Consolidated Financial Results for the Three Months Ended September 30, 2019 [Japanese GAAP]

November 13, 2019

Company name: ENVIPRO HOLDINGS Inc.
Stock exchange listing: Tokyo Stock Exchange
Code number: 5698
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Scheduled date of filing quarterly securities report: November 13, 2019
Scheduled date of commencing dividend payments: ―
Availability of supplementary briefing material on quarterly financial results: Not available
Schedule of quarterly financial results briefing session: Not scheduled

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

1. Consolidated Financial Results for the Three Months Ended September 30, 2019 (July 1, 2019 to September 30, 2019)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2019	10,147	22.8	441	135.0	489	74.8	321	75.8
September 30, 2018	8,266	(5.1)	188	(36.2)	279	(30.9)	183	(33.3)

(Note) Comprehensive income: Three months ended September 30, 2019: ¥303 million [45.8 %]
Three months ended September 30, 2018: ¥208 million [(26.9) %]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
September 30, 2019	21.98	21.02
September 30, 2018	12.25	11.68

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2019	19,874	11,631	56.7
As of June 30, 2019	19,759	11,562	56.7

(Reference) Equity: As of September 30, 2019: ¥11,264 million
As of June 30, 2019: ¥11,195 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 June 30, 2019	-	0.00	-	16.00	16.00
Fiscal year ending June 30, 2020	-				
Fiscal year ending June 30, 2020 (Forecast)		0.00	-	17.00	17.00

(Note) Revision to the dividend forecast from recently announced figures: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2020 (July 1, 2019 to June 30, 2020)

(% 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	36,571	0.6	981	16.9	1,251	9.6	892	13.4	60.98

(Note) Revision to the business forecast from recently announced figures: No

*** Notes:**

(1) Changes in significant subsidiaries during the three months ended September 30, 2019 (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Adoption of special accounting methods for preparing quarterly consolidated financial statement: 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: No
2) Changes in accounting policies other than 1) above: Yes
3) Changes in accounting estimates: Yes
4) Retrospective restatement: No

* For details, please see "2. Quarterly Consolidated Financial Statements and Primary Notes (3) Notes to the Quarterly Consolidated Financial Statements (Changes in Accounting Policies that is Difficult to Distinguish from Changes in Accounting Estimates)" on page 8 of the attached document.

(4) Total number of issued shares (common shares)
1) Total number of issued shares at the end of the period (including treasury shares):
September 30, 2019: 15,051,227 shares
June 30, 2019: 15,051,227 shares

2) Total number of treasury shares at the end of the period:
September 30, 2019: 413,159 shares
June 30, 2019: 413,159 shares

3) Average number of shares during the period:
Three months ended September 30, 2019: 14,638,068 shares
Three months ended September 30, 2018: 14,942,910 shares

* These quarterly financial results are outside the scope of quarterly review by certified public accountants or audit firms.

* Explanation of the proper use of financial results forecast and other notes

The financial results forecast and other forward-looking statements in this material are based on information currently available to the Company and certain assumptions deemed to be reasonable, and actual results may differ significantly due to various factors. Please see the "Explanation of Business Results" on page 2 of the attached document of this material for the conditions for financial results forecast, as well as important matters to be aware of when using the financial results forecast.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Business Results

In the Group's business areas during the three months ended September 30, 2019, steel product prices dropped, and the steel scrap market price (Tokyo Steel Tokkyu Grade (Japanese H2 Grade) Seaborne Price) continued its fall from the second half of the previous fiscal year with an average price of ¥24,228 during the three months (¥34,413 during the same period of the previous year), continuing to show signs of weakness, due to fears of an economic downturn caused by the effects of trade friction between the U.S. and China. The nonferrous metals market price also continues to show signs of weakness.

Amid this environment, during the three months ended September 30, 2019, the Group progressed with "further cultivation of existing businesses," "establishment of a new pillar" and "reinforcement of foundation," under our mission statement "Creating Sustainable Future."

As a result, for the three months ended September 30, 2019, net sales were ¥10,147 million (up 22.8% year on year), operating profit was ¥441 million (up 135.0% year on year), ordinary profit was ¥489 million (up 74.8% year on year), and profit attributable to owners of parent was ¥321 million (up 75.8% year on year).

Results by segment are as follows, with net sales shown as inter-segment sales or sales including transfers.

