

# **Financial Results for the Quarter ended September 30, 2019**

**KITO CORPORATION  
TSE 1st Section: 6409  
November 7, 2019**

# FY2019 Q2 Summary

## Overview

**Sales and profit, excluding forex impact, have grown almost in line with IR forecast, thanks to a stable demand despite continuing uncertainties in global market.**

1. Kito's business environment is steady, despite a softening global economy.
  - In leading markets, our portfolio which is well-balanced in different industries, had lead business performance.
  - In China, we seized demand in performing industries successfully, and improvement in safety awareness helped us building up market share.
2. Sales and profit were down year-on-year, due to a large South Korean project of FY2018, with 700 million yen sales. Also non-recurring expenses recorded in Q1-FY2019, foreign exchange losses, and a higher corporate tax.

## Business Results

JPY in Million	Apr-Sep 2019	YoY change	Change from IR Forecast	IR Forecast
<b>Sales</b>	<b>27,548</b>	<b>(2.3%)</b>	<b>(1.6%)</b>	<b>28,000</b>
<b>Op Income</b>	<b>2,177</b>	<b>(15.1%)</b>	<b>(1.0%)</b>	<b>2,200</b>
<b>Net Income *</b>	<b>1,083</b>	<b>(41.0%)</b>	<b>(16.7%)</b>	<b>1,300</b>

\* Net Income attributable to owners of parent / Average FX rate USD/JPY = 108.6

# **1 FY2019 2nd Quarter Financial Results**

## **2 FY2019 Forecast**

## **3 Reference**

- Five Year Financial Results (FY2014 – FY2018)
- Mid-Term Plan (FY2016 – FY2020)
- Business Structure

# FY2019 Q2 Financial Highlight

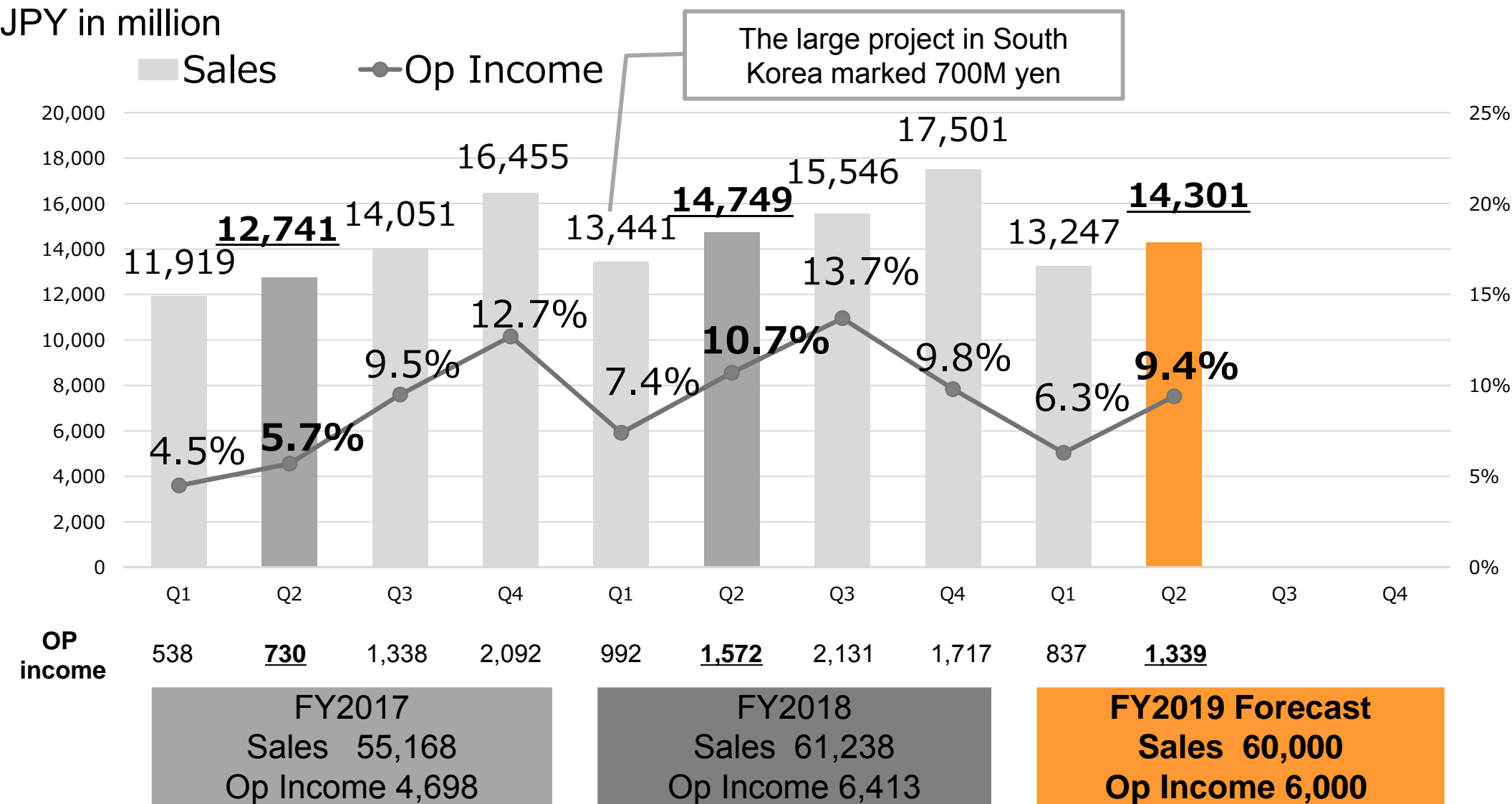
JPY in million	FY2018 Q2 Apr – Sep	FY2019 Q2 Apr – Sep	YoY Change
<b>Sales</b>	28,190	27,548	(2.3%)
<b>Gross Profit</b>	10,243	10,341	+1.0%
Gross Profit / Sales	36.3%	37.5%	
<b>Operating Income</b>	2,564	2,177	(15.1%)
Operating Income / Sales	9.1%	7.9%	
Non-operating income	181	84	
Non-operating expenses	430	466	
<b>Ordinary Income</b>	2,314	1,795	(22.4%)
Ordinary Income / Sales	8.2%	6.5%	
<b>Extraordinary Profit</b>	-	(32)	
<b>Income Taxes</b>	407	637	
<b>Net Income</b>	1,835	1,083	(41.0%)
Net Income / Sales	6.5%	3.9%	
<b>EBITDA</b>	3,903	3,675	
Op Income +Depreciation			

Note: Exchange Rate (FY2018 Q2 → FY2019 Q2) :

USD/JPY 110.3→108.6 CAD/JPY 84.9→81.7 EUR/JPY 129.8→121.4 RMB/JPY 17.1→16.2

# Quarterly Net Sales and Operating Margin

Strong demand in infrastructure and private-sector investment

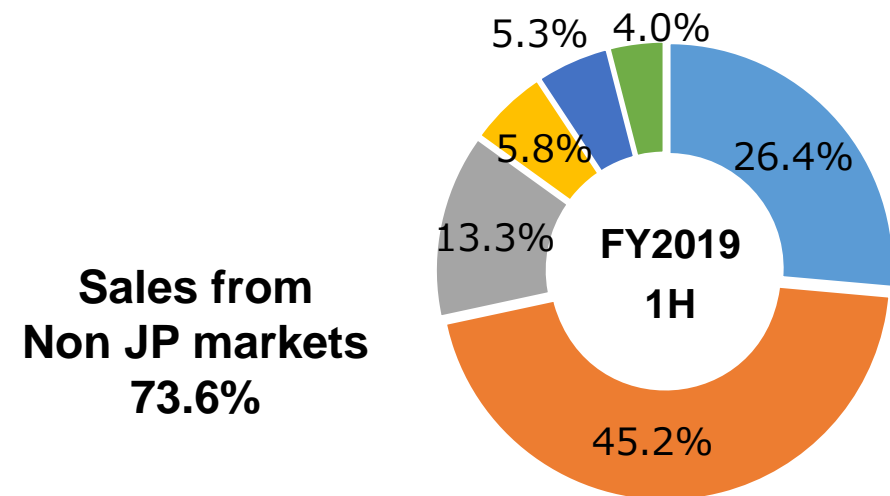
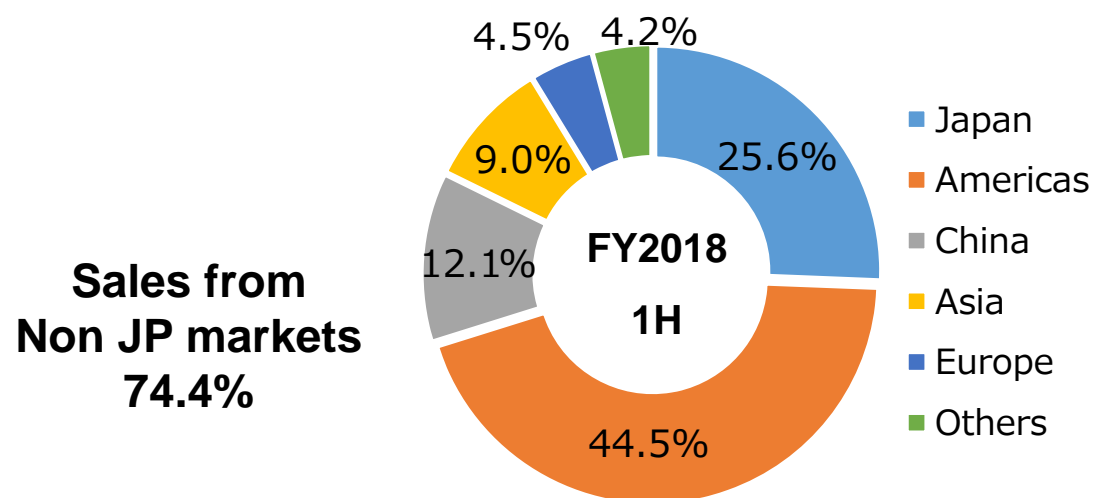


