

This is the English translation of the original Japanese-language Business Results of KITO CORPORATION (the Company) for the first half of fiscal year ending March 31, 2021 and is provided for reference purposes only. Readers are advised that the Company does not guarantee the accuracy of the content contained in this report. In the event of any discrepancy between this translation and the Japanese original, the Japanese original shall prevail.

Business Results for the First Half of the Fiscal Year Ending March 31, 2021 [Japan GAAP] (Consolidated)

November 5, 2020

Company	KITO CORPORATION	Listed on the TSE 1 st Section
Stock Code	6409	URL: https://kito.com/
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Expected date of filing of quarterly annual securities report:	November 6, 2020	Scheduled date to begin dividend payments:	December 3, 2020
Preparation of supplementary financial document:	Yes		
Results briefing:	Yes (for securities analysts)		

(Figures of less than ¥1 million have been omitted.)

1. Consolidated business results for the 1H (April 1, 2020 to September 30, 2020) of fiscal 2020 (April 1, 2020 to March 31, 2021)

(1) Consolidated results of operations (% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1H FY2020	22,041	(20.0)	1,247	(42.7)	1,213	(32.4)	166	(84.6)
1H FY2019	27,548	(2.3)	2,177	(15.1)	1,795	(22.4)	1,083	(41.0)

(Note) Comprehensive income (loss) 1H FY2020: 236 million yen (46.4)%
1H FY2019: 442 million yen (79.1)%

	Net income per share		Diluted net income per share	
	Yen	Yen	Yen	Yen
1H FY2020	8.14	8.14	8.14	8.14
1H FY2019	52.98	52.84	52.84	52.84

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of September 30, 2020	63,322	27,494	41.9
As of March 31, 2020	62,804	27,927	42.8

(Reference) Shareholders' equity As of September 30, 2020: 26,542 million As of March 31, 2020: 26,902 million

2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2019	—	24.00	—	24.00	48.00
FY2020	—	12.00	—	—	—
FY2020 (forecast)	—	—	—	12.00	24.00

(Note) Revisions from recently announced dividend forecast: None

3. Forecast of consolidated business results for fiscal 2020 (April 1, 2020 to March 31, 2021)

(% change from the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	
FY2020	50,000	(14.9)	3,600	(34.2)	3,500	(29.9)	1,700	(46.9)	82.83	

(Note) Revisions from recently announced forecast: No

※ **Notes:**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in the scope of consolidation): None
- (2) The application of special accounting treatment for the preparation of the quarterly consolidated financial statements: None
- (3) Changes in accounting policies, accounting estimates, and restatements
- (a) Changes in accounting policies due to revisions of accounting standards: None
 - (b) Changes in accounting policies other than above: None
 - (c) Changes of accounting estimates: None
 - (d) Restatements: None
- (4) Number of shares issued (common stock)
- (a) Number of shares issued at the end of period (treasury stock included)
 - As of September 30, 2020: 27,048,200 shares
 - As of March 31, 2020: 27,048,200 shares
 - (b) Number of treasury stock at the end of period
 - As of September 30, 2020: 6,525,083 shares
 - As of March 31, 2020: 6,576,603 shares
 - (c) Average number of shares over the period
 - 1H FY2020: 20,497,064 shares
 - 1H FY2019: 20,440,515 shares

*** This quarterly Business Results Report falls outside the scope of quarterly review procedures by certified public accountants or audit firm.**

*** Explanation regarding the appropriate use of business forecasts and other special instructions**

The performance forecasts and other forward-looking statements presented in this report are based on information currently available and certain assumptions deemed to be reasonable and are not to be read as guarantees of future performance by the Company. Actual performance, etc., may differ substantially due to various factors. For preconditions of the assumptions and special instructions regarding the appropriate use of business forecasts, please refer to "(3) Performance Forecasts and Other Forward-looking Statements, including Consolidated Business Forecasts" on page 6 of the supplementary materials.

