



Our Precision, Your Advantage

Meeting Materials for FY2019

June 2020

KYB Corporation

(Stock Code: 7242; First Section of Tokyo Stock Exchange)

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FY2019 Performance and the Previous Mid-Term Management Plan

- In FY2019, there was a large deficit due to the total amount of various expenses.
- The previous mid-term management plan fell short of its targets due to the discovery of nonconforming acts involving seismic isolation/mitigation materials and changes to the demand environment.

2020 Mid-term Management Plan

- Under the current state of affairs, it is extremely difficult to formulate a 2020 mid-term management plan.
- We will explain KYB's management issues and how it will tackle them.



KYB's Management Issues and Initiatives

Review of the 2017 Mid-Term Management Plan



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(¥ Billion)	IFRS		Differences
	FY2019 target (As of May 2017)	FY2019 actual	
Net Sales	398.0	381.6	(16.4)
Segment profits* [Segment profits ratio]	26.0 [6.5%]	17.6 [4.6%]	(8.4) [(1.9)%]
ROE	10.0%	—	—

*Segment profits correspond to operating income in JGAAP

Positive Results

- ✓ Introduced **value-added products** for automobiles to the market
- ✓ Completed the goal of **transferring and integrating production lines** for construction machinery
- ✓ Achieved measurable results with reorganizing unprofitable plants and businesses

