

# Consolidated Results 2016

## 1. Consolidated Performance Overview

**\* Fiscal 2016 (ended December 31, 2016): ¥3.8 billion year-on-year improvement in operating income thanks to healthy progress in tackling priority measures.**

- Domestic business: ¥2.4 billion increase in operating income owing to implementation of strategy to boost earnings by ¥1.7 billion, which exceeded plans.
- Overseas business: ¥1.4 billion improvement in operating income; rebuilding of Sakura Bath & Kitchen Products (China) Co., Ltd. enable that company to return to significant profitability from a loss in previous year.

	2013	2014	2015	2016	Billions of yen 2017 (Plan)
<b>Net Sales</b>	¥200.3	¥218.9	¥218.9	¥211.8	<b>¥219.0</b>
Domestic Business	173.1	169.8	156.9	154.4	<b>163.0</b>
Overseas Business	27.2	49.0	61.9	57.4	<b>64.0</b>
<b>Operating Income</b>	9.6	7.4	5.1	8.9	<b>10.0</b>
Domestic Business	7.9	5.6	3.5	5.9	<b>6.6</b>
Overseas Business	1.6	1.7	1.5	2.9	<b>3.4</b>
<b>Ordinary Income</b>	11.0	9.4	6.0	9.3	<b>10.2</b>
<b>Net Income attributable to shareholders of parent company</b>	6.3	3.4	(3.9)	4.6	<b>6.1</b>

## 2. Consolidated Financial Highlights

Noritz Corporation and Consolidated Subsidiaries  
Years ended December 31, 2014, 2015, and 2016

Millions of yen

	2014	2015	2016
<b>Fiscal Year:</b>			
Net sales	¥218,943	¥218,909	<b>¥211,872</b>
Operating income	7,407	5,123	<b>8,940</b>
Operating margin	3.4	2.3	<b>4.2</b>
Net income attributable to shareholders of parent company	3,479	(3,958)	<b>4,654</b>
Net cash provided by operating activities	13,476	13,116	<b>17,238</b>
Net cash used in investing activities	(14,658)	(6,346)	<b>(6,423)</b>
Net cash used in financing activities	(2,814)	(2,814)	<b>(1,614)</b>
Cash and cash equivalents	24,274	27,581	<b>35,887</b>
Capital expenditures	8,318	8,359	<b>8,074</b>
Depreciation and amortization	7,068	7,262	<b>6,903</b>
<b>At Fiscal Year-End:</b>			
Total assets	¥206,061	¥197,022	<b>¥201,041</b>
Net assets	118,244	113,731	<b>111,477</b>
<b>Per Share Data (Yen):</b>			
Net income	¥ 72.76	¥ (82.79)	<b>¥ 97.34</b>
Cash dividends	32.00	32.00	<b>32.00</b>
Net assets	2,372.13	2,291.06	<b>2,245.05</b>
<b>Financial Ratios (%):</b>			
Return on equity (ROE)	3.2	(3.6)	<b>4.3</b>
Return on assets (ROA)	1.8	(2.0)	<b>2.3</b>
Equity ratio	55.0	55.6	<b>53.4</b>

## 3. Review of Medium-Term Management Plan, “V-plan 16” (Fiscal 2011–2016)

We achieved growth in first half of the plan’s period, until fiscal 2013, driven by domestic business. Despite a slowdown in domestic business in the second half, our performance was propelled by overseas business growth. In 2015, we withdrew from the residential solar power generation business, which we had entered in 2011. Due to this impact, we did not achieve the targets set initially under the medium-term plan.

### Domestic business

We recorded steady growth in the first half of the plan’s period, until fiscal 2013. In the second half, we adopted a policy of selection and concentration of business, which included withdrawing from the residential solar power generation business, and we cut costs, leading to a recovery in operating income.

### Overseas business

We saw stagnant growth in the first half of the plan’s period, especially through fiscal 2012. Growth from fiscal 2013 centered on China and North America. With the acquisitions of Sakura Bath & Kitchen Products (China) Co., Ltd. and Australia-based Dux Manufacturing Limited, we exceeded plan targets, with ¥57.4 billion in sales and ¥2.9 billion in operating income (versus ¥40.0 billion and ¥2.5 billion, respectively, set under V-plan 16).



