

Non-consolidated Financial Results for the Six Months Ended June 30, 2022 [Japanese GAAP]



August 10, 2022

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 Code number: 1429 (listed on the Tokyo Stock Exchange)
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 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, 2022 (January 1, 2022-June 30, 2022)

(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, 2022	11,742	9.6	916	176.1	936	179.1	626	193.4
Six months ended June 30, 2021	10,712	7.2	331	(57.1)	335	(57.2)	213	(58.8)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended June 30, 2022	19.39	—
Six months ended June 30, 2021	6.61	—

(2) Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2022	18,808	7,933	42.2
As of December 31, 2021	18,279	7,951	43.5

[Reference] Shareholders' equity: As of June 30, 2022: 7,933 million yen

As of December 31, 2021: 7,951 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, 2021	—	0.00	—	20.00	20.00
Fiscal year ending December 31, 2022	—	0.00			
Fiscal year ending December 31, 2022 (forecast)			—	22.00	22.00

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

3. Financial Forecasts for the Fiscal Year Ending December 31, 2022 (January 1, 2022-December 31, 2022)

(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, 2022	26,490	10.8	2,121	50.2	2,121	48.4	1,470	54.1	45.50

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.: Yes

(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, 2022 34,760,000 shares

As of December 31, 2021 34,760,000 shares

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

As of June 30, 2022 2,447,128 shares

As of December 31, 2021 2,449,128 shares

(iii) Average number of shares during period under review

Six months ended June 30, 2022 32,311,436 shares

Six months ended June 30, 2021 32,304,767 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, 2022 (from January 1, 2022 to June 30, 2022), although the Japanese economy showed signs of improvement, there are concerns mainly about rising raw material prices and supply constraints due to the impact of the prolonged situation in Ukraine and suppressed economic activities in China.

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” (hereinafter referred to as the revisions to the Building Energy Efficiency Act) was passed on June 13, 2022 in line with the greenhouse gas reduction target for 2030 in Japan. Consequently, it will become mandatory for all houses and buildings to be newly built in and after 2025 to meet energy efficiency standards. In this environment, 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, amid the steady trend in the number of new housing starts, despite weakness in owner-occupied homes, AQUA FOAM series have secured steady orders thanks to the full implementation of various subsidy programs for energy-saving homes. Sales for the Single-family Homes Division amounted to 6,695 million yen. In the buildings market, many inquiries continue to be made for non-flammable insulation following fires that occurred at distribution warehouses and factories in recent years. Sales of the Buildings Division amounted to 2,837 million yen. Sales of the Waterproofing Division came to 120 million yen, and sales of raw materials, machinery, etc., which are under other divisions, were 2,087 million yen. From the beginning of the fiscal year ending December 31, 2022, renovations have been moved from other divisions to the highly compatible Single-family Homes Division, and waterproofing which focuses on future growth has been changed from being included in the Buildings Division to being a stand-alone Waterproofing Division.

(in million yen, %)

	18th fiscal year Six-months ended June 30, 2021 (after reclassification)	19th fiscal year Six-months ended June 30, 2022	Amount of change	Percentage change
Single-family Homes Division	6,412	6,695	+283	+4.4
Buildings Division	2,321	2,837	+516	+22.3
Waterproofing Division	28	120	+92	+329.0
Other divisions	1,950	2,087	+137	+7.0
Total	10,712	11,742	+1,029	+9.6

As a result, total sales increased by 9.6% year on year to 11,742 million yen in the period under review. Meanwhile, prices of crude oil, naphtha, benzene and other raw materials for urethane raw materials remained high, with the yen continuing to weaken. Amid the continuation of this environment for the raw materials procurement, the Company worked to secure raw materials through measures such as procuring raw materials from multiple companies and to stably supply products. As a measure to deal with cost increases, the Company revised product selling prices, while actively switching to the new product AQUA FOAM LITE, which reduces raw material usage by approximately 30%, in the Single-family Homes Division.

