562 | +3,361 | Total Liabilities | 61,526 | 61,953 | +426 |
| Intangible Assets | 3,164 | 2,574 | -590 | Net Assets | 91,042 | 98,486 | +7,444 |
| Investments, Others | 11,027 | 10,319 | -707 | Retained Earnings | 57,911 | 61,764 | +3,853 |
| Total Assets | 152,569 | 160,440 | +7,870 | Total Liabilities, Net Assets | 152,569 | 160,440 | +7,870 |

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



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

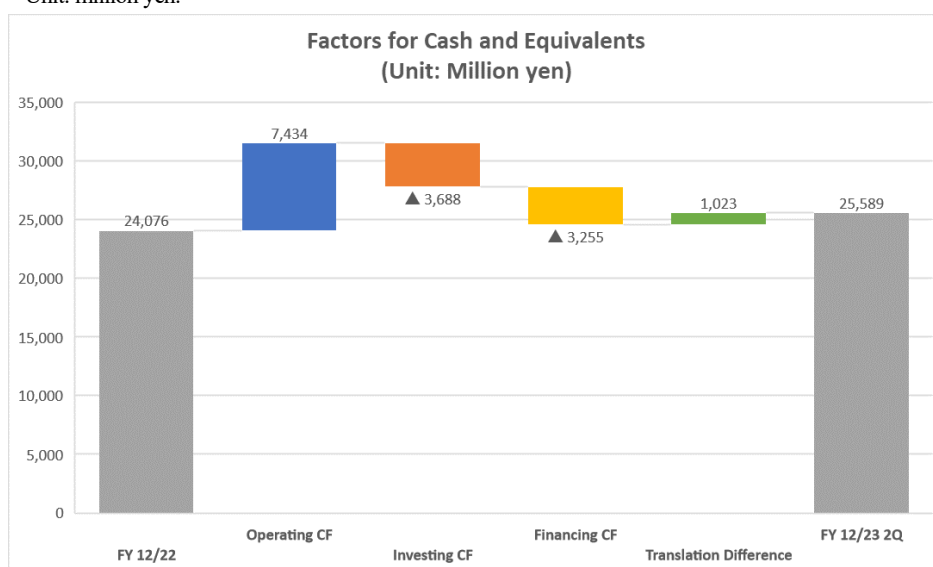
Inventories, and tangible assets increased, so total assets grew 7.8 billion yen year on year to 160.4 billion yen. Total liabilities increased 0.4 billion yen year on year to 61.9 billion yen, mainly due to an increase trade payable. Net assets increased 7.4 billion yen year on year to 98.4 billion yen due to an increase in retained earnings.

The equity ratio increased 1.7 points from the end of the previous fiscal year to 60.7%.

◎CF

| | FY 12/22 2Q | FY 12/23 2Q | Increase and Decrease |
|----------------------------------|-------------|-------------|-----------------------|
| Operating Cash Flow(A) | 2,693 | 7,434 | +4,741 |
| Investing Cash Flow(B) | -3,190 | -3,688 | -498 |
| Free Cash Flow(A+B) | -496 | 3,745 | +4,242 |
| Financing Cash Flow | -2,921 | -3,255 | -334 |
| Cash and Equivalents at Term End | 25,598 | 25,589 | -8 |

* Unit: million yen.



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

Operating cash flow increased considerably from the previous term. The cash outflow from investing activities augmented due to the increase in purchase of property, plant and equipment, etc. Free cash flow turned positive, reaching a significant amount. Financing cash flow saw a growth of dividend payment. The cash position was unchanged.

【2-4 Topics】

(1) Enhancement of supply chain management

The risks that should be avoided include the loss of opportunities due to the incapacity to deliver products by deadlines requested by clients, the loss of opportunities due to the increase of safety stock, and the decline in asset efficiency due to the increase of safety stock. To cope with these risks, the company will implement measures of reviewing suppliers and promoting production at the most appropriate site. When promoting production at the most appropriate site, the company plans to reduce the excessive concentration of production load onto specific bases and shorten lead time.

