

Consolidated Financial Results

First Three Quarters of the Fiscal Year Ending March 2020

(April 1–December 31, 2019)

February 12, 2020

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, 2020

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, 2020

(April 1–December 31, 2019; 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. 2019	¥251,851 [-2.0%]	¥24,445 [+10.2%]	¥25,471 [+5.5%]	¥15,354 [+2.2%]
Three Quarters to Dec. 2018	256,900 [+0.9%]	22,175 [-10.8%]	24,148 [-8.3%]	15,017 [-10.0%]

(Reference)

Comprehensive Income: First three quarters of the year ending March 31, 2020; ¥12,173 million (+12.1%)
First three quarters of the year ended March 31, 2019; ¥10,855 million (-48.6%)

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Three Quarters to Dec. 2019	¥298.72	—
Three Quarters to Dec. 2018	292.16	—

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, 2019	¥437,330	¥328,758	70.0%
March 31, 2019	430,885	320,696	69.4

(Reference) Equity capital: Three quarters of the year ending March 31, 2020; ¥306,224 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
March 2020	—	48.00	—		
March 2020 (anticipated)				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 attributable to owners of the parent company	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: Changes in performance forecasts since most recent announcement: 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)

December 31, 2019: 51,616,463 shares

March 31, 2019: 51,616,463 shares

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

December 31, 2019: 217,448 shares

March 31, 2019: 216,771 shares

(c) Average number of shares during the term

First three quarters of the fiscal year ending March 2020: 51,399,319 shares

First three quarters of the fiscal year ended March 2019: 51,399,895 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 Wednesday, February 12, 2020.

1. Consolidated Performance

(1) Operating Results

In the first three quarters under review (April 1–December 31, 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, as well as tensions in the Middle East and other factors. This was despite moderate economic recovery in the United States. In Japan, the economy continued recovering moderately, buoyed by improved corporate earnings and employment conditions.

However, weaknesses have emerged, especially in the manufacturing industry, and consumption trends after the consumption tax hike have been severe in some areas.

The domestic housing industry saw a slowdown in growth of new housing starts, especially for rental properties, while demand for home renovation and replacement of housing appliances recoiled in the aftermath 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, we posted a decline in net sales, due partly to lower sales in South Korea. On the earnings side, we reported an increase in operating income thanks to higher domestic sales and cost reductions in Japan, as well as healthy sales of tankless water heaters in the United States.

As a result, consolidated net sales for the period amounted to ¥251,851 million, down 2.0% from the previous corresponding period. Operating income rose 10.2%, to ¥24,445 million, and ordinary income climbed 5.5%, to ¥25,471 million. Net income attributable to owners of the parent company increased 2.2%, to ¥15,354 million.

Our results by geographical segment were as follows:

Japan

In Japan, sales grew 1.4% year on year, to ¥138,174 million, buoyed by strong sales of gas clothes dryers. This was despite a recoil in demand for built-in hobs (stovetops) following the consumption tax hike. (There was a rush in such demand ahead of the consumption tax hike.) Operating income jumped 20.3%, to ¥16,943 million, thanks to higher sales in addition to improved profits stemming from cost reduction activities.

United States

In the United States, we enjoyed an 11.2% increase in sales, to ¥23,892 million, thanks to growing sales of highly convenient tankless water heaters, as well as an increase the proportion of high-grade, high-efficiency water heaters sold. Operating income jumped 110.4%, to ¥1,219 million, boosted by a decrease in sales promotion expenditures.

Australia

Our business in Australia benefited from healthy sales of mainstay tankless water heaters, a nationwide rollout of storage-type water heaters, and steady sales of air conditioners thanks to an increase in the number of stores. Due to foreign exchange factors, however, sales declined 3.9%, to ¥18,123 million. Operating income fell 58.5%, to ¥705 million, due to rising purchasing costs stemming from depreciation of the local currency.

China

In China, we reported a 9.5% year-on-year decrease in sales, to ¥29,863 million, due to a significant decline in demand for boilers in rural areas. However, operating income increased

12.3%, to ¥2,862 million, thanks to a recovery in sales of high-value-added water heaters and the inclusion of Guangzhou Rinnai Gas and Electric Appliance Co., Ltd. in the scope of consolidation.

South Korea

In South Korea, sales fell 13.7% year on year, to ¥19,590 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 ¥539 million.

Indonesia

In Indonesia, we reported a 15.5% decline in sales, to ¥7,999 million, due to lack of strength in the market for mainstay tabletop stoves. Operating income fell 21.4%, to ¥1,004 million.

(For references 1) Sales Composition by Business Segment

(¥ millions; %)

	Three Quarters to Dec. 31, 2018		Three Quarters to Dec. 31, 2019		Change		Year to March 31, 2019	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Water heaters	¥147,374	57.4%	¥141,793	56.3%	¥(5,581)	(3.8)%	¥202,630	58.2%
Kitchen appliances	67,388	26.2	66,325	26.3	(1,063)	(1.6)	88,322	25.4
Air conditioning appliances	14,968	5.8	14,695	5.8	(272)	(1.8)	19,642	5.6
Commercial-use equipment	6,159	2.4	6,265	2.5	106	1.7	8,452	2.4
Others	21,009	8.2	22,772	9.0	1,762	8.4	28,974	8.3
Total	¥256,900	100.0%	¥251,851	100.0%	¥(5,048)	(2.0)%	¥348,022	100.0%

(For references 2) Overseas Sales

(¥ millions; %)

	Three Quarters to Dec. 31, 2018			Three Quarters to Dec. 31, 2019		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥78,327	¥49,125	¥127,452	¥69,298	¥50,645	¥119,943
II. Consolidated net sales	—	—	256,900	—	—	251,851
III. Composition ratio of overseas sales to consolidated net sales	30.5%	19.1%	49.6%	27.5%	20.1%	47.6%

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

(2) Financial Position

As of December 31, 2019, Rinnai had total assets of ¥437,330 million, up ¥6,444 million from March 31, 2019. Total liabilities declined ¥1,617 million, to ¥108,571 million. Net assets were up ¥8,062 million, to ¥328,758 million. The equity ratio at the end of the period was 70.0%.

