



The Heart of Industry

IWAKI

Results of Operations for the
First Half of the Fiscal Year Ending March 31, 2018
(FY3/18)

November 29, 2017

IWAKI CO.,LTD.

Stock code: 6237

Trade name: Iwaki Pump

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Summary of 1H FY3/18 Financial Results

		1H FY3/17	1H FY3/18		(Millions of yen)
			Amount	YoY change	1H FY3/18 Forecast*
Net sales		12,394	13,435	+8.4%	13,075
Gross profit		4,025	4,516	+12.2%	4,395
(Gross margin)		(32.5%)	(33.6%)	(+1.1pt)	(33.6%)
Operating profit		771	1,015	+31.6%	767
(Operating margin)		(6.2%)	(7.6%)	(+1.3pt)	(5.9%)
Ordinary profit		1,086	1,354	+24.7%	923
Profit attributable to owners of parent		779	1,016	+30.4%	647
Net income per share (Yen)		104.12	135.78		86.45
Exchange rate (average)	USD/JPY (Yen)	111.74	112.34		113.00
	EUR/JPY (Yen)	124.58	121.66		120.00

* Announced on May 12, 2017

1

Sales increase

- ✓ Capital expenditures in the semiconductor/liquid crystal and surface treatment equipment markets contributed to higher sales and there was significant growth in Asia
- ✓ Sales in China were about 40% higher than one year earlier mainly because of growing demand in the medical equipment market
- ✓ Increasing demand in Europe in the new energy market
- ✓ Benefits of initiatives for faster deliveries are slowly emerging

2

A big increase in operating profit

- ✓ Earnings benefited from the growth in sales
- ✓ Operating margin improved due to a reexamination of expenses
- ✓ Strong sales growth of magnetic drive pumps and metering pumps, which are core products with high profit margins

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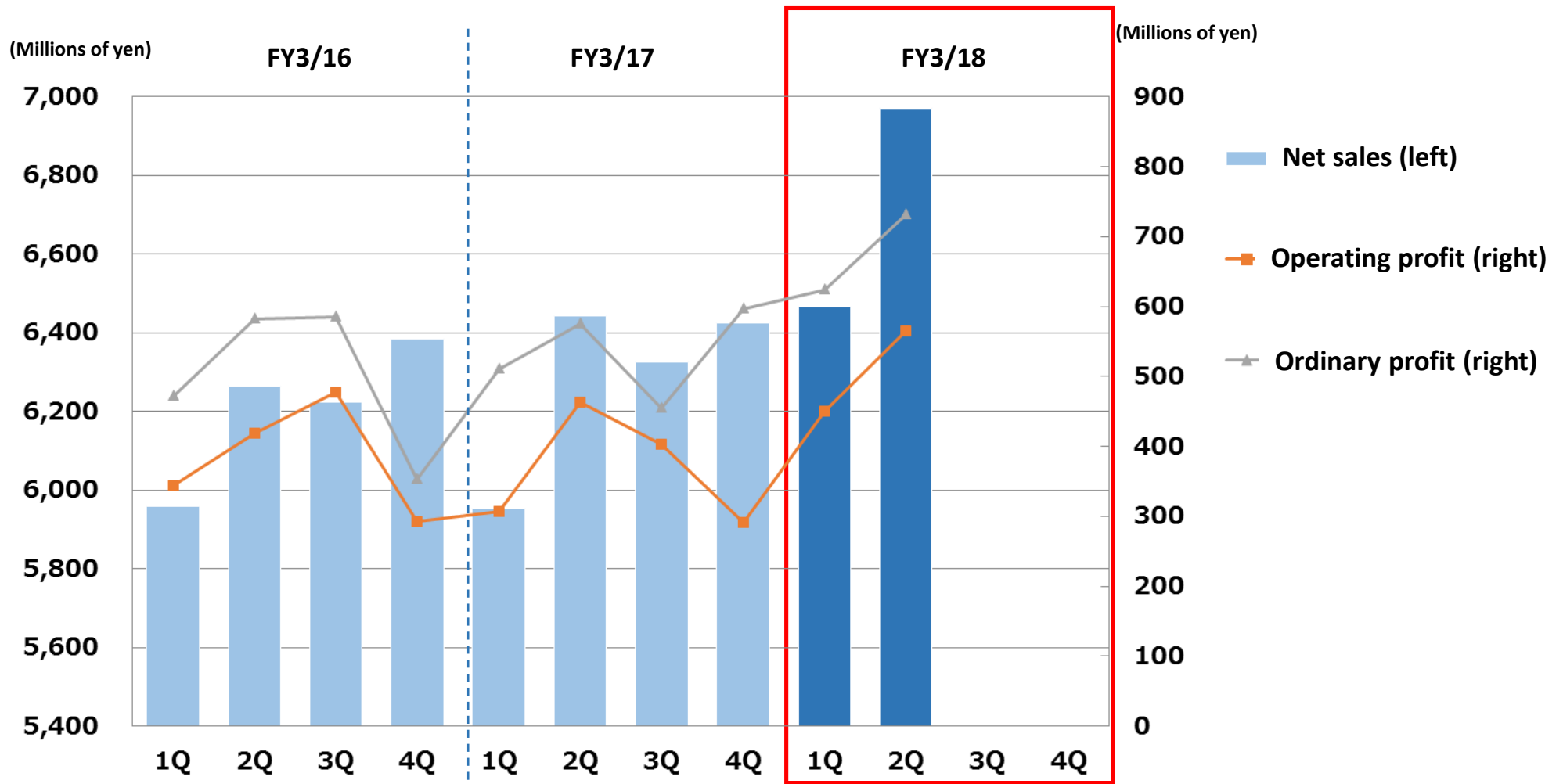
A big increase in ordinary profit

- ✓ The foreign exchange gain declined because of the contribution of one-time factors one year earlier, but there was a big increase in ordinary profit resulting from the consistently strong performances of affiliated companies, mainly in Asia

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Net Sales and Operating Profit (Quarterly)

Higher sales and profits at all levels backed mainly by strength in the semiconductor/liquid crystal and surface treatment equipment markets

