

Non-consolidated Financial Results for the Six Months Ended June 30, 2023 [Japanese GAAP]



August 10, 2023

Company name: Nippon Aqua Co., Ltd.
 Code number: 1429 (listed on the Tokyo Stock Exchange)
 (URL: <https://www.n-aqua.jp>)
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 Scheduled filing date of quarterly report: August 10, 2023
 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 Six Months Ended June 30, 2023 (January 1, 2023-June 30, 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	%
Six months ended June 30, 2023	13,158	12.1	1,380	50.7	1,400	49.6	948	51.2
Six months ended June 30, 2022	11,742	9.6	916	176.1	936	179.1	626	193.4

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended June 30, 2023	30.20	30.20
Six months ended June 30, 2022	19.39	—

(2) Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2023	18,750	8,250	44.0
As of December 31, 2022	21,969	7,966	36.3

[Reference] Shareholders' equity: As of June 30, 2023: 8,248 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
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2022	—	0.00	—	24.00	24.00
Fiscal year ending December 31, 2023	—	0.00			
Fiscal year ending December 31, 2023 (forecast)			—	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
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 June 30, 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 June 30, 2023 3,351,871 shares

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

(iii) Average number of shares during period under review

Six months ended June 30, 2023 31,385,796 shares

Six months ended June 30, 2022 32,311,436 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 6 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 six months ended June 30, 2023 (January 1, 2023 to June 30, 2023), the Japanese economy recovered moderately as the employment and income situation improved. However, amid continued global monetary tightening and other developments, there were concerns about the risk that the downturn in overseas economies would exert downward pressure on Japan's economy, price increases, supply-side 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, we have secured stable orders with subsidies and preferential housing loans in line with the Tokyo-based “Tokyo Zero Emission Houses” and other local governments’ moves to introduce their own ZEH (Net Zero Energy Houses). In January 2023, we introduced internal installation work personnel Saturdays and Sundays holidays in order to accelerate our response to the 2024 issue in the construction industry. This action reduced the number of construction days, and the division’s net sales was 6,508 million yen, slightly lower than in the same period of the previous year. However, the number of applications for internal installation work personnel has increased significantly due to the success of work style innovations such as the introduction of Saturdays and Sundays holidays. We are making steady progress in personnel training, so in the future we will work to increase sales by increasing the number of projects in operation to offset the decline in the number of construction days. In the Buildings Division, demand expanded against the backdrop of the domestic return of the manufacturing industry and urban redevelopment. In addition, there was an increasing need to prevent fires during construction. As a result, the division's Net sales rose sharply to 3,848 million yen, driven by the installation of non-flammable insulation "AQUA MOEN NEO." In addition, the Waterproofing Division's net sales of 248 million yen and other divisions, such as sales of raw materials and machinery, reached 2,552 million yen, marking an increase in both.

(in million yen, %)

	19th fiscal year Six months ended June 30, 2022	20th fiscal year Six months ended June 30, 2023	Amount of change	Percentage change
Single-family Homes Division	6,695	6,508	(187)	(2.8)
Buildings Division	2,837	3,848	+1,011	+35.6
Waterproofing Division	120	248	+128	+106.6
Other divisions	2,087	2,552	+464	+22.3
Total	11,742	13,158	+1,416	+12.1

Consequently, net sales for the period under review was 13,158 million yen, an increase of 12.1% year on year. In addition to procurement from multiple companies with the aim of securing raw materials and providing a stable supply of products, we have worked to secure earnings by continuing to revise prices from the autumn of 2021 and emphasizing the profitability of construction work when orders are received. In addition, the recent rise in prices of naphtha and other resources has come to a halt, and the prices of raw materials for urethane are also peaking out. At the same time, with the aim of strengthening our “construction capabilities,” which is one of our strengths, we are focusing on providing a variety of support to certified contractors, including increasing the amount of construction fees and leasing of facilities such as our

employees' assignments and transfers, as well as storage and warehousing facilities.

As a result of the above, gross margin improved by 3.1 points year on year to 23.7%, operating profit increased by 50.7% year on year to 1,380 million yen, ordinary profit increased by 49.6% year on year to 1,400 million yen, and profit totaled 948 million yen, rising 51.2% from a year earlier.

(2) Explanation Regarding Financial Position

(Total assets)

Total assets totaled 18,750 million yen as of June 30, 2023, down 3,219 million yen, or 14.7%, from the end of the previous fiscal year.

(Current assets)

Current assets totaled 13,830 million yen as of June 30, 2023, down 3,305 million yen, or 19.3%, from the end of the previous fiscal year. Key factors contributing to this decrease include decreases of 1,168 million yen in accounts receivable - other, 411 million yen in notes and accounts receivable - trade, and contract assets, and 181 million yen in electronically recorded monetary claims due to collection, 563 million yen in cash and deposits, and 867 million yen in inventories due to adjustments to raw material inventories accompanying improvements in the raw material supply market.

