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Consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2021 <under Japanese GAAP>

October 29, 2020

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 Listing: Tokyo Stock Exchange
 Securities code: 6368
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 Scheduled date to file quarterly securities report: November 13, 2020
 Scheduled date to commence dividend payments: December 7, 2020
 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, 2021 (from April 1, 2020 to September 30, 2020)

(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, 2020	45,322	(2.9)	3,182	(41.5)	3,276	(38.4)	2,080	(42.8)
September 30, 2019	46,675	20.4	5,444	260.6	5,317	243.1	3,640	297.4

Note: Comprehensive income: Six months ended September 30, 2020 ¥2,072 million [(40.8)%]
 Six months ended September 30, 2019 ¥3,498 million [329.0%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
September 30, 2020	181.54	—
September 30, 2019	318.51	—

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
September 30, 2020	101,896	62,379	61.1
March 31, 2020	101,448	60,857	59.9

(Reference) Equity: As of September 30, 2020 ¥62,243 million As of March 31, 2020 ¥60,717 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, 2020	–	47.00	–	57.00	104.00
Fiscal year ending March 31, 2021	–	52.00			
Fiscal year ending March 31, 2021 (Forecast)			–	52.00	104.00

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

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2021 (from April 1, 2020 to March 31, 2021)

(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, 2021	100,000	3.6	7,200	(27.3)	7,100	(28.5)	4,700	(34.4)	410.13

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

Any impact amount factored in for the impact arising due to the proliferation of novel coronavirus disease (COVID-19) is limited to the amount that can be assumed at this stage. We will accordingly revise our earnings outlook as developments unfold. Please refer to “(3) Explanation regarding consolidated earnings forecasts and other forward-looking statements” in “1. Qualitative information regarding financial results for the first six months” on page 3 of the attached material for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof.

*** 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 9 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, 2020	11,589,925 shares
As of March 31, 2020	11,589,925 shares

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

As of September 30, 2020	102,804 shares
As of March 31, 2020	136,593 shares

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

For the six months ended September 30, 2020	11,459,908 shares
For the six months ended September 30, 2019	11,428,740 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 outstanding 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 “(3) Explanation regarding consolidated earnings forecasts and other forward-looking statements” in “1. Qualitative information regarding financial results for the first six months” 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

During the six months ended September 30, 2020 (from April 1, 2020 to September 30, 2020), following the global spread of COVID-19, the Japanese and global economies have been in a state of significant turmoil. Looking at the main markets in which the Organo Group operates, in the electronics field, both production and capital investment have been solid against a backdrop of growth in semiconductor demand, mainly due to the expanding use of teleworking and the full-scale adoption of 5G telecommunications. In Taiwan, strong activity continued, including continued large-scale investment in cutting-edge semiconductors; but a strong sense of uncertainty clouds the future due to growing friction over semiconductors between the United States and China. In the general industrial field, although a recovery has been seen in some areas, there is a continuing trend to curb and delay capital investment in general, and the impact has been seen in sales of performance products such as water treatment chemicals, filters, and food processing materials in the automotive and restaurant fields. In the electric power/water supply and sewage fields, although there has been a trend of curbing certain capital expenditure and large-scale maintenance programs, no major impacts were observed.

Under these conditions, the Group introduced telework and utilized various online tools and the like to handle planning for large-scale investments in Taiwan, China and so forth, as well as designing and construction and so forth for major projects in Japan. In addition, the Group accelerated the development of engineering tools that utilize ICT, such as introducing tablets to construction sites. In this way, under the impact of restrictions on going out and moving both in Japan and overseas, the Group proceeded to prevent infection spread while continuing business activities. As a result, in the Group's financial results for the six months ended September 30, 2020, orders received increased by 4.5% year on year to ¥44,050 million, exceeding the initial plan, net sales decreased by 2.9% year on year to ¥45,322 million, and our carry-over balance for order backlog as of September 30, 2020 was up 22.3% to ¥66,546 million. On the profit side, operating profit decreased by 41.5% to ¥3,182 million, ordinary profit decreased by 38.4% to ¥3,276 million, and profit attributable to owners of the parent decreased by 42.8% to ¥2,080 million.

Results by segment are as follows.