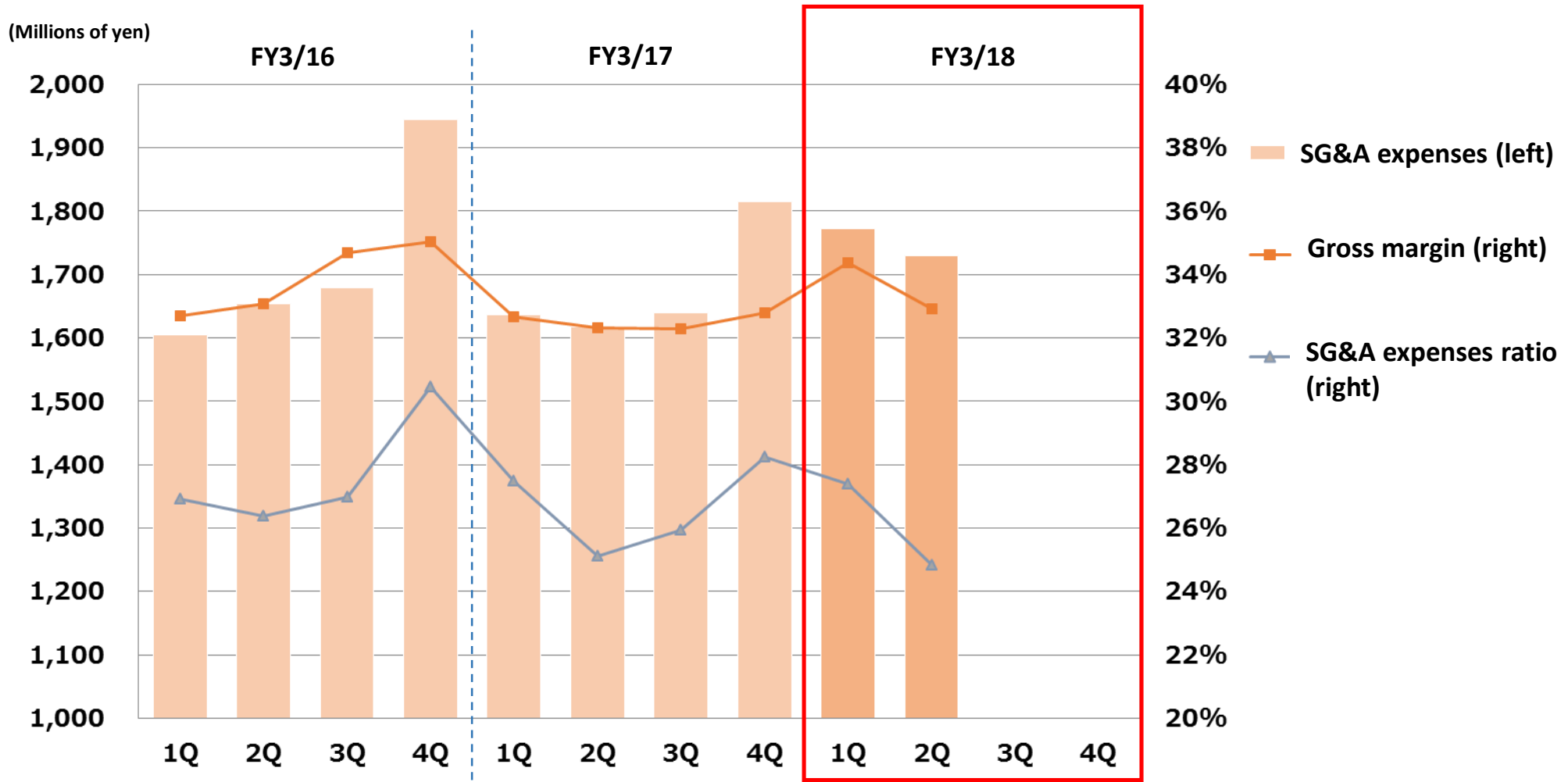


* FY3/16 1Q and 2Q figures are for reference only because there are no consolidated financial statements for these fiscal periods.

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Gross Margin and SG&A Expense Ratio (Quarterly)

