

Consolidated Results 2023 4Q

1. Consolidated Performance Overview for January to December 2023

During fiscal 2023, the Japanese economy saw signs of recovery with recovery in inbound demand and improvement in the labor environment with the lifting of restrictions on movement. However, due to the impact of rising prices, this did not translate into a large increase in consumer spending. Overseas, although there was also a move toward improvement in economic activities, including the lifting of border closures in various countries, the pace of recovery remains gradual. In addition, the situation remained uncertain due to the soaring costs of raw materials and energy, tightening in financial markets, the prolonging of the situation in Russia and Ukraine, and heightened geopolitical risk.

Under such conditions, the Group entered the final year of our Medium-Term Management Plan “V-Plan 23,” which was launched in 2021. We positioned the three years of this Medium-Term Management Plan as the phase of “Strengthen Our Platform for Success” and aimed to evolve our Domestic Business to create a strong revenue structure and to achieve sustainable growth in our Overseas Business. Moreover, the Company added “construction of a solid supply chain” and “transformation of business activities through DX promotion” as priority issues and has been working to ensure a stable supply of products and optimize production processes.

As a result, the operating results in fiscal 2023 were net sales of ¥201.8 billion (a decrease of 4.3% year on year), and operating income of ¥3.8 billion (a decrease of 44.3% year on year). Regarding ordinary income, the operating results of Kangaroo International Joint Venture Company (“Kangaroo”), which became an equity-method affiliate through the acquisition of shares in June 2021, were below planned targets, so goodwill, etc. were impaired and share of loss of entities accounted for using equity method was recorded under non-operating expenses, which together with other factors resulted in ordinary income of ¥1.2 billion (a decrease of 84.2% year on year). Net income attributable to shareholders of parent company was ¥0.8 billion (a decrease of 81.9% year on year).

We did not accomplish the objectives of the Medium-Term Management Plan “V-Plan 23,” which entered its final year in fiscal 2023, due to a greater than expected decrease in domestic demand, despite favorable results in overseas markets for heating and commercial equipment. However, there are signs linked to positive developments for the new Medium-Term Management Plan “V-Plan 26” such as an increase of the proportion of high-value-added products including environmentally friendly products, increased interactions with consumers, and increased sales in the Overseas Business.

Billions of yen

	2020	2021	2022	2023	2024(Plan)
Net Sales	¥183.8	¥178.1	¥210.9	¥201.8	¥212.0
Domestic Business*	133.3	115.3	141.4	131.3	140.0
Overseas Business*	50.4	62.7	69.5	70.5	72.0
Operating Income	4.7	2.5	6.8	3.8	5.0
Domestic Business	4.3	(0.1)	3.3	0.3	1.5
Overseas Business	0.3	2.6	3.5	3.5	3.5
Ordinary Income	5.9	3.9	7.9	1.4	5.8
Net Income attributable to shareholders of parent company	(3.0)	5.4	4.8	0.8	4.1

*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 2023, the Domestic Business segment saw sales of ¥131.3 billion (a decrease of 7.1% year on year) and segment income of ¥0.3 billion (a decrease of 90.4% year on year). Sales and income decreased due to weak demand, soaring costs, and the impact of foreign exchange continuing from the second quarter.

In the Water Heaters section, unit sales of “hybrid water and space heating systems,” which efficiently produce hot water from two types of energy, gas and electricity, expanded to 1.6 times that of such sales in fiscal 2022, due to the utilization of government subsidies. In addition, we increased the unit sales of IoT remote control units and the number of maintenance agreements, and strengthened future connections with customers. Among products for commercial use, we produced results in our initiatives to achieve carbon neutrality, including a significant increase in sales, by encouraging the replacement of boilers with commercial gas water heaters. On the other hand, for residential gas and oil water heaters, unit sales decreased significantly due to greater than expected sluggish demand. In the Kitchen Appliances section, although sales were strong for the new line of built-in gas cookers launched in August, cumulative unit sales in fiscal 2023 were below the cumulative unit sales in the previous fiscal year. Consequently, we experienced lower sales and lower income for the overall domestic business.

ii. Overseas Business

In fiscal 2023, the Overseas Business segment saw sales of ¥70.5 billion (an increase of 1.4% year on year) and segment income of ¥3.5 billion (a decrease of 0.7% year on year).

