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Consolidated Financial Results for the Three Months Ended May 31, 2022 [Japanese GAAP]

June 30, 2022

Company name: Daiseki Eco. Solution Co., Ltd.

Stock exchange listing: Tokyo, Nagoya

Code number: 1712

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Scheduled date of filing quarterly securities report: July 11, 2022

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: No

(Amounts of less than one million yen are rounded down)

1. Consolidated Financial Results for the Three Months Ended May 31, 2022 (March 01, 2022 to May 31, 2022)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended May 31, 2022	3,356	(21.2)	187	(61.1)	187	(61.1)	69	(75.8)
May 31, 2021	4,264	1.5	482	46.5	483	37.6	287	41.2

(Note) Comprehensive income: Three months ended May 31, 2022: ¥ 234 million [(33.3)%]
Three months ended May 31, 2021: ¥ 351 million [39.1 %]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
May 31, 2022	4.12	-
May 31, 2021	17.10	-

(Note) The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first quarter of the fiscal year under review. The figures for the three months ended May 31, 2022 reflect the said accounting standard, etc.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Million yen	Million yen	%
May 31, 2022	21,320	15,359	67.7
February 28, 2022	21,279	15,226	67.4

(Reference) Equity: As of May 31, 2022: ¥ 14,445 million
As of February 28, 2022: ¥ 13,062 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 28, 2022	-	3.00	-	5.00	8.00
Fiscal year ending February 28, 2023	-				
Fiscal year ending February 28, 2023 (Forecast)		5.00	-	5.00	10.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2023 (March 01, 2022 to February 28, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ended August 31, 2022	7,180	(21.0)	500	(61.3)	500	(61.5)	233	(70.8)	13.86
Full year	16,800	(1.6)	2,000	(4.8)	2,000	(5.3)	1,155	(7.7)	68.75

(Note) Revision to the financial results forecast announced most recently: Yes

* Notes:

- (1) Changes in significant subsidiaries during the three months ended May 31, 2022
(changes in specified subsidiaries resulting in changes in scope of consolidation): No
- (2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
- 1) Changes in accounting policies due to the revision of accounting standards: Yes
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (4) Total number of issued shares (common shares)
- 1) Total number of issued shares at the end of the period (including treasury shares):

May 31, 2022:	16,827,120 shares
February 28, 2022:	16,827,120 shares
 - 2) Total number of treasury shares at the end of the period:

May 31, 2022:	28,221 shares
February 28, 2022:	28,221 shares
 - 3) Average number of shares during the period:

Three months ended May 31, 2022:	16,798,899 shares
Three months ended May 31, 2021:	16,810,947 shares
- * Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.
- * Proper use of earnings forecasts, and other special matters
The earnings forecasts are based on information available as of the date of disclosure of this material. These statements are not guarantees of future performance, and actual results may differ materially from these forecasts due to a variety of reasons.

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1. Qualitative information on quarterly consolidated financial results

(1) Explanation of operating results

During the three months ended May 31, 2022, the Japanese economy was moving to normal socioeconomic activities amid the prolonged impact of the novel coronavirus disease (COVID-19). However, in the global economy, the outlook for the economic climate still remained uncertain due to the impact on supply chains attributed to the Russia Ukraine situation and changes in the business environment caused by surging resource prices.

In the construction industry, to which the Company group (the “Group”) belongs, public construction investment remained strong, mainly for the management of the existing infrastructure against the backdrop of national land resilience, etc. In addition, private capital expenditure was picking up gradually, but it remained unpredictable due to the impact of surging construction material prices, etc.

Against this backdrop, in the Group’s core business of Soil Investigation and Measures, we focused on winning orders for high-value-added projects and consulting sales. However, the business significantly fell short of its initial budget due to sluggish growth in the infrastructure improvement projects, which made a great contribution to business performance last year, and the absence of orders for large-scale construction projects. The Gypsum Board Recycle Business remained strong, but it was not enough to cover the Group’s overall profit target. As a result, consolidated business results for the three months ended May 31, 2022 were as follows: net sales of ¥3,356 million (down 21.2% year on year), operating profit of ¥187 million (down 61.1% year on year), ordinary profit of ¥187 million (down 61.1% year on year), and profit attributable to owners of parent of ¥69 million (down 75.8% year on year).

Operating results by segment are as follows.

Soil Investigation and Measures Business

While the urban redevelopment projects in the Kansai area remained strong, sales and profits fell far short of the plan for the large-scale infrastructure improvement projects in the Chukyo area and the Tokyo metropolitan area, due to the lower volume of soils carried in than initially planned and the postponement of the timing of the carrying in. As a result, net sales decreased 25.5% year on year to ¥2,596 million, and operating profit decreased 63.9% year on year to ¥170 million.

Gypsum Board Recycle Business

Although sales of soil solidifiers decreased due to a decline in OEM production, the volume of waste gypsum boards received remained at a high level, thanks to the strengthened sales activities in a wide area since the previous year. As a result, net sales increased 6.0% year on year to ¥575 million, and operating profit increased 21.2% year on year to ¥179 million.

