

Consolidated Financial Results

First Two Quarters of the Fiscal Year ending March 2020

(April 1, 2019 to September 30, 2019)

November 7, 2019

Listed Company Name: Rinnai Corporation

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

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

Representative: Hiroyasu Naito, President

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Anticipated date for releasing quarterly securities report: November 13, 2019

Anticipated date to begin distributing dividends: December 6, 2019

Supplemental information sheets of quarterly results: Yes

Information meeting of quarterly results: Yes (for analyst and institutional investors)

1. Performance for the Six Months Ended September 30, 2019

(April 1, 2019 – September 30, 2019; amounts less than one million are omitted)

(1) Consolidated Operating Results

(Millions of yen / %)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net income attributable to owners of the parent company (% change)
Two-quarter total at September 2019	¥160,361 (-1.5)	¥13,240 (+7.3)	¥13,849 (-2.1)	¥7,990 (-9.2)
Two-quarter total at September 2018	162,750 (+1.9)	12,338 (-11.4)	14,145 (-5.7)	8,802 (-6.7)

Note: Comprehensive Income: Six months ended September 30, 2019; ¥5,864 million (+11.0%)
Six months ended September 30, 2018; ¥5,281 million (-55.2%)

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2019	¥155.46	—
Two-quarter total at September 2018	171.25	—

Note: Percentage figures in net sales, operating income, ordinary income and net income columns indicate increase or decrease from the previous term.

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)
Two-quarter total at September 2019	¥430,762	¥324,913	70.3
Full-year at March 2019	430,885	320,696	69.4

(Reference) Equity capital: Six months ended September 30, 2019; ¥302,686 million
Year ended March 31, 2019; ¥299,136 million

2. Dividends

	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	3rd Quarter (¥)	Fiscal Year- End (¥)	Full Year (¥)
March 2019	—	¥46.00	—	¥48.00	¥94.00
March 2020	—	48.00	—	—	—
March 2020 (anticipated)	—	—	—	48.00	96.00

Note: Changes on the forecast in period under review: None

3. Forecast for the Fiscal Year Ending March 31, 2020

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

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net income attributable to owners of the parent company (% change)	Net Income per Share (¥)
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)
September 30, 2019: 51,616,463 shares
March 31, 2019: 51,616,463 shares
(b) Number of treasury stock shares at term-end
September 30, 2019: 217,339 shares
March 31, 2019: 216,771 shares
(c) Average number of shares during the term
First two quarters of the fiscal year ending March 2020: 51,399,424 shares
First two quarters of the fiscal year ended March 2019: 51,399,954 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 6 of this report.

* Supplemental information sheets of financial results are posted on the Corporation’s website on Thursday, November 7, 2019.

1. Consolidated Performance

(1) Operating Results

In the first two quarters under review (April 1–September 30, 2019), the world economy was characterized by uncertainty about the future, 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 employment conditions, as well as an increase in consumption due to a last-minute rush in demand ahead of the consumption tax hike.

The domestic housing industry saw a slowdown in growth of new housing starts, especially for rental properties. However, there was an uptrend in demand for renovation and replacement of housing appliances, reflecting the aforementioned demand rush ahead of the consumption tax hike.

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 an increase in operating income thanks to higher domestic sales and cost reductions in Japan.

As a result, consolidated net sales for the period amounted to ¥160,361 million, down 1.5% from the previous corresponding period. Operating income rose 7.3%, to ¥13,240 million, while ordinary income slipped 2.1%, to ¥13,849 million, due to foreign exchange losses stemming from the appreciation of the yen. Net income attributable to owners of the parent company fell 9.2%, to ¥7,990 million, due to provision of an allowance for early retirement bonuses by Rinnai Korea aimed at business improvement.

Our results by geographical segment were as follows:

Japan

In Japan, sales grew 4.7% year on year, to ¥85,557 million, due to a rush in demand ahead of the consumption tax hike, as well as steady sales of built-in stovetops and gas clothes dryers. Operating income jumped 40.9%, to ¥9,048 million, thanks to higher sales in addition to improved profits stemming from cost reduction activities.

United States

In the United States, we enjoyed an 11.0% increase in sales, to ¥15,766 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. Operating income jumped 67.6%, to ¥681 million, thanks to a decrease in strategic sales promotion expenditures in the previous year.

Australia

Sales in Australia rose 1.3%, to ¥12,290 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 increases in stores. However, operating income fell 56.3%, to ¥533 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 19.8% year-on-year decline in sales, to ¥18,891 million, due to a fall in sales of water heaters as conditions in the housing appliance market worsening amid economic slowdown, as well as weakening demand for boilers in rural areas. Operating income declined 9.1%, to ¥1,903 million.

South Korea

In South Korea, sales fell 14.1% year on year, to ¥13,738 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. We posted an operating loss of ¥234 million.

Indonesia

In Indonesia, we reported a 7.3% decline in sales, to ¥4,828 million, due to lack of strength in the market for mainstay tabletop stoves. Operating income declined 39.0%, to ¥378 million.

