



The Heart of Industry

**IWAKI**

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

May 25, 2018

**IWAKI CO.,LTD.**

Stock code: 6237

Trade name: Iwaki Pump

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# Summary of FY3/18 Financial Results

(Millions of yen)

	FY3/17	FY3/18		FY3/18 Forecast
		Amount	YoY change	
Net sales	25,146	28,067	+11.6%	28,141
Gross profit	8,175	9,409	+15.1%	9,492
(Gross margin)	(32.5%)	(33.5%)	(+1.0pt)	(33.7%)
Operating profit	1,465	2,106	+43.8%	2,062
(Operating margin)	(5.8%)	(7.5%)	(+1.7pt)	(7.3%)
Ordinary profit	2,136	2,733	+27.9%	2,691
Profit attributable to owners of parent	1,690	2,059	+21.8%	2,091
Net income per share (Yen)	225.93	275.16	+21.8%	279.47
Exchange rate (average)	USD/JPY (Yen)	108.81	112.17	107.00
	EUR/JPY (Yen)	120.30	126.70	128.00

Announced on March 15, 2018

## 1

### Sales increased

- ✓ 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 over 30% higher than one year earlier mainly because of growing demand in the medical equipment market
- ✓ Increasing demand in Europe in the new energy market

## 2

### A big increase in operating profit

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

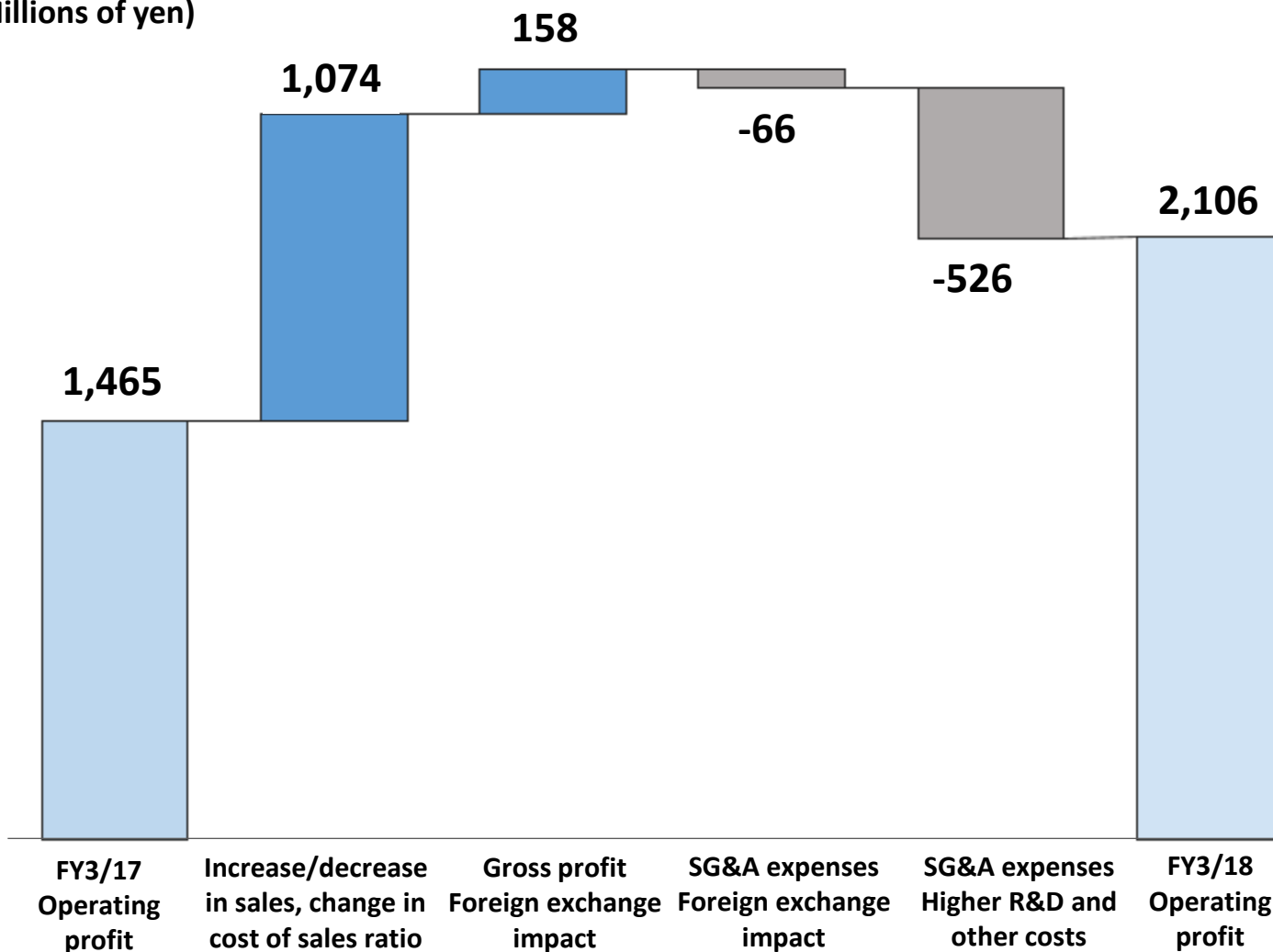
## 3

### Ordinary profit increased but profit attributable to owners of parent decreased

- ✓ The foreign exchange gain declined because of the contribution of one-time factors one year earlier, but there was an increase in ordinary profit resulting from the consistently strong performances of affiliated companies, mainly in Asia
- ✓ Income and other taxes were higher than expected

