

Consolidated Financial Results

First Two Quarters of the Fiscal Year ending March 2023

(April 1, 2022 to September 30, 2022)

November 4, 2022

Listed Company Name: Rinnai Corporation

Listings: Prime Section of the Tokyo Stock Exchange, and Premiere Section of Nagoya Stock Exchange (Securities Code: 5947)

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

Representative: Hiroyasu Naito, President

Contact: Takuya Ogawa, Senior Executive Officer, General Manager of Corporate Planning Headquarters

TEL: +81 (52) 361-8211

Anticipated date for releasing quarterly securities report: November 11, 2022

Anticipated date to begin distributing dividends: December 5, 2022

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, 2022

(April 1, 2022 – September 30, 2022; amounts less than one million are omitted)

(1) Consolidated Operating Results

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

(¥ millions; %)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net income attributable to owners of the parent company (% change)
Two-quarter total at September 2022	¥194,347 (+8.1)	¥19,084 (-5.1)	¥22,213 (+2.4)	¥13,382 (+1.0)
Two-quarter total at September 2021	179,721 (+20.7)	20,107 (+55.2)	21,687 (+55.8)	13,247 (+32.1)

Note: Comprehensive Income: Six months ended September 30, 2022; ¥34,653 million (+58.0%)

Six months ended September 30, 2021; ¥21,936 million (+201.5%)

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2022	¥270.41	—
Two-quarter total at September 2021	259.38	—

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; %)

	Total Assets	Net Assets	Equity Ratio (%)
Two-quarter total at September 2022	¥544,290	¥398,725	65.6
Full-year at March 2022	512,867	378,856	66.9

(Reference) Equity capital: Six months ended September 30, 2022; ¥357,144 million

Year ended March 31, 2022; ¥343,120 million

2. Dividends

	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	3rd Quarter (¥)	Fiscal Year- End (¥)	Full Year (¥)
March 2022	—	¥70.00	—	¥70.00	¥140.00
March 2023	—	75.00	—	—	—
March 2023 (anticipated)	—	—	—	75.00	150.00

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

3. Forecast for the Fiscal Year Ending March 31, 2023

(April 1, 2022, to March 31, 2023)

(¥ 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	¥425,000 (+16.1)	¥44,000 (+22.7)	¥48,500 (+24.2)	¥29,500 (+24.2)	¥599.96

Note: Percentage figures in parentheses indicate increase or decrease from the previous fiscal year.

Note: Revision of fiscal year forecast in period under review: Yes

Regarding consolidated performance forecasts, please refer to “Notice Regarding Differences between Forecast and Actual Consolidated Business Results for the First Half of the Fiscal Year Ending March 31, 2023 and Revision of Consolidated Performance Forecast for the Fiscal Year Ending March 31, 2023” released today.

*** 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, 2022: 50,021,057 shares

March 31, 2022: 50,021,057 shares

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

September 30, 2022: 1,225,301 shares

March 31, 2022: 219,577 shares

(c) Average number of shares during the term

First two quarters of the fiscal year ending March 2023: 49,489,995 shares

First two quarters of the fiscal year ended March 2022: 51,074,670 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) Explanation about 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 4, 2022.

1. Consolidated Performance

(1) Operating Results

In the first two quarters under review, the global economy faced increasing uncertainty due to the ongoing sharp rises in raw material and energy prices, supply chain disruptions, the protracted situation in Ukraine, inflation, and rising interest rates. This was despite easing of restrictions aimed at preventing the spread of COVID-19. In Japan, consumer spending and corporate earnings showed signs of recovery, but the rapid depreciation of the yen and concerns about further price hikes made the situation unpredictable.

In the domestic housing-related industry, the number of new housing starts showed signs of weakness, but the household appliance sector remained firm, particularly in the renovation category.

Under these circumstances, the Rinnai Group pursued three key strategies under its medium-term business plan, New ERA 2025: “Advancement in addressing social challenges,” “Expansion of business scale,” and “Revolution of corporate structure.” During the period under review, for example, we developed an ultrafine-bubble water heater that helps improve people’s quality of life, as well as a gas water heater with a built-in instant-heating unit. We also commissioned a new plant in the United States and otherwise worked to expand our business in the growing U.S. market. In these and other ways, we made steady progress in fulfilling our promise to our customers, “Creating a healthier way of living,” and achieving sustainable and solid long-term growth.

For the period, overseas sales weakened due to delays in product supply from Japan and activity restrictions caused by lockdowns in China. However, domestic sales increased thanks to strong demand, especially for water heaters, and the Rinnai Group reported a year-on-year increase in net sales. On the earnings side, we posted a decrease in operating income due to rises in raw material and distribution costs, and increased expenses for the operation of a new plant in united states.

