

We are the doctor of
your invisible air.



 **Nippon Air Conditioning Services Co., Ltd.**

2nd Quarter of Fiscal year ended March 2021
Financial Results Reference Materials

November 2020

TSE 1st section, NSE 1st section: [4658](#)

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| | |
|--|-----------|
| I . Overview and strength | p.03-p.30 |
| II . Financial highlights | p.31-p.45 |
| III . Toward the achievement of long-term vision | p.46-p.54 |

Building facilities **maintenance**

Number of technology-related employees: **2,500**

Bases: **47** prefectures and **6** overseas countries

* Number of Technology-related employees is as of the end of September 2020.

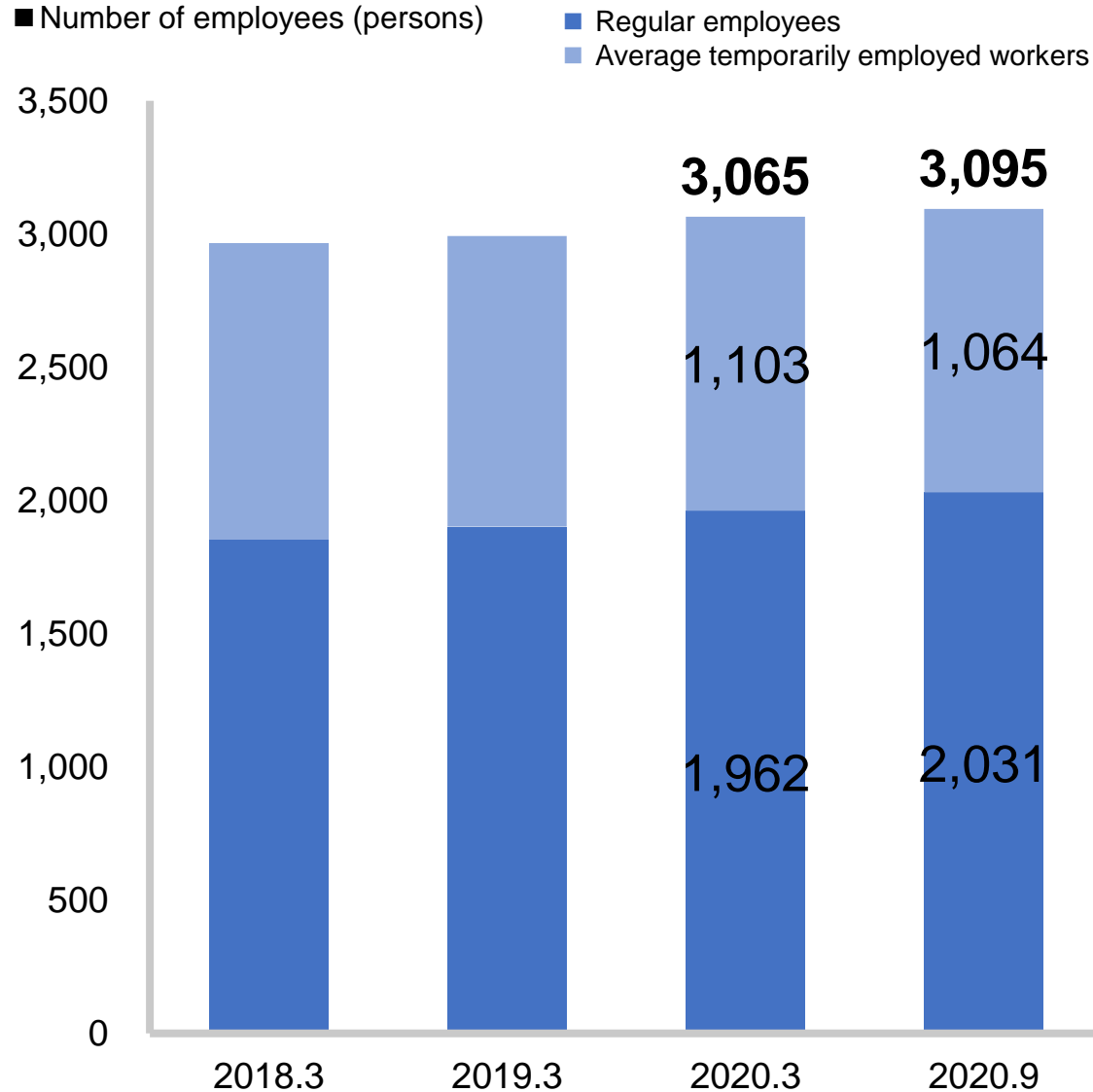
* Base information is as of the end of October 2020.

| Company overview | | |
|----------------------|---|-----------------------------------|
| Head office | 239-2 Terugaoka, Meito-ku Nagoya-shi, Aichi Japan | |
| Capital stock | ¥1,139 million | |
| Business description | General building facility maintenance service | |
| Number of employees | Consolidated 3,095 | Non-consolidated 2,192 |
| Net sales | Consolidated ¥49.6 billion | Non-consolidated ¥35.4 billion |
| Number of bases | Domestic 82 bases | Overseas 10 bases |

Apr. 1964 The company is established in Higashijukucho, Nakamura-ku Nagoya-shi, Aichi.



* Number of employees is as of the end of September 2020.
 * For net sales, the number in the fiscal year ended March 2020 is used.
 * Number of bases is as of the end of October 2020 (based on address).

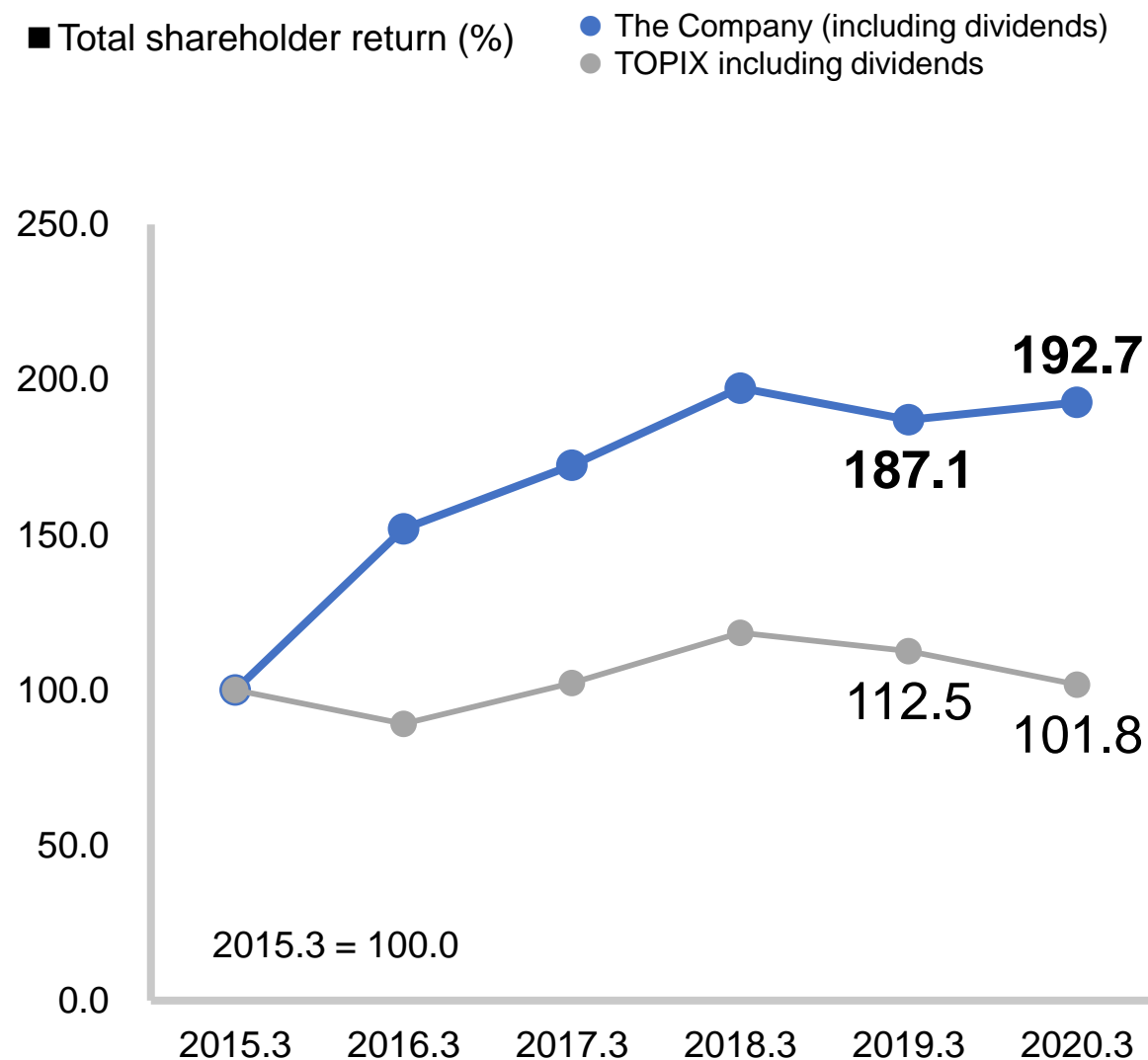


Technology-related employees
account for more than 80%
of 3,000 employees in total.



Technology-oriented company

| Stock-related information | |
|-----------------------------|-----------------------|
| Stock price | ¥763 |
| Total market capitalization | ¥26.9 billion |
| Dividends | ¥25 per share |
| Dividend payout ratio | 50.3% |
| Dividend yield | 3.28% |
| Number of shareholders | 6,829 |
| PER | 15.36x (EPS : ¥49.67) |
| PBR | 1.49x (BPS : ¥513.78) |
| ROE | 10.8% |



* For stock price, closing price as of November 6, 2020 is used.

* For dividends and EPS, predicted numbers in the fiscal year ending March 2021 are used.

* For number of shareholder, as of the end of September 2020 is used.

* For BPS and ROE, actual number in the fiscal year ended March 2020 are used.

To make all our stakeholders happier



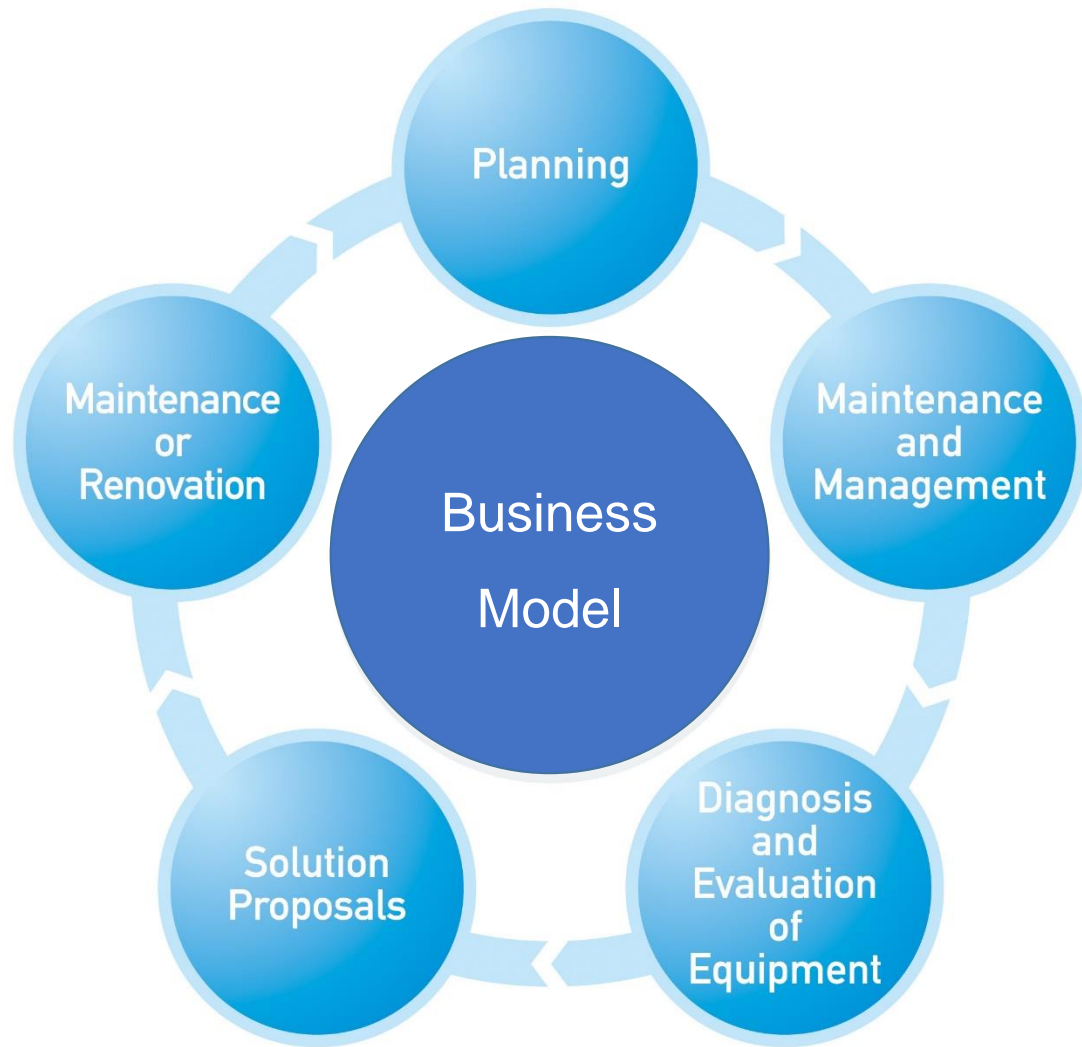
Creation of social value

Management philosophy

Bringing together the technological capabilities and human resources to maintain optimal environments and give our clients peace of mind through top quality service.