# Net Sales by Region

JPY in million	FY2017 Q2		FY2018 Q2		FY2019 Q2		YoY Change	
		% share		% share		% share		% share
<b>Total</b>	24,661	100.0%	28,190	100.0%	27,548	100.0%	(641)	(2.3%)
Japan	5,925	24.0%	7,225	25.6%	7,277	26.4%	52	0.7%
The Americas	11,781	47.8%	12,549	44.5%	12,437	45.2%	(111)	(0.9%)
China	2,857	11.6%	3,417	12.1%	3,660	13.3%	242	7.1%
Asia	1,963	8.0%	2,533	9.0%	1,603	5.8%	(930)	(36.7%)
Europe	968	3.9%	1,270	4.5%	1,473	5.3%	203	16.0%
Others	1,165	4.7%	1,194	4.2%	1,094	4.0%	(99)	(8.3%)

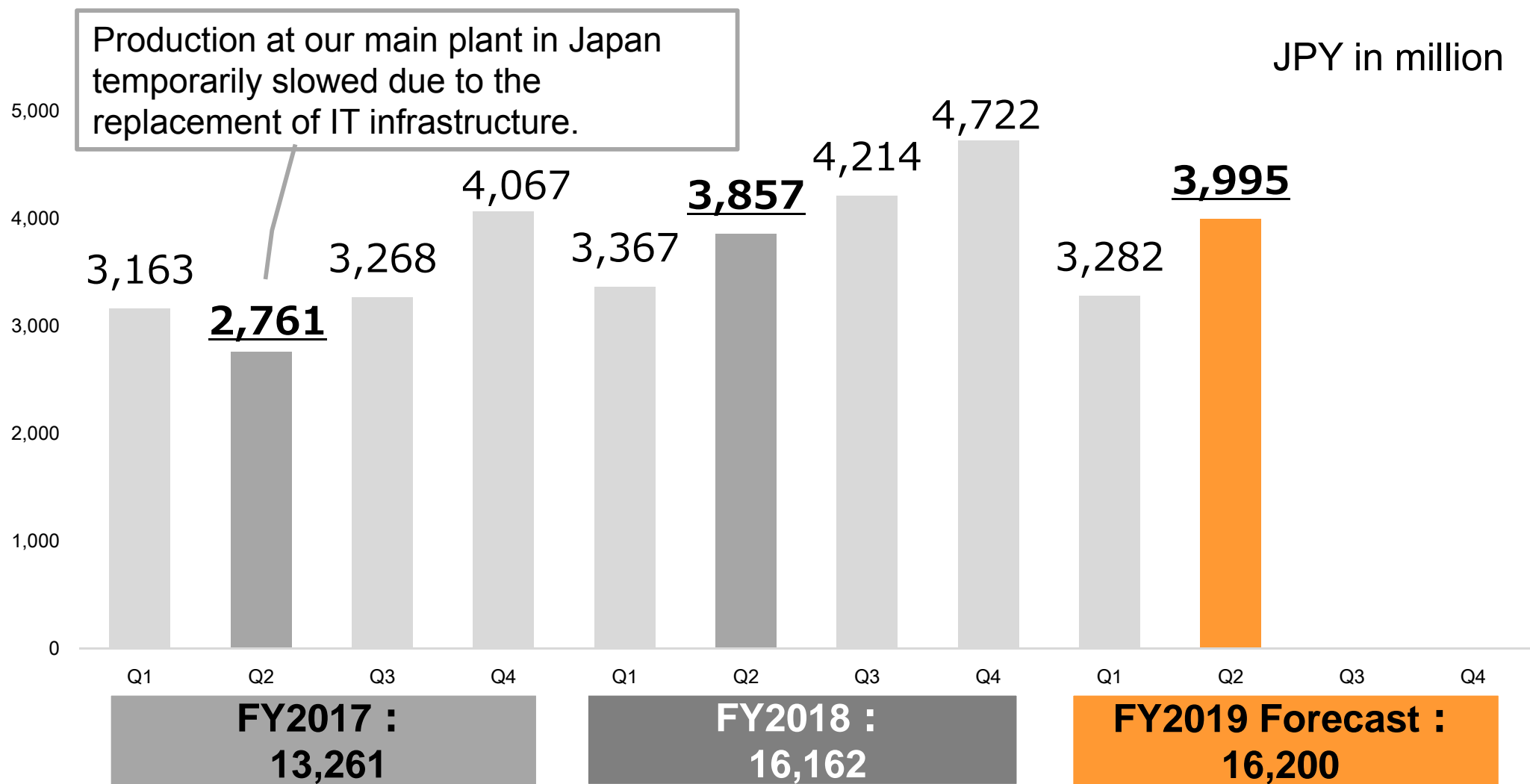
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# Net Sales by Region (Japan)

- Stable demand despite slowing trend in machine tools orders
- High operation rates for infrastructure-related equipment

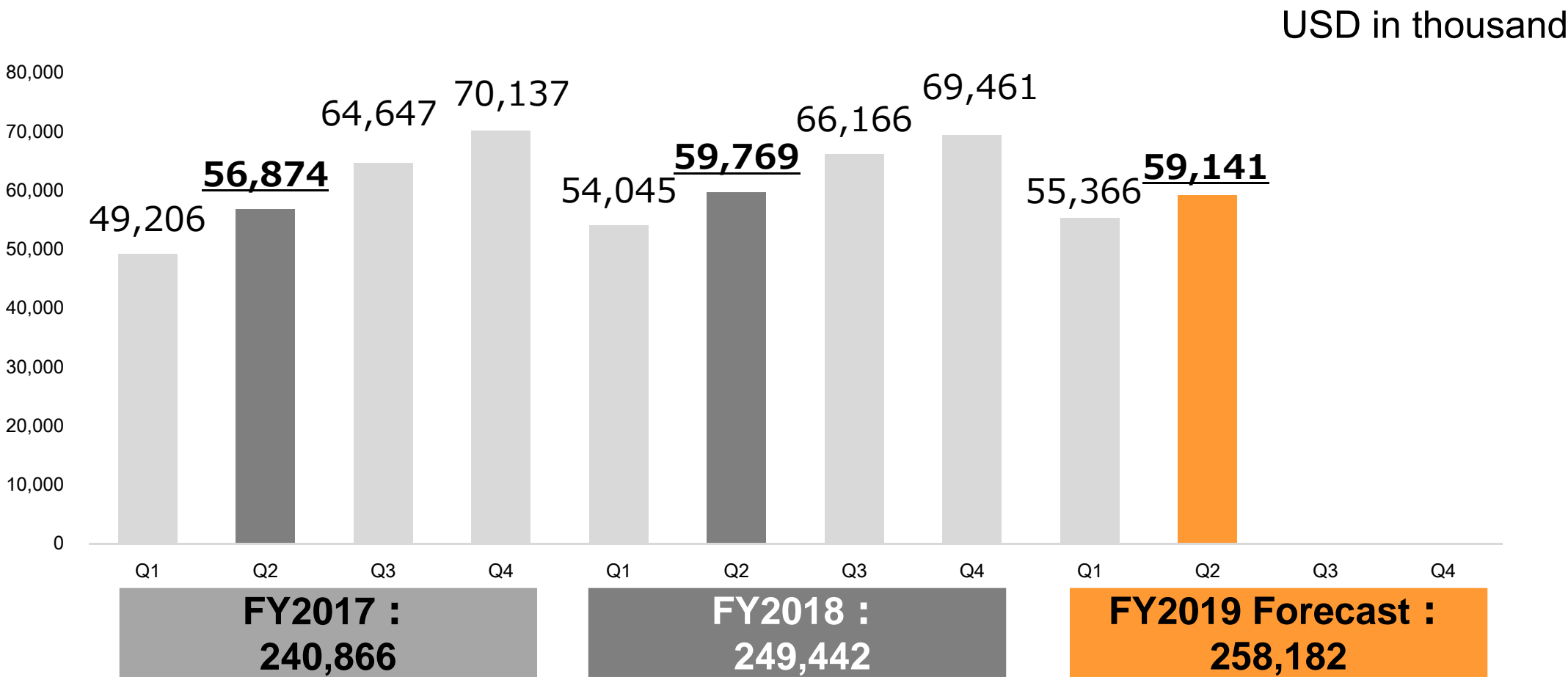


# Net Sales by Region (Americas)

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

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.

- Strong orders in private and public sectors despite trade conflict and political uncertainty.





