KITO CORPORATION

(Code 6409: First Section of the Tokyo Stock Exchange) Issue Date: September 9, 2013

Operating Leverage may Bring Profit Growth Higher than Sales Growth

Global Leader in Hoist and Crane Market

Kito Corporation mainly manufactures chain blocks, lever blocks, chain hoists, wire rope hoists, and cranes -- all of which are used on material handling sites to lift, carry and/or fix heavy materials. The products are used on construction sites, inside factories, and in the yards. The company has a dominant share of 60% in Japan and is also a market leader in the United States and China.

Established Competitive Superiority

Since its establishment in 1932, Kito Corporation has responded to its customers' needs for higher security and productivity. Providing high quality products and services exceeding the customers' expectations in "Safety", "Durability", and "Usability" by overcoming cost constraints, the company has established a clear differentiation in its reliable and high quality products and has built strong customer relations through the agency networks. It has established a strong position in company mergers and acquisitions in the hoist markets in Japan, the USA, and China. The company promotes a business model which strengthens competitive superiority together with revolutionary technology. This allows the company to enjoy high profitability for a long time once its leadership position is established. The company is currently implementing this successful business model in Japan, the USA, and China.

Operating Leverage Brings Profit Growth Higher than Sales Growth

Kito Corporation is expanding its demand by increasing public investments, capital investments, and infrastructure maintenance investments -- as well as by raising operation rates of construction equipment. With industrial advancement, the demand for the company's precise and high quality products is expanding globally. The company is not only expanding its market share in Japan, the USA, and China, but is also developing business bases by establishing agency networks and manufacturing sites in newly industrialized countries. In addition, the company is expanding its production range and its services, and it has achieved a profit growth much higher than its sales growth for the past three years due to the operating leverage effect. As the company is promoting a strategy in which it is expanding its business while controlling fixed expenses, the operating leverage is expected to continue to bring a higher profit growth in the future. A weak yen is also contributing to the company's profit ratio increase. The company's Midterm Management Plan stipulates a target sales amount of 58 billion yen and an operating profit of 7 billion yen for 2015. This operating profit certainly seems to be within reach.

Basic Information

J-Phoenix Research, Inc.

Osamu Miyashita, CFA

Company Information	
Address	Yamanashi Pref.
President	Yoshio Kito
Establishment	November, 1932
Capital	3,976 million yen
Listing Date	August 9, 2007
URL	www.kito.co.jp
Business Type	Machinery
Number of Employees	1898 (Consolidated) 633

Key Indicators as of September 9, 2013	
Share Price	¥ 1,467
52 Weeks' Highest Price	¥ 1,937
52 Weeks' Lowest Price	¥ 597
Number of Shares Issued	13,524,100 shares
Mandatory Unit	100 shares
Total Market Cap	¥ 18,953 million
Expected Dividend	¥ 30
Expected EPS	¥ 147
Expected PER	10.0x
Actual BPS	¥ 1,406
Actual PBR	1.04x

Business Performance	Sales (million yen)	Year-by-Year (%)	Operating Income (million yen)	Year-by-Year (%)	Ordinary Income (million yen)	Year-by-Year (%)	Current Net Income (million yen)	Year-by-Year (%)	EPS (yen)	Share Price (yen) Highest Price	Share Price (yen) Lowest Price
March, 2011 Actual	28,095	17.4%	1,119	156.1%	885	87.9%	423	246.7%	35	1,209	560
March, 2012 Actual	33,282	18.5%	1,658	48.2%	1,572	77.6%	662	156.5%	51	770	505
March, 2013 Actual	35,501	6.7%	2,510	51.4%	2,440	175.7%	1,023	54.5%	79	1,029	535
April-June, 2012 Actual	7,430	12.7%	139	Positive Turnaround	30	Positive Turnaround	-59	Negative Turnaround	-5	721	535
April-June, 2013 Actual	7,996	7.6%	360	159.0%	420	1,300.0%	230	Positive Turnaround	18	1,937	910
March, 2014 Estimated (Announced in May, 2013)	42,000	18.3%	3,600	43.4%	3,300	35.2%	1,900	85.7%	147	–	–

Company Information

Company Information

- Established in 1932
- Strong in high quality hoist market
- Expanding business overseas since 1990
- Corporate revolution in 2003 by going private
- Aiming to truly become "the No. 1 global hoist manufacturer"

■Global leader in high quality hoist market

Established in 1932, Kito Corporation has become the leader of the high quality hoist market industry in Japan with its stable supply capability, its maintenance of a nationwide agency network sales force, and its excellent service capability. Although the company has made full-scale advancement in the global market since 1990 beginning with the USA and China, when the domestic market matured, the company's business performance deteriorated as the economy slowed. Being unable to utilize the growth opportunities overseas, the JASDAQ listed company went private by accepting capital participation from the Carlyle Group (a US investment fund) in order to promote corporate revolution. The company paid excessive interest-bearing loans, assigned its non-core business to the Logistic Systems Division, strengthened the company's overseas subsidiaries, and succeeded in recovering its business performance by 2007, when it re-listed on the First Section of the Tokyo Stock Exchange. With its management vision of "Truly becoming 'The No. 1 Global Hoist Manufacturer' " with its goal of achieving100 billion dollars in sales, the company is implementing various strategies in "matured markets (Japan, North America and Western Europe)" and "growing markets (China, other Asian countries and Russia)".

Corporate History

1932	Established KITO MANUFACTURING COMPANY in Omori, Tokyo.
1970	Changed corporate name to KITO CORPORATION.
1983	Main factory moved from Kawasaki City to Showa-cho, Yamanashi Prefecture.
1990	Established HARRINGTON HOISTS, INC. in U.S.
1992	Completed Tokyo headquarters (Yoyogi, Shibuya-ku).
1993	Established KITO CANADA, Inc. in Canada.
1995	Established JIANGYIN KITO CRANE CO., LTD. in China.
1996	Established KITO PHILIPPINES, INC. in Philippines.
1997	Established SIAM KITO CO., LTD. in Thailand.
2003	Accepted capital participation from Carlyle Group, US investment fund.
2004	Established SHANGHAI KITO TRADING CO., LTD. in China. Assigned Logistic Systems Division.
2005	Tokyo Head Office moved from Shibuya-ku to Tokyo Opera City Tower in Shinjuku-ku. Completed new factory JIANGYIN KITO CRANE CO., LTD. in China.
2006	Established KITO EUROPE GMBH in Germany.
2007	Listed company on First Section of Tokyo Stock Exchange.
2008	Completed new factory SIAM KITO CO., LTD. in Thailand Established KITO KOREA CO., LTD. in Korea.
2010	Business and capital alliance with KONERCRANES PLC (Finland). Signed agreement to purchase all shares of ARMSEL MHE PVT., LTD. (India). Carlyle Group sold entire holding of KITO common stock.
2011	Tokyo Head Office moved from Tokyo Opera City Tower to Shinjuku NS Building.

Features of Business Model

Business Strategy Based on Company's Philosophy

- Provide "Safety", "Durability" and "Usability" by overcoming cost constraints
- Provide higher than expected customer satisfaction
- Established leading position in Japan, USA and China
- Hold nearly 10% share of global market
- Aim to have 20% global share

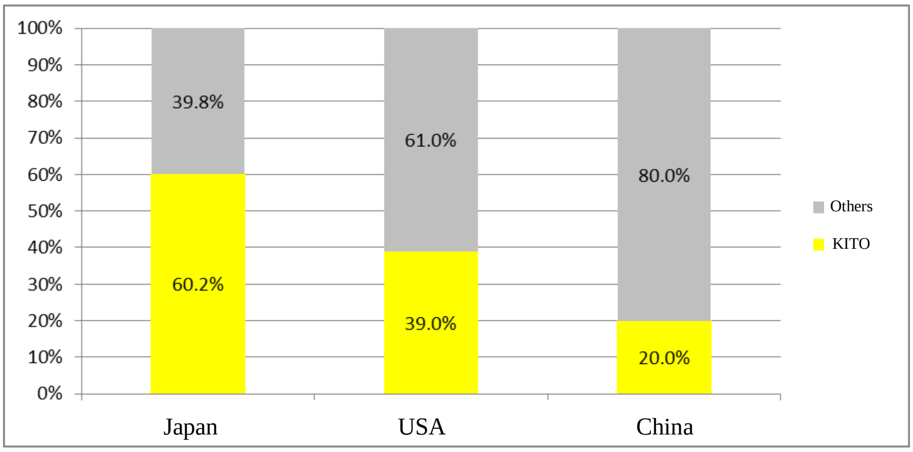
■ Building business strategy based on company's philosophy

Kito Corporation has the following philosophy:

- Kito's mission – Deliver unmatched satisfaction to its customers
- Kito's innovation – Change and challenge always
- Kito's quality – Its driving "Spirit" is "Quality"
- Value of Kito people – Integrity, honesty, pride and gratitude

Kito Corporation has been realizing its corporate philosophy through products and customer service through the implementation of product strategy, area strategy, and manufacturing strategy. In its main products, the chain block, lever block, chain hoist, and the wire rope hoist and crane, the company has been providing "Safety", "Durability" and "Usability" by overcoming cost constraints. By bringing more satisfaction to its customers than expected, the company has established a leading position in Japan, the USA and China (Chart 1). Globally, the four largest companies, including Kito and smaller companies, are making 500 billion yen in the hoist and crane market; and Kito has nearly a 10% share of the market. The company is aiming to have a 20% share and long term net sales of 100 billion yen.

Chart 1:Kito Corporation's Share in Hoist Markets in Japan, USA and China



(Source) Created by JPR based on interview with Kito Corporation.
(Note) The data shown is from 2012 for USA and Japan, and from 2010 for China. The target products for Japan are lever block, manual chain block, and electric chain block; for China, lever block, manual chain block, electric chain block, and wire rope hoist.

Outline of Long-Term Strategies

- Target customers who appreciate high-quality products and services and provide products and services differentiated by price and performance
- Create new segment of high-quality hoist market

■Three concepts and three differentiation strategies to become global leader

The outline of the company's strategies is as follows:

Target customers who appreciate high-quality products and services, differentiate products through price and performance, create a new segment of high-quality hoists in the market, and establish a strong and long-term competitive superiority not only in Japan, the USA and China, but also globally.

In order to achieve the above strategies, as in the product and service concepts to reflect its corporate philosophy, the company places importance on "Safety", "Durability", and "Usability". With these product and service concepts as its base, the company promotes three differentiation strategies: "differentiate chain products", "differentiate electric products" and "differentiate services". As for expansion in the global market, the company actively promotes the M&A Strategy for a speedy market penetration.

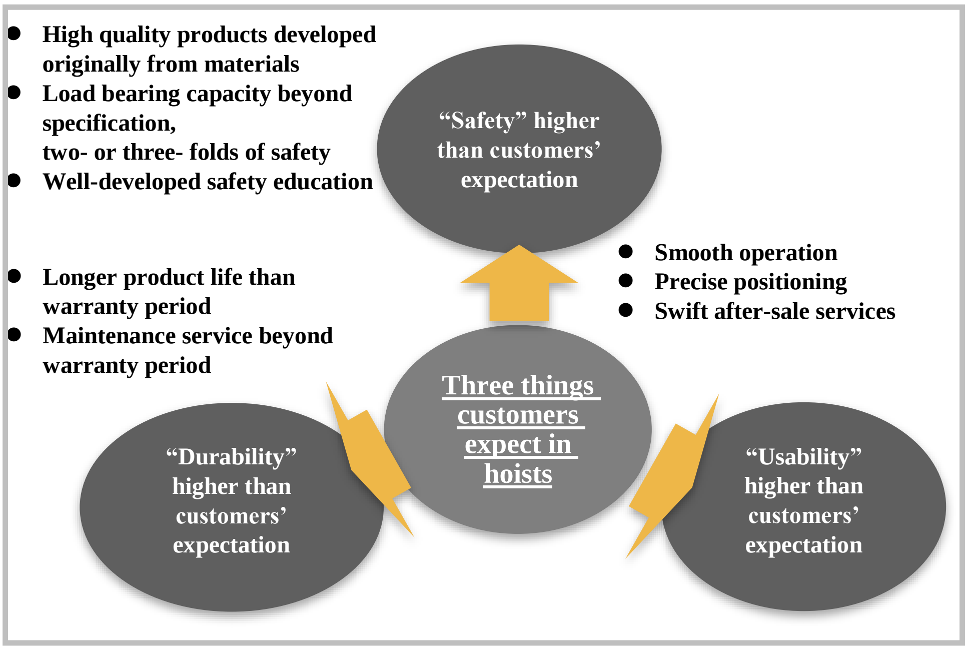
Three Product and Service Concepts Reflect Corporate Philosophy

- Promote three things: "differentiate chain products", "differentiate electric products" and "differentiate services"
- "Safety", "Durability" and "Usability" higher than customers' expectation

■Provide values higher than customers' expectation from three perspectives

In "Safety", Kito Corporation places importance in (1) high quality products developed originally from the materials, (2) load bearing capacity beyond specification, two- or three- folds of safety, and (3) well-developed safety education. In "Durability", the company provides (1) longer product life than the warranty period and (2) maintenance service beyond the warranty period. In "Usability", the company places importance in (1) smooth operation, (2) precise positioning, and (3) swift after-sale services.

Chart 2: Product and Service Concepts to Reflect Corporate Philosophy



(Source) Created by JPR based on interview with Kito Corporation.