Creation of economic value



In-house technicians can respond in any phase



Technological capabilities

Total support capabilities

Solution capabilities

| Business division | Overview | Net sales composition |
|--|---|---|
| <p style="text-align: center;">PM</p> <p style="text-align: center;">Preventive Maintenance</p> | <ul style="list-style-type: none"> ■ Inspection, maintenance, repair, replacement, etc. of overall equipment / systems of buildings. (mainly air conditioning) ■ Upkeep / maintenance based on annual contracts. ■ Spot maintenance based on individual contracts. | <p style="font-size: 2em;">37%</p> |
| <p style="text-align: center;">FM</p> <p style="text-align: center;">Facility Management</p> | <ul style="list-style-type: none"> ■ Integrated management that optimally combines maintenance services with daily maintenance and management. ■ Resident management based on annual contracts. | <p style="font-size: 2em;">28%</p> |
| <p style="text-align: center;">RAC</p> <p style="text-align: center;">Reform and Construction</p> | <ul style="list-style-type: none"> ■ Design of equipment / systems, procurement of equipment / materials, construction based on extensive management of quality, construction period, safety, and cost. ■ Mainly renovation work of existing equipment. | <p style="font-size: 2em;">35%</p> |

* For net sales composition, actual number in the fiscal year ended March 2020 is used.

Central surveillance service



Daily measurement service



Regular maintenance service



Solution proposals



Environmental diagnosis service



Disinfection and decontamination service

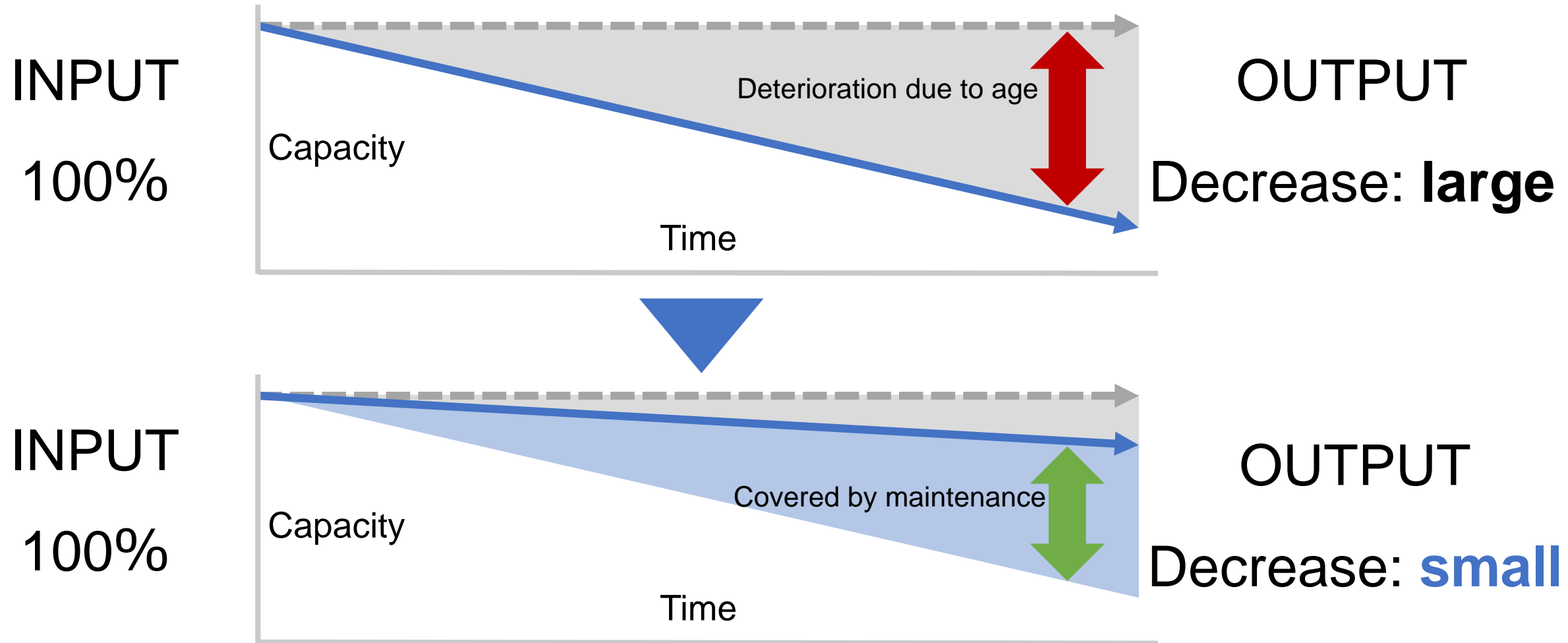


“Is it possible to create such and such environment?”
or “How can we improve the situation?”



**Identify potential needs based on communication
with customers to increase added value.**

Maintenance means **keeping the initial performance.**



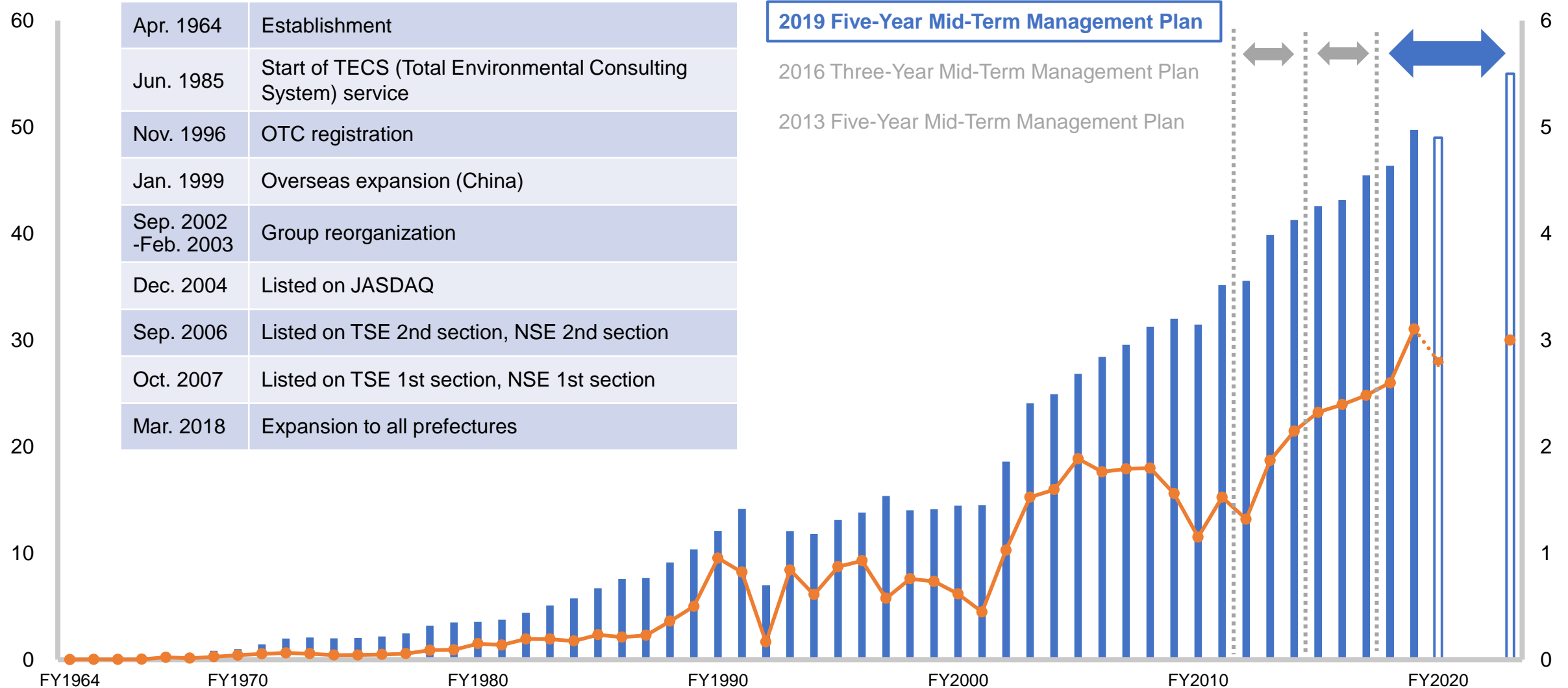
Cost of maintenance < Cost of decreased capacity



“Value of maintenance”

Linked to ESG (**the environment**)

■ Net sales and operating income changes since foundation (billions of yen)



* Accounts settlement period was irregular for FY1969 (6th fiscal year) and FY1992 (30th fiscal year), six months.

Three goals since foundation

- (1) Overseas expansion (Jan. 1999)
- (2) IPO in TSE and NSE (Sep. 2006)
- (3) Expansion to all prefectures (Mar. 2018)

Achieved all



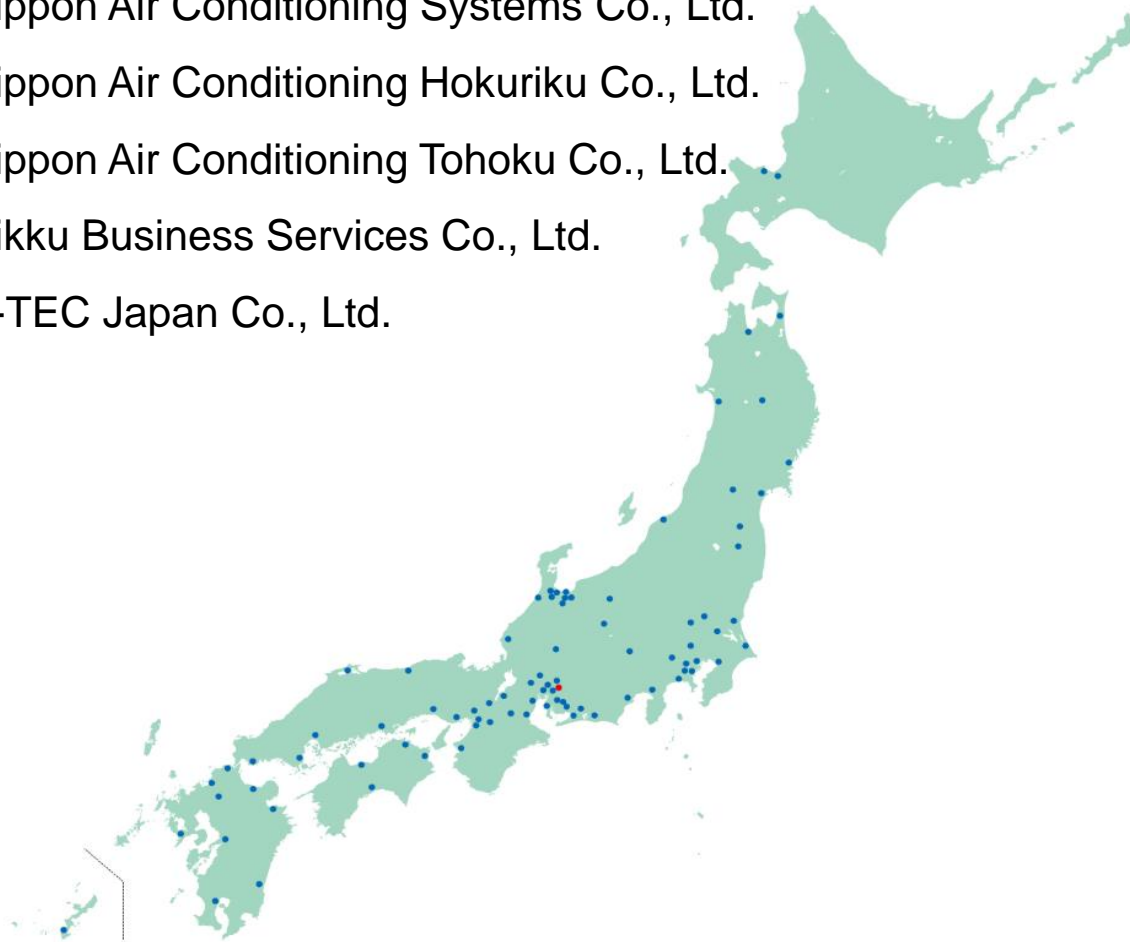
To make all our stakeholders happier

- (1) [Customers] Provision of high-added value services
- (2) [Employees] Improvement of satisfaction level and technological capabilities
- (3) [Shareholders] Implementation of stable returns

Link to improvement of value of entire society

Domestic: 6 companies, 82 bases

- Nippon Air Conditioning Services Co., Ltd.
- Nippon Air Conditioning Systems Co., Ltd.
- Nippon Air Conditioning Hokuriku Co., Ltd.
- Nippon Air Conditioning Tohoku Co., Ltd.
- Nikku Business Services Co., Ltd.
- E-TEC Japan Co., Ltd.



