

Consolidated Financial Results

First Two Quarters of the Fiscal Year ending March 2021

(April 1, 2020 to September 30, 2020)

November 6, 2020

Listed Company Name: Rinnai Corporation

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

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

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Anticipated date for releasing quarterly securities report: November 12, 2020

Anticipated date to begin distributing dividends: December 7, 2020

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, 2020

(April 1, 2020 – September 30, 2020; 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 2020	¥148,945 (-7.1)	¥12,957 (-2.1)	¥13,920 (+0.5)	¥10,029 (+25.5)
Two-quarter total at September 2019	160,361 (-1.5)	13,240 (+7.3)	13,849 (-2.1)	7,990 (-9.2)

Note: Comprehensive Income: Six months ended September 30, 2020; ¥7,275 million (+24.0%)
Six months ended September 30, 2019; ¥5,864 million (+11.0%)

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2020	¥195.13	—
Two-quarter total at September 2019	155.46	—

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 2020	¥447,751	¥344,662	71.4
Full-year at March 2020	450,486	340,959	70.1

(Reference) Equity capital: Six months ended September 30, 2020; ¥319,622 million
Year ended March 31, 2020; ¥315,615 million

2. Dividends

	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	3rd Quarter (¥)	Fiscal Year- End (¥)	Full Year (¥)
March 2020	—	¥48.00	—	¥50.00	¥98.00
March 2021	—	55.00	—	—	—
March 2021 (anticipated)	—	—	—	55.00	110.00

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

Note: Composition of interim dividends of Fiscal 2021; common dividends ¥50.00, memorable dividends of the 100th anniversary of its founding ¥5.00

Composition of year-end dividends of Fiscal 2021 (anticipated); common dividends ¥50.00, memorable dividends of the 100th anniversary of its founding ¥5.00

3. Forecast for the Fiscal Year Ending March 31, 2021

(April 1, 2020, to March 31, 2021)

(¥ 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	¥325,000 (-4.5)	¥32,000 (-7.0)	¥33,000 (-7.5)	¥21,500 (-0.3)	¥418.30

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)

September 30, 2021: 51,616,463 shares

March 31, 2020: 51,616,463 shares

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

September 30, 2021: 218,033 shares

March 31, 2021: 217,646 shares

(c) Average number of shares during the term

First two quarters of the fiscal year ending March 2021: 51,398,607 shares

First two quarters of the fiscal year ended March 2020: 51,399,424 shares

* This report is exempt from a quarterly review process by certified public accountant or audit corporation.

*** 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 Friday, November 6, 2020.

1. Consolidated Performance

(1) Operating Results

In the first two quarters under review, the world economy was heavily affected by the spread of COVID-19. Although there has been a gradual resumption of economic activity, the pandemic has not subsided and the situation remains serious. In Japan, there have been signs of economic recovery since the lifting of emergency declarations, but the outlook remains uncertain due to concerns about the re-emergence of COVID-19.

The domestic housing industry saw an ongoing moderate decline in new housing starts for both rental and owner-occupied properties. While sales activities have resumed in the household appliance industry, there has been no recovery in demand due to a decrease in opportunities for contact with consumers stemming from restraint in our participation in trade shows and other events.

Under these circumstances, the Rinnai Group entered the final 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 sought to create unique products and services by incorporating new technologies into our core technologies, in addition to supplying existing offerings.

In the current fiscal year, the Group celebrated the 100th anniversary of its founding. As a company that creates healthy and comfortable lifestyles, we are promoting various measures to target sustainable growth for the next 100 years.

In the period under review, we posted a year-on-year decline in net sales, due to the impact of COVID-19 on economic activities. During the period, we made relentless Groupwide efforts to cut basic costs while striving to increase sales of high-value-added products. However, these actions failed to compensate for a decrease in gross profit stemming from the fall in net sales, leading to a decline in operating income.

As a result, consolidated net sales for the period amounted to ¥148,945 million, down 7.1% from the previous corresponding period. Operating income slipped 2.1%, to ¥12,957 million, while ordinary income edged up 0.5%, to ¥13,920 million, partly due to a decrease in foreign exchange losses. Net income attributable to owners of the parent company jumped 25.5%, to ¥10,029 million, owing to a gain on sales of investment securities, reported as extraordinary income.

