

# To Our Stakeholders

## Message from the President



**Taking on the challenge of innovation to create a sustainable society**

**Makoto Kohno**  
President and CEO

### Corporate Report 2021

Each year since 2016, KITZ Corporation has issued an integrated Corporate Report. The report systematically integrates financial and non-financial information, and is designed as a communication tool to increase understanding in particular of the KITZ Group's management strategy and growth potential.

The report references the framework presented by the

International Integrated Reporting Council (IIRC) and is comprised of content relating to the KITZ Group's value creation over the short, medium and long terms by way of unique stories.

Additionally, as well as seeking to ensure transparency in management, we will also continue to disclose information in an appropriate and timely manner not only via this Corporate

### One Year in the KITZ Group (From April to December 2020)

## T O P I C S

April 2020

May

June

July

#### May

The financial results briefing was held online.



#### June

Half, or four of the eight company directors became outside directors, and Yukino Kikuma was appointed as the first female outside director of KITZ.

#### June

The proposal to amend the Articles of Incorporation to change the end of the fiscal year from March to December was approved at the Ordinary General Meeting of Shareholders.

#### June

President Hotta was appointed Chairman of the Japan Valve Manufacturers' Association.

#### July

Published the integrated report *Corporate Report 2020*.



#### July

Construction was started on the KITZ Group Innovation Center as a project to mark KITZ' 70th anniversary.



#### July

KITZ was associated for a NEDO\* subsidy program related to next-generation clean energy.  
\* New Energy and Industrial Technology Development Organization



#### July

Shimizu Alloy Manufacturing installed Aqua Rescue purifiers in areas damaged by torrential rains that occurred in July 2020.

#### March 2020

A work-from-home system was introduced for employees working at the head office due to the spread of COVID-19.

Report but also using other tools, such as our website, securities reports, shareholder newsletter and environmental report digests, in order to ensure understanding of our initiatives to resolve social issues.

### KITZ Group Vision

Based on our Corporate Mission to continually enrich our corporate value by offering originality and quality in all products and services, KITZ has formulated an Action Guide known as “Do it KITZ Way,” which comprises “Do it True” (sincerity and truth), “Do it Now” (speed and timeliness) and “Do it New” (creativity and challenges). In order to realize these ideals, we will first ensure that each employee understands and puts them into practice. We will also further enhance compliance by strengthening our internal control and legal compliance systems to become a company that garners even higher levels of trust. We will also look to nurture competitive human resources with a worldview and knowledge, skills and education at a global standard level. To outstrip the global competition, we will promote the delegation of authority and clarify responsibilities to enable swift decision-making. By shortening lead times and improving yields, we seek to bolster productivity to the extent possible, while increasing the quality not only of our products but also our sales, services and other activities as a means to quickly satisfy customers’ demands. KITZ will operate our business based on these concepts.

### Financial Results for the Year Ended December 31, 2020 (FY2020)

Since the end of the fiscal year changed from March to December resulting in an irregular fiscal year of nine months, the financial results under review are being compared with the first three quarters of the previous fiscal year. Consolidated net sales fell ¥9,837 million year on year to ¥84,245 million. In the valve manufacturing business, sales from products for building facilities and industrial valves in the domestic market declined due to slumping demand from the spread of COVID-19, despite higher net sales from products for semiconductor manufacturing equipment in domestic and overseas markets. In overseas markets, although sales increased in China, in which economic activity resumed early on, due to the spread of COVID-19 and weak crude oil prices, sales decreased in the United States, Europe and Asia. Net sales in the valve manufacturing business fell ¥5,662 million year on year to ¥70,129 million.

In the brass bar manufacturing business, net sales declined ¥2,959 million year on year to ¥12,952 million due to a sharp decrease in demand as a result of the spread of COVID-19. In the other (service-related) business, sales declined ¥1,215 million year on year to ¥1,163 million due to factors including the unscheduled closure of hotels.

In terms of profit and loss, increase sales from products for semiconductor manufacturing equipment drove higher



profits and operating expenses were reduced in response to the spread of COVID-19. However, the decline in sales volume had a significant impact, with operating income in the valve manufacturing business declining ¥958 million year on year to ¥6,708 million.

