

Consolidated Results 2017

1. Consolidated Performance Overview

* In fiscal 2017, ended December 31, 2017, consolidated net sales amounted to ¥214.6 billion, up 1.3% from fiscal 2016, and operating income was ¥6.7 billion, down 25.0%. Our performance was impacted by weak results in the first half of the fiscal year.

- Domestic business: Domestic sales edged down 0.4% year on year, to ¥158,975 million (including intersegment sales), and operating income declined 32.5%, to ¥4,041 million. Problems arising from the introduction of new products in the mainstay Water Heaters Segment, as well as surging raw materials prices, led to declines in domestic revenue and earnings.
- Overseas business: Overseas sales grew 9.4%, to ¥65,939 million (including intersegment sales), while operating income decreased 9.6%, to ¥2,666 million. Despite achieving higher sales in our three main regions—China, North America, and Australia—a weak performance by Sakura Bath & Kitchen Products (China) Co., Ltd. in the first half led to a drop in full-year income.

	2014	2015	2016	2017	2018 (Plan)
	Billions of yen				
Net Sales	¥218.9	¥218.9	¥211.8	¥214.6	¥220.0
Domestic Business	169.8	156.9	154.4	151.7	153.0
Overseas Business	49.0	61.9	57.4	62.8	67.0
Operating Income	7.4	5.1	8.9	6.7	8.0
Domestic Business	5.6	3.5	5.9	4.0	5.0
Overseas Business	1.7	1.5	2.9	2.7	3.0
Ordinary Income	9.4	6.0	9.3	8.1	8.8
Net Income attributable to shareholders of parent company	3.4	(3.9)	4.6	5.4	5.8

2. Consolidated Financial Highlights

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

Millions of yen

	2015	2016	2017
Fiscal Year:			
Net sales	¥218,909	¥211,872	¥214,648
Operating income	5,123	8,940	6,708
Operating margin	2.3	4.2	3.1
Net income attributable to shareholders of parent company	(3,958)	4,654	5,402
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	
Depreciation and amortization	7,262	6,903	
At Fiscal Year-End:			
Total assets	¥197,022	¥201,041	¥212,491
Net assets	113,731	111,477	121,531
Per Share Data (Yen):			
Net income	¥ (82.79)	¥ 97.34	¥ 112.98
Cash dividends	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
Return on assets (ROA)	(2.0)	2.3	2.5
Equity ratio	55.6	53.4	55.1

3. Progress of Medium-Term Management Plan, V-plan 20 (Fiscal 2017–2020)

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 boost sales of new competitive products. In the housing equipment business, we will enhance our product lineup through business alliances with other companies, while developing attractive, competitive new products and establishing collaborations in the areas of production and logistics.

2. Enhance the profitability of domestic business

The Company will add value to its products by transforming its manufacturing and marketing systems. We will also build an effective sales model by deploying our unique equipment check-up system to strengthen customer relationships. In addition, we will work to reinforce our earnings power by expanding sales of high-efficiency water heaters and new products while reducing fixed costs to bolster income.

3. Continuously expand overseas business

We will work to increase sales of tankless water heaters in China, North America, and Australia. We will also start to produce combination water heater in China. In addition, we will target increased earnings and continuous growth by introducing commercial water heaters and boosting sales of new products in the three main regions, China, North America, and Australia.