Summary of Business Results by Segment

<Net sales> (Million yen)

	Three months ended September 30, 2018	Three months ended September 30, 2019	Increase/decrease ratio
Resource Circulation Business	3,100	2,831	(8.7)%
Global Resource Circulation Business	4,861	6,419	32.0%
Used-cars-related Business	1,445	1,760	21.8%
Others	171	81	(52.7)%
Adjustment	(1,311)	(944)	―
Total	8,266	10,147	22.8%

<Segment profit (loss)> (Million yen)

	Three months ended September 30, 2018	Three months ended September 30, 2019	Increase/decrease ratio
Resource Circulation Business	213	191	(10.3)%
Global Resource Circulation Business	72	258	255.7%
Used-cars-related Business	(3)	40	―
Others	64	16	(74.0)%
Adjustment	(67)	(18)	―
Total	279	489	74.8%

(Note) Segment profit (loss) is adjusted to ordinary profit shown on the Quarterly Consolidated Statements of Income.

1) Resource Circulation Business

Ferrous and nonferrous metals scrap prices entered a bear market, with signs of further weakness, and the environment deteriorated, with increases in waste processing fees at final disposal sites and limitations placed on acceptance, due to the effect of the return of waste to Japan. However, the Group saw an increase in gross profit due to an increase in its handling volume of items disposed of for a fee, particularly waste plastics, as well as the progress of revisions to processing fee hike at final disposal sites after intermediate processing. On the other hand, costs exceeded revenue due to the postponement of operation of recycling equipment for our new lithium ion rechargeable batteries business to the second quarter of the fiscal year or beyond. In addition, an increase in

personnel expenses due to increases in personnel and bonuses, as well as a decrease in the share of profit of entities accounted for using equity method due to the effect of declining market prices, both placed pressure on revenue. The Group will continue to strive to increase its handling volume of resources, and establish new businesses.

As a result, net sales in the Resource Circulation Business segment were ¥2,831 million (down 8.7% year on year), while segment profit was ¥191 million (down 10.3% year on year).

2) Global Resource Circulation Business

Handling volume increased due to the acquisition of sales contracts utilizing the declining market prices for steel scrap and the disparity between domestic and foreign prices, despite delays in loading and shipment due to the effect of typhoons. We will continue to strive to increase the handling volume in international distribution and sales of our new wood biomass fuel business. The sale of the two retired dedicated aircraft of the Japanese government, which were inventory at the end of the previous fiscal year, also contributed to revenue.

As a result, net sales in the Global Resource Circulation Business segment were ¥6,419 million (up 32.0% year on year), while segment profit was ¥258 million (up 255.7% year on year).

3) Used-cars-related Business

An increase in sales of used trucks for South East Asia due to new customer acquisition, a recovery in logistics agency services, which had been sluggish during the same period of the previous fiscal year due to the effect of restrictions in major export destination countries, and the effects of a reduction in fixed costs due partly to the reduction of yard size, all contributed to revenue, despite weakness in demand for used cars in major export destination countries.

As a result, net sales in the Used-cars-related Business segment were ¥1,760 million (up 21.8% year on year), while segment profit was ¥40 million (compared with segment loss of ¥3 million in the same period of the previous fiscal year).

4) Others

The Environment Management Consulting Business contributed to revenue, as orders for CDP responses, evaluation improvement support and other services fared well, and new services were commenced, such as Task Force on Climate-related Financial Disclosures (TCFD) response support.

Revenue for the Welfare Service Business for Persons with Disabilities increased compared to the same period in the previous fiscal year, due to the increased recognition of existing offices, although factors such as prior investment in personnel costs for the newly-established Type-B Continuous Employment Support Office in Fujinomiya City, Shizuoka Prefecture, meant that the business was still unable to turn a profit.

In addition, the solar power plant developer E3 Co., Ltd., all the shares of which the Company transferred on December 28, 2018, was included in the scope of consolidation for the three months ended September 30, 2018.

As a result, net sales in Others segment were ¥81 million (down 52.7% year on year), while segment profit was ¥16 million (down 74.0% year on year).

(2) Explanation of Financial Position

Total assets at September 30, 2019 amounted to ¥19,874 million (up ¥114 million, or 0.6% from the end of the previous fiscal year). Current assets amounted to ¥11,167 million (up ¥15 million, or 0.1% from the end of the previous fiscal year). This was primarily due to increases of ¥1,214 million in cash and deposits, ¥196 million in other current assets and ¥29 million in raw materials and supplies, despite decreases of ¥729 million in notes and accounts receivable – trade and ¥697 million in merchandise and finished goods. Non-current assets amounted to ¥8,706 million (up ¥98 million, or 1.1% from the end of the previous fiscal year). This was mainly due to increases of ¥44 million in construction in progress, ¥41 million in deferred tax assets and ¥28 million in investment securities, despite a decrease of ¥17 million in machinery, equipment and vehicles.

