NORITZ

Consolidated Results 2018

1. Consolidated Performance Overview

*** Fiscal 2018 (year ended December 31, 2018): Despite a recovery in the fourth quarter, the Noritz Group posted year-on-year declines in revenue and earnings, impacted by deteriorating market conditions in China and intensifying competition in Japan. Consolidated net sales for the period amounted to ¥209.8 billion, down 2.2% from the previous year. Operating income totaled ¥4.8 billion, down 28.3%.**

- Domestic business: Domestic sales edged down 1.2% year on year to ¥156,996 million (including internal transactions), and operating income declined 35.5% to ¥2,605 million.
- Overseas business: Overseas sales slipped 5.7% to ¥62,213 million (including internal transactions), and operating income fell 17.3% to ¥2,204 million. Sluggish market conditions in China were the main factor behind the decline in our overseas business performance.

Billions of yen

	2015	2016	2017	2018	**2019 (Plan)**
Net Sales	¥218.9	¥211.8	¥214.6	¥209.8	**¥214.5**
Domestic Business*	156.9	154.4	151.7	151.0	**151.0**
Overseas Business*	61.9	57.4	62.8	58.8	**63.5**
Operating Income	5.1	8.9	6.7	4.8	**5.3**
Domestic Business	3.5	5.9	4.0	2.6	**3.0**
Overseas Business	1.5	2.9	2.7	2.2	**2.3**
Ordinary Income	6.0	9.3	8.1	6.2	**6.3**
Net Income attributable to shareholders of parent company	(3.9)	4.6	5.4	5.7	**3.8**

* Does not include figures for internal transactions

2. Message from the President

Declines in sales and income despite recovery in the fourth quarter

In the fiscal year under review, the Noritz Group posted year-on-year declines in consolidated net sales and operating income. In the fourth quarter, our efforts to expand sales of value-added products progressed mostly according to plan. Due to negative growth in the first three quarters, however, full-year net sales and operating income were down. Specifically, consolidated net sales slipped 2.2% year on year to ¥209,868 million and operating income fell 28.3% to ¥4,809 million. Net income attributable to shareholders of parent company increased 5.5% to ¥5,778 million, thanks to extraordinary income in the form of a ¥4.0 billion gain on sales of investment securities.

Domestic sales edged down 1.2% year on year to ¥156,996 million (including internal transactions), and operating income declined 3.5% to ¥2,605 million. During the year, we worked to bolster sales of value-added products and reduce costs, including processing costs and selling and administrative expenses, to compensate for the negative impact of falling product prices stemming from intensified competition, as well as surging prices of copper and other raw materials. As a result, our performance recovered in the fourth quarter, but full-year domestic sales and income were down due to negative growth in the first three quarters. By category, sales in the mainstay Water Heaters segment edged up 0.4% to ¥113.5 billion as a result of increased market share stemming from growth in replacement demand and higher volume sales. However, sales in the Kitchen Appliances segment decreased 6.7% to ¥20.7 billion due to declining demand. Sales in the Housing Equipment segment rose 2.7% to ¥11.5 billion.

In our overseas business, sales decreased 5.7% to ¥62,213 million (including internal transactions) and operating income declined 17.3% to ¥2,204 million. During the year, we promoted the spread of tankless water heaters and worked to expand sales of heating and commercial products. However, we posted year-on-year sales declines in our three major overseas regions, which were also affected by foreign exchange factors. Specifically, we posted sales in China of ¥42.5 billion (down 7.6% year on year), sales in North America of ¥7.6 billion (down 1.4%) and sales in Australia of ¥6.6 billion (down 3.0%). Sluggish market conditions in China were the main factor behind the decline in our overseas business performance.

With respect to shareholder return, we declared an interim dividend of ¥16.00 per share and a year-end dividend of ¥16.00, bringing the total annual dividends to ¥32.00 per share. In addition, we bought back ¥1.3 billion in treasury stock, resulting in a total return ratio of 50%. Given changing social expectations stemming from the formulation of the Corporate Governance Code, we will enhance shareholder returns by delivering a total return ratio of 50% by 2020.

“Noritz Group—Globally competitive”

The Noritz Group is currently implementing its medium-term management plan, called V-plan 20. By fiscal 2020, the final year of the plan, we will strive to realize the plan’s vision, which is “Noritz Group—Globally competitive by 2020.” Specifically, we will focus on core priorities: restructure our business portfolio, enhance the profitability of our domestic business, continuously expand our overseas business and reform our corporate culture.

Despite uncertainties about the business environment in China, we forecast a year-on-year increase in operating income of domestic business in 2019.

In our domestic business, we will increase operating income by improving our product mix and reducing total expenses. Specifically, we will work to reduce bathroom accidents by promoting the spread of monitoring functions of water heater products in the Water Heaters segment, while using AI and IoT technologies to enhance convenience.

In our overseas business, we forecast a slight increase in operating income, based on our careful observation of the situation in the key Chinese market. In January 2019, we acquired PB Heat, LLC, a North American manufacturer of heating equipment. This will add ¥4.3 billion to consolidated net sales, which we forecast will increase 7.9% year on year to ¥63.5 billion. Despite ongoing uncertainty about the future, reflected in the U.S.-China trade war and the slowdown in domestic consumption, we will continue striving to achieve income growth in fiscal 2019.

Guided by the phrase "Bath makes us happy," the maxim of our founder in 1951, we have sought to broaden the Japanese bathing culture and increase people's living standards. That 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. The Noritz Group will continue to make the necessary developments and changes to fulfill your expectations.

3. Consolidated Financial Highlights

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31, 2015, 2016, 2017 and 2018

Millions of yen

	2015	2016	2017	**2018**
Fiscal Year:				
Net sales	¥218,909	¥211,872	¥214,648	**¥209,868**
Operating income	5,123	8,940	6,708	**4,809**
Operating margin (%)	2.3	4.2	3.1	**2.3**
Net income attributable to shareholders of parent company	(3,958)	4,654	5,402	**5,778**
Net cash provided by operating activities	13,116	17,238	8,376	**9,046**
Net cash used in investing activities	(6,346)	(6,423)	(8,574)	**(1,380)**
Net cash used in financing activities	(2,814)	(1,614)	(1,715)	**(1,854)**
Cash and cash equivalents	27,581	35,887	34,283	**38,999**
Capital expenditures	8,359	8,074	7,990	**6,731**
Depreciation and amortization	7,262	6,903	8,093	**6,611**
At Fiscal Year-End:				
Total assets	¥197,022	¥201,041	¥212,491	**¥198,817**
Net assets	113,731	111,477	121,531	**114,053**
Per Share Data (Yen):				
Net income	¥ (82.79)	¥ 97.34	¥ 112.98	**¥ 120.86**
Cash dividend	32.00	32.00	32.00	**32.00**
Net assets	2,291.06	2,245.05	2,451.13	**2,300.99**
Financial Ratios (%):				
Return on equity (ROE)	(3.6)	4.3	4.8	**5.1**
Return on assets (ROA)	(2.0)	2.3	2.6	**2.8**
Equity ratio	55.6	53.4	55.1	**55.3**