

KITZ Group

1st Medium-term Management Plan 2024

(FY2022-FY2024)

Review of the 4th Medium-term Management Plan (FY2019-FY2021)

Review of the 4th Medium-term Management Plan Summary

Financial targets were not achieved. Steady progress in strengthening the global/ESG management foundation and continued to enhance shareholder returns, but challenges remain in implementing strategic investments for sustainable growth.

Achievement of financial targets	<ul style="list-style-type: none"> ■ Underperformed major financial targets ■ Main reasons are weak domestic and overseas market outlook, stagnant market due to COVID19, and delay in profit structure reform 	
Execution of growth investment	<ul style="list-style-type: none"> ■ Capital investment fell short of the 24 billion yen budget ■ Investment in Malaysia's Unimech Group for growth in Asia's middle class zone, but not yet ready to contribute to earnings ■ Lagging behind in response to semiconductor market expansion 	
Implementation of strategic measures	<ul style="list-style-type: none"> ■ Domestic business failed to reach market share targets for key valve types ■ Full-scale entry into the industrial butterfly valve market with a focus on the Cephass brand, but PMI and synergies are still insufficient. 	
Enhancement of shareholder returns	<ul style="list-style-type: none"> ■ EPS (Earnings per share) target was not achieved, but the target consolidated dividend payout ratio of 35% was secured. ■ 3.85 billion yen share buyback 	
Strengthening of management infrastructure (ESG/Global management)	<ul style="list-style-type: none"> ■ Started operation of new ERP (KInGS) from May 2019 ■ Unification of the Group's accounting periods from the fiscal year ending December 31, 2020 ■ Entering the packaged unit-type hydrogen station business ■ Increase in number of outside directors and auditors 	

Review of the 4th Medium-term Management Plan

Financial targets and Management KPIs

- Financial targets were not achieved. The main reasons were weak market outlook, significant stagnation in the market due to COVID19, and delay in profit structure reforms such as review of low-profit categories.
- Due to the lack of operating cash flow and the uncertainty of market conditions caused by the COVID19, capital investment was kept within depreciation expenses. Investment for growth will be carried over to the next mid-term plan.

Management Indicators (Billions of yen)		3 rd Medium-term plan	4th Medium-term Management Plan				
		FY2018 Results	FY2019 Results	FY2020 Results (9months*)	FY2021 Results	3Year-to-date	Medium-term targets (FY2021)
Financial targets	Net sales	136.6	127.1	84.2	135.8	-	144.0
	Operating income	11.7	6.9	3.8	9.0	-	13.5
	EBITDA (): Depreciation and amortization	16.8 (5.1)	13.7 (6.8)	8.8 (5.0)	15.8 (6.8)	-	21.5 (8.0)
	ROE	7.4%	6.5%	2.8%	6.4%	-	10%
	EPS	58.50 yen	53.06 yen	23.38 yen	55.26 yen	-	95 yen
Financial strategy and capital policy	Operating CF	10.1	13.3	10.0	8.3	31.6	45.0
	Capital investment	13.9	7.8	3.1	4.9	15.8	24.0
	M&A, Alliance	2 Korea (Valves & Filters)	1 Malaysia (Valve)	-	-	1	Agile implementation
	Consolidated dividend payout ratio	34%	38%	39%	36%	-	Around 35%

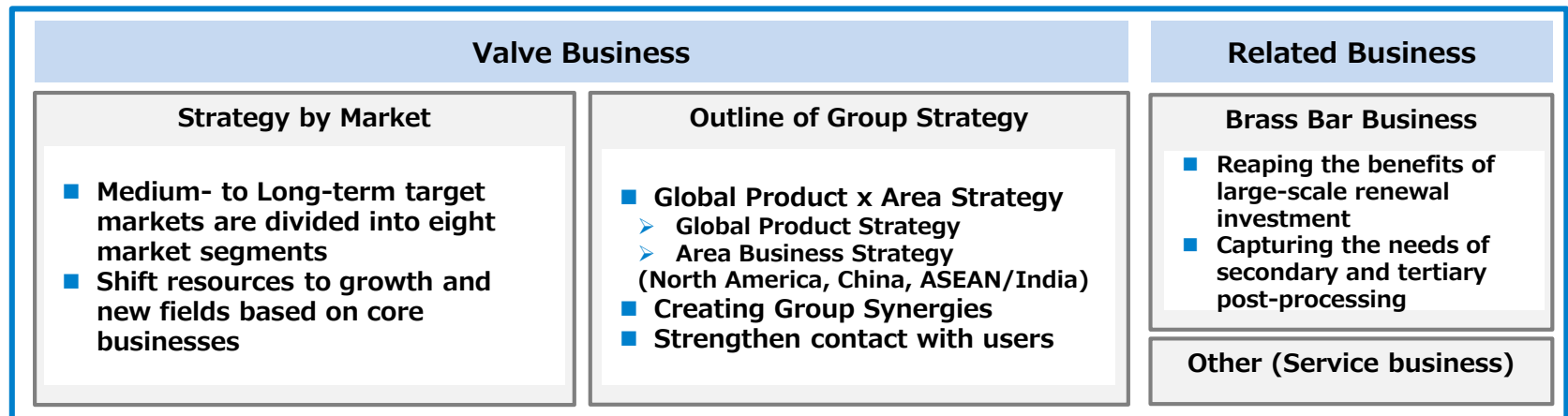
1st Medium-term Management Plan 2024 (FY2022-FY2024)

I. Executive Summary

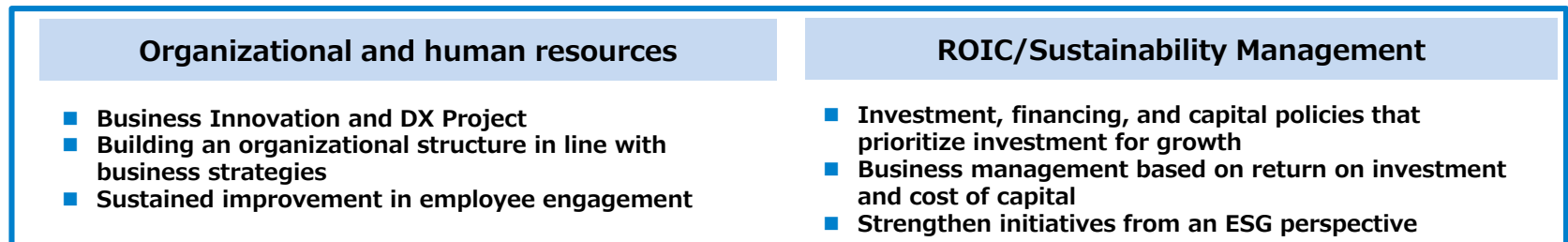
Basic management policy

- Aim for two-sided management that can generate earnings in core businesses and growth areas
- Proactively allocate resources to growth fields and regions driven by digitalization and de-carbonization
 - Business development with emphasis on return on invested capital (ROIC)

