



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**

# Contents

**I. Summary of 1H FY3/19 Financial Results** . . . . P 3

**II. Outlook for FY3/19** . . . . P12

**III. Medium-term Management Plan**  
**Planting Seeds—Business Development and Growth** . . . . P18





# 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**

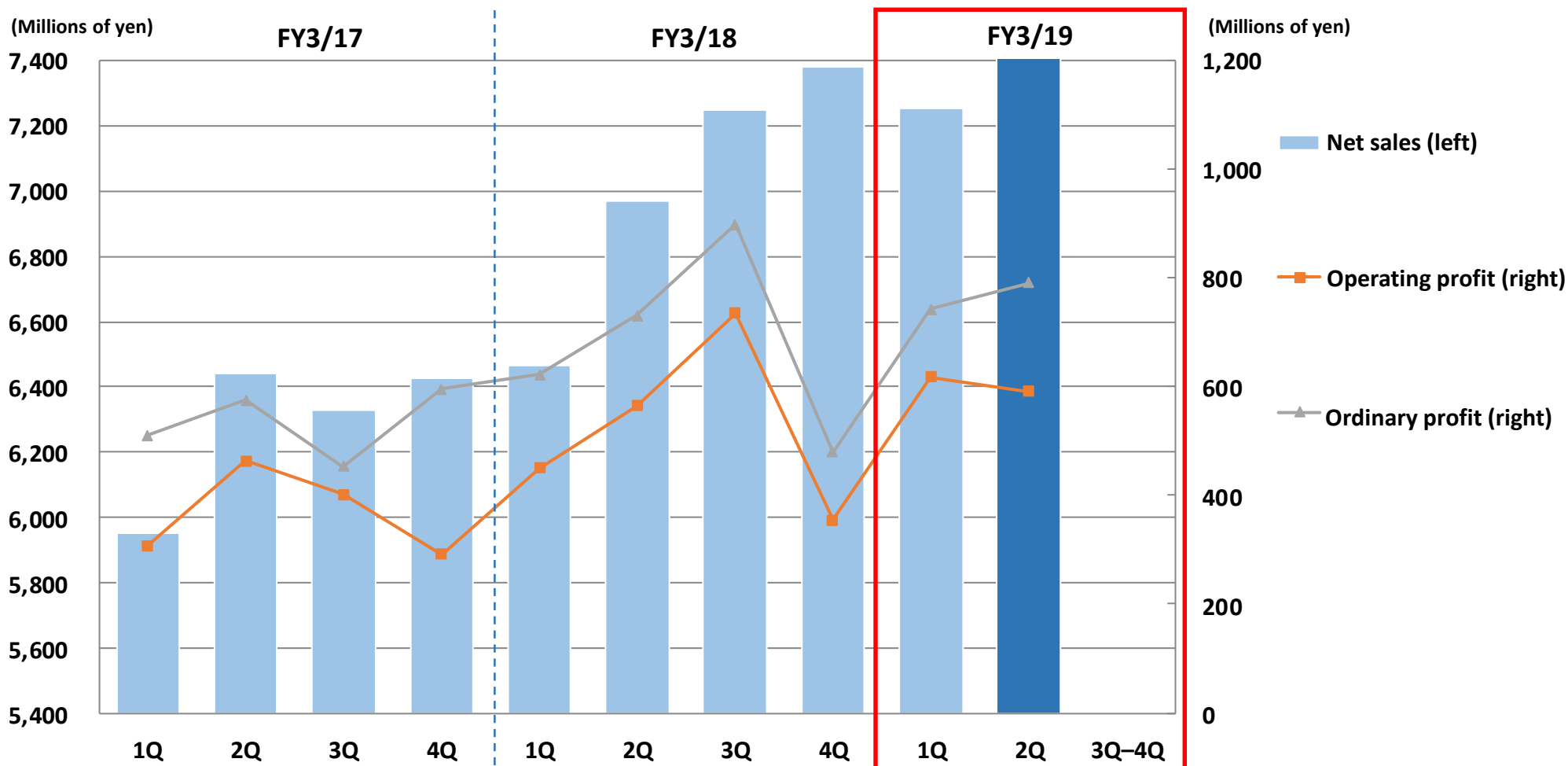
- ✓ Earnings benefited from the growth in sales
- ✓ Strong sales growth of magnetic drive pumps, which are core products with high profit margins