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1. Quarterly Business Results

(1) Results of operations

During the half year period from April 1 to September 30, 2020 of fiscal 2020 ending March 31, 2021, COVID-19 continued to spread, prompting countries to impose restrictions on movement and other countermeasures, which had an unprecedented impact on economic activity. Under such circumstances, the Company managed to maintain stable production by upholding and securing its supply chain. Also, with employee health a top priority, the Company established a remote work environment, revising work operations and enhancing efficiency. In addition, strengthening of cost control measures companywide improved work processes, allowing the Company to generate earnings even in times of shrinking global demand.

During the first half year, while the COVID-19 pandemic has continued to have an impact from the end of the previous fiscal year, signs of recovery appeared in all regions from the second quarter. Under such conditions, as a result of strict cost management, net sales amounted to ¥22,041 million (down 20.0% year on year), with operating income of ¥1,247 million (down 42.7%), ordinary income of ¥1,213 million (down 32.4%), and profit attributable to owners of the parent of ¥166 million (down 84.6%).

Results by segment are as follows. The Kito Group's business activities are classified by geographical segment for the Company and its consolidated group companies.

Segment	Net Sales (YoY change in %)	Operating Income (Loss) (YoY change in %)
Japan	¥10,031 million, down 25.0%	¥2,238 million, down 17.2%
The Americas	¥9,786 million, down 23.7%	¥(67) million Ref. Q2 2019: ¥435 million
China	¥3,456 million, down 14.4%	¥534 million, up 0.1%
Asia (excluding Japan and China)	¥1,063 million, down 22.3%	¥4 million Ref. Q2 2019: ¥(18) million
Europe	¥1,926 million, up 6.8%	¥(82) million Ref. Q2 2019: ¥(73) million
Others	¥732 million, down 7.2%	¥(10) million Ref. Q2 2019: ¥5 million

Japan

In the domestic market, stable demand at the beginning of the fiscal year gradually contracted, but from the second quarter has progressively recovered on orders for specific projects, and firm demand from urban redevelopment projects. Exports were affected by weakened demand in overseas markets, with a decline in shipments to subsidiaries. As a result, net sales amounted to ¥10,031 million (down 25.0% from the corresponding period of the previous fiscal year), with operating income of ¥2,238 million (down 17.2%).

The Americas

In the U.S., demand had slumped due to the COVID-19 crisis from the start of the period, but from the second quarter showed signs of recovery overall, although with regional disparity. As a result, net sales amounted to ¥9,786 million (down 23.7% year on year), with an operating loss of ¥67 million (compared to operating income of ¥435 million in the corresponding period of the previous fiscal year).

China

China managed to recover from the effects of the COVID-19 crisis quickly, and recently earnings have rapidly improved. Net sales amounted to ¥3,456 million (down 14.4% year on year), with operating income of ¥534 million (up 0.1%). Of note, the fiscal year for this segment starts in January, so the first half period is from January through June.

Asia (excluding Japan and China)

The impact from the COVID-19 crisis has been relatively light compared to the U.S. and European markets, but capital investment has slowed in automotive-related industries in the Southeast Asia region. Net sales amounted to ¥1,063 million (down 22.3% year on year). In terms of earnings, as a result of measures implemented to improve profitability, and recovery in the South Korean and Taiwanese businesses, this segment posted operating income of ¥4 million (compared to an operating loss of ¥18 million in the corresponding period of the previous fiscal year).

Europe

Economic activity has stagnated with the lockdowns implemented across Europe since the start of the fiscal year, and demand has fallen sharply. Of note, a Finnish manufacturer of crane-related products was included as a consolidated subsidiary in this segment at the end of the previous fiscal year. As a result, net sales amounted to ¥1,926 million (up 6.8% year on year). In terms of earnings, however, the segment had an operating loss of ¥82 million (compared to an operating loss of ¥73 million in the corresponding period of the previous fiscal year).

