

# Consolidated Financial Results

## First Three Quarters of the Fiscal Year Ending March 2019

(April 1–December 31, 2018)

February 8, 2019

### Listed Company Name: Rinnai Corporation

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

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Scheduled date for release of quarterly securities report: February 13, 2019

Anticipated date to begin distributing dividends: —

Supplemental information sheets of quarterly results: Yes

Information meeting of quarterly results: None

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

(April 1–December 31, 2018; amounts less than one million yen are omitted)

### (1) Consolidated Operating Results

(¥ millions; %)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net income attributable to owners of the parent company (% change)
Three Quarters to Dec. 2018	¥256,900 [+0.9%]	¥22,175 [-10.8%]	¥24,148 [-8.3%]	¥15,017 [-10.0%]
Three Quarters to Dec. 2017 (Reference)	254,672 [+4.7%]	24,868 [-4.5%]	26,344 [-3.7%]	16,690 [-2.1%]

Comprehensive Income: First three quarters of the year ending March 31, 2019; ¥10,855 million (-48.6%)

First three quarters of the year ended March 31, 2018; ¥21,135 million (+106.3%)

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Three Quarters to Dec. 2018	¥292.16	—
Three Quarters to Dec. 2017	322.75	—

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

### (2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)
December 31, 2018	¥425,722	¥314,314	69.0%
March 31, 2018	422,422	307,965	68.0

(Reference) Equity capital: Three quarters of the year ending March 31, 2019; ¥293,907 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
March 2019	—	46.00	—		
March 2019 (anticipated)				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 attributable to owners of the parent company	Net Income per Share (¥)
Full year	¥350,000 [+0.8%]	¥30,000 [-8.7%]	¥32,200 [-6.1%]	¥20,000 [-5.6%]	¥389.11

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

Note: Changes in performance forecasts since most recent announcement: Yes

Regarding consolidated performance forecasts, please refer to “Notice Regarding to Revision of Performance Forecasts” released today.

#### \* 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)

December 31, 2018: 51,616,463 shares

March 31, 2018: 51,616,463 shares

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

December 31, 2018: 216,706 shares

March 31, 2018: 216,404 shares

(c) Average number of shares during the term

First three quarters of the fiscal year ending March 2019: 51,399,895 shares

First three quarters of the fiscal year ended March 2018: 51,714,274 shares

#### \* Implementation status of quarterly review process

This report is exempt from a quarterly review process.

#### \* Note on appropriate use of performance forecasts

Performance forecasts contained in this document are based on information currently available and certain judgments deemed by the Corporation to be reasonable. 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 5 of this report.

\* Supplemental information sheets of financial results are posted on the Corporation’s website on Friday, February 8, 2019.

## **1. Consolidated Performance**

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

In the first three quarters under review (April 1–December 31, 2018), the world economy assumed a sense of uncertainty, reflecting a slowdown in economic growth in China and trade issues centered on the United States and China. This was despite moderate economic recovery in the United States and Europe. In Japan, the economy continued recovering, buoyed by improved corporate earnings and a turnaround in personal consumption.

The domestic housing sector was affected by sluggish growth in construction of new rental housing units, while conditions in the housing appliance industry remained weak in the absence of robust replacement demand.

Under these circumstances, the Rinnai Group embarked on its new medium-term business plan, “G-shift 2020,” which started in April 2018. Under the plan (with the slogans “heat and lifestyles” and “health and lifestyles”), we will strive to help improve living standards in the global market. In addition to existing offerings, in the period under review we embraced new initiatives aimed at creating unique products and services by incorporating new technologies into our core technologies.

With respect to revenue, we reported a year-on-year increase in net sales thanks to healthy sales in China, the United States, and other overseas markets. On the earnings side, we 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 ¥256,900 million, up 0.9% from the previous corresponding period. Operating income declined 10.8%, to ¥22,175 million, and ordinary income slipped 8.3%, to ¥24,148 million. Net income attributable to owners of the parent company decreased 10.0%, to ¥15,017 million.

