

For Immediate Release

November 12, 2019

PERSOL HOLDINGS CO., LTD. (TSE 2181)

Consolidated Financial Results for the Six Months Ended September 30, 2019 and Revised Consolidated Financial Forecasts for Fiscal 2019

PERSOL HOLDINGS CO., LTD (the Company) today announced its consolidated business results for the six months ended September 30, 2019 and revised consolidated financial forecasts for Fiscal 2019, ending March 31, 2020.

Consolidated Operating Highlights.

1) Business Results

(In millions of yen, unless otherwise stated)

	Six months ended September 30,		% change
	2018	2019	
Sales	452,260	478,956	5.9%
Operating profit	20,453	20,116	-1.6%
EBITDA*	28,196	28,948	2.7%
Ordinary profit	20,660	20,429	-1.1%
Net profit**	11,987	-5,177	-
Net profit per share (yen)	51.39	-22.20	-
Adjusted EPS***	71.31	68.30	-4.2%

Note:

*EBITDA=operating profit + depreciation + amortization of goodwill

**Net profit attributable to owners of parent

***Adjusted EPS=adjusted profit / (average number of shares during the period - number of treasury stock during the period)

*** Adjusted profit=profit attributable to owners of the parent ± adjustment items (excluding non-controlling interests) ± tax reconciliation related to certain adjustment items

*** Adjustment items=amortization of intangible assets by acquisitions ± extraordinary income/losses

2) Balance Sheet Data

(In million yen, unless otherwise stated)

	As of March 31, 2019	As of September 30, 2019
Total assets	370,839	344,559
Net assets	170,925	158,261
Equity capital	155,593	142,582
Equity ratio	42.0%	41.4%

Disclaimer

The statements concerning the Company's future business performances in this material such as earnings forecasts are based on information currently available and certain assumptions deemed to be reasonable by the Company, and do not mean that we promise to achieve these figures. Actual results may differ materially from the statements due to a variety of factors.

Management Discussion and Analysis

(1) Results of Operations

PERSOL HOLDINGS (hereinafter, the Company) provides full-range of HR services; staffing, recruiting, business process outsourcing, and online media for jobseekers, in Japan and Asia Pacific regions.

For six months ended September 31, 2019, Japanese employment situation was 1.57 of the average ratio of job offers to job seekers (seasonally adjusted) and 2.4% unemployment rate in September 2019 while the signs of weakness in business cycle has been partially seen. At such almost full-employment condition, HR service providers responded to strong demand due to structural human resource shortages, and HR and its related market tended to be sound overall.

In the Asia-Pacific region, economic growth of China and its neighboring countries slowed down by US-China trade friction, in addition, Australian economy remained at low growth.

In this environment, consolidated net sales for six months ended September 31, 2019, was JPY 478,956 million (increased by 5.9% YoY), an operating profit of JPY 20,116 million (decreased by 1.6% YoY), and an ordinary profit of JPY 20,429 million (decreased by 1.1% YoY).

Sales increased mainly due to continued strong demand from client companies in temporary staffing/BPO segment, placement business in the recruiting segment; and the successful implementation of a campaign before the discontinuation of part-time job recruitment information service "an".

Operating profit increased YoY for both the temporary staffing/BPO and recruiting segments in Japan, but it shrank for the overseas businesses. The PROGRAMMED segment (which provides staffing and maintenance services in Australia) experienced profitability deterioration especially in the staffing business because of the slowdown of the Australian economy and the weakening of the Australian dollar. In addition, the PERSOLKELLY segment, which provides human resource services, especially staffing, in the Asia-Pacific region, was not able to overcome the trouble with a newly introduced operating system that surfaced in the first quarter of the current period and had persisted into the current quarter. Consequently, both the overseas businesses suffered profit declines. Thus, the operating profit for the current for six months ended September 31, 2019 was a YoY decrease, so was the ordinary profit.

Net profits/losses attributable to parent company shareholders were a loss of JPY 5,177 million as compared with a profit of JPY 11,987 million a year earlier due to a goodwill impairment loss of JPY 12,519 million related to the PROGRAMMED segment's staffing business and a business restructuring related extraordinary loss of JPY 2,868 million recognized upon the discontinuation of the "an" business by the recruiting segment.

