Consolidated Results 2020 1Q

1. Consolidated Performance Overview for January to March 2020

* Domestic sales decline and income increase and overseas declines in both sales and income in the first quarter of fiscal 2020 (three months ended March 31, 2020)

Declines in sales and income in the first quarter under review

In the first quarter under review, an uncertain outlook unfolded for business activities and employment due to the spread of novel coronavirus (COVID-19) in the Japanese economy. Meanwhile, the overseas operating environment is extremely severe as the rapid spread of COVID-19 is significantly restraining economic activity, and it is still uncertain when the pandemic will end. Against that backdrop, consolidated net sales declined 12.1% year on year to ¥44.6 billion. From a profit perspective, operating loss was ¥0.4 billion and ordinary loss was ¥0.2 billion. Moreover, due to the recording of extraordinary losses of ¥8.8 billion from the call for voluntary retirement as part of the structural reforms carried out in the domestic business from the fiscal year under review, net loss attributable to shareholders of parent company was ¥6.4 billion.

Billions of yen

	2017	2018	2019	2020 1Q	**2020 (Plan)**
Net Sales	¥214.6	¥209.8	¥208.3	44.6	**¥190.0**
Domestic Business*	151.7	151.0	149.8	35.8	**135.0**
Overseas Business*	62.8	58.8	58.5	8.8	**55.0**
Operating Income	6.7	4.8	2.6	(0.4)	**2.8**
Domestic Business	4.0	2.6	2.3	0.6	**2.5**
Overseas Business	2.7	2.2	0.2	(1.0)	**0.3**
Ordinary Income	8.1	6.2	3.4	(0.2)	**3.6**
Net Income attributable to shareholders of parent company	5.4	5.7	1.5	(6.4)	**(4.6)**

*Does not include figures for internal transactions

No revisions have been made to fiscal 2020 performance outlook announced on February 13, 2020 because it is difficult to reasonably estimate the impact of COVID-19 at this point in time.

2. Explanation by Segment

Decline in sales but increase in income in the domestic business with COVID-19-caused delivery delays kept to a minimum

In our domestic business segment, we were able to minimize delays in parts procurement arising from the suspension of economic activities caused by the spread of COVID-19 in China. While water heater equipment demand continued to fall from the previous year, we achieved solid sales of ¥37.4 billion, down 2.4% year on year. Furthermore, through cost-saving efforts, segment income increased 20.2% year on year to ¥0.6 billion. By category, sales in the Water Heaters section rose 0.0% to ¥28.0 billion, sales in the Kitchen Appliances section contracted 8.4% to ¥4.3 billion, and sales in the Housing Equipment section decreased 22.0% to ¥2.2 billion because of the suspension of orders due to business withdrawal as part of the domestic business reforms. Again, in the Water Heaters section, we worked diligently to secure unit sales while maintaining selling prices despite the difficult business environment, and relinquished only a minor drop in market share. A downward trend in the number of new housing starts pushed down new construction delivery demand, while replacement demand, which accounts for more than 70% of the overall total unit sales, slightly increased, thereby enabling sales on par year on year despite a 2% slump in water heater equipment demand for the first quarter under review. In the Kitchen Appliances section, we were unable to achieve growth in either sales or unit sales, despite a concentrated focus and expanded marketing for sales of the new middle-end gas cooker, equipped with a multi-grill popular for high-end products.

Declines in sales and income in the overseas business owing to demand slump from restricted economic activity caused by COVID-19

In our overseas business segment, both sales and income declined significantly. Sales dropped 34.3% year on year to ¥9.7 billion, buffeted by weaker demand from constraints on economic activity due to the spread of COVID-19 in China. As a result, segment loss was ¥1.0 billion. By geographic region, we posted sales in China of ¥4.0 billion, down 45% year on year, sales in North America were level year on year at ¥3.1 billion and sales in Australia were down 6% to ¥1.3 billion due to the weaker Australian dollar. In North America, Noritz America enjoyed robust sales for new products but sales from PB Heat, LLC, a manufacturer of heating equipment acquired in 2019, declined year on year due to the warmer winter. Turning to China, which accounts for the largest portion of the Company's overseas operations, concerted efforts were made to reduce fixed costs through structural reforms and online sales were boosted but business activities were curtailed by the spread of COVID-19.

3. Consolidated Financial Highlights

Noritz Corporation and Consolidated Subsidiaries Years ended December 31, 2017, 2018, 2019 and 2020

Millions of yen

	2017	2018	2019	**2020 1Q**
Fiscal Year:				
Net sales	¥214,648	¥209,868	¥208,396	**¥44,681**
Operating income	6,708	4,809	2,693	**(455)**
Operating margin (%)	3.1	2.3	1.3	–
Net income attributable to shareholders of parent company	5,402	5,778	1,512	**(6,487)**
Net cash provided by operating activities	8,376	9,046	6,138	–
Net cash used in investing activities	(8,574)	(1,380)	(11,304)	–
Net cash used in financing activities	(1,715)	(1,854)	(2,802)	–
Cash and cash equivalents	34,283	38,999	30,826	–
Capital expenditures	7,990	6,731	7,419	**1,704**
Depreciation and amortization	8,093	6,611	7,083	**1,723**
At Fiscal Year-End:				
Total assets	¥212,491	¥198,728	¥199,305	**¥186,384**
Net assets	121,531	114,053	114,801	**102,695**
Per Share Data (Yen):				
Net income	¥ 112.98	¥ 120.86	¥31.75	–
Cash dividend	32.00	32.00	32.00	–
Net assets	2,451.13	2,300.99	2,359.80	–
Financial Ratios (%):				
Return on equity (ROE)	4.8	5.1	1.4	–
Return on assets (ROA)	2.6	2.8	0.8	–
Equity ratio	55.1	55.4	55.7	**53.2**