Our results by geographical segment were as follows:

Japan

In Japan, we enjoyed growth in sales of gas clothes dryers and dishwasher/dryers, as well as healthy sales of gas stoves with automatic cooking functions amid growing demand among people staying at home due to the COVID-19 pandemic. However, we were unable to surpass the previous year's performance, when we enjoyed a rush in demand ahead of the consumption tax hike. As a result, sales in Japan declined 6.2% year on year, to ¥80,285 million, and operating income decreased 4.9%, to ¥8,601 million.

United States

In the United States, amid growing sales of highly convenient tankless water heaters, we enjoyed strong replacement sales of water heaters thanks to growing demand among people staying at home due to the COVID-19 pandemic. Moreover, the impact of the pandemic on water heater sales in the northeast part of the nation was limited. As a result, sales increased 7.6%, to ¥16,959 million, and operating income rose 17.5%, to ¥801 million.

Australia

Our business in Australia benefited from healthy sales of mainstay tankless water heaters, as well as steady sales of storage-type water heaters. As a result, sales in local-currency terms increased year on year. Due to foreign exchange factors, however, yen-based sales declined 2.1%, to ¥12,028 million. We also incurred higher purchasing costs stemming from depreciation of the local currency. Accordingly, operating income fell 20.5%, to ¥424 million.

China

In China, we saw continued recovery, especially in online sales, following the lifting of restrictions on economic activities related to COVID-19. However, our performance was impacted by a major decline in revenue at the beginning of the fiscal year. As a result, sales declined 23.8% year-on-year, to ¥14,395 million, and operating income fell 39.9%, to ¥1,144 million.

South Korea

In South Korea, we reported increases in sales of both gas and electric stoves thanks to emergency disaster relief funds provided by the government to address the COVID-19 pandemic. However, we faced intensifying competition in the market for high-efficiency boilers due to stricter environmental regulations. Accordingly, sales declined 11.1%, to ¥12,210 million, and we posted an operating loss of ¥376 million.

Indonesia

In Indonesia, we reported a year-on-year increase in local-currency sales as demand for tabletop stoves, which has been affected by the COVID-19 pandemic, began recovering in June. Due to foreign exchange factors, however, yen-based sales edged down 0.4%, to ¥4,811 million. Nevertheless, we posted healthy sales of high-priced built-in hobs (stovetops) and range hoods. As a result, operating income jumped 124.8%, to ¥851 million.

References 1: Net sales by product

(¥ millions; %)

	First two quarters for the year ended March 31, 2020 (April 1, 2019, to Sept. 30, 2019)		First two quarters for the year ending March 31, 2021 (April 1, 2020, to Sept. 30, 2020)		Change		Year ended March 31, 2020 (April 1, 2019, to March 31, 2020)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Water heaters	¥ 90,686	56.6	¥ 82,167	55.2	¥ (8,518)	(9.4)	¥196,122	57.6
Kitchen appliances	41,676	26.0	40,233	27.0	(1,442)	(3.5)	86,193	25.3
Air conditioning appliances	9,376	5.8	8,243	5.5	(1,132)	(12.1)	18,901	5.6
Commercial-use equipment	3,962	2.5	3,569	2.4	(393)	(9.9)	8,556	2.5
Others	14,659	9.1	14,731	9.9	71	0.5	30,685	9.0
Total	¥ 160,361	100.0	¥ 148,945	100.0	¥ (11,416)	(7.1)	¥340,460	100.0

References 2: Overseas sales

(¥ millions; %)

	First two quarters for the year ended March 31, 2020 (April 1, 2019, to Sept. 30, 2019)			First two quarters for the year ending March 31, 2021 (April 1, 2020, to Sept. 30, 2020)		
	Asia	Other regions	Total	Asia	Other regions	Total
I. Overseas sales	¥45,025	¥33,589	¥ 78,614	¥38,832	¥32,993	¥ 71,826
II. Consolidated net sales	—	—	160,361	—	—	148,945
III. Composition ratio of overseas sales to consolidated net sales	28.1%	20.9%	49.0%	26.1%	22.2%	48.2%

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

(2) Financial Position

As of September 30, 2020, Rinnai had total assets of ¥447,751 million, down ¥2,735 million from March 31, 2020. Total liabilities declined ¥6,438 million, to ¥103,088 million. Net assets were up ¥3,703 million, to ¥344,662 million. The equity ratio at the end of the period was 71.4%.