Furthermore, the Company made companywide efforts to secure income by thoroughly focusing on construction profitability when receiving orders, while providing various support such as personnel and facility rental to solve the problems faced by certified contractors for further enhancing “construction capabilities,” the Company’s strength.

As a result of the above, gross margin improved by 2.2 points year on year to 20.6%, operating profit increased by 176.1% year on year to 916 million yen, ordinary profit increased by 179.1 % year on year to 936 million yen, and profit totaled 626 million yen, rising 193.4% from a year earlier.

(2) Explanation Regarding Financial Position

(Total assets)

Total assets totaled 18,808 million yen as of June 30, 2022, up 529 million yen, or 2.9%, from the end of the previous fiscal year.

(Current assets)

Current assets totaled 14,248 million yen as of June 30, 2022, up 656 million yen, or 4.8 %, from the end of the previous fiscal year. Key factors contributing to this increase include increases of 1,377 million yen in inventories and 100 million yen in consumption taxes receivable included in other, partially offset by decreases of 86 million yen in cash and deposits, 715 million yen in notes and accounts receivable - trade, and contract assets, and 118 million yen in accounts receivable - other.

(Non-current assets)

Non-current assets totaled 4,560 million yen as of June 30, 2022, down 127 million yen, or 2.7%, from the end of the previous fiscal year. Key factors contributing to this decrease include decreases of 109 million yen in assets due to depreciation and 46 million yen in deferred tax assets included in other in investments and other assets, partially offset by increases of 13 million yen in acquisition of construction in progress included in other in property, plant and equipment and 9 million yen in purchase of software included in other in intangible assets.

(Total liabilities)

Liabilities totaled 10,875 million yen as of June 30, 2022, up 547 million yen, or 5.3%, from the end of the previous fiscal year.

(Current liabilities)

Current liabilities totaled 10,749 million yen as of June 30, 2022, up 582 million yen, or 5.7%, from the end of the previous fiscal year. Main factors contributing to this increase include increases of 600 million yen in short-term borrowings, and 160 million yen in accounts payable - trade, partially offset by decreases of 147 million yen in accounts payable - other and accrued expenses included in other.

(Non-current liabilities)

Non-current liabilities totaled 125 million yen as of June 30, 2022, down 35 million yen, or 22.1%, from the end of the previous fiscal year. Key factors contributing to this decrease include decreases of 16 million yen in long-term borrowings and 16 million yen in long-term lease obligations.

(Net assets)

Net assets totaled 7,933 million yen as of June 30, 2022, down 18 million yen, or 0.2%, from the end of the previous fiscal year. Key factors contributing to this decrease include a decrease of 646 million yen in retained earnings due to dividend payouts, partially offset by the recording of 626 million yen in profit.

(Equity ratio)

Equity ratio was 42.2 % on June 30, 2022, down 1.3 percentage points from the end of the previous fiscal year.

Cash Flows

Cash and cash equivalents (hereinafter “net cash”) in the six months ended June 30, 2022 amounted to 1,840 million yen (1,812 million yen in the same period a year earlier), decreasing 86 million yen from the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash from operating activities decreased 25 million yen in the period under review, compared to a 381 million yen increase in the same period a year earlier. This was due mainly to increases in net cash driven by 935 million yen in profit before income taxes, 109 million yen in depreciation, a 715 million yen decrease in trade receivables, a 160 million yen increase in trade payables and a 72 million yen drop in accounts receivable - other, and decreases in net cash, driven by a 1,377 million yen increase in inventories and 221 million yen in income taxes paid.

(Cash flows from investing activities)

Net cash from investing activities decreased 25 million yen in the period under review, compared to a 145 million yen decrease in the same period a year earlier. This was due mainly to purchase of property, plant and equipment totaling 20 million yen and purchase of intangible assets totaling 6 million yen.

