

Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2022 [Japanese GAAP]



February 10, 2023

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 Code number: 1429 (listed on the Tokyo Stock Exchange)
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 Scheduled date of Ordinary General Meeting of Shareholders: March 28, 2023
 Scheduled date of dividend payout: March 29, 2023
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 Supplementary materials on financial results prepared: Yes
 Financial 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 Fiscal Year Ended December 31, 2022 (January 1, 2022-December 31, 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	%
Fiscal year ended December 31, 2022	25,670	7.4	2,329	64.9	2,359	65.1	1,549	62.4
Fiscal year ended December 31, 2021	23,903	9.3	1,412	(25.5)	1,429	(25.2)	953	(29.0)

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended December 31, 2022	47.99	—	19.5	11.7	9.1
Fiscal year ended December 31, 2021	29.52	—	12.2	8.3	5.9

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2022	21,969	7,966	36.3	254.41
As of December 31, 2021	18,279	7,951	43.5	246.09

[Reference] Shareholders' equity: As of December 31, 2022: 7,966 million yen
 As of December 31, 2021: 7,951 million yen

(3) Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended December 31, 2022	(297)	(293)	1,340	2,676
Fiscal year ended December 31, 2021	520	(355)	109	1,926

2. Dividends

	Dividend per share					Total dividends (annual)	Payout ratio	Ratio of dividends to net assets
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended December 31, 2021	—	0.00	—	20.00	20.00	646	67.7	8.3
Fiscal year ended December 31, 2022	—	0.00	—	24.00	24.00	751	50.0	9.6
Fiscal year ending December 31, 2023 (forecast)	—	0.00	—	30.00	30.00		51.3	

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

* Notes

- (1) 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
- (2) Number of issued shares (common shares)
 - (i) Number of issued shares at end of period under review (including treasury shares)
 - As of December 31, 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 December 31, 2022 3,447,171 shares
 - As of December 31, 2021 2,449,128 shares
 - (iii) Average number of shares during period under review
 - Fiscal year ended December 31, 2022 32,279,270 shares
 - Fiscal year ended December 31, 2021 32,307,845 shares

* Financial results are not subject to audit 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 “(4) Future Outlook” on page 7 of the Attachment.

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1. Overview of Operating Results, Etc.

(1) Overview of Operating Results for the Fiscal Year Under Review

During the fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022), although the Japanese economy saw a gradual recovery, 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” (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 FY2025 to meet energy efficiency standards. In response to this, the “Flat 35S (ZEH)” program, which reduces the borrowing interest rate for a certain period for the acquisition of a ZEH (Net Zero Energy House) level home, was newly established in the “Flat 35” housing loan program from October 2022, and there is great interest in the insulation and energy efficiency of homes. 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, the AQUA FOAM series resulted in a stable level of orders against the backdrop of the Tokyo Metropolitan Government’s “Tokyo Zero Emission Houses” initiative and other local governments’ setting of high insulation and energy-conservation performance standards, as well as against the recent sharp rise in electricity rates, leading to record-high division sales of 13,873 million yen. In the Buildings Division, when international supply and demand for urethane raw materials tightened from 2021 to 2022, we worked to secure a stable supply of raw materials by making full use of our unique procurement channels, and we strove to gain the satisfaction and trust of our customers. This one-stop type business model, from raw material procurement to installation, was once again recognized, resulting in an increase in large projects and continued inquiries for our non-flammable insulation materials that meet the needs of construction sites to avoid fire risks, and this led to record-high division sales of 6,838 million yen. Sales of the Waterproofing Division came to 315 million yen, and sales of raw materials, machinery, etc., which are under other divisions, were 4,642 million yen. From the beginning of the fiscal year ended 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 ended December 31, 2021 (after reclassification)	19th fiscal year ended December 31, 2022	Amount of change	Percentage change
Single-family Homes Division	13,521	13,873	+351	+2.6
Buildings Division	5,371	6,838	+1,467	+27.3
Waterproofing Division	128	315	+187	+145.3
Other divisions	4,882	4,642	(240)	(4.9)
Total net sales	23,903	25,670	+1,766	+7.4