Cash Flows

Cash and cash equivalents at September 30, 2020, stood at ¥143,550 million, up ¥3,411 million from March 31, 2020.

Net cash provided by operating activities amounted to ¥12,498 million, up 45.6% from the previous corresponding period. The main factor was the secured operating income and a cash decrease due to income taxes paid.

Net cash used in investing activities totaled ¥4,498 million, from ¥4,827 million of net cash provided by investing activities at the previous corresponding period. Main factors were purchases of tangible fixed assets.

Net cash used in financing activities was ¥3,936 million, up 13.7% 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, 2021. (Those forecasts were released on August 6, 2020.)

3. Consolidated Quarterly Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2020 (Year ended March 31, 2020)	At Sept. 30, 2020 (First two quarters for the year ending March 31, 2021)
	Amount	Amount
ASSETS		
Current assets		
Cash and deposits	¥167,090	¥169,073
Notes and accounts receivable	67,776	63,790
Electronically recorded monetary claims	8,199	7,099
Marketable securities	6,364	9,837
Products	27,490	27,797
Raw materials and stores	17,138	17,545
Other	2,743	2,260
Less allowance for doubtful accounts	(2,090)	(1,836)
Total current assets	294,713	295,567
Fixed assets		
Property, plant and equipment	84,633	84,325
Intangible fixed assets	3,480	3,190
Investments and advances		
Investments in securities	40,865	38,376
Other	26,851	26,347
Less allowance for doubtful accounts	(58)	(56)
Total investments and advances	67,659	64,667
Total fixed assets	155,773	152,183
Total assets	¥450,486	¥447,751

(¥ millions)

	At March 31, 2020 (Year ended March 31, 2020)	At Sept. 30, 2020 (First two quarters for the year ending March 31, 2021)
	Amount	Amount
LIABILITIES		
Current liabilities		
Notes and accounts payable	¥ 18,392	¥ 17,880
Electronically recorded obligations	30,851	26,113
Accrued corporate taxes	4,834	4,106
Accrued employee's bonuses	4,497	4,316
Allowance for product guarantee	3,504	3,380
Other allowances	988	858
Other	23,538	23,905
Total current liabilities	86,607	80,561
Long-term liabilities		
Allowance environmental measures	2,255	2,255
Reserves	108	89
Net defined benefit liabilities	9,503	9,350
Other	11,053	10,831
Total long-term liabilities	22,919	22,527
Total liabilities	109,527	103,088
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,756	8,648
Earned surplus	293,807	301,267
Treasury stock	(1,870)	(1,873)
Total shareholders' equity	307,153	314,501
Other comprehensive income:		
Unrealized gain on marketable securities	5,144	5,076
Foreign exchange translation adjustment	(1,908)	(4,730)
Remeasurements of defined benefit plans	5,225	4,774
Total other comprehensive income	8,461	5,120
Non-controlling interests	25,343	25,040
Total net assets	340,959	344,662
Total liabilities and net assets	¥450,486	¥447,751

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

Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2020 (April 1, 2019, to Sept. 30, 2019)	First two quarters for the year ending March 31, 2021 (April 1, 2020, to Sept. 30, 2020)
	Amount	Amount
Net sales	¥160,361	¥148,945
Cost of Sales	108,508	100,568
Gross Profit	51,853	48,377
Selling, general and administrative expenses	38,613	35,419
Operating income	13,240	12,957
Other income:		
Interest income	579	443
Dividends received	270	253
Other	338	427
Total other income	1,188	1,124
Other expenses:		
Interest expenses	21	23
Foreign exchange loss	341	50
Loss on retirement of fixed assets	135	47
Other	79	41
Total other expenses	578	161
Ordinary income	13,849	13,920
Extraordinary income		
Gain on sales of investment securities	—	1,445
Total extraordinary income	—	1,445
Extraordinary loss:		
Special retirement expenses	712	—
Total extraordinary loss	712	—
Income before income taxes	13,137	15,365
Income taxes:		
Current	4,072	4,338
Deferred	(237)	(231)
Total income taxes	3,835	4,107
Net income	9,301	11,258
Net income attributable to non-controlling interests	1,310	1,228
Net income attributable to owners of the parent company	¥ 7,990	¥ 10,029