## 4. Overview of New Medium-Term Management Plan, “V-plan 20” (Fiscal 2017–2020)

Noritz Corporation has established “V-plan 20,” a medium-term management plan spanning four years, from fiscal 2017 through fiscal 2020. Aiming to be a sound company that can survive and grow even amid intensified competition, we will strive to achieve a consolidated operating margin (operating income to net sales) of 10% and return on equity (ROE) of 8% by fiscal 2020, the final year of the plan.

To achieve this, we plan to focus our business resources on the water heater business, a core business, aiming to expand profits in the domestic business and further grow the overseas business. Specifically, we will implement the following priority measures as we strive to achieve sustainable growth and enhance the Group’s corporate value.

### Group vision: The Noritz Group—Competing in the Global Market

<b>Fiscal 2020 plan</b>	Net sales	¥240 billion
	Operating income	¥24 billion
	Operating margin	10%
	Net income attributable to shareholders of parent company	¥15 billion
	ROE	8%
<b>Domestic business (fiscal 2020)</b>	Sales	¥170 billion
	Operating income	¥17 billion (operating margin: 10%)
<b>Overseas business (fiscal 2020)</b>	Sales	¥85 billion
	Operating income	¥7 billion (operating margin: 8.2%)

\* Domestic and overseas sales plan figures include internal transactions.

### Priority measures

#### 1. Restructure the business portfolio

The Company will focus its business resources on the water heater business, one of its mainstay businesses, and enhance sales of new competitive products, while aiming to improve profits in the domestic business by rebuilding low-performing businesses.

#### 2. Enhance the profitability of domestic business

To address the decline in the number of households in Japan, the Company will incorporate added value in the manufacturing processes of its domestic business and adopt a sales model in which we deploy our unique equipment check-up system to strengthen customer relationships. We will also work to reinforce our earnings power by expanding sales and improving the profitability of high-efficiency water heaters and new products.

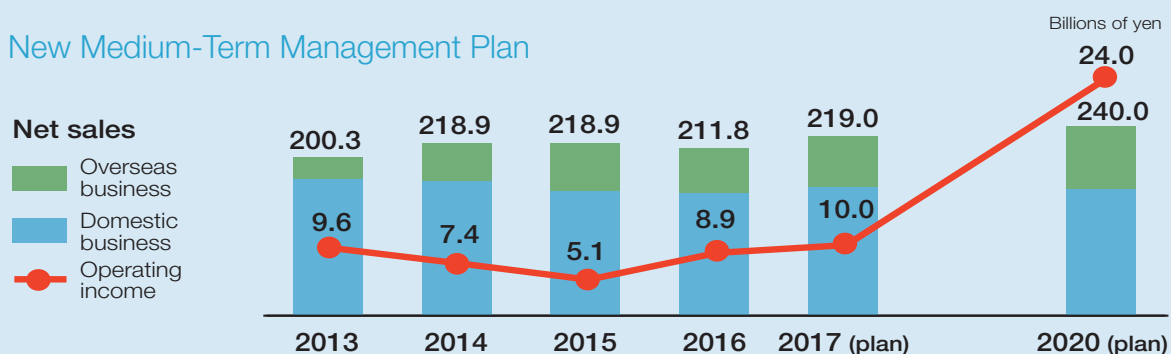
#### 3. Continuously expand overseas business

With overseas business driving its growth, the Company will target continuous expansion by developing new products that stand out and expanding its new product lineup.

#### 4. Reform the corporate culture

The Company will strive to reform its corporate culture and design systems with the aim of becoming “a corporate group that takes on challenges, unafraid of failure” in an age of unpredictability.

### New Medium-Term Management Plan



## 5. Fiscal 2017 plan

We will target record-high figures for net sales and operating income.

### Theme: Restoration of the heating ventilation and air conditioning (HVAC) business

#### Fiscal 2017 management plan

Net sales	¥219 billion
Operating income	¥10 billion
Operating margin	4.5%
Net income attributable to shareholders of parent company	¥6.1 billion
ROE	5.6%

We will achieve year-on-year increases in sales and income from both domestic and overseas businesses.

#### Domestic business (plan)

Sales	¥163 billion (¥160.3 billion in fiscal 2016)
Operating income	¥6.6 billion (¥5.9 billion in fiscal 2016)

Note: Sales figures include internal transactions.

We will launch new gas water heaters fitted with functions to guarantee safety and peace of mind, in addition to existing environmental and energy-saving qualities. In the mass-market segment of the gas water heater market, we will improve added value to distinguish our offerings while increasing in-house manufacturing to expand our business.

