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Consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2020 <under Japanese GAAP>

November 5, 2019

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 Listing: Tokyo Stock Exchange
 Securities code: 6368
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 Scheduled date to file quarterly securities report: November 14, 2019
 Scheduled date to commence dividend payments: December 9, 2019
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results presentation meeting: Yes (for institutional investors and analysts)

(Millions of yen with fractional amounts discarded, unless otherwise noted)

1. Consolidated financial results for the first six months of the fiscal year ending March 31, 2020 (from April 1, 2019 to September 30, 2019)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
September 30, 2019	46,675	20.4	5,444	260.6	5,317	243.1	3,640	297.4
September 30, 2018	38,782	21.2	1,509	–	1,549	–	916	–

Note: Comprehensive income: Six months ended September 30, 2019 ¥ 3,498 million [329.0%]
 Six months ended September 30, 2018 ¥ 815 million [–%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
September 30, 2019	318.51	–
September 30, 2018	79.69	–

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
September 30, 2019	99,798	57,874	57.9
March 31, 2019	101,257	54,795	54.0

(Reference) Equity: As of September 30, 2019 ¥57,746 million As of March 31, 2019 ¥54,657 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2019	–	29.00	–	44.00	73.00
Fiscal year ending March 31, 2020	–	47.00			
Fiscal year ending March 31, 2020 (Forecast)			–	47.00	94.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2020 (from April 1, 2019 to March 31, 2020)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2020	97,000	5.1	8,500	29.6	8,350	27.7	5,600	25.8	489.99

Note: Revisions to the earnings forecasts most recently announced: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of specific accounting for preparing the quarterly consolidated financial statements: Yes

Note: For more details, please refer to “Application of special accounting for preparing the quarterly consolidated financial statements” on page 10 of the attached material.

(3) Changes in accounting policies, changes in accounting estimates, and restatement

a. Changes in accounting policies due to revisions to accounting standards and other regulations: None

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

d. Restatement: None

(4) Number of issued shares (common shares)

a. Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2019	11,589,925 shares
As of March 31, 2019	11,589,925 shares

b. Number of treasury shares at the end of the period

As of September 30, 2019	135,575 shares
As of March 31, 2019	166,788 shares

c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

For the six months ended September 30, 2019	11,428,740 shares
For the six months ended September 30, 2018	11,494,315 shares

The Company has introduced an Officer Share Delivery Trust, and shares of the Company held by the Trust have been included in treasury shares excluded from the calculation of the number of treasury shares at the end of the period and the average number of shares during the period (cumulative from the beginning of the fiscal year).

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Actual business and other results may differ substantially due to various factors. Please refer to “Explanation regarding consolidated earnings forecasts and other forward-looking statements” on page 3 of the attached material for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof.

Attached Material

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1. Qualitative information regarding financial results for the first six months

(1) Explanation regarding operating results

In the Japanese economy during the six months ended September 30, 2019, despite the continuing trend of moderate recovery against the backdrop of solid movement in capital investment and production, uncertainty over the future continued to deepen, mainly because of developing stagnation, particularly in the manufacturing sector as a result of the slowdown in exports caused by the US-China trade war, and the reporting that the growth rate of the global economy is expected to weaken.

The business environment surrounding the Organo Group showed a building strength in production and capital investment in the general industrial field in Japan. However, in terms of large-scale capital investment in the electronics field, both in Japan and overseas, there is a significant slowing down of the capital investment that had been progressing vibrantly until last year because the market has been deteriorating, amid a lull in demand for smartphones and data centers, and companies have been taking a more cautious approach to investment in light of future uncertainties such as the US-China trade war.

Amid these conditions, the Organo Group aims to enhance cost competitiveness, improve productivity and profitability, and create products and technologies differentiated from competitors. To this end, we are pursuing various efforts around the key issues of “expanding the electronics field,” “strengthening the performance products business” and “creating new businesses.”

