

This is the English translation of the original Japanese-language Business Results of KITO CORPORATION (the Company) for the first half of the fiscal year ending March 31, 2023, 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 original document in Japanese, the original document shall prevail.

Business Results for the First Half of the Fiscal Year Ending March 31, 2023 [Japan GAAP] (Consolidated)

October 27, 2022

Company	KITO CORPORATION	Listed on the TSE Prime Market
Code	6409	URL: https://kito.com/
Representative	Yoshio Kito, President & CEO	
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Expected filing date of the quarterly securities report:	October 28, 2022	Scheduled date to begin dividend payments: —
Preparation of supplementary financial documents:	Yes	
Results briefing:	None	

(Rounded down to the nearest million yen)

1. Consolidated business results for the 1H (April 1, 2022 to September 30, 2022) of fiscal 2022 (April 1, 2022 to March 31, 2023)

(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 FY2022	35,859	26.7	2,652	7.9	3,196	32.5	2,156	28.5
1H FY2021	28,293	28.4	2,459	97.1	2,412	98.8	1,678	905.6

(Note) Comprehensive income 1H FY2022: 6,164 million yen 161.2%
1H FY2021: 2,360 million yen 896.7%

	Net income per share	Diluted net income per share
	Yen	Yen
1H FY2022	104.78	104.47
1H FY2021	81.71	81.53

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of September 30, 2022	82,681	42,694	50.1
As of March 31, 2022	72,490	37,047	49.5

(Reference) Shareholders' equity As of September 30, 2022: 41,408 million yen As of March 31, 2022: 35,869 million yen

2. Dividends

	Annual dividend				
	Q1	Q2	Q3	Year-end	Annual total
FY2021	Yen —	Yen 22.00	Yen —	Yen 22.00	Yen 44.00
FY2022	—	0.00			
FY2022 (forecast)			—	0.00	0.00

(Note) Revisions from recently announced dividend forecast: None

3. Forecast of consolidated business results for fiscal 2022 (April 1, 2022, to March 31, 2023)

(% change from the previous corresponding period)

	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
FY2022	77,000	23.2	7,000	13.2	7,100	10.7	5,000	9.6	242.98

(Note) Revisions from recently announced forecast: None

*** Notes:**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries due to changes in the scope of consolidation): None

(2) The application of special accounting treatment to prepare the quarterly consolidated financial statements: None

(3) Changes in accounting policies, accounting estimates, and retrospective restatements

Changes in accounting policies due to revisions of accounting standards: Yes

Changes in accounting policies other than above: None

Changes of accounting estimates: None

Retrospective restatements: None

(4) Number of shares issued (common stock)

Total number of shares issued (including treasury stock)

As of September 30, 2022: 21,048,200 shares

As of March 31, 2022: 21,048,200 shares

Number of treasury stock

As of September 30, 2022: 470,181 shares

As of March 31, 2022: 470,181 shares

Average number of shares over the period

1H FY2022: 20,579,652 shares

1H FY2021: 20,539,888 shares

(Note)

The number of treasury shares at the end of the first half of fiscal 2022 includes 19,600 shares that were exercised under the stock option plan and are in the name of the Company as of the end of the first half of the current fiscal year due to unexecuted name change in the shareholder registry.

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

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

(Notes to the forward-looking statements)

Any 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 KITO. Actual results may differ substantially from the forecasts depending on various factors. For preconditions of the assumptions and other instructions regarding the appropriate use of business forecasts, please refer to "(3) Performance Forecasts and Other Forward-looking Statements, Including Consolidated Business Forecasts, 1. Quarterly Business Results" on page 4 of the Appendix.

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1. Quarterly Business Results

(1) Results of Operations

During the first half year period from April 1 to September 30, 2022, of fiscal 2022 ending March 31, 2023, despite continued robust economic activity centered on Western countries, the outlook remained unclear as a result of the prolonged conflict between Russia and Ukraine, and increases in raw material prices, as well as the sharp depreciation of the yen. Under such conditions, while demand trends remained in line with initial forecasts, the depreciation of the yen provided a boost to earnings. Although delays in the supply of parts prevented the Company from meeting all of this demand, Kito Group focused on securing its supply chain across the corporate group, while working to maintain the increased production capacity and provide stable customer service.

