

# Medium-Term Management Plan (2022–2024)

March 29, 2022



Progress To The Next Stage

KATO WORKS CO., LTD.

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## Background to the Medium-Term Management Plan

Over the 126 years since the establishment, KATO WORKS CO., LTD. has accumulated a wealth of experience and a solid track record as a construction machinery manufacturer. The global brand KATO has thus come to be known as a technology-oriented manufacturer and won customers' trust not only in Japan but worldwide.

Amid stagnating domestic demand in Japan and intensifying global competition in recent years, global supply chain disruption, soaring inflation, and volatile international climate have had a significant impact on the KATO Group. Even under such a difficult business environment, the KATO Group considers it its mission to keep providing the world with high value added products that use KATO's advanced technology. To this end, we need to fundamentally review the cost structure, without being bound by conventional practices, and transform ourselves into a company with a robust, profitable structure.

We have formulated a three-year medium-term management plan (the "Mid-Term Plan") that includes radical measures. The theme of the Mid-Term Plan is "Transformation into a Lean and Solid Structure." We consider the three years as a period for thorough transformation to excel in the next stage. We will steadily improve profitability, improve the financial structure, and build the foundation for the future.

We are determined to make further progress into the future by polishing and advancing our business at all times to fulfill our responsibility as a construction machinery manufacturer that serves as a social infrastructure. Everyone in the Company will join forces to continue to be a company favored and supported by all stakeholders.

We have selected the Prime Market in the Tokyo Stock Exchange's market restructuring. We will make sure to achieve the Mid-Term Plan, thereby improving business performance, increasing corporate value, and meeting the continued listing criteria for the Prime Market.

We would appreciate your understanding and continued support and cooperation with regard to our corporate management.

March 29, 2022  
Kimiyasu Kato  
President and Representative Director  
KATO WORKS CO., LTD.

## Summary of Past Fiscal Years

(Unit: Billions of yen)	FY 2019	FY 2020	FY 2021 (Forecast)
Net sales	77.9	58.5	63.2
Ratio of production costs	88.1%	90.4%	89.3%
Operating profit	(0.3)	(2.8)	(7.0)

- ✓ Since the COVID-19 pandemic started, sales in Japan and China, the Company's main markets, have been stagnating.
- ✓ Conventional cost reduction alone cannot cover the significant drop in net sales.