Business Strategy



Management Capital



Quantitative targets (financial and non-financial KPIs)



(Unit: Billions of yen)

Financial KPIs	FY2021 (results)	FY2024 (targets)
Net sales	135.8	150.0
Operating income	9.0	12.0
ROE	6.4%	8% or more
Consolidated dividend payout ratio	36%	around 35%

Non-financial KPIs ^{*1}	FY2021(results)	FY2024 (targets)
CO2 reduction rate (compared to FY2013, domestic group)	-26.9% ^{*2}	-80%
Employee engagement score	Rewarding work culture	48pt
	Better work environment	43pt
Percentage of women employees	21.7%	23%
Percentage of women managers ^{*3}	3.4%	10%
Percentage of men taking childcare leave	29.0%	50%

*1 KITZ(non-consolidated) excluding CO2 reduction rate

*2 FY2020 results

*3 managers: employees of the department manager

1st Medium-term Management Plan 2024 (FY2022-FY2024)

II. Medium-term Plan by Business

- 1. Valve Business**
- 2. Brass Bar Business**
- 3. Others (Service Business)**

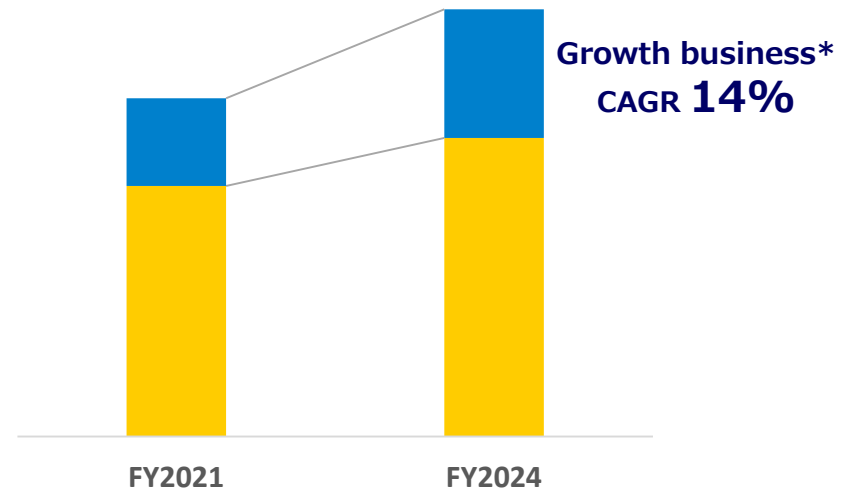
Medium and Long-term target markets are organized into eight market segments. Shift resources to growth/new business fields based on the current core businesses to change the revenue structure.

Target segments	growth potential	revenue growth hypothesis
-----------------	------------------	---------------------------

<p>Core</p> <p>Growth</p>	1	Building & facilities	
	2	Petrochemicals	
	3	Water treatment	
	4	Machinery & equipment	
	5	Semiconductor equipment	
	6	Semiconductor materials (filters)	
	7	Fine-chemicals	
	8	Hydrogen & clean energy	

High growth rates in semiconductor, fine-chemical, and hydrogen/clean energy businesses will drive earnings growth. Existing businesses will also be capturing data center-related and pure water markets, as well as solid demand growth overseas.

Valve Business / Sales Composition by Market



Growth business: Semiconductor equipment, Semiconductor materials (filters), Fine-chemicals, Hydrogen & clean energy

Valve Business Strategy by Market

1. Building and facilities



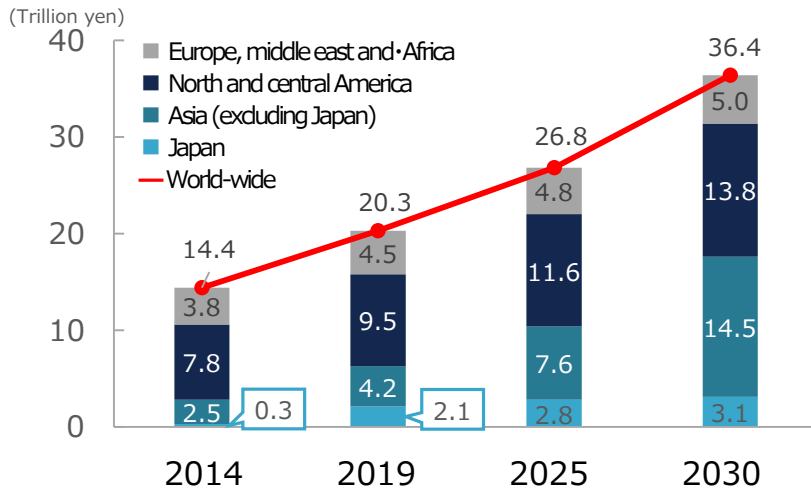
Housing in Japan on a downward trend, but overseas markets continue to grow, especially in ASEAN. The needs for simplified construction and operation is increasing in developed countries. Global demand for data centers is growing rapidly.



Business Environment

Key Measures

Global Data-center market forecast



Source : IDC Japan

- Capturing demand in the data center market
 - Responding to the need for quick delivery: product inventories, etc.



Butterfly valve DJ series

- Product development for simplified construction
- Development of products that respond to changes in piping methods and materials and to automation and smart technology

Driving forces

- (Data Center)
- The United States, with the largest market share, and China, with its "new infrastructure" policy, are driving the global market.
- (Overseas Building Equipment)
- Strong urban infrastructure-related demand in emerging countries
 - Increasing need for simplified construction in developed countries

Valve Business Strategy by Market

2. Petrochemicals

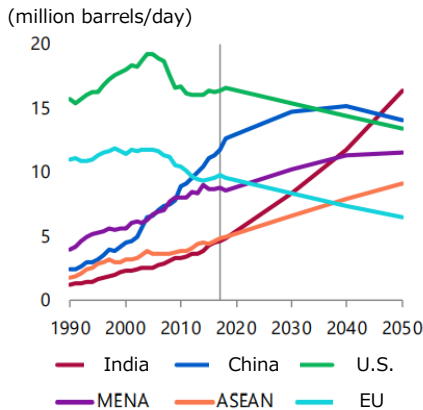


Oil demand is expected to increase, especially in emerging countries, as they recover from COVID19. In developed countries, demand for petrochemicals will remain strong despite a shift to clean energy.