As a result, net sales in the first half year period amounted to ¥35,859 million (up 26.7% from the previous corresponding period). In terms of earnings, Kito Group managed to counter the sharp increase in raw material costs through price revisions and focusing on efficient production, achieving an operating income of ¥2,652 million (up 7.9%). Ordinary income amounted to ¥3,196 million (up 32.5%) on foreign exchange gain, with net income attributable to owners of the parent of ¥2,156 million (up 28.5%). Net sales, operating income, ordinary income, and net income attributable to owners of parent, were all reached at record-highs.

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.

Segments	Net sales YoY change in %	Operating income (Loss) YoY change in %
Japan	¥14,963 million, up 20.1%	¥3,657 million, up 28.8%
The Americas	¥19,603 million, up 47.7%	¥1,252 million, up 298.3%
China	¥4,623 million, up 7.2%	¥602 million, down 3.5%
Asia (excluding Japan and China)	¥1,673 million, up 34.6%	¥178 million, up 161.9%
Europe	¥3,543 million, up 23.3%	¥(117) million Ref. 1H FY2021: ¥(52) million
Others	¥900 million, down 3.5%	¥49 million, up 265.5%

Japan

While production in Japan stagnated due to a shortage of semiconductors and components, mainly among small and medium-sized companies, construction demand showed signs of recovery, centered on urban areas. Exports continued to grow steadily on rising demand in North America, Europe, and other overseas markets, with earnings further boosted by the weak yen. As a result, net sales amounted to ¥14,963 million (up 20.1% from the previous corresponding period), with an operating income of ¥3,657 million (up 28.8%).

The Americas

Net sales and earnings in the U.S. rose sharply to ¥19,603 million (up 47.7% from the corresponding period of the previous fiscal year), with operating income of ¥1,252 million (up 298.3%), on investment centered on manufacturers, along with continued infrastructure-related demand. Despite concerns about supply chain delays and rising costs for materials, the Company focused on securing means of transport and maintaining customer service.

China

Although demand trends are at a standstill because of the impact of thorough measures taken by local authorities in response to COVID-19 outbreaks, net sales amounted to ¥4,623 million (up 7.2% from the previous corresponding period), with an operating income of ¥602 million (down 3.5%). Of note, the fiscal year for this segment starts in January, so the results for the first half year period are from January through June.

Asia (excluding Japan and China)

Demand in Asian countries recovered along with the relaxing of constraints on economic activities. As a result, net sales amounted to ¥1,673 million (up 34.6% from the corresponding period of the previous fiscal year), with an operating income of ¥178 million (up 161.9%).

Europe

Despite the continued firm increase in demand, the fallout from the conflict between Russia and Ukraine resulted in a marked rise in material and energy prices. Net sales amounted to ¥3,543 million (up 23.3% from the corresponding period of the previous fiscal year), with the segment posting an operating loss of ¥117 million for the subject period.

Others

This segment currently comprises business in Australia only. Net sales amounted to ¥900 million (down 3.5% from the corresponding period of the previous fiscal year), with an operating income of ¥49 million (up 265.5%).

(2) Financial Position

1. Assets, liabilities, and net assets

Total assets at the end of the first half year period of fiscal 2022 amounted to ¥82,681 million, an increase of ¥10,190 million compared to the end of the previous fiscal year. The main factors were a ¥4,469 million increase in merchandise and finished goods; a ¥1,856 million increase in others (net) of property and equipment; and a ¥1,410 million increase in notes and accounts receivable—trade.

Total liabilities amounted to ¥39,986 million, an increase of ¥4,543 million from the end of the previous fiscal year. The main factors were a ¥3,839 million increase in short-term loans payable; a ¥1,278 million decrease in long-term loans payable; and a ¥1,206 million increase in notes and accounts payable—trade.

Net assets amounted to ¥42,694 million, an increase of ¥5,647 million from the end of the previous fiscal year. The main factors were a ¥3,725 million increase in foreign currency translation adjustment; and a ¥1,703 million increase in retained earnings.

2. Cash Flows

Cash and cash equivalents at the end of the first half year period of fiscal 2022 amounted to ¥10,243 million, a decrease of ¥1,026 million compared to the end of the previous fiscal year.

Cash Flows from Operating Activities

Net cash used in operating activities amounted to ¥292 million, a decrease in inflow of ¥4,028 million from the previous corresponding period. The main factors were a ¥3,520 million increase in inventories, and a ¥3,191 million in income before income taxes.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥2,127 million, an increase in outflow of ¥144 million from the previous corresponding period. The main factors were ¥1,839 million in payments for the acquisition of property and equipment, and ¥326 million in payments for acquisition of intangible fixed assets.

