

## First Quarter of Fiscal Year 2024

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

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**[Question] Regarding the briefing material P4 'Efforts in the First Quarter and Future Outlook'. It is mentioned that the Single-family Homes Division is promoting the standardization of airtightness measurement services. How much progress has been made recently?**

Currently, it is around 100 cases per month, but there is very high interest from builders and contractors. It is expected that several major builders will adopt it for all buildings starting from mid-term.

**[Question] Following up on the previous question. What is the gross profit margin for the airtightness measurement service? How much is it factored into this season's forecast?**

I cannot disclose the gross profit margin, but it is performed in conjunction with the installation of urethane insulation, which I believe contributes to an improvement in the profit margin. We are planning for about 20% of the construction volume by the end of this period, but it might increase a bit more.

**[Question] Regarding the briefing material P8 'Ordinary profit'. Selling, general and administrative expenses have increased by more than 20%, mostly due to personnel costs. Is it correct to assume that the base increase will end this time and will remain flat in the next fiscal year and beyond?**

At this point, the level of base increase for next year has not been decided, but we intend to continue acquiring and retaining good talent, so we plan to increase the base taking into account the market environment.

**[Question] Regarding the briefing materials P9 'Single-family Homes Division' and P10 'Buildings Division'. Does this mean that despite a decrease in volume in both divisions compared to the previous year during the first quarter, the increase in external installation work personnel has led to stagnant profits?**

Indeed, the first quarter may have seasonally low orders, but in anticipation of increased construction in the latter half of the year, we are advancing recruitment and training at this time to enhance the construction skills of new hires in preparation for the busy season.

**[Question] Following up on the previous question. Is it difficult to level out orders (construction)? I understand the seasonality of single-family homes, but does the same apply to buildings?**

For buildings as well, there is a tendency for a low level from January to March.

**[Question] Regarding the gross profit margin outlook for the 'Single-family Homes Division' in the briefing material P9. I believe there was an effect from last year's price increase in the first quarter, but the effect of the price increase will almost disappear from the second quarter onwards. While we plan to advance share expansion strategies, an increase in the effect of higher grades is also conceivable. How do you view the gross profit margin of the 'Single-family Homes Division' from the second quarter onwards?**

Our forecast for the 'Single-family Homes Division' gross profit margin is 24.1% for the cumulative period of the second quarter from January to June, 24.4% for the cumulative period of the third quarter up to September, and 24.9% for the full term, which we consider to be almost flat. Incidentally, the gross profit margin outlook for the 'Buildings Division' is 23.5% for the cumulative period of the second quarter, 25.6% for the cumulative period of the third quarter, and 26.7% for the full term. This is due to an increase in the construction of the higher-end product AQUA MOEN NEO in the latter half.

**[Question] Following up on the previous question. I believe it was mentioned that the 'Single-family Homes Division' aims to expand its share while implementing a pricing strategy (price reduction). Will this not affect the gross profit margin?**

The pricing strategy is not for all customers but only for new customers, and we are considering about 20% in general.

**[Question] Regarding the outlook for the share expansion strategy of the 'Single-family Homes Division' in the briefing material P9. I would like to know about the progress in acquiring new customers.**

Progress is being made. Specifically, while the number of new housing starts is expected to decrease by about 10%, we plan to increase the number of constructions by 5%, assuming an increase of over 15% in the number of constructions for new projects. Of this increase, about one-third is from an increase in orders from key builders we have traditionally focused on. One-third is from orders from local contractors handling 100 to 200 buildings per year. Of course, this is being pursued concurrently not by a single company but across various regions nationwide. The remaining one-third is from major company projects involving renovation construction of apartments and the like. This involves switching from other insulation materials. Strictly speaking, it is not new construction, but the construction amount is expected to be comparable to that of new constructions.

**[Question] The market environment for the Single-family Homes Division is particularly influenced by the trends in custom-built homes among the number of new housing starts, but what is the current situation like?**

As previously explained, the market environment is tough, and without taking any action, we expect a double-digit decrease. To prevent that, we are focusing on new development and deepening relationships with existing customers.

**[Question] In the Single-family Homes Division, it was common for contractors to choose other insulation materials based on cost, but is it correct to understand that there is a shift towards contractors focusing more on airtightness than cost?**

We perceive that it is changing. There has been an increase in cases where airtightness is featured in housing-related media, etc., and our airtightness measurement service has received a significant response.

