Non-consolidated Financial Results for the Six Months Ended June 30, 2020 [Japanese GAAP]

August 7, 2020

Company name: Nippon Aqua Co., Ltd.
Code number: 1429 (listed on the Tokyo Stock Exchange)
(URL: http://www.n-aqua.jp)
Representative: Fumitaka Nakamura, President and Representative Director
Contact: Mitsuharu Yamada, General Manager of Finance and Accounting
Phone: +81-3-5463-1117
Scheduled filing date of quarterly report: August 12, 2020
Scheduled date of dividend payout: ―
Supplementary quarterly materials prepared: Yes
Quarterly results briefings held: Yes (for analysts)

(Figures are rounded down to the nearest million yen.)

1. Non-consolidated Financial Results for the Six Months Ended June 30, 2020 (January 1, 2020-June 30, 2020)

(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	%
Six months ended June 30, 2020	9,989	(0.1)	773	7.0	783	8.8	518	10.2
Six months ended June 30, 2019	10,003	13.1	722	―	720	―	470	―

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended June 30, 2020	16.04	16.04
Six months ended June 30, 2019	14.57	14.56

(2) Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2020	14,875	6,813	45.8
As of December 31, 2019	15,379	6,843	44.5

[Reference] Shareholders' equity: As of June 30, 2020: 6,813 million yen
As of December 31, 2019: 6,843 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, 2019	―	0.00	―	17.00	17.00
Fiscal year ending December 31, 2020	―	0.00			
Fiscal year ending December 31, 2020 (forecast)			―	17.00	17.00

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

3. Financial Forecasts for the Fiscal Year Ending December 31, 2020 (January 1, 2020-December 31, 2020)

(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
Fiscal year ending December 31, 2020	23,200	8.6	2,109	10.4	2,100	10.0	1,374	7.8	42.54

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 June 30, 2020	34,756,000 shares
As of December 31, 2019	34,756,000 shares

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

As of June 30, 2020	2,457,628 shares
As of December 31, 2019	2,459,628 shares

(iii) Average number of shares during period under review

Six months ended June 30, 2020	32,296,932 shares
Six months ended June 30, 2019	32,272,531 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.

Contents of Attachment

1. Qualitative Information Concerning Financial Results for the Period Under Review 4
(1) Explanation Regarding Operating Results 4
(2) Explanation Regarding Financial Position 4
(3) Notes on Financial Forecasts and Other Forward-looking Statements 6
2. Quarterly Financial Statements and Primary Notes 8
(1) Quarterly Balance Sheet 8
(2) Quarterly Income Statement 10
(3) Quarterly Cash Flow Statement 11
(4) Notes to Quarterly Financial Statements 12
(Notes on Going Concern Assumption) 12
(Notes on Significant Changes in Amount of Shareholders' Equity) 12
(Use of Special Accounting Methods in Preparing Quarterly Financial Statements) 12
(Changes in Accounting Policies) 12
(Changes in Accounting Estimates) 12
(Restatements) 12
(Segment Information, Etc.) 12
(Important Subsequent Events) 12

1. Qualitative Information Concerning Financial Results for the Period Under Review

(1) Explanation Regarding Operating Results

During the six months ended June 30, 2020, the Japanese economy slowed sharply and faced an extremely adverse situation after the government, amid the spread of COVID-19, declared on April 7 a state of emergency under an act on special measures and asked the public to stay home and businesses to suspend operation until May 25, when the state of emergency was lifted. The spread of COVID-19 was largely brought under control during the state of emergency period, which lasted a month and a half. However, as the level of socioeconomic activity gradually returned to normal from July, the number of infected people has gone back up close to the levels before the state of emergency was declared, causing concern for a second wave of infections.

In the single-family homes market where the Company operates, demand appears to have remained weak since a sharp decline following the consumption tax hike and this appears to have affected order-soliciting activity during the period of the state of emergency. Monthly housing starts dropped year on year in twelve consecutive months from July 2019 to June 2020. Monthly housing starts during the period under review were weak and remained largely flat, declining 12.9% in April, 12.3% in May and 12.8% in June. Under such circumstances, new single-family home construction projects decreased 8.5% year on year to 23,064 units during the period under review. However, sales of Single-family Homes Division fortunately did not fall more than 4.8% year on year to 6,082 million yen, thanks to efforts to win orders by taking advantage of the product appeal of AQUA FOAM and the strength of our engineering expertise. In the buildings market where the Company operates, the Buildings Division increased sales by 14.2% year on year to 2,045 million yen thanks to brisk sales of the Aquamoen flameproof insulating material and efforts to strengthen the construction work system, although general contractors announced they would suspend work at construction sites in areas subject to the state of emergency as a measure to contain the spread of COVID-19, bringing construction work to a halt. Sales of air-conditioning and ventilation products, including Zekkucho, totaled 155 million yen, increasing 176.5% year on year and machinery sales rose 37.8% year on year to 236 million yen, while sales of auxiliary construction components totaled 894 million yen, down 8.9% year on year, and sales of raw materials decreased 13.7% year on year to 385 million yen.

