

Consolidated Financial Results

First Quarter of the Fiscal Year Ending March 2020

(April 1–June 30, 2019)

August 6, 2019

Listed Company Name: Rinnai Corporation

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

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

Representative: Hiroyasu Naito, President

Contact: Yasuo Koketsu, Director and Managing Executive Officer, General Manager of Administration Headquarters

TEL: +81 (52) 361-8211

Scheduled date for release of quarterly securities report: August 9, 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 Quarter of the Fiscal Year Ending March 31, 2020

(April 1– June 30, 2019; 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 2019	¥73,931 [-6.7%]	¥4,532 [-18.4%]	¥5,069 [-22.0%]	¥3,284 [-20.1%]
First Quarter to June 2018	¥79,266 [+4.2%]	¥5,553 [-14.0%]	¥6,495 [-8.4%]	¥4,108 [-9.6%]

Notes: Comprehensive income: First quarter of the year ending March 31, 2020; ¥2,929 million [+297.6%]

First quarter of the year ended March 31, 2019; ¥736 million [-87.2%]

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
First Quarter to June 2019	¥63.89	—
First Quarter to June 2018	79.94	—

(2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)
June 30, 2019	¥428,546	¥322,022	70.0%
March 31, 2019	430,885	320,696	69.4

(Reference) Equity capital: First quarter of the year ending March 31, 2020: ¥299,868 million

Year ended March 31, 2019: ¥299,136 million

II. Dividends

(Basis date)	Dividend per Share				
	1st Quarter (¥)	Interim (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2019	—	¥46.00	—	¥48.00	¥94.00
June 2019	—				
March 2020 (anticipated)		48.00	—	48.00	96.00

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

III. Forecast for the Fiscal Year Ending March 31, 2020 (Consolidated)

(April 1, 2019, to March 31, 2020)

(¥ millions/%)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (¥)
First half	¥164,000 [+0.8%]	¥11,500 [-6.8%]	¥12,100 [-14.5%]	¥7,700 [-12.5%]	¥149.81
Full year	356,000 [+2.3]	32,000 [+3.6]	34,000 [+2.0]	21,000 [+2.5]	408.56

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: Yes

(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, 2019: 51,616,463 shares

March 31, 2019: 51,616,463 shares

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

June 30, 2019: 217,028 shares

March 31, 2019: 216,771 shares

(c) Average number of shares during the term

First quarter of the fiscal year ending March 2020: 51,399,552 shares

First quarter of the fiscal year ended March 2019: 51,400,044 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 Tuesday, August 6, 2019.

1. Consolidated Performance

(1) Operating Results

In the first quarter under review (April 1–June 30, 2019), the world economy faced an increasing sense of uncertainty, reflecting economic slowdown in Europe and China and trade issues between the United States and China. This was despite moderate economic recovery in the United States. In Japan, the economy continued recovering, buoyed by improved corporate earnings and a turnaround in personal consumption.

In the domestic housing industry, growth in new housing starts slowed, especially for rental housing, and conditions remained generally weak in the absence of robust replacement demand.

Under these circumstances, the Rinnai Group entered the second year of its 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 are striving to help improve living standards in the global market. In addition to existing offerings, in the period under review we pursued initiatives aimed at creating unique products and services by incorporating and applying new technologies into our core technologies.

With respect to revenue, sales of water heaters in China, South Korea, and elsewhere declined year on year. On the earnings side, we posted a decrease in operating income due to lower sales overseas and increased materials costs. This was despite the benefits of cost reductions in Japan.

As a result, consolidated net sales for the period amounted to ¥73,931 million, down 6.7% from the previous corresponding period. Operating income declined 18.4%, to ¥4,532 million, and ordinary income fell 22.0%, to ¥5,069 million. Net income attributable to owners of the parent company decreased 20.1%, to ¥3,284 million.

Our results by geographical segment were as follows:

Japan

In Japan, sales edged down 0.3% year on year, to ¥38,533 million, due to lower sales of standalone water heaters and bath-filling water heaters, reflecting a shrinking water heater market. However, operating income jumped 23.2%, to ¥3,219 million, thanks to cost reductions for built-in stoves and clothes dryers that were launched in the previous year.

United States

In the United States, we enjoyed a 12.3% increase in sales, to ¥7,795 million, thanks to growing recognition of highly convenient tankless water heaters, as well as an increase the proportion of high-grade, high-efficiency water heaters sold. Due to a rise in purchasing costs, however, operating income declined 43.1%, to ¥230 million.

