

# To Our Stakeholders

## Message from the President



**We will aspire to new heights and change the flow.**

**Makoto Kohno**  
President and CEO

### Revising our Corporate Mission

On the occasion of our 70th anniversary in 2021, we discussed the purpose of our company and our contribution to society. We are in a time of drastic change and uncertainty, with frequently occurring major disasters, the fragmentation of the world due to countries prioritizing their own interests and the remarkable evolution of digital technologies such as AI and IoT. For KITZ to continue to be a sustainable company in such times, and to aspire to greater heights in the future, we decided to take another look at returning to our roots, and to coincide with the announcement of our Long-term Management Vision "Beyond New Heights 2030 - Change the Flow" in February 2022, decided to revise the KITZ' Statement of Corporate Mission. We recognize that our mission to society is to create a prosperous global environment and a sustainable future. To fulfill this mission, the new KITZ' Statement of Corporate Mission incorporates our strong desire to continue supporting social infrastructure by further refining the fluid control technologies and materials development that we have cultivated since our founding.

### Formulating the Long-term Management Vision

In February 2022, we unveiled our Long-term Management Vision. Amid a social environment changing with dizzying speed, this vision depicts where we want to be in 2030 as we strive to realize the KITZ' Statement of Corporate Mission. To date, the KITZ Group has been supporting people's living and industry while contributing to the development of an

enriched society with a focus on every industrial field, particularly the fields of construction equipment, petrochemicals and general chemicals. While strengthening the foundations of these core businesses, we have identified "digitalization" as an essential element in improving the efficiency of energy usage and "decarbonization" as the key to achieving carbon neutrality. Embracing these keywords, we aim to accelerate our entry into growth businesses such as semiconductors, fine chemicals and hydrogen without fear of the risks, and engage in ambidextrous management that shifts the business domains in which we operate. We have allocated total investments of ¥80 billion over nine years to achieve these aims, of which roughly 60% will be set aside for strategic investment in growth fields and new fields (including DX and M&A).

In order to "change the flow," we must effect significant reforms, both at the company level and the level of individual employees. We need to take on challenges that differ from the past. We will boldly move forward with a quick and decisive ability to take action, further evolve KITZ' strength in fluid control technologies and take on new and ambitious challenges in the lead up to 2030.

### ● Toward Realizing a Sustainable Society

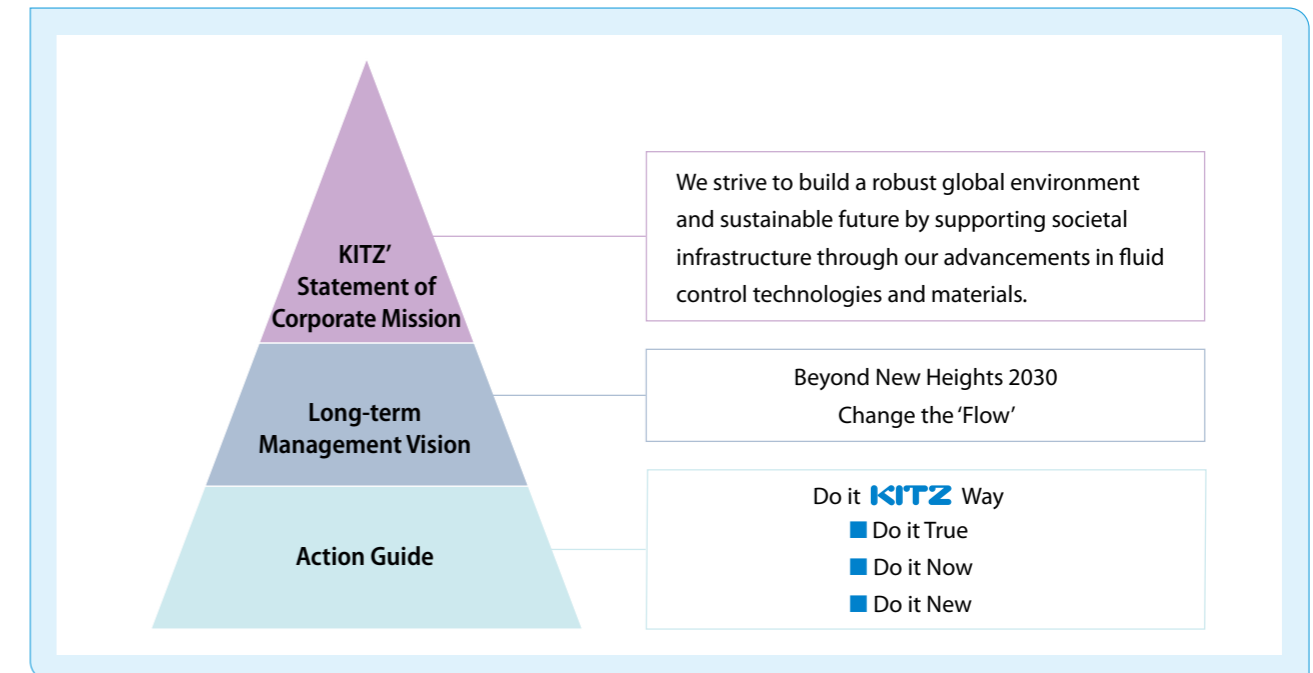
In order to achieve our Long-term Management Vision, we must be a sustainable company that is trusted by society. We have placed sustainability at the core of our management strategy. To realize a sustainable society, we will work to solve social issues through our business activities while