As a result, total sales decreased slightly by 0.1% year on year to 9,989 million yen in the period under review. Operating profit grew 7.0% from a year earlier to 773 million yen, while ordinary profit rose 8.8% year on year to 783 million yen. Profit totaled 518 million yen, increasing 10.2% from a year earlier. The main factor contributing to the profit growth was a fall in raw material prices for AQUA FOAM, which resulted from a global demand decrease due to the coronavirus impact.

(2) Explanation Regarding Financial Position

(Total assets)

Total assets totaled 14,875 million yen as of June 30, 2020, down 503 million yen, or 3.3%, from the end of the previous fiscal year.

(Current assets)

Current assets totaled 10,401 million yen as of June 30, 2020, down 836 million yen, or 7.4%, from the end of the previous fiscal year. Key factors contributing to this drop include decreases of 620 million yen in notes and accounts receivable - trade and 499 million yen in accounts receivable - other, partially offset by increases of 236 million yen in cash and deposits and 30 million yen in inventories.

(Non-current assets)

Non-current assets totaled 4,474 million yen as of June 30, 2020, up 333 million yen, or 8.0%, from the end of the previous fiscal year. Key factors contributing to this increase include increases of 399 million yen in buildings and structures following completion of Kanagawa, Aomori, and Kanazawa branch offices, and 103 million yen in land after acquisition of tracts for planned Akita and Matsumoto branch office buildings, partially offset by decreases of 95 million yen in construction in progress following completion of these offices and 88 million yen in assets due to depreciation.

(Total liabilities)

Liabilities totaled 8,062 million yen as of June 30, 2020, down 473 million yen, or 5.5%, from the end of the previous fiscal year.

(Current liabilities)

Current liabilities totaled 7,928 million yen as of June 30, 2020, down 463 million yen, or 5.5%, from the end of the previous fiscal year. Main factors contributing to this decrease include decreases of 986 million yen in accounts payable - trade due to a drop in trade payables as a busy season ran its course, 99 million yen in the current portion of long-term borrowings due to repayment, 460 million yen in income taxes payable due to payment of corporate taxes, and 302 million yen in accounts payable - other and accrued expenses, partially offset by an increase of 1,400 million yen in short-term borrowings.

(Non-current liabilities)

Non-current liabilities totaled 133 million yen as of June 30, 2020, down 10 million yen, or 7.0%, from the end of the previous fiscal year. Key factors contributing to this decrease include a decrease of 13 million yen in lease obligations due to payment.

(Net assets)

Net assets totaled 6,813 million yen as of June 30, 2020, down 29 million yen, or 0.4%, from the end of the previous fiscal year. Key factors contributing to this decrease include a decrease of 549 million yen in retained earnings due to dividend payouts, partially offset by the recording of 518 million yen in profit.

(Equity ratio)

Equity ratio was 45.8% on June 30, 2020, up 1.3 percentage points from the end of the previous fiscal year.

Cash Flows

Cash and cash equivalents (hereinafter “net cash”) in the six months ended June 30, 2020 amounted to 2,114 million yen (2,044 million yen in the same period a year earlier), increasing 236 million yen from the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash from operating activities decreased 11 million yen in the period under review, compared to a 547 million yen increase in the same period a year earlier. This was due mainly to increases in net cash driven by 783 million yen in profit before income taxes, 88 million yen in depreciation, a 620 million decrease in trade receivables and a 500 million yen drop in accounts receivable - other, and decreases in net cash, driven by a 30 million yen increase in inventories, a 986 million yen decrease in trade payables, and 643 million yen in income taxes paid.

(Cash flows from investing activities)

Net cash from investing activities decreased 491 million yen in the period under review, compared to a 133 million yen decrease in the same period a year earlier. This was due mainly to purchase of property, plant and equipment totaling 474 million yen and purchase of intangible assets totaling 24 million yen.

(Cash flows from financing activities)

Net cash from financial activities increased 738 million yen in the period under review, compared to a 263 million yen decrease in the same period a year earlier. This was due mainly to net increase in short-term borrowings of 1,400 million yen, partially offset by 99 million yen in repayments of long-term borrowings and 548 million yen in dividends paid.

