

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, 2024

November 2023

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

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Building facilities **maintenance**

Number of technology-related employees: **2,538**

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 3,158	Non-consolidated 2,269
Net sales	Consolidated ¥52.8 billion	Non-consolidated ¥36.4 billion
Number of bases	Domestic 83 bases	Overseas 10 bases

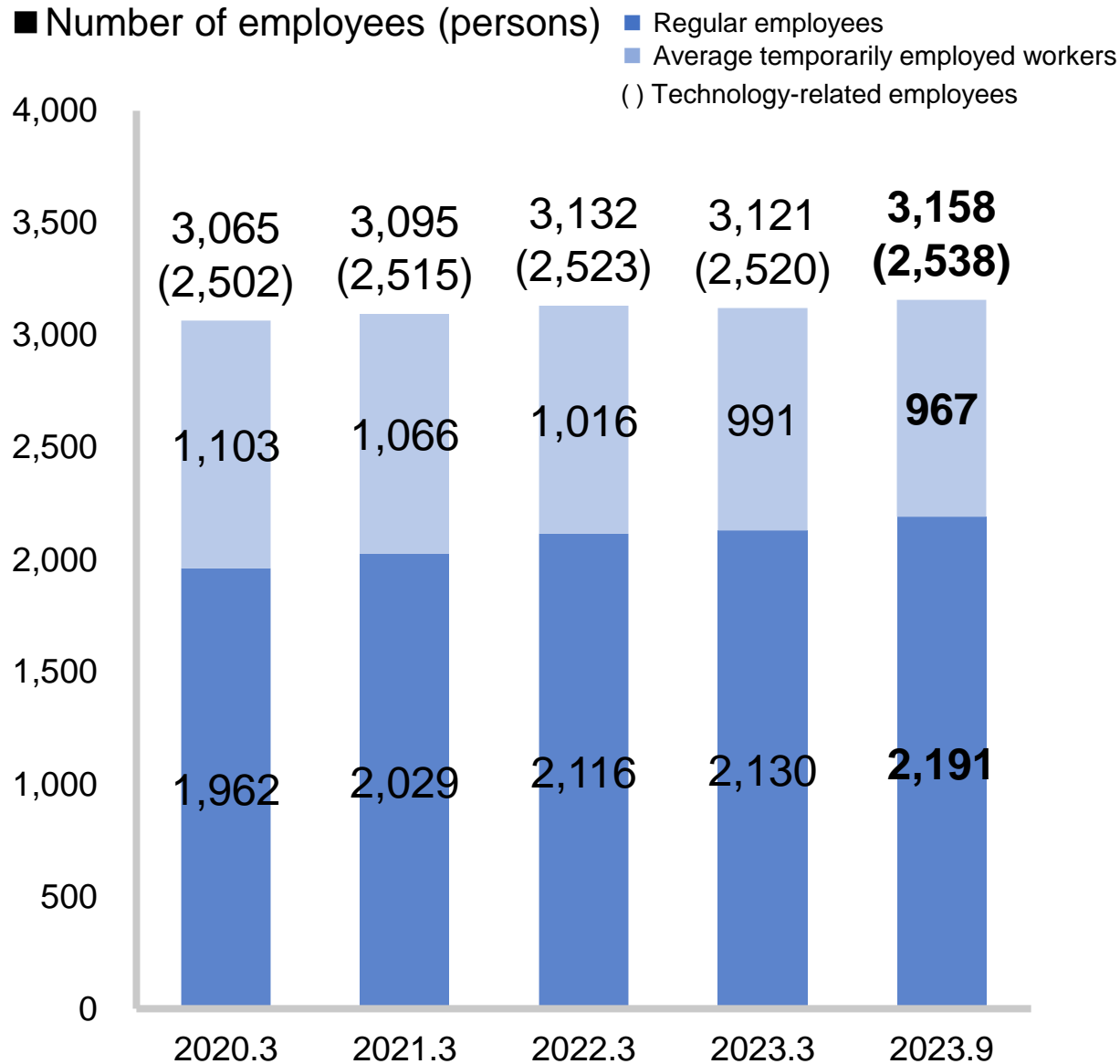
Apr. 1964 The company is established in Higashijukucho, Nakamura-ku Nagoya-shi, Aichi.



* Number of employees is as of the end of September 2023.

* Number of bases is as of the end of September 2023 (based on address).

* For net sales, the number in the fiscal year ended March 31, 2023 is used.



Technology-related employees

account for more than 80%

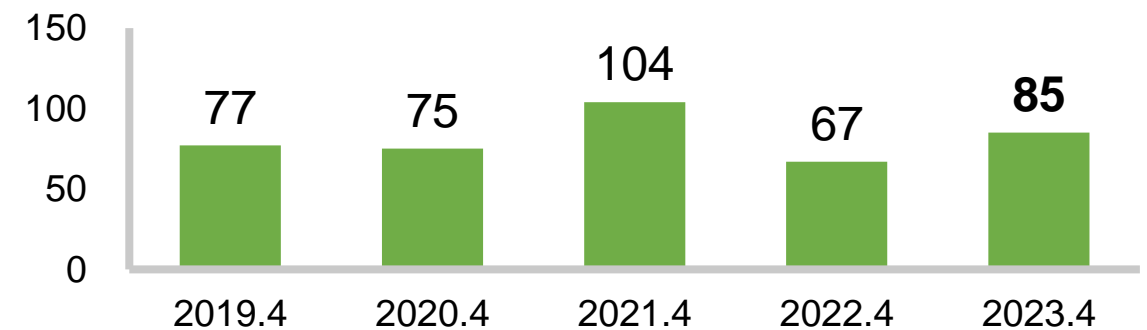
Technology-oriented company



Systems for improving technological capabilities

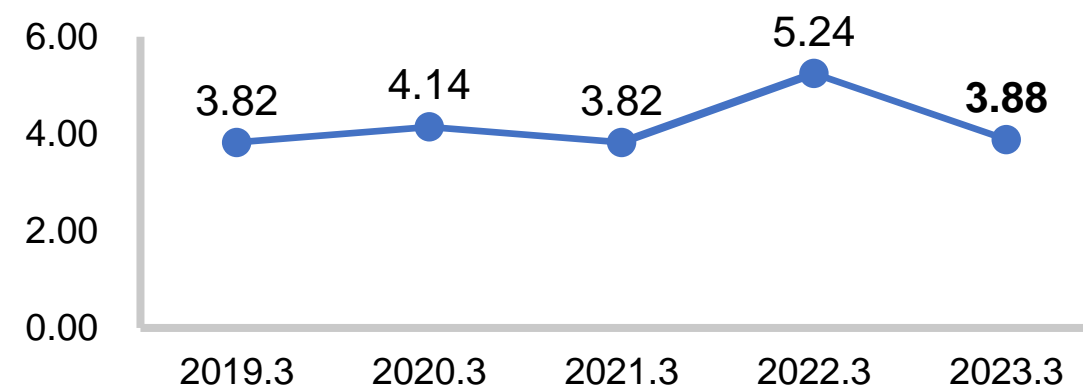
- Systematic training curriculum
- Linking promotions to official qualifications
- Instructor system, etc.

■ Number of new graduates hired (persons)

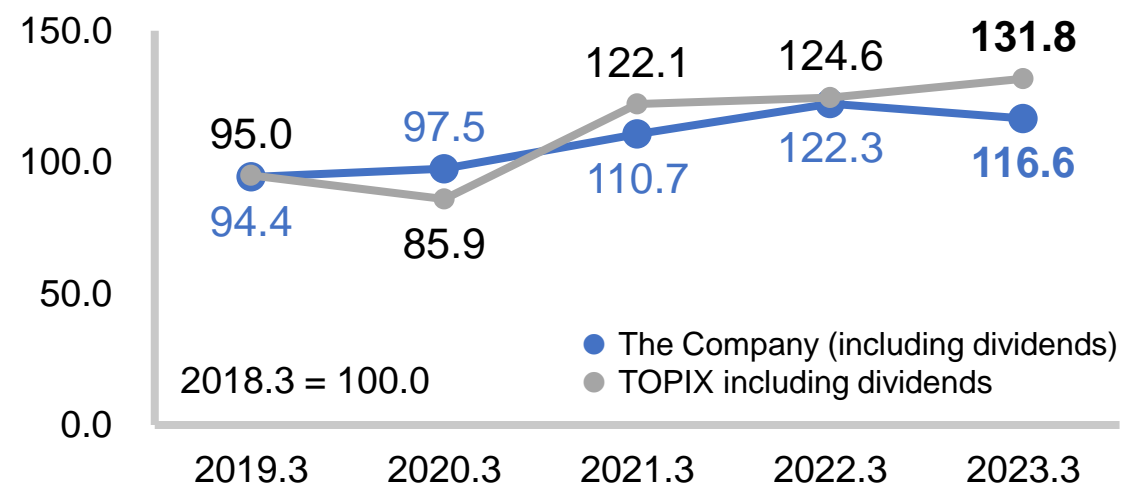


Stock-related information	
Stock price	¥792
Total market capitalization	¥28.3 billion
Dividends	¥30 per share
Dividend payout ratio	51.4%
Dividend yield	3.79%
Number of shareholders	11,917
PER	13.57x (EPS : ¥58.35)
PBR	1.27x (BPS : ¥622.02)
ROE	9.4%

■ dividend yield (%)



■ Total shareholder return (%)



* For stock price, closing price as of November 13, 2023 is used.

* For dividends and EPS, predicted numbers in the fiscal year ending March 31, 2024 are used.

* For number of shareholder, as of the end of September 2023 is used.

* For BPS and ROE, actual number in the fiscal year ended March 31, 2023 are used.

* Total market capitalization is based on total shares issued and outstanding (including treasury stock) as of September 30, 2023.

To make all our stakeholders happier



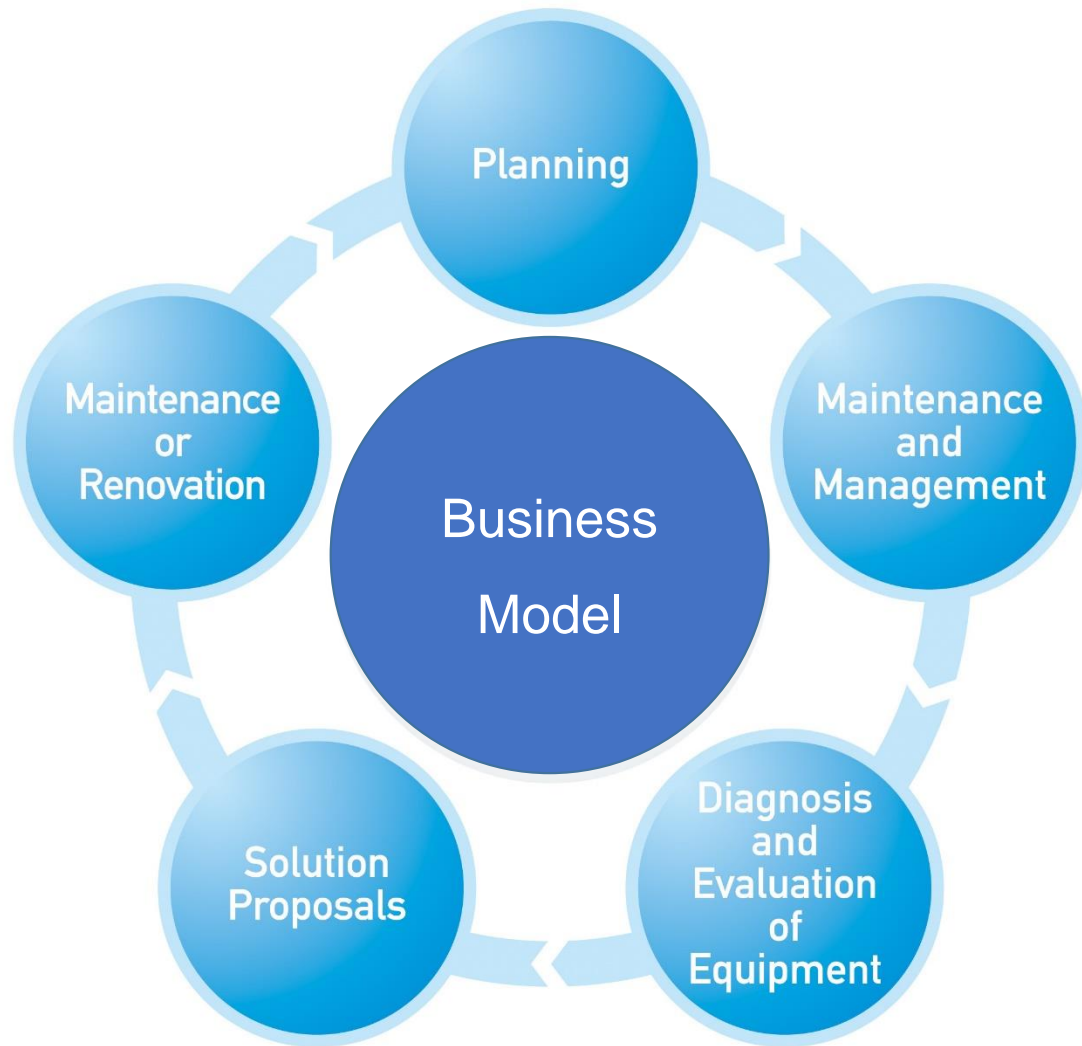
Creation of social value

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



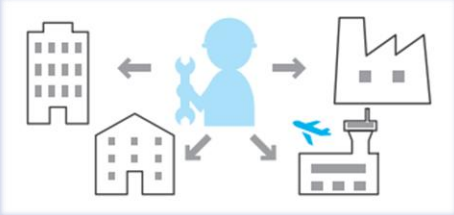

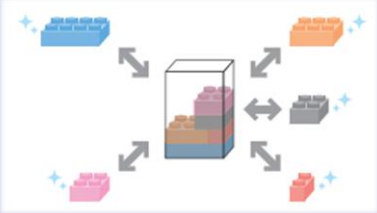
In-house technicians can respond in any phase



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>38%</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>33%</p>
<p>RAC Reform and Construction</p>	<ul style="list-style-type: none"> ■ Mainly renovation work of existing equipment. 	<p>29%</p>

* For net sales composition, actual number in the 2nd Quarter of fiscal year ending March 31, 2024 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?”

