

August 10, 2022

PERSOL HOLDINGS CO., LTD. (TSE 2181)

Consolidated Financial Results for the Three Months Ended June 30, 2022

PERSOL HOLDINGS CO., LTD. (the Company) today announced its consolidated financial results for the three months ended June 30, 2022.

Consolidated Operating Highlights

1) Financial Results

(In millions of yen, unless otherwise stated)

	Three months ended June 30,		% change
	2021	2022	
Net sales	250,432	284,100	13.4
Operating profit	12,973	16,495	27.1
EBITDA ¹	17,638	21,978	24.6
Ordinary profit	13,652	17,244	26.3
Quarterly net profit ²	8,383	10,301	22.9
Quarterly net profit per share (yen)	36.43	44.68	-
Adjusted quarterly net profit	9,954	12,275	23.3
Adjusted EPS ³ (yen)	43.26	53.24	23.1

Notes:

- EBITDA = operating profit + depreciation + amortization of goodwill
- Quarterly net profit attributable to owners of parent
- Adjusted EPS = adjusted quarterly net profit^a/ (average number of shares during the period - number of treasury stock during the period)
 - Adjusted quarterly net profit = quarterly net profit attributable to owners of parent ± adjustment items^b (excluding non-controlling interests) ± tax reconciliation related to certain adjustment items
 - Adjustment items = amortization of intangible assets except goodwill by acquisitions + amortization of goodwill ± extraordinary income/losses
- Effective in the three months ended December 31, 2021, the accounting policy has been changed at a foreign subsidiary where the International Financial Reporting Standards (IFRS) are applied, based on the "Configuration or Customization Costs in a Cloud Computing Arrangement (IAS No. 38)", an agenda decision by the IFRS Interpretations Committee (IFRIC) that was announced in April 2021. Accordingly, the values for the three months ended June 30, 2021 were corrected retroactively by reflecting the said change of the accounting policy.
- Effective in the three months ended June 30, 2022, the Company and its consolidated subsidiaries in Japan changed accounting method of asset retirement obligations. Accordingly, retroactive adjustments are reflected in the values for the same period of the previous year.

2) Balance Sheet Data

(In millions of yen, unless otherwise stated)

	As of March 31, 2022	As of June 30, 2022
Total assets	425,110	418,362
Net assets	204,367	202,779
Equity ratio (%)	43.1	45.2
Equity capital	183,048	189,164

Note:

- Effective in the three months ended June 30, 2022, the Company and its consolidated subsidiaries in Japan changed accounting method of asset retirement obligations. Accordingly, retroactive adjustments are reflected in the values for the previous consolidated fiscal year.

3) Dividend Status

(In yen, unless otherwise stated)

	Fiscal year ended/ending March 31,	
	2022	2023 (forecast)
Interim dividends	20.00	21.00
Year-end dividends	22.00	21.00
Annual dividends	42.00	42.00

4) Consolidated Financial Forecast for the Fiscal Year Ending March 2023

(In millions of yen, unless otherwise stated)

	Forecast for the fiscal year ending March 31, 2023		% change from the previous fiscal year	
	1st half	Full year	1st half	Full year
Net sales	569,000	1,165,000	10.9	9.8
Operating profit	26,400	52,000	-0.2	8.0
EBITDA	-	74,200	-	10.5
Ordinary profit	26,300	51,700	-3.6	4.5
Net profit ¹	15,200	29,500	-1.2	-7.5
Net profit per share (yen)	66.29	128.05	-	-
Adjusted profit	-	37,200	-	-5.9
Adjusted EPS (yen)	-	161.46	-	-5.9

Note:

1. Net profit attributable to owners of parent

Disclaimer

The statements concerning the Company's future business performances in this material such as financial forecasts are based on information currently available and certain assumptions deemed to be reasonable by the Company, and do not mean that the Company promises 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

PERSOL GROUP (the Group) provides a wide range of human resources (HR) related services; temporary staffing and placement service as the core businesses in Japan and Asia-Pacific (APAC) region.

