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Consolidated Financial Results for the Six Months Ended August 31, 2023 [Japanese GAAP]

October 2, 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: October 10, 2023

Scheduled date of commencing dividend payments: October 26, 2023

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, 2023 (March 1, 2023 to August 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	%
Six months ended August 31, 2023	13,632	85.2	1,741	281.2	1,754	275.6	1,092	429.2
August 31, 2022	7,358	(19.1)	456	(64.6)	466	(64.0)	206	(74.1)

(Note) Comprehensive income: Six months ended August 31, 2023: ¥ 1,135 million [264.3%]
Six months ended August 31, 2022: ¥ 311 million [(67.9)%]

	Basic earnings per share	Diluted earnings per share
Six months ended August 31, 2023	Yen 65.00	Yen -
August 31, 2022	12.28	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of August 31, 2023	Millions of yen 27,202	Millions of yen 16,944	58.0%
February 28, 2023	21,954	15,945	67.8

(Reference) Equity: As of August 31, 2023: ¥ 15,792 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	-	5.00			
Fiscal year ending February 29, 2024 (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 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
Full year	21,708	32.2	2,551	85.6	2,577	82.3	1,521	109.8	90.49

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

* Notes:

(1) Changes in significant subsidiaries during the six months ended August 31, 2023

(changes in specified subsidiaries resulting in changes in scope of consolidation): No

New - (Company name:)

Exclusion: - (Company name:)

(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, 2023: 16,827,120 shares

February 28, 2023: 16,827,120 shares

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

August 31, 2023: 35,781 shares

February 28, 2023: 3,181 shares

3) Average number of shares outstanding during the period:

Six months ended August 31, 2023: 16,807,385 shares

Six months ended August 31, 2022: 16,810,264 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

In the second quarter of the fiscal year ending February 29, 2024, the Company reviewed and changed the classification of reportable segments from the previous “Gypsum Board Recycle Business” and “Other” businesses to the “Resource Recycling Business” as a result of Sugimoto Trading Company Co., Ltd. becoming a consolidated subsidiary. For details, please refer to “2. Quarterly consolidated financial statements and significant notes thereto, (3) Notes on the quarterly consolidated financial statements, Segment information, etc.”

Regarding comparative information by segment, the figures for the six months ended August 31, 2022 have been reclassified to reflect the segment classifications after the change.

During the six months ended August 31, 2023, the Japanese economy was on a moderate recovery trend as the normalization of socioeconomic activities progressed with the downgrading of COVID-19 to a Class 5 infectious disease. Nevertheless, the economic outlook remained uncertain due to the prolonged situation in Ukraine, downside risks to overseas economies stemming from global monetary tightening, rising commodity prices due to the continued depreciation of the yen, and other factors.

In the construction industry, to which the Company group (the “Group”) belongs, both public construction investment and private capital investment remained steady. However, the outlook remained unpredictable primarily owing to persistently high construction materials and energy prices, and labor shortages.

Under these economic conditions, as we continued to successfully implement aggressive consulting sales activities in our mainstay Soil Investigation and Measures Business to increase orders for high value-added projects, large-scale soil investigation and measures projects drove the Group’s performance significantly. Regarding the Resource Recycling Business, the shipping volume of waste gypsum board at Green Arrows Central Co., Ltd. and Green Arrows Kyushu Co., Ltd. remained steady, and the operating results of Sugimoto Trading Company Co., Ltd. and its subsidiary have been reflected from the second quarter of the fiscal year ending February 29, 2024, as a result of the said company becoming a consolidated subsidiary. As a result, consolidated business results for the six months ended August 31, 2023 were as follows: net sales of ¥13,632 million (up 85.2% year on year), operating profit of ¥1,741 million (up 281.2% year on year), ordinary profit of ¥1,754 million (up 275.6% year on year), and profit attributable to owners of parent of ¥1,092 million (up 429.2% year on year).