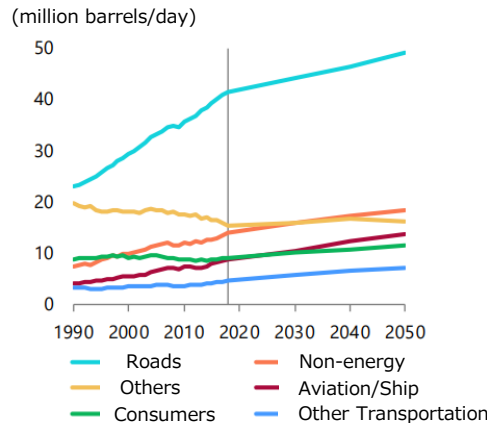


Business Environment

Oil consumption in major countries and regions



World Oil Consumption by Industry



Source : IEEJ Outlook 2021
<https://eneken.ieej.or.jp/data/9170.pdf>

Key Measures

- Product development that follows user trends, such as the shift to clean energy and environmental measures
- Service to key account users, mainly Japanese, and increase MRO order rates
- Improve the adoption rate of the KITZ predictive diagnostic system
- Compliance with global standards, certifications and customer approvals

Driving forces

- (Overseas)
 - Increase in demand due to economic growth in emerging and developing countries
- (Domestic)
 - Selection and concentration of petrochemical business, needs for environmental measures



Three Piece Type Trunnion Ball Valve



Predictive Diagnosis System "KISMOS"

Valve Business Strategy by Market

3. Water treatment

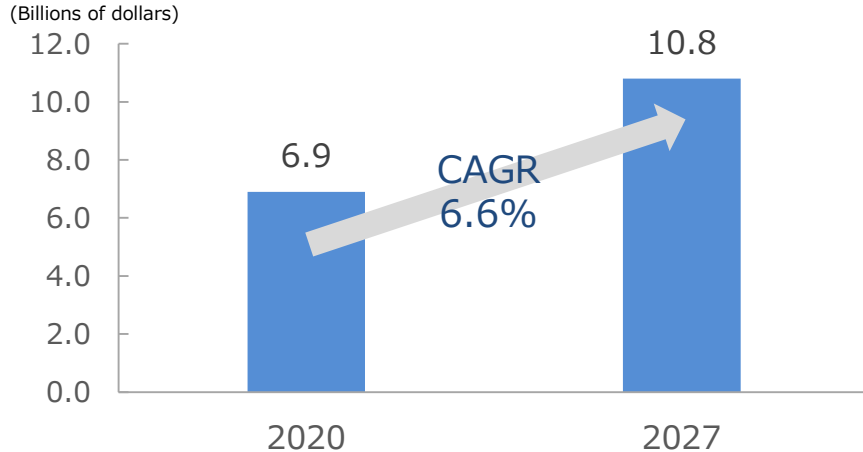


Global demand for water infrastructure is increasing, but price points and certification systems are barriers to entry. Investment in pure water/ultrapure water plants will increase due to rising demand for semiconductors.



Business Environment

Global Ultrapure Water Market Forecast



Source: Global Industry Analysts, Inc.
<https://www.gii.co.jp/report/go909391-ultrapure-water.html>

Driving forces

- In addition to semiconductors, which are the main application, solar cells, FPDs, pharmaceuticals, power generation, and other industries are expanding.
- Growing demand in the electronics industry in the APAC region and in the pharmaceutical sector in Europe

Key Measures

- Close contact with pure water plant manufacturers and pure water equipment manufacturers
- Compliance with standards that strictly prohibit the elution of metal ions and development of resin-based products
- Providing solutions to the water infrastructure field
 - Water purification equipment (Pureculaser by TOYO, Aquarescue by Shimizu, etc.)



Lining butterfly valve



TOYO VALVE Water Treatment System "Pureculaser"

Valve Business Strategy by Market

4. Machinery & equipment

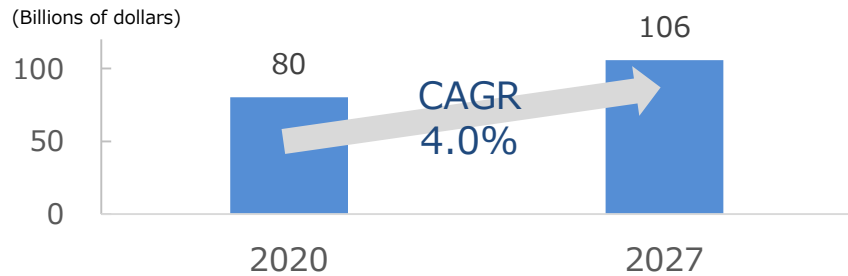


Provide new customer value by accurately grasping the environmental needs of the machinery and equipment field, such as RoHS/REACH compliance and green refrigerant.



Business Environment

Global Machine Tool Market Forecast



Source: Report Ocean press release
<https://prtimes.jp/main/html/rd/p/000003067.000067400.html>

Transition of Environmentally Friendly Refrigerants

	specified CFCs	Alternative CFCs	Green refrigerant
refrigerant	HCFCs	HFCs	CO ₂ , NH ₃ etc.
ozone layer destructive effect	Yes	No	No
greenhouse effect (GWP)	Major effect	Major effect	Minor Effect

Key Measures

- To establish Machinery & Equipment Sales Department
- Development and market introduction of products that support the downsizing, weight reduction and automation of machinery and equipment
- Expansion of products to comply with environmental regulations such as RoHS and REACH
- Capturing demand for switching to next-generation (green) refrigerants



"Miyoshi" Brand Products



Compact actuated valve "KELMO"

Valve Business Strategy by Market

5. Semiconductor equipment

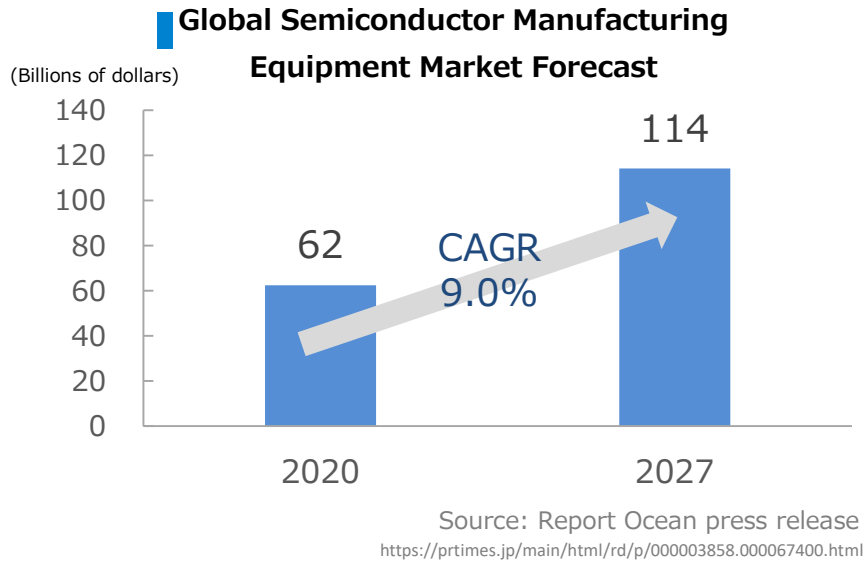


Driven by the solid expansion of the semiconductor market, expand the production capacity of clean valves for semiconductor equipment and strengthen R&D capability



