Consolidated Results 2022 4Q

1. Consolidated Performance Overview for January to December 2022

During fiscal 2022, with the full lifting in March of priority preventative measures to prevent the spread of the novel coronavirus disease (COVID-19), the Japanese economy sought a route to recovery by balancing measures to prevent infections with socioeconomic activity, but future conditions remained unpredictable. On the other hand, overseas, economic activities remained stagnant in some regions, such as the lockdown in Shanghai. Furthermore, the situation remained uncertain due to soaring global energy and raw material prices as well as a significant depreciation of the yen and heightened geopolitical risks, such as Russia's military invasion of Ukraine.

Given these conditions, the Group entered year two of our new Medium-Term Management Plan "V-plan 23." We position the three years of this Medium-Term Management Plan as the phase of "Strengthen Our Platform for Success" and aim to evolve our Domestic Business to create a strong revenue structure and to achieve sustainable growth in our Overseas Business. Moreover, in response to the global parts procurement difficulties that occurred in the previous fiscal year, the Company added "supply chain restructuring" as a priority issue and has been working to ensure a stable supply of products as a top priority.

As a result, in fiscal 2022, net sales were ¥210.9 billion (an increase of 18.4% year on year), operating income was ¥6.8 billion (an increase of 175.5% year on year), ordinary income was ¥7.9 billion (an increase of 98.7% year on year), and net income attributable to shareholders of parent company was ¥4.8 billion (a decrease of 12.4% year on year).

Although we saw the spread of COVID-19 and prolonged difficult conditions including parts procurement difficulties and soaring costs during fiscal 2022, we steadily implemented measures set forth in "V-plan 23," and sales and income both achieved results that exceeded previously announced figures.

Billions of yen

	2019	2020	2021	2022	**2023(Plan)**
Net Sales	¥208.3	¥183.8	¥178.1	¥210.9	**¥234.0**
Domestic Business*	149.8	133.3	115.3	141.4	**151.0**
Overseas Business*	58.5	50.4	62.7	69.5	**83.0**
Operating Income	2.6	4.7	2.5	6.8	**8.0**
Domestic Business	2.3	4.3	(0.1)	3.3	**4.0**
Overseas Business	0.2	0.3	2.6	3.5	**4.0**
Ordinary Income	3.4	5.9	3.9	7.9	**8.6**
Net Income attributable to shareholders of parent company	1.5	(3.0)	5.4	4.8	**5.9**

*Does not include figures for internal transactions

Explanation by Segment

Operating results by segment are described below.

We have been describing segment sales in sales to external customers since the first quarter.

i. Domestic Business

In fiscal 2022, the Domestic Business segment saw sales of ¥141.4 billion (an increase of 22.6% year on year) and segment income of ¥3.3 billion (segment loss of ¥0.1 billion in the previous fiscal year).

In response to the parts procurement difficulties that have persisted since the third quarter of fiscal 2021, we implemented measures such as changing procurement terms and securing alternative parts, and starting in March, we focused our efforts on rapidly clearing the backlog of orders through production capacity that was significantly higher than in the previous year and on normalizing deliveries.

Furthermore, amid soaring material prices, we secured revenue by working to expand sales of high-value-added products, which is a priority issue in “V-plan 23,” and by revising manufacturer’s suggested retail pricing from July.

In the Water Heaters section, we have promoted the sales of our high-efficiency “Eco-Jozu” gas water heaters, centered on the “GT-C62 Series,” which is equipped with “bath monitoring” and “cleaning” functions. In particular, due to heightened hygienic needs, we have continued to enjoy increased sales of high-end “premium models” equipped with “bacteria-killing” functions. We strengthened initiatives to achieve carbon neutrality and accelerated the sales expansion of “hybrid water and space heating systems,” which efficiently produce hot water from two types of energy, gas and electricity. In addition, in the Commercial section, we launched new products, including high-efficiency commercial gas water heaters able to output hot water (84°C), an industry first, as well as compact *EcoCute* (heat pump systems) and hybrid commercial water heater systems, and we entered new markets.

In the Kitchen Appliances section, we worked on expanding sales of mid-to high-end built-in gas cookers, with a focus on the “PROGRE Series” that was launched in August, and improved costs, but we struggled to secure total volumes.