Our results by geographical segment were as follows:

#### ***Japan***

In Japan, revenue declined due to weak sales of mainstay water heaters with heating systems, bathwater heaters, and built-in hobs (stovetops), as well as intensified competition with other companies for water heaters in general. Accordingly, sales in Japan were down 2.5% year on year, to ¥136,204 million, and operating income declined 7.8%, to ¥14,090 million.

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

In the United States, where the market for housing appliances was steady, we posted healthy sales of highly convenient tankless water heaters, as well as growth in sales of new high-efficiency models. As a result, sales in the United States increased 8.4%, to ¥21,477 million. However, we incurred sales promotion expenses aimed at popularizing new products, as well as an increase in costs associated with the start of local production. Accordingly, operating income fell 61.5%, to ¥579 million.

#### ***Australia***

Despite a decrease in sales of open heaters (fan heaters) due to a warm winter, in Australia we enjoyed growth in sales of mainstay water heaters and air conditioners, as well as an increase in replacement demand for fan-forced room heaters, spurred by the government. As a result, sales in Australia rose 3.8%, to ¥18,854 million. We posted an increase in operating income on a local-currency basis, but the amount in yen terms declined 3.0%, to ¥1,699 million, due to the appreciation of the yen.

#### ***China***

In China, we reported a year-on-year decrease in sales of boilers due to delays in a government-driven environmental campaign promoting a shift from coal to gas as a fuel source. Nevertheless, sales in China rose 6.7%, to ¥33,006 million, and operating income edged up 0.4%, to ¥2,549 million.

#### ***South Korea***

In South Korea, construction of small-scale condominium buildings, previously a growth area, reached

full circle, leading to a decline in demand for housing equipment that previously benefited from such construction. This led to year-on-year decreases in mainstay gas cookers and boilers. Accordingly, sales in South Korea fell 6.0%, to ¥22,700 million, and the operating loss was ¥379 million.

### **Indonesia**

In Indonesia, we increased our market share for tabletop stoves due to management instability among our competitors, and we enjoyed higher year-on-year sales of built-in hobs (stovetops) and range hoods. As a result, sales in Indonesia rose 7.9%, to ¥9,468 million. Due to climbing raw materials costs, however, operating income slipped 2.6%, to ¥1,278 million.

### **(For references 1) Sales Composition by Business Segment**

(¥ millions; %)

	Three Quarters to Dec. 31, 2017		Three Quarters to Dec. 31, 2018		Change		Year to March 31, 2018	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Water heaters	¥144,582	56.8%	¥147,374	57.4%	¥ 2,791	1.9%	¥202,387	58.3%
Kitchen appliances	67,237	26.4	67,388	26.2	151	0.2	88,364	25.5
Air conditioning appliances	15,095	5.9	14,968	5.8	(127)	(0.8)	19,084	5.5
Commercial-use equipment	7,238	2.8	6,159	2.4	(1,079)	(14.9)	9,499	2.7
Others	20,518	8.1	21,009	8.2	491	2.4	27,735	8.0
Total	¥254,672	100.0%	¥256,900	100.0%	¥2,227	0.9%	¥347,071	100.0%

### **(For references 2) Overseas Sales**

(¥ millions; %)

	Three Quarters to Dec. 31, 2017			Three Quarters to Dec. 31, 2018		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥76,034	¥46,227	¥122,262	¥78,327	¥49,125	¥127,452
II. Consolidated net sales	—	—	254,672	—	—	256,900
III. Composition ratio of overseas sales to consolidated net sales	29.9%	18.2%	48.0%	30.5%	19.1%	49.6%

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

## (2) Financial Position

As of December 31, 2018, Rinnai had total assets of ¥425,722 million, up ¥3,299 million from March 31, 2018. Total liabilities declined ¥3,049 million, to ¥111,407 million. Net assets were up ¥6,348 million, to ¥314,314 million. The equity ratio at the end of the period was 69.0%.

