Consolidated Results 2019 4Q

1. Consolidated Performance Overview for January to December 2019

In fiscal 2019, while both domestic and overseas business (especially in China) were affected by the sluggish market conditions, in the domestic business, our share in the water heaters market increased and our selling prices for the water heaters improved as well as in the overseas to reduce total costs in the fourth quarter. However, the results were severe, with the Noritz Group posting declines in both sales and income. Net sales for the period amounted to ¥208.3 billion, down 0.7% from the previous corresponding period. Operating income was ¥2.6 billion, down 44.0%, ordinary income was ¥3.4 billion, down 45.1%, and net income attributable to shareholders of parent company was ¥1.5 billion, down 73.8% from the previous corresponding period.
With respect to shareholder return, we have committed 50% of ¥3.8 billion (equivalent to the estimated net income attributable to shareholders of parent company for the fiscal 2019 that we had announced at the beginning of the year) as the lowest level of total return ratio. Accordingly, we plan to pay an interim dividend of ¥16.00 and a year-end dividend of ¥16.00, bringing the total annual dividends to ¥32.00 and total dividends payment of approximately ¥1.5 billion. In addition, we plan to buy back ¥0.4 billion in treasury stock in the fiscal 2020.

Billions of yen

	2016	2017	2018	2019	**2020 (Plan)**
Net Sales	¥211.8	¥214.6	¥209.8	¥208.3	**¥190.0**
Domestic Business*	154.4	151.7	151.0	149.8	**135.0**
Overseas Business*	57.4	62.8	58.8	58.5	**55.0**
Operating Income	8.9	6.7	4.8	2.6	**2.8**
Domestic Business	5.9	4.0	2.6	2.3	**2.5**
Overseas Business	2.9	2.7	2.2	0.2	**0.3**
Ordinary Income	9.3	8.1	6.2	3.4	**3.6**
Net Income attributable to shareholders of parent company	4.6	5.4	5.7	1.5	**(4.6)**

*Does not include figures for internal transactions

2. Explanation by Segment

Domestic business: In our domestic business, both sales and income declined, with net sales decreasing 0.4% year on year to ¥156.3 billion (including internal transactions), and segment income decreasing 8.0% year on year to ¥2.3 billion. While, due to a significant decline in demand for water heaters, we posted a segment loss for the first half of the fiscal 2019. However, the segment profit for the second half exceeded the segment profit for the same period of the previous fiscal year, reflecting our efforts to reduce the total costs, such as by cutting expenses, and to improve our selling prices. In our mainstay Water Heaters section, there was a last-minute demand prior to the hike in the consumption tax; however, affected by the significant fall in demand in the first half, demand for water heaters decreased 4.9% to 3,057 thousand units. As a result, our unit sales declined 2.7% to 1,182 thousand units, and net sales declined 2.0% to ¥111.2 billion; provided, however, that our market share increased 0.9 points to 38.7%. In the Kitchen Appliances section, as demand for built-in gas cookers rose 2.4% to 1,392 thousand units reflecting the last-minute demand prior to the hike in the consumption tax, unit sales increased 1.7% to 397 thousand units, while net sales rose 3.6% year on year to ¥21.5 billion. Sales in the Housing Equipment section rose 5.4%, and amounted to ¥12.1 billion.

Overseas business: In our overseas business, net sales decreased 0.9% year on year to ¥61.6 billion (including internal transactions), and a segment income dropped 86.5% to ¥0.2 billion, as market conditions in China continued to be sluggish, affected by trade friction between the U.S. and China. Although we strove to promote the spread of tankless water heaters and expand sales of heating and commercial products, sales in the China area declined 10.9% year on year to ¥37.9 billion. In North America sales rose 65.5% to ¥12.5 billion, buoyed by M&A activities, and in Australia sales declined 4.9% to ¥6.3 billion, affected by foreign exchange factors. It is especially notable that China accounts for a large portion of our overseas sales, and that the significant decline in sales in China affected by its sluggish market conditions, has made a tremendous impact upon the performance of our entire overseas business.

Fiscal 2020 Performance Outlook

We will make the fiscal 2020 as a year of a structural reforms phase, making a significant step forward to the future, and we will reform our revenue structure and business models, thereby enhancing our corporate value. In our domestic business, we will strengthen our revenue capacity by; soliciting voluntary retirement; reducing our fixed costs for the purpose of executing structural reforms focusing on withdrawal from unprofitable Housing Equipment section (although such withdrawal will cause a significant decline in our sales); concentrating our business domain on Water Heaters section and Kitchen Appliances section in which we can exercise our core competence. In particular, we will make use of our inspection advice system toward our customers on aged deterioration of our products, and explore and exclusively acquire the replacement demand generated by our safety and reliability inspections. In addition, we will expand the sales by effectively using our strength in commercial water heaters.

In our overseas business, it is still unclear to see the extent of effects by spread of infectious coronavirus disease (COVID-19) in the China area. However, we will strive to strengthen our revenue capacity by structural reforms which we have implemented since latter half of last year, and in the North American area we will endeavor to raise synergy with our local company and expand sales in heating and commercial products. Also, we will invest in the Vietnam Australia Refrigeration Electrical Engineering Group in Vietnam, and endeavor to expand sales channels to participate in new markets in Southeast Asia.

Since we will provide, as part of implementation of structural reforms, preferential treatments to those employees opting to make voluntary retirement, we will incur temporary expenses. As a result, our net income attributable to shareholders of parent company is expected to be net loss.

3. Consolidated Financial Highlights

Noritz Corporation and Consolidated Subsidiaries Years ended December 31, 2016, 2017, 2018 and 2019

Millions of yen

	2016	2017	2018	**2019**
Fiscal Year:				
Net sales	¥211,872	¥214,648	¥209,868	**¥208,396**
Operating income	8,940	6,708	4,809	**2,693**
Operating margin (%)	4.2	3.1	2.3	**1.3**
Net income attributable to shareholders of parent company	4,654	5,402	5,778	**1,512**
Net cash provided by operating activities	17,238	8,376	9,046	**6,138**
Net cash used in investing activities	(6,423)	(8,574)	(1,380)	**(11,304)**
Net cash used in financing activities	(1,614)	(1,715)	(1,854)	**(2,802)**
Cash and cash equivalents	35,887	34,283	38,999	**30,826**
Capital expenditures	8,074	7,990	6,731	**7,419**
Depreciation and amortization	6,903	8,093	6,611	**7,083**
At Fiscal Year-End:				
Total assets	¥201,041	¥212,491	¥198,728	**¥199,305**
Net assets	111,477	121,531	114,053	**114,801**
Per Share Data (Yen):				
Net income	¥ 97.34	¥ 112.98	¥ 120.86	**¥31.75**
Cash dividend	32.00	32.00	32.00	**32.00**
Net assets	2,245.05	2,451.13	2,300.99	**2,359.80**
Financial Ratios (%):				
Return on equity (ROE)	4.3	4.8	5.1	**1.4**
Return on assets (ROA)	2.3	2.6	2.8	**0.8**
Equity ratio	53.4	55.1	55.4	**55.7**