NORITZ

Consolidated Results 2019 1Q

1. Consolidated Performance Overview

* Declines in both domestic and overseas sales and income in the first quarter of fiscal 2019 (three months ended March 31, 2019)

Declines in sales and income in the first quarter under review

- In the first quarter under review, consolidated net sales declined 5.0% year on year to ¥50.8 billion against the backdrop of harsh domestic and overseas operating environments.
- From a profit perspective, year-on-year operating income and ordinary income fell 66.1% to ¥0.7 billion and 65.9% to ¥0.7 billion, respectively. Meanwhile, net income attributable to shareholders of parent company dropped 76.0% year on year to ¥0.3 billion.

Billions of yen

	2016	2017	2018	2019 1Q	**2019 (Plan)**
Net Sales	¥211.8	¥214.6	¥209.8	¥50.8	**¥214.5**
Domestic Business*	154.4	151.7	151.0	36.8	**151.0**
Overseas Business*	57.4	62.8	58.8	13.9	**63.5**
Operating Income	8.9	6.7	4.8	0.7	**5.3**
Domestic Business	5.9	4.0	2.6	0.5	**3.0**
Overseas Business	2.9	2.7	2.2	0.1	**2.3**
Ordinary Income	9.3	8.1	6.2	0.7	**6.3**
Net Income attributable to shareholders of parent company	4.6	5.4	5.7	0.3	**3.8**

* Does not include figures for internal transactions

2. Message from the President

Declines in sales and income in the domestic business due to the substantial slump in water heater equipment demand

In our domestic business, both sales and income declined. Despite a solid performance, sales to external customers decreased 5.9% year on year to ¥38.4 billion. This was largely due to a greater than expected substantial downturn in water heater equipment demand. Reflecting this drop in sales, operating income fell 64.0% year on year to ¥0.5 billion. By category, sales in the Water Heaters segment fell 8.3% to ¥28.0 billion. Sales in the Kitchen Appliances segment contracted 2.6% to ¥4.7 billion. Sales in the Housing Equipment segment increased 3.4% to ¥2.8 billion..

Again, in the Water Heaters segment, we worked diligently to secure unit sales while maintaining selling prices. As a result, successful steps were taken to increase our market share despite a harsh operating environment. While firm trends in the number of new housing starts helped trigger growth in new construction delivery demand, replacement demand-based unit sales, which accounts for more than 70% of the overall total, declined markedly. Buffeted by a difficult environment and 14% downturn in water heater equipment demand in the first quarter under review, sales in this segment fell below the level recorded in the previous year. In the Kitchen Appliances segment, results in terms of both sales and units increased. This was largely due to the focus placed on expanding sales of the new "piatto" series of middle-end products, equipped with a high-end popular multi-grill, released in August 2018. Sales in the Housing Equipment segment improved owing to an upswing in unit sales of kitchen systems. Under the business alliance formed with Toclas Corporation, we also began supplying certain components and materials for use in the production of unit bath walls and self-cleaning bathtubs. At the same time, we made steady progress with preparations to undertake the contract production of kitchen systems for this alliance partner.

Declines in sales and income in the overseas business owing mainly to sluggish results in China and the impact of temporary M&A costs

In our overseas business, both sales and income declined. Sales to external customers performed solidly despite edging down 1.7% year on year to ¥14.8 billion. This partly reflected signs that trade friction between the U.S. and China was having an impact. Overseas operating income for the first quarter dropped 71.2% year on year to ¥0.1 billion. By geographic region, we posted sales in China of ¥8.8 billion (down 13.2% year on year), sales in North America of ¥3.1 billion (up 52.3%) and sales in Australia of ¥1.4 billion (down 2.7%). Noritz America posted an increase in sales on the back of a robust market in North America. Sales also increased following the acquisition of PB Heat, LLC, a North American manufacturer of heating equipment, in January 2019, and its inclusion in the Company's scope of consolidation from the first quarter. However, income declined after incurring temporary M&A costs. Turning to China, which accounts for the largest portion of the Company's overseas operations, sales and income declined. This was mainly due to the impact of trade friction between the U.S. and China resulting in a downturn in market conditions. Taking into consideration each of these factors, Noritz reported declines in both sales in income across its overseas business as a whole.

3. Consolidated Financial Highlights

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

Millions of yen

	2016	2017	2018	**2019 1Q**
Fiscal Year:				
Net sales	¥211,872	¥214,648	¥209,868	**¥ 50,810**
Operating income	8,940	6,708	4,809	**711**
Operating margin (%)	4.2	3.1	2.3	**1.3**
Net income attributable to shareholders of parent company	4,654	5,402	5,778	**325**
Net cash provided by operating activities	17,238	8,376	9,046	
Net cash used in investing activities	(6,423)	(8,574)	(1,380)	
Net cash used in financing activities	(1,614)	(1,715)	(1,854)	
Cash and cash equivalents	35,887	34,283	38,999	
Capital expenditures	8,074	7,990	6,731	**1,375**
Depreciation and amortization	6,903	8,093	6,611	**1,443**
At Fiscal Year-End:				
Total assets	¥201,041	¥212,491	¥198,817	**¥197,956**
Net assets	111,477	121,531	114,053	**115,637**
Per Share Data (Yen):				
Net income	¥ 97.34	¥ 112.98	¥ 120.86	**¥ 6.81**
Cash dividend	32.00	32.00	32.00	**–**
Net assets	2,245.05	2,451.13	2,300.99	
Financial Ratios (%):				
Return on equity (ROE)	4.3	4.8	5.1	**1.2**
Return on assets (ROA)	2.3	2.6	2.8	
Equity ratio	53.4	55.1	55.3	**56.3**