Consequently, the financial results for the six months ended September 30, 2019 are as follows. Orders received decreased by 15.7% year on year to ¥42,160 million, net sales increased by 20.4% year on year to ¥46,675 million, operating profit increased by 260.6% year on year to ¥5,444 million, ordinary profit increased by 243.1% year on year to ¥5,317 million, and profit attributable to owners of parent increased by 297.4% year on year to ¥3,640 million.

Results by segment are as follows.

Starting from the first quarter ended June 30, 2019, we have changed the classification method, etc. of our reportable segments, and the comparisons and analysis of the six months ended September 30, 2019 are made based on the classifications following the changes.

[Water Treatment Engineering Business Unit]

In the Water Treatment Engineering Business Unit, although capital investments were solid in the general industrial field mainly in Japan, orders received decreased by 19.0% year on year to ¥33,052 million because orders received in the electronics field dropped from those in the same period of the previous fiscal year during which orders for large semiconductor-related projects were received in Japan and abroad. Meanwhile, net sales increased by 25.7% year on year to ¥37,351 million due to a rise in net sales of service solutions including maintenance and proposals for renovation of facilities in addition to favorable performance in construction for large semiconductor-related projects for which orders were received up until last year in electronics field, as well as sales expansion mainly for solutions services in the general industrial field and the electric power/water supply and sewage fields. On the profit side, in addition to the effect of increased sales as a result of sales of large projects, improvement in the profitability of the Plant Division due to various profit-improvement measures and cost-cutting initiatives, sales expansion in the Service Solutions Division, and other factors led to improvement in the profit ratio. Consequently, operating profit increased by 544.0% year on year to ¥4,788 million.

[Performance Products Business Unit]

In the Performance Products Business Unit, orders received decreased by 1.3% year on year to ¥9,108 million and net sales increased by 2.7% to ¥9,323 million, reflecting strong sales of standard equipment and filters for the general industrial field and electronics field, as well as various types of water treatment chemicals including wastewater treatment chemicals and cooling water treatment chemicals, backed by strong production and capital investment in Japan. However, on the profit side, development

investment in new products and technologies increased, as did business strengthening costs for the future such as expansion of our production and sales network aimed at expanding overseas development. Consequently, operating profit decreased by 14.4% year on year to ¥655 million.

(2) Explanation regarding financial position

Assets, liabilities and net assets

Assets

Assets as of September 30, 2019 amounted to ¥99,798 million, a decline of ¥1,459 million from the previous fiscal year end. This was due mainly to a decline in cash and deposits of ¥2,885 million and a decline in investments in leases of ¥946 million, despite an increase of ¥2,043 million in inventories mainly in work in process.

Liabilities

Liabilities as of September 30, 2019 amounted to ¥41,924 million, a decrease of ¥4,537 million from the previous fiscal year end. This was due mainly to a decline in notes and accounts payable - trade of ¥3,211 million and a decline in short-term borrowings of ¥2,924 million, despite an increase of ¥2,194 million in long-term borrowings.

Net Assets

Net assets as of September 30, 2019 amounted to ¥57,874 million, an increase of ¥3,078 million from the previous fiscal year end. This was mainly due to an increase of ¥3,133 million in retained earnings resulting from the recording of profit attributable to owners of parent.

Cash flows

Cash and cash equivalents (hereinafter, "cash") as of September 30, 2019 decreased by ¥2,885 million from the previous fiscal year end to ¥8,391 million.

Cash flows from operating activities

Net cash used in operating activities for the six months ended September 30, 2019 was ¥916 million. This was mainly because there was an increase in cash due to profit before income taxes of ¥5,316 million while there was a decrease in cash due to an increase in inventories of ¥2,052 million, a decrease in trade payables of ¥3,070 million and income taxes paid of ¥1,657 million. (Net cash of ¥977 million was provided in the six months ended September 30, 2018.)