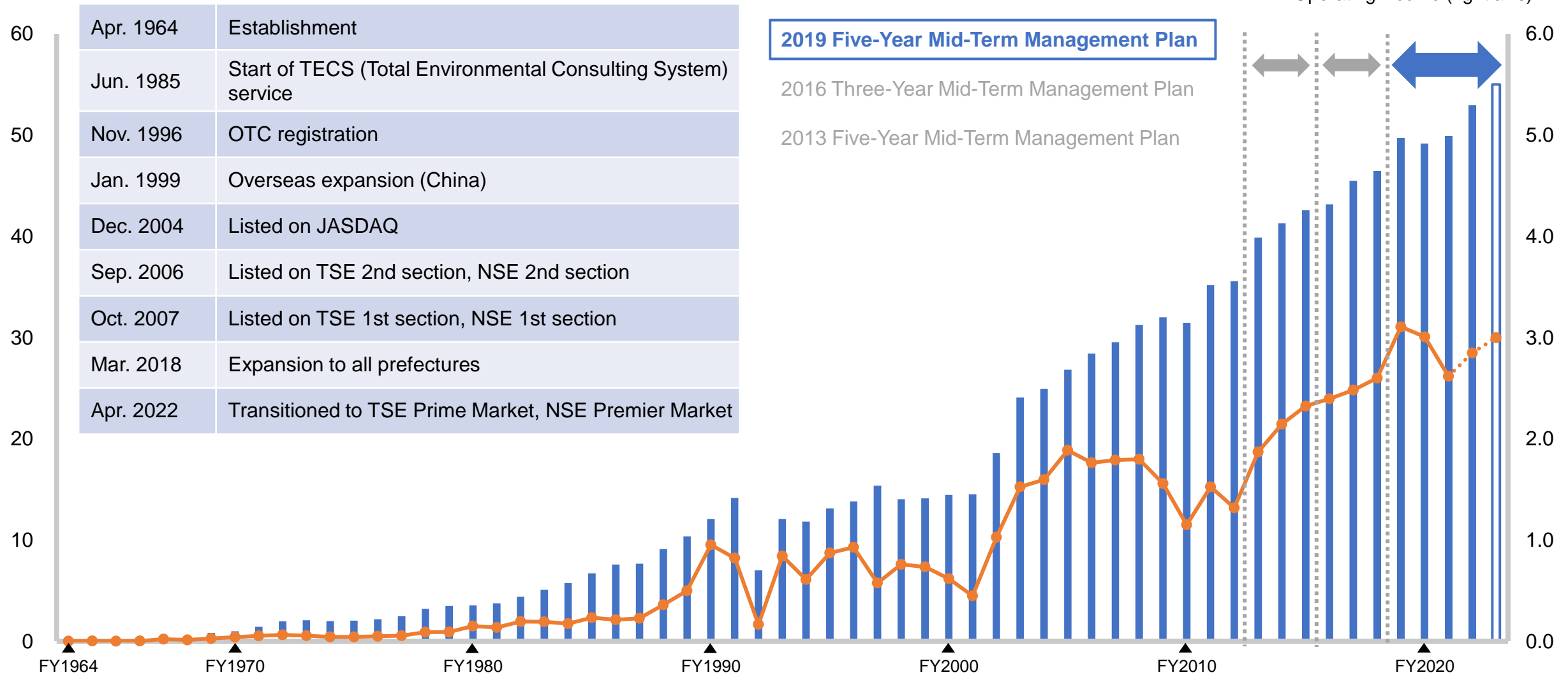


Boosting added value by identifying needs
based on dialogue with customers



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.

* The 2016 Three-Year Mid-Term Management Plan was formulated in FY2016 after achieving the numerical targets of the 2013 Five-Year Mid-Term Management Plan two years ahead of schedule.

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	¥28.3 Billion	¥169.7 Billion	¥102.9 Billion	¥8.2 Billion
PER	13.57x	15.63x	15.57x	4.72x
PBR	1.27x	1.68x	1.45x	0.41x
ROE	9.4%	10.5%	9.1%	8.8%
Net sales	¥52.8 Billion	¥303.7 Billion	¥113.0 Billion	¥34.6 Billion
Operating income	¥2.8 Billion	¥15.8 Billion	¥8.3 Billion	¥1.9 Billion
Operating income to sales	5.4%	5.2%	7.4%	5.7%
Average annual salary	¥5,950 Thousand	¥4,930 Thousand	¥3,640 Thousand	¥3,640 Thousand
Average age	39.9 Years old	46.1 Years old	53.5 Years old	53.6 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 significantly exceeds the average figure for the other three companies.
The average age is also lower.
- (3) Even so, we maintain a comparable income to sales ratio.
- (4) Stock price indicators suggest our shares are undervalued.



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

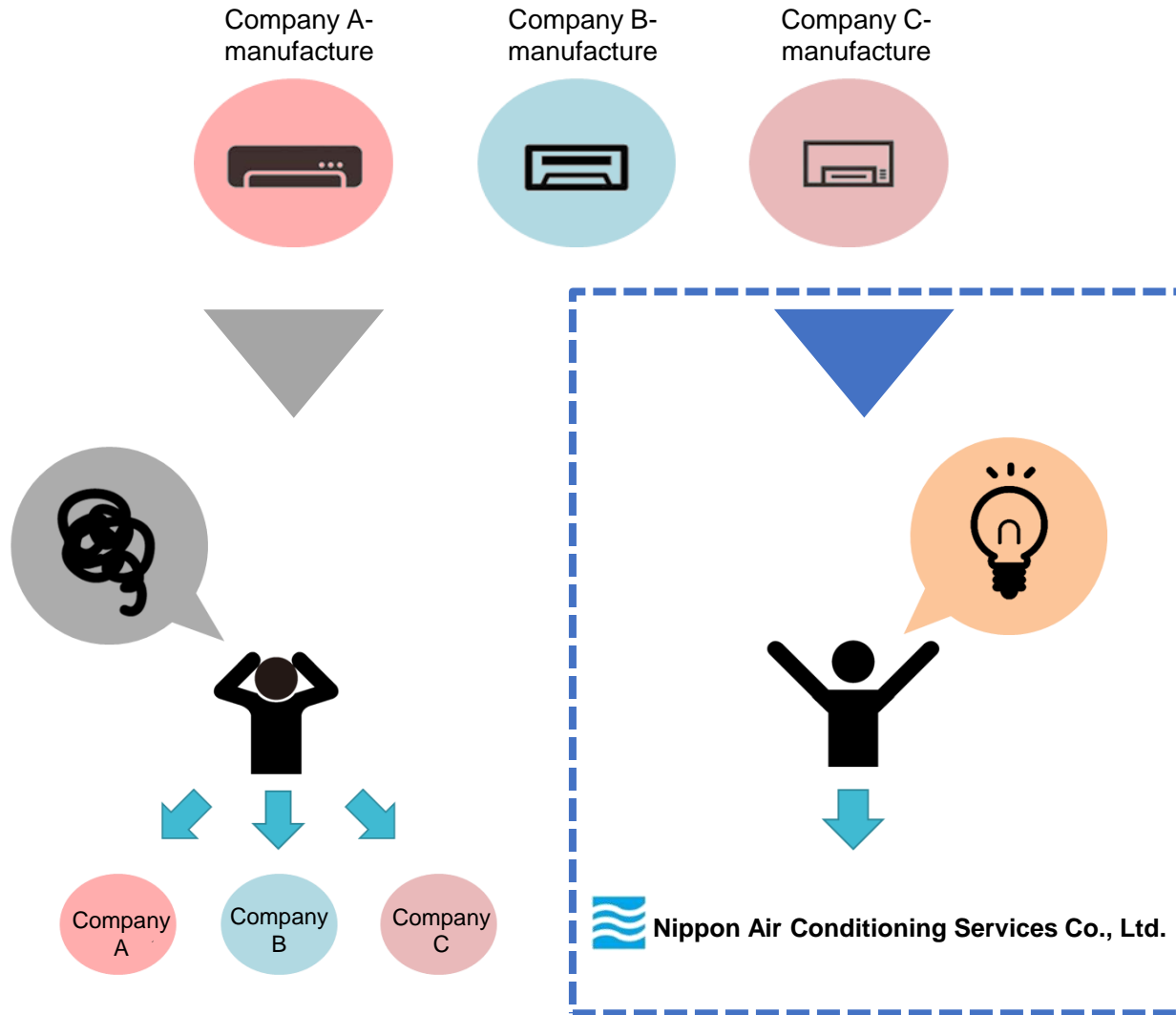
* For total market capitalization of individual companies, closing price as of November 13, 2023 is used.

* 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 the end of FY2023 2Q.

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



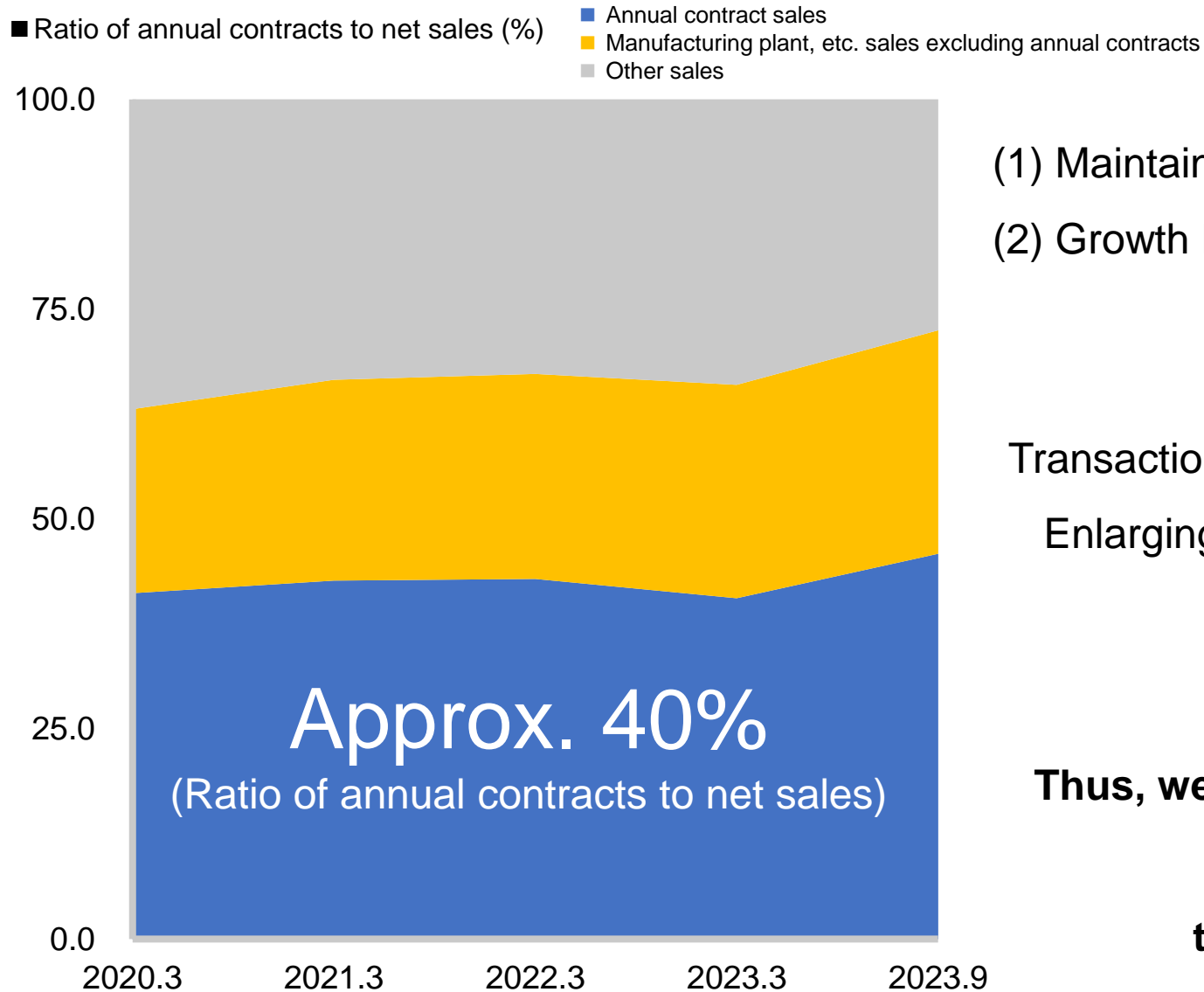
(1) As an independent company, we are not subject to restrictions imposed by manufacturers.

