Financial Results Briefing Materials for the Nine Months Ended March 31, 2020

Envipro Holdings Inc.
May 15, 2020

Table of Contents

1. Financial Overview for the Nine Months Ended March 31, 2020
2. Measures to Novel Coronavirus Infection (COVID-19) and Our Business Forecast
3. Reference Data

1. Financial Overview for the Nine Months Ended March 31, 2020

Highlight for the Nine Months Ended March 31,2020

Financial Results

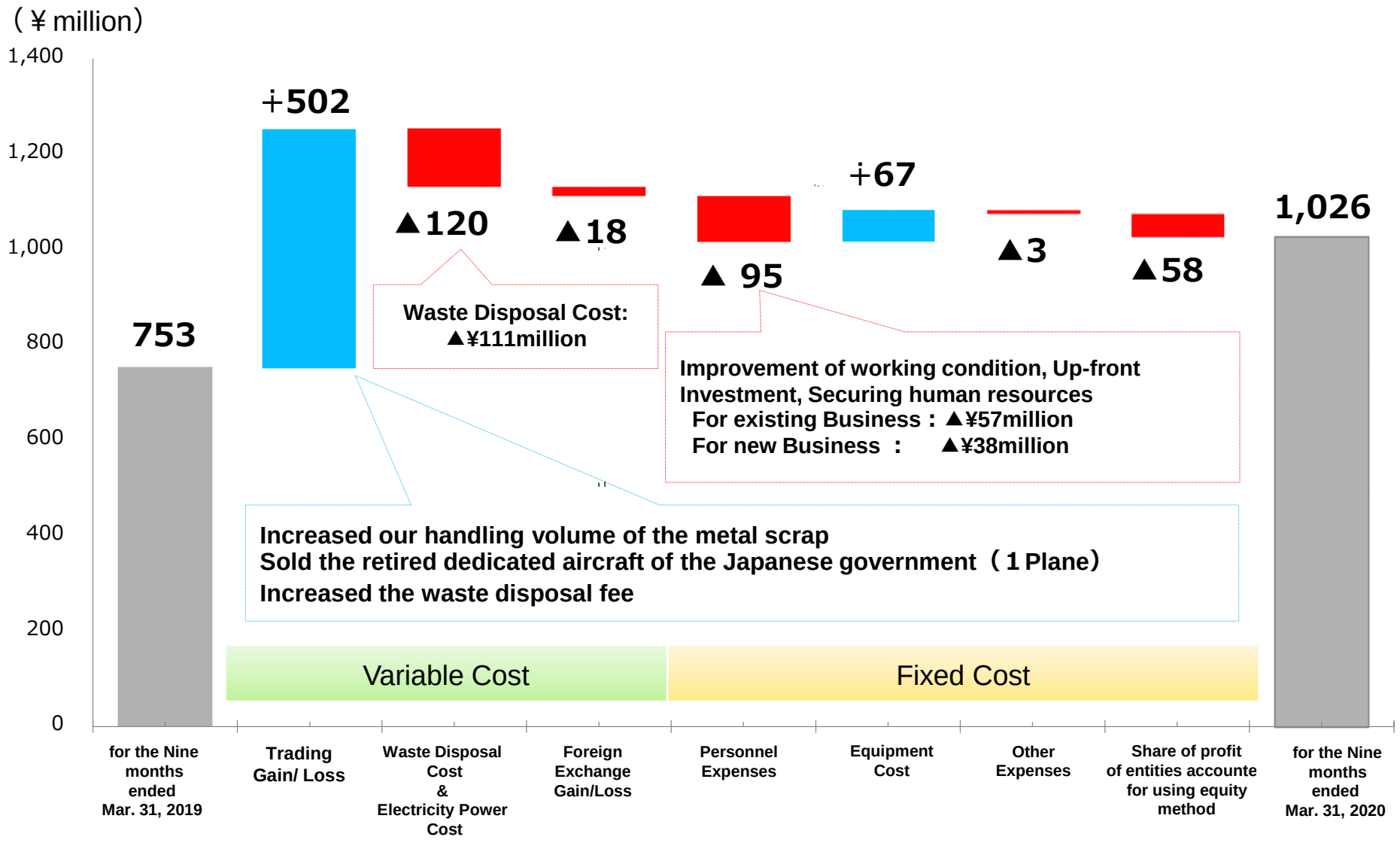
Net Sales	¥27,294million	（up 1.4%	Year on year）
Operating Profit	¥894million	（up61.3%	Year on year）
Ordinary Profit	¥1,026million	（up36.3%	Year on year）
※Profit	¥750million	（up52.7%	Year on year）

Main Topics

- The ferrous scrap price (Tokyo Steel (Tahara) Tokkyu Grade Seaborne Price) fell below that of the previous fiscal year with an average price of ¥22,182 during the nine months (¥34,031 during the same period of the previous year), however, we secured the amount of net sales by increasing our handling sales volume.
- The Group progressed with “further cultivation of existing businesses,” “establishment of a new pillar,” and “reinforcement of foundations,” under our mission statement "Contribute to create a sustainable society."
- Ordinary loss related to new businesses (VOLTA,P2P,etc.) in the resource recycling business became ¥160 million.
- ¥770 million in Capital Investment (Payment Base).
- Recycling facilities for lithium-ion rechargeable batteries started operation.

※Profit = Profit attributable to owners of parent

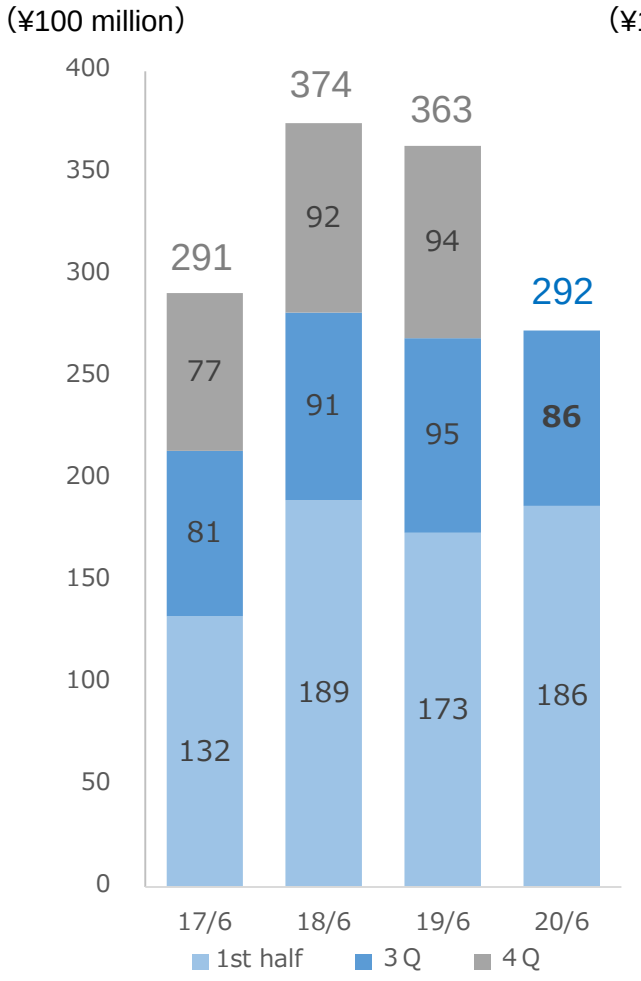
Analysis of Difference in Ordinary Profit



