

Consolidated

Results

2020 2Q

1. Consolidated Performance Overview for January to June 2020

* Domestic sales decline and income increase and overseas declines in both sales and income in the first two quarters of fiscal 2020 (six months ended June 30, 2020)

Operating loss kept to minimum in the second quarter despite significant decline in sales due to COVID-19

During the first two quarters of fiscal 2020 (six months ended June 30, 2020), Japan's economy was severely restricted by the nationwide declaration of a state of emergency in response to the spread of infection of the novel coronavirus disease (COVID-19). The subsequent lifting of the state of emergency, which occurred in stages, has led to a gradual recovery in consumer spending, but the situation remains difficult with economic outlook full of uncertainty such as business activity at a standstill and employment conditions worsening. Meanwhile, in overseas economies, the operating environment is experiencing an extreme severity unlike anything that has happened before as the rapid spread of COVID-19 is significantly restraining economic activity. Against that backdrop, we were able to keep consolidated net sales from declining not more than 12.7% year on year to ¥83.3 billion. Despite the large drop in sales, operating loss and ordinary loss were limited to ¥0.7 billion and ¥0.1 billion, respectively. Moreover, due to the recording of extraordinary losses of ¥8.7 billion from the call for voluntary retirement and the withdrawal from non-profitable businesses as part of the structural reforms carried out in the domestic business from the current fiscal year, net loss attributable to shareholders of parent company was ¥6.7 billion.

	2017	2018	2019	2020 2Q	Billions of yen 2020 (Plan)
Net Sales	¥214.6	¥209.8	¥208.3	¥83.3	¥190.0
Domestic Business*	151.7	151.0	149.8	62.6	135.0
Overseas Business*	62.8	58.8	58.5	20.7	55.0
Operating Income	6.7	4.8	2.6	(0.7)	2.8
Domestic Business	4.0	2.6	2.3	0.3	2.5
Overseas Business	2.7	2.2	0.2	(1.1)	0.3
Ordinary Income	8.1	6.2	3.4	(0.1)	3.6
Net Income attributable to shareholders of parent company	5.4	5.7	1.5	(6.7)	(4.6)

*Does not include figures for internal transactions

No revisions have been made to the fiscal 2020 performance outlook 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 despite COVID-19

In our domestic business segment, we were able to minimize the effect on business activities despite the spread of COVID-19. Although sales decreased 7.0% year on year to ¥65.8 billion, profitable operations were achieved with segment income of ¥0.3 billion (compared with segment loss of ¥0.2 billion in the same period of the previous fiscal year). During the first two quarters, structural reforms being implemented for future growth are proceeding as planned while efforts targeting selling price improvement, cost cutting and expense reduction were fruitful.

By category, sales in the Water Heaters section dropped 2.7% year on year to ¥48.7 billion, but despite the difficult business environment, we worked diligently to improve our selling prices and secure unit sales. New construction delivery demand was weaker and replacement demand, which accounts for more than 70% of the overall total unit sales, also weakened with water heater equipment demand in the second quarter dropping by 3.9% and market share remained secure at a 0.6 percentage point drop to 37.6%. In the Kitchen Appliances section, along with the recoil in demand subsequent to the hike in the consumption tax in October last year, which continued until the first quarter, the effect of COVID-19 placed extra hardship on the sales front and sales dropped 12.8% to ¥8.2 billion. Sales in the Housing Equipment section decreased 40.7% to ¥3.3 billion because of the suspension of orders due to business withdrawal as part of the domestic business reforms.

Decline in sales and income in the overseas business due to COVID-19

In our overseas business segment, both sales and income declined in the first quarter due to the restrictions of economic activity due to COVID-19 in China. For the first two quarters, sales declined 24.0% to ¥22.2 billion and, although segment loss was considerably improved as sales declined but income increased in the second quarter, a segment loss of ¥1.1 billion was recorded. By geographic region, there was a sudden recovery in China from the second quarter mainly due to reduced fixed costs through structural reforms and the start of sales of lower-priced hot water equipment for online sales. However, sales declined 35.4% year on year to ¥11.4 billion. In North America, we achieved solid sales of ¥5.5 billion, a fall of 7.3%, considering the temporary store closures of wholesalers and stoppages at new construction sites due to COVID-19, as well as weaker boiler demand due to a warm winter. In Australia, the Australian commercial hot water equipment market was sluggish due to COVID-19 and in New Zealand, business was completely suspended from March due to the lock-down. However, we managed to achieve sales of ¥2.9 billion, limiting the year-on-year decline to 6.2%.

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 2Q
Fiscal Year:				
Net sales	¥214,648	¥209,868	¥208,396	¥83,382
Operating income	6,708	4,809	2,693	(756)
Operating margin (%)	3.1	2.3	1.3	–
Net income attributable to shareholders of parent company	5,402	5,778	1,512	(6,767)
Net cash provided by operating activities	8,376	9,046	6,138	(919)
Net cash used in investing activities	(8,574)	(1,380)	(11,304)	(3,161)
Net cash used in financing activities	(1,715)	(1,854)	(2,802)	(1,171)
Cash and cash equivalents	34,283	38,999	30,826	25,128
Capital expenditures	7,990	6,731	7,419	2,316
Depreciation and amortization	8,093	6,611	7,083	3,292
At Fiscal Year-End:				
Total assets	¥212,491	¥198,728	¥199,305	¥173,298
Net assets	121,531	114,053	114,801	104,122
Per Share Data (Yen):				
Net income	¥112.98	¥120.86	¥31.75	¥(144.34)
Cash dividend	32.00	32.00	32.00	16.00
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	58.1