(Cash flows from financing activities)

Net cash from financial activities decreased 34 million yen in the period under review, compared to a 76 million yen decrease in the same period a year earlier. This was due mainly to net increase in short-term borrowings of 600 million yen, partially offset by 16 million yen in repayments of long-term borrowings and 646 million yen in dividends paid.

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

Going forward, economic and social activities are expected to normalize without restrictions on people's movements, despite concerns about the recent spread of the seventh wave of COVID-19. Meanwhile, owing to raw material price increases and fluctuations in financial and capital markets, the prolonged situation in Ukraine and restrictions on people's movements in China, the outlook continues to remain uncertain. Our strategy under this situation is as follows:

1. Companywide Measures

(1) Insulation Installing Work

We plan to comply with any request or policy by administrative authorities and work closely with original contractors on insulation-installing work by taking thorough measures to prevent the spread of infectious diseases. We aim to ensure thorough safety and infection prevention for workers and maintain existing measures.

(2) Procurement of Raw Materials and Stable Supply of AQUA FOAM Series

In addition to continued high prices of raw materials such as crude oil, and the weakening yen, the environment for procuring raw materials continues to be uncertain. Nonetheless, the Company has reduced the risk of rising procurement prices by continuing its distributed procurement from North American, Chinese and Japanese manufacturers, while establishing its own supply routes. Furthermore, the Company also strives to maintain inventories flexibly and strategically in order to realize stable supply of products, one of the Company's strengths.

(3) Sustainability Initiatives

Under the Ministry of the Environment's National Permit System, we collect urethane scraps from construction sites and recycle them as blowing insulating materials. In September 2021, the Sendai recycling plant was expanded and the Kyushu recycling plant was newly established and commenced operations. In the fiscal year ending December 31, 2022 as well, we plan to newly establish recycling plants in the Kanto and Kansai regions and further promote recycling and waste reduction with a view to realizing sustainability.

(4) Passing of the Revised Building Energy Efficiency Act

With the passing of the revisions to the Revised Building Energy Efficiency Act on June 13, 2022, insulation performance for which regulations had been loose compared to other countries will be mandated for houses and buildings. Specifically, it will become mandatory for all new residential and non-residential buildings to conform with "Insulation Class 4" energy conservation standard, and from 2025 onward, the construction of buildings with insulation performance below this standard will not be permitted. In addition, the Tokyo Metropolitan Government established its own "Tokyo Zero Emission House" standard with the aim of spreading the use of energy-saving homes, and this initiative, including the provision of subsidies for part of the expenses to the builder, is attracting public attention.

These measures are consistent with the merchantability of our mainstay product AQUA FOAM series, and we will capture the trend of decarbonization in houses and buildings for achieving carbon neutrality in 2050 with a view to further expanding business.

2. Financial Forecasts for the Fiscal Year Ending December 31, 2022

There are no changes to the financial forecasts announced on February 10, 2022.

2. Quarterly Financial Statements and Primary Notes

(1) Quarterly Balance Sheet

(in thousand yen)

	As of December 31, 2021	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	1,926,921	1,840,445
Notes and accounts receivable - trade	6,946,757	—
Notes and accounts receivable - trade, and contract assets	—	6,231,652
Inventories	951,963	2,329,852
Accounts receivable - other	3,686,345	3,567,672
Other	112,987	302,796
Allowance for doubtful accounts	(33,794)	(24,367)
Total current assets	13,591,180	14,248,053
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	2,408,111	2,345,693
Land	1,611,699	1,611,699
Other, net	243,583	224,883
Total property, plant and equipment	4,263,394	4,182,276
Intangible assets		
Leasehold interests in land	15,000	15,000
Other	96,501	90,699
Total intangible assets	111,501	105,699
Investments and other assets		
Other	380,454	339,655
Allowance for doubtful accounts	(67,251)	(67,247)
Total investments and other assets	313,202	272,407
Total non-current assets	4,688,097	4,560,383
Total assets	18,279,278	18,808,437

