

November 22, 2023

## Third Quarter of Fiscal Year 2023

### Major Questions and Answers at Financial Results Briefings, etc.

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**[Question] Briefing Materials P7 "Results Compared to Full-Year Financial Forecast." Is Net sales likely to achieve its forecast?**

For your reference, in December 2022, the progress rate at the end of nine months was 68.9%, ultimately 96.9%. This is 69.5% as of the end of nine months in December 2023, and the Company is aiming to reach 100%.

**[Question] Briefing Materials P7 "Results Compared to Full-Year Financial Forecast." Ordinary profit may exceed the forecast. In FY12/2022, SG&A costs increased in Q4. Do you expect SG&A costs to increase in FY12/2023?**

In our case, sales and profits tend to be larger on a quarterly basis due to seasonal factors that cause the fourth quarter to be the busy season for the year. Gross profit (gross margin) is likely to exceed the forecast (JPY 6.24 billion). In Q4 of FY12/2022, on the other hand, since the upgrade of the record high profit became certain, the system was reduced in the form of "increase in the distribution to the stockholder and employee's award (special prize) etc.". Sales and administrative expenses increased by JPY 300 million both at home and abroad due to bonuses and other factors. For FY12/2023, the Company has proposed a similar return if it is able to achieve record highs, and its Operating profit and Ordinary profit forecasts are currently floating.

**[Question] Briefing Materials P8 "Income Statement." How do you estimate the sales of each division for FY12/2023?**

Single-family Homes Division (full-year sales forecast of JPY 16.11 billion) and Waterproofing Division (forecast of JPY 530 million) may be difficult. I think Buildings Division (forecast of JPY 7.6 billion) and sales of other products (forecast of JPY 4.76 billion) are okay. Among other product sales, raw material sales have been gaining recognition as a manufacturer. In addition, machinery sales were directly purchased, so the contribution to profits is expected to increase.

**[Question] Briefing Materials P13 "Single-family Homes Division." It should have been expected that the construction system will be solidified and the number of construction buildings will also increase from Q3, but we would like to know the reason for the sluggish growth. Is it affected by the decline in the number of new housing starts?**

Despite the impact of the decline in the number of new housing starts, the number of Insulation Class 5 and upper-ranked construction projects has increased more than planned, and the decline in the number of constructions has been covered by the rise in prices. As for the construction system, the recruitment is progressing as planned, but due to the heat wave this

summer, the construction was not carried out as planned. This resulted in sluggish growth in the number of installations, partly due to the fact that one-and-a-half or two-days of construction that would otherwise be possible in one day.

**[Question] Briefing Materials P13 "Single-family Homes Division." Is Net sales likely to achieve its forecast? The decline in the number of constructions was covered by the rise in construction prices. How much has the number of constructions fallen? Is it assumed that FY12/2024 will also fall?**

The number of constructions is not disclosed, but it should be regarded as a reduction of about 10%. Although the Company is not optimistic in FY12/2024, it expects Single-family Homes Division sales to increase, including the increase in construction costs.

**[Question] Briefing Materials P13 "Single-family Homes Division." What is the ratio of Insulation Class 5 and Class 6 for all construction? How is FY12/2024?**

For Class 5, the plan estimated that it would be about 40% of the total, but it would be more than 60%. Class 6 or higher has just begun, and it is still about 10%. For FY12/2024, almost all of them will be in Class 5 or above, and I think the key will be how far Class 6 and above will grow.

**[Question] Briefing Materials P15 "Buildings Division." Comparing Q2 (April-June) and Q3 (July-September), Net sales only increased JPY 41 million. Has non-flammable insulation growth stabilized as well?**

As the Company booked large-scale construction work for AQUA MOEN NEO (non-flammable insulation) in Q2, it may seem that Q3 has not grown very much. As AQUA MOEN NEO inquiries continue and projects from the next fiscal year onward are steadily accumulating, we expect significant growth in FY12/2024 as well.

**[Question] Briefing Materials P15 "Buildings Division." Is the market expanding to begin with, or is non-flammable insulation material taking over the market share of other insulation materials?**

The non-residential insulation market is expanding due to policies such as the promotion of ZEB (net zero energy building) in measures against global warming and the "Raising energy-saving standards for large non-residential buildings" described in the briefing materials P22.

**[Question] Briefing Materials P15 "Buildings Division." Is the status of orders received in FY12/2024?**

The plan for FY12/2024 will be formulated from now on, but orders for the amount of money, which takes into account the growth in FY12/2023, have been fixed and are moving forward at a good pace.

**[Question] Briefing Materials P15 "Buildings Division." Can Gross profit rate be further increased?**

We think margins will grow further if the percentage of AQUA MOEN NEO installations increases and the sales mix changes.

**[Question] Briefing Materials P17 "Waterproofing Division." Are the raw materials used different for single-family homes, buildings, and large-scale facilities?**

First, we use the same method for single-family homes, buildings, and large-scale facilities because they are constructed in AQUA HAJIKUN (polyurea resins). Although profitability may be worse due to the size of the construction area in proportion to the cost, it is aimed at achievement building and recognition improvement. This is a stage where Net sales is still small and the break-even point has not been reached, although it is not a deficit construction.

**[Question] Briefing Materials P19 "Product Sales." If the company sells raw materials outside the company, will it not compete for construction projects? Also, as a background to the increase in raw material sales, are certain vendors purchasing large quantities?**

There are not many cases like that. Rather than being purchased in large quantities by a particular vendor, the number of institutions handling the product is gradually increasing due to the increasing recognition of the company as a manufacturer and the establishment of a system that facilitates delivery by expanding the sales office network.

**[Question] Briefing Materials P19 "Product Sales." Are there targets for GPM for this division?**

Auxiliary supplies sales, raw material sales, machinery sales, and other merchandise varies, but in total, the company wants to make this fiscal year's level.

**[Question] The yen is depreciating, but what is the impact on raw material prices? Are you considering further revisions to sales prices (price increases)?**

The current raw material prices (procurement prices) will be reflected in accounting about three months later. Currently, naphtha prices and U.S. dollar prices have no significant impact, and we do not intend to revise our selling prices. If there are large fluctuations in the future, I think we will consider it at that time.

**[Question] I would like to know the status of expansion of the construction system. Is the shortage of construction capacity improving? Also, please tell me about the concept for FY12/2024.**

First, it is focusing on increasing the adoption of Nippon Aqua's internal installation work personnel. It has been progressing according to the plan so far, and the shortage of

construction capacity is improving. Since it is essential to expand the construction system for our growth, we would like to actively adopt it in FY12/2024 as well.

**[Question] Is there a large investment in FY12/2024?**

The Company continues to recognize that the expansion of the construction system is a top priority, and as a measure to promote this, it continues to expand its sales bases. Hiring also increases when the company has bases. The company owns large-scale sales offices for JPY 2 to JPY 300 million and rental properties for small-scale locations (warehouses) for JPY 20 million per year.

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