Consolidated Statements of Comprehensive Income

(¥ millions)

	First two quarters for the year ended March 31, 2020 (April 1, 2019, to Sept. 30, 2019)	First two quarters for the year ending March 31, 2021 (April 1, 2020, to Sept. 30, 2020)
	Amount	Amount
Net Income	¥ 9,301	¥ 11,258
Other comprehensive income		
Unrealized gain on marketable securities	(242)	(67)
Foreign exchange translation adjustment	(2,716)	(3,449)
Remeasurements of defined benefit plans	(477)	(449)
Equity equivalents in equity method affiliates	—	(16)
Total other comprehensive income	(3,436)	(3,982)
Comprehensive income	5,864	7,275
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	4,980	6,688
Non-controlling interest	883	586

(3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ended March 31, 2020 (April 1, 2019, to Sept. 30, 2019)	First two quarters for the year ending March 31, 2021 (April 1, 2020, to Sept. 30, 2020)
Cash flows from operating activities		
Income before income taxes	¥ 13,137	¥ 15,365
Depreciation and amortization	5,565	5,341
(Gains) losses on sales of investments in securities	—	(1,445)
Decrease (increase) in trade receivables	3,407	3,913
Decrease (increase) in inventories	(1,710)	(1,892)
Increase (decrease) in trade payables	(7,079)	(4,748)
Other	(541)	265
Subtotal	12,779	16,799
Interest and dividends received	888	721
Subsidy received	254	—
Interest paid	(26)	(23)
Income taxes paid	(5,309)	(4,999)
Net cash provided by operating activities	8,586	12,498
Cash flows from investing activities		
Transfers to time deposits	(20,095)	(16,683)
Withdrawals from time deposits	19,372	17,919
Purchases of tangible fixed assets	(4,631)	(5,759)
Purchases of investments in securities	(2,648)	(4,211)
Sale and redemption of investments in securities	13,157	4,549
Other	(327)	(313)
Net cash (used in) provided by investing activities	4,827	(4,498)
Cash flows from financing activities		
Dividends paid	(2,466)	(2,569)
Dividends paid to non-controlling shareholders	(840)	(458)
Other	(153)	(908)
Net cash used in financing activities	(3,460)	(3,936)
Effect of exchange rate fluctuations on cash and cash equivalents	(610)	(652)
Net increase (decrease) in cash and cash equivalents	9,342	3,411
Cash and cash equivalents at beginning of term	116,133	140,138
Increase in cash and cash equivalents from newly consolidated subsidiary	249	—
Cash and cash equivalents at end of term	¥125,725	¥143,550

(4) Notes to Quarterly Consolidated Financial Statements

Assumptions for Going Concern

Not applicable.

Notes on Major Changes in Shareholders' Equity

Not applicable.

Segment Information

1. First two quarters for the year ended March 31, 2020 (April 1, 2019, to Sept. 30, 2019) Sales and Income (Loss) by Reportable Segment

(¥ 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			
Net sales										
Sales to outside customers	¥ 85,557	¥15,766	¥12,290	¥18,891	¥13,738	¥4,828	¥151,072	¥9,288	¥ —	¥160,361
Intersegment sales	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
Segment Income (loss)	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 (loss)" is adjusted from operating income on Consolidated Statement of Income.

2. First two quarters for the year ending March 31, 2021 (April 1, 2020, to Sept. 30, 2020) Sales and Income (Loss) by Reportable Segment

(¥ 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			
Net sales										
Sales to outside customers	¥ 80,285	¥16,959	¥12,028	¥14,395	¥12,210	¥4,811	¥140,691	¥8,253	¥ —	¥148,945
Intersegment sales	16,243	—	38	759	307	200	17,550	939	(18,489)	—
Total	96,528	16,959	12,067	15,154	12,517	5,012	158,241	9,193	(18,489)	148,945
Segment Income (loss)	8,601	801	424	1,144	(376)	851	11,445	1,071	440	12,957

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.