

February 12, 2021  
Noritz Corporation

# Financial Results Briefing Material for the Fiscal Year Ended December 31, 2020

Securities Code

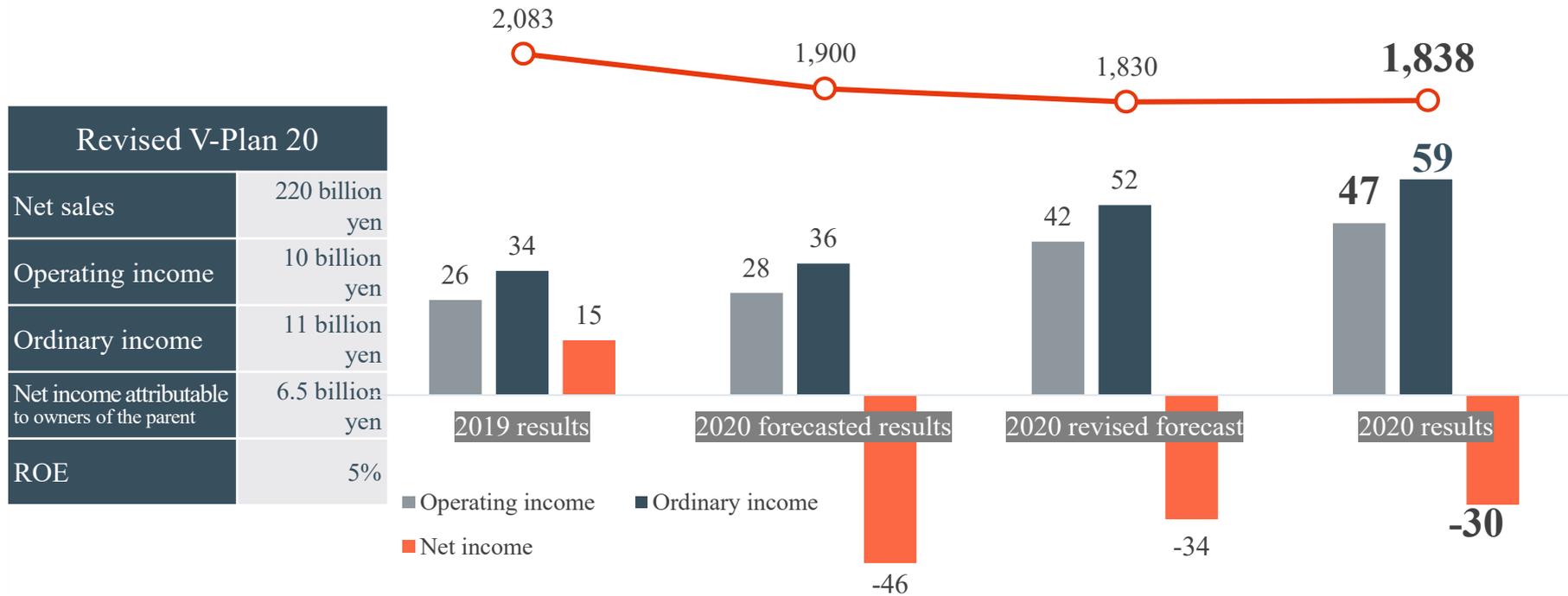
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The forecasts of the company's future results provided in this material are projections originally made by the company based on information currently available and are subject to risks and other uncertainties. As such, they are not a guarantee of the company's future results.

- Review of Medium-Term Management Plan “V-Plan 20”
  
- New Medium-Term Management Plan “V-Plan 23”
  - Business Environment and Overview
  - Domestic Business Segment
  - Overseas Business Segment
  - Business Targets
  - Business Activities Based on Q+ESG
  
- Stockholder Return
  
- Reference Material

# Review of Medium-Term Management Plan “V-Plan 20”

# Review of Medium-Term Management Plan “V-Plan 20”



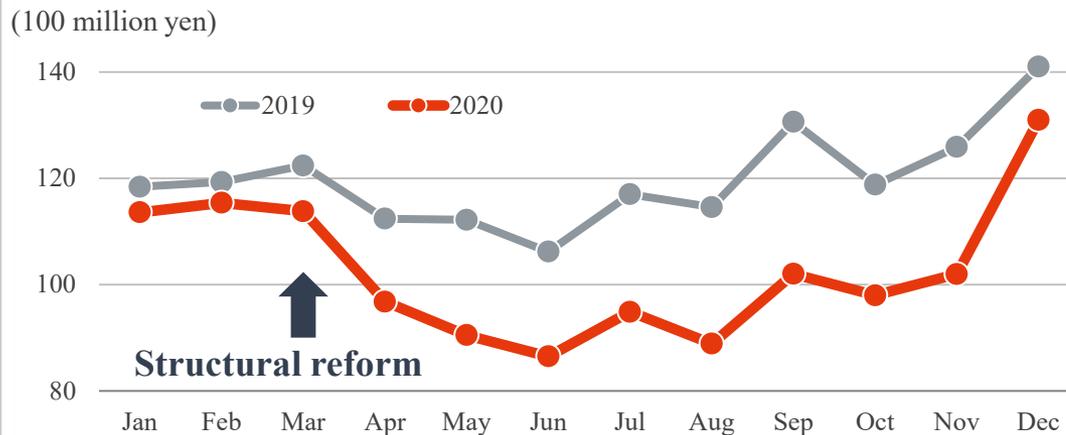
(Hundred million yen)		2019 results	2020 forecasted results	2020 revised forecast	2020 results
Net sales	Domestic Business Segment	1,498	1,350	1,330	<b>1,333</b>
	Overseas Business Segment	585	550	500	<b>504</b>
Operating income	Domestic Business Segment	23	25	40	<b>43</b>
	Overseas Business Segment	2	3	2	<b>3</b>

# Review of Medium-Term Management Plan “V-Plan 20”

## ■ Domestic Business Segment

Theme	Tasks to be implemented	Results
Reconstruction of business portfolios	Implement structural reform <ul style="list-style-type: none"> <li>• Withdraw from unprofitable businesses</li> <li>• Offer voluntary retirement</li> </ul>	Lowered BEP sales
Improvement of profitability in domestic business	Expand sales of high-value added products	Shifted to profit-based sales
	Introduce automated production lines	Introduced automated assembly and inspection processes
	Establish a maintenance system	Established foundations for new contacts by maintenance notification function of water heaters

### [Comparison of BEPs between pre- and post-structural reform]



### Remaining tasks

- Further shift to sales of high-value added products
- Accelerate manufacturing transformation  
(Enhance cost competitiveness)
- Construct new models for residential businesses to be marketed
- Extend non-residential businesses

# Review of Medium-Term Management Plan “V-Plan 20”

## ■ Overseas Business Segment

Theme	Tasks to be implemented	Results
Continuous enlargement of overseas business	Implement structural reform of business in China	Reduced fixed costs
	M&A of business in North America (Develop new sales channels)	Organized foundation of cooperation among three companies in North America
	Enhance commercial value of products and develop new commodities	China: Expanded product selection sold online North America: Adopted by major wholesalers Australia: Expanded sales of water heaters for commercial use

### [Changes in operating income of business in China]

(Hundred million yen)



### Remaining tasks

- Transform business in China to have a highly profitable structure
- Develop products that meet the needs of each country
- Move into new regions (Southeast Asia)

# Review of Medium-Term Management Plan “V-Plan 20”

## ■ Corporate Governance

Theme	Tasks to be implemented	Results
Response to revised CGC	Change to company structure <ul style="list-style-type: none"> <li>• Reduce total director headcount (make a third of the Board consist of external directors)</li> <li>• Appoint female directors</li> <li>• Transition into a company with an audit and supervisory committee</li> <li>• Establish a nomination and remuneration committee</li> </ul>	<ul style="list-style-type: none"> <li>• Streamlined decision-making processes</li> <li>• Enhanced transparency of management</li> </ul>
	<ul style="list-style-type: none"> <li>• Change policy regarding stockholder returns (From stable dividends to total return ratio of 50%)</li> <li>• Sell cross-shareholdings (loss of five stocks)</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced stockholder return</li> </ul>

### [Change in company structure]

(Number of people)	2016		2020	
	In-house	External	In-house	External
Directors	7	2	5	1
Corporate auditor	2	2	—	—
Audit & Supervisory Committee members	—	—	1	2
Total	9	4	6	3

### [Stockholder return]

(Hundred million yen)	2017	2018	2019	2020	Total
The total amount of dividends	15	15	15	16	61
Acquired treasury shares	—	—	10	18	28

### Remaining tasks

- Further enhance board effectiveness
- Proactively increase stockholder returns
- Improve capital efficiency

## Review of Medium-Term Management Plan “V-Plan 20”

### ■ Summary

- In domestic business, foundations leading to a highly profitable structure were established through reconstruction of business portfolios and efforts to increase profitability
- In overseas business, foundations leading to growth were prepared through structural reform despite drastic decreases in sales and profit due to changes in the Chinese economy and impacts caused by COVID-19

**A positive outlook that extends to V-Plan 23  
has emerged despite unachieved targets**

# New Medium-Term Management Plan “V-Plan 23”

# New Medium-Term Management Plan “V-Plan 23”

## Business Environment

### Changes in the business environment caused by COVID-19 and the decarbonization policy

	Environmental changes	Theme of strategies
Economy	Normalization of the “70% economy”	Establish management foundations compatible with the 70% economy
Consumption	Changes in consumer needs (sharing and stay at home)	Enhance communication with customers to convey the value of Noritz
Society	Accelerated efforts toward decarbonization	Improve presence of ESG management
	Increased awareness toward security and trust towards companies	
Technology	Progress in DX through accelerated digitalization	Digitalization of communication

### Business tasks required in living with COVID-19

- Establish profit foundations compatible with the dwindling market
- Communicate the value of Noritz to customers without relying on in-person meetings
- Enhance efforts to solve societal problems
- Transform business models through promoting DX



# New Medium-Term Management Plan “V-Plan 23”

## Measures and challenges in domestic business segment

### ■ Efforts in domestic business segment

Measures to be taken	Challenges to be tackled
Transformation into a highly profitable structure	<ul style="list-style-type: none"> <li>➤ Expand sales of high-value added products</li> <li>➤ Establish sales model through replacement</li> <li>➤ Establish sales model in non-residential businesses</li> <li>➤ Reduce costs</li> </ul>

### ■ Efforts in overseas business segment

Measures to be taken	Challenges to be tackled
Establishing continuous growth	<ul style="list-style-type: none"> <li>➤ China: Promote measures toward growth</li> <li>➤ North America: Expand water heater business utilizing three group companies</li> <li>➤ Australia: Expand business areas</li> <li>➤ New areas: Enter the Southeast Asian market (Vietnam)</li> </ul>

# New Medium-Term Management Plan “V-Plan 23”

## Challenges in domestic business segment

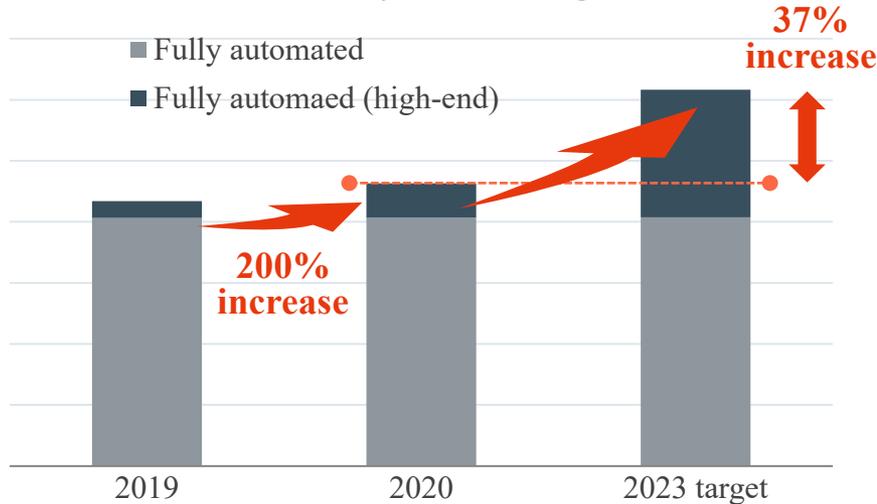
### Expand sales of high-value added products