Sales growth reduced the SG&A expense ratio and the gross margin remained high

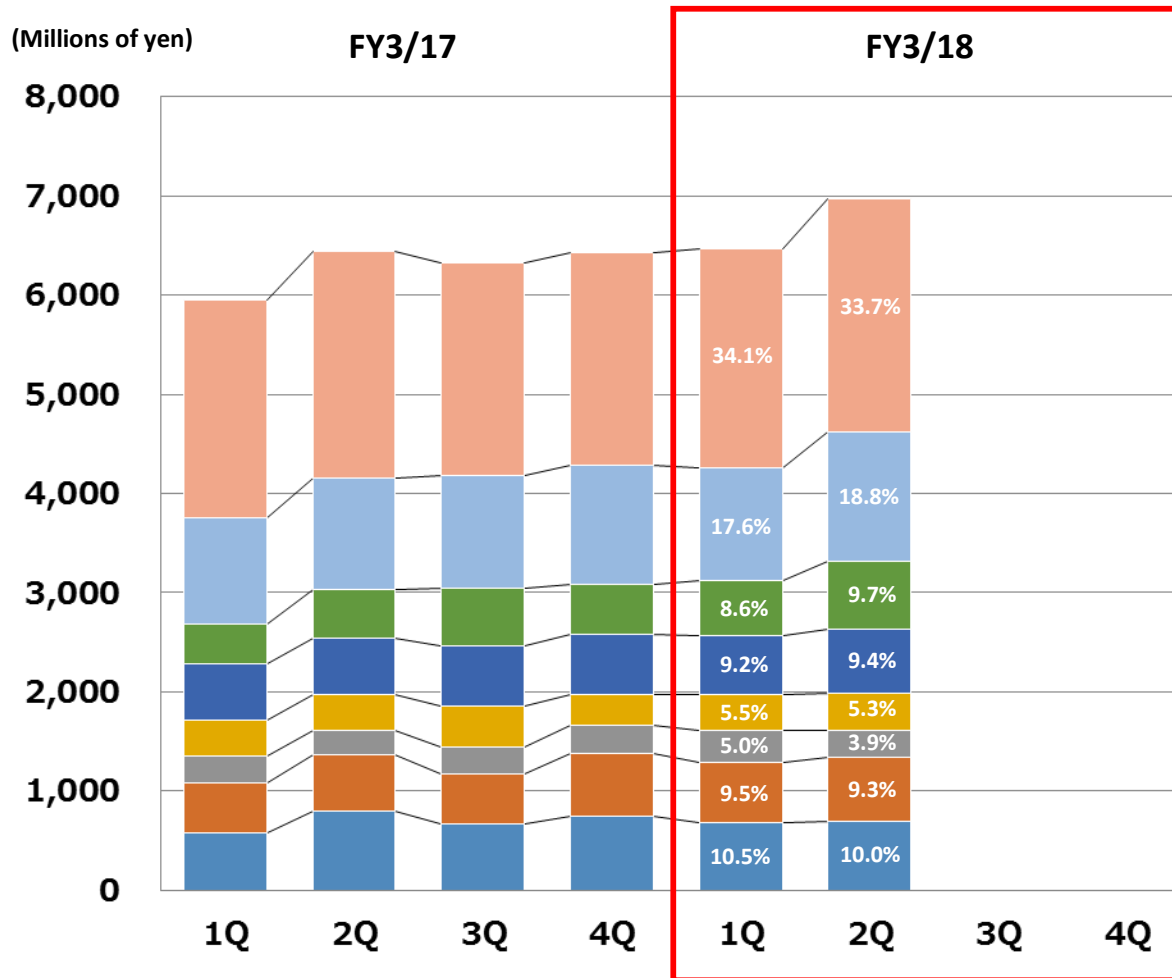


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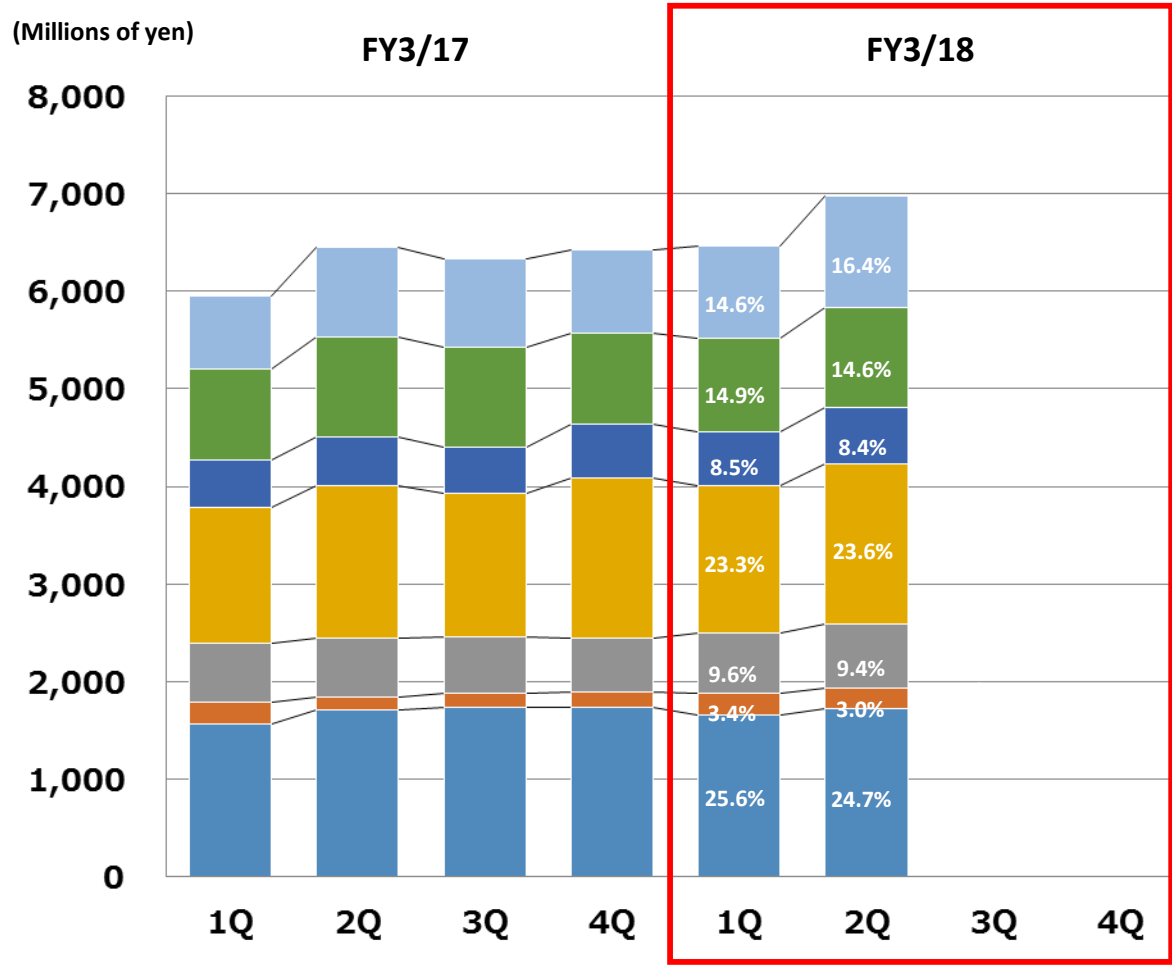
Product Category Sales

Sales of pneumatic drive pumps increased sharply following 1Q and sales of metering pumps and rotary displacement pumps also increased.



