# Consolidated Financial Results
# for the Nine Months Ended September 30, 2022 (Japanese GAAP)

November 8, 2022


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
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Scheduled date for quarterly report submission: November 11, 2022
Scheduled date for dividend payment: —
Preparation of supplemental explanatory materials: Yes
Results briefing to be held: Yes

## 1. Consolidated Financial Results for the Nine Months Ended September 30, 2022 (January 1 to September 30, 2022)

(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 | % |
| Nine months ended September 30, 2022 | 124,445 | — | 12,013 | — | 12,899 | — | 8,635 | — |
| Nine months ended September 30, 2021 | 165,167 | 4.4 | 20,353 | 13.3 | 20,815 | 15.0 | 13,838 | 15.5 |

Note: Comprehensive income for the nine months ended September 30, 2022 was 9,994 million yen (—%), and comprehensive income for the nine months ended September 30, 2021 was 13,456 million yen (-2.5%)

| | Net income per share | Diluted net income per share |
|---|---|---|
| | Yen | Yen |
| Nine months ended September 30, 2022 | 391.57 | — |
| Nine months ended September 30, 2021 | 627.20 | — |

Note: Due to the adoption of the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29), etc. from the beginning of the fiscal year ending December 31, 2022, the figures for the third quarter of the fiscal year under review reflect impact stemming from the adoption of this standard, and hence, no year-on-year comparison figures have been provided.

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|---|---|---|---|
| | Million yen | Million yen | % |
| Nine months ended September 30, 2022 | 134,940 | 71,292 | 49.2 |
| Fiscal year ended December 31, 2021 | 120,715 | 64,596 | 49.7 |

Reference: Equity capital amounted to 66,445 million yen as of September 30, 2022 and 59,958 million yen as of December 31, 2021.

## 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, 2021 | — | 0.00 | — | 118.00 | 118.00 |
| Fiscal year ending December 31, 2022 | — | 0.00 | — | | |
| Fiscal year ending December 31, 2022 (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, 2022 (January 1, 2022 to December 31, 2022)

(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 | 155,000 | — | 10,750 | — | 11,150 | — | 7,280 | — | 330.30 |

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

Note: Due to the adoption of the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29), etc. from the beginning of the fiscal year ending December 31, 2022, the consolidated earnings forecast above reflects impact stemming from the adoption of this standard, and hence, no year-on-year comparison figures have been provided.

*****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)

Newly 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 September 30, 2022 | 22,077,500 | As of December 31, 2021 | 22,077,500 |
| 2. Treasury shares outstanding | As of September 30, 2022 | 13,759 | As of December 31, 2021 | 36,939 |
| 3. Cumulative average number of shares | Nine months ended September 30, 2022 | 22,052,738 | Nine months ended September 30, 2021 | 22,063,183 |

*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.

Accompanying Materials — Contents

## 1. Qualitative Information on Quarterly Financial Performance

### (1) Explanation of Operating Results

Effective from the beginning of the first three months (hereafter, “Q1”) of the fiscal year ending December 31, 2022, the Company has adopted the Accounting Standard for Revenue Recognition (Accounting Standard Board of Japan [ASBJ] Statement No. 29; March 31, 2020), etc. As a result, revenue recognition standards applied to results for the first nine months (hereafter, “Q3”) of the fiscal year under review differ from those applied to results for the same period of the previous fiscal year, and hence, no year-on-year comparison figures (% changes) have been provided in the explanation of operating results below.

During Q3 of the fiscal year ending December 31, 2022, the Japanese economy moved into a new stage of coexistence with COVID-19, as activity restrictions were eased and no new policies were implemented, despite the spread of the seventh wave of infection. Meanwhile, the outlook for the Japanese economy remained uncertain due to the protracted conflict in Ukraine, soaring resource and energy prices, and the sharp depreciation of the yen. Looking at the Asian region, a key region for the Group's business expansion, economic activities in China have yet to normalize due to a series of lockdowns and power shortages in major cities, even after the lifting of the long-running lockdown in Shanghai. However, in Thailand, the state of emergency has been lifted, and in Vietnam, regulations are being eased, as social activities are shifting toward coexistence with the virus.

Under these economic conditions, the Company announced its medium-term management plan, “Act For SMILE–COMPASS 2023–” in February 2021. In accordance with the Company’s corporate philosophy, “We act to live 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.” The Company continues to implement priority measures associated with these policies in the fiscal year ending December 31, 2022.