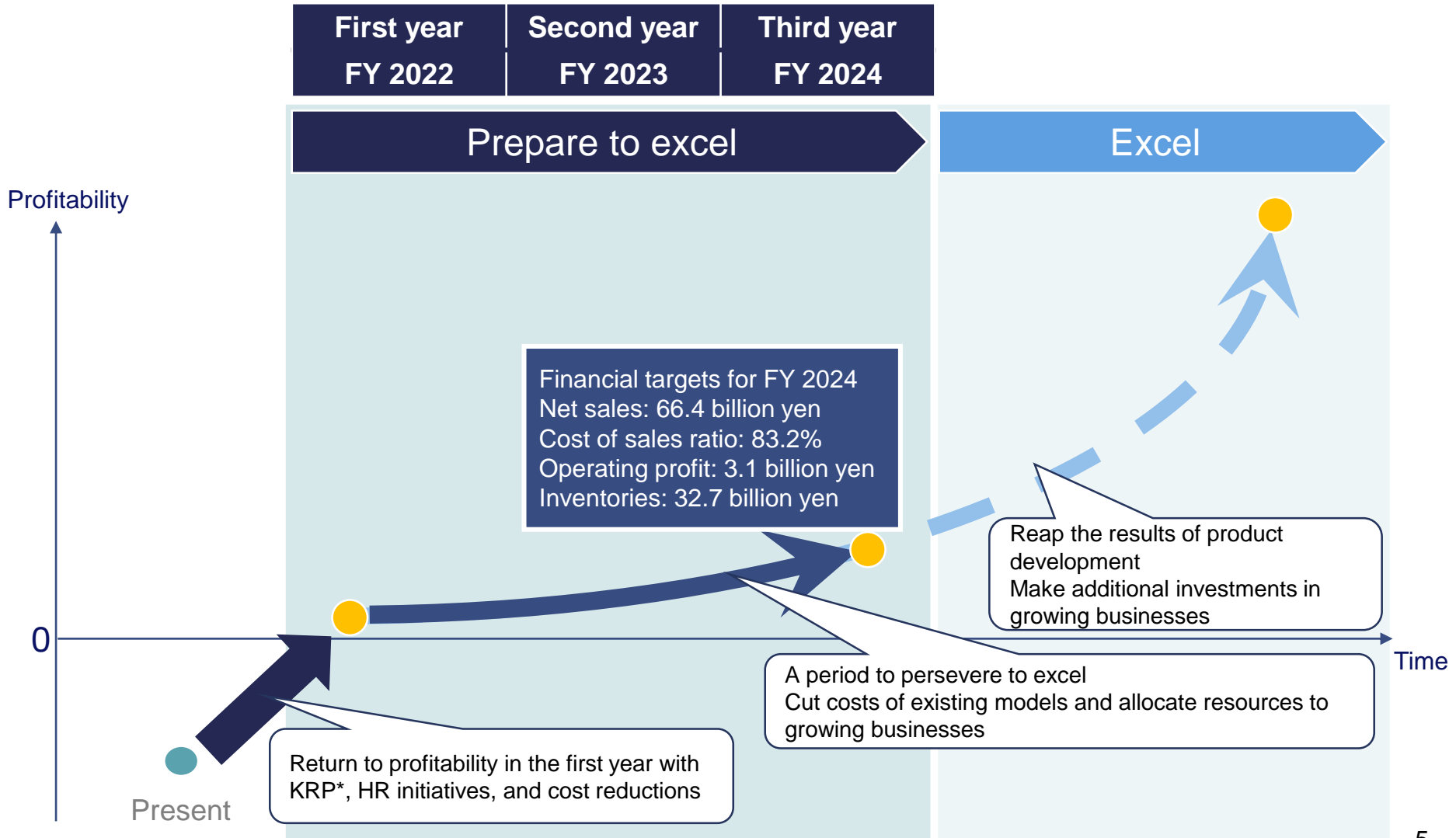
## Future Business Environment

- ✓ Little change expected in the domestic market
- ✓ Change in the competition environment and market uncertainty in China
- ✓ Supply chain disruption as the world tries to coexist with COVID-19
- ✓ Surge in the cost of raw materials, including fuel and steel
- ✓ Uncertainty in semiconductor supply
- ✓ Increase in foreign exchange risks
- ✓ Volatile international climate

**An extension of existing initiatives is unlikely to bring the Company into the black. A more radical improvement is necessary.**

# Positioning of This Medium-Term Management Plan

- ✓ The three years covered by the plan is positioned as a period to prepare to excel, during which the Company will reduce costs drastically, improve inventory levels, and develop products for the future.



\*KATO Reborn Project

## Theme of the Mid-Term Plan

**Transformation into a Lean and Solid Structure**  
Three years for a thorough transformation to excel in the next stage

### [Basic Policy]

#### Improve and enhance profitability

- ✓ Concentrate personnel, facilities, investments, and other resources in core businesses, carry out a fundamental reform, and improve profitability.

#### Improve financial structure

- ✓ Optimize working capital, especially inventories, and increase efficiency in use of funds.

#### Build the foundation for the future

- ✓ For future growth, concentrate on core businesses in developing new models.