(in thousand yen)

	As of December 31, 2021	As of June 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	6,055,946	6,216,437
Short-term borrowings	3,100,000	3,700,000
Current portion of long-term borrowings	33,400	33,400
Lease obligations	37,866	35,821
Income taxes payable	254,804	289,248
Provision for bonuses	21,738	20,089
Other	662,963	454,706
Total current liabilities	10,166,719	10,749,702
Non-current liabilities		
Long-term borrowings	33,200	16,500
Lease obligations	80,245	63,663
Asset retirement obligations	39,314	39,428
Other	8,367	6,000
Total non-current liabilities	161,127	125,592
Total liabilities	10,327,846	10,875,295
Net assets		
Shareholders' equity		
Share capital	1,903,649	1,903,649
Capital surplus	1,885,037	1,885,273
Retained earnings	5,367,699	5,348,282
Treasury shares	(1,204,971)	(1,203,987)
Total shareholders' equity	7,951,415	7,933,218
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	15	(76)
Total valuation and translation adjustments	15	(76)
Total net assets	7,951,431	7,933,141
Total liabilities and net assets	18,279,278	18,808,437

(2) Quarterly Income Statement

Six months ended June 2022

(in thousand yen)

	Six months ended June 30, 2021	Six months ended June 30, 2022
Net sales	10,712,181	11,742,034
Cost of sales	8,738,344	9,324,784
Gross profit	1,973,836	2,417,249
Selling, general and administrative expenses	1,641,963	1,500,896
Operating profit	331,873	916,353
Non-operating income		
Interest income	8,098	21,366
Insurance claim income	3,171	2,142
Other	7,648	4,136
Total non-operating income	18,918	27,644
Non-operating expenses		
Interest expenses	4,658	5,464
Sales discounts	10,623	—
Other	46	2,168
Total non-operating expenses	15,328	7,633
Ordinary profit	335,463	936,364
Extraordinary income		
Gain on sale of non-current assets	100	220
Total extraordinary income	100	220
Extraordinary losses		
Loss on sale of non-current assets	—	1,098
Loss on retirement of non-current assets	—	0
Total extraordinary losses	—	1,098
Profit before income taxes	335,563	935,487
Income taxes - current	112,646	262,003
Income taxes - deferred	9,268	46,682
Total income taxes	121,914	308,686
Profit	213,649	626,800

(3) Quarterly Cash Flow Statement

(in thousand yen)

	Six months ended June 30, 2021	Six months ended June 30, 2022
Cash flows from operating activities		
Profit before income taxes	335,563	935,487
Depreciation	99,506	109,095
Increase (decrease) in allowance for doubtful accounts	7,336	(9,431)
Increase (decrease) in provision for bonuses	2,102	(1,648)
Interest income	(8,098)	(21,366)
Interest expenses	4,658	5,464
Insurance claim income	(3,171)	(2,142)
Loss (gain) on sale and retirement of non-current assets	(100)	877
Decrease (increase) in trade receivables	584,816	715,104
Decrease (increase) in inventories	(293,799)	(1,377,889)
Increase (decrease) in trade payables	(98,837)	160,490
Decrease (increase) in accounts receivable - other	272,536	72,081
Other, net	(343,945)	(408,445)
Subtotal	558,567	177,677
Interest and dividends received	8,098	21,366
Interest paid	(4,658)	(5,464)
Proceeds from insurance income	3,171	2,142
Income taxes paid	(183,597)	(221,685)
Net cash provided by (used in) operating activities	381,581	(25,963)
Cash flows from investing activities		
Purchase of property, plant and equipment	(129,548)	(20,547)
Proceeds from sale of property, plant and equipment	—	4,979
Purchase of intangible assets	(17,472)	(6,161)
Purchase of investment securities	(119)	(119)
Other, net	2,029	(3,709)
Net cash provided by (used in) investing activities	(145,112)	(25,558)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	600,000	600,000
Repayments of long-term borrowings	(16,700)	(16,700)
Repayments of finance lease obligations	(13,488)	(18,627)
Proceeds from sale and leaseback transactions	—	46,591
Dividends paid	(646,047)	(646,217)
Net cash provided by (used in) financing activities	(76,235)	(34,953)
Net increase (decrease) in cash and cash equivalents	160,233	(86,475)
Cash and cash equivalents at beginning of period	1,651,998	1,926,921
Cash and cash equivalents at end of period	1,812,231	1,840,445