Others

This segment currently comprises business in Australia only. Net sales amounted to ¥732 million (down 7.2% year on year), with operating loss of ¥10 million (compared to an operating income of ¥5 million in the corresponding period of the previous fiscal year).

(2) Financial Position

1. Assets, liabilities, and net assets

Total assets at the end of the first half period of fiscal 2020 amounted to ¥63,322 million, an increase of ¥517 million compared to the end of the previous fiscal year. The main factors were a ¥3,451 million increase in cash and deposits; and a ¥2,811 decrease in notes and accounts receivable–trade.

Total liabilities amounted to ¥35,828 million, an increase of ¥950 million compared to the end of the previous fiscal year. The main factors were a ¥5,551 million increase in short-term loans payable; a ¥1,676 million decrease in long-term loans payable; and a ¥1,584 million decrease in accrued expenses.

Net assets amounted to ¥27,494 million, a decrease of ¥432 million compared to the end of the previous fiscal year. The main factors were a ¥400 million increase in remeasurements of defined benefit plans; a ¥346 million decrease in foreign currency translation adjustment; and a ¥324 million decrease in retained earnings.

2. Cash Flows

Cash and cash equivalents at the end of the first half period amounted to ¥12,911 million, an increase of ¥3,613 million compared to the end of the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥1,841 million, an increase of ¥243 million compared to the corresponding period of the previous fiscal year. The main factors were a ¥2,662 million decrease in trade receivables; a ¥1,549 million decrease in accrued expenses; and a ¥1,475 million increase in inventories.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥1,107 million, a decrease in outflow of ¥1,133 million compared to the corresponding period of the previous fiscal year. Main factors were ¥1,207 million in payments for the acquisition of property and equipment; and ¥61 million in payments for the acquisition of intangible fixed assets.

Cash Flows from Financing Activities

Net cash provided by financing activities amounted to ¥2,892 million, an increase of ¥2,495 million compared to the corresponding period of the previous fiscal year. The main factors were ¥6,000 million in proceeds from short-term loans payable; and ¥2,214 million in repayments of long-term loans payable.

(3) Performance Forecasts and Other Forward-looking Statements, including Consolidated Business Forecasts

Consolidated performance forecasts for the fiscal year ending March 31, 2021, announced on August 6, 2020, have been revised to reflect improvements in operational efficiency and more stringent cost controls. For details, see “Revisions to the Consolidated Business Forecasts” released on October 16, 2020.

2. Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	9,468	12,919
Notes and accounts receivable-trade	11,088	8,277
Merchandise and finished goods	13,601	14,375
Work in process	1,193	1,584
Raw materials and supplies	3,302	3,384
Other current assets	1,465	1,341
Allowance for doubtful receivables	(73)	(67)
Total current assets	40,046	41,816
Fixed assets		
Property and equipment		
Buildings and structures (net)	4,461	4,611
Machinery, equipment, and vehicles (net)	4,246	3,948
Others (net)	4,044	3,763
Total property and equipment	12,752	12,323
Intangible assets		
Goodwill	1,316	1,132
Other intangible assets	4,003	3,795
Total intangible assets	5,319	4,928
Investments and other assets		
Investment securities	2,000	1,993
Deferred tax assets	1,803	1,386
Other investments and other assets	881	874
Total investments and other assets	4,686	4,254
Total fixed assets	22,757	21,506
Total assets	62,804	63,322

(Millions of yen)