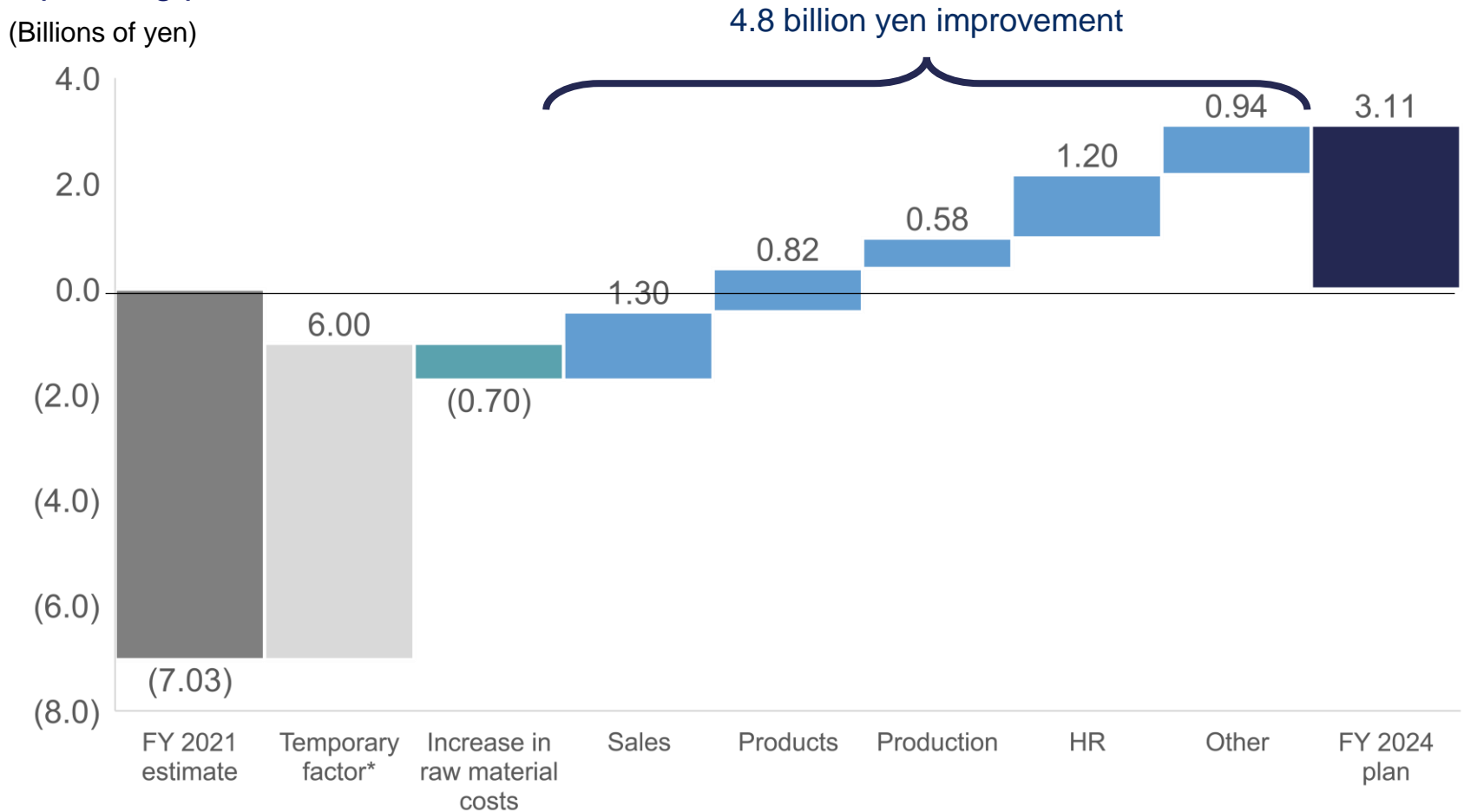
# Quantitative Plan

- ✓ Post an operating profit in FY 2022, the first year of the Mid-Term Plan, and achieve an operating profit margin of 4% in FY 2024.

(Unit: Billions of yen)	FY 2021 (Estimate)	FY 2022 (First year)	FY 2023 (Second year)	FY 2024 (Third year)
Net sales	63.2	64.1	64.4	66.4
Cost of sales ratio	89.3%	85.4%	83.7%	83.2%
Operating profit	(7.0)	1.3	2.5	3.1
Operating profit margin	(11.1)%	2.0%	3.9%	4.7%
Inventories	—	31.0	31.8	32.7

# Impact of Improvement Plans on Operating Profit

- ✓ Accelerate the KATO Reborn Project, which has been in place since last year, introduce additional measures, and in FY 2024 achieve a roughly 4.8 billion yen improvement in operating profit.



\*Including provision of allowance for doubtful accounts (roughly 5.0 billion yen) and loss from revaluation of inventories, etc. (roughly 1.0 billion yen).



