PERSOL HOLDINGS CO., LTD.

Announcement of the end of “an” business

August 01, 2019

Event Summary

[Company Name]	PERSOL HOLDINGS CO., LTD.
[Event Type]	Analyst Meeting
[Event Name]	Announcement of the end of “an” business
[Fiscal Period]	FY2019 Q1
[Date]	August 1, 2019
[Number of Pages]	15
[Time]	17:00 – 17:32 (Total: 32 minutes, Presentation: 11 minutes, Q&A: 21 minutes)
[Venue]	1-15-5 Minami Aoyama, Minato-ku, Tokyo, 107-0062
[Venue Size]	
[Participants]	
[Number of Speakers]	1 Kiyoshi Seki — Director, Executive Officer (CFO)

[Analyst Names]	Hirofumi Oda	SMBC Nikko Securities
	Shinnosuke Takeuchi	Jefferies Japan Limited
	Junpei Yoshida	Nomura Securities
	Katsumi Arai	Mitsubishi UFJ Morgan Stanley Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

Presentation

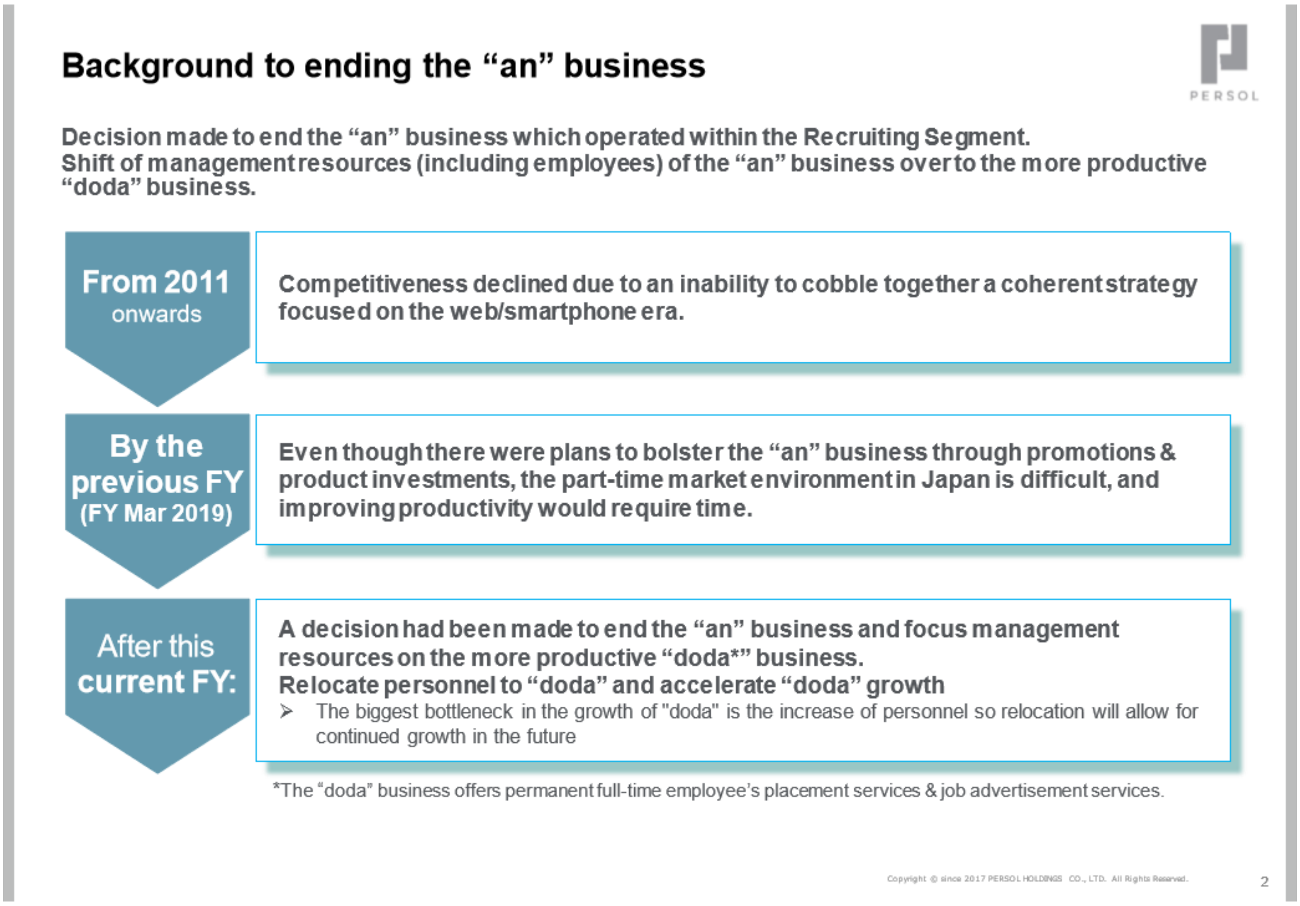
Operator: We will hold a conference call on termination of the part-time job information service "an" of PERSOL HOLDINGS CO., LTD.