Our response to parts procurement difficulties, the expansion of sales of high-value-added products, and revisions to the manufacturer’s suggested retail price resulted in higher sales and income for the overall domestic business.

ii. Overseas Business

In fiscal 2022, the Overseas Business segment saw sales of ¥69.5 billion (an increase of 10.8% year on year) and segment income of ¥3.5 billion (an increase of 32.1% year on year).

In the Chinese region, the economy stagnated due to the lockdown in Shanghai, and the second quarter saw major impacts to business activities, but following the lifting of the Shanghai lockdown in June, we normalized production, cleared the backlog of orders for residential water heaters, and increased output of water heaters for exports. We also made progress in expanding into third- and fourth-tier cities, a key initiative under “V-plan 23.” In the North American region, sales of tankless water heaters for residential use struggled in the first half due to the impact of parts procurement difficulties, but the recovery from May and increases in production capacity achieved by bringing manufacturing inside the Group enabled us to increase output and clear the order backlog. In the Australian region the resumption of tankless water heater imports from China led to significant growth in sales, and contributed to securing higher profits. In addition to the above, the impact of yen depreciation helped the overall overseas business achieve increases in both sales and income.

2. Overview of Financial Position for Fiscal 2022

Total assets at the end of fiscal 2022 were ¥216.9 billion (an increase of ¥22.4 billion from the end of the previous fiscal year). Due to the increase in bills receivable, accounts receivable, and contract assets, current assets reached ¥132.1 billion (an increase of ¥20.1 billion from the end of the previous fiscal year). In addition, due to the increase in long-term loans, noncurrent assets were ¥84.7 billion (an increase of ¥2.2 billion from the end of the previous fiscal year).
Due to the increase in bills payable and accounts payable, liabilities reached ¥80.2 billion (an increase of ¥21.6 billion from the end of the previous fiscal year). Total net assets reached ¥119.6 billion (an increase of ¥3.4 billion from the end of the previous fiscal year).

3. Overview of Cash Flow for Fiscal 2022

Cash and cash equivalents (“funds”) on a consolidated basis at the end of fiscal 2022 were ¥43.1 billion, an increase of ¥12.4 billion compared to the end of the previous fiscal year.
The cash flow conditions for fiscal 2022 are as follows.

Cash Flow from Operating Activities
Funds from operating activities were ¥15.4 billion (an increase of ¥6.0 billion from the end of the previous fiscal year). This is mainly due to income before income taxes and minority interests of ¥8.9 billion, depreciation and amortization of ¥6.1 billion, decrease in trade receivables of ¥18.0 billion, increase in inventories of ¥3.6 billion, decrease in trade payables of ¥4.9 billion, and decrease in accrued consumption tax, etc. of ¥1.0 billion.

Cash Flow from Investment Activities
Funds used in investment activities were ¥2.5 billion (a decrease of ¥2.9 billion from the end of the previous fiscal year). This is mainly due to payments for purchase of marketable securities of ¥4.0 billion, proceeds from sales and redemption of securities of ¥4.1 billion, and payments for purchase of tangible fixed assets of ¥3.6 billion.

Cash Flow from Financing Activities
Funds used in financing activities were ¥3.1 billion (a decrease of ¥1.1 billion from the end of the previous fiscal year). This is mainly due to dividends paid of ¥2.3 billion.

Trend of Cash Flow Indicators

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Capital adequacy ratio (%)	56.5	57.6	53.1
Capital adequacy ratio based on market value (%)	39.0	39.7	30.6
Ratio of interest-bearing debt to cash flow (years)	0.6	0.4	2.8
Interest coverage ratio (times)	83.4	180.2	23.7

Notes: Capital adequacy ratio = Capital adequacy / Total assets

Capital adequacy ratio based on market value = Market capitalization / Total assets

Ratio of interest-bearing debt to cash flow = Interest-bearing debt / Operating cash flow

Interest coverage ratio = Operating cash flow / Interest payment

1. All indicators are calculated based on consolidated financial figures.
2 Market capitalization is calculated by multiplying the closing share price at the end of the fiscal year by the total number of shares issued at the end of the fiscal year (excluding treasury stock).
3. Operating cash flow is the cash flow from operating activities in the consolidated statement of cash flows. Interest-bearing debt includes all liabilities on the consolidated balance sheet for which interest is paid. In addition, interest payments are based on the amount of interest paid in the consolidated statement of cash flows.

