

Non-consolidated Financial Results for the Three Months Ended March 31, 2020 [Japanese GAAP]



May 11, 2020

Company name: Nippon Aqua Co., Ltd.
 Code number: 1429 (Exchange of listing on the Tokyo Stock Exchange)
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 Scheduled date of dividend payout: —
 Supplementary quarterly materials prepared: No
 Quarterly results briefings held: No

(Figures are rounded down to the nearest million yen.)

1. Non-consolidated Financial Results for the Three Months Ended March 31, 2020 (January 1, 2020-March 31, 2020)

(1) Financial Results

(Percentage figures indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended March 31, 2020	4,889	1.7	435	20.8	443	24.1	292	26.2
Three months ended March 31, 2019	4,808	16.2	359	—	357	—	231	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended March 31, 2020	9.06	9.06
Three months ended March 31, 2019	7.18	7.18

(2) Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2020	15,044	6,586	43.8
As of December 31, 2019	15,379	6,843	44.5

[Reference] Shareholders' equity: As of March 31, 2020: 6,586 million yen

As of December 31, 2019: 6,843 million yen

2. Dividends

	Dividend per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2019	—	0.00	—	17.00	17.00
Fiscal year ending December 31, 2020	—				
Fiscal year ending December 31, 2020 (forecast)		0.00	—	17.00	17.00

Note: Revisions to dividend payout forecasts disclosed most recently: No

3. Financial Forecasts for the Fiscal Year Ending December 31, 2020 (January 1, 2020-December 31, 2020)

(Percentage figures indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending June 30, 2020	10,421	4.2	820	13.5	815	13.3	530	12.8	16.42
Fiscal year ending December 31, 2020	23,200	8.6	2,109	10.4	2,100	10.0	1,374	7.8	42.54

Note: Revisions to financial forecasts disclosed most recently: No

* Notes

(1) Use of special accounting methods in preparing quarterly financial statements: No

(2) Changes in accounting policies, changes in accounting estimates and restatements

(i) Changes in accounting policies due to revisions of accounting standards, etc.: No

(ii) Changes in accounting policies other than (i): No

(iii) Changes in accounting estimates: No

(iv) Restatements: No

(3) Number of issued shares (common shares)

(i) Number of issued shares at end of period under review (including treasury shares)

As of March 31, 2020 34,756,000 shares

As of December 31, 2019 34,756,000 shares

(ii) Number of treasury shares at end of period under review

As of March 31, 2020 2,459,628 shares

As of December 31, 2019 2,459,628 shares

(iii) Average number of shares during period under review

Three months ended March 31, 2020 32,296,372 shares

Three months ended March 31, 2019 32,270,988 shares

* Quarterly financial results are not subject to quarterly review by certified public accountants or audit corporations.

* Notes concerning appropriate use of financial forecasts and other significant matters

Financial forecasts and other forward-looking statements in this release are based on data currently available to the Company and certain assumptions that the Company believes are reasonable. They are not intended as a guarantee that the Company will achieve such results. Actual results may differ materially from them for various reasons. For details of the assumptions used in the forecast of financial results and cautionary notes concerning appropriate use of the financial forecasts, please refer to “(3) Notes on Financial Forecasts and Other Forward-looking Statements” in “1. Qualitative Information Concerning Financial Results for the Period Under Review” on page 3 of the Attachment.

Contents of Attachment

1. Qualitative Information Concerning Financial Results for the Period Under Review	4
(1) Explanation Regarding Operating Results	4
(2) Explanation Regarding Financial Position	4
(3) Notes on Financial Forecasts and Other Forward-looking Statements	5
2. Quarterly Financial Statements and Primary Notes	7
(1) Quarterly Balance Sheet	7
(2) Quarterly Income Statement	9
(3) Notes on Quarterly Financial Statements	10
(Notes on Going Concern Assumption)	10
(Notes on Significant Changes in Amount of Shareholders' Equity)	10
(Use of Special Accounting Methods in Preparing Quarterly Financial Statements)エラー! ブックマーク が定義されていません。	
(Changes in Accounting Policies)	10
(Changes in Accounting Estimates)	10
(Restatements)	10
(Segment Information, Etc.)	10
(Important Subsequent Events)	10

1. Qualitative Information Concerning Financial Results for the Period Under Review

(1) Explanation Regarding Operating Results

The three-month period under review began in an economic environment where consumer sentiment was recovering from the low point following a consumption tax hike in October 2019 and concerns about outlook for the Chinese economy and situations in the Middle East prevailed. After the COVID-19 outbreak in Wuhan, China, production activity came to a halt in the region and the infections spread rapidly around the world, including Japan. The Japanese economy was affected significantly, creating a severe business environment.