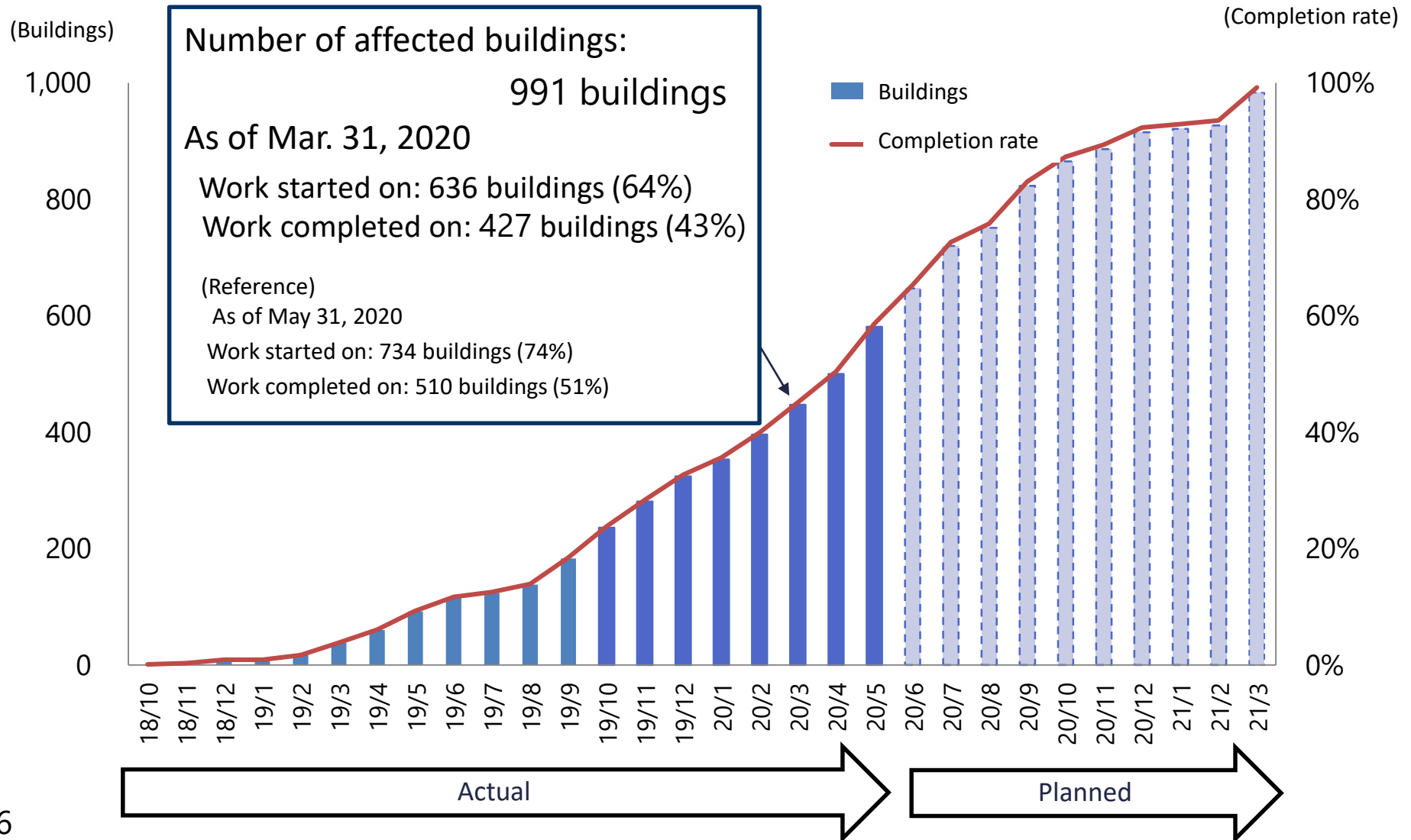
Issues

- ✓ **Nonconforming acts** in a non-core business came to light
- ✓ **Delay in structural reforms** of unprofitable businesses

Items to Focus on

- **Quickly bring seismic isolation/mitigation oil dampers up to conformity**
- **Deal with the novel coronavirus (COVID-19)**
- **Initiatives after coronavirus**
- **Initiatives aimed at restoring trust (ESG efforts)**

Progress Plan for Bringing Nonconforming Seismic Isolation/Mitigation Dampers up to Conformity



Quickly bring seismic isolation/mitigation oil dampers up to conformity



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Preventive Measures and State of Progress (As of March 31)

Cause Analysis

*1. Starting: The details of a concrete plan being considered

*2. Underway: Preparations are complete, operations are ongoing

1. Lack of compliance awareness
2. Corporate culture looks away from inconvenient truths
3. Management focused on receiving orders
4. Lack of inspections
5. Lack of nonconforming act preventions in inspection machines
6. Incomplete information sharing system
7. Monopolization of important business
8. 1) Deficient quality inspections
2) Lack of inspections for similar nonconforming instances related to quality
9. Problems related to commercialization

Items	Progress			
	Starting *1	Underway *2	Completed	
Strictly build a compliance awareness, reform corporate culture	17	1	1	15
Evaluate business feasibility, revise our business operation systems as well as information sharing systems	22	0	4	18
Improve inspection systems/methods	12	0	9	3
Strengthening internal audits/regulation systems	16	1	4	11
Total	67	2	18	47

AC (Automobiles)

Current situation

Sales decrease from peak in April to May, production adjustments in each region

Future influencing factors

Interest in purchasing automobiles, an expensive consumer durable

HC (construction Machinery)

Current situation

Prompt recovery in China, while on the other hand, developed countries are economically sluggish

Future influencing factors

Restart of infrastructure investment due to the lifting of restrictions on mobility
Economic stimulation measures in many countries

Initiatives Currently Underway to Deal with the Novel Coronavirus (COVID-19)



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Coronavirus infection prevention measures

Measures for the health and safety of customers, business partners, regional communities, and employees

- Avoid the “Three Cs” (Closed spaces, Crowded places, Close contact)
- Thorough hygiene management
- Promote working from home

Cash flow improvement

- **Postpone or cancel capital investments**
(Investments necessary for future growth are continuing)
- **Enhancement of inventory control, reduce working capital**
(Raise accuracy in predicting demand, review inventory levels)
- **Secure cash on hand**

Structural reforms, thorough cost reductions

- **Speed up selection and integration**

AC: Accomplish reorganization of plants and companies

HC: Sales promotions to local manufacturers in China

- **Greatly reduce fixed costs**

Manufacturing personnel system that corresponds to volume decreases, rationalization of internal offices

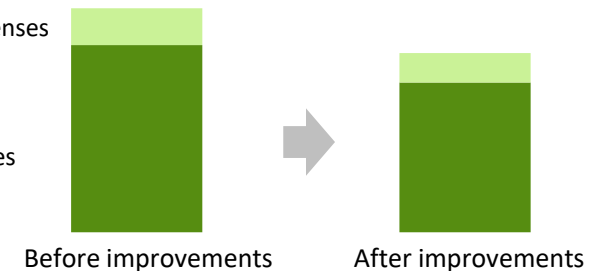
- **Increase efficiency by removing waste with the KPS* activity**