Response to needs in the society  
(Increases in needs for sanitation because of COVID-19)

Expand lineup of high-end water heaters with an ultraviolet disinfection function



<Sales volume of fully automated gas water heaters>



Response to needs in the society  
(Increases in double-income households)

Reinforce sales promotion of cookers with multiple grills that make housework easier



Response to environmental needs

Expand lineup of hybrid water heaters (single family housing and complex housing)

Hybrid water heaters for housing complexes



# New Medium-Term Management Plan “V-Plan 23”

## Challenges in domestic business segment

### Establish sales model through replacement

Establish business models that enable the company to create new customer contact points

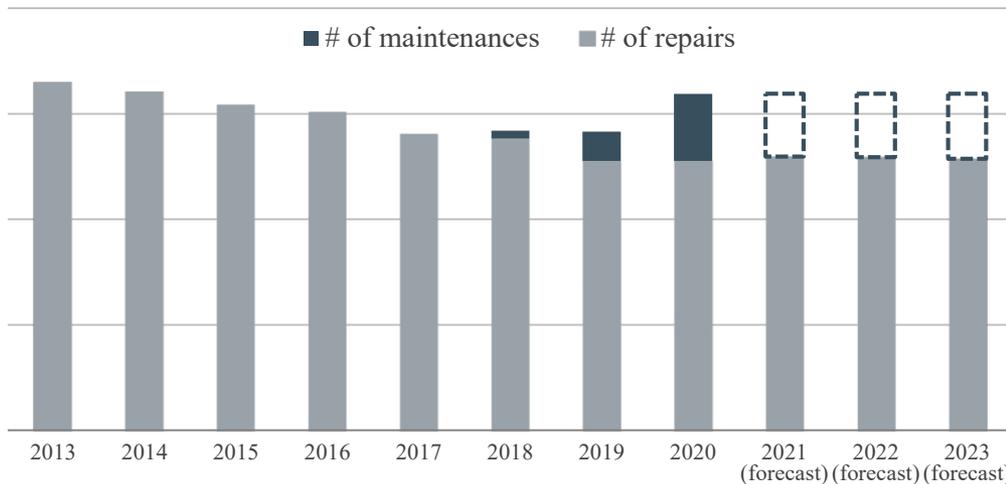
Repair-based replacement  
Speed- and price-focused



Maintenance-based replacement  
**Security- and added value-focused**

Provide the values of safety and security through promoting maintenance and replacement at the appropriate time

<Changes in the number of repairs and maintenances>



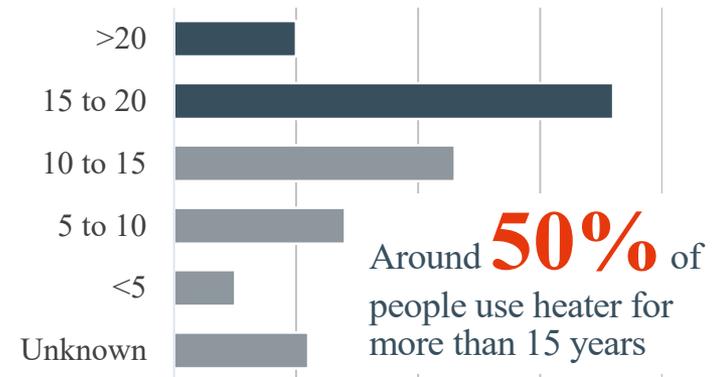
“Check-up alert function” is installed in almost all water heater models



“88” or “888” flashes to announce the maintenance time

10 years after start of use, the maintenance time is announced on the display of the remote controller

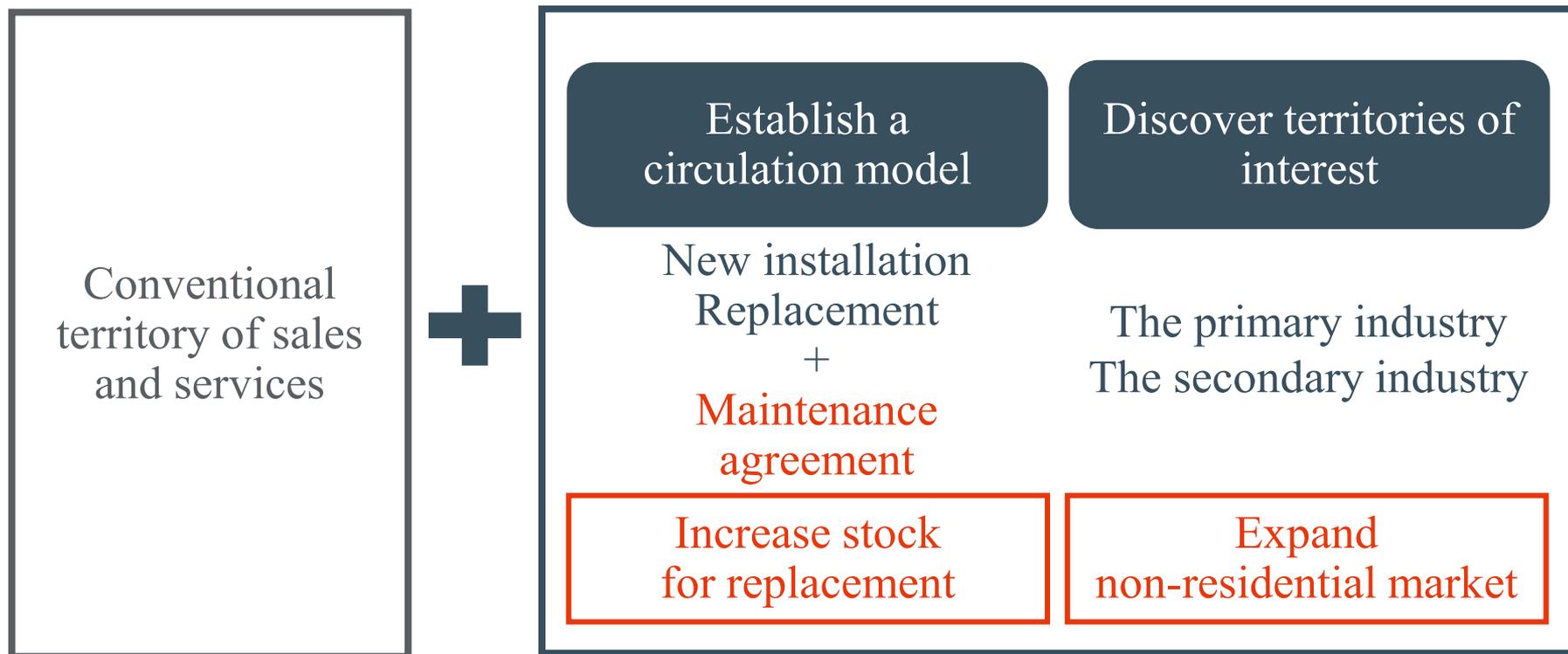
<Number of years a water heater is used before it is replaced>



\* Based on questionnaires through the website for members of Club NORITZ (Conducted in 2019/n=440)

### Establish sales model in non-residential businesses

Transform into a business model that allows the company to connect with facilities and owners



### Reduce COGS (cost of goods sold)

Items	Details
<ul style="list-style-type: none"> <li>➤ Transformation of the system from delivery of parts to shipment of products</li> </ul>	Reconstructing the production system
	Reconsidering the distribution function
<ul style="list-style-type: none"> <li>➤ Consolidating parts, standardization, unification of models</li> </ul>	Developing modular products
	Promoting and accelerating automated production lines
<ul style="list-style-type: none"> <li>➤ Consolidation of suppliers and appointment of new suppliers</li> </ul>	Reducing parts costs
<ul style="list-style-type: none"> <li>➤ Restructuring of factories</li> </ul>	Reducing costs through the production bases policy



Total  
3 billion  
yen

# New Medium-Term Management Plan “V-Plan 23”

## Measures and challenges in overseas business segment

### ■ Efforts in domestic business segment

Measures to be taken	Challenges to be tackled
Transformation into a highly profitable structure	<ul style="list-style-type: none"> <li>➤ Expand sales of high-value added products</li> <li>➤ Establish sales model through replacement</li> <li>➤ Establish sales model in non-residential segments</li> <li>➤ Reduce costs</li> </ul>

### ■ Efforts in overseas business segment

Measures to be taken	Challenges to be tackled
Establishing continuous growth	<ul style="list-style-type: none"> <li>➤ China: Promote measures toward growth</li> <li>➤ North America: Expand water heater business utilizing three group companies</li> <li>➤ Australia: Expand business areas</li> <li>➤ New areas: Enter the Southeast Asian market (Vietnam)</li> </ul>

### China: Promote measures toward growth



**Noritz (China)**



Luxurious foreign brand

Develop variations of new models

Reinforce space heating and commercial water heater businesses  
(Aggressively marketing new products and releasing new variations)



**Sakura China**



Middle-class and luxurious local brand

Increase the ratio of online sales

Acquire new customers through vendors

Reinforce utilization of the Chinese market as a global production base  
(Maintaining and improving the QCD)

Maintain a streamlined management structure → Increase profit

### North America: Enlarge water heater business through three group companies



#### Heating systems

Enrich condensing boilers  
(high efficiency and environmentally friendly)



#### Commercial water heaters

Sales and installation of commercial water heaters  
(high efficiency and environmentally friendly)  
Enrich maintenance agreement

#### Gas instantaneous water heater

Reinforce partnership with major wholesalers  
of duct material  
(increasing partnership from 2020)



#### Installation

Expand into retail

Leverage advantages  
in installation

## New Medium-Term Management Plan “V-Plan 23”

## Business targets

(Unit: hundred million yen)	FY2020	Plan for FY2021	Plan for FY2023
Net sales	1,838	1,800	1,920
Domestic business segment	1,333	1,280	1,320
Overseas business segment	504	520	600
Operating income	47	50	80
Domestic business segment	43	45	60
Overseas business segment	3	5	20
Ordinary income	59	55	—
Net income attributable to owners of the parent	(30)	58	—

\* Net sales in domestic and overseas business segment only include transaction amounts with outside customers.

# Business Activities Based on Q (Quality) + ESG

—Future finance NORITZ cherishes—



# New Medium-Term Management Plan “V-Plan 23”

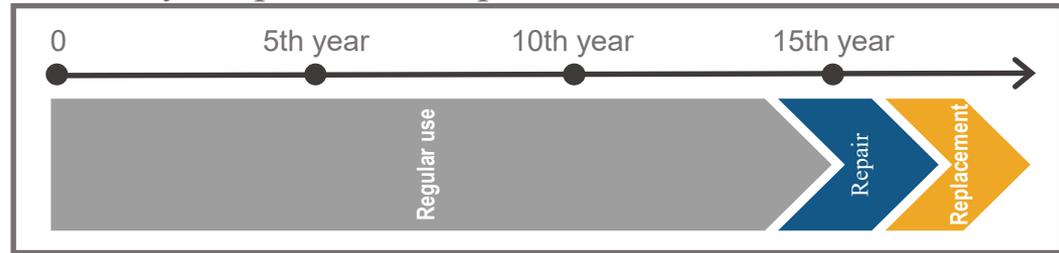
## Business Activities Based on Q + ESG



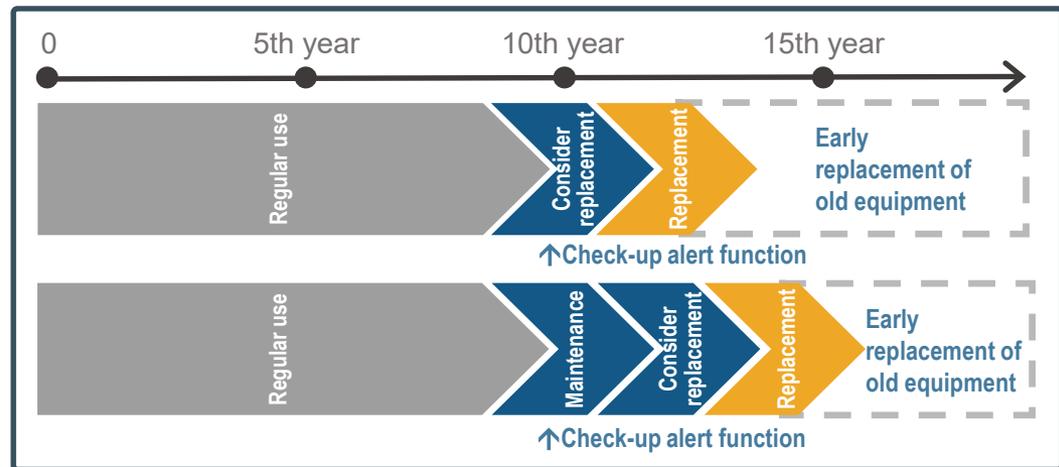
### Promoting product security

Promote maintenance through “Check-up alert function” and replace products at the appropriate time to suppress **accidents caused by degradation**