As a result, consolidated net sales for the period amounted to ¥194,347 million, up 8.1% from the previous corresponding period. Operating income declined 5.1%, to ¥19,084 million, while ordinary income climbed 2.4%, to ¥22,213 million, thanks to an increase in foreign exchange gain. Net income attributable to owners of the parent company edged up 1.0%, to ¥13,382 million.

Our results by geographical segment were as follows:

Japan

In Japan, sales of mainstay water heaters grew substantially as we worked to strengthen our production system to eliminate supply delays. Despite soaring raw material prices and distribution costs, our business benefited from higher sales and the yen’s depreciation. Sales in Japan increased 11.0% year on year, to ¥93,982 million, and operating income jumped 29.5%, to ¥13,200 million.

United States

In the United States, sales in local-currency terms declined due to disruptions in international logistics and tight parts procurement conditions, which caused delays in the supply of finished tankless water heaters and knockdown parts from Japan. Nevertheless, sales in yen terms increased 9.6%, to ¥23,325 million, thanks to foreign exchange factors. Due to higher expenses for the operation of a new plant, however, we reported a segment operating loss of ¥1,179 million.

Australia

Sales in Australia declined due to tight parts procurement conditions, which affected supplies of tankless water heaters and heating equipment from Japan. Due also to surging raw material prices and logistics costs, sales decreased 1.3% year on year, to ¥13,613 million, and operating income fell 66.4%, to ¥460 million.

China

Production and sales activities in China were constrained by lockdowns in Shanghai due to the spread of COVID-19. As a result, sales in China edged down 0.9% year on year, to ¥24,971 million. Due to decreases in sales promotion expenses and provision for doubtful accounts, however, operating

income rose 22.0%, to ¥3,810 million.

South Korea

Sales of mainstay boilers declined amid weakening business confidence due to rising prices and interest rates. Accordingly, sales in South Korea slipped 0.5%, to ¥15,596 million, and operating income declined 9.8%, to ¥885 million.

Indonesia

Despite weak sales of mainstay tabletop stoves, sales of built-in hobs (stovetops) and range hoods increased on the back of sales promotion activities. Consequently, sales in Indonesia rose 19.1%, to ¥8,043 million. Due to soaring raw material prices, however, operating income fell 36.8%, to ¥955 million.

References 1: Net sales by product

(¥ millions; %)

	First two quarters for the year ended March 31, 2022 (April 1, 2021, to Sept. 30, 2021)		First two quarters for the year ending March 31, 2023 (April 1, 2022, to Sept. 30, 2022)		Change		Year ended March 31, 2022 (April 1, 2021, to March 31, 2022)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Water heaters	¥103,207	57.4	¥112,581	57.9	¥9,374	9.1	¥211,026	57.6
Kitchen appliances	43,002	23.9	44,251	22.8	1,249	2.9	85,531	23.4
Air conditioning appliances	10,347	5.8	10,228	5.3	(119)	(1.2)	21,109	5.8
Commercial-use equipment	4,351	2.4	5,160	2.7	808	18.6	9,007	2.5
Others	18,811	10.5	22,124	11.4	3,312	17.6	39,509	10.8
Total	¥179,721	100.0	¥194,347	100.0	¥14,626	8.1	¥366,185	100.0

References 2: Overseas sales

(¥ millions; %)

	First two quarters for the year ended March 31, 2022 (April 1, 2021, to Sept. 30, 2021)			First two quarters for the year ending March 31, 2023 (April 1, 2022, to Sept. 30, 2022)		
	Asia	Other regions	Total	Asia	Other regions	Total
I. Overseas sales	¥56,704	¥42,536	¥ 99,240	¥59,424	¥45,979	¥105,403
II. Consolidated net sales	—	—	179,721	—	—	194,347
III. Composition ratio of overseas sales to consolidated net sales	31.6%	23.7%	55.2%	30.6%	23.7%	54.2%

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

(2) Financial Position

As of September 30, 2022, Rinnai had total assets of ¥544,290 million, up ¥31,422 million from March 31, 2022. Total liabilities increased ¥11,554 million, to ¥145,564 million. Net assets were up ¥19,868 million, to ¥398,725 million. The equity ratio at the end of the period was 65.6%.

Cash Flows

Cash and cash equivalents at September 30, 2022, stood at ¥133,632 million, down ¥14,340 million from March 31, 2021.

Net cash provided by operating activities amounted to ¥12,155 million, down 11.1% 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 ¥18,551 million, up 787.4% from the previous corresponding period. Main factors were purchases of tangible fixed assets.

Net cash used in financing activities was ¥15,317 million, down 29.3% from the previous corresponding period. This was due mainly to acquisition of treasury stock and payment of dividends.

