May 21, 2021
Kito Corporation

FY2020 financial results briefing was held on May 18, 2021.
The below is the translated summary of the question-and-answer session.

Q1: Port congestion continues on the US west coast. Will that affect Kito earnings?
A1: Kito is working hard to prevent and mitigate negative effects, such as gathering enough containers, changing routes to use east-coast ports, and using by-air options for urgent shipping. For North America, we are making our best effort to prevent stock shortages, for instance by shipping further in advance. We are considering worst-case scenarios for earnings should the situation drag on, but we are hopeful for a return to normal conditions by March 2022, and we can catch up during the fiscal year. We have already forecasted in minor additional transportation costs related to air shipments.

Q2: Tell us about your projections for materials prices, equipment investment and depreciation cost for fiscal 2021.
A2: As for materials, prices for steel are trending upward in China and the US, but we predict this will pass within a relatively short period, without significant effect over the year as a whole. We presume that the higher-price trend will likely continue longer in China than in the US, but we are confident that we can expand earnings enough to absorb that impact. Equipment investment in this fiscal year will be about 3.5 billion yen in Japan and abroad combined. This is mainly for new production equipment and environmental measures in Japan, and enhancement of chain-production equipment in the US. We project nearly 3 billion yen in depreciation, about the same as last year.

Q3: Would you give us your additional views on the Chinese market this year.
A3: At this point we are projecting about the same levels of sales and profit in China as in fiscal 2020. Having received statistical information indicating brisk growth and equipment investment in the Chinese economy, we are sensing major positive movement in the investment trend to meet local needs. At the same time, we should refrain to being too bullish, because Chinese exporters have been struggling to invest in equipment for quite a while, and materials prices are trending high. For this fiscal year we are planning based on careful but not too conservative projections, taking both positive and negative factors into account.

Q4: Is there a risk of delay in public investment in Japan?
A4: At the moment we do not project quick expansion of public investment or related demand, but given the aging of infrastructure there can realistically be no more waiting for investment. Forming a clear picture of investment related to the Tokyo Olympics, or even whether the Games will happen this year, remains difficult. But we project other public investment in infrastructure in general will be strong, and we're reflecting that in our plans for fiscal 2021.

Q5: What is the scale of sales in the energy sectors, including wind energy, and growth potential in China and Japan?

A5: Energy-sector trends have significant influence on Kito operations. The trends in traditional energy industries like coal, oil and natural gas in North America and the Middle East, as well as in renewable-energy industries like wind and solar, are very important at Kito. As the world shifts toward renewable energy, especially in the US with the new administration, we expect that investment will be brisk in marine-based wind energy in China and Japan. We are keeping an eye on these industries to project medium- and long-term macro trends rather than the likely impact on our results in a given year. Kito is prepared to provide detailed support to these industries.

Q6: What is the background of your decision against going ahead with the previous equity-financing plan?

A6: In 2016 Kito bought back 6 million Kito shares when our business and capital partnerships ended, and all of the required funds were covered by bank loan. The announced equity finance was intended to replenish the costs of the acquisition of treasury stock and to fund future growth. Some investors were critical of this equity financing plan, and after listening to stakeholders of all sorts, and discussing the plan again internally, we decided to withdraw it for now and return to square one. To procure funds for future growth, we will consider other means with a long-term view.

Q7: We understand that post-merger integration of the recently acquired firms is a challenge. Where have you made progress so far?

A7: In Europe we made several consecutive acquisitions, including an Italian firm for chain, a Finnish firm for light cranes, and a Dutch firm for hoist customization. Those firms function as manufacturers and marketers of peripherals for hoists, Kito's core products. The Kito Group is marketing their products and we've made some positive results. Concerning our plan to enhance ties among these subsidiaries to build synergy in the European market, however, we are lagging a bit in organizational integration. Customers of these European firms, such as petrochemical plants and natural-resource suppliers, are in industries that are vulnerable to the worldwide economic slowdown caused by the pandemic and have been slower than we hoped to expanding synergy in earnings.

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