Expansion to all prefectures

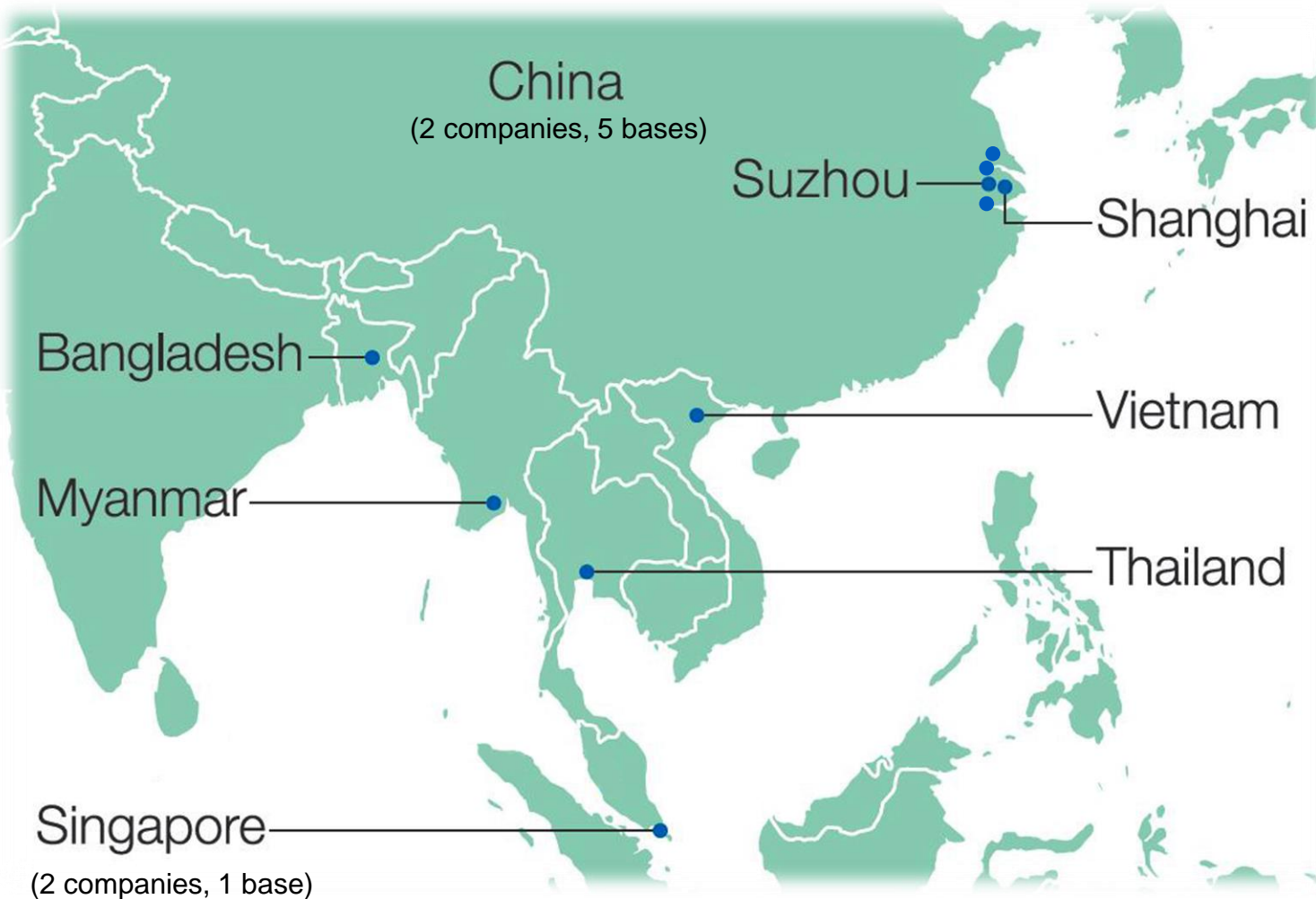


Immediate response

Support available nationwide

Sales deployment through various arrangements

Overseas 8 companies, 10 bases



Main targets:
Japanese-related
manufacturing plants



New revenue base
Low-priced and local
The current results are
unfavorable

Construction and maintenance Companies
approx. ¥2.2 trillion



Approx. 70% of the air conditioning and heat source system market
is for existing buildings



we project a target for the Company of
approx. ¥1.5 trillion

| | The Company | Company A | Company B | Company C |
|-----------------------------|---------------------------|--------------------|--------------------|--------------------|
| Total market capitalization | ¥26.9 billion | ¥141.2 billion | ¥79.1 billion | ¥5.6 billion |
| PER | 15.36x | 14.12x | 17.20x | 5.66x |
| PBR | 1.49x | 1.79x | 1.53x | 0.35x |
| ROE | 10.8% | 12.3% | 8.9% | 6.3% |
| Net sales | ¥49.6 billion | ¥308.5 billion | ¥106.3 billion | ¥36.8 billion |
| Operating income | ¥3.1 billion | ¥16.0 billion | ¥6.8 billion | ¥2.0 billion |
| Operating income to sales | 6.3% | 5.2% | 6.4% | 5.6% |
| Average annual salary | ¥5,960 thousand | ¥4,700 thousand | ¥3,480 thousand | ¥3,650 thousand |
| Average age | 39.1 years old | 45.4 years old | 52.8 years old | 52.2 years old |

High flexibility and
Capability to create added value

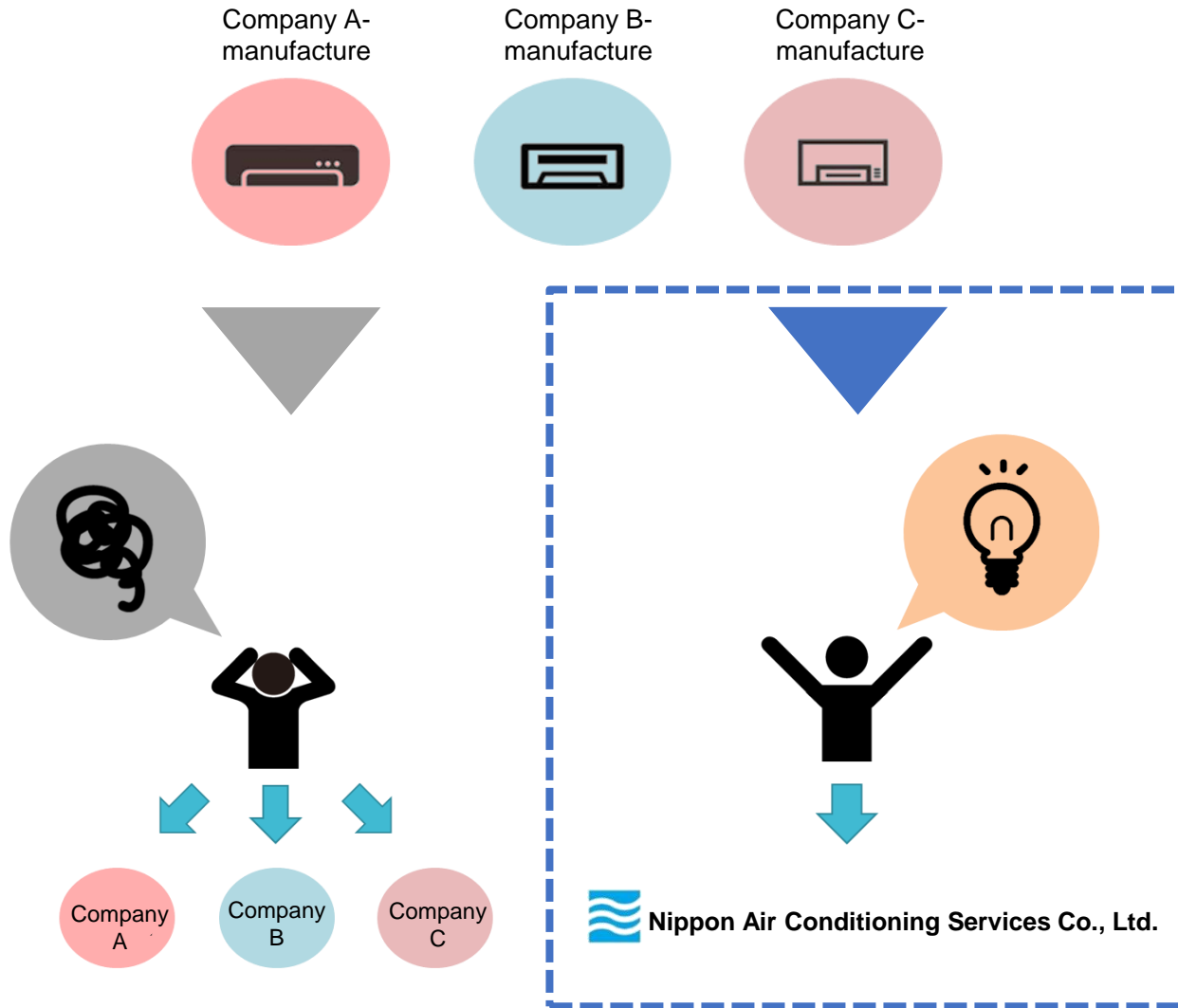
▼

**Inferior in amount but
superior in ratio and efficiency**

* For total market capitalization of individual companies, closing price as of November 6, 2020 is used.

* For EPS of individual companies, predicted number as of fiscal year ending March 2021 is used, for BPS, ROE, net sales, operating income, operating income to sales, average annual salary and average age, the actual numbers for fiscal year ended March 2020 are used.

There is air-conditioning equipment from various makers inside buildings.



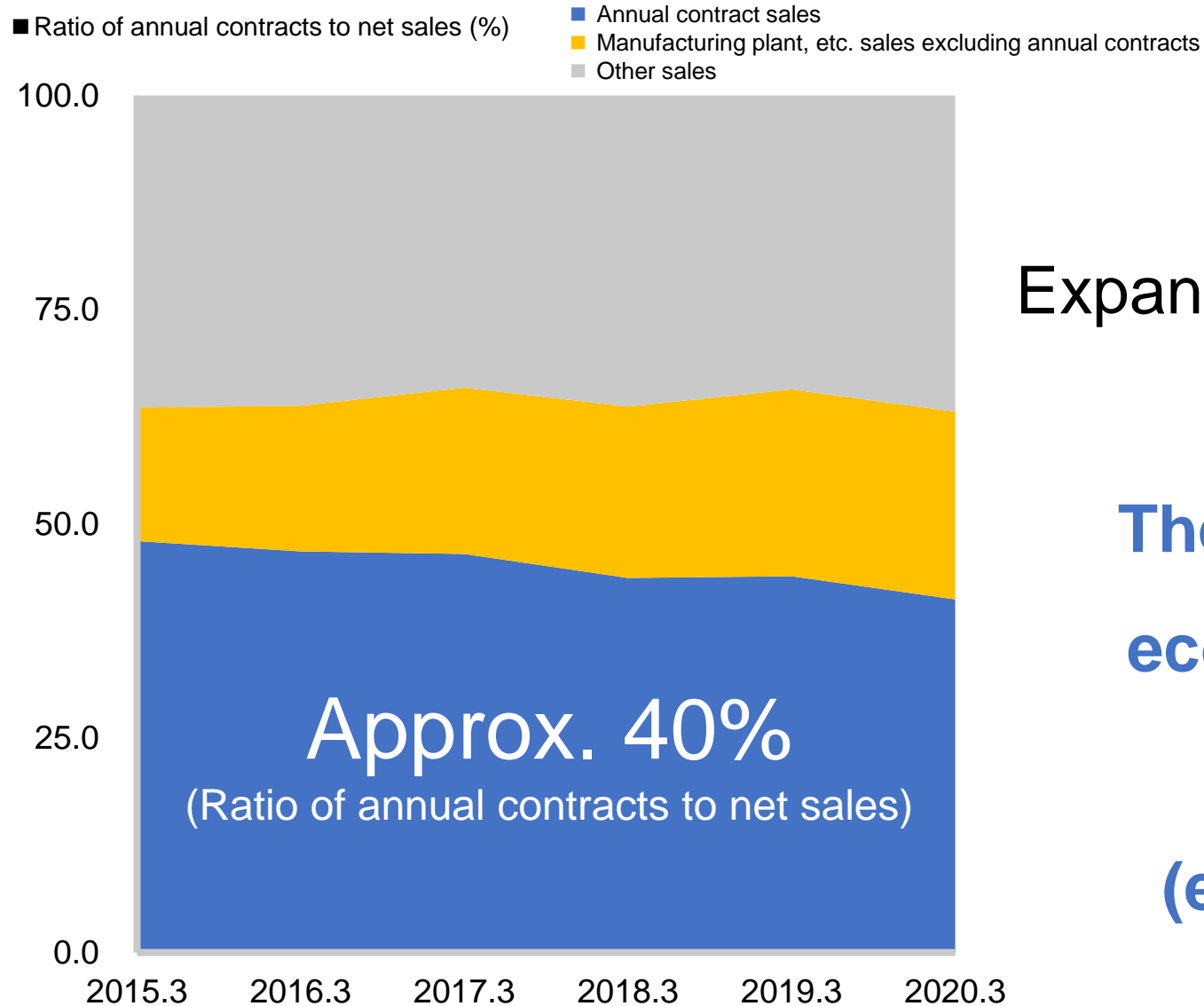
No restrictions by makers

Quick response in-house



Reduced workload on customers

Flexibility and diversity

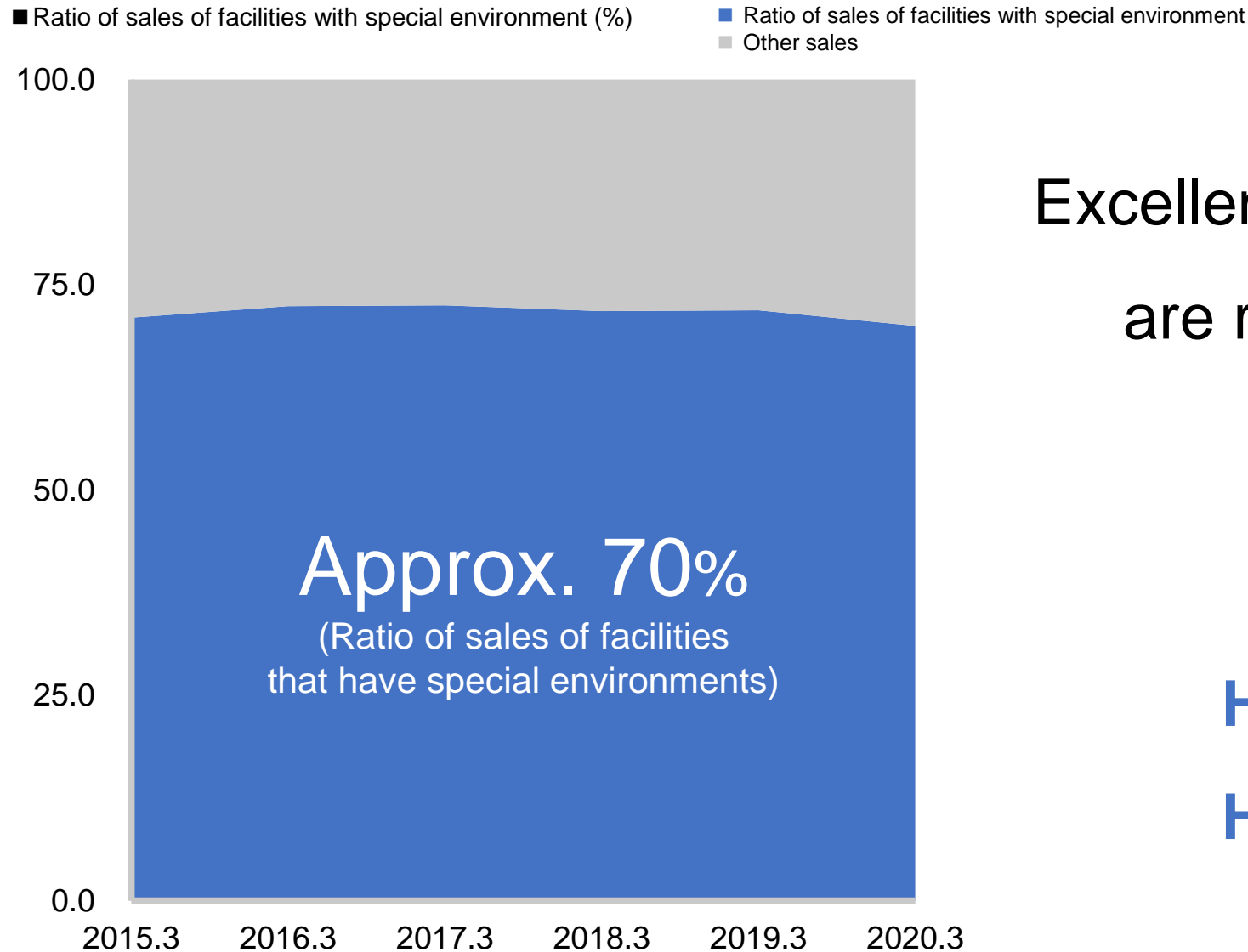


Stable annual contracts

Expansion of manufacturing plants, etc.



