



The Heart of Industry

**IWAKI**

Results of Operations for the  
First Half of the Fiscal Year Ending March 31, 2020  
(FY3/20)

November 14, 2019

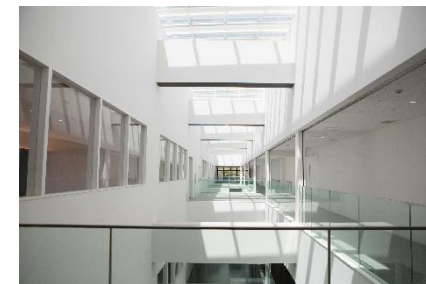
**IWAKI CO.,LTD.**

Stock code: 6237

Trade name: Iwaki Pump

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# Summary of 1H FY3/20 Financial Results

		1H FY3/19	1H FY3/20	
		Amount	Amount	YoY change
Net sales		14,704	14,086	-4.2%
Gross profit		5,135	4,846	-5.6%
(Gross margin)		(34.9%)	(34.4%)	(-0.5pt)
Operating profit		1,209	1,041	-13.9%
(Operating margin)		(8.2%)	(7.4%)	(-0.8pt)
Ordinary profit		1,533	1,243	-18.9%
Profit attributable to owners of parent		1,068	1,024	-4.1%
Net income per share (Yen)		47.55	46.22	-2.8%
Exchange rate (average)	USD/JPY (Yen)	108.68	110.06	
	EUR/JPY (Yen)	131.55	124.32	

**1**

**Sales recovered in the second quarter but first half sales were down 4.2% from one year earlier**

- ✓ Sales in the medical equipment and water treatment markets increased but did not offset the downturn in sales in the semiconductor/liquid crystal and surface treatment equipment markets
- ✓ Double-digit U.S. sales growth but lower sales in Japan and a big downturn in Asia

**2**

**Operating profit was over 10% lower than one year earlier**

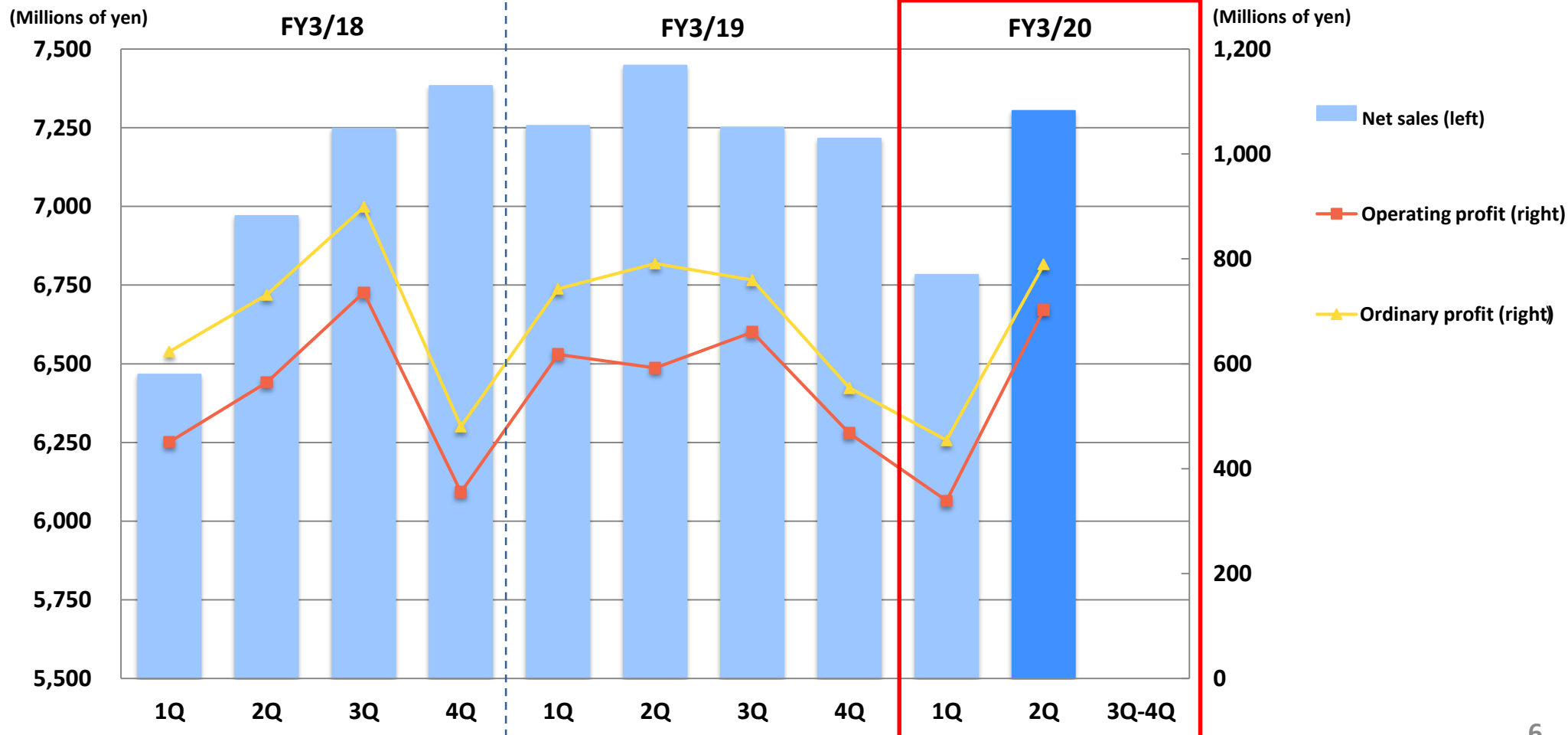
- ✓ Earnings benefited from cost cutting but total earnings decreased because of lower sales

