

Consolidated Financial Results

First Two Quarters of the Fiscal Year ending March 2024

(April 1, 2023 to September 30, 2023)

November 7, 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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Anticipated date for releasing quarterly securities report: November 13, 2023

Anticipated date to begin distributing dividends: December 8, 2023

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, 2023

(April 1, 2023 – September 30, 2023; 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 2023	¥192,694 (-0.9)	¥10,120 (-47.0)	¥14,910 (-32.9)	¥ 7,902 (-40.9)
Two-quarter total at September 2022	194,347 (+8.1)	19,084 (-5.1)	22,213 (+2.4)	13,382 (+1.0)

Note: Comprehensive Income: Six months ended September 30, 2023; ¥23,969 million (-30.8%)
Six months ended September 30, 2022; ¥34,653 million (+58.0%)

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2023	¥54.38	—
Two-quarter total at September 2022	90.14	—

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.

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 2023	¥552,673	¥414,125	66.7
Full-year at March 2023	547,114	407,199	66.6

(Reference) Equity capital: Six months ended September 30, 2023; ¥368,432 million
Year ended March 31, 2023; ¥364,151 million

2. Dividends

	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	3rd Quarter (¥)	Fiscal Year- End (¥)	Full Year (¥)
March 2023	—	¥75.00	—	¥85.00	¥160.00
March 2024	—	30.00	—	—	—
March 2024 (anticipated)	—	—	—	30.00	60.00

Notes: 1. Changes on the 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.

3. Forecast for the Fiscal Year Ending March 31, 2024

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

(¥ 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	¥440,000 (+3.5)	¥39,000 (-5.8)	¥44,000 (-1.3)	¥25,000 (-4.2)	¥173.20

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, 2023: 150,063,171 shares
March 31, 2023: 150,063,171 shares
(b) Number of treasury stock shares at term-end
September 30, 2023: 6,857,283 shares
March 31, 2023: 3,676,692 shares
(c) Average number of shares during the term
First two quarters of the fiscal year ending March 2024: 145,313,782 shares
First two quarters of the fiscal year ended March 2023: 148,469,984 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 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 Tuesday, November 7, 2023.

1. Consolidated Performance

(1) Operating Results

In the two-quarter period under review (April 1–September 30, 2023), the global economy continued facing difficult conditions, including worsening business confidence due to rising prices and tight monetary policies worldwide, as well as the prolonged situation in Ukraine and a stagnant Chinese economy suffering from real estate issues and other problems. The Japanese economy also faced unpredictable conditions due to rising raw materials prices and energy costs, as well as sharp exchange rate fluctuations. This was despite easing of restrictions on economic and social activities as the impact of COVID-19 subsided.

In the domestic housing-related industry, new housing starts remained weak, but the household appliance sector saw a pickup in demand related to renovation.

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.”

To help realize a carbon-neutral society, a key social issue, we took advantage of a subsidy program (hybrid water heater category) offered by Japan’s Ministry of Economy, Trade and Industry for our *ECO ONE* hybrid water heaters with heating systems. We also launched the *ECO ONE X5*, featuring improved compactness and ease of installation. 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, we reported a year-on-year decline in revenue due to continued slowdown in market conditions stemming from rising prices and interest rates, as well as declining consumer sentiment. 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 items in our product mix, as well as continued production cutbacks.

As a result, consolidated net sales for the period amounted to ¥192,694 million, down 0.9% from the previous corresponding period. Operating income fell 47.0%, to ¥10,120 million, and ordinary income declined 32.9%, to ¥14,910 million. Net income attributable to owners of the parent company fell 40.9%, to ¥7,902 million.

Our results by geographical segment were as follows:

Japan

In Japan, the benefits of price revisions implemented in May and July 2023 gradually permeated the market, but a full-fledged recovery in demand did not materialize, resulting in a decline in revenue. We also faced high raw material prices and continued making production adjustments. As a result, sales in Japan declined 7.8% year on year, to ¥86,675 million, and operating income fell 65.1%, to ¥4,609 million.