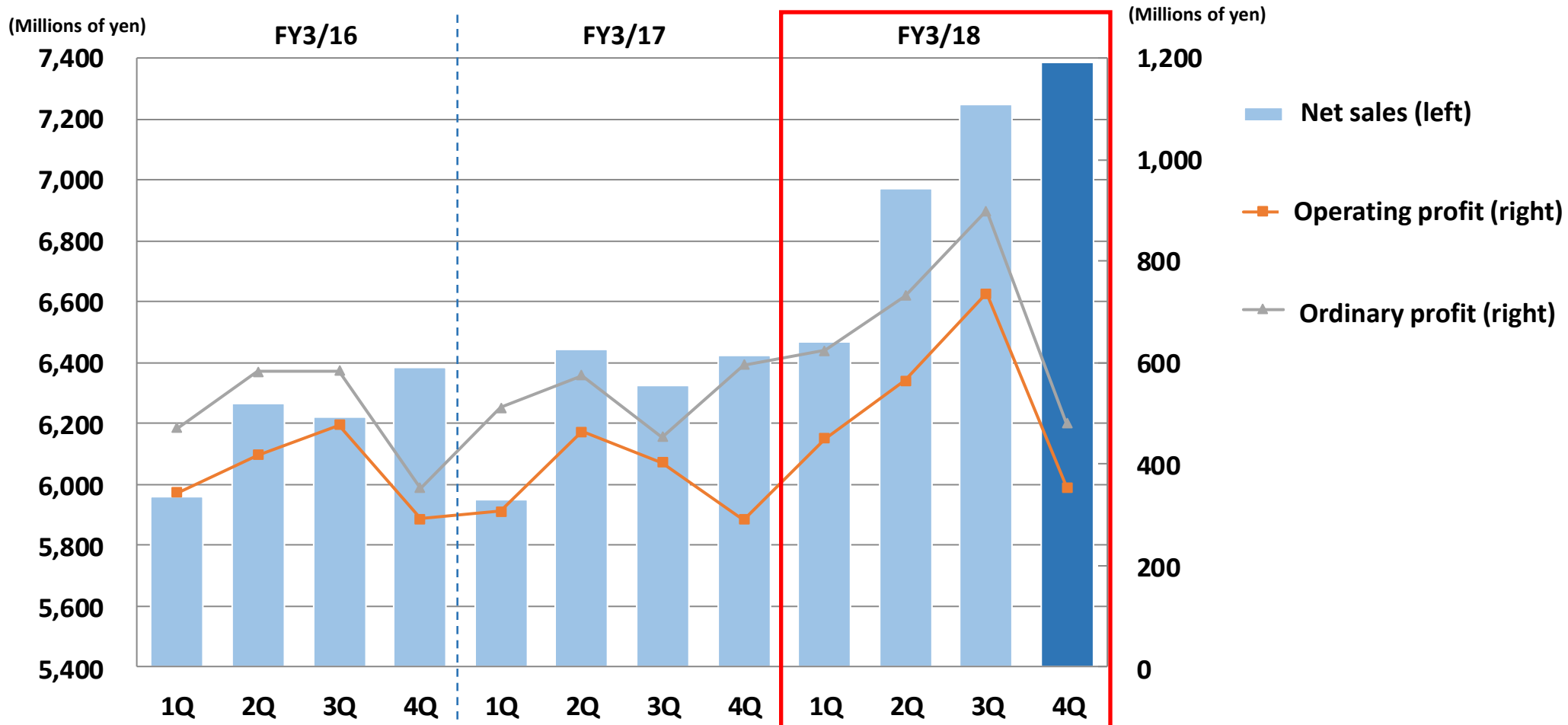
# Factors Affecting Profitability

(Millions of yen)



## Net Sales and Operating Profit (Quarterly)

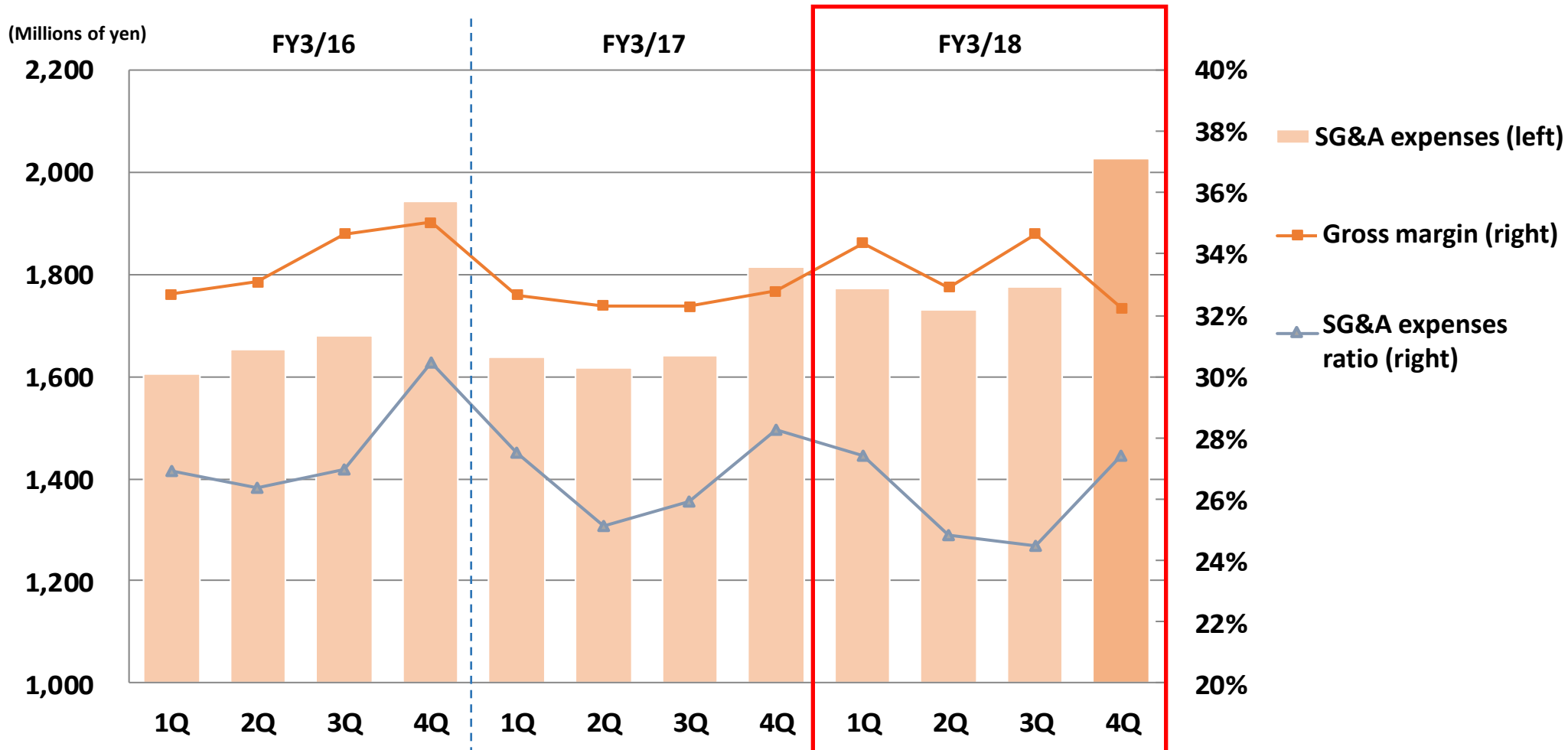
- Higher sales and profits at all levels backed mainly by strength in the semiconductor/liquid crystal market
- Personnel costs increased in 4Q due to higher sales