In the single-family homes market where the Company operates, demand appears to remain weak since a sharp decline in response to the consumption tax hike. Monthly housing starts dropped year on year in nine consecutive months from July 2019 to March 2020. Monthly housing starts during the period under review declined 10.1% in January, 12.3% in February and 7.6% in March. Under such circumstances, new single-family home construction projects decreased 6.1% year on year to 11,281 units during the period under review. However, sales of Single-family Homes Division fortunately did not fall more than 0.8% year on year to 3,079 million yen, thanks to efforts to win orders by taking advantage of the product appeal of AQUA FOAM and the strength of our engineering expertise. On the other hand, in the buildings market where the Company operates, the number of units for which construction was yet to start reached an all time high level (worth about 6.3 trillion yen) at the end of October 2019. These projects, including construction of office buildings, were awaiting start of construction after orders for work were placed, due to shortage of engineers and on-site workers. After the government came out with a basic policy to combat the spread of COVID-19 in late February, the Ministry of Land, Infrastructure, Transport and Tourism instructed governments of Tokyo and prefectures, as well as cities designated by cabinet orders, to take measures, including introduction of response plans for potential infections at construction sites and changes of work periods and construction costs where necessary. Construction started to feel the impact of shortage in supply of products manufactured in China, including toilets, unit baths and system kitchens. Even under such circumstances the Buildings Division increased sales by 18.2% year on year to 1,023 million yen. Sales of air-conditioning and ventilation products, including Zekkucho, totaled 76 million yen, increasing 281.6% year on year. On the other hand, sales totaled 60 million yen, down 33.8% year on year, for machinery, 491 million yen, down 7.4% year on year, for auxiliary construction components, and 158 million yen, down 19.8% year on year, for raw materials.

As a result, total sales increased 1.7% year on year to 4,889 million yen in the period under review. Profits reached an all-time high in the period. Operating profit grew 20.8% from a year earlier to 435 million yen, while ordinary profit rose 24.1% year on year to 443 million yen. Profit totaled 292 million yen, increasing 26.2% from a year earlier. A key factor contributing to the profit increases was a drop in the price of isocyanate, one of the raw materials for AQUA FOAM. Conditions for the Company's procurement remained favorable during the first quarter as oil prices turned downward after China's oil demand sagged due to COVID-19 impact and oil supply became excessive due to concerns for a global economic slowdown.

(2) Explanation Regarding Financial Position

(Total assets)

Assets totaled 15,044 million yen as of March 31, 2020, down 335 million yen, or 2.1%, from the end of the previous fiscal year.

(Current assets)

Current assets totaled 10,686 million yen as of March 31, 2020, down 551 million yen, or 4.9%, from the end of the previous fiscal year. Key factors contributing to this drop include decreases of 624 million yen in notes and accounts receivable - trade and 395 million yen in accounts receivable - other, partially offset by increases of 222 million yen in cash and deposits and 203 million yen in inventories.

(Non-current assets)

Non-current assets totaled 4,357 million yen as of March 31, 2020, up 216 million yen, or 5.2%, from the end of the previous fiscal year. Key factors contributing to this increase include increases of 426 million yen in buildings and structures following completion of Kanazawa, Kanagawa and Aomori branch offices and 37 million yen in land after

acquisition of a tract for a planned Akita branch office building, partially offset by decreases of 184 million yen due to transfers of construction in progress following completion of these offices and 70 million yen in deferred tax assets.

(Total liabilities)

Liabilities totaled 8,457 million yen as of March 31, 2020, down 78 million yen, or 0.9%, from the end of the previous fiscal year.

