

# Consolidated Results 2017 2Q

## 1. Consolidated Performance Overview

**First two quarters of fiscal 2017 (six months ended June 30, 2017):** Despite a healthy start in the first quarter, business stagnated in the second quarter. As a result, consolidated net sales for the period amounted to ¥101.8 billion, up just 0.4% from the previous corresponding period. Operating income totaled ¥3.0 billion, down 10.5% for the same period.

- Domestic business: Domestic sales declined 1.4% year on year, to ¥75,291 million (including internal transactions), and operating income grew 6.0%, to ¥1,790 million. Our withdrawal from the solar photovoltaic for domestic application business, as well as a slump in housing equipment, led to lower revenue. However, we achieved an increase in earnings thanks to efforts to cut selling, general and administrative (SG&A) expenses and improve the cost of goods sold ratio.
- Overseas business: Overseas sales grew 4.4%, to ¥31,381 million (including internal transactions), but operating income fell 26.5%, to ¥1,283 million. Sakura Bath & Kitchen Products (China) Co., Ltd. reported a decline in earnings, but other overseas subsidiaries enjoyed steady income growth.

	2014	2015	2016	2017 2Q	Billions of yen 2017 (Plan)
<b>Net Sales</b>	¥218.9	¥218.9	¥211.8	¥101.8	<b>¥219.0</b>
Domestic Business	169.8	156.9	154.4	71.9	<b>163.0</b>
Overseas Business	49.0	61.9	57.4	29.8	<b>64.0</b>
<b>Operating Income</b>	7.4	5.1	8.9	3.0	<b>10.0</b>
Domestic Business	5.6	3.5	5.9	1.7	<b>6.6</b>
Overseas Business	1.7	1.5	2.9	1.2	<b>3.4</b>
<b>Ordinary Income</b>	9.4	6.0	9.3	3.6	<b>10.2</b>
<b>Net Income</b>	3.4	(3.9)	4.6	2.7	<b>6.1</b>

## 2. Message from the President

### Sales up but income down: Unable to maintain healthy first-quarter performance as business stagnated in the second half

In the first two quarters under review, consolidated new sales edged up 0.4%, to ¥101,805 million, impacted by a decrease in domestic sales. We were unable to maintain our healthy first-quarter performance, with a result that did not meet our target. Operating income declined 10.5% year on year, to ¥3,073 million, net income (loss) attributable to stockholders of the parent company climbed 53.0%, to ¥2,789 million.

There were two main reasons for this performance. The first was weak sales of our much-anticipated large-sized products, which were launched in March 2017. The new GT-C62, a high-efficiency gas bath water heater, was highly evaluated as the first in the industry with advanced functions. These included sensors to provide peace of mind while bathing and a sterilization function to keep the bathwater clean. Due to our bullish pricing strategy, however, the contract rate declined, and we could not sell as many units as planned. The second reason was the sluggish performance of Sakura Bath & Kitchen Products (China), which led to a significant decline in overseas earnings. We have implemented immediate measures to address both factors, and we expect a significant recovery in the second half of the fiscal year.

In our domestic business, sales declined 1.5% year on year, to ¥71,972 million, but operating income increased 6.0%, to ¥1,790 million. By segment, sales in the heating, ventilation, and air conditioning (HVAC) business declined 1.2%, to ¥53.9 billion; sales of kitchen appliances edged down 0.1%, to ¥9.9 billion; and sales of housing equipment fell 6.2%, to ¥5.5 billion. On the earnings side, we improved our product mix and noted the benefits of cost-reduction efforts. However, operating income dropped due to increased processing costs stemming from investments in molding for the new products, as well as higher SG&A expenses.

In our overseas business, sales rose 5.2%, to ¥29,832 million, and operating income fell 26.5%, to ¥1,283 million. We enjoyed year-on-year sales growth in all three major regions. Specifically, sales in China rose 5.3%, to ¥21.4 billion; sales in North America climbed 14.8%, to ¥4.0 billion, and sales in Australia increased 12.6%, to ¥3.2 billion. Sakura Bath & Kitchen Products (China) reported a decline in earnings due to weak performance, but other overseas subsidiaries enjoyed steady income growth.

### Return to a growth trajectory by reinforcing our lineup of new water heaters and strengthening our business in China

As indicated by the aforementioned results, we are significantly behind our business plan in term of earnings for the two-quarter period. Nevertheless, we have already revamped our sales system and expanded and upgraded our lineup of large-sized products, which generated weak sales in the first half. We are also implementing measures aimed at shifting to a flexible pricing strategy. In the high-efficiency gas bath water heater market, in particular, we will steadily take measures to convert favorable market evaluations into actual sales.

In addition, we will continue transforming the management structure of Sakura Bath & Kitchen Products (China), the cause of our revenue decline in the first half of the year, while working to expand its top-line revenue. We will also step up efforts to increase sales of range hoods, which stalled in the first half, as well as cookers. Moreover, we will strive to boost Internet-based sales in China, where online sales growth is significant.

Through the initiatives described above, we will work to restore sales growth and bolster earnings.

The Group formulated and announced in February 2017 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.

### 3. Consolidated Financial Highlights

Noritz Corporation and Consolidated Subsidiaries  
Years ended December 31, 2014, 2015, 2016 and June 30, 2017

Millions of yen

	2014	2015	2016	2017 2Q
<b>Fiscal Year:</b>				
Net sales	¥218,943	¥218,909	¥211,872	<b>¥101,805</b>
Operating income	7,407	5,123	8,940	<b>3,073</b>
Operating margin	3.4	2.3	4.2	<b>3.0</b>
Net income	3,479	(3,958)	4,654	<b>2,789</b>
Net cash provided by operating activities	13,476	13,116	17,238	<b>7,067</b>
Net cash used in investing activities	(14,658)	(6,346)	(6,423)	<b>(4,089)</b>
Net cash used in financing activities	(2,814)	(2,814)	(1,614)	<b>(812)</b>
Cash and cash equivalents	24,274	27,581	35,887	<b>37,538</b>
Capital expenditures	8,318	8,359	8,074	<b>5,067</b>
Depreciation and amortization	7,068	7,262	6,903	<b>3,903</b>
<b>At Fiscal Year-End:</b>				
Total assets	¥206,061	¥197,022	¥201,041	<b>¥199,533</b>
Net assets	118,244	113,731	111,477	<b>113,969</b>
<b>Per Share Data (Yen):</b>				
Net income	¥ 72.76	¥ (82.79)	¥ 97.34	<b>¥ 58.34</b>
Cash dividends	32.00	32.00	32.00	<b>16.00</b>
Net assets	2,372.13	2,291.06	2,245.05	<b>2,298.69</b>
<b>Financial Ratios (%):</b>				
Return on equity (ROE)	3.2	(3.6)	4.3	<b>5.1</b>
Return on assets (ROA)	1.8	(2.0)	2.3	<b>2.8</b>
Equity ratio	55.0	55.6	53.4	<b>55.1</b>