

February 19, 2024

Fiscal Year 2023

Major Questions and Answers at Financial Results Briefings, etc.

[Question] Could you please compare the breakdown of net sales in the fourth quarter for the Single-family Homes Division (2023) and Buildings Division (2023) on pages 9 and 10 of the briefing materials with the third quarter?

For the Single-family Homes Division, the price effect slightly increased, and the quantity effect increased by over 7%. When combined, this results in a +7.7% increase. For the Buildings Division, the price effect decreased by over 3%, and the quantity effect increased by over 17%. When combined, this results in a +13.6% increase.

[Question] (Based on the above answer) Could you please explain the reason for the increase in quantity in the Single-family Homes Division? Could you also explain why the price effect in the Buildings Division has decreased?

In addition to the fourth quarter being the peak season in the housing industry, our company's unique measures, such as the establishment of a construction system, have been successful. We have been able to actively develop our business. We are not concerned about the decrease in price in the Buildings Division. The reason for this is that during the three months of the fourth quarter, there were fewer sales of high-priced AQUA MOEN NEO construction, and more AQUA FOAM NEO construction. This has resulted in an increase in construction area. This is a matter of construction timing, and it does not mean that the demand for AQUA MOEN NEO construction is decreasing.

[Question] Regarding the Buildings Division (2024) on page 21 of the briefing materials. The construction area is expected to increase by about 20%, and the construction unit price is expected to increase by about 5%. However, until now, I believe the trend was to prioritize AQUA MOEN NEO construction and aim for a unit price increase, while the construction area decreased. Could you please explain the background to this change?

Thanks to the establishment of a construction system in 2023, the Buildings Division has also been able to increase its construction capabilities. Therefore, in addition to AQUA MOEN NEO, we will proceed with orders for AQUA FOAM NEO construction. As a result, we expect the weight of AQUA FOAM NEO construction to increase, with a unit price increase of about 5% and an area increase of about 20%.

[Question] Regarding the "Gross profit, Ordinary profit (2024)" on page 18 of the briefing materials. The financial forecasts for 2024 feel much weaker compared to the previous year. Regarding the Single-family Homes Division (2024) on page 19 of the briefing materials. Even if we go for a larger market share with a pricing strategy, the

profit margin is too low. Could you please explain this?

The main reason for the company-wide decrease in profit margin is the decrease in gross margin in the Single-family Homes Division, which accounts for about half of sales. Therefore, I will explain the strategy of the Single-family Homes Division. The market environment for the Single-family Homes Division is tough, but we see it as a chance to take share from other urethane construction companies or fiber-based insulation materials. Therefore, we are considering offering competitive selling prices (lowering prices) as needed to new trading partners.

[Question] Regarding the Buildings Division (2024) on page 21 of the briefing materials. What proportion of the sales forecast is currently ordered? Also, could you please tell me the factors for upside and the expected benchmarks?

As of the end of January, we have secured orders for more than 60% of the sales forecast. This is a better pace than the same period in 2023, which was just under 50%. The demand for construction related to redevelopment is strong, so we expect to win this by considering the construction system, which will lead to an upside. At this point, we cannot provide a quantitative benchmark.

[Question] Regarding the "Financial Forecasts" on page 25 of the briefing materials. Are there any risks incorporated into the financial forecasts and risks that are not assumed? What could be considered as potential upside?

An unanticipated risk is the increase in raw material prices due to the heightened geopolitical risk in the Middle East. On the other hand, potential upsides include an increase in orders in the Buildings Division, a smaller than expected decrease in prices in the Single-family Homes Division, and a decrease in raw material procurement costs due to a stronger yen.

[Question] Regarding the "Sales of Urethane Raw Materials, and Other Product Sales (2023)" on page 12 of the briefing materials. Why did the gross margin (17.9%) of raw material sales in fiscal 2023 decrease from the previous fiscal year (29.9%), and who are the target customers for raw material sales in the first place?

In fiscal 2022, there was a shortage of urethane raw materials nationwide, so we were able to set higher prices. The fiscal year 2023 saw a resolution to the shortage of urethane raw materials, and the implementation of a pricing strategy for expansion led to a decrease in profit margins. The product that is particularly growing in raw material sales is AQUA FOAM NEO for buildings, and the customers are urethane construction contractors. Until now, they used urethane raw materials from competing manufacturers, but there are increasing cases of switching to our products due to performance and cost considerations.