**3**

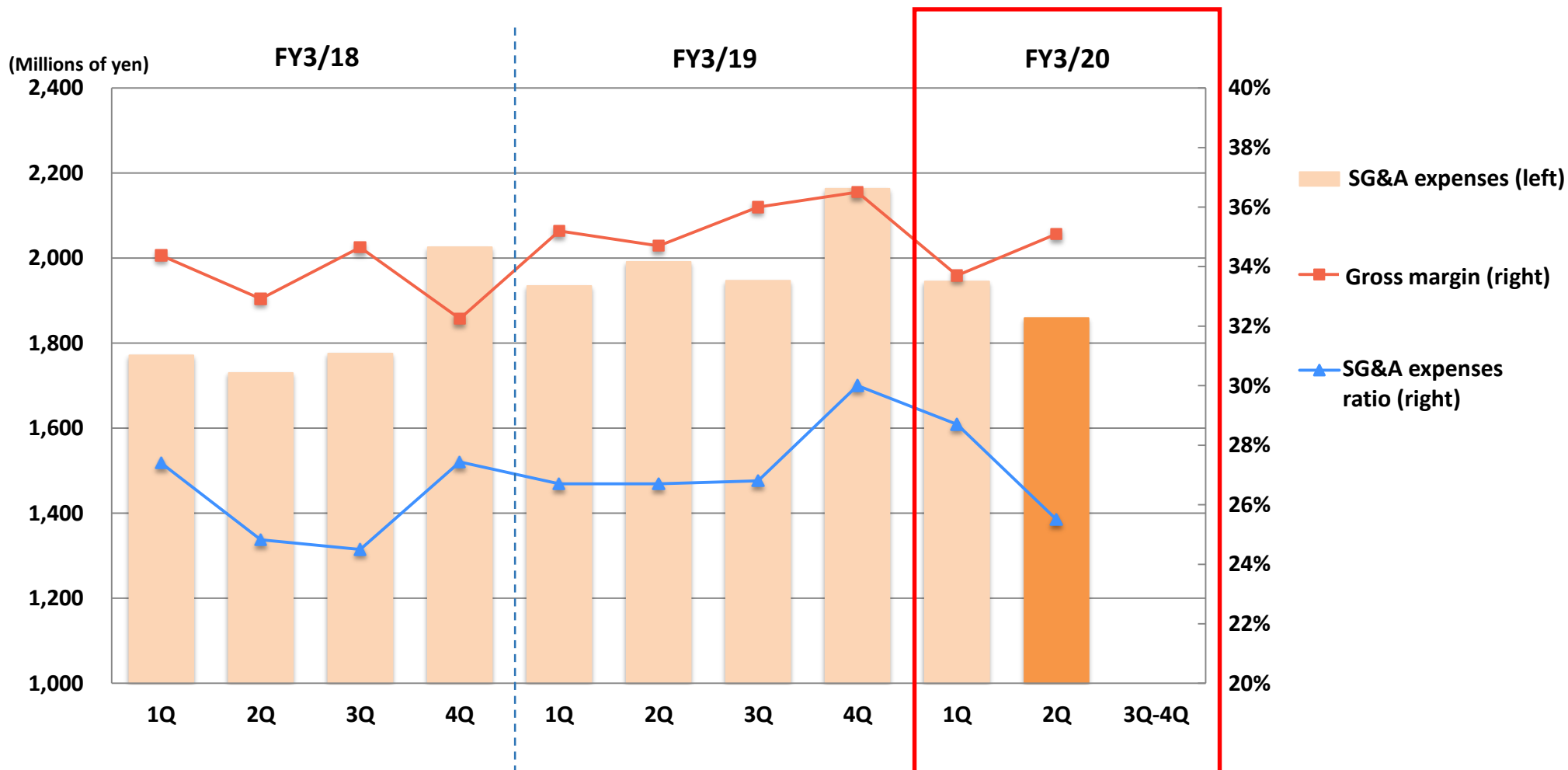
**Ordinary profit decreased but the bottom-line profit decline was smaller**

- ✓ Equity-method income was down because of the weak performance of affiliates, mostly in Asia. Larger decrease in ordinary profit (-18.9%)
- ✓ Gain on sales of investment securities of about 150 million yen and positive consolidation adjustment (for 2Q earnings) resulted in a smaller bottom-line profit decline (-4.1%)

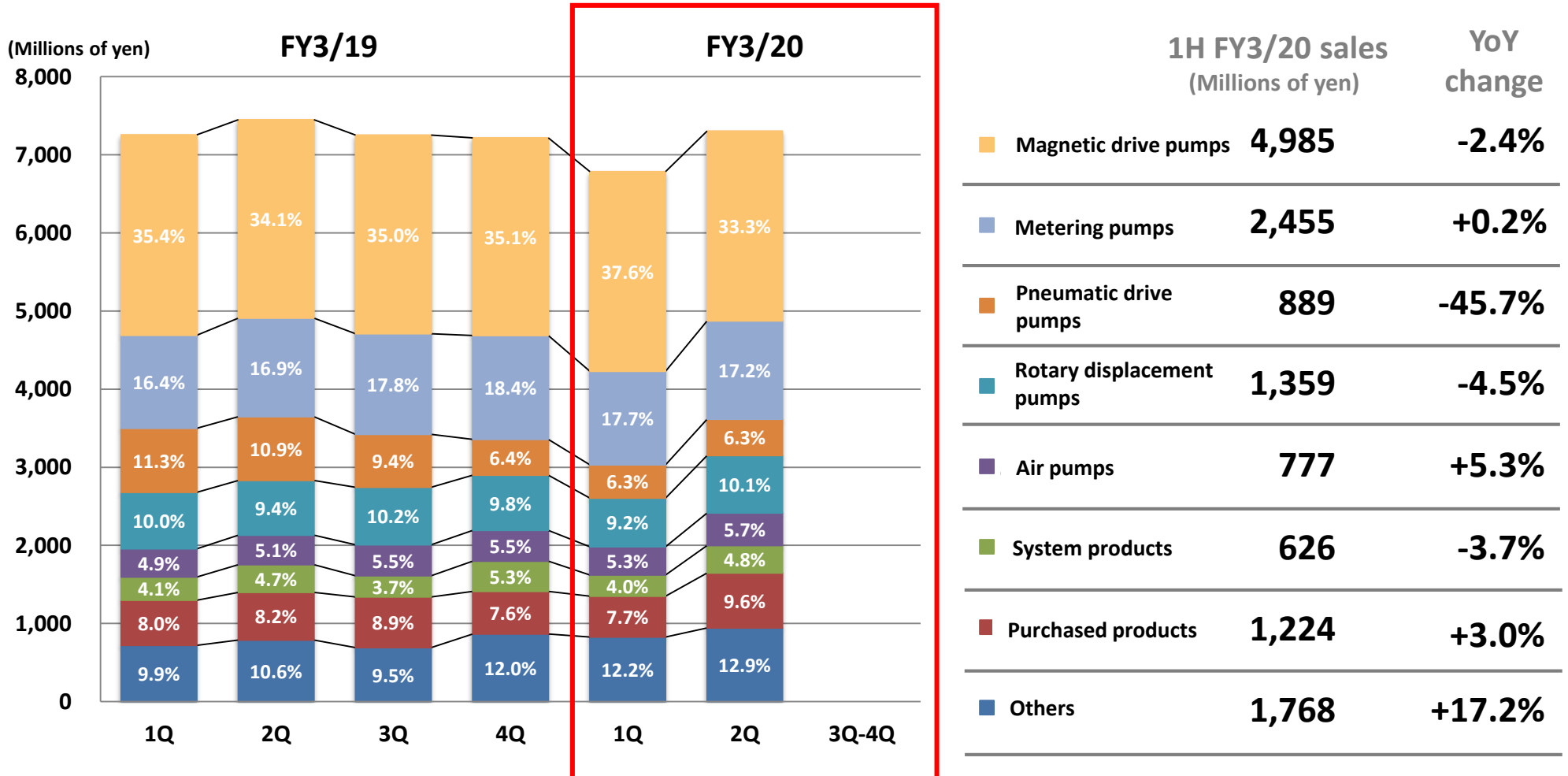
Big improvement in second quarter earnings because of sales growth in the medical equipment and water treatment markets and cost reductions



