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Consolidated Financial Results for the Three Months Ended May 31, 2023 [Japanese GAAP]

June 30, 2023

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 Stock exchange listing: Tokyo, Nagoya
 Code number: 1712
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 Scheduled date of filing quarterly securities report: July 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 Three Months Ended May 31, 2023 (March 1, 2023 to May 31, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
May 31, 2023	6,641	97.8	891	375.3	884	370.5	546	688.9
May 31, 2022	3,356	(21.2)	187	(61.1)	187	(61.1)	69	(75.8)

(Note) Comprehensive income: Three months ended May 31, 2023: ¥ 519 million [121.8%]
 Three months ended May 31, 2022: ¥ 234 million [(33.3)%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
May 31, 2023	32.49	-
May 31, 2022	4.12	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Millions of yen	Millions of yen	%
May 31, 2023	27,600	16,351	55.2
February 28, 2023	21,954	15,945	67.8

(Reference) Equity: As of May 31, 2023: ¥ 15,247 million
 As of February 28, 2023: ¥ 14,886 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, 2023	-	5.00	-	5.00	10.00
Fiscal year ending February 29, 2024	-				
Fiscal year ending February 29, 2024 (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 29, 2024 (March 1, 2023 to February 29, 2024)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending August 31, 2023	11,230	52.6	1,291	182.6	1,293	176.8	787	281.2	46.77
Full year	18,395	12.0	2,037	48.2	2,041	44.4	1,178	62.5	70.02

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

* Notes:

(1) Changes in significant subsidiaries during the three months ended May 31, 2023
(changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

(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, 2023: 16,827,120 shares

February 28, 2023: 16,827,120 shares

2) Number of treasury shares at the end of the period:

May 31, 2023: 14,301 shares

February 28, 2023: 3,181 shares

3) Average number of shares outstanding during the period:

Three months ended May 31, 2023: 16,823,705 shares

Three months ended May 31, 2022: 16,798,899 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.

Attached Material**Index**

1. Qualitative information on quarterly consolidated financial results.....	2
(1) Explanation of operating results	2
(2) Explanation of financial position.....	3
(3) Explanation of consolidated earnings forecasts and other forward-looking statements	3
2. Quarterly consolidated financial statements and significant notes thereto.....	4
(1) Quarterly consolidated balance sheets	4
(2) Quarterly consolidated statements of income and comprehensive income	6
Quarterly consolidated statements of income (for the three months)	6
Quarterly consolidated statements of comprehensive income (for the three months)	7
(3) Notes on the quarterly consolidated financial statements.....	8
Notes on premise of going concern	8
Notes on significant changes in the amount of shareholders' equity	8
Changes in accounting policies	8
Segment information, etc.....	9

1. Qualitative information on quarterly consolidated financial results

(1) Explanation of operating results

During the three months ended May 31, 2023, the Japanese economy continued its recovery as economic and social activities began to normalize due to the gradual lifting of movement restrictions related to the COVID-19 pandemic. Nevertheless, the economic outlook remains uncertain due to the prolonged crisis in Ukraine, the impact of the yen's depreciation against the U.S. dollar in the foreign exchange market, and soaring commodity prices.

In the construction industry, to which the Company group (the "Group") belongs, government construction investment remained at a high level and private construction investment showed some signs of recovery, especially in the manufacturing sector, but corporate capital investment sentiment remained cautious.

Under these economic conditions, we continued to aggressively pursue consulting sales activities in our mainstay Soil Investigation and Measures Business to increase orders for high value-added projects, while large-scale soil measures projects ordered in the Chukyo, Kanto, and Kansai areas drove the Group's performance significantly. Regarding the Gypsum Board Recycle Business, as a result of the steady volume of gypsum board carried in, consolidated business results for the three months ended May 31, 2023 were as follows: net sales of ¥6,641 million (up 97.8% year on year), operating profit of ¥891 million (up 375.3% year on year), and ordinary profit of ¥884 million (up 370.5% year on year). In addition, profit attributable to owners of parent amounted to ¥546 million (up 688.9% year on year), mainly due to the recording of receipt of compensation in connection to defect warranties for land acquired in the past as an extraordinary income.

Operating results by segment are as follows.

Soil Investigation and Measures Business

Due to the factory redevelopment project in the Chukyo area, recycling center operating rates remained at a high level. In addition, the profitability of large-scale factory underground waste and contaminated soil removal projects in the Kanto area and large-scale factory waste removal consulting projects in the Kansai area improved through the provision of high value-added services to customers, thereby contributing to higher profit margins. As a result, net sales increased 123.9% year on year to ¥5,816 million, and operating profit increased 493.4% year on year to ¥1,009 million.

Gypsum Board Recycle Business

The volume of waste gypsum boards received remained high in a continuation of trends from the previous year, while the volume of soil solidifiers carried out increased compared to the same period in the previous fiscal year, due to orders received for large project. As a result, net sales increased 12.4% year on year to ¥646 million while operating income increased 15.6% year on year to ¥208 million yen.

Other

Sales decreased in the PCB Consulting Business due to reduced handling volumes, and while sales in the Bio Diesel Fuel (BDF) Business saw steady progress, increased costs lowered profit margins. As a result, net sales decreased 5.4% year on year to ¥240 million, and operating profit decreased 11.1% year on year to ¥28 million.