- **Decrease quality losses**

(Total costs)

SG&A expenses

Cost of sales



*KPS (Kayaba Production System): A production system that targets cost reductions and is based on the concept of removing all unnecessary wastes

■ Secure competitiveness by integrating major plants and collective reorganization in accordance with clients' shifts in demand

AC

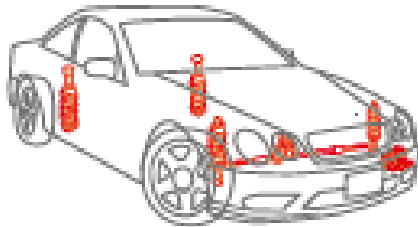
- ✓ Reorganize shock absorber plants within Europe (Western Europe ⇒ Eastern Europe)
- ✓ Reorganize EPS manufacturing (placing importance on China)
- ✓ Close Spain PV plant
- ✓ Reorganize motorcycle manufacturing plants in Asia

HC

- ✓ Focus on China, the world's largest hydraulic excavator market
- ✓ Develop low cost models
- ✓ Complete domestic reorganization (integrate manufacturing of motor products)

The two core business that support KYB

**Automotive
Components
Operations
(AC)**



**Hydraulic
Components
Operations
(HC)**



Special-purpose vehicles, etc.

Changes in values due to the novel coronavirus

▶ Become a company that clients want to choose

Selection and integration

Shift to growth markets/fields

- ✓ Sales promotions to the three German premium car makers AC
- ✓ Develop specialized low-cost models at China plants HC

Unmanned operations / manpower reduction

Promote innovative *monozukuri* (manufacturing expertise)

- ✓ Raise level of automation and unmanned operations AC

Further refine core technologies

Create high-value-added products

- ✓ Refine technology for our mainstay shock absorber products AC
- ✓ Develop hydraulic electronic controls system HC