United States

In the United States, replacement demand for mainstay tankless water heaters remained sluggish despite a pickup in new housing starts. We also posted a decline in sales of condensing (high-efficiency) water heaters, which had been growing strongly in recent years. Nevertheless, we reported increased sales of non-condensing water heaters and heating systems, while foreign exchange factors also had a positive impact on revenue. Consequently, sales in the the United States increased 10.7% year on year to ¥25,827 million yen. However, we reported an operating loss of ¥3,171 million due to an increase in storage costs due to higher inventories and labor costs, as well as a deteriorating product mix.

Australia

In Australia, we reaped the benefits of a sales promotion campaign targeting our mainstay gas tankless water heaters, while sales of electric products, particularly heat pump water heaters, were also strong. In addition, we posted increased sales of high-value-added products. As a result, sales in Australia rose 8.4%, to ¥14,757 million, and operating income jumped 61.4%, to ¥742 million.

China

Despite deteriorating real estate market conditions and a decline in consumer confidence stemming from a weakening economy, sales of mainstay water heaters recovered due to strong e-commerce sales. Accordingly, sales in China grew 13.4%, to ¥28,321 million, and operating income climbed 34.3%, to ¥5,118 million.

South Korea

Although housing market conditions showed signs of bottoming out, sales of mainstay boilers declined due to intensified price competition. As a result, sales in South Korea decreased 5.6%, to ¥14,720 million. We responded by making rigorous cost-cutting efforts, but these failed to compensate for the revenue decline. As a result, operating income fell 94.7%, to ¥46 million.

Indonesia

In Indonesia, the market for built-in hobs (stovetops) and mainstay tabletop stoves contracted due to sluggish personal consumption caused by rising prices. Accordingly, sales declined 3.8%, to ¥7,737 million. Nevertheless, we made various business improvements, including revising sales prices, lowering raw materials prices, and reducing costs. As a result, operating income jumped 37.5%, to ¥1,313 million.

References 1: Net sales by product

(¥ millions; %)

	First two quarters for the year ended March 31, 2023 (April 1, 2022, to Sept. 30, 2022)		First two quarters for the year ending March 31, 2024 (April 1, 2023, to Sept. 30, 2023)		Change		Year ended March 31, 2023 (April 1, 2022, to March 31, 2023)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Water heaters	¥112,581	57.9	¥114,471	59.4	¥1,889	1.7	¥258,658	60.8
Kitchen appliances	44,251	22.8	42,560	22.1	(1,690)	(3.8)	91,780	21.6
Air conditioning appliances	10,228	5.3	9,736	5.1	(491)	(4.8)	21,941	5.2
Commercial-use equipment	5,160	2.7	5,345	2.8	185	3.6	10,669	2.5
Others	22,124	11.4	20,579	10.7	(1,545)	(7.0)	42,179	9.9
Total	¥194,347	100.0	¥192,694	100.0	¥(1,652)	(0.9)	¥425,229	100.0

References 2: Overseas sales

(¥ millions; %)

	First two quarters for the year ended March 31, 2023 (April 1, 2022, to Sept. 30, 2022)			First two quarters for the year ending March 31, 2024 (April 1, 2023, to Sept. 30, 2023)		
	Asia	Other regions	Total	Asia	Other regions	Total
I. Overseas sales	¥59,424	¥45,979	¥105,403	¥61,416	¥48,706	¥110,123
II. Consolidated net sales	—	—	194,347	—	—	192,694
III. Composition ratio of overseas sales to consolidated net sales	30.6%	23.7%	54.2%	31.9%	25.3%	57.1%

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

(2) Financial Position

As of September 30, 2023, Rinnai had total assets of ¥552,673 million, up ¥5,559 million from March 31, 2023. Total liabilities decreased ¥1,366 million, to ¥138,548 million. Net assets were up ¥6,925 million, to ¥414,125 million. The equity ratio at the end of the period was 66.7%.

Cash Flows

Cash and cash equivalents at September 30, 2023, stood at ¥101,312 million, down ¥18.9 billion from March 31, 2023.