#### Currently: Repair-based replacement



**Sustainable targets: Providing security through maintenance and replacement at the appropriate time**



**For commercial water heaters, maintenance promotes the appropriate replacement of equipment**

#### Product use duration and number of accidents



Source: An extract from the press release material of NITE for October 2017

# New Medium-Term Management Plan “V-Plan 23”

## Business Activities Based on Q + ESG



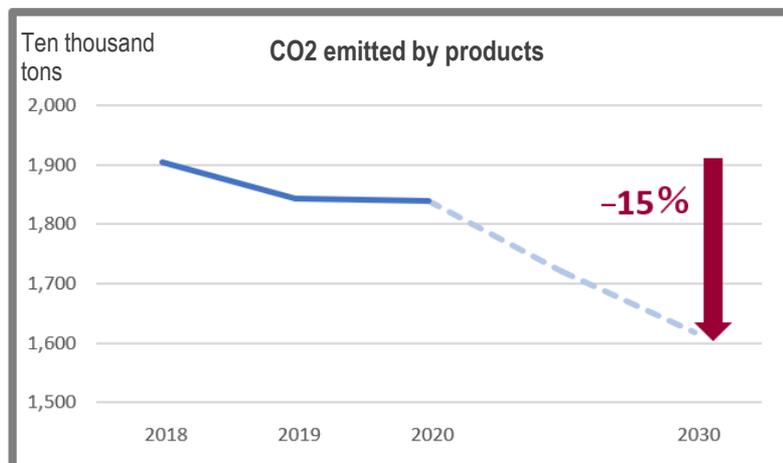
### Response to climate change

From 2009	2019 to 2020	From 2020	From 2020
Designated as an Eco First Company 	CDP Rating of “B” 	Supporting TCFD 	Joined RE100 

### <Product CO<sub>2</sub> reduction target>

15% reduction by 2030  
(compared to 2018 levels)

- Increase sales of environmentally-friendly products
- Develop technology that contributes to decarbonization

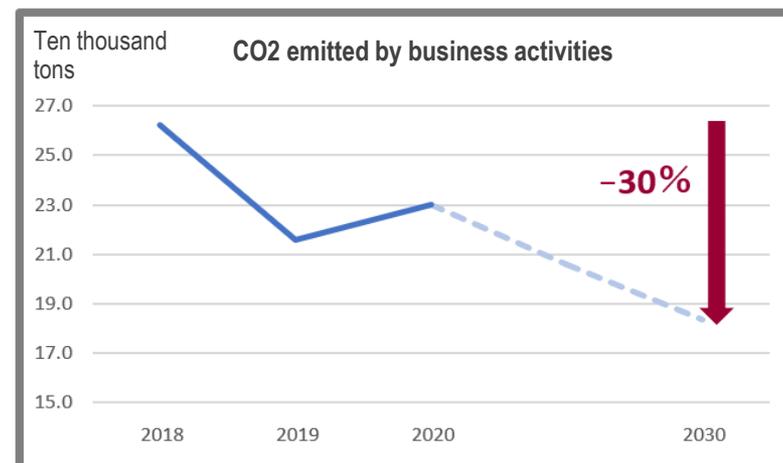


### <Business activity CO<sub>2</sub> reduction target>

30% reduction by 2030  
(compared to 2018 levels)

#### Promote RE100

- Switch to renewable energy sources
- Introduce environmentally-friendly equipment, etc.



# New Medium-Term Management Plan “V-Plan 23”

## Business Activities Based on Q + ESG



### Efforts to improve employee performance

Items	Implemented tasks
<ul style="list-style-type: none"> <li>➤ Fostering human resources</li> </ul>	<ul style="list-style-type: none"> <li>• Fostering the next generation (Selecting young and female employees)</li> <li>• Transition from membership-type employment to job-type employment (job responsibility-based compensation)</li> </ul>
<ul style="list-style-type: none"> <li>➤ Increasing motivation for contributing to the organization</li> </ul>	<ul style="list-style-type: none"> <li>• Fostering awareness of ownership and shareholders’ perspective through introducing RS to employees (introduced in December 2020)</li> </ul>
<ul style="list-style-type: none"> <li>➤ Work style reform and healthy management</li> </ul>	<ul style="list-style-type: none"> <li>• Reforming working style through digitalization of business tools</li> <li>• Preparing environment and system that allow employees to work in mentally and physically healthy condition (Designated as a Company with Excellent Health Management 2020 White 500)</li> </ul>

# New Medium-Term Management Plan “V-Plan 23”

## Business Activities Based on Q + ESG



### Response to corporate governance

Items	Implemented tasks
➤ Effectiveness of the Board	<ul style="list-style-type: none"> <li>•Promote diversity in Directors’ expertise (Accelerate decision-making process)</li> <li>•Introduce external evaluations to assess the effectiveness of the Board (Enhance effectiveness)</li> </ul>
➤ Remuneration for directors	Revise remuneration package (Introduction of RS, etc.)
➤ Capital efficiency	ROE of 5% or above
➤ Cross-shareholdings	Continuous reduction (Being aware of the composition ratio to equity capital)

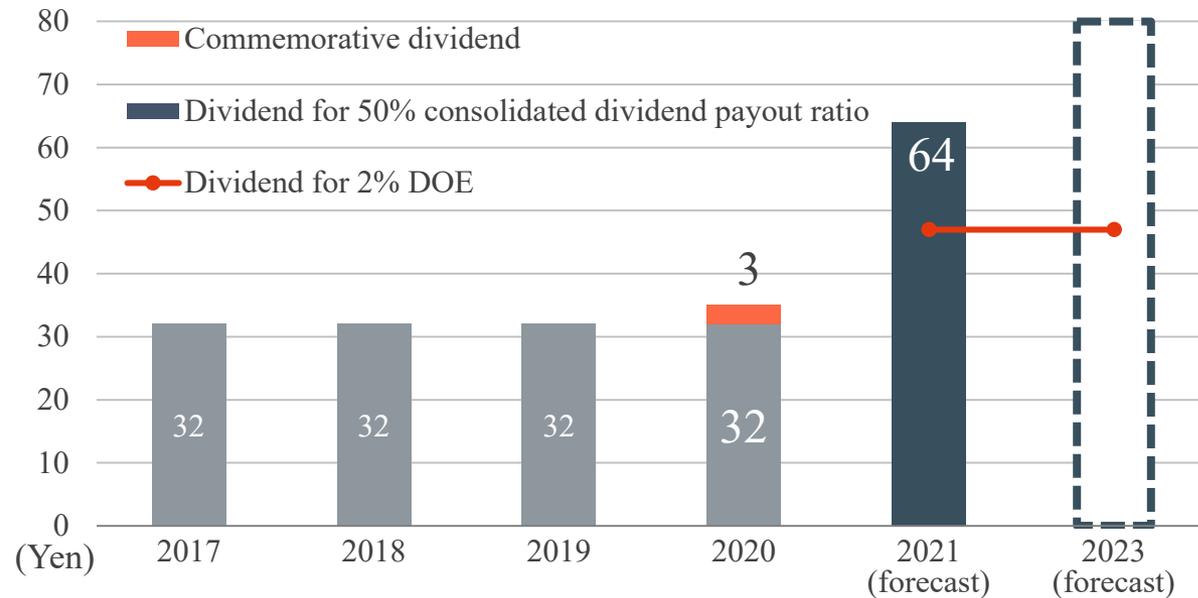
Material for financial and business overview of consolidated results  
for the fiscal year ended December 31, 2020

# Stockholder Return

# Stockholder Return

## Dividend policy

- FY2020: Three yen added to dividends in commemoration of the company's 70<sup>th</sup> anniversary (annual dividend 35 yen)
- FY2021 to FY2023: Performance-based return to stockholders considering stability  
Choose the higher of "50% consolidated dividend payout ratio" or "2% DOE"



## Treasury shares

- Consider swiftly implementing acquisition
- Retire treasury shares (Reduce to around 5% of the total number of issued shares as of the end of FY2023)

Material for financial and business overview of consolidated results  
for the fiscal year ended December 31, 2020

# Reference Material (Financial data)

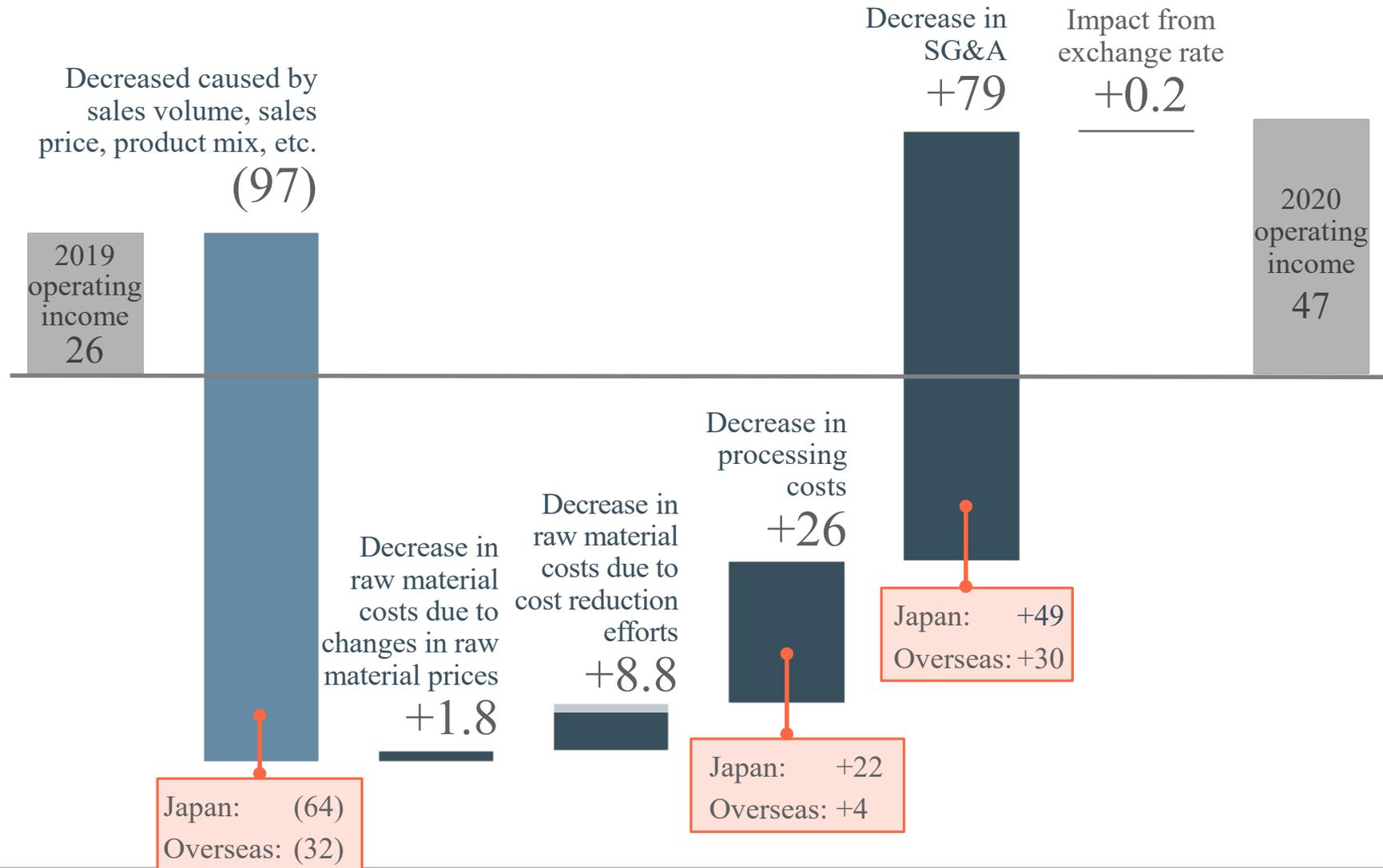
## Result of Medium-Term Management Plan “V-Plan 20”

(Unit: hundred million yen)	2017	2018	2019	2020
Net sales	2,146	2,098	2,083	1,838
Domestic business segment*	1,517	1,510	1,498	1,333
Overseas business segment*	628	588	585	504
Operating income	67	48	26	47
Domestic business segment	40	26	23	43
Overseas business segment	26	22	2	3
Ordinary income	80	62	34	59
Net income attributable to owners of the parent	54	57	15	(30)
ROE (%)	4.8%	5.1%	1.4%	(2.8%)

\* Numerical values indicate the volume of transaction with outside customers.