### 3

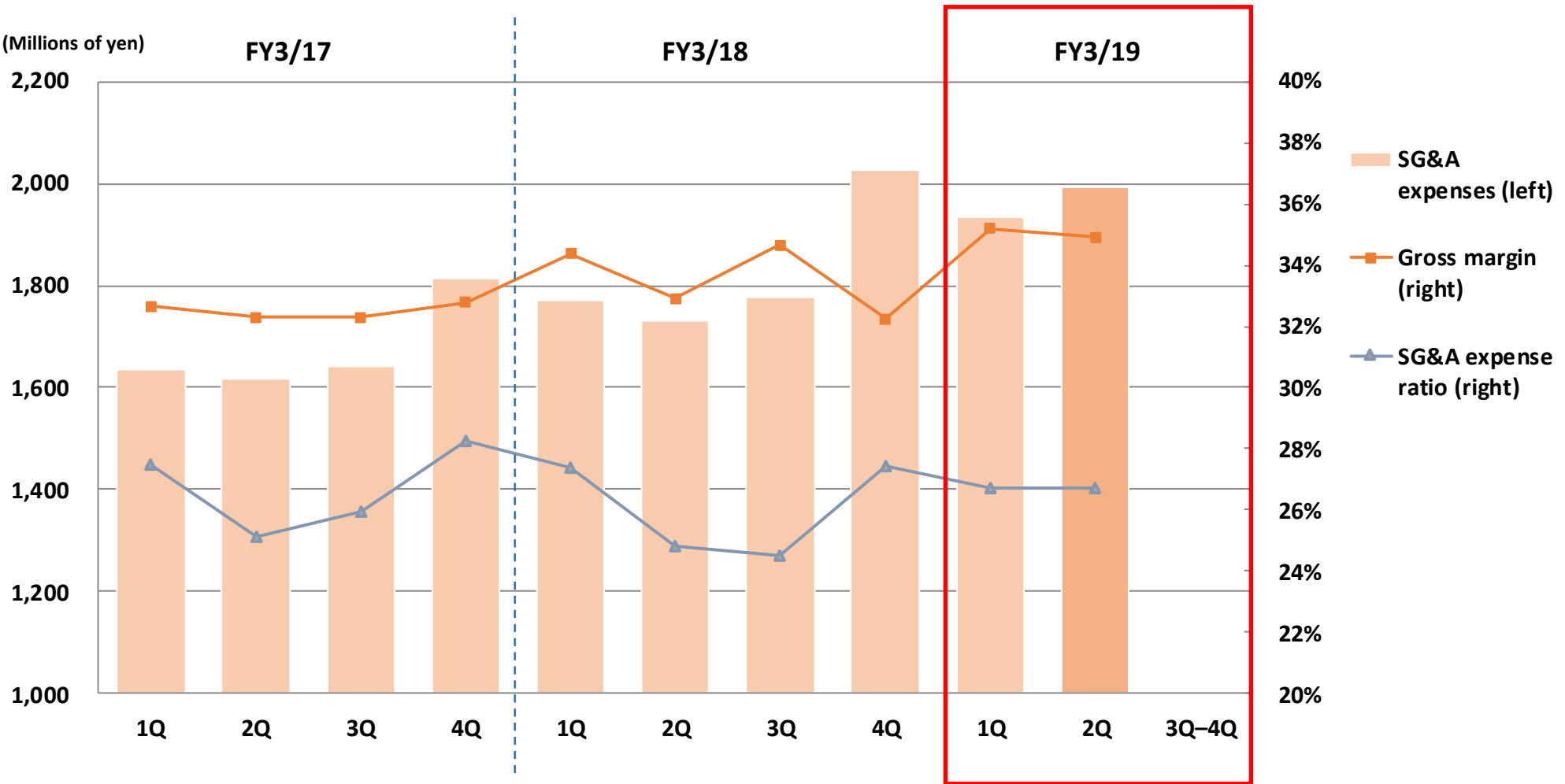
#### **Ordinary, pre-tax and bottom-line profit were all higher than one year earlier**