Sales generated during Q3 of the fiscal year ending December 31, 2022 amounted to 124,445 million yen. Sales of domestic insecticides and repellents in the Household Products Business were sluggish due to unfavorable weather, but overseas sales increased, and sales in the General Environment and Sanitation Business also expanded. Meanwhile, due to higher-than-expected cost-of-sales ratio resulting from changes in the sale mix, in addition to soaring raw material prices and exchange rate fluctuations, as well as an increase in sales promotion expenses, operating income came to 12,013 million yen, ordinary income 12,899 million yen, net income before income taxes 12,845 million yen, and net income attributable to owners of parent 8,635 million yen.

Consolidated results for Q3 of the fiscal year ending December 31, 2022 (Millions of yen)

| | Consolidated Q3 results for the fiscal year ended December 31, 2021 | Consolidated Q3 results for the fiscal year ending December 31, 2022 | (Ref.) Consolidated Q3 results, excl. the impact of accounting standard change | YoY change, excl. the impact of accounting standard change |
|---|---|---|---|---|
| Sales | 165,167 | 124,445 | 169,566 | 2.7% |
| Operating income | 20,353 | 12,013 | 16,701 | (17.9%) |
| Ordinary income | 20,815 | 12,899 | 17,587 | (15.5%) |
| Net income before income taxes | 20,633 | 12,845 | 17,533 | (15.0%) |

Note: Due to the adoption of the Accounting Standard for Revenue Recognition, etc. from the beginning of Q1of the fiscal year under review, sales were reduced by 45,120 million yen and all profit categories from the operating income line down were reduced by 4,687 million yen.

Results by segment were as follows.

**[Household Products Business]**

In the Household Products Business, the Company strived to revitalize corresponding markets through advertising, the creation of attractive sales areas, and other means of communication with customers while cultivating new customers with the launch of new products and updating existing products to improve their value. We also worked to improve profitability by reducing manufacturing costs and costs for sales.

Sales generated through the Household Products Business in Q3 of the fiscal year ending December 31, 2022 amounted to 112,966 million yen, mainly due to contributions from new products and increased sales of deodorizing air fresheners, although sales of insecticides and repellents were sluggish due to unfavorable weather. Meanwhile, segment income in the Household Product

Business was 10,802 million yen, owing to higher-than-expected cost of sales ratio caused by changes in the sales mix, as well as the effects of soaring raw material prices and exchange rate fluctuations, despite efficient expense management within the plan.

(Millions of yen)

| | Consolidated Q3 results for the fiscal year ended December 31, 2021 | Consolidated Q3 results for the fiscal year ending December 31, 2022 | (Ref.) Consolidated Q3 results, excl. the impact of accounting standard change | YoY change, excl. the impact of accounting standard change |
|---|---|---|---|---|
| Sales | 153,816 | 112,966 | 158,070 | 2.8% |
| Segment income (operating income) | 19,151 | 10,802 | 15,480 | (19.2%) |

Notes: 1. Sales include internal sales and transfers made within and between segments, which amounted to 9,196 million yen during Q3 of the fiscal year ended December 31, 2021 and 9,540 million yen during Q3 of the fiscal year ending December 31, 2022.

2. Due to the adoption of the Accounting Standard for Revenue Recognition, etc. from the beginning of Q1 of the fiscal year under review, sales decreased by 45,103 million yen and segment income decreased by 4,677 million yen.

Insecticides and repellents

In Japan, the market size shrank compared to the previous year due to unstable weather, including heavy rainfall caused by typhoons, despite higher temperatures from July onward and lingering summer heat. As a result, sales in the main categories of insecticides and repellents for flies and mosquitoes and those for cockroaches declined. Although sales of new high-end products launched this spring, such as *MAMO ROOM* and *Iyana Mushi ZEROdeKNIGHT* contributed to sales growth, and sales of products to combat ticks and other unpleasant pests, which have been growing in recent years, increased, they were not enough to offset the decline in sales in the main categories. On the other hand, overseas sales in Thailand and Vietnam remained strong as the market recovered, and sales increased.

As a result of the above, sales in this category totaled 56,517 million yen.

Household products

Sales of oral hygiene products totaled 5,910 million yen, as sales of the regular type *Mondahmin* fell below the previous year’s level, but sales of the high-performance type *Mondahmin Premium Care* performed well.

