

Consolidated Results 2020 3Q

1. Consolidated Performance Overview for January to September 2020

* Return to profit in operating income in the first three quarters of fiscal 2020 (nine months ended September 30, 2020)

Significant increase in operating income in the third quarter due to the effects of structural reforms

During the first three quarters of fiscal 2020 (nine months ended September 30, 2020), the situation in Japan's economy continued to be challenging due to the impact of the spread of the novel coronavirus disease (COVID-19). Although consumer spending has gradually recovered as economic activities resumed, it remains at a low level and the situation is difficult with economic outlook full of uncertainty, such as business activity at a standstill and employment conditions worsening. Meanwhile, in overseas economies, the conditions in the operating environment are extremely severe unlike anything that has happened before as the rapid spread of COVID-19 around the world is significantly restraining economic activity. Against that backdrop, we were able to keep consolidated net sales from declining not more than 13.5% year on year to ¥127.0 billion. Despite the large drop in sales, operating income was ¥0.3 billion, an improvement from the operating loss of ¥0.2 billion in the same period of the previous fiscal year. As a result, ordinary income was ¥1.2 billion, 8.1 times higher than in the same period of the previous fiscal year. Moreover, due to the recording of extraordinary losses of about ¥9.0 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 ¥6.0 billion.

	2017	2018	2019	2020 3Q	Billions of yen 2020 (Plan)
Net Sales	¥214.6	¥209.8	¥208.3	¥127.0	¥190.0
Domestic Business*	151.7	151.0	149.8	92.4	135.0
Overseas Business*	62.8	58.8	58.5	34.6	55.0
Operating Income	6.7	4.8	2.6	0.3	2.8
Domestic Business	4.0	2.6	2.3	0.8	2.5
Overseas Business	2.7	2.2	0.2	(0.5)	0.3
Ordinary Income	8.1	6.2	3.4	1.2	3.6
Net Income attributable to shareholders of parent company	5.4	5.7	1.5	(6.0)	(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 10.8% year on year to ¥97.3 billion, we were able to achieve an increase in income with segment income of ¥0.8 billion (9.4 times higher than in the same period of the previous fiscal year). This was the result of structural reforms being implemented for future growth proceeding as planned in the first three quarters, as well as efforts targeting selling price improvement, cost cutting and expense reduction that lowered the break-even point in sales.

By category, sales in the Water Heaters section dropped 5.4% year on year to ¥72.3 billion, but we worked diligently to improve our selling prices and secure unit sales despite the difficult business environment. Amid the 4.8% drop in water heater equipment demand due to weakness in new construction demand and replacement demand, which accounts for more than 70% of the overall total unit sales, we were able to limit the drop to 7.6% of the unit sales in the same period of the previous fiscal year. In the Kitchen Appliances section, sales declined 14.6% to ¥13.1 billion due to the decrease in units of demand and unit sales as a result of the impact of COVID-19 because the installation work for built-in gas cookers is indoors. Sales in the Housing Equipment section decreased 61.4% to ¥3.4 billion because of the suspension of orders due to business withdrawal as part of structural reforms in the domestic business.

Decline in sales but increase in income in the overseas business in all geographic regions in the third quarter

In our overseas business segment, there was a recovery in China from the second quarter onward, and sales for the first three quarters were ¥36.9 billion, which was an improvement to a drop of 16.7%. In addition, we were able to achieve segment income as income increased in all geographic regions in the third quarter, and segment loss was ¥0.5 billion for the first three quarters, which was an improvement from the first two quarters. 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. As a result, sales declined 26.4% year on year to ¥20.0 billion. In North America, we achieved solid sales of ¥8.7 billion, a fall of 3.1%, with robust sales of tankless water heaters, despite the temporary store closures of wholesalers and temporary stoppages at new construction sites due to COVID-19. In Australia, the Australian commercial hot water equipment market was sluggish due to COVID-19 and in New Zealand, business was completely suspended for a while due to the lock-down. However, we managed to achieve sales of ¥4.7 billion, limiting the year-on-year decline to 1.8%.

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 3Q
Fiscal Year:				
Net sales	¥214,648	¥209,868	¥208,396	¥127,067
Operating income	6,708	4,809	2,693	368
Operating margin (%)	3.1	2.3	1.3	0.3
Net income attributable to shareholders of parent company	5,402	5,778	1,512	(6,069)
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	3,613
Depreciation and amortization	8,093	6,611	7,083	4,687
At Fiscal Year-End:				
Total assets	¥212,491	¥198,728	¥199,305	¥175,945
Net assets	121,531	114,053	114,801	104,166
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	57.2