Three Differentiation Strategies

- First: differentiate chain products
- Second: differentiate electric products
- Third: differentiate services

■Three differentiation strategies to increase company's market share and penetration

First: differentiate chain products: By manufacturing the materials, Kito Corporation develops products with high load capacity, long life, and high quality. It pursues increasing usability and durability via its accurate rewinding mechanism. To improve work efficiency, the company was first in the world to introduce a no-load rewinding mechanism. The company has led the industry in technology innovations.

Second: differentiate electric products: The company pursues higher accuracy and operability with highly functional mechanisms, such as the inverter control. In manufacturing semiconductors, which are required for precise positioning and cutting-edge precision, the company's products carry high credibility.

Third: differentiate services: This is to improve customers' satisfaction by enhancing the company's service through safety education, trainings, swift delivery, and long-term product and quality guarantees.

By implementing one or more of the three strategies in accordance with the market environment, the company strives to meet the following goals: to build a strong relationship with customers based on trust, to create a new segment of high-quality hoists, and to build the strongest long-term competitive superiority in the market. Until now, the company has provided swift delivery by inventory, but the group will change this to the local production for local consumption system in the emerging countries.

Flexible Strategies According to Environment of Country and Area

- Established market penetration by differentiating company's services in USA

■Flexible strategies according to environment of each country and area

Kito Corporation is adapting and implementing its three strategies according to business environments and competitive climates. A full-scale expansion to the USA began in the 1900s when the company purchased Harrington Hoists, Inc. People began to see the high quality products the company provided when the company adhered to the third strategy of "differentiating the services", especially by swift delivery. Then the company fostered trust of its customers by "differentiating the chain products" and "differentiating the electric products". Kito Corporation then slowly expanded its business and established its position as the industry's leader. The company also expanded its market share utilizing the third strategy of differentiation in China. In the rest of Southeast Asia, the company targeted the branches of Japanese companies and pursued market penetration via the first and second strategies of differentiation.

Flexible M&A Strategy

- Speeding up overseas movement and strengthening management resources using M&A

■Utilizing capital affiliation and M&A strategy to strengthen company's position

Kito Corporation has actively promoted capital affiliation and M&A strategy to (1) strengthen its position as the industry leader in developed industrial areas and (2) penetrate the market in emerging industrial areas. The company's expansion began in USA and China via acquisitions and capital affiliation. In March, 2010, the company group garnished business and capital affiliation with the world's largest crane manufacturer "Konecranes Plc" in order to expand its portfolio and become a larger hoist manufacturer. By combining the prominent position of Konecranes in the crane market and Kito's high-quality hoists, it became possible to provide a one-stop service globally to respond to wide and advanced material handling needs. In emerging industrial areas, there are high turn-key needs to have a hoist and a crane as a set. Therefore, the company is planning to penetrate the market by expanding its crane business to respond to this demand. The company purchased a medium-sized crane manufacturer Armsel MHE Pvt. Ltd. (India). The company will continue to actively utilize this M&A strategy in emerging countries in the future.

Main Products, Usage and Driving Forces for Growth

- The driving forces are advanced industrialization, expansion of industrial activities, and investment in construction
- Expansion of infrastructure maintenance will create more demand for company's products

■Products and their usages: driving forces are advanced industrialization, expansion of industrial activities and investment in construction

Kito Corporation provides a wide range of products as shown in Chart 3. There are four main products: (1) Manual chain block, (2) Lever block, (3) Electric chain block, and (4) Wire rope hoist. All main products are used in various material handling sites. The products are used individually or together with a crane as a loading device. The driving forces for growth are: the expansion of public investment, an investment in construction, infrastructure maintenance, and an increase of operation rates of construction equipment. The products are also used in various operations to lift, carry, and fix materials -- including setting up equipment at concert venues and inside hotel kitchens. When the demand for more precise and higher quality products increases by technical advancement in the industry, the demand for the company's high-quality products increases. Global industrialization will provide a critical boost for the company for a long time. The immediate market environment is good due to reconstruction demand and infrastructure maintenance demand. An expansion of construction investment in Japan will also create more demand for the company's products.

■ Manual Chain Block

■ Lever Block

■ Electric Chain Block

■ Electric Wire Hoist

Chart 3: Product Information

(Source) Created by JPR from information provided by Kito Corporation.

Chart 4: Details of Four Main Products

Manual	Manual Chain Block	Lever Block
	● Leading product in Japan and USA ● Convenient manual loading device with wheel of chain with loading hook on tip ● Main usage: Earth work, construction work, open-air mining work ● Driving force for growth: Public investment, various private capital investments, expansion of infrastructure maintenance	● Leading product in Japan and USA ● Device to safely fit packages and/or work objects ● Main usage: Earth work, construction work, outside mining work, physical distribution ● Driving force for growth: Public investment, various private capital investments, expansion of infrastructure maintenance, load increase
Electric	Electric Chain Block	Wire Rope Hoist
	● Leading product in Japan and USA ● Electric-powered chain block. Operated with a hand switch. Enables distance operation away from loads. ● Main usage: Inside factories, material handling in yards ● Driving force for growth: Various private capital investments, increase of operation rates of manufacturing equipment	● Industry leader in China ● Load by rewinding wire with drum. Suitable for large-volume work. Mainly used in large facilities. ● Main usage: Inside factories, material handling in yards ● Driving force for growth: Various private capital investments, increase of operation rates of manufacturing equipment

(Source) Created by JPR based on interview with Kito Corporation.

Financial Features

- Industry which greatly affected foreign exchange fluctuation
- If JPY-USD exchange rate drops by 1 yen, company's profit will increase by approximately 80 million yen.

■ Industry greatly affected by foreign exchange fluctuation

Due to the company's profit structure, the cost of sales in its US factory consists mostly of materials exported from Japan; and therefore, the USD-JPY exchange rate and the change in dollar based sales in the USA affect the group's gross profit sales. According to the company, because the net sales in the USA is close to 10 billion yen, if the value of yen drops by 1, this can bring an increase of approximately 80 million yen. The estimated yen value against the USD for the March, 2014 period is 90 yen; but in comparing the estimated rate of 83.1 yen for the March, 2013 period, it is a drop of approximately 7 yen. As of September 6, 2013, the exchange rate was 99.99, which was a drop of about 17 yen compared to the estimated rate for the March, 2013 period. The profit increases are estimated as 552 million yen and 1,351 million yen respectively.

Chart 5: Influence of Exchange Rate

	Estimated Exchange Rate in March, 2014 Period	Actual Exchange Rate on September 6, 2013
	¥ 90	¥ 99.99
Difference with Estimated Rate of 83.1 yen in March, 2013	¥ 6.9	¥ 16.89
Profit Increase 1 yen can Bring (million yen)	552	1,378

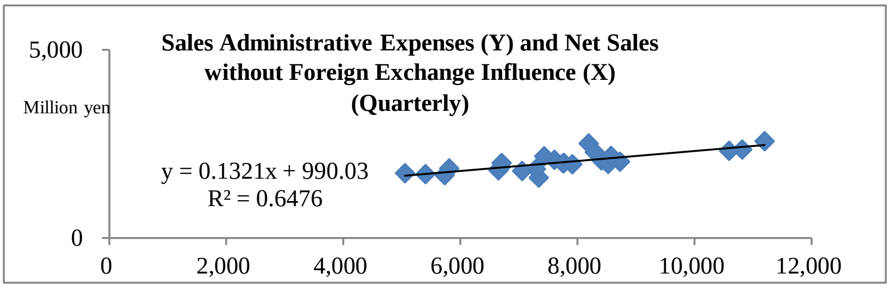
(Source) Estimated exchange rates were taken from information provided by Kito Corporation. Exchange rate was central rate from Foreign Exchange Rates of Financial Markets Department, Bank of Japan. Profit increase from 1 yen taken from comment by Kito Corporation.

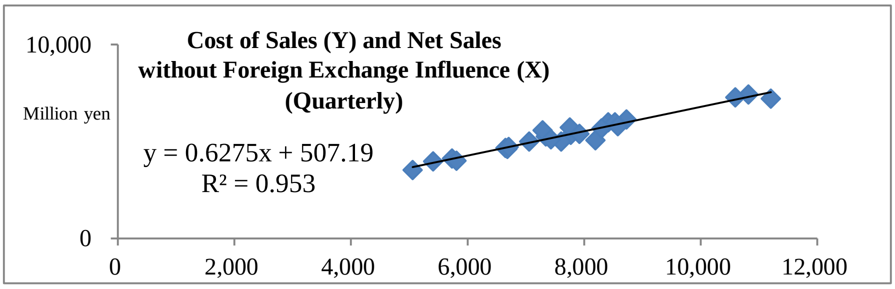
- Very clear structure of variable expenses and fixed expenses

■Statistically highly interpretable structure of variable expenses and fixed expenses estimated from previous results

Chart 6 below shows the relationship between quarterly net sales in yen using the exchange rate for the March, 2013 period (X axis) and quarterly cost of sales or sales administrative expenses (Y axis).

Chart 6: Relationship of Sales Administrative Expenses/Cost of Sales with Net Sales





(Source) Created by JPR from Kito Corporation's short financial reports.

- Variable expense ratio and fixed expenses can be estimated.
- Profit ratio improved by sales increase due to operating leverage effect

Using linear regression on both types of sales administrative expenses, the coefficient is 13.2%, and the intercept is 990 million yen; and for cost of sales, the coefficient is 62.7%, and the intercept is 507 million yen. The determination coefficients are 0.64 and 0.95 respectively and show a very high interpretability. The total of both coefficients and intercepts, 75.96% and 1,497 million yen (5,998 if annualized), can be estimated as variable expense ratios and fixed expenses respectively. However, the variation of fixed expenses is also included in the variable expenses, therefore the amount of variable expenses here is higher than normal. In addition, 24.04% (1 – variable expense ratio) is the marginal profit ratio. In the process of this calculation, variable expenses are estimated more than necessary, so the rate is lower than the marginal profit ratio. Still, the statistical interpretability of these figures is extremely high and can be used as a guide for future increases in profit ratio. The value calculated by dividing the fixed expenses by the estimated marginal profit ratio becomes a theoretical breakeven point, and it is estimated at approximately 25 billion yen. When net sales goes over the breakeven point, the profit growth will exceed the sales growth. Since the March, 2011 period when the net sales surpassed 25 billion yen, the sales growth has been 17.4%, 18.5%, and 6.7%; and the operating profit growth has been 156.1%, 48.2%, and 51.4%, and far exceeded the sales growth.

Relatively Large Effects from Operating Leverage and Exchange Rate

- Improving production efficiency does not require much additional fixed expenses in order to expand sales
- Continuous operating leverage effects can be expected.

■Double effects from operating leverage and exchange rate

Chart 7 shows the results of trial calculation of operating leverage effect if the fixed exchanges (1) remain at the current level, (2) increase by 5%, and (3) increase by 10%, based on the fixed expenses calculated from linear regression. The operating profit is 3,600 million yen in the company plan for the current period, and if fixed expenses do not increase, the operating profit can go up to 4,796 million yen (the figure in bold). The company is aiming for net sales of 58 billion yen and an operating profit of 7 billion yen for the March, 2016 period. If the fixed expenses remain at the current level and the exchange rate is 90 yen to 1 USD, the company can achieve net sales of 55 billion yen and an operating profit of 7 billion yen (the figure in *italics*). The company is planning to increase its sales by improving production efficiency which does not require much additional fixed expenses; therefore, an operating leverage effect can be expected.

Chart 7: Estimation of Operating Profit with Effects of Operating Leverage and Exchange Rate

(Unit: million yen)

Estimated operating profit (in gray cells) with exchange rate effect			Net sales when 1 USD is ¥ 90				
			2014/3 Company Plan 42,000	45,000	50,000	55,000	2016/03 Company Goal 58,000
Estimated Fixed Expenses	Unchanged	5,988	**4,796**	5,517	6,719	***7,921***	8,642
	+ 5%	6,287	4,497	5,218	6,420	7,622	8,343
	+ 10%	6,587	4,197	4,918	6,120	7,322	8,044
Estimated operating profit (in gray cells) without exchange rate effect but with operating leverage effect			Net sales when 1 USD is ¥ 83.1 (excluding gain from foreign exchange)				
			41,095	44,095	49,095	54,095	57,095
Estimated Fixed Expenses	Unchanged	5,988	3,891	4,613	5,815	7,017	7,738
	+ 5%	6,287	3,592	4,313	5,515	6,717	7,438
	+ 10%	6,587	3,293	4,014	5,216	6,418	7,139

(Note) Calculation method of leverage effect when 1 USD is ¥ 90: (1) Planned net sales in US market for March, 2014 period: 11,800 million yen, (2) 11,800 million yen in USD when 1 USD is ¥ 90: USD 131.11 million, (3) USD 131.11 million in yen when 1 USD is ¥ 83.1: 10,895 million yen, (1) – (3) = 11,800 million yen – 10,895 million yen = 905 million yen = profit increase by foreign exchange

(Source) JPR

Growth Strategies

Summary of Growth Strategies

- Execute strategies from four different perspectives and aim to speed up to achieve strategies by M&A

- Area Strategies: Promote different strategies for developed industrial areas and emerging industrial areas
- Product Strategies: Pursue further cost cuts while keeping basic functions, and expand portfolio
- Manufacturing Strategies: Maximum use of existing facilities, and local production for local consumption
- Promotional Strategies: Matrix organization of areas and functions, strengthen human resources and penetrate "KITO Way"

■Execute strategies from four different perspectives and aim to speed up to achieve strategies by M&A

With "Truly becoming 'The No. 1 Global Hoist Manufacturer'" as its corporate vision in its Midterm Management Plan, Kito Corporation is aiming for (1) net sales of 58 billion yen, (2) an operating profit of 700 billion yen and an operating profit ratio of 12% for the March, 2016 period. The company's strategies are divided into four categories: (1) Area Strategies, (2) Product Strategies, (3) Manufacturing Strategies, and (4) Promotional Strategies. The summary of each category is shown in Chart 8.