endeavoring to enhance both corporate value and social value. At the same time, by engaging in fair and highly transparent corporate management, we will aim to be a company that is trusted by society. In 2021, KITZ signed the United Nations Global Compact, which is made up of Ten Principles on human rights, labor, the environment and anti-corruption advocated by the UN. We support the

ideas expounded in the UN Global Compact and will put those ideas into practice to fulfill our responsibilities as global citizens.

In keeping with our basic policy on sustainability, we have designated key management themes and concrete initiatives under the environmental (E), social (S) and governance (G) criteria and will make every effort to take

### Corporate Philosophy Structure



### Our Aspirations for 2030

<p><b>Technology/Solutions</b></p> <p>KITZ will continue to challenge in Stream, Block and Squeeze by leveraging its one-of-a-kind technology and exceeding the user's expectations through its powerful proposal capability.</p>	<p><b>Environmental Conservation through Business</b></p> <p>KITZ will garner favor with society by contributing to a sustainable future, pursuing environmentally friendly product and material development and production processes.</p>
<p><b>Core Business/Growth Business</b></p> <p>KITZ will strengthen the foundations of its core business for the information and sustainable society, while also accelerating its entry into growth businesses without fear of risk.</p>	<p><b>Diverse Human Resources</b></p> <p>KITZ will ensure each and every employee, regardless of gender, age, nationality or culture, can work in high spirits at maximum performance as professionals.</p>

### FY2030 Financial Targets

<p><b>Average sales growth rate 4% or more</b> (FY2030: consolidated sales of ¥200 billion)</p>	<p><b>ROE 10% or more</b> (FY2030: consolidated net income of ¥10 billion)</p>
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responsible action and improve our activities in relation to them. Particularly with regard to environmental (E) aspects, we have declared a 3 ZERO (triple zero). long-term environmental vision under which we will pursue initiatives aimed at zero CO<sub>2</sub> emissions, zero environmental impact and zero risks. By enhancing both corporate value and social value, we will strive to become a company that is needed by stakeholders into the future.

**Compliance-oriented Management**

KITZ has established “Do it True” as one Action Guide and has continued to educate and raise awareness of employees regarding compliance. Recently, we revised the Compliance Guidebook that we created in August 2000, translated the new edition into various languages and distributed it to all employees, including Group company employees.

While compliance is generally used in the sense of “legal compliance,” at the KITZ Group we believe that compliance is “not just about laws but also about observing internal regulations and rules as well as the morals and

ethics of society, while meeting society’s expectations by engaging in fair and equitable corporate activities that earn its trust.” Companies that are unable to engage in fair business forfeit the trust of the market and are eventually eliminated due to the inability to compete. Going forward, KITZ will continue to undertake business activities that embrace “Do it True” as its strength. In the latest revision to the Compliance Guidebook, we particularly focused on incorporating details linked with contributions to a sustainable society, including those related to human rights, labor, the environment and anti-corruption.

