



May 30, 2018

Company Name: Kurita Water Industries Ltd.
Representative: Michiya Kadota, President
(Securities Code: 6370, First Section of TSE)
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Notice Regarding Acquisition of Shares of Fracta, Inc., a U.S. Startup (to Make It a Subsidiary)

At a meeting of the Board of Directors held on May 29, 2018, Kurita Water Industries Ltd. (“Kurita”) passed a resolution to invest in Fracta, Inc., a company incorporated in Delaware, the United States. As a result, Kurita has executed an investment agreement with the company and its investors.

Fracta, Inc. provides a software service of predicting water main degradations by applying artificial intelligence (AI) and machine learning (ML) at Fracta (a company founded in 2015 in Redwood City, California, the United States), which is its wholly owned subsidiary.

Kurita announces today that the amount of this investment in Fracta, Inc. is approximately 37 million US dollars and it will hold a majority of the outstanding shares of Fracta, Inc. through subscription for newly-issued shares under the investment agreement, as well as private sale transactions between existing shareholders. As a result of these transactions, Fracta, Inc. will be Kurita’s consolidated subsidiary. Details of the share acquisition are as described below. In addition, from 2020 (up to 2024), Kurita will make Fracta, Inc. a wholly-owned subsidiary of Kurita or its affiliates (the “Kurita Group”).

1. Reason for acquisition of the shares

In the United States, water main degradations are generally identified in a simple manner based on the age of service of the pipes, by checking the equipment visually on site, or by applying the similar method. However, these methods are not accurate enough to ensure appropriate management and replacement of water mains, which has been a problem. In the United States, there are 240,000 accidents per year of breaks and leaks caused by aging of water utility mains. This has been recognized as a social issue, and it is predicted that \$1 trillion will be needed to replace water mains by 2050. In the field of software services of predicting water main degradations, the potential market size is estimated to be approx. \$2 billion per year.

The software service developed by Fracta combines accumulated data of past water mains failures with various factors for deterioration. An algorithm is applied to analyze correlations of more than 1,000 data items, enabling quick, highly accurate output of the probability of failure and the optimal times to replace water mains. This service thus permits significant reduction in the amount of maintenance cost and capital investment associated with replacement. Kurita’s investment in Fracta, Inc. will permit Fracta to enhance its sales system for business expansion and development system for strengthening functions of the software. It thus accelerates its market deployment all over the United States, aiming to achieve growth of the business into one with sales of more than \$30 million, in five years.

On the other hand, Kurita positions IoT/AI as an important part of the infrastructure for providing water treatment solutions to customers and pursues innovations in its business models and processes accordingly. Through its investment in Fracta, Inc., Kurita will achieve Fracta's leading-edge technologies and expertise in AI and ML and apply them to its water treatment technologies and services, thereby creating and expanding a new digital business that applies IoT/AI, in the field of water and the environment.

In addition, Fracta's service of predicting water main degradations not only provides customers with economic value, such as reductions in the capital investment and maintenance cost, but also contributes to the security and wealth of people's lives by solving water resource problems. Working together with this company, Kurita will achieve a further evolution in the software service based on AI/ ML and aim to operate a business that will lead to solutions of water resource problems faced by countries all over the world in the future.

2. Overview of the subsidiary (Fracta, Inc.)

(1)	Name	Fracta, Inc.	
(2)	Incorporation law, etc.	Laws of the state of Delaware, the United States	
(3)	Location of the principal place of business	1870 Broadway, 2nd Floor Redwood City, California, U.S.A.	
(4)	Name and title of representative	Takashi Kato, CEO	
(5)	Capital stock	7,402 thousand US dollars (Approx. 830 million yen) (As of December 31, 2017)	
(6)	Date of foundation	April 20, 2017	
(7)	Major equity holders and equity holding ratios (including issuable shares)	Fracta Holdings LLC: 44.5% AI/Robotics Venture Strategy 3 Ltd.: 26.0% Stock option: 29.5%	
(8)	Relationships with Kurita	Capital relationship	None
		Human relationship	None
		Business relationship	None
		Related parties	Fracta, Inc. is not a related party of Kurita. No directors, employees, or affiliates of Fracta, Inc. are related parties of Kurita.
(9)	Business performance and financial status	Sales of Fracta, Inc. is small because it has launched its business recently. Its total assets are almost equal in amount to the above capital stock.	

3. Percentage of equity interests to acquire and equity holding ratio before and after share acquisition

(1)	Equity holding ratio before acquisition	--
(2)	Percentage of equity interests to acquire	50.1% (on a fully diluted basis)
(3)	Acquisition cost	Approximately 37 million US dollars (Approx. 4,000 million yen)

(4)	Equity holding ratio after acquisition	50.1% (on a fully diluted basis)
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4. Schedule

(1)	Board approval	May 29, 2018 (Japan time)
(2)	Date of signing	May 29, 2018 (Japan time)
(3)	Date of share transfer	May 31, 2018 (U.S. time) (plan)

5. Financial impact

The financial impact of the acquisition on Kurita's consolidated financial statements is still under review and will be disclosed in a timely manner where necessary.