Chart 8: Kito's Four Strategy Areas

(1) Area Strategies	(2) Product Strategies
● Japan, USA and China: Increase company's market share by improving product functions, expanding portfolio and services and strengthen supply capability ● Rest of Asia: Achieve market penetration by providing total services including cranes and direct access ● Other areas: Achieve market penetration by focusing on growth opportunities	● Check functions and performances of main products and pursue further cost cuts while maintaining basic functions ● Expand wire rope hoist operation globally ● Expand crane components (including girders and saddles) ● Develop increased ability to make proposals, improve services and develop synergy products with hoists
(3) Manufacturing Strategies	**(4) Promotional Strategies**
● Maximum use of existing manufacturing facilities ● Promote local production for local consumption ● Keep up with portfolio expansion	● Establish matrix organization of areas and functions (products and manufacturing). Recruitment from inside and outside group. Execute appraisal system. ● Penetrate "KITO Way" with corporate philosophy, code of conduct, concept of values and business procedures.

(Source) Created by JPR based on interview with Kito Corporation and information provided by company.

(1) Area Strategies

- Developed industrial areas: Improve product functions, add extra values to products, expand portfolio, diversify and improve customer services, and eventually increase market share.
- Emerging industrial areas: Respond to turn-key needs, and promote market penetration by establishing distribution network

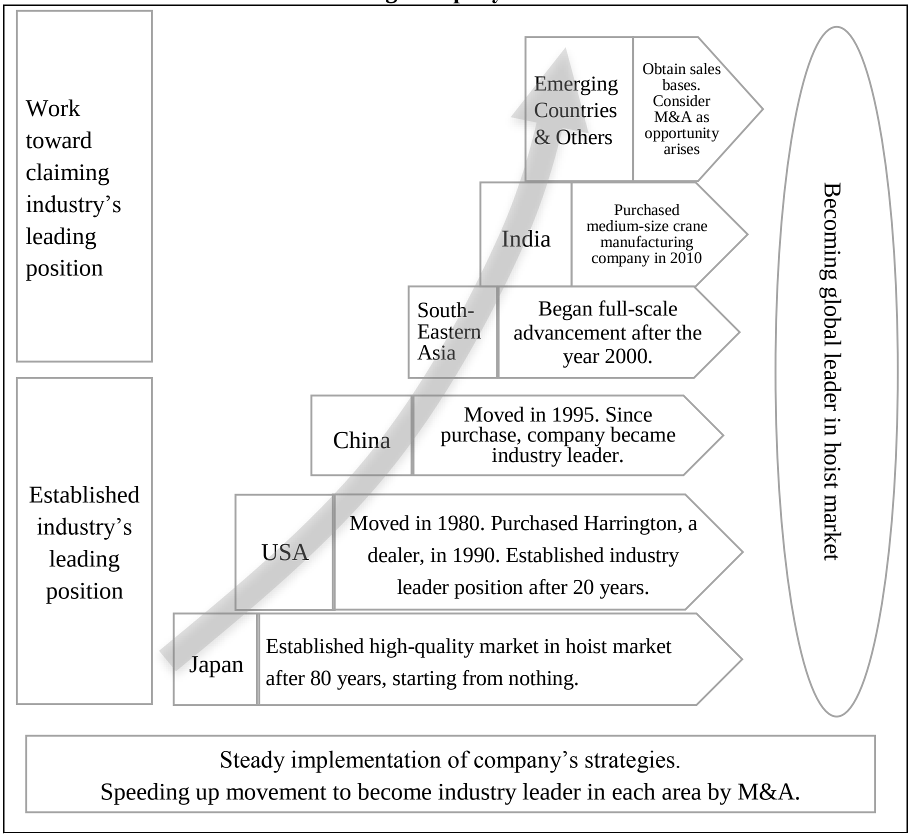
■Area Strategies: Establish and implement strategies according to local environment and level of industrial development

In developed industrial areas (Japan, the USA, Europe and the coastal regions of China), even when the market growth is slow, the company will pursue more growth by improving product functions, adding extra value to the products, expanding its portfolio, diversifying and improving customer services, and eventually increasing its market share.

In emerging industrial areas, the need for the company's high-quality products in heavily industrialized situations is not high, and there is a high demand for basic products and turn-key products. Therefore, the company is pursuing strategies to respond to these needs by providing all crane components and hoists. In addition, because the distribution network is under developed, the standard strategy will be to establish customer access via direct sales. In order to speed up the above strategies, the company is actively engaged in M&A in various countries. Chart 9 shows the image of the above strategies.

- Steadily work toward claiming industry's leading position globally

Chart 9: Establishing Company's Position in Each Market



(Source) Created by JPR based on interview with Kito Corporation.

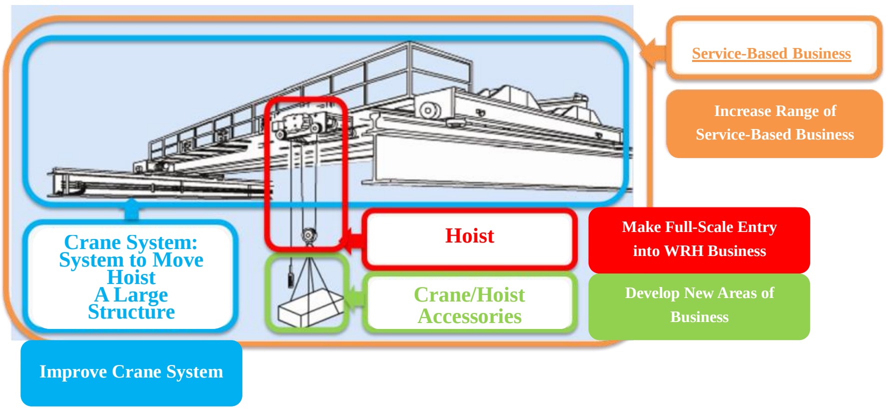
(2) Product Strategies

■Product Strategies: Speed up development to become comprehensive hoist manufacturer

Kito Corporation is (1) strengthening the product appeal (enhancing competitive power by improving functions and performance, downsizing and weight saving its products and improving its services) and (2) expanding its portfolio (improving the product line-up to respond to various customer needs) (Chart 10).

- Strengthen product appeal: enhance competitive power by improving functions and performance, downsizing and weight saving products and improving services
- Expand company's portfolio: improve product line-up to respond to various customer needs

Chart 10: Becoming Comprehensive Hoist Manufacturer by Expanding Hoist-Related Businesses



(Source) Created by JPR based on interview with Kito Corporation.

- Make full-scale entry into Wire Rope Hoist Business
- Respond to turn-key needs by improving crane system
- Increase range in Service-based Business: contribute to improving profit ratio
- Develop new areas of business: add products including slings as accessory for hoist/crane and winch or balancer as peripheral device

As for the expansion of the company's portfolio, the first move is to make a full-scale entry into the Wire Rope Hoist (WRH) Business. By supplying the Konecranes products, Kito's portfolio is expanding as a comprehensive hoist manufacturer, and this enables the company to respond to a wide range of customer needs. Secondly, it is necessary to improve the existing crane system. By providing hoists to structures to support the cranes at one-stop, the company will respond to the turn-key needs in emerging countries. Thirdly, it is necessary to increase the range of Service-based Business. Establishing a comprehensive maintenance service model, the company will improve its ability to make long-term benefit proposals for customers. With a high gross margin ratio, the Service-based Business will contribute to improving the profit ratio. Lastly, it is necessary to develop new areas of business. By adding products including slings as an accessory for a hoist/crane and winch or balancer as a peripheral device, the company will respond to wider customer needs. Through these efforts, the company will expand its business to a more standard and larger hoist market (Chart 11).

Chart 11: Business Expansion by Strengthening Product Appeal and Expanding Portfolio

(Source) Created by JPR based on interview with Kito Corporation.

(3) Manufacturing Strategies

- Make various efforts to improve productivity with small capital investments
- Limit fixed expense increase and keep expansion rate of operating leverage effect by expanding size

■Manufacturing Strategies: Utilize existing capital investment and expand operating leverage effect

Kito Corporation is making various efforts to improve productivity with small capital investments by (1) optimizing the global production system by utilizing existing facilities to the maximum rather than making new investments, (2) increasing production bases for local production of local consumption, and (3) introducing a high-mix single line manufacturing system. As a result, the company aims to utilize the existing facilities, limit new capital investment, and increase the actual gross margin ratio. The company limits fixed expense increases, keeping the expansion rate of the operating leverage effect by expanding its size, and expects a growth increase with profit. From the above efforts, the company can respond to production fluctuations, shorten the time from receiving orders to delivery time, and expect a lower requirement for holding inventory.

(4) Promotional Strategies

Further strengthening of global management system

■Promotional Strategies: Improve global management system to implement company's strategies without fail

When Kito Corporation went private and promoted a corporate revolution, it began to improve its global management system. Now, in order to strengthen its management system, the company is planning to (1) introduce a matrix organization: establish the group as a matrix organization between the area management divisions and the functional divisions and integrate the corporate group's business operation further, and (2) nurture and recruit global human resources: while managing human resources within the group altogether, the company will recruit from inside and outside the group as necessary and conduct the appraisal system. The company will focus on active recruitment of human resources for the company's mission and global advancement, develop existing resources, and perform an appraisal in accordance with the mission.

Corporate Governance

Board Members

- Transparency of company's governance is assured

■Strong leadership of Yoshio Kito, member of the founding family and president

The transparency of the company's governance is assured by having 3 outside officers of seven board members. With a strong leadership as a member of the founding family and president, Yoshio Kito has made crucial decisions such as establishing and spreading the corporate philosophy, providing products and services to reflect the corporate philosophy, promoting a corporate revolution by accepting capital from the Carlyle Group, and establishing the Midterm Management Plan of truly becoming "The No. 1 Global Hoist Manufacturer"; and thus he successfully developed the company as a global manufacturer. His leadership will remain the driving force for the continued growth of the company. The next long-term issue will be to nurture a new leader who can succeed President Kito.

Chart 12: Board Members

President & CEO	Yoshio Kito
Managing Directors	Tsuneo Yuzuhara, Hajime Ito
Director	Shigeki Osozawa
Directors (Outside)	Kazuhiro Yamada, Keizo Tannawa, Katsumori Matsushima
Standing Auditor	Noboru Sato
Auditors (Outside)	Masatoshi Yasunaga, Kiyohito Hamada

(Source) Created by JPR from information provided by Kito Corporation.

Large Shareholders' Structure

- Structure makes it easy to check management from third person's perspective.

■Affiliated partner is top shareholder

Kito Corporation's affiliated company Konecranes is the top shareholder. The second to the fifth largest shareholders are institution investors. Judging from the shareholders' structure, it is easy to check the management from a third person's perspective.

Chart 13: Main Shareholders (as of March 31, 2013)

	Name of Shareholder	Shares Owned	Voting Right Ratio
1	CBLDN KONECRANES FINANCE OY	29,750	23.02%
2	GOLDMAN SACHS INTERNATIONAL	7,378	5.71%
3	Japan Trustee Services Bank, Ltd.	6,202	4.80%
4	CREDIT SUISSE SECURITIES (USA) LLC-SPCI. FOR EXCL. BEN	6,068	4.69%
5	The Master Trust Bank of Japan, Ltd.	5,934	4.59%
6	Yoshio Kito	4,520	3.49%
7	Sumitomo Mitsui Banking Corporation	3,352	2.59%
8	KITO Ownership Association	2,345	1.81%
9	Nippon Life Insurance Company	2,000	1.54%
10	NOMURA PB NOMINIEES LIMITED OMNIBUS-MARGIN (CASHPB)	1,421	1.09%

(Source) Created by JPR from information provided by Kito Corporation.

Return to Shareholders

■Return to shareholders is 20% standard: room for increase in ratio if company's profit increases.

In order to keep a steady dividend, the company provides a dividend payout ratio of at least 20%. EPS in the company plan for the year is 147.06 yen; and the planned dividend is 30 yen per share, which is already 20.4%. Thus, if the company's profit increases, there is room for a slight increase in the ratio.

Evaluation of Business Model

Evaluation from External Environment

- Many positive elements in both long and short views
- Threats of fiercer head-to-head competition among global companies, which used to have own segments, and emergence of low-price products by Chinese companies

■There are many positive elements, but fiercer competition among global companies is the risk.

The external environment of the business model, which focuses on the high-quality hoist market, has many positive elements in the overall long-term view. Industrial advances and higher needs to improve productivity will certainly increase the need to use the company's products which are clearly differentiated in price and performance with the features of "Safety", "Durability", and "Usability" both in developed industrial areas and emerging industrial areas. In the short-term view, infrastructure maintenance investment and reconstruction demand in Japan will serve as a driving force. The threats will be fiercer head-to-head competition amongst global companies, which used to have their own exclusive segments, and the emergence of low-price products by Chinese companies.

Chart 14: Main External Environment Elements

Opportunities	· Room for high-quality products in developed countries · Possibility of market share increase by differentiation with high-quality wire rope hoists · Need in emerging countries for high-quality hoists due to industrialization · Demand for infrastructure reconstruction in Japan · Higher awareness for safety and increased customer complaints
Threats	· Fiercer head-to-head competition among global companies which used to have own segments · Entry of low-price products by Chinese companies

(Source) Created by JPR based on interview with Kito Corporation.