As a result, net sales for the fiscal year totaled 25,670 million yen, up 7.4% year on year. Meanwhile, prices of crude oil, naphtha, benzene, and other raw materials for urethane raw materials have been stabilizing recently due to concerns about declining demand, but our procurement prices have remained high. In this raw material procurement environment, 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 2.7 points year on year to 22.5%, operating profit increased by 64.9% year on year to 2,329 million yen, ordinary profit increased by 65.1% year on year to 2,359 million yen, and profit totaled 1,549 million yen, rising 62.4% from a year earlier. Both net sales and profits at each stage reached record highs.

(2) Overview of Financial Position for the Fiscal Year Under Review

(Total assets)

Total assets totaled 21,969 million yen as of December 31, 2022, up 3,690 million yen, or 20.2%, from the end of the previous fiscal year.

(Current assets)

Current assets totaled 17,136 million yen as of December 31, 2022, up 3,545 million yen, or 26.1%, from the end of the previous fiscal year. Key factors contributing to this increase include increases of 2,188 million yen in raw materials and supplies, 749 million yen in cash and deposits, 530 million yen in accounts receivable - other and 134 million yen in consumption taxes refund receivable, while accounts receivable - trade decreased 146 million yen due to collection.

(Non-current assets)

Non-current assets totaled 4,833 million yen as of December 31, 2022, up 145 million yen, or 3.1%, from the end of the previous fiscal year. Key factors contributing to this increase include a decrease of 221 million yen in assets due to depreciation, partially offset by increases of 92 million yen in construction in progress of branch offices, 68 million yen in land due to the acquisition of land for the construction of the Miyazaki and Kita-Kanto branch offices, 79 million yen in machinery and equipment, 27 million yen in vehicles, 16 million yen in software, 57 million yen in deferred tax assets, and 14 million yen in leasehold and guarantee deposits due to the opening of a business center.

(Total liabilities)

Liabilities totaled 14,003 million yen as of December 31, 2022, up 3,675 million yen, or 35.6%, from the end of the previous fiscal year.

(Current liabilities)

Current liabilities totaled 13,902 million yen as of December 31, 2022, up 3,735 million yen, or 36.7% from the end of the previous fiscal year. Main factors contributing to this increase include increases of 2,900 million yen in short-term borrowings, 216 million yen in accounts payable - trade, 181 million yen in accrued expenses, and 415 million yen in income taxes payable, partially offset by a decrease of 43 million yen in accrued consumption taxes.

(Non-current liabilities)

Non-current liabilities totaled 101 million yen as of December 31, 2022, down 59 million yen, or 37.2%, from the end of the previous fiscal year. Key factors contributing to this decrease include decreases of 33 million yen in long-term borrowings and 32 million yen in long-term lease liabilities.

(Net assets)

Net assets totaled 7,966 million yen as of December 31, 2022, up 15 million yen, or 0.2%, from the end of the previous fiscal year. Main factors contributing to this increase include recording of 1,549 million yen in profit, which was partially offset by decreases of 889 million yen due to the purchase of treasury stock and 646 million yen due to dividend payouts.

(Equity ratio)

Equity ratio was 36.3% on December 31, 2022, down 7.2% from the end of the previous fiscal year.

(3) Overview of Cash Flows for the Fiscal Year Under Review

Cash and cash equivalents (hereinafter referred to as “net cash”) in the fiscal year ended December 31, 2022 amounted to 2,676 million yen (1,926 million yen in the previous fiscal year), increasing 749 million yen from the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash from operating activities decreased 297 million yen in the fiscal year under review, compared to a 520 million yen increase in the previous fiscal year. This was due mainly to increases in net cash driven by 2,360 million yen in profit before income taxes, 221 million yen in depreciation, a 47 million yen decrease in trade receivables, and a 216 million yen increase in trade payables, and decreases in net cash, driven by a 2,169 million yen increase in inventories, a 576 million yen increase in accounts receivable - other, and 459 million yen in income taxes paid.