(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

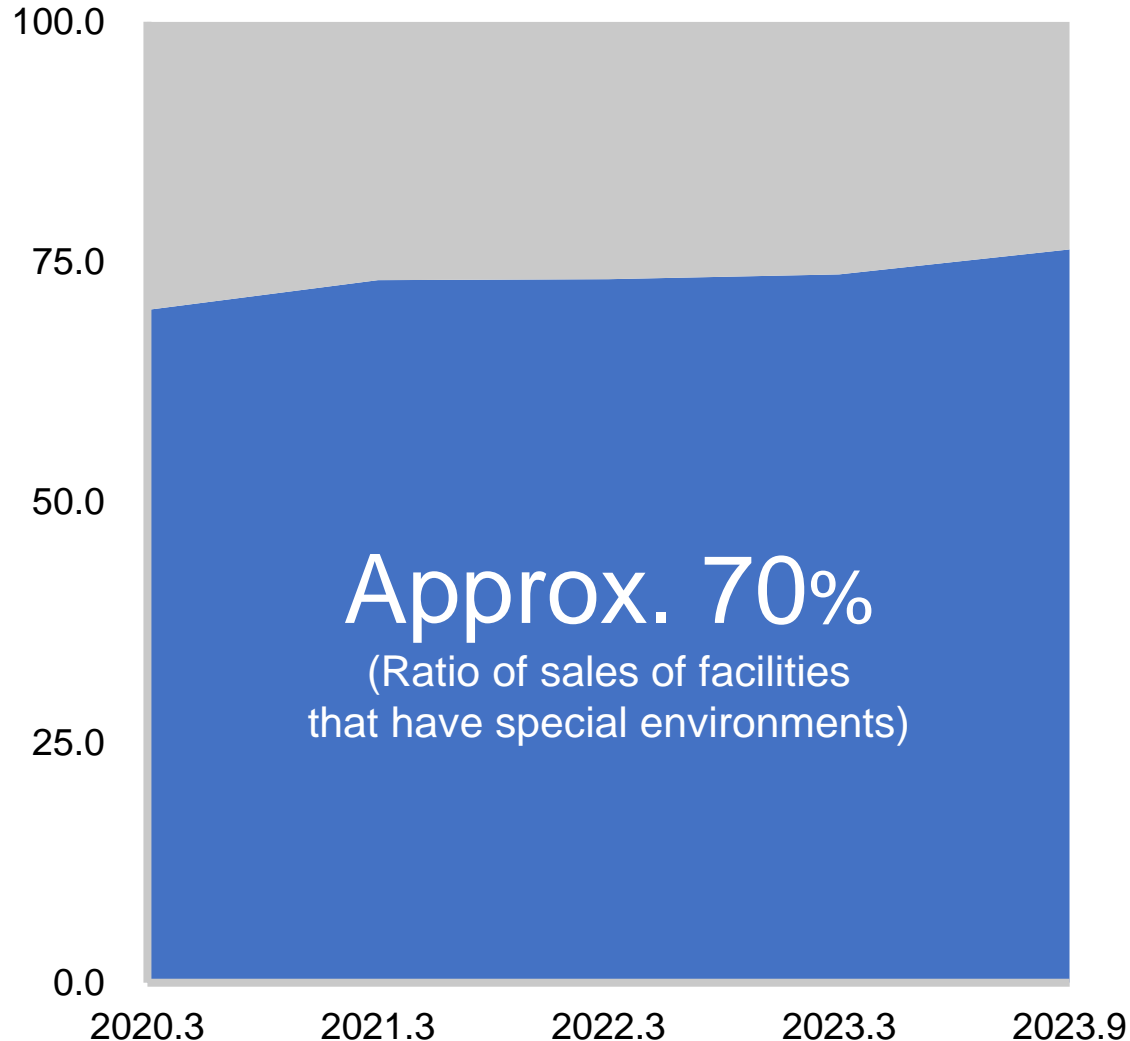
▼

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

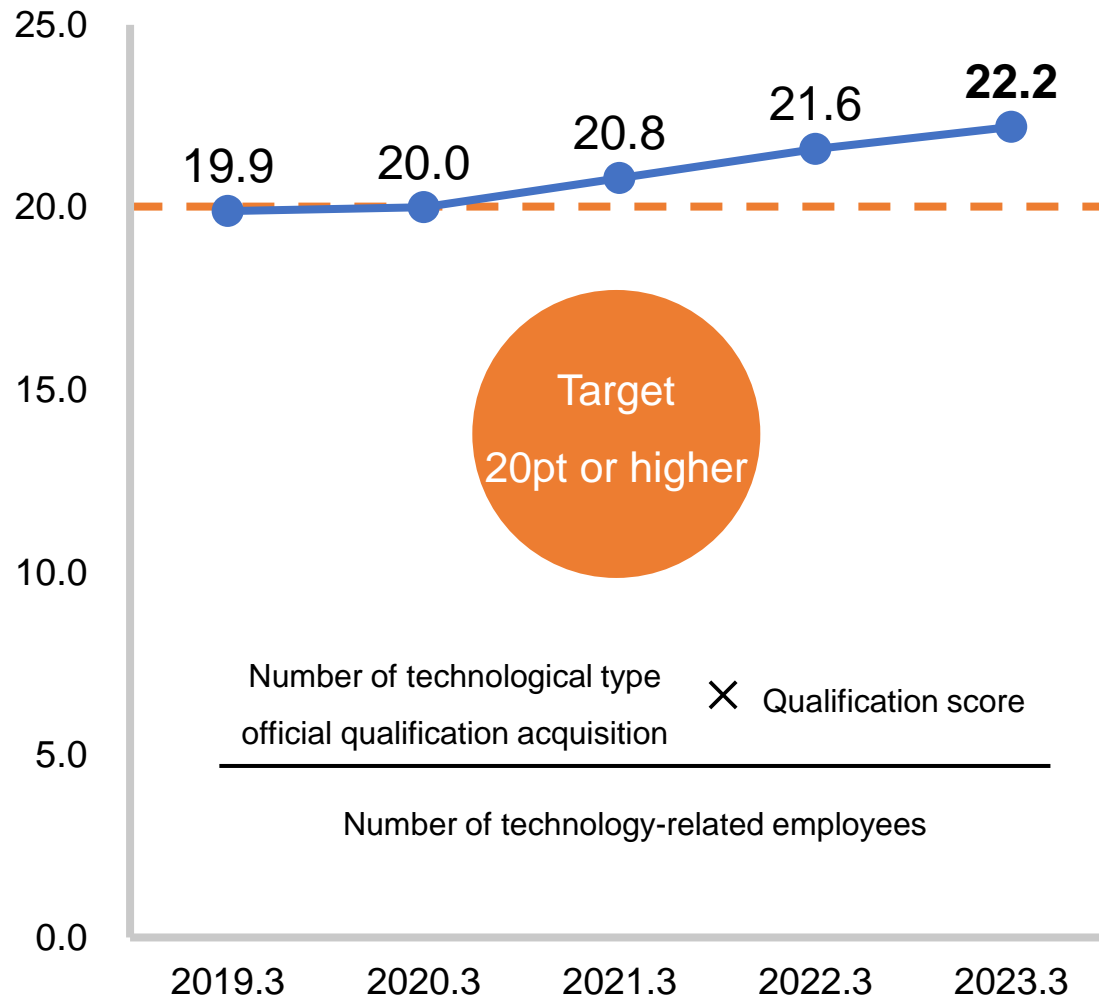


Examples of the **technological capabilities** required are shown below.



* 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

10,017

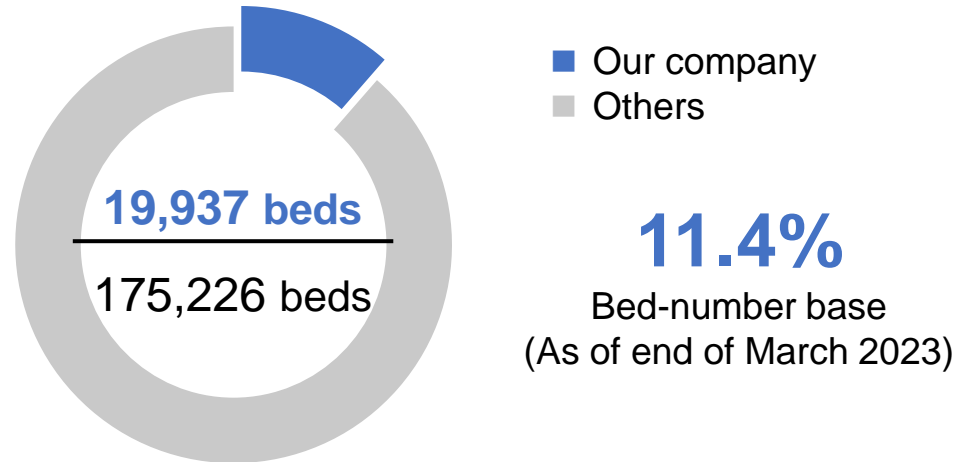
(Increase of 144 from previous fiscal year)



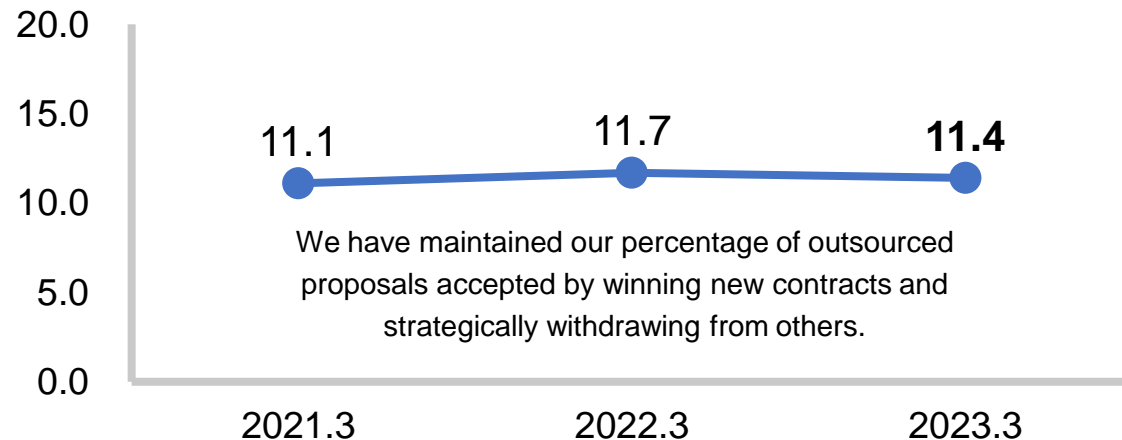
While technological capabilities cannot be measured by the number of qualifications alone, this remains an important index for linking **our technological capability base to human capital.**

* 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 2023. 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.



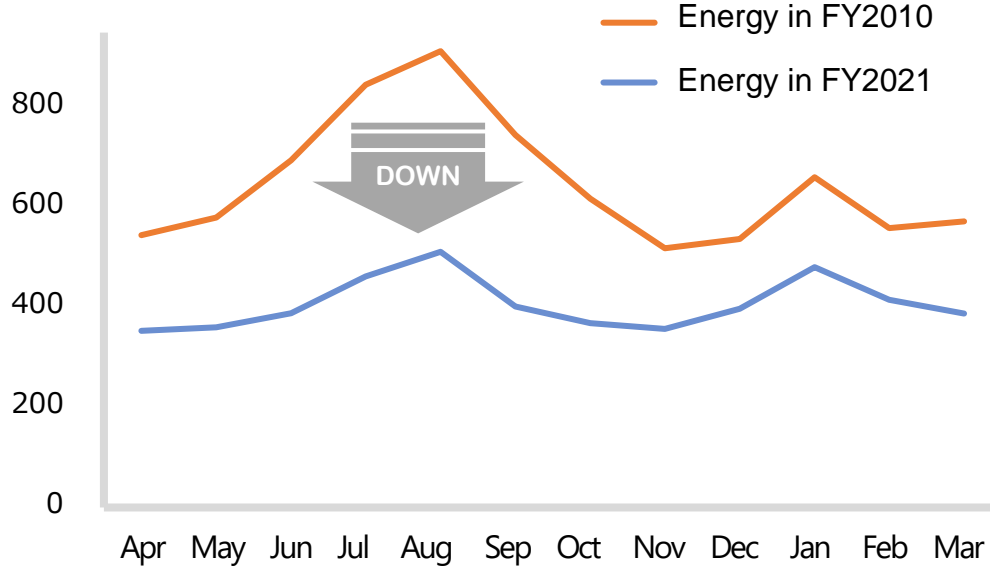
Integrated management

Maintenance of environmental performance

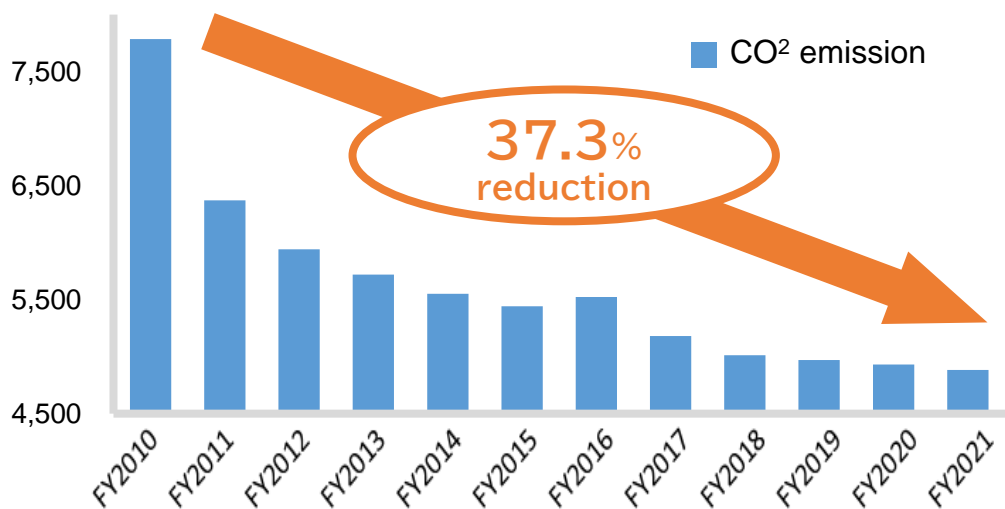


We optimize facility operations for both stable operations and energy savings.

■ Energy transition graph (t-CO₂)



■ Energy transition graph by fiscal year (t-CO₂)



Midsized Tokyo hospital
Total floor area approx. 48,000 sqm

Succeeded in saving a significant amount of energy by maintaining a thorough site understanding and continued careful operations management.

As maintaining the hospital environment is such a high priority, It is difficult to save energy in hospitals.



From the viewpoint of facility management, however, there are many opportunities to save energy with no compromises made with regard to safety.

Energy savings can be achieved as only a facility management company can, by understanding the "excess" energy in a facility and approaching the excess energy.

■ 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] Overseas operating income is negative; 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.

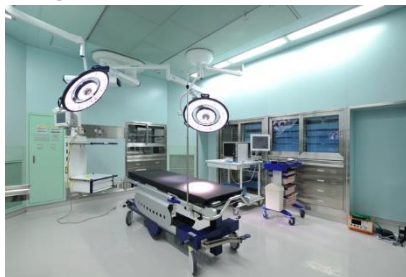
* Private solar power generation and consumption system: A system that uses solar power generation to provide part of the electricity required for business activities by installing solar panels within factories and other facilities of businesses.

* 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.

Invention name: Space Decontaminating Method and Space Decontaminating Equipment

Regular methods				Patent acquired (registration date: April 17, 2023)	Additional patent application submitted (filing date: June 30, 2023)
Formaldehyde	Chlorine dioxide	Hydrogen peroxide	Peracetic acid	Peracetic acid (gaseous state) + <u>low-concentration hydrogen peroxide solution for humidification</u>	Acetic acid (gaseous state) + <u>low-concentration hydrogen peroxide solution for humidification</u>
Carcinogenic Residual toxicity	Acute toxicity Corrosive	Designated as a deleterious substance (>6%) Residual toxicity Corrosive	Corrosive	Allows efficient decontamination by providing peracetic acid while minimizing the corrosion risk of equipment due to humidity.	Allows safe decontamination without the use of deleterious substances. The range of potential applications is expected to expand. For decontaminating spaces, this was found to provide nearly the same decontamination ability as peracetic acid.

