



The Heart of Industry

IWAKI

Results of Operations for the
First Half of the Fiscal Year Ending March 31, 2019
(FY3/19)

November 16, 2018

IWAKI CO.,LTD.

Stock code: 6237

Trade name: Iwaki Pump

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Summary of 1H FY3/19 Financial Results

(Millions of yen)

	1H FY3/18	1H FY3/19	
		Amount	YoY change
Net sales	13,435	14,704	+9.4%
Gross profit	4,516	5,135	+13.7%
(Gross margin)	(33.6%)	(34.9%)	(+1.3pt)
Operating profit	1,015	1,209	+19.1%
(Operating margin)	(7.6%)	(8.2%)	(+0.6pt)
Ordinary profit	1,354	1,533	+13.2%
Profit attributable to owners of parent	1,016	1,068	+5.1%
Net income per share (Yen)	*45.26	47.55	+5.1%
Exchange rate (average)	USD/JPY (Yen)	112.34	108.68
	EUR/JPY (Yen)	121.66	131.55

* Adjusted to reflect the 3-for-1 common stock split on July 1, 2018.

1

Sales increased year on year

- ✓ Capital expenditures in the semiconductor/liquid crystal and medical equipment markets contributed to higher sales
- ✓ Sales in Asia were higher because of strength in the first half of the semiconductor/liquid crystal market in Asia
- ✓ Demand continued to grow in China in the medical equipment market
- ✓ Increasing demand in Europe in the water treatment and chemicals markets

2

Operating profit was about 20% higher than one year earlier

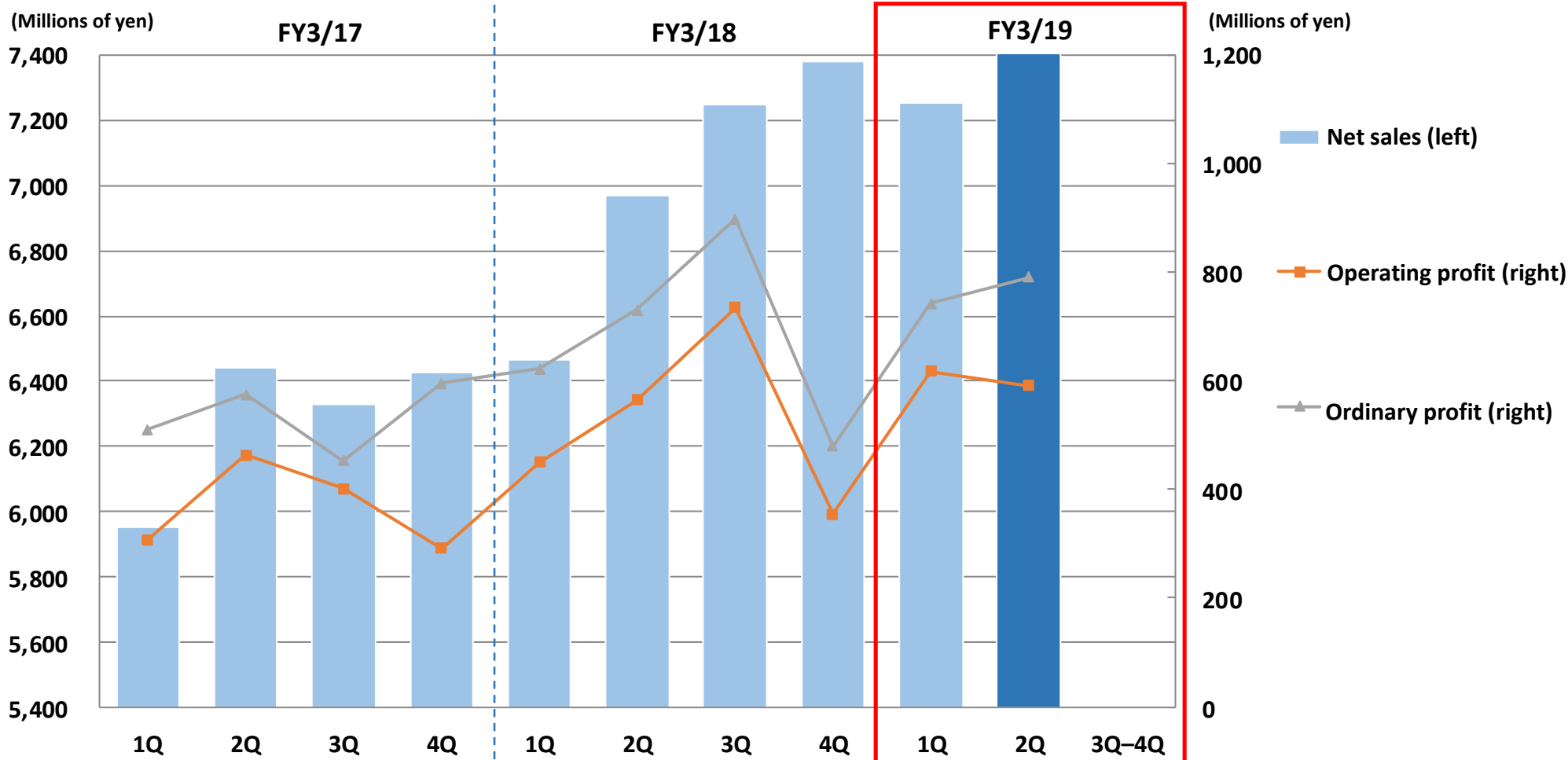
- ✓ Earnings benefited from the growth in sales
- ✓ Strong sales growth of magnetic drive pumps, which are core products with high profit margins