(2) Progress of the plan for relocating the head office

The company is preparing for the relocation of the head office to the Shiodome area in November this year. In the new head office, they will integrate the offices located in Tokyo and group companies, to pursue synergy inside the corporate group, make decision making swifter, and energize the exchange with customers, factory staff, and others. Under the concept “KITZ CITY – Communication & Innovation by the Team and Yourself,” they plan to design the office space, while modeling it after a downtown. In order to realize the Long-term Management Vision “Beyond New Heights 2030—Change the Flow,” the company will create new workstyles and value.

(3) Raised selling prices in Japan

On May 31, the company revised the manufacturer's suggested retail price. From the shipment on July 3, the prices that were raised by 5-15% have been applied to 11 products. The prices of major materials remained high, energy costs and distribution expenses augmented, and the yen depreciation was prolonged, so the costs for manufacturing increased further. In addition, the prices of accessories, packaging materials, etc. for valves other than materials for valves kept rising. All group companies and all departments strove to reduce expenses thoroughly, rationalize production processes, and streamline business operations to reduce costs as much as possible, but it was difficult to absorb the augmentation of costs with corporate efforts only, so the company revised selling prices.

(4) Concluded an agreement for emergency assistance, to meet requests.

The company offers KITZ Water Solutions, in which they propose solutions to clients by comprehensively utilizing the water-related technologies, products, and services of group companies. As part of this activity, the company concluded an agreement for emergency assistance at the time of disaster with Platform of Emergency Assistance in the Disaster (PEAD) in June. In accordance with this agreement, the company will provide "Aqua Rescue," a portable membrane filter type water purification system, and "Delios & Water Pack," a portable water purifier, in times of emergency.

When a disaster occurred due to the torrential rain in Akita Prefecture in July, the company received a request for assistance from PEAD. The company will make continuous efforts to solve social issues through business and create social value.

(5) Dissemination of information via social media

As part of web-based marketing, the company is enhancing the dissemination of information via social media.

In June, the company launched its official accounts in Twitter, Facebook, LinkedIn, and Instagram. In addition to news releases, the company distributes the knowledge of valves and fluid, information from domestic and overseas bases, and various topics related to KITZ in a timely basis. In order to further popularize KITZ, the company plans to utilize the social media proactively.

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 | Company's Forecast |
|------------------|----------|----------------|---------------|----------------|--------|--------------------|
| Sales | 159,914 | 100.0% | 169,000 | 100.0% | +5.7% | 167,000 |
| Operating Income | 11,051 | 6.9% | 12,900 | 7.6% | +16.7% | 11,900 |
| Ordinary Income | 12,045 | 7.5% | 13,300 | 7.9% | +10.4% | 12,300 |
| Net Income | 8,549 | 5.3% | 9,700 | 5.7% | +13.5% | 8,600 |

Units: million yen.