Other

The PCB Consulting Business and the Bio Diesel Fuel (BDF) Business remained strong, but the commission income related to collection and transportation decreased on a year-on-year basis. As a result, net sales decreased 17.3% year on year to ¥254 million, and operating profit decreased 26.4% year on year to ¥32 million.

(2) Explanation of financial position

Total assets as of May 31, 2022 were ¥21,320 million, an increase of ¥40 million compared with the end of the previous fiscal year. This was primarily due to an increase in cash and deposits and a decrease in notes and accounts receivable - trade, and contract assets.

Liabilities as of May 31, 2022 were ¥5,960 million, a decrease of ¥91 million compared with the end of the previous fiscal year. This was primarily due to an increase in short-term borrowings and decreases in income taxes payable and long-term borrowings (including current portion of long-term borrowings).

Net assets as of May 31, 2022 were ¥15,359 million, an increase of ¥132 million compared with the end of the previous fiscal year. This was primarily due to an increase in valuation difference on available-for-sale securities.

(3) Explanation of consolidated earnings forecasts and other forward-looking statements

The consolidated earnings forecasts for the fiscal year ending February 28, 2023 have been revised from those announced on April 5, 2022. For details, please see “Notice Regarding Revisions to Earnings Forecasts” announced on June 30, 2022 (in Japanese only).

2. Quarterly consolidated financial statements and significant notes thereto**(1) Quarterly consolidated balance sheets**

(Million yen)

	As of February 28, 2022	As of May 31, 2022
Assets		
Current assets		
Cash and deposits	645	1,304
Notes and accounts receivable - trade	2,821	-
Notes and accounts receivable - trade, and contract assets	-	2,224
Inventories	281	276
Other	338	121
Allowance for doubtful accounts	(3)	(3)
Total current assets	4,083	3,923
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,201	6,098
Land	7,928	7,928
Construction in progress	205	229
Other, net	1,803	1,928
Total property, plant and equipment	16,138	16,185
Intangible assets	20	31
Investments and other assets		
Other	1,037	1,179
Allowance for doubtful accounts	(1)	(1)
Total investments and other assets	1,036	1,178
Total non-current assets	17,196	17,396
Total assets	21,279	21,320
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,087	931
Short-term borrowings	830	1,500
Current portion of long-term borrowings	1,386	1,247
Lease obligations	72	78
Accounts payable - other	360	427
Income taxes payable	538	77
Provision for bonuses	95	37
Other	314	383
Total current liabilities	4,685	4,682
Non-current liabilities		
Long-term borrowings	1,118	999
Lease obligations	117	145
Retirement benefit liability	131	133
Other	0	0
Total non-current liabilities	1,367	1,278
Total liabilities	6,052	5,960

(Million yen)

	As of February 28, 2022	As of May 31, 2022
Net assets		
Shareholders' equity		
Share capital	2,287	2,287
Capital surplus	2,087	2,087
Retained earnings	9,703	9,689
Treasury shares	(25)	(25)
Total shareholders' equity	14,053	14,038
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	296	406
Remeasurements of defined benefit plans	(0)	(0)
Total accumulated other comprehensive income	295	406
Non-controlling interests	877	913
Total net assets	15,226	15,359
Total liabilities and net assets	21,279	21,320

(2) Quarterly consolidated statements of income and comprehensive income
Quarterly consolidated statements of income (for the three months)

(Million yen)

	For the three months ended May 31, 2021	For the three months ended May 31, 2022
Net sales	4,264	3,356
Cost of sales	3,387	2,717
Gross profit	876	639
Selling, general and administrative expenses	394	451
Operating profit	482	187
Non-operating income		
Interest income	0	0
Subsidy income	2	-
Sales of scrap iron income	0	2
Other	0	0
Total non-operating income	3	2
Non-operating expenses		
Interest expenses	2	1
Other	0	0
Total non-operating expenses	2	1
Ordinary profit	483	187
Extraordinary income		
Gain on sale of non-current assets	6	-
Total extraordinary income	6	-
Extraordinary losses		
Loss on retirement of non-current assets	1	2
Total extraordinary losses	1	2
Profit before income taxes	488	185
Income taxes - current	180	70
Income taxes - deferred	(25)	(9)
Total income taxes	154	61
Profit	333	123
Profit attributable to non-controlling interests	45	54
Profit attributable to owners of parent	287	69

Quarterly consolidated statements of comprehensive income (for the three months)

(Million yen)

	For the three months ended May 31, 2021	For the three months ended May 31, 2022
Profit	333	123
Other comprehensive income		
Valuation difference on available-for-sale securities	7	110
Remeasurements of defined benefit plans, net of tax	10	0
Total other comprehensive income	18	110
Comprehensive income	351	234
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	305	179
Comprehensive income attributable to non-controlling interests	45	54

(3) Notes on the quarterly consolidated financial statements

Notes on premise of going concern

Not applicable.

Notes on significant changes in the amount of shareholders' equity

Not applicable.