	1H sales (Millions of yen)	YoY change
Magnetic drive pumps	4,549	+1.2%
Metering pumps	2,449	+11.8%
Pneumatic drive pumps	1,231	+38.0%
Rotary displacement pumps	1,248	+10.4%
Air pumps	727	+1.4%
System products	594	+12.8%
Purchased products	1,258	+17.8%
Others	1,376	+0.2%

Significant sales growth in the semiconductor/liquid crystal market and higher sales in the surface treatment equipment

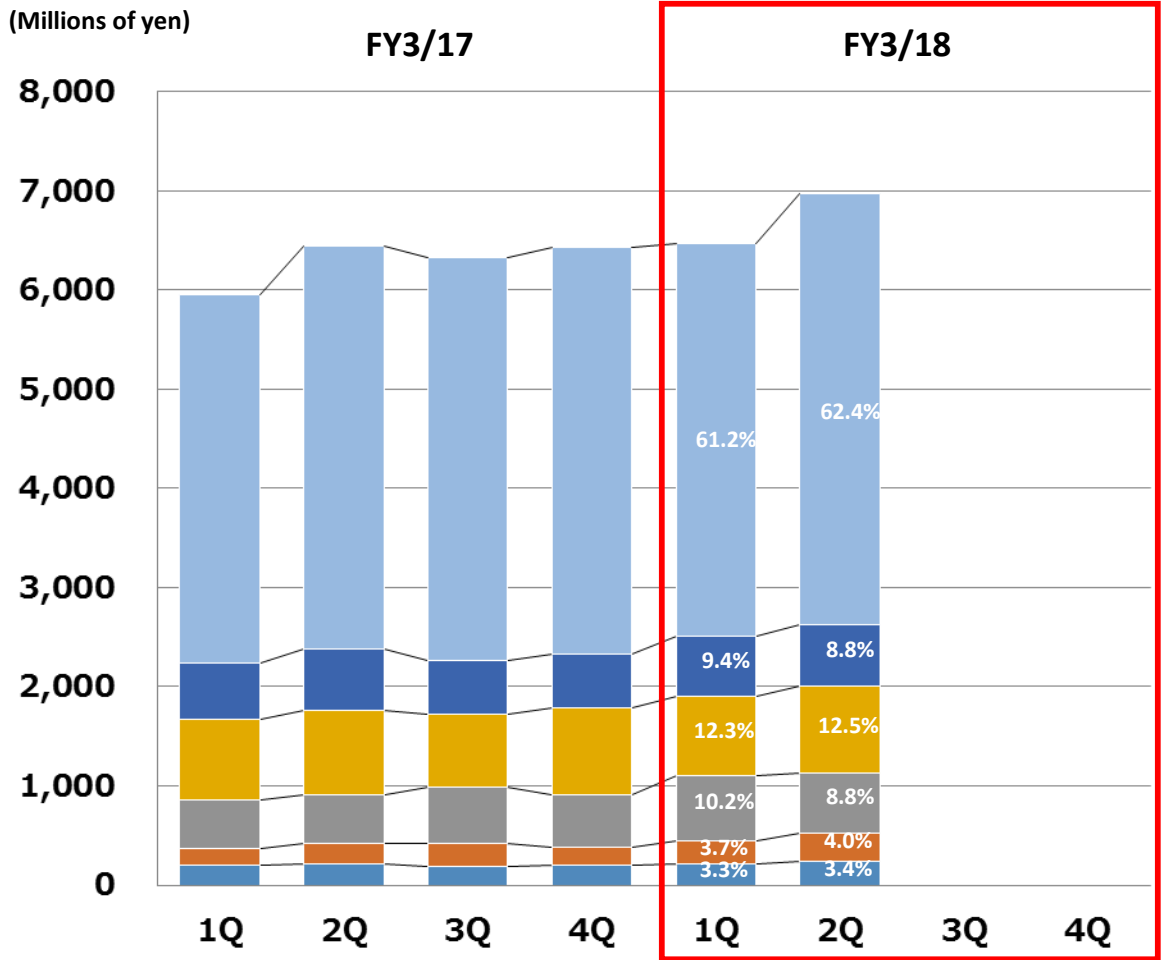


	1H sales (Millions of yen)	YoY change
Semiconductor/ liquid crystal	2,086	+25.7%
Medical equipment	1,980	+1.3%
Surface treatment equipment	1,135	+13.7%
Water treatment	3,152	+7.2%
Chemicals	1,277	+4.8%
New energy	424	+24.5%
Others	3,378	+3.0%

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Regional Sales

Sales increased in Japan, Europe and America and, as in the 1Q, sales were very strong in Asia and China