Business Environment

Key Measures



- Production capacity expansion: Construction of new building at Nitta SC Plant
- Investment in production DX (automation and labor saving)
- Strengthen R&D system



KITZ SCT Nitta SC Plant
<https://kitz-sct.jp/archives/001/202111/b0e2725017302c2cfdc73802fd30d029.pdf>

Driving forces

- Expanding end markets for semiconductors for related equipment and SSDs for data centers as 5G communication spreads
- Changes in needs for local production for local consumption and inventory strategies due to US-China decoupling

Valve Business Strategy by Market

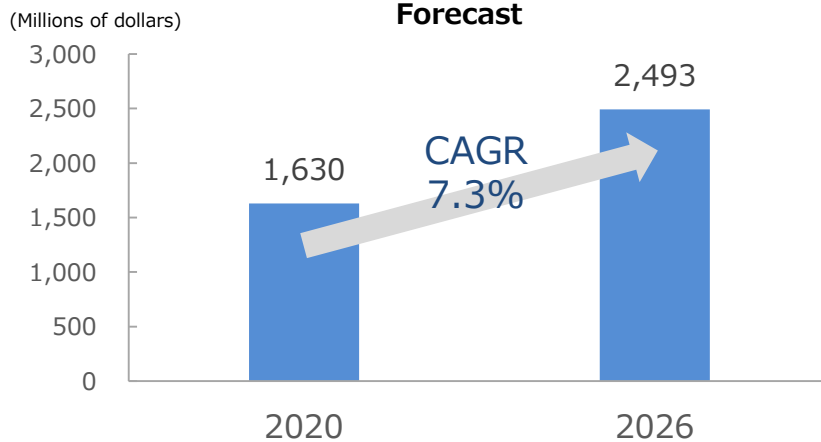
6. Semiconductor materials (filters)

Driven by the strong demand for semiconductors, we expect steady growth in filters for semiconductor photoresists (polyfix). In order to meet the growing demand, we will expand our production capacity.



Business Environment

Global Semiconductor Photoresist Market



Source: Fuji Keizai press release

<https://www.fuji-keizai.co.jp/file.html?dir=press&file=21064.pdf&nocache>

Driving forces

- Expanding end markets for semiconductors for related equipment and SSDs for data centers as 5G communication spreads
- Continued development and market launch of cutting-edge products such as immersion ArF resists and EUV resists

Key Measures

- Expand production capacity of industrial filters such as Polifix
- Development of next-generation products for semiconductors that meet sub-nano level requirements
- Development of applications for precision filters in other fields (other than for resist)



"Polyfix" series



"Unipore" series

<https://www.kitzmf.com/filter/>

Valve Business Strategy by Market

7. Fine-chemicals

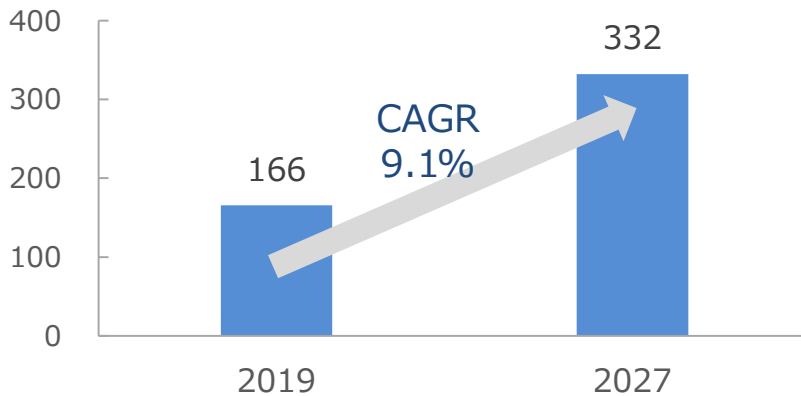
Chemical companies, our major customers, are focusing on high value-added fine-chemicals. Expand product lineup to meet increasingly sophisticated process requirements and increase earnings.



Business Environment

Global Fine-chemicals Market Forecast

(Billions of dollars)



Source: Statistics MRC

<https://www.gii.co.jp/report/smrc942524-fine-chemicals-global-market-outlook.html>

Driving forces

- Expansion of end-product market size due to population growth, especially in Asia
- Increasing demand and sophistication of requirements in the automotive electronics and infrastructure industries, etc.

Key Measures

- Expansion of the product lineup to meet the demand for high cleanliness and easy maintenance (diaphragm valves, etc.)



PFA lined Ball Valve



Diaphragm valve

https://kitz-sct.jp/products/uhp_valves/

- Establish a cross-sectional sales and technical organization dedicated to fine chemicals (pursue synergies with KITZ SCT)
- Build and strengthen process technology and production technology networks with fine chemical/equipment and machinery manufacturers

Valve Business Strategy by Market

8. Hydrogen & Clean energy

The market potential for hydrogen and clean energy is expanding rapidly toward a decarbonized society. Aiming to expand business by entering the hydrogen supply chain, which is being implemented in society.



Business Environment

Hydrogen energy value chain

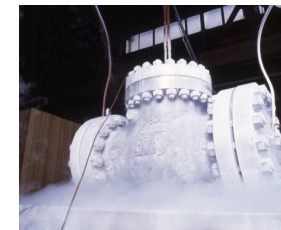


Driving forces

- (Hydrogen)
 - Establishment of an international hydrogen supply chain
 - Full-scale introduction for power generation
 - Promotion of energy carrier use (Power to Gas), etc.
- (Natural gas)
 - Energy shift from oil and coal in line with the growing trend toward low-carbon energy