**First Medium-term Management Plan 2024**

In the first Medium-term Management Plan 2024 (FY2022-2024) that was formulated to achieve the Long-term Management Vision, medium and long-term target markets are organized into eight market segments. Four markets, namely Building & Facilities, Petrochemicals, Water Treatment and Machinery & Equipment, were positioned as core markets. In the building & facilities market, housing in Japan is on a downward trend, but Asian markets continue to grow,

especially in the ASEAN region. Global demand for data centers is growing rapidly, and we want to capture these areas of demand. In the petrochemical market, oil demand is expected to increase, especially in emerging countries, as they recover from the COVID-19 pandemic. In developed countries, demand for petrochemicals will remain strong despite a shift to clean energy. In the water treatment market, global demand for water infrastructure will increase, and investment in pure water and ultrapure water plants is expected to expand due to heightened demand for semiconductors. In the machinery & equipment market, we will gain an accurate grasp of increasingly sophisticated environmental response needs including compliance with environmental regulations as a way to create new customer value. These four markets represent areas in which the KITZ Group has established a significant track record to date, and we will develop these

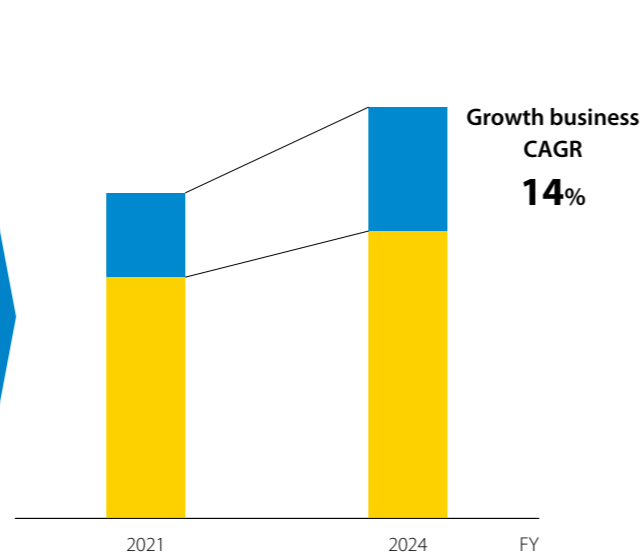
core businesses on more solid foundations.

In addition, we have designated semiconductor equipment, semiconductor materials (filters), fine chemicals and hydrogen & clean energy as growth markets. The semiconductor market has seen a solid expansion in demand for equipment associated with the widespread adoption of 5G communications as well as data centers. KITZ SCT already handles valves for semiconductor manufacturing equipment, and we have decided to invest in construction of a new plant building and production equipment at its main Nitta SC Plant (Ota City, Gunma Prefecture). In the semiconductor materials market, we expect to see growth in filters for semiconductor photoresists against the backdrop of vigorous demand for semiconductors. With regard to the fine chemicals market, chemical companies, which have been our major customers to date, have begun to focus on high value-added fine

**Valve Business / Target Segments**

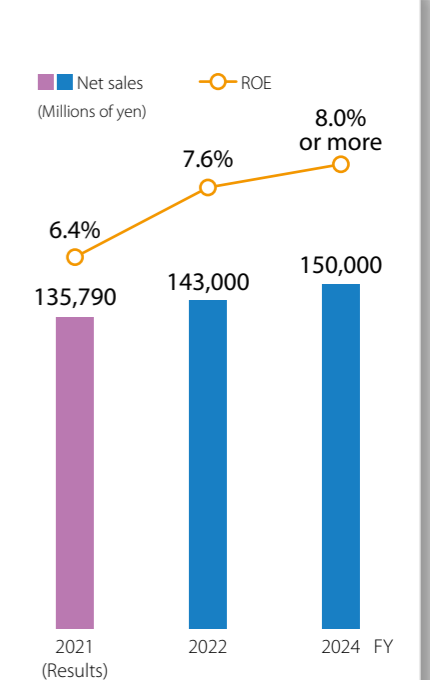
	Target segments	Growth potential
Core ↑ Growth ↓	1 Building & facilities	→
	2 Petrochemicals	→
	3 Water treatment	→
	4 Machinery & equipment	→
	5 Semiconductor equipment	↗
	6 Semiconductor materials (filters)	↗
	7 Fine chemicals	↗
	8 Hydrogen & clean energy	↗

