

Consolidated Financial Results for the Six Months Ended June 30, 2023 (Japanese GAAP)

August 8, 2023

Company name: Earth Corporation
Stock code: 4985

Listing Stock Exchange: Tokyo
URL: <https://corp.earth.jp/en/index.html>

Representative: Katsunori Kawabata, President and Representative Director, Chairman of the Board of Directors of each group company

Contact: Tsuyoshi Mitsuzuka, Senior Executive Officer, Director General, Group Management Headquarters
Tel: +81-3-5207-7458

Scheduled date for quarterly report submission: August 10, 2023
Scheduled date for dividend payment: —
Preparation of supplemental explanatory materials: Yes
Results briefing to be held: Yes (for institutional investors and analysts)

1. Consolidated Financial Results for the Six Months Ended June 30, 2023 (January 1, 2023 to June 30, 2023)

(1) Consolidated operating results

(Percentages indicate YoY change)

	Sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended June 30, 2023	90,329	1.1	9,921	(16.9)	10,422	(18.0)	7,040	(18.0)
Six months ended June 30, 2022	89,305	—	11,941	—	12,714	—	8,587	—

Note: Comprehensive income for the six months ended June 30, 2023 was 8,277 million yen (-14.3%), and comprehensive income for the six months ended June 30, 2022 was 9,658 yen (—%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended June 30, 2023	318.75	—
Six months ended June 30, 2022	389.53	—

Note: The Company adopted the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan, Statement No. 29) from the beginning of the fiscal year ended December 31, 2022. Figures for Q2 of the fiscal year ended December 31, 2022 are based on the new accounting standard, and no year-on-year comparatives have been provided.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
Six months ended June 30, 2023	149,922	73,758	45.7
Fiscal year ended December 31, 2022	124,489	68,018	50.4

Reference: Equity capital amounted to 68,564 million yen as of June 30, 2023 and 62,794 million as of December 31, 2022.

2. Dividends

	Dividend per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2022	—	0.00	—	118.00	118.00
Fiscal year ending December 31, 2023	—	0.00			
Fiscal year ending December 31, 2023 (forecast)			—	118.00	118.00

Note: No revisions have been made to the Company's most recently announced dividend forecast.

3. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2023 (January 1, 2023 to December 31, 2023)

(Percentages indicate YoY change)

	Sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	160,000	5.0	8,000	7.6	8,300	2.0	5,400	1.8	244.75

Note: No revisions have been made to the Company's most recently announced dividend forecast.

*Notes

(1) Changes in significant subsidiaries during the period under review: None
(Transfers of specified subsidiaries associated with changes in the Company's scope of consolidation)

New subsidiaries added: None

Subsidiaries excluded: None

(2) Distinctive accounting methods applied when preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting estimates and retrospective restatements

1. Accounting policy changes due to accounting standard revisions, etc.: Yes

2. Other accounting policy changes: None

3. Changes in accounting estimates: None

4. Retrospective restatements: None

(4) Number of shares outstanding (common stock)

1. Shares outstanding (including treasury stock)	As of June 30, 2023	22,141,100	As of December 31, 2022	22,077,500
2. Treasury shares outstanding	As of June 30, 2023	14,086	As of December 31, 2022	13,782
3. Cumulative average number of shares	Six months ended June 30, 2023	22,088,569	Six months ended June 30, 2022	22,047,142

*The financial information in this quarterly report is not subject to review by certified public accountants or auditing firms.

*Appropriate use of earnings forecast and other special notes

The earnings forecasts and other forward-looking statements contained in this document are based on information currently available to the Company, and certain assumptions it considers reasonable, but are not intended to be a promise that the Company will achieve. Actual results may vary materially from forecasts due to a variety of factors. For more information regarding assumptions made when formulating earnings projections and matters to note when using these projections, please see "1. Qualitative Information on Quarterly Financial Performance (3) Explanation of Consolidated Earnings Forecasts and Other Projections" on page five of the accompanying materials.