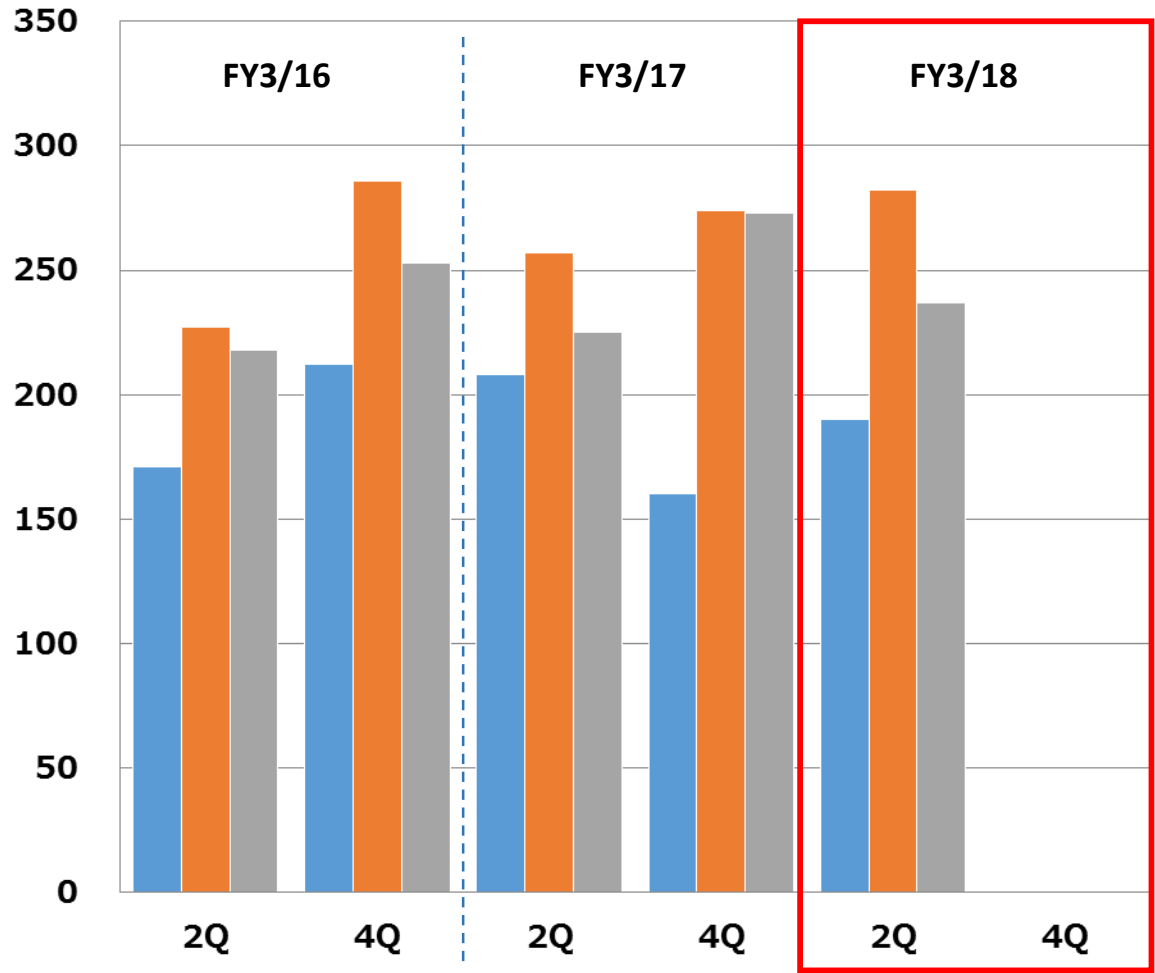


	1H sales (Millions of yen)	YoY change
Japan	8,304	+6.8%
Overseas total	5,131	+11.1%
Europe	1,222	+2.8%
America	1,668	+0.9%
Asia	1,269	+27.6%
China	517	+42.5%
Others	453	+8.9%

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Capital Expenditures, R&D Expenses and Depreciation (Quarterly)

(Millions of yen)



	1H sales (Millions of yen)	YoY change
Capital expenditures	190	-18
R&D expenses	282	+24
Depreciation	237	+11

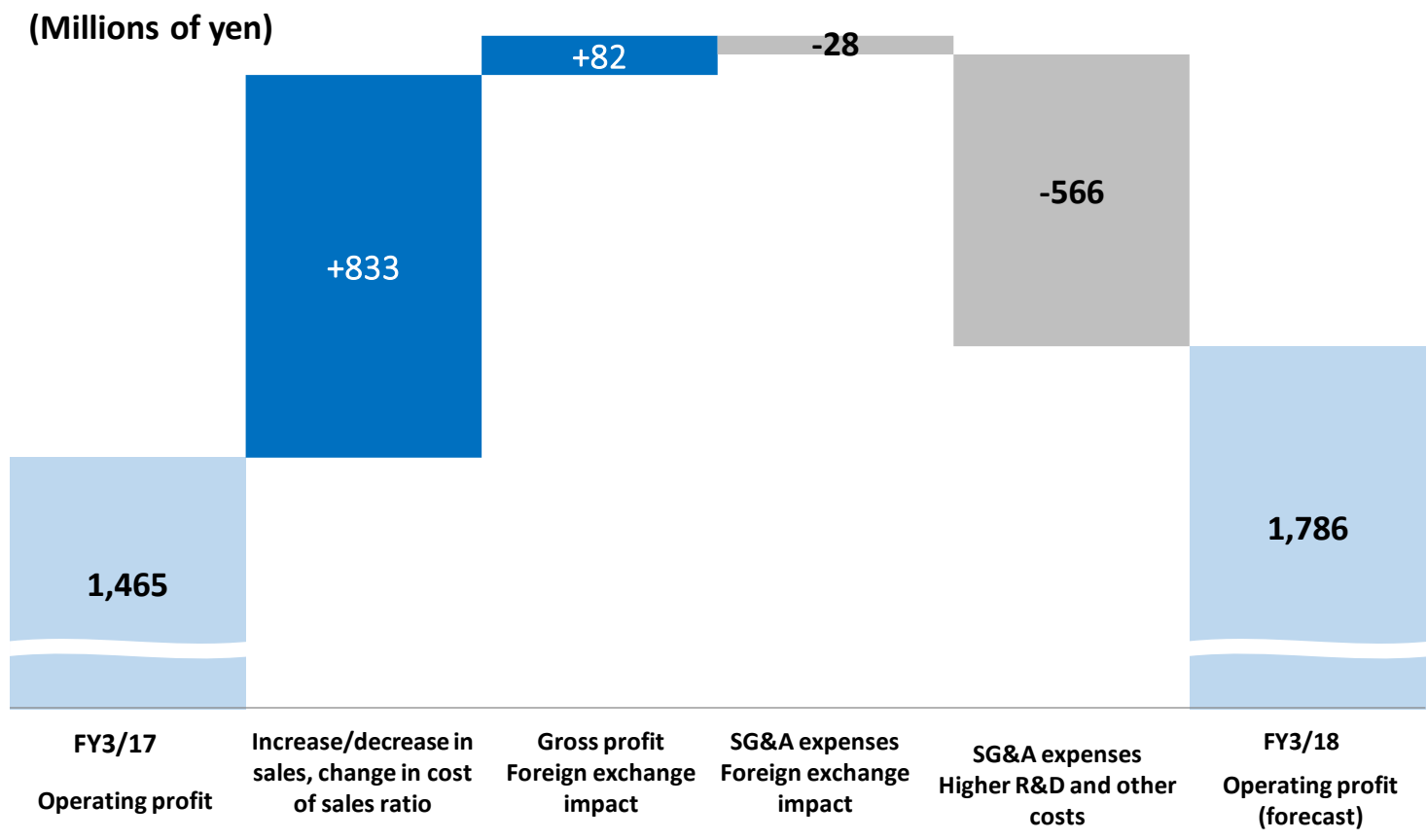


Outlook for FY3/18

Higher sales and earnings forecasts because of strong sales in the semiconductor/liquid crystal and surface treatment equipment markets

