

Rinnai

Business Outlook

**Medium-Term Business Plan,
“Evolution and Succession 2017”
Progress Report**

May 9, 2017

Medium-Term Business Plan: Progress Report

1

“Evolution and Succession 2017 (From April 2015 to March 2018)”

Challenges for evolution

- 1 Respond to changing environment
- 2 Pursue core priorities aimed at evolution
- 3 Reform business model

Keys to business model advancement

More advanced system-based products

Stronger non-gas offerings

Global technological interaction

Tapping new lifestyle-related fields

Succession of Rinnai Spirit

- 1 **Key Theme**
“Heat and comfortable lifestyles”
▶ Use heat to provide comfortable, secure, environmentally friendly living
- 2 “Quality is our destiny”
▶ Pursue core technologies and manufacturing reflecting commitment to quality
- 3 Contributing to local communities
▶ Take root in local-production-and-sales regions, centered on local Rinnai bases

Make major advances toward 2020 (Rinnai’s centenary year) as a comprehensive manufacturer of heat and energy appliances

Medium-Term Business Plan (April 2015–March 2018) 2

《Consolidated》

Medium-Term Business Plan, “Evolution and Succession 2017”

[Billions of Yen]

		Fiscal 2016 Actual	Fiscal 2017 Target	Fiscal 2017 Actual	Fiscal 2018 Initial Target	Fiscal 2018 Revised Target
Net Sales		319.9	337.0	330.2	350.0	340.0
Breakdown	Domestic	169.5	189.0	180.4	182.0	181.0
	Overseas	150.4	148.0	149.7	168.0	159.0
	(Overseas sales ratio)	47.0%	43.9%	45.4%	48.0%	46.8%
Operating Income		34.5	37.0	34.0	39.0	37.0
Operating Margin		10.8%	11.0%	10.3%	11.1%	10.9%

**Steadily building sustainable growth structure
despite revising initial forecasts of medium-term business plan**

Hybrid Water Heater with Heating Systems: ECO ONE 3



ECO ONE (Type E)

Retail price:

¥ 650,000 - 910,000

Launched: May 2016

ECO ONE

Residential-use hybrid water heater with heating system that combines electric heat pump (which uses atmospheric heat) with high-efficiency gas water heater

Features

- Industry-leading primary energy consumption reduction rate for hot water supply
- Floor heating saves energy
- Smartphone connectivity
- Solar power generation mode
- Compatible with self-sustained power generated by domestic storage batteries



Fiscal 2016 Energy Conservation Grand Prize

Received Energy Conservation Center Chairman's Prize

(Host: The Energy Conservation Center, Japan)

Second award following the “Minister for Economy, Trade and Industry Award” (Energy Conservation Grand Prize) in fiscal 2013

(* Received for second-generation *ECO ONE*; fiscal 2016 award received for third-generation model)

 **GOOD DESIGN
AWARD 2016**



300 Series (water heater remote controls)
(MBC-300/301/302/320)

**300 Series (water heater remote controls) for use with
ECO ONE hybrid water heater with heating system**

Received Good Design Award 2016

(Host: Japan Institute of Design Promotion)



**Connectivity with wireless LANs and smartphones
Fill or reheat bath from another room**

(* Wireless LAN connectivity available only with MBC-301VC and MBC-302VC models)