3

Ordinary, pre-tax and bottom-line profit were all higher than one year earlier

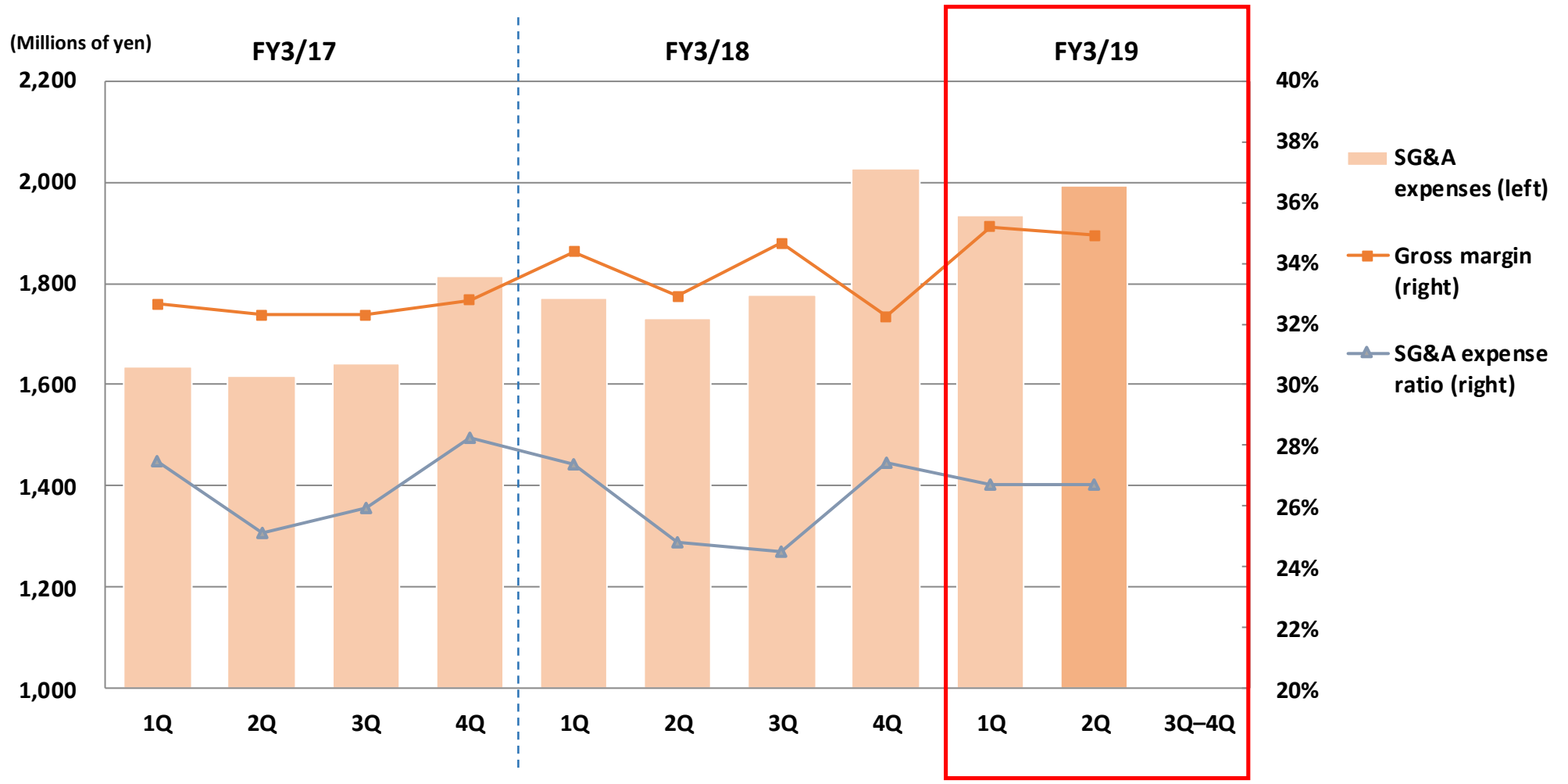
- ✓ Double-digit increase in ordinary profit due to a continuation of strong performances at affiliated companies, mainly in Asia, even though there was a large foreign exchange gain one year earlier and technology center relocation expenses in the current fiscal year
- ✓ A single-digit increase in profit attributable to owners of parent because of higher income taxes mainly due to consolidation adjustments

Higher sales and profits at all levels backed mainly by strength in the medical equipment market



Gross Margin and SG&A Expense Ratio (Quarterly)

