

ARE Holdings, Inc.

Financial Results for Q3 FY2023

January 31, 2024

These forecast performance figures are based on information currently available to the company's management and certain assumptions judged rationally. Accordingly, there might be cases in which actual results materially differ from forecasts of this report.

I. Financial Results for Q3 FY2023

(April 1, 2023 ~ December 31, 2023)

II. Appendix

Overview

Sales revenue ¥235.1bn (YoY+¥29.3bn)

Operating profit ¥10bn (YoY (¥7.5bn))

Impact of palladium and rhodium

- Palladium price fell 29% and rhodium price fell 64% from the end of December 2022.
- YoY is ¥2.7 billion which is the negative impact.
- As of the end of December 2023, hedging ratio of rhodium is 47% as planned.

Other factors

- Collection from overseas decreased. Scrapped catalysts also decreased due to weak yen.
- Recovery of production of clients in electronics sector takes longer than our estimate.
- The change in accounting due to the spin off.
- North American refining business is steady.

Japan Waste

- Reached a basic agreement on a share exchange with Renatus who has excellent companies in industrial waste management business under its umbrella.
- Due diligence is on going to conclude the share exchange agreement which is scheduled at the end of February.

Precious Metals Business

(Asahi Pretec Corp., ASAHI METALFINE, Inc., Asahi Refining)

The jewelry sector was strong on the back of the elevated gold price. The catalyst sector was still struggling due to weak yen. Trading and advance trading were strong, but product processing and sales shrank.

Business sector	Business environment
Dentistry	Maintained collection volume that was almost the same as the previous year thanks to the rising gold prices and sales efforts.
Jewelry	Collection grew to about 1.7 times the previous year due to the increased trading in the market to take advantage of the ongoing high gold prices.
Catalyst	Decreased in scrapped catalysts due to weak yen. Collection from some overseas manufactures decreased.
Electronic	Collection fell despite robust AI-related demand, due to the weak consumer demand resulting from the prolonged weakness in the Chinese market.
North American refining	Trading and advance trading were strong, but product processing and sales shrank.

Environmental Preservation Business (Japan Waste Corporation)

Handling volume of waste reagents rose partly due to withdrawals of other companies. Handling volume of medical waste increased excluding COVID-related orders in the previous year. Handling volume of liquid waste grew year on year due to spot transactions. Handling volume of sludge and wood waste fell significantly due to the business conversion of the Yokohama Plant.

Items	Business environment
Liquid waste	Although there were signs for the semiconductor demand to turn around, full recovery did not occur in Q3.
Waste reagents	Collection was on the rise due to withdrawals of other companies in the industry.
Medical waste	Overall handling volume increased, while the previous year's spike in demand related to COVID-19 levelled off.
Waste plastics	Handling volume decreased due to demand increase of cement related alternative fuel.
Other	Handling volume of sludge and wood waste fell significantly due to the business conversion of the Yokohama Plant.

Unit : billion yen

	Q3 FY2022	Q3 FY2023		FY2023	
	Results	Results	YoY Change	Revised Forcasst	YoY Change
Revenue	205.8	235.1	29.3	290.0	(2.4)
Operating profit	17.5	10.0	(7.5)	19.0	(0.3)
Ratio	8.5%	4.3%	(4.2%)	6.6%	(0.1%)
Profit before tax	14.4	10.1	(4.3)	18.5	2.4
Profit※1	10.2	7.1	(3.1)	13.2	2.3
Capex	3.4	5.6	2.2	12.4	7.5
Depreciation	2.5	2.7	0.2	3.1	(0.2)

※1 Profit attributable to owners of parent

Precious metals recycling business (Japan and Asia)

Q3 FY2023 Results

As collection amount from jewelry sector increased, gold sales volume and prices also increased.

On the other hand, there is a prolonged stagnation in the catalyst and electronics sectors, and it is being impacted by the decline in the prices of palladium and rhodium.

➔ Increase in revenue and decrease in profit

North American refining business

Q3 FY2023 Results

Refining fee, trading and advance trading fee increased.

On the other hand, due to a decrease in demand, product sales and processing have declined.

➔ Increase in revenue and profit

[Unit: billion yen]

Precious Metals	Q3 FY2022	Q3 FY2023		FY2023	
	Results*	Results	YoY Change	Forecast	YoY Change
Revenue	192.4	222.9	30.4	272.0	(2.2)
Operating Profit	15.5	8.4	(7.1)	16.7	(3.1)
Ratio	8.1%	3.8%	(4.3%)	6.1%	(1.1%)

*The actual achievement in FY2022 was processed retroactively due to the changes in Segment Accounting Standard which became effective since FY 2023

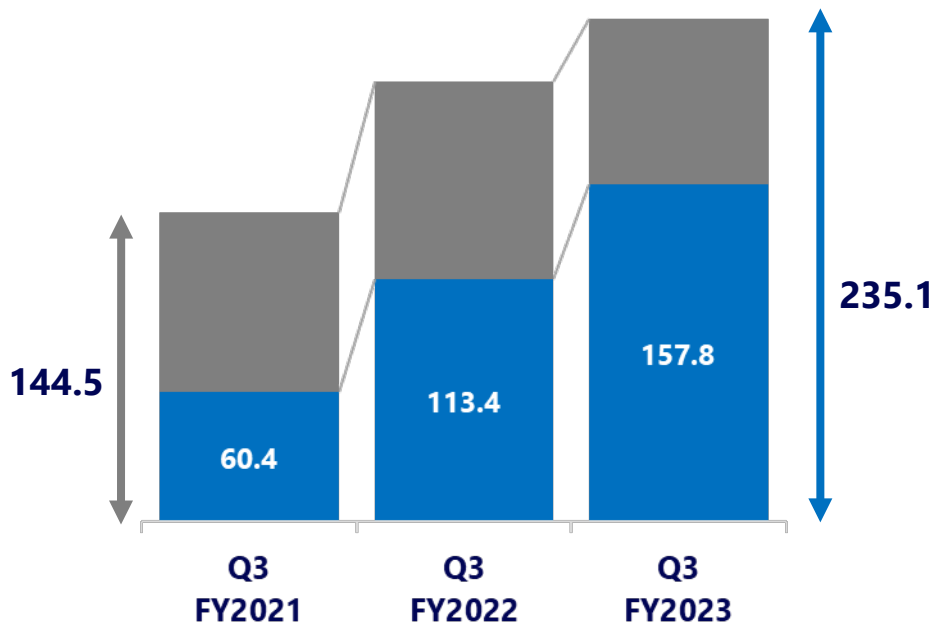
- Gold share in revenue is increasing on YoY because both collection amount and selling price increased.