Sales growth raised the second quarter gross margin and the SG&A expenses ratio decreased because of cost reductions



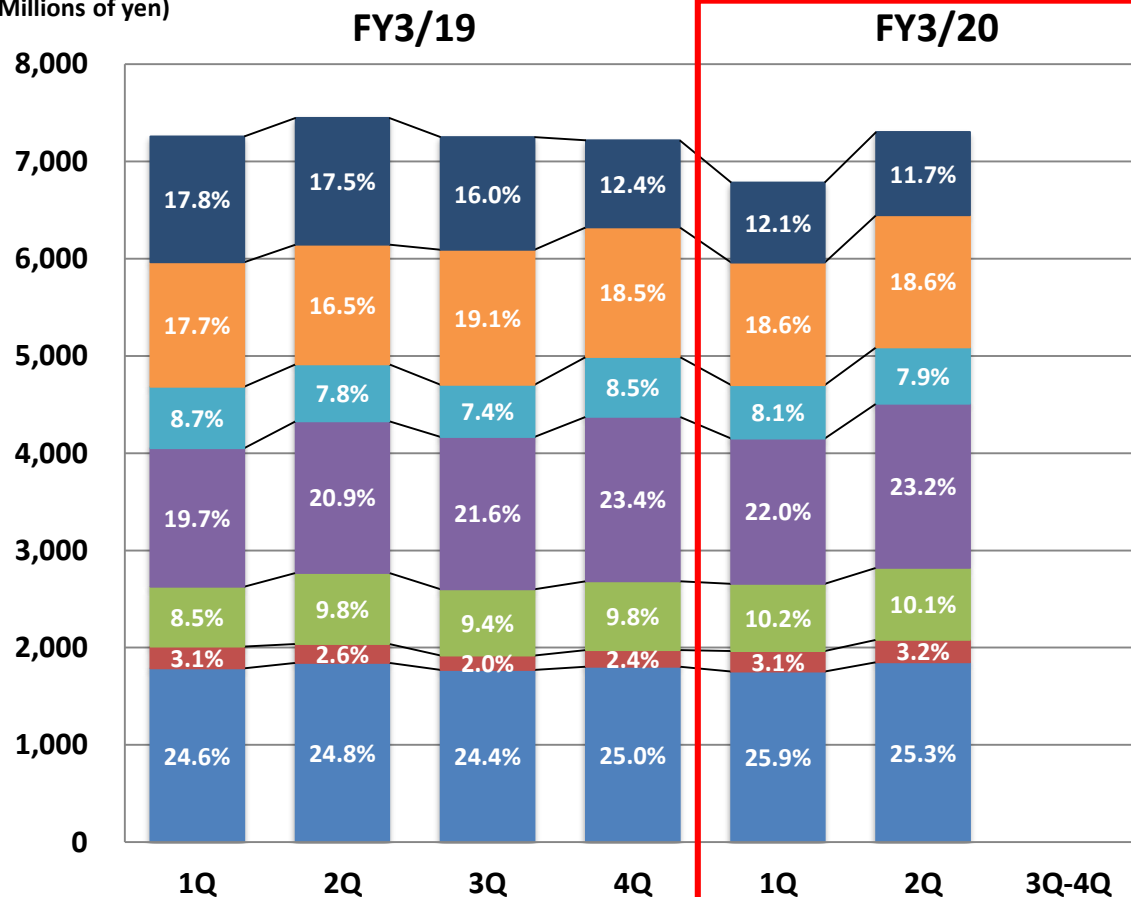
Slow sales of pneumatic drive pumps in the semiconductor/liquid crystal market, no change in metering pump sales and higher sales of air pumps





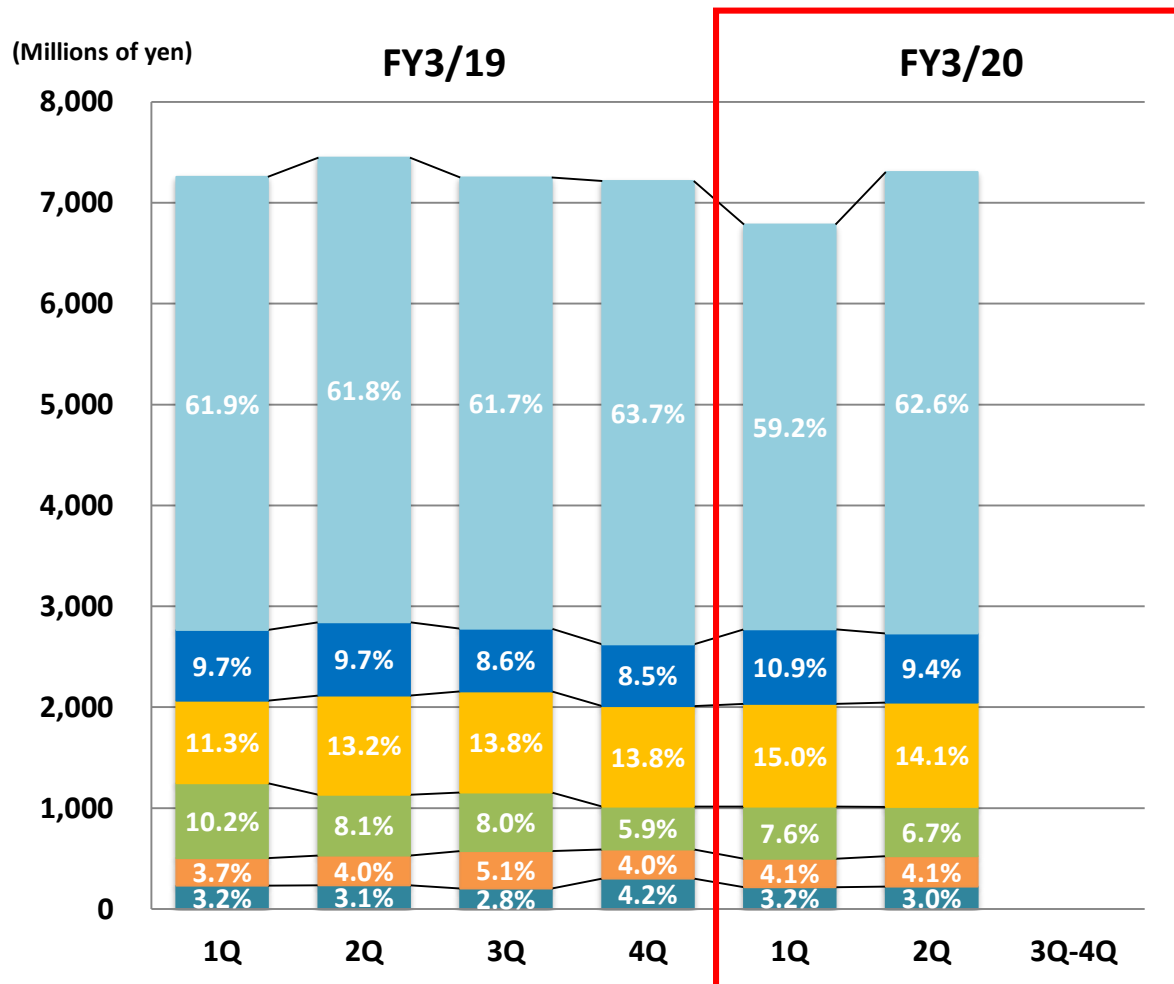
Sluggish sales in the semiconductor/liquid crystal market and weak sales in the surface treatment equipment market, but higher sales in the medical equipment, water treatment and chemicals markets

