

We are the doctor of
your invisible air.



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

Reference Materials of Financial Results
for the 2nd Quarter of Fiscal Year Ending March 31, 2023

November 2022

TSE Prime Market, NSE Premier Market : [4658](#)

These materials were prepared by Nippon Air Conditioning Services Co., Ltd. (the “Company”) for the purpose of understanding the current status of the Company, and do not aim at solicitation for investment in securities issued by the Company.

The information in these materials is based on generally-recognized economic, societal, and other situations and certain assumptions judged reasonable by the Company, and may be changed without announcement due to changes in the management environment or any other reason. The Company is not obligated to update or modify the information included in these materials even if there is new information or future events, etc. The Company shall assume absolutely no liability for any damage incurred as a result of use of these materials.

All numbers in these materials are consolidated-basis. (except for numbers with separate notes)

These materials are expected to be used only by persons to whom they are provided. Any and all rights to any parts of these materials belong to the Company, and whether electronically, or mechanically, or regardless of the means, these materials must not be cited, reproduced or transferred and used, etc., whole or in part, without permission.

I . Overview and strength	p.03-p.24
II . Financial highlights	p.25-p.37
III . Toward the achievement of long-term vision	p.38-p.47

Building facilities **maintenance**

Number of technology-related employees: **2,530**

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

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 3,140	Non-consolidated 2,285
Net sales	Consolidated ¥49.8 billion	Non-consolidated ¥35.5 billion
Number of bases	Domestic 83 bases	Overseas 10 bases

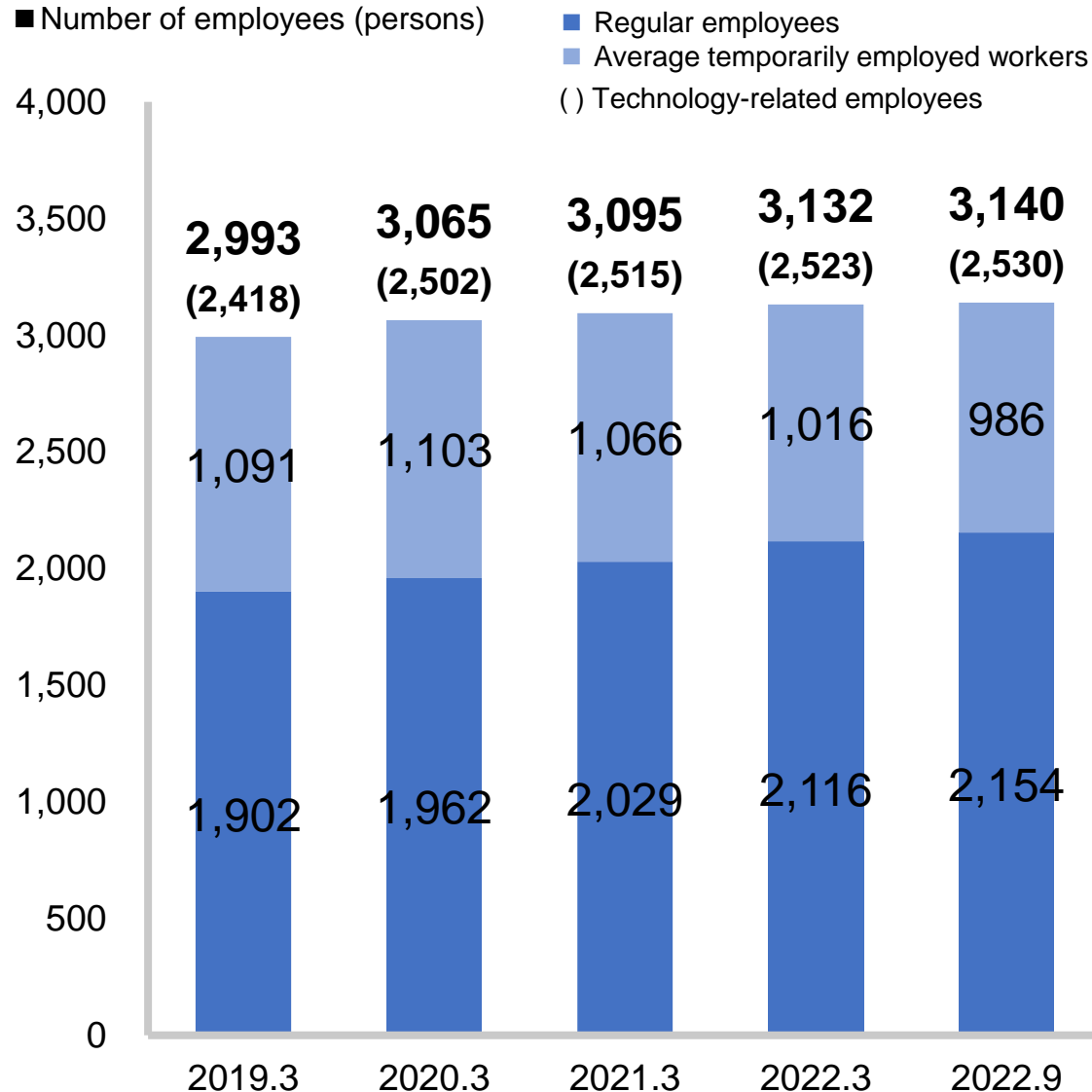
Apr. 1964 The company is established in Higashijukucho, Nakamura-ku Nagoya-shi, Aichi.



* Number of employees is as of the end of September 2022.

* For net sales, the number in the fiscal year ended March 31, 2022 is used.

* Number of bases is as of the end of September 2022 (based on address).



Technology-related employees

account for more than 80%

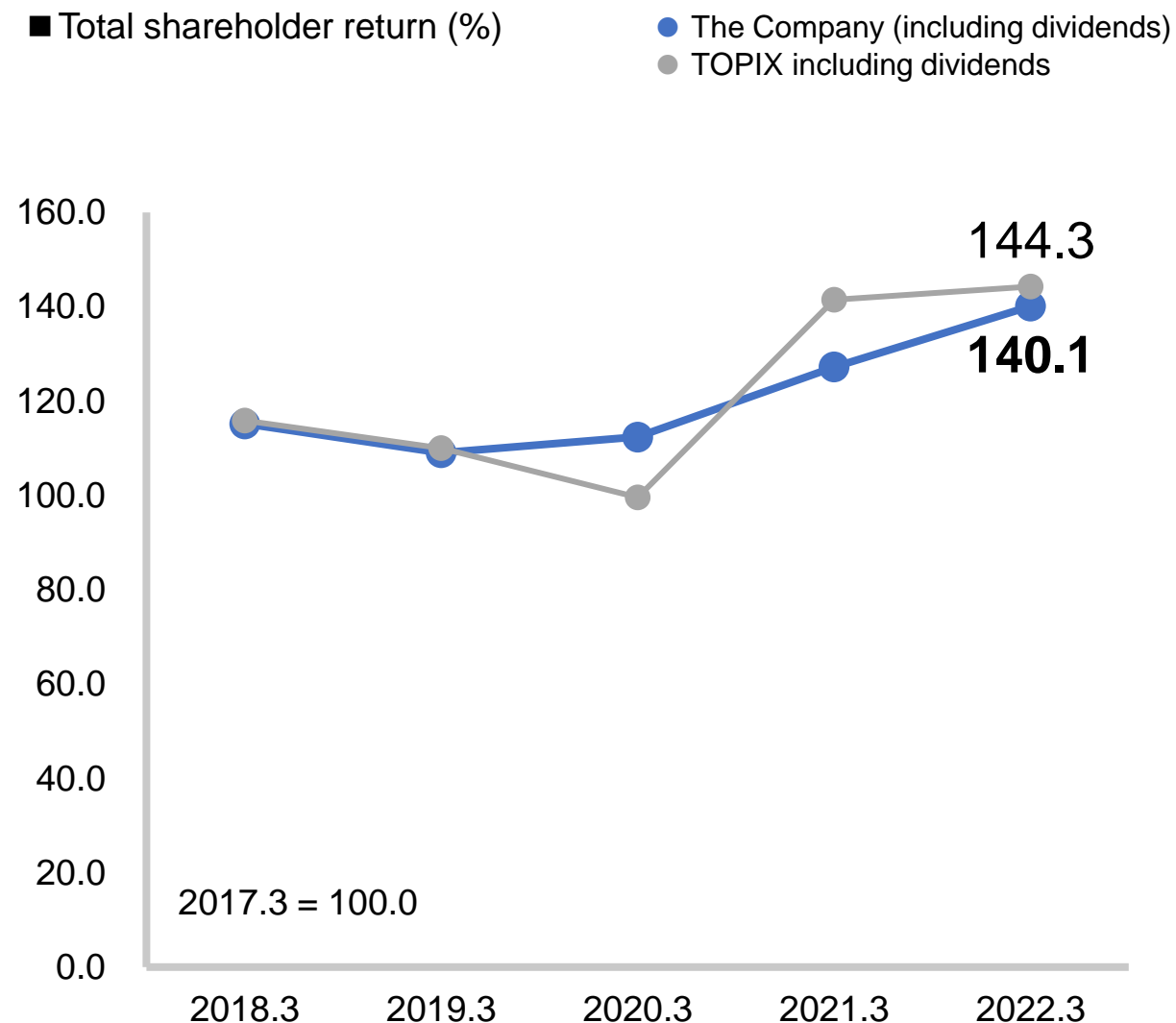
Technology-oriented company



Systems for improving technological capabilities

- Systematic training curriculum
- Linking promotions to official qualifications
 - Instructor system, etc.

Stock-related information	
Stock price	¥701
Total market capitalization	¥25.0 billion
Dividends	¥28 per share
Dividend payout ratio	50.7%
Dividend yield	3.99%
Number of shareholders	12,091
PER	12.69x (EPS : ¥55.22)
PBR	1.20x (BPS : ¥584.08)
ROE	14.1%



* For stock price, closing price as of November 14, 2022 is used.

* For dividends and EPS, predicted numbers in the fiscal year ending March 31, 2023 are used.

* For number of shareholder, as of the end of September 2022 is used.

* For BPS and ROE, actual number in the fiscal year ended March 31, 2022 are used.

* Total market capitalization is based on total shares issued and outstanding (including treasury stock) as of September 30, 2022.

To make all our stakeholders happier



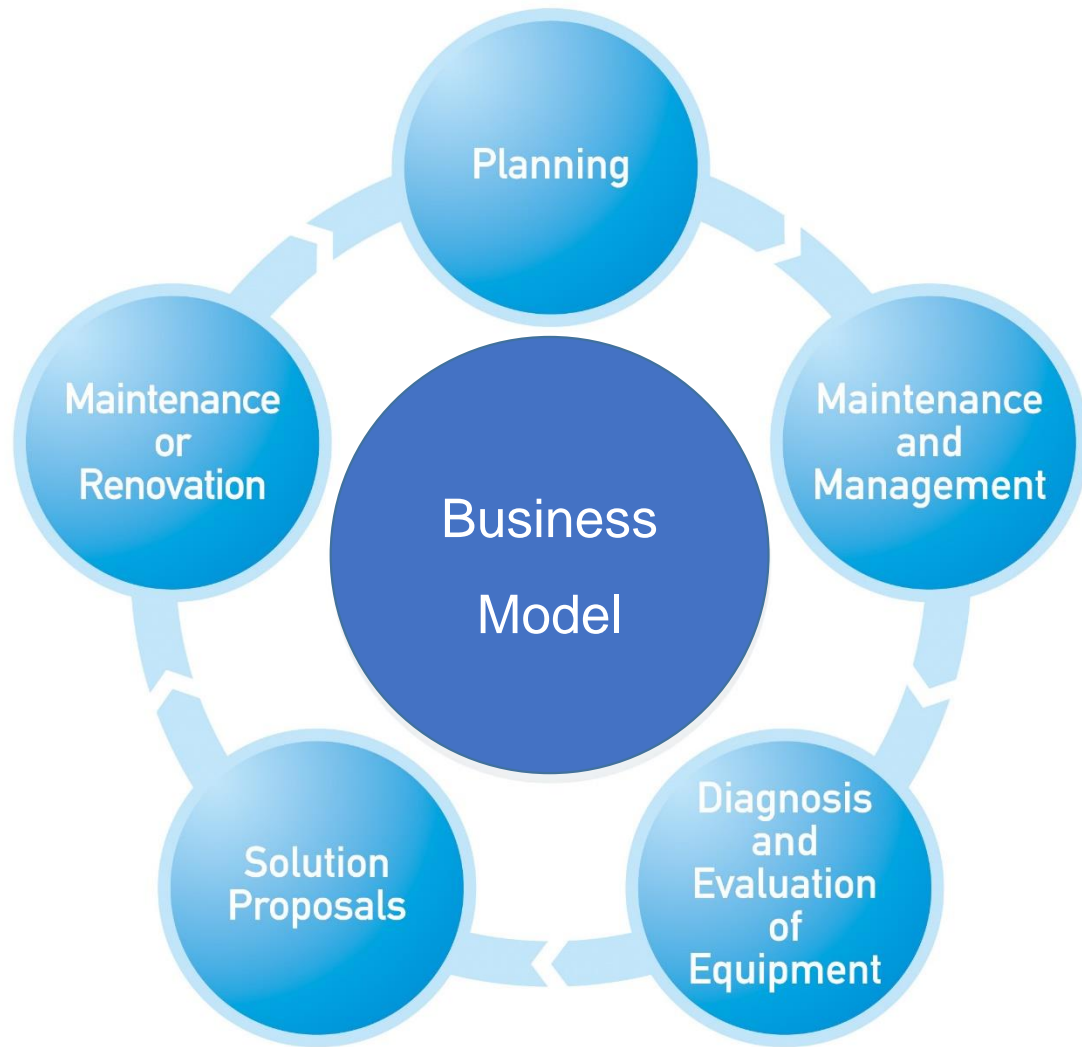
Creation of social value

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



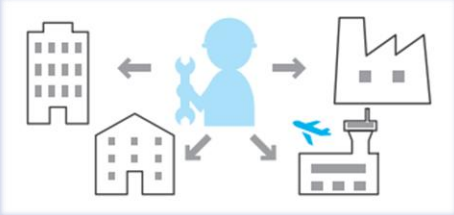

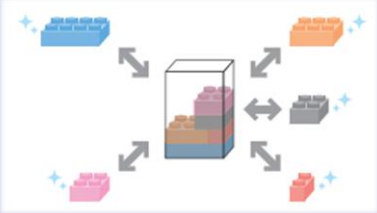
In-house technicians can respond in any phase



Technological capabilities
Solution capabilities
Total support capabilities



What sets us apart from the competition

Business division	Overview	Net sales composition
<p>PM Preventive Maintenance</p>	<ul style="list-style-type: none"> ■ Inspection, maintenance, repair, replacement, etc. of overall equipment / systems of buildings. (mainly air conditioning) 	<p>39%</p>
<p>FM Facility Management</p>	<ul style="list-style-type: none"> ■ Integrated management that optimally combines maintenance services with daily maintenance and management. 	<p>35%</p>
<p>RAC Reform and Construction</p>	<ul style="list-style-type: none"> ■ Mainly renovation work of existing equipment. 	<p>26%</p>

* For net sales composition, actual number in the 2nd Quarter of fiscal year ending March 31, 2023 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?”