Looking at the business environment in Japan in the three months ended June 30, 2022, economic activity began to show signs of a recovery with the lifting of COVID-19-related restrictions on activities in the middle of March 2022. The ratio of job offers to job seekers (seasonally adjusted) in Japan was 1.27 in June 2022, showing that demand for human resources continued to recover steadily. In the APAC region, the economic trend was generally one of recovery, with the exception of certain regions where the impact of COVID-19 persisted. Concerning exchange rates, the US dollar and Australian dollar both appreciated against the Japanese yen.

In this business environment, sales increased in all SBUs. As a result, consolidated net sales were 284,100 million yen (increasing 13.4% year-on-year). Operating profit was 16,495 million yen (increasing 27.1% YoY), mainly reflecting an increase in sales in Career SBU, drive by brisk corporate demand, in addition to an increase in the number of temporary active staff in the Staffing SBU and the growth of the highly profitable BPO (Business Process Outsourcing) sector. Ordinary profit was 17,244 million yen (increasing 26.3% YoY) and quarterly net profit attributable to owners of parent company was 10,301 million yen (increasing 22.9% YoY).

Results by SBU (before inter-segment elimination) are as follows.

a. Staffing SBU

In this segment, the Group operates temporary staffing business, including mainly clerical and administrative staff dispatching and wide range of staffing service, BPO and placement service mainly for administrative talents in Japan.

Sales for the three months ended June 30, 2022 were 151,432 million yen (increasing 9.9% YoY) and operating profit was 11,670 million yen (increasing 11.9% YoY).

Sales increased due to growth in the number of public-related projects in BPO sector, in addition to a year-on-year increase in the number of temporary active staff. Operating profit increased as a result of the effect of increased sales in temporary staffing sector and BPO sector.

b. Career SBU

In this segment, the Group mainly operates placement business, supporting corporate clients' mid-career hiring activities, and job recruitment media business.

Sales for the three months ended June 30, 2022 were 24,198 million yen (increasing 37.5% YoY) and operating profit was 4,795 million yen (increasing 132.4% YoY).

Sales in the placement business and job recruitment media business increased due to efficient and stronger sales promotion activities in addition to the growth of demand for hiring among companies. Operating profit increased significantly on stronger sales, offsetting the rise in selling, general and administrative expenses that resulted from marketing investment made in response to the rising demand and enhancement of hiring activities.

c. Professional Outsourcing SBU

In this segment, the Group operates manufacture and development outsourcing business in IT and engineering areas and temporary staffing business specialized in engineers dispatching.

Sales for the three months ended June 30, 2022 were 31,177 million yen (increasing 10.5% YoY) and operating profit was 1,461 million yen (increasing 20.4% YoY).

Sales increased because the engineering area saw growth in demand, mainly for development in the manufacturing industry. An additional factor was steady growth in the IT area. Operating profit increased due to the effect of increased sales.

d. Solution SBU

In this segment, the Group provides digital solution services for hiring talents and managing human resources and creates new businesses through incubation programs.

Sales for the three months ended June 30, 2022 were 3,502 million yen (increasing 60.5% YoY) and the operating loss was 860 million yen (the operating loss was 883 million yen for the same period of the previous fiscal year).

Sales increased due to the continued growth of the job search application business and cloud POS business, mainly reflecting the growth in companies' demand for hiring and the effect of sales promotion activities. An operating loss was recorded, despite the effect of the sales increase, as a result of continuous active investments to increase staff for sales promotion for future growth.

e. Asia Pacific SBU

In this segment, the Group operates temporary staffing business and placement business in Asia and staffing business and maintenance business in Australia (those businesses are operated under PERSOLKELLY brand in Asia and under Programmed brand in Australia.)

Sales for the three months ended June 30, 2022 were 77,521 million yen (increasing 15.2% YoY) and operating profit was 40 million yen (operating loss was 164 million yen for the same period of the previous fiscal year).

Sales increased due to progress in the recovery from the impact of the spread of COVID-19 infection and continued strong sales in Singapore as the main market, in addition to the effect of the stronger US dollar and Australian dollar. The SBU posted an operating profit due to an increase in the ratio of the highly profitable placement business.