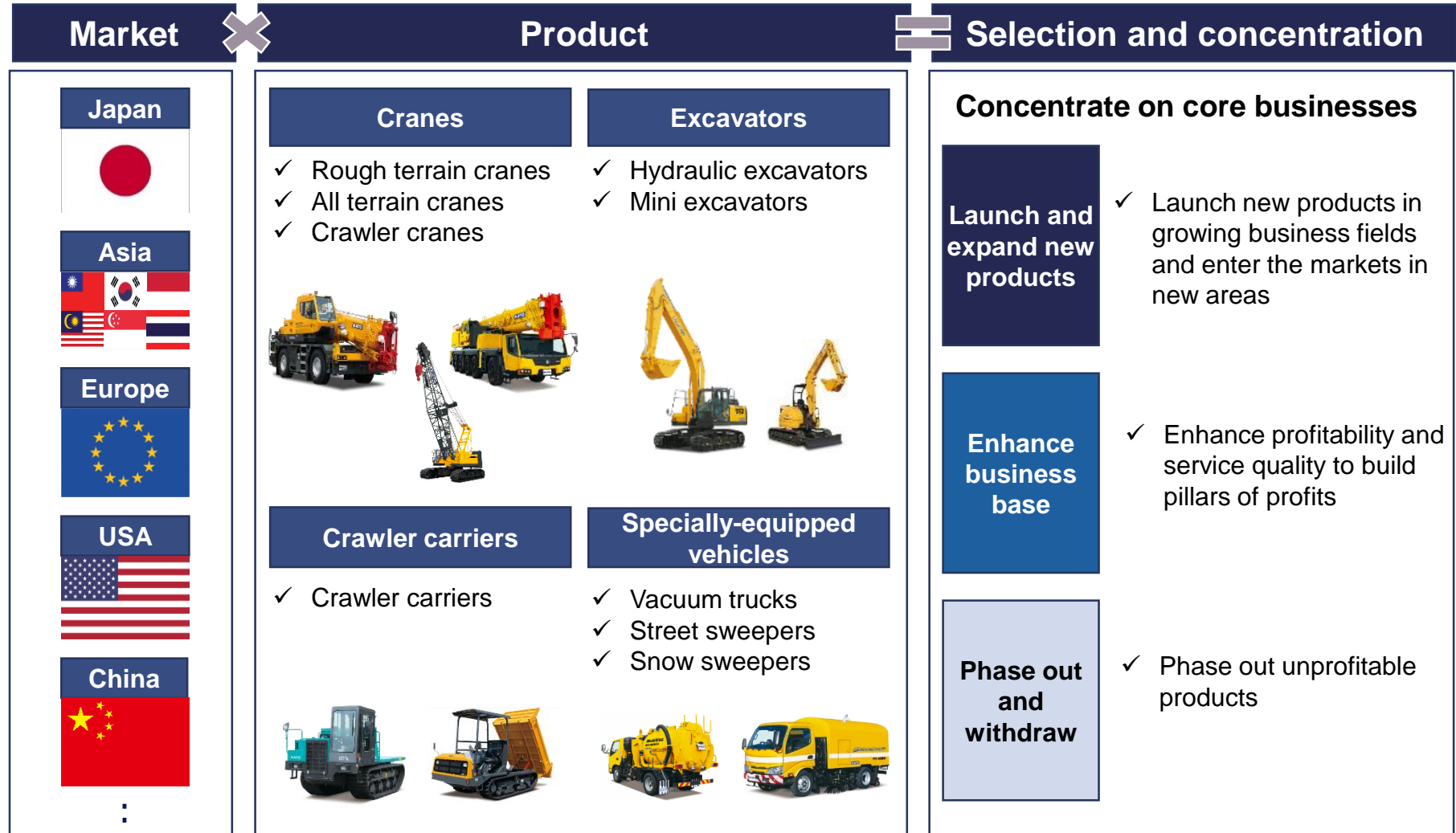
# Improvement Plan Details

- ✓ Steadily implement improvement plans across the Company, from development to production and sales. (Unit: Billions of yen)

Category	Amount (FY 2024)	Details
Sales	1.30	<ul style="list-style-type: none"> <li>✓ Increase sales price</li> <li>✓ Increase sales volume</li> <li>✓ Reorganize domestic sales offices</li> </ul>
Development	0.82	<ul style="list-style-type: none"> <li>✓ Drastically reduce costs for existing products</li> <li>✓ Launch new product lines</li> </ul>
Production	0.58	<ul style="list-style-type: none"> <li>✓ Fundamentally review production costs</li> <li>✓ Level out production</li> </ul>
HR	1.20	<ul style="list-style-type: none"> <li>✓ Solicit voluntary retirement</li> <li>✓ Second employees to external organizations</li> </ul>
Other	0.94	<ul style="list-style-type: none"> <li>✓ Reduce fixed costs</li> <li>✓ Enhance the after-sales service business etc.</li> </ul>
<b>Total</b>	<b>4.84</b>	