(Current liabilities)

Current liabilities totaled 8,321 million yen as of March 31, 2020, down 70 million yen, or 0.8%, from the end of the previous fiscal year. Main factors contributing to this decrease include decreases of 661 million yen in accounts payable - trade due to a drop in trade payables and 596 million yen in income taxes payable due to payment of corporate taxes, partially offset by an increase of 1,490 million yen in short-term borrowings.

(Non-current liabilities)

Non-current liabilities totaled 135 million yen as of March 31, 2020, down 7 million yen, or 5.6%, from the end of the previous fiscal year. Key factors contributing to this decrease include a decrease of 6 million yen in long-term lease obligations.

(Net assets)

Net assets totaled 6,586 million yen as of March 31, 2020, down 256 million yen from the end of the previous fiscal year. Key factors contributing to this decrease include a decrease of 549 million yen in retained earnings due to dividend payouts, partially offset by the recording of 292 million yen in profit.

(Equity ratio)

Equity ratio was 43.8% on March 31, 2020, down 0.7 percentage points from the end of the previous fiscal year.

(3) Notes on Financial Forecasts and Other Forward-looking Statements

The Japanese economy has been deteriorating fast amid restricted economic activities due to the impact from COVID-19 infections and expected to undergo a severe situation going forward. Japan's real gross domestic product is expected to decrease 5.93% in the second quarter of 2020 (April-June) from a year ago, or an annualized 21.7%, according to the average of latest forecasts by private-sector economists. These figures are down from the previous forecasts. Meanwhile, the Cabinet approved a package of economic measures to offset impact from the COVID-19 on April 7, the same day the government declared a state of emergency. The package is worth 108.2 trillion yen, representing about 20% of 2019 nominal GDP of 554 trillion yen. It is the largest-ever package in scale, surpassing the 56.8 trillion yen spent in 2009 after the global financial crisis. The package is expected to bring the real gross domestic product back to year-on-year growth in the three-month period to September 30, 2020.

Our strategy under this situation is as follows:

1. Measures at Branch Offices

(1) Insulation Installing Work

We plan to comply with any request or policy by administrative authorities or plans by original contractors to halt insulation installing work in response to the state of emergency. In carrying out projects, we will work closely with original contractors and introduce thorough anti-infection measures. We aim to ensure thorough safety and infection prevention for workers and maintain existing measures.

(2) Work Style

As we indicated in a February 26 news release entitled, "Notice Regarding Work Style amid Coronavirus Impact," we introduced flextime for employees who commute using public transportation, which is still in place. In addition to that, we measure bodily temperature of all employees. Employees are ordered to work from home where possible for our goal of reducing by 70% the number of employees showing up at our Shinagawa headquarters and branch offices.

(3) Execution of Duties and Supervision

Important decisions are made and execution duties are supervised as usual through meetings, including those of the Board of Directors, fully using telephone or video conferencing systems, in order to prevent infection.

2. Impact on Divisions

Impacts on our divisions at this point are as follows:

(1) Single-family Homes Division

The number of visitors to display home villages is expected to decrease to a half during consecutive holidays in May due to stay-at-home request and village operators restricting events amid the state of emergency. As such, we see inevitable impact on our orders, and sales in the second quarter may be adversely affected.

(2) Buildings Division

In the buildings market, moves to temporarily close workshops located in areas under the state of emergency and moves to suspend construction work increased among general contractors in a period from mid-April to mid-May. According to recent media reports, the government has decided to extend the state of emergency regarding the COVID-19, which originally was scheduled to expire on May 6. An extension of about a month is planned, although discussions are still underway. If many general contractors decide to extend suspension of construction work in response, our sales in the second quarter may be adversely affected.

(3) Purchase of Raw Materials

The Company has purchased isocyanate from diversified locations, including China, North America and Japanese makers. We thus have experienced no impact on construction work or sale of the material from any supply chain disruption.