Net cash provided by operating activities amounted to ¥8,157 million, down 32.9% from the previous corresponding period. The main factor was the secured operating income and a cash decrease due to trade payables.

Net cash used in investing activities totaled ¥12,763 million, down 31.2% from the previous corresponding period. Main factors were purchases of tangible fixed assets.

Net cash used in financing activities was ¥18,530 million, up 21.0% from the previous corresponding period. This was due mainly to acquisition of treasury stock and payment of dividends.

(3) Explanation about Consolidated Performance Forecasts

Rinnai has not changed its forecasts for the full-year period ending March 31, 2024. (Those forecasts were released on August 4, 2023.)

2. Consolidated Quarterly Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2023 (Year ended March 31, 2023)	At Sept. 30, 2023 (First two quarters for the year ending March 31, 2024)
	Amount	Amount
ASSETS		
Current assets		
Cash and deposits	¥150,883	¥127,946
Notes and accounts receivable, and contract assets	78,886	85,232
Electronically recorded monetary claims	10,413	10,491
Marketable securities	7,737	5,575
Products	53,265	52,048
Raw materials and stores	39,562	42,661
Other	6,141	5,599
Less allowance for doubtful accounts	(5,369)	(5,448)
Total current assets	341,520	324,105
Fixed assets		
Property, plant and equipment	118,166	145,867
Intangible fixed assets	3,743	3,576
Investments and advances		
Investments in securities	48,205	42,121
Other	35,525	37,051
Less allowance for doubtful accounts	(47)	(48)
Total investments and advances	83,683	79,123
Total fixed assets	205,593	228,567
Total assets	¥547,114	¥552,673

(¥ millions)

	At March 31, 2023 (Year ended March 31, 2023)	At Sept. 30, 2023 (First two quarters for the year ending March 31, 2024)
	Amount	Amount
LIABILITIES		
Current liabilities		
Notes and accounts payable	¥ 26,205	¥ 28,604
Electronically recorded obligations	37,851	26,640
Accrued corporate taxes	6,665	3,759
Accrued employee's bonuses	5,365	5,655
Allowance for product guarantee	4,706	4,794
Other allowances	1,273	1,336
Other	30,800	38,725
Total current liabilities	112,868	109,515
Long-term liabilities		
Allowance environmental measures	2,255	2,255
Reserves	89	85
Net defined benefit liabilities	8,827	8,989
Other	15,873	17,703
Total long-term liabilities	27,045	29,032
Total liabilities	139,914	138,548
NET ASSETS:		
Shareholders' equity:		
Common stock	6,484	6,484
Capital surplus	8,428	8,428
Earned surplus	334,946	338,690
Treasury stock	(12,290)	(21,600)
Total shareholders' equity	337,569	332,002
Other comprehensive income:		
Unrealized gain on marketable securities	6,161	7,567
Foreign exchange translation adjustment	14,248	23,307
Remeasurements of defined benefit plans	6,171	5,554
Total other comprehensive income	26,582	36,429
Non-controlling interests	43,048	45,692
Total net assets	407,199	414,125
Total liabilities and net assets	¥547,114	¥552,673

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

Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2023 (April 1, 2022, to Sept. 30, 2022)	First two quarters for the year ending March 31, 2024 (April 1, 2023, to Sept. 30, 2023)
	Amount	Amount
Net sales	¥194,347	¥192,694
Cost of Sales	130,891	135,706
Gross Profit	63,455	56,988
Selling, general and administrative expenses	44,370	46,868
Operating income	19,084	10,120
Other income:		
Interest income	723	1,144
Dividends received	295	327
Foreign exchange income	2,005	2,399
Other	445	1,449
Total other income	3,470	5,320
Other expenses:		
Interest expenses	35	29
Loss on retirement of fixed assets	41	121
Share buyback costs	63	156
Depreciation	–	167
Fair value fluctuation amount related to contingent consideration	139	–
Other	61	55
Total other expenses	341	530
Ordinary income	22,213	14,910
Income before income taxes	22,213	14,910
Income taxes:		
Current	7,106	4,687
Deferred	(926)	(1,074)
Total income taxes	6,179	3,612
Net income	16,034	11,298
Net income attributable to non-controlling interests	2,651	3,395
Net income attributable to owners of the parent company	¥ 13,382	¥ 7,902