Consolidated Financial Results

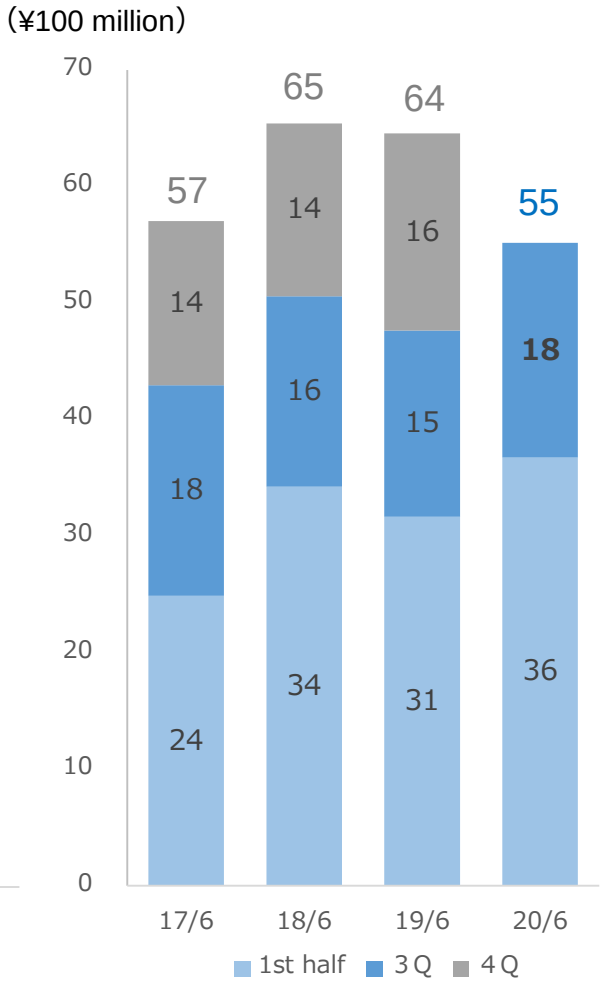
Net Sales

Up 1.4%
Year on year



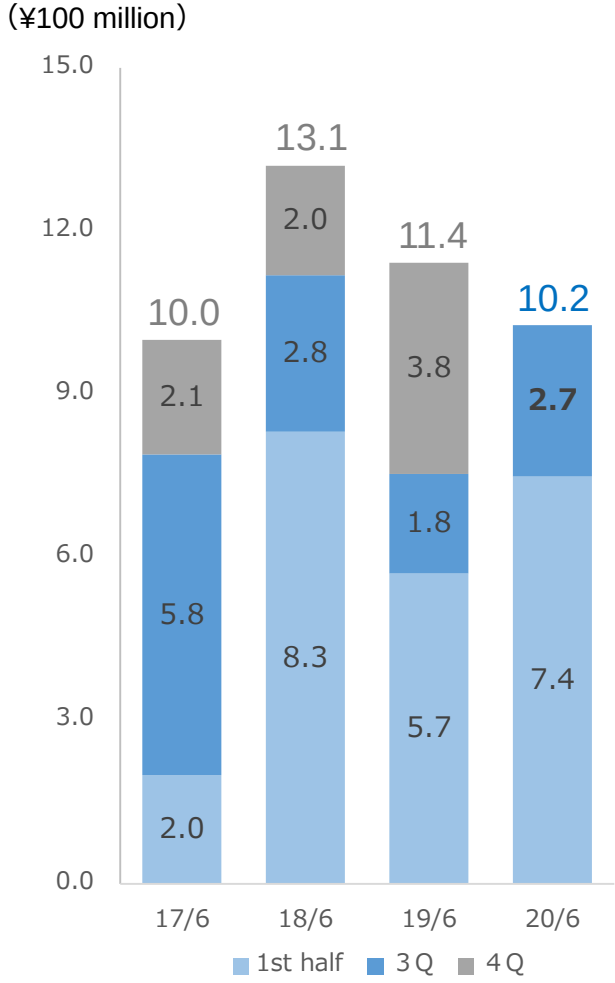
Gross Profit

Up 15.8%
Year on year



Ordinary Profit

Up 36.3%
Year on year



Summary of Consolidated Balance Sheets

（￥million）

	As of June 30 2019	As of Mar.31 2020	Increase/ Decrease
Current assets	11,152	11,221	69
Non-current assets	8,607	9,226	619
(Property, plant and equipment)	6,130	6,558	427
(Intangible assets)	89	75	▲ 14
(Investments and other assets)	2,386	2,592	205
Total assets	19,759	20,448	688

	As of June 30 2019	As of Mar.31 2020	Increase/ Decrease
Current liabilities	5,172	5,871	699
Non-current liabilities	3,025	2,441	▲ 584
Total liabilities	8,197	8,313	115
Net assets	11,562	12,135	573
（Shareholders' equity）	11,166	11,727	561
Total liabilities and net assets	19,759	20,448	688

Main Topics

- Current assets (Cash and deposits:¥1,243 million, Notes and accounts receivable:¥449 million, Merchandise and finished goods:¥▲1,447 million, Current assets:¥▲215 million)
- Non-current assets (Machinery, equipment and vehicles:¥773 million, Buildings and structures:¥290 million, Construction in progress:¥▲323 million)
- Current liabilities (Short-term borrowings:¥860 million)
- Non-current liabilities (Long-term borrowings: ¥▲596 million)
- Equity ratio 57.6% (up 0.9% from the end of June 2019)

Summary of Business Results by Segment for the Nine Months Ended March 31, 2020

(¥ million)

Net Sales	Nine months ended March 31,2019	Nine months ended March 31, 2020		Year on year
	Actual	Actual	Composition Ratio	Ratio
Consolidated	26,917	**27,294**	100.0%	1.4%
Resource Circulation Business	9,591	**8,609**	29.0%	▲ 10.2%
Global Resource Circulation Business	16,090	**16,067**	54.1%	▲ 0.1%
Used-car-related Business	4,575	**4,824**	16.2%	5.4%
Others※	331	**222**	0.7%	▲ 32.8%
Adjustment	▲ 3,672	▲ **2,429**	-	-