(How to obtain supplementary materials on quarterly financial results)

Earth Corporation will hold a financial results briefing for institutional investors and analysts on August 8 (Tue.) and 9 (Wed.), 2023. The supplemental explanatory materials to be used at this briefing will be posted on the Company's website on Tuesday, August 8.

Accompanying Materials — Contents

1. Qualitative Information on Quarterly Financial Performance.....	2
(1) Explanation of Operating Results.....	2
(2) Explanation of Financial Position	5
(3) Explanation of Consolidated Earnings Forecasts and Other Projections	5
2. Quarterly Consolidated Financial Statements and Primary Notes	6
(1) Consolidated Balance Sheet	6
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income.....	8
(3) Quarterly Statement of Cash Flows.....	10
(4) Notes to Quarterly Financial Statements	11
(Notes to going concern assumptions)	11
(Notes in the event of significant changes in shareholders' equity)	11
(Changes to accounting policies)	11

1. Qualitative Information on Quarterly Financial Performance

(1) Explanation of Operating Results

During the first six months of the fiscal year ending December 31, 2023, although the Japanese economy was showing signs indicating that economic activities are returning to a normal pace following the easing of behavioral restrictions related to COVID-19, the outlook remains uncertain due to soaring resource prices, price rises, and exchange rate fluctuations against the backdrop of heightened geopolitical risks.

Meanwhile, in the Asian region, where the Group is focusing on business expansion, China's economic recovery has shown weakness after the lifting of its zero-COVID policy, while in ASEAN there are concerns about an economic slowdown due to the sluggish global economy.

Under these economic conditions, the Company has been operating in line with the strategies set out in our medium-term management plan, Act For SMILE-COMPASS 2023-. In accordance with the Company's corporate philosophy, living in harmony with the Earth, the plan includes four fundamental policies: Reform Corporate Compass & Infrastructure, Expand Profit Foundation in Asia, ESG/Open Innovation, and Generate Cost Synergies. Due to the impact of significant changes in the external environment, we had flagged a review of the plan's numerical targets, but solid results from our initiatives are starting to flow through, so we intend to maintain our stated direction and strategies, and will continue with our efforts in the current fiscal year.

Sales generated during the first half of the fiscal year ending December 31, 2023 amounted to 90,329 million yen (+1.1% year-on-year). This owed to the effects of price revisions and growth in the General Environment and Sanitation Business and overseas business, despite sluggish growth in bath salts and other products in the Household Products Business due to changes in the post-COVID environment. On the profit front, operating income was 9,921 million yen (-16.9% year-on-year), ordinary income was 10,422 million yen (-18.0% year-on-year), and net income attributable to owners of parent was 7,040 million yen (-18.0% year-on-year), on a higher cost of sales and higher distribution costs due to such factors as surging raw material prices and changes in the sales mix.

Results by segment are as follows.

[Household Products Business]

In the Household Products Business, the Company discovered latent needs by introducing high value-added products, improved product value by updating existing products, and carried out effective promotion using social media. The Company strived to improve profitability by selling products at commensurate prices and reducing product and sales costs in response to the soaring raw material prices. Overseas, the Company actively and effectively invested management resources mainly in Southeast Asia, including Thailand and Vietnam, and carried out initiatives to expand the scale of operations.

In the first six months of the fiscal year ending December 31, 2023, the Company saw steady growth in insecticides and repellents, backed by the materialization of the effect of price revisions and favorable weather conditions, while the overseas business also expanded, particularly in Vietnam. However, due to changes in the post-COVID environment, sales of bath salts and household masks decreased year-on-year, resulting in sales of 82,032 million yen (-0.6% year-on-year). On the profit front, segment income (operating income) was 9,061 million yen (-18.8% year-on-year) due to an increase in the cost of sales ratio resulting from the impact of surging raw material prices and changes in the sales mix, which has continued since the previous fiscal year, as well as higher infrastructure and logistics costs resulting from higher energy prices.