**Valve Business / Sales Composition by Market**



**Financial Targets of the First Medium-term Management Plan**

	FY2021 (Results)	FY2022	FY2024
Net sales	135,790	143,000	150,000
Operating income	8,990	10,000	12,000
ROE	6.4%	7.6%	8.0% or more
Net sales by segments			
Valve manufacturing	106,754	112,200	118,500
Brass bar manufacturing	27,366	29,000	29,500
Other	1,668	1,800	2,000
Operating income (loss) by segments			
Valve manufacturing	12,088	13,300	15,100
Brass bar manufacturing	665	800	1,000
Other	(243)	0	100
Non-financial KPIs*1			
CO <sub>2</sub> reduction rate (Compared to FY2013, domestic group)	(26.9%)*2	—	(80%)
Employee Engagement Score			
Job satisfaction*3	48pt	—	56pt
Positive work environment*4	43pt	—	55pt
Percentage of all female employees	21.7%	—	23%
Ratio of woman managers*5	3.4%	—	10%
Paternity leave rate	29.0%	—	50%



\*1 KITZ (non-consolidated) excluding CO<sub>2</sub> reduction rate  
 \*2 FY2020 results  
 \*3 The score from questions that measure employees' willingness to contribute toward goals, as well as questions that measure employees' sense of belonging to the company.  
 \*4 The score from questions that measure opportunities for employees to carry out skills and abilities, as well as questions that measure work environment positivity.  
 \*5 Managers: Employees in management positions

chemicals, and we have determined that earnings can be increased by expanding our product lineup to meet increasingly sophisticated process requirements. In the hydrogen & clean energy market, the market potential for hydrogen and clean energy is expanding rapidly toward a decarbonized society. We will aim to expand the hydrogen business by providing KITZ Group products throughout the hydrogen supply chain of manufacturing, transportation, storage and use.

We will proactively allocate resources to these growth markets and transform the earnings structure. To achieve this transfer of resources, the Digital Transformation (DX) Promotion Task Force Team that was established in March 2021 was upgraded to the Business Transformation Promotion Department starting January 2022. In order to shift resources to added-value operations and growth areas, we are currently implementing activities aimed at streamlining through business standardization and improved labor productivity through automation. The Business Transformation Promotion Department will go beyond business streamlining, and in the next phase will tackle initiatives including data-driven management and improvements to sales capabilities through a fusion of the real and digital realms.



KITZ SCT Corporation Conceptual rendering of the completed plant building

#### Review of the Fourth Medium-term Management Plan

None of the main numerical targets including net sales and operating income were met over the course of the fourth Medium-term Management Plan (FY2019-FY2021), an extremely disappointing result. While stagnant market conditions from the unexpected spread of COVID-19 infections had a significant impact, analysis reveals that overly optimistic domestic and overseas market forecasts and delays in reforms to our earnings structure were also key factors.

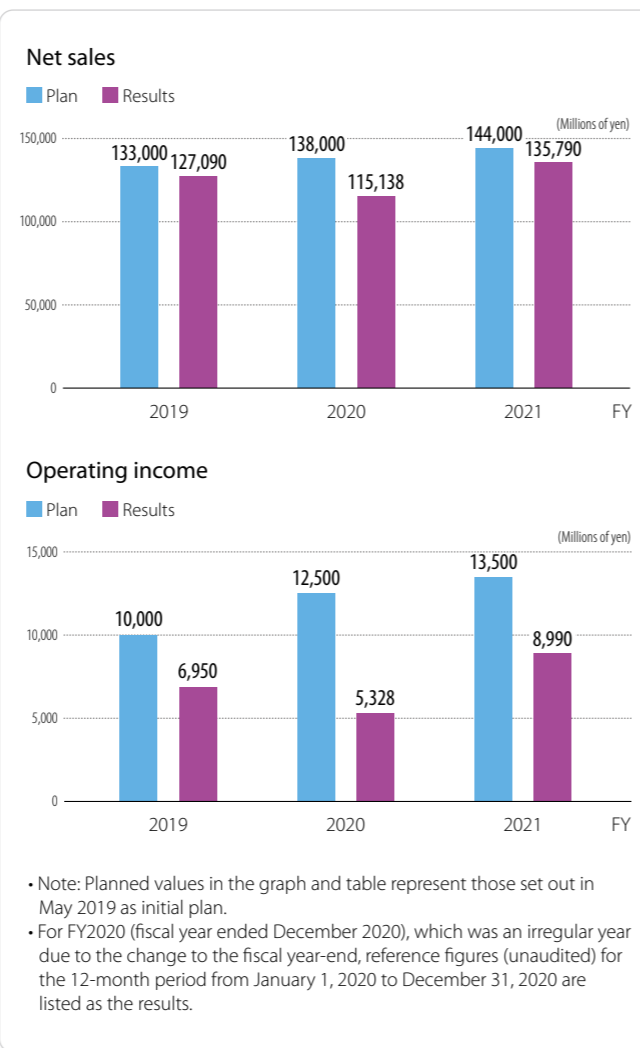
Although we entered into a capital and business alliance with Malaysia-based Unimech Group Berhad in anticipation of growth in Asia's middle zone, contributions to earnings went only half way and sales of key products in the Japanese domestic market also fell short of targets. We have also