Gas Water Heaters

Water heater with heating system

Water heater with bath-filling system

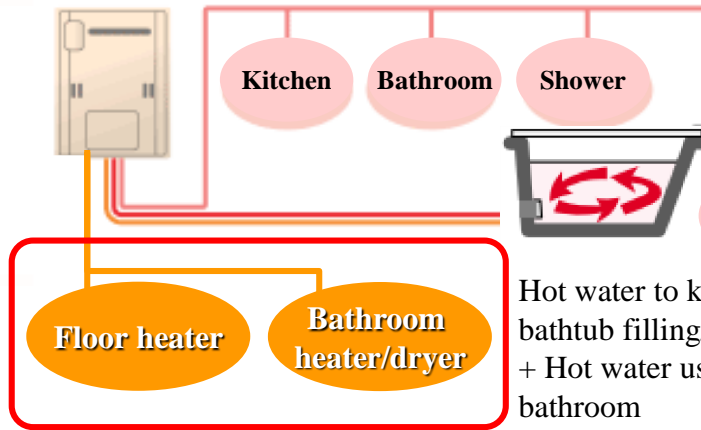
Water heater with basic functions

Shift from low-end to high-end models



Retail price:
¥450,000-¥500,000

Bathroom heater/dryers:
¥150,000-¥250,000
Floor heaters:
¥400,000-¥600,000



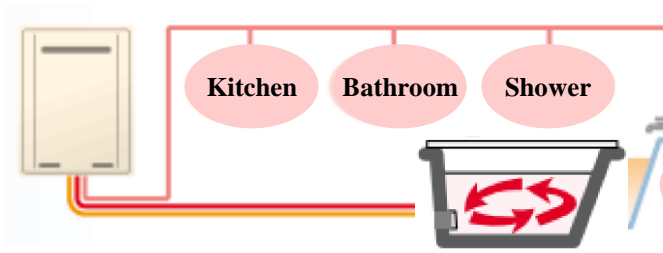
- Growing uses for hot water
- Spread of floor heaters thanks to improved room heat thermal insulation

Hot water to kitchen/bathroom/shower; bathtub filling/reheating
+ Hot water used to heat floor and heat/dry bathroom



Yukko-UF
(Rinnai series name)

Retail price:
¥350,000-¥400,000



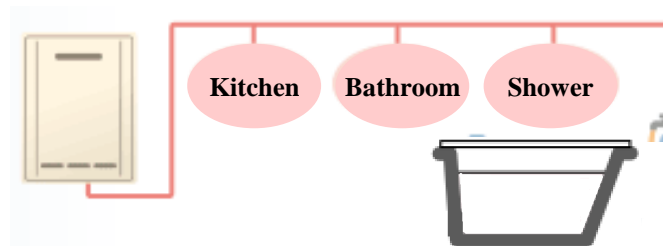
- Rising demand for reheating function even among single-person households

Hot water to kitchen/bathroom/shower; bathtub filling + Bathtub reheating



Yukko
(Rinnai series name)

Retail price:
¥180,000-¥220,000



Hot water to kitchen/bathroom/ shower; bathtub filling

Built-In Hobs (stovetops)

High-end

Mid-range

Mass market



DELICIA
Launched August 2016

DELICIA GRILLER

LiSSe

Mytone
Launched 2015

Send recipe to DELICIA via smartphone



Built-in hob
DELICIA

Use smartphone to transfer recipe to DELICIA for automatic cooking; flame adjusted automatically



DELICIA APP
デリシアアプリ

Use dedicated smartphone app to search recipes and receive cooking advice

Dedicated grilling vessels



Cocotte Dutch Oven
Enables full-scale grill-cooking, etc.

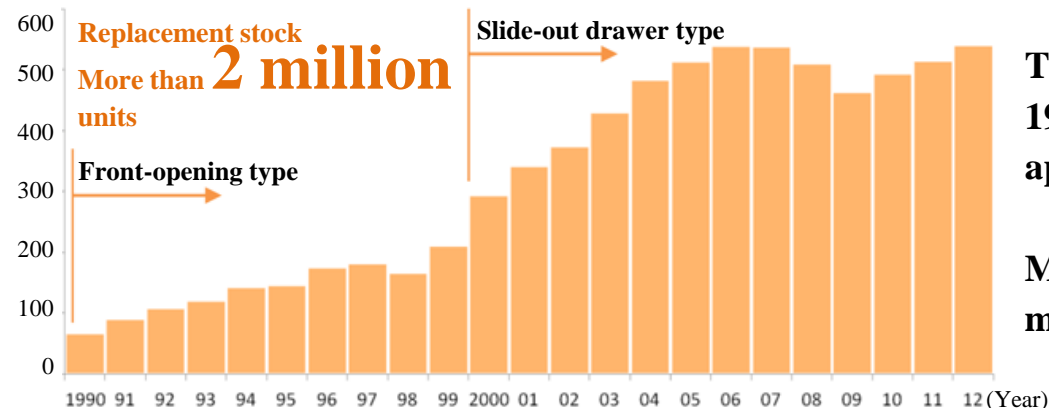


Cocotte
Open-fire grill-cooking for fish, non-fried food, etc.

Stimulating demand with enhanced functions for cooking and convenience

[Market background]

(1,000 units) **Number of sale of built-in dish washer and driers** (JEMA statistics)



The market has been expanding since the 1990s, so replacement demand period is approaching.

Market replacement stock of more than 2 million units

We have 5 new products equipped with new functions matched to specifications of each model type

Front-opening type



The front door opens outwards. Large capacity is a major feature.

Slide-out drawer type



Drawer slides out. No need to bend down when placing items in the unit, which is a good feature.