(Household Products segment results)

(Millions of yen)

	Consolidated Q2 results for the fiscal year ended December 31, 2022	Consolidated Q2 results for the fiscal year ending December 31, 2023	YoY change (amount)	YoY change (percent)
Household insecticides and repellents	44,086	44,435	349	0.8%
Household products	33,757	32,612	(1,145)	(3.4%)
Oral hygiene products	3,950	3,992	42	1.1%
Bath salts	11,865	11,605	(259)	(2.2%)
Other household products	17,941	17,013	(928)	(5.2%)
Pet products and others	4,709	4,984	275	5.8%
Total sales	82,553	82,032	(520)	(0.6%)
Segment income (operating income)	11,154	9,061	(2,093)	(18.8%)

Notes: Sales include internal sales and transfers made within and between segments, which amounted to 6,969 million yen during Q2 of the fiscal year ended December 31, 2022 and 5,963 million yen during Q2 of the fiscal year ending December 31, 2023.

Results by product category are as follows.

Insecticides and repellents

In Japan, in addition to the mild winter throughout the country from the beginning of the year, there were favorable weather conditions even during the peak shipping period from May to June, and products for cockroaches and unpleasant insect pests grew. Sales were also boosted by making sales at commensurate prices, including price revisions, and continued sales growth, particularly in Thailand and Vietnam.

As a result, sales for this category were 44,435 million yen (+0.8% year-on-year).

Household products

In oral hygiene products, sales of all-in-one mouthwash *Mondahmin Premium Care* increased by 1.1% year-on-year to 3,992 million yen due to an increase in awareness of bad breath caused by fewer opportunities to wear masks.

As for bath salts, the increase in demand due to the spread of COVID-19 has calmed down and the market trends continued to decline from the previous year, especially for major formulations such as powders and divided packets. The Group also performed poorly proportionately to the market trends, resulting in sales of 11,605 million yen (-2.2% year-on-year).

In other household goods, sales of products in the *Sukki-ri!* series of deodorizing air fresheners and the *Bubloon* series of household cleaning products were strong. In addition, coolants and refrigerants as products to combat heat also sold well. On the other hand, sales of household masks remained sluggish, resulting in sales of 17,013 million yen (-5.2% year-on-year).

Sales in this category amounted to 32,612 million yen (-3.4% year-on-year).

Pet products and others

In pet products, sales of care products such as cat litter and deodorant sprays, as well as premium foods, increased to 4,984 million yen (+5.8% year-on-year).

[General Environment and Sanitation Business]

The core customers of our General Environment and Sanitation Business (primarily companies involved in the food, pharmaceutical, and packaging material industries) face stringent hygiene management requirements to prevent food poisoning and contamination with foreign substances. They thus have growing needs for Earth Corporation's high-quality hygiene management services that leverage our specialized knowledge, technologies, and expertise.

In these circumstances, we stepped up our investment in building an internal framework that can serve customer needs by installing and developing systems geared toward human resources development and business process streamlining. At the same

time, we worked to maintain and expand our contract numbers by providing hygiene management systems distinguished by strengthened technological capabilities, including through collaborative industry, academia, and public-sector research. We targeted the pharmaceutical and regenerative medicine industries in particular, and continued strengthening audit and consulting operations related to food safety management.

Sales in the General Environment and Sanitation Business came to 14,343 million yen (+3.9% year-on-year) during the first six months of the fiscal year ending December 31, 2023, while segment income (operating income) was 773 million yen (-2.2% year-on-year) due to increased costs in annual contracts, which are the main format for the Company.

(Millions of yen)

	Consolidated Q2 results for the fiscal year ended December 31, 2022	Consolidated Q2 results for the fiscal year ending December 31, 2023	YoY change (amount)	YoY change (percent)
Sales	13,800	14,343	543	3.9%
Segment income (operating income)	790	773	(17)	(2.2%)

Notes: Sales include internal sales and transfers made within and between segments, which amounted to 78 million yen in Q2 of the fiscal year ended December 31, 2022 and 83 million yen in Q2 of the fiscal year ending December 31, 2023.