Moderator: Thank you for participating in our teleconference. Today, CFO Seki will comment on the termination of part-time job information service "an." Please refer to the PowerPoint material that has already been posted on our IR page.

After completing the explanation, we will move on to a question and answer session. The telephone conference is scheduled to end at around 17:30. We appreciate the cooperation.

In order to ensure fair disclosure of information, we set the period from the day following the quarterly settlement date to the scheduled date of announcement. As today is the silent period, we refrain from responding to any questions regarding the financial results or financial forecasts of existing businesses other than this issue.

Seki: Thank you very much for your participation in the teleconference. At the meeting of the Board of Directors today, we have decided to terminate the "an" business, which was operated within the Recruiting segment.



Please refer to page two. As you know, "an" was founded in 1967 as a daily part-time employment newsletter, and this year marks its 52nd year. It has opened up the market as the most historical job information service in Japan, and has been providing optimal matching between many people and organizations. However, the environment surrounding the job advertisement market in the part-time job information field has been extremely severe. In particular, since 2011, the competitiveness of "an" has gradually declined as it fell behind in transition to a service that looks ahead to the WEB and smartphone era.

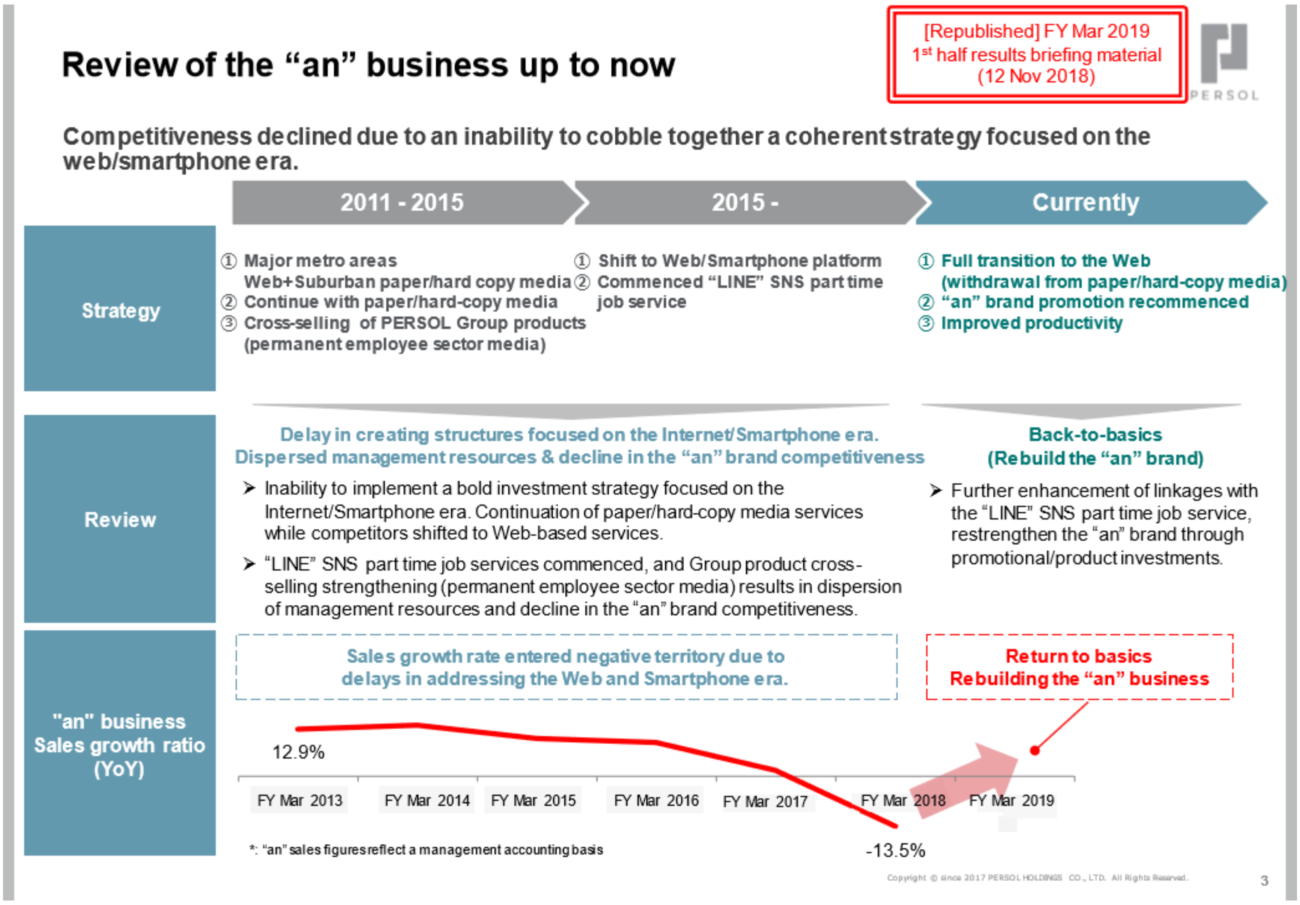
In the fourth quarter of the fiscal year ended March 31, 2018, the Company realized a loss of approximately 8.6 billion yen due to impaired fixed assets as a whole, including goodwill, related to the "an" business.