(3) Explanation about Consolidated Performance Forecasts

In the first two quarters of the fiscal year ending March 31, 2023 (April 1–September 30, 2022), both net sales and income exceeded our initial forecasts announced on May 10, 2022. This was due to strong domestic sales, especially of water heaters, as we strengthened our production system to eliminate supply delays.

In light of our performance in the first two quarters of the current fiscal year and our recent business results, we have also revised our forecasts for the fiscal year ending March 31, 2023 (initially announced on May 10, 2022). This is despite a continued strong sense of uncertainty due to various factors, including soaring raw material and energy prices, inflation, and economic trends.

Revised consolidated performance forecasts for the fiscal year ending March 31, 2023 (April 1, 2022–March 31, 2023)

(¥ millions; %)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent company	Net income per share (Yen)
Previous forecast (A)	400,000	41,000	42,500	25,500	517.63
Revised forecast (B)	425,000	44,000	48,500	29,500	599.96
Differences (B – A)	25,000	3,000	6,000	4,000	—
Change (%)	+6.3%	+7.3%	+14.1%	+15.7%	—
(For references) Previous fiscal year (fiscal 2022 ended March 31, 2022) (actual)	366,185	35,864	39,060	23,748	470.39

2. Consolidated Quarterly Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2022 (Year ended March 31, 2022)	At Sept. 30, 2022 (First two quarters for the year ending March 31, 2023)
	Amount	Amount
ASSETS		
Current assets		
Cash and deposits	¥173,235	¥161,585
Notes and accounts receivable, and contract assets	75,596	81,980
Electronically recorded monetary claims	7,641	9,419
Marketable securities	12,250	16,327
Products	36,078	44,094
Raw materials and stores	28,548	36,508
Other	4,698	6,155
Less allowance for doubtful accounts	(4,093)	(5,392)
Total current assets	333,956	350,678
Fixed assets		
Property, plant and equipment	100,598	110,504
Intangible fixed assets	3,792	3,821
Investments and advances		
Investments in securities	44,620	47,965
Other	30,053	31,485
Less allowance for doubtful accounts	(153)	(164)
Total investments and advances	74,520	79,286
Total fixed assets	178,910	193,612
Total assets	¥512,867	¥544,290

(¥ millions)

	At March 31, 2022 (Year ended March 31, 2022)	At Sept. 30, 2022 (First two quarters for the year ending March 31, 2023)
	Amount	Amount
LIABILITIES		
Current liabilities		
Notes and accounts payable	¥ 26,433	¥ 28,285
Electronically recorded obligations	33,293	38,479
Accrued corporate taxes	4,106	6,623
Accrued employee's bonuses	5,162	5,146
Allowance for product guarantee	3,868	4,269
Other allowances	1,210	1,237
Other	34,728	35,395
Total current liabilities	108,803	119,436
Long-term liabilities		
Allowance environmental measures	2,255	2,255
Other allowances	93	95
Net defined benefit liabilities	8,769	9,149
Other	14,089	14,628
Total long-term liabilities	25,206	26,128
Total liabilities	134,010	145,564
NET ASSETS:		
Shareholders' equity:		
Common stock	6,484	6,484
Capital surplus	8,673	8,673
Earned surplus	315,593	325,488
Treasury stock	(2,330)	(12,287)
Total shareholders' equity	328,419	328,357
Other comprehensive income:		
Unrealized gain on marketable securities	4,582	5,182
Foreign exchange translation adjustment	4,925	19,016
Remeasurements of defined benefit plans	5,193	4,587
Total other comprehensive income	14,700	28,786
Non-controlling interests	35,736	41,581
Total net assets	378,856	398,725
Total liabilities and net assets	¥512,867	¥544,290

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

Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2022 (April 1, 2021, to Sept. 30, 2021)	First two quarters for the year ending March 31, 2023 (April 1, 2022, to Sept. 30, 2022)
	Amount	Amount
Net sales	¥179,721	¥ 194,347
Cost of Sales	118,739	130,891
Gross Profit	60,981	63,455
Selling, general and administrative expenses	40,873	44,370
Operating income	20,107	19,084
Other income:		
Interest income	490	723
Dividends received	253	295
Foreign exchange income	271	2,005
Other	665	445
Total other income	1,680	3,470
Other expenses:		
Interest expenses	30	35
Loss on retirement of fixed assets	29	41
Fair value fluctuation amount related to contingent consideration	—	139
Other	41	124
Total other expenses	100	341
Ordinary income	21,687	22,213
Income before income taxes	21,687	22,213
Income taxes:		
Current	6,006	7,106
Deferred	(119)	(926)
Total income taxes	5,886	6,179
Net income	15,800	16,034
Net income attributable to non-controlling interests	2,552	2,651
Net income attributable to owners of the parent company	¥ 13,247	¥ 13,382

