

Consolidated Results 2017 1Q

1. Consolidated Performance Overview

*** The first quarter of fiscal 2016 (the three months ended March 31, 2017): Started smoothly with net sales of ¥53,640 million (down 0.4% year on year) and operating income of ¥2,800 million (up 6.5%).**

- Domestic business: Mostly according to plan, with sales of ¥40,698 million (down 2.8%) and operating income of ¥2,057 million (up 12.5%).
- Overseas business: Sales of ¥15,166 million (up 4.9%) and operating income of ¥742 million (down 7.3%).
 - ▶ China: Prices were raised, and there were consumer sales amid the economic slowdown.
 - ▶ United States: There were healthy sales of water heaters buoyed by the economic turnaround.

	2014	2015	2016	2017 1Q	Billions of yen 2017 (Plan)
Net Sales	¥218.9	¥218.9	¥211.8	¥53.6	¥219.0
Domestic Business	169.8	156.9	154.4	39.4	163.0
Overseas Business	49.0	61.9	57.4	14.1	64.0
Operating Income	7.4	5.1	8.9	2.8	10.0
Domestic Business	5.6	3.5	5.9	2.0	6.6
Overseas Business	1.7	1.5	2.9	0.7	3.4
Ordinary Income	9.4	6.0	9.3	2.9	10.2
Net Income	3.4	(3.9)	4.6	2.2	6.1

2. Message from the President

Net sales fell but operating income was up, and the bottom line nearly doubled thanks to extraordinary income.

In the first quarter under review, Noritz Corporation made a smooth start toward achieving its targets for the fiscal year. Specifically, consolidated net sales edged down 0.4% year on year, to ¥53,640 million; operating income rose 6.5%, to ¥2,800 million, and profit attributable to owners of parent surged 105.2%, to ¥2,259 million. Despite posting extraordinary losses of ¥1,363 million—mainly expenses associated with accidents caused by bathroom heaters—we reported extraordinary income of ¥1,933 million due largely to settlements related to D Series remote controls.

In our domestic business, sales decreased 2.4%, to ¥39,442 million, while operating income increased 12.5%, to ¥2,057 million. Sales were down in all categories. Specifically, sales in the heating, ventilation, and air conditioning (HVAC) business declined 2.3%, to ¥30.3 billion; sales of kitchen appliances slipped 1.4%, to ¥5.1 billion; and sales of housing equipment fell 5.2%, to ¥27.3 billion. However, we achieved a rise in domestic operating income thanks to cuts in selling, general, and administrative expenses, cost reductions for materials, and an improved product mix.

In our overseas business, sales increased 5.5%, to ¥14,197 million, while operating income declined 7.3%, to ¥742 million. We posted sales growth in all regions. Specifically, sales in China rose 10.0%, to ¥10.2 billion; sales in North America increased 3.0%, to ¥2.0 billion; and sales in Australia grew 10.0%, to ¥1.4 billion. Although overseas operating income declined due to foreign exchange factors, a rise in sales volume led to higher overseas revenue.

Pursuing higher income through increased revenue

As the above suggests, Noritz made generally good progress in achieving its targets for the first quarter. Looking toward the interim period (the first two quarters), we are targeting consolidated net sales of ¥49.3 billion (up 7.0% year on year) and operating income of ¥1.2 billion (up 10.0%). Compared with the first quarter, there are many hurdles. In Japan, we posted a decline in unit sales of mainstay water heaters in the first quarter. In March 2017, however, we enjoyed a significant increase in unit sales thanks to the launch of the new C62, which has a sensor-based monitoring function that supports anxiety-free bathing and a purification function that maintains hot water cleanliness. We also improved our product mix and increased sales prices with a view to boosting sales and income. In May 2017, we will launch the new GT-C6 Series, and in China we will raise prices to compensate for higher costs stemming from soaring materials prices. To achieve our targets for the fiscal year, our challenge for the second quarter is to boost income by expanding sales. We will unite in a companywide effort to meet this challenge.

In February 2017, Noritz Corporation announced “V-plan 20,” a medium-term business plan covering the four-year period to January 2021. Under the plan, we have redesigned our business philosophy with a view to future business development, including accelerated globalization, while formulating the Noritz Group Mission and Values.

3. Consolidated Financial Highlights

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31, 2014, 2015, 2016 and March 31, 2017

Millions of yen

	2014	2015	2016	2017 1Q
Fiscal Year:				
Net sales	¥218,943	¥218,909	¥211,872	¥53,640
Operating income	7,407	5,123	8,940	2,800
Operating margin	3.4	2.3	4.2	5.2
Net income	3,479	(3,958)	4,654	2,259
Net cash provided by operating activities	13,476	13,116	17,238	
Net cash used in investing activities	(14,658)	(6,346)	(6,423)	
Net cash used in financing activities	(2,814)	(2,814)	(1,614)	
Cash and cash equivalents	24,274	27,581	35,887	
Capital expenditures	8,318	8,359	8,074	2,238
Depreciation and amortization	7,068	7,262	6,903	1,664
At Fiscal Year-End:				
Total assets	¥206,061	¥197,022	¥201,041	¥198,223
Net assets	118,244	113,731	111,477	111,477
Per Share Data (Yen):				
Net income	¥ 72.76	¥ (82.79)	¥ 97.34	¥ 47.26
Cash dividends	32.00	32.00	32.00	—
Net assets	2,372.13	2,291.06	2,245.05	2,248.81
Financial Ratios (%):				
Return on equity (ROE)	3.2	(3.6)	4.3	8.4
Return on assets (ROA)	1.8	(2.0)	2.3	4.5
Equity ratio	55.0	55.6	53.4	54.2