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# **Financial Results for the Quarter ended September 30, 2018**

**KITO CORPORATION  
TSE 1st Section: 6409  
November 14, 2018**

# FY2018 Q2 Summary

## Overview

Sales and profit have grown on globally strong CAPEX demand.

## Financial Highlights

JPY in million	FY2018 Q2 Apr - Sep	YoY Change	Forecast	Change
Sales	<b>28,190</b>	<b>+14.3%</b>	<b>26,500</b>	<b>+6.4%</b>
OP Income	<b>2,564</b>	<b>+102.0%</b>	<b>2,000</b>	<b>+28.2%</b>
Net Income	<b>1,835</b>	<b>+244.7%</b>	<b>1,200</b>	<b>+52.9%</b>

Exchange Rate (Ave.) USD 110.3

Investment in the energy related industry, infrastructure and equipment remains active in our core markets. Domestic demand in China has been stable, especially the EV-related investment.

### *Our Efforts:*

*A ) Keeping a high level of production in response to brisk demand*

*B ) Efforts to stabilize the operation of new IT infrastructure and raise production efficiency*

*C ) Expanding synergies with European subsidiaries acquired via M&A.*

### *Risks:*

*Forex, materials costs and US trade policy*

**1**

## **FY2018 2<sup>nd</sup> Quarter Financial Results**

**2**

## **FY2018 Forecast**

**3**

## **References**

- Five Year Financial Results (FY 2013 – FY 2017)
- Mid-Term Plan (FY 2016 – FY 2020)

# FY2018 2<sup>nd</sup> Quarter Financial Highlights

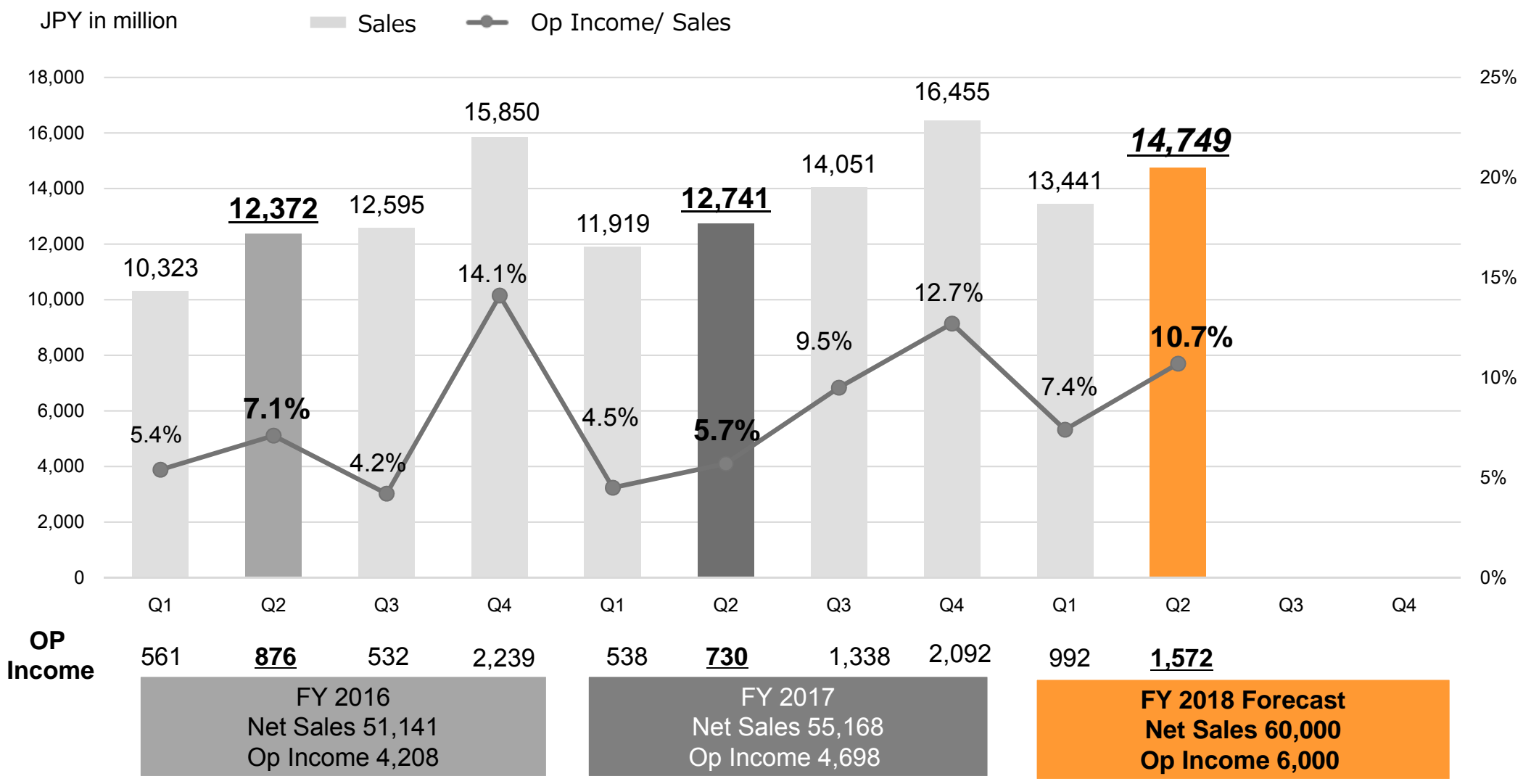
JPY in million	FY 2017 Q2 Apr - Sep	FY 2018 Q2 Apr - Sep	YoY Change
<b>Sales</b>	24,661	28,190	14.3%
<b>Gross Profit</b>	8,386	10,243	22.1%
Gross Profit / Sales	(34.0%)	(36.3%)	
<b>Operating Income</b>	1,269	2,564	102.0%
Operating Income / Sales	(5.1%)	(9.1%)	
Non-operating income	85	181	
Non-operating expenses *	474	430	
<b>Ordinary Income</b>	879	2,314	163.2%
Ordinary Income / Sales	(3.6%)	(8.2%)	
<b>Income Taxes</b>	308	407	
<b>Net Income</b>	532	1,835	244.7%
Net Income / Sales	(2.2%)	(6.5%)	
<b>EBITDA</b>	2,451	3,903	
Op Income + Depreciation			

Note: Exchange Rate (FY 2017 Q2→FY 2018 Q2)