Australia

Sales in Australia climbed 9.5%, to ¥5,436 million, owing to healthy sales of mainstay tankless water heaters, as well as a nationwide rollout of storage-type water heaters and steady sales of air conditioners due to the expansion of handling stores. However, we posted an operating loss of ¥81 million due to higher purchasing costs stemming from a weak local currency and an increase in costs associated with expansion of local production.

China

In China, we reported a 36.3% year-on-year decline in sales, to ¥7,888 million, due to a fall in sales of water heaters as conditions in the housing appliance market worsening amid economic slowdown, as well as a recoil in demand for boilers in rural areas. Operating income declined 57.1%, to ¥453 million.

South Korea

In South Korea, sales declined 14.8% year on year, to ¥7,542 million, as market contraction

stemming from economic slowdown, as well as an onslaught of low-priced models offered by other companies, led to a decrease in sales of mainstay gas stoves and boilers. Operating income fell 82.8%, to ¥57 million.

Indonesia

In Indonesia, we posted a 16.6% decline in sales, to ¥2,152 million, due to a fall in sales volume stemming from distribution inventory adjustments. This was despite an expanding market for tabletop stoves. Operating income declined 30.7%, to ¥208 million.

(For references 1)

Sales Composition by Business Segment

(¥ millions; %)

	First Quarter to June 30, 2018		First Quarter to June 30, 2019		Change		Year to March 31, 2019	
	Amount	Amount	Amount	% of total	Amount	%	Amount	% of total
Water heaters	¥47,855	60.4%	¥42,989	58.1%	¥(4,865)	(10.2)%	¥202,630	58.2%
Kitchen appliances	19,389	24.5	18,698	25.3	(691)	(3.6)	88,322	25.4
Air conditioning appliances	2,940	3.7	3,421	4.6	480	16.3	19,642	5.6
Commercial-use equipment	2,259	2.9	1,818	2.5	(440)	(19.5)	8,452	2.4
Others	6,821	8.6	7,003	9.5	181	2.7	28,974	8.3
Total	¥79,266	100.0%	¥73,931	100.0%	¥(5,335)	(6.7)%	¥348,022	100.0%

(For references 2)

Overseas Sales

(¥ millions; %)

	First Quarter to June 30, 2018			First Quarter to June 30, 2019		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥27,985	¥14,593	¥42,578	¥21,398	¥15,862	¥37,260
II. Consolidated net sales	—	—	79,266	—	—	73,931
III. Composition ratio of overseas sales to consolidated net sales	35.3%	18.4%	53.7%	28.9%	21.5%	50.4%

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

(2) Financial Position

As of June 30, 2019, Rinnai had total assets of ¥428,546 million, down ¥2,339 million from March 31, 2019. Total liabilities decreased ¥3,665 million, to ¥106,523 million. Net assets were up ¥1,326 million, to ¥322,022 million. The equity ratio at the end of the period was 70.0%.

(3) Consolidated Performance Forecasts

Rinnai has not changed its forecasts for the first two-quarter period ending September 30, 2019, or the full-year period ending March 31, 2020. (Those forecasts were released on May 9, 2019.)

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2019 (Fiscal 2019)	At June 30, 2019 (First Quarter of Fiscal 2020)
ASSETS:		
Current assets		
Cash and deposits		
Notes and accounts receivable	¥140,264	¥149,574
Electronically recorded monetary claims	67,687	62,034
Marketable securities	9,290	8,083
Products	17,126	9,532
Raw materials and stores	28,988	31,876
Other	16,728	17,147
Less allowance for doubtful accounts	2,281	3,181
	(1,476)	(1,663)
Total current assets	280,891	279,766
Fixed assets		
Tangible fixed assets	82,854	86,008
Intangible fixed assets	5,743	3,773
Investments and advances		
Investments in securities	36,912	34,117
Other	24,541	24,937
Less allowance for doubtful accounts	(58)	(57)
Total investments and advances	61,395	58,997
Total fixed assets	149,993	148,780
Total assets	¥430,885	¥428,546

(¥ millions)