[Question] Regarding the mid-term management plan P13 "Good Cycle of Growth and

Profit Distribution". Is it correct to assume that facility investments such as branch openings will continue until 2026, and how many bases are planned?

The direction is to open 1-2 large logistics bases, which are branches, annually. Small base warehouses are mainly considering rental properties, so they do not fall under facility investment. When establishing a new branch, there are many cases where it is renewed and built where there was originally a base. Our branches also serve as dormitory facilities, so there is also a purpose to provide a good living environment and increase the recruitment of internal installation work personnel.

[Question] Regarding the explanatory meeting material P25 "Financial Forecasts". In the financial forecasts for the fiscal year 2024, please tell us the reason why the operating profit in the first half is expected to decrease by 30%, and the second half is expected to significantly increase profits.

There are cases where large-scale construction in the Buildings Division is concentrated in the second half, resulting in less in the first half.

[Question] Regarding the explanatory meeting material P32 "Net Sales Growth Image". In the future, Japan's population will decrease, but will the growth towards net sales of 100 billion yen be achieved domestically, or will it include overseas? In this case, are you considering anything other than urethane raw material sales to Southeast Asia?

We want to achieve net sales of 100 billion yen domestically. To do so, it is necessary to significantly expand not only the Single-family Homes Division but also buildings and waterproofing to build three pillars. For expansion into Southeast Asia, we want to start with the sale of urethane raw materials and eventually handle construction as well.

[Question] Regarding the explanatory meeting material P22 "Sales Amount of Non-flammable Insulation". It was said that the focus was on expanding the construction system in 2023, but even if the construction capacity expands due to an increase in personnel, will the growth of AQUA MOEN NEO continue?

We think the growth of AQUA FOAM NEO will continue. We recently commissioned an external research agency to conduct a market survey of insulation materials for buildings, and we heard voices from competing insulation manufacturers saying "There is a high need for non-flammable insulation", "We want to expand the target of non-flammable insulation beyond super general contractors", and "We want to develop non-flammable insulation products", so we continue to recognize that the need is high.

[Question] I heard that due to the 2024 problem, there are delays in construction periods and increases in estimated amounts for general contractors compared to 2023. For Nippon Aqua, is this situation positive or negative?

We think the delay in construction period will be negative. On the other hand, the increase in

amount will be positive.

[Question] Regarding the mid-term management plan P26 "Governance". I think there was news in December 2023 that the Tokyo Stock Exchange is asking to show policies such as parent-child listing, but please tell us again about Nippon Aqua's policy and synergy with the parent company group.

As our parent company, we have Yamada Holdings and Hinokiya Group, but we want to maintain independence in management and work autonomously without depending on both companies. In terms of synergy, there are transactions for insulation work to the group's housing companies, but the ratio to our net sales is a few percent, so we are aiming to expand our business by targeting other builders and construction shops.

[Question] Regarding the explanatory meeting material P19 "Single-family Homes Division (2024)". The construction of higher grades increases both unit price and man-hours, but what happens to the profit per building?

I think your question is about construction of insulation class 6 and above, but the unit price per building also more than doubles, and the construction period also doubles, so in terms of profitability, I think the profit margin will improve. The performance of the higher grades for the fiscal year 2023 is still limited, making it difficult to anticipate specific numbers.

[Question] (Based on the above answer) I assume that the higher grades are mainly used in custom-built homes. Do the clients specify grades 6 or 7, or does the housing company propose them to the clients? I would like to know.

I think it is often the case that the housing company proposes them. Of course, I think there are clients who specify the higher grades, but I think proposals are more common.

[Question] (Based on the above answer) Then, how many orders have been received compared to the forecast for the Single-family Homes Division?

Unlike the Buildings Division, where each project is accumulated, we accumulate by counting the number of buildings for each construction company/builder. For example, XX Construction Company has been carrying out monthly XX construction projects since March.

At this point, this total is about half of the plan.

[Question] (Based on the above answer) Is this the approach every year? Also, is there any change at the moment?

Also, at the moment, we are seeing an increase in inquiries from construction companies that mainly use fiber-based insulation materials, who want to use AQUA FOAM for higher grade compliance, and we feel this is an opportunity.

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