- ✓ 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

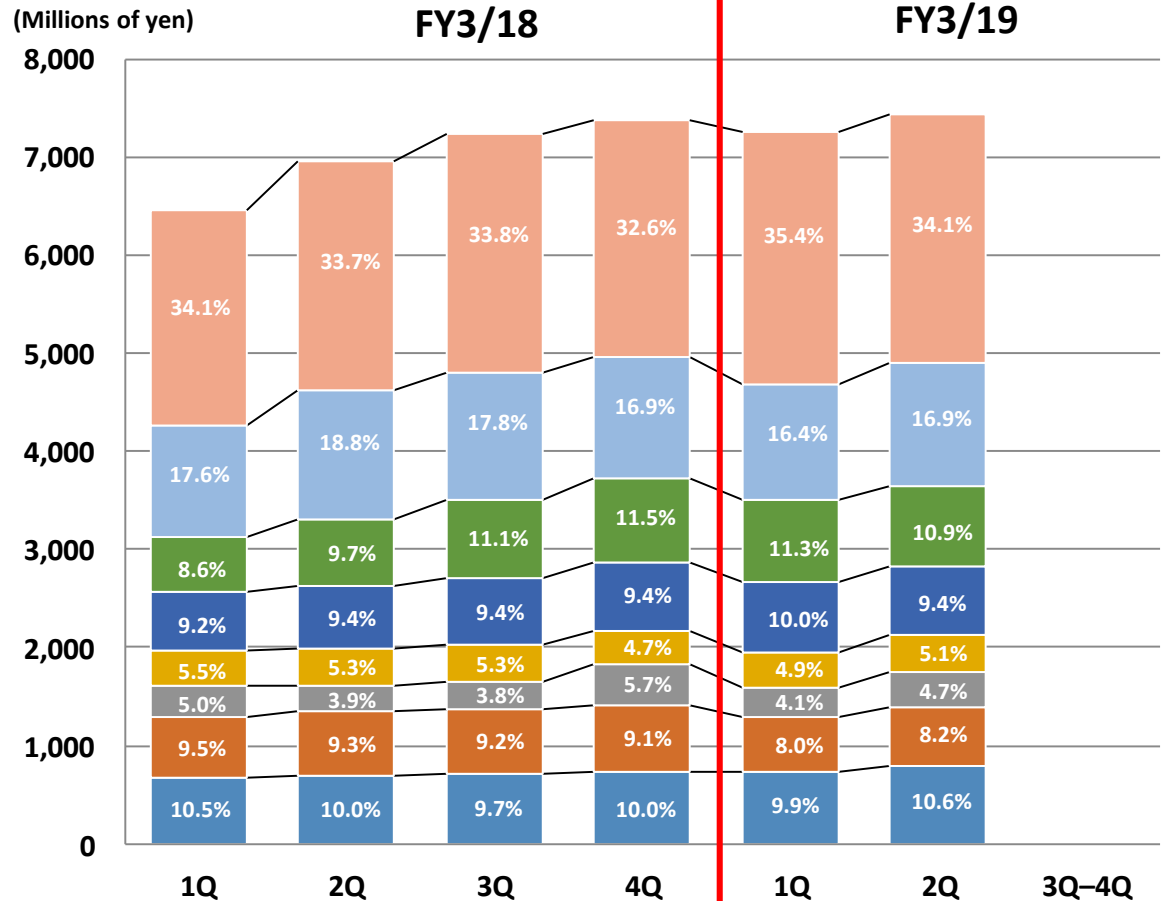
Higher sales and profits at all levels backed mainly by strength in the medical equipment market



