

Non-consolidated Financial Results for the Three Months Ended March 31, 2023 [Japanese GAAP]



May 11, 2023

Company name: Nippon Aqua Co., Ltd.
 Code number: 1429 (listed on the Tokyo Stock Exchange)
 (URL: <http://www.n-aqua.jp>)
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 Scheduled date of dividend payout: —
 Supplementary quarterly materials prepared: Yes
 Quarterly results briefings held: Yes (for institutional investors and analysts)

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

1. Non-consolidated Financial Results for the Three Months Ended March 31, 2023 (January 1, 2023-March 31, 2023)

(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, 2023	6,368	11.8	627	38.9	641	38.2	432	39.3
Three months ended March 31, 2022	5,697	11.7	451	163.7	464	170.3	310	180.7

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended March 31, 2023	13.78	13.78
Three months ended March 31, 2022	9.60	—

(2) Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2023	19,405	7,735	39.8
As of December 31, 2022	21,969	7,966	36.3

[Reference] Shareholders' equity: As of March 31, 2023: 7,732 million yen
 As of December 31, 2022: 7,966 million yen

2. Dividends

	Dividend per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Total
Fiscal year ended December 31, 2022	Yen —	Yen 0.00	Yen —	Yen 24.00	Yen 24.00
Fiscal year ending December 31, 2023	—				
Fiscal year ending December 31, 2023 (forecast)		0.00	—	30.00	30.00

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

3. Financial Forecasts for the Fiscal Year Ending December 31, 2023 (January 1, 2023-December 31, 2023)

(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, 2023	13,386	14.0	1,161	26.8	1,161	24.1	772	23.2	24.67
Fiscal year ending December 31, 2023	29,021	13.1	2,750	18.1	2,750	16.5	1,828	18.1	58.41

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, 2023 34,760,000 shares

As of December 31, 2022 34,760,000 shares

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

As of March 31, 2023 3,351,871 shares

As of December 31, 2022 3,447,171 shares

(iii) Average number of shares during period under review

Three months ended March 31, 2023 31,363,216 shares

Three months ended March 31, 2022 32,310,872 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 5 of the Attachment.

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

(1) Explanation Regarding Operating Results

During the three months ended March 31, 2023 (January 1, 2023 to March 31, 2023), while the Japanese economy saw a gradual recovery despite weakness in some sectors, there are concerns mainly about the risk of a downward swing in the global economy putting downward pressure on the Japanese economy amid the global credit crunch, and the impact of rising prices, supply constraints, and fluctuations in the financial and capital markets.

In the construction and housing industry where the Company operates, the “Act Partially Revising the Act on the Improvement of the Energy Consumption Performance of Buildings in Order to Contribute to the Realization of a Carbon Neutral Society” was promulgated in June 2022. Consequently, it became necessary to improve energy efficiency, and particularly enhancement of insulation performance has become an important issue. In addition to this, partly due to the sharp rise in electricity rates, the world’s attention on insulation materials is increasing. Buildings excellent in insulation performance reduce energy consumption for heating and cooling, help save electricity rates, and can achieve a comfortable housing environment with less burden on the environment. Under such circumstances, the Company proactively made efforts to win orders in each division by taking advantage of the product appeal of highly-airtight and highly-insulated AQUA FOAM series and the strength of our nationwide construction network.

In the Single-family Homes Division, local governments are introducing their own ZEH (Net Zero Energy House), as represented by the Tokyo Metropolitan Government’s “Tokyo Zero Emission Houses.” Thanks to preferential programs such as subsidies and housing loans aligning with such a trend, we secured a stable level of orders. Meanwhile, in the course of advancing work-style reform measures aimed at securing a construction system, we introduced Saturdays and Sundays off work to installation work personnel. This resulted in fewer work days at construction sites, and division sales were 3,221 million yen, slightly below that in the same period of the previous year. However, as we established a sufficient construction system in February, sales are projected to grow steadily going forward. In the Buildings Division, demand expanded on the back of urban redevelopment projects and manufacturing bases returning to Japan. In addition, thanks to a rise in needs for fire prevention at sites under construction, installation of “AQUA MOEN NEO,” a non-flammable insulation, drove the performance and led to favorable division sales of 1,912 million yen. Sales of the Waterproofing Division came to 126 million yen, and sales of raw materials, machinery, etc., which are under other divisions, were 1,108 million yen.