Breakdown of revenues

■ Sales of Au

Unit : billion yen

■ Sales of Others

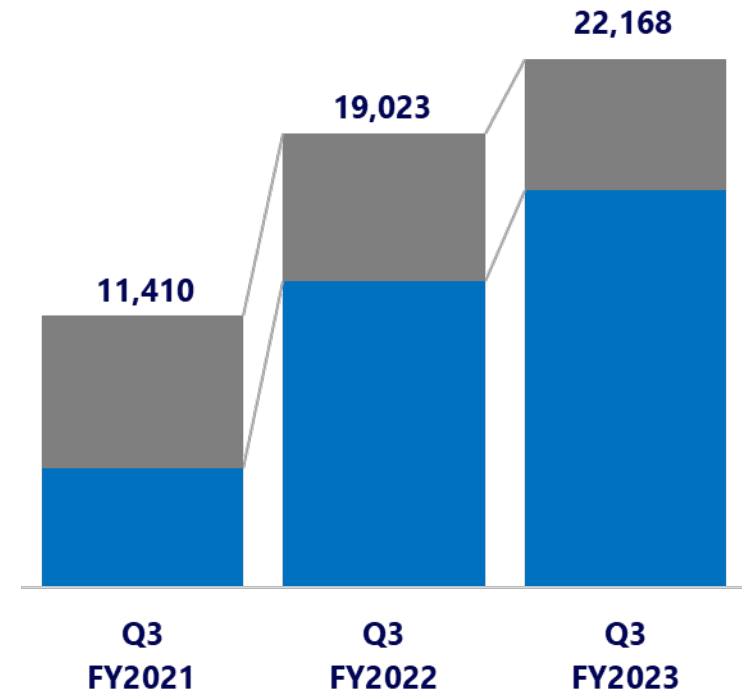


Breakdown of Au collected

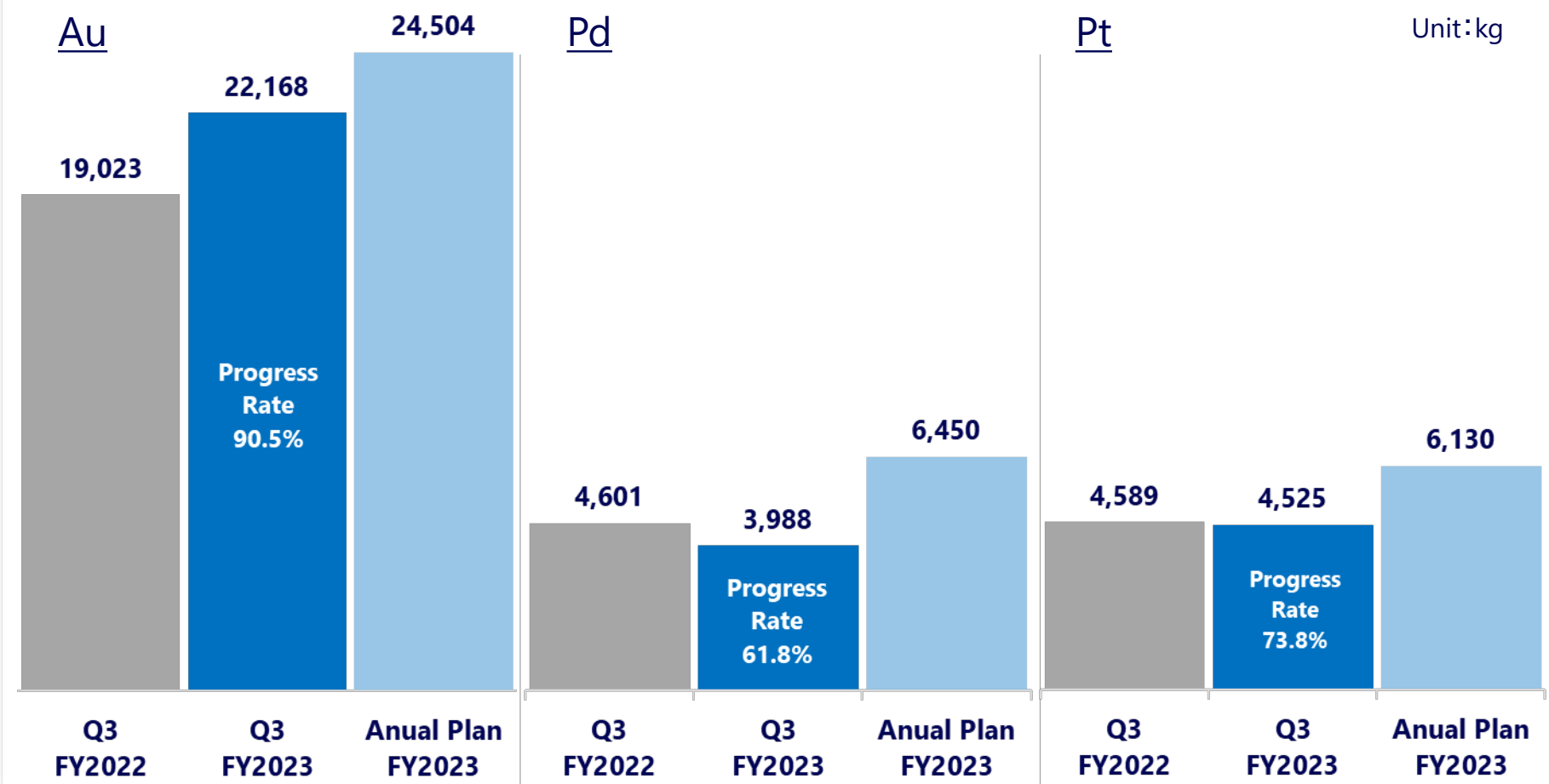
■ Jewelry sector

Unit : kg

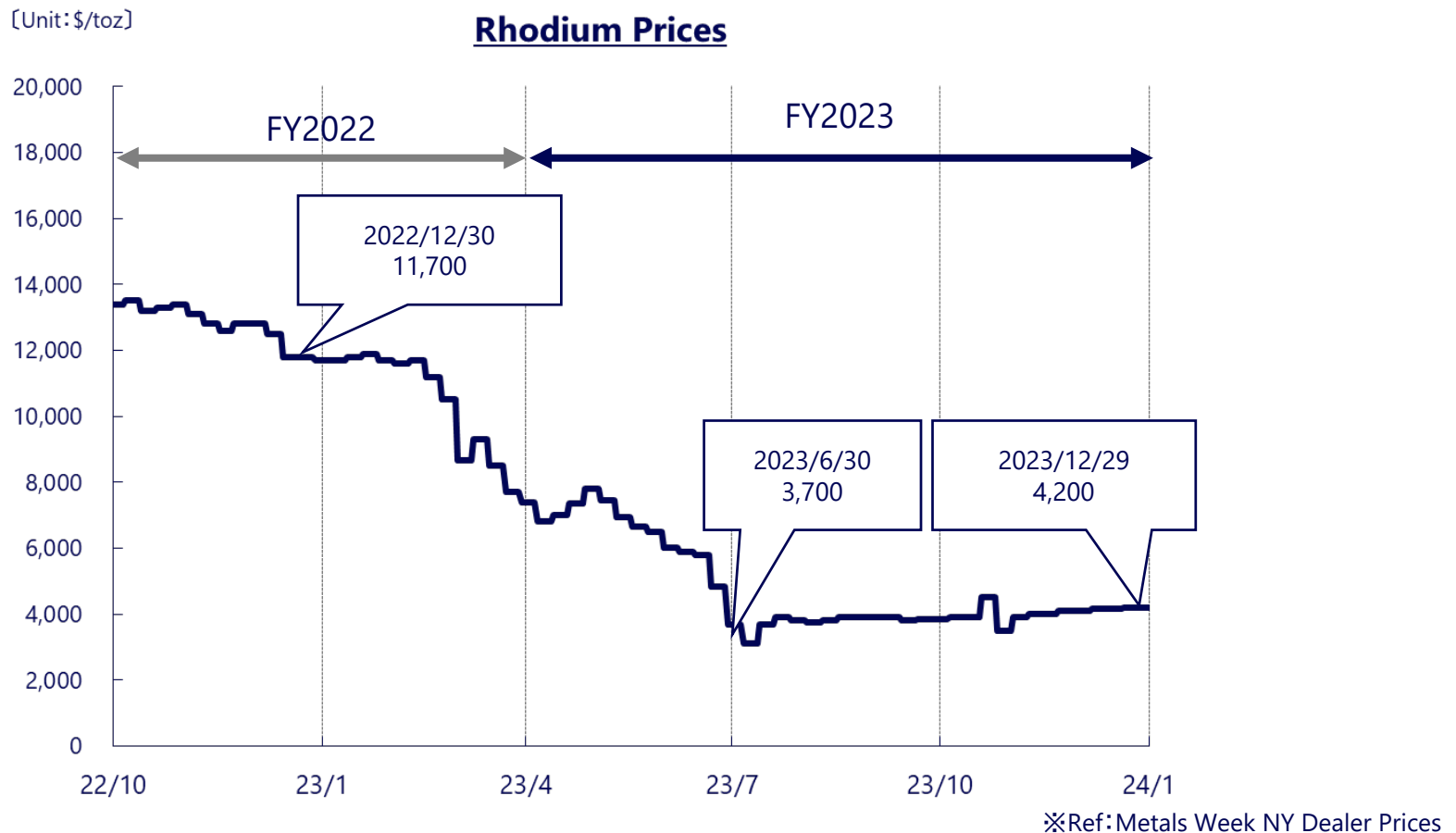
■ Other sectors



- Gold collections increased due to increase the volume in the market as a result of soaring prices and the reinforcement of the production system at the Bando Plant as part of our green gold strategy.
- Collection amount of palladium and platinum decreased mainly from catalyst sector.