Total liabilities at September 30, 2019 amounted to ¥8,242 million (up ¥44 million, or 0.5% from the end of

the previous fiscal year). Current liabilities amounted to ¥5,316 million (up ¥144 million, or 2.8% from the end of the previous fiscal year). This was mainly due to increases of ¥145 million in notes and accounts payable – trade, ¥130 million in short-term loans payable and ¥120 million in provision for bonuses, despite decreases of ¥220 in other current liabilities and ¥33 million in the current portion of long term loans payable. Non-current liabilities amounted to ¥2,925 million (down ¥100 million, or 3.3% from the end of the previous fiscal year). This was mainly due to a decrease of ¥90 million in long-term loans payable.

Total net assets at September 30, 2019 amounted to ¥11,631 million (up ¥69 million, or 0.6% from the end of the previous fiscal year). This was mainly due to an increase in retained earnings of ¥87 million, despite a decrease of ¥18 million in the valuation difference on available-for-sale securities.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

No changes have been made to the consolidated financial results forecast for the fiscal year ending June 30, 2020, announced in the Consolidated Financial Results dated August 9, 2019.

2. Quarterly Consolidated Financial Statements and Primary Notes
(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of June 30, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	2,855,593	4,069,886
Notes and accounts receivable - trade	2,793,397	2,063,841
Merchandise and finished goods	3,955,709	3,258,588
Work in process	14,598	23,619
Raw materials and supplies	383,977	413,895
Other	1,190,013	1,386,691
Allowance for doubtful accounts	(40,843)	(48,706)
Total current assets	11,152,446	11,167,816
Non-current assets		
Property, plant and equipment		
Buildings and structures	4,202,152	4,233,696
Accumulated depreciation	(2,512,248)	(2,538,643)
Buildings and structures, net	1,689,904	1,695,053
Machinery, equipment and vehicles	9,383,078	9,443,891
Accumulated depreciation	(7,982,329)	(8,060,573)
Machinery, equipment and vehicles, net	1,400,749	1,383,317
Land	2,507,555	2,506,513
Construction in progress	467,400	511,745
Other	432,968	443,454
Accumulated depreciation	(367,603)	(372,425)
Other, net	65,365	71,029
Total property, plant and equipment	6,130,974	6,167,659
Intangible assets		
Goodwill	22,601	19,372
Other	67,282	65,486
Total intangible assets	89,884	84,859
Investments and other assets		
Investment securities	2,122,992	2,151,107
Investments in capital	9,280	9,280
Deferred tax assets	159,164	200,927
Other	335,820	332,155
Allowance for doubtful accounts	(240,661)	(239,744)
Total investments and other assets	2,386,595	2,453,725
Total non-current assets	8,607,454	8,706,244
Total assets	19,759,900	19,874,061

(Thousand yen)

	As of June 30, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	950,053	1,095,702
Short-term borrowings	1,880,000	2,010,000
Current portion of long-term borrowings	439,561	406,206
Lease obligations	51,346	48,893
Income taxes payable	225,458	230,590
Provision for bonuses	60,356	180,545
Other	1,565,323	1,344,989
Total current liabilities	5,172,098	5,316,928
Non-current liabilities		
Long-term borrowings	2,122,796	2,032,520
Lease obligations	137,711	129,290
Deferred tax liabilities	24,443	11,676
Deferred tax liabilities for land revaluation	64,282	64,282
Retirement benefit liability	309,763	319,909
Asset retirement obligations	167,073	167,321
Other	199,664	200,368
Total non-current liabilities	3,025,733	2,925,368
Total liabilities	8,197,832	8,242,296
Net assets		
Shareholders' equity		
Share capital	1,524,830	1,524,830
Capital surplus	1,973,372	1,973,372
Retained earnings	7,941,272	8,028,778
Treasury shares	(273,350)	(273,350)
Total shareholders' equity	11,166,124	11,253,630
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	37,235	18,319
Revaluation reserve for land	8,633	8,633
Foreign currency translation adjustment	(16,547)	(16,050)
Total accumulated other comprehensive income	29,322	10,902
Share acquisition rights	328,125	328,385
Non-controlling interests	38,496	38,845
Total net assets	11,562,068	11,631,764
Total liabilities and net assets	19,759,900	19,874,061

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(Thousand yen)