In the brass bar manufacturing business as well, a significant decline in sales volume resulted in an operating loss of ¥146 million, a ¥177 million year-on-year decline. In the other (service-related) business, as a result of a ¥254 million operating loss from a ¥332 million year-on-year decline, consolidated operating income fell ¥1,259 million to ¥3,751 million. Ordinary income also fell ¥1,672 million year on year to ¥3,169 million. Meanwhile, net income attributable to owners of the parent fell ¥1,380 million year on year to ¥2,113 million.

### Changes Brought About by the COVID-19 Pandemic

The present pandemic has had an enormous impact on the global and Japanese economies, and KITZ is no exception. On the other hand, the pandemic has brought various changes to our daily lives and the way we work, not all of them negative. The Company's top priority is ensuring the safety and security of our employees and their families, but under this new lifestyle we have been able to strongly reaffirm the importance

to be a company where employees can work with a sense of fulfillment even more than before.

As it became necessary for us to work from home due to the pandemic, many issues with our existing ways of working and doing business gained prominent attention, such as paperwork, business travel and meetings. This gave us an opportunity to review our working style from the ground up including the need for these and other aspects of our operations. I think this is one of those insights that the COVID-19 pandemic has given us. To ensure that employees can do the same work as when they are in the office, it is necessary for us to do many things such as create new systems and rules. We were made keenly aware that the digitization of KITZ, including updating our IT environment, lags behind. By accelerating our initiatives toward digitization, we will work to develop an environment in which employees can focus on performing valuable work without waste, as well as facilitate work that provides greater fulfillment and motivation.

Until now, we have regarded only natural disasters such as earthquakes and typhoons as critical risks that could impede the continuation of operations, but the COVID-19 pandemic is an enormous crisis that has affected the entire world. When a major problem occurs in one country its impact can spread around the world in an instant. This underscores the fact that we no longer have national borders and are essentially one world. With this in mind, we will strive to formulate a more effective business continuity plan (BCP).

### Toward a Sustainable Society

Initiatives to create a sustainable society have become an important theme alongside digitization.

In October 2020, KITZ was selected by the Ministry of Economy Trade and Industry as a "Zero-Emission Challenge Company" taking on the challenge of innovation to realize a decarbonized society, in recognition of its research and development activities related to hydrogen through its participation in NEDO\*. KITZ also became a member of the Japan Hydrogen Association, which promotes global cooperation in the area of hydrogen and the formation of a hydrogen supply chain. We will continue to promote initiatives that contribute to reduced environmental impact through energy shifts and by adapting to a recycling-oriented society. We would like to consider the vision for 2050 in terms of what we can and should do to create a sustainable society, incorporate specific sustainability perspectives including ESG and the SDGs, and disclose numerical targets both internally and publicly.

\*New Energy and Industrial Technology Development Organization

#### FY2020 (Results)

The fiscal year ended December 2020 is an irregular nine-month period due to the change in the fiscal year end.

	(Millions of yen)	
	FY March 2020	FY December 2020
Net sales	127,090	84,245
Operating income	6,950	3,751
EBITDA	13,718	8,772
ROE	6.5%	2.8%
EPS (yen)	53.06	23.38

#### ○ Net sales by segments

Valve manufacturing	103,114	70,129
Brass bar manufacturing	21,061	12,952
Other	2,914	1,163

#### ○ Operating income (loss) by segments

Valve manufacturing	10,627	6,708
Brass bar manufacturing	(6)	(146)
Other	(11)	(254)

## Business Environment in the Current Fiscal Year (FY2021)

COVID-19 infections have spread with a force beyond imagination, and we expect that its effects will continue in 2021. While some industries such as semiconductors have experienced a boom due to increasing demand for 5G, IOT and AI, in other industries we do not anticipate the overall business environment to improve greatly from last year. Although we have seen progress in the development and administration of vaccines in some countries, we do not think we will see major improvement until the administration of vaccines have been completed on a worldwide scale. Therefore, we expect the global economy will start moving again in the second half of this year at the earliest.

The KITZ Group will continue to fulfil its supply responsibilities as a manufacturer while giving top priority to mitigating the risks of infection and ensuring the safety of its employees and other stakeholders.

