

Consolidated Financial Results

First Quarter of the Fiscal Year Ending March 2024

(April 1–June 30, 2023)

August 4, 2023

Listed Company Name: Rinnai Corporation

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

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Scheduled date for release of quarterly securities report: August 9, 2023

Anticipated date to begin distributing dividends: —

Supplemental information sheets of quarterly results: Yes

Information meeting of quarterly results: None

I. Performance in the First Quarter of the Fiscal Year Ending March 31, 2024

(April 1– June 30, 2023; amounts less than one million yen are omitted)

(1) Consolidated Operating Results

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

(¥ millions; %)

	Net Sales	Operating Income	Ordinary Income	Net income attributable to owners of the parent company
First Quarter to June 2023	¥89,853 [-5.4%]	¥3,113 [-69.1%]	¥5,895 [-48.4%]	¥3,288 [-53.1%]
First Quarter to June 2022	¥95,006 [+12.4%]	¥10,079 [+9.8%]	¥11,437 [+15.2%]	¥7,014 [+13.3%]

Notes: Comprehensive income: First quarter of the year ending March 31, 2024; ¥7,873 million [-57.3%]
First quarter of the year ended March 31, 2023; ¥18,452 million [+49.3%]

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
First Quarter to June 2023	¥22.49	—
First Quarter to June 2022	46.99	—

Note: On April 1, 2023, the Corporation conducted a 3-for-1 stock split of shares of common stock.
The above figure for “Net income per share” is for after the stock split.

(2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)
June 30, 2023	¥539,062	¥404,044	67.2%
March 31, 2023	547,114	407,199	66.6

(Reference) Equity capital: First quarter of the year ending March 31, 2024: ¥362,397 million
Year ended March 31, 2023: ¥364,151 million

II. Dividends

	Dividend per Share				
	1st Quarter (¥)	Interim (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2023	—	¥ 75.00	—	¥85.00	¥160.00
June 2023	—				
March 2024 (anticipated)		30.00	—	30.00	60.00

Notes: 1. Revision of dividend forecast in period under review: None

2. On April 1, 2023, the Corporation conducted a 3-for-1 stock split of shares of common stock. The above figures for “Dividends” in the fiscal years ended March 31, 2023 are actual dividends declared before the stock split. The figure for the year ending March 31, 2024 (forecast) is for after the stock split.

III. Forecast for the Fiscal Year Ending March 31, 2024 (Consolidated)

(April 1, 2023, to March 31, 2024)

(¥ millions/%)

	Net Sales	Operating Income	Ordinary Income	Net income attributable to owners of the parent company	Net Income per Share (¥)
First half	¥190,000 [-2.2%]	¥10,000 [-47.6%]	¥14,000 [-37.0%]	¥7,500 [-44.0%]	¥51.54
Full year	440,000 [+3.5]	39,000 [-5.8]	44,000 [-1.3]	25,000 [-4.2]	172.96

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

Notes: 1. Revision of fiscal year forecast in period under review: Yes

2. As its meeting held on May 10, 2023, the Board of Directors resolved to undertake a share buyback. The above forecasts for “Net income per share” take into account this buyback.

*** 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)

June 30, 2023: 150,063,171 shares

March 31, 2023: 150,063,171 shares

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

June 30, 2023: 4,788,520 shares

March 31, 2023: 3,676,692 shares

(c) Average number of shares during the term

First quarter of the fiscal year ending March 2023: 146,234,057 shares

First quarter of the fiscal year ended March 2023: 149,277,960 shares

Note: On April 1, 2023, the Corporation conducted a 3-for-1 stock split of shares of common stock. The above figures for “Number of outstanding shares at term-end,” “Number of treasury stock shares at term-end,” and “Average number of shares during the term” are calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

* This report is exempt from a quarterly review process.

*** Note on appropriate use of performance forecasts, and other specified notes**

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 quarterly results:

Please refer to Supplemental information sheets of quarterly results, which will be posted on the Corporation’s website on Friday, August 4, 2023.

1. Consolidated Performance

(1) Operating Results

In the first quarter under review, world economic conditions remained difficult as global price increases and monetary tightening cause business confidence to deteriorate, while the situation in Ukraine became more protracted. In Japan, consumer spending and corporate earnings showed signs of recovery thanks to easing of restrictions on economic and social activities to address COVID-19. However, prices continue to rise against a backdrop of soaring raw material and energy costs and rapid exchange rate fluctuations, making the situation unpredictable.