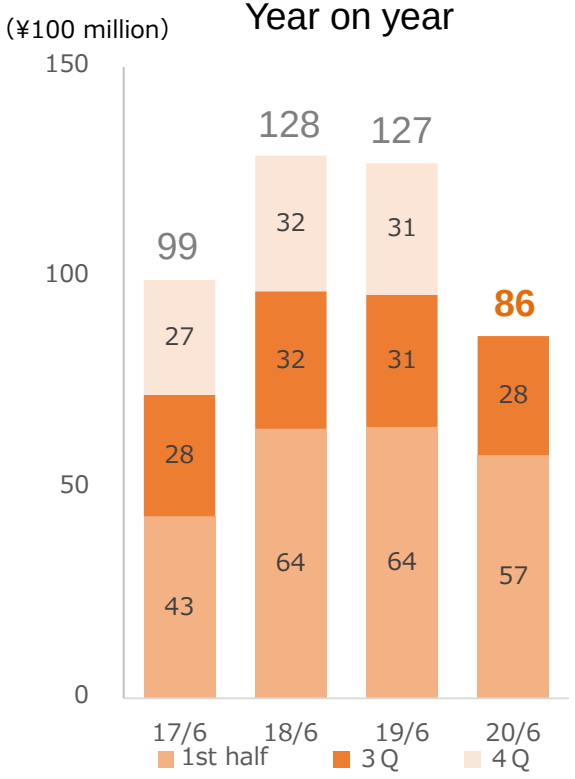
Segment Profit	Nine months ended March 31,2019	Nine months ended March 31, 2020		Year on year
	Actual	Actual	Composition Ratio	Ratio
Consolidated	753	**1,026**	100.0%	36.3%
Resource Circulation Business	643	**458**	40.4%	▲ 28.7%
Global Resource Circulation Business	171	**571**	50.3%	232.8%
Used-car-related Business	▲ 0	**83**	7.4%	-
Others※	50	**22**	2.0%	▲ 56.0%
Adjustment	▲ 111	▲ **109**	-	-

※Others includes the results of E3 Inc. up to December 2018

Business Results by Business Segment 【Resource Circulation】

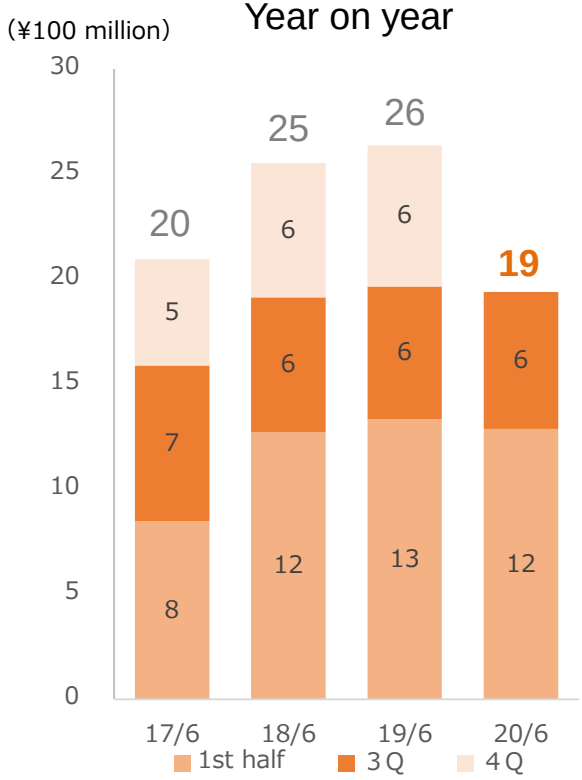
Net Sales

Down 10.2%
Year on year



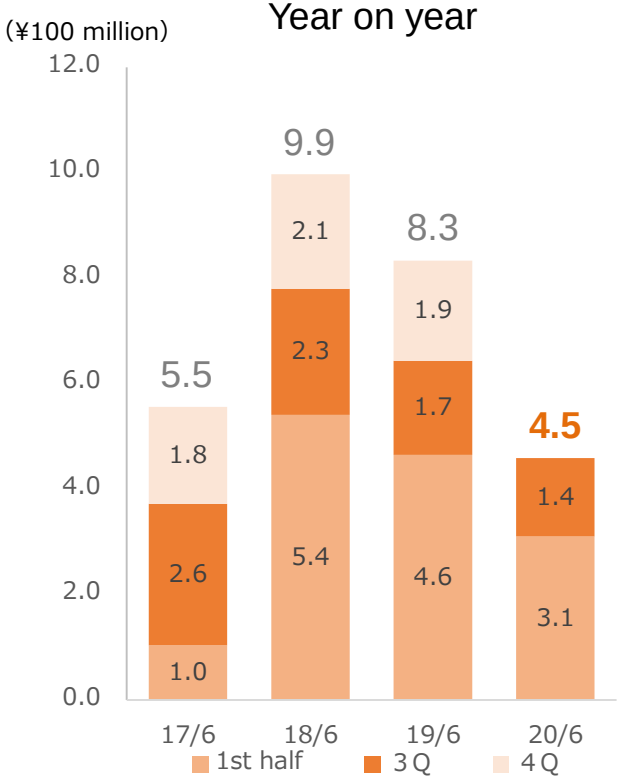
Gross Profit

Down 1.3%
Year on year



Ordinary Profit

Down 28.7%
Year on year

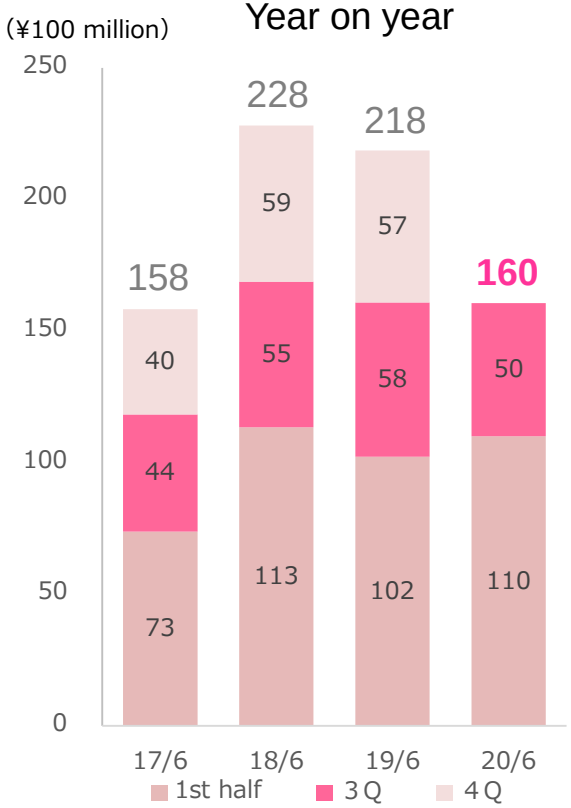


- Ferrous and nonferrous metal scrap prices showed signs of weakness and as a result it placed pressure on revenue.
- Affected by increases in waste disposal cost at final disposal sites and limitations placed on acceptance.
- Secured a gross profit due to the progress of revisions to processing fee, despite a decrease in its handling volume of waste due to our restriction on acceptance.
- Increasing of fixed costs, etc. related to LIB recycling in new businesses squeezed earnings.
- New business（VOLTA,P2P,etc.) Ordinary loss 160 million yen (60 million yen during the same period of the previous year).