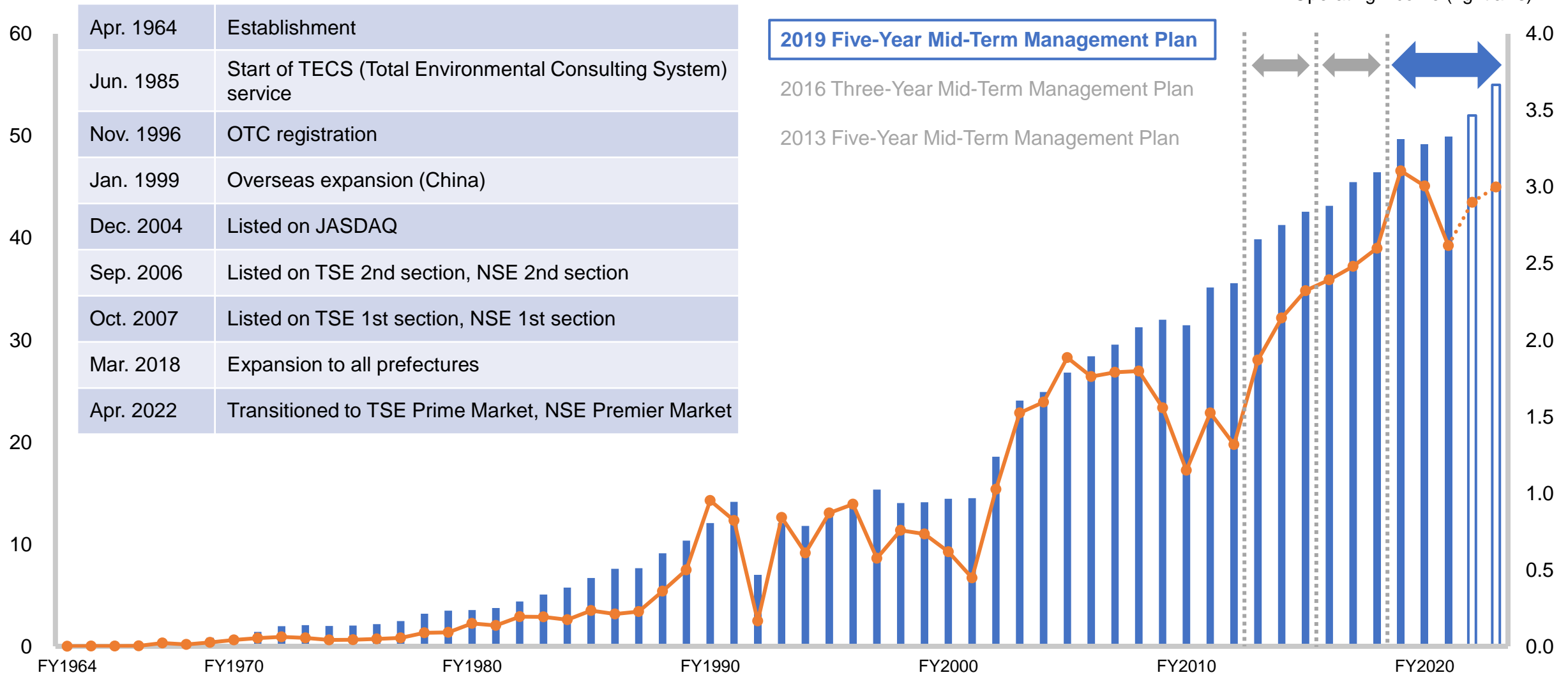


Boosting added value by identifying needs
based on dialogue with customers



Linking with the sustainability
of the customer’s business activities,
from the perspective of **ESG (environment)**

■ Net sales and operating income changes since foundation (billion 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

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	¥25.0 billion	¥147.8 billion	¥102.4 billion	¥7.6 billion
PER	12.69x	13.64x	16.61x	5.76x
PBR	1.20x	1.54x	1.54x	0.41x
ROE	14.1%	11.7%	10.7%	7.7%
Net sales	¥49.8 billion	¥317.6 billion	¥103.7 billion	¥31.3 billion
Operating income	¥2.6 billion	¥15.7 billion	¥7.5 billion	¥1.4 billion
Operating income to sales	5.2%	5.0%	7.2%	4.5%
Average annual salary	¥5,960 thousand	¥4,960 thousand	¥3,560 thousand	¥3,630 thousand
Average age	39.4 years old	45.9 years old	53.7 years old	53.4 years old

Characteristics of the Company compared to other companies in the same sector

- (1) Scope of net sales and profits is lower.
- (2) Average annual salary is much higher than the average of other three companies (though the nature of our businesses preclude simple comparison).
- (3) ROE is higher than the average of other three companies.
- (4) Stock price indicators suggest our shares are undervalued.



We need to boost the creation of added value and strengthen IR activities.

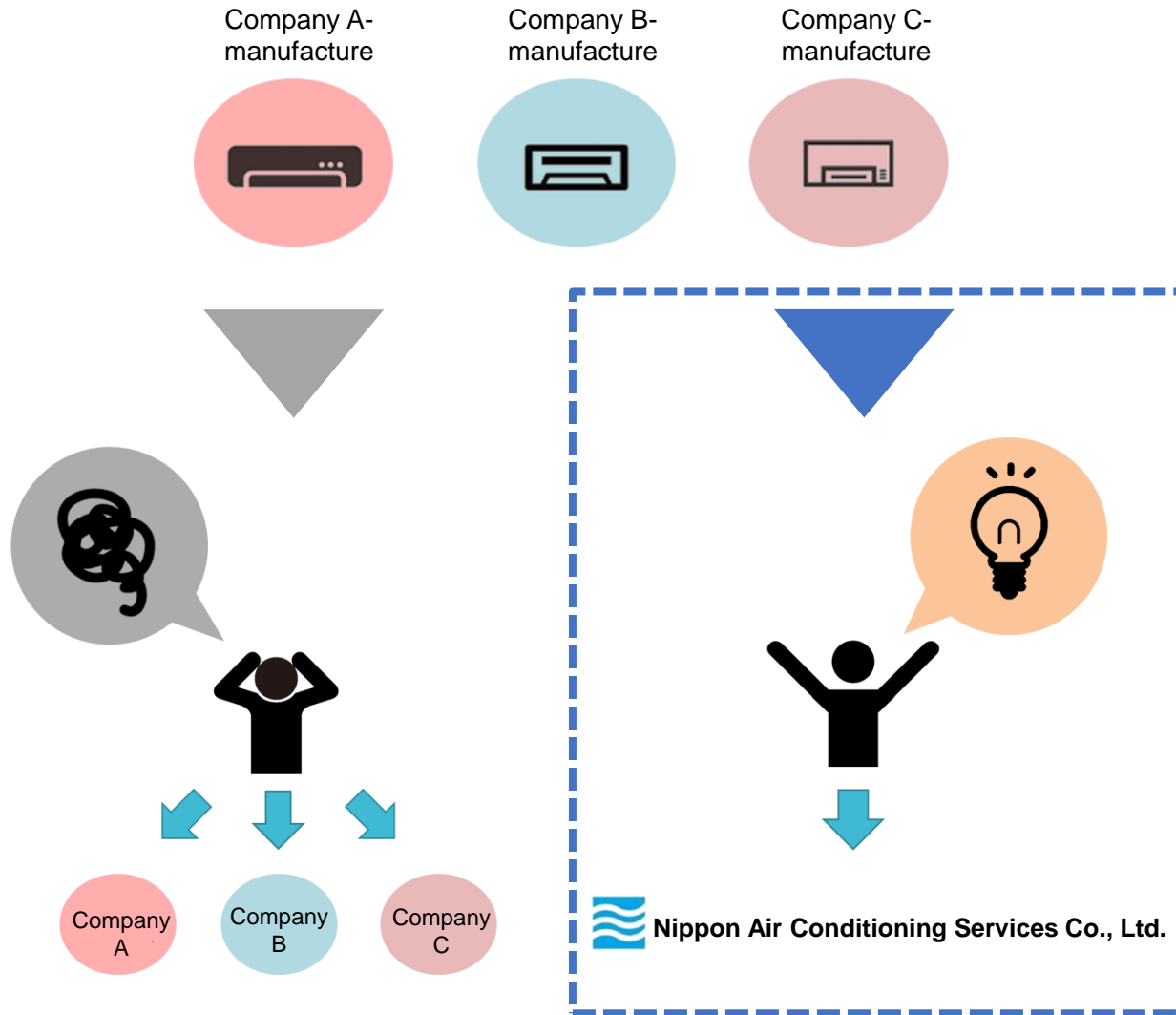
* For total market capitalization of individual companies, closing price as of November 14, 2022 is used.

* For EPS of individual companies, predicted number as of FY2023 is used, for BPS, ROE, net sales, operating income, operating income to sales, the actual numbers for FY2022 are used.

* For average annual salary and average age, the actual numbers for FY2022 are used.

* Total market capitalization of individual companies is based on total shares issued and outstanding (including treasury stock) as of FY2023 2Q.

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



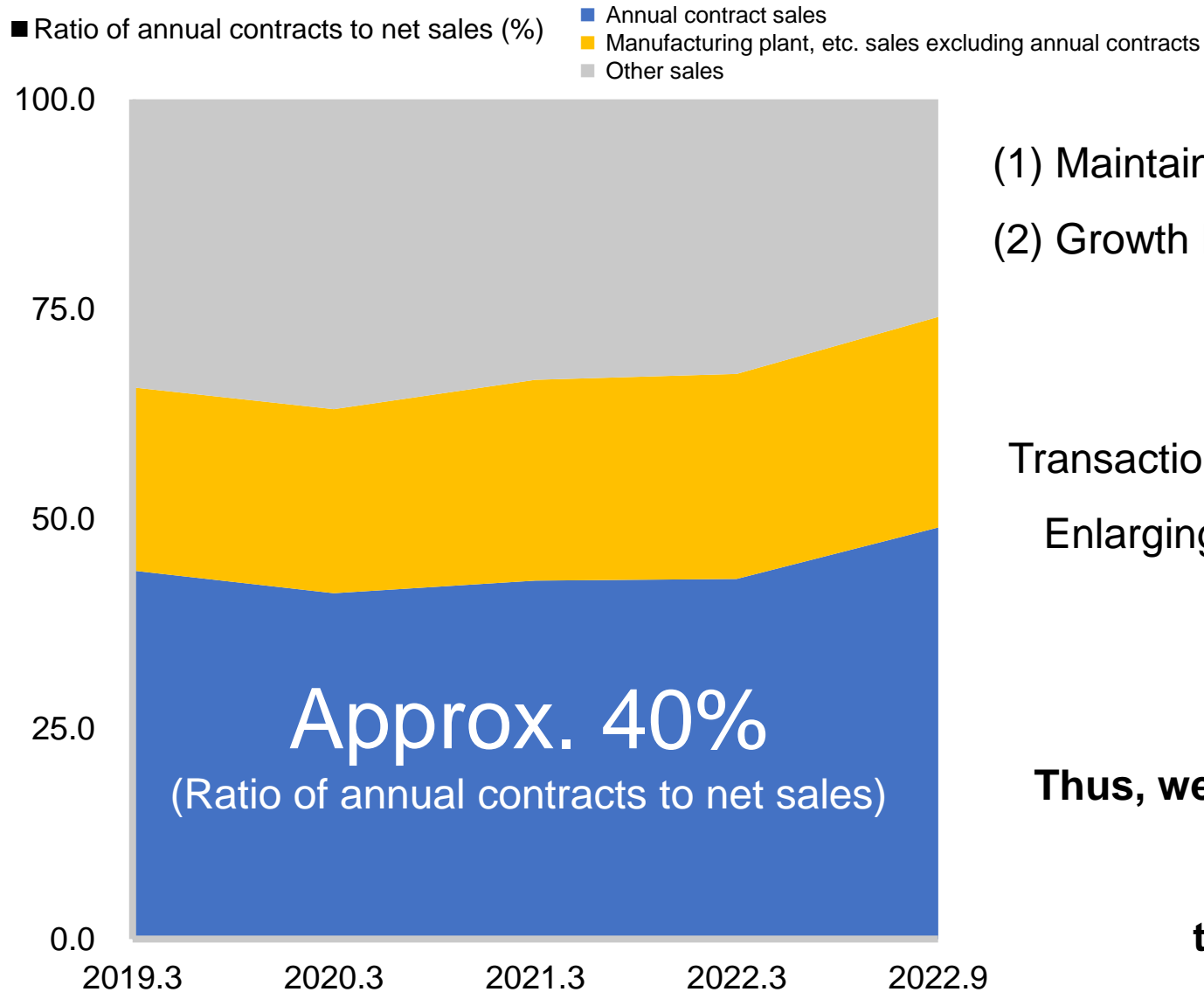
(1) As an independent company, we are not subject to restrictions imposed by manufacturers.