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The Company and its Japanese subsidiaries have changed their accounting policy including the accounting method of asset retirement obligations. Comparison and analysis with the same period of the previous year and the previous consolidated fiscal year have been made using figures that reflect the retroactive application. For details, please refer to "Changes in Accounting Policies" and "Change in Accounting Estimates"

(2) *Financial Position*

1. Consolidated Balance Sheet

Total assets decreased 6,748 million yen compared to the end of the previous fiscal year. Current assets decreased 7,125 million yen, and non-current assets increased 376 million yen. Main factors for the decrease in current assets include a decrease in cash and deposits of 15,273 million yen, despite an increase in contract assets of 7,542 million yen. Main factors for the increase in non-current assets include increases in goodwill of 1,893 million yen and in software of 1,279 million yen, more than offsetting a decrease in deferred tax assets of 2,263 million yen.

Liabilities decreased 5,161 million yen compared to the end of the previous fiscal year. Current liabilities increased 3,314 million yen while non-current liabilities decreased 8,475 million yen. Main factors for the increase in current liabilities include increases in the current portion of bonds payable of 10,000 million yen and in accounts payable - other of 3,025 million yen, more than offsetting a decrease in provision for bonuses of 9,731 million yen. Main factors for the decrease in non-current liabilities include a decrease in bonds payable of 10,000 million yen.

Net assets decreased 1,587 million yen compared to the end of the previous fiscal year. This was mainly caused by the payment of dividends of surplus of 5,104 million yen and the posting of 10,301 million yen in quarterly net profit attributable to owners of parent company, which resulted in increases in retained earnings of 5,197 million yen and foreign currency translation adjustment of 6,933 million yen. Other reasons were a decrease in non-controlling interests of 7,703 million yen and a decrease in capital surplus of 6,043 million yen mainly due to the acquisition of additional shares in PERSOLKELLY PTE. LTD. by PERSOL Asia Pacific Pte. Ltd.

	As of June 30, 2022	As of March 31, 2022
Ratio of operating profit to sales	5.8%	4.5%
Ratio of ordinary profit to sales	6.1%	4.7%
Current ratio	163.4%	170.9%
Fixed ratio	73.3%	75.5%
Equity ratio	45.2%	43.1%
Debt/equity ratio	0.29	0.28
Total assets (million yen)	418,362	425,110
Equity capital (million yen)	189,164	183,048
Invested capital (million yen)	273,015	269,376
Cash and cash equivalents at end of period (million yen)	92,184	106,558

*1 Effective in the three months ended June 30, 2022, the Company and its consolidated subsidiaries in Japan changed accounting method of asset retirement obligations. Accordingly, retroactive adjustments are reflected in the values for the previous consolidated fiscal year.

2. Business and financial issues to address

The three months ended June 30, 2022 saw no significant change in business and financial issues that the Group should address.

Consolidated Financial Statements

(1) Consolidated Balance Sheet

	(in millions of yen)	
	As of March 31, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	107,545	92,272
Notes receivable - trade	100	121
Accounts receivable - trade	150,073	148,222
Contract assets	18,658	26,201
Work in process	333	836
Other	10,740	12,652
Allowance for doubtful accounts	-554	-534
Total current assets	286,897	279,771
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,036	4,540
Tools, furniture and fixtures, net	2,147	2,110
Right of use assets, net	3,410	3,432
Land	515	515
Other, net	2,304	2,449
Total property, plant and equipment	13,414	13,047
Intangible assets		
Trademark right	9,803	10,449
Goodwill	61,674	63,567
Software	16,787	18,066
Other	6,863	6,299
Total intangible assets	95,129	98,384
Investments and other assets		
Investment securities	8,664	8,633
Deferred tax assets	10,324	8,060
Other	12,208	12,148
Allowance for doubtful accounts	-1,527	-1,684
Total investments and other assets	29,670	27,158
Total non-current assets	138,213	138,590
Total assets	425,110	418,362