- Rhodium prices fell in Q1 but stopped falling in Q2 and remained stable thereafter.
- On the other hand, rhodium price fell 64% from the end of December 2022 and YoY is ¥2.7 billion which is the negative impact.
- The hedging ratio has reached 47 % of the total handling volume as planned.



Environmental Preservation Business

Q3 FY2023 Results

The volume of industrial waste handled and the utilization rates at treatment facilities were stable. However, the price of processing for medical waste has declined after COVID-19.

In addition, impacted by discontinuation from an existing business to construct a new incinerator at the Yokohama Plant.

➡ Decrease in revenue and profit

[Unit: billion yen]

Environmental Preservation	Q3 FY2022	Q3 FY2023		FY2023	
	Results*	Results	YoY Change	Forecast	YoY Change
Revenue	13.4	12.3	(1.1)	18.0	(0.2)
Operating Profit	2.7	1.9	(0.9)	2.3	(1.5)
Ratio	20.4%	15.1%	(5.3%)	12.8%	(8.3%)

The actual achievement in FY2022 was processed retroactively due to the changes in Segment Accounting Standard which became effective since FY2023.

Unit : billion yen

	Mar 31, 2023	Dec 31, 2023	Change	Remarks
Current Assets	238.4	369.8	131.4	
Trade receivables	154.0	254.5	100.5	The greater part of the balance and changes are receivables that constitute borrowings to match metal procurement in North American business.
Inventories	40.9	50.2	9.3	The majority of inventory balances and changes in inventories are linked to materials, works in process and products that contain precious metals in the precious metals recycling business. Risks associated with price fluctuations and quality deterioration are limited because in principle, precious metals prices are hedged at the time of purchase.
Others	43.5	65	21.5	
Non-current assets	49.1	51.3	2.2	
Total Assets	287.4	421.1	133.6	
Liabilities	180.5	310.0	129.5	
Bonds and loans	144.4	275.6	131.2	Borrowings for Advance Trading in North American business constitute a large percentage. Risks associated with price fluctuations and bad debts are extremely limited because bullion for Advance Trading is procured through borrowing after receiving raw materials and precious metal prices are hedged according to the repayment date.
Others	36.1	34.4	(1.7)	
Capitals	107.0	111.1	4.1	
Total equity and liabilities	287.4	421.1	133.6	

Unit : billion yen

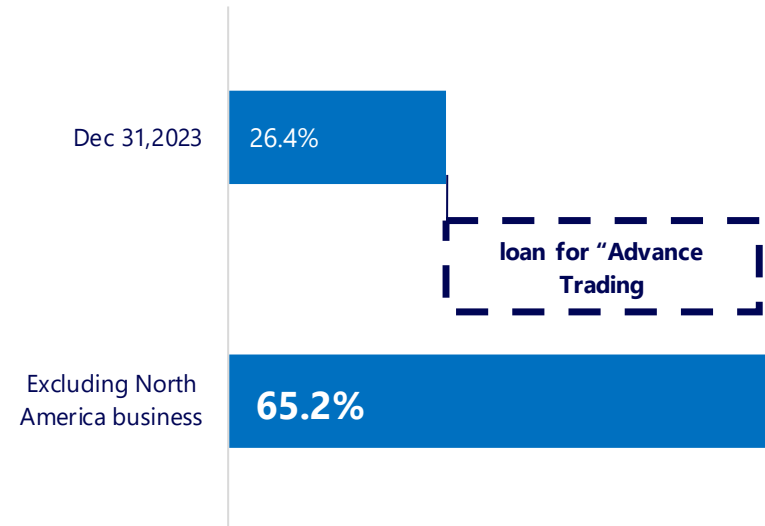
	Q3 FY2023	Remarks
Operating CF	(7.8)	
Changes in inventories	(9.3)	The greater part of the changes is the collected raw materials that contain precious materials, works-in-progress and finished products in precious metals recycling business. Risks associated with price fluctuations and quality deterioration remain limited because raw materials are purchased after the precious metal content is analyzed and in principle, the precious metals prices are hedged on the futures market at the time of the purchase.
Changes in trade and other receivables	(87.5)	Of the increase/decrease amount, 95.6 billion yen reflects the increase/decrease in receivables commensurate with borrowings for advance delivery transactions, etc. in the North American business. Risks associated with price fluctuations and bad debts are extremely limited because bullion for Advance Trading in North American business is procured through borrowing after receiving raw materials and precious metal prices are hedged according to the repayment date.
Changes in trade and other payables	87.9	Of the increase/decrease amount, 88.9 billion yen reflects the increase/decrease in borrowings for Advance Trading in the North American business. Of the increase/decrease amount in borrowings for Advance Trading in the North American business is shown not as CF from financing activities but as increase/decrease in trade receivables in CF from operating activities.
Others	1.1	
Investment CF	(15.4)	Payments for loans receivable 13.7 billion yen
Financing CF	24.0	
Changes in loans and bonds	31.1	
Dividends	(6.9)	
Others	(0.3)	
Effect of exchange rate change on cash and cash equivalents	(1.6)	
Changes in cash deposits	(0.9)	

Financial Position

Unit : billion yen

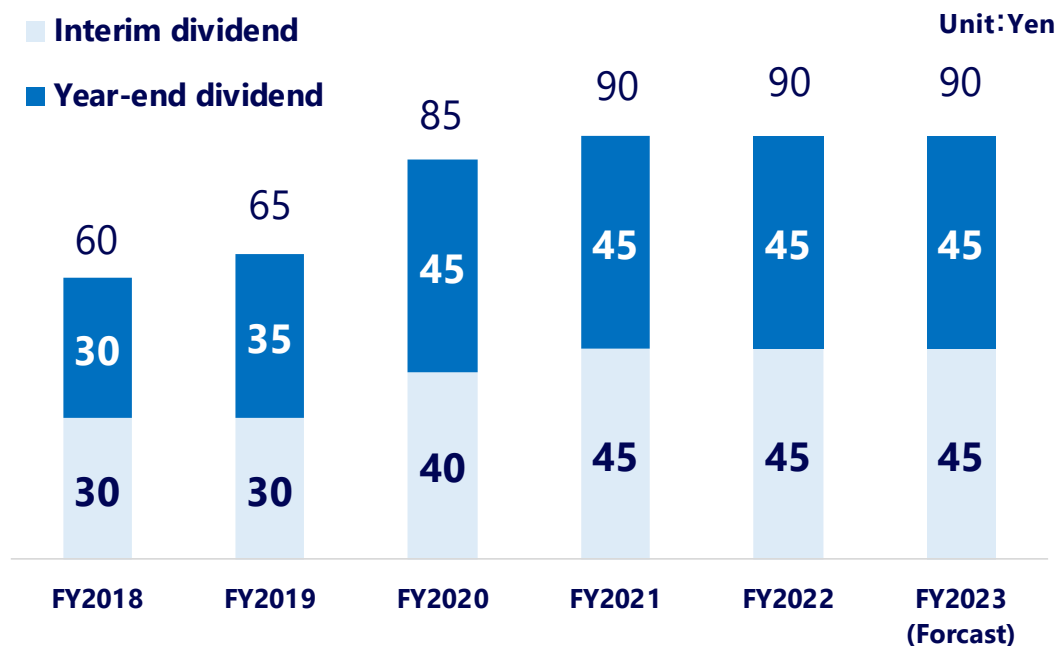
	Dec 31, 2023	Excluding North America business
Current Assets	369.8	119.1
Non-current assets	51.3	51.3
Total Assets	421.1	170.4
Liabilities	310.0	59.4
Capitals	111.1	111.1
Total equity and liabilities	421.1	170.4

Equity Ratio



- The greater part of the current assets are advance trading related receivables which is based on refining contracts in North America. These assets are safe backed by real gold.
- Ability to raise funds necessary for business expansion at competitive rates.
- Equity ratio is 65.2% which is sound if excluding North America business.