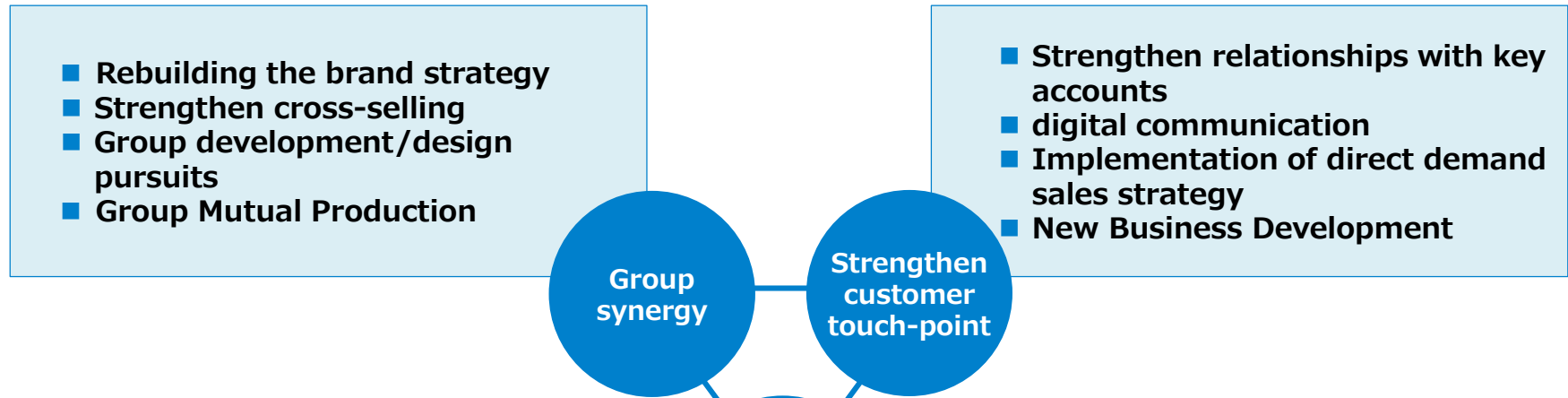
Key Measures

- Enter the hydrogen station market with packaged units and small-scale green hydrogen energy chain business for local production for local consumption.
- Conduct R&D on large-scale demonstration plants for liquefied hydrogen (shipping and receiving terminals, carriers) and entry into the hydrogen aircraft market
- Take advantage of new demand for hydrogen energy, such as hydrogen power generation and hydrogen pipelines
- Expand the lineup and strengthen sales of ultra-low temperature valves for LNG for overseas markets.

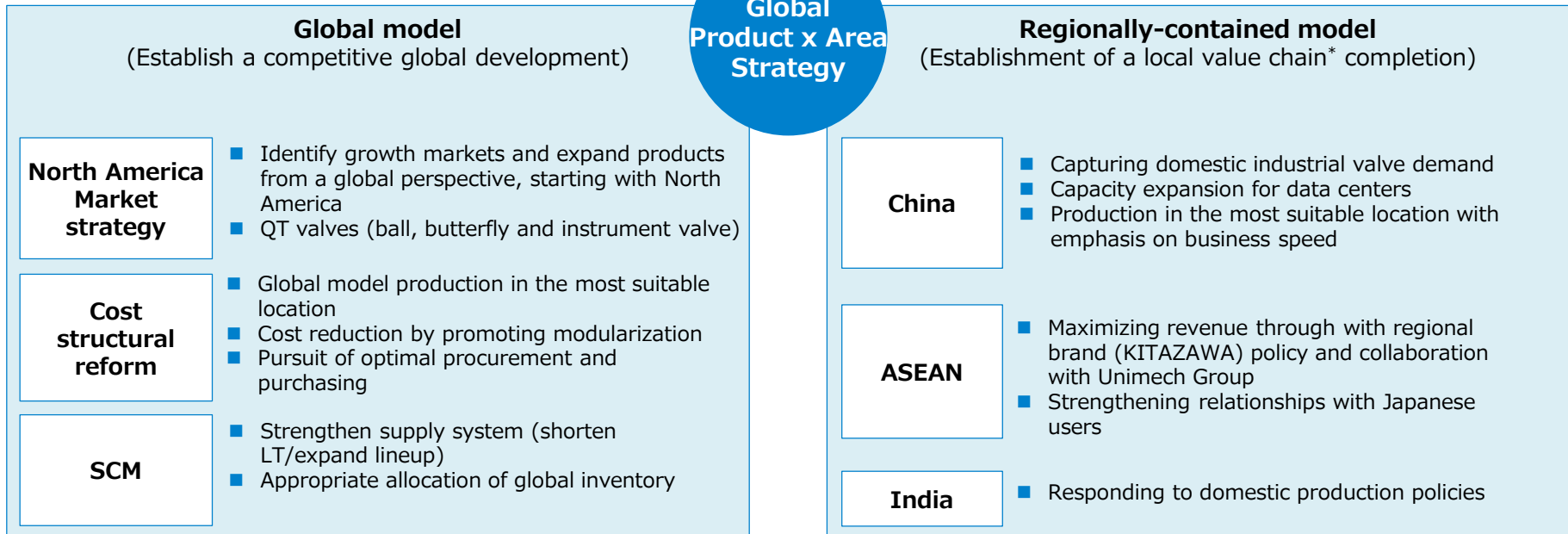


Cryogenic Valve

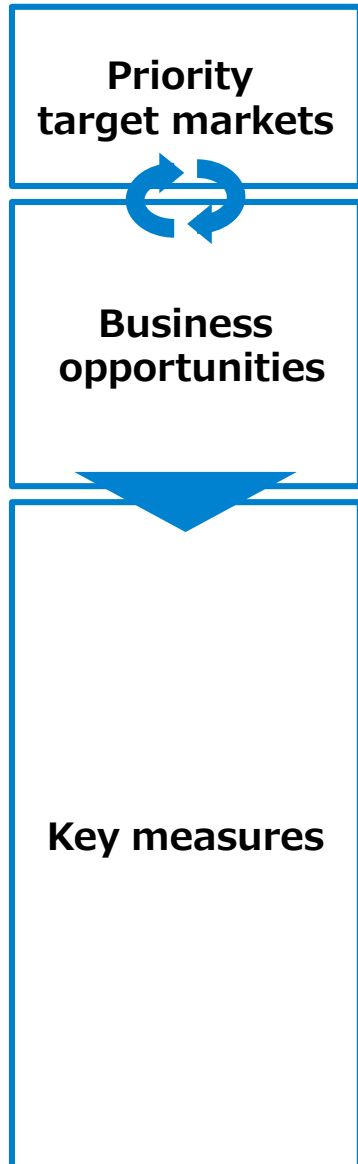
Valve Business Outline of Group Strategy



* Design, production, and sales functions



Valve Business Area business Strategy (North America)