# Factors contributing to changes in operating income for the fiscal year ended December 31, 2020

[Unit: hundred million yen]

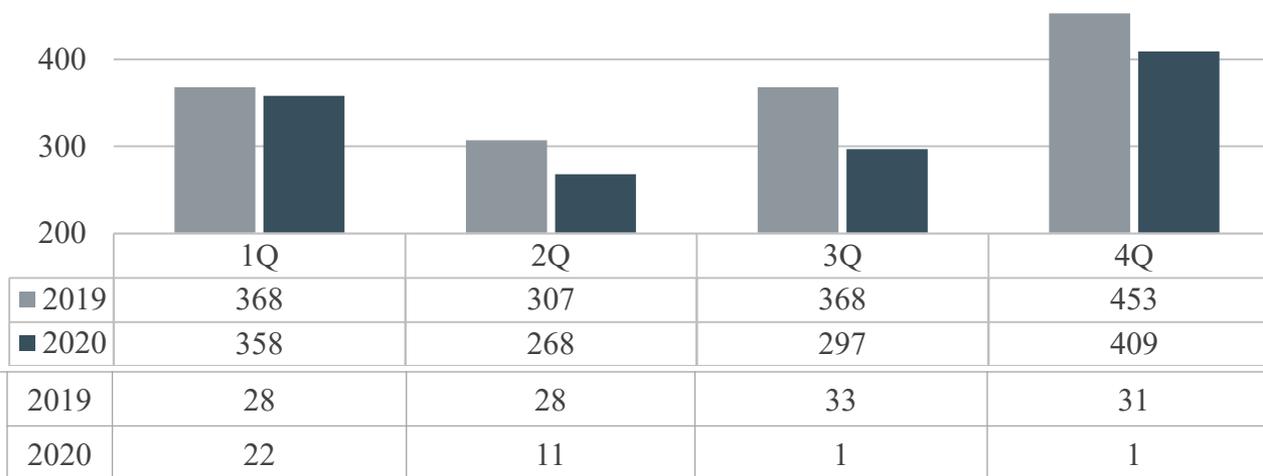


# Quarterly sales result for the fiscal year ended December 31, 2020

## Domestic business segment

### Net sales

(Hundred million yen)



\* The company withdrew from the housing equipment business in FY2020.

### Operating income

(Hundred million yen)

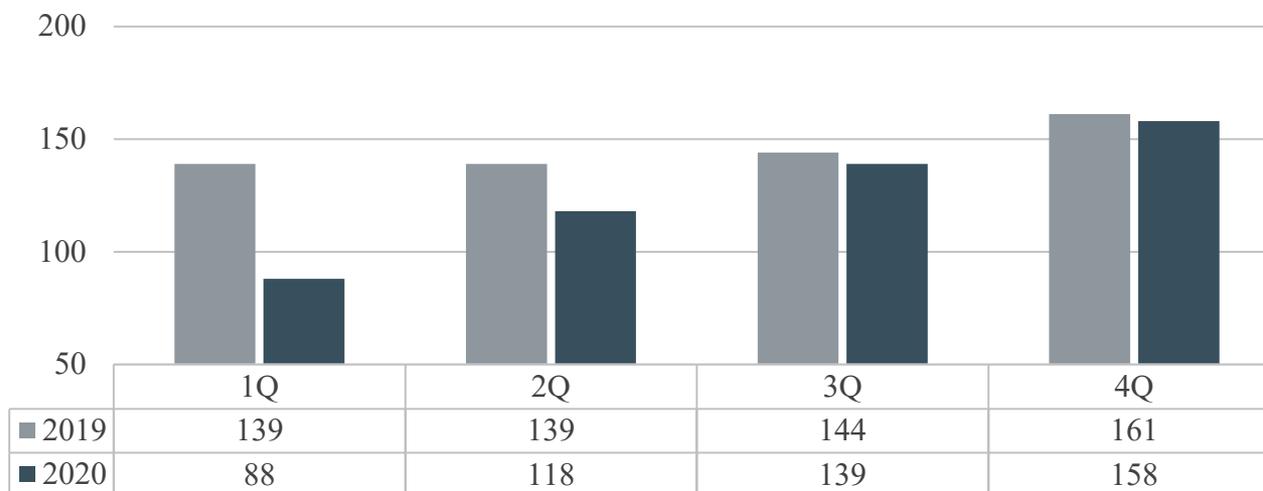


# Quarterly sales result for the fiscal year ended December 31, 2020

## Overseas business segment

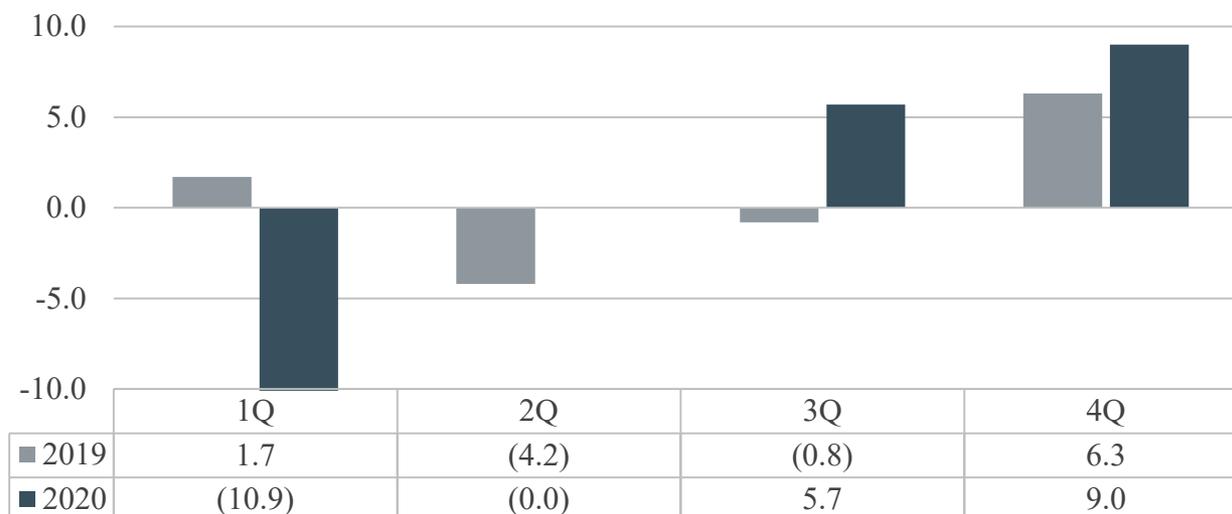
### Net sales

(Hundred million yen)



### Operating income

(Hundred million yen)

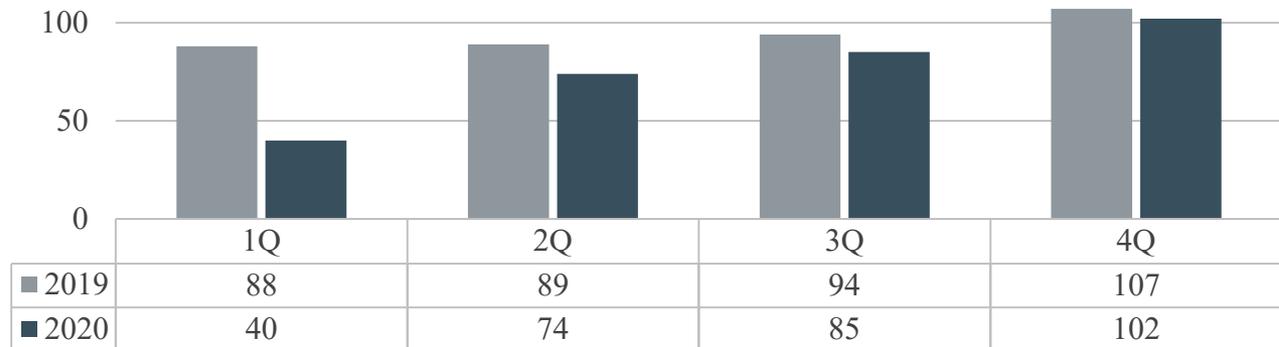


# Quarterly sales result for the fiscal year ended December 31, 2020

## Overseas business segment (China)

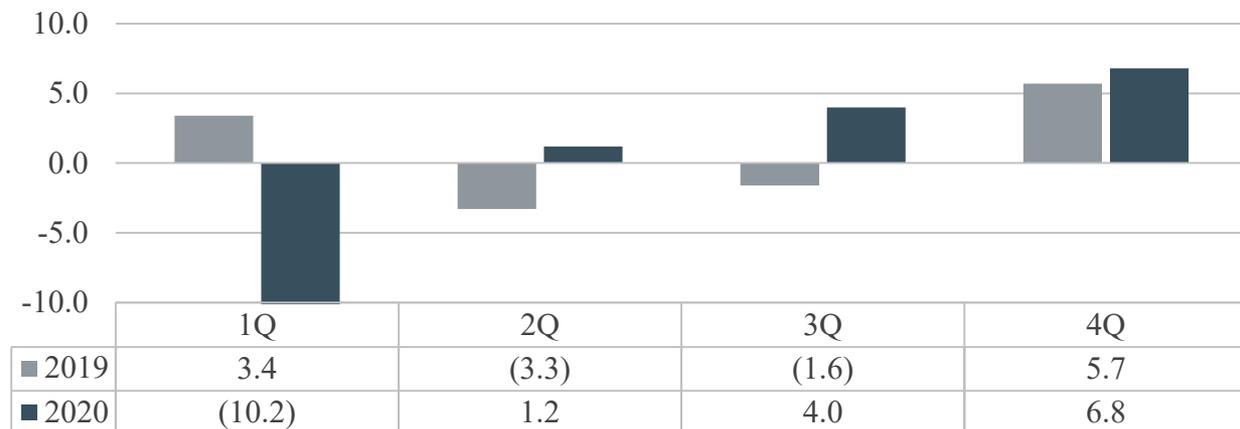
### Net sales

(Hundred million yen)



### Operating income

(Hundred million yen)