	For the three months ended September 30, 2018	For the three months ended September 30, 2019
Net sales	8,266,817	10,147,844
Cost of sales	6,747,177	8,187,117
Gross profit	1,519,639	1,960,726
Selling, general and administrative expenses	1,331,595	1,518,811
Operating profit	188,044	441,914
Non-operating income		
Interest income	2,814	2,253
Dividend income	1,555	2,160
Share of profit of entities accounted for using equity method	66,552	48,583
Foreign exchange gains	16,807	–
Rental income	8,290	7,890
Outsourcing service income	2,499	2,420
Other	3,990	7,250
Total non-operating income	102,509	70,558
Non-operating expenses		
Interest expenses	7,769	4,045
Commission expenses	1,404	1,776
Foreign exchange losses	–	15,918
Other	1,472	1,545
Total non-operating expenses	10,647	23,286
Ordinary profit	279,906	489,186
Extraordinary income		
Gain on sales of non-current assets	514	4,648
Insurance claim income	14,702	–
Compensation income	11,301	4,169
Total extraordinary income	26,517	8,817
Extraordinary losses		
Loss on retirement of non-current assets	235	1,256
Loss on sales of non-current assets	–	23
Loss on disaster	15,135	11,183
Total extraordinary losses	15,371	12,463
Profit before income taxes	291,053	485,541
Income taxes - current	137,522	216,454
Income taxes - deferred	(33,386)	(52,977)
Total income taxes	104,135	163,476
Profit	186,917	322,064
Profit attributable to non-controlling interests	3,895	349
Profit attributable to owners of parent	183,021	321,715

Quarterly Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the three months ended September 30, 2018	For the three months ended September 30, 2019
Profit	186,917	322,064
Other comprehensive income		
Valuation difference on available-for-sale securities	9,231	(18,916)
Foreign currency translation adjustment	12,175	497
Total other comprehensive income	21,407	(18,419)
Comprehensive income	208,324	303,644
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	204,429	303,295
Comprehensive income attributable to non-controlling interests	3,895	349

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

There is no relevant information.

(Notes in the Case of Significant Changes in Shareholders' Equity)

There is no relevant information.

(Changes in Accounting Policies that are Difficult to Distinguish from Changes in Accounting Estimates)

(Change in the depreciation method for property, plant and equipment)

Previously, the Group generally adopted the declining-balance method for depreciating property, plant and equipment (excluding lease assets). (The straight-line method was used for depreciating buildings, excluding facilities attached to buildings, acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016.) However, starting from the three months ended September 30, 2019, the Group has changed its depreciation method to the straight-line method.

Upon review of the utilization of property, plant and equipment, motivated by new capital investment, it has been decided that using the straight-line method to distribute costs evenly across the useful life of assets more appropriately reflects actual status of property, plant and equipment utilization.

As a result of this change, compared with the figures under the previous depreciation method, depreciation for the three months ended September 30, 2019 decreased by ¥33,943 thousand, and operating profit, ordinary profit, and profit before income taxes decreased by ¥33,943 thousand, respectively.

(Segment Information)
(Segment Information)

I Three months ended September 30, 2018 (July 1, 2018 to September 30, 2018)

1. Information on net sales and profit (loss) by reportable segment

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in consolidated financial statements (Note 3)
	Resource Circulation	Global Resource Circulation	Used-cars-related	Total				
Net sales								
Net sales to outside customers	1,872,855	4,786,497	1,445,381	8,104,735	162,082	8,266,817	–	8,266,817
Inter-segment sales or transfers	1,227,547	74,774	–	1,302,321	9,586	1,311,908	(1,311,908)	–
Total	3,100,403	4,861,272	1,445,381	9,407,057	171,668	9,578,725	(1,311,908)	8,266,817
Segment profit (loss)	213,121	72,776	(3,019)	282,878	64,498	347,377	(67,470)	279,906

(Notes) 1. The "Others" business segment, which is not included in the reportable segments, includes the Environment Management Consulting Business, the Welfare Service Business for Persons with Disabilities, and E3 Co., Ltd., which was excluded from consolidation during the fiscal year ended June 30, 2019.

2. Figures are adjusted as follows:

The adjustment for segment profit (loss) of negative ¥67,470 thousand is corporate expenses not allocated to each reportable segment. Corporate expenses primarily consist of general and administrative expenses that are not attributed to each reportable segment.

3. Segment profit (loss) is adjusted with ordinary profit in the quarterly consolidated statements of income.

2. Information about impairment loss on non-current assets, goodwill, etc. by reportable segment

(Significant impairment loss on non-current assets)

There is no relevant information.

(Significant changes in the amount of goodwill)

There is no relevant information.

