

Consolidated Financial Results

First Two Quarters of the Fiscal Year ending March 2022

(April 1, 2021 to September 30, 2021)

November 5, 2021

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 12, 2021

Anticipated date to begin distributing dividends: December 6, 2021

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, 2021

(April 1, 2021 – September 30, 2021; amounts less than one million are omitted)

(1) Consolidated Operating Results

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

(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 2021	¥179,721 (+20.7)	¥20,107 (+55.2)	¥21,687 (+55.8)	¥13,247 (+32.1)
Two-quarter total at September 2020	148,945 (-7.1)	12,957 (-2.1)	13,920 (+0.5)	10,029 (+25.5)

Note: Comprehensive Income: Six months ended September 30, 2021; ¥21,936 million (+201.5%)
Six months ended September 30, 2020; ¥7,275 million (+24.0%)

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2021	¥259.38	—
Two-quarter total at September 2020	195.13	—

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 2021	¥495,772	¥370,116	68.3
Full-year at March 2021	497,291	371,318	68.8

(Reference) Equity capital: Six months ended September 30, 2021; ¥338,795 million
Year ended March 31, 2021; ¥342,329 million

2. Dividends

	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	3rd Quarter (¥)	Fiscal Year- End (¥)	Full Year (¥)
March 2021	—	¥55.00	—	¥70.00	¥125.00
March 2022	—	70.00	—	—	—
March 2022 (anticipated)	—	—	—	70.00	140.00

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

3. Forecast for the Fiscal Year Ending March 31, 2022

(April 1, 2021, to March 31, 2022)

(¥ 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	¥365,000 (+6.0)	¥41,000 (+0.8)	¥42,000 (-0.9)	¥26,000 (-5.7)	¥514.98

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

Note: For more information, please refer to “2. Consolidated Financial Statements and Main Notes,
(4) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies) on page
12 of this report.

(4) Number of Outstanding Shares (Common Stock)

(a) Number of outstanding shares at term-end (including treasury stock)

September 30, 2021: 50,021,057 shares

March 31, 2021: 51,616,463 shares

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

September 30, 2021: 218,934 shares

March 31, 2021: 218,686 shares

(c) Average number of shares during the term

First two quarters of the fiscal year ending March 2022: 51,074,670 shares

First two quarters of the fiscal year ended March 2021: 51,398,607 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. 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 6 of this report.

* Supplemental information sheets of financial results are posted on the Corporation’s website on Friday, November 5, 2021.

1. Consolidated Performance

(1) Operating Results

In the two-quarter period under review, the world economy sought to return to normal from the COVID-19 pandemic. Although restrictions on activities were relaxed in some countries and regions, the situation remained serious due to the emergence of various risks, such as disruptions in international logistics, soaring raw material prices, and difficulties in procuring parts in areas where infections have spread. In Japan, meanwhile, widespread vaccine rollouts led to expectations of an economic turnaround, but the outlook remained uncertain due to weak personal consumption and business sentiment.

The domestic housing industry saw signs of an overall recovery in new housing starts, and the market for housing appliances remained firm, especially for renovation projects.

Under these circumstances, the Group launched its new medium-term business plan, entitled “New ERA 2025,” covering the five-year period from April 2021 to March 2026. Under the plan, we will steadily implement the three strategies of “Advancement in addressing social challenges,” “Expansion of business scale,” and “Revolution of corporate structure.” During the period under review, for example, we acquired Mexico-based Industrias Mass, S.A. de C.V. with the aim of expanding our business into the Latin American market, and we fully remodeled our Lisse range of stoves with an automatic cooking function that helps improve people’s quality of life. In these ways, we are working to fulfill our promise to our customers—“Creating a healthier way of living”— and achieve sustainable and robust long-term growth.

With respect to revenue, the Rinnai Group reported a significant year-on-year increase in net sales thanks to higher sales of mainstay products in various overseas markets, especially China and the United States, as well as steady growth in Japan. On the earnings side, we posted an increase in operating income thanks to higher revenue and rigorous cost-reduction activities, despite downward pressure from raw material and logistics costs.

As a result, consolidated net sales for the period amounted to ¥179,721 million, up 20.7% from the previous corresponding period. Operating income jumped 55.2%, to ¥20,107 million, and ordinary income climbed 55.8%, to ¥21,678 million. Net income attributable to owners of the parent company rose 32.1%, to ¥13,247 million.