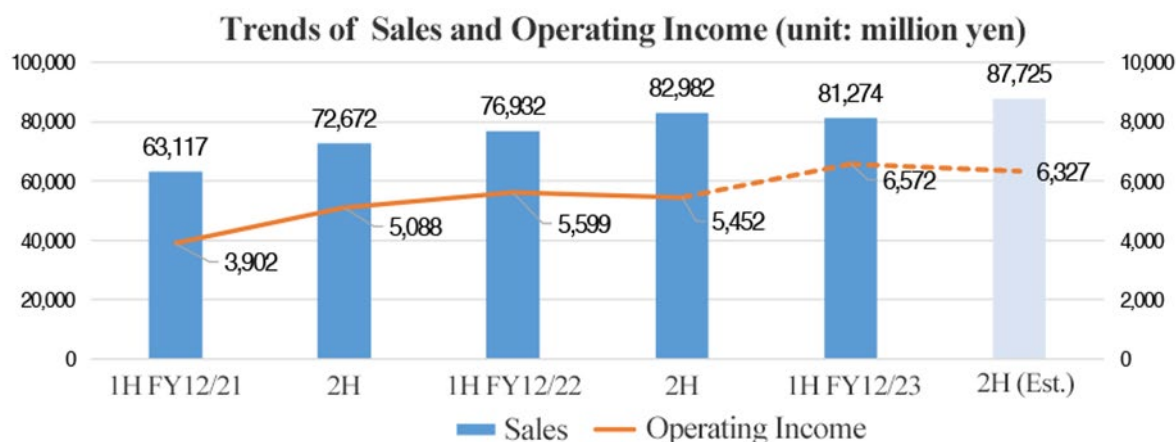
Exchange and raw materials assumptions

| | FY 12/22 | FY 12/23 Est. |
|--------------------------------|-----------|---------------|
| Yen / US Dollar | 132.09 | 134.00 |
| Yen / Euro | 138.49 | 146.00 |
| Electrolytic Copper, Yen / Ton | 1,194,750 | 1,240,000 |

It is expected that sales will grow 5.7% year on year and operating income will rise 16.7% year on year

There was no revision to the full-year earnings forecast, and it is expected that sales will grow 5.7% year on year to 169 billion yen and operating income will rise 16.7% year on year to 12.9 billion yen. At the time of announcement of the results for 1Q, they revised the forecasts for sales and profits upwardly, because the yen had been weakening more than assumed, products with high profit margins sold well in the overseas market, and the company curtailed SGA. It is projected that sales and profit will grow in the Valve Manufacturing Business while sales will drop and profit will rise in the Brass Bar Manufacturing Business. The dividend has not been changed from the upwardly revised forecast at the time of announcement of the results for 1Q. The company plans to pay a term-end dividend of 19.00 yen/share for a total of 37.00 yen/share/year. The expected payout ratio is 34.2%.

The desirable payout ratio for the company is around 35%.



*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 | Ratio to Plan |
|-------------------------|----------|----------------------------|---------------|----------------------------|--------|---------------|
| Valve Manufacturing | 125,189 | 78.3% | 136,800 | 80.9% | +9.3% | +1.6% |
| Brass Bar Manufacturing | 32,513 | 20.3% | 29,800 | 17.6% | -8.3% | -0.7% |
| Others | 2,212 | 1.4% | 2,400 | 1.4% | +8.5% | +4.3% |
| Total Sales | 159,914 | 100.0% | 169,000 | 100.0% | +5.7% | +1.2% |
| Valve Manufacturing | 14,980 | 12.0% | 17,350 | 12.7% | +15.8% | +5.8% |
| Brass Bar Manufacturing | 222 | 0.7% | 430 | 1.4% | +93.3% | +7.5% |
| Others | 68 | 3.1% | 90 | 3.8% | +31.5% | +28.6% |
| Adjustments | -4,219 | - | -4,970 | - | - | - |
| Total Operating Income | 11,051 | 6.9% | 12,900 | 7.6% | +16.7% | +8.4% |

* 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. Sales and profit did not grow so much in the first half of the term, but they are expected to grow significantly in the second half.

(By market)

Core market: In the first half of the term, the sales of valves for building equipment and machinery were stagnant, but valves for petrochemistry and water treatment sold well.