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

# Gross Margin and SG&A Expense Ratio (Quarterly)

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

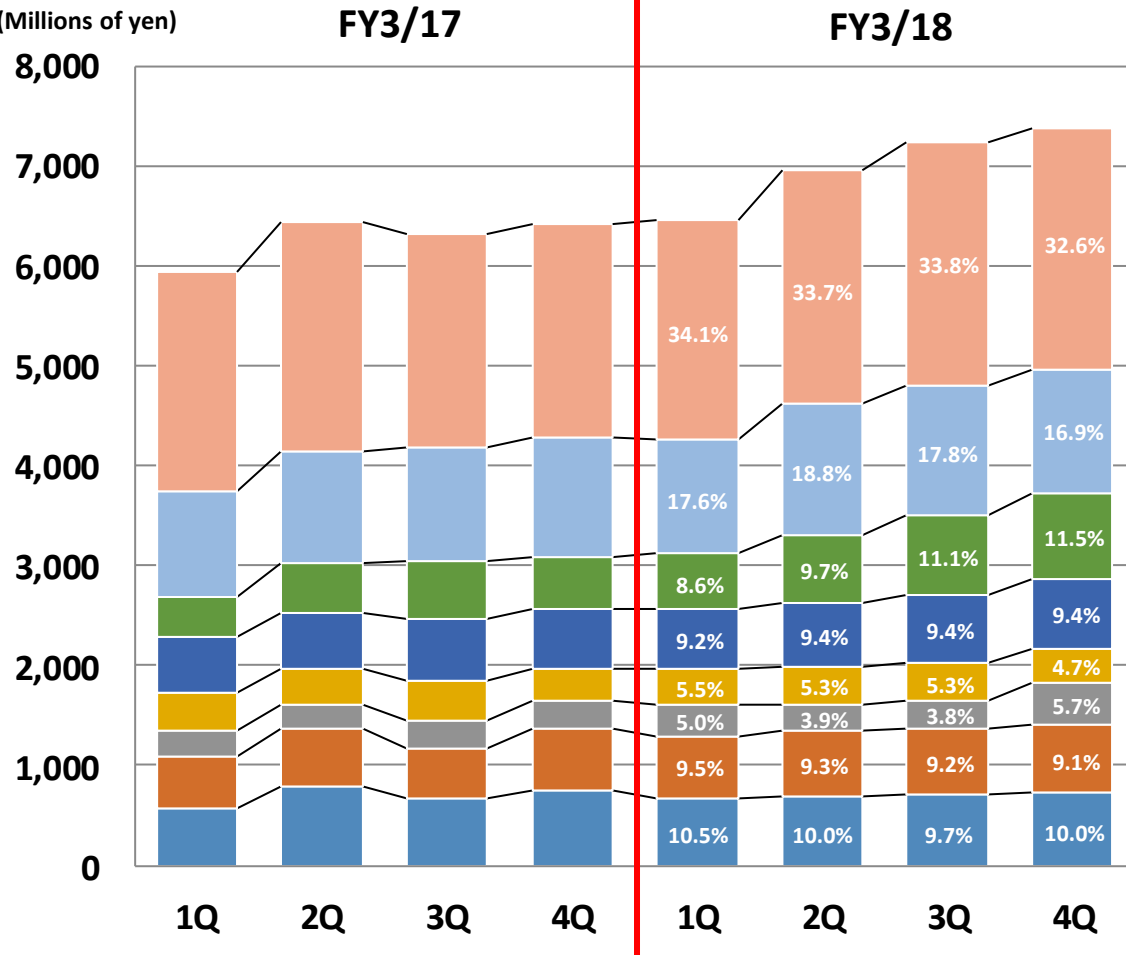










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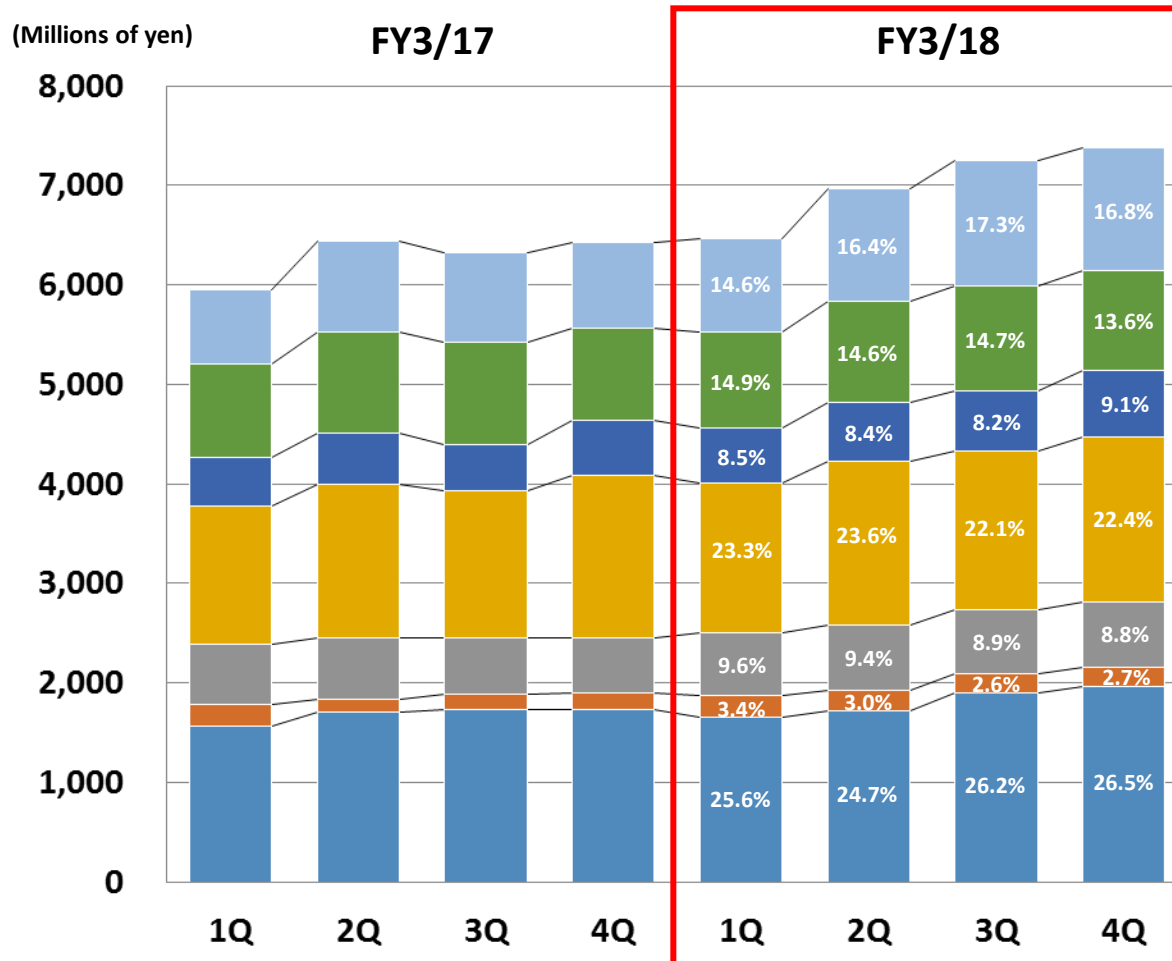
Sales of pneumatic drive pumps continued to increase sharply and sales of metering pumps and rotary displacement pumps also increased.