Meanwhile, the bath salts market, which has expanded as a result of COVID-19, has maintained the scale of expansion over the past two years. In this market environment, sales of the granular form *Kikiyu* and *Nihon no Meito* in small packages increased, while shipments of the new product *Awappi,* launched in the fall season, were steady, resulting in sales of 17,519 million yen.

Sales of other household products amounted to 26,300 million yen, thanks to contributions from the *Sukki-ri! s*eries of deodorizing air fresheners, *Raku Hapi* series of cleaning products, *Kaiteki Guard* protective face masks, and *Ice-non* cold packs.

As a result of the above, sales in this category totaled 49,730 million yen.

Pet products and others

In the pet products category, sales of cat litter, towels, cleaners, and other pet care products increased as more customers started owning pets during the COVID-19 pandemic and as they spent more time at home, leading to better communication with their pets. On the other hand, sales of insecticides and repellents were down from the same period of the previous year due to unseasonable weather, and amounted to 6,718 million yen.

**[General Environment and Sanitation Business]**

In the General Environment and Sanitation Business, the Company is enhancing its in-house hygiene management as relevant laws in Japan are revised and safety standards for food, pharmaceutical products, and medical care are adjusted on an international scale. Accordingly, the Company observed growth in demand among core customers (food, pharmaceutical, and packing material factories) for its high-quality hygiene management services, which leverage the Company's specialized knowledge, skills, and expertise.

Under these circumstances, we endeavored to maintain and expand our contracts by providing standout quality assurance services through the enhancement of our technological development capabilities. At the same time, we actively invested in the construction of an internal framework that facilitates the prompt fulfillment of customer needs associated primarily with software development aimed at improving operational efficiency and recruiting and training human resources. Along with these efforts, we intensified our initiatives in the pharmaceutical and regenerative medicine industries and efforts associated with auditing and consulting services related to food safety management.

Consequently, sales in the General Environment and Sanitation Business amounted to 21,139 million yen, while segment income (operating income) was 1,208 million yen due to increases in personnel expenses for more hiring.

(Millions of yen)

| | Consolidated Q3 results for the fiscal year ended December 31, 2021 | Consolidated Q3 results for the fiscal year ending December 31, 2022 | (Ref.) Consolidated Q3 results, excl. the impact of accounting standard change | YoY change, excl. the impact of accounting standard change |
|---|---|---|---|---|
| Sales | 20,650 | 21,139 | 21,156 | 2.5% |
| Segment income (operating income) | 1,237 | 1,208 | 1,218 | (1.5%) |

Notes: 1. Sales include internal sales and transfers made within and between segments, which amounted to 102 million yen in Q3 of the fiscal year ended December 31, 2021 and 119 million yen in Q3 of the fiscal year ending December 31, 2022.

2. Due to the adoption of the Accounting Standard for Revenue Recognition, etc. from the beginning of Q1 of the fiscal year under review, sales decreased by 17 million yen and segment income decreased by 10 million yen.

## (2) Explanation of Financial Position

(1) Assets, Liabilities and Net Assets

As of September 30, 2022, total assets amounted to 134,940 million yen, up 14,225 million yen from December 31, 2021, due primarily to increases in cash and deposits, accounts receivable, and construction in progress.

Meanwhile, total liabilities as of September 30, 2022, came to 63,648 million yen, up 7,530 million yen from December 31, 2021, due chiefly to increases in trade payables, income taxes payable, and refund liabilities despite a decrease in accounts payable and long-term borrowings.

Net assets amounted to 71,292 million yen as of September 30, 2022, rising 6,695 million yen compared to December 31, 2021, mainly because of an increase in retained earnings due to net income attributable to owners of parent.

The Company’s equity ratio was 49.2% as of September 30, 2022, down 0.5 points from December 31, 2021.

(2) Cash Flows

The Company has not prepared a statement of cash flows for the period ended September 30, 2022, so disclosure is omitted.

## (3) Explanation of Consolidated Earnings Forecasts and Other Projections

The Company has made no changes to its full-year earnings forecast for the financial year ending December 31, 2022, which was announced on February 14, 2022.