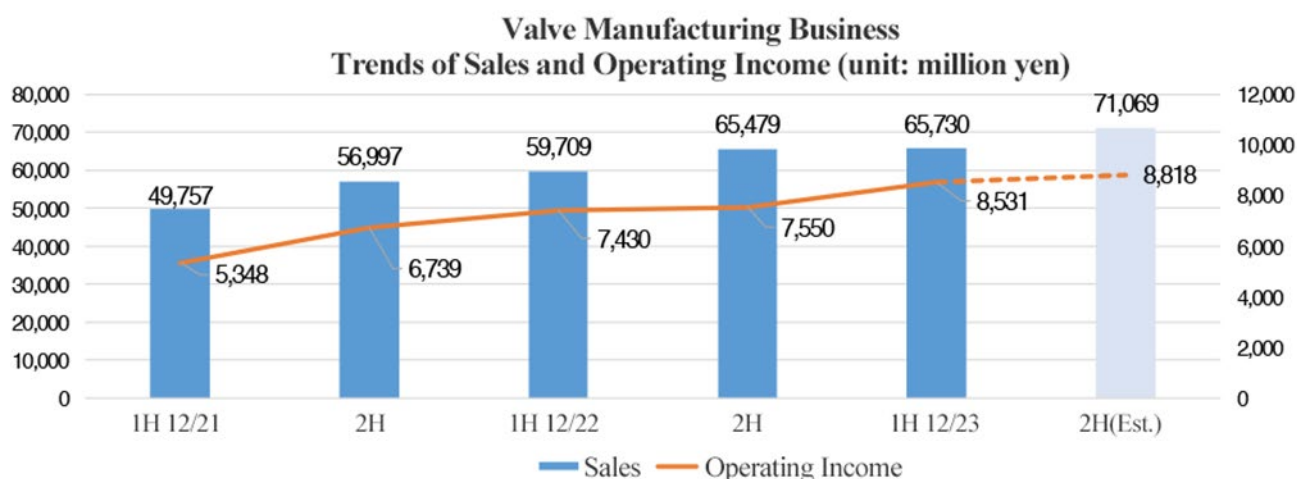
- The demand for the increase of data centers from cloud service vendors is strong, so an increasing number of foreign enterprises enter the Japanese data center market. The company is making efforts to shorten turnaround time by swiftly collecting information on construction plans, designing flexible pricing strategies, and conducting strategic inventory management.
- Regarding building systems, construction equipment for redevelopment of big cities and high-rise buildings is included in the mature field, while building equipment for data centers and factories is included in the growing field. The company plans to secure a business foundation in the mature field, and maximize business opportunities in the growing field.
- The sales of automatic valves mounted with explosion-proof actuators increased significantly in the first half of the term. Thanks to the synergy with explosion-proof motor-operated valves in the sale of general valves, the company receives an increasing number of business inquiries from various markets.
- The company cemented the relationships with key account users in the oil and petrochemical markets. The company holds a lecture on valves, and many engineers of key account users attend it.

Growth market: The performance of semiconductor equipment is expected to exceed the initial forecast.

- The company enhanced the production output of products related to semiconductor manufacturing and improved the system for R&D. A new factory building of KITZ SCT was completed in April 2023.
- The company has enriched the product lineup for the market of fine chemicals. The company developed and released a stainless steel PFA-lined diaphragm valve.
- The development of products for pure water and ultrapure water plants progressed.
- The company strengthened the initiatives in the hydrogen/clean energy market. Under the initiative of the Ministry of Land, Infrastructure, Transport and Tourism, the development of carbon neutral ports (CNPs) in port districts around Japan is being discussed. From now on, the company will aim to achieve sales of 10 billion yen, while offering value to the entire hydrogen supply chain through its engineering and maintenance businesses.

(By area)

While the performance in China will be sluggish, the performance in India will grow considerably. The performance in Europe, the Americas, etc. will be healthy.