	At March 31, 2019 (Fiscal 2019)	At June 30, 2019 (First Quarter of Fiscal 2020)
LIABILITIES:		
Current liabilities		
Notes and accounts payable	¥ 20,446	¥ 18,755
Electronically recorded obligations	32,057	28,761
Accrued income taxes	4,863	3,012
Accrued employee's bonuses	4,540	2,052
Allowance for product guarantee	3,947	3,861
Other allowances	916	720
Other	21,577	27,417
Total current liabilities	88,350	84,580
Long-term liabilities		
Allowance environmental measures	2,255	2,255
Other allowances	109	97
Net defined benefit liabilities	10,401	10,360
Other	9,073	9,229
Total long-term liabilities	21,838	21,942
Total liabilities	110,188	106,523
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,756	8,756
Earned surplus	276,143	277,997
Treasury stock	(1,864)	(1,865)
Total shareholders' equity	289,495	291,348
Other comprehensive income:		
Unrealized gain on marketable securities	5,599	4,507
Foreign exchange translation adjustment	(488)	(276)
Remeasurements of defined benefit plans	4,529	4,289
Total of other comprehensive income	9,640	8,520
Non-controlling interests	21,560	22,153
Total net assets	320,696	322,022
Total liabilities and net assets	¥430,885	¥428,546

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

Consolidated Statements of Income

(¥ millions)

	First Quarter of Fiscal 2019 (From April 1 to June 30, 2018)	First Quarter of Fiscal 2020 (From April 1 to June 30, 2019)
Net sales	¥79,266	¥73,931
Cost of sales	52,415	50,571
Gross profit	26,850	23,359
Selling, general and administrative expenses	21,297	18,826
Operating income	5,553	4,532
Other income:		
Interest income	242	365
Dividends received	342	252
Other	111	—
Total other income	271	238
Other expenses:		
Interest expenses	0	11
Foreign exchange loss	—	203
Loss on retirement of fixed assets	19	79
Other	5	24
Total other expenses	25	319
Ordinary income	6,495	5,069
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	6,495	5,069
Income taxes (current)	2,860	2,278
Income taxes (deferred)	(1,199)	(946)
Total income taxes	1,660	1,332
Net income	4,834	3,736
Net income attributable to non-controlling interests	725	452
Net income attributable to owners of the parent company	¥ 4,108	¥ 3,284

Consolidated Statements of Comprehensive Income

(¥ millions)

	First Quarter of Fiscal 2019 (From April 1 to June 30, 2018)	First Quarter of Fiscal 2020 (From April 1 to June 30, 2019)
Income before minority interest	¥4,834	¥3,736
Other comprehensive income		
Unrealized gain on marketable securities	560	(1,093)
Foreign exchange translation adjustment	(4,538)	526
Remeasurements of defined benefit plans	(119)	(240)
Total of other comprehensive income	(4,097)	(807)
Comprehensive income	736	2,929
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	726	2,161
Non-controlling interest	10	768

(3) Noted to Quarterly Consolidated Financial Statements

Assumptions for Going Concern

Not applicable.

Major Changes in Shareholders' Equity

Not applicable.

(Change in Accounting Treatment)

Application of "Leases" (IFRS No. 16)

Effective from the first quarter under review, the Corporation has applied "Leases" (IFRS No. 16) to some of its foreign subsidiaries and using this as an accounting treatment for lessees, has, in principle, recorded assets and liabilities for all leases on its quarterly consolidated balance sheets. The Corporation applied an accepted transitional measure that recognizes a cumulative impact amount as of the application start date.

Note that the impact on quarterly consolidated statements due to application of this accounting treatment is minimal.

Segment Information

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

(¥ millions)

	Reportable Segments							Others (Note 1)	Adjustment s (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
Intersegme nt	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.

2. First Quarter of the Fiscal Year Ending March 31, 2020 (From April 1 to June 30, 2019)

(¥ millions)

	Reportable Segments							Others (Note 1)	Adjustment s (Note 2)	Amounts on consolidate statements of income (Note 3)
	Japan	United States	Australia	China	South Korea	Indonesia	Total			
Sales										
Outside clients	¥38,533	¥7,795	¥5,436	¥7,888	¥7,542	¥2,152	¥69,349	¥4,582	¥ —	¥73,931
Intersegme nt	9,629	—	25	320	167	133	10,275	511	(10,786)	—
Total	48,162	7,795	5,461	8,209	7,709	2,285	79,624	5,093	(10,786)	73,931
Income (loss)	3,219	230	(81)	453	57	208	4,087	649	(204)	4,532

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.