Basic Policy : We will strive to consistently pay dividends without decreasing the annual dividend level from the current level. Moreover, we aim to maintain a dividend payout ratio of 40%, while retaining sufficient internal reserves for capital investment and M&A for future growth.






Earnings per share(yen)	125.12	326.90	238.11	141.19	172.23
Dividend payout ratio(%)	52.0	26.0	37.8	63.7	52.3

※1:2 stock split was implemented on April 1, 2021, and dividends per share and earnings per share until FY2021/3 are calculated based the post-split basis

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II. Appendix

Item	Initiatives/Approach
E (Environment)	<ul style="list-style-type: none"> Implemented a third-party verification of our Scope 1, 2 and 3 CO₂ emissions in FY2022. Participation in external initiatives to promote circular economy. <ol style="list-style-type: none"> Circular Partners 〔an industry-public-academia partnership for circular economy〕 Japan Partnership for Circular Economy Japan Climate Initiative 
S (Social)	<ul style="list-style-type: none"> Disclosure of human rights policy Enhancement to the engagement survey 〔to conduct a survey once a year instead of once every three years as in the past〕 
G (Governance)	<p style="text-align: right;">Ratio of female directors: over 30%</p> <ul style="list-style-type: none"> Responded the request “Action to Implement Management That is Conscious of Cost of Capital and Stock Price” of TSE. 〔Introduction of TSR-linked stock compensation plan etc〕 Among the six directors, four are external directors, including two women.  <p style="text-align: center;">2 women</p>

- Selected JPX Nikkei Index 400 which is organized by the companies with high attractiveness for investments for 4 consecutive years.
- Selected as 4 out of 6 in ESG INDEX for Japanese stock used by GPIF.
- Recognized as a high dividend paying stock.

Selected in Indexes



JPX-NIKKEI 400



**FTSE Blossom
Japan Sector
Relative Index**



Morningstar Japan ex-REIT Gender
Diversity Tilt Index

2023 CONSTITUENT MSCI JAPAN
EMPOWERING WOMEN INDEX(WIN)

Nikkei Progressive High Dividend Stock
Index (nickname: Solid income)

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External Evaluations*

MSCI
ESG RATINGS



CCC	B	BB	BBB	A	AA	AAA
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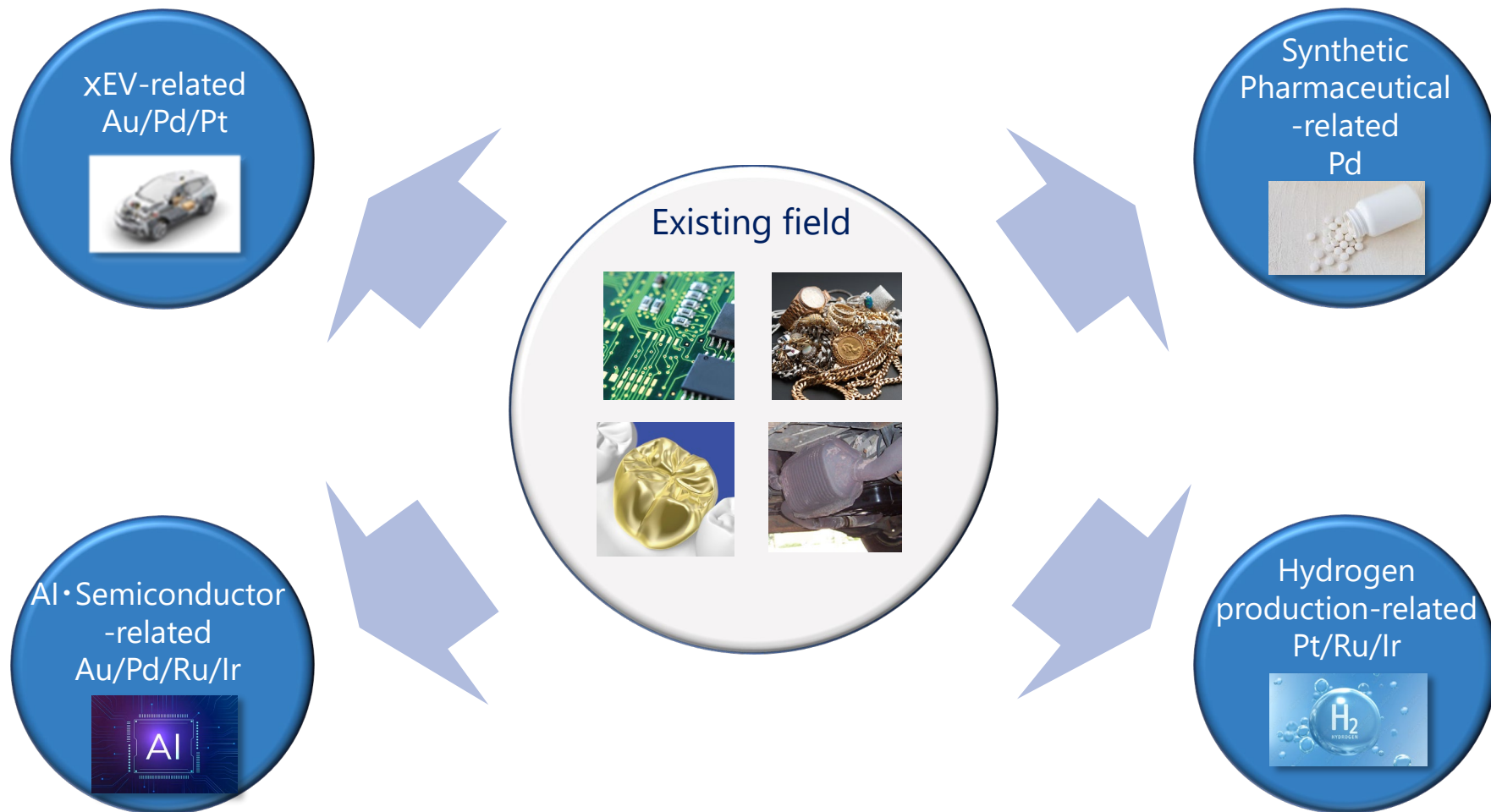