Chart 15: Global Companies in Hoist & Crane Market

Currency Unit	Name of Company	Current Year-End	Current Period Sales	Current Period Operating Profit
Million Yen	Terex Material Handling & Port Solutions AG	2012/9	135,852	13,585
	Konecranes Oyj	2014/3	279,900	18,421
	Columbus McKinnon Corp.	2014/3	57,408	5,413
	KITO	2014/3	42,000	3,600
Million $/€	Terex Material Handling & Port Solutions AG	2013/9	1,300	130
	Konecranes Oyj	2014/3	2,212	146
	Columbus McKinnon Corp.	2014/3	606	57

(Source) Created by JPR from FactSet. Kito and Terex Material Handling & Port Solutions AG are company's planned figures. Konecranes Oyj and Columbus McKinnon Corp. are share analyst consensus figures calculated by FactSet.

Although there is no competition in the price and performance in the high-quality segment in Japan; globally, Konecranes Oyj (Finland), Terex Material Handling & Port Solutions AG (previously Demag Cranes AG, Germany) and Columbus McKinnon Corp. (USA) are competitor companies. These companies used to have their own specialized segments according to product features or regions: Kito Corporation on high-quality hoists, Konecranes on cranes, Demag on the European markets, and Columbus on the US market. However, while Kito and Konecranes became business affiliates and promoted global expansion, the expected risks of the expansion of direct competition among global companies and major changes in the competition environment caused fiercer competition in price. As Kito Corporation is the smallest in scale, improvement of corporate strength by scale expansion will be important to survive in the global price competition.

As for the threats from Chinese companies, Kito Corporation can surmount these by utilizing its technically innovative main products to handle sophisticated customer needs in advance and lead the world with its technical innovations and continue to build strong relationships with its customers. Also, these are the products for which safety is crucial. Therefore, in order to increase production efficiency, products are required to be trouble-proof, and a system is needed to provide a substitute quickly when trouble occurs. Not only price, but also general factors of quality and after-sale services, can affect customers' judgment. These are tough barriers which Chinese companies would have to surmount in order to successfully compete in the industry.

Evaluation from 5-Force Analysis

- Sources of company's strength are high entry barrier and strong customer relationships
- Steady changes in basic mechanical technology
- Leading companies have strong "leaning effect" in which various know-how to strengthen competitiveness, knowledge and management resources increase cumulatively.
- Once company establishes leading position, market share is not easily reversed.

■Logic of high-profitable company structure from 5-force analysis

5-force analysis revealed that the sources of the company's strength are a high entry barrier and strong customer relationships. The basic mechanical technology of the products has hardly changed since the products were first made, but the quality improvement has been promoted by progressive changes. In the products which went through such technological changes, the company with a large market share and strong customer relationships does not easily lose its market share because it has a strong "learning effect" in which various know-how to strengthen competitiveness, knowledge, and management resources increase cumulatively. Focusing on high-quality and highly functional products, Kito Corporation has succeeded in strengthening this learning effect. Although the company's products are well known in Japan, these products still have a growth potential as industrialization progresses globally. In the "Boston Matrix", a well-known management analysis tool, the products are always "stars" (products with high growth potential in a fast-growing market).

Chart 16: 5-Force Analysis

First Force: High Entry Barrier
· Imitating manufacture know-how of manufacturing high-quality products which company has developed from chain materials is difficult, and brand image will make it difficult for newcomers to enter market/Products need to be high quality and highly reliable, and because of PL risk, entering market is not easy.
Second Force: Strong Customer Relationships
· Stable technology allows customers to build strong relationship with company once product is bought/Especially in area where high reliability and quality are required, when switching to different manufacturer's products can be costly.
Third Force: Limited Price Competitions
· Relatively small numbers of competitor companies in industry/Not much competition in lowering price dramatically/Clear differentiation possible by quality
Fourth Force: Small Alternative Risk
· Low alternative risk for hoists in material handling market
Fifth Force: Good Relationship with Suppliers
· Established good relationship with suppliers (materials and electric components) · Stronger negotiating power by expanding market share

(Source) Created by JPR based on interview with Kito Corporation.

Evaluation from VRIO Analysis

- Differentiated values, rareness, and imitation difficulty. Strength is corporate philosophy which takes root as company's organizational culture.

This is a business model which is going to have a significant cost in advance until the market share is built, but once it is established, will increase the company's profit by the operating leverage effect. The company aims to achieve an ideal situation in the 5-forces in all main global markets. By achieving this, the company will enjoy long lasting high profitability.

■Management resource evaluation from VRIO Analysis

The VRIO Analysis, a framework used to analyze a company's management resources, shows that the management resources of Kito Corporation are of high value.

Chart 17: VRIO Analysis

Differentiated Value (Value)
· Provide clearly differentiated products and services in price and performance in hoist market with features "Safety", "Durability" and "Usability".
Rareness (Rareness)
· Built a brand which matches price and performance in "Safety", "Durability" and "Usability", competition is limited globally.
Difficult to Imitate (Imitation)
· Company develops from chain materials. Difficult to imitate company's products made by combining high-quality mechanical parts.
Organization (Organization)
· Company's business model based on corporate philosophy. Strength has been that business model has taken root as culture in organization.

(Source) Created by JPR based on interview with Kito Corporation.

Evaluation from Marketing Strategies

- Promote market penetration by creating new segment in market and setting target customers

■Strategies of market segmentation and defining company's position

Kito Corporation became a dominant leader in Japan by creating a new segment of high-quality hoists in the market and by providing differentiated products. Globally, the company also penetrated the market against large-scale global companies by creating the same segment in the market. In the USA, Columbus McKinnon has been the dominant leader; but Kito increased its market share by focusing on the high-quality segment and the Japanese way of providing detailed services including quick delivery. In China, although the products are standard, the company obtained a leadership position via quick delivery and detailed services.

Chart 18: Summary of Marketing Strategies

In hoist and crane market which has four global companies and total sales of approximately 500 million yen, Kito Corporation created new segment of high-quality hoists Target customers with highest demands of high-quality hoists Established position attractive for target customers
Company made market penetration against large-scale global companies by implementing differentiation strategies with high-quality hoists

(Source) Created by JPR.

Evaluation from Cross SWOT Analysis

- Promoting faultless strategies to strengthen internal management resources and overcome weaknesses for opportunities in external environment and against threats

■Promoting faultless strategies

Chart 19 shows the SWOT Analysis and the company's strategies sorted into the four quadrants (SW x OT = 2×2 = 4) which are inevitably lead by the analysis. It shows that the company's strategies are established exhaustively and faultlessly.

Chart 19: Cross SWOT Analysis

Internal Management Resource Analysis	**Strength**
	· High quality originally developed from chain materials/Strong brand image in high-quality chain hoists/Inverter control technology/Strong customer relationships/Leading position in Japan, USA, and China/Accumulated technology
	Weakness
	· Difficulty in optimization of global procurement due to small scale/Fixed expenses in global sales system/small profit from services
External Environment Analysis	**Opportunities**
	· Room for high-quality products in developed countries/ Possibility of market share increase by differentiation with high-quality wire rope hoists/ Needs in emerging countries for high-quality hoists due to industrialization/Demand for infrastructure reconstruction in Japan/Higher awareness of safety and increased customer complaints (positive element for company's high-quality and reliable products)
	Threats
	· Fiercer head-to-head competition among global companies which used to have own segments · Entry of low-price products by Chinese companies
Strategies After Internal Management and External Environment Analyses	**Grab Opportunities Utilizing Strength (S×O)**
	· Further improvement of main products/Applying Kito's quality improvement strategies on accessories for wire rope hoists and cranes/Increase market share in Japan, USA, and China by implementing above strategy, adapting to growth in emerging countries/Strengthen safety education activities/Support reliability for high quality while strengthening capability of customer complaint response/Expanding service-based business/Expanding parts sales by strengthening ability to make proposals
	Face Threats Utilizing Strength (S×T)
	· Faster cycle of new product development to maintain and strengthen company's position in Japan, USA, and China/Develop products ahead of customers' needs/Maintain overall differentiation in QCD/Maintain differentiation through uninterrupted technological innovations
	Grab Opportunities by Overcoming Weakness (W×O)
	· Growth by limiting new investments through productivity improvement/Optimize global procurement by expanding business scale/Cost control and better business efficiency by optimum global distribution of resources/Strengthen customer relations by improving service-based business/Fight against Chinese products by expanding fine-tuned services in service-based business
	Face Threats by Overcoming Weakness (W×T)
	· Establish management system to maintain relative competitive superiorities by constantly analyzing movement of competitor companies/Establish management system to promote ceaseless efficiency with effective global operations

(Source) Created by JPR based on interview with Kito Corporation.

Evaluation of Financial Performance

- Cash flow diminished because company placed priority in business expansion, causing low financial stability and asset efficiency.
- Profit ratios and growth produce results.
- In future, keys for success are (1) to move from advance investment stage to recovery period, (2) to construct suitable production system by utilizing operating leverage effect and promoting local production for local consumption, and (3) to move to cycle to improve asset efficiency by inventory compression.

■Although foregoing cost of globalization, Kito Corporation is delivering steady results

Chart 20 shows a summary of the company's financial performance of the past five years.

Chart 20: Summary of Financial Performance of Past Five Years

(Units: million yen, days, times, %)

Evaluation Item		2009/03	2010/03	2011/03	2012/03	2013/03
Growth	Sales Growth	-11.8	-26.6	17.4	18.5	6.7
	Gross Profit Growth	-26.0	-29.6	19.0	16.7	16.4
	Operating Profit Growth	-56.3	-81.5	156.1	48.2	51.4
Profit Ratios	Gross Profit on Sales Ratio	31.2	30.0	30.4	29.9	32.7
	Sales Administrative Expense Ratio	24.0	28.1	26.4	24.9	25.6
	Operating Profit Ratio	7.3	1.8	4.0	5.0	7.1
Capital Efficiency/Return on Capital (Year End)	Cash and Deposit Balance Turnover Period	*52.1*	*81.8*	*70.1*	*58.6*	*42.6*
	Trade Receivables Turnover Period	*54.7*	*69.2*	*71.0*	*72.9*	*80.9*
	Inventory Turnover Period	77.0	86.1	83.3	93.9	103.7
	Account Payables Turnover Period	50.8	51.6	66.4	67.0	50.9
	Operating Capital Turnover Period	80.8	103.7	87.9	99.8	133.7
	Tangible Assets Turnover Ratio	4.3	3.4	4.1	4.8	4.2
	Profit for the Year Ratio	3.6	0.5	1.5	2.0	2.9
	Total Assets Turnover Ratio	1.17	0.93	1.00	1.06	1.02
	Leverage	1.66	1.68	1.85	2.05	2.00
	ROE	7.1	0.8	2.8	4.3	5.9
	ROA	8.5	1.7	4.0	5.3	7.2
Free Cash Flow for Corporate Value Calculation	NOPAT (1) = Operating Profit x (1 – Effective Tax Rate)	1,196	129	442	694	1,074
	Increase in Operating Capital (2)	510	-423	-32	2,338	3,901
	Depreciation Expenses	1,343	1,108	1,013	944	774
	Capital Investment	971	733	1,021	1,145	1,520
	Net Capital Investment (3)	-372	-375	8	201	746
	Amortization of Goodwill (4)	0	114	131	159	155
	Free Cash Flow = (1) – (2) – (3) + (4)	1,058	1,041	597	-1,686	-3,418
Financial Stability	Shareholders' Equity Ratio	60.2	59.4	53.9	48.7	50.0
	Gross D/E Ratio	0.103	0.161	0.179	0.265	0.310
	Net D/E Ratio	-0.175	-0.190	-0.176	-0.084	0.072

(Source) Created by JPR from Kito Corporation's short financial reports.

(Note) Turnover periods, ROE and ROA are end-of-year values. NOPAT is concept for calculation of operating profit after tax and corporate value. Figures in above free cash flow do not match those on company's short financial reports because special concept for corporate value calculation was used.

<u>Growth potential:</u> With the March, 2010 period as the lowest, although Kito Corporation lost its vigor in the March, 2013 period, the company succeeded in achieving a smooth business expansion with continuous profit increase for the last three years. The profit growth largely exceeded the sales growth due to an operating leverage effect.

<u>Profit ratio:</u> The gross profit on sales ratio reached its highest in the last five years. The operating profit ratio was also the highest in the last five years, same as in the March, 2009 period. The operating leverage effect must have had an impact on the expansion of the business.

<u>Capital efficiency and return on capital</u>: The operating capital turnover period is currently increasing. Inventory investment and easing up payment conditions to acquire customers in the global market created a slightly lower level of efficiency. The company has been conducting more investment than depreciation expenses for the last two years. Compared to the March, 2009 period, the total asset turnover ratio dropped from 1.17 times to 1.02 times. However, improved profit ratio kept ROE and ROA as the second best after the March, 2009 period for the last five years. Improving the asset turnover ratio is the key to further improvement of ROE and ROA.