(Millions of yen)



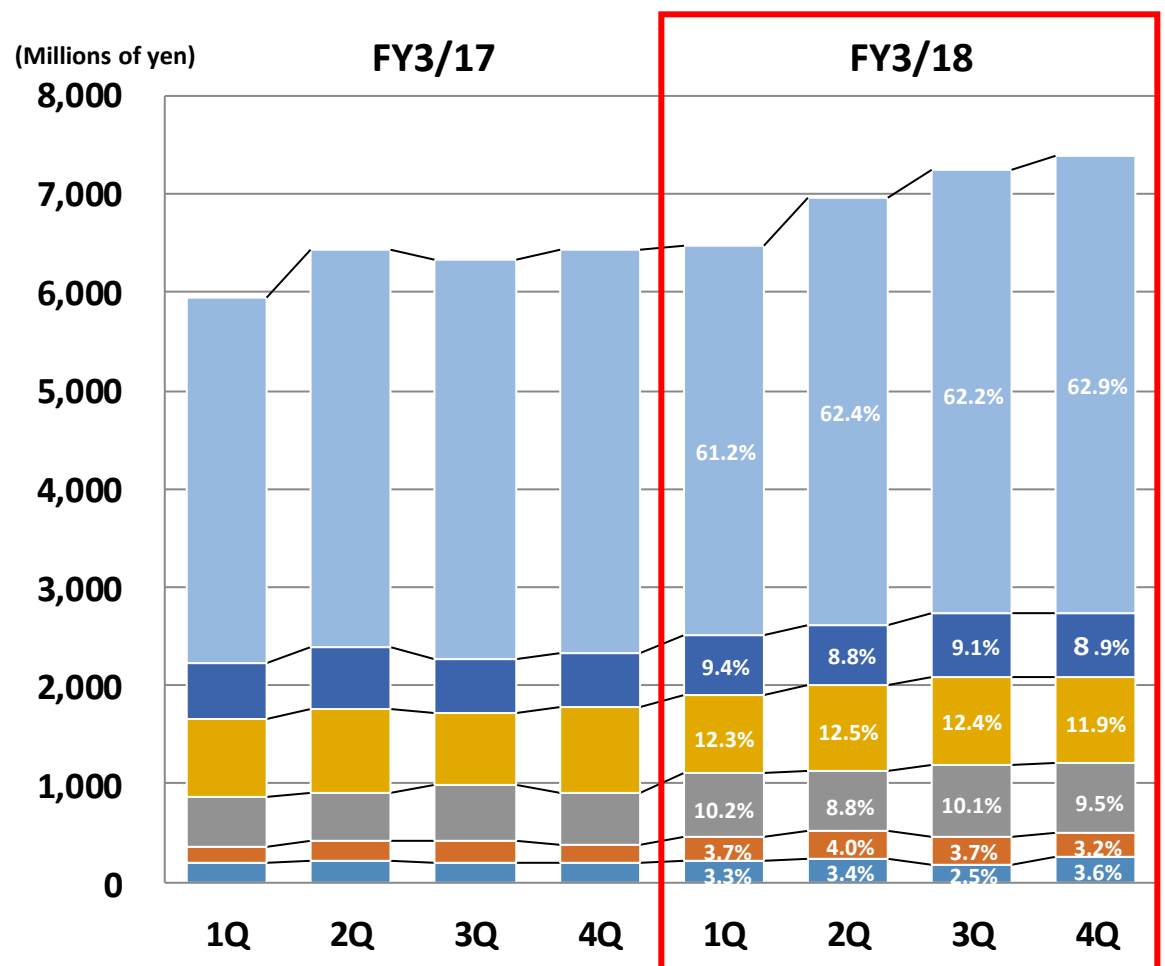
	FY3/18 sales (Millions of yen)	YoY change
 Magnetic drive pumps	<b>9,408</b>	<b>+7.3%</b>
 Metering pumps	<b>4,989</b>	<b>+10.0%</b>
 Pneumatic drive pumps	<b>2,885</b>	<b>+45.4%</b>
 Rotary displacement pumps	<b>2,623</b>	<b>+12.0%</b>
 Air pumps	<b>1,458</b>	<b>+1.5%</b>
 System products	<b>1,286</b>	<b>+17.8%</b>
 Purchased products	<b>2,598</b>	<b>+18.6%</b>
 Others	<b>2,816</b>	<b>+0.9%</b>