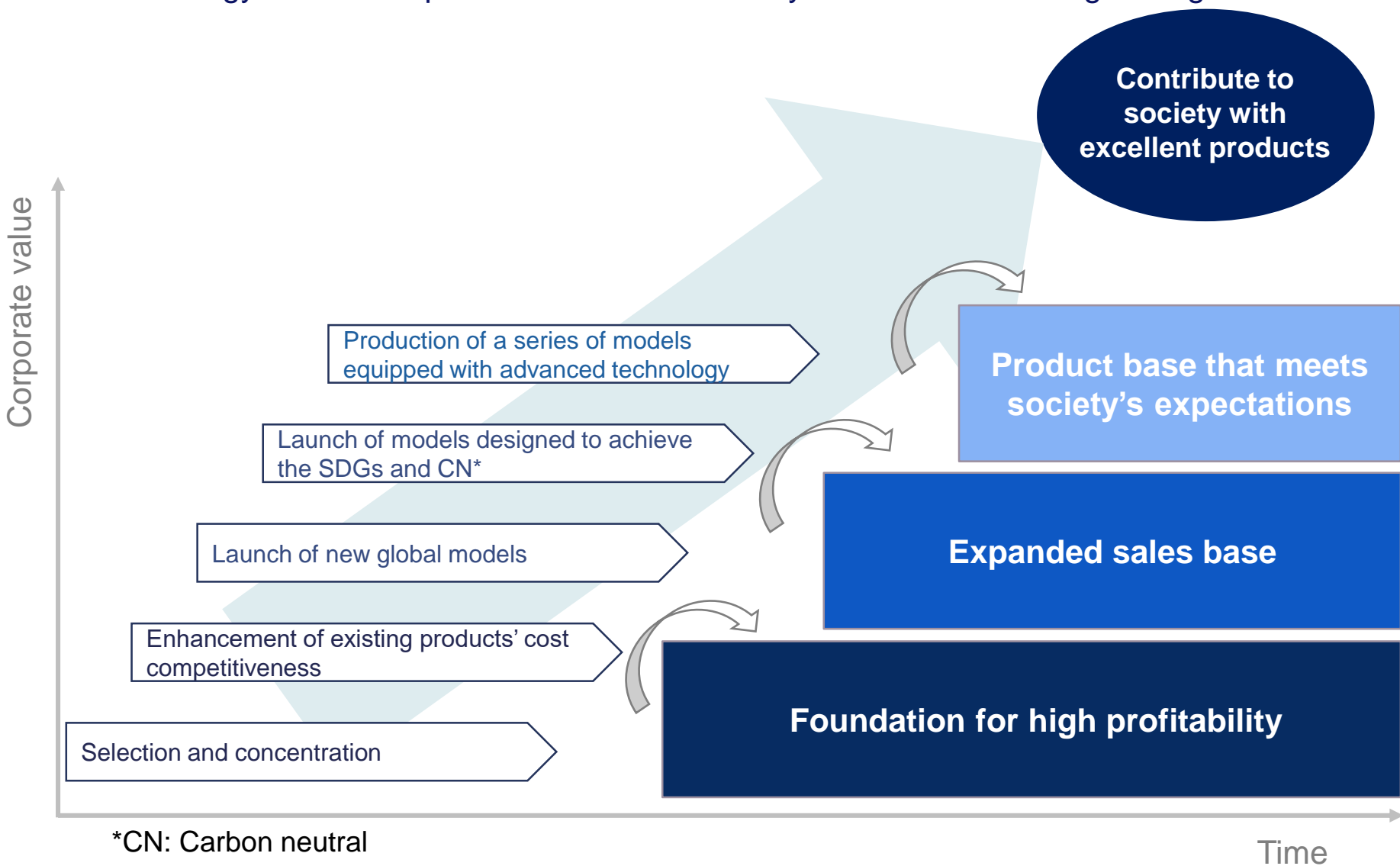
# Building the Foundation for the Future (Selection and Concentration)

- ✓ Set priorities in each product's business strategy and concentrate management resources in core businesses.