(Cash flows from investing activities)

Net cash from investing activities decreased 293 million yen in the fiscal year under review, compared to a 355 million yen decrease in the previous fiscal year. This was due mainly to purchase of property, plant and equipment totaling 271 million yen and purchase of intangible assets totaling 17 million yen.

(Cash flows from financing activities)

Net cash from financing activities increased 1,340 million yen in the fiscal year under review, compared to a 109 million yen increase in the previous fiscal year. This was due mainly to 646 million yen in dividends paid and 33 million yen in repayments of long-term borrowings, partially offset by net increase in short-term borrowings of 2,900 million yen.

(4) Future Outlook

Regarding the future outlook, although the economy is expected to pick up, partly due to the effects of various policies, the future remains uncertain. Despite the aforementioned, the world’s attention on insulation materials has never been stronger, thanks to various support measures such as various subsidies, preferential taxation, and low-interest loans, in addition to the revision of laws and regulations pertaining to homes and buildings. Given these circumstances, our strategies are as follows:

1) Companywide Measures

i. General business activities

We will utilize the unique knowledge of the Company, which has placed insulation materials at the core of its business since establishment, to promote the fact that insulation contributes not only to energy conservation but also to decarbonization and health maintenance, and we will expand our business by proposing construction methods that match insulation performance and the use of various support measures.

ii. Sustainability strategies

Under 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 decarbonized society by reducing CO2 emissions from homes and buildings through the widespread use of the AQUA FOAM series of products. Most recently, we have been focusing on recycling urethane insulation materials, collecting urethane scraps from construction sites and reprocessing them into blowing urethane insulation materials, thereby reducing CO2 emissions generated in industrial waste processes. In 2022, recycling plants opened in Kansai and Kanto, and together with existing plants in Kyushu and Sendai, four recycling plants are in operation nationwide.

iii. Strategies to enhance our “construction capability”

The core of the Company’s competitiveness is its “construction capability,” and the common challenge for the Single-family Homes Division, Buildings Division, and Waterproofing Division is for them to expand their installation system by increasing the number of installation work personnel of the Company and certified contractors, and by increasing the number of blowing equipment, as well as improving the operating ratio. To this end, we consider increasing the number of our installation work personnel as a top priority and are actively recruiting personnel through work-style reform measures such as introducing weekends off (Saturdays and Sundays

off work from FY2023), raising wages in conjunction with the expansion of various allowances such as the Metropolitan Region Allowance and Childcare Support Allowance, recruiting through social media and by other means, as well as establishing business offices in various regions throughout Japan.

iv. 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 see our tasks as increasing our corporate value, contributing to sustainability, receiving a proper valuation in the stock market, and improving the liquidity of our shares. As part of these activities, we issued stock acquisition rights in December 2022 to increase the number of shares in circulation, promoted energy conservation (decarbonization) in homes with our highly airtight and insulated AQUA FOAM series of products, and strengthened investor relations, as well as increased shareholder returns.

2) Outlook by Item

i. Single-family Homes Division

In the Single-family Homes Division, we will take the opportunity given through the passing of the revised “Building Energy Efficiency Act” to increase the number of homes constructed by promoting proposals for construction methods based on the ZEH standard (insulation Class 5 equivalent) and higher standards and by improving unit prices for construction, as well as by deepening our existing clients and developing new clients, backed by our expanded construction capabilities.

ii. Buildings Division

In the Buildings Division, as in the Single-family Homes Division, we will provide enhanced insulation solutions, and along with “AQUA MOEN NEO,” a non-flammable insulator that contributes to the requirement to avoid the risks of fire at construction sites, we will be adding a new product, “AQUA BARRIER,” which prevents ignition caused by welding sparks and cutting sparks, demonstrating fire resistance, to our lineup from February 2023, providing a wide range of solutions to meet the needs of building applications.

iii. Waterproofing Division

In the Waterproofing Division, we will promote sales expansion of “Aquahajikun,” a waterproofing material using waterproofing polyurea resin as its raw material. In collaboration with the Single-family Homes Division, we will work to recruit home builders and installation contractors nationwide, and in cooperation with the Buildings Division, we will work to acquire large projects, including factories and commercial facilities.