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 97.0% year on year to ¥11,556 million, and operating profit increased 277.9% year on year to ¥1,828 million.

Resource Recycling Business

While the Gypsum Board Recycle Business and the PCB Consulting Business remained strong compared to the same period of the previous year, profit of the Bio Diesel Fuel (BDF) Business decreased due to the impact of increased costs. However, as a result of the operating results of Sugimoto Trading Company Co., Ltd. and its subsidiary being reflected from the second quarter of the fiscal year ending February 29, 2024, net sales increased 35.8% year on year to ¥2,189 million, and operating profit increased 21.9% year on year to ¥451 million.

(2) Explanation of financial position

Total assets as of August 31, 2023 were ¥27,202 million, an increase of ¥5,248 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, goodwill, and customer relationship.

Liabilities as of August 31, 2023 were ¥10,258 million, an increase of ¥4,249 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.

Net assets as of August 31, 2023 were ¥16,944 million, an increase of ¥999 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 29, 2024 have been revised from those announced on June 30, 2023. For details, please see “Notice on Revision to Financial Results Forecast” announced on October 2, 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 August 31, 2023
Assets		
Current assets		
Cash and deposits	886	1,958
Notes and accounts receivable - trade, and contract assets	3,534	5,502
Inventories	325	442
Other	352	134
Allowance for doubtful accounts	(4)	(8)
Total current assets	5,094	8,029
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,786	5,871
Land	7,908	8,175
Construction in progress	144	588
Other, net	1,943	1,804
Total property, plant and equipment	15,783	16,440
Intangible assets		
Goodwill	-	867
Customer relationship	-	922
Other	29	138
Total intangible assets	29	1,928
Investments and other assets		
Other	1,049	805
Allowance for doubtful accounts	(1)	(1)
Total investments and other assets	1,047	804
Total non-current assets	16,860	19,173
Total assets	21,954	27,202
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,439	1,973
Short-term borrowings	1,200	1,200
Current portion of long-term borrowings	981	1,150
Current portion of bonds payable	-	8
Lease liabilities	91	87
Accounts payable - other	351	425
Income taxes payable	141	702
Provision for bonuses	144	184
Other	170	561
Total current liabilities	4,520	6,294
Non-current liabilities		
Bonds payable	-	16
Long-term borrowings	1,187	3,581
Lease liabilities	150	128
Provision for retirement benefits for directors (and other officers)	-	30
Retirement benefit liability	146	180
Other	3	27
Total non-current liabilities	1,488	3,963
Total liabilities	6,008	10,258

(Millions of yen)

	As of February 28, 2023	As of August 31, 2023
Net assets		
Shareholders' equity		
Share capital	2,287	2,287
Capital surplus	2,089	2,088
Retained earnings	10,260	11,268
Treasury shares	(2)	(35)
Total shareholders' equity	14,634	15,610
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	252	182
Remeasurements of defined benefit plans	(0)	(0)
Total accumulated other comprehensive income	251	181
Non-controlling interests	1,059	1,152
Total net assets	15,945	16,944
Total liabilities and net assets	21,954	27,202

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

(Millions of yen)

	For the six months ended August 31, 2022	For the six months ended August 31, 2023
Net sales	7,358	13,632
Cost of sales	5,939	10,665
Gross profit	1,419	2,967
Selling, general and administrative expenses	962	1,225
Operating profit	456	1,741
Non-operating income		
Interest income	0	0
Dividend income	10	11
Subsidy income	-	0
Insurance claim income	-	7
Sales of scrap iron income	2	1
Other	0	7
Total non-operating income	13	28
Non-operating expenses		
Interest expenses	3	10
Commission expenses	-	4
Other	0	0
Total non-operating expenses	3	15
Ordinary profit	466	1,754
Extraordinary income		
Gain on sale of non-current assets	3	14
Receipt of compensation	-	67
Other	-	0
Total extraordinary income	3	81
Extraordinary losses		
Loss on retirement of non-current assets	3	3
Impairment losses	-	4
Total extraordinary losses	3	7
Profit before income taxes	466	1,828
Income taxes - current	175	673
Income taxes - deferred	(20)	(50)
Total income taxes	155	623
Profit	311	1,205
Profit attributable to non-controlling interests	104	112
Profit attributable to owners of parent	206	1,092