(2) Our skilled employees allow us to complete work rapidly without outside help.



(1) By offering **flexibility and diversity** in our services, we help customers create optimal environments.

(2) **The burden** on customers' equipment maintenance personnel is **reduced**.



- (1) Maintaining stable annual contracts, mainly with hospitals
- (2) Growth by expanding manufacturing plants

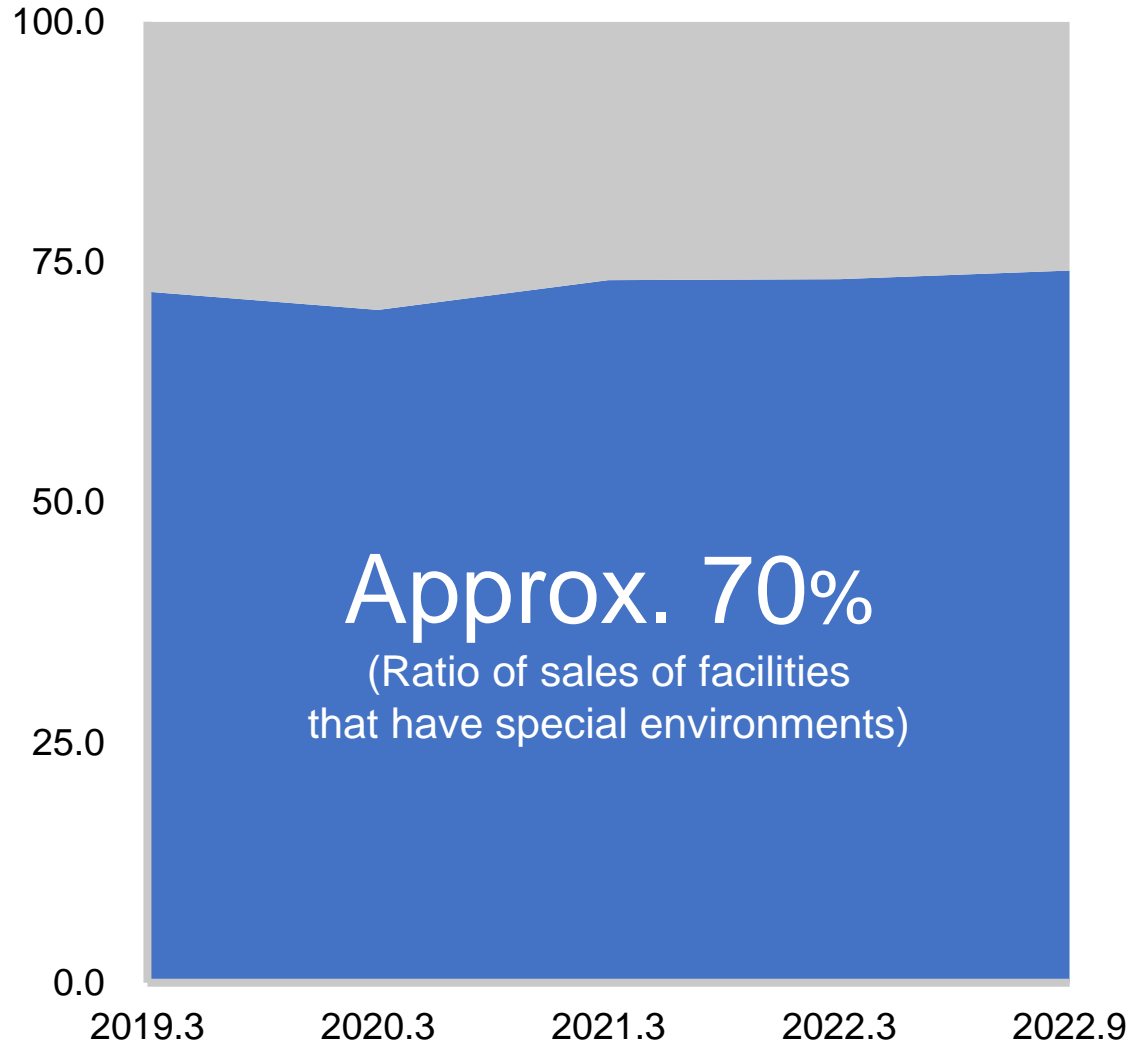
▼

Transactions with manufacturing plants are often spot deals.
Enlarging our share is likely to reduce the ratio of annual contracts to net sales.

▼

Thus, we will diversify our response to economic risk by serving numerous sectors, then translate this into stable growth.

■ Ratio of sales of facilities with special environment (%) ■ Ratio of sales of facilities with special environment
■ Other sales



Hospitals and manufacturing plants must meet strict environmental demands, thus maintenance at these facilities requires sophisticated technological capabilities.



- (1) **Barriers to entry** for competitors are high.
- (2) **Switching costs** and **costs associated with the search for suitable service vendors** are high.
- (3) Our strategy is to erect barriers on **both the demand and supply sides.**

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

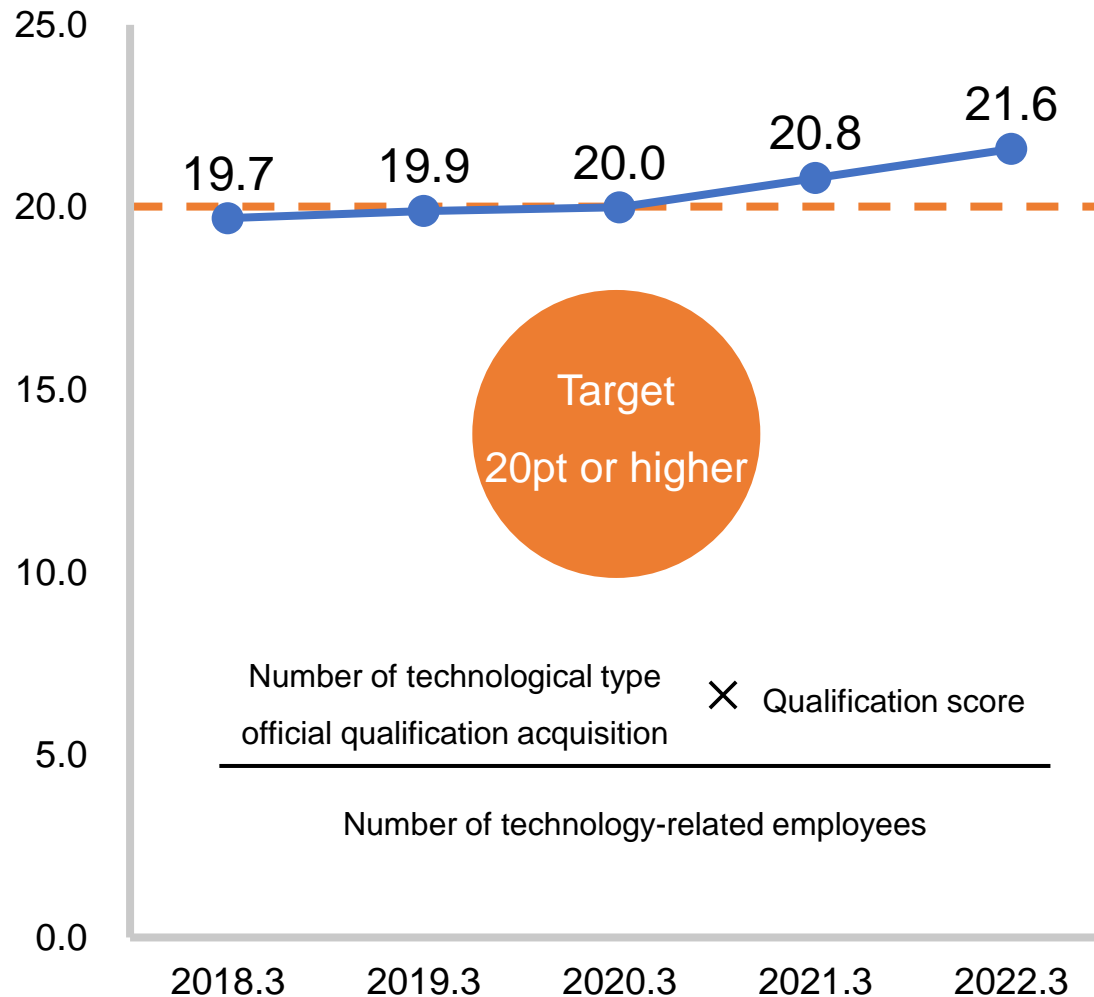


Examples of the **technological capabilities** required are shown below.



* 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 capabilities index (pt)



Number of technological type official qualification acquisition

9,873

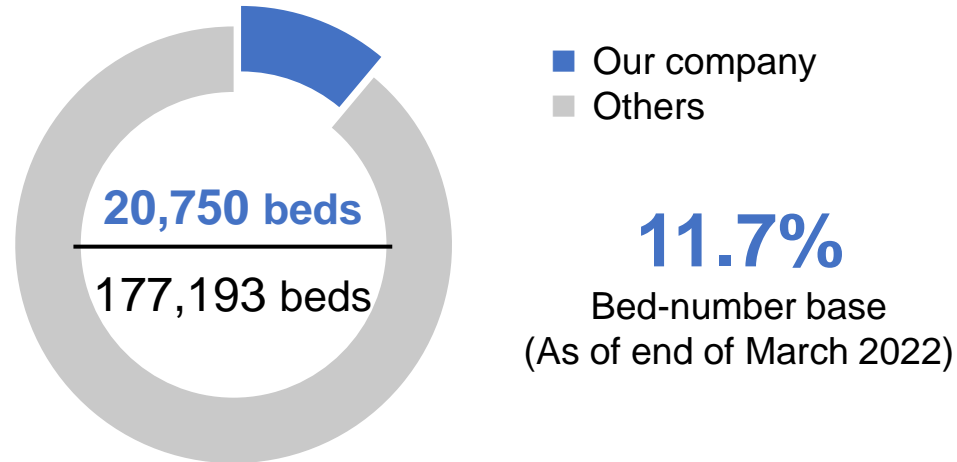
(Increase of 537 from previous fiscal year)



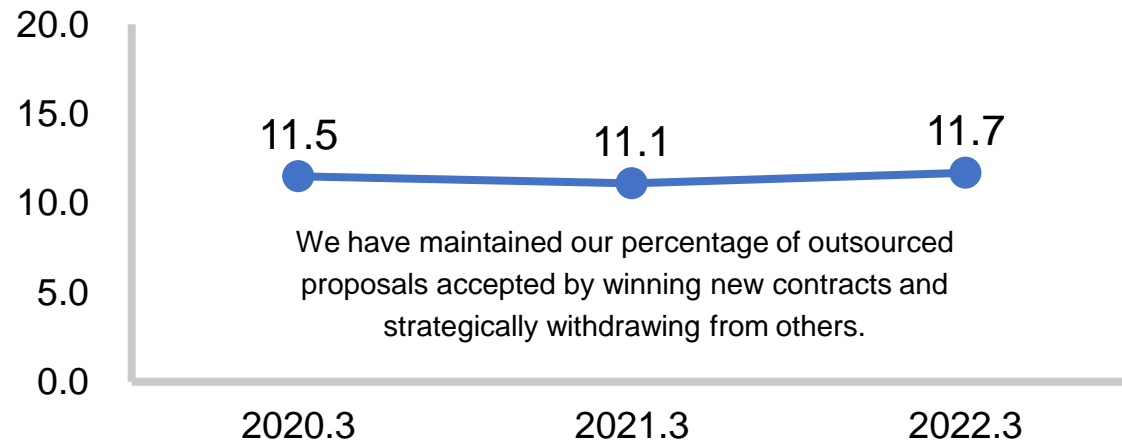
While technological capabilities cannot be measured by the number of qualifications alone, this remains an important index for linking **our technological capability base to human capital.**

* The number of official qualification acquisition 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 2022. All numbers are on a non-consolidated basis.

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



- Our percentage of outsourced proposals accepted (%)



Our strengths include facilities maintenance at large hospitals, founded on our many years of experience at facilities with special environments.



Integrated management

Maintenance of environmental performance



We optimize facility operations for both stable operations and energy savings.

Solar power generation

Introduce solar power generation systems for self-consumption, setting manufacturing facilities as the target.

* Shift in paradigm from selling power to in-house production and consumption.



Nippon Air Conditioning Hokuriku Co., Ltd. is actively pursuing this approach using the PPA model, and the Company has newly established **the Energy Solutions Division** with an eye to rolling out this business nationwide.

* Private solar power generation and consumption system: A system that uses solar power generation to provide part of the electricity required for business activities by installing solar panels within factories and other facilities of businesses.

* PPA model: Business model whereby a third party leases space at the site of the power consumer or rooftop to install solar power systems that generate power for the consumer.