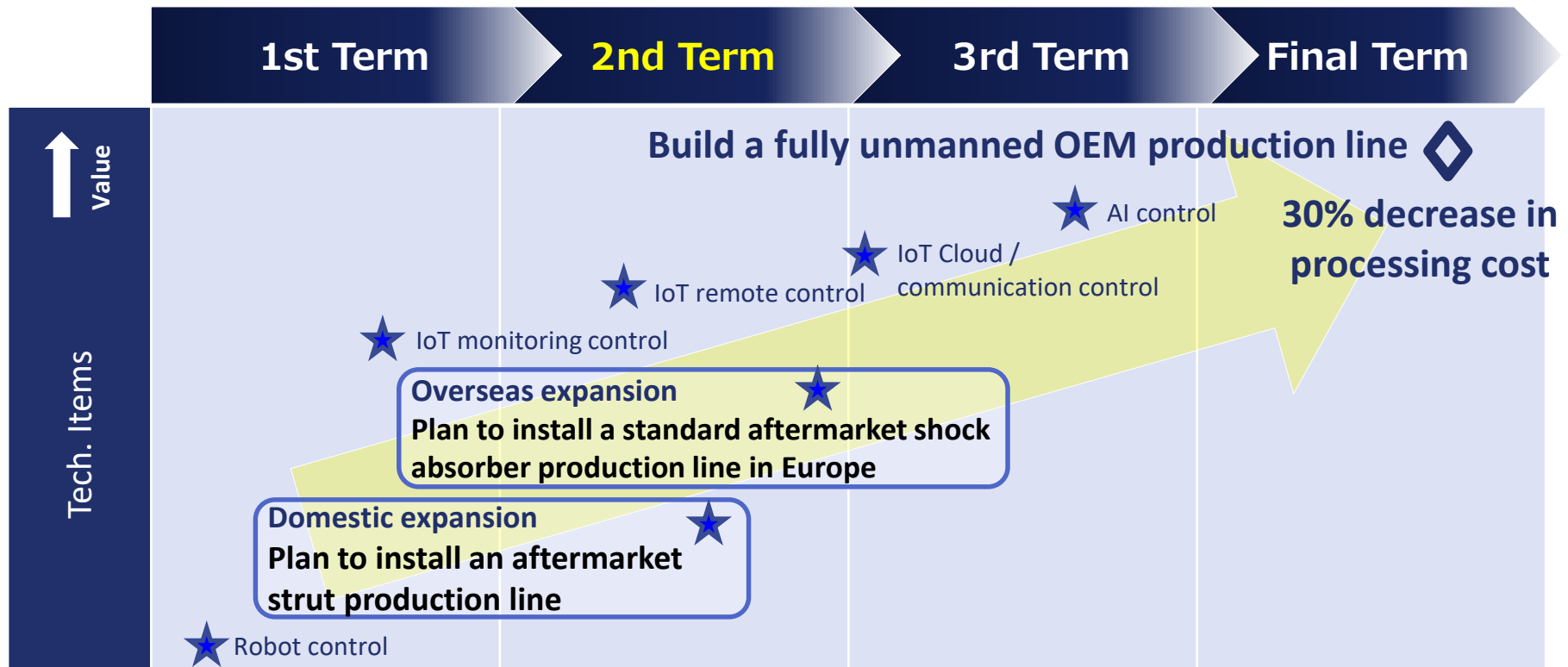
Initiatives After Coronavirus

: Promote Innovative *Monozukuri*

Unmanned operations
/ manpower reduction

Promote innovative *monozukuri* (manufacturing expertise)

- ✓ Reduce processing costs 30% by raising the level of automation and unmanned operations
- ✓ Sequential roll out in domestic and overseas plants



- To become a company that never again causes inconvenience to society by making awareness of norms our foundation

Reform corporate culture (Governance)

Awareness of norms
Compliance observance
Strengthening governance

Safety & quality management

Zero serious disasters, key disasters, and serious fires
Zero quality problem

Environment-friendly

Environmental load decrease (compared to FY2019)
Energy output level -1%/year
Industrial waste output level -1%/year



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Cautionary Statement

This report contains forward-looking statements, including KYB's plans and strategies, as well as statements that report historical results. Forward-looking statements involve such known and unknown risks and uncertainties as economic conditions; currency exchange rates; laws, regulations, and government policies; and political instability in principal markets.

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How the incident happened

For some seismic isolation/mitigation oil dampers, coefficients were falsified, or measurement results were arbitrarily increased or decreased by adjusting the starting point and made to vary so as to fall within the intended range. Due to this improper act, products that did not conform to the standards set by Japan’s Ministry of Land, Infrastructure, Transport and Tourism, or did not meet the standard values set by customers, were installed in buildings.

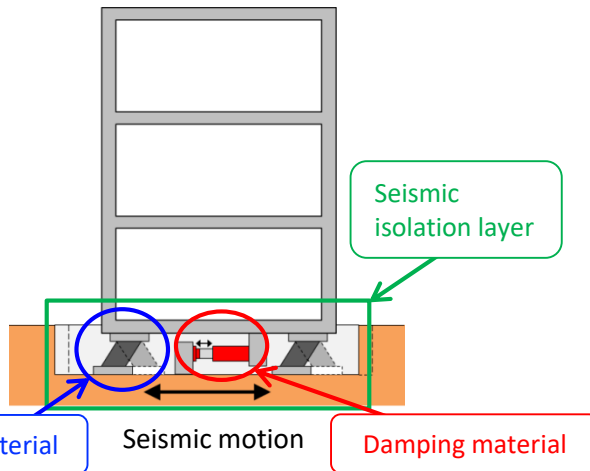
Number of nonconforming and unknown products as well as affected buildings

	Nonconforming products *1		(3) Unknown	(1)-(3) Total
	(1) Nonconforming to certification by Minister	(2) Out of customer standards		
Seismic isolation oil damper	245 buildings	370 buildings	237 buildings	852 buildings
	1,056 units	3,014 units	3,388 units	7,458 units
Seismic mitigation oil damper	—	30 buildings	109 buildings	139 buildings
	—	253 units	4,402 units	4,655 units
Total	245 buildings	400 buildings	346 buildings	991 buildings
	1,056 units	3,267 units	7,790 units	12,113 units

*1 There is no minister certification system for seismic mitigation oil dampers.