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

(2) Brass Bar Manufacturing Business

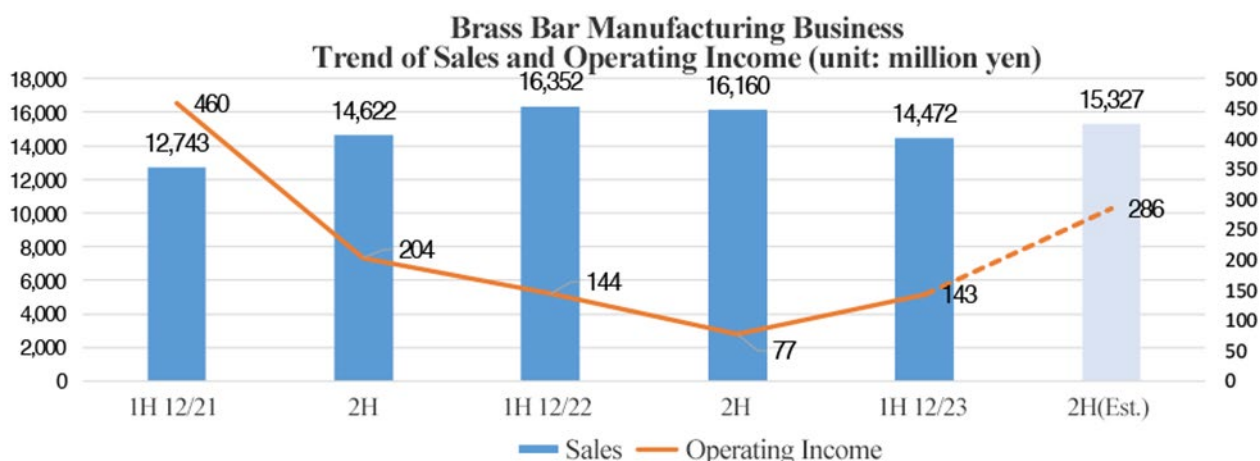
It is forecast that sales will decline and profit will rise. Profit margin is expected to increase from the first half to the second half of the term.

Copper price is projected to rise about 4% 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.

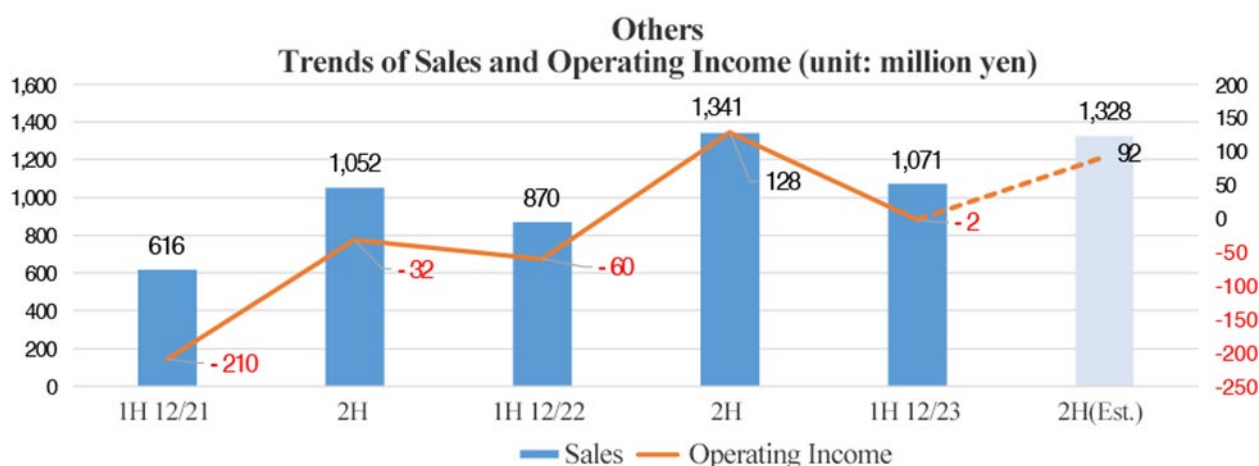
It will also work to streamline and automate operations through digital transformation, improving production management (production planning), visualizing ordering and manufacturing processes, and increasing productivity.



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

(3) Others

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



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

4. Conclusions

In 1Q, the valves for semiconductor manufacturing equipment in the Valve Manufacturing Business contributed to business performance, so the company revised the forecasts for the cumulative second quarter and the full year upwardly. In 2Q, that trend continued with no trouble. The progress rate toward the full-year forecast is 48.1% for sales, and 50.9% for operating income. In the same period of the previous year, the progress rates of sales and operating income were 48.1% and 50.7%, respectively. Considering the graduate effects of price hikes, the full-year forecast can be said to be slightly conservative. The price hikes are expected to start contributing to profit on a full scale next term. It can be expected that sales and profit will keep growing in the next term, although performance depends on exchange rates, market conditions, etc.