The Company's BOD meeting today resolved to pay an interim dividend of 15 yen per share, an increase by five yen compared to corresponding period last fiscal year, to shareholders as of September 30, 2019, Japan time.

Results by Segments (before inter-segment elimination)

1. Temporary Staffing/BPO Segment

Segment sales for 1st half of FY2019 were JPY 266,887 million (increased by 7.4% YoY), and its operating profit was JPY 12,005 million (increased by 8.1% YoY).

Although staff working days was three days shorter than the same period of the previous year, sales increased because demand for temporary staffing remained sound from the previous consolidated fiscal year, supported mainly by structural labor shortages; and because Avanti Staff, which was acquired in fourth quarter of previous fiscal year, was additionally consolidated. Operating profit also rose due to the conversion of more temporary staffing contracts from fixed term to indefinite term and the resulting unit price gains.

2. Recruiting Segment

Segment sales for 1st half of FY2019 were JPY 45,808 million (increased by 11.6% YoY), and its operating profit was JPY 9,096 million (increased by 20.3% YoY).

The placement business had a lower growth rate than the previous fiscal year, but realized a revenue increase due to the successful implementation of a campaign before the discontinuation of part-time job recruitment information service "an". Profitwise, we achieved an increase owing to stable profits from the placement business and contributions from the "an" business.

3. PROGRAMMED Segment

Segment sales for 1st half of FY2019 were JPY 94,605 million (decreased by 7.7% YoY), and it posted an operating loss of JPY 142 million (as compared with an operating profit of JPY 218 million for the same period of the previous year).

The maintenance business posted a revenue increase, helped by long-term continuing large-scale facility maintenance projects; however, the revenue dropped for the staffing business because of the slowdown of the Australian economy, and the overall sales were lower partly because of the weakening of the Australian dollar. An operating loss was recorded mainly because the lower revenue from the staffing business led to a lower profit performance.

4. PERSOLKELLY Segment

Segment sales for the period was JPY 41,991 million (increased by 16.2% YoY), and it posted an operating loss of JPY 141 million (as compared with an operating profit of JPY 357 million for the same period of the previous year).

Despite the slowdown of the Chinese economy, sales rose as a result of the growth of human resource services, especially staffing, in regions other than Australia. An operating loss was recorded mainly because of decreased sales caused by the system problem in Australian operations.

5. ITO Segment

Segment's sales for the period were JPY 19,278 million (increased by 25.4% YoY), and its operating profit was JPY 121 million (decreased by 73.3% YoY).

The sales increase was due to the securing of more engineers to meet brisk demand among client companies. The operating profit dropped because of increased costs associated with the continued efforts to reduce engineer separations and give better offers to new hires.

5. Engineering Segment

Segment's financial results for the period were affected by trade friction and resulting declines in orders from major customers: its sales were JPY 13,809 million (increased by 1.2% YoY) and its operating profit was JPY 669 million (decreased by 23.8% YoY).

(2) Consolidated Financial Position

Consolidated Balance Sheet

Total assets decreased by JPY 26,279 million from the end of the previous consolidated fiscal year. Current assets decreased by JPY 15,320 million, and fixed assets decreased by JPY 10,959 million. The main reason for the decrease in current assets was a decrease in cash and deposits of JPY 11,039 million. The main reason for the decrease in fixed assets was a goodwill reduction of JPY 15,828 million while we had a JPY 4,435 million increase in right-of-use assets (net value).

Liabilities decreased by JPY 13,616 million from the end of the previous consolidated fiscal year. Current liabilities decreased by JPY 6,749 million, and fixed liabilities decreased by JPY 6,866 million. The main reasons for the decrease in current liabilities were a JPY 3,566 million decrease in accrued consumption taxes, a JPY 2,759 million decrease in short-term loans payable and a JPY 2,722 million decrease in accounts payable while we had a JPY 10,020 million increase in long-term loans payable within one year. The main reason for the decrease in fixed liabilities was a JPY 10,020 million decrease in long-term loans payable while we had a JPY 3,018 million increase in lease liabilities.