Seismic isolation/mitigation

Seismic isolation

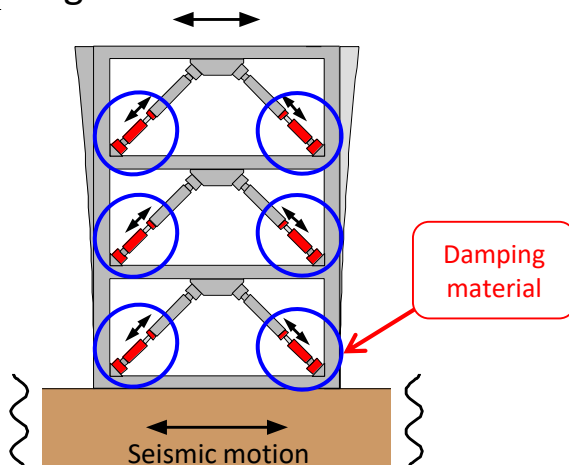


Structure that prevents transmission of underground vibrations by establishing a **seismic isolation layer** and connecting the building to the ground using **support materials** and assisting **damping materials**.

Support materials made of laminated rubber, etc. prevent the transmission of power to the building by being deformed by the power of the ground and moving horizontally.

Depending on the scale and structure of a building, **damping materials** such as oil dampers are added to support materials, thereby curtailing vibration and excessive deformation of the seismic isolation layer.

Seismic mitigation

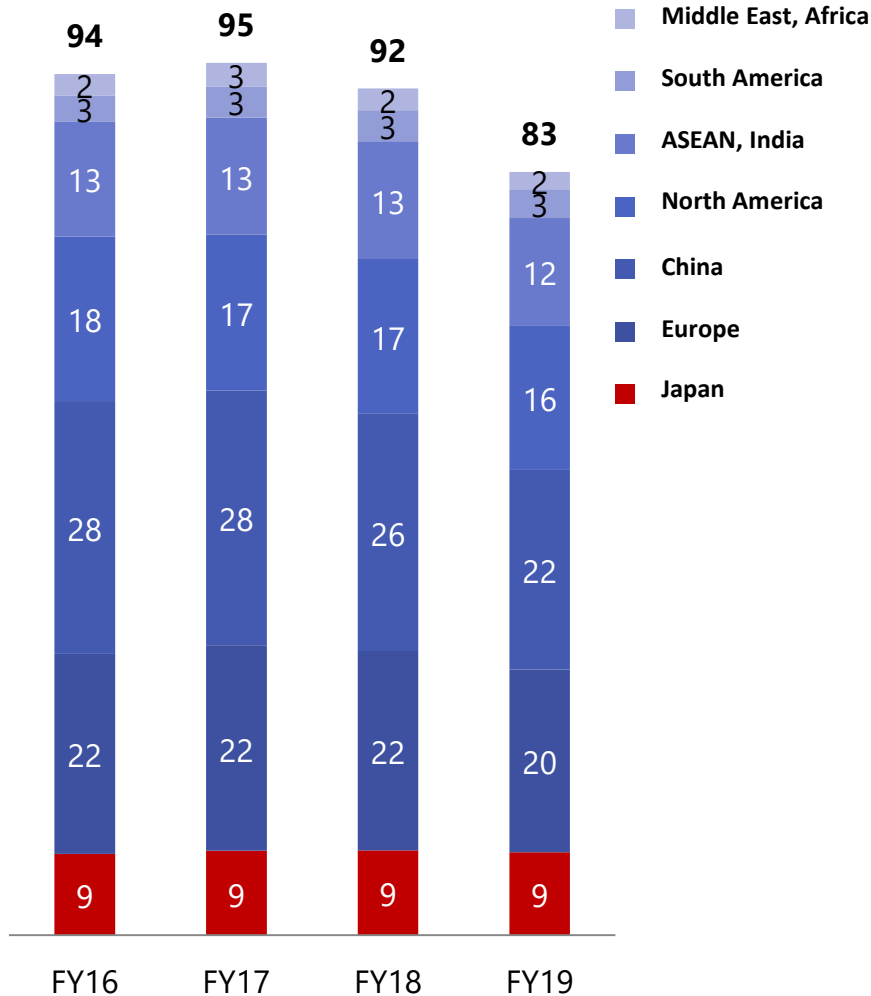


Structure that mitigates vibration of the building by wind or earthquake through the placement of **damping materials** on each floor.

