

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



November 9, 2022

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 Code number: 1429 (listed on the Tokyo Stock Exchange)
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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 Nine Months Ended September 30, 2022 (January 1, 2022-September 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	%
Nine months ended September 30, 2022	18,259	7.2	1,631	96.9	1,660	98.3	1,122	103.0
Nine months ended September 30, 2021	17,033	10.8	828	(28.8)	837	(28.7)	553	(29.1)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended September 30, 2022	34.75	—
Nine months ended September 30, 2021	17.12	—

(2) Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2022	20,560	8,429	41.0
As of December 31, 2021	18,279	7,951	43.5

[Reference] Shareholders' equity: As of September 30, 2022: 8,429 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 September 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 September 30, 2022 2,447,171 shares

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

(iii) Average number of shares during period under review

Nine months ended September 30, 2022 32,311,917 shares

Nine months ended September 30, 2021 32,306,824 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 nine months ended September 30, 2022 (from January 1, 2022 to September 30, 2022), although the Japanese economy showed signs of improvement, 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, 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” (hereinafter referred to as the Revised 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 building 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, AQUA FOAM series have secured steady orders due to the growing attention to highly-airtight and highly-insulated houses, mainly because local governments set high standards of insulation and energy conservation performance, including “Tokyo Zero Emission Houses” by the Tokyo Metropolitan Government, with the enactment of the Revised Building Energy Efficiency Act. Sales for the Single-family Homes Division amounted to 10,209 million yen. In the buildings market, the Company aggressively promoted sales as many inquiries continued to be made for our non-flammable insulation, and accordingly, sales of the Buildings Division amounted to 4,640 million yen. Sales of the Waterproofing Division came to 203 million yen, and sales of raw materials, machinery, etc., which are under other divisions, were 3,204 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 Nine months ended September 30, 2021 (after reclassification)	19th fiscal year Nine months ended September 30, 2022	Amount of change	Percentage change
Single-family Homes Division	9,819	10,209	+390	+4.0
Buildings Division	3,716	4,640	+924	+24.9
Waterproofing Division	73	203	+129	+175.8
Other divisions	3,423	3,204	(219)	(6.4)
Total	17,033	18,259	+1,225	+7.2

As a result, total sales increased by 7.2% year on year to 18,259 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 working to stabilize product quality and lower costs through continuous improvement.

Furthermore, while making companywide efforts to secure income by thoroughly focusing on construction profitability when receiving orders, we provided various support such as increasing construction fees for certified contractors, expanding programs designed to facilitate our employees to go independent, and renting storage warehouses and other facilities for further enhancing “construction capabilities,” the Company’s strength.

As a result of the above, gross margin improved by 2.1 points year on year to 21.5%, operating profit increased by 96.9%

year on year to 1,631 million yen, ordinary profit increased by 98.3% year on year to 1,660 million yen, and profit totaled 1,122 million yen, rising 103.0% from a year earlier.

(2) Explanation Regarding Financial Position

(Total assets)

Total assets amounted to 20,560 million yen as of September 30, 2022, up 2,281 million yen, or 12.5%, from the end of the previous fiscal year.

(Current assets)

Current assets totaled 15,925 million yen as of September 30, 2022, up 2,334 million yen, or 17.2%, from the end of the previous fiscal year. Key factors contributing to this increase include increases of 2,200 million yen in inventories, 395 million yen in accounts receivable - other and 156 million yen in consumption taxes receivable included in other, partially offset by decreases of 56 million yen in cash and deposits and 366 million yen in notes and accounts receivable - trade, and contract assets.

(Non-current assets)

Non-current assets totaled 4,635 million yen as of September 30, 2022, down 52 million yen, or 1.1%, from the end of the previous fiscal year. Key factors contributing to this decrease include a decrease of 164 million yen in assets due to depreciation, partially offset by increases of 20 million yen in land due to the acquisition of land for constructing the Miyazaki branch office, 40 million yen in acquisition of machinery and equipment included in other in property, plant and equipment, 11 million yen in purchase of software included in other in intangible assets, 17 million yen in deferred tax assets included in other in investments and other assets, and 13 million yen in guarantee deposits due to the opening of a business center.

(Total liabilities)

Liabilities totaled 12,131 million yen as of September 30, 2022, up 1,803 million yen, or 17.5%, from the end of the previous fiscal year.

(Current liabilities)

Current liabilities totaled 12,012 million yen as of September 30, 2022, up 1,845 million yen, or 18.2%, from the end of the previous fiscal year. Main factors contributing to this increase include increases of 1,400 million yen in short-term borrowings, 466 million yen in accounts payable - trade, 55 million yen in provision for bonuses, and 85 million yen in income taxes payable, partially offset by decreases of 108 million yen in accounts payable - other and accrued expenses included in other and 43 million yen in accrued consumption taxes.

(Non-current liabilities)

Non-current liabilities totaled 119 million yen as of September 30, 2022, down 41 million yen, or 25.9%, from the end of the previous fiscal year. Key factors contributing to this decrease include decreases of 24 million yen in long-term lease obligations and 16 million yen in long-term borrowings.