Net assets decreased by JPY 12,663 million from the end of the previous consolidated fiscal year. This was due mainly to the payment of JPY 3,510 million of surplus dividends and the recognition of JPY 5,177 million as a quarterly net loss attributable to parent company shareholders, which resulted in a JPY 8,687 million decrease in retained earnings, a JPY 2,491 million decrease in treasury stocks, and a JPY 2,096 million decrease in foreign currency translation adjustments.

	FY2019 1H	FY2018
Return on assets (ROA) for the period	6.8%	-1.3%
Return on equity (ROE) for the period	16.2%	-3.5%
Ratio of operating profit to sales	4.8%	4.2%
Ratio of ordinary profit to sales	4.8%	4.3%
Current ratio	144.8%	140.8%
Fixed assets ratio	103.5%	105.2%
Equity ratio	42.0%	41.4%
Total assets (JPY million)	370,839	344,559
Equity capital (JPY million)	155,593	142,582
Cash and cash equivalents etc. at end of period (JPY million)	68,969	57,942

Consolidated Cash Flows

Cash and cash equivalents (hereinafter called "Cash") at the end of the Six months ended September 31, 2019 were JPY 57,942 million, down JPY 16,129 million from the end of the same period of previous fiscal year.

The following is the cash flow situation and its factors during 1st half of this fiscal year.

Cash flow from operating activities

Cash provided from operating activities was JPY 7,631 million (JPY 20,025 million for the same period of the previous year). This is due mainly to a JPY 8,622 million decrease in trade payables and the payment of JPY 10,117 million of corporate taxes, on the other hand, JPY 3,180 million of profit for the period before income tax, and JPY 4,308 million of goodwill amortization.

Cash flow from investing activities

Cash used as a result of investing activities was JPY 9,886 million (JPY 6,203 million used in the same period of the previous year). This was mainly due to an expenditure of JPY 3,864 million on the acquisition of intangible fixed assets, an expenditure of JPY 2,678 million on the acquisition of tangible fixed assets, and an expenditure of JPY 2,420 million on the acquisition of subsidiary company shares involving a change in the scope of consolidation.

Cash flow from financing activities

Cash used as a result of financing activities was JPY 8,896 million (as compared with JPY 29,470 million used in the same period of the previous year). This was due mainly to a JPY 2,666 million decrease in short-term loans payable, the payment of JPY 3,509 million of dividends, and an expenditure of JPY 2,507 million on the acquisition of treasury stocks.

(c) Issues to be addressed in our business and financial operations

There were no new business and financial challenges requiring addressing during Six months ended September 2019.

(3) Consolidated Financial Forecasts for Fiscal 2019

Fiscal 2019 financial forecasts are revised mainly in the light of the extraordinary losses recorded for the first half of FY2019.

(In millions of yen, unless otherwise stated)

	Revised Forecasts (A)	Previous Forecasts (B)	Amount Change (A-B)	Percent Change (A-B/B)	Results for Fiscal 2018
Net sales	980,000	990,000	-1,000	-0.1%	925,818
Operating income	40,700	43,000	-2,300	-5.3%	44,111
Ordinary income	40,800	43,000	-2,200	-5.1%	43,982
Net profit*	5,500	21,700	-16,200	-74.7%	24,361

*Net profit attributable to owners of parent

The Company plans to pay a year-end dividend of 15 yen per share, the same amount of previous fiscal year to shareholders as of March 31, 2020, Japan time.

Quarterly Consolidated Financial Statements

1. Consolidated Balance Sheet

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	69,029	57,989
Notes and accounts receivable-trade	122,908	119,870
Work in process	7,342	8,087
Other	11,251	9,291
Allowance for doubtful accounts	-686	-714
Total current assets	209,845	194,524
Non-current assets		
Tangible fixed assets		
Buildings and structures, net	3,397	3,637
Tools, furniture and fixtures, net	1,303	1,396
Right-of-use assets, net	—	4,435
Land	799	997
Other, net	2,156	2,203
Tangible fixed assets total	7,657	12,670
Intangible assets		
Trademark rights	10,069	9,718
Goodwill	91,763	75,934
Other	20,539	21,070
Intangible assets total	122,372	106,723
Investment securities	11,894	12,047
Deferred tax assets	5,770	5,880
Other	13,317	13,838
Allowance for doubtful accounts	-17	-1,124
Total investments and other assets	30,964	30,641
Total fixed assets	160,994	150,035
Total Assets	370,839	344,559