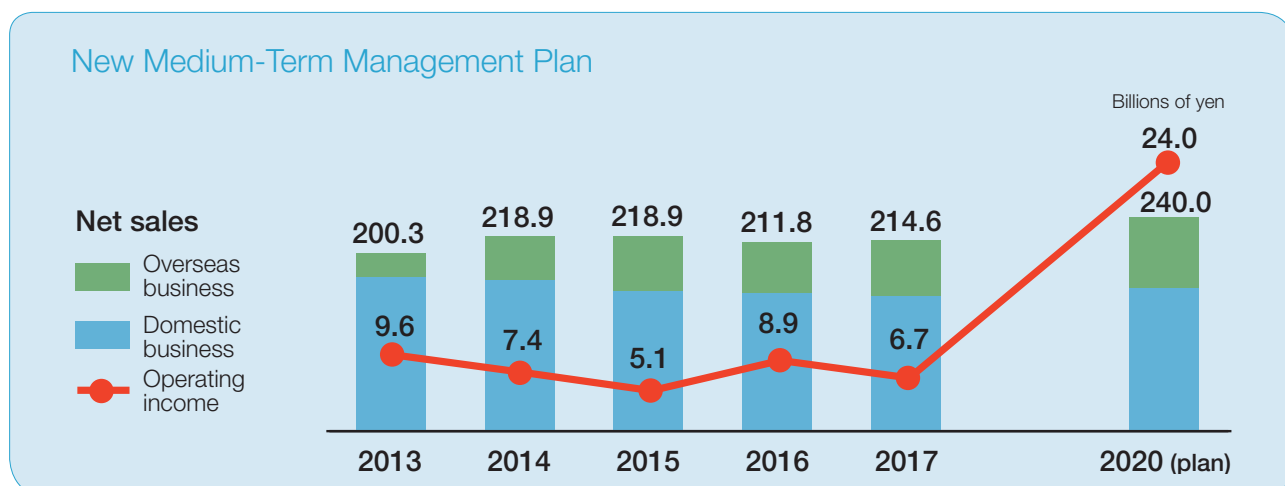
4. Integrate CSR into management

We will pursue three key values—brand value, economic value, and social value—to improve corporate value while enhancing product quality to support a safe and secure society.

Environment: We will promote the spread of environmentally friendly products as an “Eco-First” company.

Society: We will promote the spread of products and workstyle reforms aimed at resolving social issues.

Governance: We will improve the effectiveness of corporate governance.



4. Message from the President

Year-on-year increases in sales and income

In fiscal 2017, ended December 31, 2017, the Noritz Group posted consolidated net sales of ¥214,648 million, up 1.3% from fiscal 2016. For the year, favorable overseas sales compensated for a decline in domestic sales, resulting in higher overall revenue. On the earnings side, however, operating income decreased 25.0%, to ¥6,708 million, impacted by a weak performance in the first half of the year. Nevertheless, net income attributable to shareholders of parent company grew 16.1%, to ¥5,402 million. This was because of the reversal of a provision for product warranties, established in the previous year, as well as settlement received, related to a settlement with the manufacturer of electronic components that caused a product defect.

In our domestic business, sales edged down 0.4%, to ¥158,975 million. By category, sales in the Water Heaters Segment declined 1.3%, to ¥113.1 billion. This was due to the prolonged impact of marketing confusion when large-scale products equipped with Mimamori (monitoring) and Kirei (cleaning) functions were released in March 2017, as well as surging raw materials prices. Sales of kitchen appliances slipped 2.0%, to ¥22.2 billion, and sales of housing equipment decreased 4.3%, to ¥11.2 billion.

In our overseas business, sales increased 9.4%, to ¥65.9 billion, and operating income fell 9.6%, to ¥2.6 billion. We enjoyed year-on-year sales growth in all three major regions. Specifically, sales in China rose 9.1%, to ¥46.0 billion; sales in North America climbed 14.5%, to ¥7.7 billion, and sales in Australia increased 16.3%, to ¥6.8 billion. Due to a weak performance by Sakura Bath & Kitchen Products (China) in the first half, however, overseas operating income declined. During the year, we stepped up control of sales promotional expenses and other internal systems at Sakura Bath & Kitchen Products (China), which resulted in a steady improvement of that company's earnings power.

V-plan 20 and fiscal 2018 performance forecast

Fiscal 2017 was the first year of the Group's medium-term management plan entitled V-plan 20, covering the four-year period from fiscal 2017 through fiscal 2020. Our vision is "The Noritz Group—Globally Competitive by 2020." To this end, we are working to restructure our portfolio, enhance the profitability of our domestic business, continuously grow our overseas business, and integrate CSR into management.

Our vision is "The Noritz Group—Globally Competitive by 2020." 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% at an early stage.

In fiscal 2018, the second year of the plan, we will seek to achieve steady year-on-year increases in sales and income. 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 room heaters and commercial water heaters, targeting sales of ¥70.0 billion (up 6.1%) and operating income of ¥3.0 billion (up 12.5%).

The Noritz Group participates in the Ministry of Environment's Eco-First system, under which companies commit to undertake their own environmental protection initiatives. On March 9, 2009, we became the first company in the gas/oil appliance industry to receive certification as an Eco-First company, and we are working to fulfill four commitment we have made to society with respect to environmental protection.

Commitment 1: Build a low-carbon society through our products

Commitment 2: Build a low-carbon society through our business activities

Commitment 3: Strengthen management of chemical substances in advance of regulations

Commitment 4: Build a recycling-oriented society through our products and business activities

In addition to starting V-plan 20, in fiscal 2017 we redesigned our philosophy system and formulated the Noritz Group mission and values. We declared our Group mission as "The Simple Comforts of Life." This means "bringing smiles to people and the earth by conveying the excitement of living." By providing value that generates the excitement of living for all stakeholders, we will promote our corporate activities to deliver smiles to many people.

Guided by the phrase "Bathing makes us happy," 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. 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.