

[Delayed] First Nine Months of Fiscal Year 2024**Major Questions and Answers at Financial Results Briefings, etc.**

[Question] Regarding the "Construction Capability Trends" on page 11 of the briefing materials.

- Large sites require many construction personnel, but how are they arranged?

Our company recruits construction staff nationwide and, as stated on page 11, we are hiring under high treatment conditions with the requirement of being able to travel for construction work. This initiative has been successful, and we have been able to establish a construction system with high mobility that can move across the country.

- Are there any challenges in securing construction personnel and other human resources? Are you strategically advancing the hiring and utilization of foreigners?

We do not feel any particular issues. Regarding the hiring and utilization of foreigners, we are hiring technical intern trainees at a level close to the upper limit of our hiring quota, and we are offering high treatment to continue securing specific skilled workers who have gained experience as technical intern trainees. As a strategy, we usually perform construction in pairs of two, a blower (lead) and an assistant (support), but if the intern or specific skilled worker has high skills, we let them take the lead role and place a Japanese worker as the assistant.

- It is mentioned that there are many young construction staff, but could you tell us about the age composition ratio?

We do not disclose the age composition ratio, but the total of those in their 20s and 30s accounts for more than half.

- Has the improvement in treatment of construction staff and weekends off affected the turnover rate?

It is difficult to quantify the effect of weekends off alone, but the turnover rate has improved, and many people have a good impression of having weekends off.

[Question] Regarding the "Single-family Homes Division" on page 18 of the briefing materials.

- The number of constructions is negative compared to the previous year and the plan. What could be the factors other than the decrease in the number of new housing starts?

As stated in the materials, although the number of orders from wide-area builders has increased, the total number of constructions has decreased due to a reduction in orders from local construction shops, which can be collectively attributed to the impact of the decrease in new housing starts.

- What exactly is the price strategy aimed at expanding market share?

For example, when targeting fiber insulation materials, the price is generally lower than that of urethane insulation materials, excluding construction costs. We are taking actions to encourage decisions by lowering the selling price when considering switching to Aqua Foam.

- Is it possible to gain market share (switch) from other insulation materials?

As the insulation class increases, the thickness of the insulation material required increases, making construction with other insulation materials difficult. Our company can enhance insulation performance while keeping the thickness down with the top product Aqua Foam NEO, so we believe there are more opportunities for switching than before.

- There was talk that the operation of the single-family home division dropped due to the severe heat in the summer of 2023. How was it in 2024?

2024 was also a hot summer, but by reflecting on the previous year and making the construction times flexible and managing personnel rotation well, we did not experience a decline like the previous year.

- Does advancing market share expansion measures mean there is room for operation?

It does not mean there is room for operation. To expand market share, it is necessary to strengthen the construction system, and as stated on page 11 "Transition of Construction Capability," we plan to increase construction personnel at the same pace as before, assuming from 2025 onwards.

[Question] Regarding "Spread of Insulation Class 6" on page 19 and "Difference in Specification between Insulation Classes" on page 58 of the briefing materials.

- I would like to know the proportion of construction work by insulation class for Nippon Aqua in the December 2024 period.

Insulation Class 4 (energy-saving standard) is almost nonexistent, with Class 5 (ZEH level) accounting for over 90%, and Class 6 being less than 10%. It is expected that Class 6 will significantly increase after 2025.

- What impact do you think the mandatory implementation of Insulation Class 4 (energy-saving standard) for new houses from April 2025 will have?

Even if Class 4 (energy-saving standard) becomes legally mandatory, I believe the impact will be minimal since Class 5 has already become the de facto standard.

- Why is the market ahead of legal requirements? Moreover, there is talk of an increase in Class 6 from 2025, but isn't there a direction to make Class 5 mandatory by 2030?

Among experts and scholars on energy-saving houses, there is a prevalent view that Class 5 is insufficient compared to houses in Europe and America, and this perspective is spreading among clients and contractors. The administration probably understands this and has set the minimum standard as Class 4 by 2025 (and Class 5 by 2030).

[Question] Regarding "Accelerating Expansion of Air Tightness Measurement Services" on page 24 of the briefing materials.

- Are there risks of competitors entering the market or contractors conducting the measurements themselves?

Since air tightness measurement equipment is necessary, it is unlikely that contractors will invest in new equipment to conduct the measurements themselves. I believe there is a possibility of other companies entering the market, but our company has a competitive advantage due to the large number of machines we own and our collaboration with the Japan Air Tightness Measurement Association.

[Question] Regarding the "Buildings Division" on page 26 of the briefing materials.

- It mentions delays; how long are these delays?

Generally, about 1-2 months.

