

Consolidated Results 2018 2Q

1. Consolidated Performance Overview

* **First two quarters of fiscal 2018 (six months ended June 30, 2018):** The Noritz Group posted year-on-year declines in revenue and earnings. Consolidated net sales for the period amounted to ¥100.8 billion, down 0.9% from the previous corresponding period. Operating income totaled ¥1.8 billion, down 41.0%, and net income attributable to shareholders of the parent company was ¥0.8 billion, down 67.8%.

- Domestic business: Domestic sales edged down 0.9% year on year to ¥74,649 million (including internal transactions), and operating income declined 65.7% to ¥614 million. By category, sales in the Water Heaters segment rose slightly to ¥54.0 billion primarily because of increased volume sales and market share, but sales in the Kitchen Appliances segment decreased 7.3% to ¥9.2 billion. Domestic operating income declined year on year due to sluggish growth of value-added products and the impact of soaring prices of copper and other raw materials.
- Overseas business: Overseas sales slipped 1.4% to ¥30,942 million (including internal transactions), whereas operating income decreased 6.7% to ¥1,197 million. In Australia, we reported a slight increase in sales because of market growth, but sluggish market growth in China, which accounts for around 70% of overseas revenue, led to a decline in total overseas sales. As a result, both overseas revenue and income were down year on year.

	2015	2016	2017	2018 2Q	2018 (Plan)
	Billions of yen				
Net Sales	¥218.9	¥211.8	¥214.6	¥100.8	¥210.0
Domestic Business	156.9	154.4	151.7	71.5	150.0
Overseas Business	61.9	57.4	62.8	29.2	60.0
Operating Income	5.1	8.9	6.7	1.8	5.0
Domestic Business	3.5	5.9	4.0	0.6	2.5
Overseas Business	1.5	2.9	2.7	1.1	2.5
Ordinary Income	6.0	9.3	8.1	2.5	6.5
Net Income attributable to shareholders of parent company	(3.9)	4.6	5.4	0.8	3.2

2. Message from the President

Year-on-year declines in sales and income

In the first two quarters under review, consolidated net sales edged down 0.9% year on year to ¥100.8 billion. Due to the decline in revenue, as well as surging raw materials prices, operating income fell 41.0% to ¥1.8 billion. Net income attributable to shareholders of the parent company was ¥0.8 billion, down 67.8%.

Domestic sales edged down 0.9% year on year to ¥74,649 million (including internal transactions). By category, sales in the Water Heaters segment advanced slightly to ¥54.0 billion due to increased market share stemming from higher volume sales. However, sales in the Kitchen Appliances segment decreased 7.3% to ¥9.2 billion because of declining demand and sluggish growth of high-value-added products. Sales in the Housing Equipment segment rose slightly to ¥5.7 billion.

In our overseas business, sales decreased 1.4% to ¥30,942 million (including internal transactions), and operating income declined 6.7% to ¥1,197 million. By geographic region, we posted sales in China of ¥21.1 billion (down 1.5% year on year), sales in North America of ¥3.8 billion (down 5.3%) and sales in Australia of ¥3.2 billion (up 0.2%). Due to the impact of sluggish market growth in China, which accounts for around 70% of overseas revenue, both overseas revenue and income were down year on year.

Downward revision of full-year forecasts for fiscal 2018

Considering its domestic and overseas results in the two-quarter period under review, the Noritz Group has made a downward revision of its full-year consolidated forecasts for fiscal 2018.

Specifically, our revised forecasts are net sales of ¥210.0 billion (down ¥10.0 billion from the original forecast), operating income of ¥5.0 billion (down ¥3.0 billion) and net income attributable to shareholders of the parent company of ¥3.2 billion.

Reassessment of medium-term management plan, V-plan 20

We also have made the following downward revision of our consolidated forecasts for fiscal 2020, the final year of our current medium-term management plan, V-plan 20.

Our revised forecasts for fiscal 2020 are net sales of ¥220.0 billion (down ¥20.0 billion from the original target), operating income of ¥10.0 billion and net income attributable to shareholders of the parent company of ¥6.5 billion.

We made these revisions given the negative impact of changing business conditions—including foreign exchange factors, surging prices of raw materials, a demand decline in the domestic market and weak market growth in China—as well as our current operations status.

Nevertheless, we have made no changes to the vision of the plan, which is “Noritz Group—globally competitive.” The core priorities of the vision are to restructure our business portfolio, enhance the profitability of our domestic business, continuously expand our overseas business, reform our corporate culture and integrate CSR into management. In our domestic business, which remains sluggish, we will outsource production of system kitchens from April 2019, with the aim of resolutely strengthening our profitability.

To convert fixed costs into variable costs, we have signed a basic memorandum of understanding with Toclas Corporation to transfer the development and production of our system kitchens, which is currently conducted by our consolidated subsidiary Kanto Sangyo Co., Ltd.

However, we will continue to handle sales and after-sales services as usual.

In our overseas business, we will strengthen the appeal of our products with the aim of continuously expanding sales and achieving profit growth.

Change in shareholder return policy

We will also change our shareholder return policy through 2020. Our existing basic policy emphasizes the payment of continuous, stable dividends. To achieve a good balance between our current financial position and future growth potential, however, we have committed to maintaining a total consolidated shareholder return ratio of 50%—including through share buybacks—between now and fiscal 2020. To this end, we will embrace a more proactive approach to returning profits to shareholders.

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 June 30, 2018

Millions of yen

	2015	2016	2017	2018 2Q
Fiscal Year:				
Net sales	¥218,909	¥211,872	¥214,648	¥100,839
Operating income	5,123	8,940	6,708	1,812
Operating margin (%)	2.3	4.2	3.1	1.8
Net income attributable to shareholders of parent company	(3,958)	4,654	5,402	898
Net cash provided by operating activities	13,116	17,238	8,376	8,839
Net cash used in investing activities	(6,346)	(6,423)	(8,574)	(2,570)
Net cash used in financing activities	(2,814)	(1,614)	(1,715)	(811)
Cash and cash equivalents	27,581	35,887	34,283	34,283
Capital expenditures	8,359	8,074	7,990	3,210
Depreciation and amortization	7,262	6,903	8,093	3,053

At Fiscal Year-End:

Total assets	¥197,022	¥201,041	¥212,491	¥203,090
Net assets	113,731	111,477	121,531	120,297

Per Share Data (Yen):

Net income	¥ (82.79)	¥ 97.34	¥ 112.98	¥ 18.79
Cash dividend	32.00	32.00	32.00	16.00
Net assets	2,291.06	2,245.05	2,451.13	

Financial Ratios (%):

Return on equity (ROE)	(3.6)	4.3	4.8	0.7
Return on assets (ROA)	(2.0)	2.3	2.5	0.4
Equity ratio	55.6	53.4	55.1	57.2