Score

B

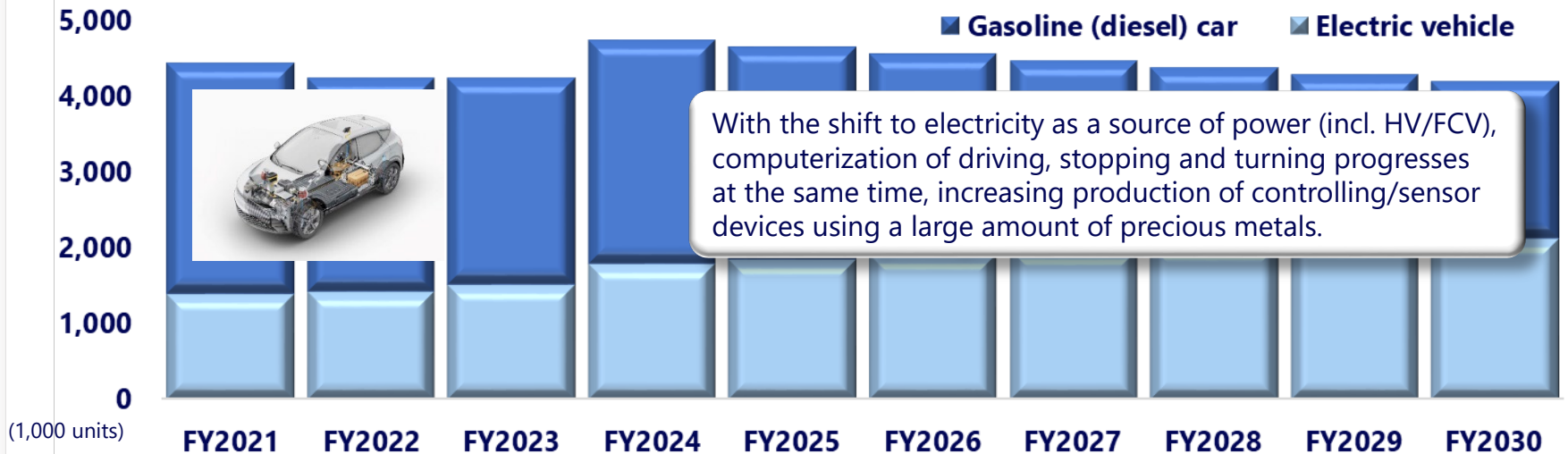
* Based on external evaluations in FY2022

- Entering fields where market expansion can be expected in line with technological innovation based on advanced recycling technology.
- Expansion of metals to be recycled based on market trends.



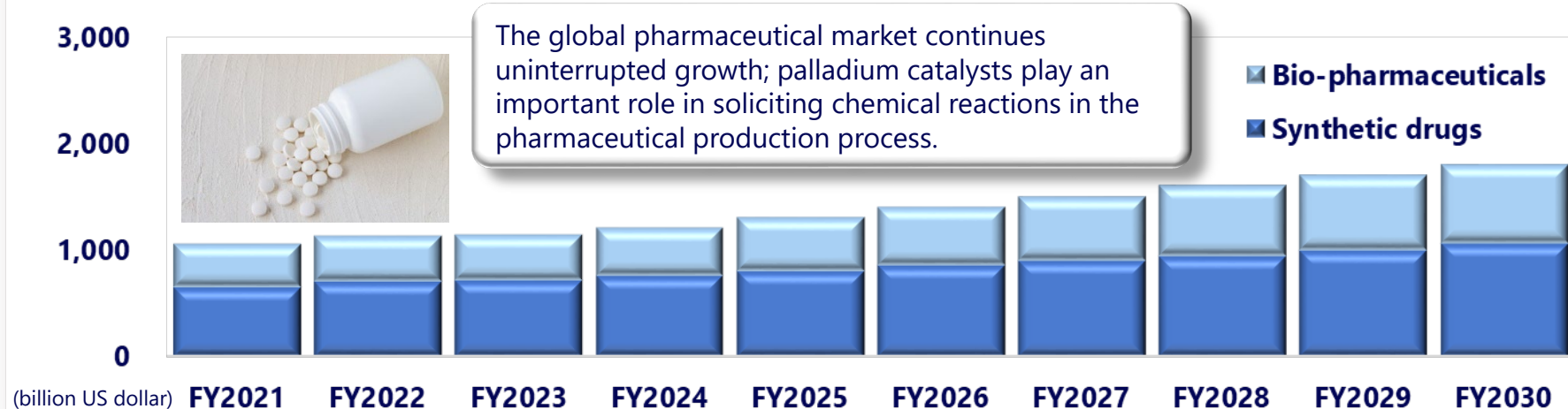
- Solving social challenges leads to the creation of a new recycling market.

Domestic vehicle sales



Source: Estimates by Asahi Holdings based on data provided by the Japan Automobile Dealers Association

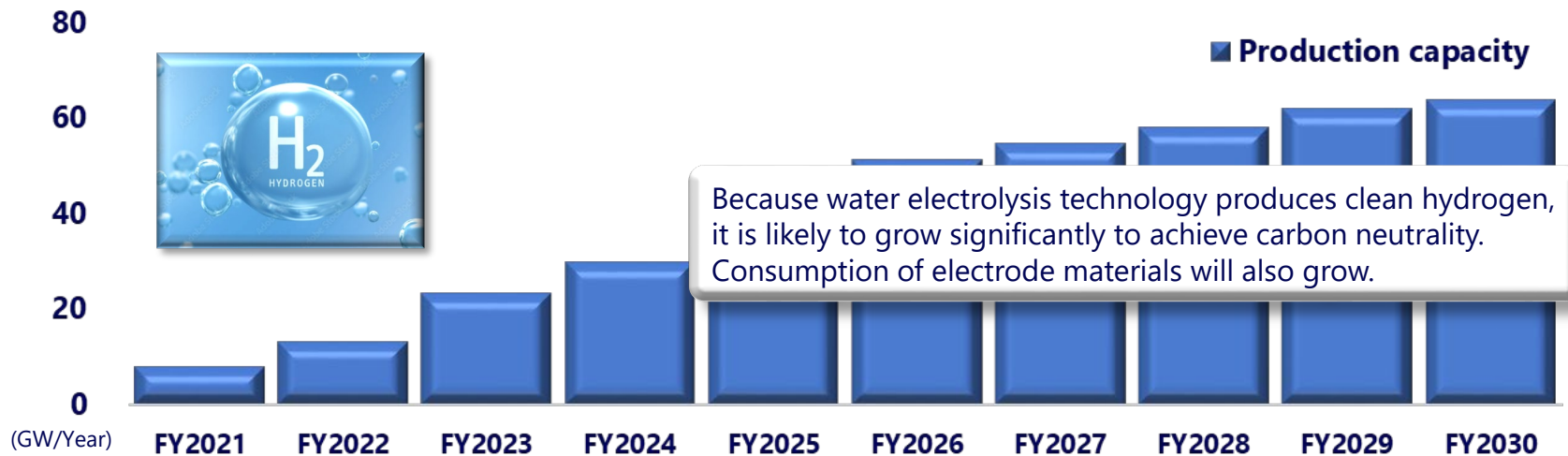
Global size of pharmaceutical market



Source: Estimates by ARE Holdings based on data provided by EvaluatePharma®

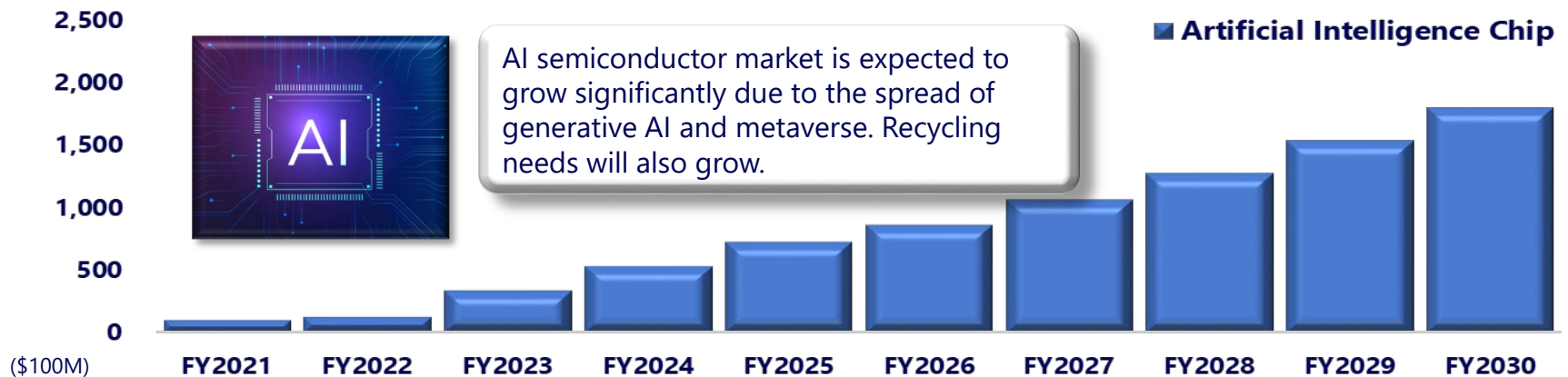
- Creating a new recycling market of cutting edge field.