* Validation: Verification that the structural equipment, procedures and processes of a manufacturing plant as well as other manufacturing controls and quality control methods can obtain the expected results, and by documenting these procedures, verification that pharmaceuticals with the target quality can be continuously manufactured.

Validation

We are deploying validation total support with a view to expanding the scope of outsourcing from pharmaceuticals manufacturing plants.



Due to the sophisticated technological capabilities required, we are carefully assembling the structure to achieve this goal over the medium to long term.

■ Solar power generation and consumption business

[Target] Manufacturing plants with high voltage/high power electricity requirements.

[Goal] Expand outsourcing from manufacturing plants.

[Status] Energy Solutions Division established; currently focusing on expanding this business nationwide.

Train capable engineers while striving to achieve full-scale operations as quickly as possible.

■ Validation total support

[Target] Pharmaceutical manufacturing plants, etc.

[Goal] Expand orders for pharmaceutical manufacturing plants, etc.

[Status] Focus on training engineers, building systems, and accumulating knowhow by responding to actual projects.

Acquire the necessary technical capabilities while monitoring risks.

■ Overseas expansion

[Target] Overseas manufacturing plants operated by Japanese companies.

[Goal] Establish new revenue sources.

[Status] To achieve further growth, focus on establishing new revenue sources through a select-and-focus approach.

Offer service at levels identical to in Japan while gauging circumstances and needs in each country.

I . Overview and strength	p.03-p.24
II . Financial highlights	p.25-p.37
III . Toward the achievement of long-term vision	p.38-p.47

Net sales : ¥**21.8** billion [+1.2%]

Operating income : ¥**0.67** billion [-26.2%]

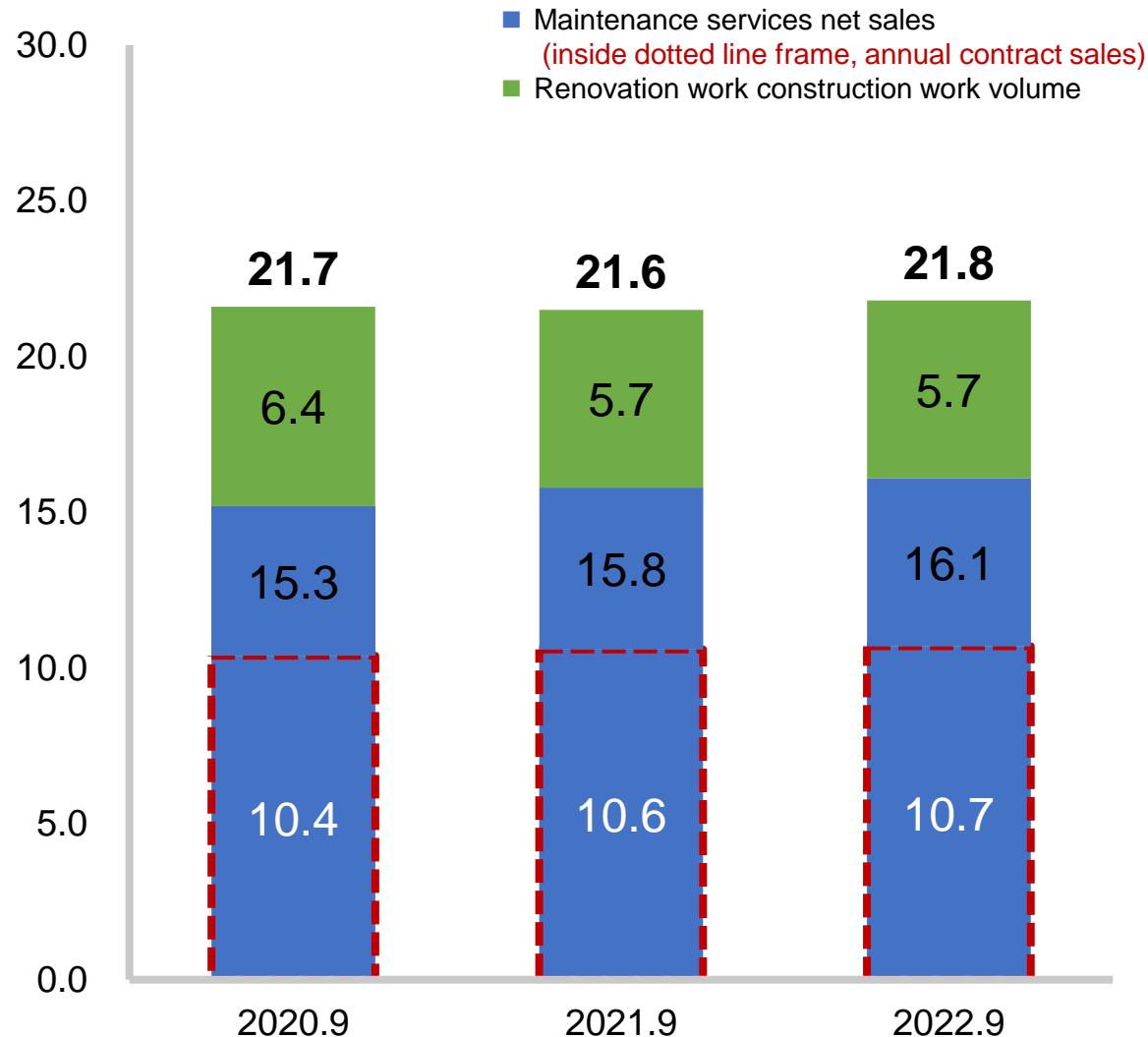
Net income attributable
to owners of the parent : ¥**0.46** billion [-71.0%]

- Net sales were strong performance from mainstay maintenance.
- Profits dropped due to soaring raw materials prices and higher personnel expenses.
- Profit attributable to owners of parent · · · Gain on sales of investment securities (1.3 billion yen) was recorded in the same period of the previous fiscal year due to reduction of cross-shareholdings.

(billion yen, %)

Consolidated (cumulative period)	FY03/2021 2Q			FY03/2022 2Q			FY03/2023 2Q		
	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	21.7	100.0	-7.5	21.6	100.0	-0.6	21.8	100.0	+1.2
Maintenance service sales	15.3	70.4	-1.4	15.8	73.2	+3.4	16.1	73.8	+1.9
Renovation work construction work volume	6.4	29.6	-19.3	5.7	26.8	-10.2	5.7	26.2	-0.9
Gross profit on sales	3.9	18.0	-13.4	3.8	17.7	-2.0	3.7	17.3	-1.5
Selling, general and administrative expenses	2.8	13.1	-0.9	2.9	13.5	+2.0	3.1	14.2	+6.2
Operating income	1.0	4.8	-35.5	0.91	4.2	-12.9	0.67	3.1	-26.2
Ordinary income	1.1	5.1	-35.4	0.98	4.6	-10.5	0.82	3.8	-16.8
Profit attributable to owners of parent	0.62	2.9	-41.7	1.5	7.4	+154.3	0.46	2.1	-71.0

■ Net sales for each type (billion yen)



Steady in maintenance, sluggish in construction

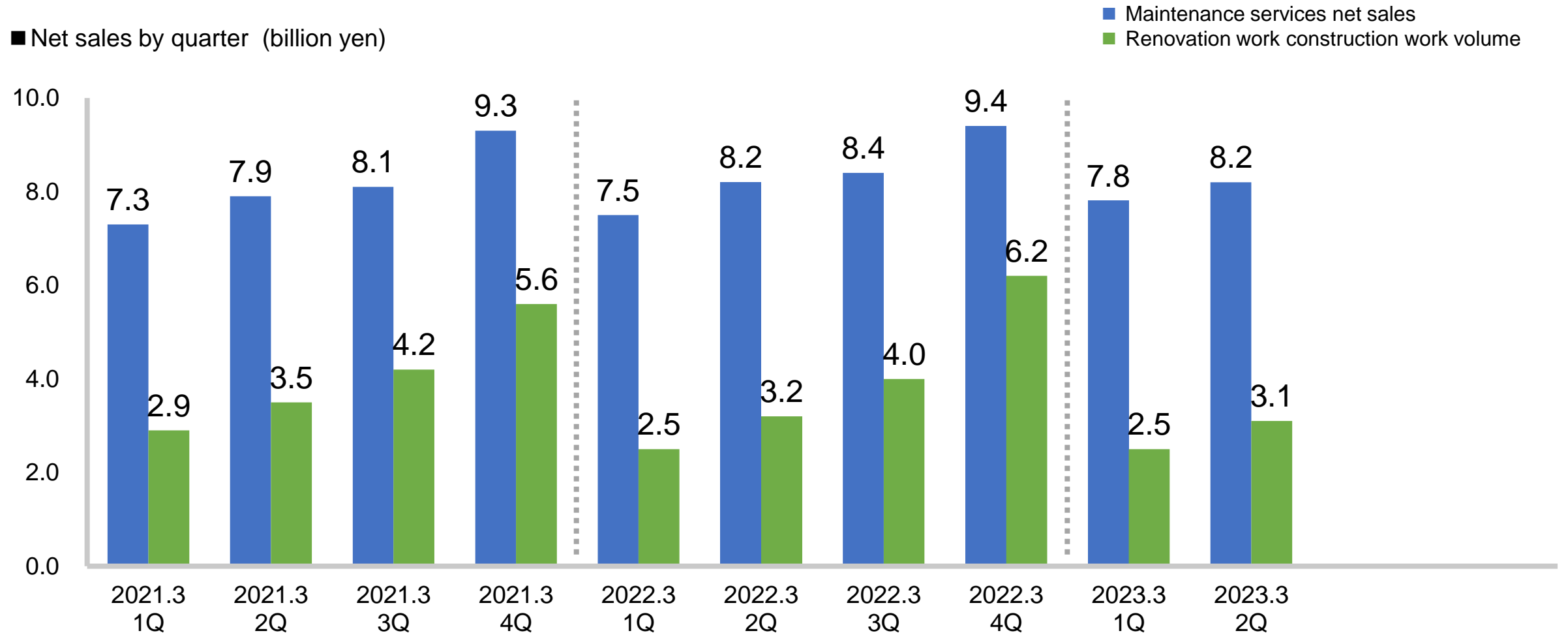


Annual contracts: Limited impact from the Covid-19 pandemic

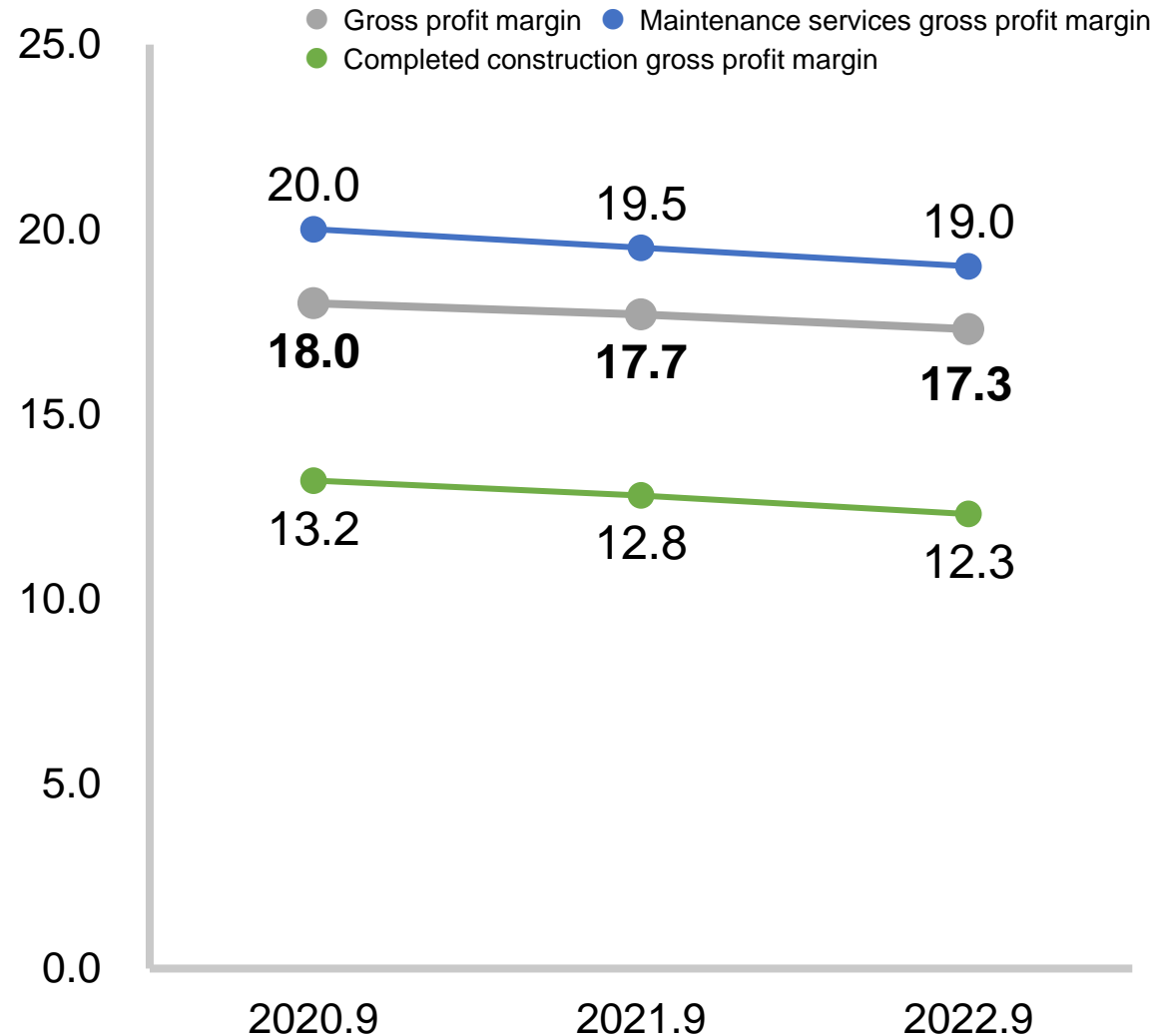
Spot : Expanded, with factories the main customers

Construction: Affected by factors including construction period extensions and project postponements due to the global chip shortage since the previous fiscal year, shortages of parts and materials, and delays in machinery delivery times

Despite steady performance of maintenance services, construction work was affected by factors including construction period extensions and project postponements due to shortages of parts and materials and delays in machinery delivery times.