(Non-current assets)

Non-current assets totaled 4,919 million yen as of June 30, 2023, up 85 million yen, or 1.8%, from the end of the previous fiscal year. Key factors included 140 million yen increase in buildings due to the completion of the Kita-Kanto Sales Office, 29 million yen increase due to the acquisition of machinery and equipment, 14 million yen increase due to the acquisition of software, and 64 million yen increase in insurance reserves. On the other hand, there was a decrease of 116 million yen in assets due to depreciation, and a decrease of 92 million yen in construction-in-progress included in other in property, plant and equipment due to the completion of the Kita-Kanto Sales Office.

(Total liabilities)

Liabilities totaled 10,499 million yen as of June 30, 2023, down 3,504 million yen, or 25.0%, from the end of the previous fiscal year.

(Current liabilities)

Current liabilities totaled 10,359 million yen as of June 30, 2023, down 3,542 million yen, or 25.5%, from the end of the previous fiscal year. Main factors contributing to this decrease include decreases of 1,900 million yen in short-term borrowings due to adjustments to raw material inventories accompanying improvements in the raw material supply market, 1,266 million yen in accounts payable – trade due to payment, 245 million yen in income taxes payable due to tax payment, and 376 million yen in accounts payable - other and accrued expenses included in other.

(Non-current liabilities)

Non-current liabilities totaled 139 million yen as of June 30, 2023, up 38 million yen, or 37.6%, from the end of the previous fiscal year. Key factors contributing to this increase include an increase of 50 million yen in long-term accounts payable - other included in other, partially offset by a decrease of 15 million yen in long-term lease liabilities.

(Net assets)

Net assets totaled 8,250 million yen as of June 30, 2023, up 284 million yen, or 3.6%, from the end of the previous fiscal year. Main factors contributing to this increase include an increase of 948 million yen in profit and an increase in retained earnings of 85 million yen due to the disposal of treasury shares, partially offset by the recording of 751 million yen due to the payment of dividends.

(Equity ratio)

Equity ratio was 44.0% on June 30, 2023, up 7.7% 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 June 30, 2023 was 9 million yen. There was no significant change in the status of research and development activities in the six months ended June 30, 2023.

Cash Flows

Cash and cash equivalents (hereinafter “net cash”) in the six months ended June 30, 2023 amounted to 2,112 million yen (1,840 million yen in the same period a year earlier), decreasing 563 million yen from the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash from operating activities increased 2,177 million yen in the fiscal year under review, compared to a 25 million yen decrease in the previous fiscal year. This was due mainly to increases in net cash driven by 1,399 million yen in profit before income taxes, 116 million yen in depreciation, a 498 million yen decrease in trade receivables, and a 867 million yen decrease in inventories, a 1,168 million yen decrease in accounts receivable - other, and decreases in net cash, driven by a 1, 226 million yen increase in trade payables, and 631 million yen in income taxes paid.

(Cash flows from investing activities)

Net cash from investing activities decreased 197 million yen in the fiscal year under review, compared to a 25 million yen decrease in the previous fiscal year. This was due mainly to purchase of property, plant and equipment totaling 124 million yen, purchase of intangible assets totaling 11 million yen, and the funding of insurance reserves 64 million yen.

(Cash flows from financing activities)

Net cash from financing activities decreased 2,544 million yen in the fiscal year under review, compared to a 34 million yen decrease in the previous fiscal year. This was due mainly to the net decrease in short-term borrowings of 1,900 million yen and the payment of dividends of 751 million yen.

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

Regarding the future outlook, we are focusing on support measures, such as the continuation of the current economic recovery and revisions to the legal system for housing and buildings, subsidies and preferential tax treatment for energy conservation, and low-interest loans. In response to the growing demand for insulation materials, we are taking the following initiatives to realize our sustainable development.

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. On the other hand, following the revision of the rules of the Tokyo Stock Exchange, Inc., which took effect on April 1, 2023, there was an opportunity to re-select the Standard Market, which reduces the risk of delisting. In response, we once again examined whether to maintain listing on the Prime Market or the Standard Market within our company. As our Board of Directors, we reaffirmed our intention to maintain listing on the Prime Market as originally planned by working to achieve sustainable growth and improve corporate value and market capitalization over the medium to long term. Please also refer to the "Notice of Acquisition and Cancellation of the 2nd Stock Acquisition Rights (with Exercise Price Revision Clauses)," which was separately disclosed today.

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

There are no changes to the financial forecasts announced on February 10, 2023. Should any revisions need to be made to financial forecasts in the future, we will disclose the information as soon as possible.