(Consolidated Balance Sheet)

	As of March 31, 2019	As of September 30, 2019
Liabilities and equity		
Liabilities		
Accounts payable – trade	741	702
Short-term loans payable	5,044	2,284
Current portion of long-term loans payable	10,001	20,021
Accounts payable	68,307	65,584
Accrued income taxes	11,384	8,923
Accrued consumption taxes	14,159	10,593
Provision for bonuses	11,730	12,176
Reserve for bonuses for Directors	14	29
Provisions - other	745	870
Other	22,789	16,983
Total Current Liabilities	144,919	138,169
Non-current liabilities		
Bonds payable	20,000	20,000
Long-term loans payable	25,748	15,728
Lease debts	106	3,125
Deferred tax liabilities	5,042	4,975
Liabilities related to retirement benefits	905	901
Allowance for share benefits	261	323
Allowance for Directors' share benefits	291	359
Provisions - other	217	95
Other	2,421	2,619
Total Non-current liabilities	54,995	48,128
Total Liabilities	199,914	186,298
Equity		
Shareholders' equity		
Capital	17,479	17,479
Capital surplus	20,396	20,396
Retained earnings	125,677	116,989
Treasury shares	-4,387	-6,878
Total Shareholders' Equity	159,165	147,986
Accumulated other comprehensive income		
Valuation difference on marketable securities	2,346	2,611
Foreign currency translation adjustment	-5,919	-8,016
Total accumulated other comprehensive income	-3,572	-5,404
Non-controlling interests	15,331	15,678
Total net assets	170,925	158,261
Total liabilities and equity	370,839	344,559

2. Consolidated income statements (Six months ended September 2019)

	Six months ended September 30,	
	2018	2019
Net sales	452,260	478,956
Cost of sales	353,088	371,052
Gross profit	99,172	107,904
Selling, general and administrative expenses (SGA)	78,718	87,787
Operating Profit	20,453	20,116
Non-operating income		
Interest income	19	11
Dividends income	113	124
Subsidy income	121	268
Share of profit of entities accounted for using equity method	195	215
Gain from foreign exchange	383	—
Other	43	54
Total non-operating profit	874	674
Non-operating loss		
Interest expenses	464	268
Losses on foreign exchange	—	77
Bond issuance expenses	102	—
Other	101	15
Total non-operating expenses	667	361
Ordinary Profit	20,660	20,429
Extraordinary income		
Gain on sales of fixed assets	23	59
Gain on sales of investment securities	16	15
Gain on transfer of business	38	33
Gain on revision of retirement benefit plan	56	—
Extraordinary income total	135	107
Extraordinary losses		
Loss on fixed asset disposal	18	3
Impairment loss	—	12,759
Allowance of doubtful accounts	—	1,114
Business reorganization losses	—	2,868
Loss on sales of subsidiaries and affiliates' shares	3	—
Loss on valuation of subsidiaries and affiliates' shares	—	610
Loss on valuation of investment securities	14	—
Total extraordinary losses	37	17,356
Net quarterly profit before taxes etc.	20,758	3,180
Corporate tax, resident tax, and business tax	7,685	7,807
Corporate tax etc.-deferred	72	-67
Total corporate taxes etc.	7,758	7,739
Profit for the period	13,000	-4,559
Quarterly net profit attributable to non-controlling interests	1,012	618
Quarterly net profit(loss) attributable to owners of parent	11,987	-5,177

(Consolidated income statements)

