

# Consolidated Results 2018 3Q

## 1. Consolidated Performance Overview

\* First three quarters of fiscal 2018 (nine months ended September 30, 2018): While performing mostly according to plan, the Noritz Group posted year-on-year declines in revenue and earnings due to deterioration of product mix and worsening market conditions in China. Consolidated net sales for the period amounted to ¥147.8 billion, down 2.2% from the previous corresponding period. Operating income totaled ¥1.2 billion, down 60.1%.

- Domestic business: In Japan, we performed mostly according to plan. Domestic sales edged down 1.4% year on year to ¥109,301 million (including internal transactions), and the operating loss was ¥256 million, compared with operating income of ¥1,207 million in the previous corresponding period. Despite growth in volume sales and market share, both revenue and income declined due to deterioration of product mix.
- Overseas business: Overseas, we performed mostly according to plan. Sales declined 4.8% to ¥45,426 million (including internal transactions) and operating income decreased 22.0% to ¥1,512 million. Despite worsening market conditions in China, sales in North America and Australia remained mostly unchanged from the previous corresponding period.

|  | 2015            | 2016   | 2017   | 2018 3Q | 2018 (Plan)   |
|--|-----------------|--------|--------|---------|---------------|
|  | Billions of yen |        |        |         |               |
| <b>Net Sales</b>   | ¥218.9          | ¥211.8 | ¥214.6 | ¥147.8  | <b>¥210.0</b> |
| Domestic Business  | 156.9           | 154.4  | 151.7  | 104.7   | <b>150.0</b>  |
| Overseas Business  | 61.9            | 57.4   | 62.8   | 43.0    | <b>60.0</b>   |
| <b>Operating Income</b>  | 5.1             | 8.9    | 6.7    | 1.2     | <b>5.0</b>    |
| Domestic Business  | 3.5             | 5.9    | 4.0    | (0.2)   | <b>2.5</b>    |
| Overseas Business  | 1.5             | 2.9    | 2.7    | 1.5     | <b>2.5</b>    |
| <b>Ordinary Income</b>   | 6.0             | 9.3    | 8.1    | 2.3     | <b>6.5</b>    |
| <b>Net Income attributable to shareholders of parent company</b> | (3.9)           | 4.6    | 5.4    | 0.5     | <b>3.2</b>    |

## 2. Message from the President

### Year-on-year declines in sales and income

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In the first three quarters under review, the Noritz Group performed mostly according to plan. However, consolidated net sales declined 2.2% year on year to ¥147,837 million and operating income fell 60.1% to ¥1,256 million, reflecting the impact of deteriorating product mix in Japan and weak market conditions in China. Net income attributable to shareholders of the parent company was ¥514 million, down 79.2%.

Domestic sales decreased 1.4% year on year to ¥109,301 million (including internal transactions). In the mainstay Water Heaters segment, we enjoyed growth in market share stemming from higher replacement demand and volume sales. Due to sluggish sales of high-value-added products, however, segment sales edged up just 0.1%, to ¥78.3 billion. In the Kitchen Appliances segment, sales declined 7.3% to ¥14.0 billion, due to sluggish growth of high-value-added products. Sales in the Housing Equipment segment rose 2.7% to ¥8.5 billion.

In our overseas business, sales decreased 4.8% to ¥45,426 million (including internal transactions), and operating income declined 22.2% to ¥1,512 million. By geographic region, we posted sales in China of ¥30.7 billion (down 6.3% year on year), sales in North America of ¥5.7 billion (down 2.1%) and sales in Australia of ¥5.0 billion (down 3.0%). Due to the impact of sluggish market growth in China, which accounts for around 70% of overseas sales, both overseas revenue and income were down year on year.