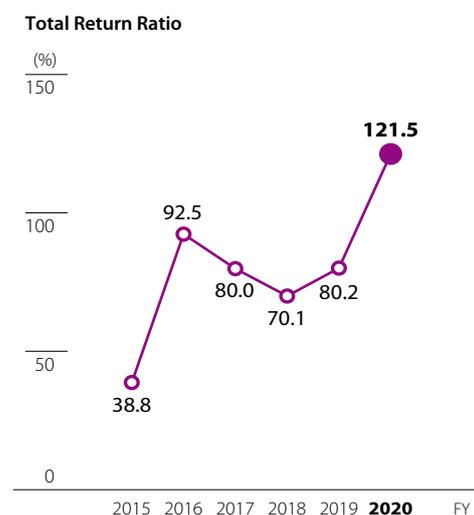
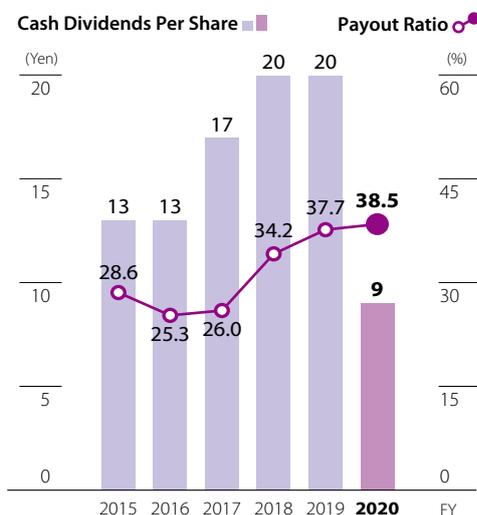
## Shareholder Return

We issued a year-end dividend of ¥4 per share (increase of ¥1 from the dividend previously announced) for the end of the fiscal year under review. As an interim dividend of ¥5 has already been issued, this took the annual dividend to ¥9 per share. In that the fiscal year under review was an irregular nine-month period and profits also declined year on year, the dividend was reduced compared with the previous year, with the consolidated payout ratio standing at 38.5%.

In addition to the dividend, 2,610,300 shares of treasury stock were acquired as a way of returning profits to shareholders. As a result, the total return ratio was 121.5%. The company canceled 10 million shares of treasury stock in October 2020.



KITZ was founded in 1951 as the Kitazawa Factory and reached its milestone 70th anniversary in 2021. Looking toward the upcoming 80th anniversary and even 100 years in business, KITZ will continue to grow further and make new strides in its history.



## Message from the CFO



### Seeking to strive to achieve business continuity and financial stability based on the perspective of building an optimal capital structure

**Kenji Katsuragi**

Executive Officer and Deputy Division Manager, Corporate Administration Division

#### Initiatives in the Fiscal Year Under Review (FY2020)

The fiscal year under review was an irregular length of nine months from April to December due to the KITZ Group standardizing its fiscal year end to December. With the global economic slowdown caused by the COVID-19 pandemic, there was a slump in domestic and overseas demand, resulting in significant year-on-year declines in sales and profits.

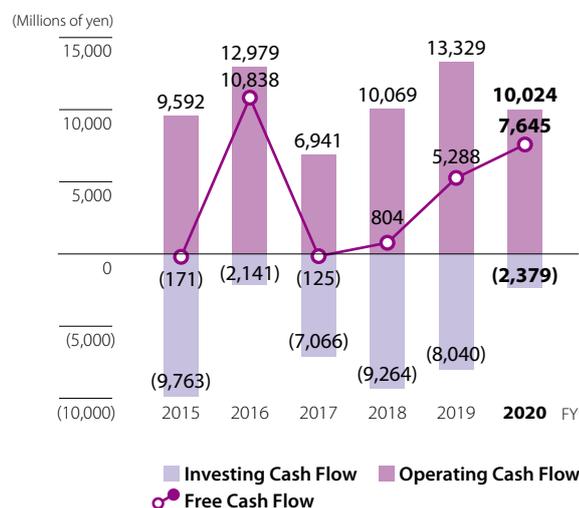
As a response operating in our contingency mode, we worked to reduce expenses and cut costs while reducing trade receivables, cutting inventory and curbing investments. As a result, both operating cash flow and free cash flow increased significantly. Additionally, to address capital risks, we worked to secure liquidity on hand by continuing to increase cash

and deposits. To fund the repayment of short- and long-term loans, in September 2020, when the environment for issuing bonds was relatively favorable, we issued ¥10 billion in publicly offered corporate bonds in an effort to lengthen the period of our interest-bearing debt. As a result, interest-bearing debt increased by ¥10.2 billion compared with the end of the previous fiscal year, and the equity ratio decreased 3.2 points from the end of the previous fiscal year to 52.8%. However, net interest-bearing debt, which is interest-bearing debt minus cash and cash equivalents, decreased by ¥4.8 billion from the end of the previous fiscal year.