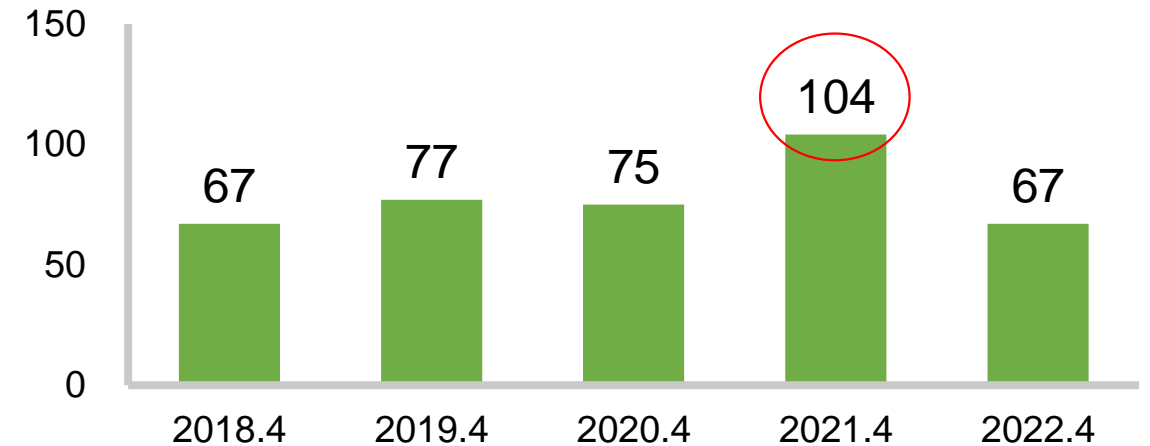
■ Gross profit margin (%)



Maintenance gross profit margin: decreased

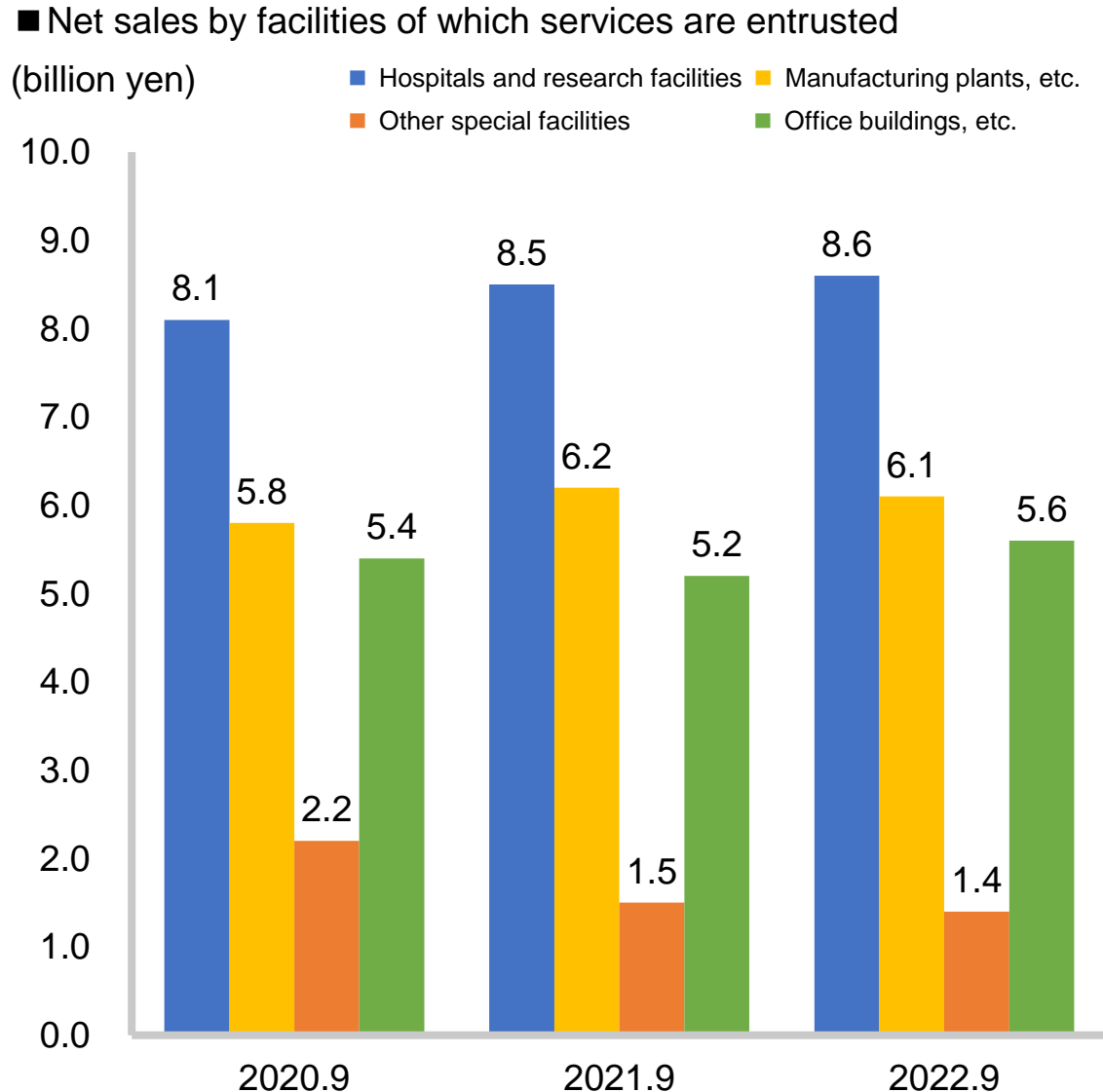
The main factors are a decline in work efficiency due to COVID-19 and higher labor costs as forward-looking investment mainly due to higher labor costs as forward-looking investment

■ Number of new graduates hired (persons)



Completed construction gross profit margin: decreased

This was affected by soaring raw materials prices, higher personnel expenses and rising prices of equipment due to global chip shortages and materials, etc.



(1) Hospitals and research facilities

- ▶ Maintenance services and construction work showed stable trends.

(2) Manufacturing plants, etc.

- ▶ While maintenance services increased, construction work was affected by factors including construction period extensions and project postponements due to shortages of parts and materials and delays in machinery delivery times.

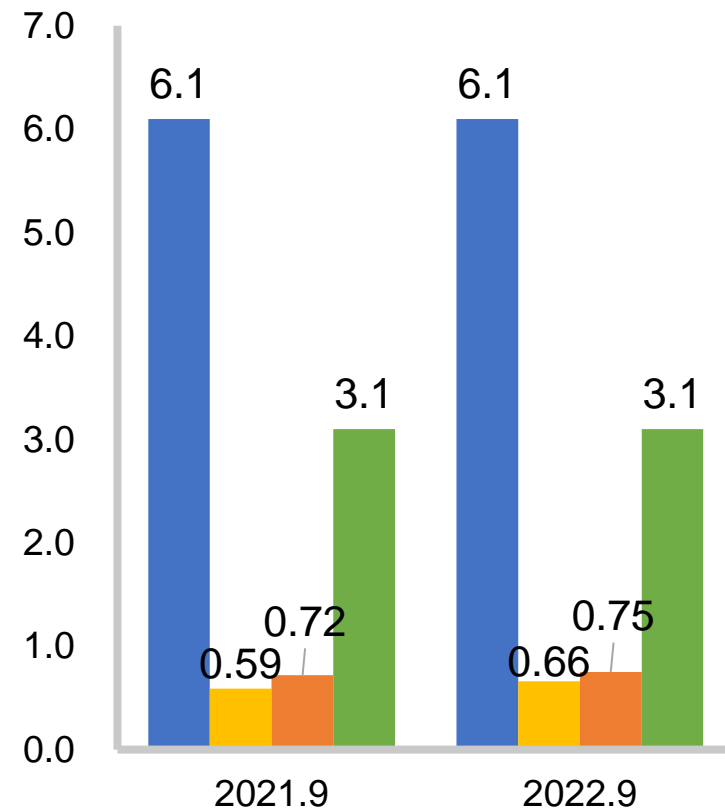
(3) Other special facilities

- ▶ Sales were affected by a shift in demand to solar power generation-related demand from self-consumption-type projects, encountered mainly at manufacturing plants, and a drop in demand for generation of electricity for sale-type projects.

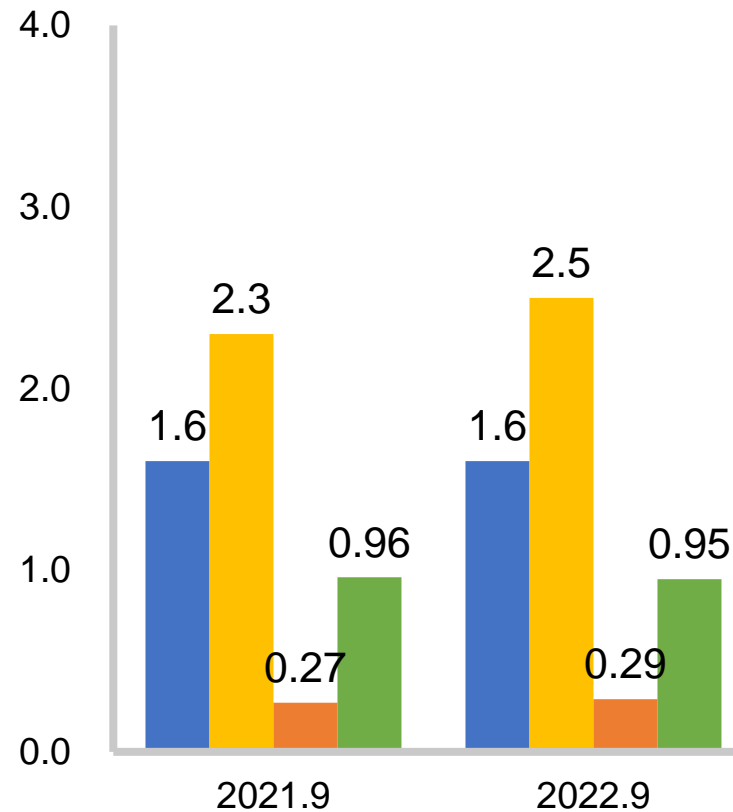
(4) Office buildings, etc.

- ▶ Although demand related to school air conditioning ran its course, construction projects for office buildings, etc. increased.

■ Annual contract sales (billion yen)

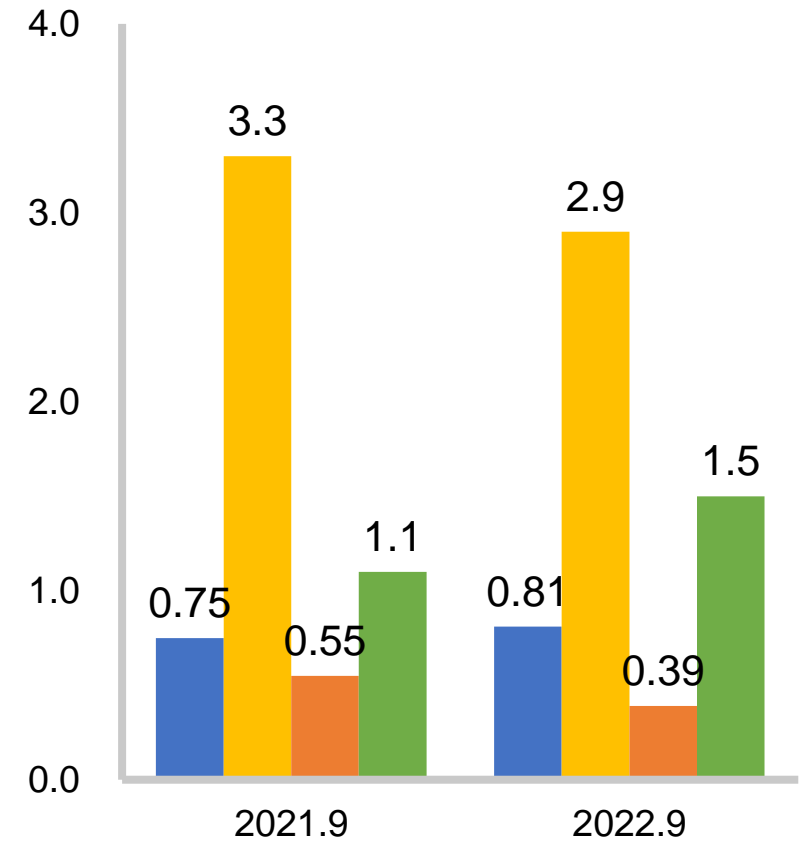


■ Maintenance services net sales (billion yen)



■ Renovation work construction work volume (billion yen)

