

# Consolidated Financial Results

## First Quarter of the Fiscal Year Ending March 2019

(April 1–June 30, 2018)

August 3, 2018

### Listed Company Name: Rinnai Corporation

Listings: First Sections of Tokyo and Nagoya Stock Exchanges (Securities Code: 5947)

Website: <http://www.rinnai.co.jp>

Representative: Hiroyasu Naito, President

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Scheduled date for release of quarterly securities report: August 10, 2018

Anticipated date to begin distributing dividends: —

Supplemental information sheets of quarterly results: Yes

Information meeting of quarterly results: None

## I. Performance in the First Quarter of the Fiscal Year Ending March 31, 2019

(April 1– June 30, 2018; amounts less than one million yen are omitted)

### (1) Consolidated Operating Results

Percentage figures in parentheses indicate increase or decrease from the previous term.

(¥ millions; %)

	Net Sales	Operating Income	Ordinary Income	Net income attributable to owners of the parent company (% change)
First Quarter to June 2018	¥79,266 [+4.2%]	¥5,553 [-14.0%]	¥6,495 [-8.4%]	¥4,108 [-9.6%]
First Quarter to June 2017	¥76,052 [+2.1%]	¥6,456 [-1.0%]	¥7,091 [+8.9%]	¥4,544 [+17.5%]

Notes: Comprehensive income: First quarter of the year ending March 31, 2019; ¥736 million [-87.2%]

First quarter of the year ended March 31, 2018; ¥5,752 million [+998.1%]

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
First Quarter to June 2018	¥79.94	—
First Quarter to June 2017	87.38	—

### (2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)
June 30, 2018	¥416,698	¥306,685	68.9%
March 31, 2018	422,422	307,965	68.0

(Reference) Equity capital: First quarter of the year ending March 31, 2019; ¥287,221 million

Year ended March 31, 2018; ¥287,283 million

## II. Dividends

(Basis date)	Dividend per Share				
	1st Quarter (¥)	Interim (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2018	—	¥44.00	—	¥46.00	¥90.00
June 2018	—				
March 2019 (anticipated)		46.00	—	46.00	92.00

Note: Revision of dividend forecast in period under review: None

### III. Forecast for the Fiscal Year Ending March 31, 2019 (Consolidated)

(April 1, 2018, to March 31, 2019)

(¥ millions/%)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (¥)
First half	¥163,000 [+2.0%]	¥15,000 [+7.7%]	¥15,800 [+5.3%]	¥9,700 [+2.8%]	¥188.72
Full year	360,000 [+3.7]	36,000 [+9.6]	37,300 [+8.8]	23,000 [+8.5]	447.47

Note: Percentage figures in parentheses indicate increase or decrease from the previous fiscal year.

Note: Revision of fiscal year forecast in period under review: None.

#### \* Notes

(1) Changes in scope of consolidation of major subsidiaries during the period: None  
Newly included — (Company name: —): Excluded — (Company name: —)

(2) Application of special accounting method for quarterly consolidated financial reporting:  
None

(3) Changes in accounting policies; changes in accounting estimates; retrospective restatement  
(a) Changes due to revision of accounting standard: None  
(b) Other changes than (a): None  
(c) Changes in the rules for the accounting estimates: None  
(d) Retrospective restatement: None

(4) Number of Outstanding Shares (Common Stock)

(a) Number of outstanding shares at term-end (including treasury stock)

June 30, 2018: 51,616,463 shares

March 31, 2018: 51,616,463 shares

(b) Number of treasury stock shares at term-end

June 30, 2018: 216,424 shares

March 31, 2018: 216,404 shares

(c) Average number of shares during the term

First quarter of the fiscal year ending March 2019: 51,400,044 shares

First quarter of the fiscal year ended March 2018: 52,001,049 shares

\* This report is exempt from a quarterly review process.

#### \* Note on appropriate use of performance forecasts, and other specified notes

Performance forecasts contained in this document are based on information currently available and certain judgments deemed by the Corporation to be reasonable. No intent is implied of promise by the Corporation to achieve such forward-looking statements. Actual results may differ significantly from such forecasts due to various factors. For more information, please refer to “1. Consolidated Performance, (3) Consolidated Performance Forecasts” on page 4 of this report.