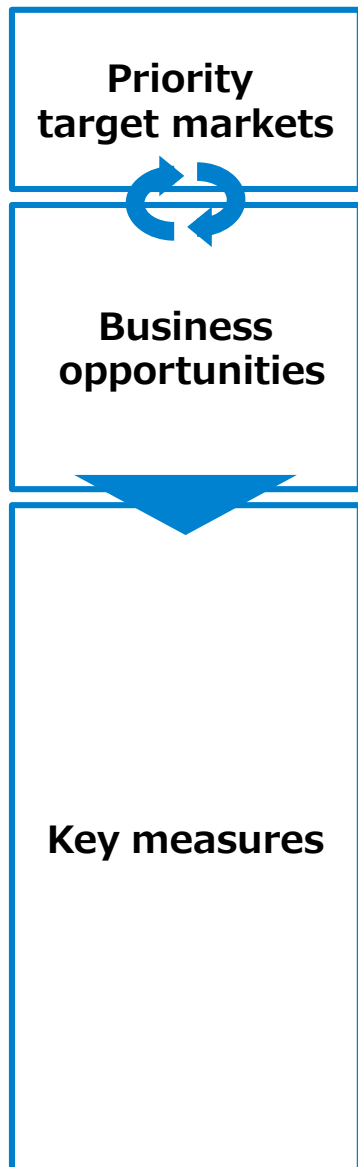
Building & facilities	Petrochemicals	Water treatment	Machinery & equipment
Semiconductor equipment	Semiconductor materials (filters)	Fine-chemicals	Hydrogen & Clean energy

- Expansion of oil, petrochemical, and gas markets in the United States, now the world's largest oil producer
- Movement toward stricter environmental regulations (de-carbonization, lead-free, etc.)



Market strategy		<ul style="list-style-type: none"> ■ Positioning the U.S. base as the control tower for oil and gas market strategy ■ Entering the chemical market: Aiming to develop and launch a low-cost ball valve 	<p>Triple Eccentric Butterfly Valve</p>
	Industrial valves	<ul style="list-style-type: none"> ■ Expand sales of trunnion ball valves (global trunnion) and high performance butterfly valves 	
	Commercial valves	<ul style="list-style-type: none"> ■ Expand sales in the commercial valve market <ul style="list-style-type: none"> ✓ Building a distributor network for the general-purpose valve market ✓ lead-free valves: Provide products that meet the standards required by the region 	

Valve Business Area business Strategy (China)



Building & facilities	Petrochemicals	Water treatment	Machinery & equipment
Semiconductor equipment	Semiconductor materials (filters)	Fine-chemicals	Hydrogen & Clean energy

- Expansion of the data center market on the back of the "new infrastructure" policy
- Expansion of ethylene and other production capacity due to policy guidance (chemical shift) in the petroleum industry
- Market growth due to policy-driven domestic production of semiconductors



Design



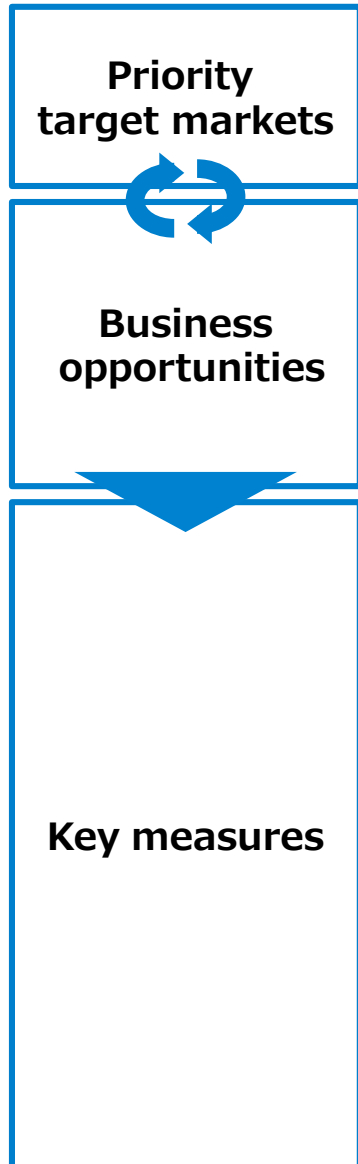
Casting



Pressure test

Commercial valves	■ Proactively utilize an integrated system of design, production, and sales to quickly respond to market requirement
Industrial valves	■ Expand sales of industrial products, which have a large market size, by utilizing Chinese production plants
Actuated valves	■ Establishment of an assembly and inspection system at the production site in China
Valves for Semiconductor	■ Increase local production capacity and expand sales

Valve Business Area business Strategy (ASEAN and India)



Building & facilities	Petrochemicals	Water treatment	Machinery & equipment
Semiconductor equipment	Semiconductor materials (filters)	Fine-chemicals	Hydrogen & Clean energy

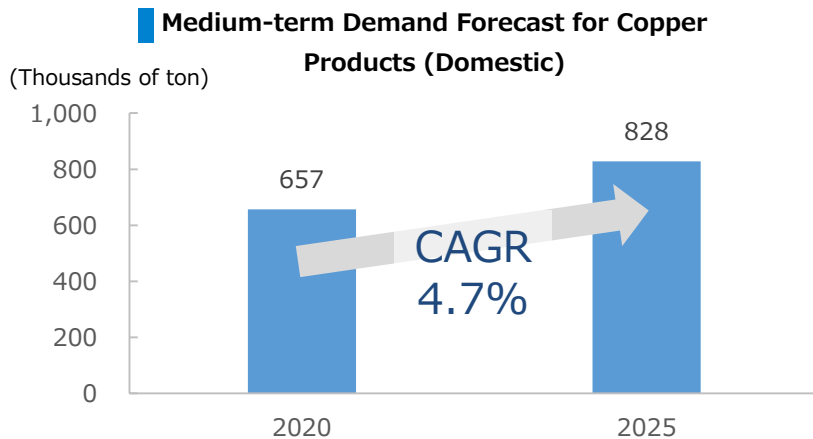
- Middle-Zone economic expansion due to the growth of middle-class markets in emerging countries, including urban infrastructure
- Expansion of key account marketing opportunities as Japanese users enter the market

ASEAN	<ul style="list-style-type: none"> ■ Build a network of key accounts with a focus on Japanese users ■ Identify hot-selling products through community-based marketing and establish an integrated local supply system (development, production, and sales) ■ Maximize revenue through regional brand and collaboration with Unimech Group 	 <p>Regional brand "KITAZAWA"</p>
India	<ul style="list-style-type: none"> ■ Establish a regionally complete regional strategy in response to domestic production policies. 	 <p>Valves for sanitary use</p>

Despite the shrinking trend in existing areas, we will continue to expand sales by cultivating growth areas (automobiles, semiconductors, etc.) and strengthen sales expansion of processed products driven by the change in supply chain and increase profitability through cost reduction.