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

The Japanese economy is expected to recover from the extremely adverse situation as the level of socioeconomic activity gradually returns to normal while measures to prevent infections are taken, supported also by the government's policy measures. However, some local governments are introducing additional measures to improve their service efficiency in a move to prepare for a potential second wave of infections.

Our strategy under this situation is as follows:

1. Measures at Branch Offices

(1) Insulation Installing Work

We aim to steadily implement insulation-installing work in anticipation of a busy season beginning in the third quarter while working closely with original contractors to ensure effective counter-infection measures are taken. We aim to ensure thorough safety and infection prevention for workers and maintain existing measures.

(2) Work Style

As we indicated in a February 26 news release entitled, "Notice Regarding Work Style amid Coronavirus Impact," we introduced flextime for employees who commute using public transportation, which is still in place. In addition to that, we measure bodily temperature of all employees. Employees are ordered to work from home where possible for our goal of reducing by 70% the number of employees showing up at our Shinagawa headquarters and branch offices.

(3) Execution of Duties and Supervision

Important decisions are made and execution duties are supervised as usual through meetings, including those of the Board of Directors, fully using telephone or video conferencing systems, in order to prevent infection.

2. Operating Strategies of Divisions and Impact of COVID-19

The following sections describe operational strategies of individual divisions and impact of infections.

(1) Single-family Homes Division

We expect the single-family homes market will slow or remain weak. Still, there have been growing moves to enhance working environment at home and increased wish to do so since many companies introduced telecommuting after the state of emergency was declared. We expect this trend will grow further. We will strive to contribute to creating comfortable home environment for both staying at home and telecommuting amid a coronavirus-affected environment by providing AQUA FOAM and the Zekkucho system, which help create a comfortable living environment by providing high airtightness and great insulation and conserve energy. However, there is still a possibility that our full-year net sales and profits may be affected if activities of citizens and businesses become restricted again due to the spread of COVID-19, resulting in a sharply deteriorated economic situation, or the government once again declares a state of emergency to contain the spread of infections.

(2) Buildings Division

In terms of the buildings market, we obtained a patent on an application regarding the Aquamoen flameproof insulating material ("method of thermal insulation for urethane resin compositions and buildings," patent registration number: 6725606). We have worked to develop technology to make rigid urethane foam insulating materials flameproof under the policy of developing and offering insulating materials that contribute to fire accident prevention at construction sites. We believe that the patent will help us establish an advantageous position in competition with rivals, develop new sales channels, and lead negotiations with business partners to our advantage, and that we can take advantage of it as part of our business strategy. Still, there is a possibility that our full-year net sales and profits may be affected if activities of citizens and businesses become restricted again due to the spread of COVID-19, resulting in a sharply deteriorated economic situation, the government once again declares a state of emergency to contain the spread of infections or general contractors decide to once again suspend construction work.

(3) Purchase of Raw Materials

The Company has purchased raw materials from diversified locations, including China, North America, and Japanese manufacturers. We thus have experienced no impact on construction work or sale of the materials from any supply chain disruption.

3. Full-year Financial Forecasts for the Fiscal Year Ending December 31, 2020

In view of the above situations, we did not change the forecasts for the full-year financial forecasts for the fiscal year ending December 31, 2020. However, there is still a possibility that our full-year net sales and profits may be affected if activities of citizens and businesses become restricted again due to the spread of COVID-19, resulting in a sharply deteriorated economic situation, or the government once again declares a state of emergency to contain the spread of infections. Any changes in our full-year financial forecasts will be disclosed promptly.

2. Quarterly Financial Statements and Primary Notes

(1) Quarterly Balance Sheet

(in thousand yen)

	As of December 31, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	1,878,403	2,114,580
Notes and accounts receivable - trade	5,017,299	4,396,842
Inventories	1,678,398	1,708,514
Accounts receivable - other	2,590,160	2,091,023
Other	94,810	104,032
Allowance for doubtful accounts	(21,070)	(13,590)
Total current assets	11,238,003	10,401,402
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,759,846	2,159,106
Land	1,518,397	1,621,673
Other, net	395,710	280,753
Total property, plant and equipment	3,673,954	4,061,533
Intangible assets		
Leasehold interests in land	15,000	15,000
Other	88,492	101,893
Total intangible assets	103,492	116,893
Investments and other assets		
Other	370,039	302,129
Allowance for doubtful accounts	(6,336)	(6,330)
Total investments and other assets	363,702	295,798
Total non-current assets	4,141,149	4,474,225
Total assets	15,379,153	14,875,627

(in thousand yen)