4. Future Outlook

Although the global economy is recovering from negative growth due to the spread of COVID-19, the future outlook remains uncertain.

In addition, we expect global initiatives aimed at realizing a carbon-free society to accelerate, and for energy-saving policies to move forward in every industry including housing. Meanwhile, soaring energy and material prices are expected to continue in the future.

Amid this environment, the Group is making efforts to build a solid supply chain and ensure both stable procurement and controlled cost increases.

Furthermore, we are streamlining manufacturing through the use of digital technology, reforming our sales model, and strengthening product development to resolve social issues as we work to build a revenue-producing structure and to develop technology to realize a carbon-free society.

In Domestic Business, we are further expanding sales of our hybrid water heaters and high-efficiency “Eco-Jozu” gas water heaters to contribute to the realization of a carbon-free society, and we are providing new value to solve social issues with our water heaters that feature “bacteria-killing” functions for hygienic needs and “bath monitoring” functions to reduce accidents in the bath and our stoves with “multi-grill” to support simple and convenient cooking.

In addition, in the Commercial section, we are working to enter new markets and develop applications with energy-saving equipment using proprietary technology.

In the Overseas Business, we will further expand into regional cities in China through horizontal development of successful models, expand our business fields in the North American and Australian regions, and expand our product lineup including environmental and energy-saving tankless water heaters, heaters, and commercial equipment, as we work to realize continued growth. We will also work with Kangaroo in Vietnam, which became an equity-method affiliate in the previous fiscal year, to expand to Southeast Asian countries.

5. Basic Policy on Profit Distribution and Dividends for Fiscal 2022 and 2023

The Company regards the return of profits to shareholders as an important management issue. Our basic policy is to pay dividends on a continuous and stable basis, and we are working toward more aggressive profit returns to shareholders over the three-year period from fiscal 2021 to fiscal 2023, while aiming for a consolidated dividend payout ratio of 50% or a consolidated dividend on equity ratio (DOE) of 2%, whichever is higher. In addition, we will consider flexibly implementing the acquisition of treasury stock.

To increase corporate value, internal reserves will be efficiently used mainly for R&D of new technologies for the environment, improvement and expansion of quality assurance systems, and development of new businesses.

The basic policy of the Company is to pay dividends from surplus twice a year as interim and term-end dividends, and the body that determines the distribution of these surpluses is the Annual Meeting of Shareholders for term-end dividends and Board of Directors for interim dividends.

Regarding the dividend for fiscal 2022, we will maintain the revised dividend forecast announced on December 8, 2022, and we plan to pay an annual dividend of ¥53, the sum of the interim dividend per share of ¥25 and term-end dividend of ¥28.

For fiscal 2023, we plan to pay an annual dividend of ¥64, the sum of the interim dividend per share of ¥32 and term-end dividend of ¥32.

6. Consolidated Financial Highlights

Noritz Corporation and Consolidated Subsidiaries Years ended December 31, 2019, 2020, 2021 and 2022

Millions of yen

	2019	2020	2021	**2022**
Fiscal Year:				
Net sales	¥208,396	¥183,859	¥178,142	**¥210,966**
Operating income	2,693	4,763	2,500	**6,889**
Operating margin (%)	1.3	2.6	1.4	**3.3**
Net income attributable to shareholders of parent company	1,512	(3,013)	5,479	**4,800**
Net cash provided by operating activities	6,138	9,415	15,477	**2,403**
Net cash used in investing activities	(11,304)	(5,432)	(2,522)	**(7,790)**
Net cash used in financing activities	(2,802)	(4,317)	(3,118)	**(4,778)**
Cash and cash equivalents	30,826	30,669	43,159	**35,147**
Capital expenditures	7,419	5,193	6,019	**6,223**
Depreciation and amortization	7,083	6,863	6,136	**6,590**
At Fiscal Year-End:				
Total assets	¥199,305	¥189,726	¥194,527	**¥216,974**
Net assets	114,801	110,971	111,959	**119,656**
Per Share Data (Yen):				
Net income	¥31.75	¥(64.79)	¥119.12	**¥104.64**
Cash dividend	32.00	35.00	83.00	**53.00**
Net assets	2,359.80	2,330.19	2,433.96	**2,508.08**
Financial Ratios (%):				
Return on equity (ROE)	1.4	(2.8)	5.0	**4.2**
Equity ratio	55.7	56.5	57.6	**53.1**