USD 111.1 → 110.3 CAD 85.6 → 84.9 EUR 126.3 → 129.8 RMB 16.4 → 17.1

# Quarterly Net Sales and Operating Margin

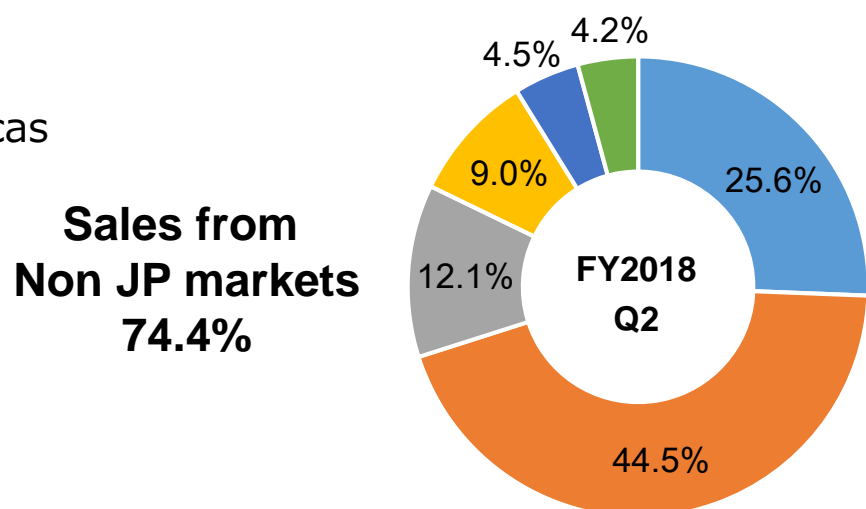
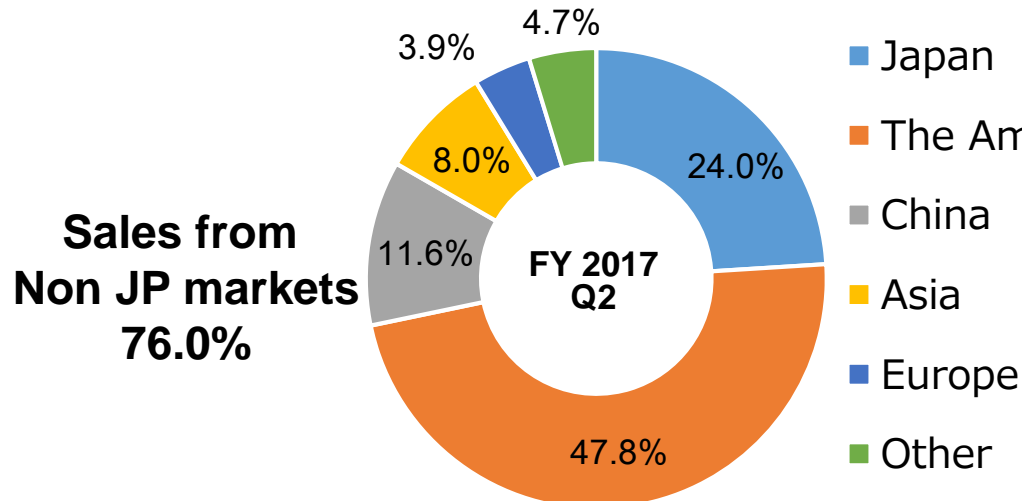
**Revenues raised on globally strong demand  
Higher production volume boosted profits, with double-digit OP margin in Q2**



# Net Sales by Region

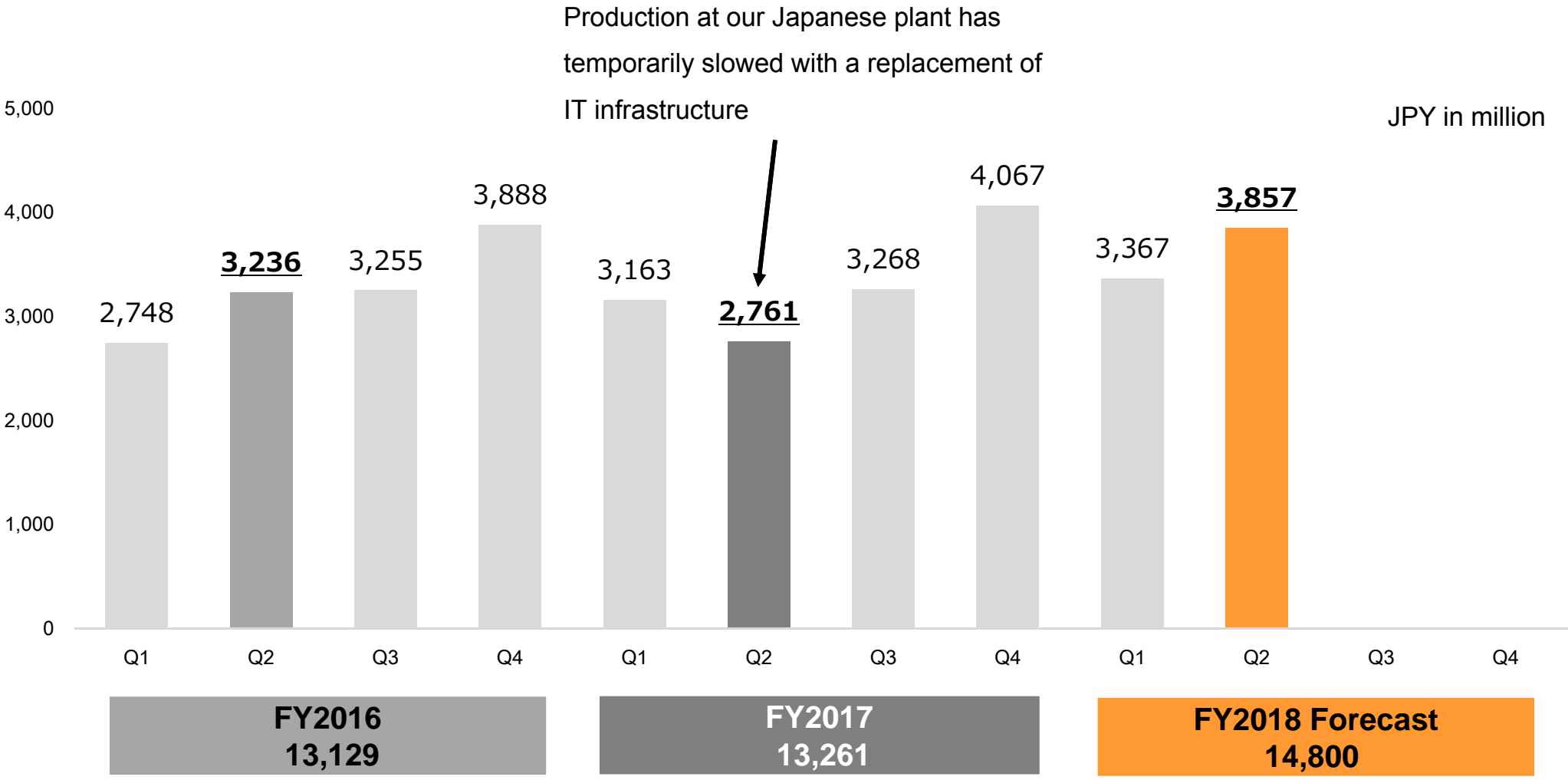
JPY in million	FY2016 Q2		FY 2017 Q2		FY 2018 Q2		YoY Change	
		% share		% share		% share	Change	% Change
<b>Total</b>	22,695	100.0%	24,661	100.0%	<b>28,190</b>	<b>100.0%</b>	3,529	14.3%
<b>Japan</b>	5,984	26.4%	5,925	24.0%	<b>7,225</b>	<b>25.6%</b>	1,300	21.9%
<b>the Americas</b>	10,885	48.0%	11,781	47.8%	<b>12,549</b>	<b>44.5%</b>	767	6.5%
<b>China</b>	2,561	11.3%	2,857	11.6%	<b>3,417</b>	<b>12.1%</b>	559	19.6%
<b>Asia</b>	1,956	8.6%	1,963	8.0%	<b>2,533</b>	<b>9.0%</b>	570	29.1%
<b>Europe</b>	672	3.0%	968	3.9%	<b>1,270</b>	<b>4.5%</b>	301	31.2%
<b>Others</b>	634	2.8%	1,165	4.7%	<b>1,194</b>	<b>4.2%</b>	28	2.5%

Note: Exchange Rate (FY 2017 Q2→FY 2018 Q2)  
 USD 111.1 → 110.3 CAD 85.6 → 84.9 EUR 126.3 → 129.8 RMB 16.4 → 17.1



# Net Sales by Region (Japan)

● Brisk demand related to infrastructure, private-sector equipment continues.