Our results by geographical segment were as follows:

Japan

In Japan, demand for high-value-added products has continued rising since June 2020. In addition, we posted increased sales of mainstay water heaters and growth items, such as gas clothes dryers and dishwasher/dryers, despite the impact of difficult procurement conditions on our production activities. As a result, sales in Japan rose 5.5% year on year, to ¥84,704 million, and operating income climbed 18.5%, to ¥10,195 million.

United States

In the United States, we benefited from accelerating demand for highly convenient tankless water heaters, as well as ongoing healthy conditions in the housing market, leading to healthy sales of tankless water heaters despite disruptions in the global supply chain. As a result, sales increased 25.5%, to ¥21,285 million, and operating income jumped 48.6%, to ¥1,190 million.

Australia

In Australia, sales of room heaters were strong thanks to increased time spent at home and the effects of cold weather. As a result, sales rose 14.6% year on year, to ¥13,788 million. Due to improved productivity and foreign exchange factors, operating income surged 223.1%, to ¥1,370 million.

China

In addition to strong Internet sales of mainstay water heaters, sales at physical stores also showed signs of recovery, while boiler sales also remained strong. In the previous corresponding period, sales

declined due to restrictions on economic activities caused by COVID-19. As a result, year-on-year sales in China climbed 75.0%, to ¥25,199 million, and operating income jumped 172.9%, to ¥3,123 million.

South Korea

In South Korea, we posted growth in sales of high-efficiency boilers in response to stricter environmental regulations, and made good progress in improving earnings through cost reductions and other activities. Accordingly, sales increased 28.4%, to ¥15,672 million, and operating income was ¥981 million, compared with an operating loss of ¥376 million in the previous corresponding period.

Indonesia

In Indonesia, we reported growth in sales of mainstay tabletop stoves thanks to our sales promotion activities and growing demand for cooking at home. Sales of high-priced built-in hobs (stovetops) and range hoods also increased. As a result, sales rose 40.3%, to ¥6,751 million, and operating income jumped 77.6%, to ¥1,511 million.

References 1: Net sales by product

(¥ millions; %)

	First two quarters for the year ended March 31, 2021 (April 1, 2020, to Sept. 30, 2020)		First two quarters for the year ending March 31, 2022 (April 1, 2021, to Sept. 30, 2021)		Change		Year ended March 31, 2021 (April 1, 2020, to March 31, 2021)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Water heaters	¥ 82,167	55.2	¥103,207	57.4	¥21,039	25.6	¥195,755	56.8
Kitchen appliances	40,233	27.0	43,002	23.9	2,768	6.9	88,441	25.7
Air conditioning appliances	8,243	5.5	10,347	5.8	2,104	25.5	19,013	5.5
Commercial-use equipment	3,569	2.4	4,351	2.4	782	21.9	7,726	2.2
Others	14,731	9.9	18,811	10.5	4,080	27.7	33,428	9.7
Total	¥148,945	100.0	¥179,721	100.0	¥30,775	20.7	¥344,364	100.0

References 2: Overseas sales

(¥ millions; %)

	First two quarters for the year ended March 31, 2021 (April 1, 2020, to Sept. 30, 2020)			First two quarters for the year ending March 31, 2022 (April 1, 2021, to Sept. 30, 2021)		
	Asia	Other regions	Total	Asia	Other regions	Total
I. Overseas sales	¥38,832	¥32,993	¥ 71,826	¥56,704	¥42,536	¥ 99,240
II. Consolidated net sales	—	—	148,945	—	—	179,721
III. Composition ratio of overseas sales to consolidated net sales	26.1%	22.2%	48.2%	31.6%	23.7%	55.2%

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

(2) Financial Position

As of September 30, 2021, Rinnai had total assets of ¥495,772 million, down ¥1,519 million from March 31, 2021. Total liabilities declined ¥316 million, to ¥125,656 million. Net assets were down ¥1,202 million, to ¥370,116 million. The equity ratio at the end of the period was 68.3%.

Cash Flows

Cash and cash equivalents at September 30, 2021, stood at ¥159,800 million, down ¥6,723 million from March 31, 2021.

Net cash provided by operating activities amounted to ¥13,676 million, up 9.4% 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 ¥2,090 million, down 53.5% from the previous corresponding period. Main factors were purchases of tangible fixed assets.

Net cash used in financing activities was ¥21,674 million, up 450.7% from the previous corresponding period. This was due mainly to acquisition of treasury stock and payment of dividends.

(3) Consolidated Performance Forecasts

Rinnai has not changed its forecasts for the full-year period ending March 31, 2022. (Those forecasts were released on May 12, 2021.)

