

Non-consolidated Financial Results for the Three Months Ended March 31, 2024 [Japanese GAAP]



May 10, 2024

Company name: Nippon Aqua Co., Ltd.
 Code number: 1429 (listed on the Tokyo Stock Exchange)
 (URL: <https://www.n-aqua.jp>)
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 Scheduled filing date of quarterly report: May 10, 2024
 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 Three Months Ended March 31, 2024 (January 1, 2024-March 31, 2024)

(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	%
Three months ended March 31, 2024	6,272	(1.5)	445	(29.1)	453	(29.3)	302	(30.1)
Three months ended March 31, 2023	6,368	11.8	627	38.9	641	38.2	432	39.3

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended March 31, 2024	9.62	—
Three months ended March 31, 2023	13.78	13.78

(2) Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2024	19,390	8,602	44.4
As of December 31, 2023	20,392	9,304	45.6

[Reference] Shareholders' equity: As of March 31, 2024: 8,602 million yen
 As of December 31, 2023: 9,304 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, 2023	—	0.00	—	32.00	32.00
Fiscal year ending December 31, 2024	—				
Fiscal year ending December 31, 2024 (forecast)		0.00	—	34.00	34.00

Note: Revisions to dividend payout forecasts disclosed most recently: No

3. Financial Forecasts for the Fiscal Year Ending December 31, 2024 (January 1, 2024-December 31, 2024)

(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, 2024	13,556	3.0	960	(30.5)	960	(31.5)	648	(31.6)	20.64
Fiscal year ending December 31, 2024	31,005	9.4	3,100	7.6	3,100	6.3	2,092	4.4	66.65

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.: No

(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 March 31, 2024 34,760,000 shares

As of December 31, 2023 34,760,000 shares

(ii) Number of treasury shares at end of period under review

As of March 31, 2024 3,351,871 shares

As of December 31, 2023 3,351,871 shares

(iii) Average number of shares during period under review

Three months ended March 31, 2024 31,408,129 shares

Three months ended March 31, 2023 31,363,216 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 6 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 cumulative first quarter period (from January 1, 2024, to March 31, 2024), our country's economy has continued to recover gradually, despite some stagnation, under the improvement of the employment and income environment and the effects of various policies. On the other hand, risks such as the impact of global financial tightening, a downturn in overseas economies, inflation, situations in the Middle East, and fluctuations in the financial capital markets are of concern.

In the construction and housing industry to which our company belongs, 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” was promulgated in June 2022. Furthermore, from April 2024, it has become a voluntary obligation for businesses selling or renting houses and buildings to display energy-saving performance labels. This has led to increased interest in energy-saving and insulation performance among buyers and renters of homes and offices, and as a result, the supply of homes and buildings with high energy-saving and insulation performance is expected to be promoted.

However, the number of new housing starts has been negative for 10 consecutive months compared to the previous year, indicating a challenging environment for the housing industry. Nevertheless, corporate capital investment is progressing with large-scale investments in semiconductors and automotive-related areas, and investment plans are at a high level, with active construction of large-scale manufacturing facilities, commercial facilities, and high-rise condominiums nationwide. Under such circumstances, our company has been actively seeking orders in each division while increasing the allocation of management resources to the rapidly growing Buildings Division, utilizing the strengths of the "AQUA FOAM series," which achieves high insulation performance and airtightness, and our nationwide construction network.

In the Single-family Homes Division, by taking advantage of the spread of unique local government measures for high airtightness performance and adding air tightness measurement services to insulation construction for differentiation, we have worked to increase market share centered on the increase in the number of constructions. As a result, although a decrease of approximately 15% was expected, the decrease was limited to approximately 11%, and the net sales of this division amounted to 2,985 million yen. In the Buildings Division, demand for new manufacturing facilities represented by semiconductor factories and data centers, as well as new demand for commercial facilities and high-rise condominiums, has been progressing smoothly. However, due to a reactionary decrease from large-scale construction work accounted for in the previous first quarter cumulative period, the net sales of this division amounted to 1,929 million yen. Additionally, the net sales of the Waterproofing Division were 136 million yen, sales of urethane raw materials were 414 million yen, and the net sales of Other divisions, including Auxiliary supplies, machinery, and others, were 807 million yen.

In the Waterproofing Division, net sales was 349 million yen thanks to successful proposal-based sales to wide-area builders and builders. In Other divisions, in addition to promoting sales of raw materials for detached houses and buildings, machinery sales grew due to increased external installation work personnel of certified contractors and promotional campaigns associated with direct purchasing changes, resulting in a net sales of 3,880 million yen. Note that, from the year-end of December 2023, sales of urethane raw materials, which are being emphasized for future growth, have been separated from Other divisions, and the table below has been rearranged accordingly.