**[Question] Following up on the previous question. Are there reasons other than airtightness performance for switching from other insulation materials?**

Due to the so-called '2024 logistics issue', the increase in logistics costs compared to the past has led to higher delivery fees for other insulation materials, but since our construction fees include transportation costs, the total cost has become competitive, leading to an increase in cases where our company is chosen. I have heard that total cost was also considered in the case of the skeleton renovation of the apartment building explained earlier.

**[Question] Regarding the briefing material P18 'The Vision for Housing and Buildings in 2030'. I understand that housing manufacturers are improving insulation performance because Insulation Class 4 will be mandatory in 2025, but it seems that power builders are lagging behind in their efforts. Especially, it might be difficult to introduce high-priced products like AQUA MOEN NEO.**

Firstly, power builders have not been very successful in securing orders for Insulation Class 4, which will become mandatory in 2025. It is perceived that the reason is the higher cost compared to other insulation materials. On the other hand, with Class 5 (ZEH level) scheduled to be mandatory by 2030, other insulation materials will need to be thicker, etc., which increases the technical hurdle due to the increased thickness, creating an environment where our products can also compete sufficiently. Therefore, there is movement such as entities that had not shown interest in rigid polyurethane foam before are now considering it.

I think there is a possibility of introducing it to power builders as Class 5 becomes standardized. Moreover, AQUA MOEN NEO is primarily a product for buildings.

**[Question] Regarding the briefing material P18 'The Vision for Housing and Buildings in 2030'. What are the efforts of municipalities towards energy-saving housing? It feels like the emphasis on 'Tokyo Zero Emission Houses' has toned down compared to a certain period.**

I think there is a difference in enthusiasm among municipalities. As explained in the briefing

material P23 'Spread of Regulations Related to Airtightness Performance', in municipalities actively working on energy-saving housing measures, there are mostly cases where performance higher than the ZEH level (Insulation Class 5) is sought, and when this is met, subsidies from the government are supplemented by municipal subsidies, so contractors in the relevant areas tend to have a high interest in higher grades (Class 6 and above).

**[Question] In terms of sales activities for the construction orders of semiconductor factories, are they directed towards semiconductor manufacturers or general contractors? Also, I would like to know if there are any ingenious efforts being made.**

Our company hardly ever goes directly to semiconductor manufacturers to secure orders. Sales are primarily directed towards general contractors. As a point of ingenuity, taking advantage of our nationwide expansion, we conduct sales activities in parallel with the branch managers, construction supervisors, and the purchasing departments of general contractors' headquarters in the regions where we actually receive orders.

**[Question] Regarding the briefing material P26 'The Thermal Conductivity of the Two Main Products Has Changed, Improving Insulation Performance'. What is the reaction of the construction companies?**

It is very well received. In particular, AQUA FOAM has been very well received by construction companies because its thermal conductivity has been reduced to 0.033W/mK, surpassing the previous best of 0.034W/mK among competing products of the same class (the lower the value, the higher the performance). As I mentioned in the presentation, there are hardly any requests to reduce the thickness of the insulation material due to the fixed size of the columns, etc. The improvement in insulation performance with the same thickness is highly appreciated, leading to orders.

**[Question] Regarding the briefing material P26 'The Thermal Conductivity of the Two Main Products Has Changed, Improving Insulation Performance'. Traditionally, AQUA FOAM LITE has been promoted considering cost reduction, but what is the current ratio of AQUA FOAM LITE?**

The ratio of AQUA FOAM LITE in the Single-family Homes Division has advanced to over 70%, but the popularity of AQUA FOAM has increased recently, and the ratio of LITE is now about 60%.

**[Question] Regarding the Waterproofing Division. Looking at Nippon Aqua's website, there seems to be no change in the construction examples of AQUA HAJIKUN, leading me to think it might not be growing. What is the actual situation?**

The number of construction examples of AQUA HAJIKUN has increased, and support for the product is spreading. We are working to publish construction examples through sales staff to

general contractors and others. Regarding the Waterproofing Division, we have immediate contributors who have joined us from competitors, and we are expanding our target using methods different from our previous approaches, so the expectations for the future are high.

**[Question] Regarding the measures to maintain the Prime Market listing criteria, is the idea to improve performance?**

I believe it also relates to the so-called improvement to a P/B ratio of 1 times on the Tokyo Stock Exchange. To increase the stock price (P/B ratio), it can be broken down into ROE multiplied by P/E ratio. Of course, we will continue corporate efforts to increase both.

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