

For Immediate Release

February 14, 2020

PERSOL HOLDINGS CO., LTD. (TSE 2181)

Consolidated Financial Results for the Nine Months Ended December 31, 2019

PERSOL HOLDINGS CO., LTD (the Company) today announced its consolidated business results for the nine months ended December 31, 2019.

Consolidated Operating Highlights

1) Business Results

(In millions of yen, unless otherwise stated)

	Nine months ended December 31,		% change
	2018	2019	
Sales	685,231	721,160	5.2%
Operating profit	32,074	28,403	-11.4%
EBITDA ¹	43,730	41,358	-5.4%
Ordinary profit	32,193	28,748	-10.7%
Net profit ²	18,738	-654	-
Net profit per share (yen)	80.31	-2.81	-
Adjusted EPS ³	110.47	95.80	-13.3%

Note:

1. EBITDA=operating profit + depreciation + amortization of goodwill
2. Net profit attributable to owners of parent
3. Adjusted EPS=adjusted profit^a/ (average number of shares during the period - number of treasury stock during the period)
 - a. Adjusted profit=profit attributable to owners of the parent ± adjustment items (excluding non-controlling interests) ± tax reconciliation related to certain adjustment items^b
 - b. Adjustment items=amortization of intangible assets except goodwill by acquisitions ± extraordinary income/losses

2) Balance Sheet Data

(In million yen, unless otherwise stated)

	As of March 31, 2019	As of December 31, 2019
Total assets	370,839	345,888
Net assets	170,925	154,322
Equity capital	155,593	138,596
Equity ratio	42.0%	40.1%

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.

1. Management Discussion and Analysis

(1) Result of Operations

In the Japanese labor market for the nine months ended December 31, 2019, the ratio of job offers to job seekers continuously remained as high as 1.57 in December 2019 reflecting structural shortage of workers. However, increasing uncertainty in overseas economic outlook drove business corporations to save HR related cost in some sectors, especially manufacturing related industries. In the Asia-Pacific region, China suffered economic slowdowns mainly due to US/China trade friction, its surrounding countries concerned about the impact of the friction and the Australian economy continued its stagnation.

In this environment, the PERSOL Group attained, for the nine months ended December 31, 2019, consolidated net sales of JPY 721,160 million (increased by 5.2% YoY), an operating profit of JPY 28,403 million (decreased by 11.4% YoY), and an ordinary profit of JPY 28,748 million (decreased by 10.7% YoY).

Although the sales of a part-time job recruitment media business (hereinafter “an” business) in the Recruiting segment was decreased due to its service termination at the end of November 2019, sales increased in Temporary Staffing/BPO segment, one of pillars of the Group and PERSOLKELLY segment that provides HR services; mainly staffing, in Asia-Pacific region.

Operating profit increased in Temporary staffing/BPO segment, compared to the same period of previous year. However, other segments decreased profit due to deteriorated profitability. In particular, profits from overseas operations were declined; in PROGRAMMED segment (that operates staffing and maintenance businesses in Australia) due to deteriorated profitability of Staffing business influenced by the stagnated local economy and the weakening of the Australian dollar, and also in PERSOLKELLY segment due to the system trouble in Australia. The system trouble has been concluded at the end of December 2019.

As a result, consolidated operating profit for the nine months ended December 31, 2019 was decreased from the same period of previous year, ordinary profit was declined accordingly.

Net loss attributable to owners of parent for the period was JPY 654 million (JPY 18,738 million of net profit for the same period of the previous year) because extraordinary losses were recorded such as impairment losses on goodwill of PROGRAMMED’s Staffing business in Q2, and business restructuring cost related to “an” business termination in the nine months ended December 31, 2019.

Results by Segments (before inter-segment elimination)

1. Temporary Staffing/BPO Segment

Segment sales for the nine months ended December 31, 2019 were JPY 407,580 million (increased by 7.7% YoY), and its operating profit was JPY 19,117 million (increased by 6.1% YoY).

As in the previous consolidated fiscal year, demand for staffing service from corporate clients remained very strong due to structural shortage of workers. However, there were some business enterprises especially in manufacturing related industries took initiatives to reducing HR cost. Although the nine months period had four operating days shorter than the same period of the previous year, segment sales increased because the number of active temporary workers increased lead by proactive sales activities, and because Avanti Staff, which was acquired at the beginning of the previous Q4 period, was added to the consolidation group. Operating profit increased because the number of active temporary workers were increased.

2. Recruiting Segment

Segment sales for the nine months ended December 31, 2019 were JPY 63,923 million (increased by 2.7% YoY), and its operating profit was JPY 10,367 million (decreased by 3.7% YoY).

Sales increased reflecting the sales growth in the placement service business and “an” business recorded until 1H. Operating profit was reduced mainly due to risen personnel cost ratio to sales in spite of re-assignment of former “an” business staffs to other divisions during Q3.