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



	FY3/18 sales (Millions of yen)	YoY change
Semiconductor/ liquid crystal	<b>4,583</b>	<b>+33.9%</b>
Medical equipment	<b>4,048</b>	<b>+3.6%</b>
Surface treatment equipment	<b>2,401</b>	<b>+18.9%</b>
Water treatment	<b>6,413</b>	<b>+6.0%</b>
Chemicals	<b>2,570</b>	<b>+9.8%</b>
New energy	<b>815</b>	<b>+25.4%</b>
Others	<b>7,233</b>	<b>+7.2%</b>

Sales increased in Japan, Europe and America and sales remained very strong in Asia and China

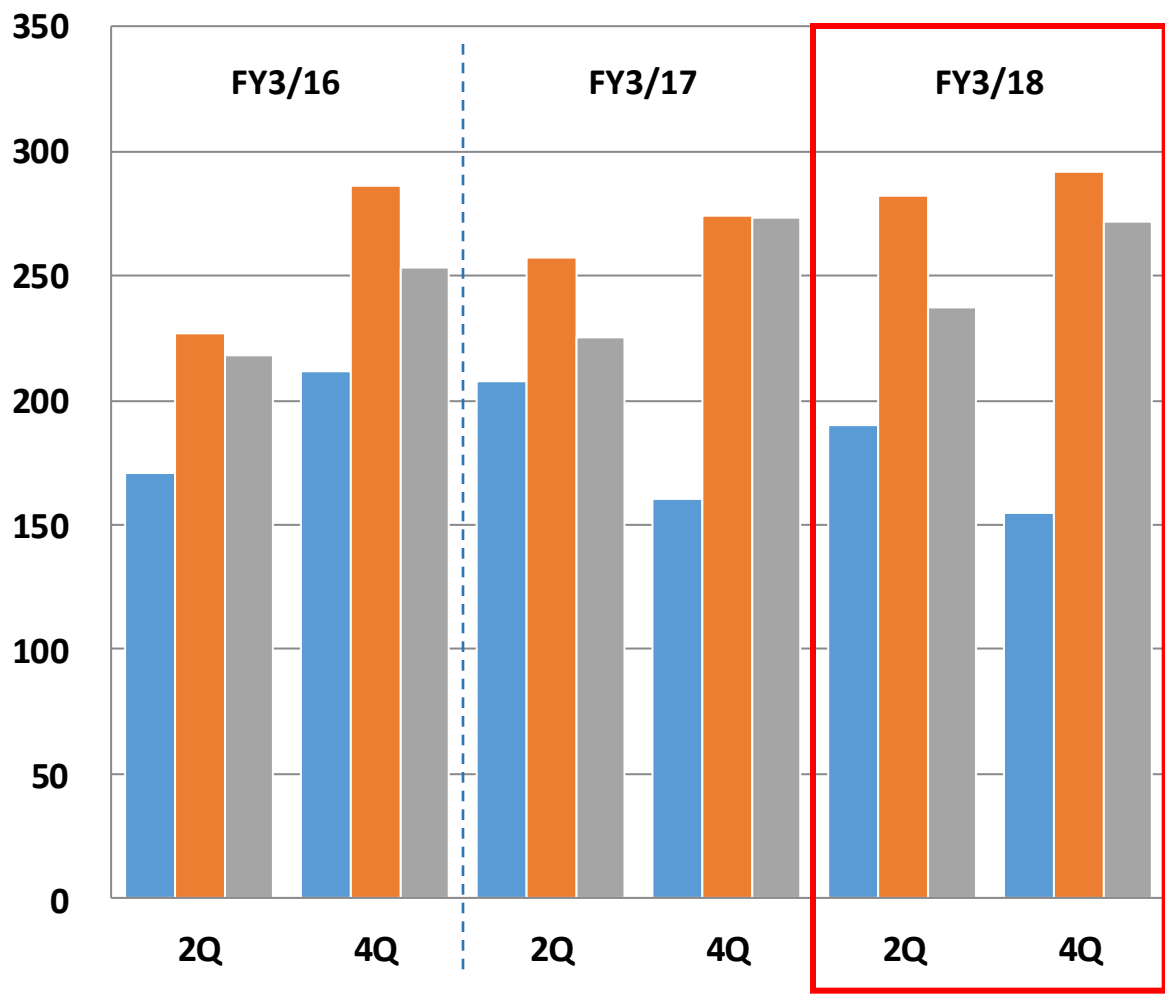


	FY3/18 sales (Millions of yen)	YoY change
Japan	17,452	+9.5%
Overseas total	10,614	+15.2%
Europe	2,541	+11.9%
America	3,444	+5.2%
Asia	2,708	+29.2%
China	1,021	+33.6%
Others	899	+11.6%

Overseas sales ratio **37.8%**

# Capital Expenditures, R&D Expenses and Depreciation (Semi-annual)

(Millions of yen)



	FY3/18 sales (Millions of yen)	YoY change
■ Capital expenditures	<b>345</b>	<b>-23</b>
■ R&D expenses	<b>574</b>	<b>+42</b>
■ Depreciation	<b>510</b>	<b>+11</b>

\* Construction in progress of ¥1,829 million for new Technical Center was reported.