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

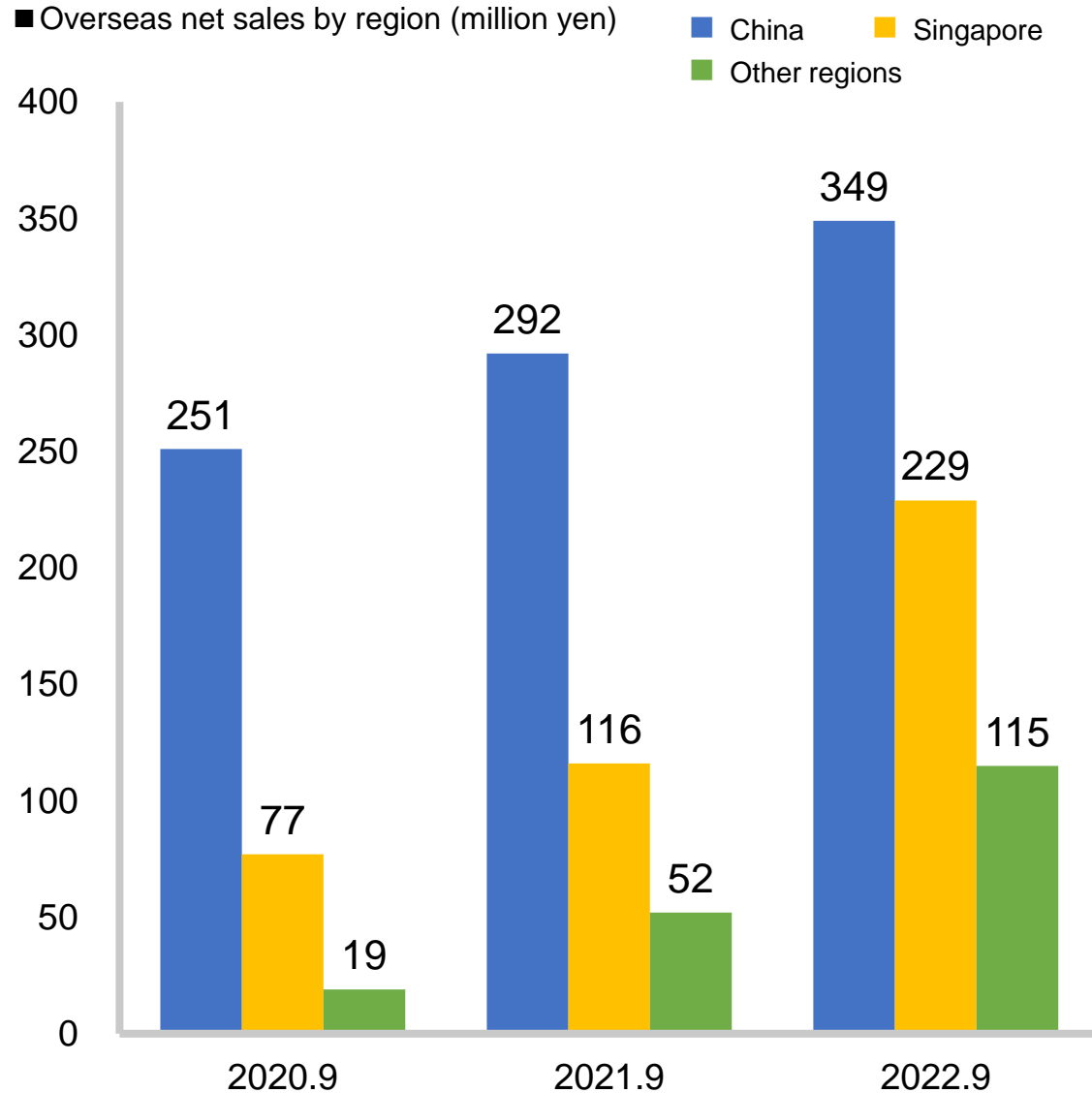


number of cases : 2,660 cases 2,672 cases
 average unit price : ¥3,935 thousand ¥3,927 thousand

number of cases : 17,529 cases 17,659 cases
 average unit price : ¥290 thousand ¥296 thousand

number of cases : 1,838 cases 1,871 cases
 average unit price : ¥3,043 thousand ¥2,915 thousand

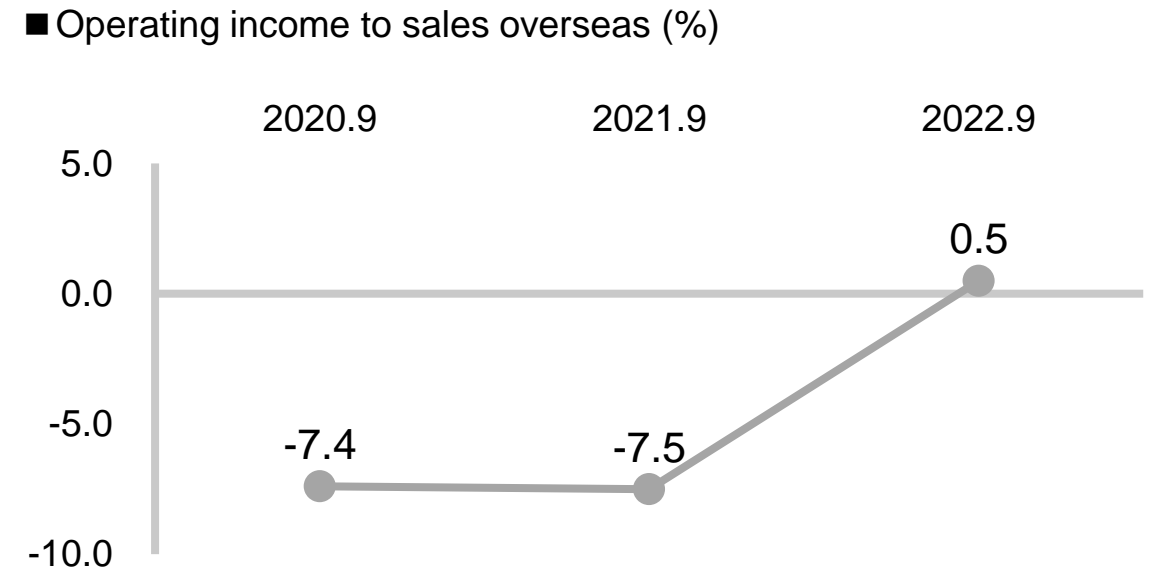
* Number of cases and average unit price only count domestic ones.



Overseas net sales : ¥ 0.69 billion

Operating income to sales overseas : 0.5%

Profits improved significantly, with growth in orders received due to the easing of COVID-19 restrictions and other factors.



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

* The ratio of the overseas operating income to net sales is calculated using the simple sum of the operating income of overseas Group companies.

Consolidated (cumulative period)	FY03/2022 2Q		FY03/2023 2Q	
	Amount (billion yen)	Year-on-year growth ratio (%)	Amount (billion yen)	Year-on-year growth ratio (%)
Cash flows from operating activities	1.7	+5.7	0.40	-76.6
Cash flows from investing activities	1.1	-	-0.45	-
Cash flows from financing activities	-0.78	-	-0.57	-
Cash and cash equivalent growth	2.1	-	-0.57	-
Balance of cash and cash equivalent at beginning of the period	6.2	-11.0	6.6	+6.8
Balance of cash and cash equivalent at end of the period	8.3	+43.2	6.0	-27.3

The investing CF decreased



FY03/2022 2Q :

Review of cross-shareholdings
based on Corporate Governance Code
and sales of investment securities,
with the aim of improving capital efficiency

FY03/2023 2Q :

Expenditures on acquisition of a training
center site

Consolidated (as of the end of period)	FY03/2022		FY03/2023 2Q	
	Amount (billion yen)	Year-on-year growth ratio (%)	Amount (billion yen)	Year-on-year growth ratio (%)
Current assets	21.6	+7.4	18.9	-12.4
Fixed assets	13.4	-8.6	13.6	+1.5
Total assets	35.1	+0.7	32.6	-7.1
Interest-bearing debts	0.88	-26.4	0.98	+12.2
Other liabilities	13.7	+3.4	11.3	-17.9
Total liabilities	14.6	+0.9	12.2	-16.1
Total net assets	20.4	+0.5	20.3	-0.6
Total liabilities and net assets	35.1	+0.7	32.6	-7.1

The capital adequacy ratio increased

57.2% ⇒ 61.1%



Notes and accounts payable for
construction contracts, etc.

4.8 billion yen ⇒ 3.4 billion yen Decrease
in current liabilities due to seasonal factors

Forecast for the fiscal year ending March 31, 2023

The harsh environment will persist due to concerns for delays in capital spending generated by Covid-19 and conditions in Ukraine; soaring raw material prices and personnel costs; and late delivery of equipment due to the semiconductor shortage. Nevertheless, we seek to boost both sales and profits by uncovering latent demand for energy and cost savings.

(billion yen, %)

Consolidated (cumulative period)	FY03/2021			FY03/2022			FY03/2023 (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	49.1	100.0	-1.1	49.8	100.0	+1.5	52.0	100.0	+4.2
Maintenance service sales	32.8	66.7	+1.7	33.7	67.7	+2.9	35.0	67.7	+3.7
Renovation work construction work volume	16.3	33.3	-6.1	16.1	32.3	-1.4	17.0	32.3	+5.5
Gross profit on sales	9.1	18.5	-2.7	8.8	17.7	-3.4	9.3	17.9	+5.6
Selling, general and administrative expenses	6.1	12.4	-2.5	6.1	12.4	+1.3	6.4	12.3	+3.4
Operating income	3.0	6.1	-3.2	2.6	5.2	-13.0	2.9	5.6	+10.8
Ordinary income	3.1	6.4	-2.3	2.8	5.6	-10.8	3.0	5.8	+7.1
Profit attributable to owners of parent	1.9	4.1	+5.2	2.8	5.7	+41.2	1.9	3.7	-32.7

* The forecast for final profit (profit attributable to owners of parent) for the fiscal year ending March 31, 2023 is a decline in profits due to the absence of the gains on the sale of investment securities booked the previous fiscal year.

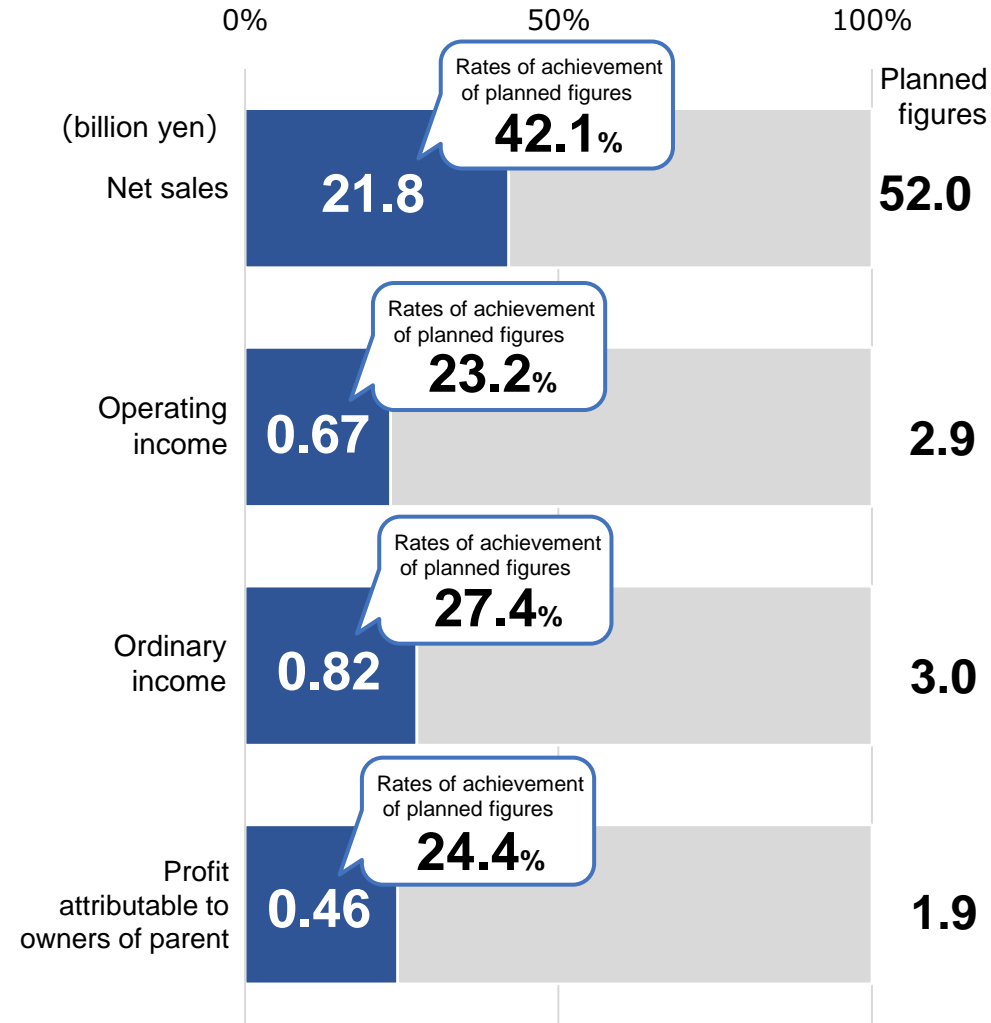
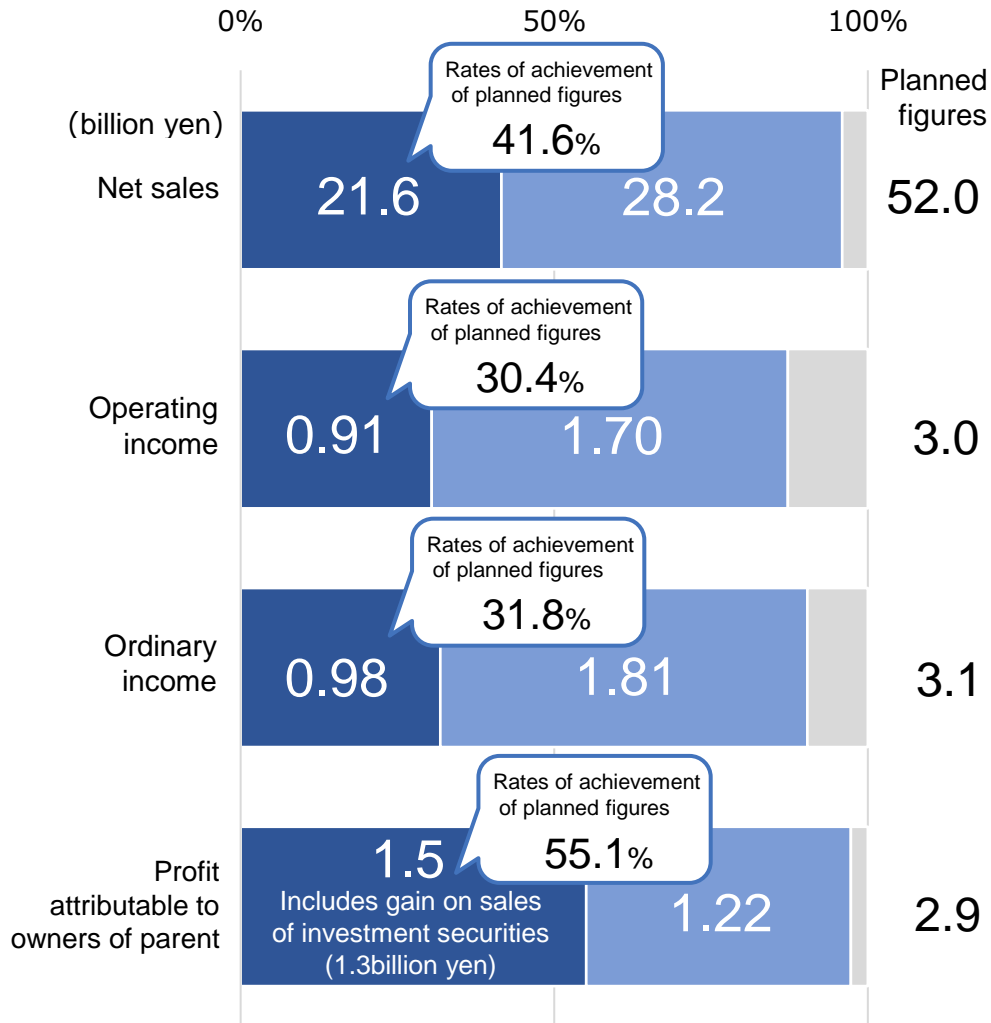
Rates of achievement of planned figures in fiscal year ending March 31, 2023