The key to growth is to spread economic risk by operating in Various business types (e.g., manufacturing plants)



Excellent technological capabilities
are required for maintenance
and management

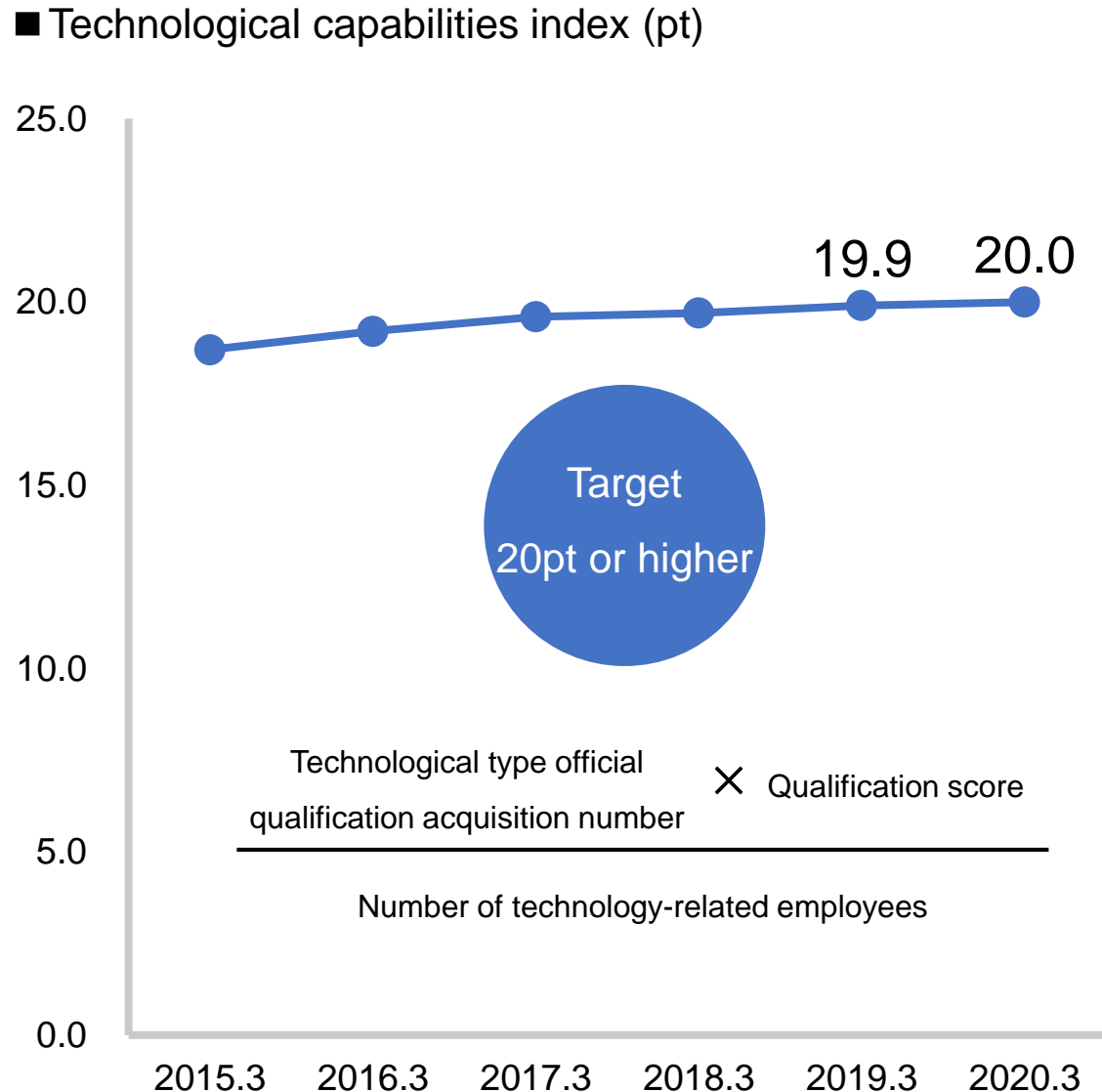


High barrier to entry
High switching cost

Examples of the **technological capabilities** required are shown below.



* Picture: Environmental performance measurement / diagnosis, Clean equipment maintenance, Environmental hygiene management, High efficiency filter maintenance, Work environment measurement, Safety cabinet performance inspection / decontamination / sterilization / cleaning etc.



Technological type official qualification acquisition number

8,833



Base of technological capabilities

Linked to human resources

* The official qualification acquisition number and number of employees are only those related to technology. The qualification score is based on the Company's standard. The total number of official qualifications held is as of the end of March 2020. All numbers are on a non-consolidated basis.

Office building



Air conditioning equipment in conference room breaks down



Use the same room patiently
Use other room

Replaceable, low level of emergency



Hospitals



Air conditioning equipment in operating room breaks down



Operating room cannot be used
Surgery cannot be performed



Irreplaceable, high level of emergency



Manufacturing plants



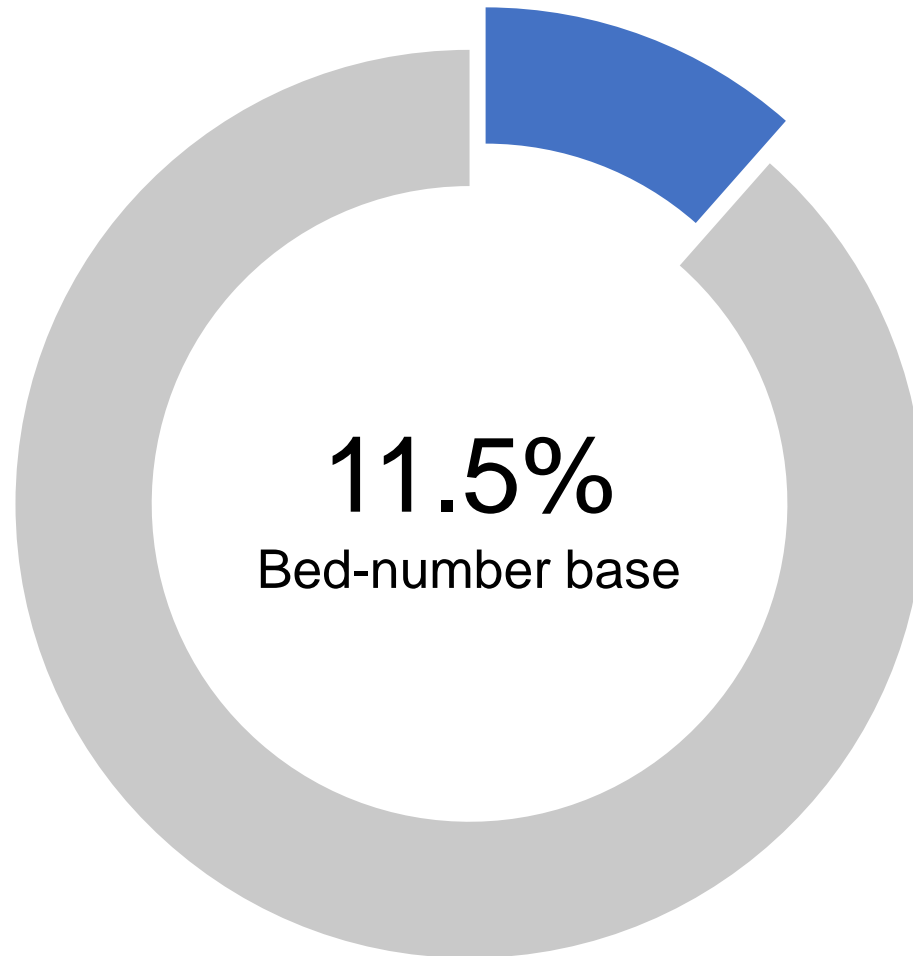
Air conditioning equipment in manufacturing plant breaks down



Products quality defects
Manufacturing line halt



- Percentage of acceptance of outsourcing for domestic hospitals that have 600 beds or more (%)



Strength in maintenance and management of facilities of large-scale hospitals



Integrated management

Maintenance of environmental performance

Optimization of facility administration

Image, Experience, Intuition



Data creation / visualization

Efforts to ensure energy conservation tuning, etc.



Attaining both through optimization
of facility administration

Maintenance of
Environmental
performance

Energy
conservation

Achievement of maintenance-free operation
(general buildings)

Advancement of maintenance and management
(facilities with special environments)



The demand is expected to be increasingly divided
into the two categories above



**Focus on facilities with special environments
that require advanced technological capabilities**

New approach to focus on facilities with special environments



Validation total support



A project is under way to build a system
toward medium- to long-term deployment

Validation total support

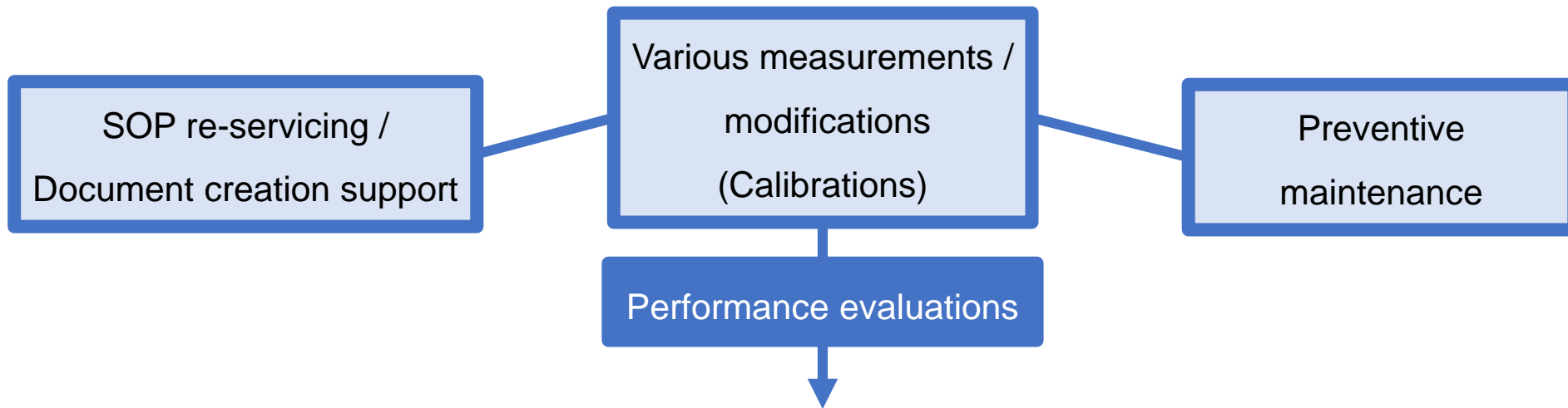
Good Manufacturing Practice: standard for manufacturing management and quality management of drugs and quasi-drugs

Based on **GMP**, implement support to maintain optimal environment that is required

Support for eligibility verification of manufacturing environments for drugs, etc., and documentation

Expanded demand for validation due to compliance with international GMP standards

Aim at **realizing one-stop services** for pharmaceutical manufacturing facilities



the aim

Proposals | Development plans | Energy conservation proposals | Renovation proposals

| | |
|--|------------------|
| I . Overview and strength | p.03-p.30 |
| II . Financial highlights | p.31-p.45 |
| III . Toward the achievement of long-term vision | p.46-p.54 |

Net sales : ¥**21.7** billion (-7.5%)

Operating income : ¥**1.0** billion (-35.5%)

Final income : ¥**0.6** billion (-41.7%)

* For net sales, operating income, final income, the number in the 2nd Quarter of fiscal year ended March 2021 is used.

* Final income indicates profit attributable to owners of parent.

Special demand for renovation work related to air conditioning at schools disappeared.
Revenue and profit decreased due partly to the Covid-19 pandemic.