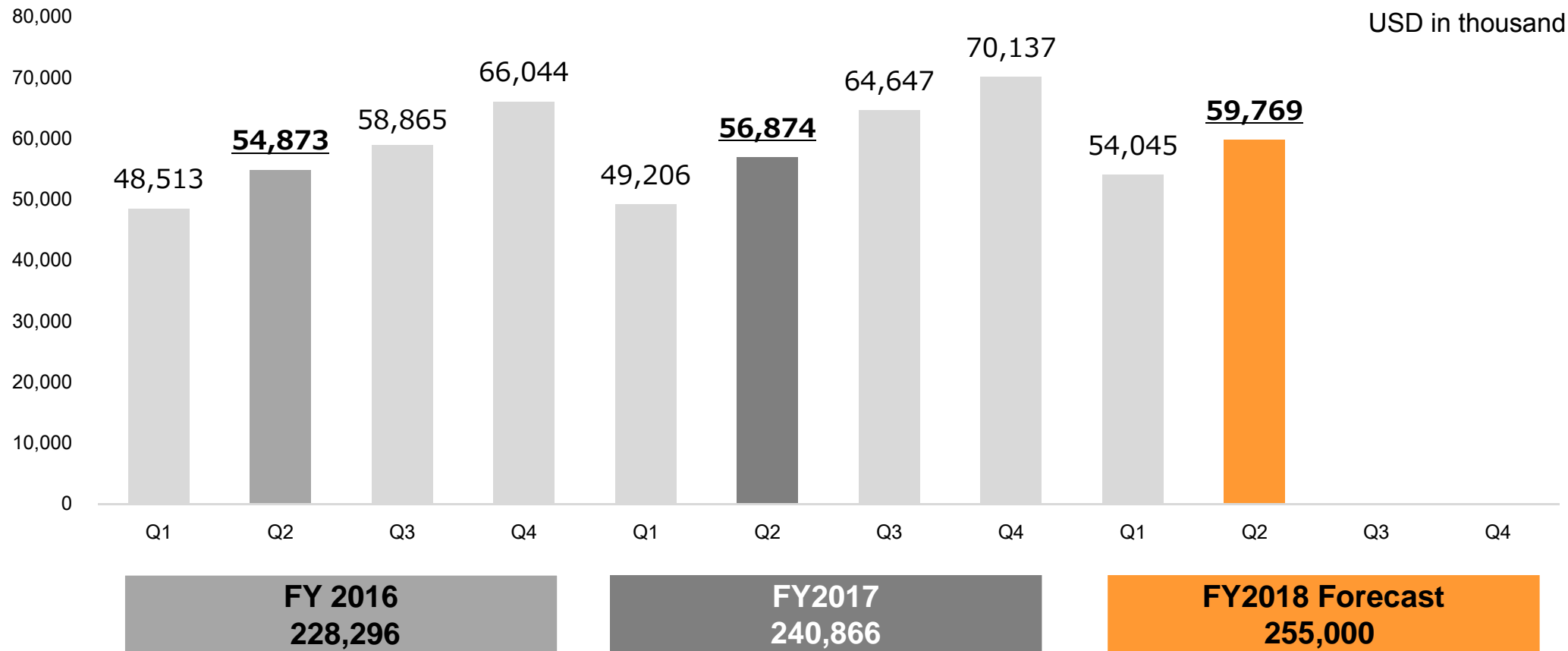


# Net Sales by Region (the Americas)

The graph shows the total of sales in the US, Canada and Latin America (converted to USD in thousand)

◇ *Our Business : The US business is composed of two pillars, hoist and crane business and sales and manufacturing of chain accessories, which was added after the acquisition of Peerless.*

- **Equipment investment in the manufacturing sector and demand related to infrastructure and natural resources will remain brisk.**
- **The effects of trade policies against China are a concern.**



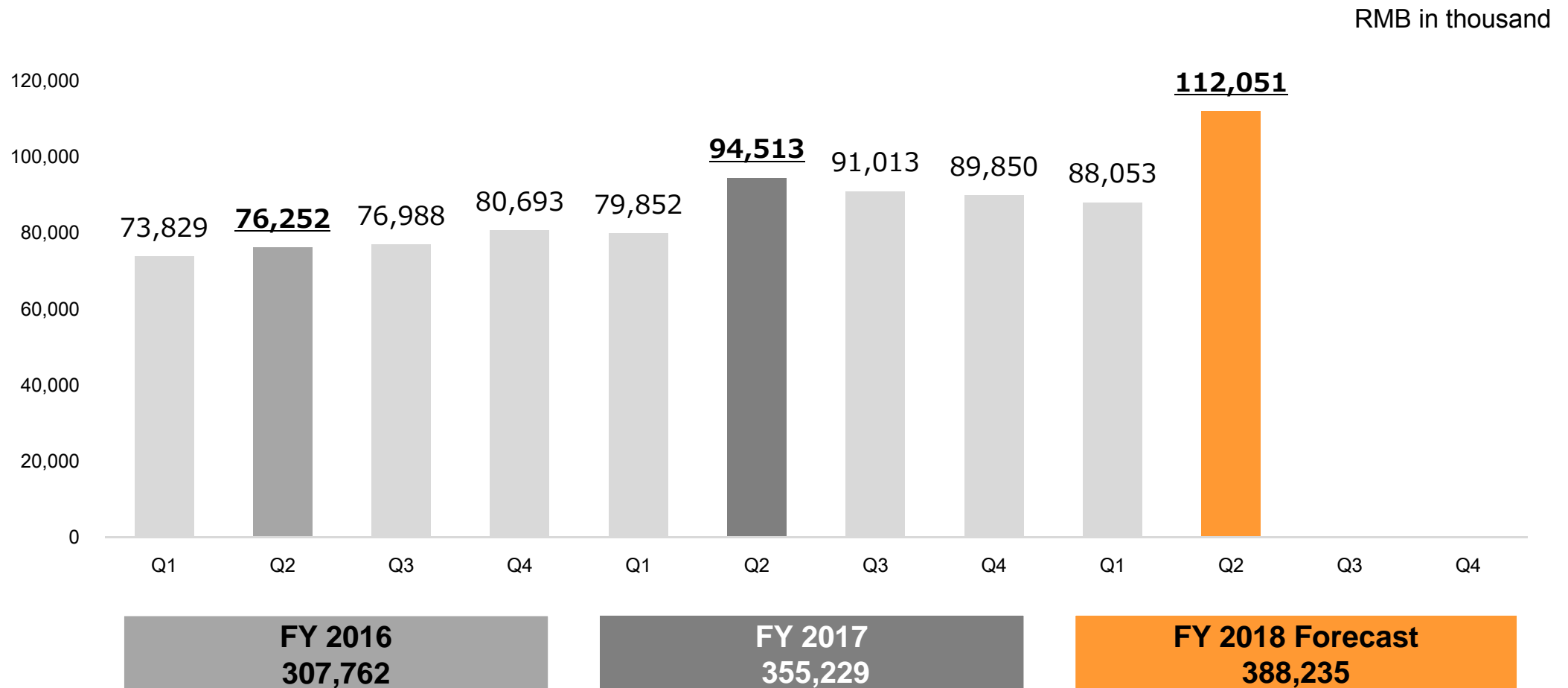


# Net Sales by Region (China)

Fiscal year of China starts in January and ends in December

◇ *Our Business: Two pillars, production and sales of wire-rope hoists for Chinese market, and sales of Japanese high functioning imports, support our Chinese operations.*

- Demand related to equipment investment in automobile industries, mainly EVs for domestic market is motivating factor.
- Profitability has been improved, focusing more on hoist business.
- The effects of trade friction vis-à-vis the US need watching.