In the Chinese region, we secured revenue through the expansion of sales of high-value-added products, such as water heater for heating, amid continued economic stagnation. In the North American region, we secured profits by expanding sales of commercial equipment and heating equipment, which are highly profitable, despite struggling due to sluggish demand. In the Australian region, sales of tankless water heaters for the New Zealand market and tank-type water heaters for home improvement centers were steady, and sales in industrial fields were strong, growing to 1.1 times that of such sales in fiscal 2022. Although sales in the overseas major areas proceeded firmly, we achieved higher sales and lower income for the overall overseas business due to a decline in the export volume as a result of inter-group transactions from the Domestic Business and significantly high cost prices of export products.

2. Overview of Financial Position for Fiscal 2023

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 2023

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, 2021	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Capital adequacy ratio (%)	57.6	53.1	58.7
Capital adequacy ratio based on market value (%)	39.7	30.6	33.5
Ratio of interest-bearing debt to cash flow (years)	0.4	2.8	—
Interest coverage ratio (times)	180.2	23.7	—

Notes: $\text{Capital adequacy ratio} = \text{Capital adequacy} / \text{Total assets}$

$\text{Capital adequacy ratio based on market value} = \text{Market capitalization} / \text{Total assets}$

$\text{Ratio of interest-bearing debt to cash flow} = \text{Interest-bearing debt} / \text{Operating cash flow}$

$\text{Interest coverage ratio} = \text{Operating cash flow} / \text{Interest payment}$

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 in a sluggish recovery mode following a slowdown against a backdrop of monetary tightening, 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, we formulated our new Medium-Term Management Plan “V-Plan 26,” which backcasts from how we envision Noritz in 2030. In the “V-Plan 26,” we first revised the vision statement for how we envision Noritz in 2030, and established our value-creation story. On top of this, we set reform of the business portfolio, expansion of strategic investments and the capital policy, as well as promotion of sustainability management as key strategies, and are aiming for ROE of more than 6%.

In the Domestic Business, we have set forth a policy of reforms to the structure that is biased towards the residential use water heater business, we contribute to the realization of a carbon-free society by expanding sales of our “hybrid water and space heating systems” and high-efficiency “Eco-Jozu” gas water heaters and in the Kitchen Appliances section, we aim to differentiate ourselves with the joy of cooking and style as our strength. In addition, in the Commercial section, we will cultivate new markets in the area of providing hot water for use by service providers or users with new application specific products, while also cultivating the section for industrial and agricultural use. In the Overseas Business, we have set forth policies for mitigating the risk in relying on China for sales and profit, and for cultivating new markets, and we will advance the independence and growth of the China business by creating synergies between our Chinese subsidiaries through investment for strengthening production and development capabilities in China. In North America, we aim to contribute towards carbon neutrality, expand the commercial water heater section, and increase sales by promoting greater efficiency in the heaters section through ties between three subsidiaries. In Australia, we will secure stable revenue by improving costs through investment in equipment and facilities and by cultivating the New Zealand market.

We will also work with our equity-method affiliate Kangaroo in Vietnam to expand to Southeast Asian countries.

5. Basic Policy on Profit Distribution and Dividends for Fiscal 2023 and 2024

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 ¥53, the sum of the interim dividend per share of ¥32 and term-end dividend of ¥21.

6. Consolidated Financial Highlights

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

Millions of yen

	2020	2021	2022	2023
Fiscal Year:				
Net sales	¥183,859	¥178,142	¥210,966	¥201,891
Operating income	4,763	2,500	6,889	3,840
Operating margin (%)	2.6	1.4	3.3	1.9
Net income attributable to shareholders of parent company	(3,013)	5,479	4,800	1,080
Net cash provided by operating activities	9,415	15,477	2,403	(1,868)
Net cash used in investing activities	(5,432)	(2,522)	(7,790)	(5,664)
Net cash used in financing activities	(4,317)	(3,118)	(4,778)	(3,235)
Cash and cash equivalents	30,669	43,159	35,147	25,159
Capital expenditures	5,193	6,019	6,223	9,201
Depreciation and amortization	6,863	6,136	6,590	6,869
At Fiscal Year-End:				
Total assets	¥189,726	¥194,527	¥216,974	¥207,983
Net assets	110,971	116,193	119,656	126,879
Per Share Data (Yen):				
Net income	¥(64.79)	¥119.12	¥104.64	¥18.84
Cash dividend	35.00	83.00	53.00	53.00
Net assets	2,330.19	2,433.96	2,508.08	2644.38
Financial Ratios (%):				
Return on equity (ROE)	(2.8)	5.0	4.2	0.7
Equity ratio	56.5	57.6	53.1	58.7