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

(Millions of yen)

	For the six months ended August 31, 2022	For the six months ended August 31, 2023
Profit	311	1,205
Other comprehensive income		
Valuation difference on available-for-sale securities	0	(70)
Remeasurements of defined benefit plans, net of tax	0	0
Total other comprehensive income	0	(69)
Comprehensive income	311	1,135
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	207	1,022
Comprehensive income attributable to non-controlling interests	104	112

(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 six months ended August 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			Adjustments (Note 1)	Amount in the quarterly consolidated statement of income (Note 2)
	Soil Investigation and Measures Business	Resource Recycling Business	Total		
Net sales					
Chukyo	2,625	1,056	3,682	—	3,682
Kanto	1,750	16	1,766	—	1,766
Kansai	1,487	3	1,491	—	1,491
Kyushu	—	417	417	—	417
Revenue from contracts with customers	5,863	1,494	7,358	—	7,358
Sales to external customers	5,863	1,494	7,358	—	7,358
Intersegment sales or transfers	2	117	120	(120)	—
Total	5,866	1,612	7,478	(120)	7,358
Segment profit	483	370	854	(397)	456

Notes: 1. The negative ¥397 million adjustment for segment profit consists of ¥9 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.

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

II. For the six months ended August 31, 2023

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

(Millions of yen)

	Reportable segments			Adjustments (Note 1)	Amount in the quarterly consolidated statement of income (Note 2)
	Soil Investigation and Measures Business	Resource Recycling Business	Total		
Net sales					
Chukyo	5,958	1,143	7,102	—	7,102
Kanto	3,794	53	3,848	—	3,848
Kansai	1,800	491	2,291	—	2,291
Kyushu	—	390	390	—	390
Revenue from contracts with customers	11,554	2,078	13,632	—	13,632
Sales to external customers	11,554	2,078	13,632	—	13,632
Intersegment sales or transfers	2	111	113	(113)	—
Total	11,556	2,189	13,746	(113)	13,632
Segment profit	1,828	451	2,280	(539)	1,741

Notes: 1. The negative ¥539 million adjustment for segment profit consists of ¥22 million for elimination of intersegment transactions and negative ¥562 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.

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

2. Matters on changes in reportable segments, etc.
(Changes in the classification of reportable segments)

In the second quarter of the fiscal year ending February 29, 2024, the Company reviewed and changed the classification of business segments from the previous “Gypsum Board Recycle Business” to the “Resource Recycling Business” as a result of Sugimoto Trading Company Co., Ltd. becoming a consolidated subsidiary. The previous “Other” business has been included in the “Resource Recycling Business.” The segment information for the six months ended August 31, 2022 has been disclosed based on the segment classifications after the change.

The types of services falling under each segment are as follows.

Classifications of reportable segments	Types of services
Soil Investigation and Measures Business	Soil contamination investigation and improvement, soil measures
Resource Recycling Business	Waste gypsum board, BDF, PCB, wastepaper and general waste processing

3. Information on impairment loss of non-current assets or goodwill, etc. by reportable segment
(Significant changes in the amount of goodwill)

As a result of the acquisition of shares of Sugimoto Trading Company Co., Ltd. in the first quarter of the fiscal year ending February 29, 2024 and the inclusion of the said company and its subsidiary in the scope of consolidation, the amount of goodwill increased by ¥883 million in the “Resource Recycling Business” segment.

The amount of goodwill is provisional since the allocation of acquisition cost has not been completed as of the end of the six months ended August 31, 2023.