[Water Treatment Engineering Business Unit]

In the Water Treatment Engineering Business Unit, overseas orders received and net sales increased significantly in the electronics field, as large-scale cutting-edge semiconductor projects continued in Taiwan and semiconductor-related orders increased in China as well. In addition, the Service Solutions Division, services such as maintenance performed favorably in Japan and overseas. In the general industrial field, orders decreased in the Plant Division partly due to an impact from moves to curb and delay capital investments; however, the Service Solutions Division performed solidly as construction proceeded steadily on carry-over orders from the previous fiscal year. As a result, net sales declined only slightly. Furthermore, in the electric power/water supply and sewage fields, the Group secured orders at about the same level year on year, including an order for a large project for water supply and sewage. Meanwhile, net sales decreased slightly under the impact of a decrease in sales related to water supply and sewage, despite steady progress on maintenance projects related to electric power. Consequently, orders received increased by 5.7% year on year to ¥34,948 million and net sales decreased by 2.5% year on year to ¥36,402 million.

Meanwhile, on the profit side, compared to the same period of the previous fiscal year, when there was concentration of sales of comparatively profitable projects, mainly in the electronics field, and projects with prominent cost reduction effects, the profit margin was lower. As a result, operating profit decreased by 44.9% year on year to ¥2,636 million.

[Performance Products Business Unit]

In the Performance Products Business Unit, sales decreased in fields such as the automotive and restaurant industries, as well as the medical institution field, such as examinations and general care, all of which were heavily impacted by COVID-19. On the other hand, sales of water treatment chemicals for the electronics industry, which continued to maintain solid production levels, and sales of Orplus®

slightly acidic electrolyzed water for disinfecting and deodorizing performed favorably. Consequently, orders received decreased by 0.1% year on year to ¥9,101 million, net sales decreased by 4.3% year on year to ¥8,920 million, and operating profit decreased by 16.8% to ¥545 million.

(2) Explanation regarding financial position

Assets, liabilities and net assets

Assets

Assets as of September 30, 2020 amounted to ¥101,896 million, an increase of ¥448 million from the previous fiscal year end. This was due mainly to an increase of ¥4,061 million in notes and accounts receivable - trade and an increase of ¥2,832 million in inventories mainly in work in process, despite a decline of ¥5,580 million in cash and deposits and a decline of ¥982 million in investments in leases.

Liabilities

Liabilities as of September 30, 2020 amounted to ¥39,516 million, a decrease of ¥1,073 million from the previous fiscal year end. This was due mainly to a decline of ¥2,807 million in other current liabilities and a decline of ¥851 million in income taxes payable, despite an increase of ¥2,129 million in short-term borrowings.

Net Assets

Net assets as of September 30, 2020 amounted to ¥62,379 million, an increase of ¥1,521 million from the previous fiscal year end. This was mainly due to an increase of ¥1,424 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, 2020 decreased by ¥5,580 million from the previous fiscal year end to ¥8,192 million.

Cash flows from operating activities

Net cash used in operating activities for the six months ended September 30, 2020 was ¥6,054 million. This was mainly because there was an increase in cash due to profit before income taxes of ¥3,288 million while there was a decrease in cash due to an increase in trade receivables of ¥4,282 million, an increase in inventories of ¥2,839 million, and income taxes paid of ¥2,019 million. (Net cash of ¥916 million was used in the six months ended September 30, 2019.)

Cash flows from investing activities

Net cash used in investing activities for the six months ended September 30, 2020 was ¥647 million. This was due mainly to purchase of property, plant and equipment of ¥510 million. (Net cash of ¥612 million was used in the six months ended September 30, 2019.)

Cash flows from financing activities

Net cash provided by financing activities for the six months ended September 30, 2020 was ¥1,184 million. This was mainly because there was an increase in cash due to net increase in short-term borrowings of ¥2,354 million while there was a decrease in cash due to repayments of long-term borrowings of ¥500 million and dividends paid of ¥655 million. (Net cash of ¥1,217 million was used in the six months ended September 30, 2019.)