## (3) Explanation about Consolidated Performance Forecasts

Despite ongoing growth in overseas sales overall, sales of mainstay products in Japan and South Korea have become sluggish, while overseas sales promotion expenses and the like have increased. For these reasons, the Rinnai Group expects its full-year consolidated results to fall below previous forecasts. Taking recent performances into consideration as well, the Group has revised its full-year consolidated performance forecasts (previously announced on May 9, 2018).

Revision of consolidated performance forecasts for fiscal 2019  
(April 1, 2018–March 31, 2019)

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Net income attributable to owners of the parent company	Net Income per Share (Yen)
Previous forecast (A)	360,000	36,000	37,300	23,000	447.47
Revised forecast (B)	350,000	30,000	32,200	20,000	389.11
Difference (B – A)	-10,000	-6,000	-5,100	-3,000	—
Change (%)	-2.8	-16.7	-13.7	-13.0	—
(For references) Year ended March 31, 2018 (actual)	347,071	32,849	34,286	21,194	410.41

### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2018 (Fiscal 2018)	At December 31, 2018 (Three Quarters of Fiscal 2019)
<b>ASSETS:</b>		
Current assets		
Cash and deposits	¥124,771	¥122,094
Notes and accounts receivable	66,341	72,370
Electronically recorded monetary claims	8,858	8,901
Marketable securities	17,920	20,032
Products	27,330	33,340
Raw materials and stores	16,014	16,944
Other	3,438	3,699
Less allowance for doubtful accounts	(1,213)	(1,173)
Total current assets	263,462	276,209
Fixed assets		
Property, plant and equipment	83,415	84,009
Intangible fixed assets	6,350	5,764
Investments and advances		
Investments in securities	46,067	36,365
Other	23,196	23,438
Less allowance for doubtful accounts	(68)	(66)
Total investments and advances	69,194	59,737
Total fixed assets	158,960	149,512
<b>Total assets</b>	<b>¥422,422</b>	<b>¥425,722</b>

(¥ millions)

	At March 31, 2018 (Fiscal 2018)	At December 31, 2018 (Three Quarters of Fiscal 2019)
<b>LIABILITIES:</b>		
Current liabilities		
Notes and accounts payable	¥ 22,953	¥ 22,313
Electronically recorded obligations	32,771	32,469
Accrued income taxes	4,843	3,653
Accrued employee's bonuses	4,676	2,337
Allowance for product guarantee	4,602	4,200
Other allowances	976	724
Other	22,082	24,162
Total current liabilities	92,905	89,860
Long-term liabilities		
Allowance environmental measures	2,255	2,255
Reserves	147	104
Net defined benefit liabilities	10,466	10,366
Other	8,682	8,821
Total long-term liabilities	21,551	21,547
<b>Total liabilities</b>	<b>114,457</b>	<b>111,407</b>
<b>NET ASSETS:</b>		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,756	8,756
Earned surplus	258,814	270,680
Treasury stock	(1,860)	(1,863)
Total shareholders' equity	272,170	284,033
Other comprehensive income:		
Unrealized gain on marketable securities	6,583	5,219
Foreign exchange translation adjustment	4,682	1,194
Remeasurements of defined benefit plans	3,846	3,461
Total other comprehensive income	15,112	9,874
Non-controlling interests	20,682	20,406
<b>Total net assets</b>	<b>307,965</b>	<b>314,314</b>
<b>Total liabilities and net assets</b>	<b>¥422,422</b>	<b>¥425,722</b>

**(2) Consolidated Statements of Income**

(¥ millions)