(Millions of yen)



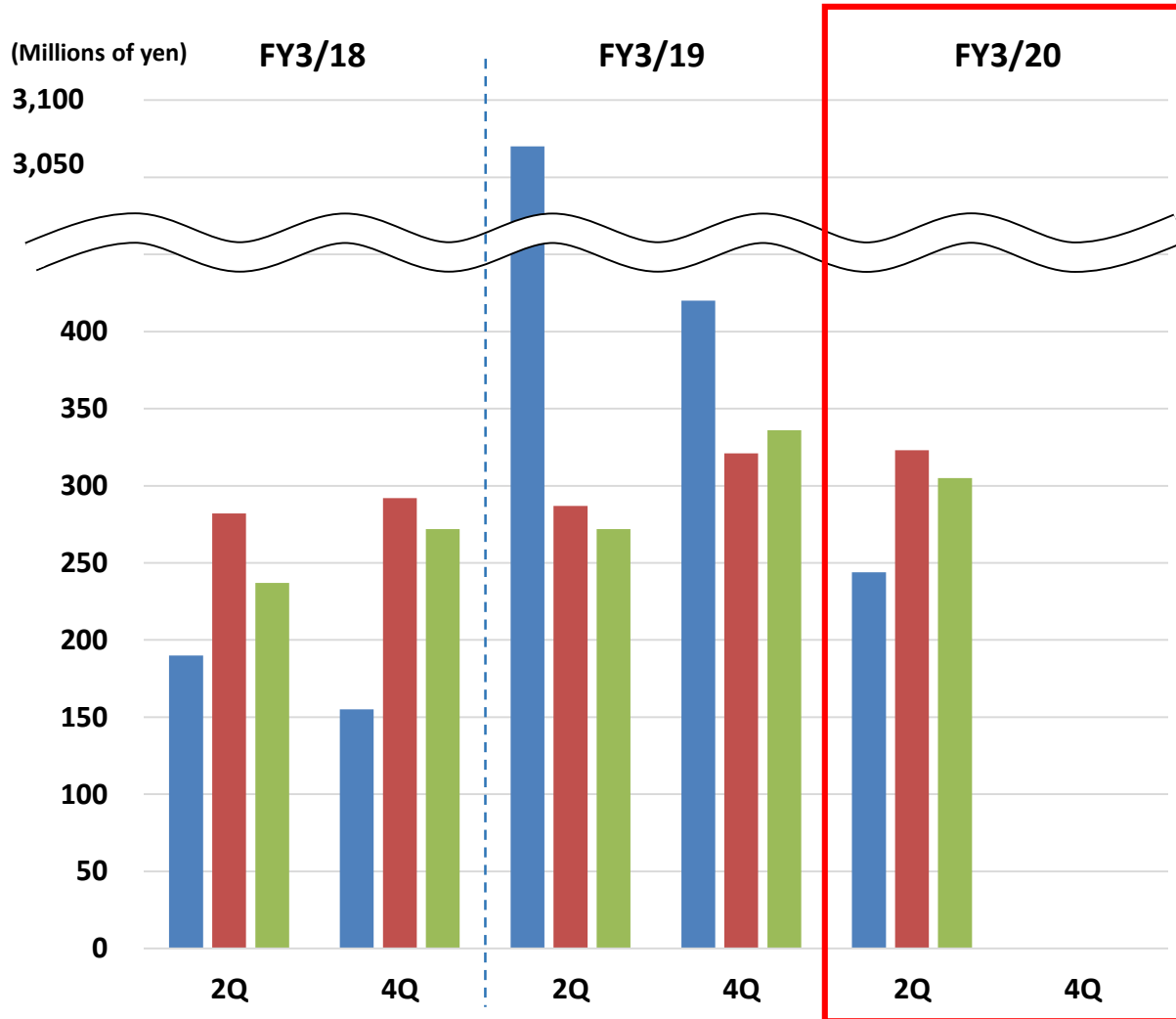
	1H FY3/20 sales (Millions of yen)	YoY change
Semiconductor/ liquid crystal	<b>1,681</b>	<b>-35.3%</b>
Medical equipment	<b>2,616</b>	<b>+4.2%</b>
Surface treatment equipment	<b>1,127</b>	<b>-7.0%</b>
Water treatment	<b>3,185</b>	<b>+6.7%</b>
Chemicals	<b>1,427</b>	<b>+5.8%</b>
New energy	<b>445</b>	<b>+6.8%</b>
Others	<b>3,602</b>	<b>-0.8%</b>

## Sales remained strong in America and steadily increased in China



	1H FY3/20 sales (Millions of yen)	YoY change
Japan	8,586	-5.6%
Overseas total	5,500	-1.9%
Europe	1,423	-0.3%
America	2,050	+13.7%
Asia	1,004	-25.3%
China	583	+2.9%
Others	437	-5.9%

Overseas sales ratio **39.0%**



	1H FY3/20 sales (Millions of yen)	YoY change
Capital expenditures	<b>244</b>	<b>-2,825</b>
R&D expenses	<b>323</b>	<b>+35</b>
Depreciation	<b>305</b>	<b>+33</b>