(2) Explanation of Financial Position

(1) Assets, Liabilities and Net Assets

As of June 30, 2023, total assets amounted to 149,922 million yen, up 25,433 million yen from December 31, 2022. This was mainly due to an increase in cash and deposits, trade receivables, inventories, construction in progress, goodwill, and deferred tax assets.

As of June 30, 2023, liabilities increased by 19,693 million yen from December 31, 2022 to 76,164 million yen. This was mainly due to increases in trade payables, short-term borrowings, income taxes payable, refund liabilities, and other current liabilities, despite a decrease in accounts payable-other and deferred tax liabilities.

Net assets amounted to 73,758 million yen as of June 30, 2023, rising 5,739 million yen from December 31, 2022, mainly because of the booking of net income attributable to owners of parent, despite a decrease in retained earnings due to dividend payouts.

Consequently, the Company's equity ratio was 45.7% as of June 30, 2023, down 4.7 points from December 31, 2022.

(2) Cash Flows

As of June 30, 2023, cash and cash equivalents (below, "cash") stood at 18,724 million yen, up 3,951 million yen compared to December 31, 2022.

The status of each cash flow and their factors during the six months ended June 30, 2023 are as follows.

Net cash provided by operating activities amounted to 4,336 million yen (versus net cash of 6,686 million yen provided during the six months ended June 30, 2022). The primary sources of this net cash were 10,364 million yen in net income before income taxes (12,668 million yen during the six months ended June 30, 2022), 1,934 million yen in depreciation (1,846 million yen), an increase of 13,834 million yen in trade receivables (increase of 14,353 million yen during the six months ended June 30, 2022), growth of 917 million yen in inventories (998 million yen), an increase of 2,646 million yen in trade payables (increase of 6,237 million yen during the six months ended June 30, 2022), and an increase of 2,980 million yen in other liabilities (increase of 1,697 million yen).

Net cash used in investing activities during the same period was 6,415 million yen (versus 3,173 million yen used during the six months ended June 30, 2022). This figure primarily consisted of 2,290 million yen for the acquisition of property, plant and equipment (1,908 million yen in the same period of the previous year) and 3,500 million yen for business transfer (zero in the same period of the previous year).

As a result of financing activities, funds increased by 5,651 million yen (versus a decrease of 3,642 million yen in the six months ended June 30, 2022). This figure mainly consisted of a net increase in short-term borrowings of 9,000 million yen (a decrease of 224 million yen in the same period of the previous year), repayment of long-term borrowings of 480 million yen (versus 532 million yen in the same period of the previous year), and payment of dividends of 2,603 million yen (2,600 million yen in the same period of the previous year).

(3) Explanation of Consolidated Earnings Forecasts and Other Projections

The Company has made no changes to its full-year earnings forecast for the fiscal year ending December 31, 2023, which was announced on February 13, 2023.