In fiscal year ended March 31, 2019, we have been reinforcing our "an" business through promotions and product investments. However, the market environment for part-time jobs remains challenging, and further productivity improvements will take time.

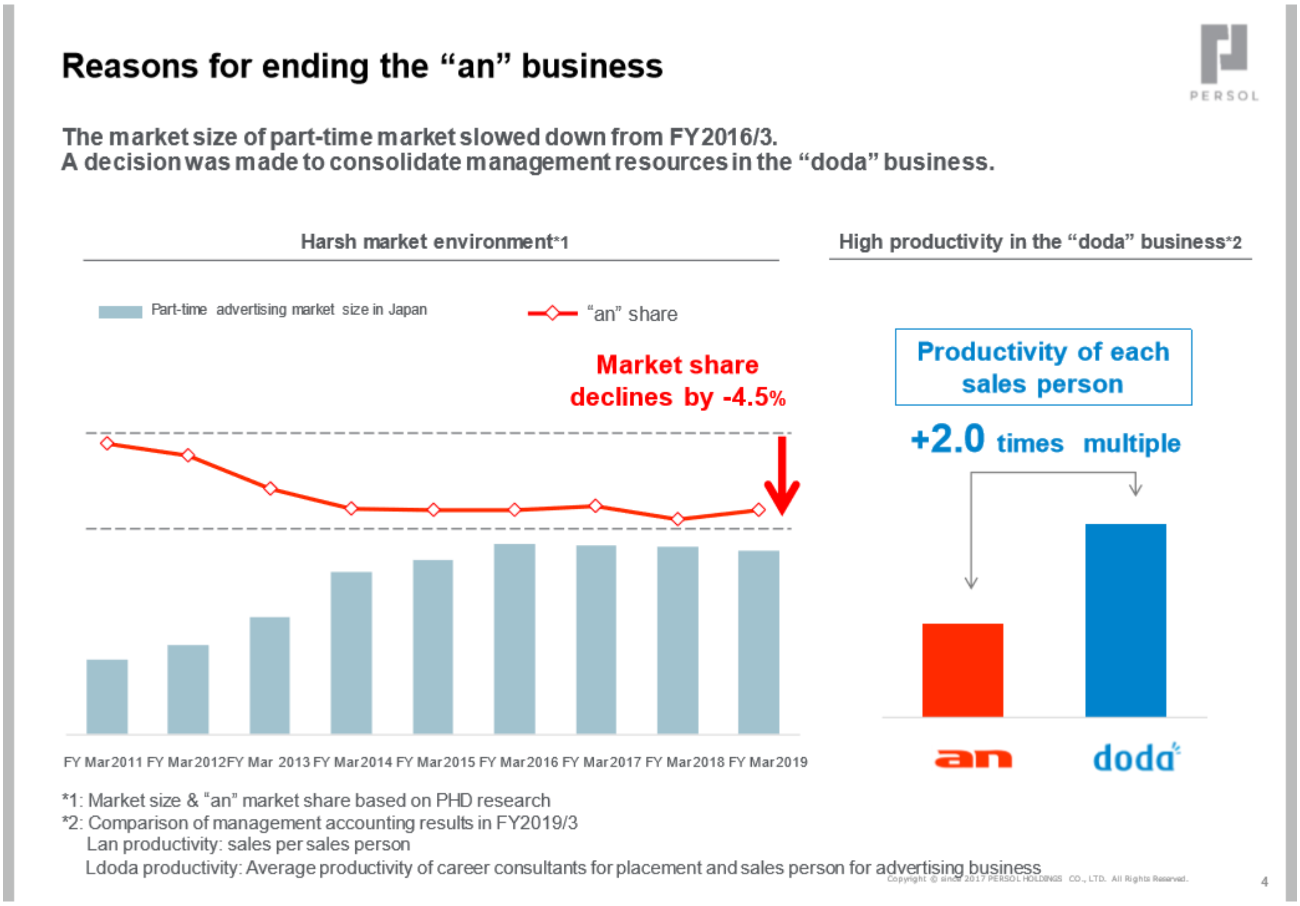
Against this backdrop, we decided to close the "an" business and concentrate our management resources on the more productive "doda" business in view of the future of the entire Group.