Cash Flows from Financing Activities

Net cash provided by financing activities amounted to ¥894 million, an increase in inflow of ¥5,592 million compared to the corresponding period of the previous fiscal year. The main factors were ¥17,307 million in proceeds from short-term loans payable, ¥13,643 million in repayments of short-term loans payable, and ¥2,016 million in repayments of long-term loans payable.

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

The results forecasts for the full period of fiscal 2022 ending March 31, 2023, have been revised from those announced on May 16, 2022, as revenue and earnings have exceeded initial expectations due to the sharp depreciation of the yen.

For details, see "Revisions to the Consolidated Business Forecasts," released on September 22, 2022.

2. Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	11,269	10,243
Notes and accounts receivable—trade	13,041	14,451
Merchandise and finished goods	15,820	20,289
Work in process	1,866	2,871
Raw materials and supplies	3,824	4,783
Others	1,774	1,585
Allowance for doubtful receivables	(147)	(154)
Total current assets	47,450	54,070
Fixed assets		
Property and equipment		
Buildings and structures (net)	5,880	6,601
Machinery, equipment, and vehicles (net)	4,486	4,627
Others (net)	5,354	7,211
Total property and equipment	15,721	18,440
Intangible assets		
Goodwill	818	774
Others	3,920	4,515
Total intangible assets	4,738	5,290
Investments and other assets		
Others	4,580	4,879
Total investments and other assets	4,580	4,879
Total fixed assets	25,039	28,610
Total assets	72,490	82,681

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable—trade	7,528	8,734
Provision for bonuses for employees	1,041	1,116
Other provisions	61	59
Income taxes payable	1,380	1,415
Short-term loans payable	1,343	5,183
Current portion of long-term loans payable	3,899	4,082
Others	5,653	5,868
Total current liabilities	20,908	26,460
Long-term liabilities		
Long-term loans payable	10,437	9,159
Net defined benefit liability	2,384	2,434
Others	1,712	1,932
Total long-term liabilities	14,534	13,526
Total liabilities	35,442	39,986
Net assets		
Shareholders' equity		
Capital stock	3,976	3,976
Capital surplus	5,099	5,112
Retained earnings	24,302	26,006
Treasury stock	(405)	(388)
Total shareholders' equity	32,973	34,707
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Deferred gains or losses on hedges	8	60
Foreign currency translation adjustment	2,921	6,646
Remeasurements of defined benefit plans	(33)	(5)
Total accumulated other comprehensive income	2,895	6,700
Subscription rights to shares	57	51
Non-controlling interests	1,120	1,235
Total net assets	37,047	42,694
Total liabilities and net assets	72,490	82,681

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

(Millions of yen)

	1H FY2021 (April 1, 2021 to September 30, 2021)	1H FY2022 (April 1, 2022 to September 30, 2022)
Net sales	28,293	35,859
Cost of sales	18,141	23,223
Gross profit	10,151	12,636
Selling, general, and administrative expenses	7,692	9,983
Operating income	2,459	2,652
Non-operating income		
Interest income	10	20
Foreign exchange gains	—	584
Rental income	40	57
Subsidy income	34	17
Gain on sales of scraps	37	45
Others	39	41
Total non-operating income	164	768
Non-operating expenses		
Interest expense	89	127
Foreign exchange losses	9	—
Loss on investment in insurance reserve fund	5	46
Others	105	51
Total non-operating expenses	210	225
Ordinary income	2,412	3,196
Extraordinary income		
Gain on sale of fixed assets	4	1
Insurance claim income	219	—
Total extraordinary income	224	1
Extraordinary loss		
Loss on sale of fixed assets	1	0
Loss on retirement of fixed assets	3	6
Litigation settlement	219	—
Total extraordinary loss	224	6
Income before income taxes	2,412	3,191
Income taxes	663	969
Net income for the period	1,749	2,222
Net income attributable to non-controlling interests	70	66
Net income attributable to owners of parent	1,678	2,156

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	1H FY2021 (April 1, 2021 to September 30, 2021)	1H FY2022 (April 1, 2022 to September 30, 2022)
Net income for the period	1,749	2,222
Other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Deferred gains or losses on hedges	16	52
Foreign currency translation adjustment	589	3,862
Remeasurements of defined benefit plans, net of tax	5	27
Total other comprehensive income	611	3,942
Quarterly comprehensive income	2,360	6,164
(Comprehensive income attributable to)		
Owners of parent	2,238	5,961
Non-controlling interests	122	203