Major target facilities envisaged



Pharmaceutical and medical research facilities

Regenerative medicine facilities

Hospitals And universities

Pharmaceutical plants

Food product factories

API plants

etc.



* Completed rendering

Location	Minami-ku, Nagoya-shi
Estimated completion	September 2024
Scheduled start of operations	April 2025
Total floor area	Approx. 4,100 m ²
Scale	Five (5) aboveground floors
Purpose	To allow new employees to contribute quickly; to strengthen employee technical capabilities



* Planning a training facility that simulates an actual clean room, etc. (photo of Nagoya Office Training Center)



* Quadrupole time-of-flight liquid chromatograph mass spectrometer

- Planning a training facility that simulates actual maintenance sites such as clean rooms, machine rooms, etc.
- New hires: Basic training on air conditioners, etc. that use actual equipment
- Current employees: Training on equipment capacity diagnostics using actual equipment, training for acquiring various certifications, etc.
- Environmental Management Department: Planning transfer of operations including environmental analysis (physicochemical, radiation), microbe testing, work environment measurement, and research and development.

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Net sales : **¥24.1** billion [+10.3%]

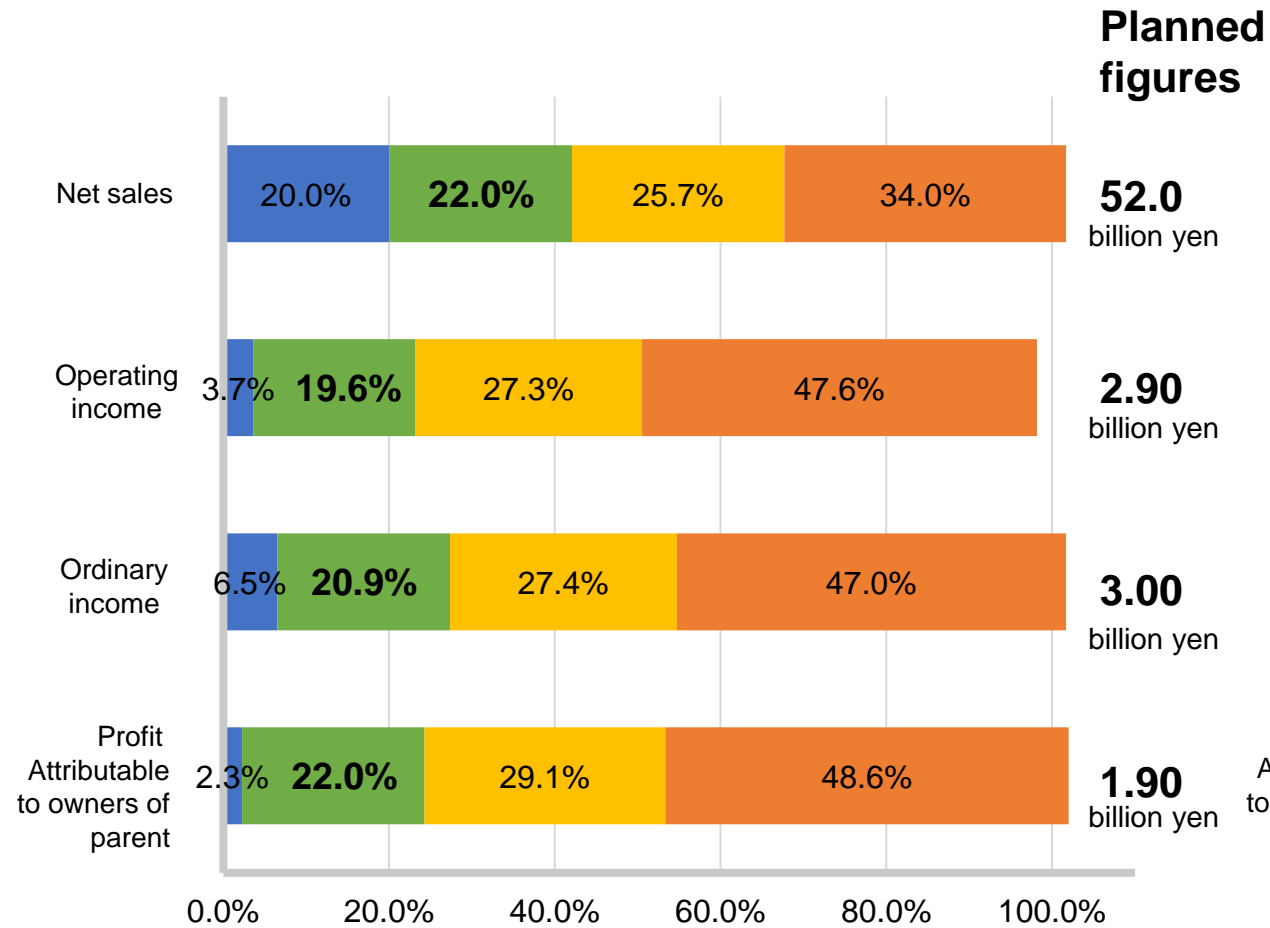
Operating income : **¥1.12** billion [+66.7%]

Net income attributable
to owners of the parent : **¥0.77** billion [+67.8%]

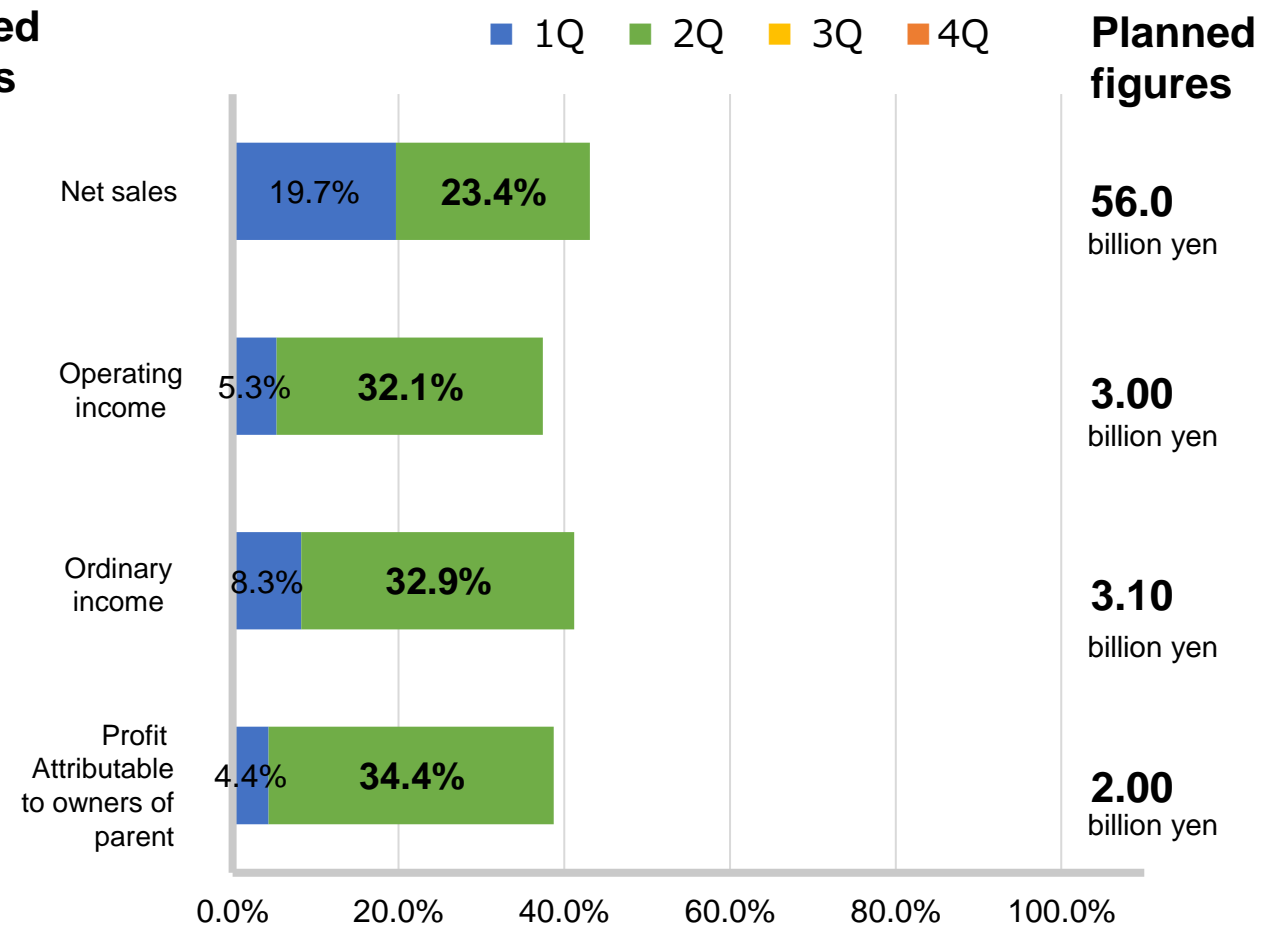
Cumulative period (unit : billion yen, %)	FY03/2022 2Q			FY03/2023 2Q			FY03/2024 2Q		
	Amount	Ratio to sales	Year-on-year growth ratio	Amount	Ratio to sales	Year-on-year growth ratio	Amount	Ratio to sales	Year-on-year growth ratio
Net sales	21.6	100.0	-0.6	21.8	100.0	+1.2	24.1	100.0	+10.3
Maintenance service sales	15.8	73.2	+3.4	16.1	73.8	+1.9	17.0	70.5	+5.5
Renovation work construction work volume	5.79	26.8	-10.2	5.74	26.2	-0.9	7.10	29.5	+23.8
Gross profit on sales	3.83	17.7	-2.0	3.77	17.3	-1.5	4.41	18.3	+16.9
Gross profit on maintenance sales	3.08	19.5	-1.0	3.07	19.0	-0.6	3.51	20.7	+14.6
Gross profit on completed construction contracts	0.74	12.8	-12.6	0.70	12.3	-5.1	0.89	12.6	+27.1
Selling, general and administrative expenses	2.91	13.5	+2.0	3.10	14.2	+6.2	3.29	13.6	+6.1
Operating income	0.91	4.2	-12.9	0.67	3.1	-26.2	1.12	4.7	+66.7
Ordinary income	0.98	4.6	-10.5	0.82	3.8	-16.8	1.27	5.3	+55.6
Net income before income taxes	2.37	11.0	-19.4	0.82	3.8	-23.3	1.27	5.3	+55.7
Profit attributable to owners of parent	1.59	7.4	+154.3	0.46	2.1	-71.0	0.77	3.2	+67.8
Earnings per share (unit : yen)	45.95	—	+157.7	13.52	—	-70.6	22.65	—	+67.5

With the impact of COVID-19 subsiding and as supply restrictions are addressed and improved, net sales are forecasted to increase by four billion yen from the previous fiscal year. The rate of progress toward the forecasted target is higher compared to that for the corresponding period of the previous fiscal year. Salaries were increased in 1H of this year for regular employees (avg. 6.8%), and profits are currently rising faster than during 1H of last year.

■ Rates of achievement of planned figures in FY03/2023

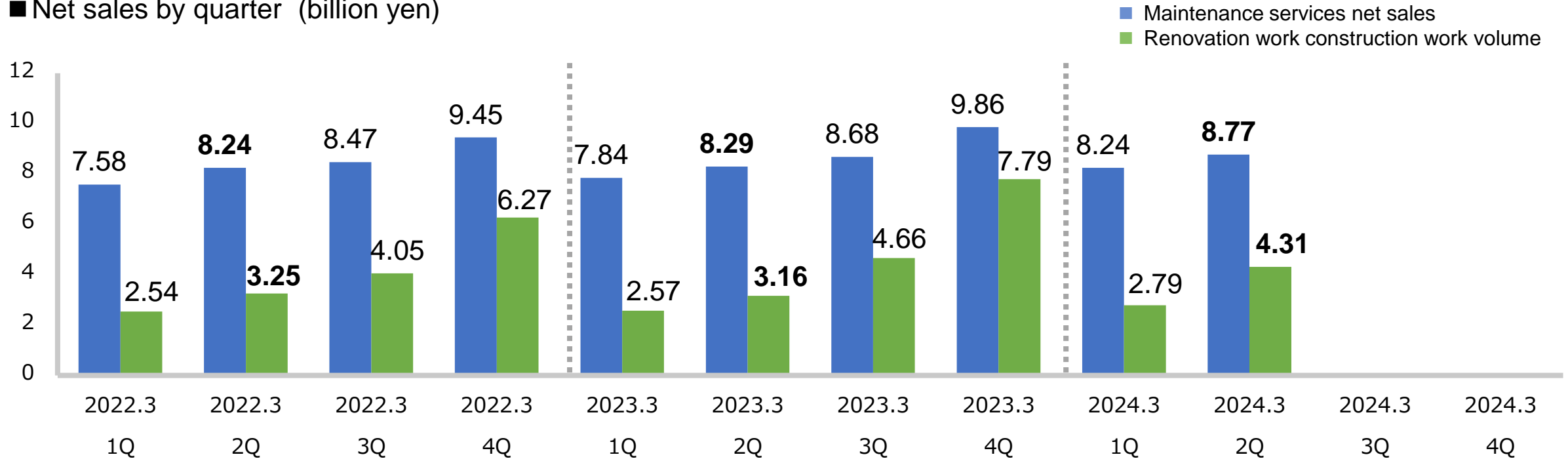


■ Rates of achievement of planned figures in FY03/2024 2Q

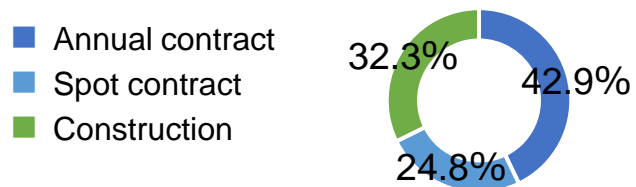


Net sales set a record high for 1H. In mainstay maintenance services, record highs were set in 1H for the second consecutive year. This involved expanding spot maintenance at hospitals, research facilities, and manufacturing plants. Renovation work at these facilities proceeded at a good pace.