(Millions of yen)

	FY3/17	FY3/18 (forecast)			FY3/18 Previous forecast
			YoY change	Progress ratio for 1H	
Net sales	25,146	26,838	+6.7%	50.1%	26,517
Operating profit	1,465	1,786	+21.9%	56.8%	1,672
(Operating margin)	(5.8%)	(6.7%)	(+0.8pt)	-	(6.3%)
Ordinary profit	2,136	2,290	+7.2%	59.2%	1,969
Profit attributable to owners of parent	1,690	1,735	+2.6%	58.6%	1,450
Net income per share (Yen)	225.93	231.90	+2.6%	-	193.82
Exchange rate (average)	USD/JPY (Yen)	108.81	107.00 (estimates)		113.00
	EUR/JPY (Yen)	120.30	128.00 (estimates)		120.00

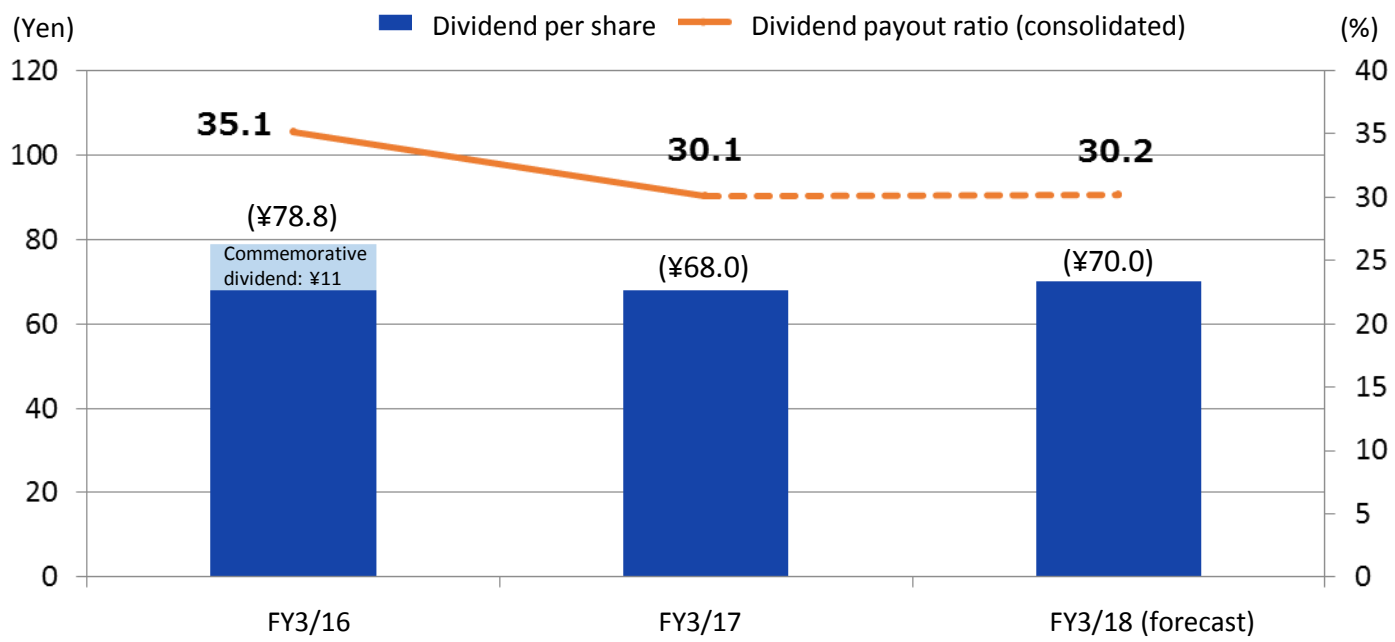


Market environment assumptions

	Japan	Overseas
Water treatment market	<ul style="list-style-type: none"> • Solid demand for water quality management for hot bathing facilities and for agriculture using hydroponics and soil • Slow sales of equipment for water treatment plants 	<ul style="list-style-type: none"> • Steady growth in the sterilization and liquid chemical supply sectors • Increasing investments in environment protection related water treatment equipment, mainly in Asia
Semiconductor/liquid crystal market	<ul style="list-style-type: none"> • Steady demand at manufacturers of production equipment 	<ul style="list-style-type: none"> • Investments in Asia will remain firm for now
Medical equipment market	<ul style="list-style-type: none"> • Steady growth in dialysis equipment, clinical testing equipment and endoscope sterilization equipment 	<ul style="list-style-type: none"> • Steady growth in biological and immunology analyzers used in China
New energy market	<ul style="list-style-type: none"> • No change in sales of household fuel cells 	<ul style="list-style-type: none"> • Strong capital investment in rechargeable battery • Increasing demand in Europe for wind power generation
Chemicals market	<ul style="list-style-type: none"> • Steady demand related to development of value-added products and investments by pharmaceutical companies 	<ul style="list-style-type: none"> • Increasing expenditures in the Chinese semiconductor industry for equipment for pure chemicals • Steady growth in chemicals for the automobile industry
Surface treatment equipment market	<ul style="list-style-type: none"> • More demand for value-added electronic components 	<ul style="list-style-type: none"> • Steady growth due to increasing production of hybrid and electric automobiles