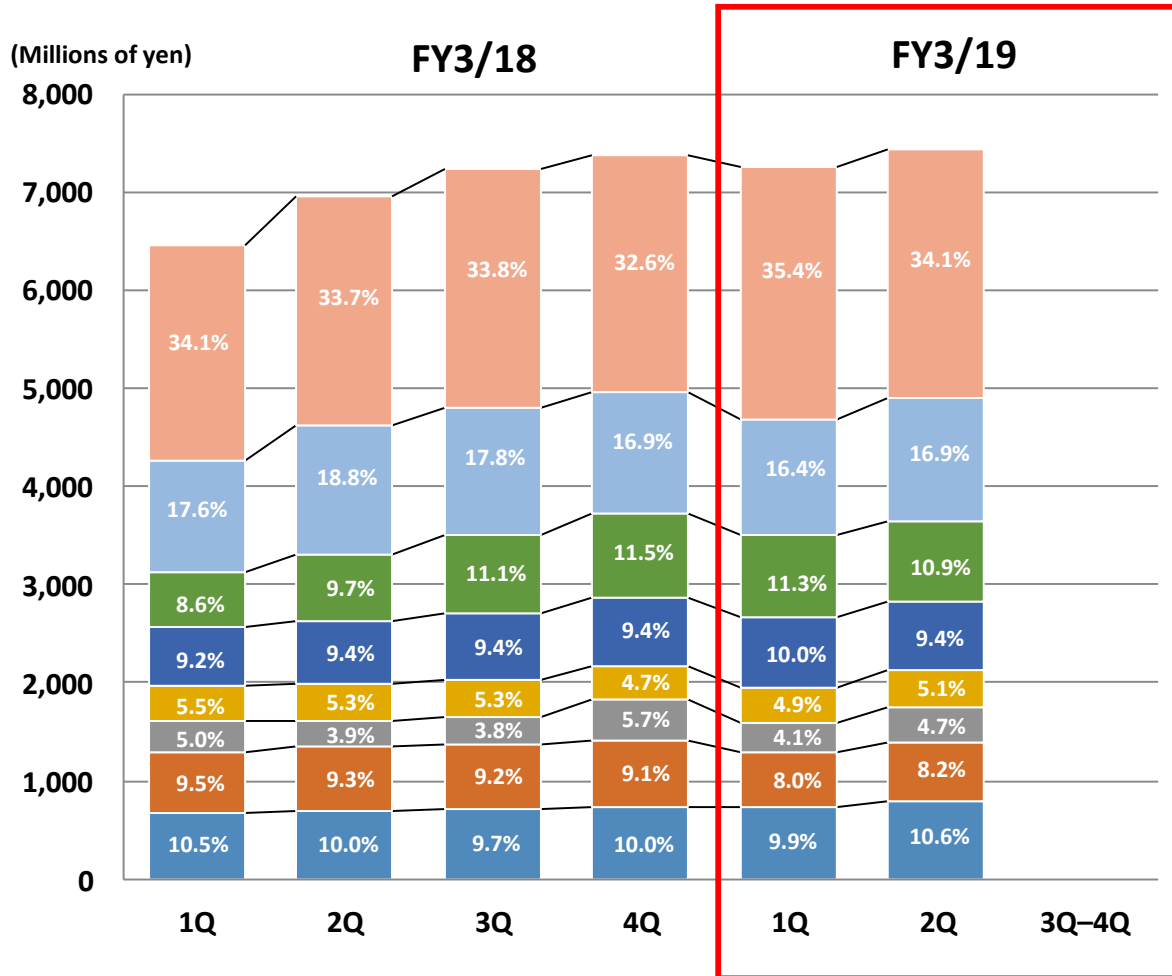
Gross profit margin remained high and the SG&A expense ratio was unchanged from the 1Q



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Product Category Sales

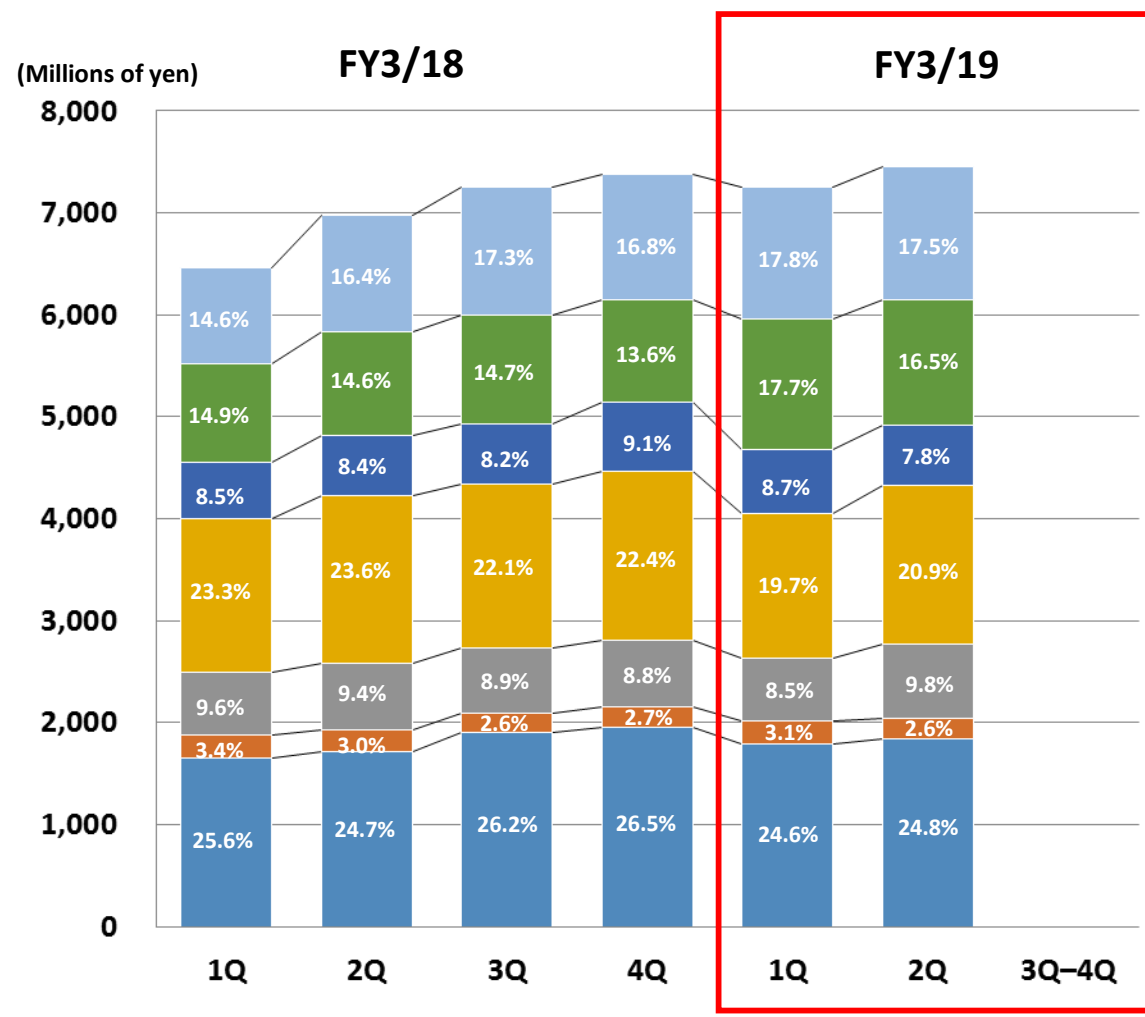
Sales of pneumatic drive pumps continued to increase and sales of magnetic drive pumps and rotary displacement pumps also increased