3) Full-Year Financial Forecasts

The financial forecasts for the fiscal year ending December 31, 2023 are as stated in the summary information, “3. Financial Forecasts for the Fiscal Year Ending December 31, 2023.” The sales forecast by category is as follows.

(in million yen, %)

	19th fiscal year ended December 31, 2022	Forecast for 20th fiscal year ending December 31, 2023	Amount of change	Percentage change
Single-family Homes Division	13,873	16,115	+2,241	+16.2
Buildings Division	6,838	7,600	+762	+11.1
Waterproofing Division	315	539	+223	+70.7
Other divisions	4,642	4,766	+124	+2.7
Total	25,670	29,021	+3,351	+13.1

2. Basic Policy on Selection of Accounting Standards

The Company prepares its financial statements based on Japanese GAAP in order to ensure the compatibility of financial statements by term. With respect to the future adoption of International Financial Reporting Standards (IFRS), the Company plans to carefully consider the adoption, taking into account the trend regarding the accounting standards in Japan.

3. Financial Statements and Primary Notes

(1) Balance Sheet

(in thousand yen)

	As of December 31, 2021	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	1,926,921	2,676,798
Notes receivable - trade	1,153,530	—
Accounts receivable - trade	5,793,226	—
Notes and accounts receivable - trade, and contract assets	—	6,898,860
Merchandise	233,672	305,182
Work in process	89,907	—
Raw materials and supplies	628,382	2,816,446
Advance payments to suppliers	42,737	27,775
Prepaid expenses	52,727	60,014
Accounts receivable - other	3,686,345	4,216,577
Consumption taxes refund receivable	—	134,535
Other	17,523	26,156
Allowance for doubtful accounts	(33,794)	(25,979)
Total current assets	13,591,180	17,136,367
Non-current assets		
Property, plant and equipment		
Buildings, net	2,209,592	2,121,751
Structures, net	198,518	163,781
Machinery and equipment, net	133,626	172,829
Vehicles, net	6,692	28,329
Tools, furniture and fixtures, net	26,728	29,347
Land	1,611,699	1,680,298
Leased assets, net	76,537	57,008
Construction in progress	—	92,757
Total property, plant and equipment	4,263,394	4,346,104
Intangible assets		
Leasehold interests in land	15,000	15,000
Software	48,677	49,335
Lease assets, net	47,564	31,454
Other	259	507
Total intangible assets	111,501	96,296
Investments and other assets		
Investment securities	1,676	1,975
Shares of subsidiaries and associates	16,988	16,988
Investments in capital	560	560
Long-term loans receivable from employees	2,229	3,150
Distressed receivables	67,643	67,643
Long-term prepaid expenses	16,676	17,418
Deferred tax assets	176,651	234,213
Leasehold and guarantee deposits	86,643	101,510
Other	11,385	14,988
Allowance for doubtful accounts	(67,251)	(67,254)
Total investments and other assets	313,202	391,195
Total non-current assets	4,688,097	4,833,596
Total assets	18,279,278	21,969,963

(in thousand yen)