Business Environment



Source: Japan Copper Products Association

<http://copper-brass.gr.jp/wordpress/wp-content/uploads/2021/09/f6199dd5fe92dabdae2dfcdffaab9924.pdf>

Opportunity	<ul style="list-style-type: none"> ■ Increase in demand due to a return to metals for recyclability ■ Return of secondary and tertiary processing to Japan by reviewing the supply chain
Risk	<ul style="list-style-type: none"> ■ Shrinking housing-related markets ■ Material substitution risk due to soaring copper prices

Key Measures

- Enter and expand sales in growth fields
 - Automobiles, construction machinery/heavy equipment, semiconductors, etc.
- Approaches to secondary and tertiary processing
 - Forging, cutting, brazing



<https://www.kitzmetalworks.com/products.html>

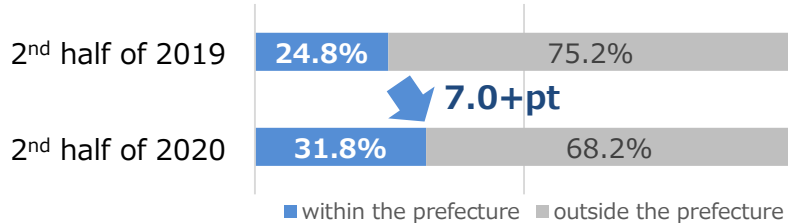
- Reduce manufacturing costs and promote recycling
- Improving business efficiency through DX, etc.

To secure profits amid the pandemic, shift sales policy to target individual customers and business areas in neighboring prefectures. Use the opportunity of the changing business environment to fundamentally reform service productivity and make it more established.

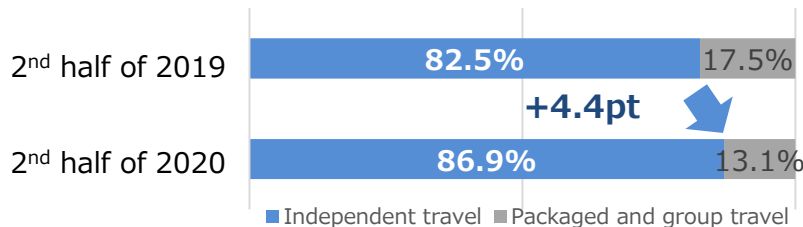


Business Environment

In-prefecture/out-of-prefecture ratio (nationwide)



Type of trip (individual/group)



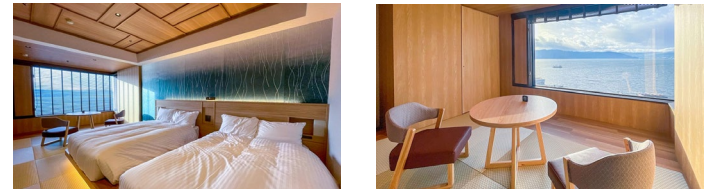
Source: Japan Tourism Agency
<https://www.mlit.go.jp/common/001408385.pdf>

Changes in travel style

- Increase in the percentage of tourism within the prefecture and other neighboring regions (so-called micro-tourism)
- In terms of travel type, the proportion of independent travel increased further.

Key Measures

- Enhance service value by focusing on individual guests
 - Renewal of upper floor Japanese style rooms into modern Japanese rooms
 - Increase in the percentage of plans that include dinner



Comfort floor "Kokou"

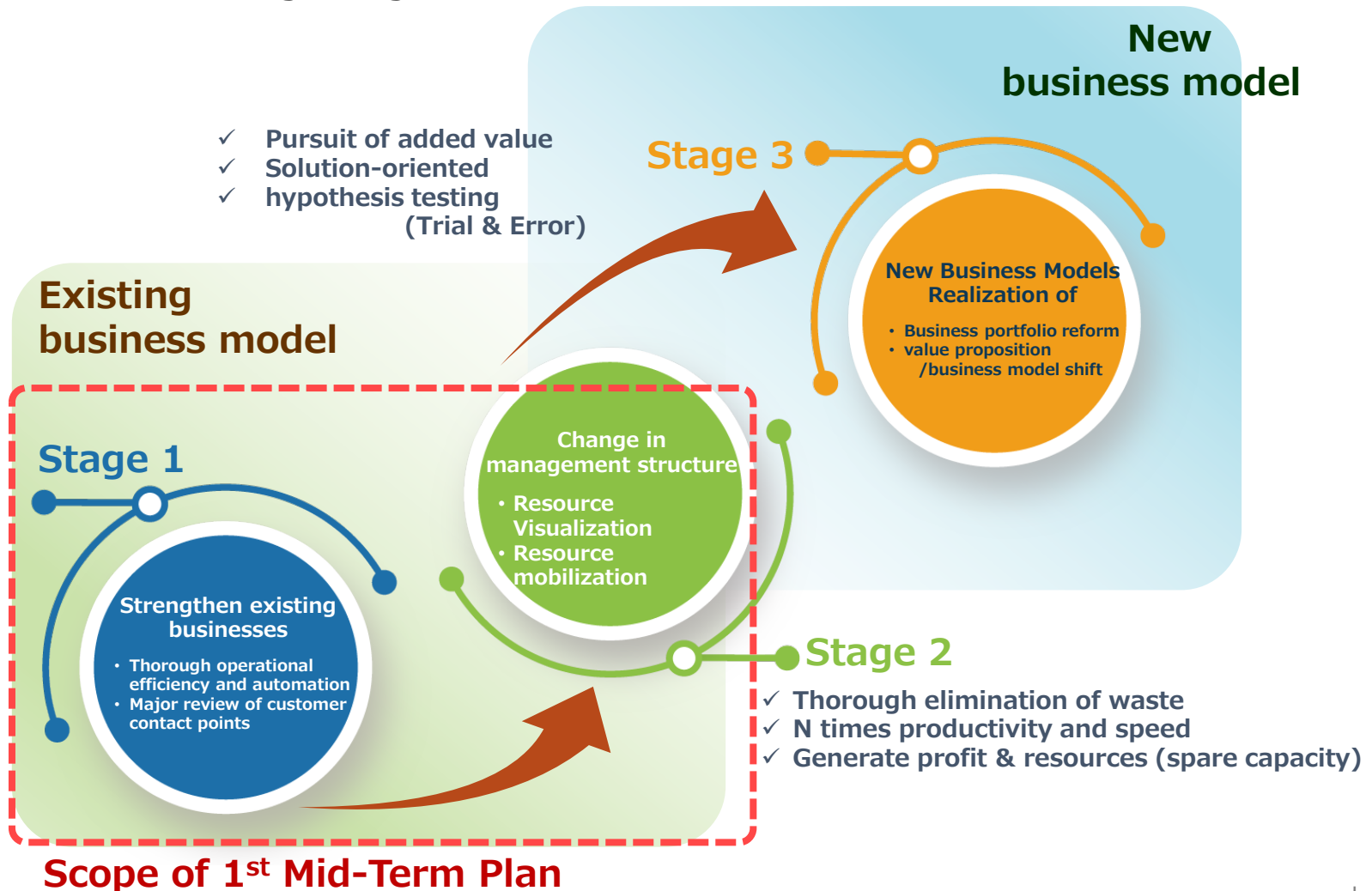
- Developing multi-skilled workers
 - Improving labor productivity through the internalization of outsourced services
 - Skill management/meister system/short-term transfers in off-seasons
- Strengthening of easily accessible facilities