Basic policy

- Dividend payout ratio: more than 30%
- Consistent distribution of dividends

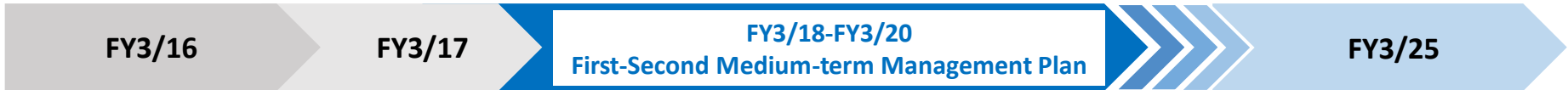




First-Second Medium-term Management Plan

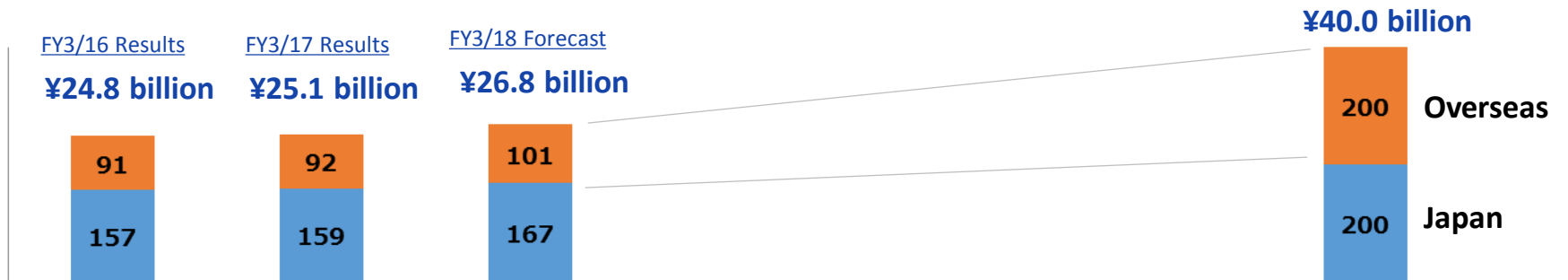


1 Overview of the 10-Year Vision



Consolidated sales

Numerical targets



Qualitative targets

To supply the world's best products as All Iwaki

– We will work together to supply the world's best **products, quality, value, and services** –

“Change & Challenge” is our stance for accomplishing this goal

- We will firmly establish a corporate culture of never being afraid of change and new challenges -

This plan is for the periods of planting seeds and business development and growth to build a base for achieving the 10-year vision

Rebuild the profit structure – Reinforce

- Build a base to reach the numerical targets of the 10-year vision – Reinforce
- Align all vectors for reaching the qualitative targets of the 10-year vision and foster a “Change & Challenge” corporate culture – Firmly establish
- Manage operations with the goal of consistently increasing corporate value

● Steps for achieving the 10-year vision



		Major progress	Level	Upcoming actions
Japan		Share competitive SWOT analysis with all associated departments and replace	○	Continue and strengthen these activities
		To firmly establish the solutions business, increase system sales and differentiate IWAKI by using cooperation with maintenance providers	△	Target the IoT sector by deepening ties among associated departments and upgrade and expand simulation testing facilities
		Take actions to meet customer demands for faster deliveries	○	Speed up deliveries in more product categories
Overseas Key market sectors (and new businesses)	America	Expand presence in the water treatment market (drinking water, food industry) and in the aquatic (water tank system for small fish) business	△	Build stronger sales channels for controllers (Asia, emerging countries)
	Europe	Expand presence in the chemical/chemical manufacturing equipment plant market and target demand for cooling equipment	△	Use the IWAKI Europe sales strategy throughout Europe
	ASEAN	Start using a single model for the entire ASEAN region, establish a business control headquarters, and build/develop locations to control logistics within ASEAN	×	Advance to the development/operations phase while continuing to build a stronger presence in the ASEAN region
	China	Target opportunities in the medical equipment market	△	Stabilize performance in the new energy and water treatment markets
Investments		Make investments in production facilities at IWAKI Europe; in China, increase outsourced manufacturing companies and expand procurement channels for parts	△	Continue IWAKI Europe capital expenditures; in China, add more outsourced production companies and procurement channels
		Establish alliances and seek M&A opportunities in sectors peripheral to the pump business	△	Continue to examine opportunities for alliances and M&A

Progress level ○: 70%+ △: 20% to 69% ×: Under 20%

Consolidated Statement of Income

(Millions of yen)

	FY3/18 (forecast)			FY3/19 (plan)			FY3/20 (plan)		
	Amount	Share (%)	YoY change (%)	Amount	Share (%)	YoY change (%)	Amount	Share (%)	YoY change (%)
Net sales	26,838	100.0	106.7	28,124	100.0	104.8	29,860	100.0	106.2
Gross profit	9,091	33.9	111.2	9,744	34.6	107.2	10,678	35.8	109.6
Operating profit	1,786	6.7	122.0	2,261	8.0	126.6	3,075	10.3	136.0
Ordinary profit	2,290	8.5	107.2	2,689	9.6	117.5	3,501	11.7	130.2
Profit attributable to owners of parent	1,735	6.5	102.6	1,996	7.1	115.0	2,548	8.5	127.6

1

Planning on steady consolidated sales growth based on the outlook for strong non-consolidated sales growth along with solid sales growth at subsidiaries

2

Forecast a steady improvement in the operating margin resulting from sales growth and the outlook for strong sales growth in 2019 and 2020 at subsidiaries with high gross margins

(Millions of yen)

	Initial plan	FY3/18 (forecast)		Initial plan	FY3/19 (plan)		FY3/20 (plan)
	Amount		change	Amount		change	
Net sales	26,724	26,838	114	28,519	28,124	(394)	29,860
Gross profit	8,880	9,091	211	9,518	9,744	225	10,678
Operating profit	2,113	1,786	(326)	2,561	2,261	(300)	3,075
Ordinary profit	2,552	2,290	(262)	3,014	2,689	(324)	3,501
Profit attributable to owners of parent	1,779	1,735	(44)	2,105	1,996	(109)	2,548

1

The FY3/18 sales forecast is higher because of strong sales in the semiconductor/liquid crystal market. But the sales forecasts are lower afterward due to the uncertain outlook.

2

The FY3/18 gross profit forecast is higher due to new subsidiary TechnoECHO, which has a high gross margin; but the operating profit forecast is lower to reflect up-front investments in the aquatic business and for overseas production facilities as well as an increase in the R&D workforce (up-front investments to seeding plants).