# Building the Foundation for the Future (Selection and Concentration)

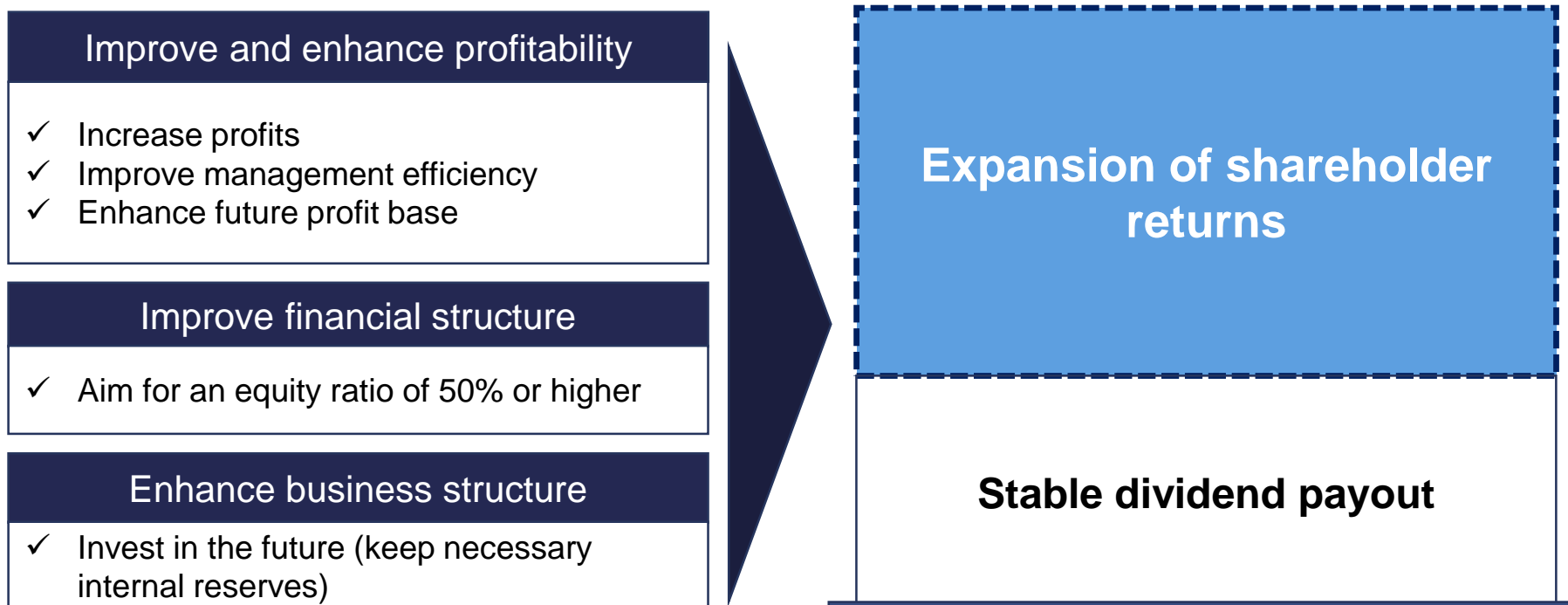
- ✓ Technology and development activities with an eye to medium- to long-term growth



\*CN: Carbon neutral

# Shareholder Returns

The Company's basic policy for shareholder returns is to pay out stable dividends to shareholders while keeping internal reserves necessary for enhancing the business structure as a manufacturer. We will steadily implement this Mid-Term Plan and, by improving and enhancing profitability and improving the financial structure, aim to expand shareholder returns beyond conventional stable dividend payouts.



From April 2022, the Company will be listed in the Prime Market of the Tokyo Stock Exchange. In addition to complying with the principles in Japan's Corporate Governance Code, which is a listing requirement for the Prime Market companies, we will implement measures to address the aforementioned issues without delay to increase shareholder returns, and strive to increase shareholder value, including the share price.

Contents on the present plans and the forecasts included in this material are based on information presently obtained and certain premises deemed reasonable by the Company. Actual business results, etc. may be significantly different from them due to various factors. Therefore, this material does not promise or guarantee their realization.

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