	As of December 31, 2021	As of December 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	6,055,946	6,272,179
Short-term borrowings	3,100,000	6,000,000
Current portion of long-term borrowings	33,400	33,200
Lease liabilities	37,866	32,790
Accounts payable - other	262,363	369,035
Accrued expenses	187,685	368,801
Income taxes payable	254,804	670,554
Accrued consumption taxes	43,263	—
Advances received	41,171	52,589
Deposits received	27,615	24,406
Provision for bonuses	21,738	19,890
Other	100,863	58,821
Total current liabilities	10,166,719	13,902,269
Non-current liabilities		
Long-term borrowings	33,200	—
Lease liabilities	80,245	48,217
Asset retirement obligations	39,314	39,543
Other	8,367	13,368
Total non-current liabilities	161,127	101,129
Total liabilities	10,327,846	14,003,399
Net assets		
Shareholders' equity		
Share capital	1,903,649	1,903,649
Capital surplus		
Legal capital surplus	1,883,649	1,883,649
Other capital surplus	1,388	1,624
Total capital surplus	1,885,037	1,885,273
Retained earnings		
Other retained earnings		
Retained earnings brought forward	5,367,699	6,270,636
Total retained earnings	5,367,699	6,270,636
Treasury shares	(1,204,971)	(2,093,016)
Total shareholders' equity	7,951,415	7,966,543
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	15	20
Total valuation and translation adjustments	15	20
Total net assets	7,951,431	7,966,564
Total liabilities and net assets	18,279,278	21,969,963

(2) Income Statement

(in thousand yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Net sales	23,903,421	25,670,205
Cost of sales	19,163,529	19,885,228
Gross profit	4,739,891	5,784,977
Selling, general and administrative expenses	3,327,800	3,455,799
Operating profit	1,412,091	2,329,177
Non-operating income		
Interest income	20,800	39,212
Insurance claim income	12,416	3,475
Outsourcing service income	6,571	4,283
Other	10,100	4,736
Total non-operating income	49,888	51,707
Non-operating expenses		
Compensation expenses	—	6,500
Interest expenses	9,873	12,162
Sales discounts	22,774	—
Other	99	2,304
Total non-operating expenses	32,747	20,966
Ordinary profit	1,429,232	2,359,918
Extraordinary income		
Gain on sale of non-current assets	100	5,334
Total extraordinary income	100	5,334
Extraordinary losses		
Loss on sale of non-current assets	—	1,098
Loss on retirement of non-current assets	1,166	3,492
Total extraordinary losses	1,166	4,590
Profit before income taxes	1,428,165	2,360,661
Income taxes - current	476,475	869,071
Income taxes - deferred	(2,111)	(57,565)
Total income taxes	474,363	811,506
Profit	953,802	1,549,154

(3) Cash Flow Statement

(in thousand yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Cash flows from operating activities		
Profit before income taxes	1,428,165	2,360,661
Depreciation	207,746	221,504
Increase (decrease) in allowance for doubtful accounts	14,909	(7,812)
Increase (decrease) in provision for bonuses	503	(1,847)
Interest and dividend income	(20,850)	(39,212)
Interest expenses	9,873	12,162
Compensation costs	—	6,500
Insurance claim income	(12,416)	(3,475)
Gain from business consulting fee	(6,571)	(4,283)
Loss (gain) on sale and retirement of non-current assets	1,066	(743)
Decrease (increase) in trade receivables	(1,343,172)	47,896
Decrease (increase) in inventories	299,617	(2,169,665)
Increase (decrease) in trade payables	1,215,672	216,233
Decrease (increase) in accounts receivable - other	(759,850)	(576,822)
Other, net	(105,379)	72,159
Subtotal	929,315	133,255
Interest and dividends received	20,850	39,212
Proceeds from insurance income	12,416	3,475
Proceeds from fiduciary obligation fee	6,571	4,283
Interest paid	(9,873)	(12,162)
Compensation expenses paid	—	(6,500)
Income taxes paid	(438,778)	(459,302)
Net cash provided by (used in) operating activities	520,501	(297,738)
Cash flows from investing activities		
Purchase of property, plant and equipment	(327,920)	(271,391)
Proceeds from sale of property, plant and equipment	383	13,459
Purchase of intangible assets	(27,652)	(17,567)
Purchase of investment securities	(281)	(292)
Other, net	112	(17,463)
Net cash provided by (used in) investing activities	(355,358)	(293,254)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	800,000	2,900,000
Repayments of long-term borrowings	(33,400)	(33,400)
Repayments of finance lease liabilities	(25,852)	(37,104)
Proceeds from sale and leaseback transactions	15,080	46,591
Purchase of treasury shares	—	(889,000)
Dividends paid	(646,047)	(646,217)
Net cash provided by (used in) financing activities	109,780	1,340,869
Net increase (decrease) in cash and cash equivalents	274,922	749,877
Cash and cash equivalents at beginning of period	1,651,998	1,926,921
Cash and cash equivalents at end of period	1,926,921	2,676,798