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

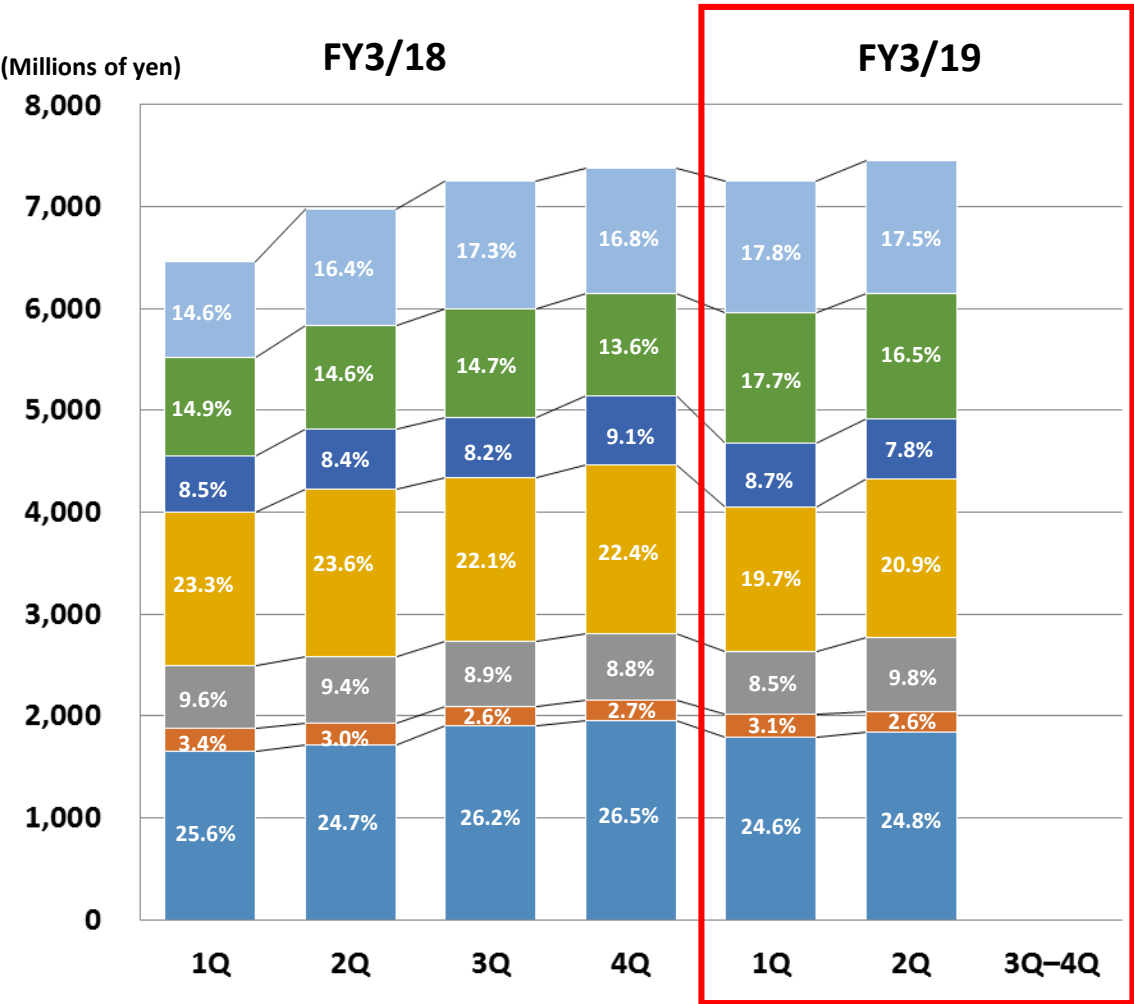


Sales of pneumatic drive pumps continued to increase and sales of magnetic drive pumps and rotary displacement pumps also increased



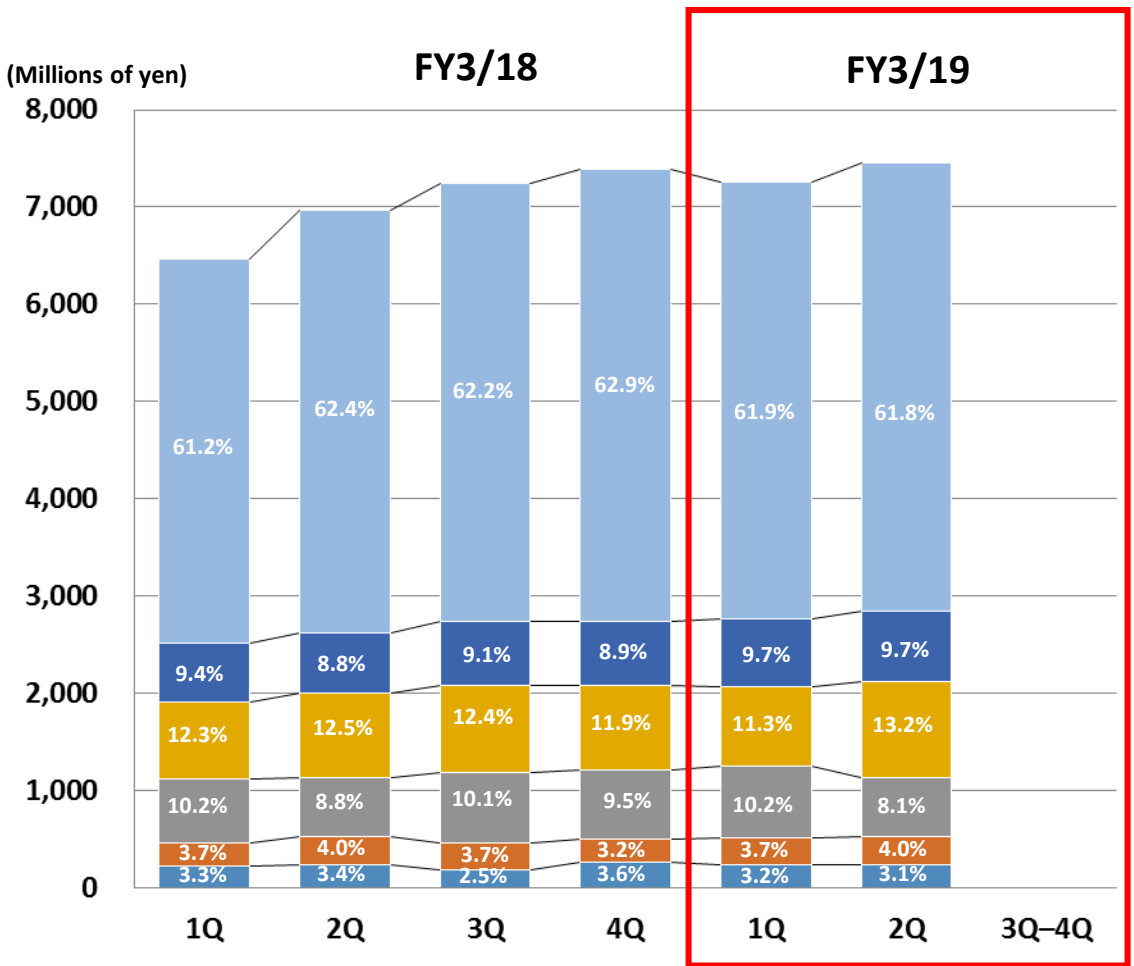
	1H FY3/19 sales (Millions of yen)	YoY change
Magnetic drive pumps	5,107	+12.2%
Metering pumps	2,450	+0.1%
Pneumatic drive pumps	1,636	+32.9%
Rotary displacement pumps	1,423	+14.1%
Air pumps	738	+1.4%
System products	650	+9.4%
Purchased products	1,188	-5.5%
Others	1,508	+9.6%