Global hydrogen production capacity



Source: Estimate by ARE Holdings based on data from Global Hydrogen Review 2022 by IEA

Global size of AI chips market



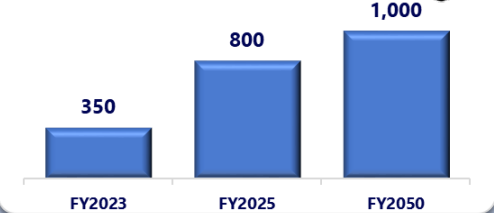
Source: Estimated by ARE Holdings based on data from Gartner Press Release and newspapers

- Strengthen collections in the Asian market, which is expected to grow.

Automotive Catalyst in India

Enter the market collaborating with automaker based on the government led "End-of-Life" vehicle policy.

Indian automotive catalyst scrap market
Unit: ten thousand cars



South Korea
Asahi

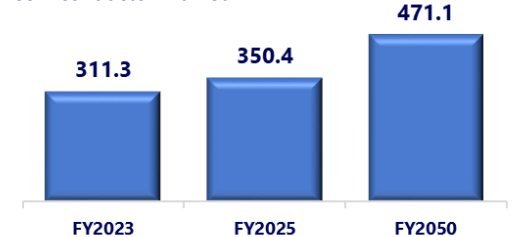
Asahi Pretec

ASAHI G&S

ASEAN Electronic Semiconductor

Collaborate with overseas subsidiaries to approach global manufacturers.

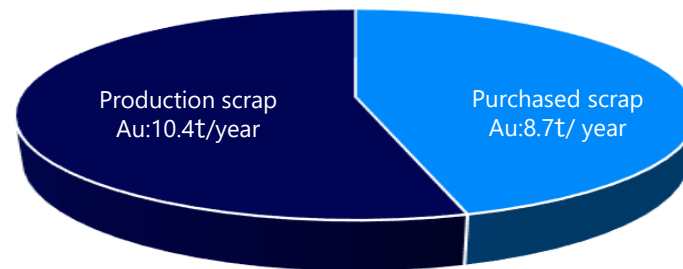
ASEAN electronics and semiconductor market
Unit: bn dollars



Jewelry Scrap in Thailand

Respond to recycling needs
Green Gold sales

The volume of Thai jewelry scrap market in 2023
(excluding ingot and mint production)



- To centralize the factory for catalyst sector from Ehime to Bando, the expansion of Bando Plant (The second phase) is on the plan and the operation is supposed to start in April, 2025. At the same time, further expansion of processing facility in electronics sector is on the plan.
- Construction has started and current progress is on schedule.

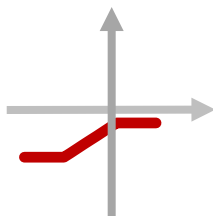
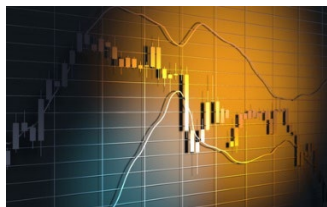
Rendering photo for completed Bando Plant (the second phase)



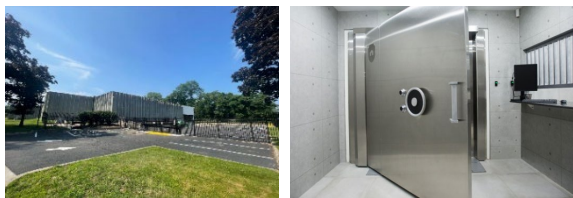
① Expand product business



② Enhanced trading



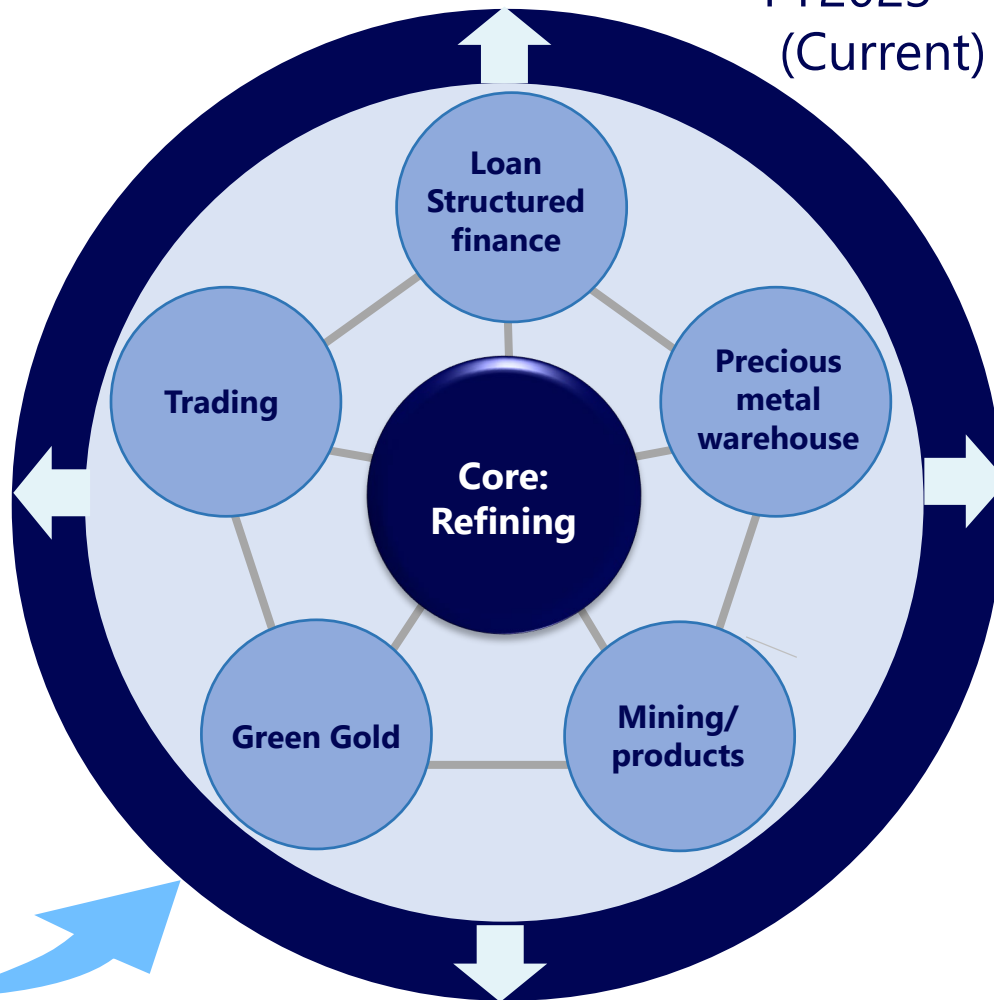
③ Establish the precious gold warehouse business



FY 2015年
(When acquired)