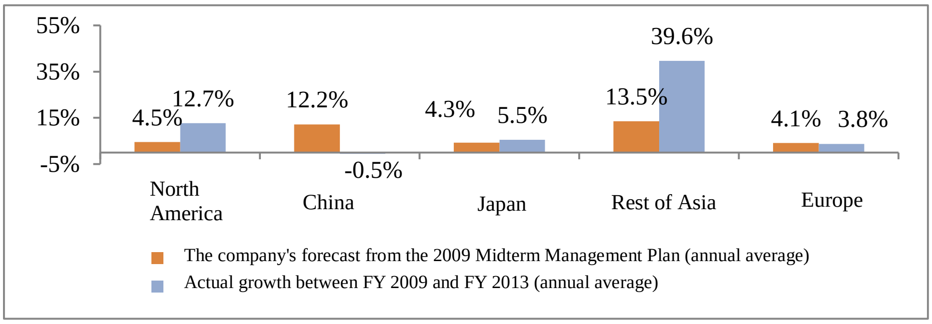
Free cash flow: Over the last two years, free cash flow has been negative due to an increase in operating capital and net capital investment.
Financial stability: Due to negative cash flow, the D/E ratio increased to 0.31%. The net D/E ratio is also deteriorating, with a positive figure in the March, 2013 period.
Overall evaluation: In order to promote business expansion, the company's cash flow kept dwindling, causing lower financial stability and asset efficiency; but profit ratios and sales growth are producing results. In the future, the keys for success are (1) to move from the advance investment stage to the recovery period, (2) to construct a suitable production system by utilizing the operating leverage effect and promoting local production for local consumption, and (3) to move to a cycle to improve asset efficiency by inventory compression. Judging from the company's management strategies, appropriate solutions are being applied.

Evaluation of Growth Potential

■ Growth potential is currently higher than company's Midterm Management Plan.

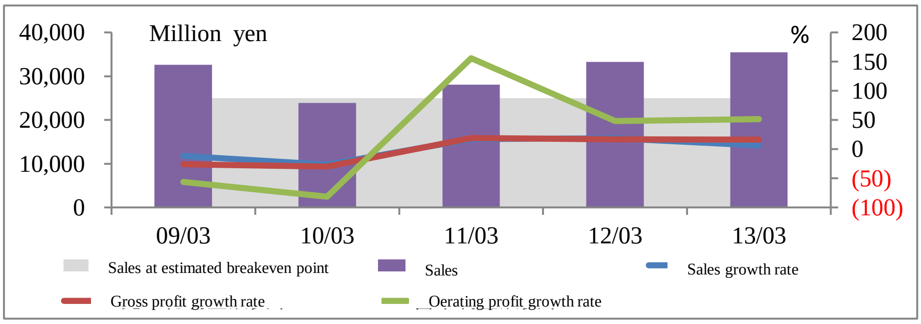
■ Growth potential is currently higher than company's Midterm Management Plan
Chart 21 shows a comparison of the forecast of the hoist and crane markets in each area in the Midterm Management Plan, which was established in 2009, and of the actual sales growth in the Japanese yen base between the March, 2009 period and the March, 2013 period by yearly average conversion. Except in China (where the demand dropped temporary due to a Senkaku Islands dispute) and in Europe with the euro crisis, growth is exceeding the forecast. Because growth is exceeding the forecast in the matured markets of Japan and the USA, the company will most assuredly increase its market share. Chart 22 shows the sales at the breakeven point estimated by JPR, the sales growth, and the operating profit growth. When net sales grows above the breakeven point, the operating profit growth will significantly exceed the sales growth. The company implemented its strategy of controlling fixed expenses to achieve growth. By maintaining the operating leverage effect, profit growths higher than sales growth can be expected in the future.

Chart 21: Growth Forecast at Midterm Management Plan and Actual Performance



(Source) Created by JPR from the information provided by Kito Corporation.

Chart 22: Sales at Estimated Breakeven Point (25 billion yen), Sales Growth and Operating Profit Growth



(Source) Created by JPR from information provided by Kito Corporation. Breakeven point was estimated by JPR.

Review of March, 2013 Financial Results and Forecast of Current Period

Review of March, 2013 Period

- Large scale profit ratio improvement with operating leverage worth noting
- Negative cash flow due to advanced investment

■Review of March 2013, period

Sales growth: Kito Corporation and its subsidiaries in the USA, Japan, and all Asian countries except China lead the growth. The group's growth in China was lower than expected. Overall, the sales growth increased steadily under a severe economic environment, but the sales growth was 6.7% compared to the previous year and below the growth target of 15% in the Midterm Management Plan.

Profit growth and profit ratio: The operating profit increased greatly by 54.0% from the previous year. Except for fluctuations in foreign exchange, the level was restored to that before the Lehman Shock. The operating profit ratio was 7.1% and recovered to the second highest since 7.3% of the March, 2009 period.

Asset effectiveness: Although the company adjusted its production in accordance with increased bill transactions in China and a demand drop in the second half of the year in the USA, the action was too late and resulted in increased inventory and a longer operating capital turnover period. The capital investment was much higher than depreciation expenses, and the net cash flow deteriorated.

Chart 23: Review of March 2013, Period and Company's Plan for This Period

(Unit: million yen, day, times)

	Actual	Actual	Planned
	2012/03	2013/03	2014/03
Estimated Exchange Rate against USD	79.0	83.1	90.0
Net Sales	33,282	35,501	42,000
Japan	10,949	11,679	12,800
USA	8,851	10,163	11,800
China	7,745	6,994	8,300
Rest of Asia	3,608	4,626	6,600
Europe	1,255	1,286	1,500
Other areas	872	749	1,000
(Year-on-Year)			
Net Sales	18.5%	6.7%	18.3%
Japan	15.5%	6.7%	9.6%
USA	20.6%	14.8%	16.1%
China	10.3%	-9.7%	18.7%
Rest of Asia	87.1%	28.2%	42.7%
Europe	3.5%	2.5%	16.6%
Other areas	-14.3%	-14.1%	33.5%
Gross Profit on Sales	9,958	11,595	-
Sales Administrative Expenses	8,300	9,085	-
Operating Profit	1,658	2,510	3,600
Ordinary Profit	1,572	2,440	3,300
End-of-Year Profit	662	1,023	1,900
Sales Growth	18.5	6.7	18.3
Operating Profit Growth	48.2	51.4	43.4
Gross Profit on Sales Ratio	29.9	32.7	-
Sales Administrative Expense Ratio	24.9	25.6	-
Operating Profit Ratio	5.0	7.1	8.6
Trade Receivable Turnover Period (day)	71.0	72.9	80.9
Inventory Turnover Period (day)	83.3	93.9	103.7
Account Payables Turnover Period (day)	66.4	67.0	50.9
Operating Capital Turnover Period (day)	87.9	99.8	133.7
Tangible Assets Turnover Ratio	4.132	4.849	4.164
ROE	4.3%	6.3%	Approx.12 %
Capital Investment	1,145	1,520	3,000
Depreciation Expenses	994	774	1,200

(Source) Created by JPR from the information provided by Kito Corporation. The turnover periods, turnover ratio and ROE are the end-of-year values.

Forecast of the March 2014 Period

- Growth higher than March, 2013 period
- Operating leverage effect will continue, and large increase in profit due to favorable foreign exchange
- ROE will improve greatly from 6.3% in March, 2013 period to 12%

Review of Strategies

- Steady implementation of strategies in four areas

■Forecast of March 2014 period

High net sales growth: In Japan, a demand increase is expected from this summer due to an active financial initiative. Private capital investment is also expected to slowly expand due to a weak yen. The company will endeavor to expand its market share by introducing new products. Overseas, the company will continue to expand its business globally by implementing its area specified strategies, which will lead to record-high net sales.

Profit growth/Profit ratio: With the continuous operating leverage effect and correction of the strong yen level, a large increase in profit is expected. The operating profit ratio will be 8.6%, an increase of 1.5% from 7.1% in the previous year.

Asset effectiveness: The operation capital which accumulated in the previous period will be reduced by inventory compression. The company aims to improve ROE greatly from 6.3% in the March, 2013 period to 12% by improvement in asset effectiveness and profit ratio.

■Steady implementation of strategies

The following chart shows the detail of the four strategies under implementation from the March, 2013 period to the March, 2014 period. The four strategies have been implemented exhaustively.

Chart 24: Update of Strategies between March, 2013 Period and March, 2014 Period

Area Strategy	Product Strategy
USA: Market share expansion strategy steadily progressing Asia (excluding Japan and China): Business expanding with Japanese companies. Slow in Korea. Indonesia: Newly established subsidiary now ready will start taking orders Taiwan: joint company established. Planned expansion of existing business and planned start of crane business. China: Downturn of economy stopped group's growth strategy.	Expansion of wire rope hoist sales: constructive sales activities will be conducted in USA and Japan
Manufacturing Strategy	**Promotional Strategy**
Thailand and Korea: Strengthen group's production capability by operating new crane factory. Global manufacturing. Production transfer to USA Promote local production for local consumption for some products	Improve customer service in Thailand and Korea.

(Source) Created by JPR from information provided by Kito Corporation.

■Review of first quarter of March, 2014 period

Growth in net sales: The net sales were 7,996 million yen, with an increase of 7.6% from the

Review of First Quarter of March, 2014 Period

- Steady progress toward achieving annual company plan
- Gross profit ratio

same period last year. This consisted of 20% of the 4.2 billion yen of the March, 2014 company plan. The net sales of the first quarter last year were 7,430 million yen, which were 20% of the company's annual net sales of 3.5501 billion yen; therefore, it is progressing at the same rate as the same period last year. It was a favorable result toward fulfilling the company plan. Although increases in the USA, Asia and Europe were double digits or more, the weak growth in private demand in Japan -- while there was a steady public demand for construction and excavation -- caused a decrease in revenue. In addition, due to slow economic growth in China, it remained at a single digit growth.

Profit growth and profit ratio: Compared to the same period last year, the operating profit and the ordinary profit increased 158.9% and 1,300.0% respectively; and the profit for the period became positive. The gross profit ratio increased greatly from 31.1% in the same period last year to 36.2%, due to a favorable exchange rate. This was the highest rate since the first quarter of the March, 2009 period when 1 USD was at the 100 yen level (Chart 26). The effect of increases both in sales and profits, with a rise in profit ratio from the leverage effect of business scale expansion, is shown here.

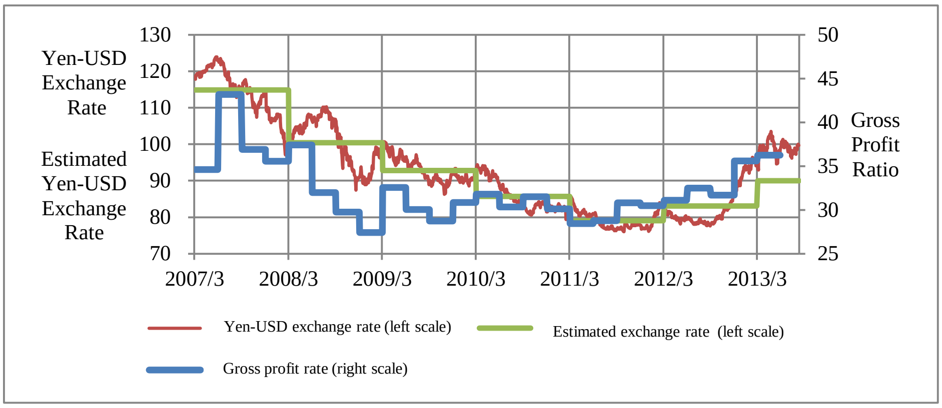
Chart 25: Financial Review of First Quarter of March, 2014 Period

(Unit: million yen)

	Actual						Planned
	2013/3 First Quarter		2014/3 First Quarter				2014/3
		Against Net Sales		Against Net Sales	Year-on-Year Increase	Year-on-Year Increase Rate	
Net Sales	7,430	100.0%	7,996	100.0%	566	7.6%	42,000
Japan	2,460	33.1%	2,306	30.5%	-154	-6.3%	12,800
USA	2,326	31.3%	2,822	28.1%	496	21.3%	11,800
China	1,528	20.6%	1,595	19.8%	66	4.3%	8,300
Rest of Asia	611	8.2%	702	15.7%	91	14.9%	6,600
Europe	335	4.5%	379	3.6%	44	13.1%	1,500
Other Areas	167	2.2%	190	2.3%	22	13.8%	1,000
Gross Profit on Sales	2,311	31.1%	2,899	36.2%	588	25.4%	-
Sales Administrative Expenses	2,171	29.2%	2,539	31.7%	368	16.9%	-
Operating Profit	139	1.9%	360	4.5%	221	158.9%	3,600
Ordinary Profit	30	0.4%	420	5.2%	390	1300.0%	3,300
End-or-year Profit	-59	0.8%	230	2.8%	171	289.8%	1,900

(Source) Created by JPR from information provided by Kito Corporation.

Chart 26: Changes in Exchange Rate and Gross Profit Ratio



(Source) Created by JPR from information provided by Kito Corporation and FactSet.

Comparative Analysis of Comparable Companies, Total Market Price Analysis and Share Price Chart

Comparison within Machinery Sector

- Average financial performance
- PER is within lowest 25% and level does not seem to have included future benefit of operating leverage effect

■Low valuation within Machinery Sector with net sales between 25 billion to 75 billion yen

Below is the chart which shows a comparison of actual sales between 25 and 75 billion yen from listed companies of a similar size to Kito Corporation. Although Kito's operating profit ratio, ROE, and ROA were average, PER was in the lowest 25%. It does not appear that the level of profit growth from the operating leverage effect was taken into consideration.