	1H FY3/19 sales (Millions of yen)	YoY change
Magnetic drive pumps	5,107	+12.2%
Metering pumps	2,450	+0.1%
Pneumatic drive pumps	1,636	+32.9%
Rotary displacement pumps	1,423	+14.1%
Air pumps	738	+1.4%
System products	650	+9.4%
Purchased products	1,188	-5.5%
Others	1,508	+9.6%

Market Category Sales

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

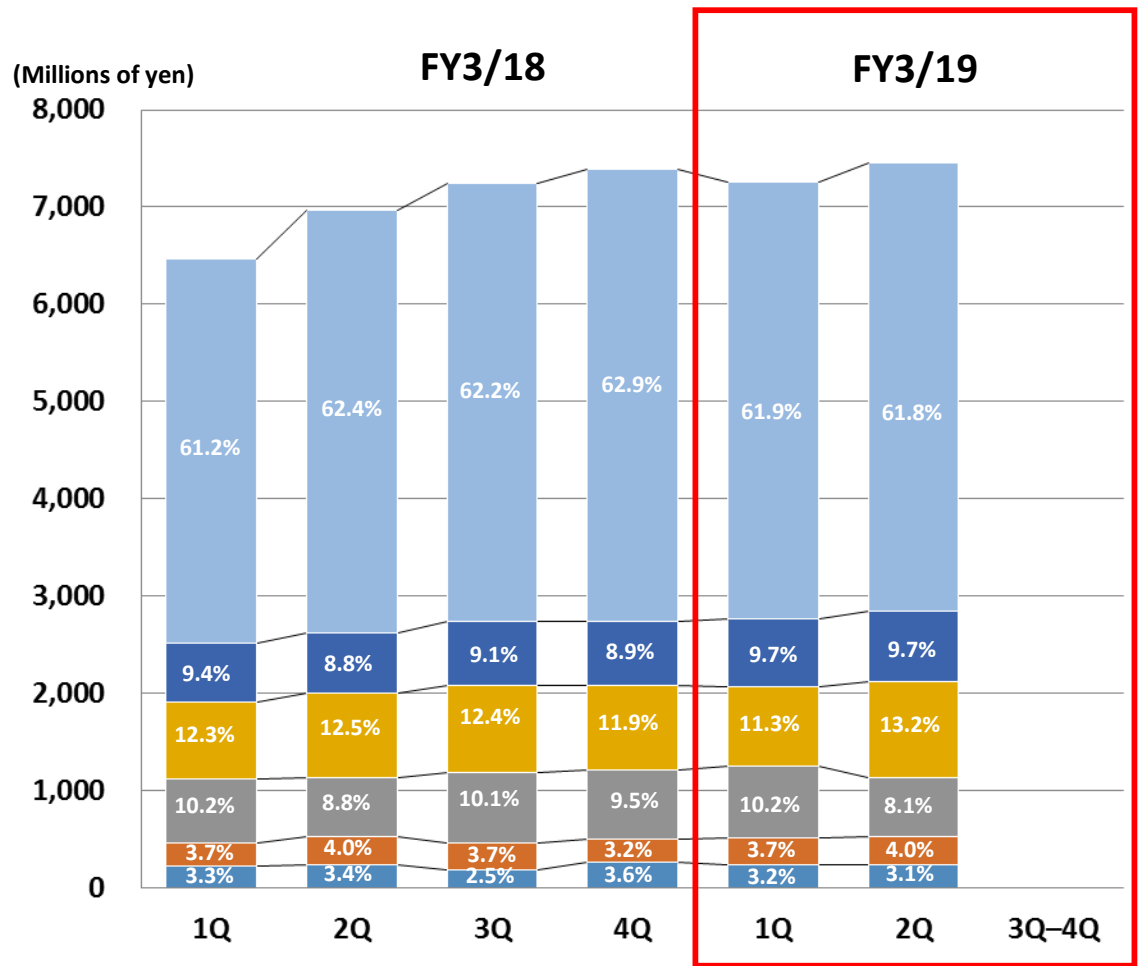


	1H FY3/19 sales (Millions of yen)	YoY change
Semiconductor/ liquid crystal	2,597	+24.5%
Medical equipment	2,511	+26.8%
Surface treatment equipment	1,212	+6.8%
Water treatment	2,985	-5.3%
Chemicals	1,349	+5.6%
New energy	416	-1.9%
Others	3,630	+7.5%



