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Consolidated Financial Results for the Nine Months Ended November 30, 2022 [Japanese GAAP]

January 05, 2023

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: January 12, 2023

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 Nine Months Ended November 30, 2022 (March 01, 2022 to November 30, 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	%
Nine months ended November 30, 2022	11,872	(10.6)	930	(48.9)	940	(48.6)	462	(57.9)
November 30, 2021	13,282	20.1	1,824	130.9	1,831	127.3	1,099	148.0

(Note) Comprehensive income: Nine months ended November 30, 2022: ¥ 589 million [(58.1)%]
Nine months ended November 30, 2021: ¥ 1,410 million [132.2%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended November 30, 2022	27.50	-
November 30, 2021	65.43	-

(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 nine months ended November 30, 2022 reflect the said accounting standard, etc.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Million yen	Million yen	%
As of November 30, 2022	22,550	15,655	64.9
February 28, 2022	21,279	15,226	67.4

(Reference) Equity: As of November 30, 2022: ¥ 14,639 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: No

* Notes:

(1) Changes in significant subsidiaries during the nine months ended November 30, 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):

November 30, 2022: 16,827,120 shares

February 28, 2022: 16,827,120 shares

2) Total number of treasury shares at the end of the period:

November 30, 2022: 3,081 shares

February 28, 2022: 28,221 shares

3) Average number of shares during the period:

Nine months ended November 30, 2022: 16,814,827 shares

Nine months ended November 30, 2021: 16,802,740 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 nine months ended November 30, 2022, in Japan, economic activities were gradually returning to normal thanks to the lifting of movement restrictions and the diffusion of the vaccine even under the prolonged impacts of COVID-19. However, the future outlook remained uncertain due to factors such as the sharp weakening of the yen and surging raw material prices. With regard to the global economy as well, there are concerns that the Japanese economy may be impacted in the future by global inflation, sharp currency fluctuations caused by tight monetary policies in each country, and other factors.

In the construction industry, to which the Company group (the “Group”) belongs, construction investment by private companies showed a sign of recovery, and the amount of orders received across the entire industry is exceeding the level of the same period of the previous fiscal year. However, the situation remained unpredictable due to impacts of surging construction material prices and other factors.

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 remained strong with year-on-year increases in sales and operating profit. Meanwhile, in the Soil Investigation and Measures Business, our mainstay business, sales and profits in relation with large-scale infrastructure improvement projects were far below initial expectations. As a result, consolidated business results for the nine months ended November 30, 2022 were as follows: net sales of ¥11,872 million (down 10.6% year on year), operating profit of ¥930 million (down 48.9% year on year), ordinary profit of ¥940 million (down 48.6% year on year), and profit attributable to owners of parent of ¥462 million (down 57.9% year on year).

Operating results by segment are as follows.

Soil Investigation and Measures Business

The urban redevelopment projects in the Kansai area remained strong from the first quarter of the fiscal year ending February 28, 2023. However, in the large-scale infrastructure improvement projects in Gifu Recycling Center and Yokohama Namamugi Recycling Center, the volume of soils carried in was lower than initially planned and the timing of the carrying in was postponed. As a result, net sales decreased 12.9% year on year to ¥9,551 million, and operating profit decreased 47.9% year on year to ¥934 million.

Gypsum Board Recycle Business

The volumes of waste gypsum board processed by Green Arrows Central Co., Ltd. and Green Arrows Kyushu Co., Ltd. both increased year on year. In addition, sales volume of soil solidifiers increased by appropriately reviewing prices amid price hikes by competitors due to higher raw material prices. As a result, net sales increased 7.2% year on year to ¥1,747 million, and operating profit increased 10.7% year on year to ¥521 million.

Other

The PCB Consulting Business 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 12.4% year on year to ¥786 million, and operating profit decreased 43.4% year on year to ¥54 million.

(2) Explanation of financial position

Total assets as of November 30, 2022 were ¥22,550 million, an increase of ¥1,270 million compared with the end of the previous fiscal year. This was primarily due to increases in notes and accounts receivable - trade, and contract assets.

Liabilities as of November 30, 2022 were ¥6,894 million, an increase of ¥842 million compared with the end of the previous fiscal year. This was primarily due to increases in short-term borrowings and long-term borrowings, and a decrease in income taxes payable.

Net assets as of November 30, 2022 were ¥15,655 million, an increase of ¥428 million compared with the end of the previous fiscal year. This was primarily due to an increase in retained earnings.

