



May 9, 2024

(Translated from the Japanese original)

Company Name: Rinnai Corporation
Representative: Hiroyasu Naito, President
Stock Code: 5947
Listings: Tokyo Stock Exchange, Prime Market,
Nagoya Stock Exchange, Premier Market
Contact: Takuya Ogawa, Managing Executive Officer,
Chief of Corporate Management Headquarters
Phone: +81-52-361-8211
(in Japan, 052-361-8211)

Note: This document is a direct translation of the document released in Japanese. If there are any discrepancies between this document and the original Japanese version, the original Japanese version shall prevail.

FOR IMMEDIATE RELEASE

Notice Regarding Opinions of the Corporation's Board of Directors on the Shareholder Proposals

We, Rinnai Corporation (hereinafter, "Rinnai" or the "Corporation") received a document from DALTON KIZUNA (MASTER) FUND LP (hereinafter, "Proposing Shareholder"), a shareholder of Rinnai Corporation, seeking to make a shareholder proposal (hereinafter, "Shareholder Proposal") at the 74th Ordinary General Meeting of Shareholders scheduled for June 27, 2024 (hereinafter, "General Meeting of Shareholders"), and we have been reviewing the contents of this proposal. As a result, we hereby announce that its meeting held today, the Board of Directors has resolved to oppose the Shareholder Proposal.

Details

I. Description of and Reasons for Shareholder Proposal

1. Proposed Agenda

(1) Implementation of Share Buyback

2. Outline of and Reasons for Shareholder Proposal

The details of the Shareholder Proposal are described in the attached “Details of the Shareholder Proposal.”

This attachment contains the relevant portions of the Shareholder Proposal submitted by the Proposing Shareholder in the original text.

II. Opinions of the Board of Directors on the Shareholder Proposal

Shareholder Proposal 1. “(1) Implementation of Share Buyback”

(1) Opinion of the Board of Directors

The Board of Directors opposes this Shareholder Proposal.

(2) Reasons for opposition

We have formulated a medium-term business plan, New ERA 2025 (hereinafter, “Plan”), which covers the period from fiscal 2022 to 2026 (April 1, 2021–March 31, 2026). Under the Plan, we are making steady progress toward “Advancement in addressing social challenges” through “Expansion of business scale,” and “Revolution of corporate structure.”

In the Plan, we have positioned improvement of capital profitability as one of our most important management issues. Accordingly, we will steadily grow profits by promoting our high-value-added product strategy and implementing rigorous cost reductions to further strengthen our earning power, and improve capital efficiency through flexible share buybacks. Through these measures, we aim to achieve ROE of 8% in fiscal 2026, ending March 31, 2026 (the final year of the Plan) and 10% or higher during the period of the next medium-term business plan (scheduled to cover fiscal 2027–2031).

In addition, the Corporation intends to make investments in growth during the period of the Plan that far exceed investments made over the past five years. We have been steadily investing to expand local production capacity in the United States and China, our key strategic markets, while in Japan we are investing in the Kasugai Logistics Center. To address changes in the business environment, we have sought continuously to ensure our business survival and competitiveness from a long-term perspective by responding to calls for carbon neutrality, digital transformation (DX), changing

consumer lifestyles, and so forth. As a result, cumulative capital investments have reached ¥87.5 billion in the first three years of the Plan (ended March 2024), and we plan to make capital investments of a further ¥20.9 billion in the current fiscal year (ending March 2025). We will continue aggressively making necessary investments with a view to improving corporate value over the medium and long terms.

Under these circumstances, our basic policy is to pay stable dividends and increase dividends in line with the Corporation's profit growth from a medium- to long-term perspective. With regard to surplus funds remaining at the end of the Plan due to changes in investment plans or deferral to the next medium-term plan, our policy is to return such funds to shareholders, based on our investment plans for the next medium-term plan. In accordance with this policy, we paid annual dividends of ¥140.00 per share in the fiscal year ended March 2022, up ¥15.00 year on year, ¥160.00 per share in the year ended March 2023, and ¥60.00 per share in the fiscal year ended March 2024, after the stock split (¥180.00 on a pre-stock split basis). In addition, we conducted share buybacks worth ¥37.4 billion over the three-year period from fiscal 2022 to 2024 (April 2021 to March 2024), and today (May 9, 2024) we decided to buy back shares worth ¥10 billion (maximum). As a result, total shareholder returns have significantly exceeded the initial targets of the Plan (total shareholder return of above ¥60 billion and five-year average total return ratio of above 40%). Specifically, total shareholder returns from fiscal 2022, ended March 31, 2022 (first year of the Plan) to fiscal 2024, ended March 31, 2024, plus the estimated return for fiscal 2025, ending March 31, 2025, will be ¥82.0 billion on a cumulative basis, with a total average total return ratio of 78.2%.

On the other hand, the Shareholder Proposal calls for us to buy back a large number of shares—equivalent to double our net income in a single year—and does not give sufficient consideration to the Corporation's need for growth investments and the like. The share buyback proposed in the Shareholder Proposal will increase ROE in the short term. However, this alone will not result in medium- to long-term improvements in corporate value and may distort our financial base and constrain investment activities aimed at sustainable growth. We believe maintaining steady profit growth—by further strengthening our earning power—while providing shareholders returns in line with such growth is in the best interest of the Corporation and its shareholders. Accordingly, rather than conducting a share buyback at the time or in the amount stipulated in the Shareholder Proposal, we believe it is appropriate, under our Plan and capital policy, to conduct share buybacks in the manner that takes into account overall conditions surrounding the Corporation, including business performance, business investments, financial position, and share price.

Therefore, the Board of Directors opposes this Shareholder Proposal.

(Attachment: “Details of the Shareholder Proposal”)

*The relevant portion of the Shareholder Proposal Document submitted by the Proposing Shareholder is provided here in its original text.

I. Proposed Agenda

1. Implementation of Share Buyback

II. Outline of Proposal and Reasons for Proposal

1. Implementation of Share Buyback

(1) Outline of Proposal

1. Share Buyback: The Company shall, in accordance with Article 156, Paragraph 1 of the Companies Act, acquire its own common shares through the delivery of monies, with a limit on total number of shares of 15,000,000 and a total acquisition price of ¥50,000,000,000 within one year from the conclusion of the AGM.
2. Other Retained Earnings: The Company shall withdraw ¥50,000,000,000 from general reserve and transfer the same amount to retained earnings brought forward.

(2) Reasons for Proposal

We believe that the management's lack of awareness of the cost of capital is one of the reasons for the weak share price performance in recent years.

As of December 31, 2023, the Company held 179.5 billion yen in financial assets (132.5 billion yen in cash and deposits, 5.0 billion yen in marketable securities, and 42.0 billion yen in investments in securities such as cross-shareholdings). In addition, the Company is investing 25.8 billion yen in real estate to build a showroom in Minami-Aoyama, Tokyo. While we agree on an investment to strengthen contact with consumers, we believe that, in this case, it is far from justifiable from a cost of capital perspective, given the size of the investment. Although, the Company's Return on Invested Capital has averaged high teens over the past decade, its Return on Equity has remained at around half that level, as a result of a capital policy that allocates a majority of shareholders' equity to financial assets and real estate investments.

We believe that it is in the best interest of all shareholders for the Company to improve capital efficiency and equity value per share by selling assets that do not meet its cost of capital, such as cross-shareholdings and real estate investments, and conducting share repurchases.

END