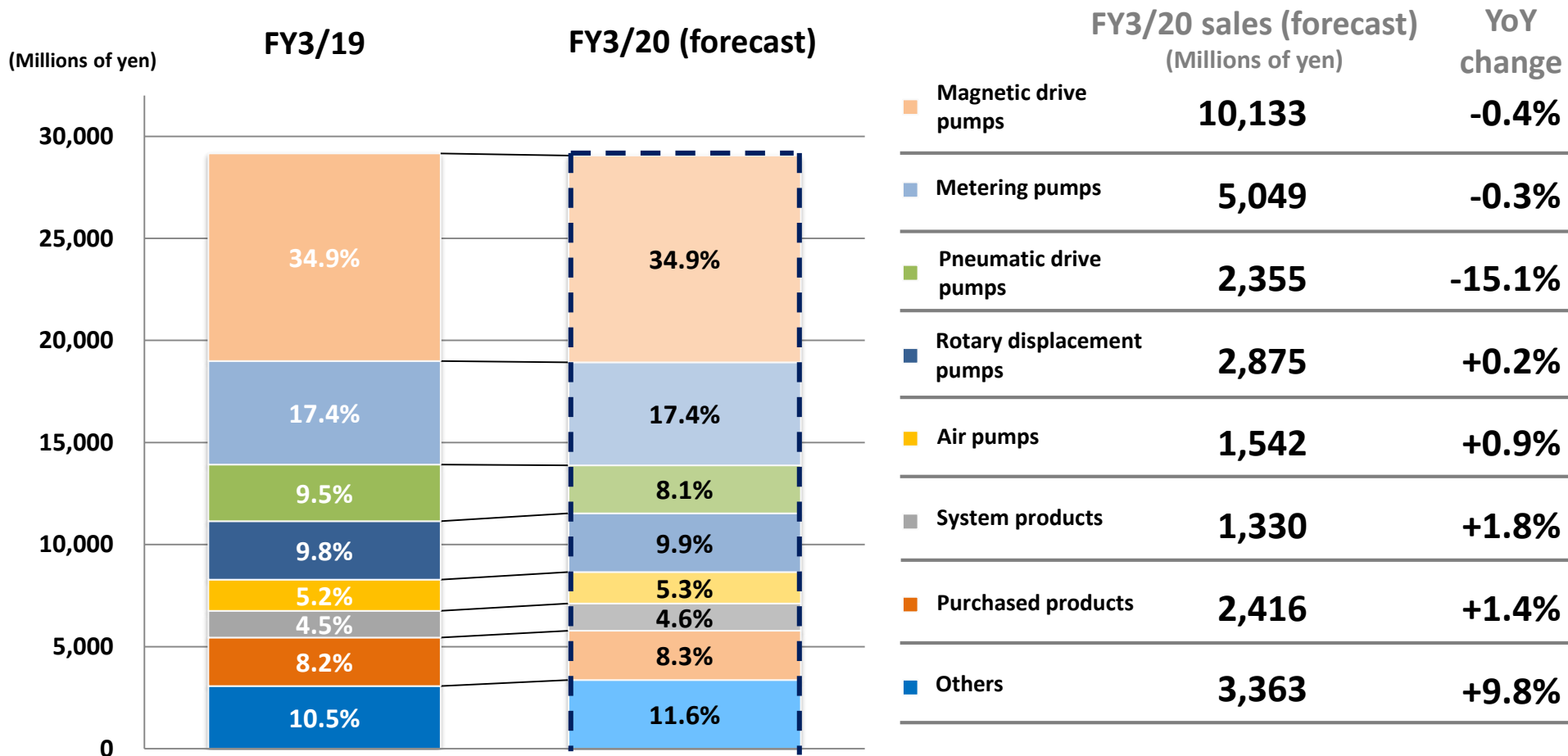
\*Capital expenditures in 1H FY3/19 includes expenses of ¥2,862 million at the new technology center