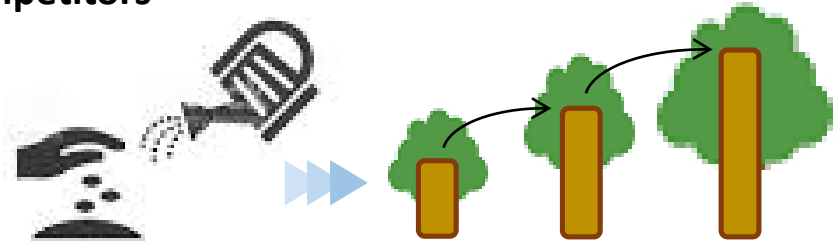
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The FY3/18 forecast for non-operating income from affiliated companies in Asia is higher due to the outlook for continued strength in the semiconductor/liquid crystal market

1. Concentrate resources on markets targeted for reinforcement (medical equipment, new energy, water treatment) - **Measure the benefits** → Develop products more efficiently
2. Improve ability to serve customers; operate a solutions business - **Continue taking these actions**
3. Build a business model for new activities - **Reinforce**
4. Establish and execute sales strategies matching the characteristics of markets in the US and ASEAN region while continuing to grow in Europe; become more price competitive and improve the ability to serve customers

Japan

- Target demand for the replacement of products of competitors
- Establish and strengthen the solutions business
- Meet customers' demands involving products, parts, delivery, etc.
- **Focus on IoT products and solutions for customers**



Key market sectors (and new businesses) in each overseas region

- **America:** Water treatment, medical equipment (Aquatic business, **chemical/chemical manufacturing equipment plants**)
- **Europe:** Water treatment, chemicals/chemical manufacturing equipment, cooling equipment (Aquatic business)
- **ASEAN:** Water treatment, surface treatment equipment, chemicals, medical equipment (Aquatic business)
- **China:** Medical equipment, new energy, water treatment
- **Korea/Taiwan:** **Water treatment, new energy**

Investments

- Make more investments in production facilities in Europe, use more outsourced manufacturing companies in China, strengthen logistics
- Consider alliances and M&A for the expansion of business operations

Cross-selling at TechnoECHO centered on residual chlorine meters

Global operations

- Growth of water/sewer systems in Asia ▶▶▶ More demand for residual chlorine meters
- TechnoECHO is using IWAKI's overseas network for sales activities and other support

Accomplishments of new markets to benefit from synergies

- Compact residual chlorine meter
 - ▶▶▶ More demand in the public welfare market (nursing care bathtubs)
 - ▶▶▶ Higher demand in the medical equipment market (equipment with meters)
- Combine IWAKI's pump quality and sales network with the distinctive technologies in TechnoECHO's residual chlorine meters



Grow in current markets

- Hotel construction boom for Tokyo Olympics ▶▶▶ More demand for residual chlorine meters at hot bathing facilities
- Increase sales by using IWAKI's network in Japan for sales activities and other support

Procurement of parts

- Further expand procurement channels for parts in China
- Cut the cost of manufacturing while maintaining the same high level of quality as in parts made in Japan



Outsourced manufacturing

- Plan to start using outsourced production in 2018
- Use outsourcing to increase production where products are sold



Faster deliveries by simplifying distribution channels

Global operations

- Marketing activities that target opportunities worldwide
- Growing interest in the US market and more achievement made
- Establishment of a global model



Division of roles and cooperation

- Design, production, sales and service operations that match the characteristics and requirements of individual countries
- Sharing of parts and materials that can be used



Growth in Japan

- Provide products and services in the medical and pharmaceuticals sectors
- US technology feedback → → Differentiate products from those of Japanese and foreign competitors



Supplementary Information

(Millions of yen)

	Mar. 31, 2017		Sep. 30, 2017		YoY change
	Amount	Share	Amount	Share	Amount
Current assets	19,832	75.5%	20,978	76.3%	1,146
Cash and deposits	6,191	23.6%	6,541	23.8%	349
Notes and accounts receivable-trade	8,423	32.1%	9,029	32.9%	605
Other	5,217	19.9%	5,407	19.7%	190
Non-current assets	6,421	24.5%	6,499	23.7%	77
Property, plant and equipment	3,724	14.2%	3,760	13.7%	36
Intangible assets	223	0.9%	210	0.8%	(13)
Investments and other assets	2,473	9.4%	2,528	9.2%	54
Total assets	26,253	100.0%	27,477	100.0%	1,223
Current liabilities	7,031	26.8%	7,460	27.2%	429
Notes and accounts payable-trade	4,345	16.6%	4,725	17.2%	379
Short-term interest-bearing debt	651	2.5%	740	2.7%	89
Other	2,034	7.7%	1,994	7.3%	(39)
Non-current liabilities	2,315	8.8%	2,331	8.5%	16
Long-term interest-bearing debt	406	1.5%	414	1.5%	7
Other	1,909	7.3%	1,917	7.0%	8
Total liabilities	9,347	35.6%	9,792	35.6%	445
Total net assets	16,906	64.4%	17,684	64.4%	778
Total liabilities and net assets	26,253	100.0%	27,477	100.0%	1,223

Increase in accounts receivables due to growth in sales

Increase in inventories due to benefits of initiatives for faster deliveries

Increase in accounts payable due to growth in sales

(Millions of yen)

	1H FY3/17 Amount	1H FY3/18		Major components
		Amount	YoY change	
Cash flows from operating activities	1,020	746	(273)	Increase in accounts receivables (because September 30 was a bank holiday)
Cash flows from investing activities	896	(146)	(1,042)	Prior year included substantial proceeds from securities redemptions
Cash flows from financing activities	(651)	(265)	386	FY3/16 dividend was one time at the year-end; FY3/17 dividend was divided into interim and year-end distributions
Net increase (decrease) in cash and cash equivalents	1,148	349	(798)	
Cash and cash equivalents at beginning of period	5,426	6,111	685	
Cash and cash equivalents at end of period	6,574	6,461	(113)	

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