2. Consolidated Quarterly Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2021 (Year ended March 31, 2021)	At Sept. 30, 2021 (First two quarters for the year ending March 31, 2022)
	Amount	Amount
ASSETS		
Current assets		
Cash and deposits	¥186,412	¥180,252
Notes and accounts receivable	74,997	–
Notes and accounts receivable, and contract assets	–	74,969
Electronically recorded monetary claims	9,350	7,789
Marketable securities	18,522	11,464
Products	25,532	28,822
Raw materials and stores	17,558	20,807
Other	2,531	2,702
Less allowance for doubtful accounts	(2,751)	(3,546)
Total current assets	332,153	323,262
Fixed assets		
Property, plant and equipment	86,672	93,562
Intangible fixed assets	3,232	3,454
Investments and advances		
Investments in securities	40,783	40,545
Other	34,508	35,102
Less allowance for doubtful accounts	(57)	(154)
Total investments and advances	75,234	75,492
Total fixed assets	165,138	172,509
Total assets	¥497,291	¥495,772

(¥ millions)

	At March 31, 2021 (Year ended March 31, 2021)	At Sept. 30, 2021 (First two quarters for the year ending March 31, 2022)
	Amount	Amount
LIABILITIES		
Current liabilities		
Notes and accounts payable	¥ 21,974	¥ 22,794
Electronically recorded obligations	33,527	30,814
Accrued corporate taxes	7,380	5,273
Accrued employee's bonuses	4,804	4,866
Allowance for product guarantee	3,568	3,806
Other allowances	1,074	1,103
Other	27,208	29,522
Total current liabilities	99,538	98,180
Long-term liabilities		
Allowance environmental measures	2,255	2,255
Reserves	99	91
Net defined benefit liabilities	9,660	9,474
Other	14,419	15,655
Total long-term liabilities	26,434	27,475
Total liabilities	125,973	125,656
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,484
Capital surplus	8,648	8,673
Earned surplus	315,992	308,578
Treasury stock	(1,881)	(2,324)
Total shareholders' equity	329,219	321,411
Other comprehensive income:		
Unrealized gain on marketable securities	6,058	5,935
Foreign exchange translation adjustment	(2,885)	2,317
Remeasurements of defined benefit plans	9,937	9,130
Total other comprehensive income	13,110	17,383
Non-controlling interests	28,989	31,320
Total net assets	371,318	370,116
Total liabilities and net assets	¥497,291	¥495,772

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

Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2021 (April 1, 2020, to Sept. 30, 2020)	First two quarters for the year ending March 31, 2022 (April 1, 2021, to Sept. 30, 2021)
	Amount	Amount
Net sales	¥148,945	¥179,721
Cost of Sales	100,568	118,739
Gross Profit	48,377	60,981
Selling, general and administrative expenses	35,419	40,873
Operating income	12,957	20,107
Other income:		
Interest income	443	490
Dividends received	253	253
Foreign exchange income	–	271
Other	427	665
Total other income	1,124	1,680
Other expenses:		
Interest expenses	23	30
Foreign exchange loss	50	–
Loss on retirement of fixed assets	47	29
Other	41	41
Total other expenses	161	100
Ordinary income	13,920	21,687
Extraordinary income		
Gain on sales of investment securities	1,445	–
Total extraordinary income	1,445	–
Income before income taxes	15,365	21,687
Income taxes:		
Current	4,338	6,006
Deferred	(231)	(119)
Total income taxes	4,107	5,886
Net income	11,258	15,800
Net income attributable to non-controlling interests	1,228	2,552
Net income attributable to owners of the parent company	¥ 10,029	¥ 13,247

Consolidated Statements of Comprehensive Income

(¥ millions)

	First two quarters for the year ended March 31, 2021 (April 1, 2020, to Sept. 30, 2020)	First two quarters for the year ending March 31, 2022 (April 1, 2021, to Sept. 30, 2021)
	Amount	Amount
Net Income	¥ 11,258	¥ 15,800
Other comprehensive income		
Unrealized gain on marketable securities	(67)	(122)
Foreign exchange translation adjustment	(3,449)	7,070
Remeasurements of defined benefit plans	(449)	(811)
Equity equivalents in equity method affiliates	(16)	—
Total other comprehensive income	(3,982)	6,136
Comprehensive income	7,275	21,936
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	6,688	17,521
Non-controlling interest	586	4,415