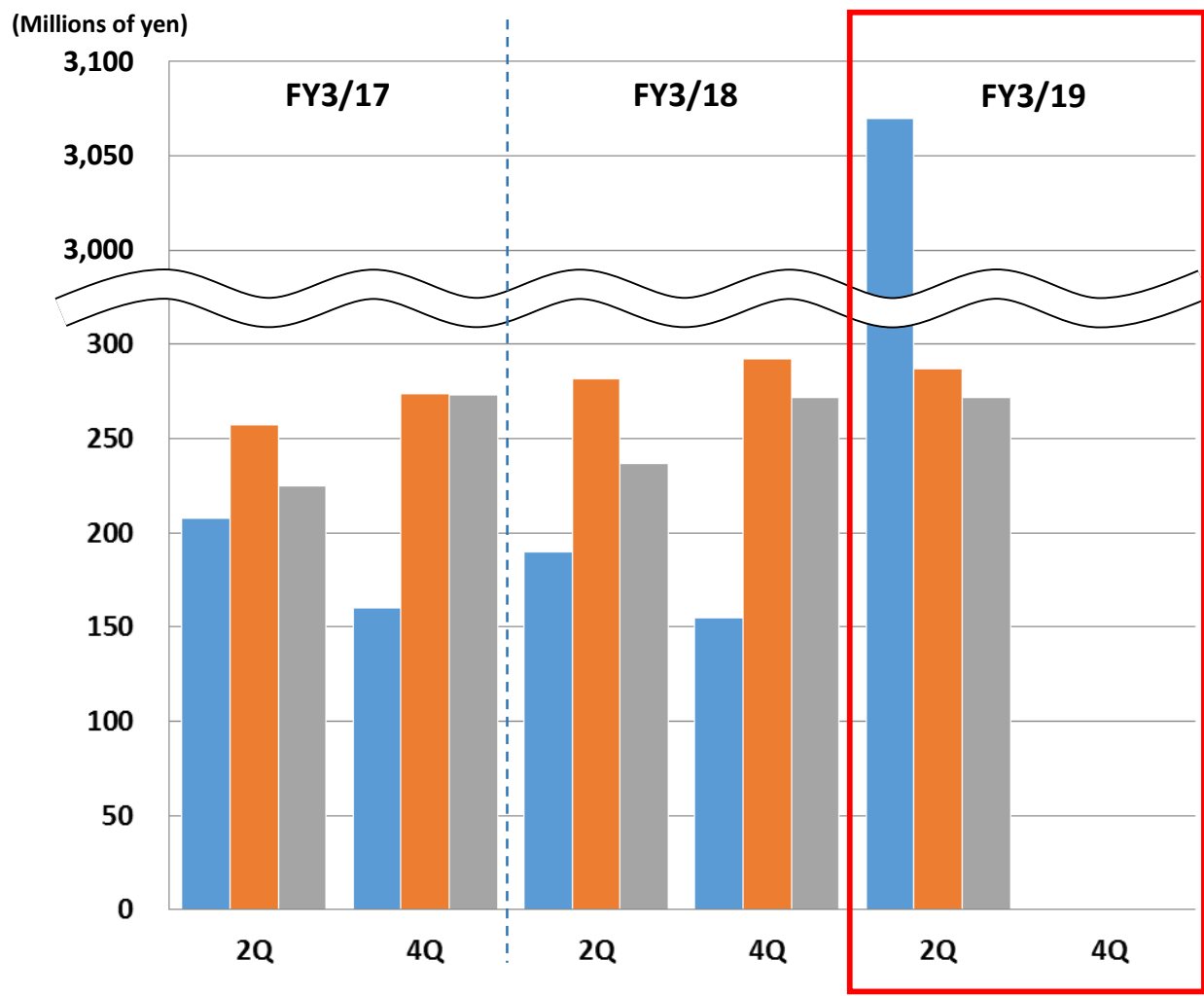
8 Regional Sales

Sales increased in Europe and sales remained very strong in other overseas area and in Japan



	1H FY3/19 sales (Millions of yen)	YoY change
Japan	9,096	+9.5%
Overseas total	5,608	+9.3%
Europe	1,427	+16.8%
America	1,803	+8.1%
Asia	1,345	+6.0%
China	566	+9.5%
Others	465	+2.6%

Overseas sales ratio **38.1%**



	1H FY3/19 total (Millions of yen)	YoY change
Capital expenditures	*3,070	+2,879
R&D expenses	287	+5
Depreciation	272	+34

*Includes expenses of ¥2,862 million at the new technology center



Outlook for FY3/19

1 FY3/18 Results and FY3/19 Forecast

(Millions of yen)

	FY3/18		FY3/19 (forecast)	
	Amount	YoY change	Amount	YoY change
Net sales	28,067	+11.6%	29,907	+6.6%
Gross profit	9,409	+15.1%	10,490	+11.5%
(Gross margin)	(33.5%)	(+1.0pt)	(35.1%)	(+1.6pt)
Operating profit	2,106	+43.8%	2,369	+12.5%
(Operating margin)	(7.5%)	(+1.7pt)	(7.9%)	(+0.4pt)
Ordinary profit	2,733	+27.9%	2,938	+7.5%
Profit attributable to owners of parent	2,059	+21.8%	2,113	+2.7%
Net income per share (Yen)	*91.72	+21.8%	94.05	+2.5%
Exchange rate (average)	USD/JPY (Yen)	112.17	111.00 (estimates)	
	EUR/JPY (Yen)	126.70	128.00 (estimates)	

1

Forecast another year of sales growth

- ✓ Forecast higher demand in Japan and China in the medical equipment market
- ✓ Forecast the US water treatment market to remain strong as in FY3/18
- ✓ Anticipate weakness in exports to Asia as companies in the semiconductor market push back capital expenditures initially planned for FY3/19 3Q and afterward

2

Forecast a higher operating margin because of sales growth

- ✓ Expect double-digit increase in operating profit because of sales growth
- ✓ Expenses for booth atACHEMA Exhibition in Germany and start-up of the new technology center raised SG&A expenses, but the operating margin increased because of an improvement in the product mix.