reflected on the lack of flexibility in responding to the growing semiconductor market.

However, in terms of reinforcing our management infrastructure, in 2019 we appointed one female outside auditor, and in 2020 had one female outside director join the Board of Directors. Additionally, in May 2019 a new mission-critical business system entered operation, and in order to further strengthen our management structure as a global company, we changed the end of our financial reporting period from March 31 to December 31, unifying the KITZ Group's financial reporting periods to coincide with the calendar year.

Due to insufficient operating cash flow and uncertain market conditions due to the COVID-19 pandemic, we held

#### Net Sales and Operating Income (FY2019-FY2021)



back on capital investment and postponed growth investment to FY2022 and beyond. Despite this, we managed to maintain a consolidated dividend payout ratio of 35%, consistent with our dividend policy. Moreover, over the course of the plan we acquired 5,449,600 treasury shares and cancelled 10 million shares.

The COVID-19 pandemic has brought major changes to many companies, not only KITZ. The introduction of telework and other changes have forced us to rethink the way we work, which has reminded us of the importance of employee motivation, work results and how those results are evaluated. Additionally, to continue to be a sustainable company that responds to major changes in the external environment, from energy shifts and the transition to a recycling-oriented society to the remarkable advance of digital technology, we have a keen sense of the need to not only improve cost structures and management practices but also toward rebuilding our business strategy in anticipation of a decarbonized society. Our newly formulated Long-term Management Vision is reflective of these new realities.

#### In Closing

KITZ was founded in 1951 as the Kitazawa Mfg. Works Co., Ltd. and reached its milestone 70th anniversary in 2021. At its founding, there were just 11 employees. KITZ made a start as a town workshop. Based on the belief of our founder, former President Toshio Kitazawa, that "it is the mission of a manufacturer to mass produce goods under unified standards and quality control to supply them with lower costs," KITZ was among the first to establish full-scale mass production systems using the latest equipment. Starting with bronze, KITZ has expanded the materials it uses to brass, ductile iron, cast iron, stainless steel and cast steel, and also expanded the



Nagasaki Plant at the time of KITZ' founding



types of valves it offers to include ball valves, butterfly valves and more, achieving growth as a comprehensive valve manufacturer. Today, the KITZ Group comprises 36 consolidated subsidiaries and 5,153 employees. We maintain sites in 18 countries around the world, and have made significant strides in globalization, with employees working outside Japan accounting for 54.5% of all Group employees.

Throughout this long history, we have witnessed many changes over time. While there were times such as Japan's high economic growth period during which we steadily expanded our business results, we have also faced serious downturns, including the bursting of the bubble economy and the global financial crisis of 2007-2008. However, against the backdrop of these social climates our predecessors faced crises in earnest and overcame them, and I believe we owe today's KITZ to them.

While the COVID-19 pandemic is not yet over, just like our predecessors overcame crises, we will regard these changes to the external environment as opportunities, and accelerate our entry into growth areas without fear of the risks. To achieve our Long-term Management Vision, we will transform our earnings structure and secure stable areas for growth.

While 70 years marks an important milestone, it is but a waypoint. As trends change with the evolving external environment, we will aim high toward our upcoming 80th and even 100th anniversaries. Your ongoing support is greatly appreciated.