In addition, the ongoing medium-term plan may be completed one year earlier than expected. In particular, the sales and profit of the Valve Manufacturing Business, which is the mainstay, are expected to exceed the goals set in the medium-term plan this term. In addition to good condition in the semiconductor equipment business, as foreign enterprises have entered the Japanese market, the investment in semiconductors is projected to become more active. The medium-term outlook is bright. We look forward to the next strategy after completion of the medium-term plan.

<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)

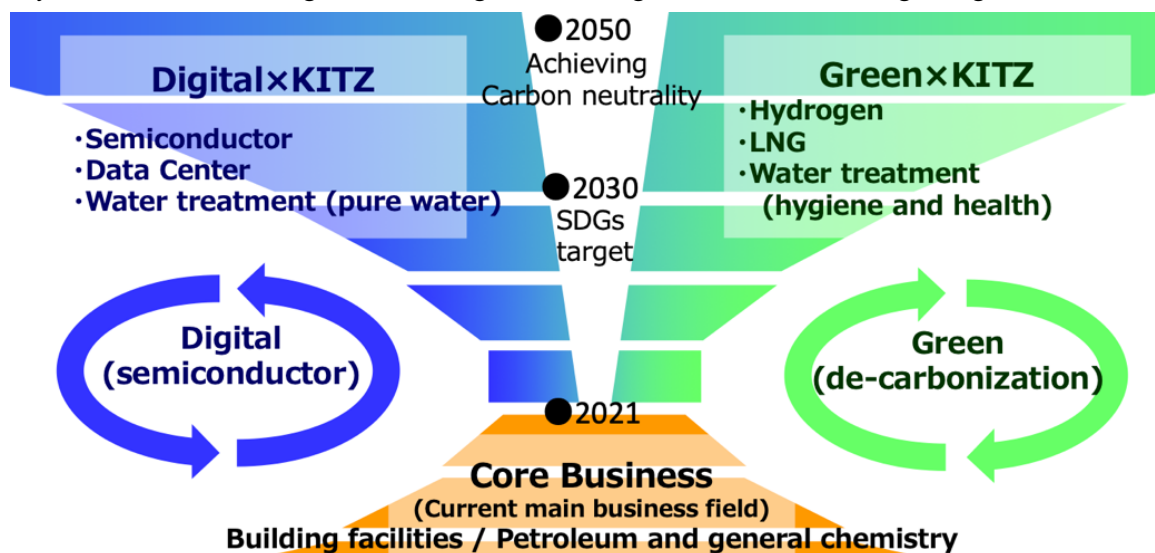
② Management structure

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) Basic Sustainability Policy

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.