(billion yen, %)

| Consolidated (cumulative period) | 2Q FY03/2019 | | | 2Q FY03/2020 | | | 2Q FY03/2021 | | |
|--|--------------|----------------|---------------------------|--------------|----------------|---------------------------|--------------|----------------|---------------------------|
| | Amount | Ratio to sales | Year-on-year growth ratio | Amount | Ratio to sales | Year-on-year growth ratio | Amount | Ratio to sales | Year-on-year growth ratio |
| Net sales | 20.3 | 100.0 | (4.2) | 23.5 | 100.0 | +15.6 | 21.7 | 100.0 | (7.5) |
| Maintenance service sales | 14.9 | 73.6 | +4.2 | 15.5 | 66.0 | +3.7 | 15.3 | 70.4 | (1.4) |
| Renovation work construction work volume | 5.3 | 26.4 | (21.8) | 7.9 | 34.0 | +48.8 | 6.4 | 29.6 | (19.3) |
| Gross profit on sales | 3.9 | 19.3 | (0.6) | 4.5 | 19.2 | +14.6 | 3.9 | 18.0 | (13.4) |
| Selling, general and administrative expenses | 2.7 | 13.6 | +2.6 | 2.8 | 12.3 | +4.1 | 2.8 | 13.1 | (0.9) |
| Operating income | 1.1 | 5.7 | (7.3) | 1.6 | 6.9 | +39.9 | 1.0 | 4.8 | (35.5) |
| Profit attributable to owners of parent | 0.8 | 4.0 | +2.5 | 1.0 | 4.6 | +34.0 | 0.6 | 2.9 | (41.7) |

Estimated impact of the Covid-19 pandemic
on the results of 2Q of the fiscal year ending March 2021

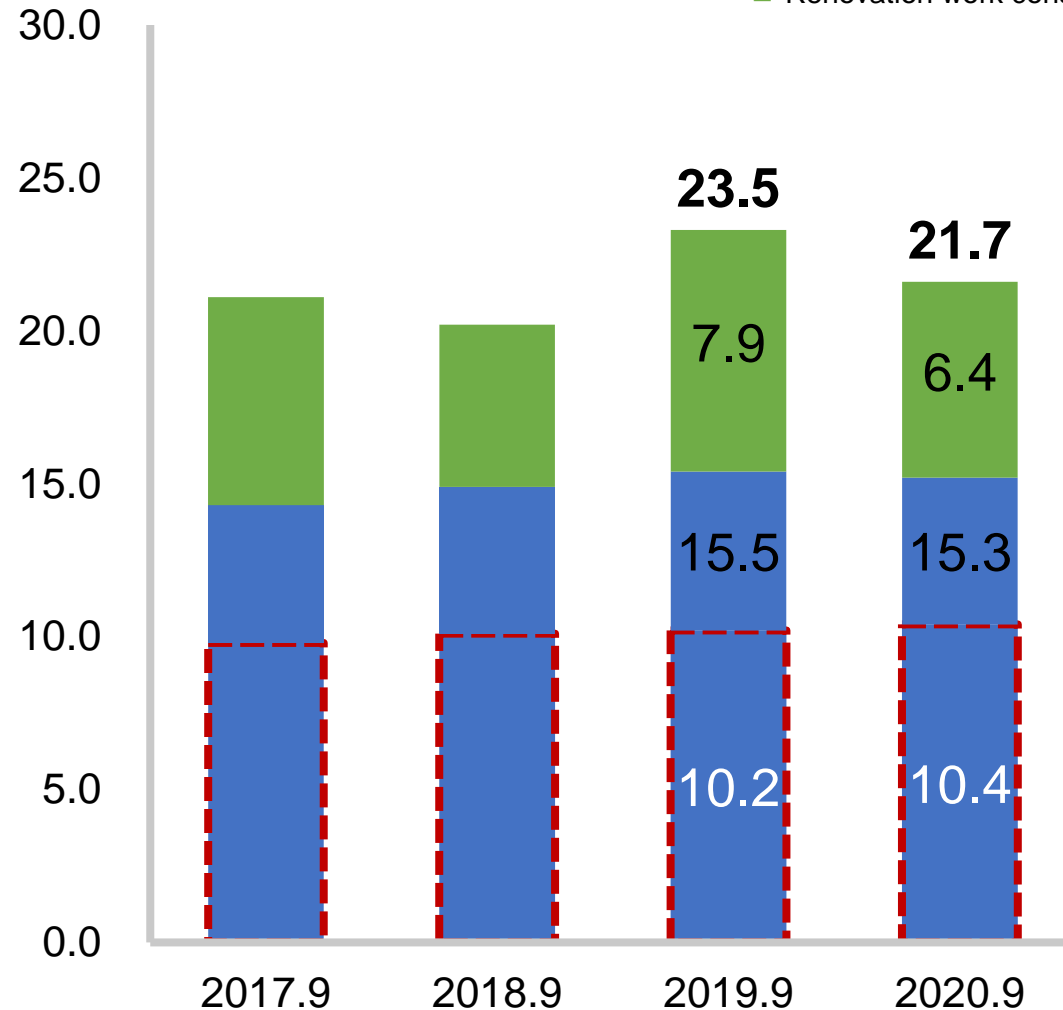


Net sales : Approx. ¥ -0.98 billion

Operating income : Approx. ¥ -0.36 billion

■ Net sales for each type (billion yen)

- Maintenance services net sales
(inside dotted line frame, annual contract sales)
- Renovation work construction work volume



Disappearance of special demand for renovation work

+

Impact of the Covid-19 pandemic

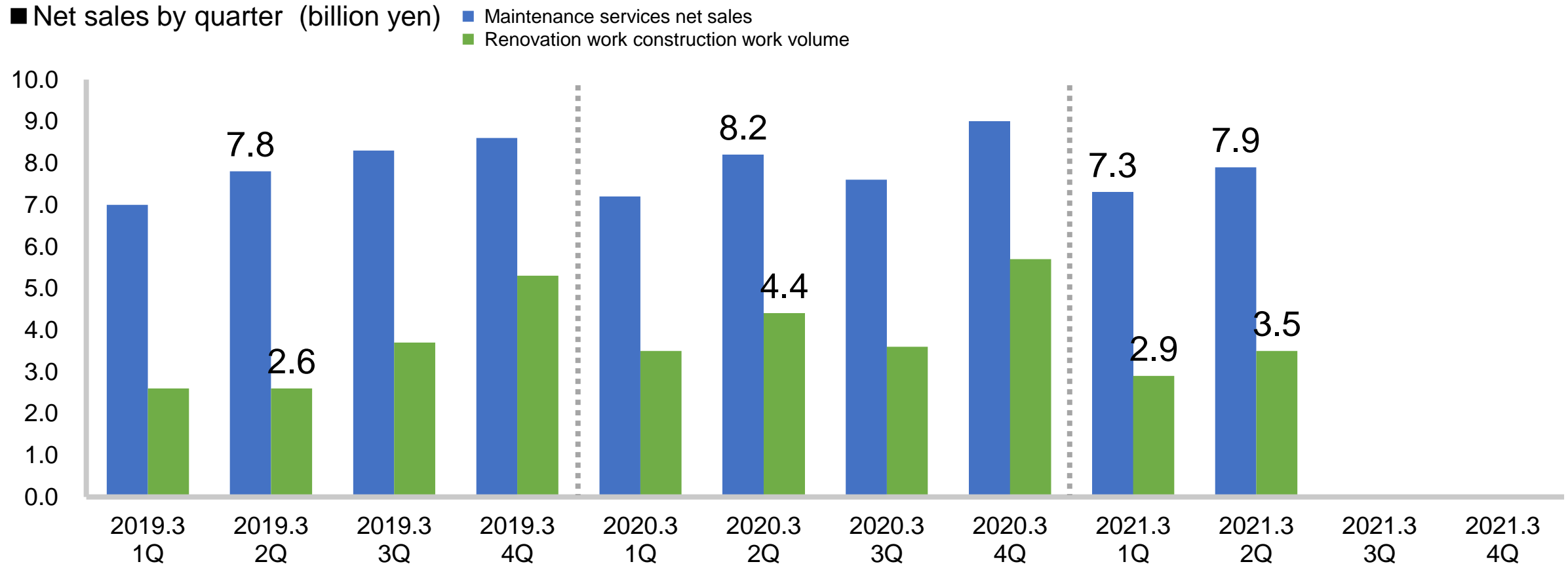
▼

The impact of the Covid-19 pandemic
on annual contracts was small

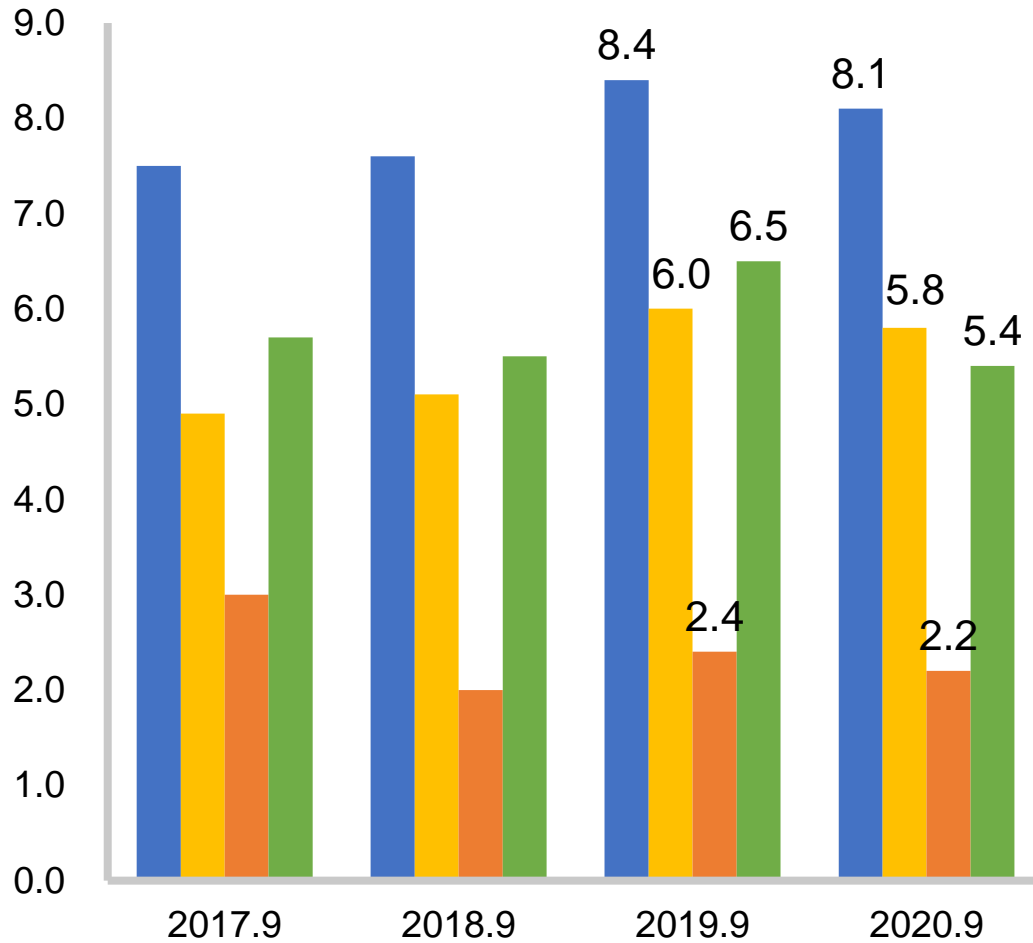
Postponement / suspension of spot maintenance / work

Decreased desire for capital investment

The impact of special demand was high in the first half of the year.
Demand was almost equivalent to that of two years ago.



■ Net sales by facilities of which services are entrusted
(billion yen)



**Demand related to “Office buildings, etc.”
Decreased due to the disappearance of special
demand related to air conditioning at schools**

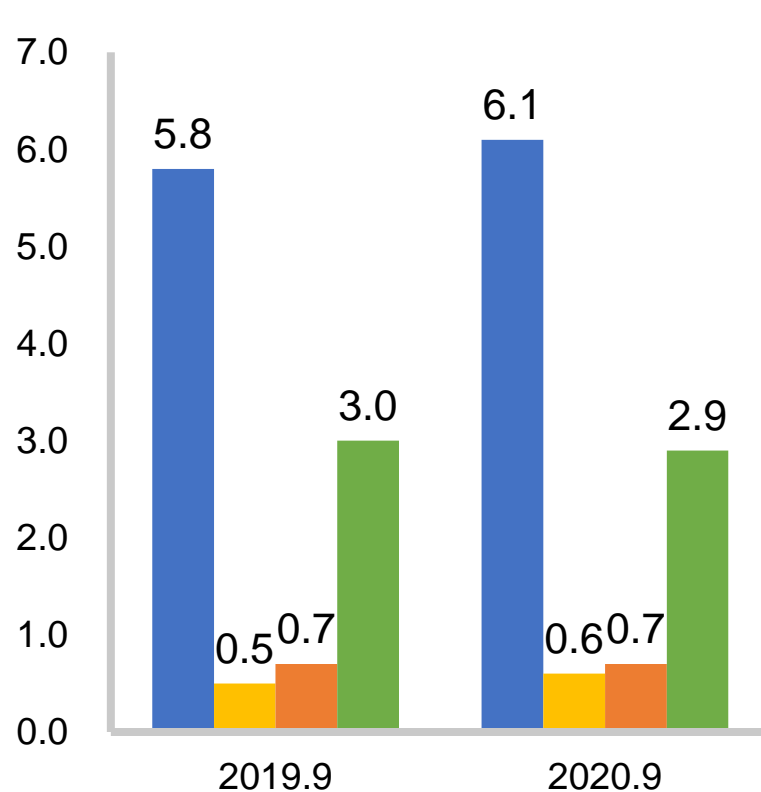


Demand related to air conditioning at schools peaked

Demand related to plants (growth driver) remained
unchanged due to the Covid-19 pandemic

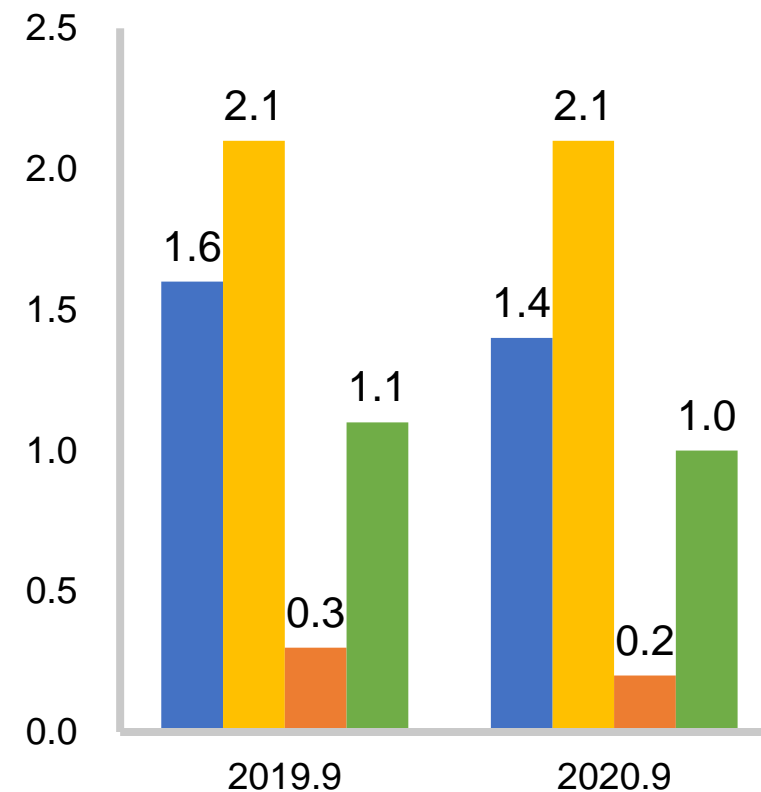
- Hospitals and research facilities
- Manufacturing plants, etc.
- Other special facilities
- Office buildings, etc.