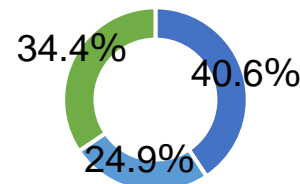
■ Net sales by quarter (billion yen)



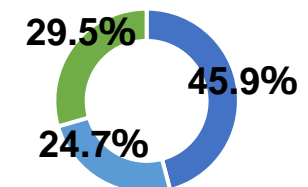
Net sales composition in FY2022/03



Net sales composition in FY2023/03



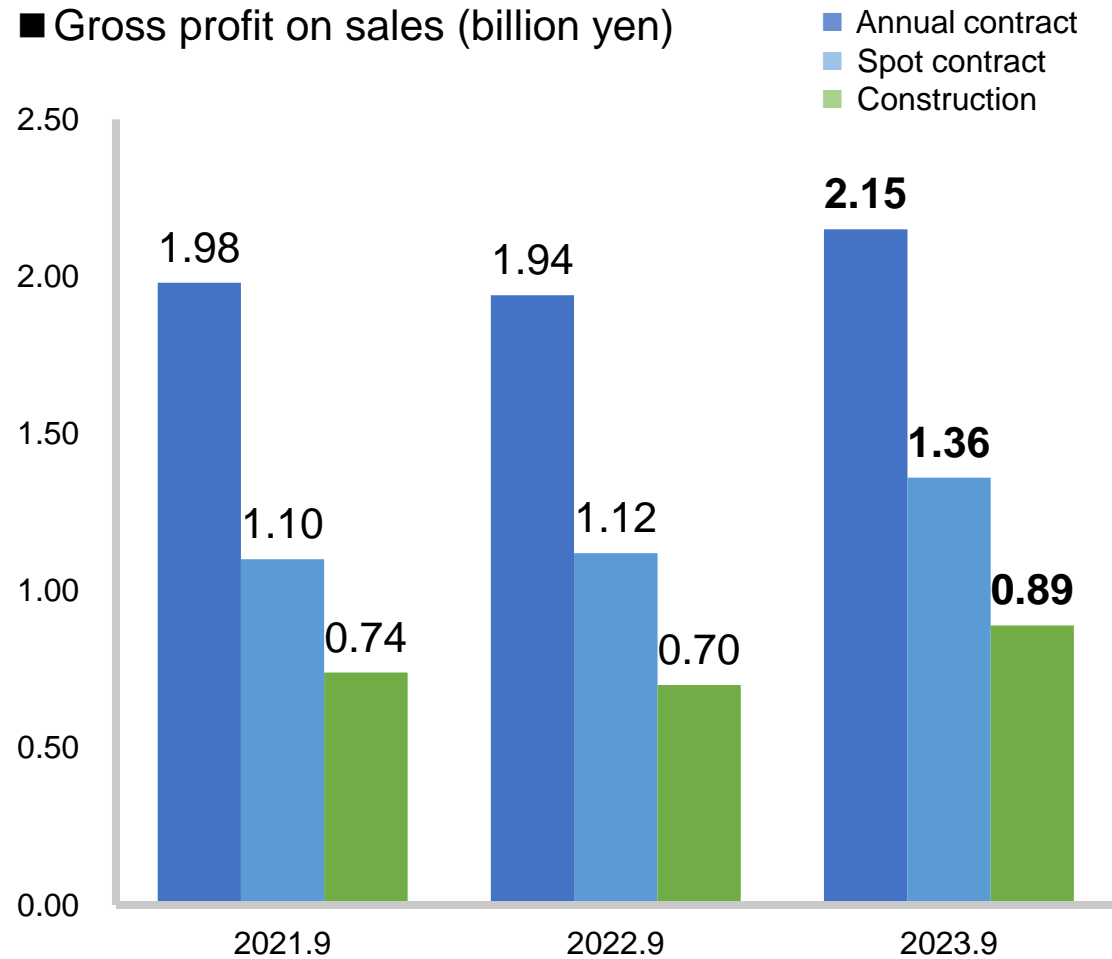
Net sales composition in FY2024/03 2Q



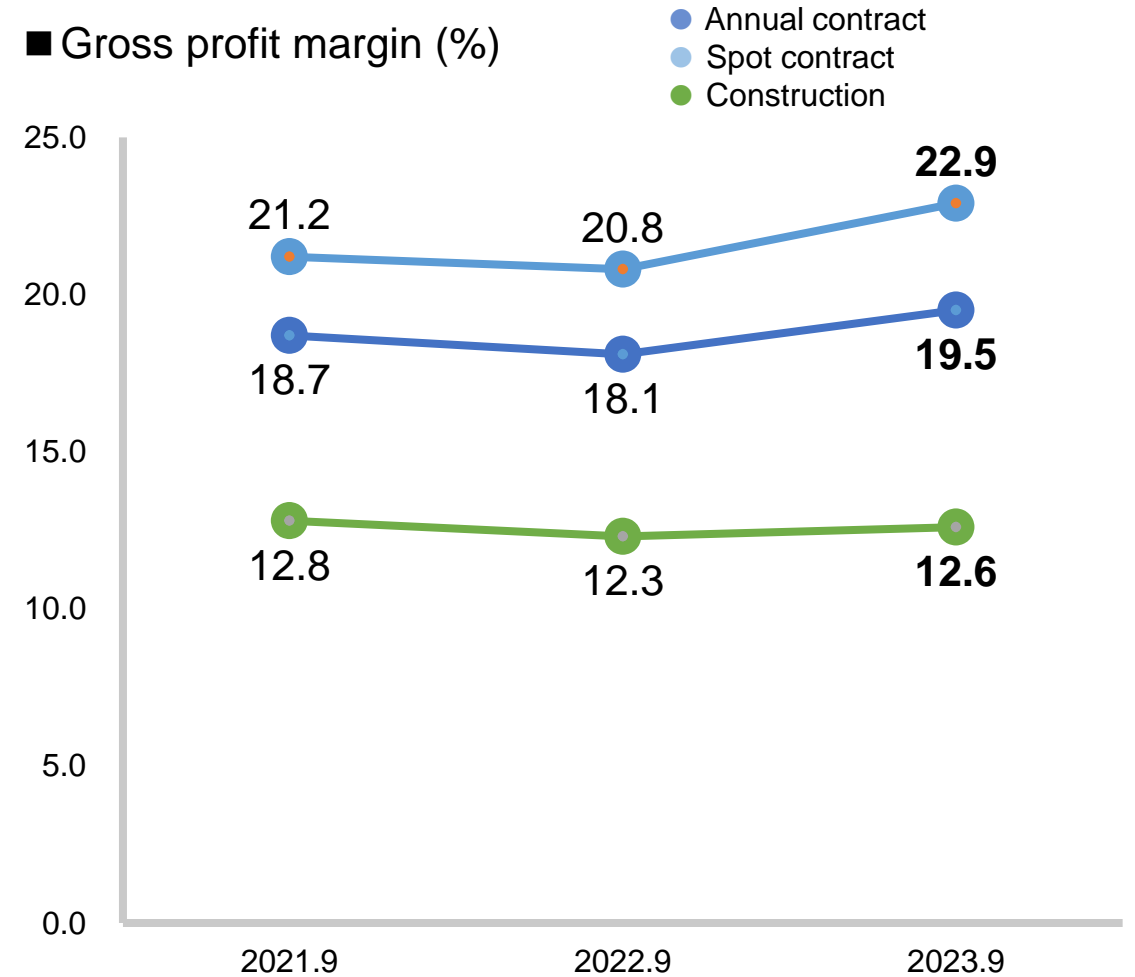
Maintenance profit margins improved, despite rising procurement costs of materials and supplies and rising labor costs.

Profit margins of renovation work is also on a slightly improving trend, but did not reach the level of the corresponding period two fiscal years ago.

■ Gross profit on sales (billion yen)



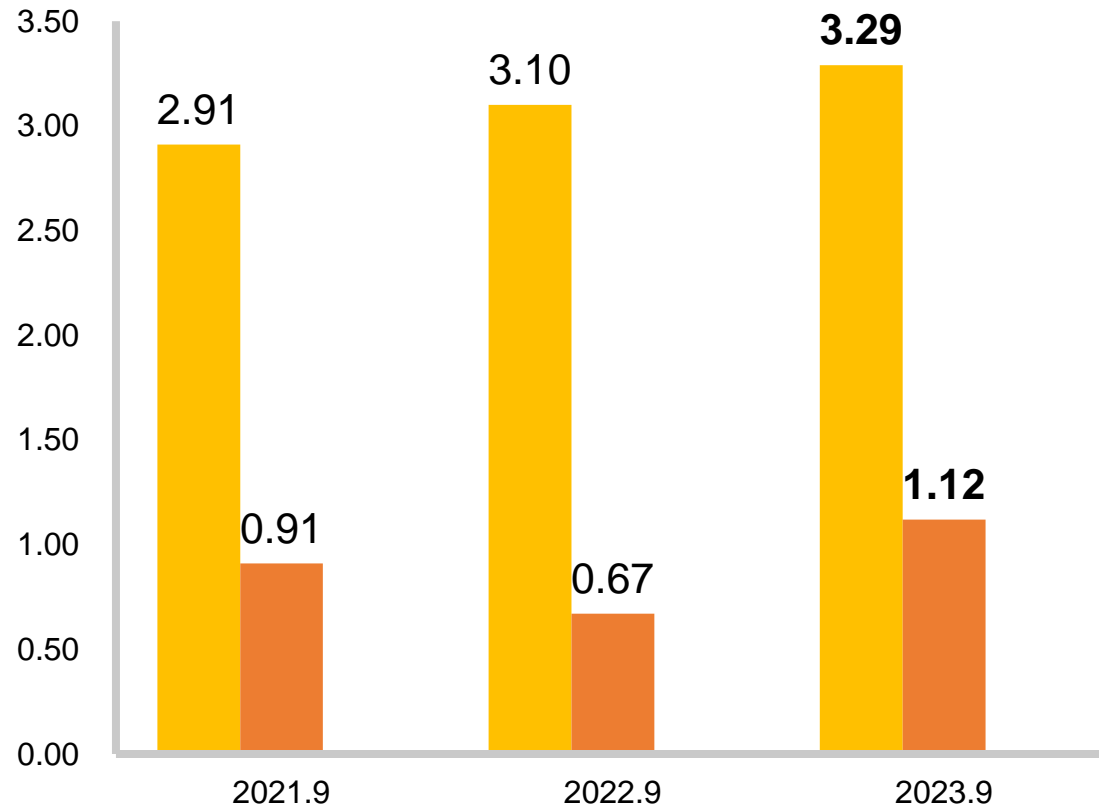
■ Gross profit margin (%)



SGA rose due to the rise in labor costs resulting from base-pay increase and elimination of COVID-19 movement restrictions, but growth in net sales outpaced this increase, resulting in both higher operating profit and operating margin compared to the corresponding periods of the past two fiscal years.

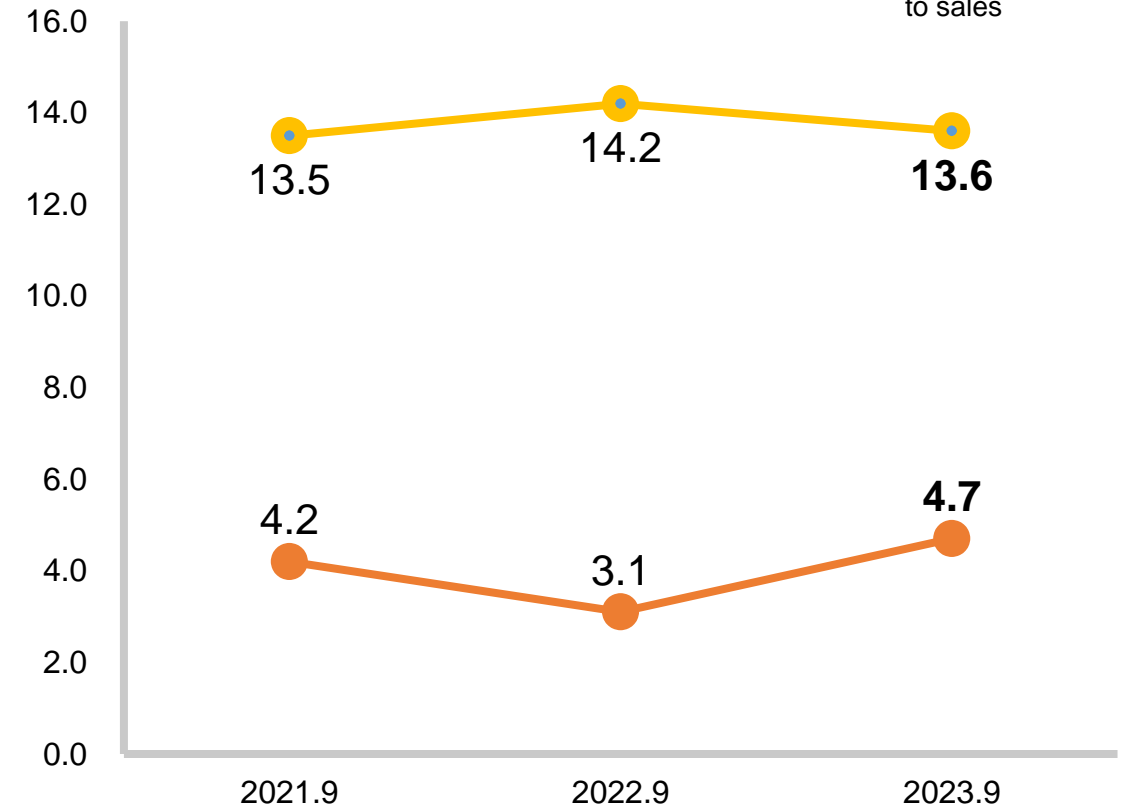
■ Selling, general and administrative expenses / Operating income (billion yen)