■ Rates of achievement of planned figures in FY03/2022 (reference)

■ 2Q cumulative period ■ 3Q+4Q

■ Rates of achievement of planned figures in FY03/2023

■ 2Q cumulative period



Due to construction period extensions and project postponements

Profitability declined due to factors including soaring raw material prices and increased labor costs.

Gain on sales of investment securities was recorded in the same period of the previous fiscal year.

● Both sales and profits tend to concentrate in the second half in the average year. ● The current order environment is improving.

I . Overview and strength	p.03-p.24
II . Financial highlights	p.25-p.37
III . Toward the achievement of long-term vision	p.38-p.47

Improvement of happiness of all stakeholders



Creation of sustainable shareholder value



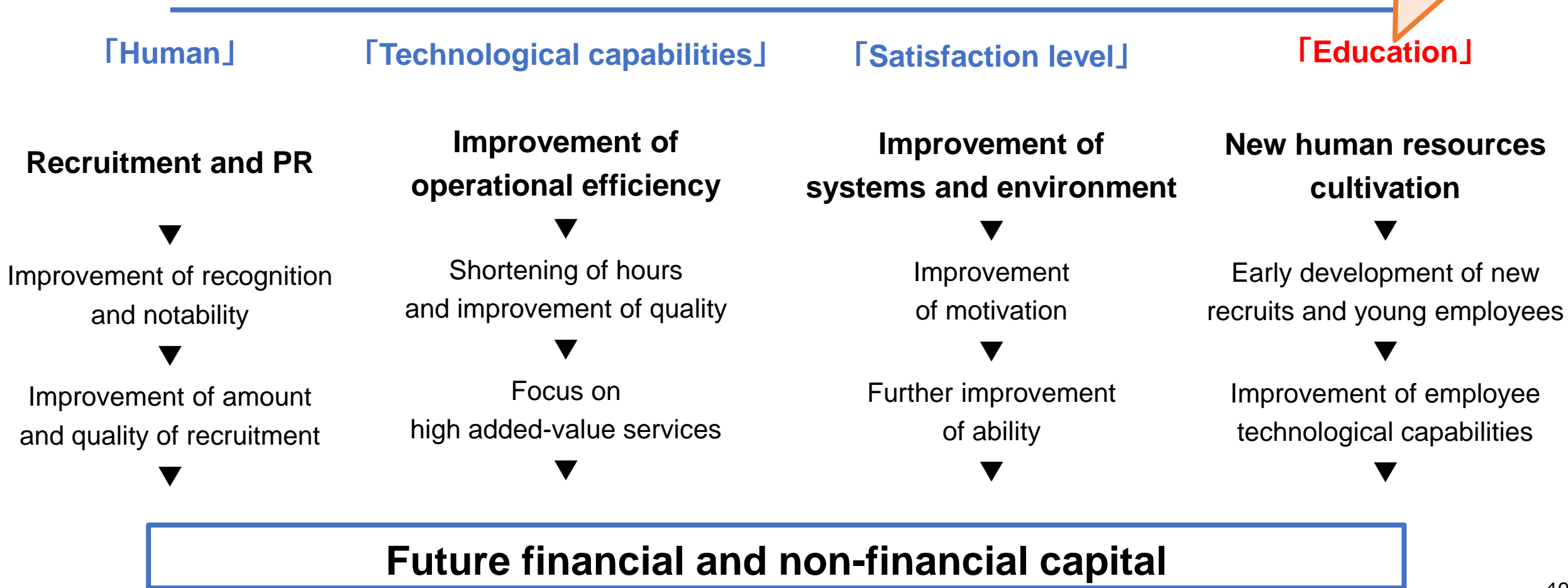
Capital productivity improvement



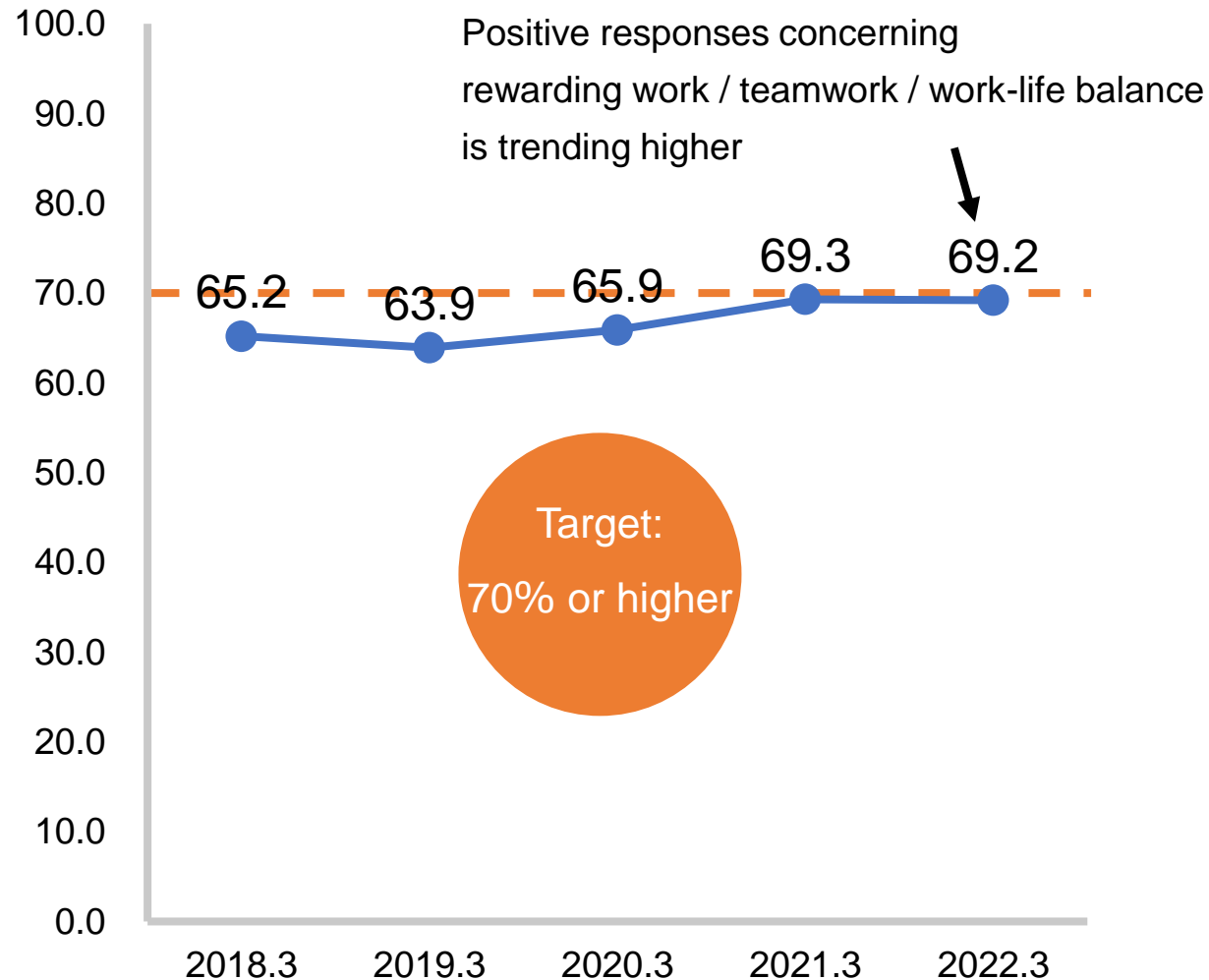
Enhanced human resources value

Promote four projects aiming at enhancing human resources value

We plan to build a new training center to achieve rapid productivity with new hires and young employees and to strengthen the skills of other personnel.



■ Employee satisfaction levels (%)



Employee satisfaction levels: 69.2%

We will strive to deliver improvements through initiatives with each project and improvements in internal communication.



Basis of customer satisfaction

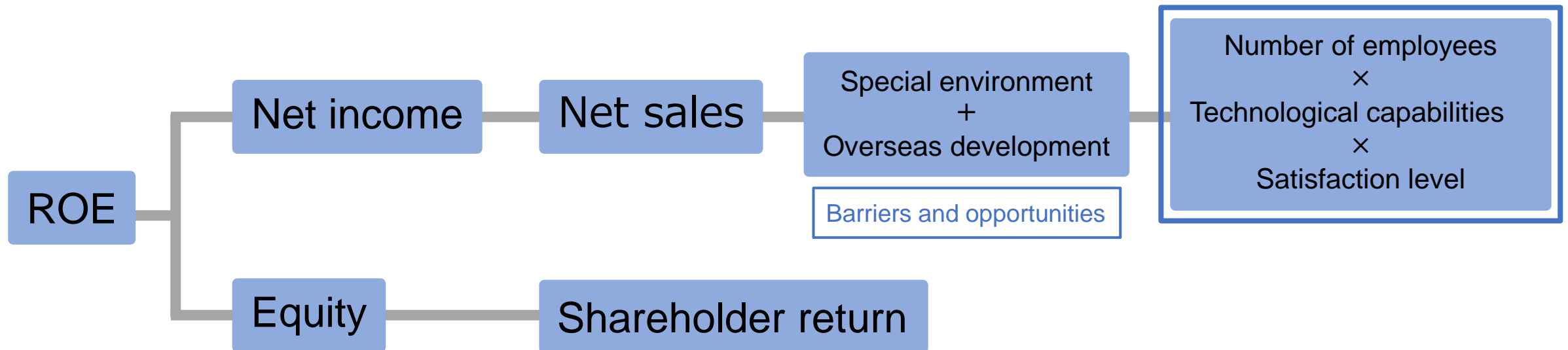
“Foundation of corporate value”

Linked to human resources

Most important factor for improving the capital productivity

「enhancement of human resources value」

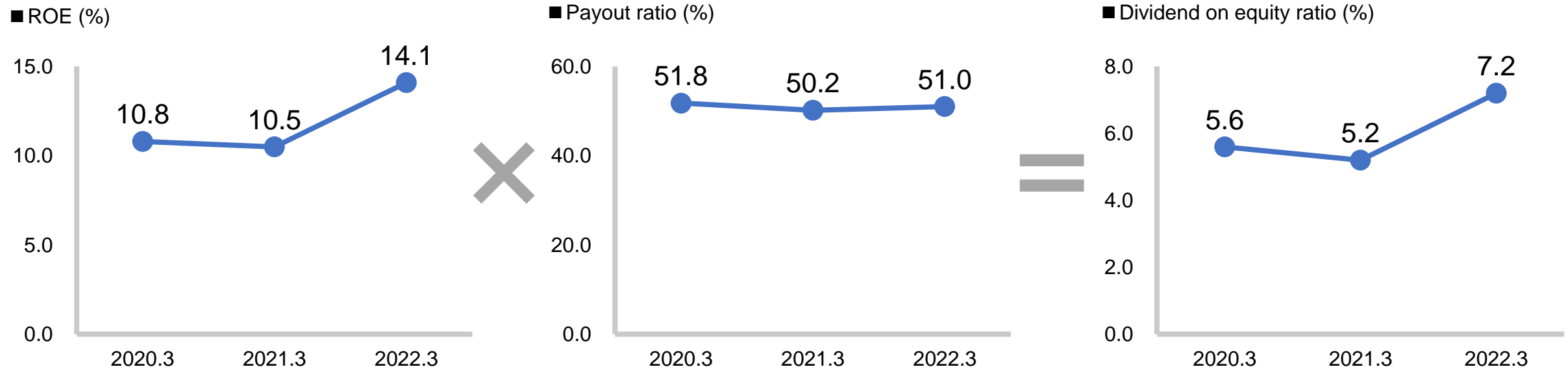
Linked to ESG(Social)