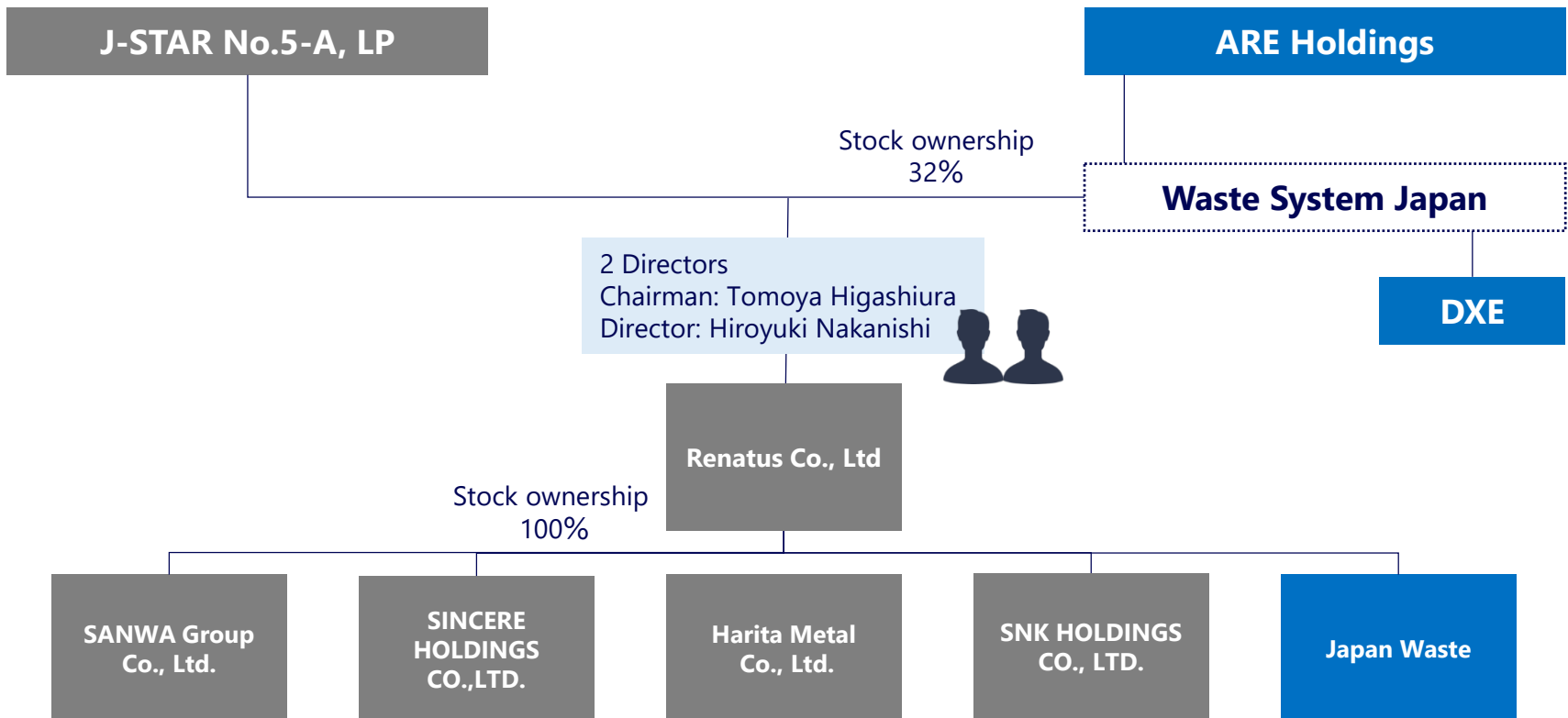


FY2023~
(Current)



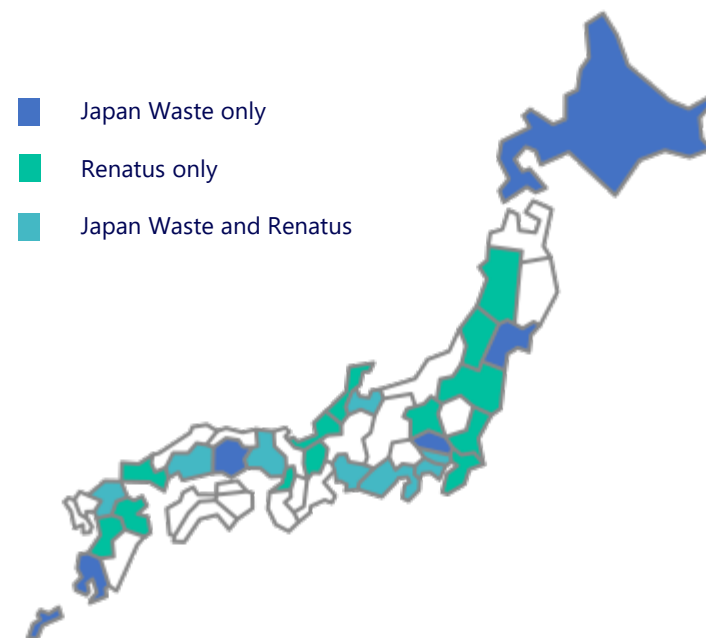
- Reached a basic agreement to conduct a share exchange in which Renatus would become the wholly owning parent company and Japan Waste would become the wholly owned subsidiary company.
- Due diligence is on going to conclude the share exchange agreement scheduled at the end of February.
- Aiming for IPO as Renatus in the future.

Structure after the share exchange



- Will be on top level of the industrial waste sector in sales by share exchange.
- Improve the corporate value with synergies between nationwide sales force of Japan Waste and Renatus's large scale waste management facilities in Tokyo, Chubu, Kinki and Hokuriku, in addition to enhance cooperation with our Precious Metals Business.

Industrial Waste Company	Revenue (¥bn)
Company A	67.7
Renatus	54.4
Company B	34.0
Company C	18.8
Japan Waste	18.2
Company D	16.4
Company E	7.8
Company F	4.8



Renatus's revenue is a total of group companies' sales in previous fiscal year and revenue of ARE's Environmental Preservation Business of FY2022.
 Company B and D: Year ended Feb,2023, Company F: year ended Dec. 2022
 Other than above, year ended Mar,2023

- Contribute to the building of a low-carbon, sustainable society through digitalization of industrial waste from discharge to treatment and reduction of environmental impact.
- A major version upgrade as “DXE Station” was conducted in April 2023. This upgrade includes a service for disposal companies and has dramatically streamlined a series of industrial waste processing operations from manifests to sales invoices.
- In July, 2023, electronic contract services which is compliant with standard format of National Industrial Resource Recycling Federation were launched, further promoting DX for customers.



Phase02

April 2023~

 DXE Station

Release DXE Station

All waste management companies are connected seamlessly from collection management to delivery management.

Phase01

June 2022~

 DXE
Launch DXE Service

The business efficiency of collection and transportation providers is improved with use of electronic manifests and order management functions using SaaS.

Phase03

2025~

 DXE Station

Contribution to CO2 emissions reductions

*Contribute to carbon neutrality through automatic calculation of CO2 emissions.

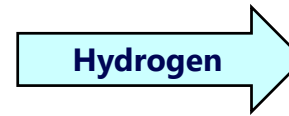


- After being certified as a project subsidized by the Ministry of the Environment in 2021, we installed equipment and completed technological verification at the Shinmoji Plant without trouble. Currently, we are building a supply chain structure and outside sale structure of byproducts.
- In addition, the Yokohama Plant will install similar equipment to build a complete supply chain within the Group. Use of the generated hydrogen in the precious metal recycling process is expected to reduce CO₂ emissions. This initiative has also been certified as a subsidized project of the Ministry of the Environment.