Changes in accounting policies

Changes in accounting policies due to application of the Accounting Standard for Revenue Recognition, etc.

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter the “Revenue Recognition Accounting Standard”), etc. from the beginning of the first quarter of the fiscal year under review. The Company recognizes revenue when control of promised goods or services is transferred to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

Accordingly, for transactions providing goods or services in which the Group acts as an agent, the Company has changed the method of recognizing revenue on a net basis by deducting the amounts paid to suppliers from the amounts received from customers, whereas it previously recognized revenue on a gross basis for consideration received from customers.

The Company applies the Revenue Recognition Accounting Standard, etc. in accordance with the transitional treatment provided for in the proviso to Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative impact of retrospectively applying the new accounting policies to the periods prior to the beginning of the first quarter of the fiscal year under review is adjusted to retained earnings at the beginning of the first quarter of the fiscal year under review, with the new accounting policies applied from the beginning balance.

Consequently, the impact of this change on profit or loss for the first quarter of the fiscal year under review is minimal. In addition, retained earnings do not affect the beginning balance.

Due to the application of the Revenue Recognition Accounting Standard, etc., “notes and accounts receivable - trade,” which was presented under “current assets” in the consolidated balance sheets for the previous fiscal year, has been included under “notes and accounts receivable - trade, and contract assets” from the first quarter of the fiscal year under review.

In accordance with the transitional treatment set forth in Paragraph 89-2 of the Revenue Recognition Accounting Standard, figures for the previous fiscal year have not been reclassified based on the new presentation method. Furthermore, in accordance with the transitional treatment set forth in Paragraph 28-15 of the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12, March 31, 2020), information that breaks down revenue from contracts with customers for the three months ended May 31, 2021 is not disclosed.

Application of Accounting Standard for Fair Value Measurement, etc.

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter, the “Fair Value Measurement Standard”), etc. from the beginning of the first quarter of the fiscal year under review, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc., in accordance with the transitional treatment provided for in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). This does not affect the quarterly consolidated financial statements.

Segment information, etc.Segment information

I. For the three months ended May 31, 2021

Information on the amounts of net sales, profit or loss for each reportable segment

(Millions of yen)

	Reportable segments			Other (Note 1)	Total	Adjustments (Note 2)	Amount in the quarterly consolidated statement of income (Note 3)
	Soil Investigation and Measures Business	Gypsum Board Recycle Business	Subtotal				
Net sales							
Sales to external customers	3,486	541	4,027	237	4,264	–	4,264
Intersegment sales or transfers	1	1	3	70	74	(74)	–
Total	3,488	542	4,030	307	4,338	(74)	4,264
Segment profit	471	148	620	44	664	(181)	482

- Notes: 1. The “Other” category is a business segment not included in the reportable segments. It includes Environmental Analysis Business, BDF Business, PCB Consulting Business, etc.
2. The negative ¥181 million adjustment for segment profit consists of ¥5 million for elimination of intersegment transactions and negative ¥186 million for corporate expenses not allocated to any reportable segment. Corporate expenses mostly consist of general and administrative expenses not attributable to any reportable segment.
3. Segment profit is adjusted with operating profit in the quarterly consolidated statement of income.

II. For the three months ended May 31, 2022

1. Information on the amounts of net sales, profit or loss for each reportable segment and revenue breakdown information

(Millions of yen)

	Reportable segments			Other (Note 1)	Total	Adjustments (Note 2)	Amount in the quarterly consolidated statement of income (Note 3)
	Soil Investigation and Measures Business	Gypsum Board Recycle Business	Subtotal				
Net sales							
Chukyo	1,330	352	1,682	175	1,857	–	1,857
Kanto	548	–	548	10	559	–	559
Kansai	717	–	717	2	719	–	719
Kyushu	–	219	219	–	219	–	219
Revenue from contracts with customers	2,595	572	3,167	188	3,356	–	3,356
Sales to external customers	2,595	572	3,167	188	3,356	–	3,356
Intersegment sales or transfers	1	3	4	65	70	(70)	–
Total	2,596	575	3,172	254	3,427	(70)	3,356
Segment profit	170	179	350	32	382	(194)	187

Notes: 1. The “Other” category is a business segment not included in the reportable segments. It includes Environmental Analysis Business, BDF Business, PCB Consulting Business, etc.

2. The negative ¥194 million adjustment for segment profit consists of ¥5 million for elimination of intersegment transactions and negative ¥200 million for corporate expenses not allocated to any reportable segment. Corporate expenses mostly consist of general and administrative expenses not attributable to any reportable segment.

3. Segment profit is adjusted with operating profit in the quarterly consolidated statement of income.

2. Matters on changes in reportable segments, etc.

As described in changes in accounting policies, the Company has applied the Revenue Recognition Accounting Standard, etc. from the beginning of the first quarter of the fiscal year under review, and has changed the accounting method for revenue recognition. Accordingly, the Company has also changed the method for calculating profit or loss of the business segments.

The impact of this change on profit or loss for each business segment for the three months ended May 31, 2022 is minimal.