References 1: Net sales by product

(¥ millions; %)

	First two quarters for the year ended March 31, 2019 (April 1, 2018, to Sept. 30, 2018)		First two quarters for the year ending March 31, 2020 (April 1, 2019, to Sept. 30, 2019)		Change		Year ended March 31, 2019 (April 1, 2018, to March 31, 2019)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Water heaters	¥ 95,585	58.7	¥ 90,686	56.6	¥ (4,899)	(5.1)	¥202,630	58.2
Kitchen appliances	40,235	24.7	41,676	26.0	1,441	3.6	88,322	25.4
Air conditioning appliances	8,698	5.3	9,376	5.8	677	7.8	19,642	5.6
Commercial-use equipment	4,094	2.5	3,962	2.5	(132)	(3.2)	8,452	2.4
Others	14,136	8.7	14,659	9.1	523	3.7	28,974	8.3
Total	¥ 162,750	100.0	¥ 160,361	100.0	¥ (2,389)	(1.5)	¥348,022	100.0

References 2: Overseas sales

(¥ millions; %)

	First two quarters for the year ended March 31, 2019 (April 1, 2018, to Sept. 30, 2018)			First two quarters for the year ending March 31, 2020 (April 1, 2019, to Sept. 30, 2019)		
	Asia	Other regions	Total	Asia	Other regions	Total
I. Overseas sales	¥53,091	¥32,208	¥ 85,300	¥45,025	¥33,589	¥ 78,614
II. Consolidated net sales	—	—	162,750	—	—	160,361
III. Composition ratio of overseas sales to consolidated net sales	32.6%	19.8%	52.4%	28.1%	20.9%	49.0%

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

(2) Financial Position

As of September 30, 2019, Rinnai had total assets of ¥430,762 million, down ¥122 million from March 31, 2018. Total liabilities declined ¥4,339 million, to ¥105,849 million. Net assets were up ¥4,216 million, to ¥324,913 million. The equity ratio at the end of the period was 70.3%.

Cash Flows

Cash and cash equivalents at September 30, 2019, stood at ¥125,725 million, up ¥9,592 million from March 31, 2019.

Net cash provided by operating activities amounted to ¥8,586 million, up 3.0% from the previous corresponding period. The main factor was the secured operating income, which contrasted with a decrease in trade payables.

Net cash used in investing activities totaled ¥4,827 million, from ¥367 million at the previous corresponding period. The main factor was sale and redemption of investments in securities.

Net cash used in financing activities was ¥3,460 million, down 8.3% from the previous corresponding period. This was due mainly to payment of dividends.

(3) Consolidated Performance Forecasts

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

3. Consolidated Quarterly Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2019 (Year ended March 31, 2019)	At Sept. 30, 2019 (First two quarters for the year ending March 31, 2020)
	Amount	Amount
ASSETS		
Current assets		
Cash and deposits	¥140,264	¥150,353
Notes and accounts receivable	67,687	70,187
Electronically recorded monetary claims	9,290	6,834
Marketable securities	17,126	5,727
Products	28,988	29,435
Raw materials and stores	16,728	16,991
Other	2,281	2,305
Less allowance for doubtful accounts	(1,476)	(1,614)
Total current assets	280,891	280,221
Fixed assets		
Property, plant and equipment	82,854	84,666
Intangible fixed assets	5,743	3,727
Investments and advances		
Investments in securities	36,912	37,481
Other	24,541	24,720
Less allowance for doubtful accounts	(58)	(56)
Total investments and advances	61,395	62,146
Total fixed assets	149,993	150,540
Total assets	¥430,885	¥430,762

(¥ millions)

	At March 31, 2019 (Year ended March 31, 2019)	At Sept. 30, 2019 (First two quarters for the year ending March 31, 2020)
	Amount	Amount
LIABILITIES		
Current liabilities		
Notes and accounts payable	¥ 20,446	¥ 19,311
Electronically recorded obligations	32,057	28,319
Accrued corporate taxes	4,863	3,631
Accrued employee's bonuses	4,540	4,383
Allowance for product guarantee	3,947	3,727
Other allowances	916	670
Other	21,577	23,858
Total current liabilities	88,350	83,901
Long-term liabilities		
Allowance environmental measures	2,255	2,255
Reserves	109	96
Net defined benefit liabilities	10,401	9,804
Other	9,073	9,791
Total long-term liabilities	21,838	21,947
Total liabilities	110,188	105,849
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,756	8,756
Earned surplus	276,143	282,704
Treasury stock	(1,864)	(1,868)
Total shareholders' equity	289,495	296,052
Other comprehensive income:		
Unrealized gain on marketable securities	5,599	5,357
Foreign exchange translation adjustment	(488)	(2,775)
Remeasurements of defined benefit plans	4,529	4,051
Total other comprehensive income	9,640	6,633
Non-controlling interests	21,560	22,226
Total net assets	320,696	324,913
Total liabilities and net assets	¥430,885	¥430,762