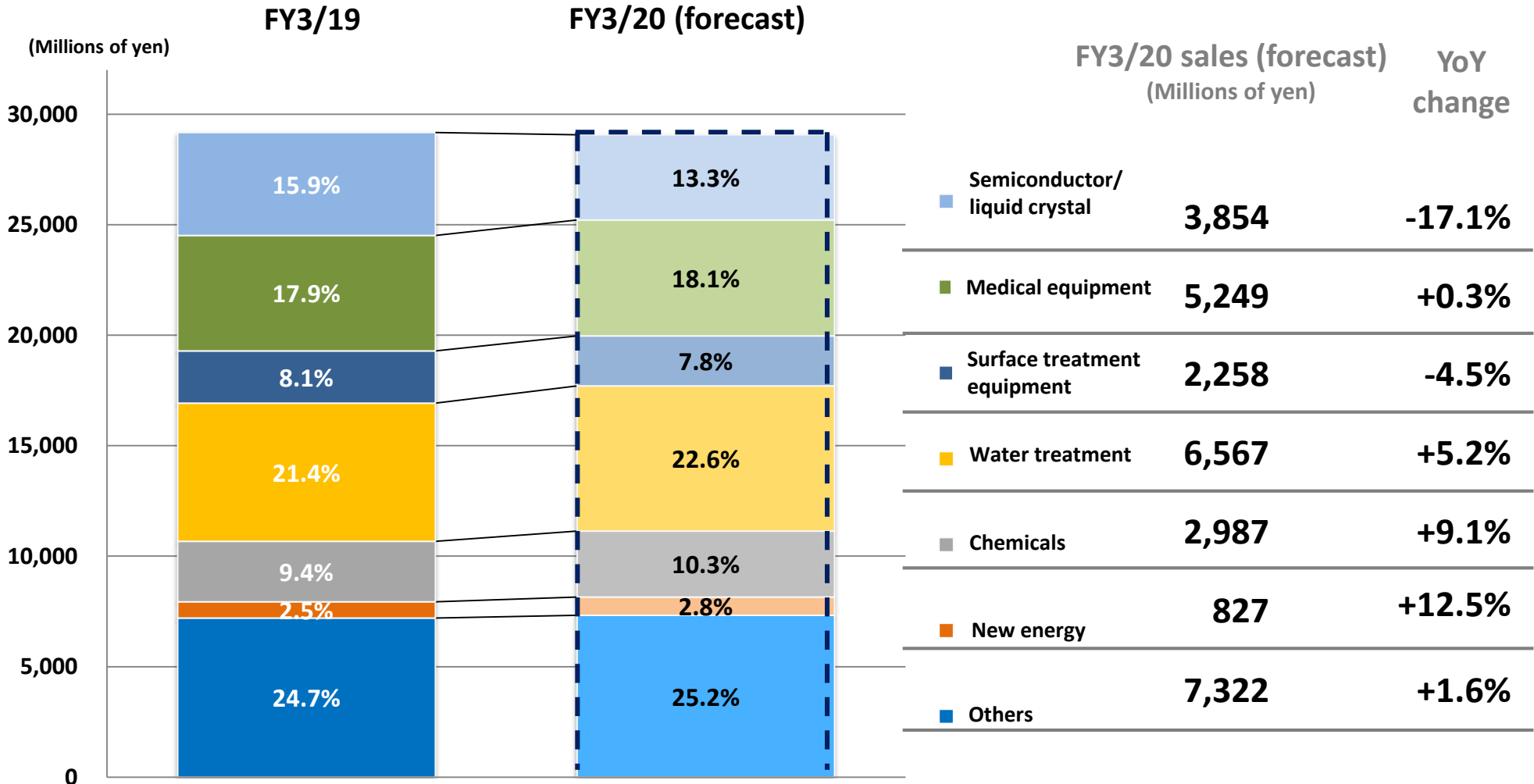


## Outlook for FY3/20

		FY3/19 Amount	FY3/20 (forecast)	
			Amount	YoY change
Net sales		29,171	29,067	-0.4%
Gross profit		10,374	10,066	-3.0%
(Gross margin)		(35.6%)	(34.6%)	(-1.0pt)
Operating profit		2,337	2,116	-9.5%
(Operating margin)		(8.0%)	(7.3%)	(-0.7pt)
Ordinary profit		2,847	2,551	-10.4%
Profit attributable to owners of parent		2,163	1,977	-8.6%
Net income per share (Yen)		96.25	89.49	-7.0%
Exchange rate (average)	USD/JPY (Yen)	110.45	*107.00	
	EUR/JPY (Yen)	130.35	*119.00	

\*Exchange rate forecast was used for the second half





**1**

## Forecast a small decrease in sales

- ✓ Expect higher sales in the water treatment market and growth in the chemicals market too
- ✓ Sales are expected to be weak in the semiconductor/liquid crystal market as well as in the sectors of the surface treatment equipment market associated with this market
- ✓ A recovery is expected in the semiconductor/liquid crystal market in the second half

**2**

## Forecast a lower gross margin due to the sales decrease but a smaller decrease in the operating margin because of cost cutting and other reasons

- ✓ 9.5% decrease in operating profit because of lower sales
- ✓ 0.2 pct. point decrease in the SG&A expense ratio because of cost reductions and other reasons

**3**

## Forecast lower ordinary, pre-tax and bottom-line profit

- ✓ Double-digit ordinary profit decrease because of lower equity-method income, mainly at affiliates in Asia (semiconductor/liquid crystal and surface treatment equipment markets)
- ✓ Smaller decrease in bottom-line profit due to a gain on sales of investment securities

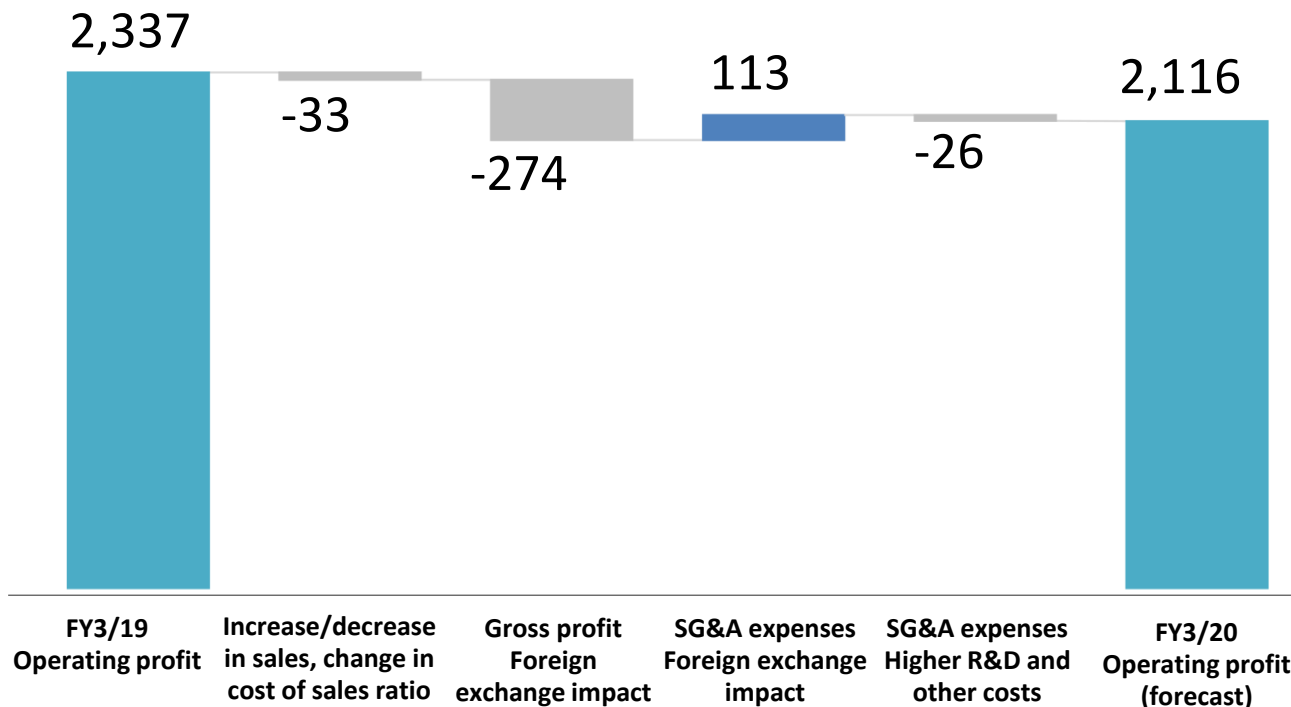


(Thousands of yen)

Effect of ¥1 exchange rate change	USD	EUR
Net sales	25,318	9,977
Operating profit	7,432	4,688

(for only the second half)

(Millions of yen)