## Demand and sales results in the fiscal year ended December 31, 2020

## Domestic business segment

(Unit: Thousand)		Total	YOY	1Q		2Q		3Q		4Q	
					YOY		YOY		YOY		YOY
<b>&lt;&lt;Domestic business segment, sales results for main products&gt;&gt;</b>											
Water heater and HVAC business	Gas bath boilers	<b>680</b>	<b>96.1%</b>	182	97.5%	129	91.9%	150	89.7%	219	102.8%
	Gas water heaters (Larger than Type 8)	<b>320</b>	<b>93.6%</b>	96	99.8%	62	87.8%	67	83.2%	94	100.6%
	Kerosene water heaters	<b>123</b>	<b>92.5%</b>	31	90.9%	25	93.1%	27	89.9%	40	95.3%
	Subtotal	<b>1,123</b>	<b>95.0%</b>	309	97.5%	216	90.8%	244	87.8%	353	101.3%
Kitchen appliances segment	Built-in gas cookers	<b>340</b>	<b>85.7%</b>	87	92.7%	76	82.9%	87	80.5%	91	87.3%
<b>&lt;&lt;Domestic business segment, demand for main products&gt;&gt;</b>											
Water heater and HVAC business	Gas bath boilers	<b>1,713</b>	<b>97.4%</b>	462	98.5%	334	93.2%	390	92.6%	526	103.1%
	Gas water heaters (Larger than Type 8)	<b>952</b>	<b>97.8%</b>	268	99.1%	191	93.0%	221	95.1%	272	102.6%
	Kerosene water heaters	<b>311</b>	<b>95.7%</b>	76	92.0%	65	96.3%	70	92.4%	99	100.9%
	Subtotal	<b>2,975</b>	<b>97.3%</b>	806	98.0%	590	93.5%	682	93.4%	897	102.7%
Kitchen appliances segment	Built-in gas cookers	<b>1,350</b>	<b>97.0%</b>	314	96.9%	287	92.1%	350	90.8%	379	102.2%

# New Medium-Term Management Plan “V-Plan 23”

## Business Targets for Domestic Business Segment

### ■ Domestic business, sales targets by segment

Results (hundred million yen)	2020 results	2021 targets	2023 targets
Net sales	1,333	1,280	1,320
Water heaters and HVAC business	1,062	1,040	1,080
Kitchen appliances business	186	180	180
Others	48	60	60
Housing equipment business	35	—	—
Operating income	43	45	60

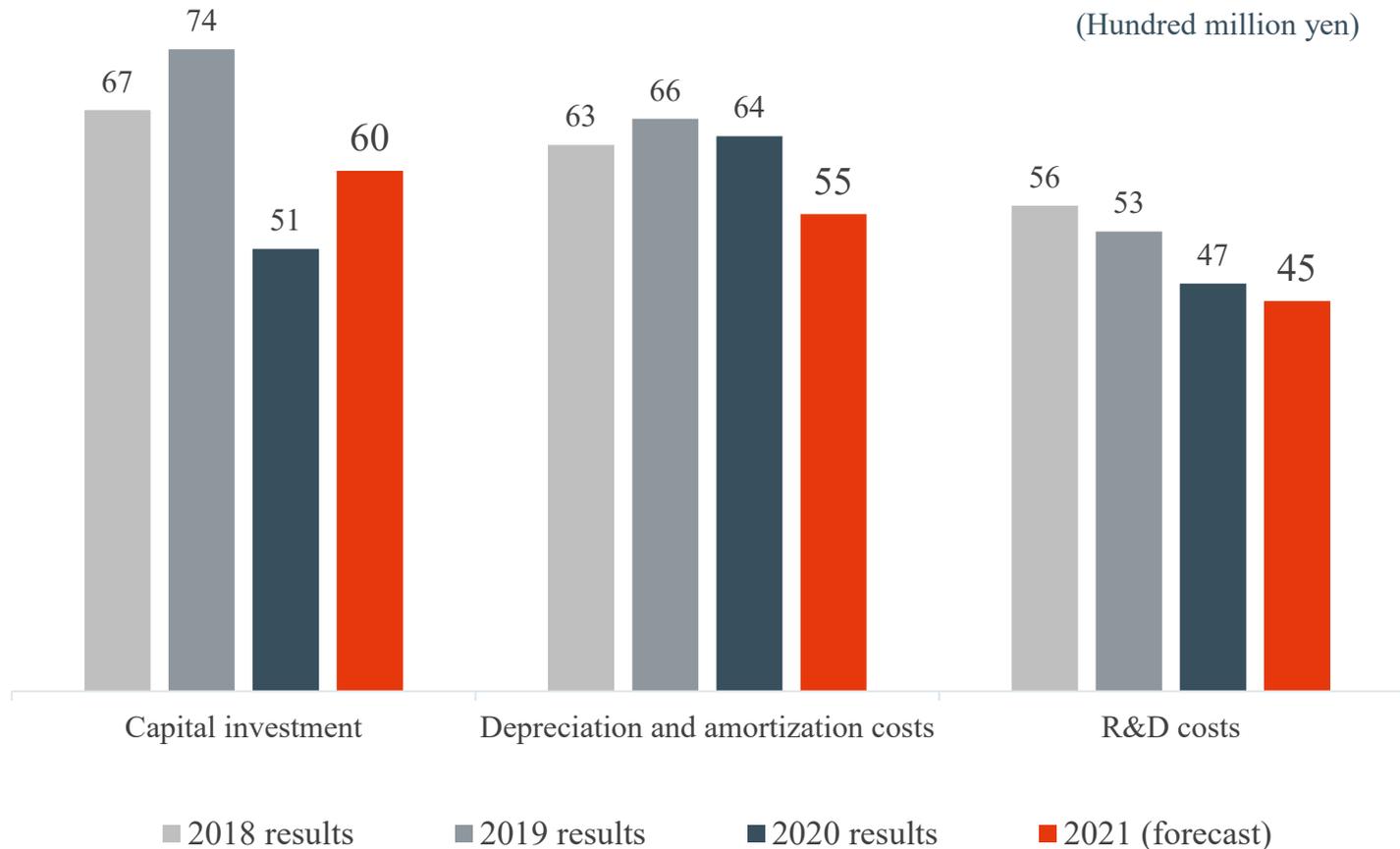
# New Medium-Term Management Plan “V-Plan 23”

## Business Targets for Overseas Business Segment

### ■ Overseas business, results by area

Results (hundred million yen)		2020 results	2021 targets	2023 targets
China	Net sales	303	316	375
	Operating income	1	1	12
North America	Net sales	123	125	133
	Operating income	3	1	2
Australia	Net sales	63	64	75
	Operating income	2	2	3
Others	Net sales	14	14	17
	Operating income	(5)	(0)	1
Total of overseas business	Net sales	504	520	600
	Operating income	3	5	20

# Changes in capital investment, depreciation and amortization costs, and R&D costs



\* Depreciation and amortization costs exclude write-down of goodwill, trademark right, and customer-related assets.

Material for financial and business overview of consolidated results  
for the fiscal year ended December 31, 2020

# Reference Material (Basic information)

# 1. What is Noritz ?

## Origin of Our Founding and Misshion

### Origin of Our Founding

Bathing  
makes us  
happy

### Mission

The Simple  
Comforts of Life

- Since it was founded in 1951, Noritz has continued to value the concept embodied in its origin that “bathing makes us happy” and has specialized in hot water. We have continued to provide value with the aim of creating a comfortable lifestyle that comes from making, using, and enjoying hot water.
- We will conduct corporate activities that contribute to all stakeholders, by providing high-functionality, high-quality products that exceed expectations and services that delight people.

# ESG Initiatives

Noritz Group contributes to the development of a sustainable society by providing a comfortable lifestyle with a focus on hot water.

Prioritized  
SDGs



## E (Environment)



**Achieved a CDP Climate Change Rating of “B” in 2019 and 2020**

CDP ratings are the world’s most highly referenced assessment of information disclosure related to climate change strategies, CO2 output reduction, and the like.

### Reducing environmental burden caused by our products

The proportion of CO2 output from using the products that we distribute accounts for 96% of the CO2 output from our overall value chain. We are engaged in efforts with a target of reducing CO2 output by 15% (compared to 2018 levels) by 2030.

### Reducing environmental burden caused by our business activities

We are engaged in efforts with a target of reducing CO2 emitted through business activities by 30% (compared to 2018 levels) by 2030. We also joined RE100.



## G (Governance)

We have adopted a corporate governance system involving a company with an audit and supervisory committee. One third of our nine directors are independent external directors, and we publish the evaluation result of the effectiveness of our board of directors. We have also established a nomination and remuneration committee, which are chaired by external directors.

## S (Society)



### Joined “The Valuable 500”

We joined the international initiative promoting reforms to enable the disabled to demonstrate their potential value and make an impact on business, society, and economy.

Building workplaces that accommodate the needs of disabled people

**2020 group employment rate: 2.84%**

### Establishing S-Hearts’ CORPORATION (special subsidiary)

We established this subsidiary in 2006 based on the basic principle of welfare that it is natural that disabled people lead normal lives in the community.



### Luminarie cleaning volunteer work

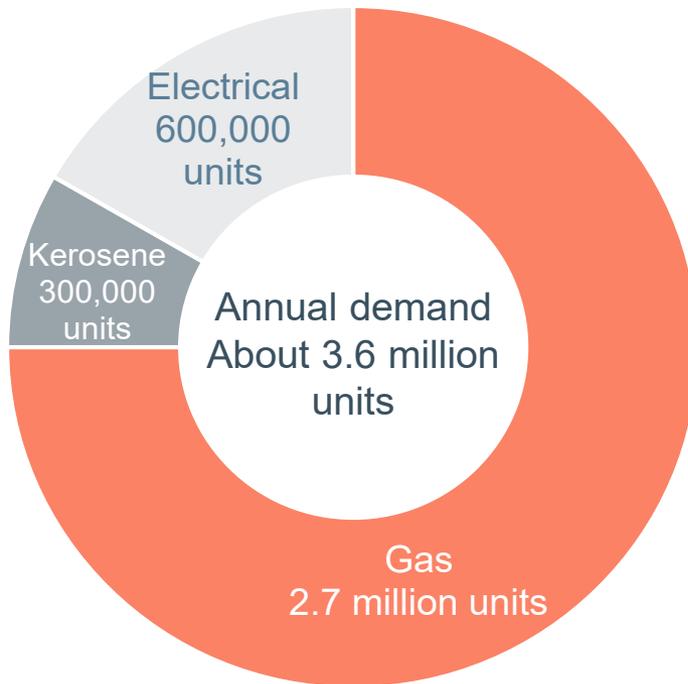
Holding in our hearts the hope that the souls of the victims of the Great Hanshin-Awaji Earthquake can find peace, we continue to participate in the cleaning volunteer work at this event, which is entrusted with the hope and dream of revitalizing and regenerating these cities.



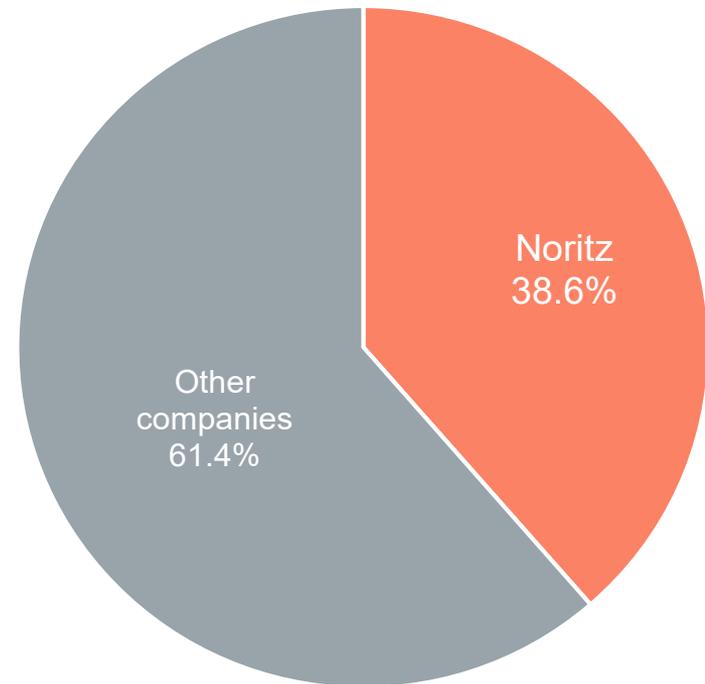
## Our Position in the Industry

We have achieved about 40% of the Japanese water heater market share (gas/kerosene bath appliances).