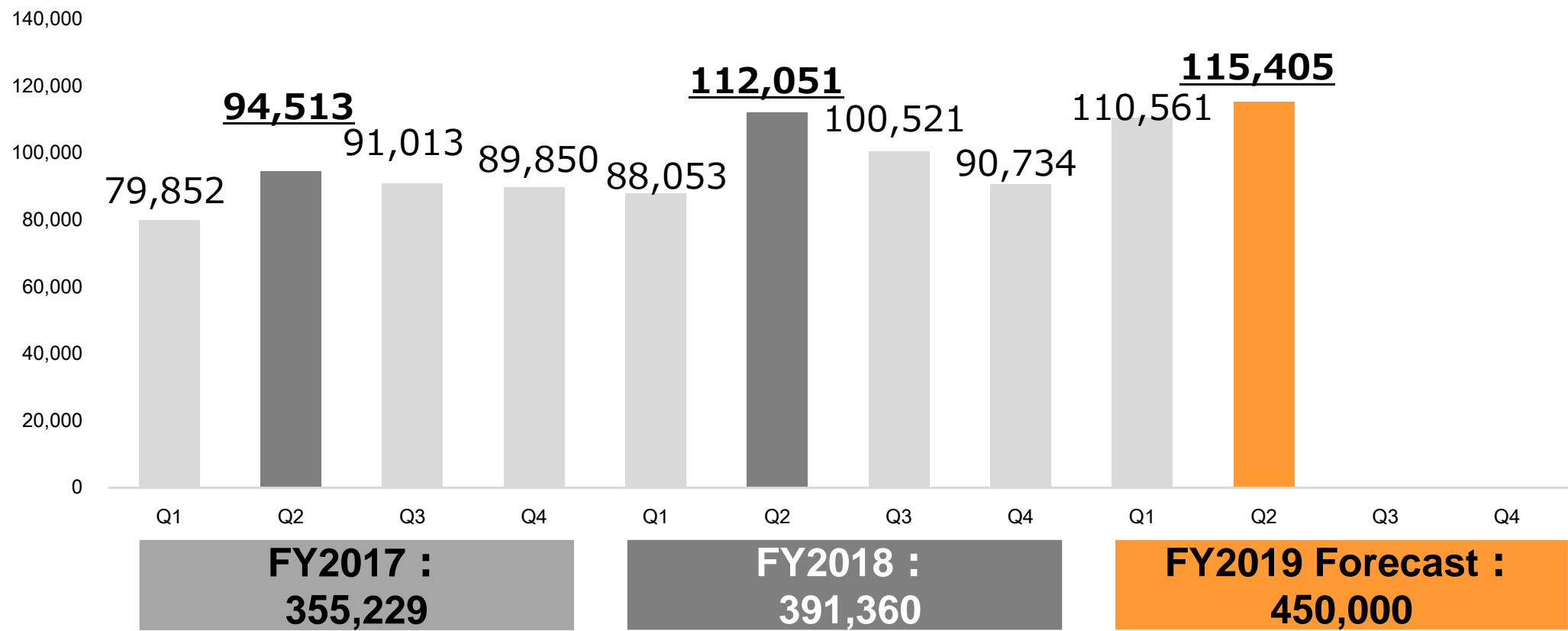
# Net Sales by Region (China)

Fiscal year of China starts in January and ends in December

The Chinese business is composed of two pillars, production and sales of wire-rope hoists for domestic market, and sales of Japanese high functioning products

- While the entire economy is softening, well performing industries like semiconductors, commercial vehicles, energy and railroads are driving demand.
- Market share has grown due to higher awareness about safety, and we are seeing continuing expansive trends in both sales and profit.
- We've made steady profit due to profitability-oriented operations

RMB in thousand

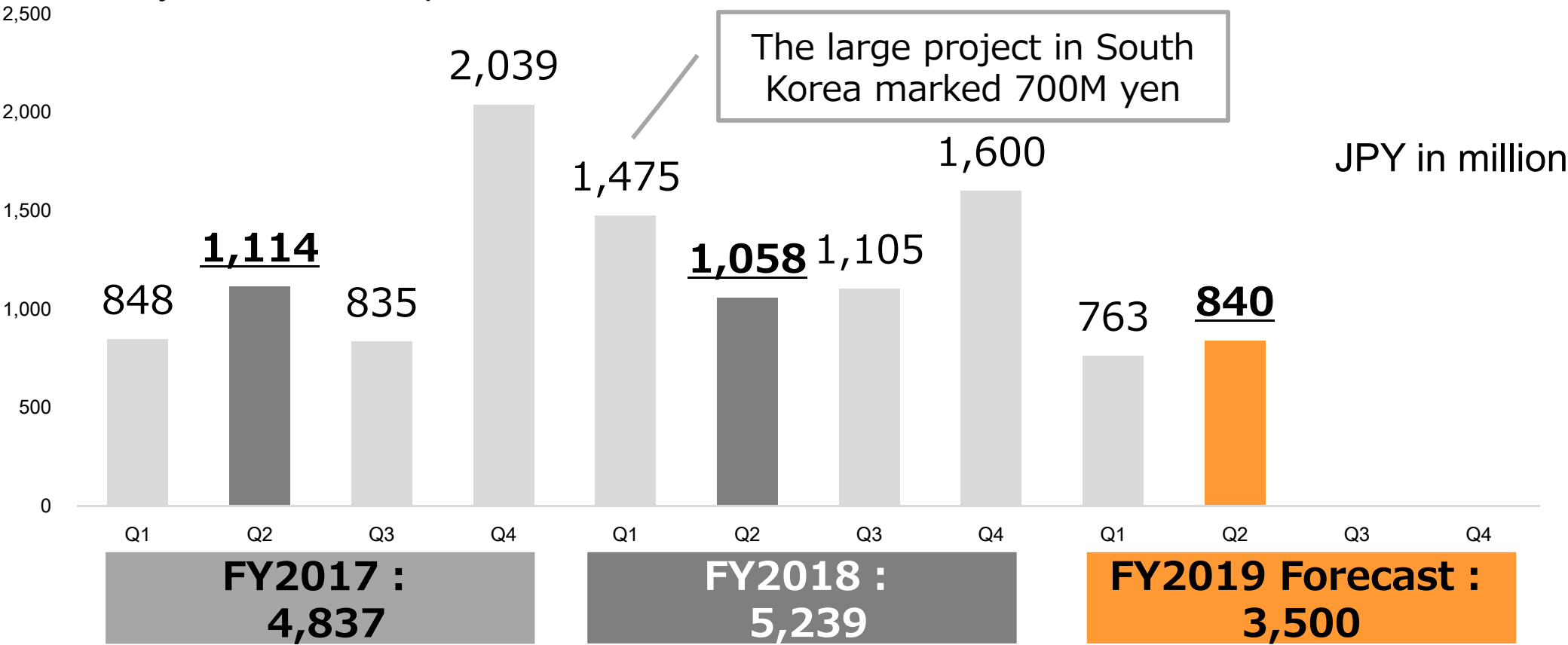


# Net Sales by Region (Asia)

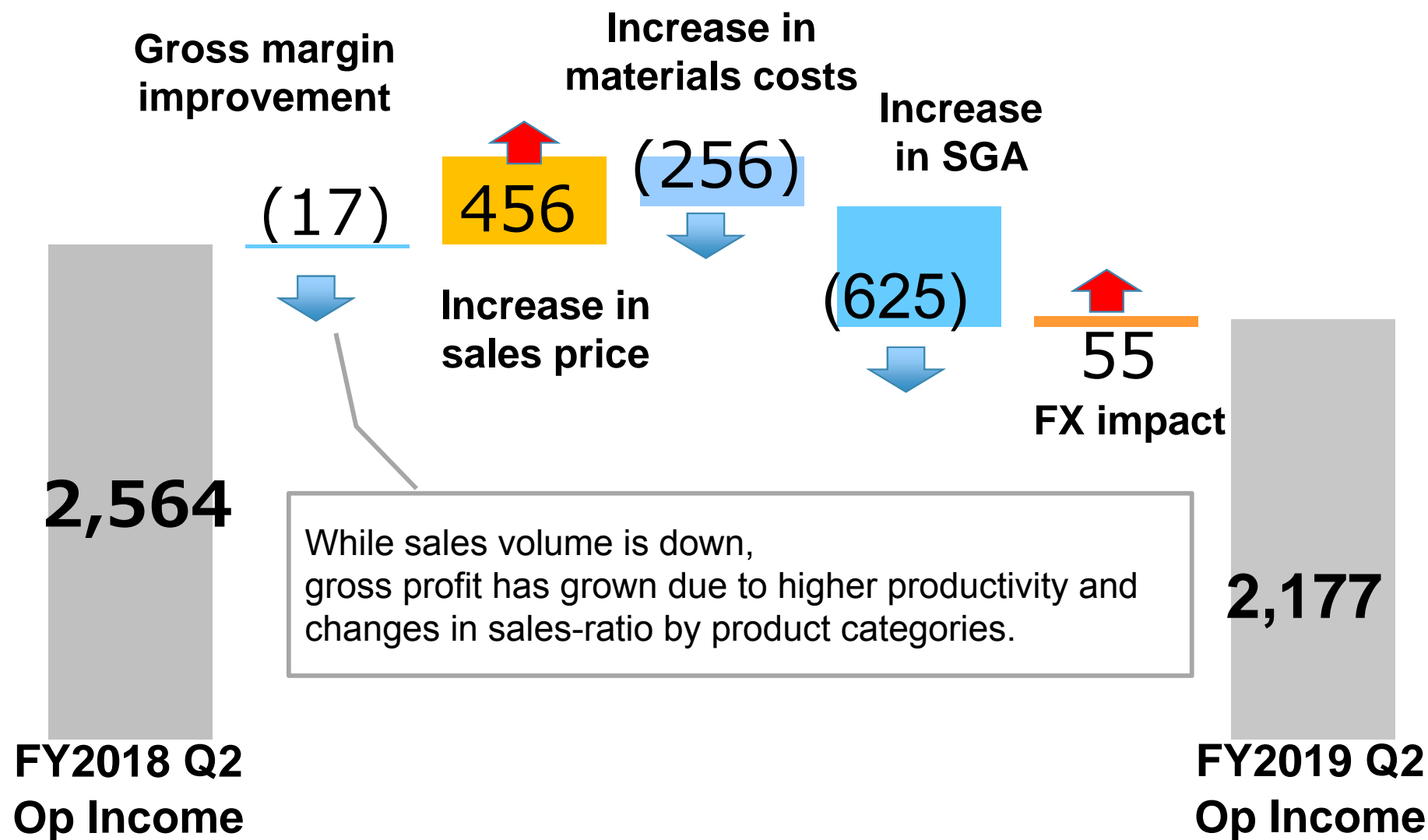
FY starts in Jan and ends in Dec: Thailand, Korea, Taiwan  
FY starts in Apr and ends in Mar: Indonesia, India

