

Consolidated Results 2019 3Q

1. Consolidated Performance Overview for January to September 2019

The Noritz Group's domestic business in the first three quarters of fiscal 2019 (nine months ended September 30, 2019) returned a third-quarter profit for the first time in two fiscal years, thanks to improved revenue due to a last-minute demand prior to the hike in the consumption tax in the third quarter, and the effect of the reduction in total costs continuing from the first half of the fiscal year. The overseas business, however, was affected by performance in the China area, which did not recover amidst the continuing sluggish market conditions due to trade friction between the U.S. and China. As a result, net sales for the period amounted to ¥146.8 billion, down 0.7% from the previous corresponding period. Operating loss was ¥0.2 billion, ordinary income was ¥0.1 billion, down 93.3% from the previous corresponding period, and net loss attributable to shareholders of the parent company amounted to ¥0.7 billion.

	Billions of yen				
	2016	2017	2018	2019 3Q	2019 (Plan)
Net Sales	¥211.8	¥214.6	¥209.8	¥146.8	¥203.0
Domestic Business*	154.4	151.7	151.0	104.4	145.5
Overseas Business*	57.4	62.8	58.8	42.3	57.5
Operating Income	8.9	6.7	4.8	(0.2)	1.5
Domestic Business	5.9	4.0	2.6	0.0	1.2
Overseas Business	2.9	2.7	2.2	(0.3)	0.3
Ordinary Income	9.3	8.1	6.2	0.1	2.5
Net Income attributable to shareholders of parent company	4.6	5.4	5.7	(0.7)	1.1

*Does not include figures for internal transactions

2. Explanation by Segment

Domestic business: In our domestic business, sales declined and income rose. While net sales decreased 0.1% year on year to ¥109.1 billion (including internal transactions), segment income improved to ¥94 million (compared with segment loss of ¥0.2 billion for the same period of the previous fiscal year) as a result of our efforts to reduce total costs, such as by cutting selling and administrative expenses, offsetting the lower unit sales of water heaters. In our mainstay Water Heaters section, there was a last-minute demand prior to the hike in the consumption tax; however, that did not make up for the significant fall in demand in the first half. As a result, demand for water heaters decreased 5.6% to 2,184 thousand units. However, our unit sales made a good showing, declining only 1.6% to 835 thousand units, and net sales dropped just 2.5% to ¥76.3 billion, effectively expanding the market share. In the Kitchen Appliances section, demand for built-in gas cookers rose 7.7% to 1,022 thousand units reflecting the last-minute demand prior to the hike in the consumption tax, and unit sales increased 2.4% to 282 thousand units while net sales rose 9.5% year on year to ¥15.3 billion. Sales in the Housing Equipment section rose 6.8%, and amounted to ¥9.0 billion.

Overseas business: In our overseas business, net sales decreased 2.2%, to ¥44.4 billion (including internal transactions), and we posted a segment loss of ¥0.3 billion (compared with segment income of ¥1.5 billion for the same period of the previous fiscal year), as market conditions in China continued to be sluggish, affected by trade friction between the U.S. and China. By geographic region, sales in the China area declined 11.5% year on year, to ¥27.2 billion, in North America sales rose 57.2%, to ¥8.9 billion, buoyed by M&A activities, and in Australia sales declined 3.4%, to ¥4.8 billion.

Fiscal 2019 Performance Forecast Revisions and Outlook

The performance forecast for fiscal 2019, which was revised downward on July 10, of net sales of ¥203.0 billion, operating income of ¥1.5 billion, ordinary income of ¥2.5 billion and net income attributable to shareholders of parent company of ¥1.1 billion, is expected to be achieved. In the domestic business, annual market demand for water heaters fell to 92% of the previous year's level. As such market sluggishness is ongoing, we will strive to raise productivity, and reduce fixed costs mainly 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, 2016, 2017 and 2018

Millions of yen

	2016	2017	2018	2019 3Q
Fiscal Year:				
Net sales	¥211,872	¥214,648	¥209,868	¥146,815
Operating income	8,940	6,708	4,809	(238)
Operating margin (%)	4.2	3.1	2.3	—
Net income attributable to shareholders of parent company	4,654	5,402	5,778	(714)
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	6,220
Depreciation and amortization	6,903	8,093	6,611	4,693
At Fiscal Year-End:				
Total assets	¥201,041	¥212,491	¥198,817	¥187,758
Net assets	111,477	121,531	114,053	110,089
Per Share Data (Yen):				
Net income	¥ 97.34	¥ 112.98	¥ 120.86	(14.95)
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	—
Return on assets (ROA)	2.3	2.6	2.8	—
Equity ratio	53.4	55.1	55.3	56.6