# 6 Market Assumptions

## Market environment assumptions

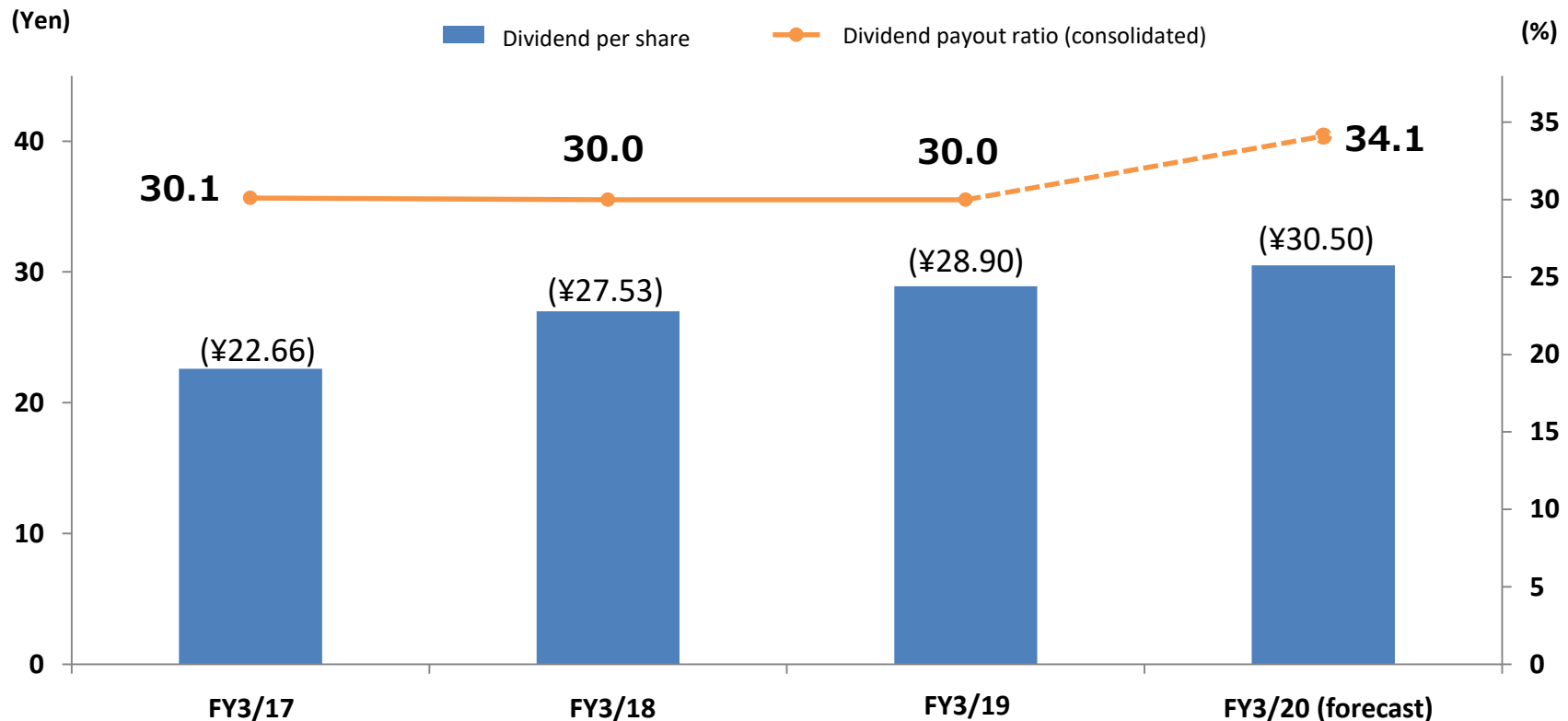
	Japan	Overseas
<b>Water treatment market</b>	<ul style="list-style-type: none"> <li>• For food safety, steady demand for ionized water production and equipment for agriculture using hydroponics and soil</li> <li>• Steady demand for hot bathing facilities</li> <li>• <b>No change in private/public-sector demand in the water treatment plant category</b></li> </ul>	<ul style="list-style-type: none"> <li>• Steady demand in ballast water control products</li> <li>• Strong demand in Asia involving water quality management</li> </ul>
Semiconductor/liquid crystal market	<ul style="list-style-type: none"> <li>• <b>Soft demand at manufacturers of production equipment because of declining capital expenditures in Asia</b></li> </ul>	<ul style="list-style-type: none"> <li>• First signs of a resumption of capital expenditures for memory devices</li> </ul>
<b>Medical equipment market</b>	<ul style="list-style-type: none"> <li>• Steady growth in clinical testing equipment and endoscope sterilization equipment</li> <li>• <b>Weak sales for dialysis equipment due to some inventory reductions</b></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>• Steady demand in the rechargeable battery market</li> <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 China and South Korea</li> </ul>
Chemicals market	<ul style="list-style-type: none"> <li>• Continuation of steady demand related to development of value-added products and investments by pharmaceutical companies</li> </ul>	<ul style="list-style-type: none"> <li>• Steady demand for materials used to make lithium-ion batteries</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> <li>• <b>Soft demand in the smartphone market</b></li> </ul>	<ul style="list-style-type: none"> <li>• Continuation of steady demand for products used in automotive and telecommunication applications</li> </ul>

\*Bold indicates priority markets targeted for growth.

\*Orange indicates negative outlooks.

## Basic policy

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



Note: Dividends for 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 Business Development and Growth

FY3/16

FY3/17

FY3/18

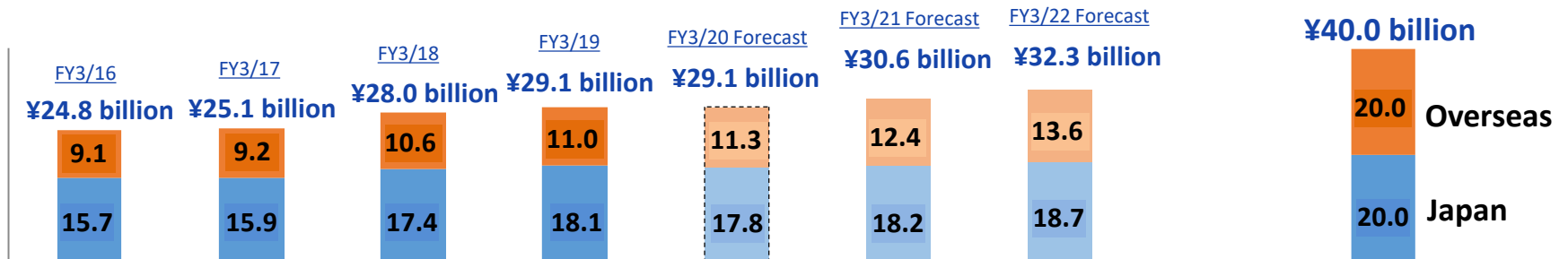
FY3/19

**Medium-term Management Plan FY3/20–FY3/22**  
 Business development and growth

FY3/25

Numerical targets

## Consolidated sales



6.1% — 5.8% — 7.5% — 8.0% — 7.3% — 8.2% — 9.0% — **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

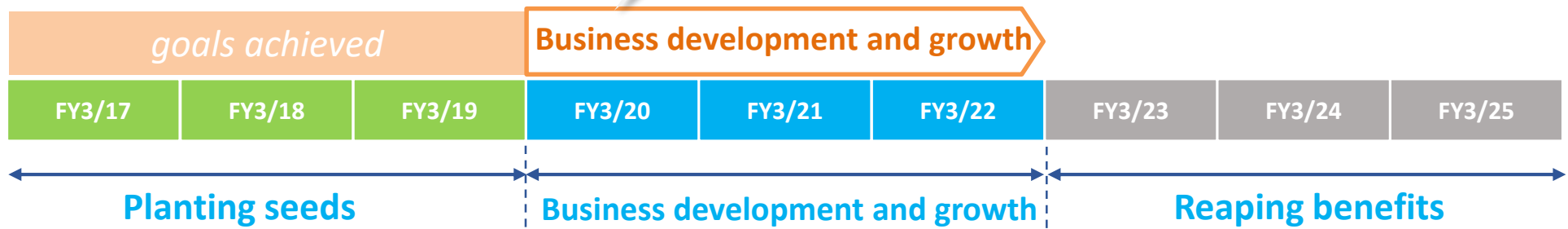
- We will firmly establish a corporate culture of never being afraid of change and new challenges -