3. PROGRAMMED Segment

Segment sales for the nine months ended December 31, 2019 were JPY 140,194 million (decreased by 7.4% YoY), and it posted an operating loss of JPY 502 million (JPY 237 million of operating profit 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 Staffing business sales dropped influenced by the slowdown of the Australian economy, and segment sales were lower due the weakening of the Australian dollar. An operating loss was mainly due to low performance of the Staffing businesses and recorded one-time personnel expense.

4. PERSOLKELLY Segment

Segment sales for the nine months ended December 31, 2019 were JPY 62,642 million (increased by 12.9% YoY), and it posted an operating loss of JPY 356 million (JPY 647 million of operating profit for the same period of the previous year).

Sales increased driven by the factors of economic growth in Asia-Pacific region and expansion of the HR services business focusing on staffing service in regions other than Australia. An operating loss was recorded mainly because of the costs to deal with the system trouble in the Australian operation.

5. ITO Segment

Segment sales for the nine months ended December 31, 2019 were JPY 29,698 million (increased by 24.4% YoY), and its operating profit was JPY 660 million (decreased by 21.8% YoY).

Sales increased in the backdrop of robust demand for IT solutions. Operating profit decreased as a result of intensive recruitment activities to meet growing clients' needs and increased wages for engineers.

6. Engineering Segment

Segment sales for the nine months ended December 31, 2019 were JPY 21,187 million (decreased by 0.9% YoY), and its operating profit was JPY 1,253 million (decreased by 31.0% YoY).

Sales remained almost at the same level YoY as result of proactively proposing our engineering solutions to corporate clients under the circumstance of the demand from manufacturing industries dropped due to US/China trade friction. On the other hand, operating profit was reduced due to lower profitability as the changes in service compositions.

(2) Financial Position

(a) Consolidated Balance Sheet

Total assets decreased by JPY 24,951 million from the end of the previous consolidated fiscal year. Current assets decreased by JPY 9,440 million, and fixed assets decreased by JPY 15,510 million. The main reason for the decrease in current assets was a decrease in cash and deposits by JPY 6,333 million etc. The decrease in fixed assets was because a decrease in goodwill of JPY 18,567 million etc.

Liabilities decreased by JPY 8,348 million from the end of the previous consolidated fiscal year. Current liabilities decreased by JPY 454 million and non-current liabilities decreased by JPY 7,893 million. The main reasons for the decrease in current liabilities were a JPY 8,088 million decrease in accrued income taxes and a JPY 4,683 million decrease in provisions for bonuses while a JPY 10,000 million increase in long-term loans payable within one year. The main reason for the decrease in non-current liabilities was a JPY 10,020 million decrease in long-term loans payable while we had a JPY 2,077 million increase in lease liabilities.

Net assets decreased by JPY 16,602 million compared to the end of the previous consolidated fiscal year. This was due mainly to the payment of JPY 7,003 million of surplus dividends and the recognition of JPY 654 million as a quarterly net loss attributable to owners of parent, which resulted in a JPY 7,657 million decrease in retained earnings, a JPY 4,985 million increase in treasury stocks, and a JPY 4,487 million decrease in foreign currency translation adjustments.

	As of March 31, 2019	As of December 31, 2019
Return on assets (ROA) for the period	6.8%	0.0%
Return on equity (ROE) for the period	16.2%	-0.4%
Ratio of operating profit to sales	4.8%	3.9%
Ratio of ordinary profit to sales	4.8%	4.0%
Current ratio	144.8%	138.7%
Fixed assets ratio	103.5%	105.0%
Equity ratio	42.0%	40.1%
Total assets (JPY million)	370,839	345,888
Equity capital (JPY million)	155,593	138,596
Cash and cash equivalents etc. at end of period (JPY million)	68,969	62,649

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

There were no new business and financial challenges requiring addressing during nine months ended December 2019.

(3) Explanation of Consolidated Financial Forecasts for Fiscal 2019

Financial results for the nine months ended December 31, 2019 were almost in line with the Company's plan. Therefore, there is no change in earnings forecasts for fiscal 2019 that was announced in November 2019

(Reference)

Financial Forecast announced in November 2019

(In millions of yen, unless otherwise)

	Forecast	YoY change %
Net sales	980,000	5.9%
EBITDA	58,000	-3.3%
Operation profit	40,700	-7.7%
Ordinary profit	40,800	-7.2%
Net profit	5,500	-77.4%
Net income before amortization of goodwill	13,300	60.0%
Net profit per share (yen)	23.63	-72.4%
Adjusted EPS (yen)	141.33	-5.9%

*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.

2. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheet

	As of March 31, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	69,029	62,696
Notes and accounts receivable-trade	122,908	120,148
Work in process	7,342	7,992
Other	11,251	10,303
Allowance for doubtful accounts	-686	-736
Total current assets	209,845	200,404
Non-current assets		
Tangible fixed assets		
Buildings and structures, net	3,397	3,660
Tools, furniture and fixtures, net	1,303	1,692
Right-of-use assets, net	—	3,505
Land	799	997
Other, net	2,156	2,080
Tangible fixed assets total	7,657	11,936
Intangible assets		
Trademark rights	10,069	9,438
Goodwill	91,763	73,196
Other	20,539	21,883
Intangible assets total	122,372	104,518
Investments and other assets		
Investment securities	11,894	11,958
Deferred tax asset	5,770	3,982
Other	13,317	14,174
Allowance for doubtful accounts	-17	-1,084
Total investments and other assets	30,964	29,029
Total fixed assets	160,994	145,483
Total Assets	370,839	345,888

(Consolidated Balance Sheet)

	As of March 31, 2019	As of December 31, 2019
Liabilities and equity		
Liabilities		
Accounts payable – trade	741	683
Short-term loans payable	5,044	3,328
Current portion of long-term loans payable	10,001	20,001
Accounts payable	68,307	70,465
Accrued income taxes	11,384	3,295
Accrued consumption taxes	14,159	16,873
Provision for bonuses	11,730	7,047
Reserve for bonuses for Directors	14	41
Provisions - other	745	623
Other	22,789	22,105
Total Current Liabilities	144,919	144,464
Non-current liabilities		
Bond	20,000	20,000
Long-term loans payable	25,748	15,727
Lease debts	106	2,184
Deferred tax liabilities	5,042	4,960
Liabilities related to retirement benefits	905	930
Allowance for share benefits	261	348
Allowance for Directors' share benefits	291	404
Provisions - other	217	69
Other	2,421	2,475
Total Non-current liabilities	54,995	47,101
Total Liabilities	199,914	191,566
Equity		
Shareholders' equity		
Capital	17,479	17,479
Capital surplus	20,396	20,396
Retained earnings	125,677	118,019
Treasury shares	-4,387	-9,372
Total Shareholders' Equity	159,165	146,522
Accumulated other comprehensive income		
Valuation difference on marketable securities	2,346	2,480
Foreign currency translation adjustment	-5,919	-10,406
Total accumulated other comprehensive income	-3,572	-7,926
Non-controlling interests	15,331	15,725
Total net assets	170,925	154,322
Total liabilities and equity	370,839	345,888

(2) Consolidated income Statements (Nine months ended September 2019)

	Nine months ended December 31,	
	2018	2019
Net sales	685,231	721,160
Cost of sales	533,979	561,375
Gross profit	151,252	159,785
Selling, general and administrative expenses	119,178	131,381
Operating Profit	32,074	28,403
Non-operating income		
Interest income	29	22
Dividends income	138	151
Subsidy income	204	384
Share of profit of entities accounted for using equity method	232	228
Gain from foreign exchange	329	—
Other	65	99
Total non-operating profit	999	886
Non-operating loss		
Interest expenses	664	389
Bond issuance expenses	102	—
Losses on foreign exchange	—	76
Other	112	75
Total non-operating expenses	880	541
Ordinary Profit	32,193	28,748
Extraordinary income		
Gain on sales of fixed assets	62	67
Gain on sales of investment securities	111	33
Gain on transfer of business	38	33
Gain on revision of retirement benefit plan	56	—
Extraordinary income total	268	134
Extraordinary losses		
Loss on fixed asset disposal	18	6
Impairment loss	167	12,525
Allowance of doubtful accounts	—	1,094
Business reorganization losses	—	3,144
Loss on sales of subsidiaries and affiliates' shares	3	—
Loss on valuation of investment securities	14	—
Loss on valuation of subsidiaries and affiliates' shares	—	598
Total extraordinary losses	204	17,368
Net quarterly profit before taxes etc.	32,257	11,514
Corporate tax, resident tax, and business tax	10,440	9,396
Corporate tax etc.-deferred	1,524	1,995
Total corporate taxes etc.	11,965	11,392
Profit for the period	20,292	121
Quarterly net profit attributable to non-controlling interests	1,553	775
Quarterly net profit(loss) attributable to owners of parent	18,738	-654

(Consolidated profit and loss statement)

	Nine months ended December 31,	
	2018	2019
Profit for the period	20,292	121
Other comprehensive income		
Valuation difference on marketable securities	-1,282	133
Foreign currency translation adjustment	-5,642	-4,630
Share of other comprehensive income of associates accounted for using equity method	-145	-102
Total other comprehensive income	-7,070	-4,600
Comprehensive income	13,221	-4,478
(Break down)		
Comprehensive income attributable to owners of parent	11,868	-5,008
Comprehensive income attributable to non-controlling interests	1,352	529