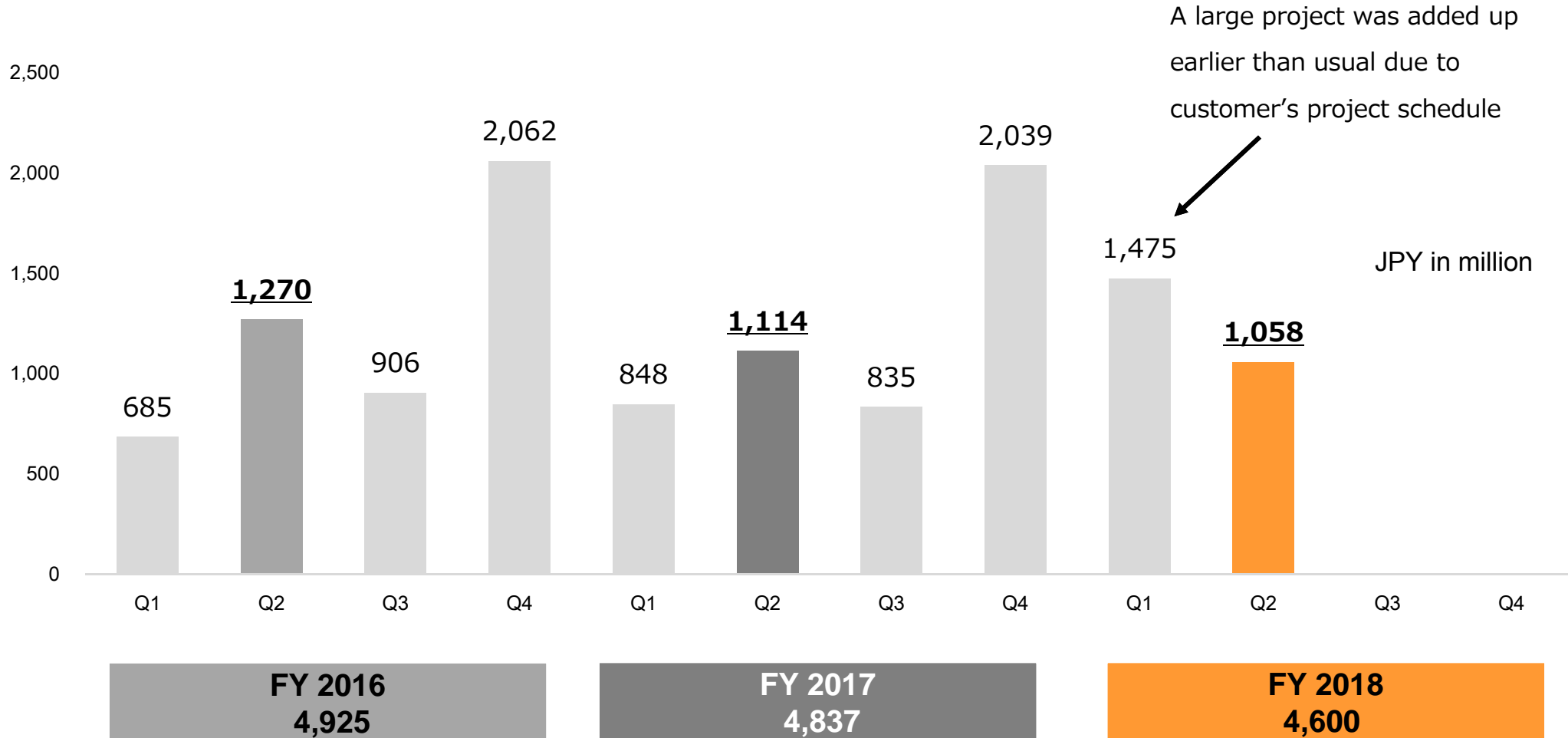


# Net Sales by Region (Asia)

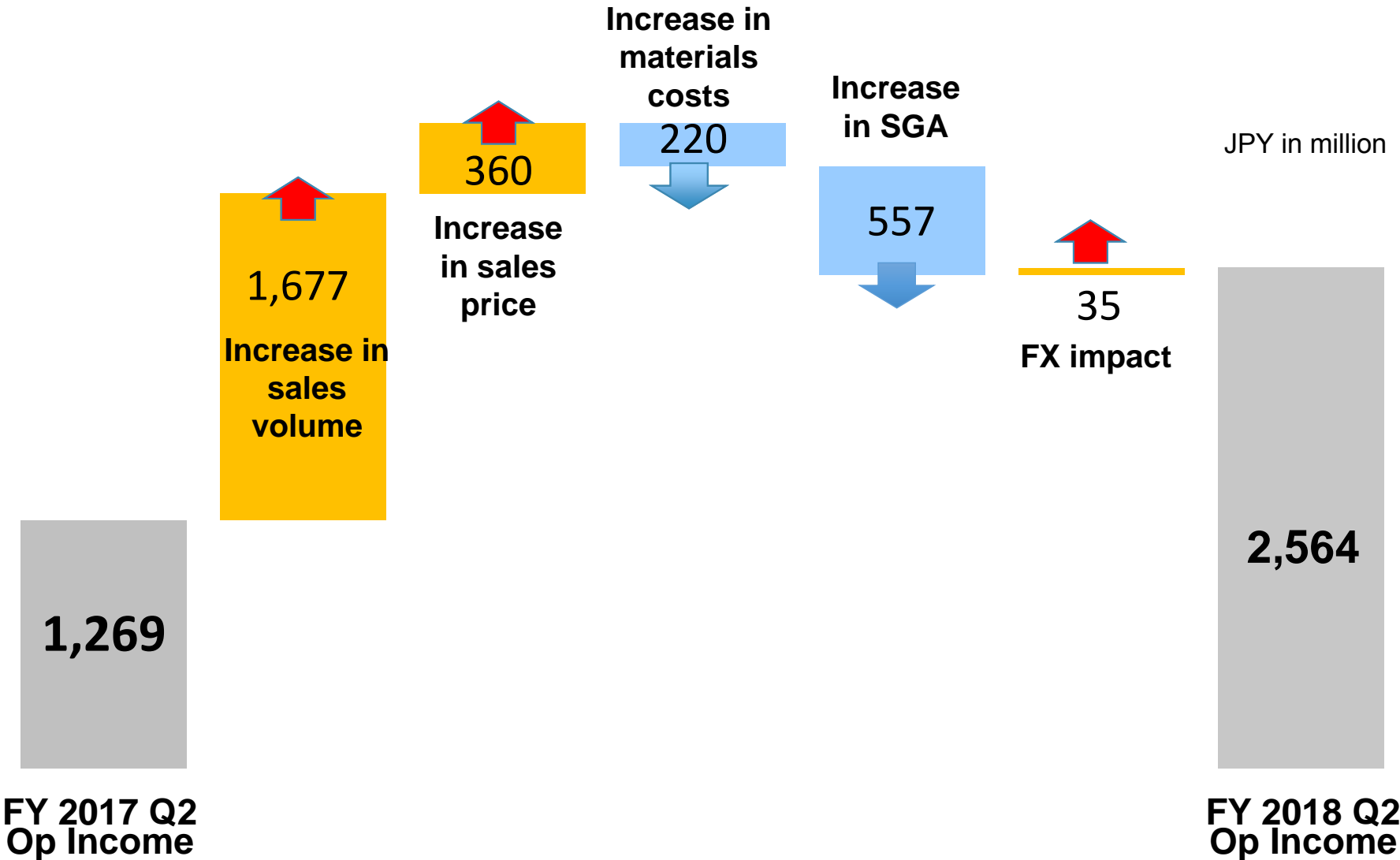
FY starts in Jan and ends in Dec: Thailand, Korea, Taiwan  
 FY starts in Apr and ends in Mar: Indonesia, India

◇ Our Business : South Korea and Thailand, whose main operations are crane business, account for 75% of total sales in the region.  
 Improving profitability by strengthening hoist sales and maintenance services for crane.

- We will fulfill brisk demand across Asia.
- Profitability has been raised by expanding hoist sales business.