Water heater demand by energy type (2019)



Our gas/kerosene water heater share (2019)

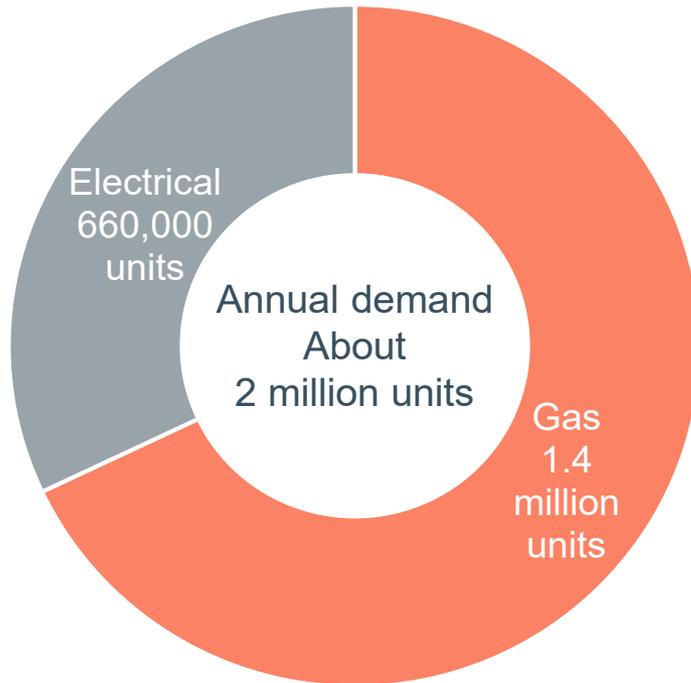


Our estimates are based on data from JGKA.

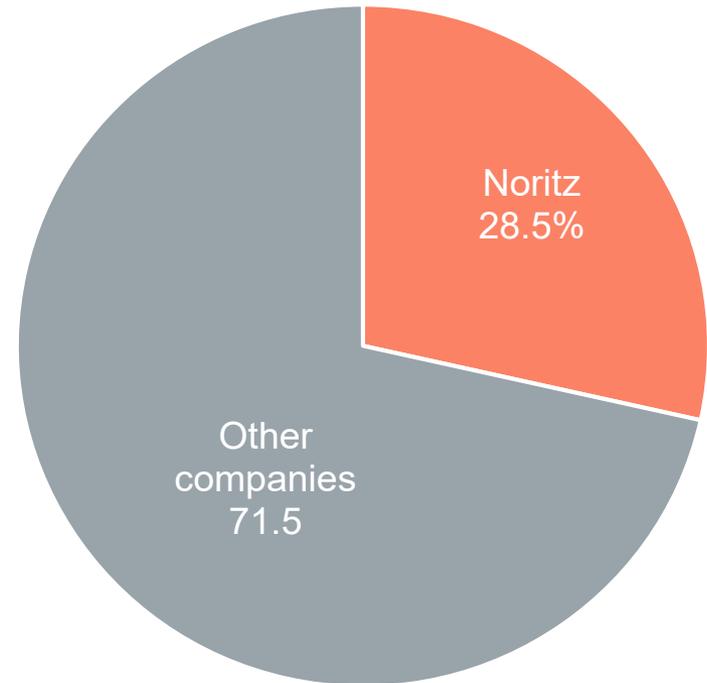
## Our Position in the Industry

We have achieved approximately 30% of the Japanese built-in gas cooker market share.

Built-in gas cooker demand by energy type (2019)



Our built-in gas cooker share (2019)

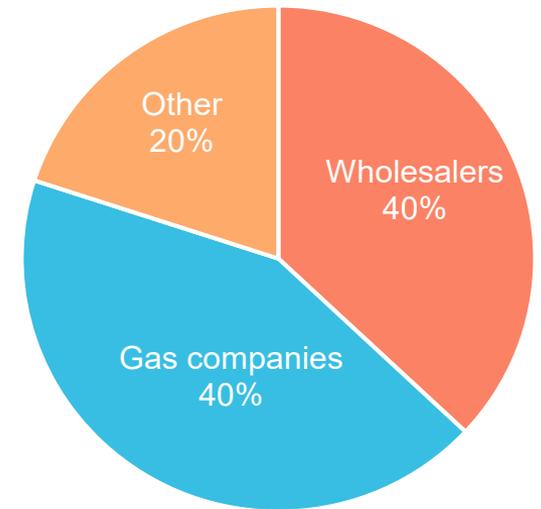


Our estimates are based on data from JGKA.

# Distribution Channels and Breakdown of Revenue by Channel (Norritz alone)

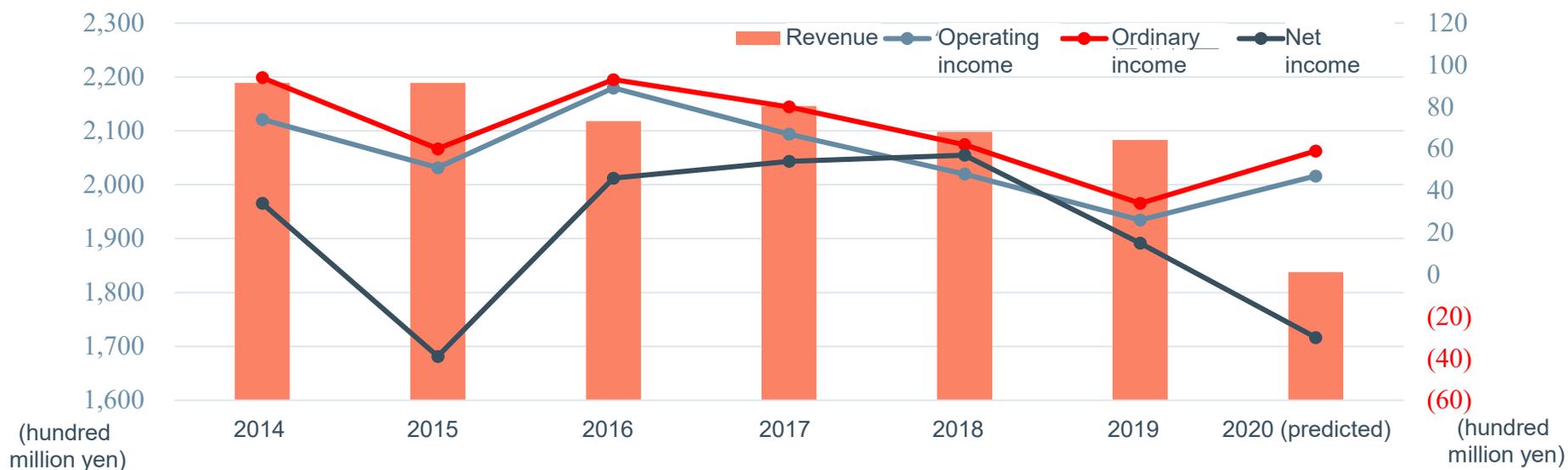
## Distribution channels

We have a wide variety of distribution channels.



# Overview of Results

## Consolidated results over time

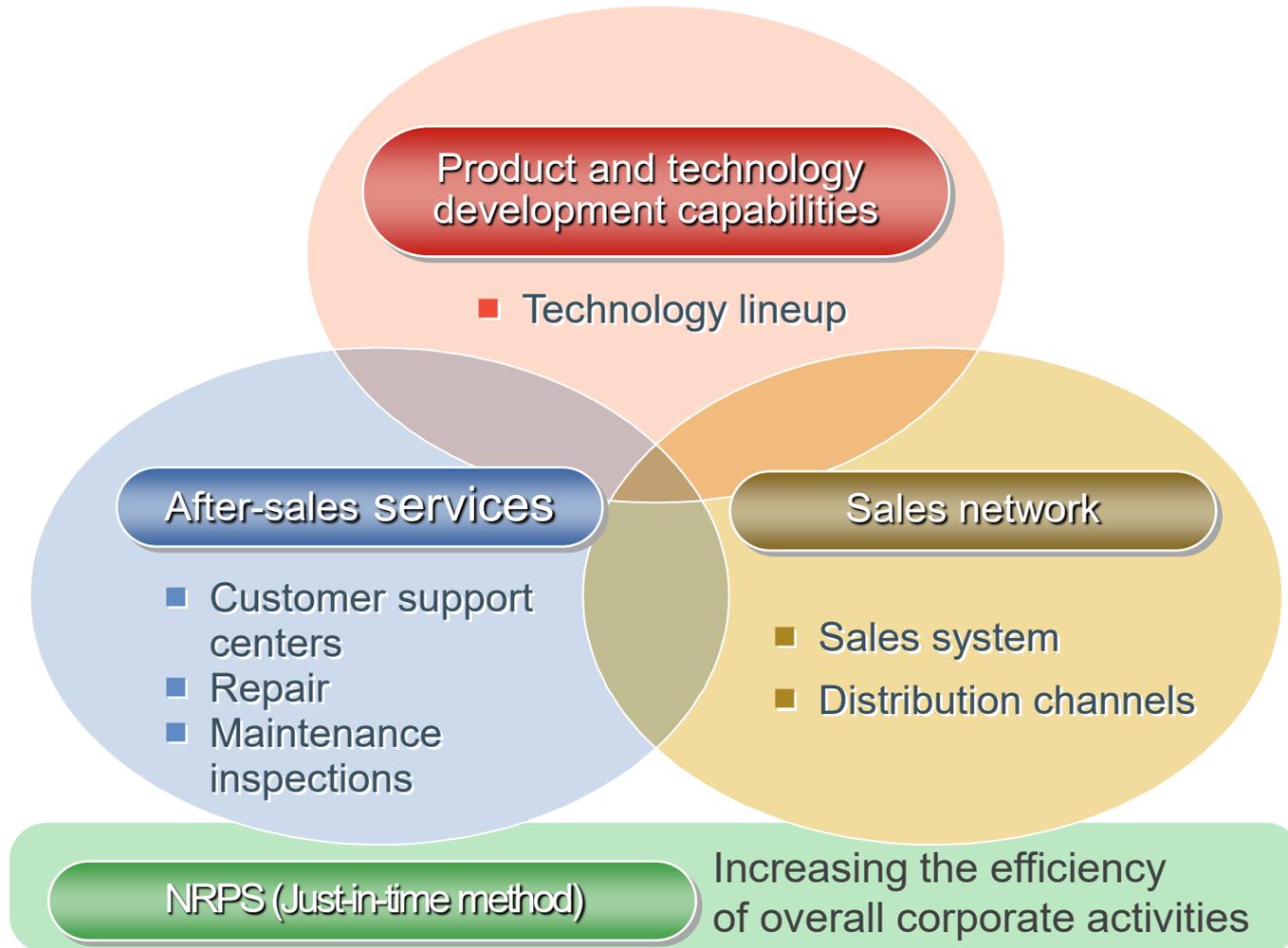


	2014	2015	2016	2017	2018	2019	2020
Operating profit rate (%)	3.4%	2.3%	4.2%	3.1%	2.3%	1.3%	2.6%
ROE (%)	3.2	( 3.6 )	4.3	4.8	5.1	1.4	( 2.8 )
EPS (yen)	72.8	( 82.8 )	97.3	113.0	120.9	31.8	( 64.8 )

## 2. Assets and Strengths

# Assets and Strengths

Noritz has assets and strengths that have been cultivated in the water heater segment in the Japanese market.



# Assets and Strengths Cultivated in the Japanese Market (1)

With our product and technology development capabilities, we can develop water heaters that are environmentally friendly, energy-saving, and highly efficient.

