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February 9, 2023

Consolidated Financial Results for the Nine Months Ended December 31, 2022 (Under Japanese GAAP)

Company name: Daiei Kankyo Co., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 9336
 URL: <http://www.dinsgr.co.jp/english/>
 Representative: Fumio Kaneko, President and Representative Director
 Inquiries: Yoshikazu Inoue, Vice President Responsible for Business Administration
 Telephone: +81-78-857-6600
 Scheduled date to file quarterly securities report: February 9, 2023
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes (for institutional investors and analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary profit		Net income attributable to owners of parent	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2022	49,788	—	11,258	—	11,332	—	7,207	—
December 31, 2021	—	—	—	—	—	—	—	—

Note: Comprehensive income For the nine months ended December 31, 2022: ¥7,484 million [—%]
 For the nine months ended December 31, 2021: ¥— million [—%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2022	78.50	—
December 31, 2021	—	—

Notes: 1. The Company did not prepare quarterly consolidated financial statements for the nine months ended December 31, 2021. Therefore, the figures for the nine months ended December 31, 2021 and the year-on-year changes for the nine months ended December 31, 2022 are not shown.
 2. Diluted earnings per share are not presented because there were no potential shares.

(2) Consolidated financial position

	Total assets	Total equity	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
December 31, 2022	156,029	69,309	44.1
March 31, 2022	158,282	60,070	37.7

Reference: Equity
 As of December 31, 2022: ¥68,883 million
 As of March 31, 2022: ¥59,743 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	—	0.00	—	30.00	30.00
Fiscal year ending March 31, 2023	—	0.00	—		
Fiscal year ending March 31, 2023 (Forecast)				31.00	31.00

Note: Revisions to the forecast of cash dividends most recently announced: Yes

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary profit		Net income attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2023	67,337	3.6	14,836	15.5	14,855	11.7	9,439	6.4	100.78

Notes: 1. Revisions to the earnings forecasts most recently announced: Yes

2. Basic earnings per share was calculated using the average number of shares outstanding during the period, which includes the number of shares issued through public offering (3,500,000 shares) and the capital increase through third-party allotment (4,815,000 shares) in connection with the offering through overallotment.

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
 - (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2022	95,077,900 shares
As of March 31, 2022	91,577,900 shares

(ii) Number of treasury shares at the end of the period

As of December 31, 2022	– shares
As of March 31, 2022	– shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Nine months ended December 31, 2022	91,819,718 shares
Nine months ended December 31, 2021	– shares

Note: The Company did not prepare quarterly consolidated financial statements for the nine months ended December 31, 2021. Therefore, the average number of shares outstanding during the period for the nine months ended December 31, 2021 is not shown.

* 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 forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Actual performance may significantly differ from these forecasts due to various factors in the future.

Attached Material

Index

1. Qualitative information on quarterly 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	4
2. Quarterly consolidated financial statements and significant notes thereto.....	5
(1) Quarterly consolidated balance sheet	5
(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income	7
Quarterly consolidated statement of income (cumulative)	7
Quarterly consolidated statement of comprehensive income (cumulative)	8
(3) Notes to quarterly consolidated financial statements.....	9
Notes on going concern assumption	9
Notes when there are significant changes in amounts of equity	9
Notes - Segment information.....	9
Notes - Significant events after reporting period.....	9

1. Qualitative information on quarterly financial results

(1) Explanation of operating results

In the nine months ended December 31, 2022, despite a continuing recovery in capital investment, consumer spending and other areas, the outlook for the Japanese economy remained uncertain due to a number of concerning developments. These included the economic trend in the U.S. and European countries that had begun monetary tightening, ongoing increases in prices for resources, parts and materials, the direction of interest rate policy at the Bank of Japan, and the response to novel coronavirus disease (COVID-19), which will transition to Class 5.

Under these circumstances, Waste management and recycling, which is the core business of Daiei Kankyo Co., Ltd. (the “Company”) and its group companies (collectively with the Company, the “Group”), saw signs of a recovery in the production activities and delayed construction work by companies, and the amount of waste received began to trend upward in the autumn of 2022.

Soil remediation saw a robust increase in the amount of contaminated soil received, driven by large spot orders received in the Kanto region.

We addressed upward pressure on costs caused by higher prices for resources, parts and materials by passing on the unit price of orders to customers and revising refurbishment plans pertaining to waste management facilities, etc., and taking other steps to improve our cost structure. Together with significant improvements in profitability at subsidiaries, these resulted in the consolidated operating margin improving by 2.8 points from the previous fiscal year to 22.6%.

