

Consolidated Results 2018 1Q

1. Consolidated Performance Overview

* **First quarter of fiscal 2018 (three months ended March 31, 2018):** The Noritz Group reached its profit targets despite year-on-year declines in sales and income. Consolidated net sales for the period amounted to ¥53.4 billion, down 0.3% from the previous corresponding period. Operating income totaled ¥2.1 billion, down 25.0%, and net income attributable to stockholders of parent company was ¥1.3 billion, down 40.0%.

- Domestic business: Domestic sales edged up 0.2% year on year, to ¥40,795 million (including internal transactions), and operating income declined 27.7% to ¥1,486 million. Amid an overall increase in demand for hot-water-related appliances due to cold weather and other factors, we posted increased sales of water heaters, especially bathwater heaters, because of higher unit sales. However, surging raw materials prices led to a decline in domestic operating income.
- Overseas business: Overseas sales edged down 0.3% to ¥15,116 million (including internal transactions), whereas operating income decreased 17.4% to ¥613 million. In North America and Australia, we reported increased sales because of market growth, but in China, which accounts for the highest share of overseas sales, we posted a decline in sales. This was due to a rise in unit sales in the previous corresponding period, prior to an increase in prices. As a result, both overseas revenue and income were down year on year.

| | 2015 | 2016 | 2017 | 2018 1Q | 2018 (Plan) |
|--|-----------------|--------|--------|---------|---------------|
| | Billions of yen | | | | |
| Net Sales | ¥218.9 | ¥211.8 | ¥214.6 | ¥53.4 | ¥220.0 |
| Domestic Business | 156.9 | 154.4 | 151.7 | 39.3 | 153.0 |
| Overseas Business | 61.9 | 57.4 | 62.8 | 14.1 | 67.0 |
| Operating Income | 5.1 | 8.9 | 6.7 | 2.1 | 8.0 |
| Domestic Business | 3.5 | 5.9 | 4.0 | 1.5 | 5.0 |
| Overseas Business | 1.5 | 2.9 | 2.7 | 0.6 | 3.0 |
| Ordinary Income | 6.0 | 9.3 | 8.1 | 2.3 | 8.8 |
| Net Income attributable to shareholders of parent company | (3.9) | 4.6 | 5.4 | 1.4 | 5.8 |

2. Message from the President

Performed according to plan despite sales and income declines

In the first quarter under review, consolidated net sales remained mostly unchanged, edging down 0.3% year on year to ¥53.4 billion. Due to surging raw materials prices, however, operating income declined 25.0% to ¥2.1 billion. Net income attributable to stockholders of parent company fell 40.0% to ¥1.3 billion.

In our domestic business, sales edged up 0.2% year on year to ¥40,795 million (including internal transactions). By category, sales in the Water Heaters segment rose 0.7% to ¥30.5 billion owing to an increase in replacement demand-based unit sales stemming from cold weather and other factors. Sales in the Kitchen Appliances segment declined 8.3% to ¥4.6 billion due to a decrease in unit sales amid falling year-on-year demand. Sales in the Housing Equipment segment rose slightly to ¥2.7 billion.

In our overseas business, sales edged down 0.3% to ¥15,116 million (including internal transactions), whereas operating income decreased 17.4% to ¥613 million. By geographic region, we posted sales in China of ¥10.2 billion (down 0.8% year on year), sales in North America of ¥2.0 billion (up 0.6%), and sales in Australia of ¥1.5 billion (up 4.1%). Overseas operating income for the quarter declined year on year due to the sales decrease in China. This was despite stabilized profitability at Sakura Bath & Kitchen Products (China) Co., Ltd., which struggled in the previous fiscal year.

Fiscal 2018 Outlook

The Noritz Group is currently implementing its medium-term management plan, entitled V-plan 20, covering the four-year period from fiscal 2017 through fiscal 2020. The vision of the plan is “Noritz Group—globally competitive.” Guided by this vision, we are striving to restructure our business portfolio, enhance the profitability of our domestic business, continuously expand our overseas business, and harmonize corporate management and CSR.

Despite year-on-year declines in sales and income in the first quarter, we will seek to achieve steady increases in full-year sales and income for fiscal 2018, the second year of the plan. In our domestic business, we will transform our manufacturing and marketing systems, targeting net sales of ¥160.0 billion (up 0.6% year on year) and operating income of ¥5.0 billion (up 23.7%). Overseas, we will work to expand sales of tankless water heaters and bolster sales of new products, such as space heaters and commercial water heaters, targeting sales of ¥70.0 billion (up 6.1%) and operating income of ¥3.0 billion (up 12.5%).

Guided by the phrase “Bath makes us happy,” the maxim of our founder in 1951, we have sought to broaden Japanese bathing culture and increase people’s living standards. That maxim remains unchanged. With the quest to create “The Simple Comforts of Life” as our mission, we will transform ourselves in the years to come based on the themes of environment, safety, comfort, health and beauty. The Noritz Group will continue to make the necessary developments and changes to fulfill your expectations.

3. Consolidated Financial Highlights

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31, 2015, 2016, 2017 and March 31, 2018

Millions of yen

| | 2015 | 2016 | 2017 | 2018 1Q |
|---|----------|----------|----------|----------------|
| Fiscal Year: | | | | |
| Net sales | ¥218,909 | ¥211,872 | ¥214,648 | ¥53,498 |
| Operating income | 5,123 | 8,940 | 6,708 | 2,100 |
| Operating margin (%) | 2.3 | 4.2 | 3.1 | 3.9 |
| Net income attributable to shareholders of parent company | (3,958) | 4,654 | 5,402 | 1,355 |
| Net cash provided by operating activities | 13,116 | 17,238 | 8,376 | |
| Net cash used in investing activities | (6,346) | (6,423) | (8,574) | |
| Net cash used in financing activities | (2,814) | (1,614) | (1,715) | |
| Cash and cash equivalents | 27,581 | 35,887 | 34,283 | |
| Capital expenditures | 8,359 | 8,074 | 7,990 | 1,349 |
| Depreciation and amortization | 7,262 | 6,903 | 8,093 | 1,447 |

At Fiscal Year-End:

| | | | | |
|--------------|----------|----------|----------|-----------------|
| Total assets | ¥197,022 | ¥201,041 | ¥212,491 | ¥209,996 |
| Net assets | 113,731 | 111,477 | 121,531 | 120,472 |

Per Share Data (Yen):

| | | | | |
|---------------|-----------|----------|----------|----------------|
| Net income | ¥ (82.79) | ¥ 97.34 | ¥ 112.98 | ¥ 28.35 |
| Cash dividend | 32.00 | 32.00 | 32.00 | — |
| Net assets | 2,291.06 | 2,245.05 | 2,451.13 | |

Financial Ratios (%):

| | | | | |
|------------------------|-------|------|------|-------------|
| Return on equity (ROE) | (3.6) | 4.3 | 4.8 | 4.6 |
| Return on assets (ROA) | (2.0) | 2.3 | 2.5 | 2.0 |
| Equity ratio | 55.6 | 53.4 | 55.1 | 54.2 |