2. Quarterly Financial Statements and Primary Notes

(1) Quarterly Balance Sheet

(in thousand yen)

	As of December 31, 2022	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	2,676,798	2,112,804
Notes and accounts receivable - trade, and contract assets	6,898,860	5,732,965
Electronically recorded monetary claims	754,166	572,460
Inventories	3,121,628	2,254,452
Accounts receivable - other	4,216,577	3,048,383
Other	248,481	131,560
Allowance for doubtful accounts	(25,979)	(21,753)
Total current assets	17,136,367	13,830,872
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	2,285,532	2,365,785
Land	1,680,298	1,680,298
Other, net	380,272	301,371
Total property, plant and equipment	4,346,104	4,347,455
Intangible assets		
Leasehold interests in land	15,000	15,000
Other	81,296	78,292
Total intangible assets	96,296	93,292
Investments and other assets		
Other	458,450	545,968
Allowance for doubtful accounts	(67,254)	(67,571)
Total investments and other assets	391,195	478,396
Total non-current assets	4,833,596	4,919,144
Total assets	21,969,963	18,750,016

(in thousand yen)

	As of December 31, 2022	As of June 30, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	6,272,179	5,005,994
Short-term borrowings	6,000,000	4,100,000
Current portion of long-term borrowings	33,200	16,500
Lease liabilities	32,790	30,698
Income taxes payable	670,554	424,892
Provision for bonuses	19,890	25,812
Consumption tax payable	—	248,448
Other	873,654	507,562
Total current liabilities	13,902,269	10,359,908
Non-current liabilities		
Lease liabilities	48,217	32,965
Asset retirement obligations	39,543	39,658
Other	13,368	66,511
Total non-current liabilities	101,129	139,135
Total liabilities	14,003,399	10,499,044
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	6,467,131
Treasury shares	(2,093,016)	(2,035,198)
Total shareholders' equity	7,966,543	8,248,088
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	20	151
Total valuation and translation adjustments	20	151
Share acquisition rights	—	2,732
Total net assets	7,966,564	8,250,972
Total liabilities and net assets	21,969,963	18,750,016

(2) Quarterly Income Statement

Six months ended June 2023

(in thousand yen)

	Six months ended June 30, 2022	Six months ended June 30, 2023
Net sales	11,742,034	13,158,259
Cost of sales	9,324,784	10,034,487
Gross profit	2,417,249	3,123,772
Selling, general and administrative expenses	1,500,896	1,743,110
Operating profit	916,353	1,380,662
Non-operating income		
Interest income	21,366	11,810
Insurance claim income	2,142	2,054
Surrender value of insurance policies	—	6,527
Other	4,136	7,108
Total non-operating income	27,644	27,500
Non-operating expenses		
Interest expenses	5,464	7,491
Other	2,168	92
Total non-operating expenses	7,633	7,584
Ordinary profit	936,364	1,400,578
Extraordinary income		
Gain on sale of non-current assets	220	842
Total extraordinary income	220	842
Extraordinary losses		
Loss on sale of non-current assets	1,098	—
Loss on retirement of non-current assets	0	1,677
Total extraordinary losses	1,098	1,677
Profit before income taxes	935,487	1,399,743
Income taxes - current	262,003	390,080
Income taxes - deferred	46,682	61,660
Total income taxes	308,686	451,740
Profit	626,800	948,002

(3) Quarterly Cash Flow Statement

(in thousand yen)

	Six months ended June 30, 2022	Six months ended June 30, 2023
Cash flows from operating activities		
Profit before income taxes	935,487	1,399,743
Depreciation	109,095	116,649
Increase (decrease) in allowance for doubtful accounts	(9,431)	(3,908)
Increase (decrease) in provision for bonuses	(1,648)	5,921
Interest income	(21,366)	(11,810)
Interest expenses	5,464	7,491
Insurance claim income	(2,142)	(2,054)
Surrender value of insurance policies	—	(6,527)
Loss (gain) on sale and retirement of non-current assets	877	835
Decrease (increase) in trade receivables	715,104	498,871
Decrease (increase) in inventories	(1,377,889)	867,176
Increase (decrease) in trade payables	160,490	(1,266,185)
Decrease (increase) in accounts receivable - other	72,081	1,168,194
Other, net	(408,445)	10,979
Subtotal	177,677	2,785,377
Interest and dividends received	21,366	11,810
Proceeds from insurance income	2,142	2,054
Proceeds from insurance surrender value	—	17,214
Interest paid	(5,464)	(7,491)
Income taxes paid	(221,685)	(631,026)
Net cash provided by (used in) operating activities	(25,963)	2,177,938
Cash flows from investing activities		
Purchase of property, plant and equipment	(20,547)	(124,099)
Proceeds from sale of property, plant and equipment	4,979	4,500
Purchase of intangible assets	(6,161)	(11,840)
Purchase of investment securities	(119)	(119)
Purchase of insurance funds	—	(64,608)
Other, net	(3,709)	(1,466)
Net cash provided by (used in) investing activities	(25,558)	(197,635)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	600,000	(1,900,000)
Repayments of long-term borrowings	(16,700)	(16,700)
Repayments of finance lease obligations	(18,627)	(17,344)
Repayment of long-term accounts payable	—	(2,736)
Proceeds from sale and leaseback transactions	46,591	—
Proceeds from sale and installment back transactions	—	56,209
Proceeds from issuance of stock acquisition rights	—	3,020
Disposal of treasury shares upon exercise of stock acquisition rights	—	84,762
Dividends paid	(646,217)	(751,507)
Net cash provided by (used in) financing activities	(34,953)	(2,544,297)
Net increase (decrease) in cash and cash equivalents	(86,475)	(563,993)
Cash and cash equivalents at beginning of period	1,926,921	2,676,798
Cash and cash equivalents at end of period	1,840,445	2,112,804

(4) 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.