As of March 31, 2020

As of September 30, 2020

Liabilities		
Current liabilities		
Notes and accounts payable-trade	5,668	5,087
Short-term loans payable	3,252	8,804
Current portion of long-term loans payable	4,271	4,101
Accrued expenses	3,349	1,765
Income taxes payable	377	313
Provision for bonuses for employees	769	763
Other provisions	480	290
Other current liabilities	2,093	1,940
Total current liabilities	20,263	23,065
Long-term liabilities		
Long-term loans payable	10,808	9,132
Net defined benefit liabilities	2,336	2,219
Other long-term liabilities	1,469	1,410
Total long-term liabilities	14,613	12,762
Total liabilities	34,877	35,828
Net assets		
Shareholders' equity		
Capital stock	3,976	3,976
Capital surplus	5,234	5,103
Retained earnings	24,086	23,761
Treasury stock	(5,678)	(5,633)
Total shareholders' equity	27,618	27,207
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Deferred gains or losses on hedges	(91)	(94)
Foreign currency translation adjustment	(64)	(410)
Remeasurements of defined benefit plans	(559)	(159)
Total accumulated other comprehensive income	(716)	(664)
Subscription rights to shares	66	70
Non-controlling interests	958	880
Total net assets	27,927	27,494
Total liabilities and net assets	62,804	63,322

(2) Quarterly Consolidated Statements of Income/Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income

(Millions of yen)

	1H of FY2019 (April 1, 2019 to September 30, 2019)	1H of FY2020 (April 1, 2020 to September 30, 2020)
Net sales	27,548	22,041
Cost of sales	17,207	14,068
Gross profit	10,341	7,973
Selling, general, and administrative expenses	8,163	6,725
Operating income	2,177	1,247
Non-operating income		
Interest income	20	13
Subsidy income	—	111
Gain on sales of scraps	21	11
Other	42	92
Total non-operating income	84	229
Non-operating expenses		
Interest expense	175	125
Equity in losses of affiliates	47	39
Foreign exchange losses	162	42
Other	81	55
Total non-operating expenses	466	263
Ordinary income	1,795	1,213
Extraordinary income		
Gain on sale of fixed assets	1	3
Total extraordinary income	1	3
Extraordinary loss		
Loss on sale of fixed assets	0	0
Loss on retirement of fixed assets	32	17
Loss on termination of retirement benefit plan	—	307
Total extraordinary loss	33	324
Income before income taxes	1,763	891
Income taxes	637	675
Net income for the period	1,126	216
Net income attributable to non-controlling interests	43	49
Net income attributable to owners of the parent	1,083	166

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	1H FY2019 (April 1, 2019 to September 30, 2019)	1H FY2020 (April 1, 2020 to September 30, 2020)
Net income for the period	1,126	216
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	(0)
Deferred gains or losses on hedges	(69)	(2)
Foreign currency translation adjustment	(596)	(368)
Remeasurements of defined benefit plans	12	400
Share of other comprehensive income of entities accounted for using equity method	(30)	(8)
Total other comprehensive income	(683)	20
Quarterly comprehensive income	442	236
(Comprehensive income attributable to):		
Owners of the parent	412	218
Non-controlling interests	29	18

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	1H FY2019 (April 1, 2019 to September 30, 2019)	1H FY2020 (April 1, 2020 to September 30, 2020)
Cash flows from operating activities		
Income before income taxes	1,763	891
Depreciation and amortization	1,346	1,312
Amortization of goodwill	151	148
Changes in net defined benefit liabilities (decrease)	30	282
Interest and dividend income	(20)	(13)
Interest expense	175	125
Foreign exchange losses (gains)	79	40
Equity in losses (earnings) of affiliates	47	39
Subsidy income	—	(111)
Changes in trade receivables (increase)	1,821	2,662
Changes in inventories (increase)	(2,052)	(1,475)
Changes in trade payables (decrease)	461	(539)
Changes in accrued expenses (decrease)	(1,070)	(1,549)
Changes in advances received (decrease)	(16)	242
Others	331	212
Subtotal	3,048	2,270
Cash received from interest and dividends	19	13
Interest paid	(183)	(145)
Income taxes paid	(1,285)	(404)
Proceeds from subsidy income	—	108
Net cash provided by operating activities	1,598	1,841
Cash flows from investing activities		
Payments for the acquisition of property and equipment	(719)	(1,207)
Payments for the acquisition of intangible fixed assets	(87)	(61)
Payments for investments in capital of subsidiaries and affiliates	(1,287)	—
Others	(145)	161
Net cash used in investing activities	(2,241)	(1,107)
Cash flows from financing activities		
Proceeds from short-term loans payable	—	6,000
Net increase (decrease) in short-term loans payable	755	(465)
Proceeds from long-term loans payable	2,400	500
Repayments of long-term loans payable	(2,036)	(2,214)
Cash dividends paid	(489)	(489)
Cash dividends paid for non-controlling interests	(93)	(96)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(185)
Repayments of lease obligations	(141)	(153)
Others	0	(3)
Net cash provided by financing activities	396	2,892
Effect of exchange rate changes on cash and cash equivalents	(74)	(12)
Increase (decrease) in cash and cash equivalents	(320)	3,613
Cash and cash equivalents at the beginning of the period	8,504	9,297
Cash and cash equivalents at the end of the period	8,184	12,911

