

August 24, 2020

Kito Corporation

FY2020-Q1 financial results briefing was held on August 20, 2020. The below is the translated summary of the question-and-answer session.

Q1: Kito has increased market share in the US. What are the contributing factors?

We consider this the result of a positive overall market evaluation of the products and services we provide for our customers and our established position above our competitors. While our competitors have undertaken drastic measures to cope with economic fluctuation, we continue to serve our customers in the same caring manner, even when demand decreases. That attitude and practice, we believe, are positively received, and have led to a larger market share.

Q2: Tell us the details of the JPY 2.5 billion you plan to invest in equipment this fiscal year.

The investment is mainly in production equipment, and can be divided into three parts:

- Renovation of old equipment and related facilities to operate the plant
- Investment in production equipment designed to reduce costs and build productivity for the future
- Investment to reduce environmental impact, which is becoming increasingly important

For these we plan to invest JPY 2 to JPY 2.5 billion at this point. We took lessons from our experience before the bubble era, when aggressive investment in the context of demand growth led to heavy depreciation costs after demand fell, stressing operations. So, we carefully consider equipment investment when the economic environment is changing substantially. Our current equipment-investment plan puts high priority on positive effects and contributions to better operations, even given a plunge in demand.

Q3: How did you succeed with cost cuts in Japan?

Our operations necessitate high fixed costs due to the high percentage of work we do on our own and the delayed influence of economic and market trends by about three months. This time, facing a rapid decline in economic activity overall and changes in the business environment, we succeeded with timely cost cuts. Aside from necessary reductions in costs of sales calls and business trips due to the Covid-19 pandemic, our measures were right on time and particularly effective in reducing production volume, because the IT infrastructure we updated three years ago has helped clarify production and operational costs.

Q4: What is your assessment of the pandemic impact on the results for next year?

Predicting the future is very difficult at the moment. At the beginning of the fiscal year we wrote a scenario in which our earnings could fall below 30% of peak in the first half, followed by slow recovery to the 10% below-peak point in the second half, then back to normal economic activity in fiscal 2021. Now we are projecting that demand will not likely recover to peak level in the coming fiscal year. We have concern that the slowdown could last far longer,

making recovery to peak level will be difficult in FY2021 and economic activity may never recover to pre-pandemic levels. But even given that business environment, we have fair chance of steadily returning to pre-pandemic levels of profit over time. Rather than project rapid top-line recovery, we are looking at the kind of operations that will steadily expand profit in FY2021 as well.

Q5: Will there be a delay in accomplishing the projected synergies with the firms you acquired in Europe?

Mainly through teleconferencing, we are communicating with subsidiaries more often than we did before the pandemic. Demand is falling right now, so we see synergy with our new subsidiaries as particularly important in expanding our operations. The entire Group looks at this as an area for focused effort, and together we will activate synergies even faster than before for our European and worldwide operations.

Q6: The corporate tax is a factor influencing your net profit for the current year. Will Kito benefit from the tax effect accounting?

Yes, with increasing taxable income on a non-consolidated basis, Kito Japan will benefit from tax effect accounting, which will push down corporate tax amount, and its net income will be boosted.

For questions and more information  
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