**We will aim to improve the return on invested capital in the medium-to-long term by adopting ROIC management.**

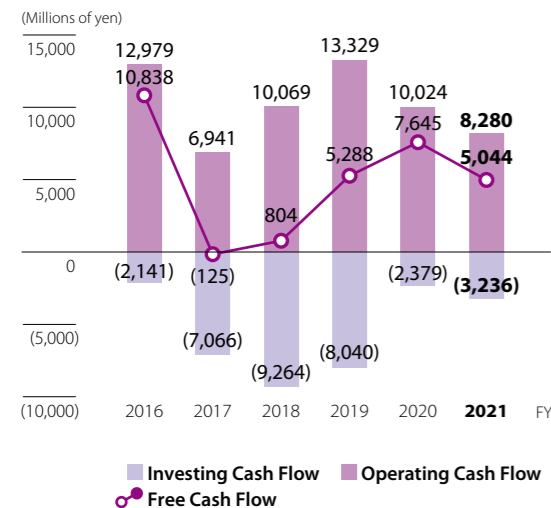
**Kenji Katsuragi**  
Executive Officer and Division Manager, Corporate Finance Division

**Initiatives in the Fiscal Year Under Review (FY2021)**

In the fiscal year under review, there were ongoing restrictions on economic activity in each country due to the COVID-19 pandemic, but in part due to strong performance for semiconductor manufacturing equipment, the effect of price revisions implemented in response to sharply rising raw material prices, the associated last-minute surge in demand and the effects of cost reductions, we produced higher sales and profits on a year-on-year basis.

Under this operating environment, operating cash flow declined year on year in part due to increased accounts receivable, inventories and other items as sales recovered, but due to ongoing selective investment, free cash flow was maintained at ¥5 billion, roughly equivalent to net income attributable to owners of the parent. In addition, as a result

**Change in Cash Flow**

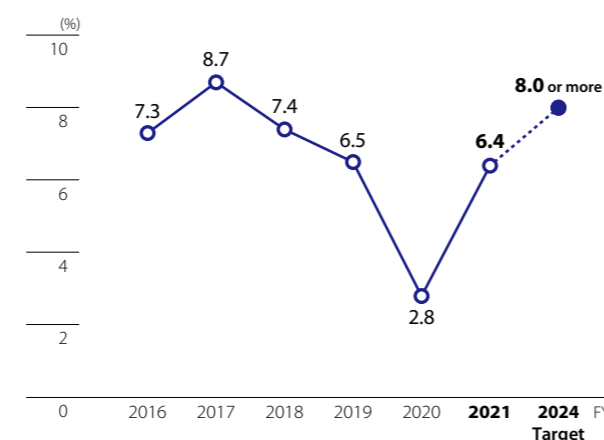


of progress in debt repayments including a repayment of ¥6 billion in short-term borrowings procured in response to funding risks due to COVID-19, interest-bearing debt declined ¥9.6 billion compared with the end of the previous fiscal year, the equity ratio recovered 3.2 points from the end of the previous year to 56%, and net interest-bearing debt minus cash and deposits also declined ¥3.8 billion from the end of the previous year.

**Medium-term Financial Strategy and Capital Policy**

In the first Medium-term Management Plan formulated to achieve our Long-term Management Vision, we will place a focus on improving return on invested capital over the medium to long term, adopt ROIC management internally to improve the external target ROE and develop an ROIC Tree

**Change in ROE**



\* For the fiscal year ended December 2020, which was an irregular period due to the change in the fiscal year-end, the financial results are for a nine-month period.

that links those elements with KPIs in the field. On the profit/loss front, we will strive to improve profitability by executing pricing strategies and reviewing unprofitable products, and on the asset front we will make efforts to improve the CCC\* of inventories and engage in asset compression including surplus funds. Meanwhile, to ensure future growth and earnings potential, we will set strategic investment allocations with a focus on growth fields and new fields such as semiconductors, fine chemicals and hydrogen. Through proactive investment and with the aim of achieving the target ROE of at least 10% as declared in the Long-term Management Vision, we will strive to improve return on capital invested over the long term and enhance corporate value sustainably.

