

# Consolidated Results 2019 2Q

## 1. Consolidated Performance Overview for January to June 2019

In the first two quarters of fiscal 2019 (six months ended June 30, 2019), the Noritz Group strived to reduce total expenses, although a decline in sales made it impossible to cover for falling gross income, and the Company posted an operating loss. This was the first time for operating income, which expresses profitability in our core business, to fall into deficit since the Company became listed. This came amidst net sales for the period that amounted to ¥95.5 billion, down 5.3% from the previous corresponding period. Operating loss was ¥0.5 billion, ordinary loss was ¥0.3 billion, and net loss attributable to shareholders of the parent company amounted to ¥0.9 billion. The primary factor contributing to such severe conditions was the impact of stagnating market conditions in our mainstay segments in both domestic and overseas businesses. This included a dramatic year-on-year decline of 90% in demand in the Water Heaters segment, which represents flagship products for the domestic business, as well as sluggish market conditions in China, attributable to trade friction between the U.S. and China, which hit our overseas business.

	2016	2017	2018	2019 2Q	Billions of yen <b>2019 (Plan)</b>
<b>Net Sales</b>	¥211.8	¥214.6	¥209.8	¥95.5	<b>¥203.0</b>
Domestic Business*	154.4	151.7	151.0	67.6	<b>145.5</b>
Overseas Business*	57.4	62.8	58.8	27.9	<b>57.5</b>
<b>Operating Income</b>	8.9	6.7	4.8	(0.5)	<b>1.5</b>
Domestic Business	5.9	4.0	2.6	(0.2)	<b>1.2</b>
Overseas Business	2.9	2.7	2.2	(0.2)	<b>0.3</b>
<b>Ordinary Income</b>	9.3	8.1	6.2	(0.3)	<b>2.5</b>
<b>Net Income attributable to shareholders of parent company</b>	4.6	5.4	5.7	(0.9)	<b>1.1</b>

\*Does not include figures for internal transactions

## 2. Explanation by Segment

Domestic business: In our domestic business, both sales and income declined. Net sales decreased 5.2% year on year to ¥70.7 billion (including internal transactions), and the segment loss was ¥0.2 billion. In our mainstay Water Heaters segment, demand for water heaters fell precipitously, by 90% year on year, which resulted in a 6.7% decline in unit sales, to 555 thousand units. Net sales fell 7.3%, to ¥50.1 billion, although we expanded our share of the market. Sales in the Kitchen Appliances segment edged up 2.2% over the previous fiscal year, to ¥9.4 billion. Sales in the Housing Equipment segment were essentially unchanged, and amounted to ¥5.6 billion. We worked diligently at reducing total costs, such as by cutting selling and administrative expenses, so as to offset the major decline in water heater demand that resulted in lower unit sales, however, we posted a segment loss.

Overseas business: In our overseas business, net sales decreased 5.3%, to ¥29.3 billion (including internal transactions), and we posted a segment loss of ¥0.2 billion. By geographic region, sales in the China area declined 15.7% year on year, to ¥17.8 billion, in North America sales rose 54.2%, to ¥5.9 billion, buoyed by M&A activities, and Australia was on par with the previous fiscal year, at ¥3.2 billion. Due to the impact of trade friction between the U.S. and China, market conditions in China, which accounts for approximately 70% of sales in the overseas business, continued to be sluggish from the first quarter, and buffeted by that impact, we posted a segment loss.

### Fiscal 2019 Performance Forecast Revisions and Outlook

In light of domestic and overseas conditions in the first two quarters (January to June), on July 10 we revised our performance forecast for fiscal 2019. We revised net sales down ¥11.5 billion from initial projections, to ¥203.0 billion, and operating income down ¥3.8 billion, to ¥1.5 billion. In line with these revisions, we lowered our respective forecasts for ordinary income (¥2.5 billion) and net income attributable to shareholders of the parent company (¥1.1 billion). Based on domestic Water Heaters segment demand continuing on from the first half, we revised the existing year-on-year projection of 97% down to 92%. Given market conditions in China that have deteriorated more than anticipated, we lowered our year-on-year net sales plans for the China area by 86% from the previous year's levels.

In the domestic business, it will be difficult for Water Heaters segment demand to benefit from last minute demand prior to a hike in the consumption tax, and as market sluggishness is ongoing, we are working to raise productivity and are moving forward on advance planning to reduce fixed costs, such as by cutting selling and administrative expenses. In the overseas business, we are endeavoring to boost net sales, curbing the decline in sales by expanding sales channels and increasing sales of new products in the China area, and raising synergies with the heating products business held by the subsidiary acquired in the North American area, and the commercial products business.

### 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 2Q
<b>Fiscal Year:</b>				
Net sales	¥211,872	¥214,648	¥209,868	<b>¥ 92,528</b>
Operating income	8,940	6,708	4,809	<b>(535)</b>
Operating margin (%)	4.2	3.1	2.3	—
Net income attributable to shareholders of parent company	4,654	5,402	5,778	<b>(956)</b>
Net cash provided by operating activities	17,238	8,376	9,046	<b>1,574</b>
Net cash used in investing activities	(6,423)	(8,574)	(1,380)	<b>(8,600)</b>
Net cash used in financing activities	(1,614)	(1,715)	(1,854)	<b>(765)</b>
Cash and cash equivalents	35,887	34,283	38,999	<b>31,044</b>
Capital expenditures	8,074	7,990	6,731	<b>3,210</b>
Depreciation and amortization	6,903	8,093	6,611	<b>3,411</b>

#### At Fiscal Year-End:

Total assets	¥201,041	¥212,491	¥198,817	<b>¥188,905</b>
Net assets	111,477	121,531	114,053	<b>111,110</b>

#### Per Share Data (Yen):

Net income	¥ 97.34	¥ 112.98	¥ 120.86	<b>¥ (20.01)</b>
Cash dividend	32.00	32.00	32.00	<b>16.00</b>
Net assets	2,245.05	2,451.13	2,300.99	

#### Financial Ratios (%):

Return on equity (ROE)	4.3	4.8	5.1	—
Return on assets (ROA)	2.3	2.6	2.8	—
Equity ratio	53.4	55.1	55.3	<b>56.7</b>