3

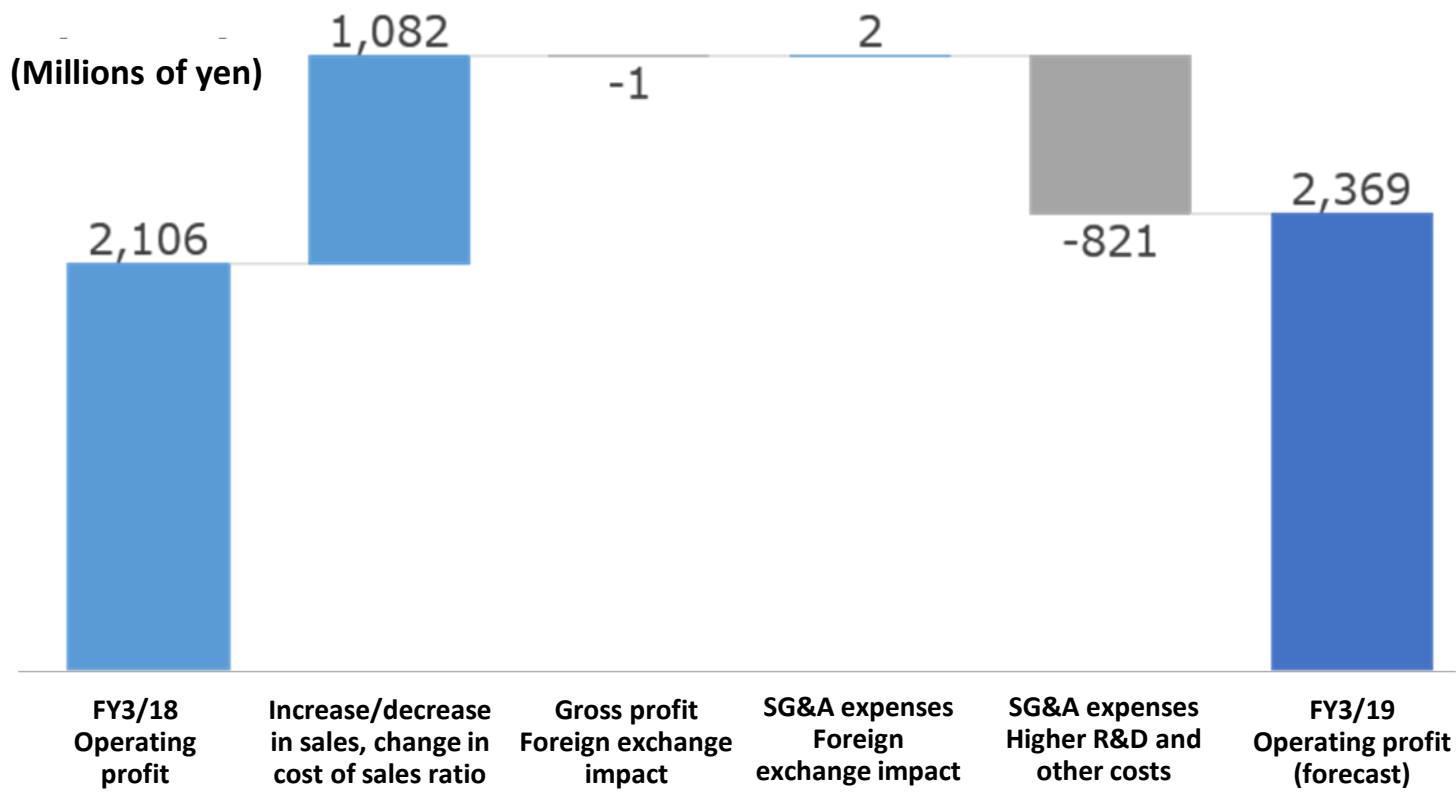
Increases in ordinary, pre-tax and bottom-line profit

- ✓ Growth of equity-method income offset the absence of the previous fiscal year's foreign exchange gain
- ✓ Affiliated companies in Asia contributed to first half earnings but their performance is expected to decline in the second half

FY3/19 Forecast – Foreign Exchange Rate Sensitivity and Components of Change in Operating Profit

(Thousands of yen)

Effect of ¥1 exchange rate change	USD	EUR
Net sales	44,224	19,035
Operating profit	11,593	10,094