## Outlook for FY3/19

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

(Millions of yen)

		FY3/18	FY3/19 (forecast)	
			YoY change	
Net sales		28,067	29,427	+4.8%
Operating profit		2,106	2,366	+12.3%
(Operating margin)		(7.5%)	(8.0%)	(+0.5pt)
Ordinary profit		2,733	2,804	+2.6%
Profit attributable to owners of parent		2,059	2,015	-2.1%
Net income per share (Yen)		275.16	*269.27	-2.1%
Exchange rate (average)	USD/JPY (Yen)	112.17	107.00	
	EUR/JPY (Yen)	126.70	132.00	

**1**

### **Forecast another year of sales growth**

- ✓ Anticipate continuation in capital expenditures in Asia in the semiconductor/liquid crystal and surface treatment equipment markets
- ✓ Forecast higher demand in Japan and China in the medical equipment market
- ✓ Forecast strong sales in the water treatment market because of synergies with the residual chlorine meter operations of TechnoECHO

**2**

### **Forecast higher operating profit as sales growth offsets increase in expenses caused by the higher cost of materials**

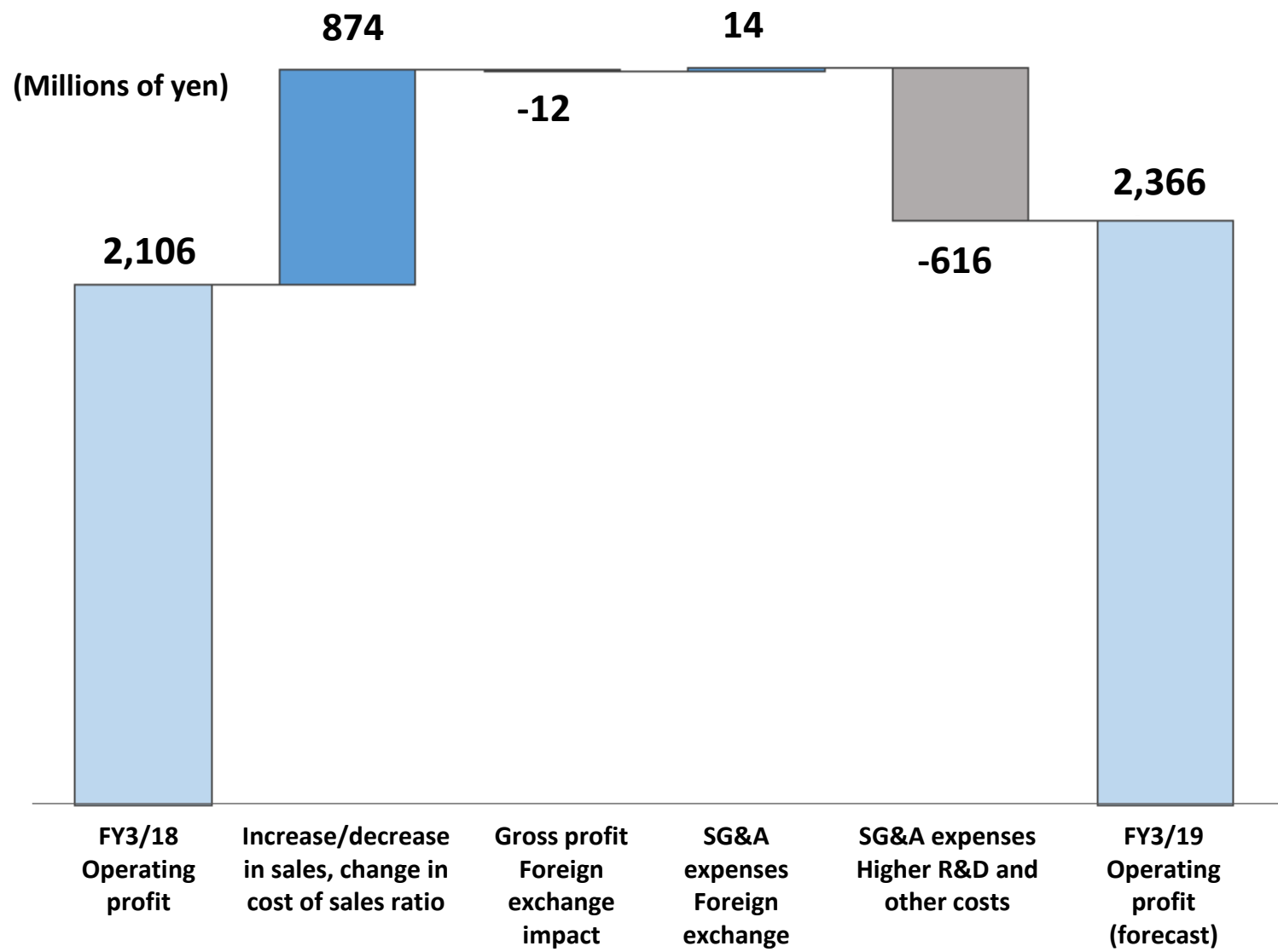
- ✓ Higher gross margin as sales growth increase in cost of materials
- ✓ Completion of the new technology center will raise depreciation by about ¥100 million
- ✓ Anticipate exhibition expenses of ¥50 million, including the JuneACHEMA Exhibition in Germany, and operating expenses of about ¥80 million at the new technology center in 1H (negative impacts on earnings vs. FY3/18)
- ✓ Forecast significant growth in sales of magnetic drive pumps and metering pumps, which are core products with high profit margins

**3**

### **Forecast a decrease in profit attributable to owners of parent**

- ✓ Conservative estimate of taxes that reflects the effective tax rate in FY3/18
- ✓ The foreign exchange gain declined because of the contribution of one-time factors one year earlier, but there was an increase in ordinary profit resulting from the consistently strong performances of affiliated companies, mainly in Asia