# Operating Income Comparison



# FY2018 2<sup>nd</sup> Quarter Consolidated Balance Sheet

JPY in million	FY 2017 Q2	FY 2018 Q2	Change
Current assets	36,949	39,300	2,350
Cash	9,401	8,878	(522)
Accounts receivable	10,141	11,544	1,402
Inventories	16,367	17,631	*1,264
Others	1,038	1,245	206
Fixed assets	23,070	23,092	21
Tangible fixed assets	11,656	11,112	(544)
Intangible fixed assets	7,547	6,785	(762)
Investment & other assets	3,866	5,194	**1,328
Total assets	60,019	62,392	2,372

\* Increased due to higher production volume ( in Japan and the US)

\*\* Obtaining the share of subsidiaries via M&A activities

JPY in million	FY 2017 Q2	FY 2018 Q2	Change
Current liabilities	16,362	19,271	2,909
Accounts payable	6,046	6,820	774
Short-term debt *	5,625	7,183	1,558
Others	4,690	5,266	576
Fixed liabilities	21,995	17,809	(4,185)
Long-term debt	17,414	14,581	** (2,833)
Others	4,580	3,228	*** (1,352)
Total net assets	21,662	25,310	3,648
Total liabilities and net assets	60,019	62,392	2,372

\* Including current portion of long term loans payable

\*\* Accelerating loan payment

\*\*\* Decrease in differed tax liabilities and pension obligation ( both in the US)

# Consolidated Cash Flows

	Apr-Sep 2017	Apr-Sep 2018	Change
Cash flows from operating activities	2,953	53	(2,900)
Cash flows from investing activities	(869)	(1,091)	(222)
Cash flows from financing activities	(1,757)	(798)	959
Effect of exchange rate changes on cash and cash equivalents	3	(27)	(31)
Net increase (decrease) in cash and cash equivalent	330	(1,863)	(2,193)
Cash and cash equivalents at end of period	9,389	8,865	(524)

[Cash flows from operating activities]	
Income before income taxes	2,314
Depreciation and amortization	1,177
Increase in inventories	(1,593)
Income taxes paid	(928)

[Cash flows from investing activities]	
Acquisition of tangible fixed assets	(532)
Acquisition of intangible fixed assets	(90)

[Cash flows from financing activities]	
Proceeds from short-term loans payable	1,408
Repayments of long-term loans payable	(2,138)

1

FY2018 2<sup>nd</sup> Quarter Financial Results

2

**FY2018 Forecast**

3

Reference

- Five Year Financial Results (FY 2013 – FY 2017)
- Mid-Term Plan (FY 2016 – FY 2020)

# FY2018 Forecast

## Japan



- Market**
- Private-sector equipment investment will remain brisk, and continuing growth is expected.
  - Greater demand is projected for infrastructure investment, construction and civil engineering projects.

- Initiatives**
- Efficient operation of the new IT infrastructure.
  - Continue production increase to meet robust demand.
  - Launch new products and continue to broaden product lines.
  - Strengthen ties with crane-builders.

## the Americas



- Market**
- Firm demand expected in a broader industrial mix.
  - Increase in investment related to the infrastructure and energy industries is expected.

- Initiatives**
- Boost customer satisfaction, with shorter lead time and higher service quality
  - Expand product offerings to meet broader customer demand

# FY2018 Forecast

## China



- Market**
- Demand related to equipment investment mainly in the automobile industry for the domestic-use EVs remains brisk.
  - Chinese official's strengthening its environmental policies.
- Initiatives**
- Expanding sales by meeting demand related to equipment investment in growing industries.
  - Continue implementing cost-reduction measures to build profits.
  - Concentrate on the expanding industry within China, though the market slowdown needs a close watch.

## Asia



- Market**
- A recovery of equipment investment is expected.
  - Deceleration of equipment investment in Korean display market is concern.
- Initiatives**
- Enhance service and maintenance business for crane users, and hoist sales.
  - Continue measures to enhance business efficiency.

## Europe



- Market**
- Expect moderate demand growth in broader industries.
- Initiatives**
- Cultivate new market and synergies among Kito group companies.

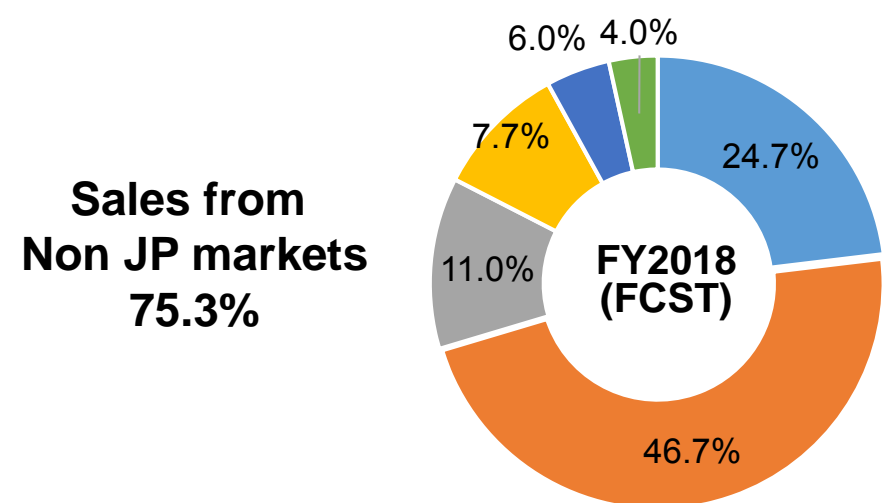
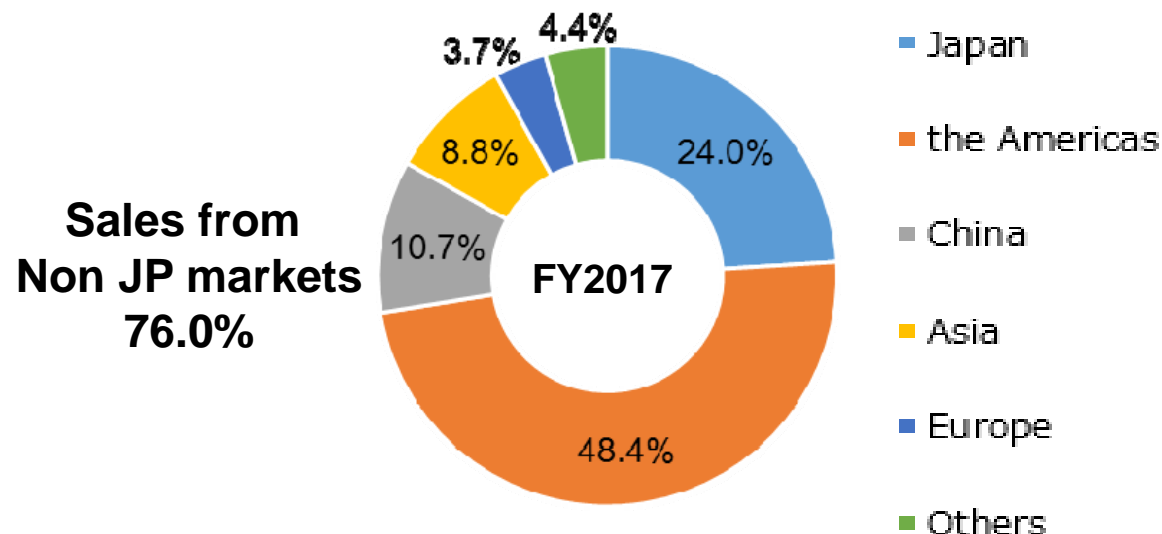