Business Results by Business Segment 【Global Resource Circulation】

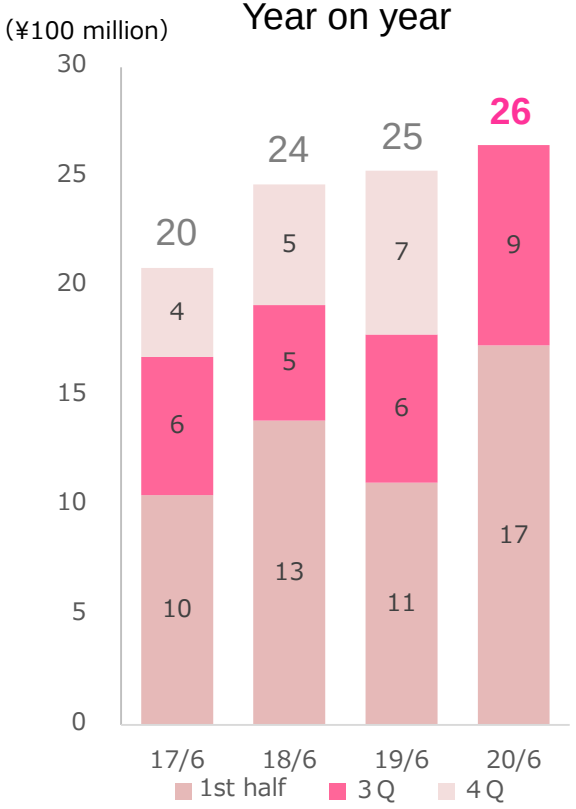
Net Sales

Down 0.1%
Year on year



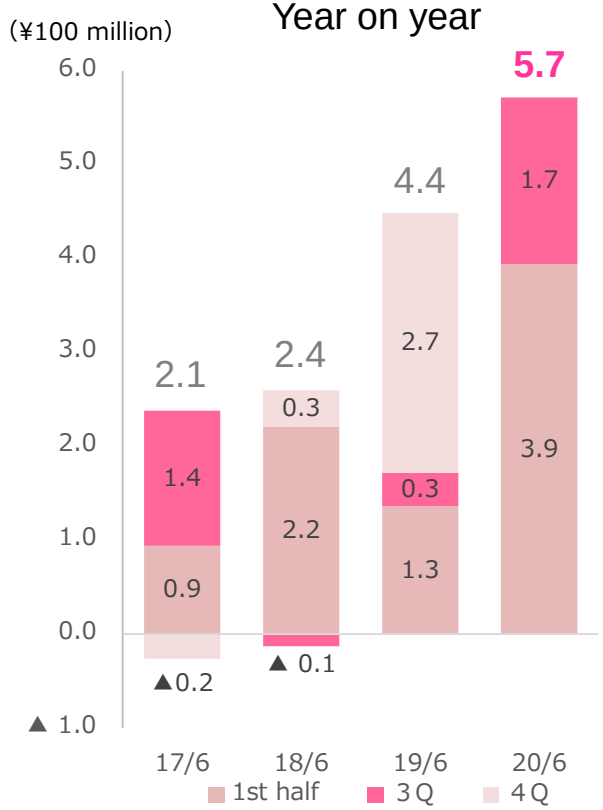
Gross Profit

Up 48.5%
Year on year



Ordinary Profit

Up 232.8%
Year on year

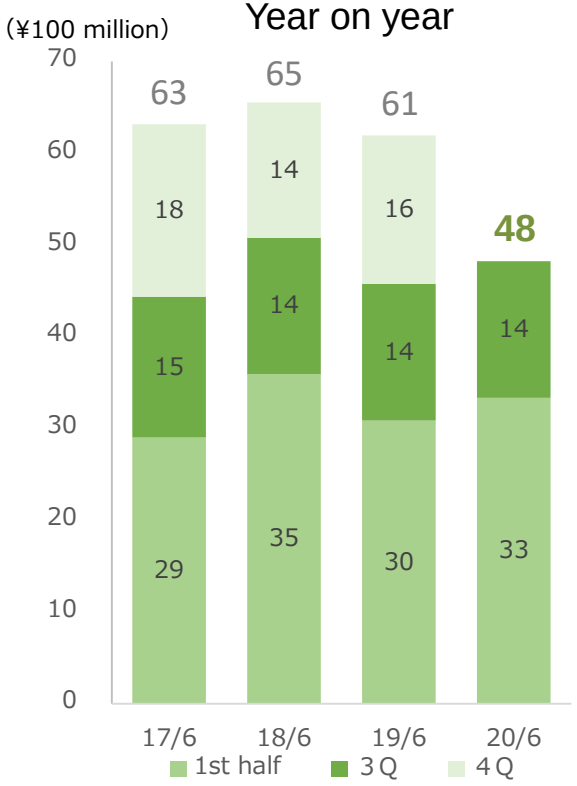


- Ferrous and nonferrous metal scrap prices showed signs of weakness, however, on the other hand, utilized the fluctuation of these market prices.
- Expansion of stockyards, capturing on demand in Japan and overseas, and devising transportation methods resulted in increased handling volumes and increased profits.
- Sold the remained one of the two retired dedicated aircraft of the Japanese government.
- Achieved successfully the first shipment of wood biomass fuel (PKS) to the Japanese market.