In addition, the business of the Group comprises important social infrastructure that must endure. In preparation for carbon neutrality by 2050, as described in Japanese governmental declarations, we are taking a long-term perspective to expanding our operations to achieve sustainable growth while simultaneously working on ESG measures that contribute to the resolution of societal issues.

At our Iga Recycle Center (Iga City, Mie Prefecture), we implemented two initiatives to enhance the resource recycling system. These were the beginning of operations at a composting facility and at a methane fermentation facility with one of the leading treatment capacities in Japan, which can recycle organic waste, in October and November 2022, respectively. At subsidiary Safety Island Co., Ltd. (Kobe City, Hyogo Prefecture), we installed a new contaminated soil sorting (removal of foreign substances) equipment in July 2022.

Final disposal sites for appropriately controlled landfill of waste that cannot be reused are an essential part of building a resource recycling system, and we proceeded methodically with the expansion of existing locations and construction of new facilities. In terms of controlled final disposal sites, we implemented expansions of 6,640,000 m³ in May 2022 at subsidiary Mie Chuo Kaihatsu Co., Ltd. (Iga City, Mie Prefecture), the largest in the Group; of 170,000 m³ in July 2022 at subsidiary Tohoku Eco Clean Co., Ltd. (Ono-machi, Tamura-gun, Fukushima Prefecture); and of 1,720,000 m³ in August 2022 at the Company’s Miki Recycle Center (Miki City, Hyogo Prefecture), all of which are now in use. Furthermore, after the granting in December 2022 by Wakayama Prefecture of a permit for installing industrial waste management facilities to enable an expansion of approximately 1,350,000 m³ in the controlled final disposal site at the Company’s Gobo Recycle Center (Gobo City, Wakayama Prefecture), we began preparations for early provision of our services.

As a result, for the nine months ended December 31, 2022, net sales was ¥49,788 million, operating income was ¥11,258 million, ordinary profit was ¥11,332 million, and net income attributable to owners of parent was ¥7,207 million.

In September 2022, we established a Sustainability Promotion Committee and formulated the Basic Sustainability Policy with the aim of creating value that will help us contribute to a sustainable society and of enhancing the growth potential of the Group in readiness for fulfilling the management vision of “Enhancing business continuity and evolving as a company with the power to create better environments.” Going forward, we will identify key issues and establish the associated policies and targets to further advance our sustainability management.

The operating results by segment are as follows.

Waste-related Business

Due to the impact of the stagnation of economic activity at the beginning of the fiscal year caused by factors such as soaring prices for resources, parts and materials, even though we began to see signs of a recovery in the autumn of 2022, the amount of waste received in Waste management and recycling declined by 4.0% year on year in the nine months ended December 31, 2022. On the other hand, orders from medical institutions remained strong, and subsidiary Tohoku Eco Clean Co., Ltd., which began providing a controlled final disposal site service in July 2022, also performed satisfactorily.

In Soil remediation, large spot orders resulted in the amount of contaminated soil received growing by 93.2% year on year in the nine months ended December 31, 2022.

In addition, we moved ahead with initiatives such as cutting costs by revising our refurbishment plans pertaining to waste management facilities, etc. to address upward pressure on costs caused by soaring prices for resources, parts and materials.

As a result, net sales were ¥48,112 million and segment profit was ¥11,313 million.

Others

In Aluminum pellets, demand for aluminum pellets declined due to the impact of lower production of automotive steel sheet and other materials, mainly as a result of the semiconductor shortage, and sales volume is on a downward trend. Nevertheless, because the aluminum market continued to trade at high levels, we were able to secure spreads.

For Recycled plastic pallets, operation of the additionally installed production line at the subsidiary Plafactory Co., Ltd. (Sakai City, Osaka Prefecture) started in June 2022, and the sales volume for the nine months ended December 31, 2022 increased 27.5% year on year due to an increase in the production volume.

As a result, net sales were ¥1,676 million and segment profit was ¥108 million.

(2) Explanation of financial position

Assets

Total assets as of December 31, 2022 were ¥156,029 million (down ¥2,253 million from the end of the previous fiscal year).

Current assets were ¥60,639 million (down ¥11,170 million from the end of the previous fiscal year). This was mainly due to a decrease of ¥12,153 million in cash and deposits from the end of the previous fiscal year.