■ Selling, general and administrative expenses
■ Operating income

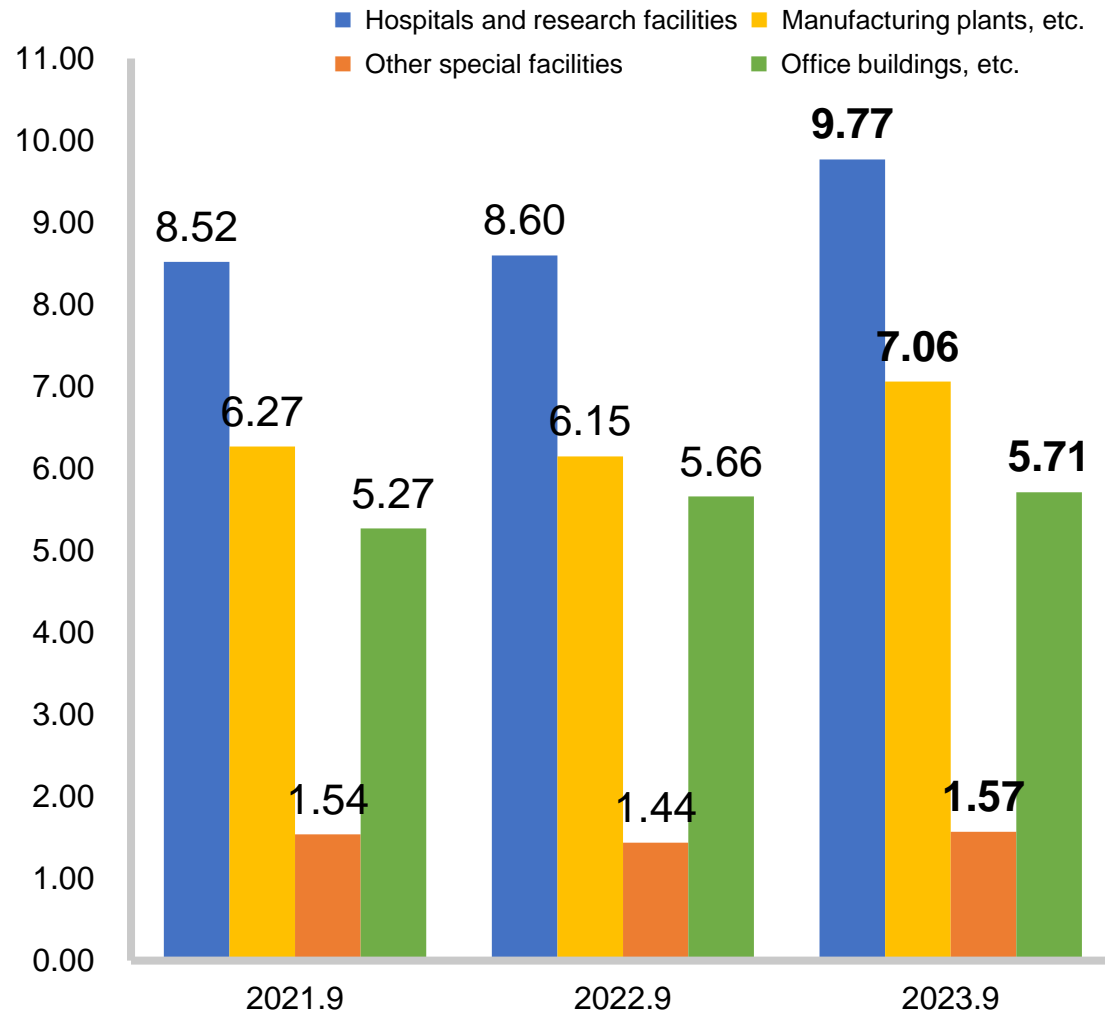


■ Selling, general and administrative expenses ratio / Operating income to sales (%)

● Selling, general and administrative expenses ratio
● Operating income to sales



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



① **Hospitals and research facilities**

- Major increase mainly in renovation projects
We also saw a steady increase in spot maintenance orders.

② **Manufacturing plants, etc.**

- In addition to the increase in spot projects, orders for construction of solar power facilities for in-house consumption continue to grow favorably.

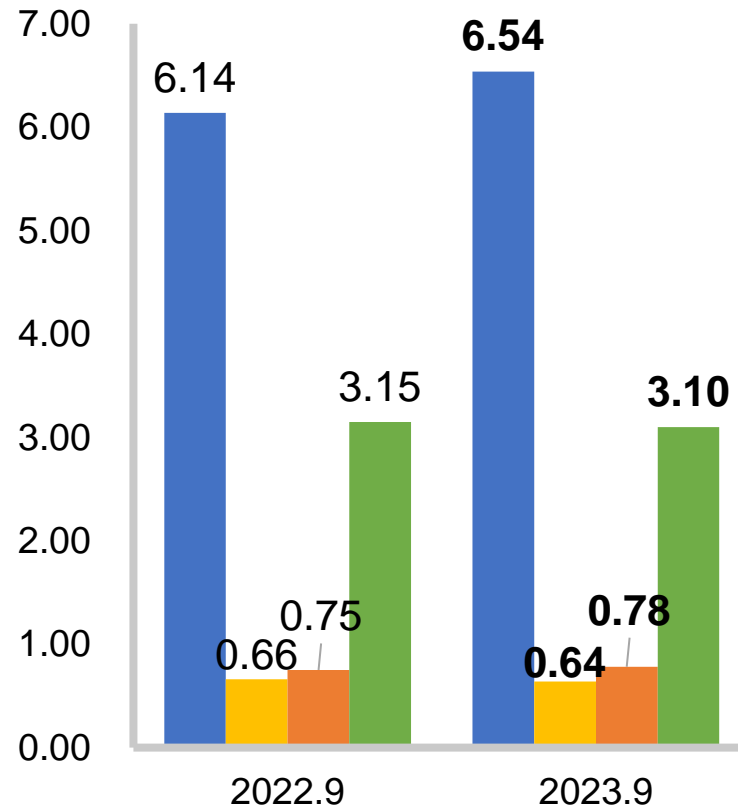
③ **Other special facilities**

- Solar power projects increased somewhat, but due to the continuing shift toward solar power projects for in-house consumption chiefly at manufacturing plants and similar properties, sales were flat.

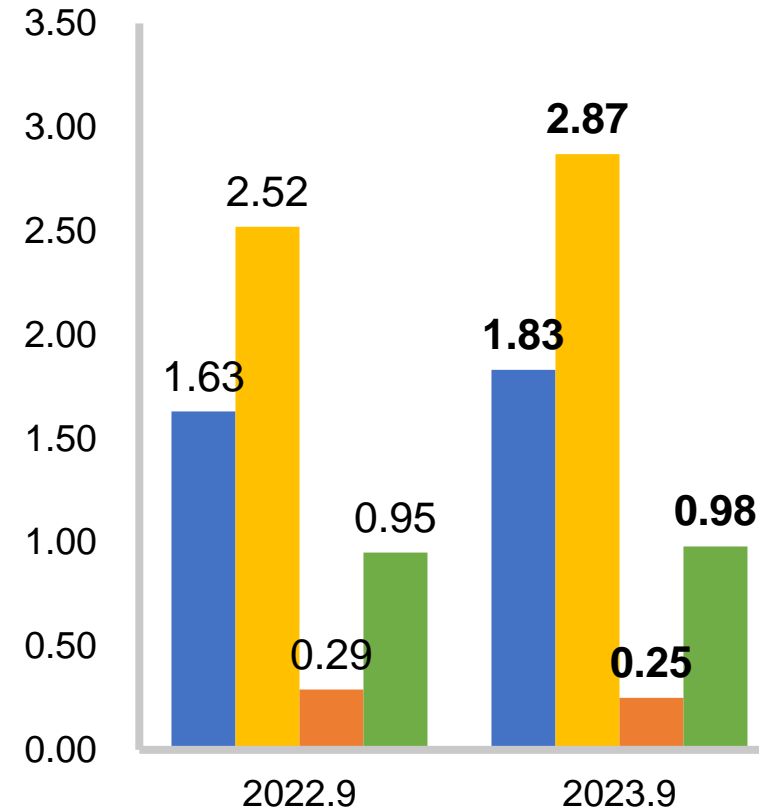
④ **Office buildings, etc.**

- Increase in facilities construction projects for university and education-related facilities.

■ Annual contract sales (billion yen)

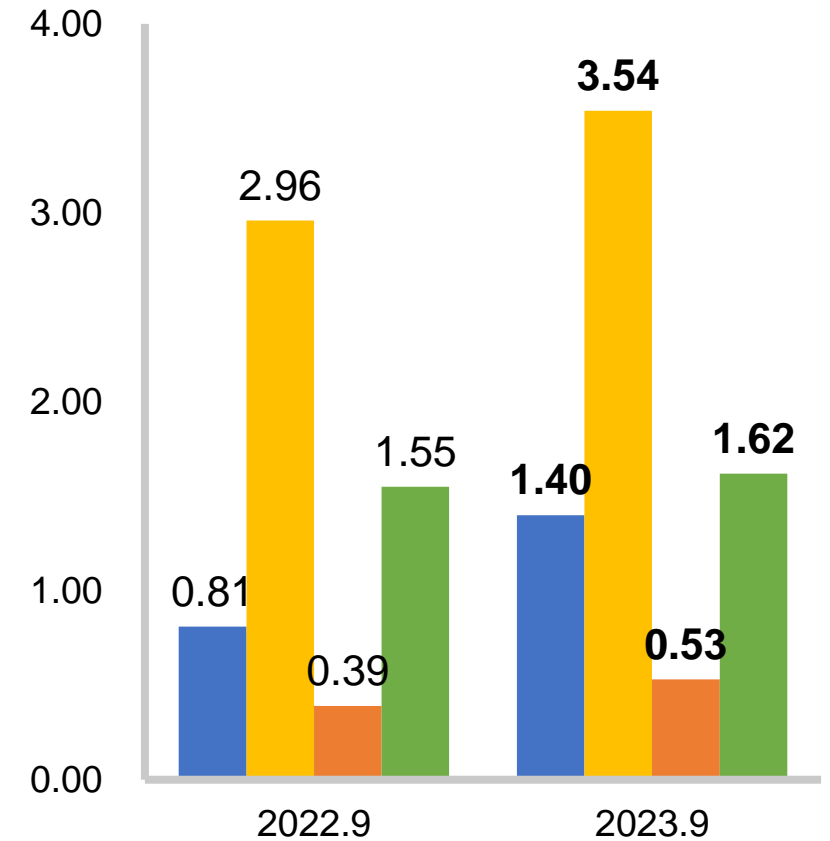


■ Maintenance services net sales (billion yen)



■ Renovation work construction work volume (billion yen)

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



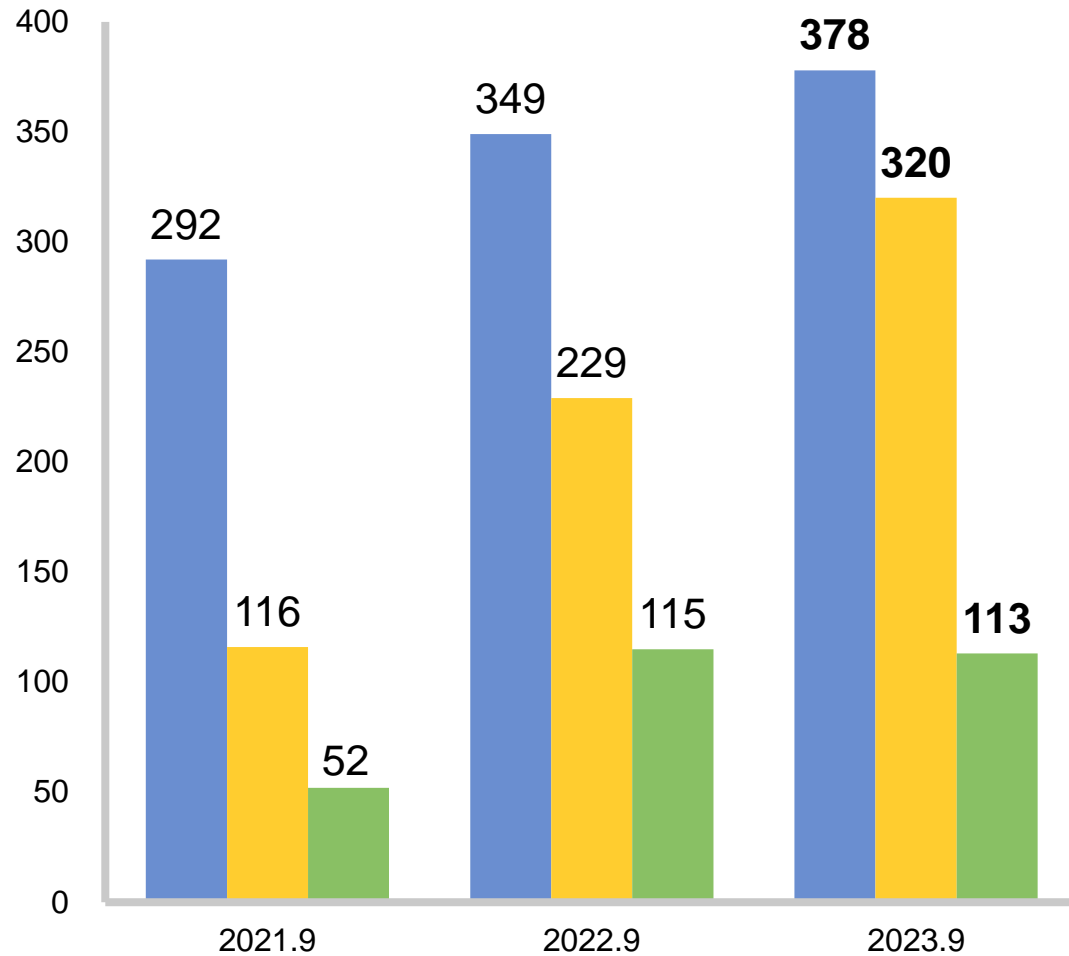
number of cases : 2,672 cases **2,674 cases**
 average unit price : ¥3,927 thousand **¥4,057 thousand**

number of cases : 17,659 cases **18,364 cases**
 average unit price : ¥296 thousand **¥313 thousand**

number of cases : 1,871 cases **2,054 cases**
 average unit price : ¥2,915 thousand **¥3,268 thousand**

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

■ Overseas net sales by region (million yen) ■ China ■ Singapore ■ Other regions

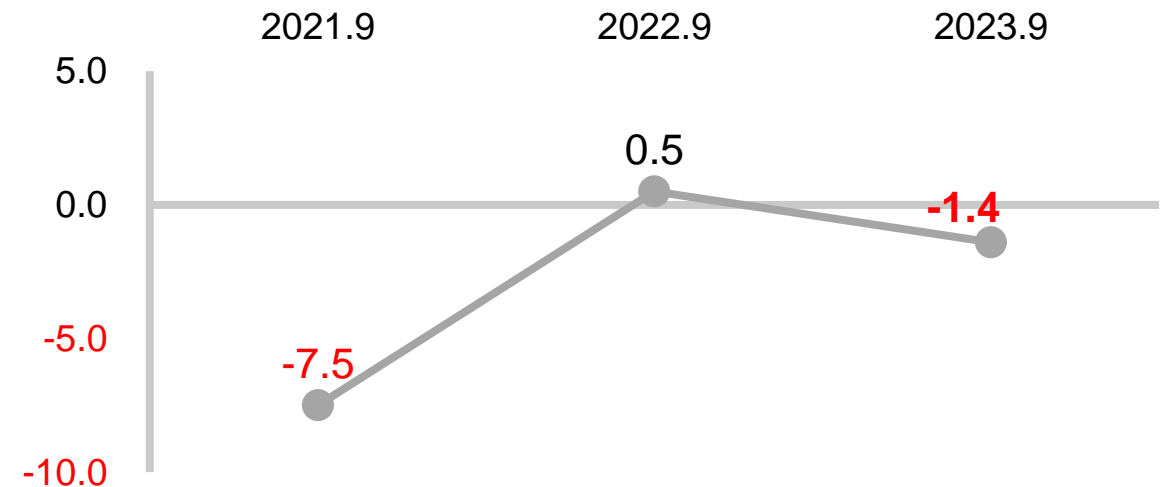


Overseas net sales : ¥ 812 million yen

Operating income to sales overseas : -1.4%

Net sales increased due to relaxed restrictions on movement and improvements in the environment for receiving orders. However, losses persisted due to higher prices for goods and increased labor costs.