(in million yen, %)

	19th fiscal year Three months ended March 31, 2022	20th fiscal year Three months ended March 31, 2023	Amount of change	Percentage change
Single-family Homes Division	3,255	3,221	(34)	(1.1)
Buildings Division	1,414	1,912	+498	+35.2
Waterproofing Division	57	126	+69	+120.7
Other divisions	969	1,108	+138	+14.3
Total	5,697	6,368	+671	+11.8

As a result, net sales for the period under review totaled 6,368 million yen, up 11.8% year on year. Meanwhile, although prices of raw materials for urethane raw materials remained high, the Company has been continuously revising product prices from autumn 2021, while procuring raw materials from multiple companies for the purpose of securing raw materials and stably supplying products, in an effort to secure income by thoroughly focusing on construction profitability when receiving orders. Furthermore, we focused on various support such as increasing construction fees for certified contractors, dispatching and seconding our employees, and renting storage warehouses and other facilities for enhancing “construction capabilities,” the Company’s strength.

As a result of the above, gross margin improved by 1.8 points year on year to 22.9%, operating profit increased by 38.9% year on year to 627 million yen, ordinary profit increased by 38.2% year on year to 641 million yen, and profit totaled 432

million yen, rising 39.3% from a year earlier.

(2) Explanation Regarding Financial Position

(Total assets)

Total assets totaled 19,405 million yen as of March 31, 2023, down 2,564 million yen, or 11.7%, from the end of the previous fiscal year.

(Current assets)

Current assets totaled 14,668 million yen as of March 31, 2023, down 2,468 million yen, or 14.4%, from the end of the previous fiscal year. Key factors contributing to this decrease include decreases of 1,115 million yen in accounts receivable - other, 439 million yen in notes and accounts receivable - trade, and contract assets due to collection, 588 million yen in cash and deposits, and 244 million yen in inventories.

(Non-current assets)

Non-current assets totaled 4,737 million yen as of March 31, 2023, down 95 million yen, or 2.0%, from the end of the previous fiscal year. Key factors contributing to this decrease include decreases of 56 million yen in assets due to depreciation, 68 million yen in deferred tax assets included in other in investments and other assets, and 10 million yen in long-term prepaid expenses, partially offset by increases of 24 million yen in acquisition of machinery and equipment and 7 million yen in purchase of software.

(Total liabilities)

Liabilities totaled 11,670 million yen as of March 31, 2023, down 2,332 million yen, or 16.7%, from the end of the previous fiscal year.

(Current liabilities)

Current liabilities totaled 11,516 million yen as of March 31, 2023, down 2,385 million yen, or 17.2%, from the end of the previous fiscal year. Main factors contributing to this decrease include decreases of 900 million yen in short-term borrowings, 707 million yen in accounts payable – trade due to payment, 514 million yen in income taxes payable due to tax payment, and 374 million yen in accounts payable - other and accrued expenses included in other.

(Non-current liabilities)

Non-current liabilities totaled 154 million yen as of March 31, 2023, up 53 million yen, or 52.6%, from the end of the previous fiscal year. Key factors contributing to this increase include an increase of 61 million yen in long-term accounts payable - other included in other, partially offset by a decrease of 7 million yen in long-term lease liabilities.

(Net assets)

Net assets totaled 7,735 million yen as of March 31, 2023, down 231 million yen, or 2.9%, from the end of the previous fiscal year. Main factors contributing to this decrease include a decrease of 751 million yen in retained earnings due to dividend payouts, partially offset by the recording of 432 million yen in profit and an increase of 57 million yen due to disposal of treasury shares.

(Equity ratio)

Equity ratio was 39.8% on March 31, 2023, up 3.6% from the end of the previous fiscal year.

(Research and development activities)

The total amount of research and development expenditures by the Company in the three months ended March 31, 2023 was 7 million yen. There was no significant change in the status of research and development activities in the three months ended March 31, 2023.

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

Regarding the future outlook, the Company pursues following strategies to address the rising demand for insulation materials and to achieve sustainable growth, while paying attention to the recent economic recovery, the revision of laws and regulations pertaining to homes and buildings, and various support measures such as subsidies, preferential taxation and low-interest loans in relation to energy conservation.

1. Companywide Measures

1) General business activities

Given the recent rise in awareness of energy conservation and decarbonization, insulation materials are becoming increasingly important. We will utilize the unique knowledge of the Company, which has placed insulation materials at the core of its business since establishment, to maximize the insulation performance of houses and buildings, and we will expand our business by proposing ways to ease the economic burden on clients and make their life comfortable through the use of various subsidy programs.

2) Sustainability strategies

Based on our management philosophy of “Contributing to society by creating a housing environment that is friendly to people and the earth,” we will contribute to the realization of a sustainable society by reducing CO2 emissions from homes and buildings through the AQUA FOAM series of products and a focus on recycling urethane insulation materials.