Today's termination of "an" business can be seen as a forward-looking decision to concentrate management resources on "doda," about which we are confident of future medium-to long-term growth, and to realize growth that meets the expectations of stakeholders.

As the greatest bottleneck to the growth of the "doda" business is the increase in the number of strategic personnel, this relocation is expected to lead to continued growth in the future.



On page three, the presentation materials for the first half of the fiscal year ended March 31, 2019 are restated, so the explanation will be omitted.



See page four. As I explained, the Company has achieved a certain degree of success in recent years, such as shifting its sales growth rate to plus 4% YoY by reinforcing its "an" business. However, the market environment for part-time job advertising continues to be severe, and market share of "an" has been sluggish.

On the other hand, as explained at the financial results briefing held in May, in the permanent employee turnover markets, the sales growth rate for "doda" recruitment services in fiscal year ended March 31, 2019 was plus 29% YoY and the sales growth rate for the "doda" recruitment advertising business was plus 31% YoY.

The field of full-time employees is highly profitable, and when compared with productivity per sales person, the "doda" is approximately twice that of "an."

As a result of comprehensive consideration of future growth potential, the Board of Directors decided to concentrate management resources, including human resources, on strengthening the rapidly growing "doda," and aim for stronger growth.

Impact on results due to the end of the “an” business (FY Mar 2020)

We anticipate an operating loss of JPY-5 billion and an extraordinary loss of JPY-3.5 billion due to a temporary decline in sales due to the end of the “an” business and the relocation of personnel, as well as the payment of transition operation support funds in extraordinary losses and other losses

(JPY Billion)	Monetary Impact (Compared to original forecasts)					Details
	an	doda	ITO	Adjustment	TOTAL	
Sales	-8	-2	-0.5	+0.5	-10	**an: Decline in sales due to the end of business** - Decreased sales due to the end of business on September 27, 2019 - End of "an" business as of November 25, 2019“ **doda: Decline in sales due to relocation of personnel** - Relocation of personnel including existing personnel of "doda“ in consideration of medium- to long-term growth - Decreased productivity due to customer relocation, and education of personnel **ITO: Decrease in internal orders related to an** - Decreased internal orders from the an business
Operating Profit	-1	-3.8	-0.2	-	-5	**an: Impact of revenue decline due to the end of business** - Headcount will be deployed internally to the "doda" business. **doda: Increased personnel & training etc. related costs** - Increased personnel costs due to taking on of headcount from the "an" business, and costs associated with training related to enhancing capabilities etc. **ITO: Increased personnel costs** - Increased personnel costs due to taking on of headcount from the "an" business
Extraordinary Losses	-3.5	-	-	-	-3.5	**Operation support fund to shift to "doda“ for agencies** - operation support fund to shift the sales system to "doda" after the "an" business is over. **Other losses** - Impairment loss on software assets acquired this year - Losses that occur with the end of business other than above

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Next, I would like to explain the impact of the termination of "an" business. See page five.

Due to the termination of the "an" business, we expect to suffer negative impacts to net sales of 10 billion yen, 5 billion yen of operating profit, and extraordinary losses of 3.5 billion yen on the financial results forecasts announced at the time of the full fiscal year's settlement in May.