Chart 27: Machinery Sector of Net Sales of 25 Billion to 75 Billion Yen

Security Code	Company Name	Financial Period	Planned Dividend Yield	Planned PER	PBR of Preceding Period	Actual Operating Profit % of Last Period	Actual ROE of Last Period	Actual ROA of Last Period
1909	Nippon Dry-Chemical	Mar. 2013	2.9%	7.5	1.15	5.6%	14.7%	7.8%
1978	Daiki Ataka Engineering	Mar. 2013	1.2%	35.2	1.50	2.2%	3.6%	2.3%
6101	Tsugami	Mar. 2013	2.6%	10.7	1.04	16.0%	13.1%	18.4%
6118	Aida Engineering	Mar. 2013	2.5%	11.8	0.92	6.5%	7.2%	4.6%
6134	Fuji Machine MFG	Mar. 2013	1.7%	21.3	0.77	6.1%	2.3%	3.0%
6137	Koike Sanso Kogyo	Mar. 2013	2.6%	11.1	0.41	2.9%	4.4%	2.4%
6140	Asahi Diamond Industrial	Mar. 2013	2.1%	16.4	1.08	11.9%	6.6%	7.4%
6143	Sodick	Mar. 2013	3.1%	7.2	0.61	7.3%	11.6%	4.2%
6151	Nitto Kohki	Mar. 2013	1.9%	16.2	0.94	13.0%	7.0%	7.0%
6165	Punch Industry	Mar. 2013	3.2%	6.2	0.54	2.8%	3.7%	3.4%
6217	Tsudakoma	Nov. 2012	0.0%	19.0	0.72	-5.3%	-11.6%	-5.0%
6218	Enshu	Mar. 2013	0.0%	6.8	1.28	7.5%	29.2%	6.2%
6222	Shima Seiki MFG	Mar. 2013	1.5%	17.2	0.76	1.7%	2.0%	0.5%
6249	Gamecard-Joyco Holdings	Mar. 2013	3.9%	127.4	0.52	6.8%	3.8%	4.1%
6256	NuFlare Technology	Mar. 2013	0.9%	13.9	4.87	41.4%	33.6%	29.5%
6257	Fujishoji	Mar. 2013	0.0%	7.7	0.66	13.3%	6.8%	11.4%
6258	Hirata	Mar. 2013	2.5%	17.8	0.29	1.2%	1.6%	0.8%
6277	Hosokawa Micron	Sep. 2012	1.8%	10.8	1.08	9.6%	10.7%	9.2%
6281	Maeda Seisakusho	Mar. 2013	1.9%	8.8	0.83	2.6%	11.0%	2.9%
6282	Oiles	Mar. 2013	1.8%	16.0	1.20	9.0%	6.6%	7.5%
6286	Seiko	Mar. 2013	3.0%	13.7	0.28	2.7%	3.6%	3.9%
6293	Nissei Plastic Industrial	Mar. 2013	1.3%	9.6	0.53	4.8%	7.8%	3.7%
6299	Kobelco Eco-Solution	Mar. 2013	1.4%	48.5	2.83	5.5%	12.4%	7.0%
6306	Nikko	Mar. 2013	1.8%	26.6	0.65	4.4%	3.6%	3.2%
6309	Tomoe Engineering	Oct. 2012	3.1%	14.4	0.63	5.9%	7.2%	7.2%
6316	Maruyama MFG	Sep. 2012	1.2%	23.0	0.94	4.7%	4.5%	4.7%
6317	Kitagawa Iron Works	Mar. 2013	1.6%	19.5	0.63	2.4%	6.6%	1.9%
6328	Ebara Jitsugyo	Dec. 2012	3.1%	12.1	1.11	3.7%	19.8%	5.0%
6331	Mitsubishi Kakoki	Mar. 2013	0.0%	52.2	0.69	-2.5%	-5.1%	-2.5%
6340	Shibuya Kogyo	Jun. 2013	0.5%	20.5	1.99	4.7%	5.7%	4.1%
6345	Aichi Corporation	Mar. 2013	2.0%	21.6	0.90	6.4%	3.9%	4.1%
6349	Komori Corporation	Mar. 2013	0.8%	27.3	0.67	0.8%	-1.7%	0.4%
6351	Tsurumi Manufacturing	Mar. 2013	1.7%	12.9	0.57	8.2%	5.9%	5.6%
6355	Sumitomo Precision Products	Mar. 2013	1.7%	54.0	0.66	1.1%	0.8%	0.6%
6363	Torishima Pump MFG	Mar. 2013	1.9%	38.5	0.82	1.4%	2.9%	1.0%
6364	Hokuetsu Industries	Mar. 2013	3.7%	7.2	0.59	5.4%	9.5%	5.7%
6368	Organo	Mar. 2013	2.5%	18.7	0.64	5.2%	5.7%	4.1%
6369	Toyo Kanetsu	Mar. 2013	1.5%	21.5	1.04	5.0%	5.0%	3.9%
6373	Daido Kogyo	Mar. 2013	1.2%	11.0	0.71	1.9%	4.4%	1.4%
6382	Trinity Industrial	Mar. 2013	1.9%	16.4	0.36	1.8%	2.1%	1.9%
6390	Kato Works	Mar. 2013	1.4%	15.1	0.91	3.5%	4.7%	2.4%
6393	Yuken Kogyo	Mar. 2013	2.3%	15.3	0.74	3.7%	4.3%	2.9%
6407	CKD	Mar. 2013	1.8%	12.8	0.94	5.0%	4.8%	4.5%
6408	Ogura Clutch	Mar. 2013	0.0%	9.2	0.34	0.7%	10.%	0.7%
6411	Nakano Refrigerators	Dec. 2012	0.6%	7.0	0.67	15.2%	19.4%	16.8%
6419	Mars Engineering	Mar. 2013	3.2%	8.6	0.77	21.0%	8.5%	10.8%
6420	Fukushima Industries	Mar. 2013	0.8%	11.9	1.38	9.4%	12.1%	10.2%
6430	Daikoku Denki	Mar. 2013	2.0%	14.6	0.97	11.9%	13.7%	12.4%
6432	Takeuchi MFG	Mar. 2013	0.6%	15.8	1.05	3.4%	10.9%	2.7%
6445	Janome Sewing Machine	Mar. 2013	0.0%	10.9	0.91	4.6%	0.6%	3.5%
6454	Max	Mar. 2013	3.2%	18.6	0.92	7.0%	3.9%	4.8%
6458	Shinko Industries	Mar. 2013	2.3%	6.9	0.93	13.8%	15.2%	10.6%
6461	Nippon Piston Ring	Mar. 2013	3.2%	9.3	0.58	4.7%	9.4%	3.6%
6462	Riken	Mar. 2013	3.1%	8.9	0.74	6.6%	7.3%	5.9%
6480	Nippon Thompson	Mar. 2013	2.0%	16.0	0.67	3.3%	-0.2%	1.4%
6489	Maezawa Industries	May 2013	1.5%	13.1	0.49	4.0%	5.7%	3.4%
	Maximum		3.9%	127.4	4.87	41.4%	33.6%	29.5%
	Top 25%		2.5%	19.1	0.99	7.4%	9.8%	7.0%
	Average		1.8%	18.8	0.92	6.3%	7.0%	5.2%
	Median		1.8%	14.5	0.77	4.9%	5.7%	4.1%
	Bottom 25%		1.2%	10.4	0.63	2.8%	3.6%	2.4%
	Minimum		0.0%	0.3	0.25	-5.3%	-11.6%	-5.0%
6409		Mar. 2013	2.0%	10.0	1.09	7.1%	5.9%	7.2%

(Source) Created by JPR from FactSet. Share prices and total market cap were closing prices on September 9, 2013.

(Note) ROE and ROA are end-of-period values.

Analysis of Total Market Value

■Breakdown of total market value from theoretical relationship among PER, equity cost and growth

The breakdown of PER is theoretically as follows:

$$\mathrm{PER} =$$

$$1$$

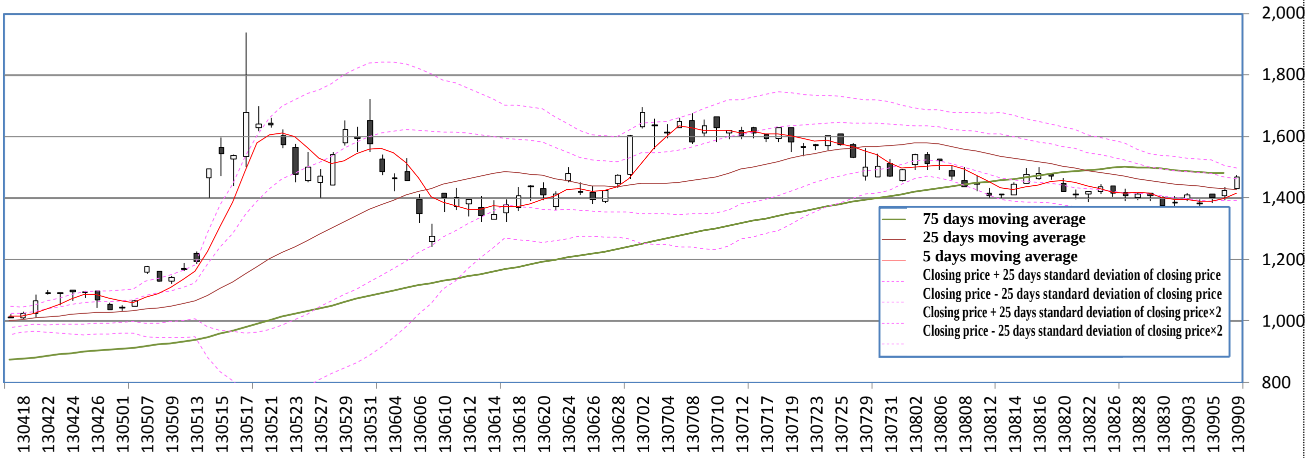
The equity cost of Kito Corporation was estimated as 6.72% based on the share price returns from June, 2011 to May, 2013 (beta value: 1.16, risk premium: around 5%). Putting these values into the above formula, if the PER is 10.0 times the closing price base of September 9, 2013, the growth is -3.58%. Considering the company's past increase in operating profit ratio and the future profit growth potential due to the continuous operating leverage effect, a negative growth potential seems to be a low evaluation with an equity cost of 6.72%.

$$\text{Growth} = \frac{1}{\text{PER}} - \text{Equity Cost} = 6.72\% - \frac{1}{10.0}$$

$$= 6.72\% - 10.0\% = -3.28.\%$$

In theory, if the end-of-year profit of the March, 2014 period continues permanently, the shareholder value will be "1.9 billion yen (End-of-year profit)/Equity Cost = 1.9 billion yen/6.72% = 28.2 billion yen". The total market price is currently 19.8 billion yen, and therefore, "28.2 billion yen – 19.8 billion yen = 8.4 billion yen", which is more than 30% lower than it should be.

Chart 28: Share Price Chart of Past 100 Share Trading Days



(Source) Created by JPR from FactSet.

Reference: Case Analysis with DCF

DCF Case Analysis

■Conditions of cases

From interviews with Kito Corporation, a Discount Cash Flow (DCF) Analysis was conducted. Calculations were based on the profit structure and assets turnover period of the March, 2013 period. Regarding the Residual Value Calculation, a calculation was made with an assumption that the profits are all distributed. The Weighted Average Cost of Capital was set as 5.9%, which was estimated from the last three years' returns and from the structure of the current capital liabilities. The DCF Analysis only shows theoretical shareholder value and is not always reflected by the actual market cap. Please note that the analysis was conducted as a theoretical indication to evaluate the company's growth potential but does not guarantee an actual share price or market cap. As a result, the shareholder value was calculated as follows:

■Case of achieving March, 2014 Plan, then becoming unchanged

The calculation was made assuming that Kito Corporation will achieve its company plan in the March, 2014 period and will keep that profit standard after the March, 2015 period. As a result, the shareholder value was calculated as 29.8 billion yen.

■Case of achieving Midterm Management Plan

The calculation was made assuming that Kito Corporation will achieve its Midterm Management Plan. As a result, the shareholder value was calculated as 55.4 billion yen.

■Case of achieving Midterm Management Plan + operating leverage effect beginning to show

The calculation was made assuming that Kito Corporation will achieve its Midterm Management Plan and the operating leverage effect will be seen with the fixed expenses remaining at 110% of the value calculated from past results. As a result, the shareholder value was calculated as 67.2 billion yen.

■Case of operating leverage effect only

The calculation was made assuming that the fixed expenses calculated based on the net sales of the March, 2014 period will remain unchanged and the operating leverage effect will be seen. The net sales and profits are assumed to remain unchanged from the March, 2015 period. As a result, the shareholder value was calculated as 35.5 billion yen.