# FY2018 Forecast / Net Sales by Region

JPY in million	FY2017 (ended Mar 2018)		FY2018 FCST (ending Mar 2019)		YoY Change	
		% Share		% Share	Amount	%
<b>Total</b>	<b>55,168</b>	<b>100.0%</b>	<b>60,000</b>	<b>100.0%</b>	4,832	8.8%
Japan	13,261	24.0%	14,800	24.7%	1,539	11.6%
the Americas	26,700	48.4%	28,000	46.7%	1,300	4.9%
China	5,903	10.7%	6,600	11.0%	697	11.8%
Asia	4,837	8.8%	4,600	7.7%	(237)	(4.9%)
Europe	2,060	3.7%	3,600	6.0%	1,540	74.8%
Others	2,404	4.4%	2,400	4.0%	(4)	(0.2%)

Note: Exchange Rate (FY2017 → FY2018)

USD/JPY 110.9→110.0 CAD/JPY 86.5→85.0 EUR/JPY 129.7→130.0 RMB/JPY 16.6→17.0



# FY2018 Forecast

JPY in million	FY 2017	FY 2018 FCST	YoY Change
<b>Sales</b>	55,168	<b>60,000</b>	8.8%
<b>Operating Income</b> Operating Income / Sales	4,698 (8.5%)	<b>6,000</b> (10.0%)	27.7%
<b>Ordinary Income</b> Ordinary Income / Sales	3,791 (6.9%)	<b>5,700</b> (9.5%)	50.3%
<b>Net Income</b> Net Income / Sales	2,836 (5.1%)	<b>4,000</b> (6.7%)	41.0%
<b>EBITDA</b> Op Income + Depreciation	7,142	<b>8,800</b>	23.2%
<b>CAPEX</b>	1,411	<b>2,310</b>	

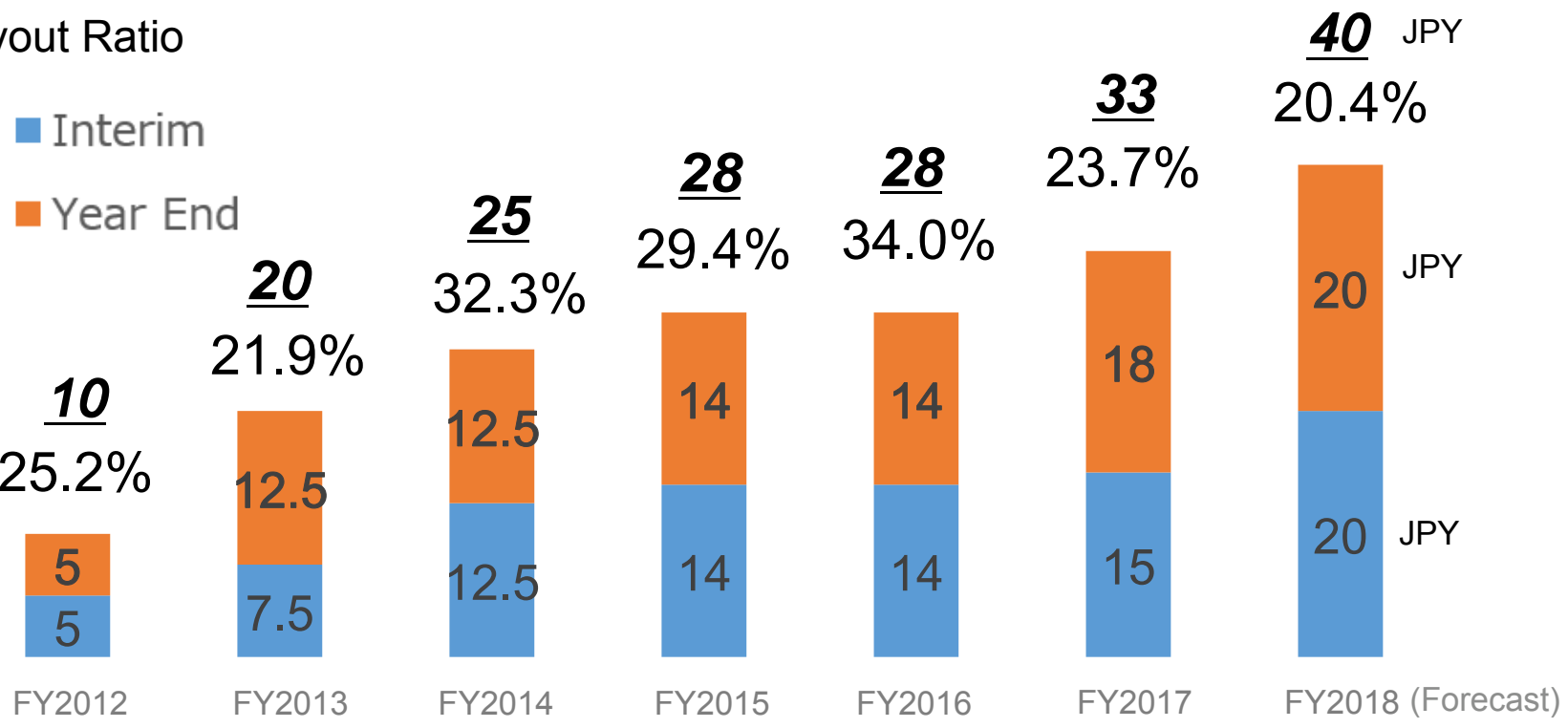
Note: Exchange Rate (FY2017 → FY2018)

USD/JPY 110.9→110.0 CAD/JPY 86.5→85.0 EUR/JPY 129.7→130.0 RMB/JPY 16.6→17.0

# Dividend

**Payout ratio at 20% or higher,  
with total annual dividend of JPY40 per share**

Annual Dividend  
Payout Ratio



Note: Per share dividends are calculated on the assumption that the stock split below are at the beginning of the FY2011

- 100 for 1 stock split was effective on April 1, 2013
- 2 for 1 stock split was conducted on October 1, 2014

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## FY2018 2<sup>nd</sup> Quarter Financial Results

2

## FY2018 Forecast

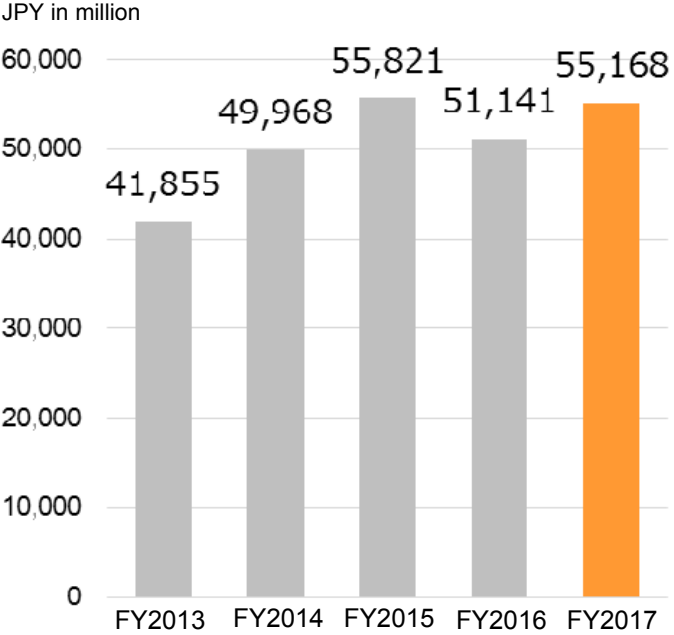
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## Reference