Launch of Five Models

Front-opening type

(1) Large capacity that can also handle cookware

Slide-out drawer type

(2) Wide 60cm model

(3) High-grade model with silver ion coating

(4) Slim-design model

(5) 60cm-deep kitchen-compatible model

Japan

はやい
乾太くん Hayai Kanta-kun



RDT-52S

Reduced housework time

Drying time around one-third vs electric models

Clean drying

No indoor-drying odors, yet retains same antibacterial benefits as outdoor drying

Commercial-use Gas Clothes Dryers



RDT-53S

For beauty salons and nursing care facilities

Developed with high durability for facilities with high-frequency washing and drying

Overseas



RD-61S (South Korea)

Selling in China, Hong Kong, Italy, etc.; sales rising rapidly especially in South Korea

Example of South Korea

Growing concern about health and environmental issues related to hanging washing outside

Sharp increase in clothes-dryer sales due to rising need to hang washing indoors

Choosing gas models after considering impact of electricity costs

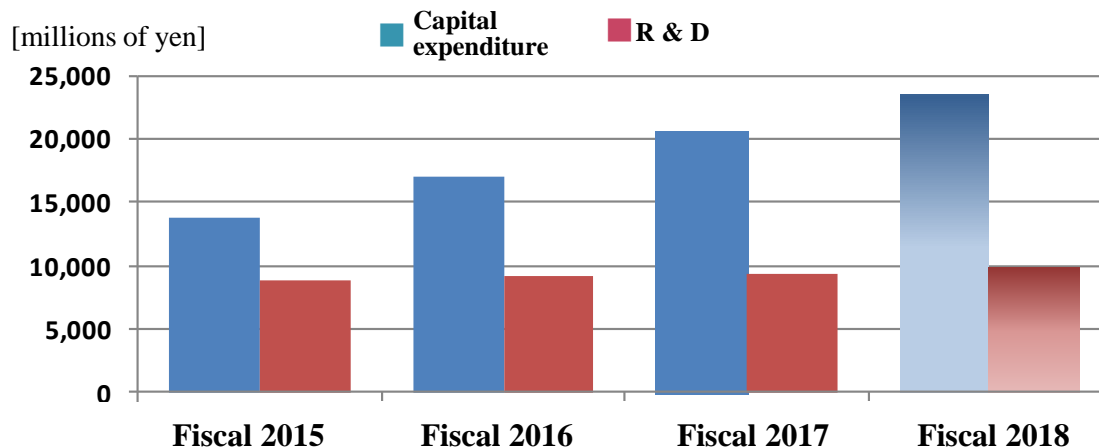
Consolidated Capital Expenditure Plan

Fiscal 2017 Results and Fiscal 2018 Target

[millions of yen]	Fiscal 2017 (Actual)	Fiscal 2018 (Target)	YOY change
Capital investment	20,664	23,400	2,736
Depreciation	10,174	11,200	1,026
R&D	9,340	9,900	560

Capital expenditure to exceed ¥20 billion mark

Consolidated Capital Expenditure



Continued high-level investments with year-on-year increases

Japan (investments to expedite advancement of business model)

Manufacturing

Build streamlined production framework for system-based products, centered on *ECO ONE*



Akatsuki Factory



ECO-ONE



Bathroom heater/dryer

- Akatsuki Factory:
New factory to increase *ECO ONE* production
- Oguchi Factory: Factory expanded for reconstruction
- Seto Factory: Renewal of welfare wing
- Affiliated companies: Construct offices and welfare wings

Product development

- Invest in new product development
(*ECO ONE*, water heaters in US market, Clothes dryers, Dish washer, etc.)
- Strengthen production technology development system (Develop molds, equipment)

Sales/marketing

- Strengthen functions of sales bases (Chubu sales office, Minami-Kanto sales office, etc.)
- Strengthen service system
- Build distribution center



Chubu Branch

Overseas (strategic investments in new growth drivers)

- Reinforce/expand production bases in line with demand growth (construct factories and expand land sites in China, South Korea, Australia, etc.)
- Expand market and strengthen sales bases in newly tapped markets (Dubai, United States, China, etc.)
- Improve production capacity; step up in-house manufacturing and facility streamlining (capital expenditures in Indonesia, China, South Korea, etc.)

Rinnai

EXPERIENCE OUR INNOVATION

Performance forecasts and other future-oriented predictions contained in these materials are based on the Company's judgments using available information. Actual results may differ from such forecasts and predictions due to changing future circumstances.