(4) Notes to Financial Statements
(Notes on Going Concern Assumption)

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 106,951 thousand yen and cost of sales increased by 11,798 thousand yen in the fiscal year ended December 31, 2022. Selling, general and administrative expenses and non-operating expenses decreased by 92,160 thousand yen and 26,589 thousand yen, respectively. Operating profit decreased by 26,589 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 were 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 89-3 of the Revenue Recognition Standard, notes related to revenue recognition for the fiscal year ended December 31, 2021 are not presented.

Basis for recording net sales and cost of sales

(1) Insulation work

The Company’s primary business is in the heat insulation work business, and its main work is the development, sales, and installation of insulation materials (sprayed-on hard urethane foam for use as building insulation). The main performance obligations related to the business include spray-on installation work based on contractual agreements. In principle, transaction prices are measured by the value of the work contract agreed to with the customer.

The timing at which the Company typically satisfies the main performance obligations in the major businesses related to revenue from contracts with the Company’s customers are as follows.

In principle, the Company applies the method of recognizing revenue over time for all work, (equivalent to the percentage-of-completion method used in the past), estimates the degree of progress related to the satisfaction of performance obligations, and then recognizes revenue over a certain period of time based on the degree of progress. Regarding the method of progress for contract work, the Company recognizes revenue by measuring the progress toward satisfaction of the performance obligations 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 applies the method of recognizing revenue when the performance obligation is fully satisfied, instead of recognizing revenue over time (equivalent to the conventional completed-contract method).

The method of estimating the degree of progress in satisfying performance obligations is calculated based on the ratio of the actual volume to the total contractual volume (output method), if the outcome of the performance obligation can be reasonably measured. In cases where the degree of completion of performance obligations cannot be reasonably estimated, but the costs incurred are expected to be recovered, the Company applies the cost recovery standard (equivalent to the conventional completed-contract method) as the method to recognize revenue.

The consideration for such transactions is generally received in stages as the performance obligation progresses in accordance with the terms of the contract and does not include a significant financial component.

(2) Product sales

The Company sells equipment for installing insulation, urethane raw materials and other secondary materials, and is obligated to deliver goods based on sales contracts with customers. The performance obligation is satisfied at the time the goods are delivered, and revenue is recognized at the time of delivery. The transaction price is

determined by the contract with the customer and is received based on the contract. The amount of consideration does not include any significant financial elements. In addition, there is no material variable consideration for which the amount of consideration may change.

(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 financial statements.

(Revenue Recognition)

Disaggregation of revenue arising from contracts with customers

The Company operates in only one business segment, heat insulation work and related services, which consists of four divisions: insulation installation for single-family homes, insulation installation for buildings, waterproofing, and product sales. Information on the disaggregation of revenue from contracts with customers is disclosed by division.

Fiscal year ended December 31, 2022

Information by product and service

(in thousand yen)

	Single-family Homes Division	Buildings Division	Waterproofing Division	Product Sales Division	Total
Time of transfer of goods or services					
One time	13,873,456	–	315,961	4,642,022	18,831,438
Over a period of time	–	6,838,766	–	–	6,838,766
Revenue from contracts with customers	13,873,456	6,838,766	315,961	4,642,022	25,670,205
Net sales to external customers	13,873,456	6,838,766	315,961	4,642,022	25,670,205

(Note) Product sales include 446,743 thousand yen of machinery sales.