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, 2021 (as of December 31, 2021) | Nine months ended September 30, 2022 (as of September 30, 2022) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 21,027 | 25,322 |
| Notes and accounts receivable - trade | 21,210 | 24,385 |
| Electronically recorded monetary claims - operating | 1,730 | 3,028 |
| Merchandise and finished goods | 21,622 | 23,538 |
| Work in process | 1,315 | 1,143 |
| Raw materials and supplies | 4,564 | 4,670 |
| Other | 2,568 | 3,131 |
| Allowance for doubtful accounts | (20) | (26) |
| Total current assets | 74,018 | 85,193 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 29,489 | 29,656 |
| Accumulated depreciation and impairment | (15,884) | (16,223) |
| Buildings and structures, net | 13,604 | 13,432 |
| Machinery, equipment and vehicles | 16,536 | 17,295 |
| Accumulated depreciation and impairment | (12,426) | (13,161) |
| Machinery, equipment and vehicles, net | 4,110 | 4,134 |
| Land | 7,873 | 7,788 |
| Leased assets | 255 | 300 |
| Accumulated depreciation and impairment | (79) | (118) |
| Leased assets, net | 176 | 181 |
| Construction in progress | 253 | 1,770 |
| Other | 9,198 | 9,535 |
| Accumulated depreciation and impairment | (7,666) | (7,959) |
| Other, net | 1,532 | 1,575 |
| Total property, plant and equipment | 27,551 | 28,882 |
| Intangible assets | | |
| Goodwill | 423 | 620 |
| Other | 3,853 | 4,248 |
| Total intangible assets | 4,276 | 4,868 |
| Investments and other assets | | |
| Investment securities | 6,025 | 5,920 |
| Retirement benefit asset | 6,114 | 6,391 |
| Deferred tax assets | 1,132 | 1,521 |
| Other | 1,612 | 2,181 |
| Allowance for doubtful accounts | (16) | (18) |
| Total investments and other assets | 14,868 | 15,995 |
| Total non-current assets | 46,696 | 49,747 |
| Total assets | 120,715 | 134,940 |

(Millions of yen)

| | Fiscal year ended December 31, 2021 (as of December 31, 2021) | Nine months ended September 30, 2022 (as of September 30, 2022) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 22,617 | 22,996 |
| Electronically recorded obligations - operating | 9,832 | 13,471 |
| Short-term borrowings | 1,480 | 1,000 |
| Current portion of long-term borrowings | 1,018 | 960 |
| Accounts payable - other | 10,721 | 6,343 |
| Income taxes payable | 1,520 | 3,193 |
| Accrued consumption taxes | 526 | 1,582 |
| Provision for bonuses | 255 | 1,612 |
| Provision for sales returns | 434 | — |
| Refund liabilities | — | 3,223 |
| Other | 3,892 | 6,828 |
| Total current liabilities | 52,300 | 61,211 |
| Non-current liabilities | | |
| Long-term borrowings | 1,200 | 480 |
| Deferred tax liabilities | 1,178 | 623 |
| Retirement benefit liability | 382 | 332 |
| Asset retirement obligations | 516 | 476 |
| Other | 540 | 525 |
| Total non-current liabilities | 3,818 | 2,437 |
| Total liabilities | 56,118 | 63,648 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 9,895 | 9,895 |
| Capital surplus | 9,928 | 9,917 |
| Retained earnings | 37,929 | 43,229 |
| Treasury shares | (215) | (78) |
| Total shareholders' equity | 57,537 | 62,963 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,297 | 1,208 |
| Foreign currency translation adjustment | (22) | 1,338 |
| Remeasurements of defined benefit plans | 1,146 | 935 |
| Total accumulated other comprehensive income | 2,421 | 3,482 |
| Non-controlling interests | 4,638 | 4,846 |
| Total net assets | 64,596 | 71,292 |
| Total liabilities and net assets | 120,715 | 134,940 |