(in million yen, %)

	20th fiscal year Three months ended March 31, 2023	21st fiscal year Three months ended March 31, 2024	Amount of change	Percentage change
Single-family Homes Division	3,221	2,985	(235)	(7.3)
Buildings Division	1,912	1,929	+16	+0.8
Waterproofing Division	126	136	+9	+7.8
Sales of Urethane Raw Materials	337	414	+76	+22.8
Other divisions	770	807	+36	+4.8
Total	6,368	6,272	(95)	(1.5)

As a result, the net sales for the first quarter cumulative period amounted to 6,272 million yen, a decrease of 1.5% compared to the same period last year. The gross profit was 1,447 million yen, with a gross profit margin of 23.1%, an improvement of 0.2 percentage points compared to the same period last year. The main reasons are as follows. In the detached houses division, the gross profit margin decreased due to the implementation of flexible pricing strategies as market share expansion measures. However, in the Buildings Division, the gross profit margin improved due to the full contribution of price revisions. Additionally, the cost of sales, including the material cost of urethane raw materials, was limitedly affected by the depreciation of the yen and the rise in naphtha prices during our first quarter cumulative period, thanks to our efforts to procure from multiple companies for the purpose of securing raw materials and ensuring stable supply of products.

Operating profit was 445 million yen, a decrease of 29.1% compared to the same period last year, with an operating profit margin of 7.1%, a decrease of 2.8 percentage points compared to the same period last year. This is due to selling, general and administrative expenses amounting to 1,002 million yen, an increase of 172 million yen compared to the same period last year, with the ratio of selling, general and administrative expenses to sales increasing by 3.0 percentage points to 16.0%. The main components include an increase in personnel expenses of 140 million yen and an increase in trainee-related expenses of 15 million yen, which are considered essential human capital investments for future growth, including the expansion of the construction system implemented in the fiscal year ending December 2023. Furthermore, ordinary profit was 453 million yen, a decrease of 29.3% compared to the same period last year, and net profit for the quarter was 302 million yen, a decrease of 30.1% compared to the same period last year.

(2) Explanation Regarding Financial Position

(Total assets)

The total assets at the end of the first quarter were 19,390 million yen, a decrease of 4.9% compared to the end of the previous fiscal year, resulting in a decrease of 1,001 million yen.

(Current assets)

The current assets at the end of the first quarter were 14,516 million yen, a decrease of 6.2% compared to the end of the previous fiscal year, resulting in a decrease of 956 million yen. This was primarily due to a decrease in accounts receivable - other by 527 million yen, notes and accounts receivable - trade, and contract assets by 422 million yen, electronic recorded monetary claims by 149 million yen due to collection, and cash and deposits by 143 million yen, offset by an increase in inventories by 285 million yen.

(Non-current assets)

The non-current assets at the end of the first quarter were 4,873 million yen, a decrease of 0.9% compared to the end of the previous fiscal year, resulting in a decrease of 45 million yen. This was primarily due to a decrease in assets due to depreciation of 60 million yen, and a decrease in deferred tax assets included in investments and other assets by 55 million yen, offset by an increase of 48 million yen in construction in progress included in property, plant, and equipment due to the construction of the Miyazaki sales office.

(Total liabilities)

The total liabilities at the end of the first quarter were 10,788 million yen, a decrease of 2.7% compared to the end of the previous fiscal year, resulting in a decrease of 299 million yen.

(Current liabilities)

The current liabilities at the end of the first quarter were 10,642 million yen, a decrease of 2.6% compared to the end of the previous fiscal year, resulting in a decrease of 285 million yen. This was primarily due to a decrease in accounts payable - trade by 1,179 million yen, income taxes payable by 418 million yen, other payables and accrued expenses by 347 million yen, and unpaid consumption taxes, etc., by 365 million yen, offset by an increase in short-term borrowings by 1,900 million yen and provision for bonuses by 76 million yen.

(Non-current liabilities)

The non-current liabilities at the end of the first quarter were 145 million yen, a decrease of 8.6% compared to the end of the previous fiscal year, resulting in a decrease of 13 million yen. This was primarily due to a decrease in other long-term payables by 10 million yen.