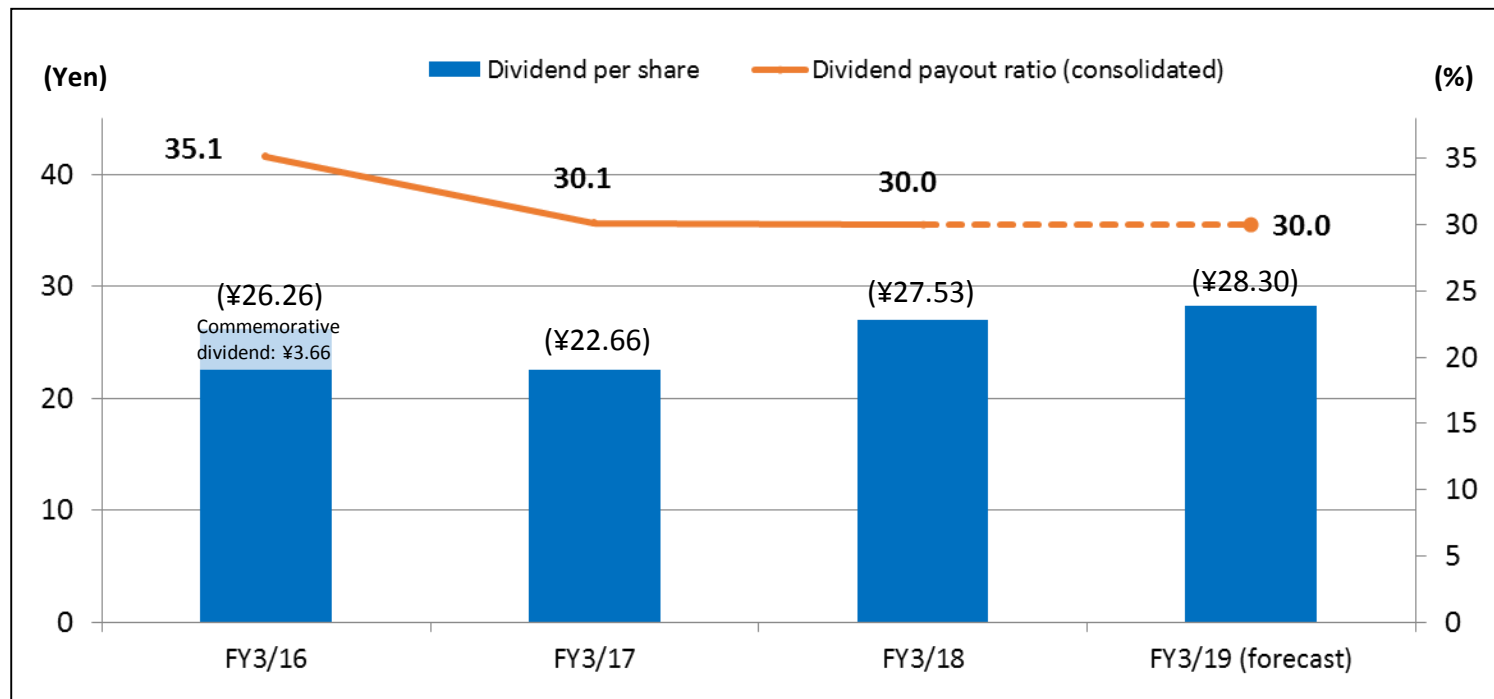
Market environment assumptions

	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
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 have temporarily stopped increasing
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 investments in the rechargeable battery industry in Asia • Decreasing 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"> • Increasing demand for value-added electronic components used in automotive components, IoT applications and other markets 	<ul style="list-style-type: none"> • Steady growth due to increasing production of hybrid and electric automobiles

*Bold indicates priority markets targeted for growth.

Basic policy

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



Note: Dividends for FY3/16, FY3/17 and FY3/18 are adjusted (with fractions after the hundredths place dropped) to reflect the 3-for-1 common stock split on July 1, 2018.



Medium-term Management Plan

Planting Seeds—Business Development and Growth

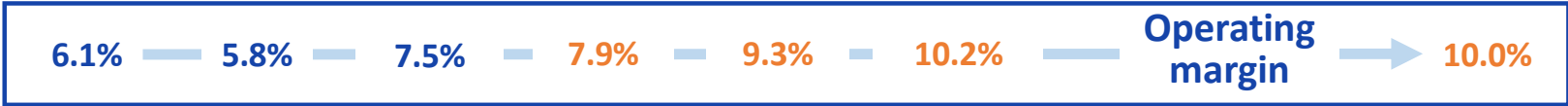
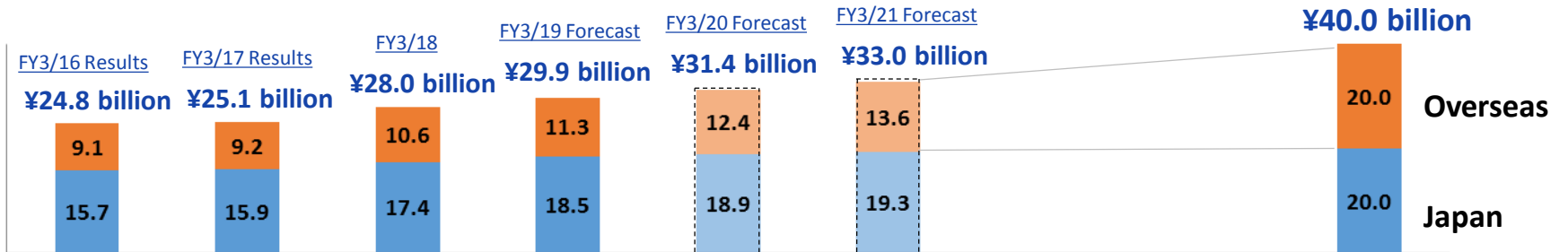
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Overview of the 10-Year Vision



Consolidated sales

Numerical targets



*Orange figures show forecasts.

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** -

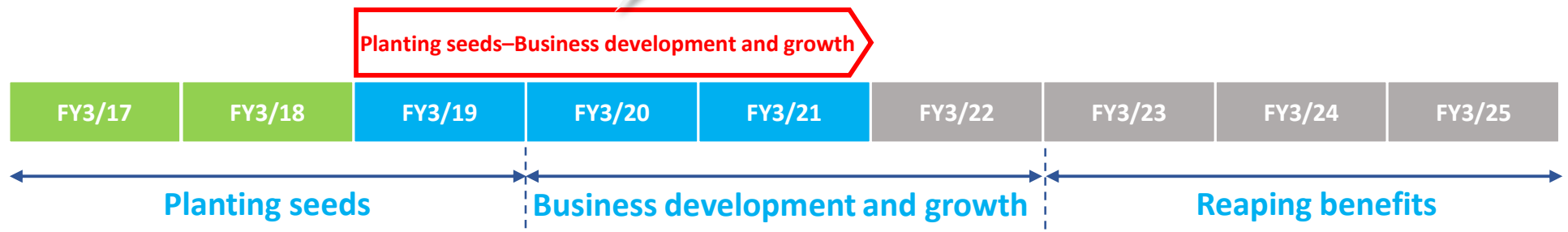
“Change & Challenge” is our stance for accomplishing this goal

- 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 and reinforce the profit structure – Start full-scale operations

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





Planting Seeds Phase

– Major Accomplishments of the First Medium-term Management Plan

Major goals and progress		Level	Upcoming actions
Japan	Replace competitors' products by sharing competitive SWOT analysis with all associated departments	○	Continue and strengthen these activities
	To firmly establish the solutions business, increase system sales and differentiate IWAKI by using cooperation with its maintenance division	△	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 (Europe, Asia and emerging countries)
	Europe Target opportunities in the chemical/chemical manufacturing equipment plant market	▲	Use the IWAKI Europe sales strategy throughout Europe Overcome competition in the water treatment market
	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	×	Create sales regions and build a sales organization Continue to build a stronger presence in the ASEAN region
	China Target opportunities in the medical equipment market	△	Strengthen marketing activities 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%+ △: 50% to 69% ▲: 20% to 49% ×: Under 20%

Medium-term Management Plan (FY3/19–FY3/21)

Planting Seeds–Business Development and Growth

	(Millions of yen)					
	FY3/19 (plan)		FY3/20 (plan)		FY3/21	
		change		change	plan	change
Net sales	29,907	+6.6%	31,428	+5.1%	33,016	+5.1%
Gross profit	10,490	+11.5%	11,236	+7.1%	11,893	+5.8%
Operating profit	2,369	+12.5%	2,936	+23.9%	3,384	+15.3%
(Operating margin)	(7.9%)	(+0.4pt)	(9.3%)	(+1.4pt)	(10.2%)	(+0.9pt)
Ordinary profit	2,938	+7.5%	3,518	+19.8%	3,967	+12.7%
Profit attributable to owners of parent	2,113	+2.7%	2,599	+23.0%	2,896	+11.4%

1

Forecast 6.6% sales growth in FY3/19 because of strong first half sales in the semiconductor/liquid crystal market. Expect more sales growth in the following years backed by rising sales in Japan, strong sales in the United States and steady growth in Europe.