Damping materials such as oil dampers mitigate vibration by absorbing power from the wind or an earthquake, therefore curtailing the deformation of each floor of the building.

Automobile Production Forecast

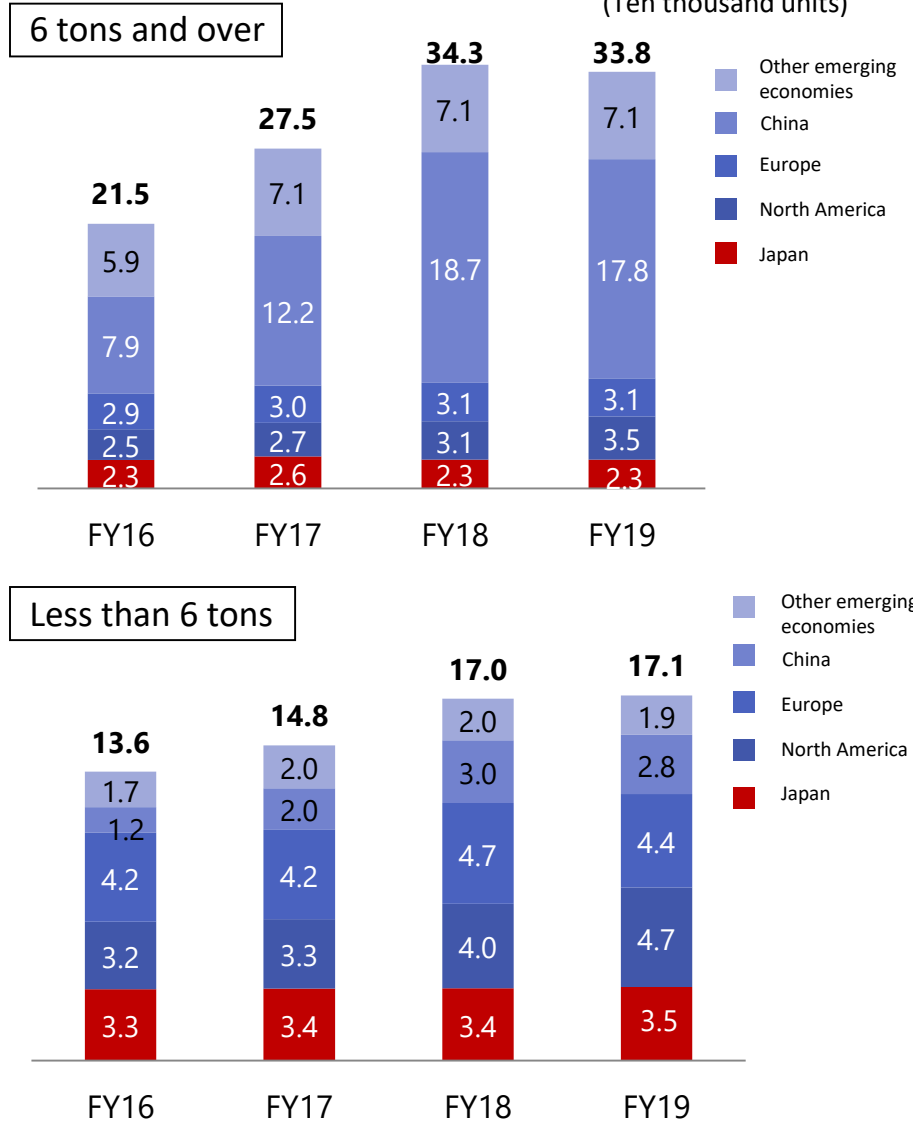
(Million units)



Source: IHS (the end of Apr. 2020)

Demand for Hydraulic Excavators Forecast

(Ten thousand units)



Source: based on customer data