# FY3/19 Forecast –Factors Affecting Profitability



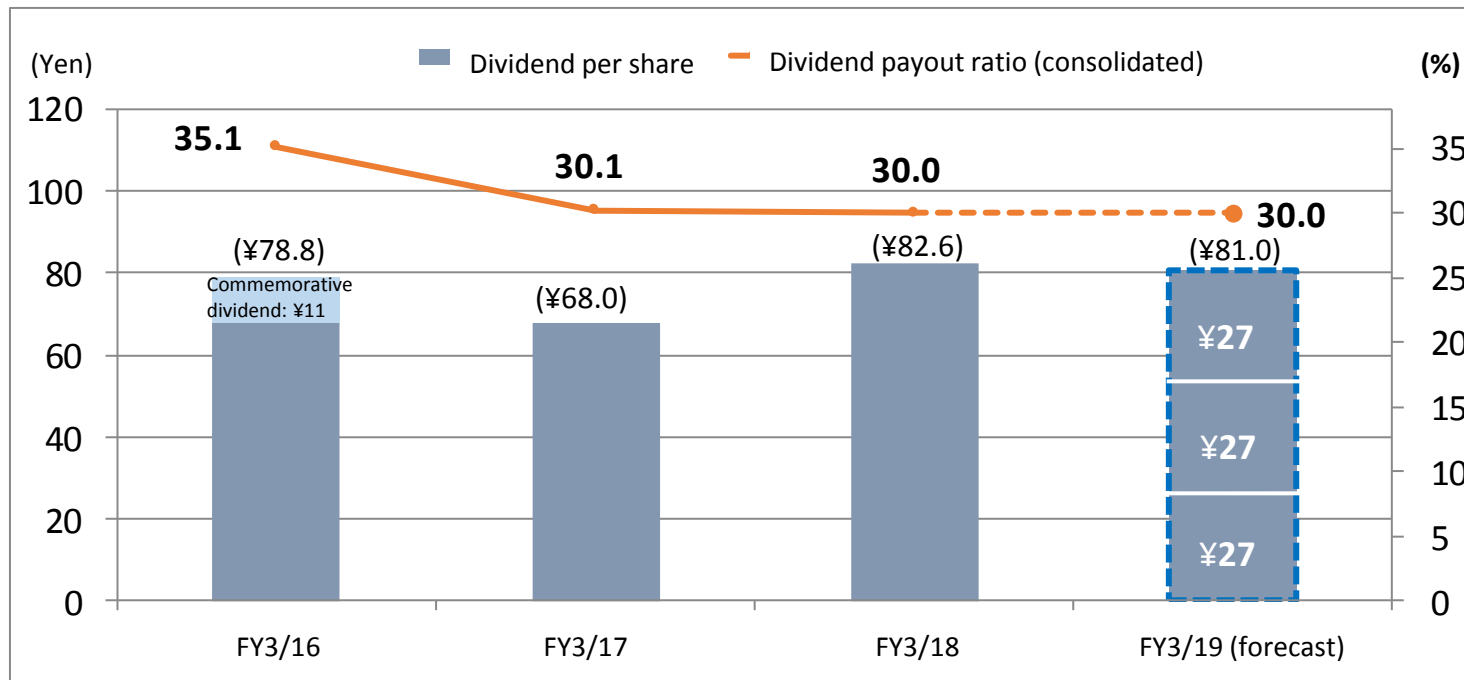


## Market environment assumptions

	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> <li>• Increasing investments in environment protection related water treatment equipment, mainly in Asia</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>• Investments in Asia will remain firm for now</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 investment in rechargeable battery</li> <li>• Increasing demand in Europe for wind power generation</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>• More demand for value-added electronic components</li> </ul>	<ul style="list-style-type: none"> <li>• Steady growth due to increasing production of hybrid and electric automobiles</li> </ul>

## Basic policy

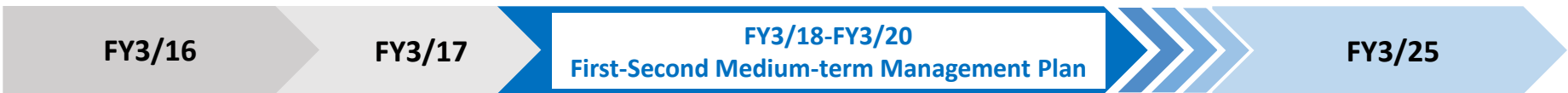
- Dividend payout ratio: more than 30%
- Consistent distribution of dividends



Note: Due to the 1-to-3 stock split with a record date of June 30, 2018, the FY3/19 dividend forecast of ¥27 is tripled in this table to facilitate direct comparisons with prior years.

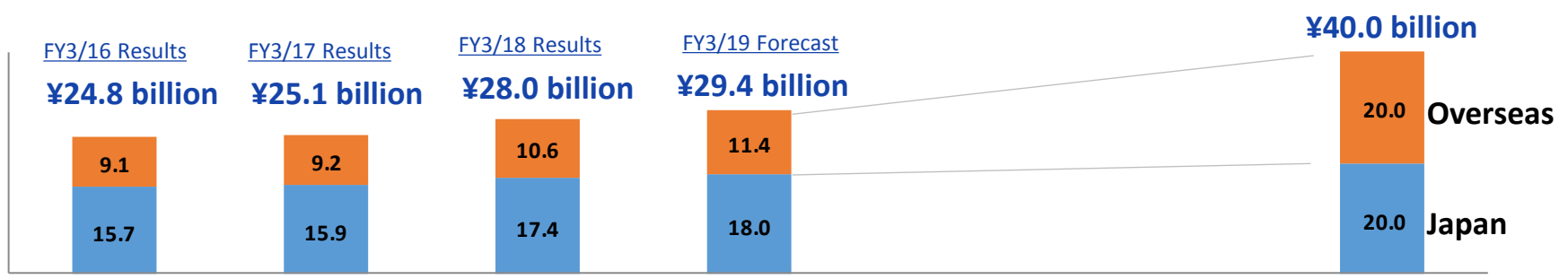


# First-Second Medium-term Management Plan



## 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 and reinforce the profit structure → Started trial operations

- Build and reinforce a base to reach the numerical targets of the 10-year vision → Started using the new base on a provisional basis
- Firmly establish all vectors for reaching the qualitative targets of the 10-year vision and foster a “Change & Challenge” corporate culture → The entire workforce embraced the “Change & Challenge” spirit for R&D, manufacturing, sales and customer support activities
- Manage operations with the goal of consistently increasing corporate value → Start of restricted stock compensation plan