(Net assets)

The net assets at the end of the first quarter were 8,602 million yen, a decrease of 7.5% compared to the end of the previous fiscal year, resulting in a decrease of 702 million yen. This was primarily due to net profit for the quarter being 302 million yen, offset by a decrease in retained earnings due to dividend payments of 1,005 million yen.

(Equity ratio)

The equity ratio at the end of the first quarter was 44.4%, a decrease of 1.2% compared to the end of the previous fiscal year.

(Research and development activities)

The total amount of research and development expenses incurred by the company during the first quarter was 5 million yen. There were no significant changes in the status of research and development activities during the first quarter accounting period.

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

Regarding our outlook for the future, we are focusing on the recovery of the current economy, revisions to the legal system related to housing and buildings, subsidies and preferential tax treatment for energy saving, and support measures such as low-interest financing. In response to the increasing demand for insulation materials, we are undertaking the following initiatives to achieve sustainable development of our company.

1. Companywide Measures

1) About the Medium-Term Management Plan

Our company has formulated the Medium-Term Management Plan for the three fiscal years from 2024 to 2026, titled "3 Pillars of Stability," on February 14, 2024. We have set the following management indicators as our targets: a sustainable growth rate of 10%, an operating profit margin of 10%, ROE of 20%, and a dividend payout ratio of 50%. As for the financial forecasts, they are as follows. However, statements regarding future prospects are based on assumptions and judgments of our management team based on information currently available, and they inherently contain known or unknown risks and uncertainties. Furthermore, changes in the business environment surrounding our company, market trends, and various other factors may cause these statements or assumptions not to materialize in the future. Potential risks and uncertainties that could affect future prospects are described in the "Risk Factors" section of the securities report. Please note that potential risks and uncertainties are not limited to those mentioned.

(in million yen)

	20th fiscal year Fiscal year ended December 31, 2023	21st fiscal year Fiscal year ending December 31, 2024	22nd fiscal year Fiscal year ending December 31, 2025	23rd fiscal year Fiscal year ending December 31, 2024	CAGR
Net sales	28,341	31,005	35,632	41,021	+13.1%
Single-family Homes Division	13,798	14,408	15,367	16,503	+6.1%
Buildings Division	8,267	10,394	12,510	15,119	+22.3%
Waterproofing Division	489	695	1,500	2,500	+72.2%
Sales of Urethane Raw Materials	1,916	2,235	2,578	2,964	+15.7%
Other divisions	3,869	3,271	3,677	3,935	+0.6%
Operating profit	2,881	3,100	3,741	4,512	+16.1%
Ordinary profit	2,917	3,100	3,741	4,512	+15.6%
Profit	2,004	2,092	2,525	3,045	+15.0%
Dividend per share (yen)	32.0	34.0	40.0	49.0	+15.3%

2) Sustainability strategies

Based on 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 sustainable society by reducing CO2 emissions from homes and buildings through the AQUA FOAM series of products and a focus on recycling urethane insulation materials.

3) Increase in external installation work personnel and establishment of a robust construction system

For our company to maintain sustainable growth and competitiveness, it is essential to increase the number of external installation work personnel and establish a robust construction system. To provide high-quality construction and enhance customer satisfaction, it is necessary to have external installation work personnel who have acquired appropriate skills. Our company recognizes the importance of human capital investment and is implementing the following measures to improve the skills and motivation of our external installation work personnel:

- i. Improving the life-work balance, including Saturdays and Sundays holidays
- ii. Wage increases accompanying the revision of the salary system and the expansion of various allowances
- iii. Promotion of local employment and the creation of attractive work environments through the establishment of new sales offices and warehouses and the maintenance of a network of bases, including proximity of work and residence
- iv. Construction of career paths tailored to management, specialists, and those with an independent mindset
- v. Thorough safety management through training provided by specialized departments and the implementation of safety conventions
- vi. Strengthening of the acceptance system for technical intern trainees through the expansion of training and development programs

4) Regarding the maintenance of listing on the Prime Market and Action to Implement Management that is Conscious of Cost of Capital and Stock Price

On December 20, 2021, we disclosed the "Plan to Meet the Continued Listing Criteria for New Market Segments," and in order to meet the listing maintenance standards of the prime market by the end of December 2023, we are working to increase corporate value and contribute to sustainability, as well as to acquire appropriate valuations in the stock market and improve the liquidity of our shares. Our company disclosed the "Plan to Meet the Continued Listing Criteria for New Market Segments," on December 20, 2021, and the "Progress based on the plan for compliance with the continued Listing Criteria and updates to the plan (changes in the plan period)" on March 14, 2024. We are working to meet the listing maintenance criteria of the Prime Market by the end of December 2024, striving to achieve an appropriate evaluation in the stock market and improve the liquidity of our company's shares. Furthermore, through regular understanding of capital costs and conducting evaluations and analyses in the stock market, and through continuous dialogue with shareholders and investors, we will feedback the opinions and concerns of shareholders captured during dialogues to the management and Board of Directors, and strive to improve our evaluation in the stock market.