## Product and technology development capabilities

### Water heater-related technology

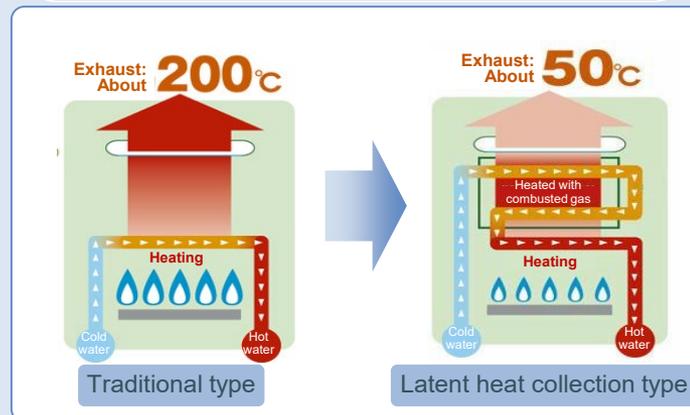
- **Combustion control technologies**
  - Low NOx burner for reduced atmospheric pollution
  - A burner that can handle a broad range of gas types
- **Heat exchange technologies**
  - Heat exchange with latent heat collection, collecting leftover exhaust heat after the primary heat exchange
  - Heat exchanger that allows efficient heat transmission
- **Fluid control technologies**
  - Technologies for controlling fluids such as water, gas, and air

### A lineup of technologies with high added value

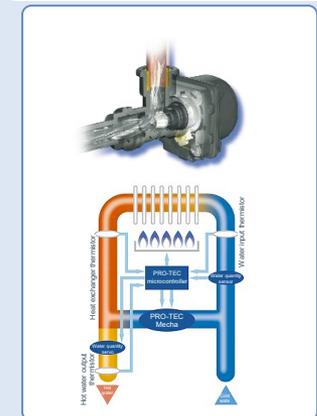
#### Low NOx burner “Combustion control technologies”



#### Heat exchanger with latent heat collection “Heat exchange technologies”



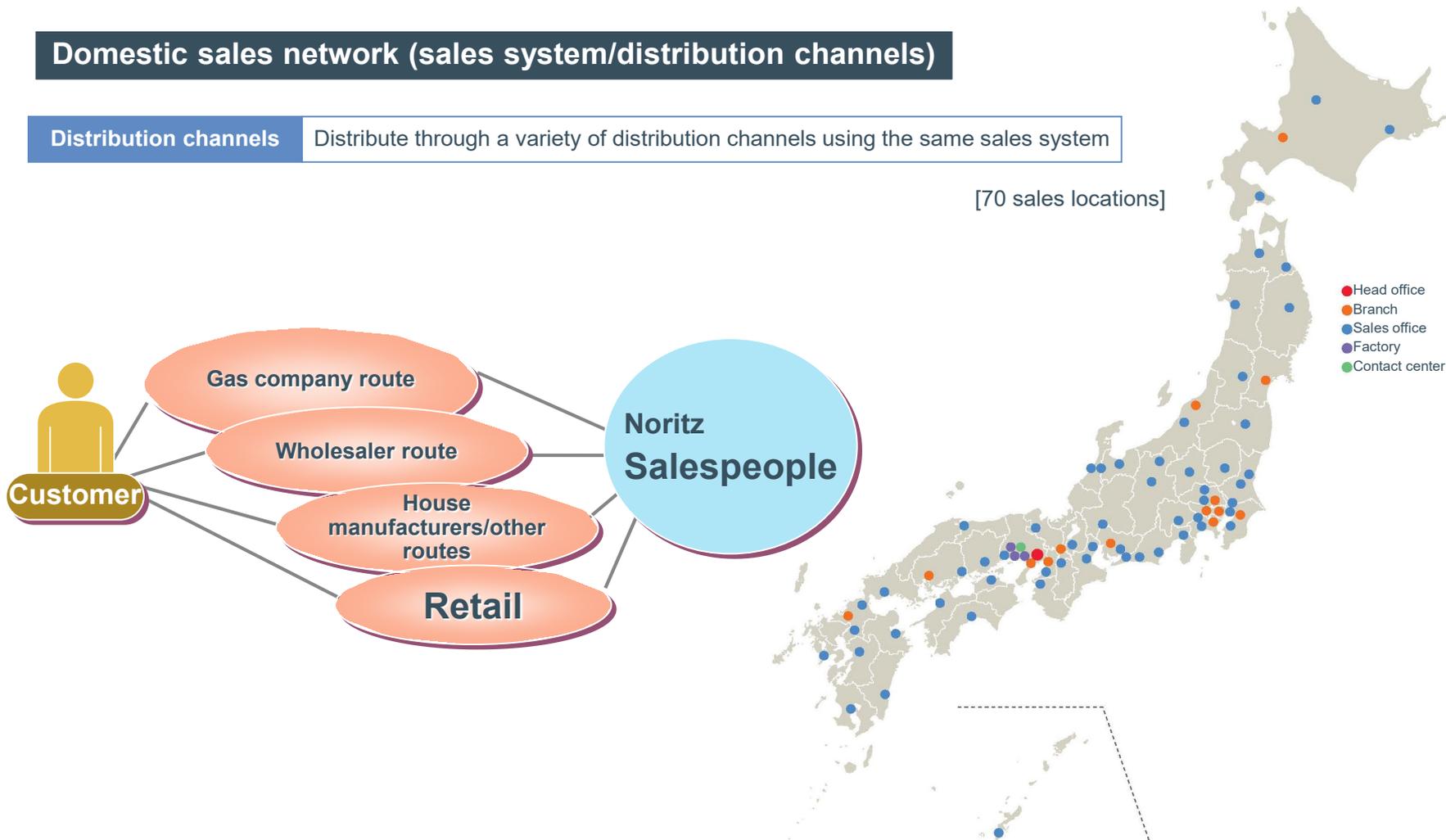
#### PRO-TEC Mecha “Fluid control technologies”



# Assets and Strengths Cultivated in the Japanese Market (2)

## Domestic sales network (sales system/distribution channels)

**Distribution channels** Distribute through a variety of distribution channels using the same sales system



## Assets and Strengths Cultivated in the Japanese Market (3)

Due to the characteristics of the appliances as housing equipment, we have built a comprehensive after-sales service (AS) system.

Characteristic (1) A wide variety of telephone enquiries ⇒ Different content for users and sub-users

Characteristic (2) Requests for early repair ⇒ Delays affect people's daily lives (vital amenity)

Characteristic (3) Repair and maintenance at the installation location ⇒

Cannot bring appliances to the repair company

### Domestic after-sales service system

For repairs and consultations:  
**Noritz Contact Center**



Onsite repair and maintenance:  
**Consolidated subsidiary NSC  
 and contracted AS offices**



High response rates

24/7/365  
 customer  
 center for  
 repairs

High customer  
 satisfaction

About  
**200 locations**  
 across Japan

Visits 364  
 days per year

We also repair heated water air conditioning appliances and kitchen appliances

Total responses:  
 About 1 mil./year

Repair and maintenance work:  
 About 700,000 cases/year

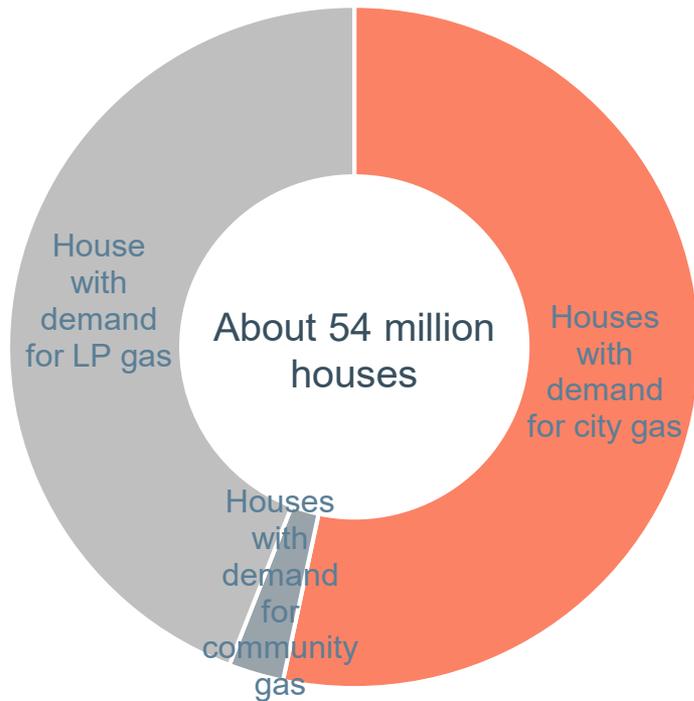
(2019 results)

# 3. Domestic Business Environment Assessment and Initiatives

# Gas Business Categories and City Gas Sales Volume

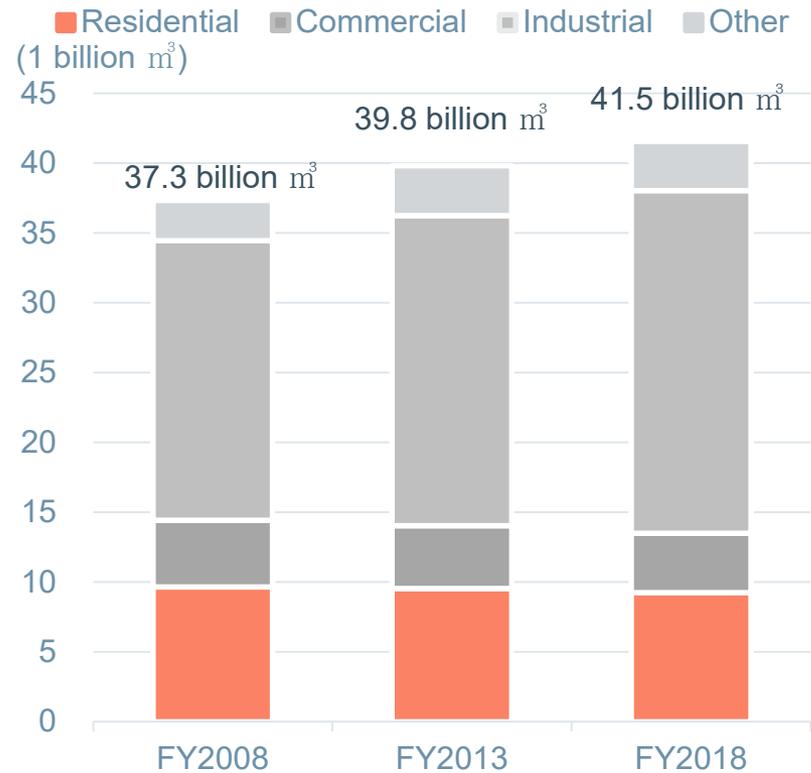
**We have achieved 38% of the Japanese water heater market share (gas/petroleum bath appliances).**

**Demand by gas company (number of houses) (2013)**



Sources: Ministry of Economy, Trade and Industry, Japan Gas Association

**City gas sales volume over time**



# Domestic Water Heater Business Environment

The domestic water heater business has matured, but progress in AI/IoT brings new possibilities.