Business Results by Business Segment 【Used-car-related Business】

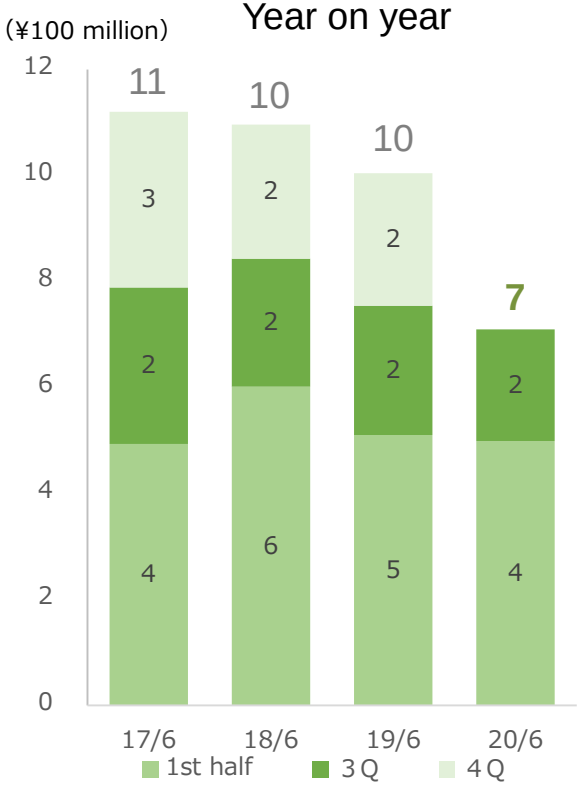
Net Sales

Up 5.4%
Year on year



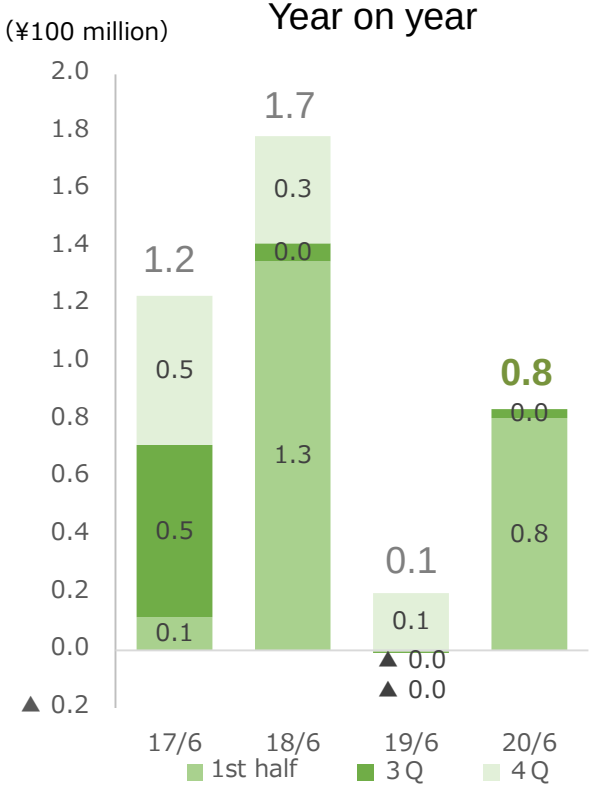
Gross Profit

Down 5.9%
Year on year



Ordinary Profit

Up ¥80 million
Year on year

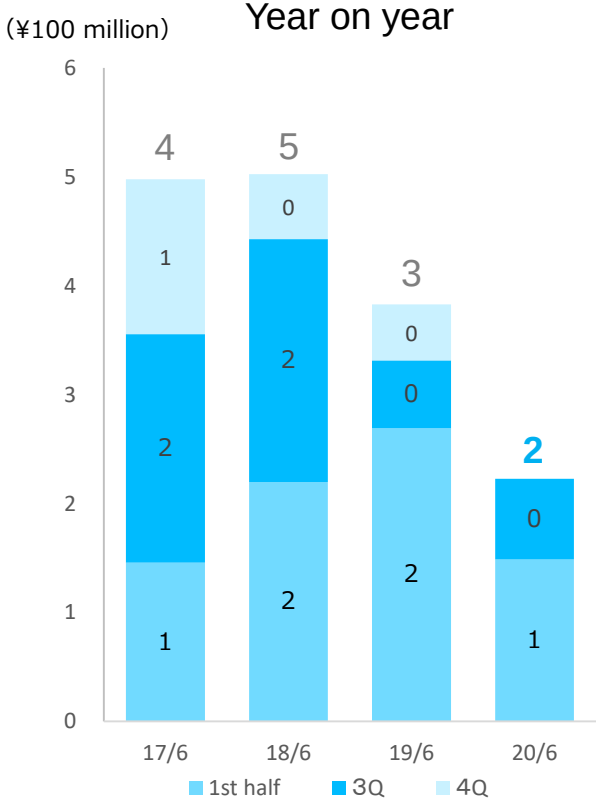


- The demand for used cars in Chile, where is one of our major export destination countries, weakened.
- Sales of used trucks for South East Asia increased.
- Revenue from used car sales and maintenance business in Uganda was improved.
- The volume handled by logistics agency services, mainly for Dubai, recovered.
- Fixed cost was reduced due to the reduction, etc. of yard size for the loading of used cars.
- Sales volume of used cars and used engines in Chile and Uganda decreased due to the impact of the novel coronavirus (COVID-19) from this March.

Business Results by Business Segment 【Others】

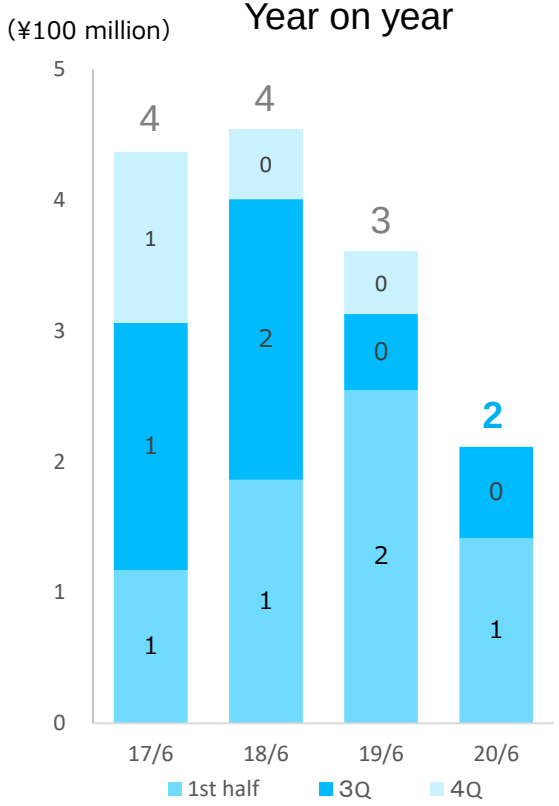
Net Sales

Down 32.8%
Year on year



Gross Profit

Down 32.4%
Year on year



Ordinary Profit

Down 56.0%
Year on year



≪ Environment Management Consulting Business ≫

- Orders for CDP responses and evaluation improvement support and other services was fared well.
- New services were commenced, such as Task Force on Climate-related Financial Disclosures (TCFD) response support. On the other hand, personnel expenses increased owing to the reinforcement of the organization.

≪ Welfare Service Business for Persons with Disabilities ≫

- Spent as prior investment on the personnel costs associated with the establishment of a Type-B Continuous Employment Support Office in Fujinomiya City, Shizuoka (in August).

※ Others includes the results of E3 Inc. up to December 2018.

2. Measures to Novel Coronavirus Infection (COVID-19) and Our Business Forecast

Measures to Novel Coronavirus (COVID-19)

Secure Liquidity on Hand (starting from April)

Secure new 6.5 billion yen through long-term borrowings and commitment line agreements

We anticipate that the forecast for the economy will become worse rapidly in near future owing to expansion of the novel coronavirus (COVID-19), so we will increase the liquidity on hand as a measure against the greatest risk.

→ **in April: Long term borrowings ¥1.5 billion**
in May : Long term borrowings ¥3.0 billion and Commitment line ¥2.0 billion

Reduction of Fixed Cost / Continuation of Investment in Growth Field

Reduce by reviewing every cost on a zero-base, including rent expenses for land and buildings, travel and transportation expenses and meeting expenses, etc.

Minimize revenue loss and outflows of funds and ensure safety by working to further reduction of general and administrative expenses.

On the other hand, concentrate resources on growth businesses and continue to carry out investment to growth fields.

Voluntary return of director's compensation

Representative Director	return 30% of monthly compensation
Managing Director	return 15% of monthly compensation
Executive officer and adviser	return 10% of monthly compensation
President of subsidiary	return 10% of monthly compensation
Director of subsidiary	return 5% of monthly compensation

Carried out from May to June 2020 (two months)

Initiatives to prevention of the spread of novel coronavirus infection

Established the Action Standards of measures to novel coronavirus (COVID-19)
（Disseminated to our employees and the related parties)

<<Excerpt from part>>

①Encouraging our employees, who are commuting by public transportation to work from home.
And also encouraging our employees who do not use public transportation to work from home or to work in a rotation, whenever possible. The company gives consideration to the improvement of environment for this purpose.