#### Supplemental information sheets of quarterly results:

Please refer to Supplemental information sheets of quarterly results, which will be posted on the Corporation’s website on Friday, August 3, 2018.

## **1. Consolidated Performance**

### **(1) Operating Results**

In the first quarter under review (April 1–June 30, 2018), the world economy performed favorably overall, reflecting moderate economic recovery in the United States and Europe, as well as a high rate of economic growth in China. In Japan, as well, the economy continued recovering, buoyed by improved corporate earnings and a turnaround in personal consumption.

The domestic housing sector benefited from an increase in newly constructed condominiums stemming from various government measures to support new home purchases. However, conditions in the housing appliance industry remained weak in the absence of robust replacement demand.

Under these circumstances, the Rinnai Group formulated its new medium-term business plan, “G-shift 2020,” which started in April 2018. Through the plan (with the slogans “heat and lifestyles” and “health and lifestyles”), we will strive to help improve people’s living standards. In addition to existing offerings, we will create new products and services that incorporate our original core technologies and applications. We launched new initiatives during the first quarter under review.

With respect to revenue, we reported a year-on-year increase in net sales thanks to healthy sales in China and other overseas markets. On the earnings side, posted a year-on-year decline in operating income due to weak performances of high-value-added products in Japan.

As a result, consolidated net sales for the period amounted to ¥79,266 million, up 4.2% from the previous corresponding period. Operating income declined 14.0%, to ¥5,553 million, and ordinary income fell 8.4%, to ¥6,495 million. Net income attributable to owners of the parent company declined decreased 9.6%, to ¥4,108 million.

Our results by geographical segment were as follows:

#### ***Japan***

In Japan, revenue declined due to intensified competition with other companies stemming from weak sales of mainstay water heaters with heating systems, bathwater heaters, and built-in hobs (stovetops). Accordingly, sales in Japan slipped 3.1% year on year, to ¥38,644 million, and operating income declined 29.8%, to ¥2,614 million.

#### ***United States***

In the United States, where the market for housing appliances was steady, we enjoyed healthy sales of highly convenient tankless water heaters, with renewed growth in high-efficiency models. As a result, sales in the United States increased 5.1%, to ¥6,939 million, and operating income jumped 36.6%, to ¥405 million.

#### ***Australia***

In Australia, we posted steady sales of mainstay tankless gas water heaters and electric storage-type water heaters, but sales of home heaters declined due to a warm winter. As a result, sales in Australia decreased 3.3%, to ¥4,963 million, and operating income fell 22.0%, to ¥169 million.

#### ***China***

In China, we reported an increase in sales of boilers thanks to a government-led environmental policy promoting a shift from coal to gas as a fuel source. Moreover, rising

living standards underscored the trend towards larger-capacity, higher-performance water heaters, which also bolstered sales. Consequently, sales in China jumped 32.0%, to ¥12,380 million, and operating income climbed 23.4%, to ¥1,056 million.

### **South Korea**

In South Korea, we enjoyed healthy sales of boilers owing to a rise in the number of newly built small-scale condominium buildings, as well as higher replacement demand. We also expanded and upgraded our lineup of electric stoves, which boosted revenue. Accordingly, sales in South Korea rose 5.0%, to ¥8,855 million, and operating income surged 51.3%, to ¥336 million.

### **Indonesia**

In Indonesia, we posted a year-on-year increase in sales of tabletop stoves thanks to gradual growth in replacement demand, in addition to local economic recovery. As a result, sales in Indonesia rose 9.3%, to ¥2,581 million. Due to climbing raw materials costs, however, operating income declined 19.7%, to ¥300 million.