3. Impact on Company's Earnings

On February 10, 2020, the Company announced financial forecasts for the six months ending June 30, 2020 and the fiscal year ending December 31, 2020. However, these forecasts do not incorporate impact of the spread of the COVID-19 infections. As it is difficult at this point to reach any reasonable estimates of impact on the Company's earnings from the spread of the virus, we did not change these forecasts for the six months ending June 30, 2020 and the fiscal year ending December 31, 2020 for now. We will release new estimates swiftly after we decide reasonable calculation has become possible and disclosure is necessary.

2. Quarterly Financial Statements and Primary Notes

(1) Quarterly Balance Sheet

(in thousand yen)

	As of December 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	1,878,403	2,101,136
Notes and accounts receivable - trade	5,017,299	4,392,395
Inventories	1,678,398	1,881,972
Accounts receivable - other	2,590,160	2,194,669
Other	94,810	128,511
Allowance for doubtful accounts	(21,070)	(12,577)
Total current assets	11,238,003	10,686,109
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,759,846	2,186,196
Land	1,518,397	1,555,419
Other, net	395,710	200,712
Total property, plant and equipment	3,673,954	3,942,327
Intangible assets		
Leasehold interests in land	15,000	15,000
Other	88,492	105,505
Total intangible assets	103,492	120,505
Investments and other assets		
Other	370,039	301,417
Allowance for doubtful accounts	(6,336)	(6,330)
Total investments and other assets	363,702	295,086
Total non-current assets	4,141,149	4,357,920
Total assets	15,379,153	15,044,029

(in thousand yen)

	As of December 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	4,614,948	3,953,605
Short-term borrowings	2,000,000	3,490,000
Current portion of long-term borrowings	136,800	87,000
Lease obligations	25,986	26,070
Income taxes payable	691,475	94,731
Provision for bonuses	21,585	81,371
Other	901,611	588,918
Total current liabilities	8,392,406	8,321,697
Non-current liabilities		
Lease obligations	76,848	70,299
Asset retirement obligations	38,859	38,916
Other	28,005	26,509
Total non-current liabilities	143,713	135,724
Total liabilities	8,536,119	8,457,422
Net assets		
Shareholders' equity		
Share capital	1,903,369	1,903,369
Capital surplus	1,883,509	1,883,509
Retained earnings	4,266,287	4,010,065
Treasury shares	(1,210,137)	(1,210,137)
Total shareholders' equity	6,843,029	6,586,807
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	4	(199)
Total valuation and translation adjustments	4	(199)
Total net assets	6,843,033	6,586,607
Total liabilities and net assets	15,379,153	15,044,029

(2) Quarterly Income Statement

Three months ended March 31, 2020

(in thousand yen)

	Three months ended March 31, 2019	Three months ended March 31, 2020
Net sales	4,808,387	4,889,985
Cost of sales	3,624,224	3,621,158
Gross profit	1,184,162	1,268,826
Selling, general and administrative expenses	824,185	833,803
Operating profit	359,977	435,023
Non-operating income		
Interest income	1,527	2,076
Insurance claim income	1,376	5,595
Penalty income	—	4,864
Other	1,928	3,459
Total non-operating income	4,832	15,995
Non-operating expenses		
Interest expenses	2,422	2,455
Sales discounts	5,249	5,441
Other	26	26
Total non-operating expenses	7,699	7,922
Ordinary profit	357,110	443,096
Extraordinary income		
Gain on sales of non-current assets	584	—
Total extraordinary income	584	—
Extraordinary losses		
Loss on retirement of non-current assets	353	108
Total extraordinary losses	353	108
Profit before income taxes	357,342	442,988
Income taxes - current	150,436	79,990
Income taxes - deferred	(25,039)	70,181
Total income taxes	125,396	150,171
Profit	231,945	292,816

(3) Notes on Quarterly Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes on Significant Changes in Amount of Shareholders' Equity)

Not applicable.

(Use of Special Accounting Methods in Preparing Quarterly Financial Statements)

Not applicable.

(Changes in Accounting Policies)

Not applicable.

(Changes in Accounting Estimates)

Not applicable.

(Restatements)

Not applicable.

(Segment Information, Etc.)

No disclosure is made about segments as the Company operates in only one business segment of heat insulation work and related services.

(Important Subsequent Events)

Not applicable.