South Korea and Thailand, whose main operations are crane business, account for 70% of total sales in the region. Improving profitability by strengthening hoist sales and maintenance services for crane.

- Sales are down year-on-year due to the effect of a large South Korean project in FY2018.
- Robust demand in Southeast Asia, while economic slowing is evident in South Korea and Taiwan.
- Business structure reform has resulted in steady growth of hoist sales and higher profitability in the crane operation.



# Operating Income Comparison



# Consolidated Balance Sheet

JPY in million	FY2018 Q2	FY2019 Q2	Change
<b>Current Assets</b>	39,300	39,147	(153)
Cash	8,878	8,194	(684)
Accounts receivable	11,544	10,472	(1,072)
Inventories	17,631	19,501	1,869
Others	1,245	980	(265)
<b>Fixed Assets</b>	23,092	22,539	(552)
Tangible fixed assets	11,112	11,789	676
Intangible fixed assets	6,785	5,516	(1,268)
Investment & other assets	5,194	5,233	39
<b>Total Assets</b>	62,392	61,686	(705)

JPY in million	FY2018 Q2	FY2019 Q2	Change
<b>Current Liabilities</b>	19,271	19,641	369
Accounts payable	6,820	6,818	(2)
Short-term * debt	7,183	7,743	559
Others	5,266	5,079	(187)
<b>Fixed Liabilities</b>	17,809	15,427	(2,382)
Long-term debt	14,581	11,810	(2,770)
Others	3,228	3,616	388
<b>Total net assets</b>	25,310	26,618	1,307
<b>Total liabilities and net assets</b>	62,392	61,686	(705)

\* Current portion of long-term loans payable is included

# Consolidated Cash Flows

JPY in million	Apr-Sep 2018	Apr-Sep 2019	Change
Cash flows from operating activities	53	1,598	1,544
Cash flows from investing activities	(1,091)	(2,241)	(1,149)
Cash flows from financing activities	(798)	396	1,194
Effect of exchange rate changes on cash and cash equivalents	(27)	(74)	(46)
Net increase (decrease) in cash and cash equivalent	(1,863)	(320)	1,543
Cash and cash equivalents at end of period	8,865	8,184	(681)

## Cash flows from operating activities

Income before income taxes	1,763
Depreciation and amortization	1,346
Changes in receivables (increase)	1,821
Changes in inventories (increase)	(2,052)
Income taxes paid	(1,285)

## Cash flows from investing activities

Acquisition of tangible fixed assets	(719)
Acquisition of intangible fixed assets	(87)
Payments for investments in capital of subsidiaries and affiliates	(1,287)

## Cash flows from financing activities

Proceeds from short-term loans	755
Proceeds from long-term loans	2,400
Repayments of long-term loans	(2,036)

**1** FY2019 2nd Quarter Financial Results

**2** FY2019 Forecast

**3** Reference

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# FY2019 Forecast

## Japan



### Market

- The government will push measures for disaster recovery, disaster preparedness and infrastructure upgrades.
- We project strong demand related to private-sector investment.

### Initiatives

- Create a sales team for targeted industries, particularly focused on the booming infrastructure sector.
- Production-line reforms will begin to raise manufacturing efficiency.
- Effort to win more orders for custom products related to projects

## The Americas



### Market

- Brisk demand across a broad range of industries
- High hopes for infrastructure-related investment and the energy industry

### Initiatives

- Increase customer satisfaction with faster delivery and higher service quality.
- Attract more customers to a broader product line.
- Invest for higher chain productivity.

# FY2019 Forecast

## China



### Market

- Demand remains brisk related to equipment investment, mainly in the automobile industry for domestic-use commercial vehicles.
- Social awareness is shifting in favor of environmental and product quality.

### Initiatives

- Further explore demand for made-in-Japan premium products.
- Continue implementing cost-reduction measures to build profits.
- Optimal cost-management to establish a stable profit-generating structure

## Asia



### Market

- Demand related to equipment investment will be strong in Thailand and the rest of Southeast Asia.
- Investment demand in South Korea and Taiwan will remain weak.

### Initiatives

- Enhance hoist sales and maintenance business for crane users.
- Continue measures to enhance business efficiency and build profit.

## Europe



### Market

- Expect moderate demand growth in broader industries.

### Initiatives

- Cultivate new markets and synergies among group companies in the region.



# FY2019 Forecast

- Concern about the future due to persisting trade conflict between the US and China, and economic slowing in other affected countries
- We will adjust our official exchange rate to reflect the yen trending stronger.

JPY in million	FY2019 Original Forecast	FY2019 Revised Forecast	Change	
<b>Total</b>	62,800	60,000	(2,800)	
Japan	16,200	16,200	0	- Continuing strong demand in public and private sectors
The Americas	28,400	27,900	(500)	- Strong local demand - Influence of exchange-rate fluctuation
China	6,800	6,800	0	- Affects of exchange-rate fluctuation - Strong demand
Asia	4,500	3,500	(1,000)	- Economic slowing in South Korea and Taiwan
Europe	4,400	4,000	(400)	- Influence of exchange rate fluctuation
Others	2,500	1,600	(900)	- Slowing in Australian resource markets

Note: Exchange Rate (Original → Revised)

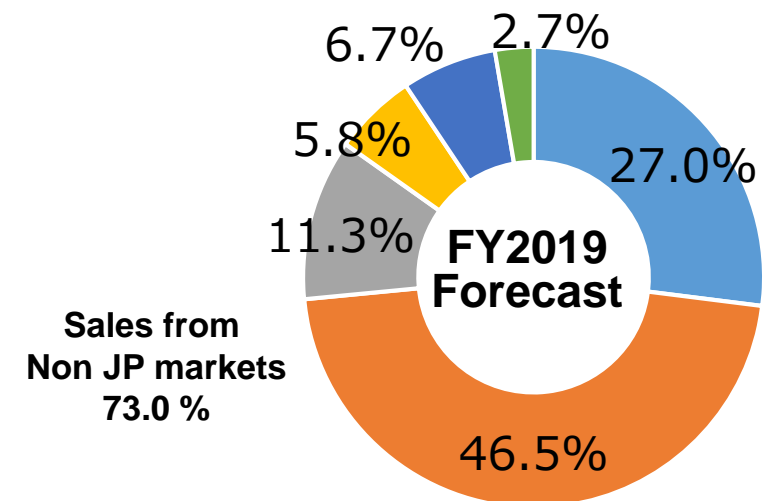
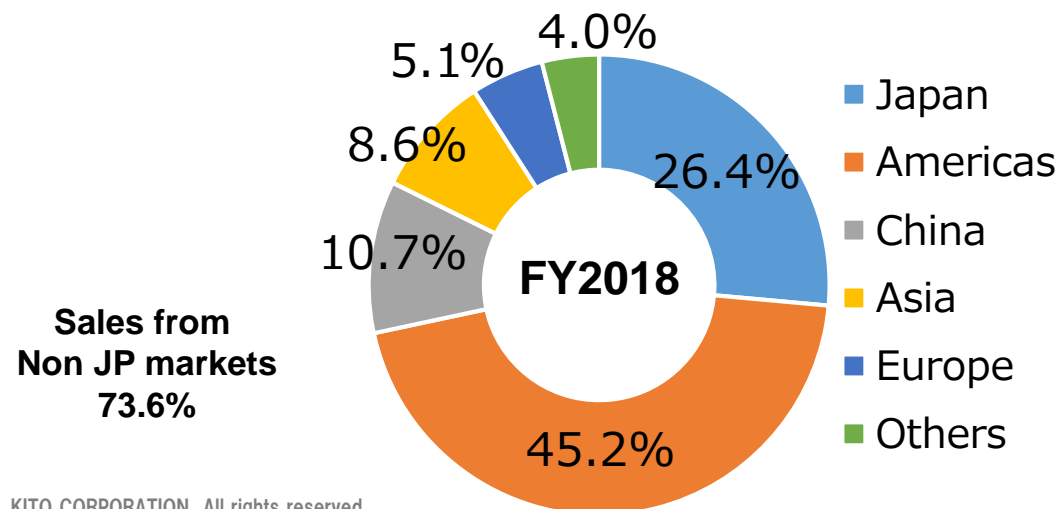
USD/JPY 110.0→108.0 CAD/JPY 85.0→80.0 EUR/JPY 130.0→118.0 RMB/JPY 17.0→15.0

