

August 24, 2023

## Second Quarter of Fiscal Year 2023

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

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**[Question] Net sales in the briefing materials P8 "Single-family Homes Division" missed the target. I want to know the background of the shortfall.**

A major factor behind this was the decline in the number of installations following the implementation of two weekly holidays in response to the "work style reforms in the construction industry." We had formulated a plan to cover this by increasing the number of installations on weekdays from April 2023 by increasing recruitment and strengthening the system. The recruitment increase progressed as planned, but it took time to train new recruits, so it was delayed in raising the number of installations on weekdays. In 2H of the fiscal year, the number of construction projects can be increased, so we would like to turn around.

**[Question] I think that the benefits of subsidies for energy-saving housing are having a positive impact on Single-family Homes Division, but is it possible to see a reactionary decline in the future?**

As a major trend, there are measures to combat global warming, and it is unlikely that housing will decline as a reaction to the mandatory Insulation Class 4 in 2025 and the transition to Class 5 thereafter is planned. In addition, awareness of improving insulation performance is rising due to soaring electricity charges.

**[Question] Briefing Material P13 "Expansion of business with leading manufacturer." Has the manufacturer switched from other insulation materials to AQUA FOAM or from other construction companies to Nippon Aqua?**

The manufacture has adopted hard urethane foam as the standard for insulation, and it was doing business with several companies including ours. We recognize that the reason for the increase in our handling volume is that "national permit system," and "stable quality + nationwide deployment" have been evaluated. The answer to your question is a switch from another construction company.

**[Question] The full-year forecast for P8 of the briefing materials "Single-family Homes Division" may be difficult to achieve.**

In 2H, the company expects the number of projects for "leading manufacturer" in the briefing materials P13 to increase, and the number of projects for other builders will also increase. The unit price of construction is also expected to remain steady, as construction of Class 5 is the main component. It can be covered by Buildings Division and others (such as product sales) that exceeded 1H targets.

**[Question] Operating profit (Ordinary profit) in 1H exceeded forecast by more than JPY 200 million, but is there any risk-factor in 2H that the forecast will remain unchanged?**

There are no risks that we are aware of at this point in time, but it should be viewed conservatively as they have a higher weight in 2H than in 1H.

**[Question] I would like to know the background to the growth in gross profit for the briefing materials P8 "Buildings Division."**

This is the same as the increase in Buildings Division sales, but is due to (i) price revisions (price increases) and (ii) an increase in AQUA MOEN NEO construction, which has a high-profit. In the case of buildings, it takes about six months to one year for the effects of price revisions to appear, so the price revisions implemented in 2022 are reflected in the current Net sales and earnings.

**[Question] What is the "Others (product sales, etc.)" in the briefing materials and P8 sales classifications?**

These include (i) Auxiliary supplies (consumables and repair materials used in the construction of detached houses), (ii) sales of urethane spray machines, and (iii) sales of urethane raw materials. (i) Auxiliary supplies is currently focusing on its image of increasing in proportion to the number of Single-family Homes Division installations; (ii) sales of urethane spraying machines are increasing in proportion to the number of certified contractors and man-hours; and (iii) sales of urethane raw materials are selling raw materials to customers who are not certified contractors.

**[Question] Briefing Material P32 "Strengthen sales of urethane raw materials." I would like to know Net sales of the previous year, future outlook, and contribution to margins.**

Net sales for 1H of FY12/2022 is JPY 511 million. Sales of raw materials for single-family homes (AQUA FOAM and AQUA FOAM LITE) and raw materials for buildings (AQUA FOAM NEO) are growing. The aim is to increase our presence as a manufacturer, but we also expect it to lead to certified contractors contracts in the future. Since the main objective is to increase the volume of raw materials handled, we have set our profit margin at a low level, so I do not think it will greatly increase our overall profit margin.

**[Question] Is the purchase price of raw materials rising like the price of gasoline?**

We purchase urethane raw materials on a yen basis, so the prices of naphtha import CIF (including freight charges) in the briefing materials P36 are useful. Isocyanate (MDI), which accounts for about half of the raw materials, is somewhat linked to naphtha prices due to its versatility and is gradually decreasing. The remaining half of polyol prices remained high, but have recently weakened, and have not risen as much as the price of gasoline on the market.

**[Question] Briefing Materials P22 "Acquiring and Retirement of Share acquisition rights." What is the impact on the financial statements?**

The existing Stock acquisition rights will be acquired on August 25, 2023 for JPY 2,732,194 and then retired. As of the end of September 2023 (End of third quarter), Share acquisition rights of JPY 2,732,194 in Net assets section is expected to disappear, and Cash and deposits of Assets is expected to decline by JPY 2,732,194.

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