(Net assets)

Net assets totaled 8,429 million yen as of September 30, 2022, up 477 million yen, or 6.0%, from the end of the previous fiscal year. Main factors contributing to this increase include an increase of 1,122 million yen in profit and a decrease of 646 million yen due to dividend payouts.

(Equity ratio)

Equity ratio was 41.0% on September 30, 2022, down 2.5 percentage points from the end of the previous fiscal year.

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

Going forward, the outlook remains unclear, although a mild economic recovery is expected. Meanwhile, in the construction and housing industry, with the implementation of the home performance indication system based on the Housing Quality Assurance Act (Act No. 81 of 1999), higher insulation Class 6 and Class 7 were established on October 1, 2022. With this, preferential treatment for housing loans for ZEH (Net Zero Energy House), equivalent to Class 5, has begun. Our strategy under this situation is as follows:

1. Companywide Measures

(1) Overall Business Activities

With the revisions to the laws governing homes and buildings and rising electricity rates stemming from the recent hike in resource prices, insulation materials are attracting more attention than ever. The Company has been focusing on insulation as the core business since its establishment. With our unique expertise, we will expand our business by proposing matching construction methods for the insulation performance and encouraging use of various subsidies, while also appealing that the insulation effectiveness contributes not only to energy conservation but also to carbon neutrality and health maintenance.

(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 costs by building its globally distributed procurement from North America, Europe, the Middle East, China, and Southeast Asia, while establishing its own peerless supply routes. Furthermore, the Company also strives to maintain inventories flexibly and strategically in order to realize a 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 at our Sendai and Kyushu recycling plants. With the recycling plants in the Kansai and Kanto regions scheduled for completion in October and November 2022, respectively, we plan to further promote recycling and waste reduction with a view to realizing sustainability.

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 September 30, 2022
Assets		
Current assets		
Cash and deposits	1,926,921	1,870,178
Notes and accounts receivable - trade	6,946,757	—
Notes and accounts receivable - trade, and contract assets	—	6,580,034
Inventories	951,963	3,152,235
Accounts receivable - other	3,686,345	4,081,934
Other	112,987	270,103
Allowance for doubtful accounts	(33,794)	(29,285)
Total current assets	13,591,180	15,925,201
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	2,408,111	2,317,226
Land	1,611,699	1,631,752
Other, net	243,583	239,556
Total property, plant and equipment	4,263,394	4,188,535
Intangible assets		
Leasehold interests in land	15,000	15,000
Other	96,501	84,281
Total intangible assets	111,501	99,281
Investments and other assets		
Other	380,454	415,025
Allowance for doubtful accounts	(67,251)	(67,248)
Total investments and other assets	313,202	347,776
Total non-current assets	4,688,097	4,635,592
Total assets	18,279,278	20,560,794

(in thousand yen)

	As of December 31, 2021	As of September 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	6,055,946	6,522,231
Short-term borrowings	3,100,000	4,500,000
Current portion of long-term borrowings	33,400	33,400
Lease obligations	37,866	34,337
Income taxes payable	254,804	339,808
Provision for bonuses	21,738	77,243
Other	662,963	505,138
Total current liabilities	10,166,719	12,012,159
Non-current liabilities		
Long-term borrowings	33,200	16,500
Lease obligations	80,245	55,923
Asset retirement obligations	39,314	39,486
Other	8,367	7,442
Total non-current liabilities	161,127	119,352
Total liabilities	10,327,846	12,131,511
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	5,844,335
Treasury shares	(1,204,971)	(1,204,016)
Total shareholders' equity	7,951,415	8,429,241
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	15	41
Total valuation and translation adjustments	15	41
Total net assets	7,951,431	8,429,282
Total liabilities and net assets	18,279,278	20,560,794

(2) Quarterly Income Statement

Nine months ended September 2022

(in thousand yen)

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
Net sales	17,033,728	18,259,277
Cost of sales	13,721,191	14,333,097
Gross profit	3,312,536	3,926,179
Selling, general and administrative expenses	2,483,942	2,294,842
Operating profit	828,594	1,631,337
Non-operating income		
Interest income	13,049	30,844
Insurance claim income	6,810	2,260
Other	12,243	7,240
Total non-operating income	32,103	40,346
Non-operating expenses		
Interest expenses	7,187	8,620
Sales discounts	16,082	—
Other	69	2,542
Total non-operating expenses	23,339	11,163
Ordinary profit	837,358	1,660,519
Extraordinary income		
Gain on sale of non-current assets	100	4,964
Total extraordinary income	100	4,964
Extraordinary losses		
Loss on sale of non-current assets	—	1,098
Loss on retirement of non-current assets	252	0
Total extraordinary losses	252	1,098
Profit before income taxes	837,207	1,664,386
Income taxes - current	284,601	559,942
Income taxes - deferred	(627)	(18,409)
Total income taxes	283,973	541,532
Profit	553,233	1,122,853

(3) 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 82,225 thousand yen and cost of sales increased by 5,334 thousand yen for the nine months ended September 30, 2022. Selling, general and administrative expenses and non-operating expenses decreased by 67,640 thousand yen and 19,920 thousand yen, respectively. Operating profit decreased by 19,920 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 nine months ended September 30, 2021 is not presented.

(Application of Accounting Standard for Fair Value Measurement)

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)

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.