Reference: Case Analysis with DCF

Case of Achieving Goal of March, 2014 Plan, then Unchanged

(Unit: million yen otherwise specified)

	Actual	Planned & Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Residual Value
	2013/03	2014/03	2015/03	2016/03	2017/03	2018/03	2019/03	2020/03	
Net Sales	35,501	42,000	42,000	42,000	42,000	42,000	42,000	42,000	
Gross Profit	11,607	13,520	13,520	13,520	13,520	13,520	13,520	13,520	
Sales Administrative Expense	9,097	9,920	9,920	9,920	9,920	9,920	9,920	9,920	
Operating Profit	2,510	3,600	3,600	3,600	3,600	3,600	3,600	3,600	
Interest Paid	101	92	49	16	0	0	0	0	
Interest Paid Ratio	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	
Other Profit and Loss	-299	-208	-208	-208	-208	-208	-208	-208	
Ordinary Profit	2,440	3,300	3,342	3,376	3,392	3,392	3,392	3,392	
Extraordinary Profit and Loss	-128	0	0	0	0	0	0	0	
Profit before Tax	2,312	3,300	3,342	3,376	3,392	3,392	3,392	3,392	
Income Taxes	1,146	1,314	1,304	1,317	1,323	1,323	1,323	1,323	
Minority Shareholders' Equity	143	71	71	71	71	71	71	71	
Current Profit	1,023	1,900	1,968	1,988	1,998	1,998	1,998	1,998	
Dividend	258	388	401	406	408	400	1,998	1,998	
Dividend Ratio	25	20	20	20	20	20	100	100	
Internal Reserves	765	1,512	1,566	1,583	1,590	1,598	0	0	
Balance Sheet	2013/03	2014/03	2015/03	2016/03	2017/03	2018/03	2019/03	2020/03	
Cash and Deposits	4,140	4,898	4,898	4,898	4,898	4,898	4,898	4,898	
Trade Receivables	7,872	7,814	7,814	7,814	7,814	7,814	7,814	7,814	
Inventory	10,088	9,027	9,027	9,027	9,027	9,027	9,027	9,027	
Other Current Assets	1,675	1,675	1,675	1,675	1,675	1,675	1,675	1,675	
Current Assets	23,775	23,415	23,415	23,877	25,539	27,208	27,279	27,350	
Net Tangible Assets	8,526	10,087	10,196	10,087	10,087	10,087	10,087	10,087	
Investments and Loans	139	139	139	139	139	139	139	139	
Net Goodwill	489	334	179	0	0	0	0	0	
Other Tangible Assets	317	317	317	317	317	317	317	317	
Other Assets	702	702	702	702	702	702	702	702	
Deferred Tax Assets	11	7	3	0	0	0	0	0	
Other Assets	801	801	801	801	801	801	801	801	
Total Assets	34,760	35,801	35,751	35,923	37,585	39,254	39,325	39,396	
Accounts Payables	4,955	6,749	6,749	6,749	6,749	6,749	6,749	6,749	
Interest-bearing Liabilities	5,505	3,169	1,482	0	0	0	0	0	
Other Liabilities	6,288	6,288	6,288	6,288	6,288	6,288	6,288	6,288	
Minor Shareholders' Equity	649	720	791	862	933	1,004	1,075	1,146	
Equity	17,363	18,875	20,442	22,025	23,615	25,213	25,213	25,213	
Capital and Liabilities	34,760	35,801	35,751	35,923	37,585	39,254	39,325	39,396	
Sales Growth Ratio	6.7%	18.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Gross Profit on Sales Ratio	32.7%	32.2%	32.2%	32.2%	32.2%	32.2%	32.2%	32.2%	
Sales Administrative Expense Ratio	25.6%	23.6%	23.6%	23.6%	23.6%	23.6%	23.6%	23.6%	
Operating Profit Ratio	7.1%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	
Effective Tax Ratio	49.6%	40.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	
Dividend Ratio	25.0%	20%	20.0%	20.0%	20.0%	20.0%	100.0%	100.0%	
Cash and Deposit Balance Turnover Period (days)	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	
Trade Receivables Turnover Period (days)	80.9	67.9	67.9	67.9	67.9	67.9	67.9	67.9	
Inventory Turnover Period (days)	103.7	78.5	78.5	78.5	78.5	78.5	78.5	78.5	
Account Payables Turnover Period (days)	50.9	58.6	58.6	58.6	58.6	58.6	58.6	58.6	
Operating Capital Turnover Period (days)	133.7	133.7	133.7	133.7	133.7	133.7	133.7	133.7	
Tangible Assets Turnover Ratio (times)	4.16	4.16	4.16	4.16	4.16	4.16	4.16	4.16	
Gross D/E Ratio	0.317	0.317	0.317	0.317	0.317	0.317	0.317	0.317	
ROE	5.9%	10.0%	9.6%	9.0%	8.5%	7.9%	7.9%	7.9%	
Profit for the Year Ratio	2.9%	4.5%	4.7%	4.7%	4.8%	4.8%	4.8%	4.8%	
Total Assets Turnover Ratio	1.0	1.2	1.2	1.2	1.1	1.1	1.1	1.1	
Leverage	2.0	1.9	1.7	1.6	1.6	1.6	1.6	1.6	
Shareholders' Equity Ratio	50.0%	52.7%	57.2%	61.3%	62.8%	64.2%	64.1%	64.0%	
NOPAT (1)	1,074	1,955	1,998	1,998	1,998	1,998	1,998	1,998	
Increase in Operating Capital (2)	3,901	-2,192	0	0	0	0	0	0	
Depreciation Expenses	774	1,200	1,291	1,304	1,316	1,326	1,331	1,331	
Capital Investment	1,520	3,000	1,400	1,400	1,400	1,400	1,331	1,331	
Net Capital Investment (3)	746	1,800	109	-109	0	0	0	0	
Amortization of Goodwill (4)	155	155	155	179	0	0	0	0	
(Depreciation Expenses Ratio)	10.2%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	
Free Cash flow (1) – (2) – (3) + (4)	-3,418	3,222	2,043	1,997	1,997	1,997	1,997	1,997	33,867
Discount Factor		0.94	0.89	0.84	0.80	0.75	0.71	0.67	0.67
PV		3,043	1,823	1,925	1,589	1,500	1,416	1,3.8	22,674
EPS (yen)	79	147	152	154	155	155	155	155	
DPS (yen)	20	30	31	31	32	31	155	155	
BPS (yen)	1,344	1,461	1,582	1,705	1,828	1,952	1,952	1,952	
Outstanding Shares (million)	12.920	12.920	12.920	12.920	12.920	12.920	12.920	12.920	
Estimated Cost of Shareholders' Equity	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	
ROE/Estimated Cost of Shareholders Equity	0.9	1.5	1.4	1.4	1.3	1.2	1.2	1.2	

NPV (Total of PVs)	35,307
Interest-bearing Liabilities	5,505
Shareholder Value	29,802

(Source) Created by JPR. For the period ending March, 2014, the figures for Sales, Operating Income, Ordinary Income, Current Profit, Purchase Cost of Investment Properties, and End-of-period Investment Property Inventory Balance were taken from information disclosed by Kito Corporation; other figures are JPR's estimation. The outstanding shares exclude treasury shares.

Case of Achieving Midterm Management Plan

(Unit: million yen otherwise specified)

	Actual	Planned & Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Residual Value
	2013/03	2014/03	2015/03	2016/03	2017/03	2018/03	2019/03	2020/03	
Net Sales	35,501	42,000	50,000	58,000	58,000	58,000	58,000	58,000	
Gross Profit	11,607	13,520	16,300	19,000	19,000	19,000	19,000	19,000	
Sales Administrative Expense	9,097	9,920	11,000	12,000	12,000	12,000	12,000	12,000	
Operating Profit	2,510	3,600	5,300	7,000	7,000	7,000	7,000	7,000	
Interest Paid	101	92	90	127	107	37	2	0	
Interest Paid Ratio	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	
Other Profit and Loss	-299	-208	-208	-208	-208	-208	-208	-208	
Ordinary Profit	2,440	3,300	5,002	6,665	6,685	6,754	6,790	6,791	
Extraordinary Profit and Loss	-128	0	0	0	0	0	0	0	
Profit before Tax	2,312	3,300	5,002	6,665	6,685	6,754	6,790	6,791	
Income Taxes	1,146	1,314	1,951	2,599	2,607	2,694	2,648	2,649	
Minority Shareholders' Equity	143	71	71	71	71	71	71	71	
Current Profit	1,023	1,900	2,980	3,994	4,007	4,049	4,071	4,072	
Dividend	258	388	608	815	817	810	4,071	4,072	
Dividend Ratio	25	20	20	20	20	20	100	100	
Internal Reserves	765	1,512	2,372	3,180	3,189	3,239	0	0	
Balance Sheet	2013/03	2014/03	2015/03	2016/03	2017/03	2018/03	2019/03	2020/03	
Cash and Deposits	4,140	4,898	5,831	6,764	6,764	6,764	6,764	6,764	
Trade Receivables	7,872	7,814	9,303	10,791	10,791	10,791	10,791	10,791	
Inventory	10,088	9,027	10,747	12,466	12,466	12,466	12,466	12,466	
Other Current Assets	1,675	1,675	1,675	1,675	1,675	1,675	1,675	1,675	
Current Assets	23,775	23,415	27,555	31,696	31,696	31,696	31,696	31,721	
Net Tangible Assets	8,526	10,087	12,008	13,929	13,929	13,929	13,929	13,929	
Investments and Loans	139	139	139	139	139	139	139	139	
Net Goodwill	489	334	179	0	0	0	0	0	
Other Tangible Assets	317	317	317	317	317	317	317	317	
Other Assets	702	702	702	702	702	702	702	702	
Deferred Tax Assets	11	7	3	0	0	0	0	0	
Other Assets	801	801	801	801	801	801	801	801	
Total Assets	34,760	35,801	41,704	47,585	47,585	47,585	47,585	47,609	
Accounts Payables	4,955	6,749	8,034	9,320	9,320	9,320	9,320	9,320	
Interest-bearing Liabilities	5,505	3,169	5,344	6,688	3,428	117	46	0	
Other Liabilities	6,288	6,288	6,288	6,288	6,288	6,288	6,288	6,288	
Minor Shareholders' Equity	649	720	791	862	933	1,004	1,075	1,146	
Equity	17,363	18,875	21,248	24,427	27,616	30,856	30,856	30,856	
Capital and Liabilities	34,760	35,801	41,704	47,585	47,585	47,585	47,585	47,609	
Sales Growth Ratio	6.7%	18.3%	19.0%	16.0%	0.0%	0.0%	0.0%	0.0%	
Gross Profit on Sales Ratio	32.7%	32.2%	32.6%	32.8%	32.8%	32.8%	32.8%	32.8%	
Sales Administrative Expense Ratio	25.6%	23.6%	22.0%	20.7%	20.7%	20.7%	20.7%	20.7%	
Operating Profit Ratio	7.1%	8.6%	10.6%	12.1%	12.1%	12.1%	12.1%	12.1%	
Effective Tax Ratio	49.6%	40.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	
Dividend Ratio	25.0%	20.0%	20.0%	20.0%	20.0%	20.0%	100.0%	100.0%	
Cash and Deposit Balance Turnover Period (days)	43	43	43	43	43	43	43	43	
Trade Receivables Turnover Period (days)	80.9	67.9	67.9	67.9	67.9	67.9	67.9	67.9	
Inventory Turnover Period (days)	103.7	78.5	78.5	78.5	78.5	78.5	78.5	78.5	
Account Payables Turnover Period (days)	50.9	58.6	58.6	58.6	58.6	58.6	58.6	58.6	
Operating Capital Turnover Period (days)	133.7	133.7	133.7	133.7	133.7	133.7	133.7	133.7	
Tangible Assets Turnover Ratio (times)	4.16	4.16	4.16	4.16	4.16	4.16	4.16	4.16	
Gross D/E Ratio	0.317	0.317	0.317	0.317	0.317	0.317	0.317	0.317	
ROE	5.9%	10.1%	14.4%	16.4%	14.5%	13.1%	13.2%	13.2%	
Profit for the Year Ratio	2.9%	4.5%	6.0%	6.9%	6.9%	7.0%	7.0%	7.0%	
Total Assets Turnover Ratio	1.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2	
Leverage	2.0	1.9	2.0	1.9	1.7	1.5	1.5	1.5	
Shareholders' Equity Ratio	50.0%	52.7%	50.9%	51.3%	58.0%	64.8%	64.8%	64.8%	
NOPAT (1)	1,074	1,955	3,035	4,072	4,072	4,072	4,072	4,072	
Increase in Operating Capital (2)	3,901	-2,192	1,922	1,922	0	0	0	0	
Depreciation Expenses	774	1,200	1,291	1,304	1,316	1,326	1,331	1,331	
Capital Investment	1,520	3,000	1,400	1,400	1,400	1,400	1,331	1,331	
Net Capital Investment (3)	746	1,800	1,921.3	1,921.3	0	0	0	0	
Amortization of Goodwill (4)	155	155	155	179	0	0	0	0	
(Depreciation Expenses Ratio)	10.2%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	
Free Cash flow (1) – (2) – (3) + (4)	-3,418	3,222	-654	407	4,072	4,072	4,072	4,072	69,025
Discount Factor		0.94	0.89	0.84	0.80	0.75	0.71	0.67	0.67
PV		3,043	-583	343	3,238	3,057	2,887	2,726	46,213
EPS (yen)	79	147	231	309	310	313	315	315	
DPS (yen)	20	30	47	63	63	63	315	315	
BPS (yen)	1,344	1,461	1,645	1,891	2,138	2,388	2,388	2,388	
Outstanding Shares (million)	12.920	12.92	12.92	12.92	12.92	12.92	12.92	12.92	
Estimated Cost of Shareholders' Equity	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	
ROE/Estimated Cost of Shareholders Equity	0.9	1.5	2.1	2.5	2.2	2.0	2.0	2.0	

NPV (Total of PVs)	60,923
Interest-bearing Liabilities	5,505
Shareholder Value	55,418

(Source) Created by JPR. For the period ending March, 2014, the figures for Sales, Operating Income, Ordinary Income, Current Profit, Purchase Cost of Investment Properties, and End-of-period Investment Property Inventory Balance were taken from information disclosed by Kito Corporation; other figures are JPR's estimation. The outstanding shares exclude treasury shares.