In the domestic housing-related industry, new housing starts remained weak, especially for owner-occupied housing, which continued to decline slowly, and the household appliance sector showed signs of stagnation in both the new construction and renovation categories.

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, we sought to improve quality of life and help protect the global environment. For example, we undertook a full model change of our *Kantakun* Deluxe gas clothes dryers and expanded our ECO ONE X5 lineup of hybrid water heaters with heating systems. 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 quarter, we reported a decline in net sales compared with the previous corresponding period, when revenue was bolstered by efforts to resolve supply delays. Sales were also affected by a slowdown in demand due to rising prices and interest rates. On the earnings side, we posted a year-on-year decrease in operating income due to the decline in sales volume and a slowdown in sales of high-value-added products. This was despite a lull in raw material price and other cost increases.

As a result, consolidated net sales for the period amounted to ¥89,853 million, down 5.4% from the previous corresponding period. Operating income fell 69.1%, to ¥3,113 million, and ordinary income declined 48.4%, to ¥5,895 million. Net income attributable to owners of the parent company fell 53.1%, to ¥3,288 million.

Our results by geographical segment were as follows:

Japan

Sales of all products, especially water heaters, declined compared with the previous year, when production and sales were bolstered by efforts to resolve supply delays. As a result, sales in Japan were down 6.8% year on year, to ¥42,146 million. The decline in sales volume, as well as a slowdown in sales of high-value-added products, and high prices of raw materials and parts, resulted in a 71.4% fall in operating income, to ¥1,818 million.

United States

The market for tankless water heaters remained sluggish as rising interest rates caused slowdowns in both new housing construction and large-scale renovations. Despite a decline in sales of mainstay water heaters, mainly high-efficiency models, our performance benefited from foreign exchange movements. As result, sales in the United States increased 12.8%, to ¥12,555 million. However, increasing logistics and storage costs associated with an expansion of inventories, as well as a deteriorating product mix, resulted in an operating loss of ¥1,748 million.

Australia

In Australia, we reported growth in sales of mainstay gas tankless water heaters compared with the previous year, when sales were affected by supply delays from Japan, while sales of electric tank-based water heaters and heat-pump-based water heaters also rose. Thanks also to increased sales of high-value-added products, sales in Australia climbed 19.5%, to

¥6,770 million, and operating income surged 408.8%, to ¥214 million.

China

In China, sales of various products, particularly water heaters, declined as a result of inventory adjustments due to a drop in consumer confidence caused by the weakening economy and an increase in distribution inventories. In addition, sales and production activities were temporarily restricted due to the rapid spread COVID-19 after the government's zero-COVID policy was lifted. As a result, sales in China declined 23.8%, to ¥9,994 million, and operating income fell 36.7%, to ¥1,427 million.

South Korea

In South Korea, business confidence continued to deteriorate amid rising prices and interest rates, while housing transactions and personal consumption remained sluggish, leading to declines in sales of mainstay boilers and kitchen appliances. Moreover, the market slowdown caused competition to intensify. As a result, sales in South Korea decreased 7.6%, to ¥8,004 million, and operating income fell 81.7%, to ¥133 million.

Indonesia

Due to contraction of the market for mainstay tabletop stoves caused by sluggish personal consumption associated with rising prices, sales in Indonesia were down 13.4%, to ¥3,322 million. However, cost reductions and other operational improvements, as well as firm demand for built-in products (which have high added value) and a lull in raw material price hikes, led to a 15.2% increase in operating income, to ¥529 million.

(For references 1)

Sales Composition by Business Segment

(¥ millions; %)

	First Quarter to June 30, 2022		First Quarter to June 30, 2023		Change		Year to March 31, 2023	
	Amount	Amount	Amount	% of total	Amount	%	Amount	% of total
Water heaters	¥55,565	58.5%	¥53,722	59.8%	¥(1,843)	(3.3)%	¥258,658	60.8%
Kitchen appliances	22,167	23.3	20,336	22.6	(1,831)	(8.3)	91,780	21.6
Air conditioning appliances	3,543	3.7	3,587	4.0	43	1.2	21,941	5.2
Commercial-use equipment	2,427	2.6	2,506	2.8	78	3.2	10,669	2.5
Others	11,301	11.9	9,701	10.8	(1,600)	(14.2)	42,179	9.9
Total	¥95,006	100.0%	¥89,853	100.0%	¥(5,153)	(5.4)%	¥425,229	100.0%

(For references 2)

Overseas Sales

(¥ millions; %)

	First Quarter to June 30, 2022			First Quarter to June 30, 2023		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥30,853	¥21,054	¥51,908	¥26,516	¥23,004	¥49,520
II. Consolidated net sales	—	—	95,006	—	—	89,853
III. Composition ratio of overseas sales to consolidated net sales	32.5%	22.2%	54.6%	29.5%	25.6%	55.1%

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

(2) Financial Position

As of June 30, 2023, Rinnai had total assets of ¥539,062 million, down ¥8,052 million from March 31, 2023. Total liabilities decreased ¥4,896 million, to ¥135,017 million. Net assets were down ¥3,155 million, to ¥404,044 million. The equity ratio at the end of the period was 67.2%.