(For references 1)

### **Sales Composition by Business Segment**

(¥ millions; %)

	First Quarter to June 30, 2017		First Quarter to June 30, 2018		Change		Year to March 31, 2018	
	Amount	Amount	Amount	% of total	Amount	%	Amount	% of total
Water heaters	¥44,897	59.0%	¥47,855	60.4%	¥2,957	6.6%	¥202,387	58.3%
Kitchen appliances	19,179	25.2	19,389	24.5	210	1.1	88,364	25.5
Air conditioning appliances	3,301	4.3	2,940	3.7	(360)	(10.9)	19,084	5.5
Commercial-use equipment	2,306	3.0	2,259	2.9	(47)	(2.1)	9,499	2.7
Others	6,367	8.4	6,821	8.6	453	7.1	27,735	8.0
Total	¥76,052	100.0%	¥79,266	100.0%	¥3,214	4.2%	¥347,071	100.0%

(For references 2)

### **Overseas Sales**

(¥ millions; %)

	First Quarter to June 30, 2017			First Quarter to June 30, 2018		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥24,193	¥14,098	¥38,291	¥27,985	¥14,593	¥42,578
II. Consolidated net sales	—	—	76,052	—	—	79,266
III. Composition ratio of overseas sales to consolidated net sales	31.8%	18.5%	50.3%	35.3%	18.4%	53.7%

Note: Above indicates sales of the Corporation and consolidated subsidiaries in overseas countries or regions.

### **(2) Financial Position**

As of June 30, 2018, Rinnai had total assets of ¥416,698 million, down ¥5,724 million from March 31, 2018. Total liabilities decreased ¥4,444 million, to ¥110,013 million. Net assets were down ¥1,279 million, to ¥306,685 million. The equity ratio at the end of the period was 68.9%.

### **(3) Consolidated Performance Forecasts**

Rinnai has not changed its forecasts for the first two-quarter period ending September 30, 2018, or the full-year period ending March 31, 2019. (Those forecasts were released on May 9, 2018.)

## 2. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

	(¥ millions)	
	At March 31, 2018 (Fiscal 2018)	At June 30, 2018 (First Quarter of Fiscal 2019)
<b>ASSETS:</b>		
Current assets		
Cash and deposits	¥124,771	¥126,555
Notes and accounts receivable	66,341	59,714
Electronically recorded monetary claims	8,858	7,835
Marketable securities	17,920	22,749
Products	27,330	29,928
Raw materials and stores	16,014	15,858
Other	3,438	3,754
Less allowance for doubtful accounts	(1,213)	(1,163)
Total current assets	263,462	265,234
Fixed assets		
Tangible fixed assets	83,415	82,364
Intangible fixed assets	6,350	5,938
Investments and advances		
Investments in securities	46,067	39,624
Other	23,196	23,601
Less allowance for doubtful accounts	(68)	(65)
Total investments and advances	69,194	63,160
Total fixed assets	158,960	151,464
<b>Total assets</b>	<b>¥422,422</b>	<b>¥416,698</b>

(¥ millions)

	At March 31, 2018 (Fiscal 2018)	At June 30, 2018 (First Quarter of Fiscal 2019)
<b>LIABILITIES:</b>		
Current liabilities		
Notes and accounts payable	¥ 22,953	¥ 20,241
Electronically recorded obligations	32,771	31,078
Accrued income taxes	4,843	3,753
Accrued employee's bonuses	4,676	2,023
Allowance for product guarantee	4,602	4,456
Other allowances	976	699
Other	22,082	26,591
Total current liabilities	92,905	88,845
Long-term liabilities		
Allowance environmental measures	2,255	2,255
Other allowances	147	103
Net defined benefit liabilities	10,466	10,476
Other	8,682	8,332
Total long-term liabilities	21,551	21,167
<b>Total liabilities</b>	<b>114,457</b>	<b>110,013</b>
<b>NET ASSETS:</b>		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,756	8,756
Earned surplus	258,814	262,136
Treasury stock	(1,860)	(1,860)
Total shareholders' equity	272,170	275,491
Other comprehensive income:		
Unrealized gain on marketable securities	6,583	7,142
Foreign exchange translation adjustment	4,682	864
Remeasurements of defined benefit plans	3,846	3,722
Total of other comprehensive income	15,112	11,730
Non-controlling interests	20,682	19,463
<b>Total net assets</b>	<b>307,965</b>	<b>306,685</b>
<b>Total liabilities and net assets</b>	<b>¥422,422</b>	<b>¥416,698</b>

**(2) Consolidated Statements of Income, and Statements of Comprehensive Income**  
**Consolidated Statements of Income**

(¥ millions)