Meanwhile, in addition to the KITZ Group Innovation Center, we continued to invest from a medium-to-long-term strategic perspective, including IT investments in response to our DX\* strategy and workstyle reforms.

\* Digital Transformation

#### Change in Cash Flow



#### Medium-Term Financial Strategy and Capital Policy

KITZ places an emphasis on capital efficiency targets, such as medium-to-long-term return on equity (ROE) as well as shareholder return, in addition to an optimum capital structure that adds fundraising capacity to investment return as its financial and capital strategy to prepare for sudden changes in the management environment and strategic investment for future growth.

Specifically, KITZ will seek to improve capital efficiency targets such as ROE while setting an equity ratio goal of around 55-60% as an indicator of the ability to respond to business risks taking into account risk level based on asset structure. In addition, we will maintain good relationships

with banks to ensure flexible fundraising capabilities while endeavoring to maintain A-rated corporate bonds so that the public offering of CB remains another option to raise funds. KITZ has received an A- rating from Rating and Investment Information, Inc. (R&I), issued new corporate bonds of ¥20 billion in total and also received an A rating from the Japan Credit Rating Agency, Ltd. (JCR).

### Looking to the Current Fiscal Year (FY2021)

As COVID-19 infections have started to increase again since the end of 2020, we expect that the business environment will continue to be severe until the market rebounds through responses such as widespread vaccinations.

We will continue to operate in a contingency mode to enhance financial stability through focusing on cash flow creation and reducing interest-bearing debt. We will also ensure fundraising capacity for medium-to-long-term strategic investments in anticipation of the post-COVID world. Additionally, until the global economy and markets shrug off the adverse effects of the COVID-19 pandemic, we will continue with policies to ensure ample liquidity on hand. Through cash and cash equivalents combined with specific credit line (commitment line) agreements made with our major banks (totaling ¥13.5 billion as of February 2021), we will work to secure on-hand liquidity that is equivalent to around three months of average consolidated net sales in total.

We also look at the coronavirus pandemic as an opportunity, initiating comprehensive reviews of unprofitable products and businesses, cost structures and operational procedures based on profit/loss management that integrates manufacturing and sales for each product line. To respond to the changing structures of society and the economy in a post-COVID world, such as a decarbonized society, we will rebuild our business strategies, promote digital transformation, invest in increasing production capacity, rationalization and development for growth areas such as semiconductors and improve capital efficiency from a medium-to-long-term perspective.

### Shareholder Return

Returning profits to shareholders is an important management issue, and the company has set around 35% of net income attributable to owners of the parent as a preferred consolidated payout ratio level. In the fiscal year under review, in addition to lower profits compared with the previous year, we had an irregular fiscal period of nine months. Dividends totaling ¥9 per share were issued resulting in a consolidated payout ratio of 38.5%. Including the acquisition of treasury stock executed in accordance with a resolution by the Board of Directors, the total return ratio was 121.5%. In addition, 10 million shares of treasury stock were canceled in October 2020.

## FY2021 Financial Strategy and Capital Policy

**Contingency mode for financial stability: Secure funding capacity for medium-to-long-term strategic investments for after COVID-19 and make provisions for the redemption of bonds.**

**Ensuring liquidity on hand: 3 months' worth of consolidated monthly sales (including credit lines from banks)**

**Investment: CAPEX will focus on rationalization, development, IT investment and the maintenance and upgrading of equipment (less than the amount of depreciation expenses)**

### Operating Cash Flow

#### CAPEX

- New technologies (automation, IoT, AI)
- Rationalization of production and cost reductions
- Environmental measures

#### Shareholder Return

##### Dividend Ratio 35%

Acquisition of treasury stock will be appropriately considered in light of financial stability, liquidity of funds on hand and the status of investment funds

#### M&A, Loan Repayments

##### Strategic M&A activities and business alliances

- Area strategy
- Product and engineering strategy

##### Repayment of loans / CB

### Securing the optimal capital structure and Flexible fund raising

ROE target: 12% in 2030

Risk Management: Equity ratio 55-60%

Short-term loan commitment line from banks: ¥13.5 billion (as of February 2021)

CB Rating: Maintained A (Current R&I Rating: A-, as of December 2020, JCR Rating: A, as of October 2020)

Shelf registration for CB (R&I Rating: A-)