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%

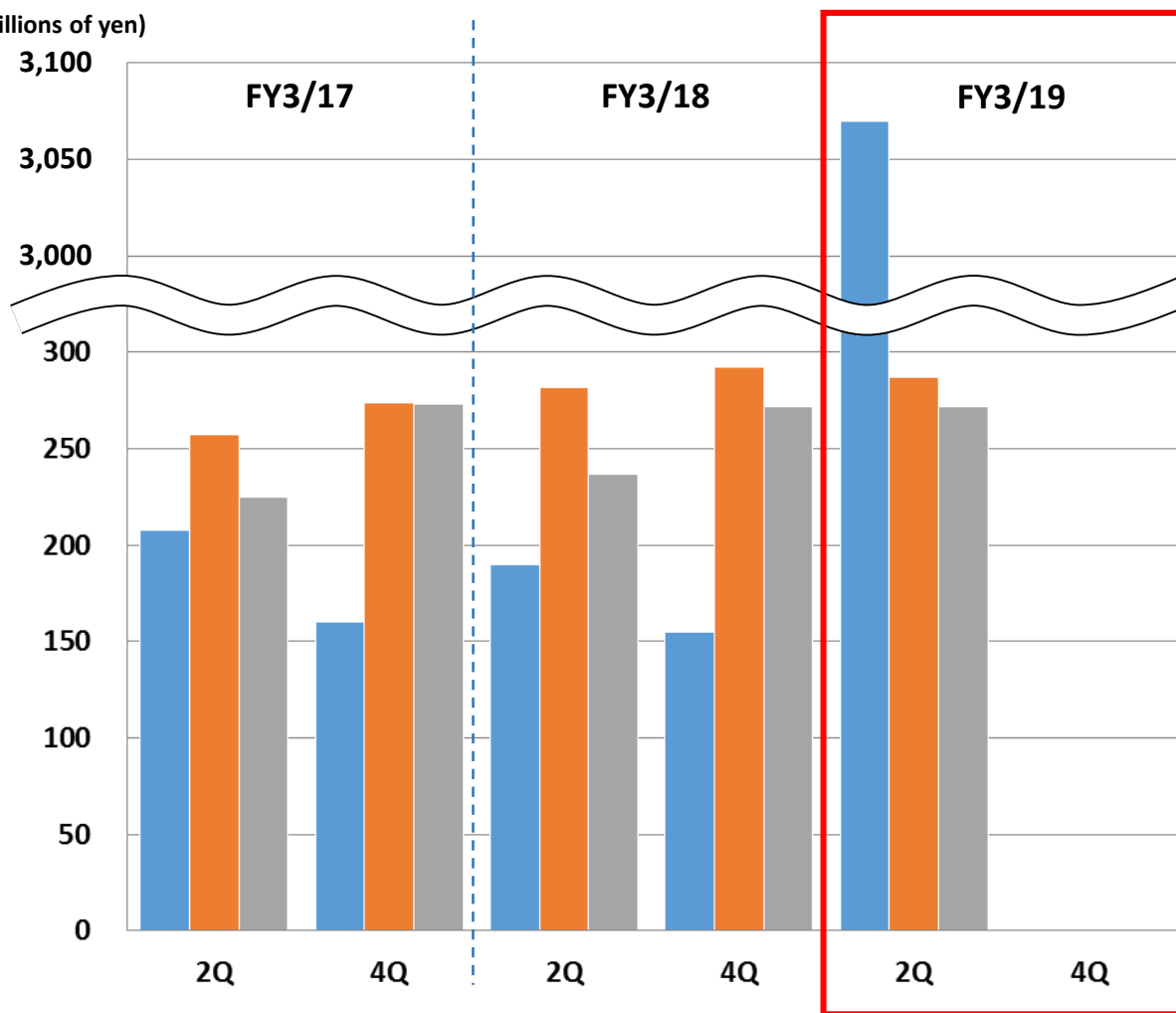
Sales increased in Europe and sales remained very strong in other overseas area and in Japan