# FY2019 Forecast / Net Sales by Region

JPY in million	FY2018 (ended March 2019)		FY2019 Forecast (ending March 2020)		YoY Change	
		% Share		% Share	Amount	%
<b>Total</b>	61,238	100.0%	60,000	100.0%	(1,238)	(2.0%)
Japan	16,162	26.4%	16,200	27.0%	38	0.2%
The Americas	27,663	45.2%	27,900	46.5%	237	0.9%
China	6,539	10.7%	6,800	11.3%	261	4.0%
Asia	5,239	8.6%	3,500	5.8%	(1,739)	(33.2%)
Europe	3,204	5.1%	4,000	6.7%	796	24.8%
Others	2,430	4.0%	1,600	2.7%	(830)	(34.2%)

Note: Exchange Rate (FY2018→FY2019) :

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# FY2019 Forecast

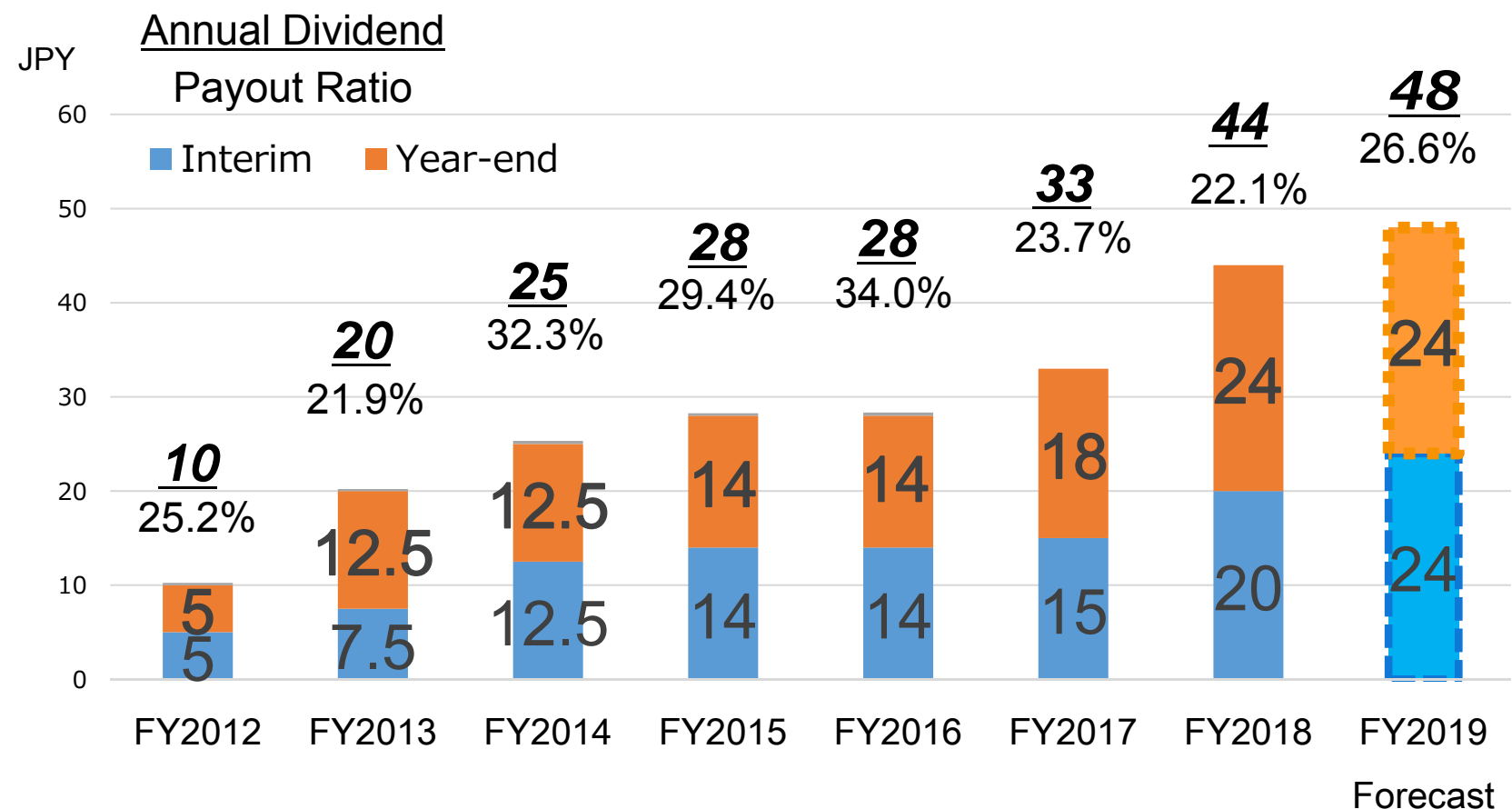
JPY in million	FY2018	FY2019 Forecast	YoY change
<b>Sales</b>	61,238	60,000	(2.0%)
<b>Operating Income</b> Operating Income / Sales	6,413 10.5%	6,000 10.0%	(6.4%)
<b>Ordinary Income</b> Ordinary Income / Sales	5,748 9.4%	5,500 9.2%	(4.3%)
<b>Net Income</b> Net Income / Sales	4,064 6.6%	3,700 6.2%	(9.0%)
<b>EBITDA</b> Op Income + Depreciation	9,201	9,100	
<b>CAPEX</b>	1,416	4,000	

Note: Exchange rate (FY2018→FY2019) :

USD/JPY 110.9→108.0 CAD/JPY 84.6→80.0 EUR/JPY 128.4→118.0 RMB/JPY 16.7→15.0

# Dividend

Payout ratio at 20% or higher,  
Annual dividend to be increased to JPY48



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

**1** FY2019 2nd Quarter Financial Results

**2** FY2019 Forecast

**3** **Reference**

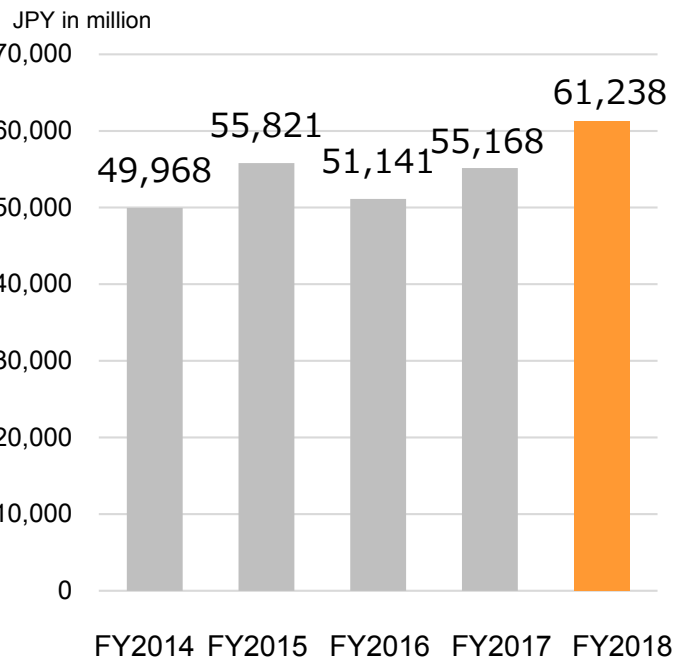
- **Five Year Financial Results (FY2014 – FY2018)**
- **Mid-Term Plan (FY2016 – FY2020)**
- **Business Structure**

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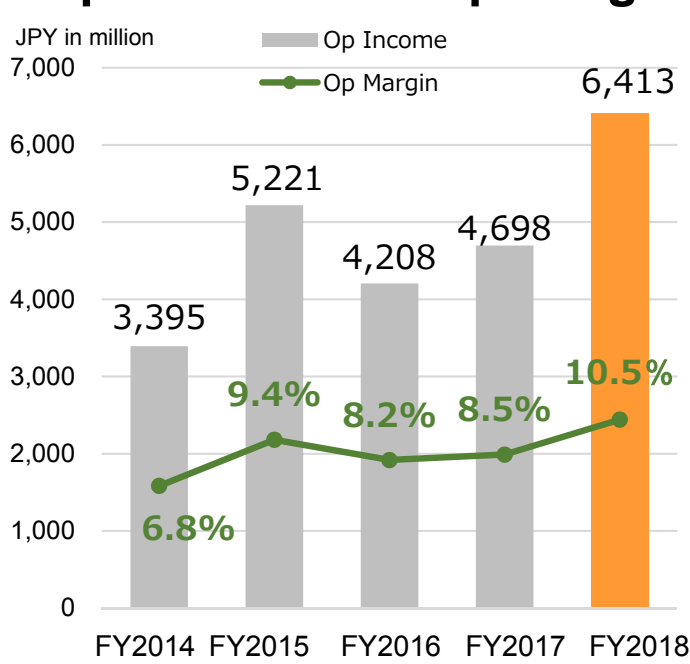
# **Five Year Financial Results (FY2014 – FY2018)**