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

The consolidated earnings forecasts for the fiscal year ending February 28, 2023, remain unchanged from the figures announced in “Notice Regarding Revisions to Earnings Forecasts” 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 November 30, 2022
Assets		
Current assets		
Cash and deposits	645	488
Notes and accounts receivable - trade	2,821	-
Notes and accounts receivable - trade, and contract assets	-	4,283
Inventories	281	261
Other	338	453
Allowance for doubtful accounts	(3)	(6)
Total current assets	4,083	5,480
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,201	5,911
Land	7,928	7,928
Construction in progress	205	178
Other, net	1,803	1,970
Total property, plant and equipment	16,138	15,988
Intangible assets	20	29
Investments and other assets		
Other	1,037	1,053
Allowance for doubtful accounts	(1)	(1)
Total investments and other assets	1,036	1,052
Total non-current assets	17,196	17,069
Total assets	21,279	22,550
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,087	1,390
Short-term borrowings	830	1,750
Current portion of long-term borrowings	1,386	1,043
Lease obligations	72	66
Accounts payable - other	360	303
Income taxes payable	538	64
Provision for bonuses	95	74
Other	314	378
Total current liabilities	4,685	5,071
Non-current liabilities		
Long-term borrowings	1,118	1,511
Lease obligations	117	165
Retirement benefit liability	131	143
Other	0	3
Total non-current liabilities	1,367	1,823
Total liabilities	6,052	6,894

(Million yen)

	As of February 28, 2022	As of November 30, 2022
Net assets		
Shareholders' equity		
Share capital	2,287	2,287
Capital surplus	2,087	2,089
Retained earnings	9,703	9,998
Treasury shares	(25)	(2)
Total shareholders' equity	14,053	14,372
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	296	267
Remeasurements of defined benefit plans	(0)	(0)
Total accumulated other comprehensive income	295	267
Non-controlling interests	877	1,015
Total net assets	15,226	15,655
Total liabilities and net assets	21,279	22,550

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

(Million yen)

	For the nine months ended November 30, 2021	For the nine months ended November 30, 2022
Net sales	13,282	11,872
Cost of sales	10,269	9,538
Gross profit	3,013	2,333
Selling, general and administrative expenses	1,188	1,402
Operating profit	1,824	930
Non-operating income		
Interest income	0	0
Dividend income	6	10
Sales of scrap iron income	1	3
Subsidy income	2	0
Other	2	1
Total non-operating income	13	15
Non-operating expenses		
Interest expenses	6	5
Other	0	1
Total non-operating expenses	7	6
Ordinary profit	1,831	940
Extraordinary income		
Gain on sale of non-current assets	13	9
Total extraordinary income	13	9
Extraordinary losses		
Loss on retirement of non-current assets	1	8
Impairment losses	18	-
Total extraordinary losses	20	8
Profit before income taxes	1,823	941
Income taxes - current	655	352
Income taxes - deferred	(75)	(29)
Total income taxes	580	322
Profit	1,243	618
Profit attributable to non-controlling interests	143	156
Profit attributable to owners of parent	1,099	462

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

(Million yen)

	For the nine months ended November 30, 2021	For the nine months ended November 30, 2022
Profit	1,243	618
Other comprehensive income		
Valuation difference on available-for-sale securities	159	(29)
Remeasurements of defined benefit plans, net of tax	7	0
Total other comprehensive income	166	(28)
Comprehensive income	1,410	589
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,266	433
Comprehensive income attributable to non-controlling interests	143	156

(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 nine months ended November 30, 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 nine months ended November 30, 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 nine months ended November 30, 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	10,971	1,621	12,592	690	13,282	–	13,282
Intersegment sales or transfers	3	8	12	208	220	(220)	–
Total	10,974	1,630	12,604	898	13,502	(220)	13,282
Segment profit	1,794	470	2,265	96	2,362	(537)	1,824

- Notes: 1. The “Other” category is a business segment not included in the reportable segments. It includes Environmental Analysis Business, BDF Business, PCB Consulting-related Business, etc.
2. The negative ¥537 million adjustment for segment profit consists of ¥15 million for elimination of intersegment transactions and negative ¥553 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 nine months ended November 30, 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	4,121	1,124	5,246	555	5,802	–	5,802
Kanto	2,878	–	2,878	39	2,917	–	2,917
Kansai	2,537	–	2,537	3	2,540	–	2,540
Kyushu	–	611	611	–	611	–	611
Revenue from contracts with customers	9,536	1,736	11,273	598	11,872	–	11,872
Sales to external customers	9,536	1,736	11,273	598	11,872	–	11,872
Intersegment sales or transfers	14	10	24	187	212	(212)	–
Total	9,551	1,747	11,298	786	12,085	(212)	11,872
Segment profit	934	521	1,455	54	1,510	(579)	930

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

2. The negative ¥579 million adjustment for segment profit consists of ¥20 million for elimination of intersegment transactions and negative ¥599 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 nine months ended November 30, 2022 is minimal.