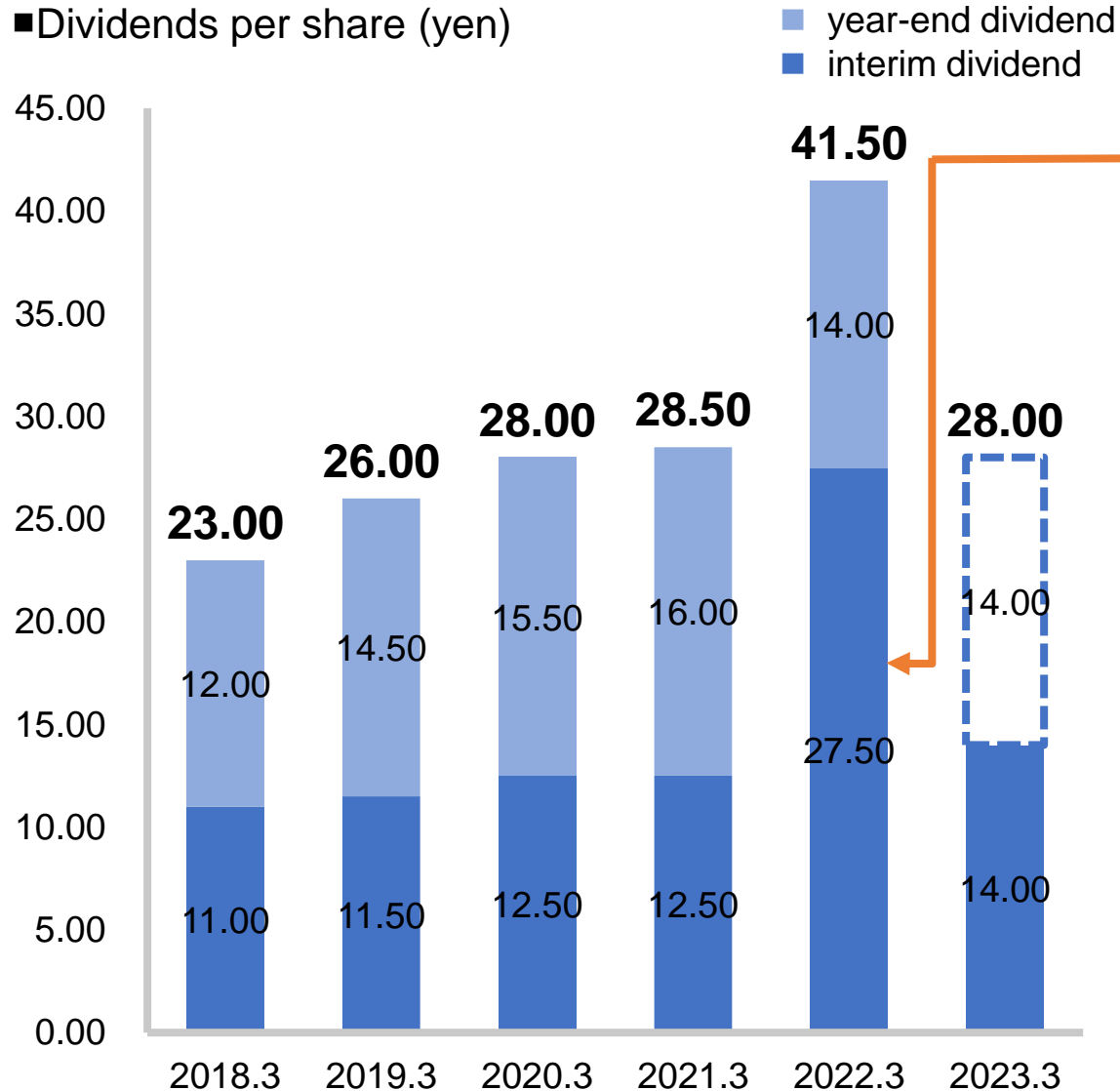


Maintain dividend payout ratio of 50%
by enhancing capital productivity



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





Returning 50% of extraordinary gains from cross-shareholdings sales as a special dividend

Dividend per share 13.50 yen

Decisions on matters related to acquisition of treasury shares

Total number: up to 700,000 shares (2.01%)

Total amount: up to 500 million yen

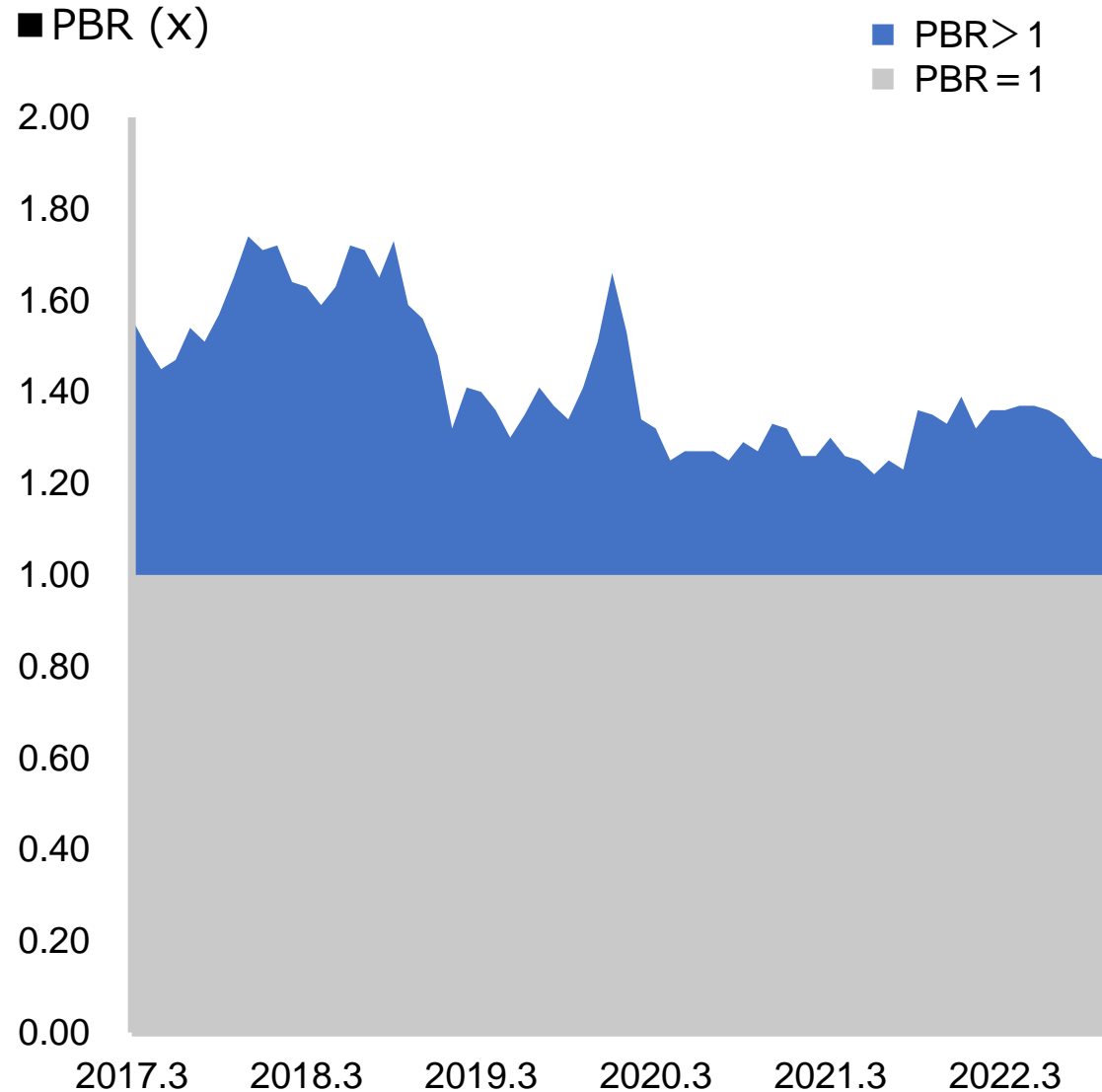
Period: November 2021 to July 2022

Method: purchase on the Tokyo Stock Exchange

Status: 628,200 shares · 499 million yen

(Cumulative total acquired through June 23, 2022)

* Acquisition completed on June 23, 2022



PBR > 1

Evaluation of non-financial capital



“Creation of sustainable shareholder value”

Linked to ESG (**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%**)

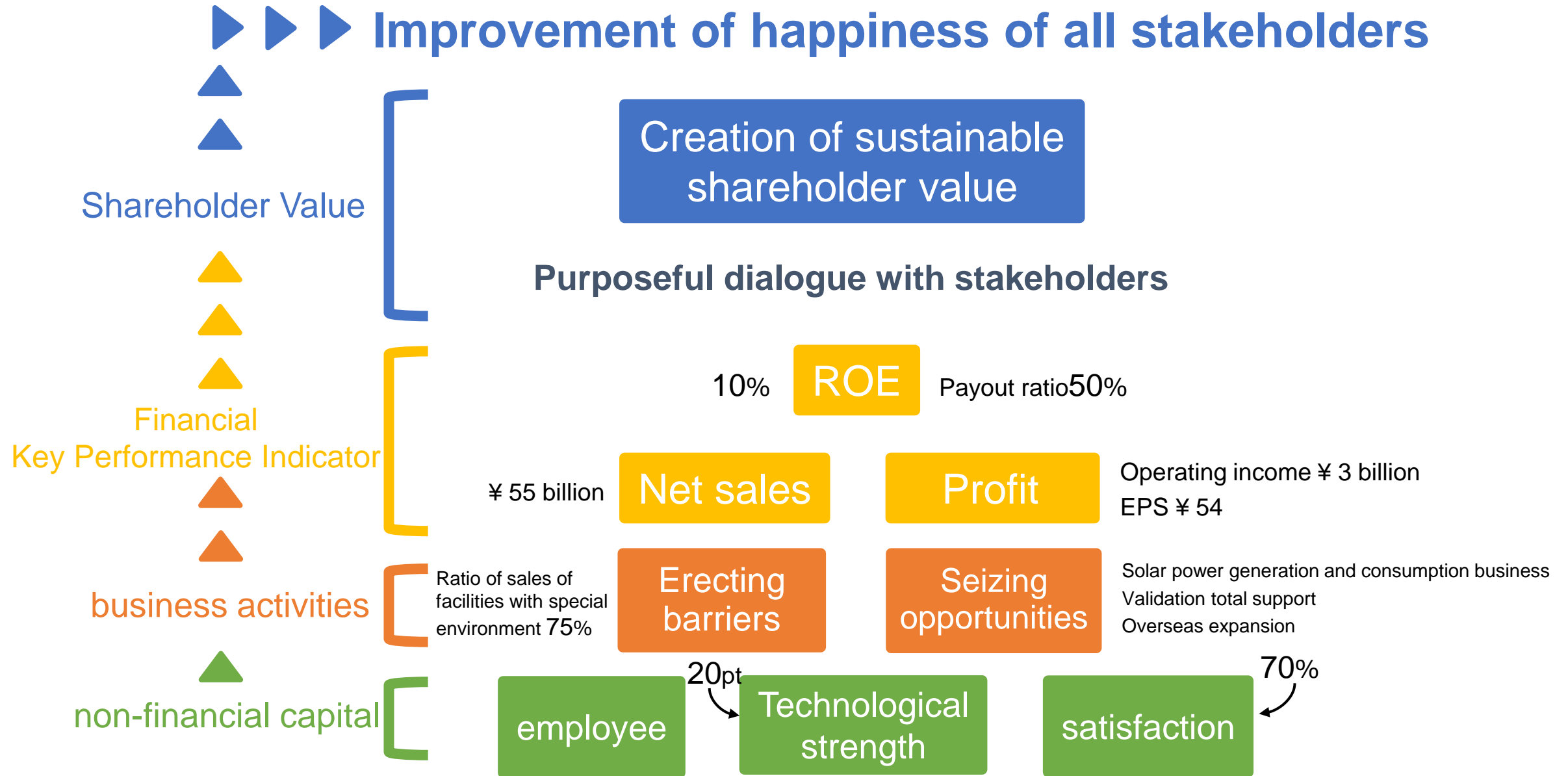
Profit attributable to owners of parent : **¥1.9 billion**

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

ROE : Maintain **10%**

* For net sales, operating income, final income, EPS, ROE, the Target number in the fiscal year ending March 31, 2024.

* Final income indicates profit attributable to owners of parent.



* Each figure is the target for the final year (fiscal year ending March, 2024) of the "2019 Mid-Term Five-Year Management Plan."

* Technical capabilities are evaluated by the Technological capabilities index (p.21), and satisfaction is evaluated by Employee satisfaction levels(p.41).

www.nikku.co.jp/en

In charge of IR: Corporate Planning Division

E-mail: ir4658@nikku.co.jp