Business development and growth are the priorities of this plan to build a base for achieving the 10-year vision

### Key goals

- Specific initiatives for reaching the numerical targets of the 10-year vision
  - 1) Rebuild the manufacturing infrastructure
  - 2) Improve accuracy of production and sales plans
  - 3) Eliminate product defects and other problems
  - 4) Raise productivity in all aspects of operations
- Manage operations with the goal of consistently increasing corporate value
  - 1) Reexamine every part of personnel systems
  - 2) Update core IT systems
  - 3) Fully utilize the IoT
  - 4) A commitment to CSR

### Steps for achieving the 10-year vision



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	○	Continue and strengthen these activities	
	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, and start activities in Europe	○	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; make investments to start using an enterprise resource planning system; increase outsourced manufacturing companies in China 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	

	FY3/20		FY3/21 (plan)		FY3/22 (plan)	
	Forecast	Change		Change		Change
Net sales	29,067	-0.4%	30,593	+5.3%	32,305	+5.6%
Gross profit	10,066	-3.0%	10,699	+6.3%	11,366	+6.2%
Operating profit	2,116	-9.5%	2,509	+18.6%	2,915	+16.2%
Ordinary profit	2,551	-10.4%	2,930	+14.9%	3,336	+13.8%
Profit attributable to owners of parent	1,977	-8.6%	2,196	+11.1%	2,477	+12.8%

**1** The FY3/20 sales forecast has been lowered slightly due mainly to the postponement of capital expenditures by client companies in the semiconductor/liquid crystal market. Forecast sales growth of almost 3% in Japan and almost 10% overseas in FY3/21 and FY3/22.

**2** Forecast 34.6% gross margin and 27.3% SG&A expense ratio in FY3/20 and annual improvements of 0.2pt to 0.4pt in the gross margin and 0.5pt to 0.6pt in the SG&A expense ratio in the following two years.

**3** Anticipate no change in income from equity-method affiliates during all three years of the management plan. But forecast double-digit growth in operating and ordinary profit and profit attributable to owners of parent as the benefit of sales growth in FY3/21 and FY3/22.



### Basic Policy 1

#### Concentrate resources on markets targeted for reinforcement

- Water treatment market → Synergies with Walchem (U.S.)
- Medical equipment market → New overseas OEM customers, new products
- New energy market → Rechargeable battery production, large storage battery equipment

### Basic Policy 2

#### Expand business activities that provide solutions

- Improve customer services → More products for faster deliveries
- Solutions business → Proposals for actual fluid simulation tests
- Use of IoT → Study and establish new business models

## Achieving the 10-year vision

### Basic Policy 3

#### Build a business model for new activities

- Aquatic business → Continue promotion of Europe and China sales activities, aim for growth in Japan and U.S.
- Provide technology/maintenance support to customers
  - Sales activity support from IJ engineers
  - Train maintenance personnel with knowledge of their local markets

### Basic Policy 4

#### Unified operation of strategic overseas regions

- ASEAN project → Continue progress with this project
- Recruit marketing personnel in all countries and regions
- IT infrastructure → Use the core IT system renovation process as an opportunity to optimize the entire IT infrastructure

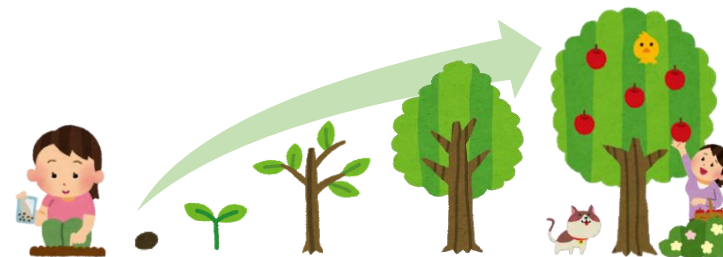
# Business Development and Growth Phase

## – Major Initiatives of the Medium-term Management Plan

### 1. Japan

- Target demand for the replacement of products of competitors
- Continue to strengthen the solutions business
- Focus on IoT products and solutions for customers
- Continue to improve customer satisfaction
- Meet customers' demands involving products, parts, delivery, etc.

### 2. Overseas



Country/region	Key overseas markets for growth	Targeted applications
<b>America</b>	Water treatment, medical equipment	Industrial water treatment, medical analysis, aquatic business
<b>Europe</b>	Water treatment, chemicals/chemical manufacturing equipment, cooling equipment, new energy	Systems products, wind power generation, equipment used in ships
<b>ASEAN</b>	Water treatment, surface treatment equipment, chemicals, medical equipment	Water quality management, surface treatment equipment
<b>China</b>	Medical equipment, new energy, water treatment	Medical analysis, rechargeable batteries, water treatment plants
<b>South Korea/Taiwan</b>	Water treatment, new energy	Water quality management, rechargeable batteries, surface treatment equipment

### 3. Investments

- Make more investments in production facilities in Europe and strengthen logistics
- Consider alliances and M&A for the expansion of business operations

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# (Reference) The New Iwaki Corporate Website

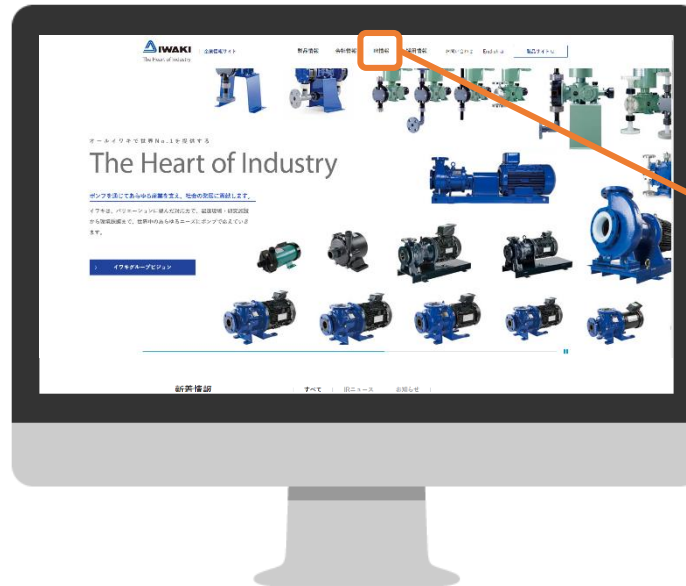
Iwaki unveiled its new corporate website on October 1, 2019.

The website has a large volume of financial and other information for shareholders and other investors along with a variety of information to give visitors to the website a better understanding of Iwaki.

The previous website (<https://www.iwaki pumps.jp/>) has a new look and has been renamed the product website.

<https://www.iwaki pumps.co.jp>

Iwaki website  
QR code



IR Information