■ Annual contract sales (billion yen)



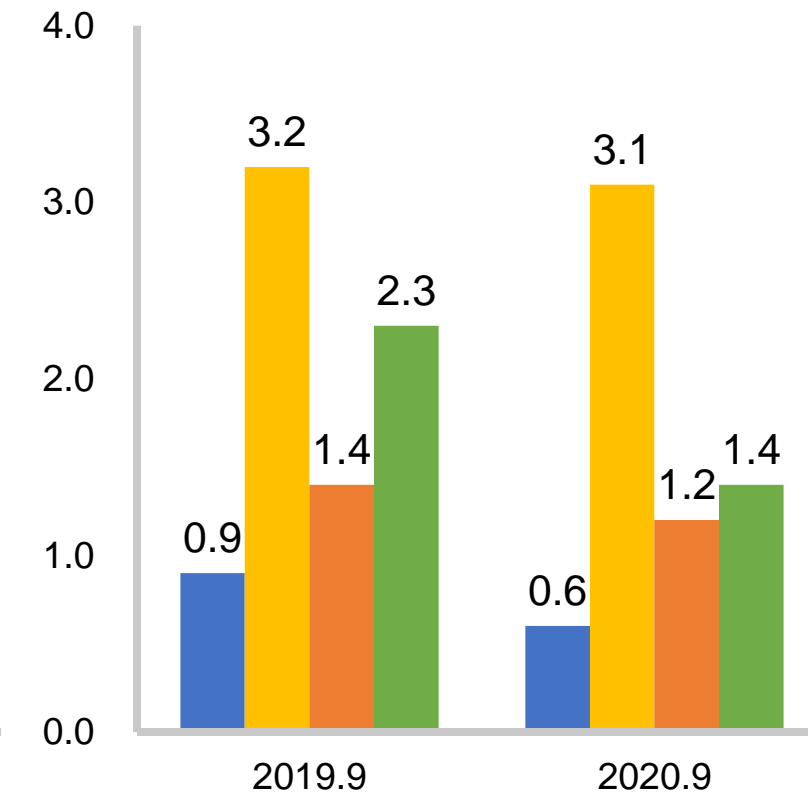
number of cases : 2,847 cases 2,726 cases
 average unit price : ¥3,554 thousand ¥3,792 thousand

■ Maintenance services net sales (billion yen)



number of cases : 17,100 cases 19,842 cases
 average unit price : ¥301 thousand ¥241 thousand

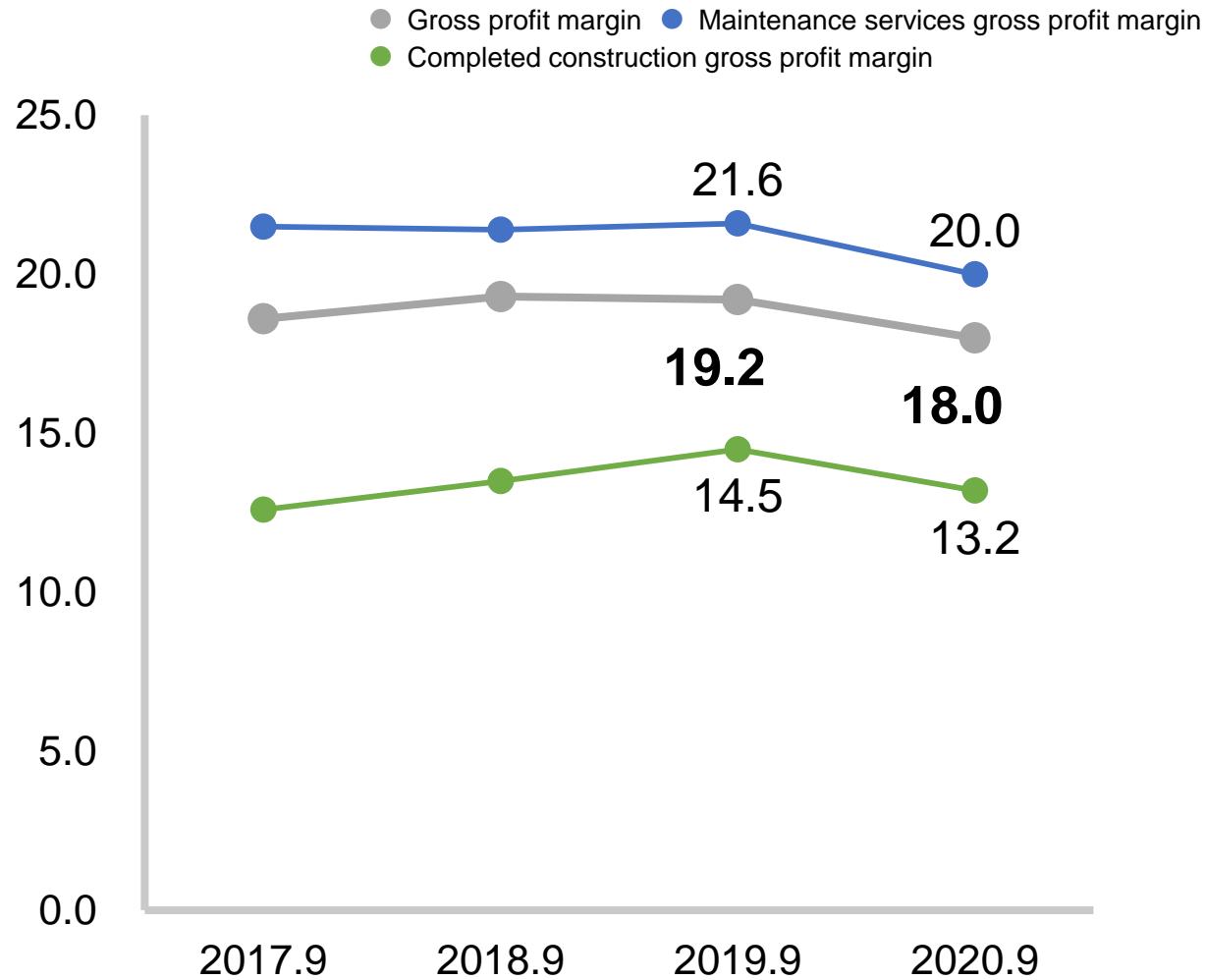
■ Renovation work construction work volume (billion yen)



number of cases : 1,855 cases 2,191 cases
 average unit price : ¥4,191 thousand ¥2,861 thousand

* Number of cases and average unit price only count domestic ones.

■ Gross profit margin (%)



**The profit margin decreased for both
maintenance and work**

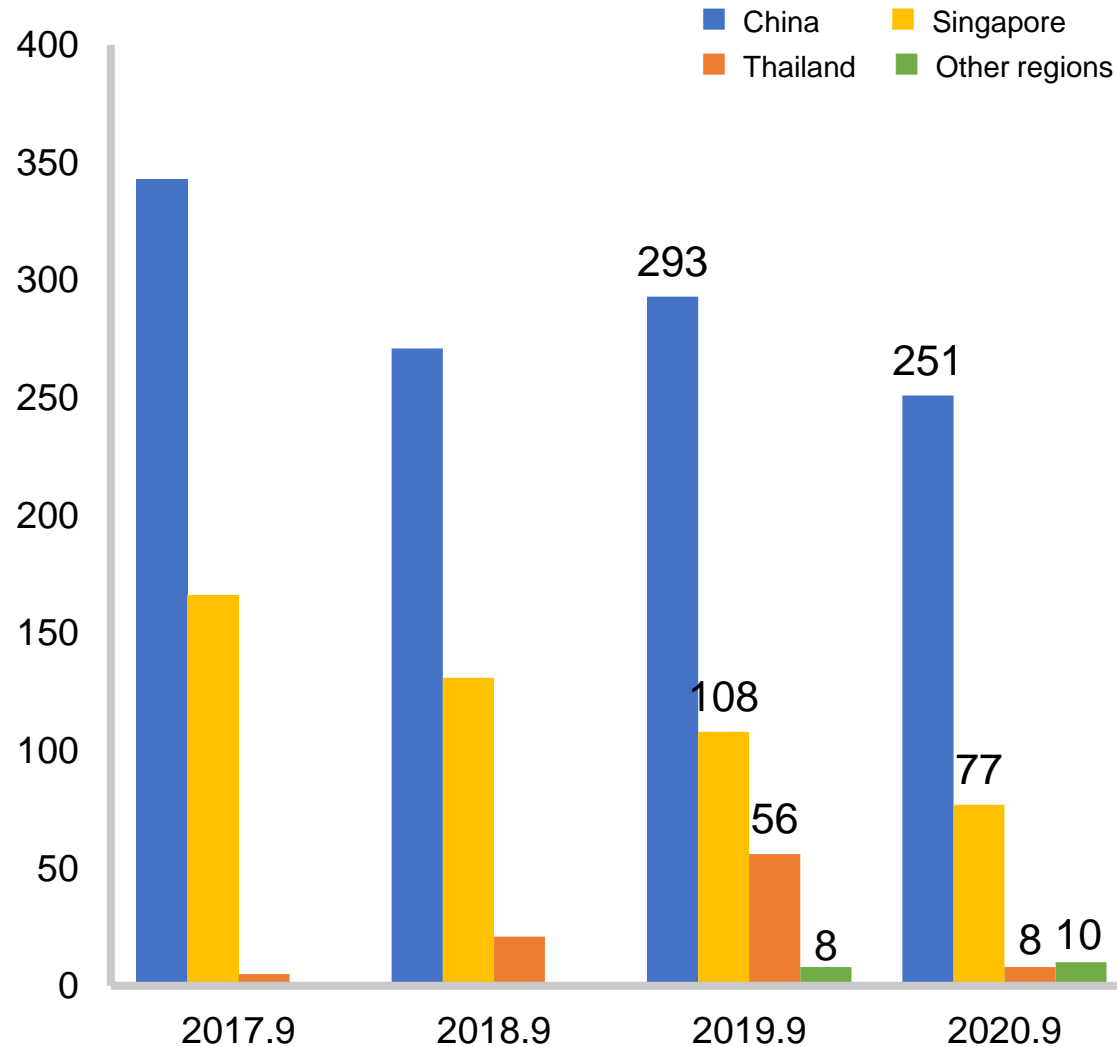


Special demand related to air conditioning
at schools disappeared

Net sales from spot maintenance decreased

Personnel expenses increased

■ Net sales overseas by region (million yen)



Net sales in seven countries outside Japan:

¥348 million

The impact of the Covid-19 pandemic was large



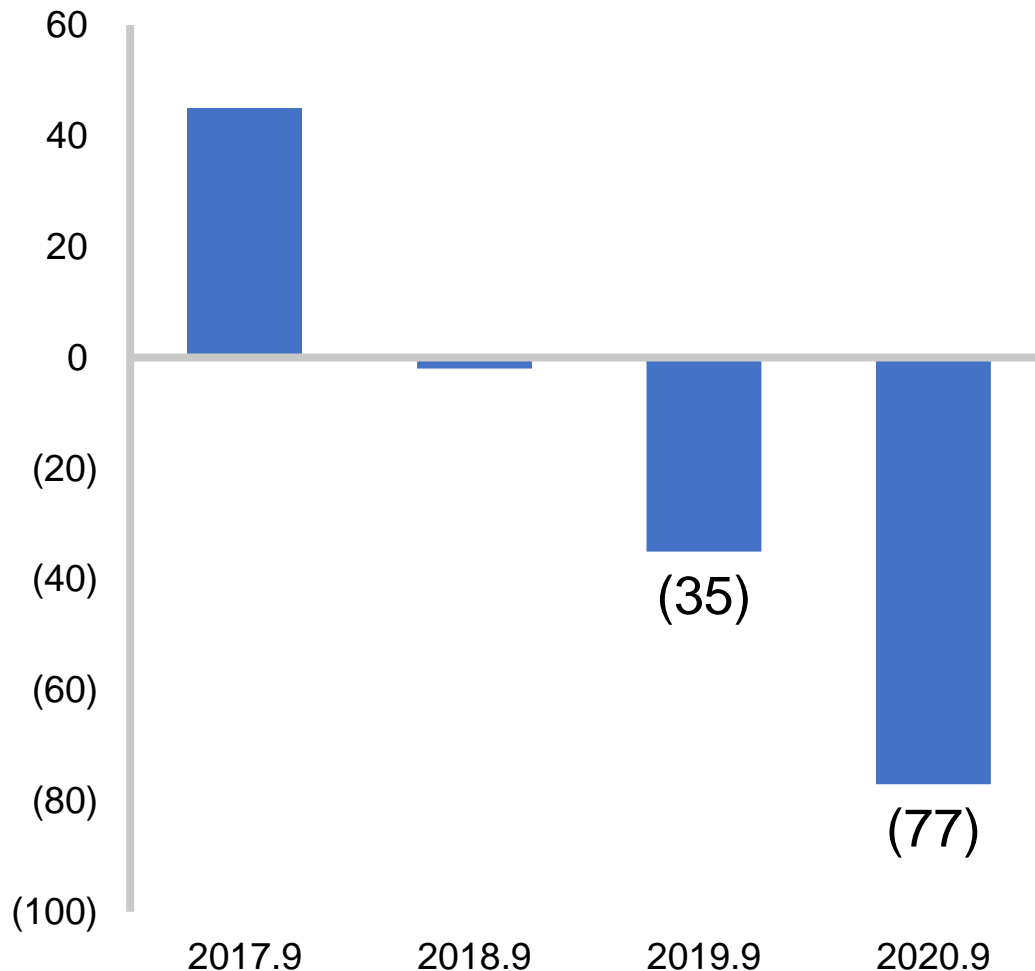
The operating ratio decreased due to lockdowns, etc.