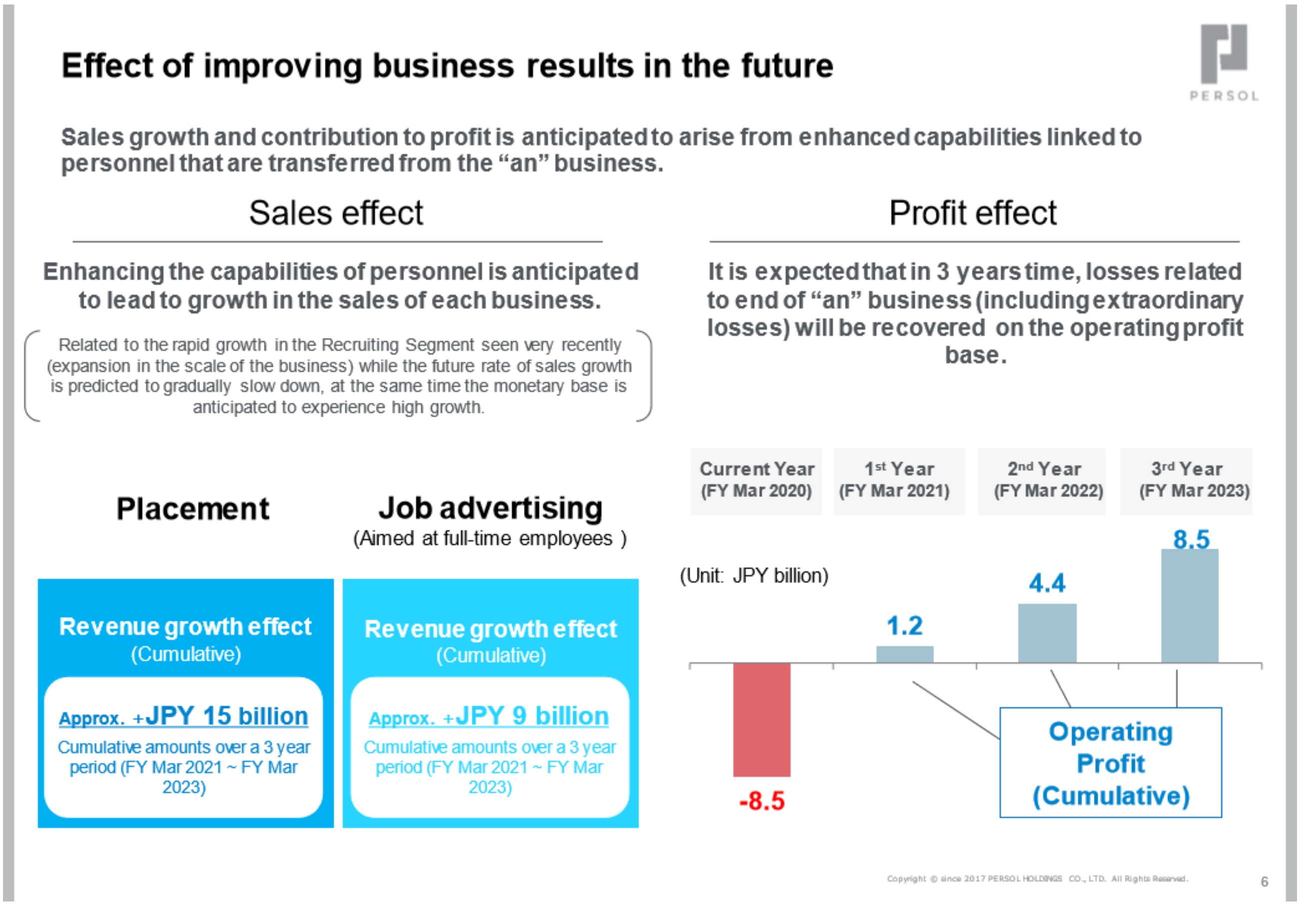
As for the net sales decline of 10.0 billion yen, we expect 8.0 billion yen due to the decline in net sales resulting from the termination of the "an" business, and 2.0 billion yen due to the decline in net sales resulting from the temporary decline in productivity resulting from the reallocation of approximately 500 employees to "doda."

In the ITO segment, net sales are expected to decline 0.5 billion yen due to a decline in internal orders related to "an," which will be offset by adjustments

Negative 5.0 billion yen in operating income is composed of 1.0 billion yen for the impact of the decline in sales due to the termination of the "an" business, 3.8 billion yen for the decline in "doda" operating income due to an increase in personnel expenses associated with the acceptance of personnel from the "an" business. Also, an increase in training expenses for strategic development, and 0.2 billion yen due to an increase in personnel costs in the ITO segment associated with the acceptance of personnel from the "an" business.

Extraordinary losses of 3.5 billion yen are mainly due to payments to distributors for support of migration to "doda" and impairment losses on software-related assets.

Having explained the costs associated with the termination of "an" business, I would like to explain the positive impacts on our business performance from this fiscal year onwards.