■ Operating income to sales overseas (%)



* "Other regions" of net sales overseas by region are Bangladesh, Thailand, 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)	FY03/2023 2Q		FY03/2024 2Q	
	Amount (billion yen)	Year-on-year change (billion yen)	Amount (billion yen)	Year-on-year change (billion yen)
Cash flows from operating activities	0.40	-1.31	2.33	+1.93
Cash flows from investing activities	-0.45	-1.62	-0.80	-0.35
Cash flows from financing activities	-0.57	+0.21	-0.56	+0.00
Cash and cash equivalent growth	-0.57	-2.69	0.98	+1.56
Balance of cash and cash equivalent at beginning of the period	6.64	+0.42	5.88	-0.76
Balance of cash and cash equivalent at end of the period	6.07	-2.27	6.87	+0.79

Positive operating cash flow



Lower accounts receivable

Negative investment cash flow



Expenditures to acquire property, plant and equipment

Consolidated (as of the end of period)	FY03/2023		FY03/2024 2Q	
	Amount (billion yen)	growth ratio compared to the end of the previous period (%)	Amount (billion yen)	growth ratio compared to the end of the previous period (%)
Current assets	23.4	+8.3	21.2	-9.2
Fixed assets	14.1	+4.7	15.1	+7.6
Total assets	37.5	+6.9	36.4	-2.9
Interest-bearing debts	0.99	+15.1	0.94	-8.4
Other liabilities	14.8	+7.7	13.1	-11.4
Total liabilities	15.8	+8.2	14.0	-11.2
Total net assets	21.7	+6.0	22.4	+3.2
Total liabilities and net assets	37.5	+6.9	36.4	-2.9

The capital adequacy ratio increased

56.8% ⇒ 60.3%



Notes and accounts payable for
construction contracts, etc.

5.79 billion yen ⇒ 3.88 billion yen

Decrease in current liabilities due to
seasonal factors

Forecast for the fiscal year ending March 31, 2024

Despite progress in striking a balance between measures to stop the spread of COVID-19 and steps to resume economic and social activity, international instability, inflation, and supply limitations are expected to persist. We will seek to expand sales and profit by identifying potential demand in areas such as energy and cost savings.

We must boost sales and profit to secure the funding needed to raise salaries and to invest in human capital.

Cumulative period (unit : billion yen, %)	FY03/2023 (results)			FY03/2024 (forecast)			Target for the final year (fiscal year ending March, 2024) of the "2019 Mid-Term Five-Year Management Plan"		
	Amount	Ratio to sales	Year-on-year growth ratio	Amount	Ratio to sales	Year-on-year growth ratio	Amount	Ratio to sales	Rate of achievement as of FY03/2023
Net sales	52.8	100.0	+6.0	56.0	100.0	+5.9	55.0	100.0	96.2
Maintenance service sales	34.6	65.6	+2.7	36.5	65.2	+5.2	37.5	68.2	92.5
Renovation work construction work volume	18.2	34.4	+12.9	19.5	34.8	+7.1	17.5	31.8	104.0
Gross profit on sales	9.32	17.6	+5.9	10.0	17.9	+7.2	9.50	17.3	98.2
Selling, general and administrative expenses	6.48	12.3	+4.7	7.00	12.5	+8.0	6.50	11.8	99.7
Operating income	2.84	5.4	+8.8	3.00	5.4	+5.4	3.00	5.5	94.9
Ordinary income	3.05	5.8	+8.9	3.10	5.5	+1.6	3.10	5.6	98.4
Profit attributable to owners of parent	1.94	3.7	-31.2	2.00	3.6	+3.1	1.90	3.5	102.1

* The fiscal year ending March 31, 2024 is the final year of the "2019 Mid-Term Five-Year Management Plan".

* Salary levels for permanent employees rose (by 6.8% on average) starting in April 2023.

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II . Financial highlights	p.26-p.38
III . Toward the achievement of long-term vision	p.39-p.48

Improvement of happiness of all stakeholders



Creation of sustainable shareholder value



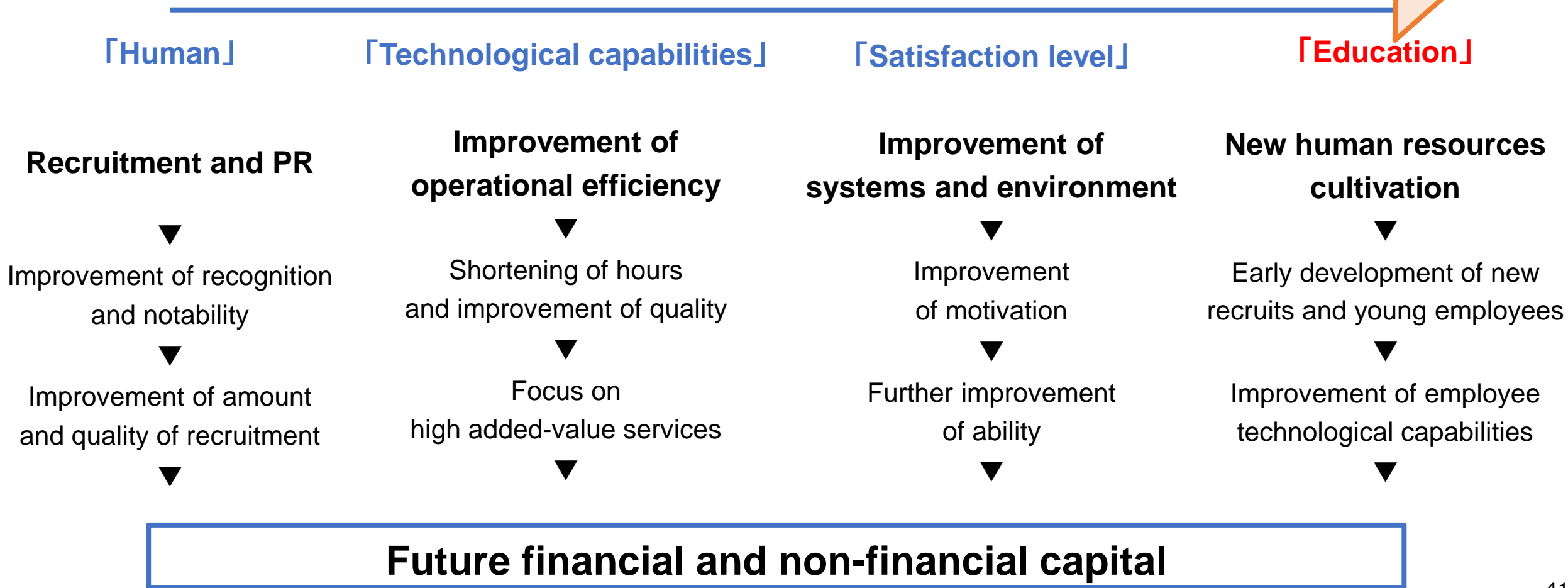
Capital productivity improvement



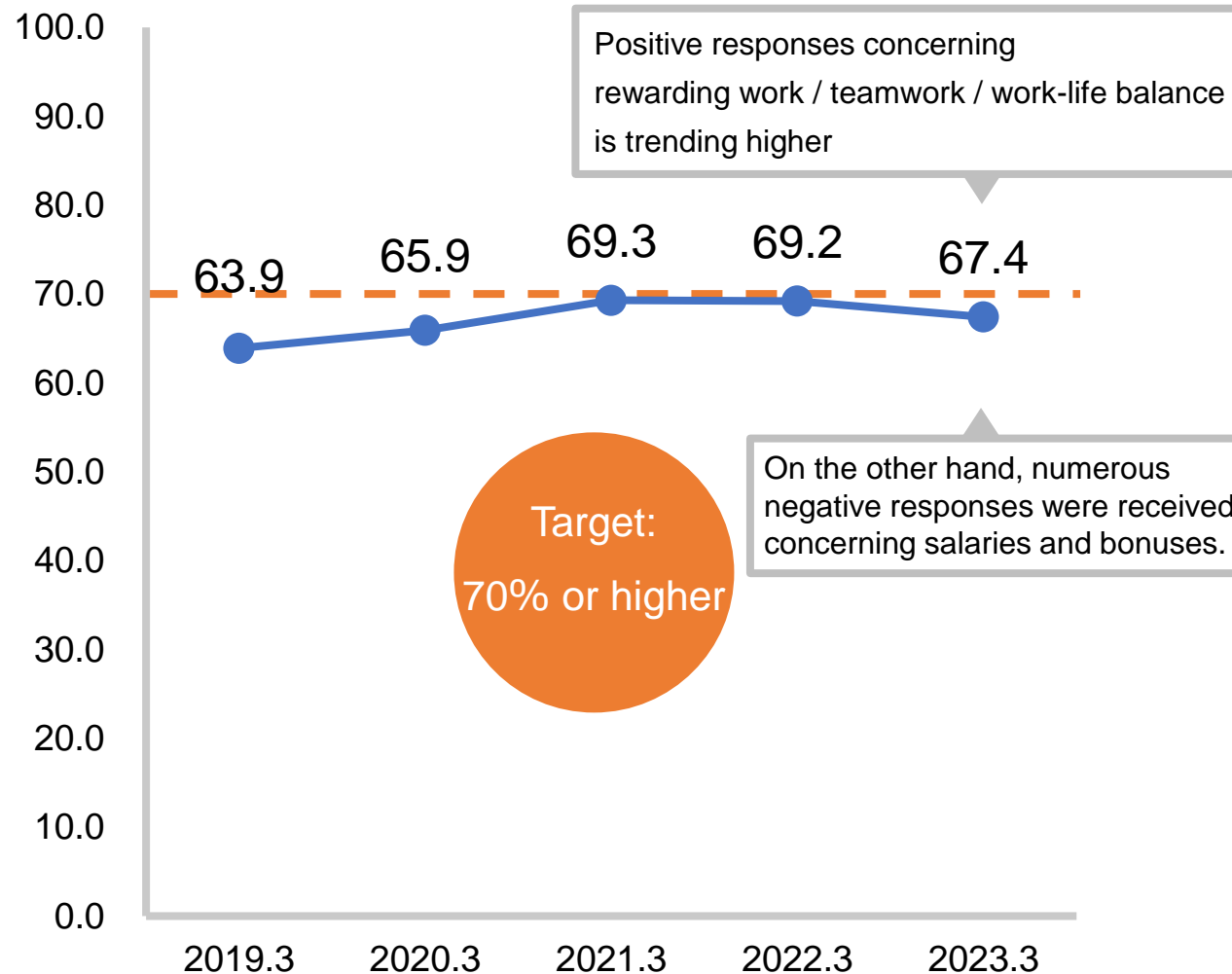
Enhanced human resources value

Promote four projects aiming at enhancing human resources value

Plans are underway to build a new Training Center. The facility will strengthen employee skills overall and help new and young employees make rapid contributions.



■ Employee satisfaction levels (%)



Employee satisfaction levels: 67.4%

We will strive to deliver improvements through initiatives with each project (raise salary levels, etc.) and improvements in internal communication.