(4) Notes on Quarterly Consolidated Financial Statements

(Notes regarding ongoing concern assumption)

There are no relevant matters to be noted.

(Notes on the event of material changes in the amount of shareholders' equity)

There are no relevant matters to be noted.

(Additional information)

(Accounting estimates regarding the impact of the COVID-19 pandemic)

There has been no material change in the assumptions regarding the future spread of the COVID-19 virus and timing of a return to a normal state from that reported in "(Additional Information), (Accounting estimates regarding the impact of the COVID-19 pandemic)" in the Company's securities report for the previous fiscal year.

(Segment information)

First half of the fiscal year ended March 31, 2020 (April 1, 2019 to September 30, 2019)

Information on the amounts of net sales and on the income or loss of reportable segments

(Millions of yen)

	Reportable segments						Total	Adjustment (Note 1)	Consolidated financial statement amount (Note 2)
	Japan	The Americas	China	Asia	Europe	Others			
Net sales									
Net sales to outside customers	7,404	12,790	3,657	1,367	1,539	789	27,548	—	27,548
Net internal sales or transfers among segments	5,966	26	379	—	264	—	6,637	(6,637)	—
Total	13,370	12,817	4,037	1,367	1,803	789	34,186	(6,637)	27,548
Segment income (loss)	2,704	435	533	(18)	(73)	5	3,586	(1,409)	2,177

Notes: 1. The segment income adjustment of ¥(1,409) million includes transactions offset among segments of ¥(130) million and company-wide expenses that are not allocated to respective segment of ¥(1,278) million. Company-wide expenses are expenses mostly related to the general affairs, finance & accounting, and corporate planning departments of the parent company.

2. The segment income is reconciled with the operating income listed in the quarterly consolidated financial statements.

First half of the fiscal year ending March 31, 2021 (April 1, 2020 to September 30, 2020)

Information on the amounts of net sales and on the income or loss of reportable segments

(Millions of yen)

	Reportable segments						Total	Adjustment (Note 1)	Consolidated financial statement amount (Note 2)
	Japan	The Americas	China	Asia	Europe	Others			
Net sales									
Net sales to outside customers	5,762	9,754	3,183	1,063	1,544	732	22,041	—	22,041
Net internal sales or transfers among segments	4,268	31	272	—	381	—	4,954	(4,954)	—
Total	10,031	9,786	3,456	1,063	1,926	732	26,996	(4,954)	22,041
Segment income (loss)	2,238	(67)	534	4	(82)	(10)	2,616	(1,368)	1,247

Notes: 1. The segment income adjustment of ¥(1,368) million includes transactions offset among segments of ¥(309) million and company-wide expenses that are not allocated to respective segment of ¥(1,059) million. Company-wide expenses are expenses mostly related to the general affairs, finance & accounting, and corporate planning departments of the parent company.

2. The segment income is reconciled with the operating income listed in the quarterly consolidated financial statements.