The desire for capital investment decreased

There are signs of recovery in China

* "Other regions" of net sales overseas by region are Bangladesh, Malaysia, Vietnam and Myanmar.

■ operating income overseas (million yen)



Operating income overseas: -7.4%

**The increase in personnel expenses
could not be absorbed**



Operating losses were incurred (except for China)

Thirteen Japanese staff members were stationed

It is imperative to train local staff members

* The number of Japanese stationed staff is as of the end of September 2020.

| Consolidated (cumulative period) | 2QFY03/2020 | | 2QFY03/2021 | |
|--|-------------------------|-------------------------------------|-------------------------|-------------------------------------|
| | Amount (million yen) | Year-on-year growth ratio (%) | Amount (million yen) | Year-on-year growth ratio (%) |
| Cash flows from operating activities | 682 | (48.1) | 1,622 | +137.8 |
| Cash flows from investing activities | (254) | (52.1) | (139) | +45.1 |
| Cash flows from financing activities | (356) | +50.8 | (1,258) | (253.5) |
| Cash and cash equivalent growth | 69 | (82.9) | 220 | +218.4 |
| Balance of cash and cash equivalent at beginning of the period | 6,828 | +20.4 | 5,611 | (17.8) |
| Balance of cash and cash equivalent at end of the period | 6,897 | +13.5 | 5,831 | (15.4) |

The operating CF increased

The financing CF decreased



Decrease in trade receivables:

¥3,319 million

Dividend payment:

¥546 million

| Consolidated (as of the end of period) | FY03/2020 | | 2QFY03/2021 | |
|---|-------------------------|-------------------------------------|-------------------------|-------------------------------------|
| | Amount (million yen) | Year-on-year growth ratio (%) | Amount (million yen) | Year-on-year growth ratio (%) |
| Current assets | 19,593 | (3.1) | 17,075 | (12.8) |
| Fixed assets | 13,416 | (2.2) | 14,101 | +5.1 |
| Total assets | 33,009 | (2.8) | 31,177 | (5.6) |
| Interest-bearing debts | 1,727 | (3.5) | 1,025 | (40.6) |
| Other liabilities | 12,821 | (13.1) | 10,861 | (15.3) |
| Total liabilities | 14,549 | (12.0) | 11,886 | (18.3) |
| Total net assets | 18,459 | +6.0 | 19,290 | +4.5 |

The capital adequacy ratio increased

54.8% ⇒ 60.8%



Notes receivable and accounts
receivable for completed work, etc.
decreased by ¥3,211 million

Notes payable and accounts
payable for work, etc.
decreased by ¥907 million

Based on the forecast before consideration of the impact of the Covid-19 pandemic

Net sales: -2.0 billion yen, operating income: -0.3 billion yen (forecast)

(billion yen, %)

| Consolidated (cumulative period) | FY03/2019 | | | FY03/2020 | | | FY03/2021(forecast) | | |
|--|-----------|----------------|---------------------------|-----------|----------------|---------------------------|---------------------|----------------|---------------------------|
| | Amount | Ratio to sales | Year-on-year growth ratio | Amount | Ratio to sales | Year-on-year growth ratio | Amount | Ratio to sales | Year-on-year growth ratio |
| Net sales | 46.3 | 100.0 | +2.0 | 49.6 | 100.0 | +7.1 | 49.0 | 100.0 | (1.4) |
| Maintenance service sales | 31.9 | 68.9 | +3.8 | 32.2 | 65.0 | +1.0 | 32.0 | 65.3 | (0.8) |
| Renovation work construction work volume | 14.4 | 31.1 | (1.7) | 17.4 | 35.0 | +20.7 | 17.0 | 34.7 | (2.3) |
| Gross profit on sales | 8.5 | 18.4 | +3.9 | 9.3 | 18.9 | +9.6 | 9.0 | 18.4 | (4.0) |
| Selling, general and administrative expenses | 5.9 | 12.8 | +3.5 | 6.2 | 12.6 | +5.4 | 6.2 | 12.7 | (1.0) |
| Operating income | 2.6 | 5.6 | +4.8 | 3.1 | 6.3 | +19.4 | 2.8 | 5.7 | (9.8) |
| Profit attributable to owners of parent | 1.7 | 3.9 | +14.8 | 1.8 | 3.8 | +5.9 | 1.7 | 3.6 | (7.9) |

Assumptions for the forecast
for the year ending March 2021



**The impact of the Covid-19 pandemic peaked
in the first half of the year**

**Special demand in the first half of the year ended
March 2020 disappeared**

| | |
|---|------------------|
| I . Overview and strength | p.03-p.30 |
| II . Financial highlights | p.31-p.45 |
| III . Toward the achievement of long-term vision | p.46-p.54 |

Enhanced human resources value



Capital productivity improvement

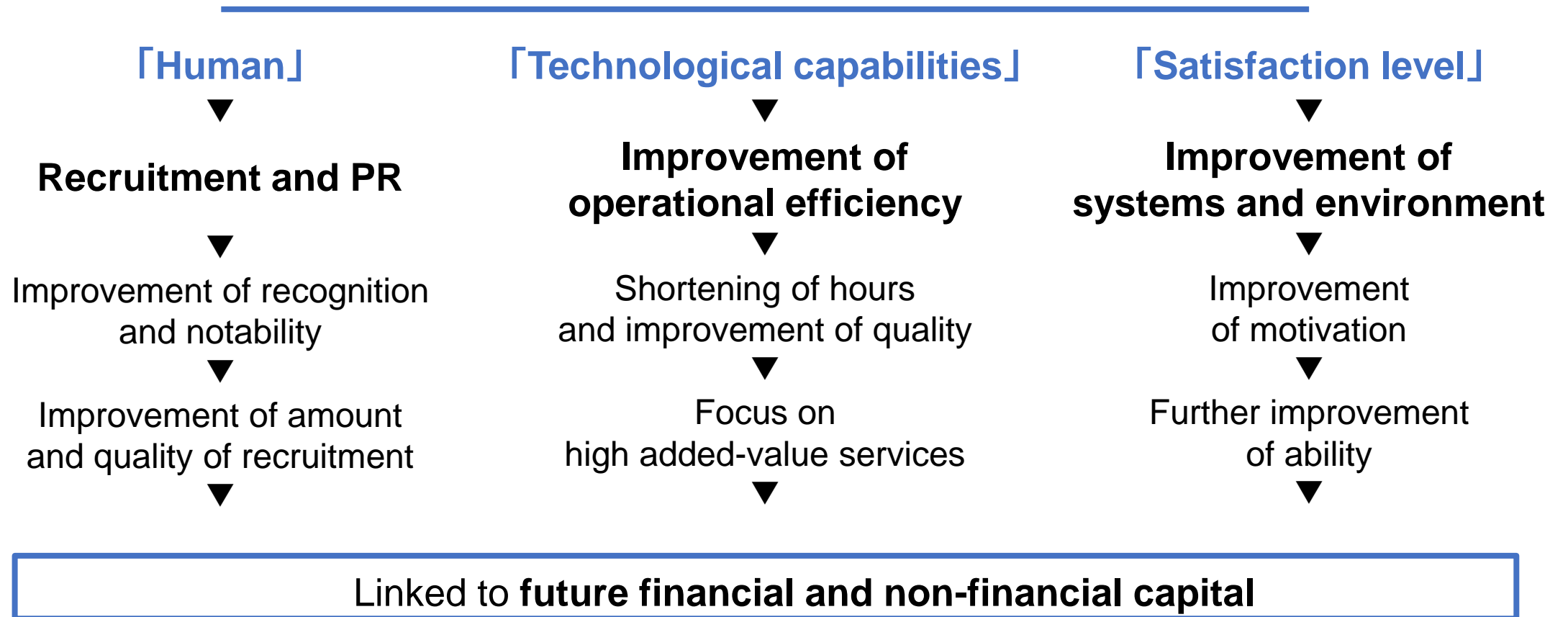


Creation of sustainable shareholder value

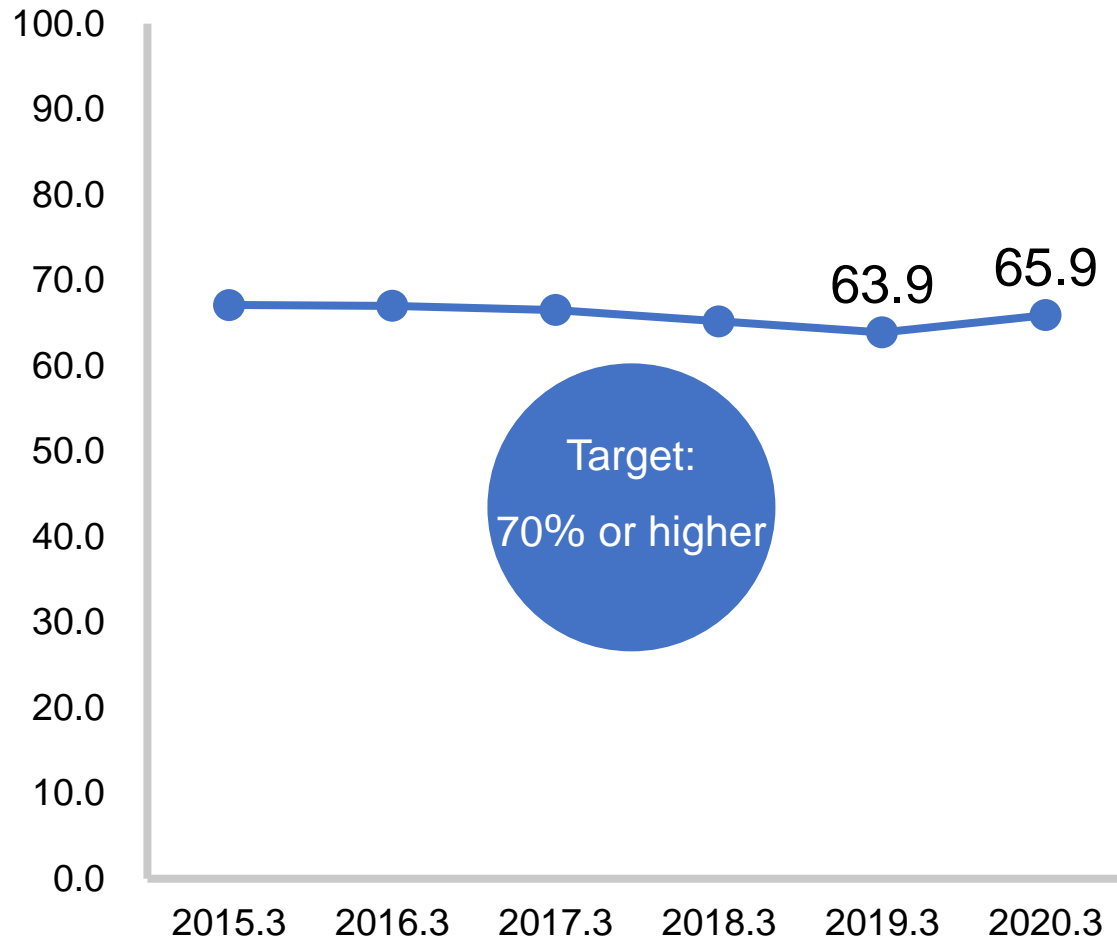


Improvement of happiness of all stakeholders

Promote three projects aiming at enhancing human resources value



■ Employee satisfaction levels (%)