Cash flows from investing activities

Net cash used in investing activities for the six months ended September 30, 2019 was ¥612 million. This was due mainly to purchase of property, plant and equipment of ¥573 million. (Net cash of ¥147 million was used in the six months ended September 30, 2018.)

Cash flows from financing activities

Net cash used in financing activities for the six months ended September 30, 2019 was ¥1,217 million. This was due mainly to a net decrease in short-term borrowings of ¥3,092 million, repayments of long-term borrowings of ¥605 million and dividends paid of ¥506 million, despite an increase in cash stemming from proceeds from long-term borrowings of ¥3,000 million. (Net cash of ¥1,488 million was used in the six months ended September 30, 2018.)

(3) Explanation regarding consolidated earnings forecasts and other forward-looking statements

Regarding the forecasts for the fiscal year ending March 31, 2020, we expect results to be at levels exceeding the initial forecast for all of orders received, net sales, and the profit categories. For orders received, although there has been a continued cautious approach to large-scale capital investment since the beginning of the year in the electronics field, large-scale investment related to semiconductors has been planned in Taiwan and Japan in the second half of the fiscal year. Therefore, we forecast orders received of ¥100,000 million (decrease of 3.7% year on year). For net sales, after taking into account not only the construction progress of large projects related to the electronics field for which orders were received up until last year, but also the sales growth expected to be provided by the Service Solutions Division including maintenance and renovation of facilities, particularly for the electronics field and the general industrial field, and the solid performance expected from the Performance Products Business Unit, such as from standard equipment and filters and various types of water treatment chemicals, we forecast net sales of ¥97,000 million (increase of 5.1%).

As for profits, we are expecting to improve our profit margin by realizing improved profitability in the Plant Division in the Water Treatment Engineering Business Unit and expanding sales in the Service Solutions Division, such as from maintenance and proposals for renovation of facilities. Consequently, we expect operating profit of ¥8,500 million (up 29.6%), ordinary profit of ¥8,350 million (up 27.7%), and profit attributable to owners of parent of ¥5,600 million (up 25.8%).

2. Quarterly consolidated financial statements and significant notes thereto

(1) Consolidated balance sheet

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	11,276	8,391
Notes and accounts receivable - trade	40,256	40,545
Investments in leases	13,574	12,628
Merchandise and finished goods	4,717	5,198
Work in process	2,717	4,302
Raw materials and supplies	1,426	1,404
Other	2,206	2,291
Allowance for doubtful accounts	(139)	(139)
Total current assets	76,037	74,622
Non-current assets		
Property, plant and equipment		
Buildings and structures	17,850	17,862
Accumulated depreciation	(12,339)	(12,480)
Buildings and structures, net	5,511	5,382
Machinery, equipment and vehicles	5,576	5,615
Accumulated depreciation	(4,879)	(4,948)
Machinery, equipment and vehicles, net	696	667
Land	12,288	12,287
Construction in progress	45	198
Other	4,968	4,940
Accumulated depreciation	(4,236)	(4,191)
Other, net	731	748
Total property, plant and equipment	19,272	19,284
Intangible assets	1,209	1,105
Investments and other assets		
Investment securities	1,621	1,702
Deferred tax assets	2,628	2,702
Other	767	666
Allowance for doubtful accounts	(278)	(285)
Total investments and other assets	4,739	4,786
Total non-current assets	25,220	25,176
Total assets	101,257	99,798