	As of December 31, 2019	As of June 30, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	4,614,948	3,628,471
Short-term borrowings	2,000,000	3,400,000
Current portion of long-term borrowings	136,800	37,200
Lease obligations	25,986	26,135
Income taxes payable	691,475	230,984
Provision for bonuses	21,585	23,085
Other	901,611	582,887
Total current liabilities	8,392,406	7,928,764
Non-current liabilities		
Lease obligations	76,848	63,747
Asset retirement obligations	38,859	38,973
Other	28,005	30,939
Total non-current liabilities	143,713	133,659
Total liabilities	8,536,119	8,062,423
Net assets		
Shareholders' equity		
Share capital	1,903,369	1,903,369
Capital surplus	1,883,509	1,883,771
Retained earnings	4,266,287	4,235,419
Treasury shares	(1,210,137)	(1,209,153)
Total shareholders' equity	6,843,029	6,813,407
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	4	(203)
Total valuation and translation adjustments	4	(203)
Total net assets	6,843,033	6,813,204
Total liabilities and net assets	15,379,153	14,875,627

(2) Quarterly Income Statement

Six months ended June 2020

(in thousand yen)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Net sales	10,003,505	9,989,062
Cost of sales	7,631,111	7,534,136
Gross profit	2,372,393	2,454,925
Selling, general and administrative expenses	1,649,545	1,681,131
Operating profit	722,847	773,793
Non-operating income		
Interest income	2,988	4,434
Insurance claim income	5,055	6,816
Penalty income	—	5,350
Other	4,524	8,712
Total non-operating income	12,568	25,314
Non-operating expenses		
Interest expenses	4,923	5,229
Sales discounts	10,288	10,393
Other	38	57
Total non-operating expenses	15,250	15,680
Ordinary profit	720,165	783,428
Extraordinary income		
Gain on sales of non-current assets	1,955	862
Total extraordinary income	1,955	862
Extraordinary losses		
Loss on sales and retirement of non-current assets	616	362
Total extraordinary losses	616	362
Profit before income taxes	721,504	783,928
Income taxes - current	280,778	199,864
Income taxes - deferred	(29,591)	65,893
Total income taxes	251,187	265,758
Profit	470,316	518,170

(3) Quarterly Cash Flow Statement

(in thousand yen)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Cash flows from operating activities		
Profit before income taxes	721,504	783,928
Depreciation	78,407	88,649
Increase (decrease) in allowance for doubtful accounts	3,250	(7,485)
Increase (decrease) in provision for bonuses	2,729	1,500
Interest income	(2,988)	(4,434)
Interest expenses	4,923	5,229
Insurance claim income	(5,055)	(6,816)
Penalty income	—	(5,350)
Loss (gain) on sales and retirement of non-current assets	(1,339)	(499)
Decrease (increase) in trade receivables	242,970	620,457
Decrease (increase) in inventories	(327,132)	(30,116)
Increase (decrease) in trade payables	(1,051,731)	(986,477)
Decrease (increase) in accounts receivable - other	710,142	500,137
Other, net	240,876	(337,939)
Subtotal	616,557	620,780
Interest and dividends received	2,988	4,434
Interest paid	(4,923)	(5,229)
Proceeds from insurance income	5,055	6,816
Proceeds from penalty income	—	5,350
Income taxes paid	(71,883)	(643,188)
Net cash provided by (used in) operating activities	547,794	(11,035)
Cash flows from investing activities		
Purchase of property, plant and equipment	(104,414)	(474,990)
Proceeds from sales of property, plant and equipment	6,303	1,518
Purchase of intangible assets	(29,420)	(24,540)
Purchase of investment securities	(79)	(120)
Other, net	(6,272)	6,744
Net cash provided by (used in) investing activities	(133,883)	(491,387)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	160,000	1,400,000
Repayments of long-term borrowings	(99,600)	(99,600)
Repayments of finance lease obligations	(4,713)	(12,951)
Proceeds from sale and leaseback transactions	3,536	—
Purchase of treasury shares	(14)	—
Dividends paid	(322,700)	(548,849)
Net cash provided by (used in) financing activities	(263,491)	738,599
Net increase (decrease) in cash and cash equivalents	150,420	236,176
Cash and cash equivalents at beginning of period	1,893,680	1,878,403
Cash and cash equivalents at end of period	2,044,101	2,114,580

(4) Notes to Quarterly Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

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

Not applicable.

(Use of Special Accounting Methods in Preparing Quarterly Financial Statements)

Not applicable.

(Changes in Accounting Policies)

Not applicable.

(Changes in Accounting Estimates)

Not applicable.

(Restatements)

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.

(Important Subsequent Events)

Not applicable.