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

Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2019 (April 1, 2018, to Sept. 30, 2018)	First two quarters for the year ending March 31, 2020 (April 1, 2019, to Sept. 30, 2019)
	Amount	Amount
Net sales	¥162,750	¥160,361
Cost of Sales	109,507	108,508
Gross Profit	53,242	51,853
Selling, general and administrative expenses	40,904	38,613
Operating income	12,338	13,240
Other income:		
Interest income	466	579
Dividends received	395	270
Foreign exchange income	421	—
Other	600	338
Total other income	1,882	1,188
Other expenses:		
Interest expenses	0	21
Foreign exchange loss	—	341
Loss on retirement of fixed assets	51	135
Other	23	79
Total other expenses	75	578
Ordinary income	14,145	13,849
Extraordinary income		
Subsidy income	69	—
Total extraordinary income	69	—
Extraordinary loss:		
Loss on reduction of fixed assets	—	712
	69	—
Total extraordinary loss	69	712
Income before income taxes	14,145	13,137
Income taxes:		
Current	4,305	4,072
Deferred	(437)	(237)
Total income taxes	3,867	3,835
Net income	10,277	9,301
Net income attributable to non-controlling interests	1,475	1,310
Net income attributable to owners of the parent company	¥ 8,802	¥ 7,990

Consolidated Statements of Comprehensive Income

(¥ millions)

	First two quarters for the year ended March 31, 2019 (April 1, 2018, to Sept. 30, 2018)	First two quarters for the year ending March 31, 2020 (April 1, 2019, to Sept. 30, 2019)
	Amount	Amount
Net Income	¥ 10,277	¥ 9,301
Other comprehensive income		
Unrealized gain on marketable securities	601	(242)
Foreign exchange translation adjustment	(5,350)	(2,716)
Remeasurements of defined benefit plans	(247)	(477)
Total other comprehensive income	(4,996)	(3,436)
Comprehensive income	5,281	5,864
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	4,781	4,980
Non-controlling interest	500	883

(3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ended March 31, 2019 (April 1, 2018, to Sept. 30, 2018)	First two quarters for the year ending March 31, 2020 (April 1, 2019, to Sept. 30, 2019)
Cash flows from operating activities		
Income before income taxes	¥ 14,145	¥ 13,137
Depreciation and amortization	5,410	5,565
Decrease (increase) in trade receivables	3,692	3,407
Decrease (increase) in inventories	(6,103)	(1,710)
Increase (decrease) in trade payables	(5,180)	(7,079)
Other	697	(541)
Subtotal	12,661	12,779
Interest and dividends received	837	888
Subsidy received	196	254
Interest paid	(5)	(26)
Income taxes paid	(5,355)	(5,309)
Net cash provided by operating activities	8,334	8,586
Cash flows from investing activities		
Transfers to time deposits	(17,678)	(20,095)
Withdrawals from time deposits	18,059	19,372
Purchases of tangible fixed assets	(7,367)	(4,631)
Purchases of investments in securities	(3,915)	(2,648)
Sale and redemption of investments in securities	10,511	13,157
Other	23	(327)
Net cash used in investing activities	(367)	4,827
Cash flows from financing activities		
Dividends paid	(2,363)	(2,466)
Dividends paid to non-controlling shareholders	(1,367)	(840)
Other	(40)	(153)
Net cash used in financing activities	(3,771)	(3,460)
Effect of exchange rate fluctuations on cash and cash equivalents	(1,322)	(610)
Net increase (decrease) in cash and cash equivalents	2,872	9,342
Cash and cash equivalents at beginning of term	101,697	116,133
Increase in cash and cash equivalents from newly consolidated subsidiary	21	249
Cash and cash equivalents at end of term	¥104,592	¥125,725

(4) Notes to Quarterly Consolidated Financial Statements

Assumptions for Going Concern

Not applicable.

Notes on Major Changes in Shareholders' Equity

Not applicable.

(Change in Accounting Treatment)

Application of "Leases" (IFRS No. 16)

Effective from the first quarter of the current fiscal year, 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

I. First two quarters for the year ended March 31, 2019 (April 1, 2018, to Sept. 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	¥ 81,736	¥14,202	¥12,138	¥23,549	¥15,989	¥5,211	¥152,827	¥9,923	¥ —	¥162,750
Intersegment	18,801	—	73	718	508	318	20,419	1,303	(21,723)	—
Total	100,537	14,202	12,211	24,267	16,497	5,529	173,246	11,227	(21,723)	162,750
Income	6,422	406	1,220	2,095	187	620	10,952	1,538	(152)	12,338

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" is adjusted from operating income on Consolidated Statement of Income.

II. First two quarters for the year ending March 31, 2020 (April 1, 2019, to Sept. 30, 2019)

(¥ 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	¥ 85,557	¥15,766	¥12,290	¥18,891	¥13,738	¥4,828	¥151,072	¥9,288	¥ —	¥160,361
Intersegment	18,208	—	72	780	354	234	19,651	1,096	(20,748)	—
Total	103,766	15,766	12,363	19,672	14,093	5,063	170,724	10,385	(20,748)	160,361
Income	9,048	681	533	1,903	(234)	378	12,311	1,259	(330)	13,240

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" is adjusted from operating income on Consolidated Statement of Income.