As I explained earlier, we anticipate a temporary negative impact on sales and profits for the current fiscal year. From the next fiscal year onwards, however, we expect a sales increase and its contribution to profits in line with the shift of personnel from "an" to the fighting force.

In terms of net sales, we expect to see an increase of 15.0 billion yen in the Placement business and an increase of 9.0 billion yen in the Job Advertising business for full-time Employees in the cumulative total of the fiscal years ending March 31, 2021 to 2023. This is in addition to the existing organic growth.

On the earnings side, we expect to recover the 5.0 billion yen decrease in operating income and 3.5 billion yen in extraordinary losses by the fiscal year ending March 31, 2023.

We will further accelerate the expansion of "doda," our core business, by reallocating human resources in conjunction with the termination of our "an" business.

Revised (Full Year) Consolidated Financial Results Forecasts

It reflects only the impact of the end of the "an" business and has not reviewed the performance of existing businesses.

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(Unit: JPY billion)	Forecast released last year[*1] (A)	Amount of increase or decrease (B)	Forecast revisions at this time (A-B)	Ratio % of increase (decrease) (%)
Sales	1,000	-10	**990**	-1.0%
EBITDA	66	-5	**61**	-7.6%
Operating Profit	48	-5	**43**	-10.4%
Ordinary Profit	48	-5	**43**	-10.4%
Current period net profit attributable to parent company shareholders	27.5	-5.8	**21.7**	-21.1%
Current period net profit per share (JPY)	117.80	-24.85	**92.95**	-21.1%
[Reference] Net profit prior to amortization of goodwill [*2]	36.1	-5.8	**30.3**	-16.1%
[Reference] Adjusted EPS (JPY) [*3]	158.51	-14.80	**143.71**	-9.3%

*1: Announced on 15 May 2019
*2: Net profit prior to amortization of goodwill: Profit attributable to owners of parent company + amortization of goodwill
*3: Adjusted EPS: adjusted net income / (number of shares issued at the end of the period – number of treasury stock at the end of the period)
Adjusted net income: net income attributable to owners of the parent ± adjustment items (excluding non-controlling interests) ± tax reconciliation related to adjustment items
Adjustment items: amortization of goodwill and other intangible assets arising due to business combinations ± extraordinary income/losses

In light of the above, the Group has revised its full-year consolidated earnings forecast for the current fiscal year. See page seven.

The revised forecasts are net sales of 990.0 billion yen, EBITDA of 61.0 billion yen, and operating income of 43.0 billion yen. The revision to the consolidated earnings forecast only reflects the impact of the termination of "an" business, and no revision has been made to the consolidated earnings of existing businesses. We will continue to work toward achieving our earnings forecasts.

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Future schedule

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On 25 Nov 2019 the "an" advertising business is scheduled to end.

		Period	Details etc.
1	External releases about the end of the "an" business	On this day (1 August)	-
2	Explanation given to clients	On this day (1 August) ~ 27 September	Briefings commence today
3	Briefings given to agencies		
4	Briefing given to www site users	On this day (1 August) ~ ~ 25 Nov	Notification at "an" www site
5	Sales activity of "an" halts	27 September	-
6	The "an" business ends	25 November	"an" www site closed the same day

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Please refer to page eight. After the disclosure of today, we will provide the future schedule to our business partners and distributors. The operation of "an" business is scheduled to close on September 27, and the "an" business and its website are scheduled to close on November 25.

Details of treasury share purchases

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Acquisition of treasury shares to the total value of JPY 5 billion will take place.

1. Reasons for acquisition of treasury shares

Acquisition of treasury shares to enable the execution of an agile capital strategy that aims to enhance capital efficiency while addressing changes to the future management environment.

2. Details of matters related to the acquisition

(1)	Type of shares forming the target for acquisition:	PERSOL HOLDINGS ordinary shares
(2)	Number of shares able to be acquired:	3,500,000 shares (upper limit) (Proportion of total number of fully issued shares (excluding treasury shares): 1.5%)
(3)	Total cost of acquiring the shares:	JPY 5 billion (upper limit)
(4)	Acquisition period:	2 Aug 2019 ~ 30 Dec 2019

Reference: Treasury shares held as at 31 Mar 2019

Number of fully issued shares (excluding treasury shares)	233,448,545 shares
No. of treasury shares	3,256,316 shares

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Lastly, I would like to explain the acquisition of treasury stock, which we announced in a timely manner today in conjunction with the termination of "an" business. See page nine.

We have announced that we will repurchase up to 5.0 billion yen of our own shares from August 2, tomorrow, to December 30. We revised our results in line with the termination of the "an" business, but through the announcement of the share buyback, we would like to communicate that the impact of the business results is temporary, and we are confident in the medium-to long-term growth of "doda."