(3) Consolidated Performance Forecasts

Rising prices and monetary tightening around the world have caused business confidence to deteriorate and consumer sentiment for purchasing housing appliances to cool off. This has led to a slowdown in sales of high-value-added products. To address an increase in inventories, moreover, the Corporation has curbed production operations and been unable to offset various fixed costs. Due also to soaring raw materials prices in Japan, we expect first-half profits to fall short of our previous forecast. In the second half, we expect profits to improve beyond our initial forecasts due to some recovery in business confidence and consumer sentiment, the appeal of new products such as high-efficiency water heaters and gas clothes dryers, and further cost reduction activities. In light of our performance in the first quarter of the current fiscal year and our recent business performances, we have also revised our forecasts for the fiscal year ending March 31, 2024 (initially announced on May 10, 2023).

Revision of consolidated performance forecasts for the first two quarters of the fiscal 2024 (April 1, 2023–September 30, 2023)

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Net income attributable to owners of the parent company	Net Income per Share (Yen)
Previous forecast (A)	190,000	15,000	16,500	9,500	65.28
Revised forecast (B)	190,000	10,000	14,000	7,500	51.54
Difference (B – A)	—	(5,000)	(2,500)	(2,000)	
Change (%)	—	-33.3	-15.2	-21.1	
(For references) First two quarters of the year ended March 31, 2023 (actual)	194,347	19,084	22,213	13,382	90.14

Revision of consolidated performance forecasts for fiscal 2024 (April 1, 2023–March 31, 2024)

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Net income attributable to owners of the parent company	Net Income per Share (Yen)
Previous forecast (A)	440,000	43,000	46,000	26,500	183.34
Revised forecast (B)	440,000	39,000	44,000	25,000	172.96
Difference (B – A)	—	(4,000)	(2,000)	(1,500)	
Change (%)	—	-9.3	-4.3	-5.7	
(For references) Year ended March 31, 2023 (actual)	425,229	41,418	44,565	26,096	176.92

Note: On April 1, 2023, the Corporation conducted a 3-for-1 stock split of shares of common stock. The above figure for “Net income per share” is calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

2. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2023 (Fiscal 2023)	At June 30, 2023 (First Quarter of Fiscal 2024)
ASSETS:		
Current assets		
Cash and deposits	¥150,883	¥125,570
Notes and accounts receivable, and contract assets	78,886	73,571
Electronically recorded monetary claims	10,413	10,038
Marketable securities	7,737	2,925
Products	53,265	55,642
Raw materials and stores	39,562	41,434
Other	6,141	8,738
Less allowance for doubtful accounts	(5,369)	(5,462)
Total current assets	341,520	312,460
Fixed assets		
Tangible fixed assets	118,166	139,955
Intangible fixed assets	3,743	3,595
Investments and advances		
Investments in securities	48,205	46,731
Other	35,525	36,366
Less allowance for doubtful accounts	(47)	(47)
Total investments and advances	83,683	83,050
Total fixed assets	205,593	226,601
Total assets	¥547,114	¥539,062

(¥ millions)

	At March 31, 2023 (Fiscal 2023)	At June 30, 2023 (First Quarter of Fiscal 2024)
LIABILITIES:		
Current liabilities		
Notes and accounts payable	¥ 26,205	¥ 28,041
Electronically recorded obligations	37,851	30,095
Accrued income taxes	6,665	2,895
Accrued employee's bonuses	5,365	2,603
Allowance for product guarantee	4,706	4,647
Other allowances	1,273	1,098
Other	30,800	37,554
Total current liabilities	112,868	106,936
Long-term liabilities		
Allowance environmental measures	2,255	2,255
Other allowances	89	90
Net defined benefit liabilities	8,827	8,812
Other	15,873	16,923
Total long-term liabilities	27,045	28,081
Total liabilities	139,914	135,017
NET ASSETS:		
Shareholders' equity:		
Common stock	6,484	6,484
Capital surplus	8,428	8,428
Earned surplus	334,946	334,078
Treasury stock	(12,290)	(15,643)
Total shareholders' equity	337,569	333,347
Other comprehensive income:		
Unrealized gain on marketable securities	6,161	7,763
Foreign exchange translation adjustment	14,248	15,421
Remeasurements of defined benefit plans	6,171	5,865
Total of other comprehensive income	26,582	29,049
Non-controlling interests	43,048	41,646
Total net assets	407,199	404,044
Total liabilities and net assets	¥547,114	¥539,062