- It mentions that there have been delays in construction; what is happening with these delayed constructions? Are there going to be more delays in the future?

Delayed constructions have started sequentially, and most are expected to be completed by the original deadline. Therefore, we do not anticipate further delays.

- What does it mean that the acquisition of spot construction projects has not progressed?

We had planned to secure relatively short-term projects when there was spare capacity in our construction system to increase the operation rate, but we were unable to solidify the process, leading to a lack of progress in acquiring such projects.

[Question] Regarding "Redevelopment in the Metropolitan Area Semiconductor Factories in Regional Areas" on page 27 of the briefing materials.

- Many semiconductor factories have adopted your insulation construction; what are your strengths that led to this adoption?

One strength is our ability to provide stable construction quality nationwide due to our national expansion, and another is our capability to handle non-flammable insulation construction (a quasi-monopoly product), which is in high demand for semiconductor factories.

[Question] Regarding "Net Sales of Non-flammable Insulation" on page 28 of the briefing materials.

- The Company Quarterly Report published by Toyo Keizai Inc. mentions orders for non-flammable insulation materials from food factories, data centers, and stadiums; is there an increasing demand from data centers?

As mentioned, there is a track record of construction for data centers, and the inquiries are increasing.

[Question] Regarding "Background of the review" on page 34 of the briefing materials.

- Buildings Division: It mentions that addressing delays is a challenge, but it seems like a problem that cannot be solved by the company alone.

While we cannot control delays in the previous processes, we believe that more meticulous adjustment of the construction start times could have reduced the waiting times. The Buildings Division lacks management resources (such as personnel), so we plan to strengthen them and further enhance our relationships with clients.

- Single-family Homes Division: Cost reduction in anticipation of price competition is mentioned as a challenge; how many competing companies are there approximately?

If we limit ourselves to companies specializing in urethane spray construction, the competition consists of only a few companies. However, since the establishment of our company, we have been working on acquiring market share from fiber insulation materials, which are not construction companies, making it difficult to specify the number of competitors.

- What departments, products, and materials are you focusing on for expansion?

We are expecting growth in the Buildings Division and the Waterproofing Division. Especially since the title of the Medium-Term Management Plan is "3 Pillars of Stability," our expectations for the Waterproofing Division are high. In the Single-family Homes Division, amidst a challenging market environment, we aim to increase unit prices by undertaking class 6 construction, among other strategies. Sales of raw materials and machinery & auxiliary supplies are also growing steadily, exceeding initial plans.

[Question] Regarding the "Consider Revising the Medium-Term Management Plan" on page 35 of the briefing materials.

- Why was the progressive dividend introduced at this timing? What will be the dividend payout ratio?

The initial Medium-Term Management Plan announced at the beginning of the period included a plan for dividends per share over three years, calculated based on a dividend payout ratio of 50%. As we revise the Medium-Term Management Plan, it is necessary to review the plan for dividends per share, but it is difficult to consider this at a stage where profit forecasts are uncertain. However, wanting to provide a guideline to shareholders and investors, considering that there have been no dividend cuts so far, and anticipating that the revision of the financial forecasts is temporary, we decided to introduce a progressive dividend system. The target dividend payout ratio will continue to be over 50%.

- The revised figures in the Medium-Term Management Plan assume a 10% annual growth, but is there a basis for this?

Also, although the sales forecast in the Medium-Term Management Plan has been lowered, how do you view the profit margin? Regarding the sales forecast, we have calculated the minimum expected figures based on the current market environment and our company's situation, as outlined on page 34. However, we are still scrutinizing the details by department, cost of sales, and selling, general and administrative expenses, and will disclose this at the time of the fiscal year ending December 2024 announcement (early February 2025).

- The growth in personnel costs (26%) is larger than the growth in net sales (forecasted at 5.9%) for this period. How do you view this going forward?

We anticipate that personnel costs will continue to increase, and we will scrutinize measures such as increasing the number of construction personnel and base-up adjustments.

[Question] It seems you are mindful of maintaining the Prime Market listing, but what disadvantages would there be if you moved to the Standard Market? Why didn't you choose the Standard Market as of September 2023?

Under the current Tokyo Stock Exchange regulations, moving to the Standard Market is not an option if we cannot meet the criteria for the Prime Market. If we cannot meet the criteria, we would be headed towards delisting, so we decided to introduce restricted stock compensation for employees as part of our measures. This will allow us to meet the tradable share ratio standard, which was deemed "non-compliant" as of December 2023. The reason for choosing the Prime Market in 2023 is that, amidst many unlisted competitors, it provides a significant advantage in sales activities and recruitment, among other areas.

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