This forecast is based on information available to the Company at the time of its formulation. Actual results may differ substantially from the projections included within due to potential changes affecting a variety of factors.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	Fiscal year ended December 31, 2022 (as of December 31, 2022)	Six months ended June 30, 2023 (as of June 30, 2023)
Assets		
Current assets		
Cash and deposits	14,772	18,724
Notes and accounts receivable - trade	22,321	34,003
Electronically recorded monetary claims - operating	1,842	4,110
Merchandise and finished goods	25,617	27,557
Work in process	1,435	1,521
Raw materials and supplies	5,200	4,566
Other	2,795	2,658
Allowance for doubtful accounts	(22)	(37)
Total current assets	73,962	93,105
Non-current assets		
Property, plant and equipment		
Buildings and structures	30,174	31,436
Accumulated depreciation and impairment	(16,336)	(16,970)
Buildings and structures, net	13,837	14,466
Machinery, equipment and vehicles	16,770	17,303
Accumulated depreciation and impairment	(12,785)	(13,388)
Machinery, equipment and vehicles, net	3,985	3,914
Land	7,787	7,822
Leased assets	320	360
Accumulated depreciation and impairment	(131)	(156)
Leased assets, net	188	204
Construction in progress	2,114	3,080
Other	9,499	9,895
Accumulated depreciation and impairment	(7,927)	(8,234)
Other, net	1,571	1,660
Total property, plant and equipment	29,483	31,148
Intangible assets		
Trademark right	1,233	1,220
Software	1,432	1,288
Goodwill	105	2,312
Customer-related intangible assets	1,643	1,698
Other	940	1,538
Total intangible assets	5,355	8,059
Investments and other assets		
Investment securities	5,261	5,481
Retirement benefit asset	7,336	7,528
Deferred tax assets	1,001	2,383
Other	2,105	2,232
Allowance for doubtful accounts	(16)	(17)
Total investments and other assets	15,688	17,609
Total non-current assets	50,527	56,817
Total assets	124,489	149,922

(Millions of yen)

	Fiscal year ended December 31, 2022 (as of December 31, 2022)	Six months ended June 30, 2023 (as of June 30, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	24,236	22,566
Electronically recorded obligations - operating	11,288	15,737
Short-term borrowings	1,000	10,000
Current portion of long-term borrowings	1,200	720
Accounts payable - other	7,477	5,269
Income taxes payable	426	4,509
Accrued consumption taxes	612	1,153
Provision for bonuses	240	384
Refund liabilities	1,010	2,109
Other	5,849	11,295
Total current liabilities	53,341	73,746
Non-current liabilities		
Deferred tax liabilities	1,815	1,134
Retirement benefit liability	314	290
Asset retirement obligations	479	481
Other	520	511
Total non-current liabilities	3,129	2,418
Total liabilities	56,470	76,164
Net assets		
Shareholders' equity		
Share capital	9,895	10,043
Capital surplus	9,917	10,066
Retained earnings	39,897	44,335
Treasury shares	(79)	(79)
Total shareholders' equity	59,631	64,365
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,109	1,398
Foreign currency translation adjustment	698	1,547
Remeasurements of defined benefit plans	1,354	1,251
Total accumulated other comprehensive income	3,163	4,198
Non-controlling interests	5,224	5,194
Total net assets	68,018	73,758
Total liabilities and net assets	124,489	149,922

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Millions of yen)

	Six months ended June 30, 2022 (from January 1, 2022 to June 30, 2022)	Six months ended June 30, 2023 (from January 1, 2023 to June 30, 2023)
Sales	89,305	90,329
Cost of sales	49,372	51,346
Gross profit	39,933	38,982
Selling, general and administrative expenses		
Transportation and storage costs	3,629	3,856
Advertising expenses	4,276	4,204
Promotion expenses	594	551
Provision of allowance for doubtful accounts	14	15
Salaries and allowances	8,487	8,899
Provision for bonuses	270	313
Travel and transportation expenses	590	723
Depreciation	715	796
Amortization of goodwill	423	83
Rent expenses on land and buildings	733	743
Research and development expenses	1,426	1,553
Other	6,828	7,319
Total selling, general and administrative expenses	27,991	29,060
Operating income	11,941	9,921
Non-operating income		
Interest income	54	85
Dividend income	36	41
Foreign exchange gains	529	213
Commission income	9	13
Rental income from buildings	23	22
Other	143	165
Total non-operating income	796	543
Non-operating expenses		
Interest expenses	17	22
Other	6	19
Total non-operating expenses	23	42
Ordinary income	12,714	10,422
Extraordinary income		
Gain on sale of non-current assets	23	1
Gain on sale of investment securities	—	3
Total extraordinary income	23	5
Extraordinary losses		
Loss on sale of non-current assets	3	0
Loss on retirement of non-current assets	65	56
Loss on sale of investment securities	—	7
Loss on valuation of investment securities	0	—
Total extraordinary losses	69	64
Net income before income taxes	12,668	10,364
Income taxes - current	4,771	4,339
Income taxes - deferred	(900)	(1,203)
Total income taxes	3,870	3,136
Net income	8,797	7,227
Net income attributable to non-controlling interests	209	187
Net income attributable to owners of parent	8,587	7,040