3) Securing construction capability

In order for the Company to achieve sustainable growth, it is vital to establish a construction system, or securing workers in other words. To this end, we are implementing Saturdays and Sundays off work, raising wages in conjunction with the expansion of various allowances such as the Childcare Support Allowance and Metropolitan Region Allowance, offering an attractive work environment, building career paths and holding a safety convention, among other initiatives.

4) Maintaining Prime Market listing

On December 20, 2021, we disclosed our “Plan to Meet the Continued Listing Criteria for New Market Segments,” and in order to meet the listing maintenance requirements for the Prime Market by the end of December 2023, we aim to increase our corporate value, contribute to sustainability, receive a proper valuation in the stock market, and improve the liquidity of our shares. Our estimates as of March 31, 2023 indicate that we meet the listing maintenance requirements, but we continue to improve our valuation in the stock market by the deadline of the Plan.

2. Financial Forecasts for the Fiscal Year Ending December 31, 2023

There are no changes to the financial forecasts announced on February 10, 2023.

2. Quarterly Financial Statements and Primary Notes

(1) Quarterly Balance Sheet

(in thousand yen)

	As of December 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	2,676,798	2,088,722
Notes and accounts receivable - trade, and contract assets	6,898,860	6,459,806
Inventories	3,121,628	2,877,136
Accounts receivable - other	4,216,577	3,101,551
Other	248,481	163,135
Allowance for doubtful accounts	(25,979)	(22,340)
Total current assets	17,136,367	14,668,010
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	2,285,532	2,253,497
Land	1,680,298	1,680,298
Other, net	380,272	394,792
Total property, plant and equipment	4,346,104	4,328,588
Intangible assets		
Leasehold interests in land	15,000	15,000
Other	81,296	80,636
Total intangible assets	96,296	95,636
Investments and other assets		
Other	458,450	380,956
Allowance for doubtful accounts	(67,254)	(67,250)
Total investments and other assets	391,195	313,706
Total non-current assets	4,833,596	4,737,930
Total assets	21,969,963	19,405,941

(in thousand yen)

	As of December 31, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	6,272,179	5,564,415
Short-term borrowings	6,000,000	5,100,000
Current portion of long-term borrowings	33,200	33,200
Lease liabilities	32,790	31,156
Income taxes payable	670,554	156,185
Provision for bonuses	19,890	78,212
Other	873,654	553,334
Total current liabilities	13,902,269	11,516,504
Non-current liabilities		
Lease liabilities	48,217	40,602
Asset retirement obligations	39,543	39,601
Other	13,368	74,088
Total non-current liabilities	101,129	154,291
Total liabilities	14,003,399	11,670,796
Net assets		
Shareholders' equity		
Share capital	1,903,649	1,903,649
Capital surplus	1,885,273	1,912,505
Retained earnings	6,270,636	5,951,476
Treasury shares	(2,093,016)	(2,035,198)
Total shareholders' equity	7,966,543	7,732,432
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	20	(20)
Total valuation and translation adjustments	20	(20)
Share acquisition rights	—	2,732
Total net assets	7,966,564	7,735,144
Total liabilities and net assets	21,969,963	19,405,941

(2) Quarterly Income Statement

Three months ended March 2023

(in thousand yen)

	Three months ended March 31, 2022	Three months ended March 31, 2023
Net sales	5,697,482	6,368,531
Cost of sales	4,495,533	4,911,078
Gross profit	1,201,948	1,457,453
Selling, general and administrative expenses	750,166	829,926
Operating profit	451,782	627,526
Non-operating income		
Interest income	11,454	5,749
Insurance claim income	1,048	883
Surrender value of insurance policies	—	6,527
Other	2,970	4,950
Total non-operating income	15,473	18,112
Non-operating expenses		
Interest expenses	2,606	3,716
Other	334	44
Total non-operating expenses	2,940	3,761
Ordinary profit	464,315	641,877
Extraordinary income		
Gain on sale of non-current assets	220	—
Total extraordinary income	220	—
Extraordinary losses		
Loss on sale of non-current assets	1,098	—
Total extraordinary losses	1,098	—
Profit before income taxes	463,437	641,877
Income taxes - current	135,600	141,521
Income taxes - deferred	17,444	68,008
Total income taxes	153,044	209,530
Profit	310,393	432,347

(3) Notes to Quarterly Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

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

Not applicable.

(Segment Information)

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

(Additional Information)

Not applicable.

(Important Subsequent Events)

Not applicable.