November 15, 2019
Kito corporation

Below is a summary of questions and answers that followed our November 12 briefing on FY2019 second-quarter results.

Q1: I understand that the percentage of disabled people among employees is high at Kito. Going forward, wed like you to also disclose more about your social and environmental contribution initiatives, including actual figures, your goals for employing women and your stance on the Ten Principles of the United Nations Global Compact (on human rights, labor, environment and anti-corruption).

A: Right now we are making the regional, social and environment contributions that we can afford, and active employment of disabled people is part of that. Employing and promoting women is also a priority. Wed like to set goals in the near future and undertake steady efforts to achieve them. For the environment, we have obtained an ISO 14001 certificate and are working to reduce various kinds of industrial waste and our carbon footprint. Our particular focus is on waste-reduction by supplying durable products. Some of our competitors focus instead on after-sale services providing products and parts with compromised durability. The Kito business model, on the other hand, avoids dependence on after-sale service by supplying the industrys most durable products as well as promoting safety. We will actively disclose such non-financial information.

Q2: What are your thoughts behind Kitos minimum payout ratio of 20%?

A: We think Kito can continue to grow as it expands operations. For growth, a good balance between internal reserves and returns to shareholders is necessary. Taking that into consideration, as well as the firms fina ncial state and growth opportunities within the larger picture, we determine our payout ratio and hope to place it as close as possible to the market-expected 30%.

Q3: Tell us what you think of the idea of voluntarily establishing a committee to nominate and set compensation for directors and executive officers.

A: Kito is a firm with a board of corporate auditors and we feel this structure helps to maintain a sound corporate governance and enhance corporate value. Weve already voluntarily set up a committee to nominate and set compensation for directors and executive officers. Wed like to evaluate our system by checking and discussing the effectiveness of the committee.

Q4: In your financial briefing handouts, the industries that drive Kito operations have changed since last time.

A: The Chinese operations end their fiscal years in December, three months earlier than consolidated fiscal year, so the results may diverge somewhat from your expectations about the market. At the end of last year equipment investment in relatively new industries that have grown with change in Chinas industrial structure, like semiconductors and electric vehicles, appeared to be powering the market. This year, however, those industries have been gradually slowing. Our operations there target industries that continue to invest. I can say that most are related to infrastructure, specifically commercial vehicle makers, power plants and railroad companies, which have all been relatively strong despite a slowing market trend since the Chinese New Year.

Q5: How is the business of the Italian subsidiary recovering, and what are the thoughts there about post-merger integration? The consolidation of the Finnish subsidiary is coming up, can you speak on your overall PMI strategy?

A: The operations of the Italian firm were suspended briefly when we took over, so we are working up from the zero-sales point. The companys operational systems have been improving every year since then, and we are projecting its first positive EBITDA at the end of this fiscal year. Positive operating profit is in sight in the near future.
We have set up a PMI division to oversee all four European subsidiaries, managing task-level progress in their product and regional strategies, with the headquarters involved to help imprint Kito core competences, and I think that progress has been good so far. Kito regularly holds global meetings to bring together key people from Europe and around the world. We held the one for this year about a week ago. We will create more opportunities like this to meet and share Kitos philosophy and vision to build a strong team. People from the new Italian and Finnish subsidiaries have joined in, ready to work with a sense of group solidarity.

Q6: The growth of the Chinese operations is slower in Q2 than in Q1, apparently more so in the second half than first. Is this due to exchange-rate fluctuation, and do I understand correctly that the operation is not actually slowing that much?

A: The market has been slowing since January, and of our two Chinese operations, the one handling Japanese imports for high-end customers is slowing from the first into the second half. The other, for local consumption, which accounts for 70% of sales in China, has held at about the same level in local currency.

Q7: Looking at the page on profit-loss analysis for the first half of FY2019, you seem to have succeeded in raising prices above the increase in materials cost. Steady price hikes seem possible in the Americas, but can you continue to do that into the future? Tell me about the market environment.

A: Weve been raising prices by 1 -3% every year in the Americas and Europe, and think the environment will continue to allow us to maintain that practice. Selling Chinese imports is part of the operations of the Peerless Industrial Group in the US, and its higher materials costs are mainly due to higher tariffs. The firm has successfully transferred a large part of the increased costs into prices.

Q8: Kito sales will be down by only about 2% year-on-year this year as orders for machine tools in general are falling. Id like to check whether you project growth in market share, for instance on broader application of Kito products, e-commerce demand, structural changes and growth in new users.

A: I dont foresee that sort of structural change. If we have a unique factor for fiscal 2020, however, that would be possible special demand related to the Olympics. Another is the legal mandate of the Hazard Analysis Critical Control Point system in the food industry, which is already leading some customer firms to start revamping equipment. I feel our customer base expanding from the traditional heavy industries into those handling soft and light products, such as foods. These are relatively new fields for us, broadening demand for our products.

Q9: Ive heard you are looking for stable industrial sectors in China. Tell us about your efforts in that regard in China and the other regions as well.

A: We are adding a new system that will assign several dedicated people to focus individually on specific industries or sectors in each region we target, alongside the regional business divisions handling targets in their respective regions. The bread and butter is in indirect sales through sales partners and trading houses, but to find new customers, in some cases we initiate action and involve local sales partners in cooperative efforts.

Q10: What are your prospects for China in the coming year?

A: At the moment we dont have enough information to answer questions about prospects for the coming year.

Q11: Your medium-term business plan will end in the coming fiscal year, and its time to start thinking about the plan to follow. President Kito, talk to us about your sense of the problems you will want to address.

A: In the previous five-year plan we worked first to raise the top line by 2015, and the current plan shifted focus from the top line to the bottom line. Weve been carrying that forward to realize 13 billion yen in EBITDA by raising the profit level. At this point we project to end this fiscal year with earnings at the same level as in fiscal 2018, so weve reached a plateau. We see a yellow light in that 13-billion-yen EBITDA goal. So the current medium-term plan will leave homework for us to do in the early part of the next plan. As a Group we have been pursuing specific sales and profit figures. What follows after we achieve the desired quantitative levels is a period of five years in which we will work for higher corporate value. That will include qualitative elements, like the quality of operations and customer relationships.

For questions and more information
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