# Key Figures

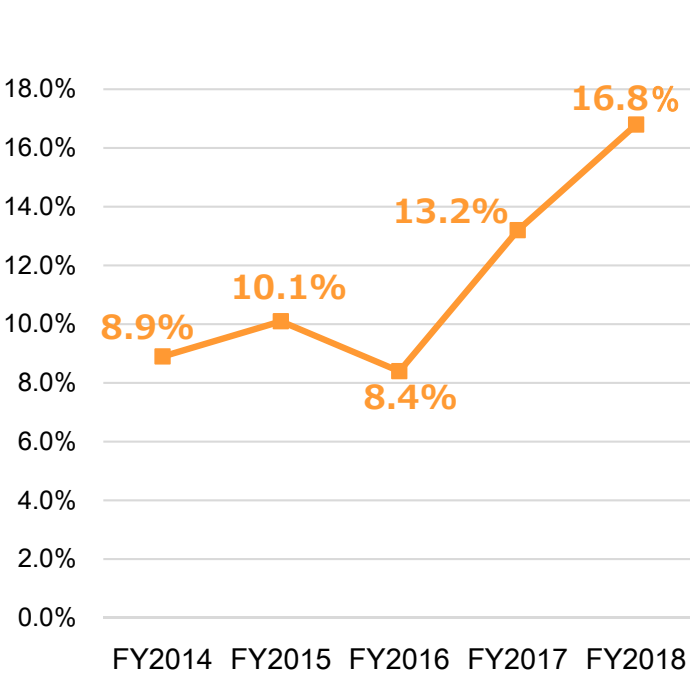
Sales



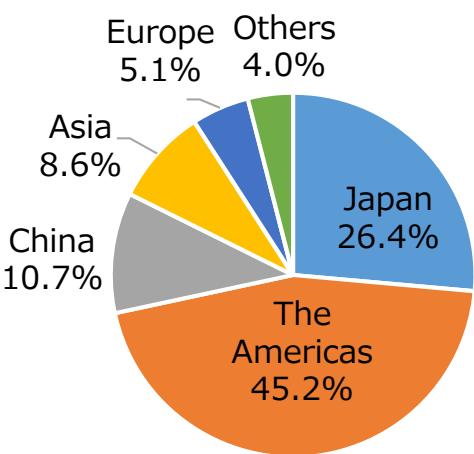
Op Income and Op Margin



ROE

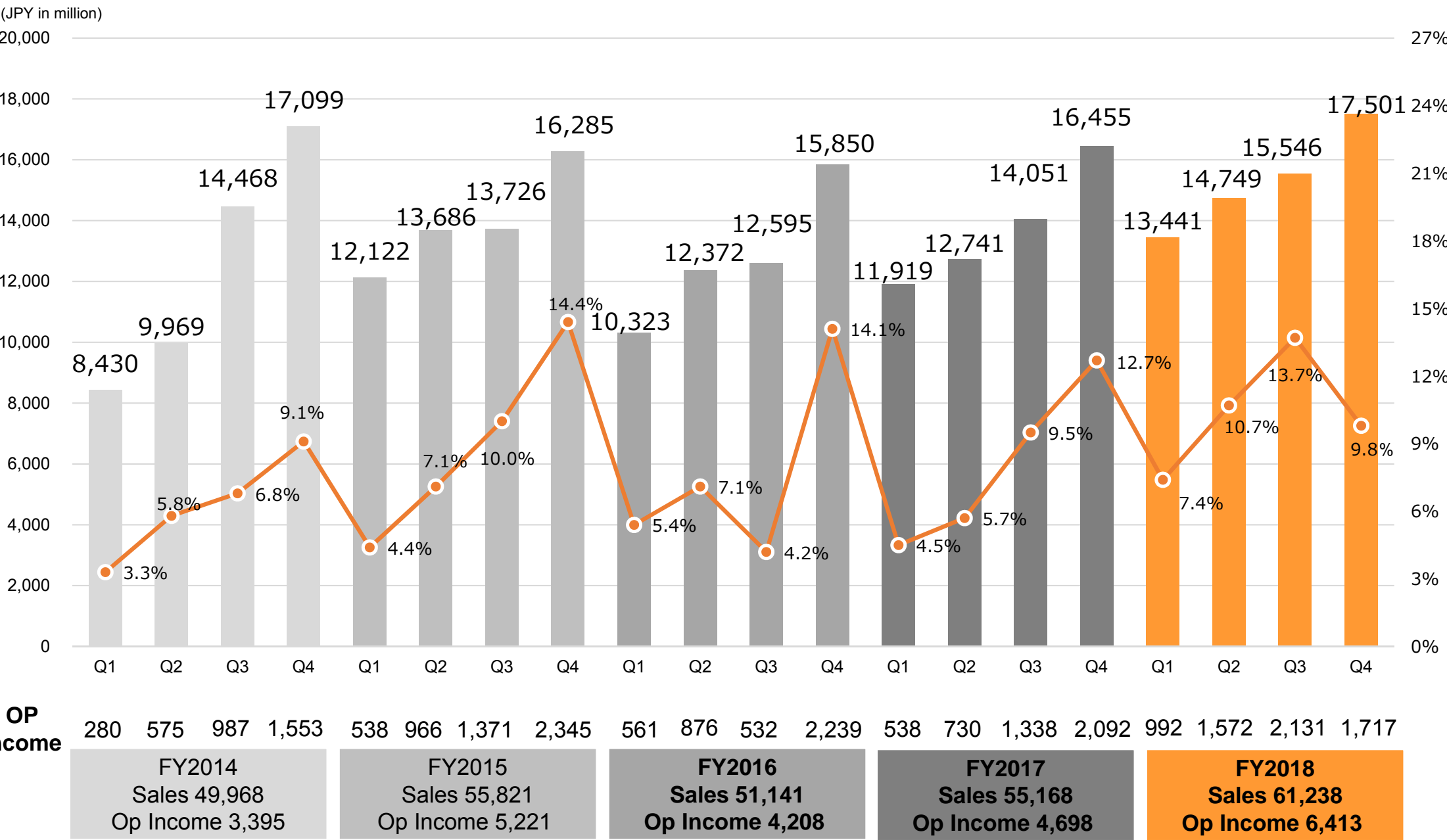


Sales by Region in FY2018



	FY2014	FY2015	FY2016	FY2017	FY2018
Sales from non Japanese markets	76.6%	77.3%	74.3%	76.0%	73.6%
Average FX Rate					
USD	109.9	120.1	108.4	110.9	110.9
CAD	96.5	91.8	82.5	86.5	84.6
EUR	138.8	132.6	118.8	129.7	128.4
RMB	17.2	19.2	16.4	16.6	16.7
Capex(JPY in million)	1,408	2,013	2,393	1,411	1,416
Depreciation (JPY in million)	1,311	1,814	1,792	2,116	2,470

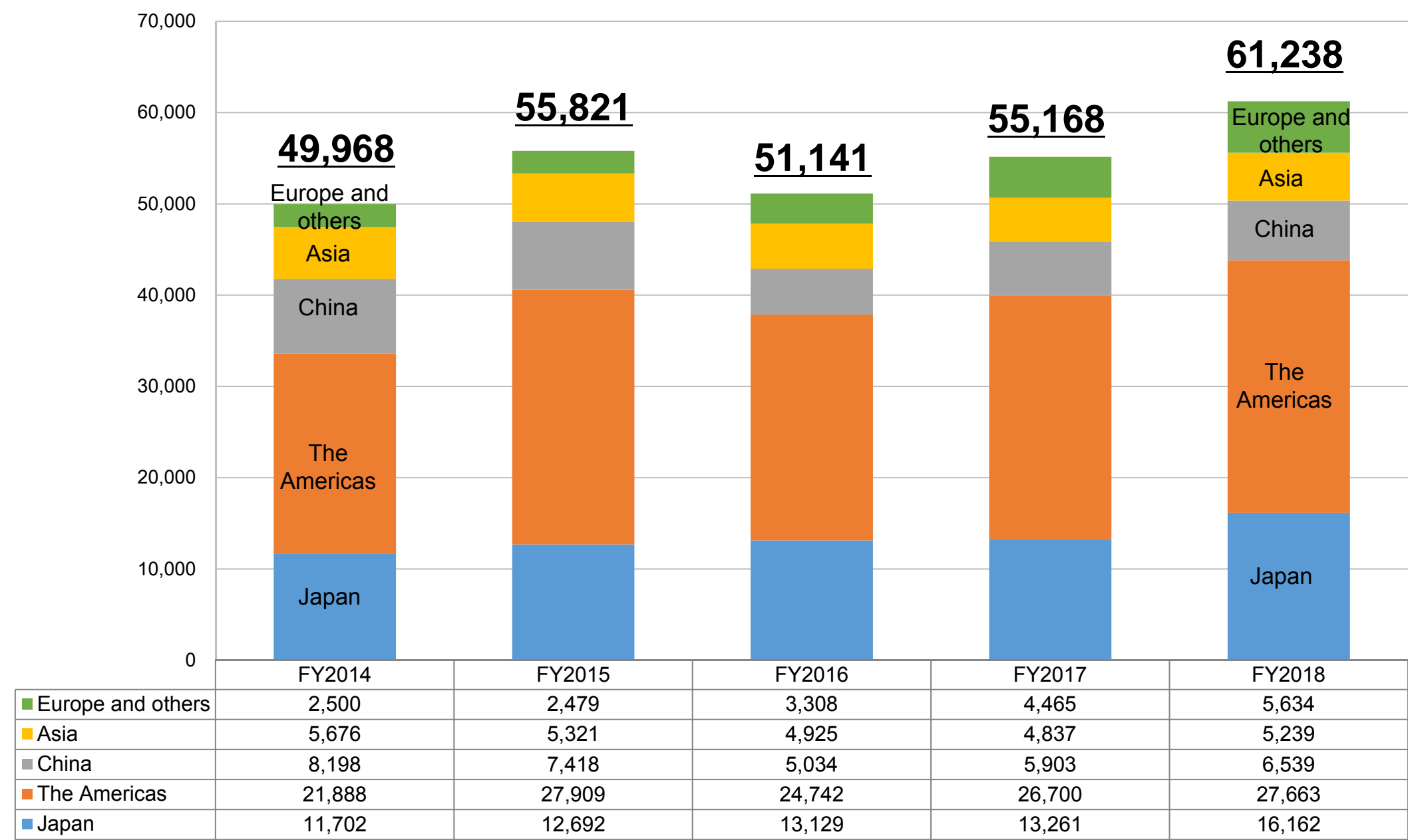
# Quarterly Sales and Operating Margin





# Sales by Regions

(JPY in million)