	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%**

(Millions of yen)

1H FY3/19 total  
(Millions of yen)YoY  
changeCapital  
expenditures**\*3,070****+2,879**

R&amp;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.

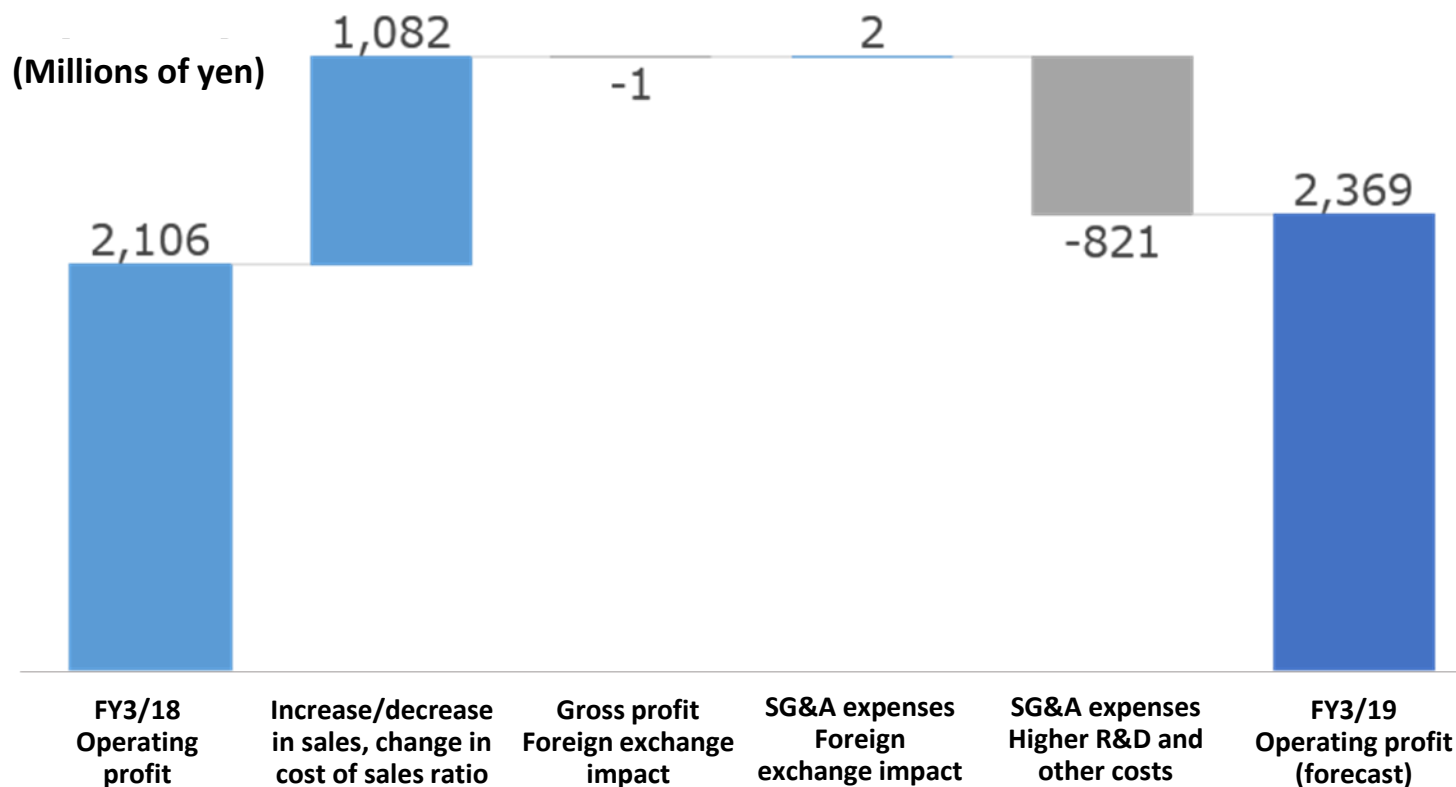
### 3

#### 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

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



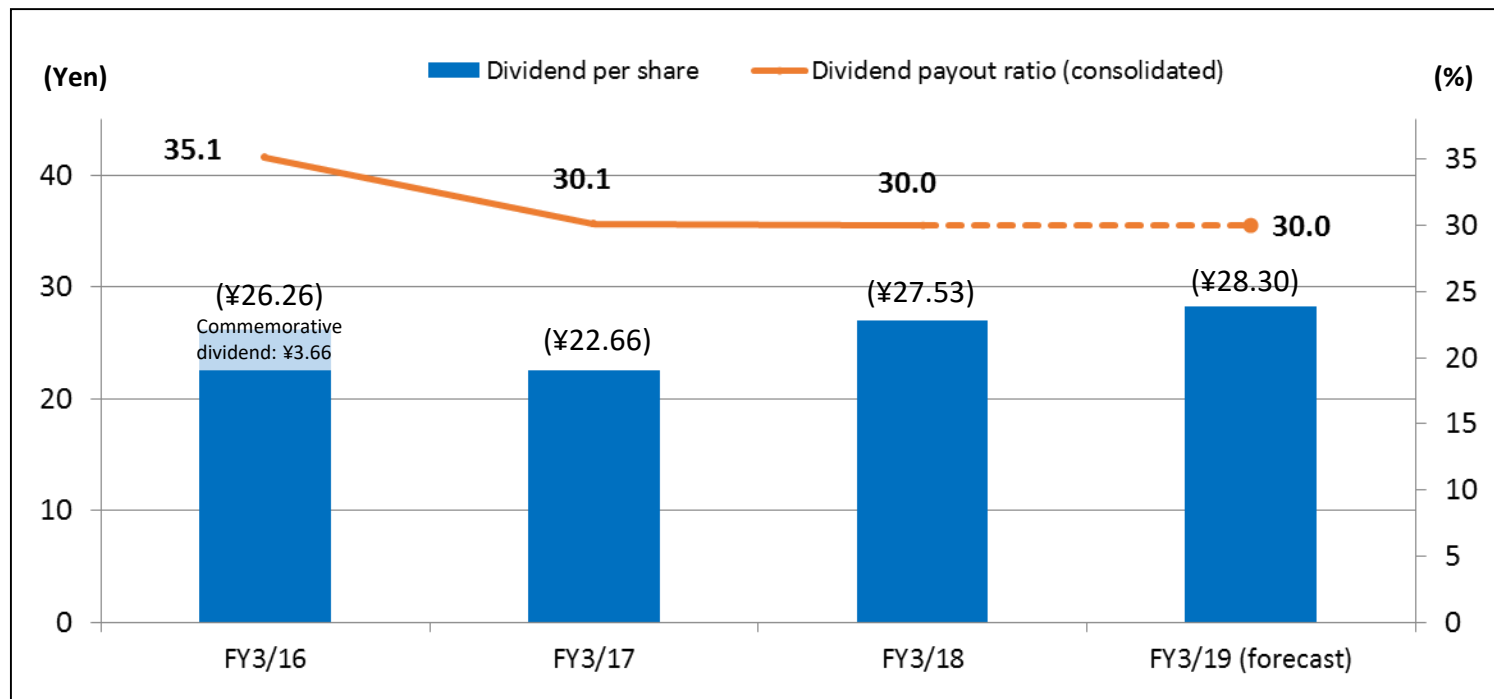
## Market environment assumptions

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

\*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**

FY3/16

FY3/17

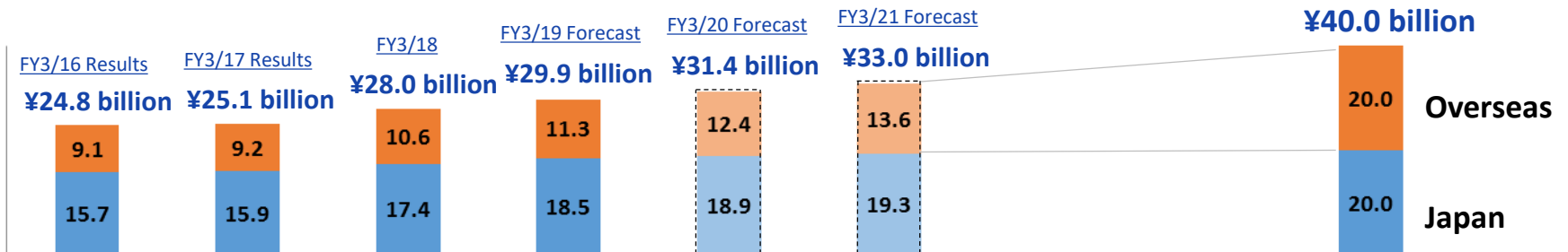
FY3/18

**Medium-term Management Plan FY3/19–FY3/21**  
 Planting seeds-Business development and growth

FY3/25

### Consolidated sales

Numerical targets



6.1%

5.8%

7.5%

7.9%

9.3%

10.2%

**Operating  
margin**

10.0%

\*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 -

## Goals of the Medium-term Management Plan (FY3/19–FY3/21) Planting Seeds–Business Development and Growth

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–Business development and growth



## – Major Accomplishments of the First Medium-term Management Plan

Japan	Major goals and progress		Level	Upcoming actions
		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

	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**

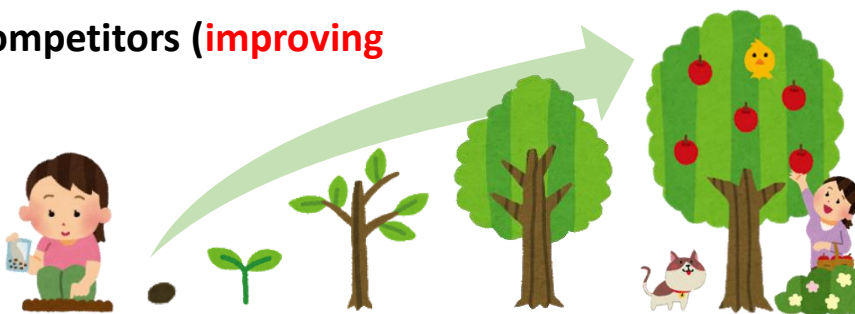
- Aquatic project → Aim for growth in the US
- Growth of overseas system and maintenance operations → Create a model for Europe and study commercialization
- More procurement in China → Outsourced production; make products where they are sold