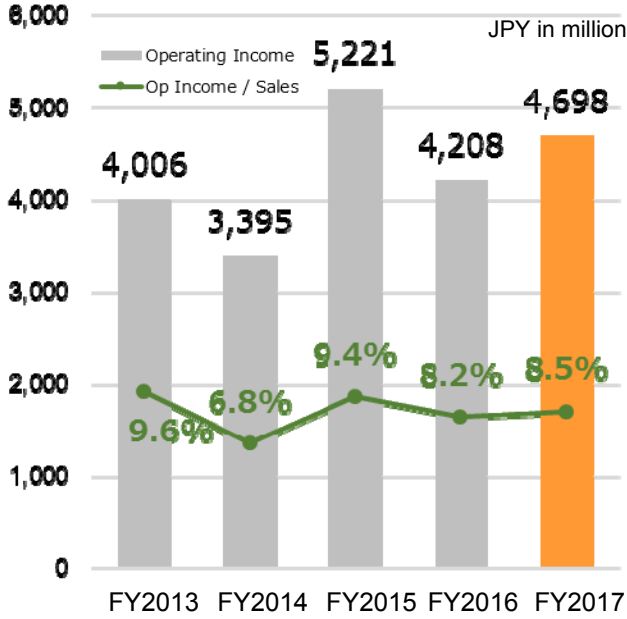
- **Five Year Financial Results (FY 2013 – FY 2017)**
- **Mid-Term Plan (FY 2016 – FY 2020)**