Consolidated Statements of Comprehensive Income

(¥ millions)

	First two quarters for the year ended March 31, 2023 (April 1, 2022, to Sept. 30, 2022)	First two quarters for the year ending March 31, 2024 (April 1, 2023, to Sept. 30, 2023)
	Amount	Amount
Net Income	¥ 16,034	¥ 11,298
Other comprehensive income		
Unrealized gain on marketable securities	605	1,408
Foreign exchange translation adjustment	18,623	11,880
Remeasurements of defined benefit plans	(611)	(618)
Total other comprehensive income	18,618	12,670
Comprehensive income	34,653	23,969
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	27,468	17,750
Non-controlling interest	7,184	6,218

(3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ended March 31, 2023 (April 1, 2022, to Sept. 30, 2022)	First two quarters for the year ending March 31, 2024 (April 1, 2023, to Sept. 30, 2023)
Cash flows from operating activities		
Income before income taxes	¥ 22,213	¥ 14,910
Depreciation and amortization	5,918	6,805
Interest and dividends income	(1,019)	(1,471)
Decrease (increase) in trade receivables, and contract assets	(2,424)	(3,059)
Decrease (increase) in inventories	(9,707)	2,962
Increase (decrease) in trade payables	3,484	(11,340)
Other	(2,239)	5,618
Subtotal	16,226	14,424
Interest and dividends received	883	1,373
Interest paid	(36)	(55)
Income taxes paid	(4,917)	(7,584)
Net cash provided by operating activities	12,155	8,157
Cash flows from investing activities		
Transfers to time deposits	(26,393)	(25,855)
Withdrawals from time deposits	25,630	31,152
Purchases of tangible fixed assets	(10,878)	(28,019)
Purchases of investments in securities	(7,515)	(12)
Sale and redemption of investments in securities	864	10,145
Other	(259)	(174)
Net cash used in investing activities	(18,551)	(12,763)
Cash flows from financing activities		
Acquisition of treasury stock	(10,067)	(10,157)
Dividends paid	(3,481)	(4,145)
Dividends paid to non-controlling shareholders	(1,340)	(3,574)
Other	(428)	(653)
Net cash used in financing activities	(15,317)	(18,530)
Effect of exchange rate fluctuations on cash and cash equivalents	7,374	4,235
Net increase (decrease) in cash and cash equivalents	(14,340)	(18,900)
Cash and cash equivalents at beginning of term	147,972	120,213
Cash and cash equivalents at end of term	¥133,632	¥101,312

(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, 2023 (April 1, 2022, to Sept. 30, 2022) Sales and Income (Loss) by Reportable Segment

	Reportable Segments							Others (Note 3)	Adjustments (Note 4)	Amounts on consolidate statements of income (Note 5)
	Japan	United States (Note 1)	Australia (Note 2)	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.

2. First two quarters for the year ending March 31, 2024 (April 1, 2023, to Sept. 30, 2023)
Sales and Income (Loss) by Reportable Segment

(¥ millions)

	Reportable Segments							Others (Note 3)	Adjustments (Note 4)	Amounts on consolidate statements of income (Note 5)
	Japan	United States (Note 1)	Australia (Note 2)	China	South Korea	Indonesia	Total			
Net sales										
Sales to outside customers	¥ 86,675	¥25,827	¥14,757	¥28,321	¥14,720	¥7,737	¥178,039	¥14,655	¥ —	¥192,694
Intersegment sales	13,025	—	54	844	337	284	14,546	1,418	(15,965)	—
Total	99,700	25,827	14,812	29,166	15,058	8,021	192,586	16,073	(15,965)	192,694
Segment Income (loss)	4,609	(3,171)	742	5,118	46	1,313	8,659	1,963	(502)	10,120

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.

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