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November 15, 2021
Kito Corporation

FY2021-Q2 financial results briefing was held on November 10, 2021.
The below is the translated summary of the question-and-answer session.

Q1: What is your outlook for US market demand? Is there a possibility that, with recovery from the effects of the pandemic, demand will plummet once it is satisfied?
A1: US market demand fell substantially in the first and second quarters of fiscal 2020, but since the third quarter we've been seeing a strong recovery trend. We attribute our current orders to the recovery of economic activity rather than industrial effort to catch up from delays caused by the pandemic. At the moment, all things considered, including our projections for the second half of FY2021, the industrial trends we index and estimated figures, we do not expect a sudden slowing of US demand.

Q2: Your European segment reported a profit in the second quarter. Tell us what made that possible, and outline progress with synergy among the recently acquired European subsidiaries and their future prospects.
A2: Our European operations are built on four subsidiaries, each of which plays its respective role, different from the others. Now that our European strategy, which has taken a while to formulate, has finally taken off, the bottom line is slightly up across Europe in the second quarter. Germany-based Kito Europe, which sells Kito products made in Japan, is the driving force of our European operation, absorbing fixed costs and turning a profit with growing sales. While none of our recently acquired subsidiaries in Italy, Finland and the Netherlands is at the stage of turning a profit on its own, they are all getting close in terms of our European operation as a whole. Toward the second half of the fiscal year we are projecting further bottom-line improvement and scale expansion. We are entering the stage of synergy among the four, which are now ready for concerted sales effort as a group. The business structure of our Finnish subsidiary depends heavily on equipment investment in the automotive industry, while our Dutch subsidiary mainly works with oil, gas and other natural-resource concerns. There are small differences in the speed of recovery among the subsidiaries. Specifically, we project that the Dutch operation will lead the Finnish one.

Q3: Can you keep absorbing higher costs for materials by transferring those differences into your prices in the third quarter and onward? Under your current business plan, how are you dealing with the impact of higher materials costs and price increases?

A3: The higher materials cost accounted in the second quarter is related mostly to Chinese steel. That said, the trend in higher prices for materials continues in other regions and materials as well, which will likely be accounted in the third quarter and onward. We have revised our prices in North America and Europe first, and will gradually do the same in other regions. It's hard to absorb the cost differences with higher prices within the fiscal year, because of the time lag between a price revision and its effect, as well as the current steep rise in costs. We project that JPY 200-300 million will not be absorbed this year, and we have already built that into our projections for FY2021.

Q4: Are you adjusting production to short supplies of materials and parts? What is your projected plant-operation rate?

A4: We are struggling to get supplies of certain parts. We are particularly short on electrical parts for electric hoists, as well as nylon and other plastic parts. We are producing enough manual hoists to meet demand. For electric hoists we have had to slightly alter our production schedule. Because of that we are delaying some product supplies to foreign subsidiaries. We project that this situation will likely hold for another three months. We expect that production will peak in November and December and gradually shift to stable levels by March, pushing our production load close to its highest level ever through the second half. We are running 24-hour operations on certain lines and taking other measures to meet the brisk demand.

Q5: How much debt do you think is appropriate?

A5: We don't have any specific debt figures KPI to consider appropriate. Our short-term loan balance has held at a comfortable level of JPY 5 billion. We think that level guarantees our investment for future growth. That balance was once around JPY 10 billion, but in the past few years we've focused on debt service. We are in better financial health to enter the next phase of growth-oriented investment. We presume there may be need for debt increases in some sectors.

Q6: I think you included in your North American strategy the strength of your European products and technologies. How are the results?

A6: We are making good progress. The North American introduction of the products of the firms we acquired in the Netherlands and Finland has been going forward as planned. Some have already begun marketing and others are in the final stages of preparation for North American debut. These are helping expand our North American operation.

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Q7: I think your cash-conversion cycle there leaves much to be desired compared to what it used to be.

A7: We've been putting priority on optimizing inventory levels. At the moment, to satisfy the surge in demand with recovery following the pandemic pause, our top priority is to maintain inventory levels to ensure continuous product supplies. With lead times for marine shipment twice as long as in normal times, we've kept our inventories high. We are shelving improvement in the short-term cash-conversion cycle for now, and will resume fundamental reform as soon as the business environment stabilizes again.

Q8: I've heard that the Kito brand has gained share of the Chinese market because of the recent local trend toward value, quality and safety. Tell me more about that.

A8: In China there are no reliable market statistics, nor is there official data on market share, but our own estimates show a gradual increase. While we've taken some share from our European competitors there, we don't think we've reached the stage of winning enough share from Chinese firms to expand our revenues.

Q9: Has investment in liquid-crystal displays (LCDs) and related sectors in China and Asia recovered?

A9: South Korean firms previously led investment demand related to LCD, organic EL and flat-panel displays, but their relative status has fallen. LCD-related equipment investment is gradually recovering, led by Chinese firms, but we have yet to capture it. We understand that South Korean firms have resumed plans for LCD-related investment, and we've already received some project orders. We foresee slow, gradual recovery for the Asia region overall.

Q10: In terms of equipment investment, it seems that your M&A actions in Europe are complete for now, but tell me whether you have any specific sectors or regions you see as potential investment targets for the future.

A10: There is investment need in Japan, North America, Europe and Asia to further enhance our production equipment. We are not calling our European investments complete for the time being, and we'd rather look for M&A prospects to acquire new businesses and products. We think our investment demand will remain active.

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