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

### Consolidated Statement of Income

(Millions of yen)

| | Nine months ended September 30, 2021 (from January 1, 2021 to September 30, 2021) | Nine months ended September 30, 2022 (from January 1, 2022 to September 30, 2022) |
|---|---|---|
| Sales | 165,167 | 124,445 |
| Cost of sales | 94,536 | 71,362 |
| Gross profit | 70,631 | 53,083 |
| Selling, general and administrative expenses | | |
| Transportation and storage costs | 5,049 | 5,439 |
| Advertising expenses | 5,686 | 5,593 |
| Promotion expenses | 11,546 | 751 |
| Provision of allowance for doubtful accounts | 10 | 6 |
| Salaries and allowances | 11,334 | 12,121 |
| Provision for bonuses | 1,219 | 1,183 |
| Travel and transportation expenses | 784 | 953 |
| Depreciation | 936 | 1,089 |
| Amortization of goodwill | 1,413 | 439 |
| Rent expenses on land and buildings | 1,066 | 1,111 |
| Research and development expenses | 2,032 | 2,152 |
| Other | 9,197 | 10,227 |
| Total selling, general and administrative expenses | 50,278 | 41,069 |
| Operating income | 20,353 | 12,013 |
| Non-operating income | | |
| Interest income | 54 | 88 |
| Dividend income | 107 | 42 |
| Foreign exchange gains | 32 | 535 |
| Commission income | 20 | 12 |
| Rental income from buildings | 34 | 35 |
| Other | 260 | 205 |
| Total non-operating income | 510 | 920 |
| Non-operating expenses | | |
| Interest expenses | 12 | 23 |
| Compensation for damage | 27 | ― |
| Other | 8 | 9 |
| Total non-operating expenses | 48 | 33 |
| Ordinary income | 20,815 | 12,899 |
| Extraordinary income | | |
| Gain on sale of non-current assets | 115 | 25 |
| Gain on sale of investment securities | 32 | ― |
| Total extraordinary income | 147 | 25 |
| Extraordinary losses | | |
| Loss on sale of non-current assets | 6 | 3 |
| Loss on retirement of non-current assets | 12 | 76 |
| Impairment losses | 311 | ― |
| Loss on valuation of investment securities | ― | 0 |
| Total extraordinary losses | 329 | 80 |
| Net income before income taxes | 20,633 | 12,845 |
| Income taxes - current | 6,191 | 4,538 |
| Income taxes - deferred | 278 | (636) |
| Total income taxes | 6,469 | 3,901 |
| Net income | 14,164 | 8,944 |
| Net income attributable to non-controlling interests | 325 | 308 |
| Net income attributable to owners of parent | 13,838 | 8,635 |

Consolidated Statement of Comprehensive Income

(Millions of yen)

| | Nine months ended September 30, 2021 (from January 1, 2021 to September 30, 2021) | Nine months ended September 30, 2022 (from January 1, 2022 to September 30, 2022) |
|---|---|---|
| Net income | 14,164 | 8,944 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (1,068) | (88) |
| Foreign currency translation adjustment | 464 | 1,359 |
| Remeasurements of defined benefit plans, net of tax | (104) | (220) |
| Total other comprehensive income | (707) | 1,050 |
| Comprehensive income | 13,456 | 9,994 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 13,117 | 9,695 |
| Comprehensive income attributable to non-controlling interests | 338 | 298 |

## (3) 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)

(Adoption of the Accounting Standard for Revenue Recognition, etc.)

Effective from the beginning of Q1 of the fiscal year ending December 31, 2022, the Earth Group has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30; March 26, 2021). As a result, the Group now recognizes revenue at the time of transfer of control of promised goods or services to the customer, in the amount it expects to receive in exchange for said goods or services.

In light of this, the Group has made the following changes.

(1) Change in the timing of revenue recognition

In the Household Products Business, the Company (parent) and some of its consolidated subsidiaries previously recognized revenue for sales of products at the time the products were shipped. Under the new accounting standards, however, revenue is recognized when the products are shipped to the destination designated by the customer and handed over to the customer, as this is when control of the products is transferred to the customer.

Under the previous accounting standards, for some transactions in the General Sanitary Management Business, revenue was recognized over the period in which services promised in the contract were provided. Under the new accounting standards, however, the Group identifies services that are performance obligations as promised in the contract, and since the performance obligations are deemed satisfied when the services identified as such have been provided in full, the Group recognizes revenue at the time of the completion of the services.

(2) Considerations payable to customers

From the fiscal year under review, the Group deducts a portion of sales promotion expenses and other considerations payable to customers from revenue as it has identified performance obligations in contracts with customers. Under the previous accounting standards, some sales promotion expenses and other considerations payable to customers were recorded as SG&A expenses at the time the Group determined these payables were highly likely to occur. However, under the new accounting standards, the Group makes a reasonable estimate of the variable portion of the transaction price based on past records and only deducts from revenue the portion that is highly likely to not result in a substantial reduction in revenue.