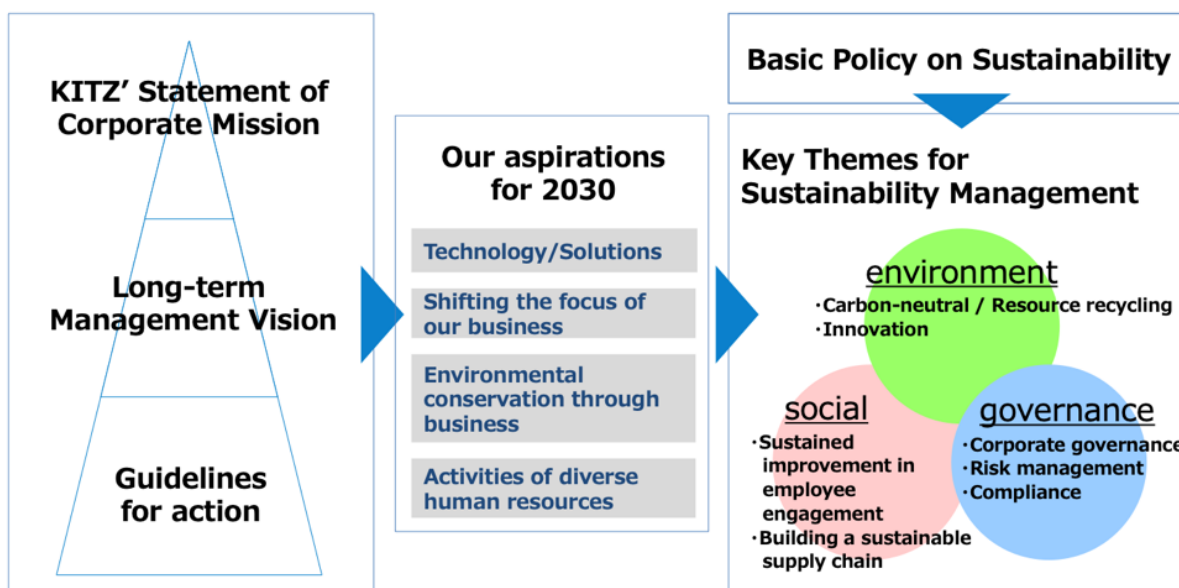
Preserve the Future

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 |
| Others | 16 | 24 |
| Total Sales | 1,357 | 1,700 |
| Valve Manufacturing Business | 120 | 170 |
| Brass Bar Manufacturing Business | 6 | 8 |
| Others | -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.

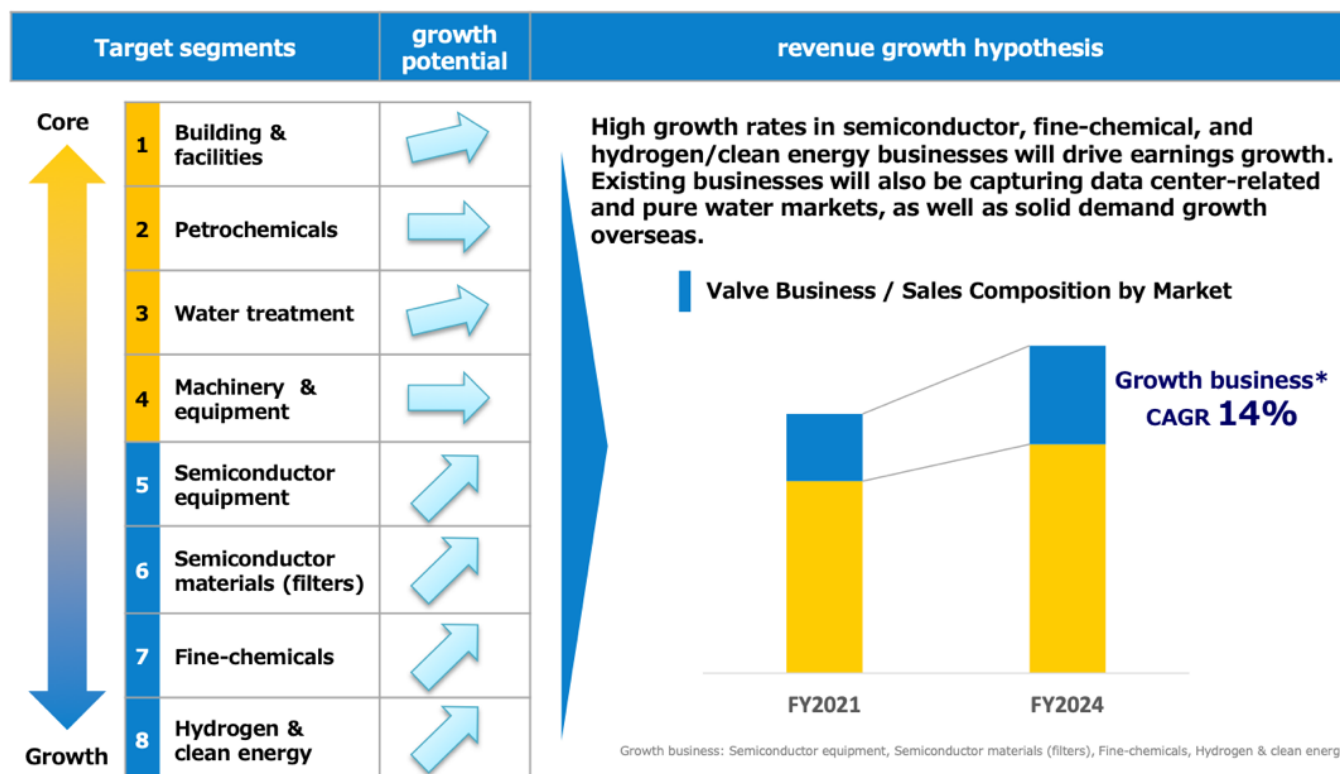
*"Female managers" refers to women who hold positions as department heads.