	<b>Three Quarters of Fiscal 2018 (From April 1 to December 31, 2017)</b>	<b>Three Quarters of Fiscal 2019 (From April 1 to December 31, 2018)</b>
Net sales	¥254,672	¥256,900
Cost of sales	170,892	173,260
Gross profit	83,780	83,639
Selling, general and administrative expenses	58,911	61,463
Operating income	24,868	22,175
Other income:		
Interest income	686	665
Dividends received	498	493
Foreign exchange income	79	250
Other	505	785
Total other income	1,769	2,194
Other expenses:		
Loss on retirement of fixed assets	99	186
Other	195	35
Total other expenses	294	222
Ordinary income	26,344	24,148
Extraordinary income:		
Insurance income	291	—
Compensation for expropriation	—	69
Total extraordinary income	291	69
Extraordinary loss:		
Loss on reduction of fixed assets	—	69
Total extraordinary loss	—	69
Income before income taxes	26,636	24,148
Income taxes (current)	7,900	6,831
Income taxes (deferred)	(57)	194
Total income taxes	7,842	7,026
Net income	18,793	17,121
Net income attributable to non-controlling interests	2,102	2,104
Net income attributable to owners of the parent company	¥ 16,690	¥ 15,017



## Consolidated Statements of Comprehensive Income

(¥ millions)

	<b>Three Quarters of Fiscal 2018 (From April 1 to December 31, 2017)</b>	<b>Three Quarters of Fiscal 2019 (From April 1 to December 31, 2018)</b>
Net Income	¥18,793	¥17,121
Other comprehensive income		
Unrealized gain on marketable securities	1,649	(1,366)
Foreign exchange translation adjustment	774	(4,520)
Remeasurements of defined benefit plans	(82)	(378)
Total other comprehensive income	2,342	(6,265)
Comprehensive income	21,135	10,855
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	19,011	9,779
Non-controlling interest	2,124	1,076

**(3) Noted to Quarterly Consolidated Financial Statements**  
**Assumptions for Going Concern**

Not applicable.

**Note on Major Changes in Shareholders' Equity**

Not applicable.

**Supplementary information**

***Application of "Partial Amendment of Accounting Standards for Tax Effect Accounting"***

Effective the period under review, the Corporation has applied "Partial Amendment of Accounting Standards for Tax Effect Accounting" (ASBJ Standard No. 28, February 16, 2018). As a result of this change, "Deferred tax assets" are now listed under "Investment and other assets" and "Deferred tax liabilities" are listed under "Long-term liabilities."

**Segment Information**

**First Three Quarters of the Fiscal Year Ended March 31, 2018**  
**(April 1 to December 31, 2017)**

(¥ millions)

	Reportable Segments							Others (Note 1)	Adjustments (Note 2)	Amounts on consolidated statements of income (Note 3)
	Japan	United States	Australia	China	South Korea	Indonesia	Total			
Sales										
Outside clients	¥139,635	¥19,819	¥18,169	¥30,928	¥24,137	¥8,779	¥241,471	¥13,201	¥ —	¥254,672
Intersegment	24,280	—	92	1,361	1,108	461	27,304	2,071	(29,376)	—
Total	163,916	19,819	18,262	32,290	25,246	9,240	268,775	15,273	(29,376)	254,672
Income (loss)	15,281	1,504	1,752	2,539	165	1,312	22,556	2,078	233	24,868

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.

**First Three Quarters of the Fiscal Year Ending March 31, 2019**  
**(April 1 to December 31, 2018)**

(¥ millions)

	Reportable Segments							Others (Note 1)	Adjustments (Note 2)	Amounts on consolidated statements of income (Note 3)
	Japan	United States	Australia	China	South Korea	Indonesia	Total			
Sales										
Outside clients	¥136,204	¥21,477	¥18,854	¥33,006	¥22,700	¥9,468	¥241,712	¥15,187	¥ —	¥256,900
Intersegment	26,404	—	100	1,213	826	531	29,075	2,004	(31,080)	—
Total	162,609	21,477	18,954	34,219	23,526	10,000	270,788	17,192	(31,080)	256,900
Income (loss)	14,090	579	1,699	2,549	(379)	1,278	19,816	2,429	(70)	22,175

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.