# Key figures

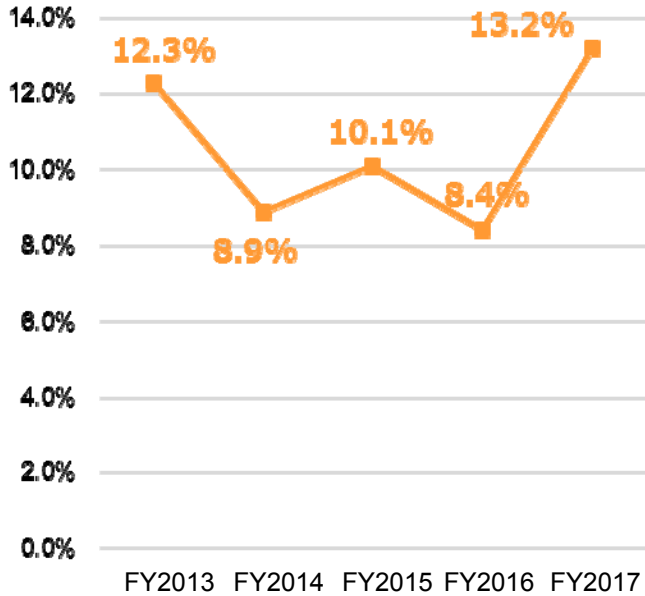
## Sales



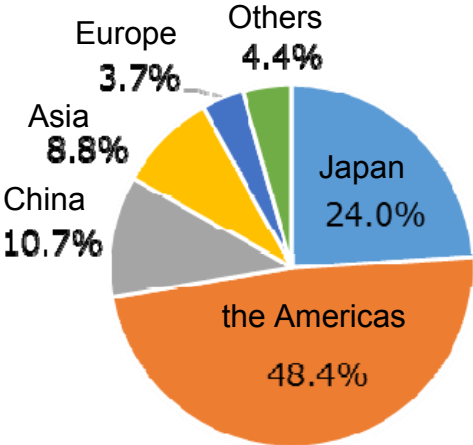
## Op Income and Op Margin



## ROE

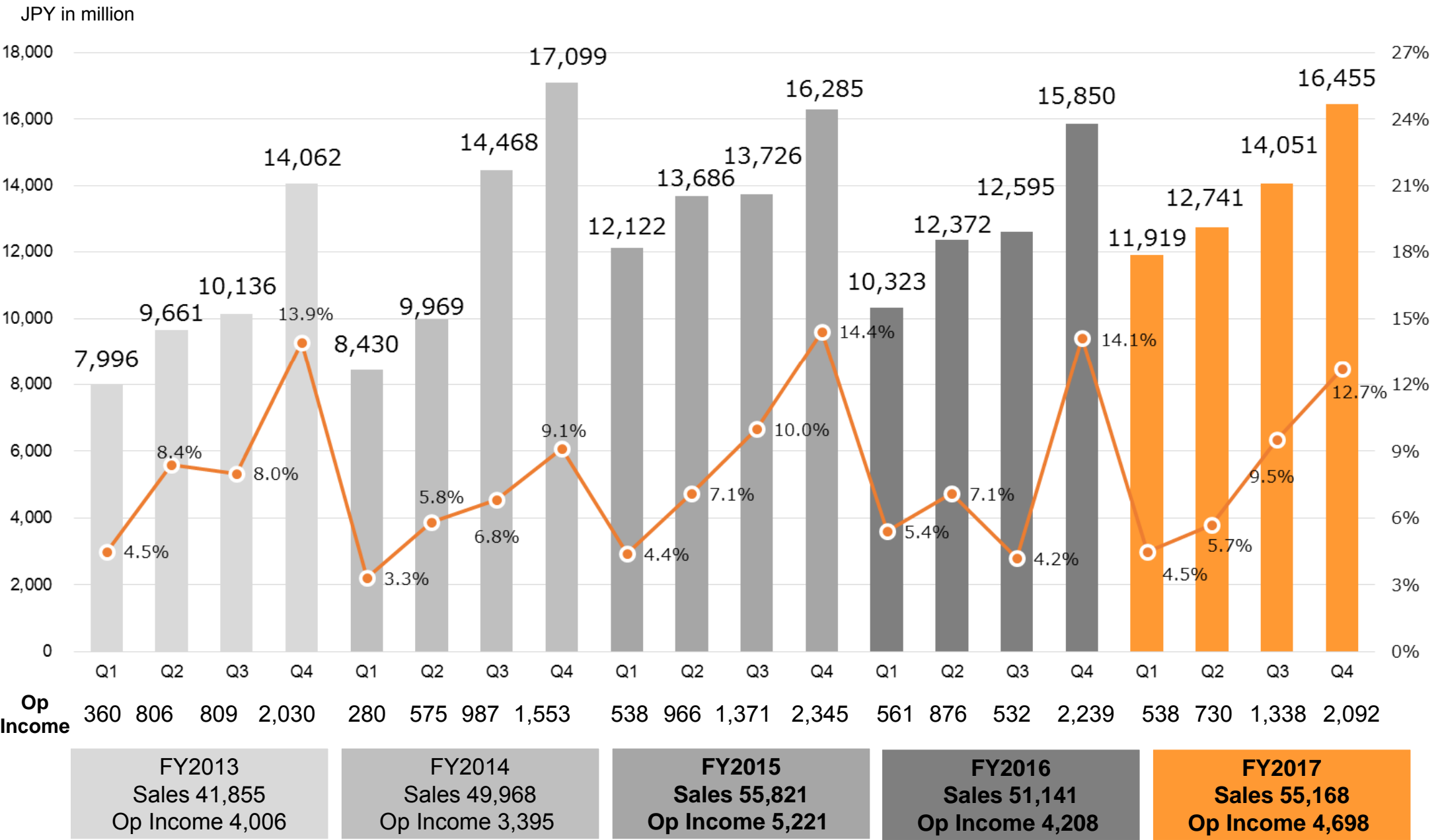


## Sales by Region in FY2017



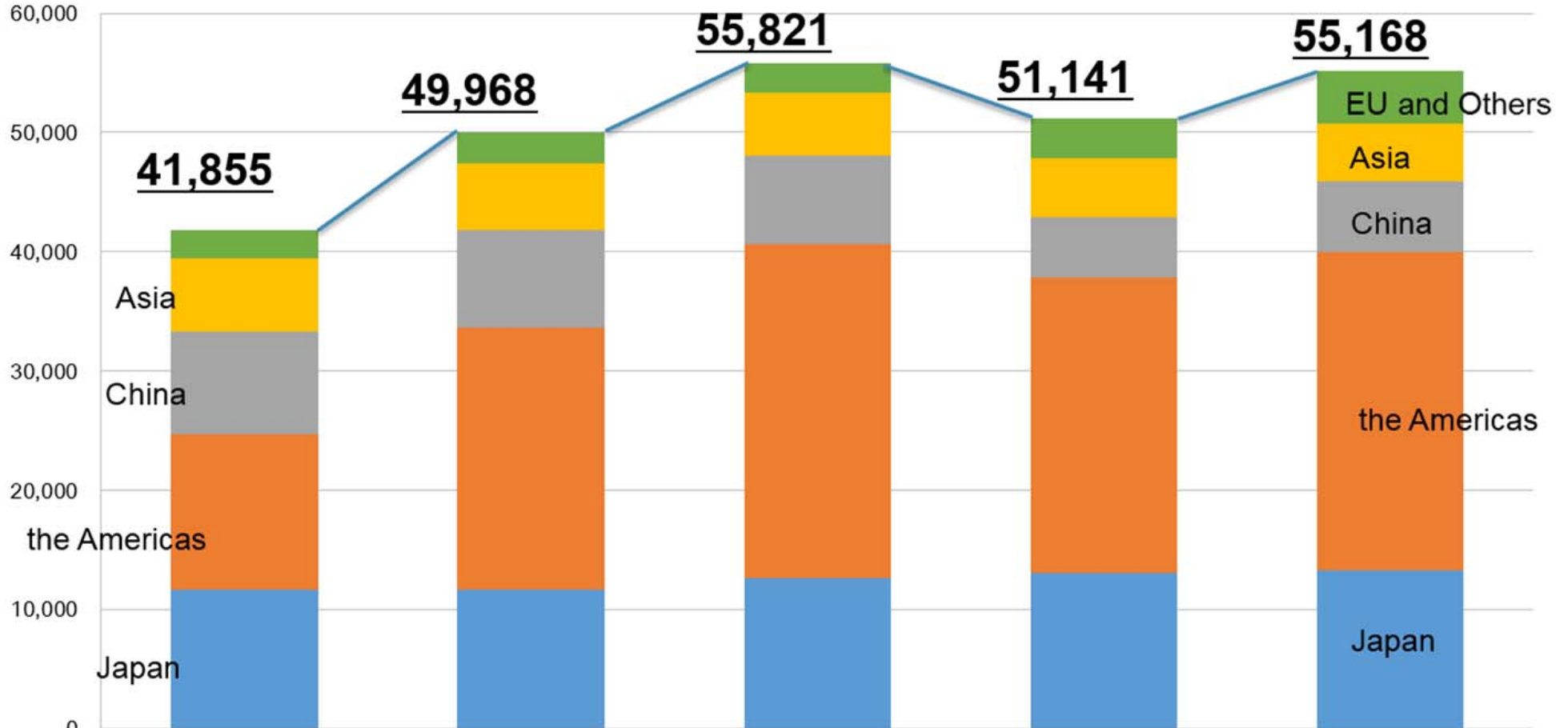
	FY2013	FY2014	FY2015	FY2016	FY2017
Sales from Non JP Market	72.2%	76.6%	77.3%	74.3%	76.0%
Average FX Rate					
USD / JPY	100.2	109.9	120.1	108.4	110.9
CAD / JPY	95.1	96.5	91.8	82.5	86.5
EUR / JPY	134.4	138.8	132.6	118.8	129.7
RMB / JPY	15.9	17.2	19.2	16.4	16.6
Capex (JPY in million)	2,440	1,408	2,013	2,393	1,411
Depreciation (JPY in million)	954	1,311	1,814	1,792	2,116

# Quarterly Sales and Operating Margin



# Sales by Regions

JPY in million



	FY2013	FY2014	FY2015	FY2016	FY2017
■ EU and others	2,424	2,500	2,479	3,308	4,465
■ Asia	6,168	5,676	5,321	4,925	4,837
■ China	8,604	8,198	7,418	5,034	5,903
■ the Americas	13,034	21,888	27,909	24,742	26,700
■ Japan	11,625	11,702	12,692	13,129	13,261

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**Mid-Term Plan  
FY2016 – FY2020  
(Apr 2016 – Mar 2021)**



# Key Directives to Achieve Goals

We have set three Key Directives to achieve the MTP goals.

- 1) Our top priority is to **Enhance the Customer's Experience**
- 2) To make that happen, we will **Create a Highly Efficient and Functional Organization**
- 3) We actively **Invest in People**, who make up this organization



# Management Goals

## Achieve the Three Management Goals to Double the Profitability

Financial Target

### 1 Return to a high margin business structure

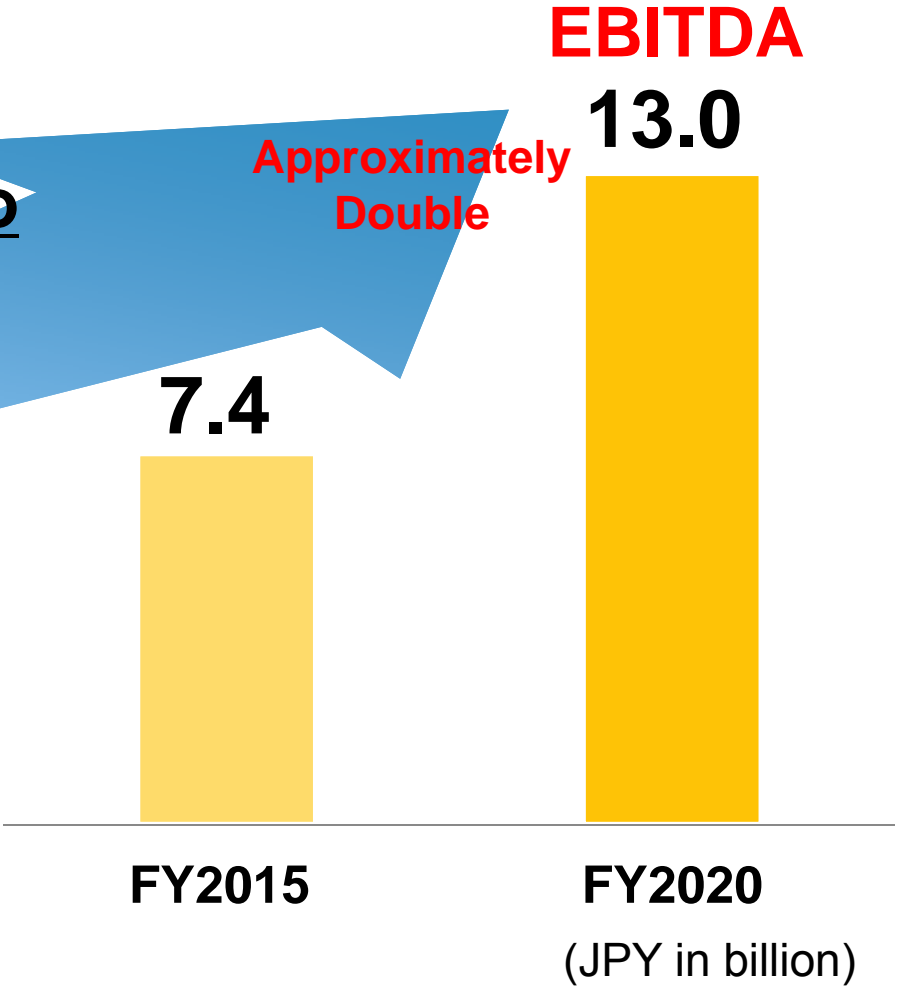
- Renew production equipment
- Concentrate on high-margin business

### 2 Growth through product portfolio expansion

- Develop new products
- Expand product offerings through M&A
- Expedite sales in new markets

### 3 Evolve into a Globally Integrated Enterprise

- Recruit and develop global HR
- Integrate ERP systems at HQ and primary subsidiaries.
- Build a unified marketing database for the entire Group.



# “Lifting Expectations”