Basis of customer satisfaction

“Foundation of corporate value”

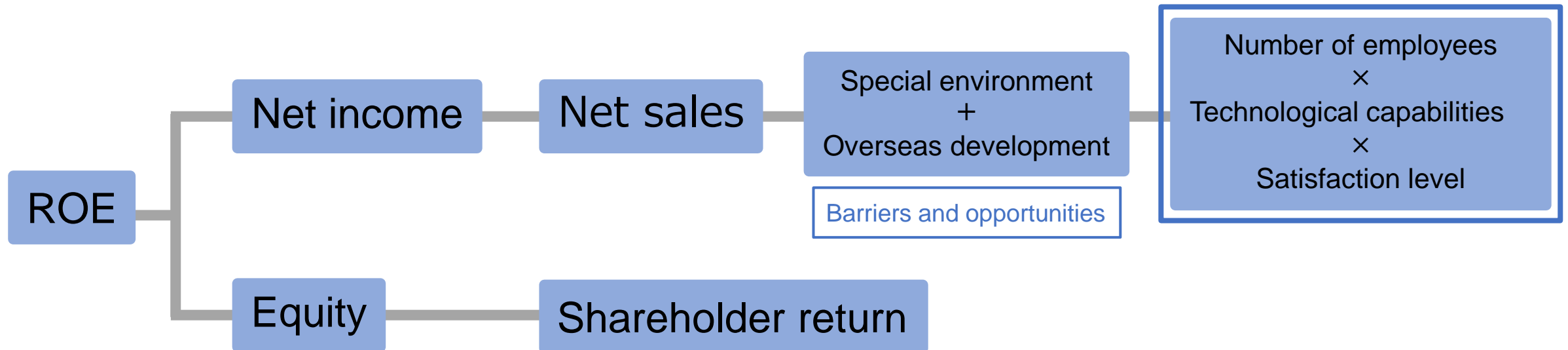
Linked to human resources

* Employee satisfaction level is calculated based on results of employee satisfaction level survey implemented by the Company. (non-consolidated basis)

Most important factor for improving the capital productivity

「enhancement of human resources value」

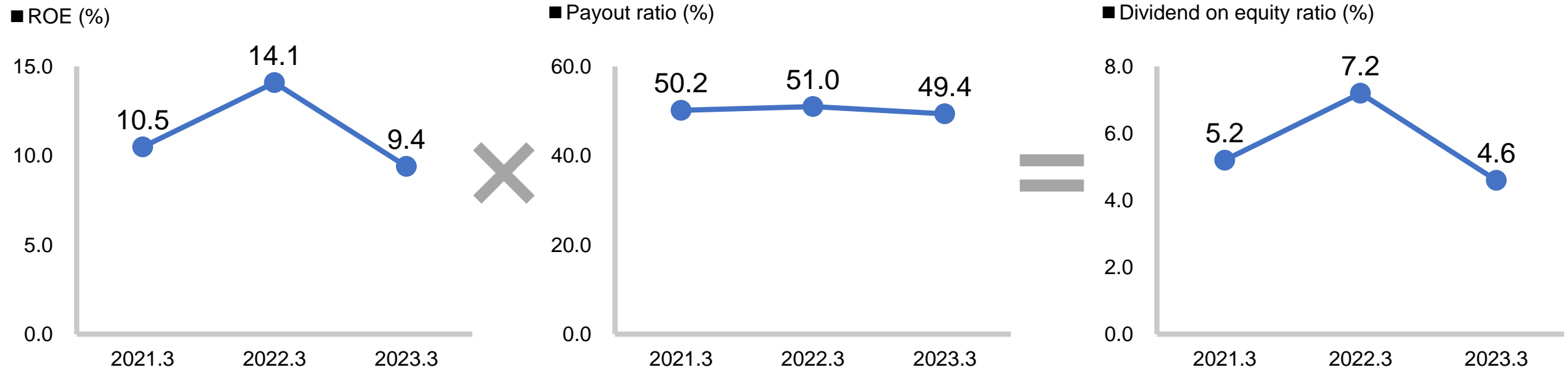
Linked to ESG(Social)

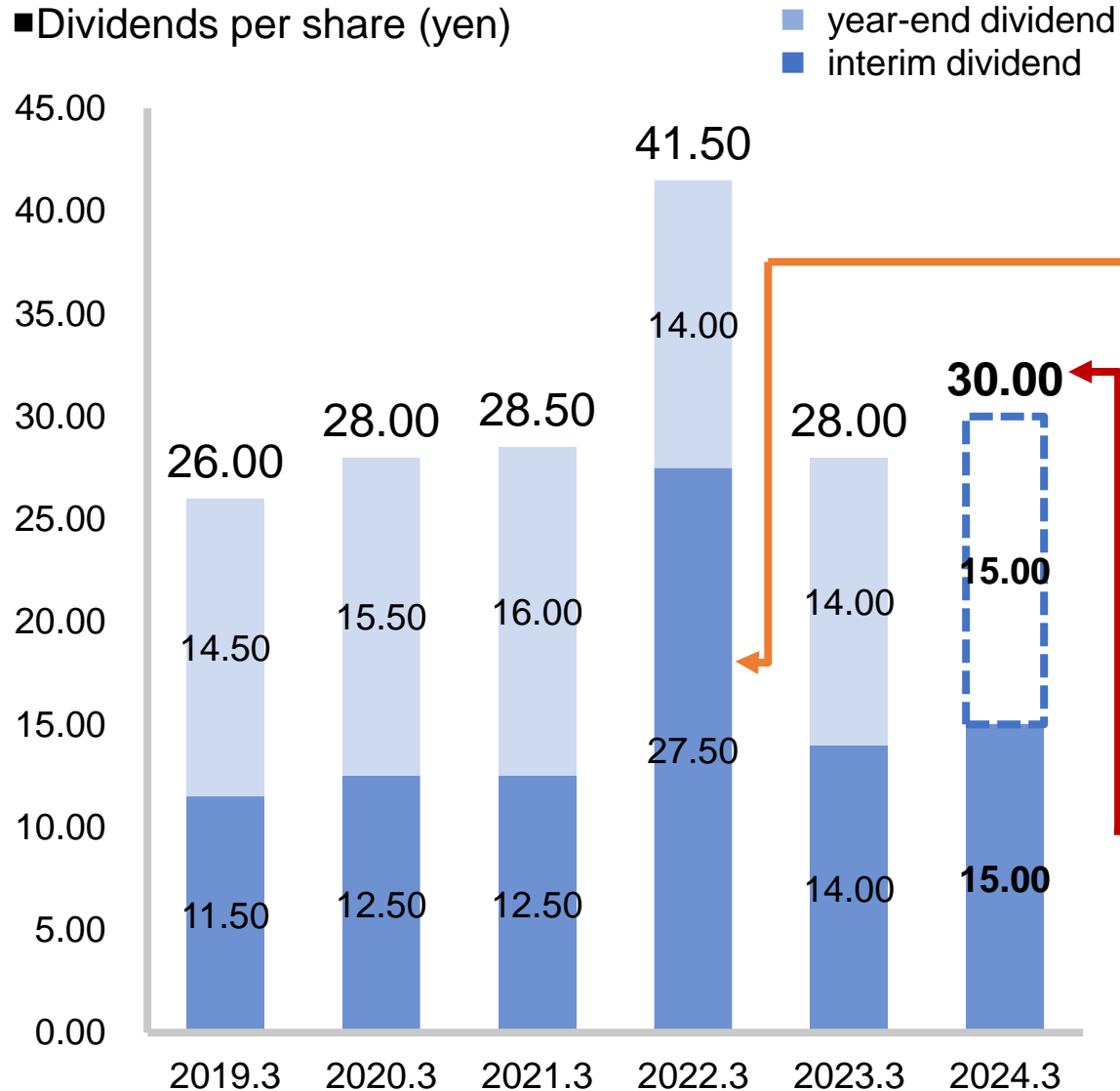


Maintain dividend payout ratio of 50%
by enhancing capital productivity



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



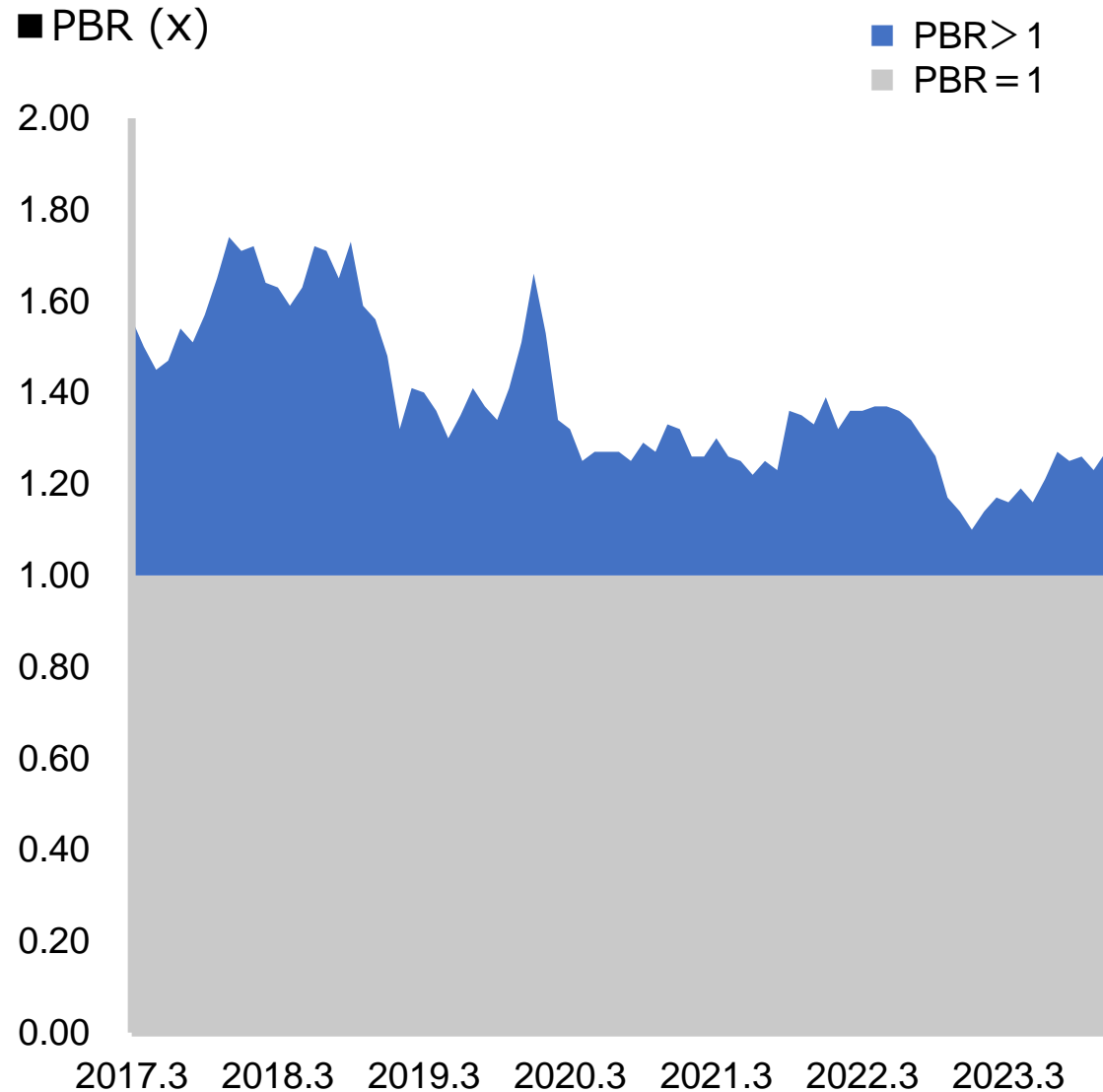


Returning 50% of extraordinary gains from cross-shareholdings sales as a special dividend

Dividend per share 13.50 yen

The 2019 Five-Year Mid-Term Management Plan targeted an annual dividend of 27 yen/share, corresponding to 50% of the EPS target of 54 yen.

We expect to pay a dividend of 30 yen/share, which exceeds this target.



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

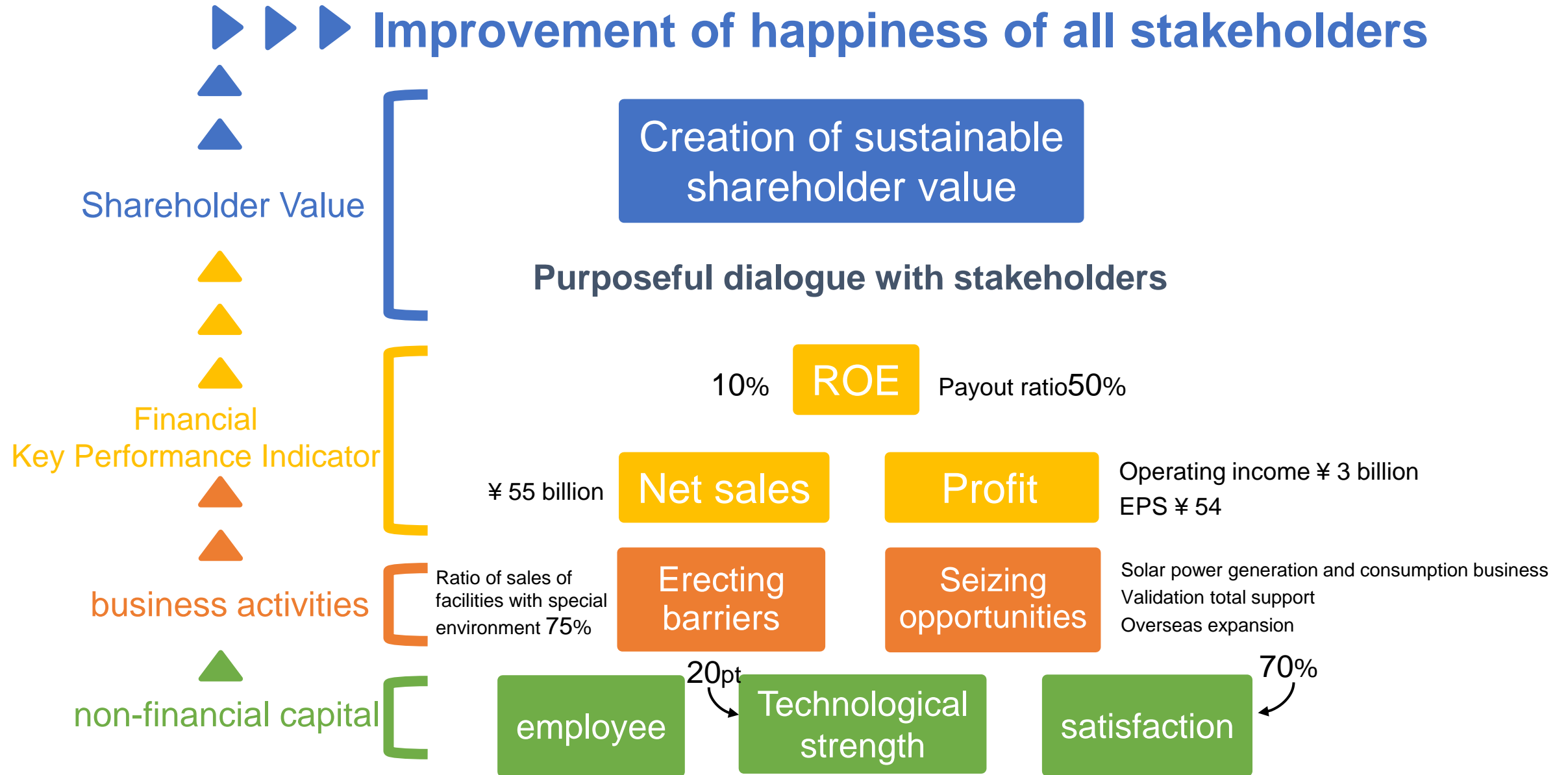
Net sales : **¥55.0 billion** (Ratio of sales of facilities with special environment **75%**)

Operating income : **¥3.00 billion** (Operating income to sales overseas **5%**)

Profit attributable to owners of parent : **¥1.90 billion**

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

ROE : Maintain **10%**



* 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.20), and satisfaction is evaluated by Employee satisfaction levels(p.38).

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