Non-current assets were ¥95,034 million (up ¥8,561 million from the end of the previous fiscal year). This was mainly due to increases of ¥3,745 million in buildings and structures, ¥2,815 million in machinery and vehicles, and ¥5,024 million in landfills, and the associated decrease of ¥3,243 million in construction in progress. The increases in buildings and structures, machinery and vehicles, and landfills were mainly due to the launching of composting facility at the Company's Iga Recycle Center in addition to expanding the controlled final disposal sites of the subsidiaries Mie Chuo Kaihatsu Co., Ltd. and Tohoku Eco Clean Co., Ltd. and installation of the related facilities.

Liabilities and equity

Liabilities as of December 31, 2022 were ¥86,719 million (down ¥11,492 million from the end of the previous fiscal year).

Current liabilities were ¥24,607 million (down ¥3,146 million from the end of the previous fiscal year). This was mainly due to a decrease of ¥1,909 million in income taxes payable.

Long-term liabilities were ¥62,111 million (down ¥8,345 million from the end of the previous fiscal year). This was mainly due to decreases of ¥10,178 million in long-term borrowings and ¥1,005 million in bonds payable, despite an increase of ¥3,073 million in asset retirement obligations. The increase in asset

retirement obligations was mainly due to expansions of the controlled final disposal sites of the subsidiaries Mie Chuo Kaihatsu Co., Ltd. and Tohoku Eco Clean Co., Ltd.

Equity as of December 31, 2022 were ¥69,309 million (up ¥9,238 million from the end of the previous fiscal year). This was mainly due to an increase of ¥2,251 million in both common stock and legal capital surplus as a result of a public offering for listing on a stock market, and an increase of ¥7,207 million in retained earnings as a result of net income attributable to owners of parent being recorded, despite a decrease of ¥2,747 million in retained earnings as a result of dividends paid.

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

For the consolidated earnings forecasts for the fiscal year ending March 31, 2023, we have revised the full-year earnings forecasts released on “Notice of Financial Information, etc. Accompanying the Company’s Listing on the Prime Market of the Tokyo Stock Exchange” on December 14, 2022 (in Japanese only). For details, please refer to “Notice Concerning Revisions to Full-Year Consolidated Earnings Forecasts and Dividend Forecast,” which was released today (February 9, 2023).

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	57,845	45,692
Trade notes and accounts receivable	9,409	9,548
Marketable securities	3,215	3,371
Finished goods	207	266
Work in process	11	123
Raw materials and supplies	328	256
Other current assets	859	1,400
Allowance for doubtful accounts	(67)	(20)
Total current assets	71,810	60,639
Non-current assets		
Property, plant and equipment		
Buildings and structures	37,565	41,651
Accumulated depreciation	(21,454)	(21,795)
Buildings and structures, net	16,110	19,855
Machinery and vehicles	68,416	72,401
Accumulated depreciation	(59,056)	(60,227)
Machinery and vehicles, net	9,359	12,174
Landfills	23,160	29,650
Accumulated depreciation	(19,559)	(21,023)
Landfills, net	3,601	8,626
Land	17,914	18,464
Construction in progress	20,661	17,418
Other	4,382	4,463
Accumulated depreciation	(2,086)	(2,350)
Other, net	2,295	2,113
Net property, plant and equipment	69,943	78,653
Intangible assets		
Goodwill	1,025	862
Other	497	456
Total intangible assets	1,523	1,318
Investments and other assets		
Investment securities	2,987	3,380
Deferred tax assets	1,207	955
Other	10,828	10,756
Allowance for doubtful accounts	(17)	(30)
Total investments and other assets	15,006	15,062
Total non-current assets	86,472	95,034
Deferred assets		
Share issuance costs	—	355
Total deferred assets	—	355
Total assets	158,282	156,029

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities and equity		
Current liabilities		
Trade accounts payable	3,351	3,124
Current portion of bonds payable	1,255	1,205
Current portion of long-term borrowings	15,194	14,764
Income taxes payable	2,936	1,026
Provision for bonuses	824	476
Provision for loss on disaster	277	—
Asset retirement obligations	127	122
Other	3,787	3,888
Total current liabilities	27,754	24,607
Long-term liabilities		
Bonds payable	3,935	2,930
Long-term borrowings	58,881	48,702
Deferred tax liabilities	123	87
Liability for retirement benefits	987	983
Asset retirement obligations	5,662	8,735
Other	867	672
Total long-term liabilities	70,457	62,111
Total liabilities	98,211	86,719
Commitments and contingent liabilities		
Equity		
Common stock	558	2,810
Capital surplus	7,321	9,524
Retained earnings	51,540	56,001
Total shareholders' equity	59,420	68,336
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	387	618
Remeasurements of defined benefit plan	(65)	(71)
Total accumulated other comprehensive income	322	547
Non-controlling interests	327	425
Total equity	60,070	69,309
Total liabilities and equity	158,282	156,029