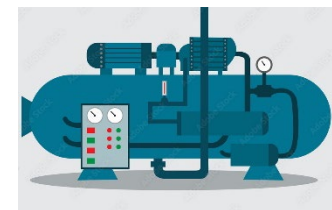
**Japan Waste
Yokohama incinerator**



Water electrolysis machine



Hydrogen compressor



Hydrogen Cylinder bundle

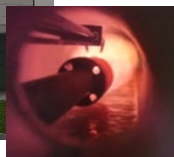


Hydrogen



Hydrogen

Heat utilization hydrogen burner

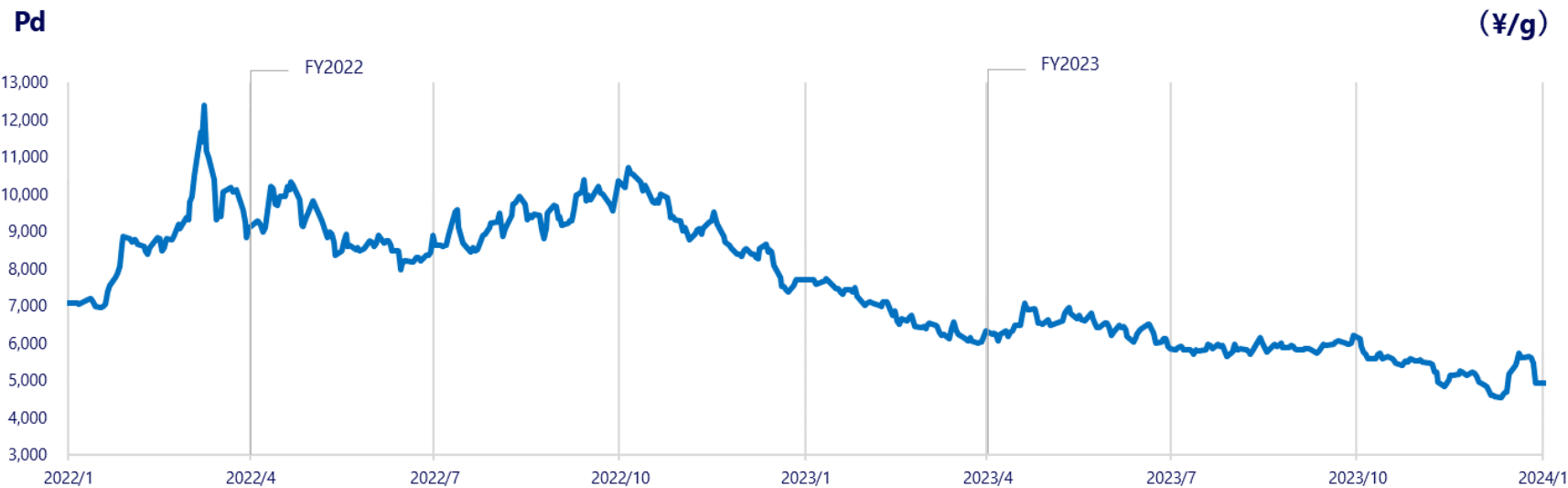
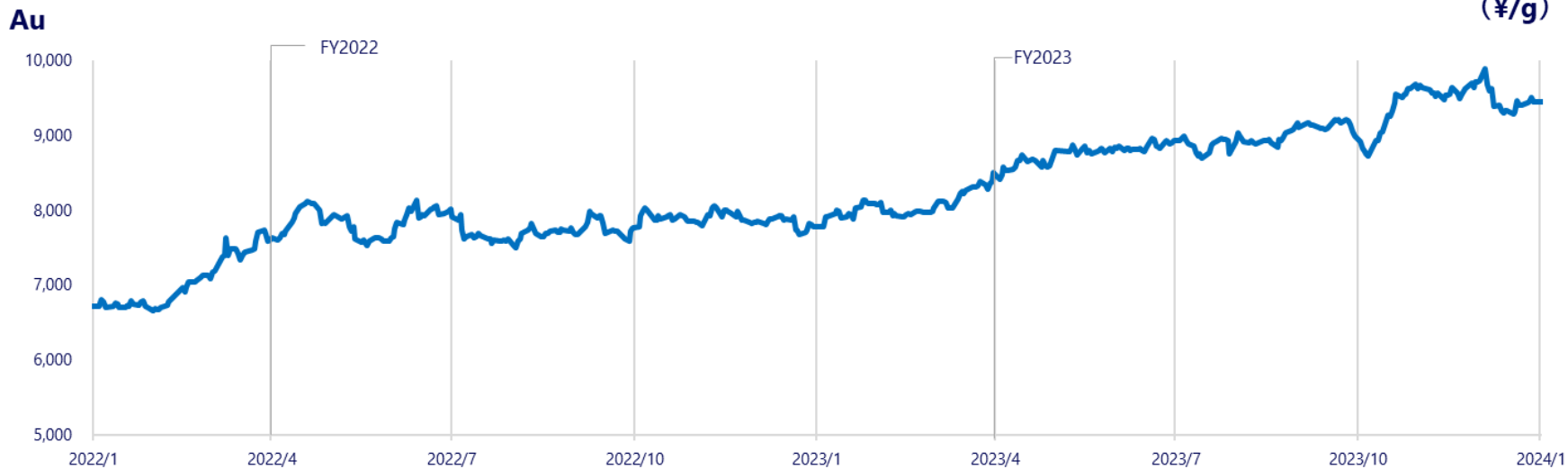


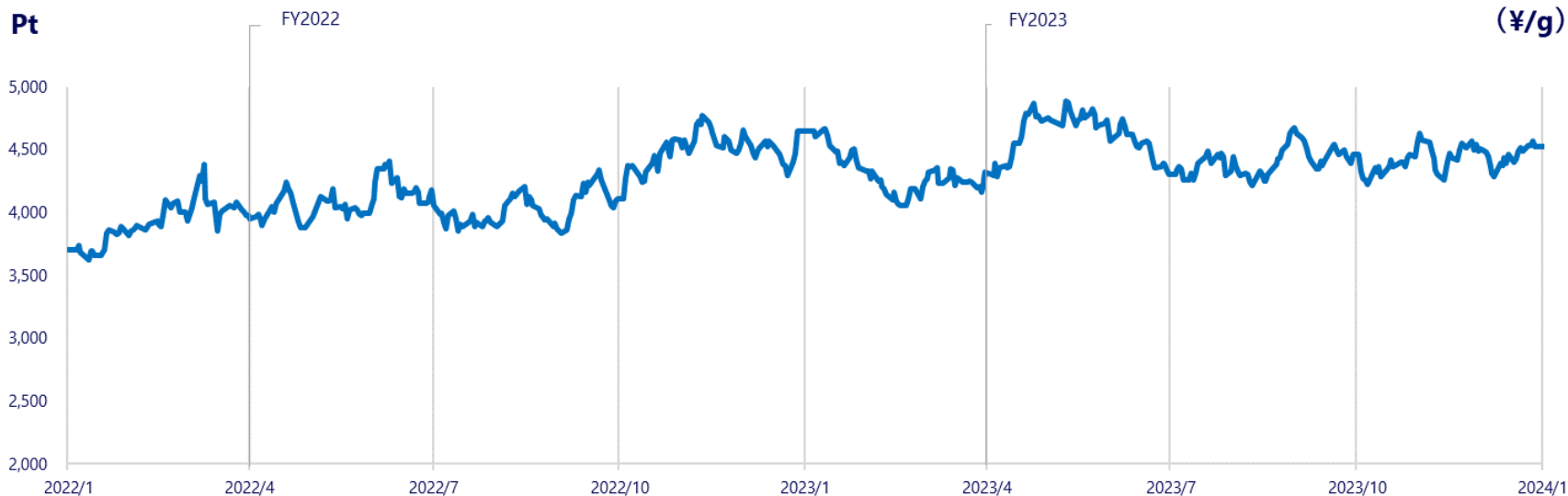
**Asahi Pretec
Bando Plant (2nd phase)**



Power generated by waste







Unit: Yen

Precious Metal Prices (per gram)	Q3 FY2022	Q3 FY2023	
	Average price for the period	Average price for the period	Change
Gold	7,885	9,425	1,540
Palladium	8,999	5,293	3,706
Platinum	4,492	4,426	66

◆ Reference

Gold...Quote from mining company

Palladium ...Nikkei low price

Platinum ...retail price(exclude tax)