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Consolidated Financial Results for the Six Months Ended August 31, 2022 [Japanese GAAP]

October 03, 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: October 11, 2022

Scheduled date of commencing dividend payments: October 27, 2022

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: Yes (for institutional investors and analysts)

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

1. Consolidated Financial Results for the Six Months Ended August 31, 2022 (March 01, 2022 to August 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	%
Six months ended August 31, 2022	7,358	(19.1)	456	(64.6)	466	(64.0)	206	(74.1)
August 31, 2021	9,099	22.8	1,293	181.7	1,299	173.2	797	208.3

(Note) Comprehensive income: Six months ended August 31, 2022: ¥ 311 million [(67.9)%]
Six months ended August 31, 2021: ¥ 973 million [190.5%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
August 31, 2022	12.28	-
August 31, 2021	47.48	-

(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 ending February 28, 2023. The figures for the six months ended August 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	%
August 31, 2022	21,472	15,461	67.5
February 28, 2022	21,279	15,226	67.4

(Reference) Equity: As of August 31, 2022: ¥ 14,497 million
As of February 28, 2022: ¥ 14,349 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	-	5.00			
Fiscal year ending February 28, 2023 (Forecast)			-	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
Full year	14,800	(13.3)	1,000	(52.4)	1,000	(52.6)	455	(63.6)	27.06

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

* Notes:

- (1) Changes in significant subsidiaries during the six months ended August 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):

August 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:

August 31, 2022:	3,061 shares
February 28, 2022:	28,221 shares
 - 3) Average number of shares during the period:

Six months ended August 31, 2022:	16,810,264 shares
Six months ended August 31, 2021:	16,804,574 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 six months ended August 31, 2022, the Japanese economy showed moderate recovery. However, the outlook remained unpredictable with the continued uncertainty over the prospect of containment of the novel coronavirus disease (COVID-19) resulting from an increase in cases of its new variant. In the global economy, the outlook for the economic climate remained uncertain due to the impact on corporate activities from surging purchase prices, logistics costs, etc. which were caused by the events such as the exacerbation of the Russia Ukraine situation and the sharp weakening of the yen.

In the construction industry, to which the Company group (the “Group”) belongs, public construction investment remained strong and private capital expenditure was picking up gradually. However, as developments have surfaced such as further intensifying competitive order environment and surging construction material prices, we need to closely monitor the impact on business environment from these developments.

Against this backdrop, the Group continued to focus on winning orders for high-value-added projects and consulting sales. While the Gypsum Board Recycle Business of the Group companies remained strong, the Soil Investigation and Measures Business recorded declines of sales and profits in relation with the initially anticipated large-scale infrastructure improvement projects due to a decrease in the volume of soils carried in and the delay of some of these projects. In addition, the performance of projects other than large-scale infrastructure improvement was far below the initial expectations due to declines in new orders and worsening profit margins. As a result, consolidated business results for the six months ended August 31, 2022 were as follows: net sales of ¥7,358 million (down 19.1% year on year), operating profit of ¥456 million (down 64.6% year on year), ordinary profit of ¥466 million (down 64.0% year on year), and profit attributable to owners of parent of ¥206 million (down 74.1% 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 factors such as 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 22.2% year on year to ¥5,866 million, and operating profit decreased 61.7% year on year to ¥483 million.

Gypsum Board Recycle Business

Although sales of soil solidifiers decreased, the volume of waste gypsum boards received continued to be at a high level in the Kyushu area. As a result, net sales increased 4.8% year on year to ¥1,133 million, and operating profit increased 11.3% year on year to ¥344 million.

Other

The PCB Consulting Business remained strong and the Bio Diesel Fuel (BDF) Business recorded increases of sales and profits, but the commission income related to collection and transportation decreased. As a result, net sales decreased 20.3% year on year to ¥493 million, and operating profit decreased 72.1% year on year to ¥22 million.

(2) Explanation of financial position

Total assets as of August 31, 2022 were ¥21,472 million, an increase of ¥193 million compared with the end of the previous fiscal year. This was primarily due to increases in cash and deposits and notes and accounts receivable - trade, and contract assets.

Liabilities as of August 31, 2022 were ¥6,011 million, a decrease of ¥41 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 August 31, 2022 were ¥15,461 million, an increase of ¥234 million compared with the end of the previous fiscal year. This was primarily due to increases in retained earnings and non-controlling interests.