KITZ places an emphasis on capital efficiency targets such as medium-to-long-term ROE improvements and shareholder return. At the same time, to respond to changes in the management environment and risks while securing funds for strategic investments, we have set the financial and capital strategy of maintaining an appropriate capital structure that takes into account the ability to procure funds in addition to return on invested capital. More specifically, we will target an equity ratio in the neighborhood of 55-60%, enabling us to improve measures of capital efficiency such as ROE while responding to business risks.

In addition, to enable the implementation of flexible financing including strategic investments and bond redemption, we have endeavored to maintain an A rating for our corporate bonds with the aim of maintaining good relationships with banks while ensuring sufficient borrowing capacity for

the issuance of publicly offered bonds. We have obtained an A- rating from Rating and Investment Information, Inc. (R&I), registered a total of ¥20 billion in new corporate bond issuance capacity, and also obtained an A rating from Japan Credit Rating Agency, Ltd. (JCR).

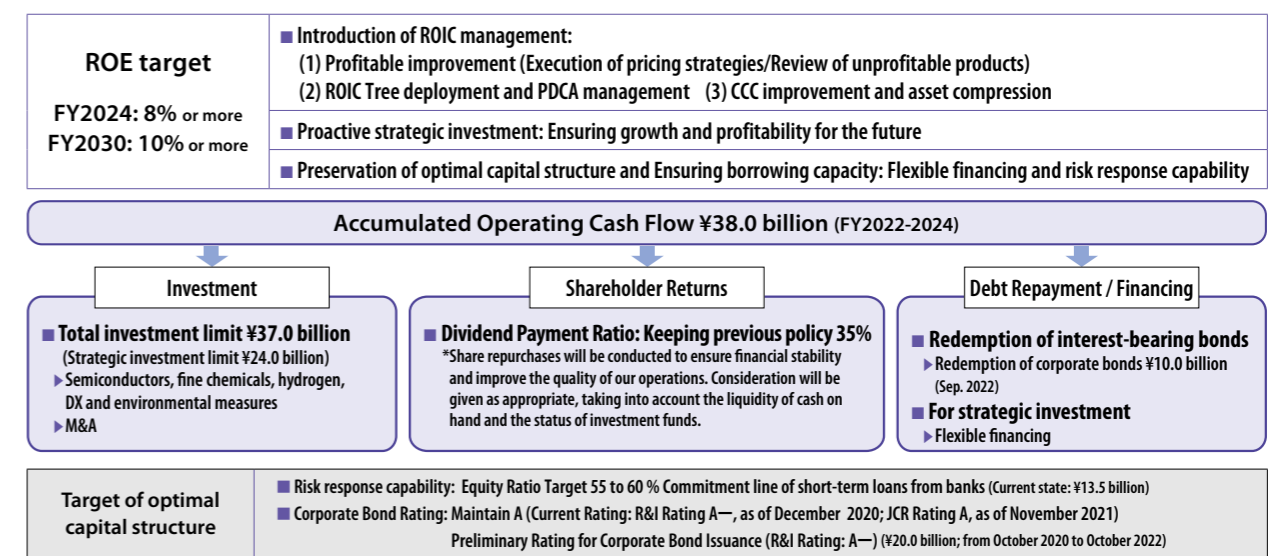
While the majority of the operating cash flow generated over the three years of the first Medium-term Management Plan will be allocated to the total investment budget, a positive free cash flow will be maintained over the three years on a cumulative basis. Additionally, while we aim to improve funding efficiency by setting target liquidity on hand to about one month's worth of consolidated monthly sales, we will continue to maintain risk response capabilities with a short-term credit line of ¥13.5 billion from banks, thus securing total liquidity on hand of around two months' worth of consolidated monthly sales.

**Shareholder Returns**

Returning profits to shareholders is an important management issue, and KITZ has set around 35% of net income attributable to owners of the parent as a preferred consolidated payout ratio level. Given the year-on-year increases in sales and profit, in the fiscal year under review dividends totaling ¥20 per share were issued, resulting in a consolidated payout ratio of 36.2%. We will also consider share buybacks as appropriate, taking into account financial stability, liquidity on hand and the state of investment funding. Also note that for FY2022 we are planning a dividend of ¥25 per share, which would represent a record dividend.

**The First Medium-term Management Plan Financial Strategy and Capital Policy**

- Under the 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.



\*CCC: Cash Conversion Cycle