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended June 30, 2022 (from January 1, 2022 to June 30, 2022)	Six months ended June 30, 2023 (from January 1, 2023 to June 30, 2023)
Net income	8,797	7,227
Other comprehensive income		
Valuation difference on available-for-sale securities	(206)	299
Foreign currency translation adjustment	1,215	860
Remeasurements of defined benefit plans, net of tax	(147)	(110)
Total other comprehensive income	861	1,049
Comprehensive income	9,658	8,277
(Breakdown)		
Comprehensive income attributable to owners of parent	9,456	8,075
Comprehensive income attributable to non-controlling interests	202	201

(3) Quarterly Statement of Cash Flows

(Millions of yen)

	Six months ended June 30, 2022 (from January 1, 2022 to June 30, 2022)	Six months ended June 30, 2023 (from January 1, 2023 to June 30, 2023)
Cash flows from operating activities		
Net income before income taxes	12,668	10,364
Depreciation	1,846	1,934
Amortization of goodwill	423	83
Increase (decrease) in provision for sales returns	(434)	—
Increase (decrease) in refund liabilities	1,834	1,091
Increase in retirement benefit assets (increase in retirement benefit liabilities)	(429)	(382)
Decrease (increase) in trade receivables	(14,353)	(13,834)
Decrease (increase) in inventories	(998)	(917)
Decrease (increase) in other assets	(522)	458
Increase (decrease) in trade payables	6,237	2,646
Increase (decrease) in other liabilities	1,697	2,980
Other	(171)	37
Subtotal	7,796	4,462
Interest and dividends received	91	127
Interest paid	(17)	(22)
Income taxes paid	(1,184)	(230)
Net cash provided by (used in) operating activities	6,686	4,336
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,908)	(2,290)
Purchase of intangible assets	(436)	(645)
Purchase of investment securities	(9)	(9)
Purchase of shares of subsidiaries and associates	(163)	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(722)	—
Payments for acquisition of businesses	—	(3,500)
Other payments	(187)	(213)
Other proceeds	254	244
Net cash provided by (used in) investing activities	(3,173)	(6,415)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(224)	9,000
Repayments of long-term borrowings	(532)	(480)
Purchase of treasury shares	(99)	(0)
Purchase of treasury shares of subsidiaries	(3)	(53)
Dividends paid	(2,600)	(2,603)
Dividends paid to non-controlling interests	(155)	(176)
Other	(26)	(33)
Net cash provided by (used in) financing activities	(3,642)	5,651
Effect of exchange rate change on cash and cash equivalents	713	378
Net increase (decrease) in cash and cash equivalents	584	3,951
Cash and cash equivalents at beginning of period	21,027	14,772
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	126	—
Cash and cash equivalents at end of period	21,739	18,724

(4) Notes to Quarterly Financial Statements

(Notes to going concern assumptions)

None to be reported.

(Notes in the event of significant changes in shareholders' equity)

None to be reported.

(Changes to accounting policies)

(Changes to accounting policies)

Effective from the beginning of the first quarter of the year ending December 31, 2023, the Group has adopted the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Statement No. 31; June 17, 2021). In accordance with the transitional treatment stipulated in Paragraph 27-2 of Implementation Guidance on Accounting Standard for Fair Value Measurement, the Group has decided to prospectively apply the new accounting policy prescribed in the Accounting Standard for Fair Value Measurement. Please note that this has no impact on the Group's quarterly consolidated financial statements.