(3) Products sales with rights of return

Under the previous accounting standards, the Group recorded provisions for product returns in the amount equivalent to anticipated losses resulting from the product returns based on the past rate of returns and gross profit margin. Under the new accounting standards, however, the Group deducts from revenue the estimated amount of refunds payable to customers as an obligation to refund the amount of consideration received for the products expected to be returned and recognizes refund liabilities for the products in questions. Further, the Group records return assets and makes corresponding adjustments (deductions) to the cost of sales for its right to recover products from customers when the refund liabilities are settled.

(4) Revenue recognition for agent transactions

For the purchase and sales transactions involving denture-related products and toothpaste and toothbrush-related products with GlaxoSmithKline Consumer Healthcare Japan Co., Ltd. (hereafter "GSKCHJ"), the Company previously recorded the total amount of consideration it expected to receive from customers as revenue. However, under the new accounting standards, since the Company's role of providing these products to customers is classified as that of an agent, the Company records a net amount obtained by subtracting the amount it pays to GSKCHJ, the supplier, from the amount billed to the customer as revenue.

The Group has applied the Accounting Standard for Revenue Recognition, etc. in accordance with the transitional treatment stipulated in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative amount of impact of retroactively applying the new accounting policy to periods prior to the beginning of Q1 of the fiscal year under review has been added to or subtracted from retained earnings at the beginning of said period, and the new accounting policy has been applied from the balance at the beginning of said period.

However, in accordance with the methods prescribed in Paragraph 86 of the Accounting Standard for Revenue Recognition, the Group has not retroactively applied the new accounting policy to contracts prior to Q1 of the fiscal year under review where nearly all revenue amounts were recorded based on the previous accounting standards.

As a result, in Q3 of the fiscal year under review, sales were reduced by 45,120 million yen, cost of sales by 28,035 million yen, and SG&A expenses by 12,397 million yen, and operating income, ordinary income, and net income before income taxes were each reduced by 4,687 million yen. Further, the balance of retained earnings at the beginning of the period under review was down by 608 million yen.

As a result of the application of the Accounting Standard for Revenue Recognition, etc., provisions for sales returns shown under the current liabilities section of the consolidated balance sheet for the fiscal year ended December 31, 2021 are shown as return assets included in other under the current assets section and as refund liabilities under the current liabilities section of the balance sheet for Q1 of the fiscal year under review. Note that in accordance with the transitional treatment stipulated in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the Group has not reclassified the amounts reported in the previous fiscal year using the new representation method. Further, in accordance with the transitional treatment set forth in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12; March 31, 2020), the Group has not included the breakdown of revenue from contracts with customers in Q3 of the previous fiscal year.

(Application of Accounting Standard for Fair Value Measurement, etc.)

Effective from the beginning of Q1 of the fiscal year under review, the Group has adopted the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30; July 4, 2019). In accordance with the transitional treatment stipulated in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10; July 4, 2019), the Group has decided to prospectively apply the new accounting policy prescribed in the Accounting Standard for Fair Value Measurement, etc. Please note that this has no impact on the Group’s quarterly consolidated financial results.

(Significant subsequent events)

(Business acquisition)

At a meeting held on November 8, 2022, the Board of Directors of the Group resolved to acquire the BARTH brand business from TWO Inc., and on the same day, concluded a business transfer (acquisition) agreement in this regard with TWO.

1. Purpose of business acquisition

Through the acquisition of the BARTH brand which has built strong brand loyalty and personnel involved in cultivating the brand, the Group expects to not only develop the brand but also generate synergies by combining the marketing expertise of the BARTH brand personnel with that of its own.

2. Description of business to be acquired

Development, manufacture, and sale of products containing neutral bicarbonate including medicinal BARTH neutral bicarbonate bath salt, and other BARTH brand products, and any other business related to these operations.

3. Assets and liabilities to be acquired

Inventory and intangible fixed assets related to the business to be acquired

4. Value of assets and liabilities to be acquired
To be determined.

5. Business acquisition cost
Undisclosed due to agreement between the involved parties.

6. Business transferring company
(1) Company name: TWO Inc.
(2) Main business: Planning of, and manufacture and sales in the Well-being business
(3) Capital: 100 million yen

7. Scheduled date of acquisition
March 1, 2023