

Medium-Term Management Plan

Looking back on the medium-term management plan spanning from 2021 to 2023

Components of the medium-term management plan from 2021 to 2023



During the three-year period of the Group's medium-term management plan from 2021 to 2023, the global economy was seriously impacted by supply chain disruptions and soaring prices of energy and commodities following the COVID-19 pandemic. In Japan, demand for the Group's products declined sharply by 2023, reflecting an imbalance in supply and demand as consumers held back from purchases and inventories accumulated. Outside Japan, the Group's product sales were negatively impacted by stagnant housing markets, particularly in China and North America.

In response to these conditions, the Group promoted high-value-added products in Japan while reducing cost prices. Although it raised product prices twice in an effort to boost profits, earnings fell year on year as a result of steeply rising

raw material costs. Outside Japan, net sales increased on the back of business growth in China and the depreciation of the Japanese yen, but profits declined slightly.

Overall, Noritz posted consolidated net sales of ¥201.8 billion in fiscal 2023, beating the target it set when the plan commenced in fiscal 2021. On the other hand, consolidated operating income amounted to ¥3.8 billion, well below the initial target of ¥8.0 billion, largely due to the negative factors described above.

Despite mixed financial results, however, the Group made steady progress during the course of the plan by creating new technologies and businesses, significantly reducing the rate of product defects, improving human resources systems, and establishing training programs for young employees.

Financial results

	Fiscal 2023 targets set when the plan commenced in February 2021	Fiscal 2021 results	Fiscal 2022 results	Fiscal 2023 results
Net sales	¥192.0 billion	¥178.1 billion	¥210.9 billion	¥201.8 billion
In Japan	¥132.0 billion	¥115.3 billion	¥141.4 billion	¥131.3 billion
Outside Japan	¥60.0 billion	¥62.7 billion	¥69.5 billion	¥70.5 billion
Operating income (loss)	¥8.0 billion	¥2.5 billion	¥6.8 billion	¥3.8 billion
In Japan	¥6.0 billion	(¥0.1 billion)	¥3.3 billion	¥0.3 billion
Outside Japan	¥2.0 billion	¥2.6 billion	¥3.5 billion	¥3.5 billion
Ordinary income	No target set	¥3.9 billion	¥7.9 billion	¥1.2 billion
Net income attributable to shareholders of parent company	No target set	¥5.4 billion	¥4.8 billion	¥0.8 billion

Note: Due to a slump in the Vietnamese market, Kangaroo International Joint Venture Company, of which Noritz acquired an equity stake in 2021, posted substantially lower financial results than expected at the time of the acquisition. Consequently, Noritz recorded an impairment of goodwill totaling ¥3.3 billion as an investment loss under the equity method in its fiscal 2023 financial statements.

Overview of the plan's main objectives and results

When the Group launched the medium-term management plan in 2021, its main objectives were to maintain the sustainability of group-wide operations, develop innovative ways to maintain customer loyalty, and foster an organizational culture that takes on challenges. Later, it added the new goals of building a stable supply chain in response to serious supply chain disruptions, and streamlining business activities by utilizing digital technologies in preparation for future-oriented reforms. The Group successfully restructured the supply chain, allowing production to return to normal in March 2022, and completed

the conceptual stage of streamlining business activities by progressively adopting digital technologies and prepared for future-oriented reforms. Various measures based on the plan's initial objectives made steady progress, including efforts to cultivate regional markets in China and market launches of products with new functions, such as baths that disinfect bathwater and help users relax before bed. Other measures made progress but had yet to produce results, so the Group will continue carrying them out under its new medium-term management plan.

Objectives	Measures	Results	
Maintain the sustainability of group-wide operations	Shift to a high-earnings product portfolio in Japan	Expand lineups of high-value-added products	Noritz released products equipped with new technologies, including the <i>Aqua Ozone</i> water disinfectant treatment system, <i>Hiito</i> Human Thermal Model bathtub, and gas cookers with digital displays and timers (see page 28). It also deployed new marketing methods for incorporating logistics in sales operations, with a focus on eco-friendly products and consumer solutions.
		Establish a new replacement sales model	Noritz established a residential customer-contact sales model by making effective use of product inspection alert functions.
		Establish a new sales model for non-residential products	Noritz established a customer-contact sales model for commercial, industrial, and agricultural facilities requiring maintenance and inspections.
		Reduce cost prices	Noritz began full-scale outsourcing to third-party logistics providers. The Group achieved its ¥3.0 billion cost reduction target by continuously reducing cost prices to offset steep increases in raw material prices.
	Continue expanding outside Japan	China: Execute measures for growth	Measures for cultivating regional markets and marketing high-value-added products, including water and space heating systems, resulted in profit growth.
		North America: Leverage the capabilities of Noritz's three US-based subsidiaries to expand the water heater business	Sales of both commercial-use water heaters and heating products increased thanks to a larger number of major hardware stores selling the products, and to sales of commercial-use water heaters in rack systems, which reduces necessary installation work.
		Australia: Expand the scope of operations	The mainstay storage-type water heater business expanded, and sales of the tankless (instantaneous) water heaters increased at major hardware stores. Sales increased following market entry into New Zealand.
		New markets: Enter markets in Southeast Asia	Noritz acquired a 44% stake in Vietnam-based Kangaroo International Joint Venture Company, making it an equity affiliate, and made use of its new factory to supply water purifiers and home appliances to markets in Southeast Asia.
	Additional goal: Build a stable supply chain		Aiming to ensure business continuity, the Group secured multiple suppliers of parts and expanded inventories, thereby enabling dependable supplies. Products were developed without the use of specialized parts. Product designs were modified to eliminate the need for any high-risk procurement of parts.
	Develop innovative ways to maintain customer loyalty	Create new technologies, business models, and businesses	Noritz concluded an agreement with Kobe University to conduct research projects in four areas, including new energy, with a view to developing products and advanced technologies. Noritz won its bid from Japan's New Energy and Industrial Technology Development Organization to help develop a hybrid water heating system.
Contribute to the environment		Noritz developed hydrogen combustion technologies in response to the need for next-generation energy (see pages 15 to 16).	
Continually improve quality		The Group significantly reduced the rate of defects for new mainstay products.	
Additional goal: Streamline business activities by utilizing digital technologies		Product lifecycle management systems were put in place and linked to supply chain data and cost management systems. Production facilities and parts storage and logistics facilities were partially automated.	
Foster an organizational culture that takes on challenges	Motivate employees to improve their skills	Noritz reformed its human resources systems by adopting a performance management system and shifting to a job-based employment system.	
	Develop human resources that can produce solid results	Noritz created training programs for young employees.	