Consolidated Statements of Comprehensive Income

(¥ millions)

	First two quarters for the year ended March 31, 2022 (April 1, 2021, to Sept. 30, 2021)	First two quarters for the year ending March 31, 2023 (April 1, 2022, to Sept. 30, 2022)
	Amount	Amount
Net Income	¥ 15,800	¥ 16,034
Other comprehensive income		
Unrealized gain on marketable securities	(122)	605
Foreign exchange translation adjustment	7,070	18,623
Remeasurements of defined benefit plans	(811)	(611)
Total other comprehensive income	6,136	18,618
Comprehensive income	21,936	34,653
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	17,521	27,468
Non-controlling interest	4,415	7,184

(3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ended March 31, 2022 (April 1, 2021, to Sept. 30, 2021)	First two quarters for the year ending March 31, 2023 (April 1, 2022, to Sept. 30, 2022)
Cash flows from operating activities		
Income before income taxes	¥ 21,687	¥ 22,213
Depreciation and amortization	5,469	5,918
Decrease (increase) in trade receivables, and contract assets	4,433	(2,424)
Decrease (increase) in inventories	(4,527)	(9,707)
Increase (decrease) in trade payables	(3,023)	3,484
Other	(2,908)	(3,258)
Subtotal	21,129	16,226
Interest and dividends received	790	883
Interest paid	(30)	(36)
Income taxes paid	(8,213)	(4,917)
Net cash provided by operating activities	13,676	12,155
Cash flows from investing activities		
Transfers to time deposits	(15,598)	(26,393)
Withdrawals from time deposits	16,577	25,630
Purchases of tangible fixed assets	(8,864)	(10,878)
Purchases of investments in securities	(1,511)	(7,515)
Sale and redemption of investments in securities	6,774	864
Other	531	(259)
Net cash used in investing activities	(2,090)	(18,551)
Cash flows from financing activities		
Acquisition of treasury stock	(17,428)	(10,067)
Dividends paid	(3,596)	(3,481)
Dividends paid to non-controlling shareholders	(277)	(1,340)
Other	(372)	(428)
Net cash used in financing activities	(21,674)	(15,317)
Effect of exchange rate fluctuations on cash and cash equivalents	2,984	7,374
Net increase (decrease) in cash and cash equivalents	(7,104)	(14,340)
Cash and cash equivalents at beginning of term	166,524	147,972
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	¥159,800	¥133,632

(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 Implementation Guidance on Accounting Standard for Fair Value Measurement

From the first quarter of fiscal 2023, ending March 31, 2023, the Corporation has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as "Guidance on Accounting Standard for Fair Value Measurement") In accordance with the transitional treatment prescribed in Paragraph 27-2 of the "Guidance on Accounting Standard for Fair Value Measurement," the Corporation has decided to apply the new accounting policies set forth by the "Guidance on Accounting Standard for Fair Value Measurement" into the future. These changes had no impact on the Corporation's quarterly consolidated financial statements.

Segment Information

1. First two quarters for the year ended 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	10,195	1,190	1,370	3,123	981	1,511	18,372	2,050	(316)	20,107

- Notes:1. "United states" include sales from subsidiaries in Canada, which conduct integrate business activities based on comprehensive sales strategies.
2. "Australia" include sales from a subsidiary in Malaysia, which complements the production system, and conducts integrate business activities.
3. "Others" include sales from subsidiaries in Taiwan, Thailand, Vietnam, New Zealand, Brazil and other regions.
4. "Adjustments" of segment income refers to intersegment transactions to eliminate.
5. "Segment income" is adjusted from operating income in Consolidated Statements of Income.

2. First two quarters for the year ending March 31, 2023 (April 1, 2022, to Sept. 30, 2022) 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	¥ 93,982	¥23,325	¥13,613	¥24,971	¥15,596	¥8,043	¥179,531	¥14,815	¥ —	¥194,347
Intersegment sales	31,265	—	62	874	560	343	33,105	1,348	(34,454)	—
Total	125,247	23,325	13,675	25,845	16,156	8,387	212,637	16,163	(34,454)	194,347
Segment Income (loss)	13,200	(1,179)	460	3,810	885	955	18,133	2,508	(1,557)	19,084

- Notes:1. "United states" include sales from subsidiaries in Canada and Mexico, which conduct integrate business activities based on comprehensive sales strategies.
2. "Australia" include sales from a subsidiary in Malaysia, which complements the production system, and conducts integrate business activities.
3. "Others" include sales from subsidiaries in Taiwan, Thailand, Vietnam, New Zealand, Brazil and other regions.
4. "Adjustments" of segment income (loss) refers to intersegment transactions to eliminate.
5. "Segment income (loss)" is adjusted from operating income in Consolidated Statements of Income.