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income

Quarterly consolidated statement of income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2022
Net sales	49,788
Cost of sales	28,999
Gross profit	20,789
Selling, general and administrative expenses	9,530
Operating income	11,258
Non-operating income	
Interest income	38
Dividend income	72
Equity in earnings of unconsolidated subsidiaries and associated companies	57
Proceeds from sale of goods	128
Other	313
Total non-operating income	609
Non-operating expenses	
Interest expenses	240
Loss on valuation of currency swaps	149
Cost of sale of goods	114
Other	31
Total non-operating expenses	536
Ordinary profit	11,332
Extraordinary income	
Gain on sale of non-current assets	28
Insurance claim income	16
Total extraordinary income	45
Extraordinary losses	
Loss on sale of non-current assets	1
Loss on retirement of non-current assets	17
Other	5
Total extraordinary losses	24
Income before income taxes	11,352
Income taxes - current	3,976
Income taxes - deferred	117
Total income taxes	4,093
Net income	7,259
Net income attributable to non-controlling interests	51
Net income attributable to owners of parent	7,207

Quarterly consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2022
Net income	7,259
Other comprehensive income	
Unrealized gain on available-for-sale securities	231
Remeasurements of defined benefit plan	(5)
Total other comprehensive income	225
Comprehensive income	7,484
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	7,433
Comprehensive income attributable to non-controlling interests	51

(3) Notes to quarterly consolidated financial statements

Notes on going concern assumption

Not applicable.

Notes when there are significant changes in amounts of equity

The Company was listed in the Prime Market of the Tokyo Stock Exchange on December 14, 2022. Common stock and legal capital surplus each increased by ¥2,251 million as a result of the issuance of new shares in a public offering (using the book-building approach) for the stock market listing, with a payment date of December 13, 2022.

As a result, as of December 31, 2022, common stock was ¥2,810 million and capital surplus was ¥9,524 million.

Notes - Segment information

For the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

Information regarding net sales and profit or loss by reportable segment

					(Millions of yen)
	Reportable segment	Others (Note 1)	Total	Adjustment (Note 3)	Amount recorded in the quarterly consolidated financial statements (Note 4)
	Waste-related Business				
Net sales					
Net sales to external customers	48,112	1,676	49,788	—	49,788
Intersegment net sales or transfers	23	8	32	(32)	—
Total	48,135	1,685	49,820	(32)	49,788
Segment profit	11,313	108	11,422	(163)	11,258

- Notes: 1. The “Others” category is a business segment that is not included in the reportable segment, and represents the Valuable Resource Recycling Business.
2. Expenses related to the administration department and other head office expenses that are not attributed to reportable segments are allocated to each business segment on a reasonable allocation basis.
3. The adjustment of a negative ¥163 million in segment profit consists of consolidation adjustments between segments.
4. Segment profit has been reconciled with operating income in the quarterly consolidated statement of income.

Notes - Significant events after reporting period

Issuance of new shares through third-party allotment

In relation to the secondary offering of the Company’s shares through overallotment conducted by SMBC Nikko Securities Inc., it was resolved at meetings of the Board of Directors of the Company held on November 9, 2022 and November 28, 2022, that new shares would be issued as a third-party allotment to SMBC Nikko Securities Inc. as follows, with payment for the same being completed on January 12, 2023.

- | | | |
|-----|---------------------------------------------------------|----------------------------------------------------------------------------------------|
| (1) | Class and number of shares issued: | Common stock 4,815,000 shares |
| (2) | Price of issue: | ¥1,286.55 per share |
| (3) | Total amount of issue: | ¥6,194 million |
| (4) | Amount to be incorporated into common stock: | ¥643.275 per share |
| (5) | Total amount to be incorporated into common stock: | ¥3,097 million |
| (6) | Payment date: | January 12, 2023 |
| (7) | Method of offering or allotment: | Third-party allotment |
| (8) | Entity to which allotted and number of shares allotted: | SMBC Nikko Securities Inc. 4,815,000 shares |
| (9) | Use of proceeds: | Capital investment aimed at establishment and expansion of waste management facilities |