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	18,516	15,305
Short-term borrowings	13,458	10,534
Income taxes payable	1,546	1,627
Advances received	1,499	1,940
Provision for bonuses	1,165	1,368
Provision for product warranties	321	337
Provision for loss on construction contracts	84	100
Provision for share-based remuneration for directors (and other officers)	95	48
Other	3,242	2,029
Total current liabilities	39,930	33,292
Non-current liabilities		
Long-term borrowings	200	2,395
Deferred tax liabilities	8	9
Retirement benefit liability	6,209	6,153
Other	111	73
Total non-current liabilities	6,531	8,631
Total liabilities	46,462	41,924
Net assets		
Shareholders' equity		
Share capital	8,225	8,225
Capital surplus	7,508	7,508
Retained earnings	39,967	43,100
Treasury shares	(629)	(531)
Total shareholders' equity	55,071	58,303
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	273	256
Deferred gains or losses on hedges	(0)	(0)
Foreign currency translation adjustment	(193)	(362)
Remeasurements of defined benefit plans	(494)	(450)
Total accumulated other comprehensive income	(414)	(556)
Non-controlling interests	138	127
Total net assets	54,795	57,874
Total liabilities and net assets	101,257	99,798

(2) Consolidated statement of income and consolidated statement of comprehensive income**Consolidated statement of income (cumulative)**

(Millions of yen)

	Six months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)	Six months ended September 30, 2019 (From April 1, 2019 to September 30, 2019)
Net sales	38,782	46,675
Cost of sales	29,421	32,883
Gross profit	9,361	13,792
Selling, general and administrative expenses	7,851	8,348
Operating profit	1,509	5,444
Non-operating income		
Interest income	8	20
Dividend income	14	13
Foreign exchange gains	10	–
Share of profit of entities accounted for using equity method	42	111
Other	27	41
Total non-operating income	103	187
Non-operating expenses		
Interest expenses	34	69
Foreign exchange losses	–	119
Provision of allowance for doubtful accounts	10	80
Other	17	45
Total non-operating expenses	63	314
Ordinary profit	1,549	5,317
Extraordinary income		
Gain on sales of non-current assets	1	0
Gain on sales of investment securities	–	4
Total extraordinary income	1	4
Extraordinary losses		
Loss on abandonment of non-current assets	1	5
Total extraordinary losses	1	5
Profit before income taxes	1,549	5,316
Income taxes	637	1,675
Profit	912	3,640
Profit (loss) attributable to non-controlling interests	(3)	0
Profit attributable to owners of parent	916	3,640

Consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)	Six months ended September 30, 2019 (From April 1, 2019 to September 30, 2019)
Profit	912	3,640
Other comprehensive income		
Valuation difference on available-for-sale securities	69	(16)
Deferred gains or losses on hedges	(0)	0
Foreign currency translation adjustment	(226)	(168)
Remeasurements of defined benefit plans, net of tax	61	43
Share of other comprehensive income of entities accounted for using equity method	(0)	(1)
Total other comprehensive income	(96)	(142)
Comprehensive income	815	3,498
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	829	3,497
Comprehensive income attributable to non- controlling interests	(14)	0

(3) Consolidated statement of cash flows

(Millions of yen)

	Six months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)	Six months ended September 30, 2019 (From April 1, 2019 to September 30, 2019)
Cash flows from operating activities		
Profit before income taxes	1,549	5,316
Depreciation	438	557
Increase (decrease) in provision	98	270
Increase (decrease) in retirement benefit liability	88	5
Interest and dividend income	(22)	(34)
Interest expenses	34	69
Foreign exchange losses (gains)	(5)	48
Share of loss (profit) of entities accounted for using equity method	(42)	(111)
Loss (gain) on sales of non-current assets	(1)	(0)
Loss on abandonment of non-current assets	1	5
Loss (gain) on sales of investment securities	–	(4)
Decrease (increase) in trade receivables	3,948	(560)
Decrease (increase) in investments in leases	886	944
Decrease (increase) in inventories	(1,888)	(2,052)
Increase (decrease) in trade payables	(2,250)	(3,070)
Other, net	(921)	(630)
Subtotal	1,914	754
Interest and dividends received	21	45
Interest paid	(35)	(65)
Income taxes paid	(976)	(1,657)
Income taxes refund	58	3
Other, net	(4)	3
Net cash provided by (used in) operating activities	977	(916)
Cash flows from investing activities		
Purchase of property, plant and equipment	(212)	(573)
Proceeds from sales of property, plant and equipment	1	0
Purchase of intangible assets	(79)	(38)
Purchase of investment securities	(6)	(6)
Proceeds from sales of investment securities	–	5
Collection of loans receivable	150	0
Other, net	–	(0)
Net cash provided by (used in) investing activities	(147)	(612)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(285)	(3,092)
Proceeds from long-term borrowings	–	3,000
Repayments of long-term borrowings	(600)	(605)
Purchase of treasury shares	(271)	(2)
Dividends paid	(322)	(506)
Other, net	(9)	(11)
Net cash provided by (used in) financing activities	(1,488)	(1,217)
Effect of exchange rate change on cash and cash equivalents	(68)	(138)
Net increase (decrease) in cash and cash equivalents	(726)	(2,885)
Cash and cash equivalents at beginning of period	8,652	11,276
Cash and cash equivalents at end of period	7,926	8,391