(2) Explanation of financial position

Total assets as of May 31, 2023 were ¥27,600 million, an increase of ¥5,645 million compared with the end of the previous fiscal year. This was primarily due to increases in cash and deposits, notes and accounts receivable - trade, and contract assets, as well as increased goodwill resulting from Sugimoto Trading Corporation being made a consolidated subsidiary.

Liabilities as of May 31, 2023 were ¥11,249 million, an increase of ¥5,240 million compared with the end of the previous fiscal year. This was primarily due to increases in notes and accounts payable - trade, income taxes payable, and long-term borrowings (including the current portion of long-term borrowings).

Net assets as of May 31, 2023 were ¥16,351 million, an increase of ¥405 million compared with the end of the previous fiscal year. This is 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 29, 2024 have been revised from those announced on April 5, 2023. For details, please see “Notice on Revision to Financial Results Forecast” announced on June 30, 2023.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of February 28, 2023	As of May 31, 2023
Assets		
Current assets		
Cash and deposits	886	1,843
Notes and accounts receivable - trade, and contract assets	3,534	5,697
Inventories	325	367
Other	352	470
Allowance for doubtful accounts	(4)	(7)
Total current assets	5,094	8,371
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,786	5,984
Land	7,908	8,175
Construction in progress	144	454
Other, net	1,943	1,868
Total property, plant and equipment	15,783	16,483
Intangible assets		
Goodwill	-	1,500
Other	29	122
Total intangible assets	29	1,622
Investments and other assets		
Other	1,049	1,124
Allowance for doubtful accounts	(1)	(1)
Total investments and other assets	1,047	1,123
Total non-current assets	16,860	19,228
Total assets	21,954	27,600
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,439	2,341
Short-term borrowings	1,200	1,400
Current portion of long-term borrowings	981	1,402
Lease liabilities	91	85
Accounts payable - other	351	602
Income taxes payable	141	431
Provision for bonuses	144	236
Other	170	594
Total current liabilities	4,520	7,095
Non-current liabilities		
Bonds payable	-	20
Long-term borrowings	1,187	3,762
Lease liabilities	150	139
Provision for retirement benefits for directors (and other officers)	-	30
Retirement benefit liability	146	174
Other	3	27
Total non-current liabilities	1,488	4,154
Total liabilities	6,008	11,249

(Millions of yen)

	As of February 28, 2023	As of May 31, 2023
Net assets		
Shareholders' equity		
Share capital	2,287	2,287
Capital surplus	2,089	2,089
Retained earnings	10,260	10,722
Treasury shares	(2)	(13)
Total shareholders' equity	14,634	15,086
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	252	160
Remeasurements of defined benefit plans	(0)	(0)
Total accumulated other comprehensive income	251	160
Non-controlling interests	1,059	1,103
Total net assets	15,945	16,351
Total liabilities and net assets	21,954	27,600

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

(Millions of yen)

	For the three months ended May 31, 2022	For the three months ended May 31, 2023
Net sales	3,356	6,641
Cost of sales	2,717	5,081
Gross profit	639	1,559
Selling, general and administrative expenses	451	668
Operating profit	187	891
Non-operating income		
Interest income	0	0
Subsidy income	-	0
Insurance claim income	-	0
Sales of scrap iron income	2	0
Other	0	0
Total non-operating income	2	2
Non-operating expenses		
Interest expenses	1	4
Commission expenses	-	4
Other	0	0
Total non-operating expenses	1	9
Ordinary profit	187	884
Extraordinary income		
Gain on sale of non-current assets	-	8
Receipt of compensation	-	67
Other	-	0
Total extraordinary income	-	76
Extraordinary losses		
Loss on retirement of non-current assets	2	-
Impairment losses	-	4
Total extraordinary losses	2	4
Profit before income taxes	185	957
Income taxes - current	70	416
Income taxes - deferred	(9)	(70)
Total income taxes	61	346
Profit	123	610
Profit attributable to non-controlling interests	54	63
Profit attributable to owners of parent	69	546

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

(Millions of yen)

	For the three months ended May 31, 2022	For the three months ended May 31, 2023
Profit	123	610
Other comprehensive income		
Valuation difference on available-for-sale securities	110	(91)
Remeasurements of defined benefit plans, net of tax	0	0
Total other comprehensive income	110	(91)
Comprehensive income	234	519
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	179	455
Comprehensive income attributable to non-controlling interests	54	63

(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

Application of the Implementation Guidance on Accounting Standard for Fair Value Measurement

The Company has applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; hereinafter “Fair Value Measurement Guidance”) from the beginning of the first quarter of the fiscal year ending February 29, 2024, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Guidance in accordance with the transitional treatment provided in Paragraph 27-2 of the Fair Value Measurement Guidance. This change in accounting policy has had no effect on the quarterly consolidated financial statements.

Segment information, etc.Segment information

I. For the three months ended May 31, 2022

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.

II. For the three months ended May 31, 2023

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	2,909	433	3,343	161	3,505	—	3,505
Kanto	1,922	—	1,922	19	1,942	—	1,942
Kansai	982	—	982	2	984	—	984
Kyushu	—	208	208	—	208	—	208
Revenue from contracts with customers	5,815	642	6,457	183	6,641	—	6,641
Sales to external customers	5,815	642	6,457	183	6,641	—	6,641
Intersegment sales or transfers	1	4	5	57	62	(62)	—
Total	5,816	646	6,463	240	6,704	(62)	6,641
Segment profit	1,009	208	1,217	28	1,246	(354)	891

- 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 ¥354 million adjustment for segment profit consists of negative ¥131 million for elimination of intersegment transactions and negative ¥223 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.