1st Medium-term Management Plan 2024 (FY2022-FY2024)
III. Digital Transformation : DX

Transformation scenarios for DX

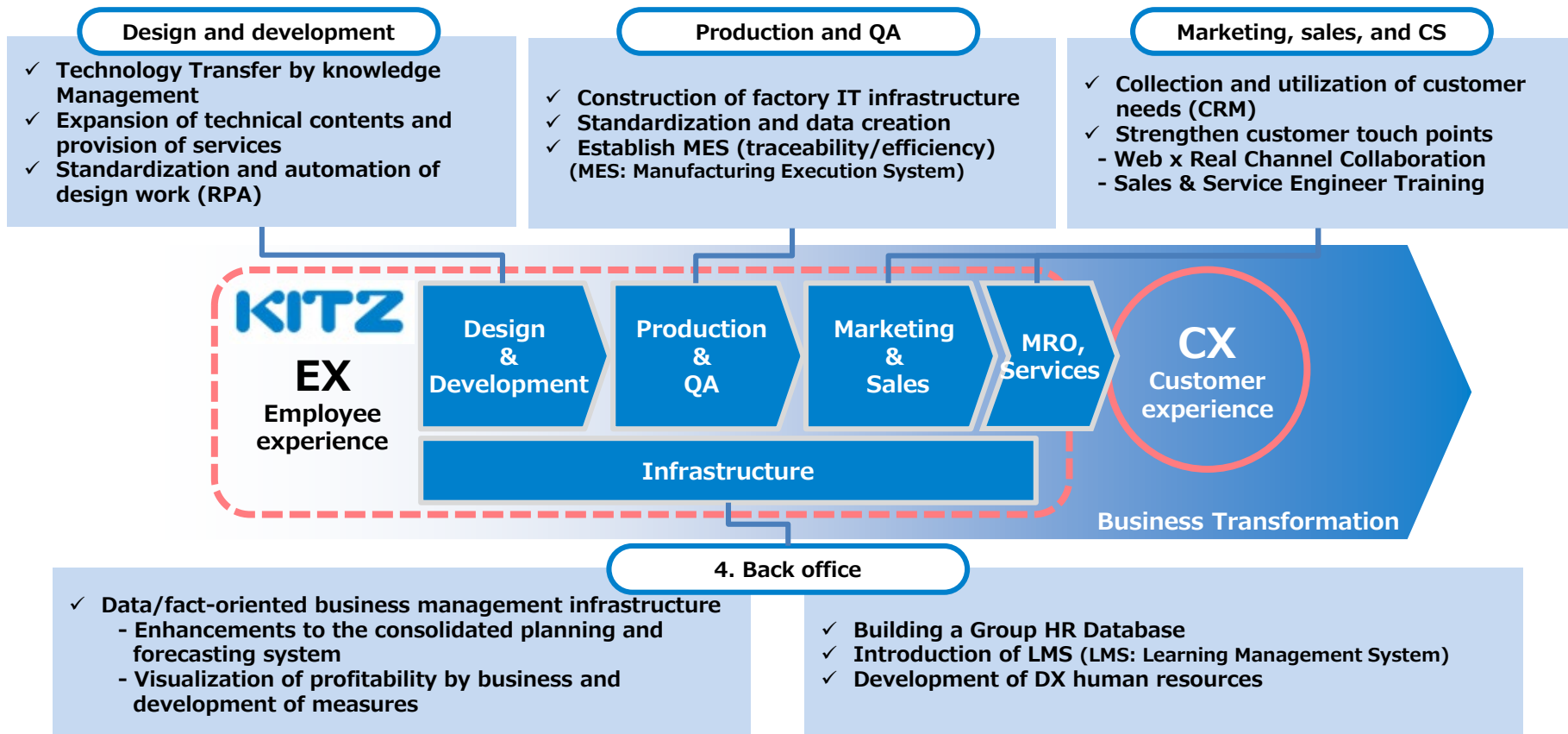
Business transformation (BX) through business innovation activities

To realize the Long-term Management Vision, we aim to thoroughly streamline existing businesses, visualize and mobilize management resources, and transform into a customer-oriented and agile organization.



DX Medium-term Plan Concept

Shifting to value-added operations



1st Medium-term Management Plan 2024 (FY2022-FY2024)

IV. Financial Strategy and Capital Policy

Financial strategy and capital policy

- Under the new medium-term management plan, we have set **"improving return on invested capital over the medium to long term"** as the core management objective, and are managing **ROE** externally and **ROIC** internally as the main KPIs.
- On the other hand, we will **execute strategic investments** and raise necessary funds for future growth and ROE improvement.
- Cash and deposits, which was set aside in large amounts last year as a contingency measure, will be returned to normal. Consolidated cash in FY2024 will be reduced to about one month's worth of consolidated monthly sales.

<p>ROE target</p> <p>FY 2024: more than 8%</p> <p>FY 2030: more than 10%</p>	<ul style="list-style-type: none"> ■ Introduction of ROIC management: <ol style="list-style-type: none"> ① Profitable improvement (Execution of pricing strategies·Review of unprofitable products) ② ROIC Tree deployment and PDCA management ③ CCC improvement and asset compression
	<ul style="list-style-type: none"> ■ Proactive strategic investment: Ensuring growth and profitability for the future
	<ul style="list-style-type: none"> ■ Preservation of optimal capital structure and Ensuring borrowing capacity: Flexible financing and risk response capability

Accumulated Operating Cash Flow 38.0 Billion yen (FY2022-2024)

Investment

- **Total investment limit 37.0 Billion yen**
(Strategic investment limit 24.0 Billion yen)
 - Semiconductors, fine-chemical, Hydrogen, DX, and environmental measure
 - M&A

Shareholder Returns

- **Dividend Payment Ratio Keeping previous policy 35%**
 - *Share repurchases will be conducted to ensure financial stability and improve the quality of our operations.
 - Consideration will be given as appropriate, taking into account the liquidity of cash on hand and the status of investment funds.

Debt repayment·Financing

- **Repayment of interest-bearing debt**
 - Redemption of corporate bonds 10.0 Billion yen (Sep. 2022)
- **For strategic investment**
 - Flexible financing

Target of optimal capital structure

- **Risk response capability: Equity Ratio Target 55 to 60 %**
Commitment line of short-term loans from banks (Current state: 13.5 billion yen)
- **Corporate Bond Rating: Maintain A** (Current Rating: R&I → A- [Dec. 2020]; JCR → A [Nov. 2021])
Preliminary Rating for Corporate Bond Issuance (R&I): A- (20 billion yen; Oct. 2020 – Oct. 2022)