# 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**

# 7 Synergies with TEC (TechnoECHO)

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)



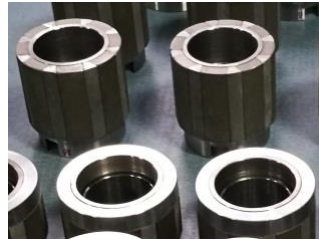
Cross-selling  
Synergies

## 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

# Disclaimer and Precautions Concerning Forward-looking Statements

- This presentation was prepared by IWAKI to provide information to investors about business operations.
- Information in this presentation is based on reasonable judgments by IWAKI using generally accepted views of economic, social and other factors as of November 16, 2018. This information may have to be revised without prior notice in the event of a change in the business climate or some other event.
- The information in this presentation includes forward-looking statements. These statements are current outlooks, forecasts and assumptions that include risk and incorporate uncertainties that may cause actual performance to differ from these statements.
- Risk factors and other uncertainties include but are not limited to items related to the Japanese and global economies, such as changes in business and market conditions and in interest rates and exchange rates.
- IWAKI has no obligation to update or revise the forward-looking statements in this presentation even if there is new information, a significant event or some other reason for a change.
- This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.
- IWAKI assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

For more information:

E-mail: [ir@iwakipumps.jp](mailto:ir@iwakipumps.jp)

Telephone: +81-3-3254-2931

Operating hours: 9:00 to 17:30