(3) Explanation about 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.)

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2019 (Fiscal 2019)	At December 31, 2019 (Three Quarters of Fiscal 2020)
ASSETS:		
Current assets		
Cash and deposits	¥140,264	¥149,083
Notes and accounts receivable	67,687	73,433
Electronically recorded monetary claims	9,290	9,793
Marketable securities	17,126	6,807
Products	28,988	30,773
Raw materials and stores	16,728	16,684
Other	2,281	2,587
Less allowance for doubtful accounts	(1,476)	(1,565)
Total current assets	280,891	287,596
Fixed assets		
Property, plant and equipment	82,854	83,329
Intangible fixed assets	5,743	3,547
Investments and advances		
Investments in securities	36,912	38,479
Other	24,541	24,441
Less allowance for doubtful accounts	(58)	(65)
Total investments and advances	61,395	62,855
Total fixed assets	149,993	149,733
Total assets	¥430,885	¥437,330

(¥ millions)

	At March 31, 2019 (Fiscal 2019)	At December 31, 2019 (Three Quarters of Fiscal 2020)
LIABILITIES:		
Current liabilities		
Notes and accounts payable	¥ 20,446	¥ 19,409
Electronically recorded obligations	32,057	31,777
Accrued income taxes	4,863	3,071
Accrued employee's bonuses	4,540	2,319
Allowance for product guarantee	3,947	3,605
Other allowances	916	650
Other	21,577	24,850
Total current liabilities	88,350	85,686
Long-term liabilities		
Allowance environmental measures	2,255	2,255
Reserves	109	96
Net defined benefit liabilities	10,401	9,751
Other	9,073	10,782
Total long-term liabilities	21,838	22,885
Total liabilities	110,188	108,571
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,756	8,756
Earned surplus	276,143	287,600
Treasury stock	(1,864)	(1,868)
Total shareholders' equity	289,495	300,948
Other comprehensive income:		
Unrealized gain on marketable securities	5,599	6,170
Foreign exchange translation adjustment	(488)	(4,706)
Remeasurements of defined benefit plans	4,529	3,811
Total other comprehensive income	9,640	5,276
Non-controlling interests	21,560	22,534
Total net assets	320,696	328,758
Total liabilities and net assets	¥430,885	¥437,330

(2) Consolidated Statements of Income

(¥ millions)

	Three Quarters of Fiscal 2019 (From April 1 to December 31, 2018)	Three Quarters of Fiscal 2020 (From April 1 to December 31, 2019)
Net sales	¥256,900	¥251,851
Cost of sales	173,260	168,333
Gross profit	83,639	83,517
Selling, general and administrative expenses	61,463	59,072
Operating income	22,175	24,445
Other income:		
Interest income	665	812
Dividends received	493	392
Foreign exchange income	250	—
Other	785	489
Total other income	2,194	1,693
Other expenses:		
Interest expenses	0	31
Foreign exchange loss	—	245
Loss on retirement of fixed assets	186	274
Other	35	117
Total other expenses	222	667
Ordinary income	24,148	25,471
Extraordinary income:		
Subsidy income	69	—
Total extraordinary income	69	—
Extraordinary loss:		
Special retirement expenses	—	697
Loss on reduction of fixed assets	69	—
Total extraordinary loss	69	697
Income before income taxes	24,148	24,773
Income taxes (current)	6,831	6,664
Income taxes (deferred)	194	642
Total income taxes	7,026	7,307
Net income	17,121	17,466
Net income attributable to non-controlling interests	2,104	2,111
Net income attributable to owners of the parent company	¥ 15,017	¥ 15,354

Consolidated Statements of Comprehensive Income

(¥ millions)

	Three Quarters of Fiscal 2019 (From April 1 to December 31, 2018)	Three Quarters of Fiscal 2020 (From April 1 to December 31, 2019)
Net Income	¥17,121	¥17,466
Other comprehensive income		
Unrealized gain on marketable securities	(1,366)	570
Foreign exchange translation adjustment	(4,520)	(5,147)
Remeasurements of defined benefit plans	(378)	(716)
Total other comprehensive income	(6,265)	(5,292)
Comprehensive income	10,855	12,173
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	9,779	10,986
Non-controlling interest	1,076	1,186

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

Not applicable.

Note 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

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

	Reportable Segments							Others (Note 1)	Adjustments (Note 2)	Amounts on consolidated statements of income (Note 3)
	Japan	United States	Australia	China	South Korea	Indonesi a	Total			
Sales										
Outside client	¥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.

First Three Quarters of the Fiscal Year Ending March 31, 2020 (April 1 to December 31, 2019)

	Reportable Segments							Others (Note 1)	Adjustments (Note 2)	Amounts on consolidated statements of income (Note 3)
	Japan	United States	Australia	China	South Korea	Indonesi a	Total			
Sales										
Outside client	¥138,174	¥23,892	¥18,123	¥29,863	¥19,590	¥7,999	¥237,643	¥14,207	¥ —	¥251,851
Intersegment	26,582	—	106	1,202	705	414	29,011	1,732	(30,743)	—
Total	164,756	23,892	18,230	31,065	20,296	8,414	266,654	15,939	(30,743)	251,851
Income (loss)	16,943	1,219	705	2,862	(539)	1,004	22,197	2,102	145	24,445

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.