②Refraining from going out, business trip, and meals in groups, unless urgent needed, except the pick-up and delivery works by the transportation vehicles.

③Preparing to provide with absence allowance and compensation for stand-by at home as directed by the company when any employee is affected or likely to be affected.

Our Business Forecast

Japan (Domestic)

<< Resource Circulation Business>>
- Production adjustments and layoffs are gradually spreading among our customer companies, as a result, the handling volume is decreasing.
- By increasing of cases where the disposal of disused articles according to the ”stay-at-home request”, the number of consultations regarding the collection and transportation of unnecessary items is increasing.
- Still considering the preparation of subcontractors who can accept the waste disposal work instead of us, if any employee working at our recycling facilities should is affected by novel coronavirus (COVID-19).
- Although there was a temporary delay in dismantling work, signs of a gradual recovery began to appear after April.

<<Other>>
- Although the implementation of projects in the Environment Management Consulting Business had been postponed, several projects of them began to resume from the end of April.
- In the Welfare Service Business for Persons with Disabilities, part of training has been conducted as stay home, and also support work was started for those who cannot attend training center.

Overseas

<<Global Resource Circulation Business>>
- Ferrous scrap: In South Korea, Taiwan, and Vietnam, which are our major sales and export destination countries, our business was not affected by novel coronavirus (COVID-19) . However, there is concern that the volume of waste generated may decrease due to decease of production in the manufacturing industry, rather than worry about the demand of sales market.
- Nonferrous metal scrap: Sales volume of some metals were affected by lock down in India, however, our business operation is almost maintained as usual due to recovery in China. Although it is locked down in Malaysia, the port function is operating, and there are no problem on continuing our business.
- Waste paper: Inquiries for corrugated board materials from overseas such as China are increasing, and the market price of waste paper is on the rise.

<<Used-car-related Business>>
- In Chile, where an overseas subsidiary is located, sales activities have been suspended from late of March in response to request of voluntary restraint to sales activities by the government in the area where we are operating as sales base. And In Uganda, substantive curfer banning all movements other than walking has been issued by government from the end of March.

It is anticipated that decrease in sales and deterioration of income are unavoidable.

Under these circumstances, regarding the financial results forecast for the full year of the fiscal year ending June 30, 2020, uncertainties due to the impact of the spread of the novel coronavirus (COVID-19) are growing gradually. Although the forecasts announced on August 9, 2019 are unchanged as of this moment, the Company will continue to monitor the impact on business performance caused by COVID-19, and promptly announce revisions to the financial results forecast when any significant revisions are made.

Forecast for the Consolidated Results for the Fiscal Year Ending June 30, 2020

(¥ million)

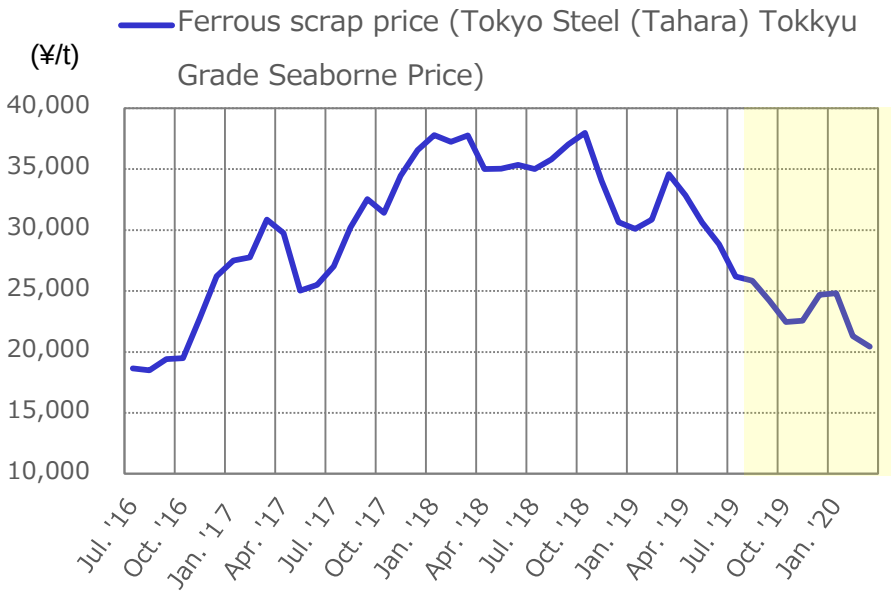
	Fiscal year ended June 30, 2019				Fiscal year ending June 30, 2020						
	1st half	3rd quarter		Full year	1st half	3rd quarter				Full year	
	Actual	Actual	Cumulative total	Actual	Actual	Actual	YoY ratio	Cumulative total	YoY ratio	Forecast	YoY ratio
Net sales	17,376	9,540	26,917	36,336	18,691	**8,603**	▲9.8%	**27,294**	1.4%	**36,571**	0.6%
Gross profit	3,165	1,598	4,763	6,454	3,674	**1,841**	15.2%	**5,515**	15.8%	**7,440**	15.3%
Operating profit	418	135	554	839	660	**233**	72.2%	**894**	61.3%	**981**	16.9%
Ordinary profit	570	182	753	1,141	748	**277**	52.0%	**1,026**	36.3%	**1,251**	9.6%
Profit before income taxes	526	232	758	1,138	807	**299**	28.9%	**1,106**	45.8%	**1,258**	10.5%
Profit※	314	177	491	786	549	**200**	13.1%	**750**	52.7%	**892**	13.4%
Marginal profit	3,276	1,628	4,904	6,681	3,554	**1,712**	5.2%	**5,267**	7.4%	**7,184**	7.5%
EBITDA※	693	311	1,005	1,482	925	**388**	24.5%	**1,313**	30.7%	**1,634**	10.2%
Fixed costs※	2,834	1,496	4,330	5,786	2,892	**1,469**	▲1.8%	**4,362**	0.7%	**6,114**	5.7%
ROE	-	-	-	7.1%	-	-	-	**-**	-	**7.7%**	8.4%

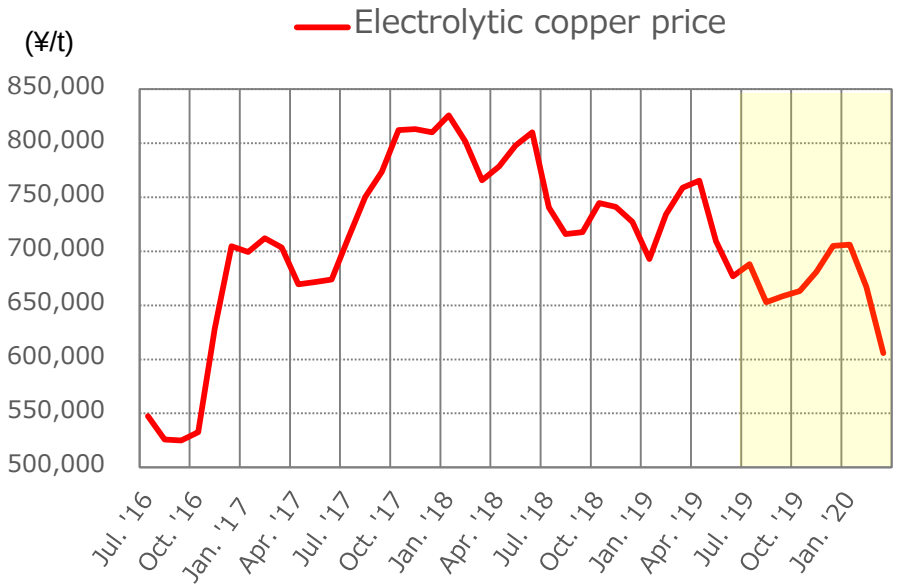
※ Profit= Profit attributable to owners of the parent
※ EBITDA = Operating profit + Depreciation + Amortization of goodwill
※ Fixed costs = [Cost of sales･Selling, General & administrative expenses ･fixed cost equivalency of Non-operating expense] – [Foreign exchange gains ･non-operating income except equity method profit]