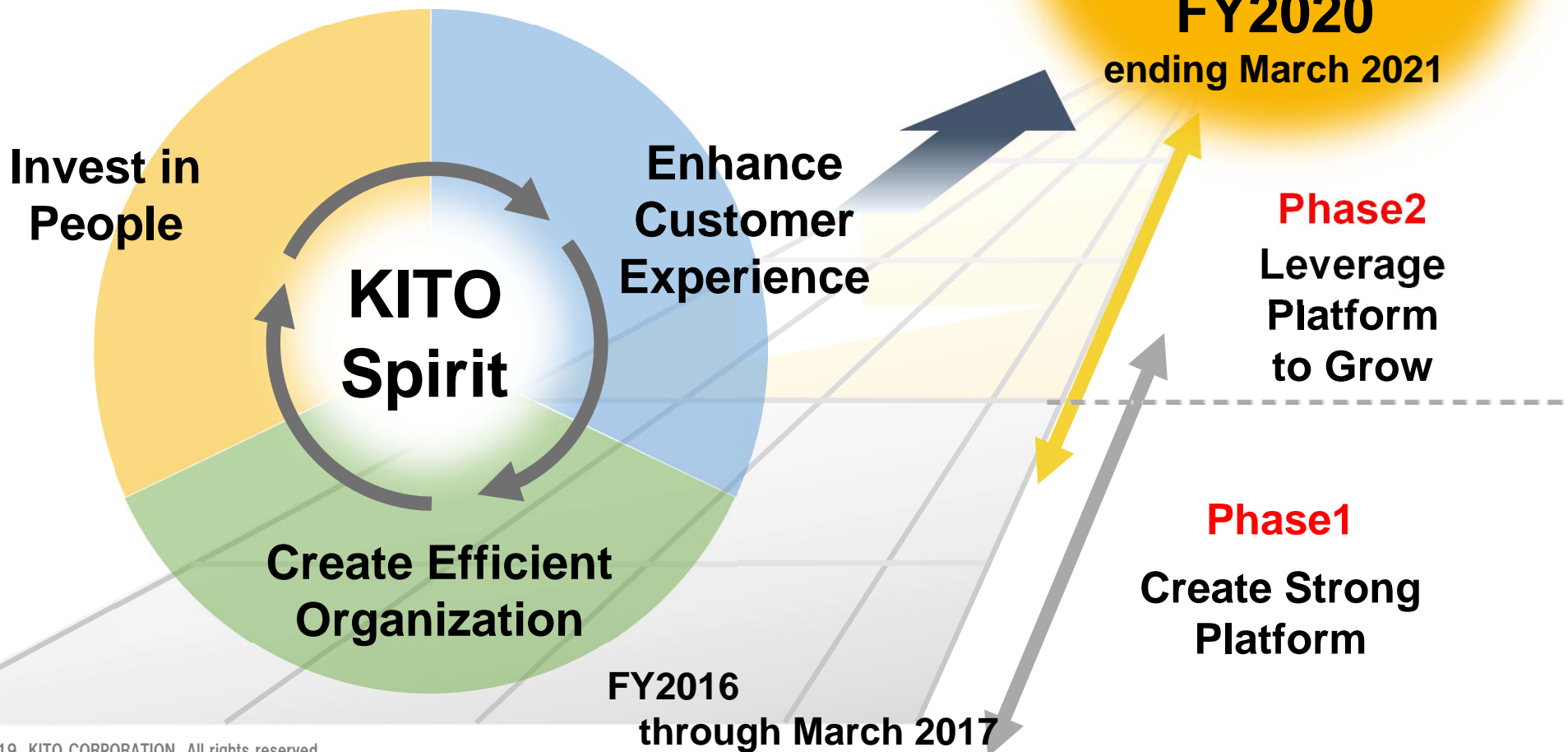
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# **Mid-Term Plan (FY2016 – FY2020)**

# 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

### **1** Return to a high margin business structure

- Renew production equipment
- Concentrate on high-margin business

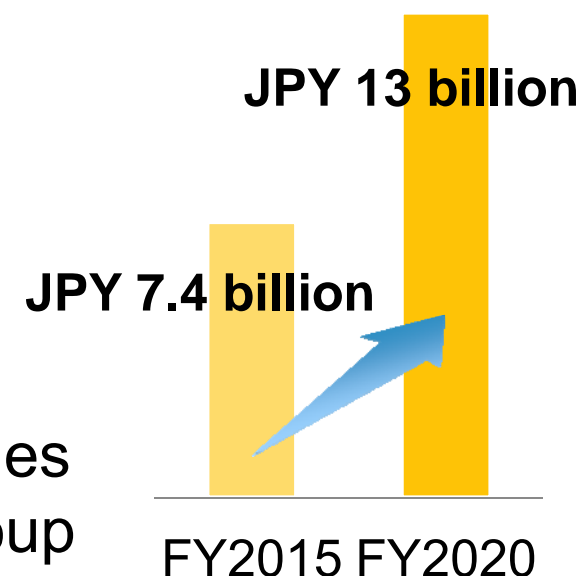
### **2** Growth through product portfolio expansion

- 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

Financial Target  
( EBITDA )



**Shift from Phase 1 (Create Strong Platform)**  
**to Phase 2 (Leverage Platform to Grow)**

# “Lifting Expectations”



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# **Business Structure**



# Kito Advantages

**A leading company in material handling equipment, hoists and crane, which are indispensable in lifting, transporting, and securing objects**



# Growth Opportunities

**At any stage of economic development**

**In all industries, in any country**

**Mature product with expanding demand**



# Product Domain

## ■ Cranes

- Three-dimensional movement made possible in combination with hoists



## ■ Hoists

- Manual and electric chain hoists are core products
- Wire-rope hoists are the mainstay in China