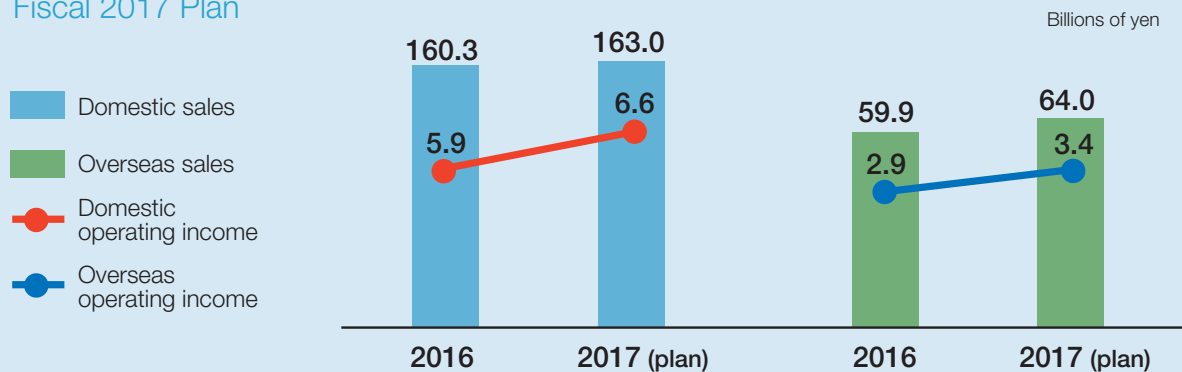
#### Overseas business (plan)

Sales	¥64 billion (¥59.9 billion in fiscal 2016)
Operating income	¥3.4 billion (¥2.9 billion in fiscal 2016)

Note: Domestic and overseas sales plan figures include internal transactions.

Overseas business expansion will center on China and North America. In addition to boosting sales of existing high-efficiency gas water heaters, we will make a full-scale entry into the markets for combi boilers and commercial gas water heaters.

### Fiscal 2017 Plan



## 6. Message from the President

In fiscal 2016, ended December 31, 2016, the Noritz Group achieved progress in implementing priority measures stated from the outset: recovery in the domestic business, improved earnings aimed at overseas business expansion, and efforts aimed at rebuilding the business of Sakura Bath & Kitchen Products (China) Co., Ltd.

Consolidated net sales for the year amounted to ¥211,872 million, down 3.2% from the previous year. Operating income jumped 74.5%, to ¥8,940 million, and net income attributable to shareholders of parent company totaled ¥4,654 million, compared to a net loss of ¥3,958 million in fiscal 2015. Although we did not fulfill all the objectives of “V-plan 16,” our six-year medium-term management plan, we managed a steady business recovery.

In our domestic business, sales edged down 1.6%, to ¥154,413 million, and operating income grew 66.6%, to ¥5,989 million. By category, sales in the HVAC business—a focus of our priority measures—increased year on year, but sales of kitchen appliances, housing equipment, and renewable energy products were down.

In our overseas business, sales declined 7.2%, to ¥57,458 million, and operating income surged 93.1%, to ¥2,950 million. Due to the yen’s appreciation, sales fell in yen terms but rose on a local-currency basis. At Sakura Bath & Kitchen Products (China)—which we have been rebuilding as a priority measure—we brought selling, general, and administrative expenses under control, resulting in steady recovery of earnings and a significant profit following a loss in the previous year.

The Group has formulated a new medium-term management plan, entitled “V-plan 20,” covering the four-year period from fiscal 2017 through fiscal 2020. At the same time, we redesigned our philosophy system with a view to future expansion, including accelerated globalization, and formulated the Noritz Group mission and values. Our Group mission is to create “The Simple Comforts of Life.” This means “Bring smiles to people and the earth by conveying the excitement of living.” By providing value that stirs up the excitement of living for all stakeholders, we will promote our corporate activities to deliver smiles to multitudes.

Our vision is “The Noritz Group—Competing in the Global Market.” In line with this vision, we will pursue enhanced corporate value from three perspectives: brand value, economic value, and social value. In particular, we will disengage from our current low-earnings structure and transform ourselves into a high-profit organization. A central goal here is to boost our operating margin to 10%.

Guided by the phrase “Bathing Makes Happiness,” the maxim of our founder in 1951, we have sought to broaden Japanese bathing culture and increase people’s living standards. Now, more than 60 years later, this maxim remains unchanged. In our quest to create “The Simple Comforts of Life” as our mission, we will transform ourselves into the years to come based on the themes of environment, safety, comfort, health, and beauty.