	Six months ended September 30,	
	2018	2019
Quarterly net profit (loss)	13,000	-4,559
Other comprehensive income		
Valuation difference on marketable securities	-435	265
Foreign currency translation adjustment	-6,305	-2,184
Adjustments for retirement benefits	-0	-
Share of other comprehensive income of associates accounted for using equity method	-229	-48
Total other comprehensive income	-6,970	-1,967
Comprehensive income	6,029	-6,527
(Break down)		
Comprehensive income attributable to owners of parent	5,330	-7,009
Comprehensive income attributable to non-controlling interests	698	481

2. Consolidated Cashflow Statements (Six months ended September 2019)

	Six months ended September 31,	
	2018	2019
Cash flow from operating activities		
Net quarterly profit before taxes etc.	20,758	3,180
Depreciation	3,457	4,523
Impairment loss	—	12,759
Amortization of goodwill	4,285	4,308
Increase(decrease) of net liability for retirement benefits	-796	-1
Increase (decrease) in provision for bonuses	491	301
Increase (decrease) in provision for directors' bonuses	7	9
Increase (decrease) in allowance for share benefits	80	61
Increase (decrease) in allowance for directors' share benefits	74	68
Increase (decrease) in allowance for doubtful accounts	41	1,158
Increase (decrease) in other provisions	-83	441
Interest and dividend income	-132	-136
Interest expenses	464	268
Equity Gains (Losses) of affiliated companies	-195	-215
Subsidy income	-121	-268
Bond issuance expenses	102	—
Loss(gain) on disposal of non-current assets	-4	-55
Loss(gain) on sales of shares of subsidiaries and associates	3	—
Loss(gain) on sales of investment securities	-16	-15
Loss on valuation of subsidiaries and affiliates' shares	—	610
Loss(gain) on valuation of investment securities	14	—
Loss (gain) on transfer of business	-38	-33
Business reorganization losses	—	2,868
Decrease (increase) in trade receivables	5,375	1,836
Increase (decrease) in trade payables	-3,962	-11,776
Increase (decrease) in accrued consumption taxes	-1,559	-3,526
Increase (decrease) in Long-term accounts payable	653	17
Decrease (increase) in other assets	-1,515	-1,542
Increase (decrease) in other liabilities	-4,712	-133
Subtotal	22,672	14,710
Interest and dividend income received	146	223
Interest expenses paid	-444	-277
Proceeds from subsidy income	121	268
Corporate tax etc. paid	-7,012	-10,117
Income taxes refund	4,543	2,823
Cash flow from operating activities	20,025	7,631

(Consolidated Cashflow Statements)

	Six months ended September 30,	
	2018	2019
Cash flow from investing activities		
Payment into time deposits	-9	0
Proceeds from withdrawal of time deposits	2	12
Payments for purchase of property, plant and equipment	-1,321	-2,678
Proceeds from sales of property, plant and equipment	51	148
Payments for purchase of intangible assets	-3,132	-3,864
Proceeds from sales of shares of subsidiaries and associates	—	240
Payments for purchase of investment securities	-284	-583
Proceeds from sales of investment securities	71	47
Payments for purchase of shares of subsidiaries resulting in change in scope of consolidation	-200	-2420
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	-	54
Expenditures from sales of share of subsidiaries resulting in change in scope of consolidation	-672	-
Proceeds from transfer of business	127	38
Payments of loans receivable	-14	—
Collection of loans receivable	1	2
Payments for guarantee deposits	-1,082	-1,035
Proceeds from collection of guarantee deposits	347	267
Other	-85	-115
Cash flow from investing activities	-6,203	-9,886
Cash flow from financing activities		
Net increase(decrease) in short-term loans payable	-64,471	-2,666
Proceeds of long-term loans payable	20,000	—
Repayments of long-term loans payable	-2,320	-0
Proceeds from issuing corporate bonds	19,897	—
Repayments of corporate bonds	-2	—
Payments for purchase of treasury shares	0	-2,507
Cash dividends paid	-2,338	-3,509
Dividends paid to non-controlling interests	-142	-198
Other	-92	-13
Cash flow from financing activities	-29,470	-8,896
Effect of exchange rate change on cash and cash equivalents	154	125
Net increase (decrease) in short-term loans payable	-15,493	-11,027
Cash and cash equivalents at beginning of period	89,566	68,969
Cash and cash equivalents at end of quarter	74,072	57,942