(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).

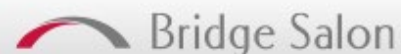
(4) Financial Strategy and Capital Policy

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 (visualization and recombination of product portfolios ・ 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 around 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: May 30 2023)

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/en/sustainability/about_sustainability/

<https://www.kitz.com/en/sustainability/governance/corporate-governance/>

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

The Company implements all of the principles of the Corporate Governance Code.

<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

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. We are working to increase the number of women in leadership positions (associate management level), which will be a source of candidates for the next management level, through measures such as further recruitment of female employees and enhancement of training programs for female employees. We aim to gradually raise the ratio of women in managerial positions to 10% by fiscal 2024, 16% by fiscal 2027 and 20% by fiscal 2030.

[3]Promotion of foreign nationals to managerial positions

Our company group has developed bases for manufacturing and sales in 18 countries, including Japan. Moreover, Foreign employees account for 53.7% of our company group's total workforce. However, while our company has been putting efforts into the recruitment of mid-career recruits and new graduates of foreign nationalities, the average number of recruited foreign employees in the last five years is 4.2 and the overall ratio of foreign employees stands at 1.7% as of the end of FY2022. 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.

Moreover, our corporate group believes that it is necessary to localize our global operation and further accelerate the streamlining of the business from the viewpoint of overall optimization as we move toward 2030, and that it is important to promote and train management personnel with a global perspective as well as local personnel who will support them, regardless of their country or region of origin. In order to accomplish this, we formulated the KITZ Group Global HR Policy and 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.,

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

The ratio of promotion of mid-career recruits to managerial positions at our company has already reached a high level of 43%. Therefore, we shall strive 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 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.com/en/sustainability/environment/env_warming/

1. Governance

Our corporate group promotes the initiatives of our long-term environmental vision “3 (triple) ZERO,” aiming for zero CO₂ emissions, zero environmental burden and zero risk.

The progress and accomplishments regarding the main items of the long-term environmental vision are checked at a management meeting involving the executives, with decisions passed on the direction, challenges, and especially important measures. Furthermore, we share issues concerning sustainability management such as climate change, and deliberate on their direction at the meeting of the Group Sustainability Promotion Committee, which is held twice a year.

2. Strategy

Regarding strategies concerning climate change, we identified major risks, opportunities, etc., analyzed their financial impacts and formed “strategy pillars” while considering them, based on socioeconomic scenarios stated in the IPCC report. We shall promote initiatives in accordance with these strategy pillars.

Strategy pillars

- (1) Contribute to the mitigation of climate change by reducing our CO₂ emissions and efficiently using resources and energy.
- (2) Contribute to the mitigation of climate change by promoting the reduction of CO₂ emissions through our products.
- (3) Contribute to the creation of a sustainable future by taking measures to mitigate climate change in cooperation with local communities.

3. Risks and management

We use progress management tools to evaluate and manage risks based on the basic philosophy of group risk management in order to keep reducing risks related to climate change. We work on identifying important risks among expected risks pertaining to various business activities of the whole group, including risks related to climate change, at management meetings. Furthermore, our Board of Directors deliberates on and decides the policy for addressing risks which are especially important to our corporate group.

4. Indices and goals

Regarding the strategy pillar (1), which is “Contribute to the mitigation of climate change by reducing our CO₂ emissions and efficiently using resources and energy,” we have stated the goal of reducing our CO₂ emissions by over 90% from 2013 by 2030 and achieving carbon neutrality by 2050 (long-term environmental vision “3 (triple) ZERO”) and we engage in initiatives for achieving it.

【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 officer 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 Center, 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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