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

Consolidated Statements of Income

(¥ millions)

	First Quarter of Fiscal 2023 (From April 1 to June 30, 2022)	First Quarter of Fiscal 2024 (From April 1 to June 30, 2023)
Net sales	¥95,006	¥89,853
Cost of sales	62,818	63,848
Gross profit	32,187	26,004
Selling, general and administrative expenses	22,108	22,891
Operating income	10,079	3,113
Other income:		
Interest income	344	524
Dividends received	287	310
Foreign exchange income	723	1,709
Other	202	395
Total other income	1,558	2,940
Other expenses:		
Interest expenses	17	14
Loss on retirement of fixed assets	8	23
Depreciation	—	83
Fair value fluctuation amount related to contingent consideration	135	—
Other	38	35
Total other expenses	200	157
Ordinary income	11,437	5,895
Income before income taxes	11,437	5,895
Income taxes (current)	4,202	2,108
Income taxes (deferred)	(1,197)	(584)
Total income taxes	3,004	1,523
Net income	8,432	4,371
Net income attributable to non-controlling interests	1,417	1,083
Net income attributable to owners of the parent company	¥ 7,014	¥ 3,288

Consolidated Statements of Comprehensive Income

(¥ millions)

	First Quarter of Fiscal 2023 (From April 1 to June 30, 2022)	First Quarter of Fiscal 2024 (From April 1 to June 30, 2023)
Net income	¥8,432	¥4,371
Other comprehensive income		
Unrealized gain on marketable securities	673	1,603
Foreign exchange translation adjustment	9,647	2,204
Remeasurements of defined benefit plans	(301)	(306)
Total of other comprehensive income	10,020	3,501
Comprehensive income	18,452	7,873
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	14,866	5,756
Non-controlling interest	3,585	2,116

(3) Notes to Quarterly Consolidated Financial Statements

Assumptions for Going Concern

Not applicable.

Major Changes in Shareholders' Equity

Not applicable.

Segment Information

1. First Quarter of the Fiscal Year Ended March 31, 2022 (From April 1 to June 30, 2022)

Sales and Income (Loss) by Reportable Segment

	Reportable Segments							Others (Note 1)	Adjustments (Note 2)	Amounts in Consolidated Statements of Income (Note 3)
	Japan	United States	Australia	China	South Korea	Indonesia	Total			
Net sales										
Sales to outside customers	¥45,224	¥11,133	¥5,667	¥13,108	¥8,660	¥3,836	¥87,630	¥7,375	¥ —	¥95,006
Intersegment sales	14,176	—	17	509	288	204	15,196	640	(15,836)	—
Total	59,400	11,133	5,684	13,618	8,948	4,040	102,826	8,015	(15,836)	95,006
Segment Income (loss)	6,366	(494)	42	2,253	730	459	9,358	1,344	(622)	10,079

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 refers to intersegment transactions to eliminate.

5. "Segment income (loss)" is adjusted from operating income in Consolidated Statements of Income.

2. First Quarter of the Fiscal Year Ending March 31, 2024 (From April 1 to June 30, 2023)

Sales and Income (Loss) by Reportable Segment

	Reportable Segments							Others (Note 1)	Adjustments (Note 2)	Amounts in Consolidated Statements of Income (Note 3)
	Japan	United States	Australia	China	South Korea	Indonesia	Total			
Net sales										
Sales to outside customers	¥42,146	¥12,555	¥6,770	¥9,994	¥8,004	¥3,322	¥82,793	¥7,059	¥ —	¥89,853
Intersegment sales	6,754	—	14	451	185	135	7,541	749	(8,291)	—
Total	48,900	12,555	6,784	10,446	8,190	3,457	90,335	7,809	(8,291)	89,853
Segment Income (loss)	1,818	(1,748)	214	1,427	133	529	2,374	997	(258)	3,113

(¥ millions)

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 refers to intersegment transactions to eliminate.

5. "Segment income (loss)" is adjusted from operating income in Consolidated Statements of Income.