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

Turning to full-year earnings forecasts, there are concerns over the impact of COVID-19 as well as the impacts of trade friction over semiconductors between the United States and China in the electronics field, which has been trending favorably. However, at this stage, there has been no sign of significant delays or cancellation of planned projects, and construction on accepted projects in Japan and overseas is proceeding steadily. Therefore, the full-year earnings forecast has been left unchanged from the previous announcement. Any impact amount factored in is limited to the amount that can be assumed at this stage. We will accordingly revise our earnings outlook as developments unfold.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Consolidated balance sheet

(Millions of yen)

	As of March 31, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	13,772	8,192
Notes and accounts receivable - trade	36,783	40,844
Electronically recorded monetary claims - operating	1,590	1,716
Investments in leases	11,752	10,769
Merchandise and finished goods	5,710	5,899
Work in process	2,728	5,310
Raw materials and supplies	1,392	1,452
Other	2,448	2,707
Allowance for doubtful accounts	(98)	(95)
Total current assets	76,078	76,799
Non-current assets		
Property, plant and equipment		
Buildings and structures	17,909	17,927
Accumulated depreciation	(12,562)	(12,724)
Buildings and structures, net	5,347	5,203
Machinery, equipment and vehicles	5,697	5,682
Accumulated depreciation	(4,974)	(5,038)
Machinery, equipment and vehicles, net	722	643
Land	12,284	12,280
Construction in progress	98	132
Other	5,088	5,145
Accumulated depreciation	(4,245)	(4,356)
Other, net	842	788
Total property, plant and equipment	19,296	19,049
Intangible assets	1,113	1,116
Investments and other assets		
Investment securities	1,553	1,595
Deferred tax assets	3,037	2,989
Other	780	758
Allowance for doubtful accounts	(411)	(411)
Total investments and other assets	4,959	4,931
Total non-current assets	25,369	25,097
Total assets	101,448	101,896

(Millions of yen)

	As of March 31, 2020	As of September 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	14,381	11,513
Electronically recorded obligations - operating	–	3,624
Short-term borrowings	7,644	9,774
Income taxes payable	1,959	1,107
Advances received	1,543	1,659
Provision for bonuses	1,339	1,447
Provision for product warranties	324	344
Provision for loss on construction contracts	64	65
Provision for share-based remuneration for directors (and other officers)	105	47
Other provisions	10	2
Other	4,866	2,059
Total current liabilities	32,240	31,647
Non-current liabilities		
Long-term borrowings	2,095	1,795
Deferred tax liabilities	9	9
Retirement benefit liability	6,153	5,989
Other	91	74
Total non-current liabilities	8,349	7,869
Total liabilities	40,590	39,516
Net assets		
Shareholders' equity		
Share capital	8,225	8,225
Capital surplus	7,508	7,508
Retained earnings	46,081	47,506
Treasury shares	(537)	(432)
Total shareholders' equity	61,277	62,808
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	143	165
Deferred gains or losses on hedges	–	0
Foreign currency translation adjustment	(178)	(259)
Remeasurements of defined benefit plans	(525)	(470)
Total accumulated other comprehensive income	(560)	(564)
Non-controlling interests	140	136
Total net assets	60,857	62,379
Total liabilities and net assets	101,448	101,896

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

(Millions of yen)

	Six months ended September 30, 2019 (From April 1, 2019 to September 30, 2019)	Six months ended September 30, 2020 (From April 1, 2020 to September 30, 2020)
Net sales	46,675	45,322
Cost of sales	32,883	33,963
Gross profit	13,792	11,359
Selling, general and administrative expenses	8,348	8,176
Operating profit	5,444	3,182
Non-operating income		
Interest income	20	14
Dividend income	13	14
Insurance claim income	11	98
Share of profit of entities accounted for using equity method	111	18
Other	29	17
Total non-operating income	187	163
Non-operating expenses		
Interest expenses	69	53
Foreign exchange losses	119	12
Provision of allowance for doubtful accounts	80	–
Other	45	3
Total non-operating expenses	314	68
Ordinary profit	5,317	3,276
Extraordinary income		
Gain on sales of non-current assets	0	2
Gain on sales of investment securities	4	11
Total extraordinary income	4	14
Extraordinary losses		
Loss on abandonment of non-current assets	5	2
Loss on valuation of right to use facilities	–	0
Total extraordinary losses	5	2
Profit before income taxes	5,316	3,288
Income taxes	1,675	1,207
Profit	3,640	2,081
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	3,640	2,080

Consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2019 (From April 1, 2019 to September 30, 2019)	Six months ended September 30, 2020 (From April 1, 2020 to September 30, 2020)
Profit	3,640	2,081
Other comprehensive income		
Valuation difference on available-for-sale securities	(16)	21
Deferred gains or losses on hedges	0	0
Foreign currency translation adjustment	(168)	(86)
Remeasurements of defined benefit plans, net of tax	43	55
Share of other comprehensive income of entities accounted for using equity method	(1)	0
Total other comprehensive income	(142)	(9)
Comprehensive income	3,498	2,072
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,497	2,076
Comprehensive income attributable to non-controlling interests	0	(4)