Last but not least, the termination of the "an" business is a positive decision to concentrate management resources on "doda," about which we are confident of future growth over the medium to long term. We will terminate the "an" business, but we will continue to provide services of our group in the short-term labor market, including Sharefull, to meet the expectations of job seekers.

I would like to conclude my brief explanation.

Questions and answers

Moderator: The operator names the questioner.

The first questioner is Mr. Oda of SMBC Nikko Securities. So, Mr. Oda, please.

Oda: Oda of SMBC Nikko Securities. Thank you.

Seki: Thanks.

Oda: Please tell me two things.

First, there was a brief explanation from Mr. Seki, but I would like to hear more about why it was at this timing. As for "an," I think you may have heard for a long time, perhaps two or three years, that the market environment and your company's positioning have been quite tough, and you should quit it. Please provide more detailed information on the background of your decision at this time.

The second question. It is about the reallocation of the 600 employees of "an," on page six of the material. First, I think there are two major types of personnel placement, or media, in "doda," but how many employees will be allocated to each media? Then, at which timing do you think will the productivity of those people rise after the transition?

Seeing the profit effect on page six, they are probably reallocated in the current fiscal year, and they will show a growth in the middle of the next fiscal year, and I think they will become full-fledged workers around the fiscal year after next. I would like to ask you about reallocations and prospects for their growth.

Please tell us about these two points.

Seki: Thank you for your question. I would like to answer there two questions.

First, as for the reason of the timing, we have been constantly studying what we should do in the future for the "an" business. In particular, we have begun examining this issue from the beginning of 2018, when the market environment has undergone major changes. At that time, of course, we have made the decisions described above, and we have comprehensively examined other options as well.

We started to consider the termination of this service specifically from last summer to autumn.

As for the reason for the timing, we are promoting our "an" business in our own "an" service and in the LINE Baito service, which we are working in partnership with LINE.

Regarding the latter, it has an impact not only on us, but also of course operational impact on LINE. Therefore, we have continued to negotiate with LINE regarding the termination of the "an" business. We have negotiated until this timing, which I believe is the reason.

Then, about the reallocation of employees engaged in "an" services. I would like to explain in large scale, how to allocate them, and in particular, how many will be allocated to the sales department.

First of all, we have approximately 600 employees who were engaged in "an" service. They will be transferred to the Placement business within the Recruiting Segment, the Job advertising business for full-time employees, or to Group companies.

In terms of the number, about 200 staff will be transferred to the Placement business, about 300 people to Job advertising business for the job information website of "doda," and about 100 people to Group companies.

However, as for transfer to departments that directly contribute to sales, about 100 employees will be allocated to the Placement business of "doda," about 130 people will be allocated to the Job advertisement business for full-time employees.

In addition, about the empowerment of employees who have been reallocated, as you pointed out, it will take a certain period of time for the empowerment of employees. We will focus on providing training, understanding various tools, and other activities in the current fiscal year.

Accordingly, we believe that their growth during the current fiscal year will be quite limited, and basically, we believe that they will contribute to our business performance from the middle of the next fiscal year.

Oda: Understood. Thank you very much.

Seki: Thank you.

Moderator: Mr. Takeuchi of Jefferies Securities, asks the following questions. Please.

Takeuchi: Takeuchi of Jefferies.

I have two questions. Now, how many people are involved in "doda," and what is the breakdown of these?

Perhaps there are about 3,500 people in the Recruiting segment today. Would you tell us the composition of the workforce for "doda"?

Seki: Thank you for your question. First, the total number of employees in the Recruiting Segment is approximately 3,500, as you mentioned in the question. About 2,500 of these staff are engaged in the Placement business. Approximately 1,000 employees are engaged in the Job advertisement business in "an" and "doda."

Takeuchi: Understood. Another question. I would like to ask how much sales are expected in FY2023. When calculating the cumulative earnings plan backward, I think the profits from the 600 people who will be transferred will probably be about 4.1 billion yen in FY2023.

How much is your expected sales revenue? And do you estimate the productivity of the 600 sales personnel who will be transferred at the same level as the existing personnel? Or, do you estimate it more conservatively on the assumption that their productivity will be lower than the existing personnel?

Please tell us about the assumptions for sales and productivity in the third year. Thank you very much.

Seki: First, the contribution to sales will be almost as you estimate. As shown on page six, the cumulative contribution to profits will be 1.2 billion yen in the first year, 4.4 billion yen in the second year, and 8.5 billion yen in the third year. I would like to refrain from disclosing further information.