2

Starting in FY3/19, anticipate a steady improvement in the operating margin because of sales growth in Japan and US subsidiary plans for strong growth. Expect a second half downturn in equity-method income from affiliated companies in Asia but a recovery in FY3/20 and then generally unchanged income afterward.

3

Advance from the planting seeds to the business development and growth phase; procure parts in China and plan to use more companies for outsourced production. Plan to cut costs by using outsourced manufacturing for more products; also plan to speed up deliveries by simplifying distribution channels.

Basic Policy 1

Concentrate resources on markets targeted for reinforcement

- Water treatment market → Use the strengths of TechnoECHO
- Medical equipment market → New overseas OEM suppliers, new products
- New energy market → Rechargeable battery production, large storage battery equipment

Basic Policy 4

Unified operation of strategic overseas regions

- ASEAN project → Advance to the next stage
- Europe → Preparatory phase
- IT infrastructure → Immediate actions are needed

Achieving the 10-year vision

Basic Policy 2

Expand business activities that provide solutions

- Improve customer services → Short time-frame projects/IoT services
- Consolidate customer data → Sales and maintenance information
- Supply entire systems → A broader range of businesses and technologies

Basic Policy 3

Build a business model for new activities

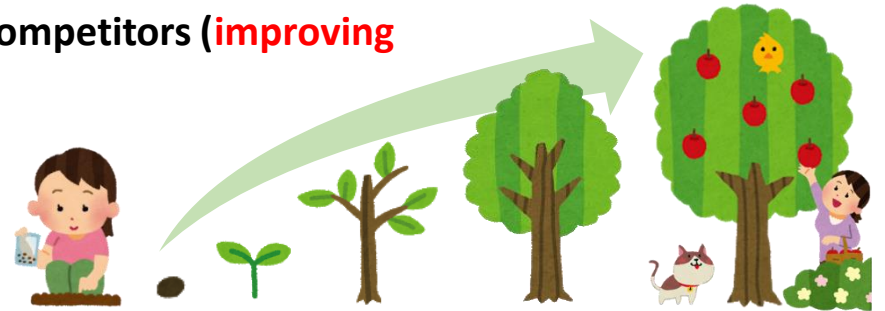
- Aquatic project → Aim for growth in the US
- Growth of overseas system and maintenance operations → Create a model for Europe and study commercialization
- More procurement in China → Outsourced production; make products where they are sold

Major Initiatives of the Medium-term Management Plan

Planting Seeds—Business Development and Growth

Japan

- Target demand for the replacement of products of competitors (**improving customer satisfaction**)
- **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
- **South Korea/Taiwan:** Water treatment, new energy

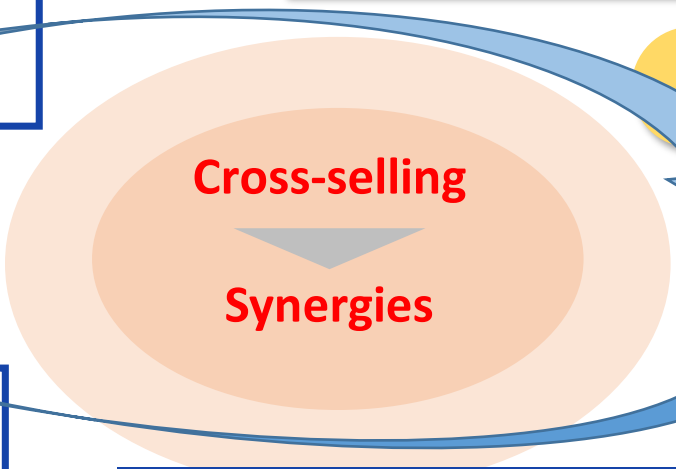
Investments

- 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**

Electromagnetic
metering pumps
IWAKI



Residual chlorine
meter
TechnoECHO



Grow in current markets

- Hotel construction boom for Tokyo Olympics
- More demand for residual chlorine meters at hot bathing facilities

User (customers)

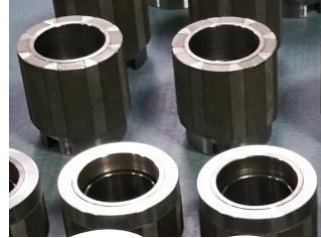


Accomplishments of new markets to benefit from synergies

- Compact residual chlorine meter
- More demand in the public welfare market (nursing care bathtubs)
- Higher demand in the medical equipment market (equipment with meters)

Expand 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



Start full-scale use of outsourced manufacturing

- Plan to start using outsourced production in spring of 2019
- Use outsourcing to increase production where products are sold



Locate companies for outsourced manufacturing

- Plan to outsource manufacturing to several companies

Decrease in cost of sales
 Simplify distribution channels
 Use outsourced manufacturing
 for more products

Establish and expand global operations

- Develop and implement a global business model
- Clearly define division of roles between US and Japan
- Start global sales of products jointly developed by IWAKI and its subsidiary



Division of roles and cooperation

- Share market information about the US and Japan
 - Use the same parts and materials when possible
 - Start operations in countries other than Japan and the US
- Use a single brand for all aquatic business operations worldwide



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

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