Employee satisfaction levels

65.9%



Foundation of corporate value

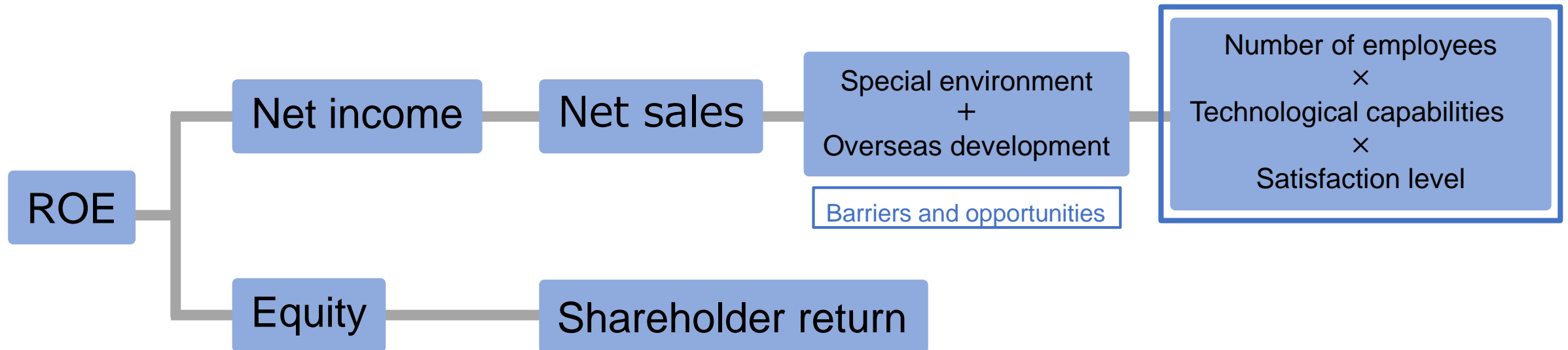
Basis of customer satisfaction

Linked to human resources

Most important factor for improving the capital productivity

「enhancement of human resources value」

Linked to ESG(Social)

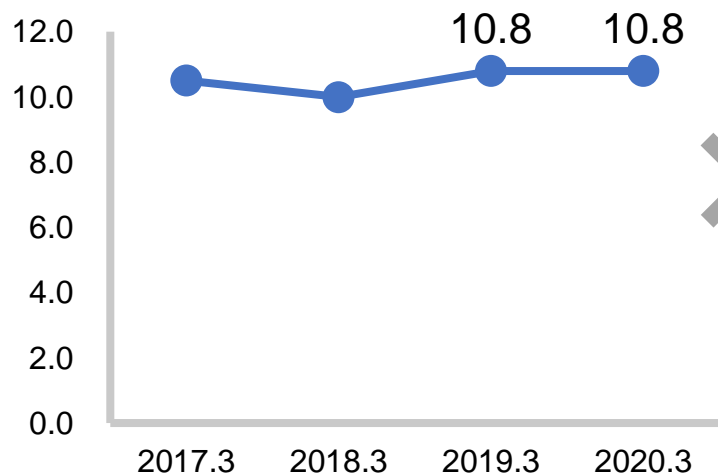


Maintain dividend payout ratio of 50%
by enhancing capital productivity

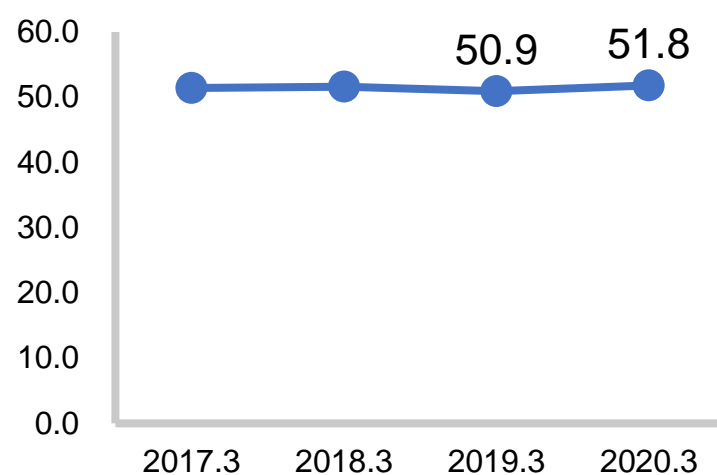


**Implementation of shareholder return
with awareness of dividend on equity ratio**

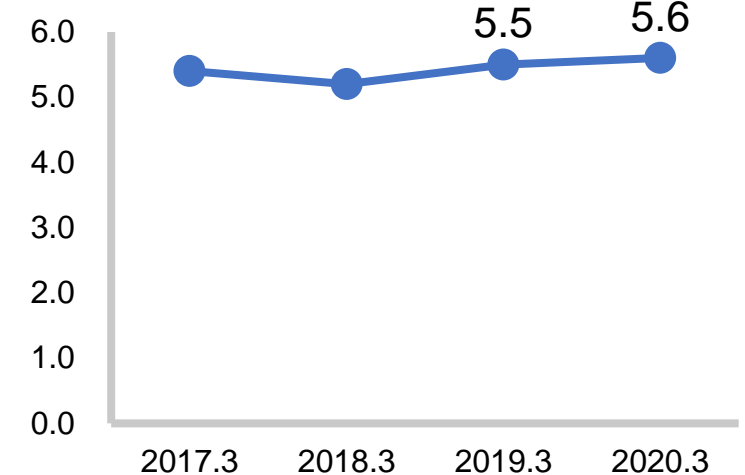
■ Return On Equity (%)

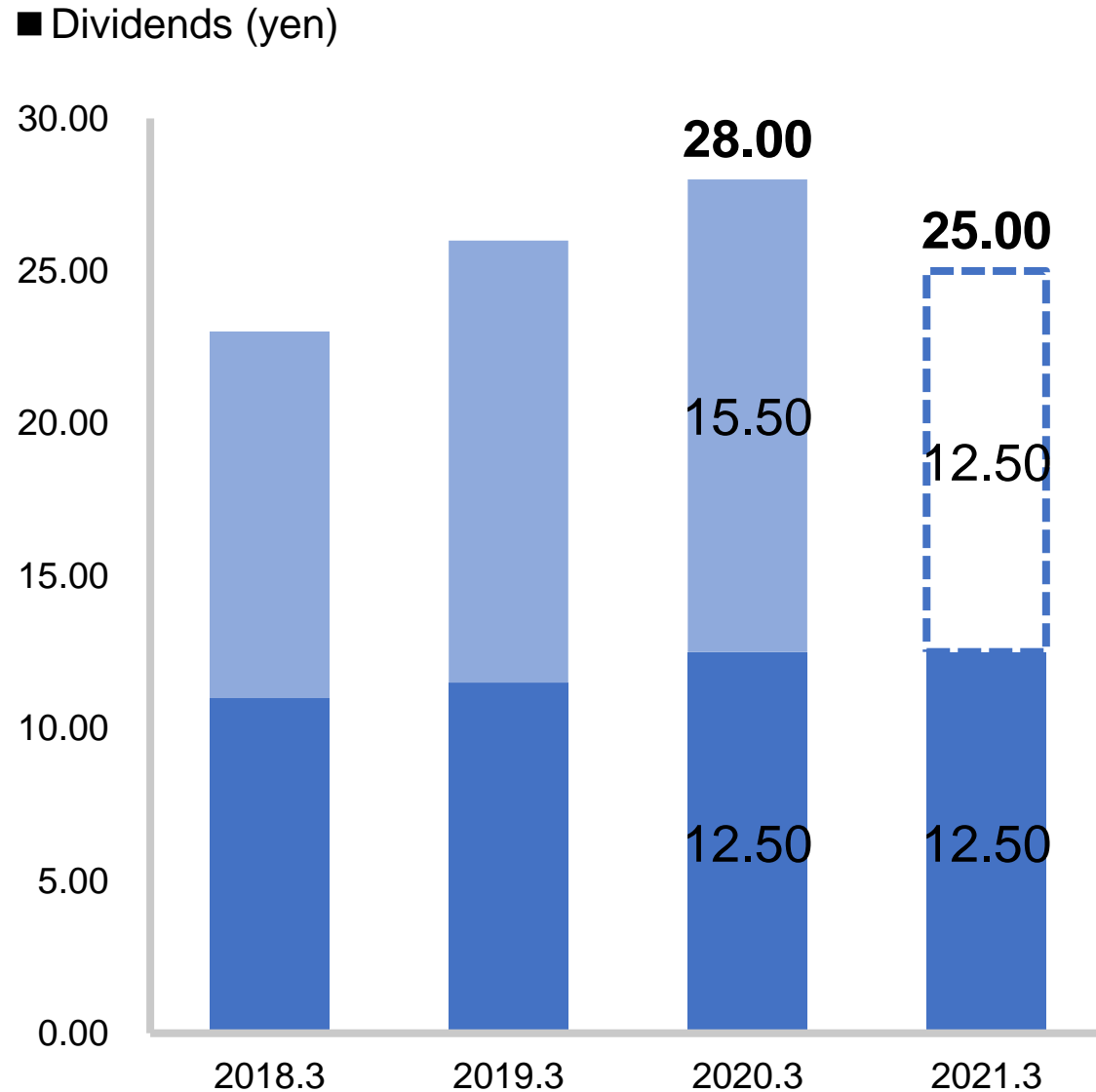


■ Payout ratio (%)



■ Dividend on equity ratio (%)





interim dividend

¥12.50 paid

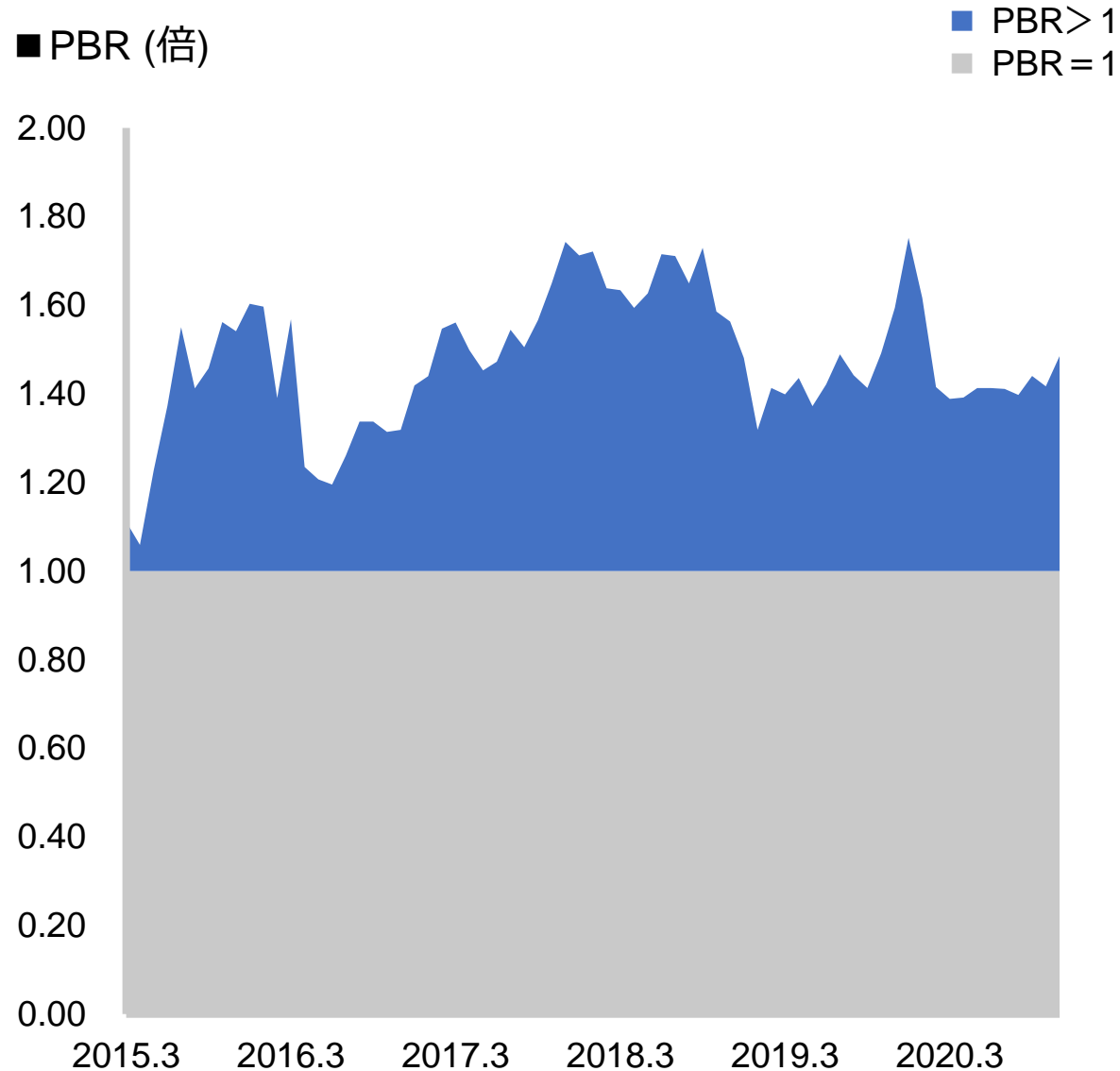
Decisions on matters related to acquisition of treasury shares

Total number: up to 700,000 shares (1.98%)

Total amount: up to ¥500 million

Period: November 2020 to July 2021

Method: purchase on the Tokyo Stock Exchange



PBR > 1

Evaluation of non-financial capital



“Creation of sustainable shareholder value”

Linked to ESG (**the governance**)



Medium- to long-term expansion of corporate value

Improvement of happiness of all stakeholders

Net sales : **¥55 billion** (Ratio of sales of facilities with special environment **75%**)

Operating income : **¥3 billion** (Operating income to sales overseas **5%**)

Profit attributable to owners of parent : **¥1.9 billion**

EPS : **¥54** (Payout ratio : **50%**)

ROE : Maintain **10%**

* For net sales, operating income, final income, EPS, ROE, the Target number in the fiscal year ended March 2024.

* Final income indicates profit attributable to owners of parent.

Our company offers comprehensive building facility support. While the main focus of our company is maintenance, management, environmental facility diagnosis, and solution proposals for building facilities, we also have a division that specializes in facility renovation.

Making use of the technological capabilities cultivated through our core business of service maintenance, we provide energy conservation and environmental improvement proposals based on high quality diagnostics and meticulous service to meet our customer's needs.

We were founded on April 28, in October 2007, we were designated to the First Section.(Our securities code is 4658), The consolidated results for the Fiscal Year Ending March 2020 estimates proceeds of ¥49.6 billion, operating income of ¥3.1 billion, As of March 31, 2020 we have 3,065 employees.

please see the <https://www.nikku.co.jp/en/> of this website.

www.nikku.co.jp/en

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