(4) Notes to quarterly consolidated financial statements

Notes on premise of going concern

No items to report

Notes on substantial changes in the amount of shareholders' equity

No items to report

Application of special accounting for preparing the quarterly consolidated financial statements

Calculation of tax expenses

Tax expenses are calculated by multiplying the profit before income taxes by the reasonably estimated effective tax rates after the application of tax effect accounting to the profit before income taxes for the fiscal year including the second quarter ended September 30, 2019. However, in cases where the calculation of tax expenses using such estimated effective tax rate yields a result that is not reasonable to a significant extent, the amount of significant difference other than temporary differences, etc. is added to or deducted from the profit before income taxes, and the result is multiplied by the statutory income tax rate.

Segment information, etc.

[Segment information]

I Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)

1. Information relating to net sales, profit by each reportable segment

(Millions of yen)

	Reportable Segment			Adjustment	Amount recorded in the consolidated statement of income (Note)
	Water Treatment Engineering Business Unit	Performance Products Business Unit	Total		
Net sales					
Sales to external customers	29,707	9,074	38,782	–	38,782
Intersegment sales or transfers	0	159	159	(159)	–
Total	29,708	9,233	38,942	(159)	38,782
Segment profit	743	766	1,509	–	1,509

Note: The figures for segment profit are based on operating profit, and there are no discrepancies with the operating profit shown in the consolidated statement of income.

II Six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019)

1. Information relating to net sales and profit by each reportable segment

(Millions of yen)

	Reportable Segment			Adjustment	Amount recorded in the consolidated statement of income (Note)
	Water Treatment Engineering Business Unit	Performance Products Business Unit	Total		
Net sales					
Sales to external customers	37,351	9,323	46,675	–	46,675
Intersegment sales or transfers	0	160	160	(160)	–
Total	37,352	9,484	46,836	(160)	46,675
Segment profit	4,788	655	5,444	–	5,444

Note: The figures for segment profit are based on operating profit, and there are no discrepancies with the operating profit shown in the consolidated statement of income.

2. Matters relating to changes, etc. in reportable segments

The Organo Group has positioned the Performance Products Business Unit as one of its key business fields in its Medium-term Management Plan and is carrying out initiatives to develop new products and establish a production and sales system for the overseas market. Starting from the first quarter ended June 30, 2019, we revised our financial results management classifications as part of strengthening the Performance Products Business Unit. As a result of these revisions, we changed the classification of the equipment and chemical business of overseas businesses from inclusion in the “Water Treatment Engineering Business Unit” to inclusion in the “Performance Products Business Unit.” Furthermore, to more appropriately evaluate the financial results of the Performance Products Business Unit, our key business field, on a consolidated basis, we have changed the measurement method of intersegment sales or transfers.

Moreover, segment information for the six months ended September 30, 2018 has been prepared according to the classification method after the changes.