(Segment Information)

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

(Equity in Earnings (Losses) of Affiliates, Etc.)

No disclosure is made about equity in earnings (losses) of affiliates as the affiliates owned by the Company are insignificant in terms of profit and surplus standards.

(Per Share Information)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Net assets per share	246.09 yen	254.41 yen
Basic earnings per share	29.52 yen	47.99 yen
Diluted earnings per share	— yen	— yen

(Notes) 1. Diluted earnings per share for the fiscal year ended December 31, 2022 is not stated as there are no dilutive shares.

2. The basis for calculating basic earnings per share and diluted earnings per share is as shown below.

Item	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Basic earnings per share		
Profit (thousand yen)	953,802	1,549,154
Amount not attributable to common shareholders (thousand yen)	—	—
Profit relating to common shares (thousand yen)	953,802	1,549,154
Average number of common shares during the period under review (shares)	32,307,845	32,279,270
Diluted earnings per share		
Increase in number of common shares (shares)	—	—
[Of which, share acquisition rights] (shares)	—	—

(Important Subsequent Events)

Based on the resolution of the Board of Directors meeting held on December 19, 2022, the Company issued the 2nd series of share acquisition rights with exercise price revision conditions by way of third-party allotment. The outline of the series issue is as follows.

- | | |
|---|-------------------------------------|
| (1) Allotment date | January 6, 2023 |
| (2) Issue price | 302 yen per share acquisition right |
| (3) Total amount of issue | 3,020,000 yen |
| (4) Amount of funds raised | 882,520,000 yen (Note) |
| (5) Exercise price and exercise price revision conditions | |

The initial exercise price is 889 yen (the same amount as the minimum exercise price). There is no maximum exercise price. The minimum exercise price will be 889 yen (the same amount as the closing price on December 19, 2022 (to be adjusted in accordance with the provisions of Paragraph 13 of the attached Issue Terms and Conditions; hereinafter, referred to as the “Minimum Exercise Price”). The exercise price will be revised on the effective date (hereinafter, referred to as the “Revision Date”) of each exercise request of the share acquisition rights to an amount (calculated to the second decimal place and rounded up to the nearest yen; hereinafter, referred to as the “Revised Exercise Price”) equivalent to 90% of the closing price of the Company’s common shares during regular trading on Tokyo Stock Exchange, Inc. (hereinafter, referred to as the “Tokyo Stock Exchange”) on the trading day immediately preceding the revision date (if there is no closing price on the said date, the calculation will be made on the trading day with a closing price immediately prior to the calculation date; hereinafter, referred to as the “Base Date”). However, if the Revised Exercise Price falls below the Minimum Exercise Price, the Revised Exercise Price shall be the Minimum Exercise Price.

(6) Exercise period of the share acquisition rights

From January 10, 2023 to January 9, 2026 (however, if the Company acquires all of the share acquisition rights in accordance with Paragraph 16 of the attached Issue Terms and Conditions, the exercise period for the share acquisition rights to be acquired by the Company shall be up to the bank business day preceding the effective date of such acquisition by the Company). However, if the last day of the exercise period is not a bank business day, the last day shall be the preceding bank business day.

(7) Use of funds All funds will be used for capital expenditures.

(Note) The amount to be funded is the amount calculated by subtracting an estimated amount of expenses related to the issuance of the share acquisition rights from the sum of the total issue price of the share acquisition rights and the total amount of the value of the property to be contributed upon exercise of the share acquisition rights. The total amount of the value of property to be contributed upon exercise of the share acquisition rights is the amount calculated on the assumption that all the share acquisition rights are exercised at the initial exercise price. If the exercise price of the share acquisition rights is revised or adjusted, the amount of funds raised will increase or decrease, and if the share acquisition rights are not exercised within the exercise period or if the Company cancels the acquired share acquisition rights, the amount of funds raised will decrease.