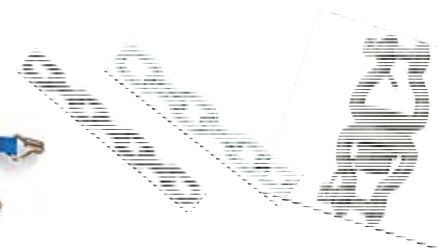
## ■ Below Hook Devices

- Intermediary attachments for hoisting and loads

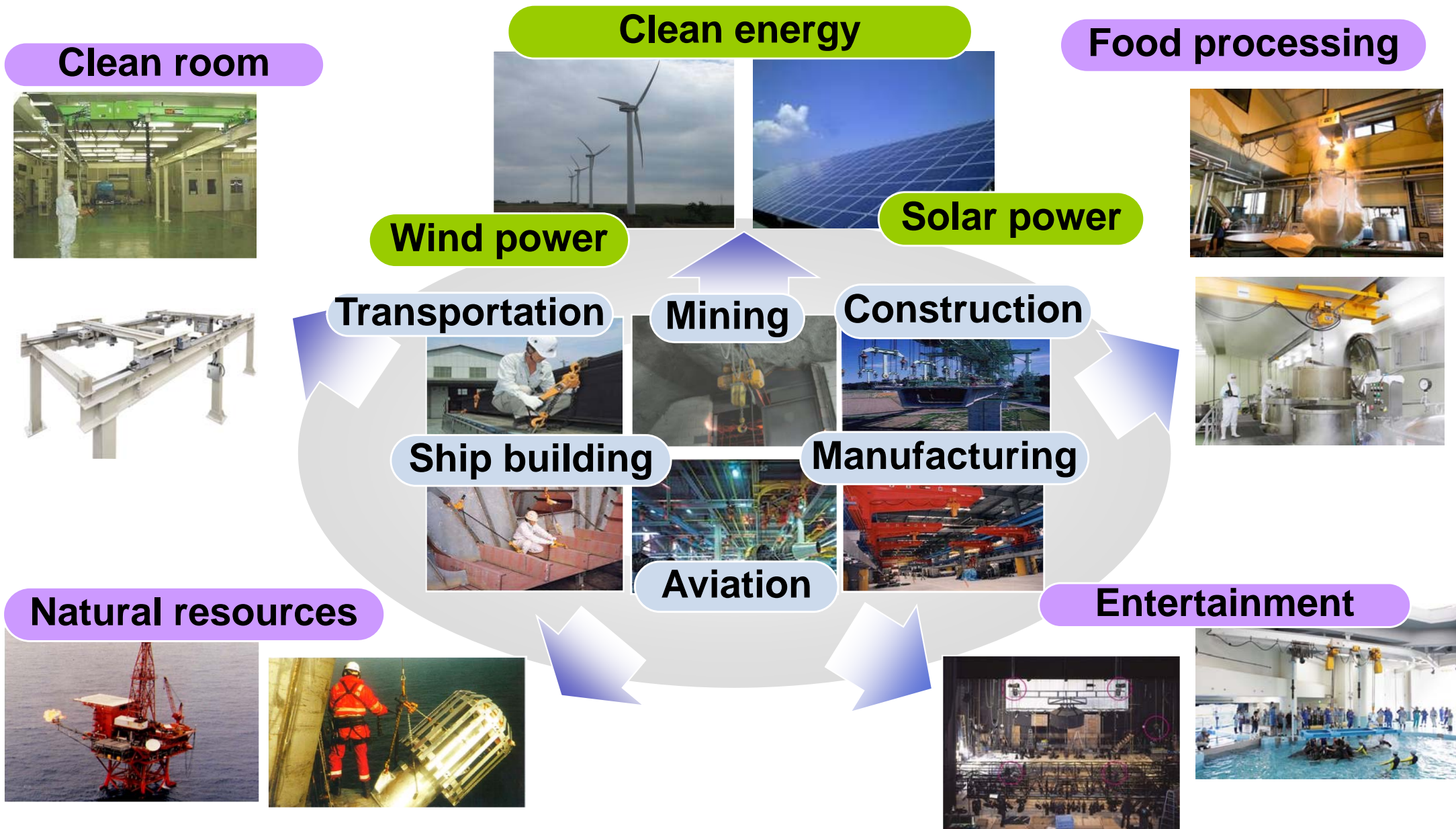


## ■ Various Chain

- Chain for transportation, moving, holding, hauling, etc.
- Shipping, agriculture, forestry, tires, and other industries



# Expanding Customer Base





# Strength of Kito Operations

## Kito = Trusted brand

### Product Power

Durability

Safety

High performance

High operability

### Technological Advantages

Response to complex customer needs with state-of-art technology (engineering)

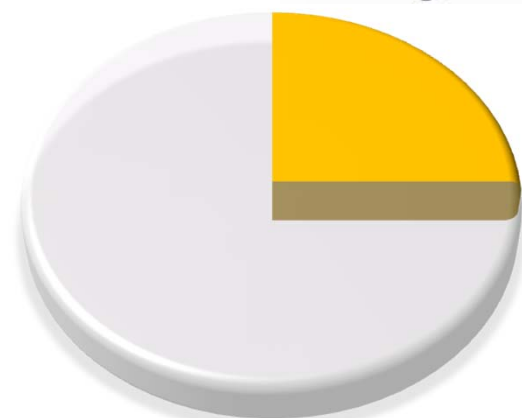
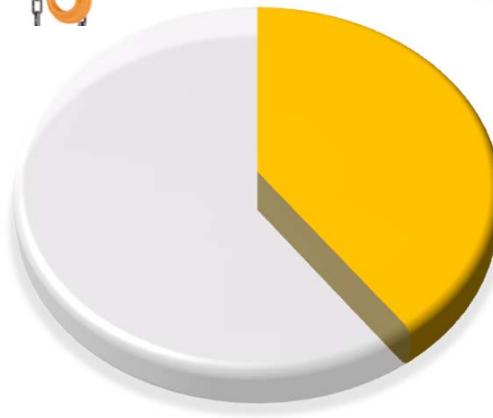
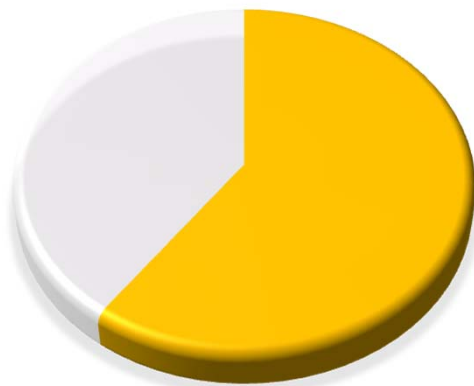
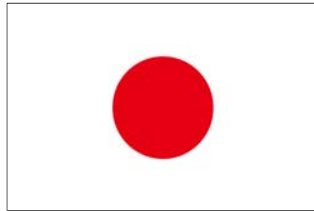
### Service Network

Extensive network to provide service for high customer satisfaction



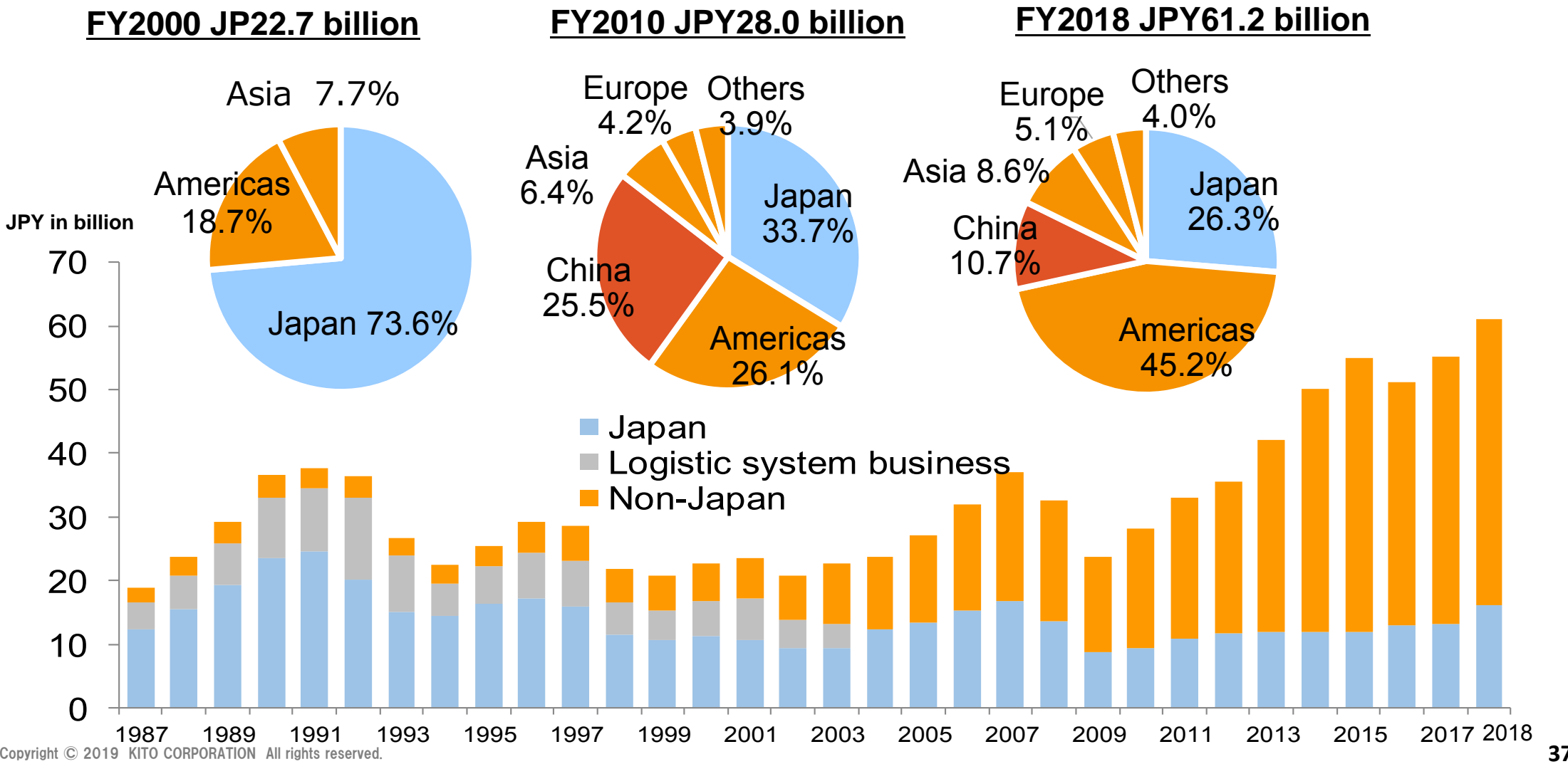
- Differentiation with high value-added products and services  
Strong reputation in markets demanding high quality

# Global Share



# Sales Growth in Overseas Markets

- Growth in overseas markets helped building a business portfolio with good regional balance.
- Stable growth not depending on demand in any particular region



# Growth in Overseas Markets (Chinese Operation)

- While equipment investment is softening, we are serving the needs of well performing industries and have built market share due to higher local awareness about safety and quality
- Reliably high levels of profit achieved: operating profit margin has averaged 10.8% over the past seven years
- Over 90% of made-in-China products are sold in the domestic market.

	Jiangyin Kito (since 1995)	Shanghai Kito (since 2004)
Products	Local production and sales, mainly of wire-rope hoists	Import sales of made-in-Japan chain hoists
Target	Manufacturers in China in general	Japanese and other foreign firms, and leading Chinese firms
FY2018 Sales	RMB 360 million	RMB 70 million

# Diversified Portfolio

- Broad customer base ranging from private to public sectors
- Business structure not influenced by particular industries nor market cycle