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	1H FY2021 (April 1, 2021 to September 30, 2021)	1H FY2022 (April 1, 2022 to September 30, 2022)
Cash flows from operating activities		
Income before income taxes	2,412	3,191
Depreciation and amortization	1,363	1,356
Interest expense	89	127
Changes in trade receivables (increase)	945	183
Changes in inventories (increase)	(1,325)	(3,520)
Changes in trade payables (decrease)	1,391	621
Loss (Gain) on sales of noncurrent assets	(2)	(1)
Loss on retirement of noncurrent assets	3	6
Insurance claim income	(219)	—
Litigation settlement	219	—
Change in contract liabilities (decrease)	113	423
Changes in accrued expenses (decrease)	(730)	(524)
Others	(56)	(467)
Subtotal	4,205	1,396
Interest and dividend income	14	25
Interest paid	(88)	(114)
Income taxes paid	(394)	(1,599)
Proceeds from insurance income	219	—
Settlement package paid	(219)	—
Net cash provided by (used in) operating activities	3,736	(292)
Cash flows from investing activities		
Payments for acquisition of property and equipment	(1,777)	(1,839)
Proceeds from sales of property and equipment	6	5
Payments for acquisition of intangible assets	(194)	(326)
Payments for retirement of property and equipment	0	(4)
Others	(18)	36
Net cash used in investing activities	(1,983)	(2,127)
Cash flows from financing activities		
Proceeds from short-term loans payable	753	17,307
Repayments of short-term loans payable	(7,629)	(13,643)
Proceeds from long-term loans payable	5,800	—
Repayments of long-term loans payable	(2,934)	(2,016)
Cash dividends paid	(369)	(451)
Cash dividends paid for non-controlling interests	(83)	(88)
Repayments of lease obligations	(172)	(223)
Others	(63)	10
Net cash provided by (used in) financing activities	(4,697)	894
Effect of exchange rate changes on cash and cash equivalents	171	498
Increase (decrease) in cash and cash equivalents	(2,773)	(1,026)
Cash and cash equivalents at the beginning of the period	13,725	11,269
Cash and cash equivalents at the end of the period	10,951	10,243

(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.

(Changes in accounting policies)

(Application of ASC No. 842, "Leases")

Effective from the first quarter of the fiscal year ending March 31, 2023, the Company adopted ASC No. 842, "Leases" ("ASC No. 842"), which is effective for U.S. consolidated subsidiaries. In applying ASC No. 842, the cumulative effect of adopting this standard, which is permitted as a transitional measure, is recognized at the date of initial application.

As a result of the application of this standard, "Others (net)" in property and equipment, "Others" in current liabilities, and "Others" in long-term liabilities increased by ¥721 million, ¥242 million, and ¥486 million, respectively, in the quarterly consolidated balance sheets as of September 30, 2022. The effect of this change on the consolidated statements of income for the first half year period of the subject fiscal year is immaterial.

(Segment information)

First half of the fiscal year ended March 31, 2022 (April 1, 2021 to September 30, 2021)

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	6,286	13,240	3,997	1,243	2,590	933	28,293	—	28,293
Net internal sales or transfers among segments	6,175	30	314	—	282	—	6,802	(6,802)	—
Total	12,462	13,271	4,311	1,243	2,873	933	35,095	(6,802)	28,293
Segment income (loss)	2,839	314	624	68	(52)	13	3,807	(1,348)	2,459

Notes: 1. The segment income (loss) adjustment of ¥(1,348) million includes transactions offset among segments of ¥(216) million and company-wide expenses that are not allocated to respective segment of ¥(1,131) 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 (loss) is reconciled with the operating income listed in the quarterly consolidated financial statements.

First half of the fiscal year ending March 31, 2023 (April 1, 2022 to September 30, 2022)

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	6,651	19,563	4,029	1,673	3,041	900	35,859	—	35,859
Net internal sales or transfers among segments	8,312	39	593	—	501	—	9,447	(9,447)	—
Total	14,963	19,603	4,623	1,673	3,543	900	45,307	(9,447)	35,859
Segment income (loss)	3,657	1,252	602	178	(117)	49	5,623	(2,970)	2,652

Notes: 1. The segment income (loss) adjustment of ¥(2,970) million includes transactions offset among segments of ¥(1,389) million and company-wide expenses that are not allocated to respective segment of ¥(1,580) 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 (loss) is reconciled with the operating income listed in the quarterly consolidated financial statements.