(3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ended March 31, 2021 (April 1, 2020, to Sept. 30, 2020)	First two quarters for the year ending March 31, 2022 (April 1, 2021, to Sept. 30, 2021)
Cash flows from operating activities		
Income before income taxes	¥ 15,365	¥ 21,687
Depreciation and amortization	5,341	5,469
(Gains) losses on sales of investments in securities	(1,445)	—
Decrease (increase) in trade receivables	3,913	—
Decrease (increase) in trade receivables, and contract assets	—	4,433
Decrease (increase) in inventories	(1,892)	(4,527)
Increase (decrease) in trade payables	(4,748)	(3,023)
Other	265	(2,908)
Subtotal	16,799	21,129
Interest and dividends received	721	790
Interest paid	(23)	(30)
Income taxes paid	(4,999)	(8,213)
Net cash provided by operating activities	12,498	13,676
Cash flows from investing activities		
Transfers to time deposits	(16,683)	(15,598)
Withdrawals from time deposits	17,919	16,577
Purchases of tangible fixed assets	(5,759)	(8,864)
Purchases of investments in securities	(4,211)	(1,511)
Sale and redemption of investments in securities	4,549	6,774
Other	(313)	531
Net cash (used in) provided by investing activities	(4,498)	(2,090)
Cash flows from financing activities		
Acquisition of treasury stock	(3)	(17,428)
Dividends paid	(2,569)	(3,596)
Dividends paid to non-controlling shareholders	(458)	(277)
Other	(905)	(372)
Net cash used in financing activities	(3,936)	(21,674)
Effect of exchange rate fluctuations on cash and cash equivalents	(652)	2,984
Net increase (decrease) in cash and cash equivalents	3,411	(7,104)
Cash and cash equivalents at beginning of term	140,138	166,524
Increase in cash and cash equivalents from newly consolidated subsidiary	—	94
Increase in cash and cash equivalents due to merger with unconsolidated subsidiary	—	285
Cash and cash equivalents at end of term	¥143,550	¥159,800

(4) Notes to Quarterly Consolidated Financial Statements

Assumptions for Going Concern

Not applicable.

Notes on Major Changes in Shareholders' Equity

Not applicable.

Changes in accounting policies

Application of Accounting Standard for Revenue Recognition

From the beginning of the first quarter for the fiscal 2022 ending March 31, 2022, the Corporation has applied the "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020), under which revenue that is recognized as control of promised goods or services is transferred to customers in an amount expected to be received in exchange for those goods or services. Resulting changes mainly include the accounting for consideration paid to customers, which was previously recorded in Selling, General and Administrative Expenses. From the first quarter, the amount has been deducted from Net Sales.

The Corporation applied the "Accounting Standard for Revenue Recognition" in accordance with the transitional treatment stipulated in the proviso of paragraph 84 of the Standard. The cumulative effect of having retroactively applied the new accounting policy to periods prior to the beginning of the first quarter for the fiscal 2022 is added to or deducted from the opening balance of Earned Surplus, and the new accounting policy is applied from that balance. The effect of the application on the quarterly consolidated financial statements is immaterial.

Due to the application of the "Accounting Standard for Revenue Recognition", Notes and Accounts Receivable, which was presented in Current Assets on the Consolidated Balance Sheet as of the end of the prior fiscal year, has been included in Notes and Accounts Receivable, and Contract Assets from the first quarter of fiscal 2022. And Decrease (Increase) in Trade Receivables, which was presented in Cash Flows from Operating Activities on the Consolidated Statements of Cash Flows as of the end of the prior first two quarters, has been included in Decrease (increase) in trade receivables, and contract assets from the first two quarters of fiscal 2022. Pursuant to the transitional treatment stipulated in paragraph 89-2 of the "Accounting Standard for Revenue Recognition", the figures for the prior fiscal year and the first two quarters have not been restated under the new presentation method.

Application of Accounting Standard for Fair Value Measurement

From the beginning of the first quarter for the fiscal 2022 ending March 31, 2022, the Corporation has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019). The Corporation prospectively applied the new accounting policy under the "Accounting Standard for Fair Value Measurement" in accordance with the transitional treatment stipulated in paragraph 19 of the Standard and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). There is no effect on the quarterly consolidated financial statements.

Segment Information

1. First two quarters for the year ended 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.

2. First two quarters for the year ending March 31, 2022 (April 1, 2021, to Sept. 30, 2021) 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	¥ 84,704	¥21,285	¥13,788	¥25,199	¥15,672	¥6,751	¥167,400	¥12,320	¥ —	¥179,721
Intersegment sales	22,525	—	71	1,147	482	314	24,540	1,155	(25,696)	—
Total	107,229	21,285	13,859	26,346	16,154	7,066	191,941	13,475	(25,696)	179,721
Segment Income (loss)	10,195	1,190	1,370	3,123	981	1,511	18,372	2,050	(316)	20,107

- 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.