(3) Consolidated statement of cash flows

(Millions of yen)

	Six months ended September 30, 2019 (From April 1, 2019 to September 30, 2019)	Six months ended September 30, 2020 (From April 1, 2020 to September 30, 2020)
Cash flows from operating activities		
Profit before income taxes	5,316	3,288
Depreciation	557	586
Increase (decrease) in provisions	270	166
Increase (decrease) in retirement benefit liability	5	(79)
Interest and dividend income	(34)	(29)
Insurance claim income	(11)	(98)
Interest expenses	69	53
Foreign exchange losses (gains)	48	25
Share of loss (profit) of entities accounted for using equity method	(111)	(18)
Loss (gain) on sales of non-current assets	(0)	(2)
Loss on abandonment of non-current assets	5	2
Loss (gain) on sales of investment securities	(4)	(11)
Loss on valuation of right to use facilities	-	0
Decrease (increase) in trade receivables	(560)	(4,282)
Decrease (increase) in investments in leases	944	981
Decrease (increase) in inventories	(2,052)	(2,839)
Increase (decrease) in trade payables	(3,070)	776
Other, net	(618)	(2,641)
Subtotal	754	(4,122)
Interest and dividends received	45	39
Interest paid	(65)	(49)
Proceeds from insurance income	11	98
Income taxes (paid) refund	(1,654)	(2,019)
Other, net	(8)	(0)
Net cash provided by (used in) operating activities	(916)	(6,054)
Cash flows from investing activities		
Purchase of property, plant and equipment	(573)	(510)
Proceeds from sales of property, plant and equipment	0	2
Purchase of intangible assets	(38)	(147)
Purchase of investment securities	(6)	(7)
Proceeds from sales of investment securities	5	15
Collection of loans receivable	0	0
Other, net	(0)	(0)
Net cash provided by (used in) investing activities	(612)	(647)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(3,092)	2,354
Proceeds from long-term borrowings	3,000	-
Repayments of long-term borrowings	(605)	(500)
Dividends paid	(506)	(655)
Other, net	(13)	(13)
Net cash provided by (used in) financing activities	(1,217)	1,184
Effect of exchange rate change on cash and cash equivalents	(138)	(63)
Net increase (decrease) in cash and cash equivalents	(2,885)	(5,580)
Cash and cash equivalents at beginning of period	11,276	13,772
Cash and cash equivalents at end of period	8,391	8,192

(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, 2020. 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.

Additional information

Impact arising due to the proliferation of COVID-19

There has been no material change in the assumptions regarding the impact of COVID-19 described in the annual securities report (additional information) (Impact arising due to the proliferation of COVID-19) for the previous fiscal year.

Segment information, etc.

[Segment information]

I 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.

II Six months ended September 30, 2020 (from April 1, 2020 to September 30, 2020)

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	36,402	8,920	45,322	–	45,322
Intersegment sales or transfers	0	159	159	(159)	–
Total	36,402	9,079	45,481	(159)	45,322
Segment profit	2,636	545	3,182	–	3,182

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.

Significant subsequent events

Significant capital investment

The Company resolved at a Board of Directors meeting held on October 23, 2020 to build new testing blocks (2 blocks) at the R&D Center.

1 Purpose of the capital investment

The Group is advancing various initiatives for realizing “expanding the electronics field,” “strengthening the service solutions” and “creating new businesses,” which are identified as key fields in the medium-term management plan. To realize these strategies, the Group must strengthen and accelerate its research and development. To this end, the Group will build new testing blocks equipped with next-generation ultra-high pure water equipment for the electronics industry, aiming to execute its technology development roadmap for expanding the electronics field. At the same time, the Group decided to build a new testing block at its R&D Center for nonaqueous processes, such as electronic materials chemical solution purification.

2 Details of the capital investment

- | | |
|-----------------------------|---|
| (1) Location | 4-4-1 Nishi-Onuma, Minami-ku, Sagami-hara, Kanagawa Prefecture (in R&D Center of the Company) |
| (2) Total investment amount | Approximately ¥3.0 billion |

3 Schedule for introducing the facility

- | | |
|------------------------|--------------|
| (1) Construction start | January 2021 |
| (2) Operation start | April 2022 |

4 Material impacts of the facility on sales and production activities

The acquisition of this property, plant and equipment will have a negligible impact on the Group’s consolidated operating results for the current fiscal year.