(Significant gain on bargain purchase)

There is no relevant information.

II Three months ended September 30, 2019 (July 1, 2019 to September 30, 2019)

1. Information on net sales and profit (loss) by reportable segment

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in consolidated financial statements (Note 3)
	Resource Circulation	Global Resource Circulation	Used-cars-related	Total				
Net sales								
Net sales to outside customers	1,940,204	6,375,583	1,757,276	10,073,064	74,779	10,147,844	–	10,147,844
Inter-segment sales or transfers	891,533	43,594	3,234	938,362	6,460	944,822	(944,822)	–
Total	2,831,738	6,419,177	1,760,510	11,011,426	81,239	11,092,666	(944,822)	10,147,844
Segment profit	191,157	258,838	40,993	490,989	16,783	507,772	(18,585)	489,186

(Notes) 1. The "Others" business segment, which is not included in the reportable segments, includes the Environment Management Consulting Business and the Welfare Service Business for Persons with Disabilities.

2. Figures are adjusted as follows:

The adjustment for segment profit of negative ¥18,585 thousand is corporate expenses not allocated to each reportable segment. Corporate expenses primarily consist of general and administrative expenses that are not attributed to each reportable segment.

3. Segment profit is adjusted with ordinary profit in the quarterly consolidated statements of income.

2. Items related to changes in the reportable segments

(1) From the end of the previous fiscal year, based on a review of segment classification in line with the business development and strategy making for products and services handled by each business company within the Group, reportable segment has been classified from a single segment, the Resource Recycling Business, into three reportable segments: Resource Circulation Business, Global Resource Circulation Business and Used-cars-related Business.

The segment information for the three months ended September 30, 2018 is based on the reportable segment classification after the change.

(2) As described in Changes in Accounting Policies that are Difficult to Distinguish from Changes in Accounting Estimates, previously, the Company and its consolidated subsidiaries generally used the declining-balance method for depreciating certain property, plant and equipment. However, upon review of the utilization of property, plant and equipment, motivated by new capital investment, it has been decided that using the straight-line method to distribute costs across the useful life of assets more appropriately reflects actual status of property, plant and equipment utilization. Accordingly, the Company and its subsidiaries has changed the depreciation method to the straight-line method, starting from the three months ended September 30, 2019.

As a result of this change, segment profit for the Resource Circulation Business, Global Resource Circulation Business, Used-cars-related Business, and Others for the three months ended September 30, 2019 increased by ¥31,657 thousand, ¥538 thousand, ¥1,513 thousand, and ¥232 thousand, respectively, compared with the figures under the previous depreciation method.

3. Information about impairment loss on non-current assets and goodwill, etc. by reportable segment

(Significant impairment loss on non-current assets)

There is no relevant information.

(Significant changes in the amount of goodwill)
There is no relevant information.

(Significant gain on bargain purchase)
There is no relevant information.

(Significant Subsequent Events)
(Disposal of treasury shares as restricted stock compensation)

The Company resolved at the Board of Directors meeting held on September 26, 2019 to dispose of treasury shares as restricted stock compensation, and completed payment on October 25, 2019. The details are as follows.

1. Purpose and reason for the disposal

The Company resolved at the Board of Directors meeting held on September 11, 2018 to introduce a restricted stock compensation plan (hereinafter referred to as "the Plan") for Directors, employees (Advisors and Executive Officers) of the Company, and Directors and Auditors of the Company's subsidiaries (hereinafter referred to as "Eligible Persons"), with the purposes of imparting an incentive to contribute to the enhancement of corporate value and sharing in the interests of shareholders of the Company, through holding restricted stock. Based on the Plan, the Company resolved at the Board of Directors meeting held on September 26, 2019 to grant monetary compensation receivables to Eligible Persons, the entire sum of which the Eligible Persons then make in-kind contribution of, and in turn receive an allocation of common shares through the disposal of treasury shares by the Company.

2. Summary of the disposal

(1)	Date of disposal	October 25, 2019
(2)	Type and number of shares subject to disposal	30,643 common shares of the Company
(3)	Disposal value	¥650 per share
(4)	Total amount of the disposal	¥19,917,950
(5)	Subject persons of the allocation, the number of subject persons, and the number of shares to be allocated	Directors of the Company (excluding Directors who are Audit and Supervisory Committee Members) 7 persons: 10,166 shares Directors who are Audit and Supervisory Committee Members 3 persons: 2,125 shares Employees of the Company (Advisors and Executive Officers) 3 persons: 4,203 shares Directors and Auditors of the Company's subsidiaries 15 persons: 14,149 shares