Case of Achieving Midterm Management Plan and Operating Leverage

(Unit: million yen otherwise specified)

	Actual	Planned & Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	
	2013/03	2014/03	2015/03	2016/03	2017/03	2018/03	2019/03	2020/03	Residual Value
Net Sales	35,501	42,000	50,000	58,000	58,000	58,000	58,000	58,000	
Gross Profit	11,607	13,520	17,040	20,097	20,097	20,097	20,097	20,097	
Sales Administrative Expense	9,097	9,920	10,825	11,866	11,866	11,866	11,866	11,866	
Operating Profit	2,510	3,600	6,215	8,231	8,231	8,231	8,231	8,231	
Interest Paid	101	92	85	111	78	19	0	0	
Interest Paid Ratio	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	
Other Profit and Loss	-299	-208	-208	-208	-208	-208	-208	-208	
Ordinary Profit	2,440	3,300	5,921	7,912	7,945	8,004	8,023	8,023	
Extraordinary Profit and Loss	-128	0	0	0	0	0	0	0	
Profit before Tax	2,312	3,300	5,921	7,912	7,945	8,004	8,023	8,023	
Income Taxes	1,146	1,314	2,309	3,086	3,098	3,122	3,129	3,129	
Minority Shareholders' Equity	143	71	71	71	71	71	71	71	
Current Profit	1,023	1,900	3,541	4,755	4,775	4,812	4,823	4,823	
Dividend	258	388	722	970	974	962	4,823	4,823	
Dividend Ratio	25	20	20	20	20	20	100	100	
Internal Reserves	765	1,512	2,818	3,785	3,801	3,849	0	0	
Balance Sheet	2013/03	2014/03	2015/03	2016/03	2017/03	2018/03	2019/03	2020/03	
Cash and Deposits	4,140	4,898	5,831	6,764	6,764	6,764	6,764	6,764	
Trade Receivables	7,872	7,814	9,303	10,791	10,791	10,791	10,791	10,791	
Inventory	10,088	9,027	10,747	12,466	12,466	12,466	12,466	12,466	
Other Current Assets	1,675	1,675	1,675	1,675	1,675	1,675	1,675	1,675	
Current Assets	23,775	23,415	27,555	31,696	31,696	33,852	33,923	33,995	
Net Tangible Assets	8,526	10,087	12,008	13,929	13,929	13,929	13,929	13,929	
Investments and Loans	139	139	139	139	139	139	139	139	
Net Goodwill	489	334	179	0	0	0	0	0	
Other Tangible Assets	317	317	317	317	317	317	317	317	
Other Assets	702	702	702	702	702	702	702	702	
Deferred Tax Assets	11	7	3	0	0	0	0	0	
Other Assets	801	801	801	801	801	801	801	801	
Total Assets	34,760	35,801	41,704	47,585	47,585	49,741	49,812	49,883	
Accounts Payables	4,955	6,749	8,034	9,320	9,320	9,320	9,320	9,320	
Interest-bearing Liabilities	5,505	3,169	4,897	5,636	1,764	0	0	0	
Other Liabilities	6,288	6,288	6,288	6,288	6,288	6,288	6,288	6,288	
Minor Shareholders' Equity	649	720	791	862	933	1,004	1,075	1,146	
Equity	17,363	18,875	21,694	25,479	29,280	33,129	33,129	33,129	
Capital and Liabilities	34,760	35,801	41,704	47,585	47,585	49,741	49,812	49,883	
Sales Growth Ratio	6.7%	18.3%	19.0%	16.0%	0.0%	0.0%	0.0%	0.0%	
Gross Profit on Sales Ratio	32.7%	0.0%	32.0%	32.7%	32.7%	32.7%	32.7%	32.7%	
Sales Administrative Expense Ratio	25.6%	23.6%	21.7%	20.5%	20.5%	20.5%	20.5%	20.5%	
Operating Profit Ratio	7.1%	8.6%	12.4%	14.2%	14.2%	14.2%	14.2%	14.2%	
Effective Tax Ratio	49.6%	40.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	
Dividend Ratio	25.0%	20.0%	20.0%	20.0%	20.0%	20.0%	100.0%	100.0%	
Cash and Deposit Balance Turnover Period (days)	43	43	43	43	43	43	43	43	
Trade Receivables Turnover Period (days)	80.9	67.9	67.9	67.9	67.9	67.9	67.9	67.9	
Inventory Turnover Period (days)	103.7	78.5	78.5	78.5	78.5	78.5	78.5	78.5	
Account Payables Turnover Period (days)	50.9	58.6	58.6	58.6	58.6	58.6	58.6	58.6	
Operating Capital Turnover Period (days)	133.7	133.7	133.7	133.7	133.7	133.7	133.7	133.7	
Tangible Assets Turnover Ratio (times)	4.16	4.16	4.16	4.16	4.16	4.16	4.16	4.16	
Gross D/E Ratio	0.317	0.317	0.317	0.317	0.317	0.317	0.317	0.317	
ROE	5.9%	10.1%	16.3%	18.7%	16.3%	14.5%	14.6%	14.6%	
Profit for the Year Ratio	2.9%	4.5%	7.1%	8.2%	8.2%	8.3%	8.3%	8.3%	
Total Assets Turnover Ratio	1.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2	
Leverage	2.0	1.9	1.9	1.9	1.6	1.5	1.5	1.5	
Shareholders' Equity Ratio	50.0%	52.7%	52.0%	53.5%	61.5%	66.6%	66.5%	66.4%	
NOPAT (1)	1,074	1,955	3,593	4,823	4,823	4,823	4,823	4,823	
Increase in Operating Capital (2)	3,901.0	-2,192.0	1,922.5	1,922.5	0.0	0.0	0.0	0.0	
Depreciation Expenses	774	1,200	1,291	1,304	1,316	1,326	1,331	1,331	
Capital Investment	1,520	3,000	1,400	1,400	1,400	1,400	1,331	1,331	
Net Capital Investment (3)	746	1,800	1,921.3	1,921.3	0.0	0.0	0.0	0.0	
Amortization of Goodwill (4)	155	155	155	179	0	0	0	0	
(Depreciation Expenses Ratio)	10.2%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	
Free Cash flow (1) – (2) – (3) + (4)	-3,418	3,222	-96	1,158	4,823	4,823	4,823	4,823	81,757
Discount Factor		0.94	0.89	0.84	0.80	0.75	0.71	0.67	0.67
PV		3,043	-86	975	3,835	3,621	3,419	3,229	54,737
EPS (yen)	79	147	274	368	370	372	373	373	
DPS (yen)	20	30	56	75	75	74	373	373	
BPS (yen)	1,344	1,461	1,679	1,972	2,266	2,564	2,564	2,564	
Outstanding Shares (million)	12.920	12.920	12.920	12.920	12.920	12.920	12.920	12.920	
Estimated Cost of Shareholders' Equity	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	
ROE/Estimated Cost of Shareholders Equity	0.9	1.5	2.4	2.8	2.4	2.2	2.2	2.2	

NPV (Total of PVs)	72,773
Interest-bearing Liabilities	5,505
Shareholder Value	67,268

(Source) Created by JPR. For the period ending March, 2014, the figures for Sales, Operating Income, Ordinary Income, Current Profit, Purchase Cost of Investment Properties, and End-of-period Investment Property Inventory Balance were taken from information disclosed by Kito Corporation; other figures are JPR's estimation. The outstanding shares exclude treasury shares.

Case of Operating Leverage Only

(Unit: million yen otherwise specified)

	Actual	Planned & Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Residual Value
	2013/03	2014/03	2015/03	2016/03	2017/03	2018/03	2019/03	2020/03	
Net Sales	35,501	42,000	42,000	42,000	42,000	42,000	42,000	42,000	
Gross Profit	11,607	13,520	13,983	13,983	13,983	13,983	13,983	13,983	
Sales Administrative Expense	9,097	9,920	9,785	9,785	9,785	9,785	9,785	9,785	
Operating Profit	2,510	3,600	4,198	4,198	4,198	4,198	4,198	4,198	
Interest Paid	101	92	45	11	0	0	0	0	
Interest Paid Ratio	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	
Other Profit and Loss	-299	-208	-208	-208	-208	-208	-208	-208	
Ordinary Profit	2,440	3,300	3,945	3,978	3,989	3,989	3,989	3,989	
Extraordinary Profit and Loss	-128	0	0	0	0	0	0	0	
Profit before Tax	2,312	3,300	3,945	3,978	3,989	3,989	3,989	3,989	
Income Taxes	1,146	1,314	1,538	1,551	1,556	1,556	1,556	1,556	
Minority Shareholders' Equity	143	71	71	71	71	71	71	71	
Current Profit	1,023	1,900	2,335	2,356	2,363	2,363	2,363	2,363	
Dividend	258	388	476	481	482	473	2,363	2,363	
Dividend Ratio	25	20	20	20	20	20	100	100	
Internal Reserves	765	1,512	1,859	1,875	1,881	1,890	0	0	
Balance Sheet	2013/03	2014/03	2015/03	2016/03	2017/03	2018/03	2019/03	2020/03	
Cash and Deposits	4,140	4,898	4,898	4,898	4,898	4,898	4,898	4,898	
Trade Receivables	7,872	7,814	7,814	7,814	7,814	7,814	7,814	7,814	
Inventory	10,088	9,027	9,027	9,027	9,027	9,027	9,027	9,027	
Other Current Assets	1,675	1,675	1,675	1,675		1,675	1,675	1,675	
Current Assets	23,775	23,415	23,415	24,462	26,414	28,375	28,446	28,517	
Net Tangible Assets	8,526	10,087	10,087	10,087	10,087	10,087	10,087	10,087	
Investments and Loans	139	139	139	139	139	139	139	139	
Net Goodwill	489	334	179	0	0	0	0	0	
Other Tangible Assets	317	317	317	317	317	317	317	317	
Other Assets	702	702	702	702	702	702	702	702	
Deferred Tax Assets	11	7	3	0	0	0	0	0	
Other Assets	801	801	801	801	801	801	801	801	
Total Assets	34,760	35,801	35,624	36,508	38,460	40,421	40,492	40,563	
Accounts Payables	4,955	6,749	6,749	6,749	6,749	6,749	6,749	6,749	
Interest-bearing Liabilities	5,505	3,169	1,080	0	0	0	0	0	
Other Liabilities	6,288	6,288	6,288	6,288	6,288	6,288	6,288	6,288	
Minor Shareholders' Equity	649	720	791	862	933	1,004	1,075	1,146	
Equity	17,363	18,875	20,734	22,609	24,490	26,380	26,380	26.380	
Capital and Liabilities	34,760	35,801	35,642	36,508	38,460	40,421	40,492	40,563	
Sales Growth Ratio	6.7%	18.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Gross Profit on Sales Ratio	32.7%	0.0%	31.1%	31.1%	31.1%	31.1%	31.1%	31.1%	
Sales Administrative Expense Ratio	25.6%	23.6%	23.3%	23.3%	23.3%	23.3%	23.3%	23.3%	
Operating Profit Ratio	7.1%	8.6%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Effective Tax Ratio	49.6%	40.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	
Dividend Ratio	25.0%	20.0%	20.0%	20.0%	20.0%	20.0%	100.0%	100.0%	
Cash and Deposit Balance Turnover Period (days)	43	43	43	43	43	43	43	43	
Trade Receivables Turnover Period (days)	80.9	67.9	67.9	67.9	67.9	67.9	67.9	67.9	
Inventory Turnover Period(days)	103.7	78.5	78.5	78.5	78.5	78.5	78.5	78.5	
Account Payables Turnover Period(days)	50.9	58.6	58.6	58.6	58.6	58.6	58.6	58.6	
Operating Capital Turnover Period(days)	133.7	133.7	133.7	133.7	133.7	133.7	133.7	133.7	
Tangible Assets Turnover Ratio(times)	4.16	4.16	4.16	4.16	4.16	4.16	4.16	4.16	
Gross D/E Ratio	0.317	0.317	0.317	0.317	0.317	0.317	0.317	0.317	
ROE	5.9%	10.1%	11.3%	10.4%	9.6%	9.0%	9.0%	9.0%	
Profit for the Year Ratio	2.9%	4.5%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	
Total Assets Turnover Ratio	1.0	1.2	1.2	1.2	1.1	1.0	1.0	1.0	
Leverage	2.0	1.9	1.7	1.6	1.6	1.5	1.5	1.5	
Shareholders' Equity Ratio	50.0%	52.7%	58.2%	61.9%	63.7%	65.3%	65.1%	65.0%	
NOPAT (1)	1,074	1,955	2,363	2,363	2,363	2,363	2,363	2,363	
Increase in Operating Capital (2)	3,901.0	-2,192.0	0.0	0.0	0.0	0.0	0.0	0.0	
Depreciation Expenses	774	1,200.0	1,291.1	1,304.1	1,315.6	1,325.7	1,330.5	1,330.5	
Capital Investment	1,520.0	3,000.0	1,400.0	1,400.0	1,400.0	1,400.0	1,330.5	1,330.5	
Net Capital Investment (3)	746	1,800	0.0	0.0	0.0	0.0	0.0	0.0	
Amortization of Goodwill (4)	155	155	155	179	0	0	0	0	
(Depreciation Expenses Ratio)	10.2%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	
Free Cash flow (1) – (2) – (3) + (4)	-3,418	3,222	2,518	2,542	2,363	2,363	2,363	2,363	40,004
Discount Factor		0.94	0.89	0.84	0.79	0.75	0.71	0.67	0.67
PV		3,042	2,245	2,140	1,878	1,773	1,674	1,581	26,771
EPS (yen)	79	147	181	182	183	183	183	183	
DPS (yen)	20	30	37	37	37	37	183	183	
BPS (yen)	1,344	1,461	1,605	1,750	1,896	2,042	2,042	2,042	
Outstanding Shares (million)	12.920	12.9198	12.9198	12.9198	12.9198	12.9198	12.9198	12.9198	
Estimated Cost of Shareholders' Equity	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	
ROE/Estimated Cost of Shareholders Equity	0.9	1.5	1.7	1.6	1.4	1.3	1.3	1.3	

NPV (Total of PVs)	41,104
Interest-bearing Liabilities	5,505
Shareholder Value	35,599

(Source) Created by JPR. For the period ending March, 2014, the figures for Sales, Operating Income, Ordinary Income, Current Profit, Purchase Cost of Investment Properties, and End-of-period Investment Property Inventory Balance were taken from information disclosed by Kito Corporation; other figures are JPR's estimation. The outstanding shares exclude treasury shares.

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