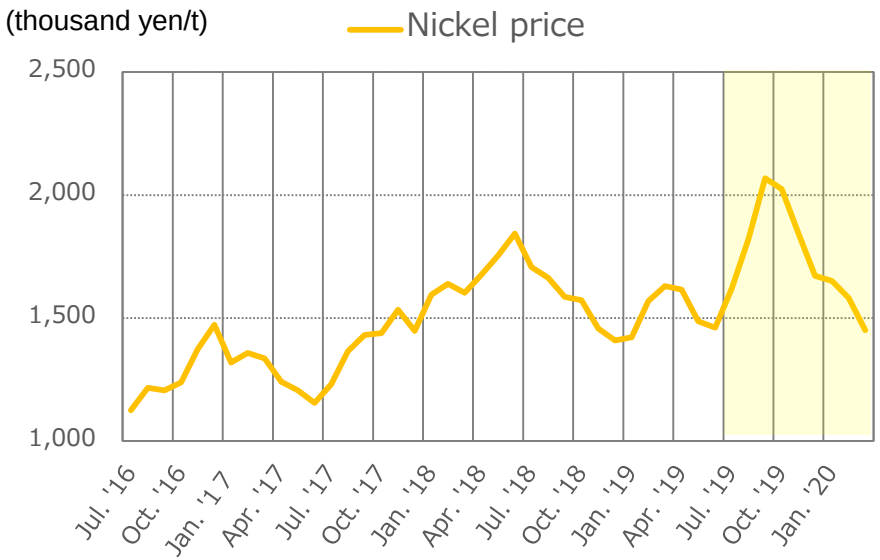
Regarding the financial results forecast for the full year of the fiscal year ending June 30, 2020, uncertainties due to the impact of the spread of the novel coronavirus (COVID-19) are growing gradually. Although the forecasts announced on August 9, 2019 are unchanged as of this moment, the Company will continue to monitor the impact on business performance caused by COVID-19, and promptly announce revisions to the financial results forecast when any significant revisions are made.

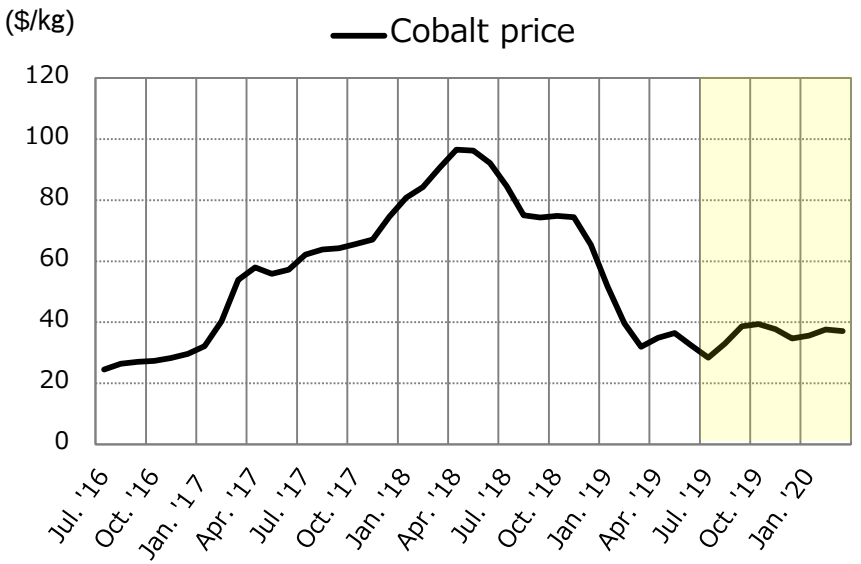
3. Reference Data

Market Price ①





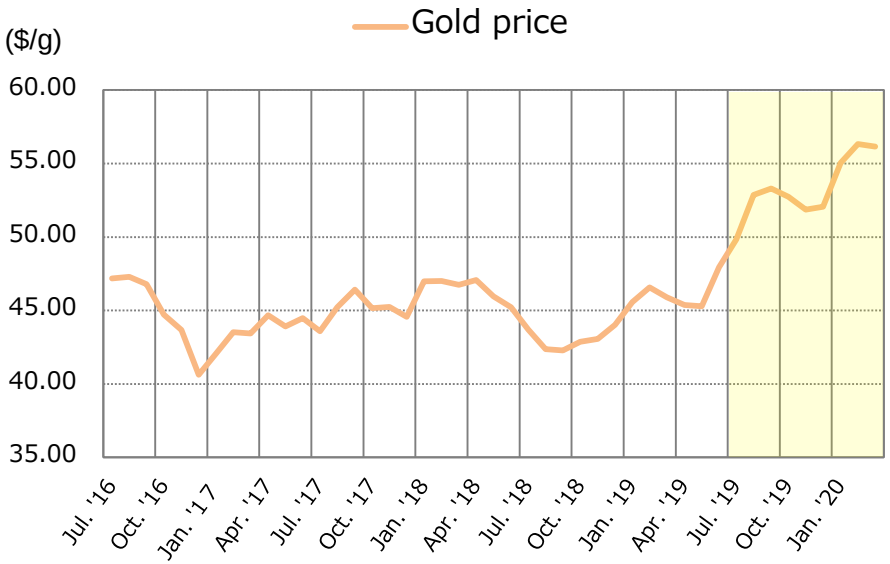




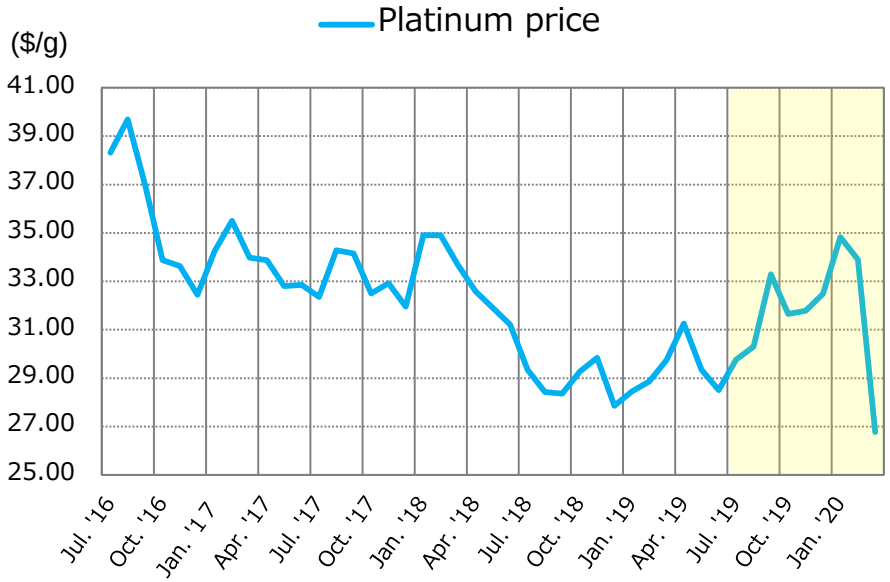
Sources: Tokyo Steel Co., Ltd.; Nikkei Inc.

