

# Consolidated Results 2017 3Q

## 1. Consolidated Performance Overview

**First three quarters of fiscal 2017 (nine months ended September 30, 2017): Consolidated net sales for the period amounted to ¥151.1 billion, up 0.7% from the previous corresponding period. Operating income totaled ¥3.1 billion, down 29.7%. During the period, our performance was affected by a delayed recovery in the domestic heating, ventilation, and air conditioning (HVAC) business.**

- Domestic business: Domestic sales decreased 1.8% year on year, to ¥110,842 million (including internal transactions), and operating income fell 43.4%, to ¥1,207 million. A delayed recovery in the domestic HVAC business led to declines in domestic revenue and earnings.
- Overseas business: Overseas sales grew 8.6%, to ¥47,725 million (including internal transactions), while operating income decreased 17.3%, to ¥1,939 million. The increase in sales was due to continued healthy performances in three main regions—China, North America, and Australia—as well as signs of recovery at Sakura Bath & Kitchen Products (China) Co., Ltd., which performed weakly in the first two quarters.

	2014	2015	2016	2017 3Q	Billions of yen 2017 (Plan)
<b>Net Sales</b>	¥218.9	¥218.9	¥211.8	¥151.1	<b>¥214.0</b>
Domestic Business	169.8	156.9	154.4	105.5	<b>152.0</b>
Overseas Business	49.0	61.9	57.4	45.6	<b>62.0</b>
<b>Operating Income</b>	7.4	5.1	8.9	3.1	<b>7.0</b>
Domestic Business	5.6	3.5	5.9	1.2	<b>4.2</b>
Overseas Business	1.7	1.5	2.9	1.9	<b>2.8</b>
<b>Ordinary Income</b>	9.4	6.0	9.3	4.1	<b>8.2</b>
<b>Net Income</b>	3.4	(3.9)	4.6	2.4	<b>5.3</b>

## 2. Message from the President

### Sales up, but income down

In the first three quarters under review, consolidated new sales edged up 0.7%, to ¥151,164 million, impacted by a decrease in domestic sales. Unable to recover from a sluggish performance in the first two quarters, we posted disappointing results for the second consecutive quarter. Operating income declined 29.7% year on year, to ¥3,147 million—largely unchanged from the two-quarter period ended June 30—and profit attributable to stockholders of parent company was ¥2,471 million.

There were two main reasons for our continued sluggish performance. The first one was our weak domestic results. Sales in our mainstay HVAC business declined, and operating income fell significantly. The second reason was the sluggish performance of consolidated subsidiary Sakura Bath & Kitchen Products (China). Overall overseas sales increased year on year, with other subsidiaries reporting revenue gains. However, total overseas operating income declined due to the weak results of the Chinese subsidiary: Sakura Bath & Kitchen Products (China).

Because we do not expect a major recovery in the fourth quarter, we have revised our full-year consolidated forecasts for fiscal 2017 (ending December 31, 2017) as follows: net sales of ¥214.0 billion (from the previous forecast of ¥219.0 billion), operating income of ¥7.0 billion (from ¥10.0 billion), and profit attributable to stockholders of parent company of ¥5.3 billion (from ¥6.1 billion).

In our domestic business, sales declined 1.8% year on year, to ¥110,842 million, and operating income fell 43.4%, to ¥1,207 million. By segment, sales in the HVAC business declined 1.0%, to ¥78.2 billion; sales of kitchen appliances edged down 1.3%, to ¥15.1 billion; and sales of housing equipment slipped 5.7%, to ¥8.2 billion. On the earnings side, domestic operating income declined due to the decrease in sales and the effect of surging raw materials prices.

In our overseas business, sales rose 8.6%, to ¥47,725 million, while operating income fell 17.3%, to ¥1,939 million. We enjoyed year-on-year sales growth in all three major regions. Specifically, sales in China rose 8.5%, to ¥32.8 billion; sales in North America climbed 15.4%, to ¥5.8 billion, and sales in Australia increased 17.3%, to ¥5.1 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 growth trajectory by reinforcing our HVAC business and strengthening our overseas business

As indicated by the aforementioned results, there are two reasons for our performance in the three quarters under review: weak domestic results and the sluggish performance of Sakura Bath & Kitchen Products (China). In our domestic business, 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 forge ahead to convert favorable market evaluations into actual sales. Accordingly, we expect our domestic business to rebound in the fourth quarter, when demand is highest for the year. In addition, we have already taken drastic measures to achieve a recovery by Sakura Bath & Kitchen Products (China), the cause of our earnings decline, while working to expand its top-line revenue. These efforts are appearing to bear fruit, with sales in each of the three months of third quarter increasing year on year.

Through the initiatives described above, we will work to achieve growth in 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—Globally Competitive.” 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, 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 September 30, 2017

Millions of yen

	2014	2015	2016	2017 3Q
<b>Fiscal Year:</b>				
Net sales	¥218,943	¥218,909	¥211,872	<b>¥151,164</b>
Operating income	7,407	5,123	8,940	<b>3,147</b>
Operating margin	3.4	2.3	4.2	<b>2.1</b>
Net income	3,479	(3,958)	4,654	<b>2,471</b>
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	<b>6,740</b>
Depreciation and amortization	7,068	7,262	6,903	<b>5,800</b>
<b>At Fiscal Year-End:</b>				
Total assets	¥206,061	¥197,022	¥201,041	<b>¥199,535</b>
Net assets	118,244	113,731	111,477	<b>114,583</b>
<b>Per Share Data (Yen):</b>				
Net income	¥ 72.76	¥ (82.79)	¥ 97.34	<b>¥ 51.69</b>
Cash dividends	32.00	32.00	32.00	—
Net assets	2,372.13	2,291.06	2,245.05	<b>2,308.42</b>
<b>Financial Ratios (%):</b>				
Return on equity (ROE)	3.2	(3.6)	4.3	<b>3.0</b>
Return on assets (ROA)	1.8	(2.0)	2.3	<b>1.6</b>
Equity ratio	55.0	55.6	53.4	<b>55.3</b>