## Analysis of the business environment

### Short-term trends

### Medium-to-long-term trends

#### Positives



- Stagnant consumption and economic recession due to the spread of the novel coronavirus

- Creating high added value through the progress in AI or IoT  
⇒ It will become possible to provide new services such as remote monitoring and deploy them for commercial and residential applications.
- A change in consumer awareness for safety, peace of mind, and energy-saving properties in the long-term use of appliances  
⇒ Expected increase in replacement for safety or ecological reasons before the end of the useful life

#### Negatives

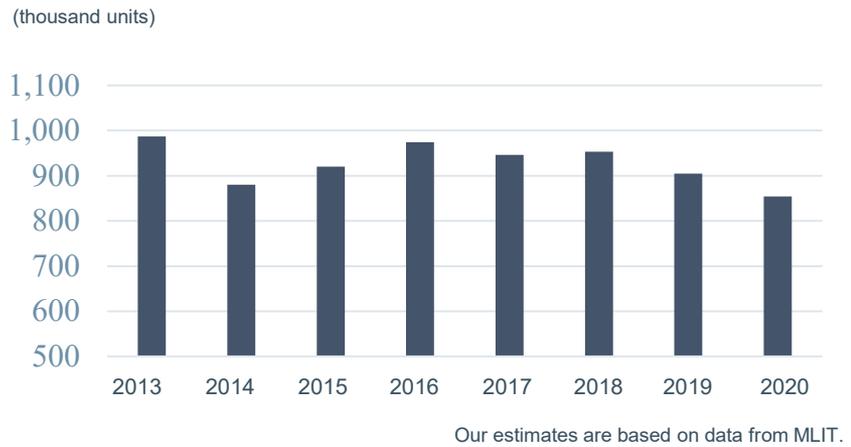


- Decreases in population and the number of households
- Decrease in the number of new homes built
- Emergence of a variety of new energy appliances
- Emergence of online sales

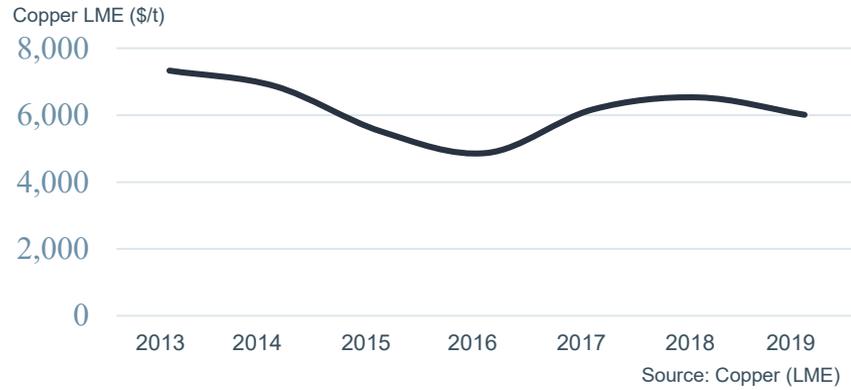
# Domestic Water Heater Business Environment (Reference Material)

**In our main business area of domestic water heaters, replacements account for more than 70% of all businesses, but these are expected to continue to decrease.**

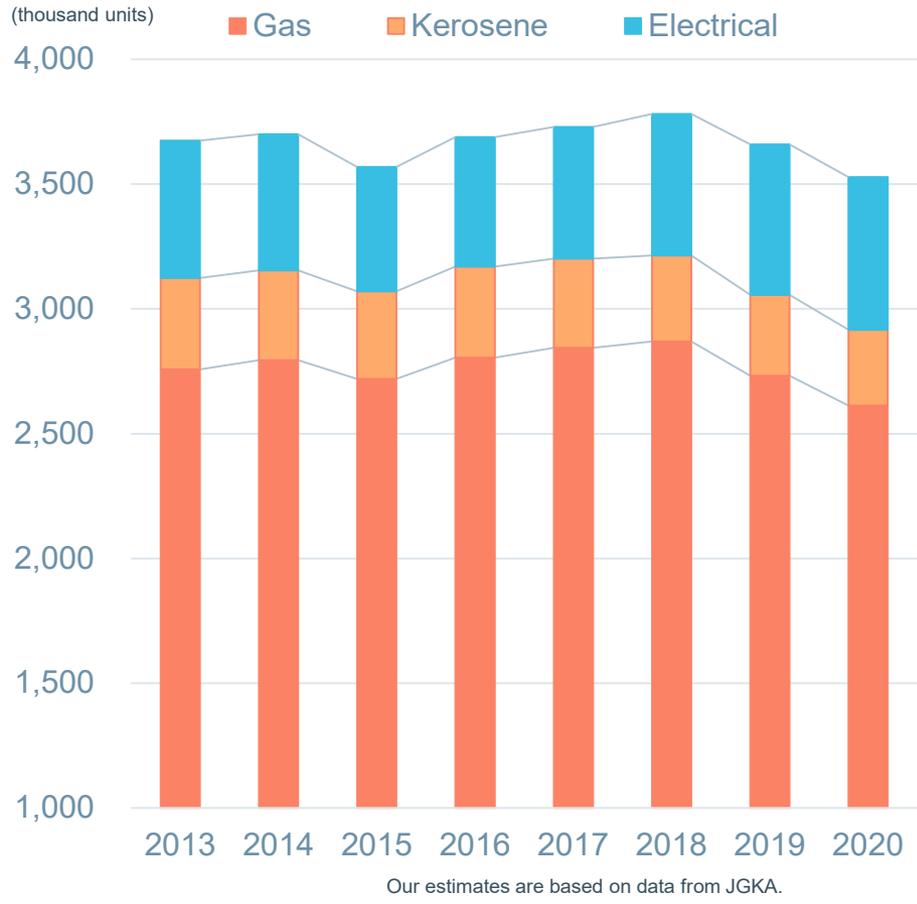
## Number of new homes over time



## Material prices over time (copper)



## Trend in water heater demand



# Domestic Kitchen Appliance Business Environment

The number of built-in gas cookers will decrease. Demand for the replacement of range hoods is expected to increase.

## Analysis of the business environment

	Short-term trends	Medium-to-long-term trends
Positives	<ul style="list-style-type: none"> <li>■ Increase of households with working couples</li> <li>■ Increased awareness that built-in kitchen appliances can be replaced</li> <li>■ Greater use of recipe websites and social networking sites such as Instagram</li> </ul>	<ul style="list-style-type: none"> <li>■ Creating high added value through the progress in AI or IoT</li> <li>■ Diversity becoming more widespread</li> </ul>
Negatives	<ul style="list-style-type: none"> <li>■ Stagnant consumption and economic recession due to the spread of the novel coronavirus</li> <li>■ Increased home-meal replacement</li> </ul>	<ul style="list-style-type: none"> <li>■ Decrease in the number of households and increase of single-person households</li> <li>■ Decrease in the number of new homes built</li> <li>■ Development of all-electric homes</li> <li>■ Decreasing use of gas cookers in households with elderly people</li> </ul>

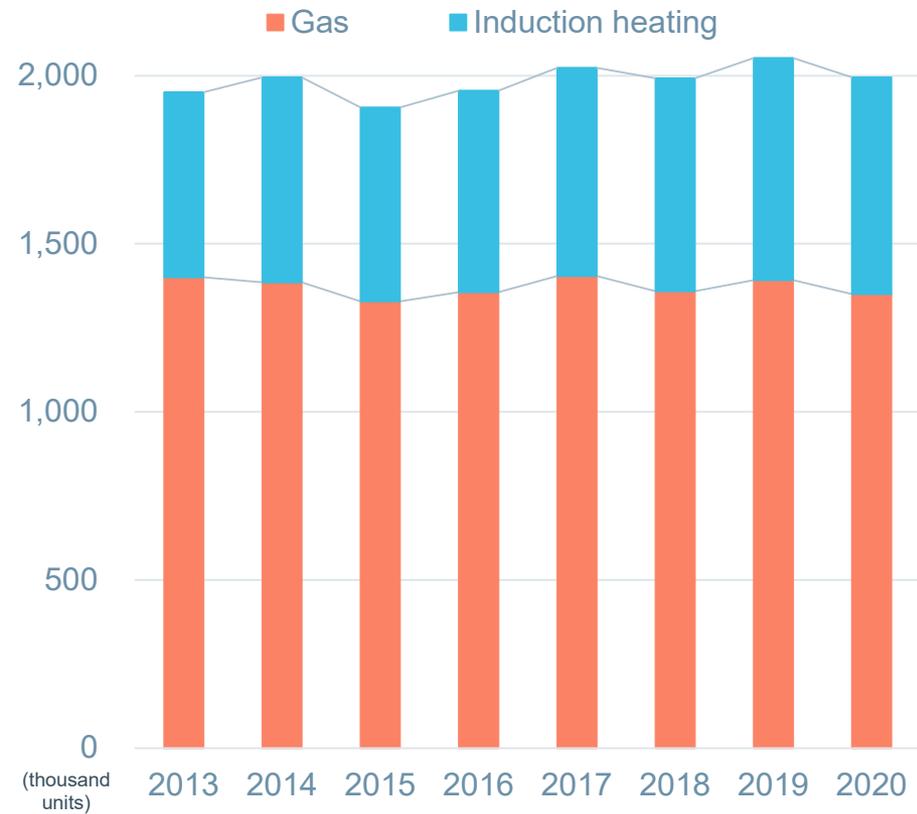
# Domestic Kitchen Appliance Business Environment (Reference Material) The Simple Comforts of Life

**The majority of our kitchen appliance business is for built-in kitchens. We think that demand for replacements will be solid.**

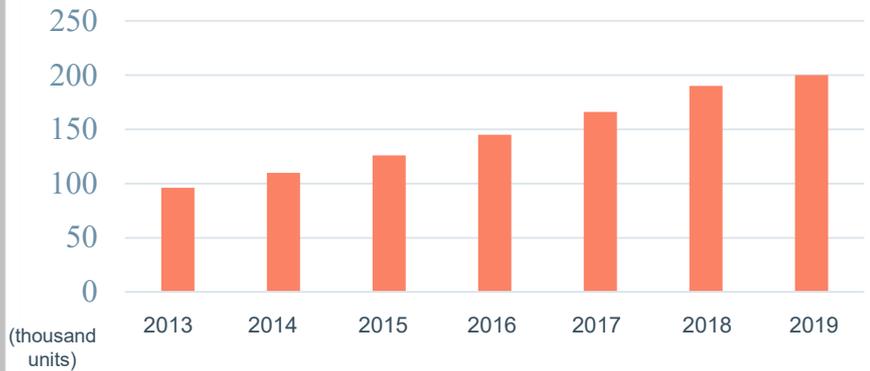
**Demand for built-in kitchens over time**



**Demand for built-in cookers over time**



**Demand for range hood replacements over time**



Our estimates are based on data from the engineering industries.

# 4. Overseas Business Environment Assessment and Initiatives

# Overseas Water Heater Business Environment

## North America

Demand for tankless water heaters is expanding in the US region, which is an important market.  
 ⇒ Replacement of conventional tank-type water heaters with high-efficiency, high-quality tankless water heaters

### Background of the expansion of the tankless water heater market

- Progress in government policies on environmental protection
- Increased awareness of tankless water heaters for resolving dissatisfaction with tank-type water heaters (installation space, problems with empty tanks, and low efficiency)

### Business risks

- Restrictions on city gas supply networks and piping

## China

In China, which is an important market, the home appliance market (including the market for tankless water heaters) is expanding as houses are improved. <Growth period>

### Background of the expansion of the tankless water heater market

- Improved standards of living due to economic growth ⇒ Greater purchasing power ⇒ Greater demand for high-quality houses and home appliances
- Increased home ownership due to an expansion of the housing supply (cities and regions) and increased demand for high-class residences
- Rising concerns or dissatisfaction with electric water heaters (e.g., unstable electricity supply or running out of hot water)
- Rising demand for environmental protection and energy-saving appliances ⇒ Increased awareness of high-quality, high-efficiency tankless water heaters

### Business risks

- Competition from a crowd of over 200 local and overseas manufacturers, with weaker competitors weeded out ⇒ Our strengths are peace of mind, safety, and high efficiency
- Decrease in the number of new homes due to a rebound from speculative home building in coastal areas
- Increase in water heaters in an affordable price range with the expansion in demand in tier 3 and 4 cities
- Slowdown in economic growth due to the US-China trade friction

## Overseas Initiatives by Area

### North America

- In a market where tank-type heaters account for about 85% of the annual demand for gas water heaters of about 5 million units, the sales of tankless water heaters (which are highly regarded for their high performance, high efficiency, and energy-saving and space-saving properties) are expanding.
- Since we use different distribution channels depending on the area, the three companies of Noritz America, PBH, and FRG provide additional products, areas, and distribution, respectively. PBH has started the sales of tankless water heaters.
- We will expand the sales of commercial water heaters, boilers, and space heating products.

### China

- With the growth in the economy, demand for water heaters is spreading in tier 2 and 3 cities that are located inland and not only in coastal areas.
- Internet sales are also increasing in the water heater market, and there is growth for products that are in an affordable price range, with most involving local manufacturers.
- We will reduce the fixed costs by conducting structural reforms, using a system where the two companies of Noritz China and Sakura carry out production and distribution.
- We will start selling affordable water heaters and expanding the sales of space heaters and products for commercial application.
- We will expand revenue by increasing the production of products for Japan.

### Australia

- Dux sells tank-type and tankless-type water heaters in a market where tankless water heaters account for about 30% of the total demand for water heaters (approximately 700,000 units).
- We will expand the sales of commercial water heaters and reduce the cost of goods sold by improving production efficiency and reducing costs.