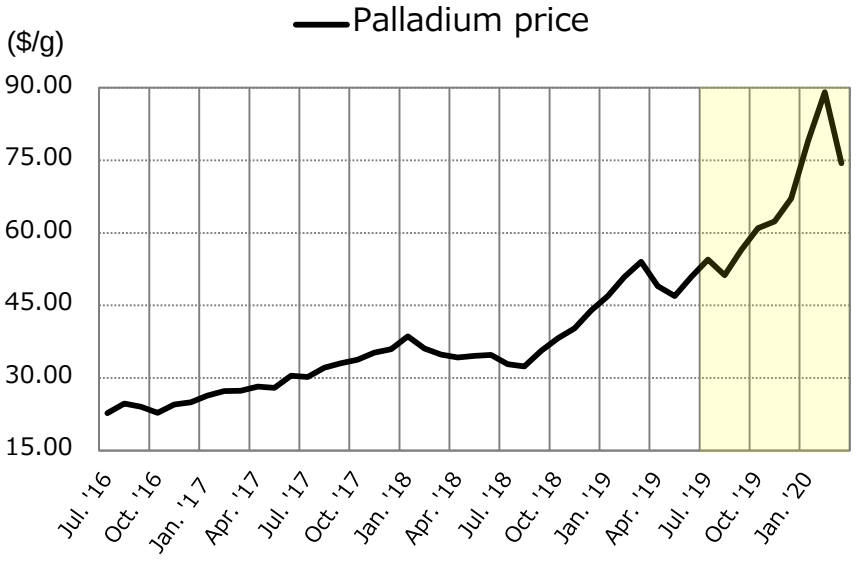
Sources: Japan Cable Manufacturers Association; IRUNIVERSE Co., Ltd.

Market Price ②



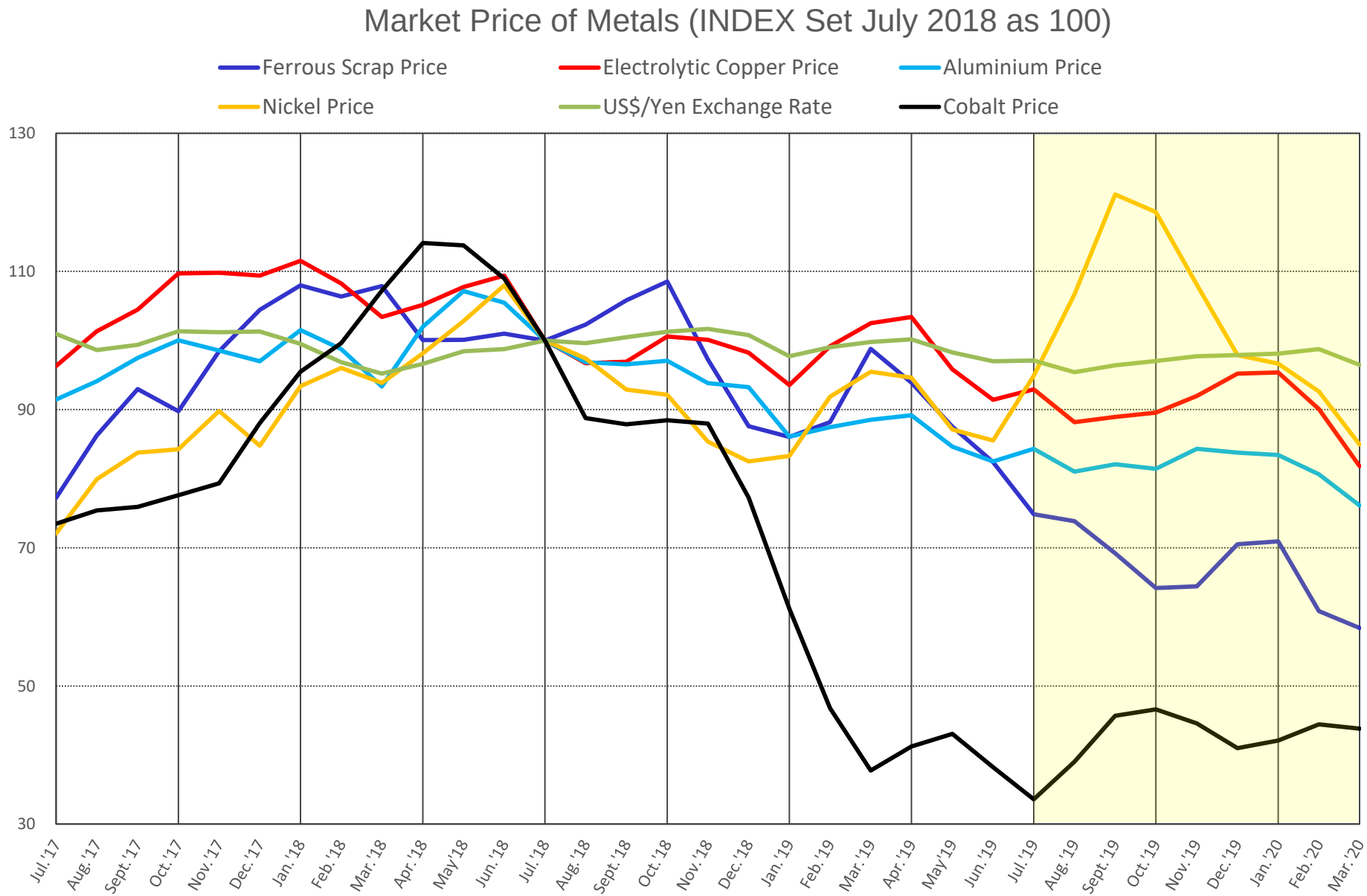






Source: Kitco Metals Inc.

Market Price ③



Sources: Tokyo Steel Co., Ltd.; Nikkei Inc.; Nikkei Electric Wire Manufacturers Association of Japan; Nikkan Sangyo Shimbun Co., Ltd.; IRUNIVERSE Co., Ltd.

- This material is intended to provide investors with information to understand the current status of Envipro Holdings Inc.
- Although the contents in this material are described based on generally recognized socio-economic situations etc., and certain assumptions that our company regarded as reasonable, they may change without prior notice of any kind because of the change in the business environment.

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