You also asked us about the productivity of our sales staff. We estimate that they can achieve the same level of productivity as our existing staff from the middle of the next fiscal year. We have restructured our business plan based on the recognition that an education plan will be needed and it will take a considerable amount of time for installation of such a plan. That's all.

Takeuchi: How much sales are expected at that time?

Seki: On page six, the effects of the three-year increase in sales of Placement business and Job Advertising business are generally disclosed in the cumulative total. If roughly reversed at these ratios, we believe that the approximate figures can be inferred.

Takeuchi: I understand, thank you.

Moderator: Mr. Arai of Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. So, please Arai.

Arai: Thanks.

I don't understand about the impact on your performance on page five.

In the case of "an," due to the decline in sales by 8.0 billion yen, profit will decline by 1.0 billion yen. However, since "an" has been in the red on an operating profit basis, it is not clear that the elimination of this will result in a negative operating profit.

Sales of "doda" will decline by 2.0 billion yen as opportunity losses. Does the negative earnings forecast of -3.8 billion yen suggest that sales will decline by 2.0 billion yen and training costs will rise 1.8 billion yen?

Seki: I think you have asked two questions. First, profit impact.

The profitability of "an" on a non-consolidated basis was positive when headquarters expenses and various overhead expenses were not allocated. With consideration of this, we calculated the profit impact.

In addition, regarding 2.0 billion yen in "doda," the topline decline will exceed 2.0 billion and the bottom line decline will exceed 2.0 billion yen. The 1.8 billion yen are mainly related to increased personnel expenses. As you mentioned, personnel expenses will increase and there will be additional training expenses.

Arai: I understand, thank you.

Seki: Thank you.

Moderator: Mr. Yoshida of Nomura securities. Mr. Yoshida, then, please.

Yoshida: Thank you for your explanation, I am Yoshida of Nomura Securities.

I understood that you had continued the "an" business, while preparing a variety of options with an eye on what the human resources and human markets will be in the future, and based on the assumption that it would be used as a brand in the future amid the situation that working styles diversify.

What are your thoughts on these aspects of the Company's medium-to long-term strategy, and what kind of discussions were held at Board of Directors meetings regarding the reduction of the number of brands in terms of the provision of services for various working styles?

Seki: Thank you for your question. As you have pointed out, the fact that we are facing the part-time employment market, which is provided by "an," remains an extremely important strategic element for the Group as a whole. Accordingly, we have also considered concrete ways to deal with them in the meetings of the Board of Directors and other discussions.

This time, however, we will withdraw from the "an" business, the so-called job advertisement business for part-time workers. However, in this market area, we will continue our operation with two main pillars of the business, i.e. provision of services through TEMPSTAFF for short-term staffing, and the new short-term referral model Sharefull.

However, it is not possible to respond to all requests solely by these means, so we will continue to consider the development of other new services or the provision of multi-layered services, and will also continue to make business investments.

We believe that the value of "an" brand, which we have built up thus far, is extremely large. We will maintain this brand and actively consider how to utilize it as well as developing services going forward.

That's all.

Yoshida: Thank you. When "an" disappeared, I was especially concerned that there would be a shortage of reach for students and young people. But as you maintain the brand and various developments are being considered, I am looking forward to it. Thank you very much.

Seki: Thank you.

Moderator: The following questions are from Mr. Oda of SMBC Nikko Securities. So, Mr. Oda, please.

Oda: Please explain the extraordinary losses of 3.5 billion yen, which include funding the transition to an agent and software impairments.

And, due to impairment of software, for example, will fixed costs reduce from the next fiscal year onwards?

Seki: Thank you. Regarding the breakdown of extraordinary losses, we consider the operation transition support fund to be more than 2.0 billion yen, and then the impairment and others losses to be more than 1.0 billion yen.

As for operation transition support funds, some distributors have provided services specialized in "an," and some of them have used "an" in combination with other services. Naturally, we support the management of these distributors, including the conversion of the target from retail to, for example, corporations. Together with support for migration and compensation, the total amount will be about 2.0 billion yen.

Oda: Out of remaining impairments losses of 1.0 billion yen, will there be anything in which fixed costs decline from next fiscal year onward? How much amount is it?

Seki: Regarding the impact from next year onward, there are no fixed cost changes.

Oda: I understand. Thank you very much.

Moderator: No inquiries were made. Thank you.

Seki: Now, we end the question and answer session. Thank you for participating in today's meeting.

[END]

Document Notes

1. *This document has been translated by SCRIPTS Asia*

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