### ● Steps for achieving the 10-year vision



Major 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 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%+ △: 50% to 69% ▲: 20% to 49% ×: Under 20%

# First-Second Medium-term Management Plan (FY3/18-FY3/20) (Differences Between the Initial and Current Plan)

(Millions of yen)

	FY3/18	FY3/19 (plan)			FY3/20 (plan)		
	Results	*Initial plan		change	*Initial plan		change
Net sales	28,067	28,124	29,427	+4.8%	29,860		
Gross profit	9,409	9,744	10,271		10,678		
Operating profit	2,106	2,261	2,366	+12.3%	3,075		
Ordinary profit	2,733	2,689	2,804	+2.6%	3,501		
Profit attributable to owners of parent	2,059	1,996	2,015	-2.1%	2,548		

**To be reexamined**

\*Initial plan was announced on November 29, 2017

1

The FY3/19 sales forecast is higher because of strong sales in the semiconductor/liquid crystal market. In FY3/20, forecast a higher operating margin based on the outlook for more sales growth and higher sales at subsidiaries with high gross margins

2

FY3/19 is the final year of the planting seeds phase; planning on up-front investments for the aquatic business and overseas production facilities as well as an increase in the R&D workforce

3

The FY3/19 forecast for performance of affiliated companies in Asia is higher due to the outlook for continued strength in the semiconductor/liquid crystal market

### 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

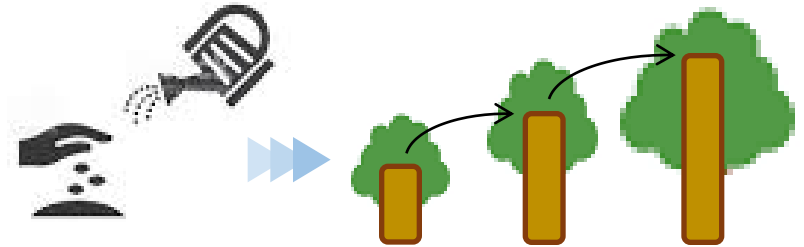
- Aquatic project → Aim for growth in the US
- Growth of overseas system and maintenance operations → Create a model for Europe and study commercialization
- More procurement in China → Outsourced production; make products where they are sold



# Major Initiatives of the First-Second Medium-term Management Plan

## 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
- **Korea/Taiwan:** Water treatment, new energy

## Investments

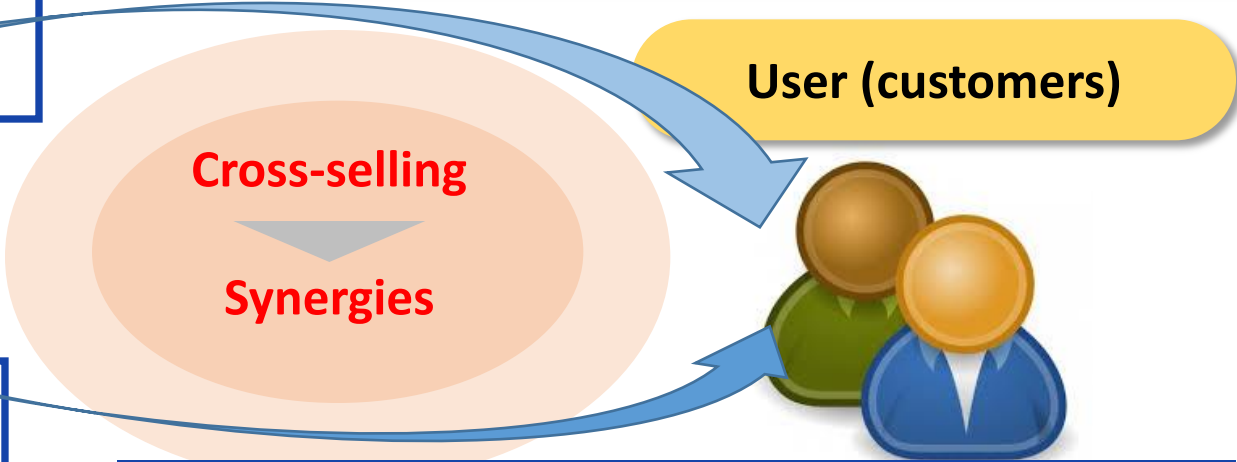
- Make more investments in production facilities in Europe, use more outsourced manufacturing companies in China, strengthen logistics
- **Consider alliances and M&A for the expansion of business operations**

# 7 Synergies with TEC (TechnoECHO)

**Electromagnetic  
metering pumps  
IWAKI**



**Residual chlorine  
meter  
TechnoECHO**



## Grow in current markets

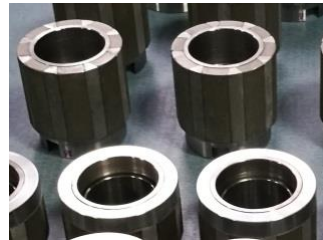
- Hotel construction boom for Tokyo Olympics
- More demand for residual chlorine meters at hot bathing facilities

## 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



## Outsourced manufacturing went into full-scale operation

- Start using outsourced production in summer of 2018
- Use outsourcing to increase production where products are sold



Faster deliveries by simplifying distribution channels

## 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 internally developed products and products of other companies



## 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



## 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

## 1

**Stock split to lower the cost of a trading unit and raise liquidity**

- ✓ 1-to-3 split will reduce the minimum investment in Iwaki stock and improve liquidity
  - Record date: June 30, 2018 (Saturday) (effectively June 29)
  - Effectiveness: July 1, 2018 (Sunday)
  - Shares issued: Will increase from 7,484,370 to 22,453,110

## 2

**Start of restricted stock compensation plan**

- ✓ Goal is sustained medium and long-term growth of corporate value
- ✓ Restricted stock compensation aligns the interests of plan participants with those of shareholders

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