(4) Notes to Quarterly Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

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

Not applicable.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Standard") and other standards from the beginning of the first quarter of the fiscal year under review. The Company recognizes revenue when control of promised goods or services is transferred to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

Accordingly, rebates that the Company paid to customers as sales commissions, which were previously recorded in selling, general and administrative expenses, are considered as variable compensation or compensation paid to customers in light of the reality of the transactions, and are reduced from net sales. Similarly, sales discounts, which were previously recorded as non-operating expenses, are deducted from net sales. With regard to construction contracts, the Company recognizes revenue by measuring the progress toward satisfaction of the performance obligation over time. If the period from the transaction commencement date, etc., to the point when the performance obligation is estimated to be fully satisfied is very short, the Company recognizes revenue when the performance obligation is fully satisfied. With regard to the method of measuring the progress toward complete satisfaction of the performance obligation, if the outcome of the performance obligation can be reasonably measured, it is calculated as the ratio of the actual volume to the total contractual volume (output method). In some circumstances, the Company may not be able to reasonably estimate the outcome of a performance obligation, but expects to recover the costs incurred in satisfying the performance obligation. In those circumstances, the Company recognizes revenue only to the extent of the costs incurred.

The Company applies the Revenue Recognition Standard, etc., in accordance with the transitional treatment provided for in the proviso to Paragraph 84 of the Revenue Recognition Standard. The cumulative impact of retrospectively applying the new accounting policies to prior periods is adjusted to retained earnings at the beginning of the first quarter of the fiscal year under review, with the new accounting policies applied from the beginning balance. However, the Company applies the method provided for in Paragraph 86 of the Revenue Recognition Standard, and does not apply the new accounting policies retrospectively to contracts for which substantially all revenue amounts had been recognized prior to the beginning of the first quarter of the fiscal year under review in accordance with the previous treatment. In addition, the Company applies the method stipulated in proviso (1) to Paragraph 86 of the Revenue Recognition Standard, and contract modifications that occurred prior to the beginning of the first quarter of the fiscal year under review were accounted for based on the terms of the contract after reflecting all contract modifications.

As a result of these changes, net sales decreased by 55,654 thousand yen and cost of sales increased by 1,081 thousand yen for the six-months ended June 30, 2022. Selling, general and administrative expenses and non-operating expenses decreased by 43,277 thousand yen and 13,458 thousand yen, respectively. Operating profit decreased by 13,458 thousand yen, but this does not affect the beginning balance of ordinary profit, profit and retained earnings.

Due to the application of the Revenue Recognition Standard, etc., "notes and accounts receivable - trade," which was presented under "current assets" in the balance sheet of the previous fiscal year, has been included under "notes and accounts receivable - trade, and contract assets" from the first quarter of the fiscal year under review. However, in accordance with the transitional treatment set forth in Paragraph 89-2 of the Revenue Recognition Standard, figures for the previous period have not been reclassified based on the new presentation method. Furthermore, in accordance with the transitional treatment set forth in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), disaggregation of revenue from contracts with customers for the six-months ended June 30, 2021 is not presented.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter “Fair Value Measurement Standard”) and other standards from the beginning of the first quarter of the fiscal year under review, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc., in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). This does not affect the quarterly financial statements.

(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.

(Additional Information)

Not applicable.

(Important Subsequent Events)

Not applicable.