### Stronger Kitchen Appliances business and launch of strategic products in China signal return to growth trajectory

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The Noritz Group is working to expand sales through the launch of new products, with the aim of overcoming problems faced in the three-quarter period under review. In our domestic business, we are improving our product mix by releasing value-added products. In the Kitchen Appliances segment, we unveiled a mid-range gas built-in cooker—the first to feature our high-end “multi-grill” function—which is bolstering segment sales. We are also stepping up efforts to expand sales in the peak-demand fourth quarter through exhibitions and other initiatives.

In China, where our performance led to year-on-year declines in overseas revenue and income, Noritz (China) Co., Ltd. in September 2018 launched a series of next-generation water heaters that are safe and reliable and fully conform to environmental regulations. In these and other ways, we will expedite efforts to recover our overseas business.

Through the aforementioned efforts, we have made our full-year forecast as follows: Net sales of ¥210.0 billion (down 2.2% year on year), operating income of ¥5.0 billion (down 25.5%), ordinary income of ¥6.5 billion (down 19.7%), and net income attributable to shareholders of the parent company of ¥3.2 billion (down 40.8%).

### Transition from “company with Board of Corporate Auditors” to “company with audit and other committees”

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The Company has worked to strengthen its corporate governance structure by appointing multiple outside directors and establishing voluntary nomination and compensation advisory committees. Seeking to further enhance the effectiveness of corporate governance and improve corporate value over the medium and long terms, we decided to transition from a “company with a Board of Corporate Auditors” to a “company with audit and other committees.” By conferring voting rights at Board of Directors’ meetings to directors who are members of audit and other committees, we aim to strengthen the auditing and supervisory functions of the Board of Directors, while at the same time speeding up decision-making and further enhancing deliberations based on medium- and long-term perspectives.

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 September 30, 2018

Millions of yen

|   | 2015     | 2016     | 2017     | 2018 3Q         |
|---|----------|----------|----------|-----------------|
| <b>Fiscal Year:</b>                                       |          |          |          |                 |
| Net sales   | ¥218,909 | ¥211,872 | ¥214,648 | <b>¥147,837</b> |
| Operating income  | 5,123    | 8,940    | 6,708    | <b>1,256</b>    |
| Operating margin (%)                                      | 2.3      | 4.2      | 3.1      | <b>0.8</b>      |
| Net income attributable to shareholders of parent company | (3,958)  | 4,654    | 5,402    | <b>514</b>      |
| Net cash provided by operating activities                 | 13,116   | 17,238   | 8,376    | —               |
| Net cash used in investing activities                     | (6,346)  | (6,423)  | (8,574)  | —               |
| Net cash used in financing activities                     | (2,814)  | (1,614)  | (1,715)  | —               |
| Cash and cash equivalents                                 | 27,581   | 35,887   | 34,283   | <b>32,806</b>   |
| Capital expenditures                                      | 8,359    | 8,074    | 7,990    | <b>4,922</b>    |
| Depreciation and amortization                             | 7,262    | 6,903    | 8,093    | <b>4,613</b>    |

#### At Fiscal Year-End:

|              |          |          |          |                 |
|--------------|----------|----------|----------|-----------------|
| Total assets | ¥197,022 | ¥201,041 | ¥212,491 | <b>¥200,764</b> |
| Net assets   | 113,731  | 111,477  | 121,531  | <b>118,688</b>  |

#### Per Share Data (Yen):

|               |           |          |          |                |
|---------------|-----------|----------|----------|----------------|
| Net income    | ¥ (82.79) | ¥ 97.34  | ¥ 112.98 | <b>¥ 10.76</b> |
| Cash dividend | 32.00     | 32.00    | 32.00    | <b>16.00</b>   |
| Net assets    | 2,291.06  | 2,245.05 | 2,451.13 |                |

#### Financial Ratios (%):

|                        |       |      |      |             |
|------------------------|-------|------|------|-------------|
| Return on equity (ROE) | (3.6) | 4.3  | 4.8  | <b>0.6</b>  |
| Return on assets (ROA) | (2.0) | 2.3  | 2.5  | <b>0.3</b>  |
| Equity ratio           | 55.6  | 53.4 | 55.1 | <b>57.1</b> |