2. Financial Forecasts for the Fiscal Year Ending December 31, 2024

There are no changes to the financial forecasts announced on February 14, 2024. Regarding the performance for the first quarter cumulative period, both net sales and various stages of profit have exceeded the plan.

2. Quarterly Financial Statements and Primary Notes

(1) Quarterly Balance Sheet

(in thousand yen)

	As of December 31, 2023	As of March 31, 2024
Assets		
Current assets		
Cash and deposits	2,033,275	1,889,944
Notes and accounts receivable - trade, and contract assets	6,397,773	5,975,238
Electronically recorded monetary claims	1,098,484	949,330
Inventories	2,209,083	2,494,783
Accounts receivable - other	3,648,780	3,121,059
Other	111,847	110,258
Allowance for doubtful accounts	(26,255)	(23,732)
Total current assets	15,472,989	14,516,883
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	2,302,933	2,277,348
Land	1,680,298	1,680,298
Other, net	383,981	409,052
Total property, plant and equipment	4,367,214	4,366,699
Intangible assets		
Leasehold interests in land	15,000	15,000
Other	70,654	74,651
Total intangible assets	85,654	89,651
Investments and other assets		
Other	533,543	417,069
Allowance for doubtful accounts	(67,250)	(4)
Total investments and other assets	466,292	417,065
Total non-current assets	4,919,161	4,873,415
Total assets	20,392,151	19,390,299

(in thousand yen)

	As of December 31, 2023	As of March 31, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	6,453,005	5,273,647
Short-term borrowings	2,400,000	4,300,000
Lease liabilities	20,978	17,288
Income taxes payable	524,841	106,811
Provision for bonuses	25,030	101,249
Other allowances	—	34,800
Other	1,504,023	808,377
Total current liabilities	10,927,879	10,642,174
Non-current liabilities		
Lease liabilities	26,173	22,780
Asset retirement obligations	39,773	39,831
Other	93,677	83,339
Total non-current liabilities	159,625	145,951
Total liabilities	11,087,504	10,788,126
Net assets		
Shareholders' equity		
Share capital	1,903,649	1,903,649
Capital surplus	1,912,460	1,912,460
Retained earnings	7,523,317	6,820,559
Treasury shares	(2,035,153)	(2,035,153)
Total shareholders' equity	9,304,273	8,601,515
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	372	656
Total valuation and translation adjustments	372	656
Total net assets	9,304,646	8,602,172
Total liabilities and net assets	20,392,151	19,390,299

(2) Quarterly Income Statement

Nine months ended September 2023

(in thousand yen)

	Three months ended March 31, 2023	Three months ended March 31, 2024
Net sales	6,368,531	6,272,648
Cost of sales	4,911,078	4,825,401
Gross profit	1,457,453	1,447,246
Selling, general and administrative expenses	829,926	1,002,037
Operating profit	627,526	445,209
Non-operating income		
Interest income	5,749	6,801
Insurance claim income	883	425
Surrender value of insurance policies	6,527	—
Other	4,950	4,281
Total non-operating income	18,112	11,509
Non-operating expenses		
Interest expenses	3,716	3,028
Other	44	83
Total non-operating expenses	3,761	3,111
Ordinary profit	641,877	453,607
Extraordinary income		
Gain on sale of non-current assets	—	2,128
Total extraordinary income	—	2,128
Extraordinary losses		
Loss on retirement of non-current assets	—	6,214
Total extraordinary losses	—	6,214
Profit before income taxes	641,877	449,521
Income taxes - current	141,521	92,050
Income taxes - deferred	68,008	55,168
Total income taxes	209,530	147,219
Profit	432,347	302,301

(3) Notes to Quarterly Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes on Significant Changes in Amount of Shareholders' Equity)

Not applicable.

(Segment Information, Etc.)

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

(Additional Information)

(Other allowances)

Other allowances have been accounted for based on the estimated amount to be paid in preparation for bonuses to certified contractors. It should be noted that at the end of the second quarter cumulative period and the end of the current fiscal year, the amounts will be treated as unpaid and no allowances will be made.

(Important Subsequent Events)

Not applicable.