	First Quarter of Fiscal 2018 (From April 1 to June 30, 2017)	First Quarter of Fiscal 2019 (From April 1 to June 30, 2018)
Net sales	¥76,052	¥79,266
Cost of sales	50,500	52,415
Gross profit	25,551	26,850
Selling, general and administrative expenses	19,095	21,297
Operating income	6,456	5,553
Other income:		
Interest income	233	242
Dividends received	366	342
Other	—	111
Total other income	148	271
Other expenses:		
Foreign exchange loss	14	—
Loss on retirement of fixed assets	24	19
Other	74	5
Total other expenses	113	25
Ordinary income	7,091	6,495
Extraordinary income		
Subsidy income	—	69
Total extraordinary income	—	69
Extraordinary losses		
Loss on reduction of fixed assets	—	69
Total extraordinary losses	—	69
Income before income taxes	7,091	6,495
Income taxes (current)	2,862	2,860
Income taxes (deferred)	(985)	(1,199)
Total income taxes	1,877	1,660
Net income	5,214	4,834
Net income attributable to non-controlling interests	670	725
Net income attributable to owners of the parent company	¥ 4,544	¥ 4,108

## Consolidated Statements of Comprehensive Income

(¥ millions)

	First Quarter of Fiscal 2018 (From April 1 to June 30, 2017)	First Quarter of Fiscal 2019 (From April 1 to June 30, 2018)
Income before minority interest	¥5,214	¥4,834
Other comprehensive income		
Unrealized gain on marketable securities	1,151	560
Foreign exchange translation adjustment	(586)	(4,538)
Remeasurements of defined benefit plans	(26)	(119)
Total of other comprehensive income	538	(4,097)
Comprehensive income	5,752	736
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	5,450	726
Non-controlling interest	302	10



### (3) Noted to Quarterly Consolidated Financial Statements

#### Assumptions for Going Concern

Not applicable.

#### Major Changes in Shareholders' Equity

Not applicable.

#### Supplementary Information)

##### *Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting"*

Effective the beginning of the first quarter under review, the Corporation has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018). As a result of this change, deferred tax assets are now listed under "Investments and other assets" and deferred tax liabilities are now listed under "Long-term liabilities."

#### Segment Information

##### **1. First Quarter of the Fiscal Year Ended March 31, 2018 (From April 1 to June 30, 2017)**

(¥ millions)<sup>d</sup>

	Reportable Segments							Others (Note 1)	Adjustments (Note 2)	Amounts on consolidate statements of income (Note 3)
	Japan	United States	Australia	China	South Korea	Indonesia	Total			
Sales										
Outside clients	¥39,900	¥6,601	¥5,130	¥9,380	¥8,430	¥2,362	¥71,806	¥4,246	¥ —	¥76,052
Intersegment	8,679	—	22	417	227	127	9,475	579	(10,055)	—
Total	48,580	6,601	5,153	9,798	8,658	2,490	81,282	4,826	(10,055)	76,052
Income (loss)	3,722	296	217	855	222	374	5,688	632	135	6,456

Notes: 1. "Others" include sales from subsidiaries in Taiwan, Thailand, Vietnam, New Zealand, Brazil and other regions.

2. "Adjustments" is the intersegment transactions to eliminate.

3. "Income (loss)" is adjusted from operating income on Consolidated Statement of Income.

##### **2. First Quarter of the Fiscal Year Ending March 31, 2019 (From April 1 to June 30, 2018)**

(¥ millions)

	Reportable Segments							Others (Note 1)	Adjustments (Note 2)	Amounts on consolidate statements of income (Note 3)
	Japan	United States	Australia	China	South Korea	Indonesia	Total			
Sales										
Outside clients	¥38,644	¥6,939	¥4,963	¥12,380	¥8,855	¥2,581	¥74,364	¥4,902	¥ —	¥79,266
Intersegment	9,823	—	25	352	217	131	10,551	665	(11,217)	—
Total	48,468	6,939	4,988	12,732	9,072	2,713	84,915	5,568	(11,217)	79,266
Income (loss)	2,614	405	169	1,056	336	300	4,882	724	(53)	5,553

Notes: 1. "Others" include sales from subsidiaries in Taiwan, Thailand, Vietnam, New Zealand, Brazil and other regions.

2. "Adjustments" is the intersegment transactions to eliminate.

3. "Income (loss)" is adjusted from operating income on Consolidated Statement of Income.