(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 June 30, 2022. For details, please see “Notice on Revision to Financial Results Forecast” announced on October 3, 2022.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheets

(Million yen)

	As of February 28, 2022	As of August 31, 2022
Assets		
Current assets		
Cash and deposits	645	759
Notes and accounts receivable - trade	2,821	-
Notes and accounts receivable - trade, and contract assets	-	2,976
Inventories	281	218
Other	338	420
Allowance for doubtful accounts	(3)	(4)
Total current assets	4,083	4,371
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,201	6,009
Land	7,928	7,928
Construction in progress	205	36
Other, net	1,803	2,037
Total property, plant and equipment	16,138	16,012
Intangible assets	20	31
Investments and other assets		
Other	1,037	1,059
Allowance for doubtful accounts	(1)	(1)
Total investments and other assets	1,036	1,057
Total non-current assets	17,196	17,101
Total assets	21,279	21,472
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,087	1,055
Short-term borrowings	830	2,100
Current portion of long-term borrowings	1,386	1,037
Lease obligations	72	63
Accounts payable - other	360	298
Income taxes payable	538	191
Provision for bonuses	95	151
Other	314	143
Total current liabilities	4,685	5,041
Non-current liabilities		
Long-term borrowings	1,118	700
Lease obligations	117	131
Retirement benefit liability	131	138
Other	0	0
Total non-current liabilities	1,367	970
Total liabilities	6,052	6,011

(Million yen)

	As of February 28, 2022	As of August 31, 2022
Net assets		
Shareholders' equity		
Share capital	2,287	2,287
Capital surplus	2,087	2,089
Retained earnings	9,703	9,826
Treasury shares	(25)	(2)
Total shareholders' equity	14,053	14,200
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	296	297
Remeasurements of defined benefit plans	(0)	(0)
Total accumulated other comprehensive income	295	296
Non-controlling interests	877	963
Total net assets	15,226	15,461
Total liabilities and net assets	21,279	21,472

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

(Million yen)

	For the six months ended August 31, 2021	For the six months ended August 31, 2022
Net sales	9,099	7,358
Cost of sales	7,018	5,939
Gross profit	2,080	1,419
Selling, general and administrative expenses	787	962
Operating profit	1,293	456
Non-operating income		
Interest income	0	0
Dividend income	6	10
Subsidy income	2	-
Sales of scrap iron income	1	2
Other	1	0
Total non-operating income	11	13
Non-operating expenses		
Interest expenses	4	3
Other	0	0
Total non-operating expenses	5	3
Ordinary profit	1,299	466
Extraordinary income		
Gain on sale of non-current assets	7	3
Total extraordinary income	7	3
Extraordinary losses		
Loss on retirement of non-current assets	1	3
Total extraordinary losses	1	3
Profit before income taxes	1,306	466
Income taxes - current	444	175
Income taxes - deferred	(30)	(20)
Total income taxes	413	155
Profit	893	311
Profit attributable to non-controlling interests	95	104
Profit attributable to owners of parent	797	206

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

(Million yen)

	For the six months ended August 31, 2021	For the six months ended August 31, 2022
Profit	893	311
Other comprehensive income		
Valuation difference on available-for-sale securities	71	0
Remeasurements of defined benefit plans, net of tax	9	0
Total other comprehensive income	80	0
Comprehensive income	973	311
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	878	207
Comprehensive income attributable to non-controlling interests	95	104

(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 ending February 28, 2023. 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 ending February 28, 2023 is adjusted to retained earnings at the beginning of the first quarter of the fiscal year ending February 28, 2023, with the new accounting policies applied from the beginning balance.

Consequently, the impact of this change on profit or loss for the six months ended August 31, 2022 is minimal. In addition, the beginning balance of retained earnings is not affected.

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 ending February 28, 2023.

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 six months ended August 31, 2021 is not disclosed.

Application of the 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 ending February 28, 2023, 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 six months ended August 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	7,544	1,076	8,620	478	9,099	–	9,099
Intersegment sales or transfers	3	4	7	141	148	(148)	–
Total	7,547	1,081	8,628	619	9,248	(148)	9,099
Segment profit	1,265	309	1,575	79	1,655	(362)	1,293

- 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 ¥362 million adjustment for segment profit consists of ¥10 million for elimination of intersegment transactions and negative ¥372 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 six months ended August 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	2,625	709	3,335	346	3,682	–	3,682
Kanto	1,750	–	1,750	16	1,766	–	1,766
Kansai	1,487	–	1,487	3	1,491	–	1,491
Kyushu	–	417	417	–	417	–	417
Revenue from contracts with customers	5,863	1,127	6,991	367	7,358	–	7,358
Sales to external customers	5,863	1,127	6,991	367	7,358	–	7,358
Intersegment sales or transfers	2	6	8	126	135	(135)	–
Total	5,866	1,133	6,999	493	7,493	(135)	7,358
Segment profit	483	344	828	22	850	(394)	456

- 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 ¥394 million adjustment for segment profit consists of ¥12 million for elimination of intersegment transactions and negative ¥406 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 ending February 28, 2023, 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 six months ended August 31, 2022 is minimal.