(Consolidated Balance Sheet)

(in millions of yen)

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	630	547
Short-term borrowings	162	986
Current portion of bonds payable	—	10,000
Current portion of long-term borrowings	11,304	14,001
Accounts payable - other	81,813	84,838
Income taxes payable	11,211	5,586
Accrued consumption taxes	17,432	19,642
Provision for bonuses	17,847	8,116
Provision for bonuses for directors (and other officers)	71	19
Other provisions	714	787
Other	26,706	26,680
Total current liabilities	167,893	171,208
Non-current liabilities		
Bonds payable	10,000	—
Long-term borrowings	30,000	30,004
Lease liabilities	1,997	1,978
Deferred tax liabilities	3,039	4,185
Retirement benefit liability	414	454
Provision for share awards	810	887
Provision for share awards for directors (and other officers)	835	903
Asset retirement obligation	4,430	4,522
Other provisions	81	56
Other	1,239	1,381
Total non-current liabilities	52,850	44,374
Total liabilities	220,743	215,582
Net assets		
Shareholders' equity		
Share capital	17,479	17,479
Capital surplus	19,168	13,124
Retained earnings	158,282	163,479
Treasury shares	-10,351	-10,321
Total shareholders' equity	184,579	183,762
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	959	958
Foreign currency translation adjustment	-2,489	4,443
Total accumulated other comprehensive income	-1,530	5,402
Share acquisition rights	0	0
Non-controlling interests	21,317	13,614
Total net assets	204,367	202,779
Total liabilities and net assets	425,110	418,362

(2) *Consolidated Income Statements and Comprehensive Income Statement*

(Consolidated Income Statement)

(in millions of yen)

	Three months ended June 30,	
	2021	2022
Net sales	250,432	284,100
Cost of sales	193,758	215,398
Gross profit	56,674	68,702
Selling, general and administrative expenses	43,700	52,207
Operating profit	12,973	16,495
Non-operating income		
Interest income	9	13
Dividend income	159	191
Subsidy income	350	549
Share of profit of entities accounted for using equity method	74	22
Foreign exchange gains	21	15
Other	229	56
Total non-operating income	845	850
Non-operating expenses		
Interest expenses	73	66
Commission expenses	23	1
Other	68	33
Total non-operating expenses	165	100
Ordinary profit	13,652	17,244
Extraordinary income		
Gain on sale of non-current assets	4	11
Gain on sale of shares of subsidiaries and associates	376	—
Gain on sale of investment securities	10	124
Total extraordinary income	391	136
Extraordinary losses		
Loss on disposal of non-current assets	0	5
Loss on sale of investment securities	1	—
Loss on valuation of investment securities	4	136
Non-recurring loss	40	—
Total extraordinary losses	45	142
Profit before income taxes	13,998	17,238
Income taxes - current	2,329	3,341
Income taxes - deferred	2,616	2,921
Total income taxes	4,946	6,262
Profit	9,051	10,975
Profit attributable to non-controlling interests	668	674
Profit attributable to owners of parent	8,383	10,301

(Consolidated Comprehensive Income Statement)

(in millions of yen)

	Three months ended June 30,	
	2021	2022
Profit	9,051	10,975
Other comprehensive income		
Valuation difference on available-for-sale securities	75	-0
Foreign currency translation adjustment	4,317	7,276
Share of other comprehensive income of entities accounted for using equity method	36	93
Total other comprehensive income	4,430	7,369
Comprehensive income	13,482	18,345
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	12,493	17,228
Comprehensive income attributable to non-controlling interests	988	1,117

Changes in Accounting Policies

Application of the Guidance on Accounting Standard for Fair Value Measurement

The Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021) began to be applied at the beginning of the three months ended June 30, 2022. It was decided that the new accounting policies prescribed in the Guidance on Accounting Standard for Fair Value Measurement will be applied into the future in accordance with the transitional treatment provided for in Paragraph 27-2 of the Guidance on Accounting Standard for Fair Value Measurement.

The application has no effect on quarterly consolidated financial statements.

Configuration or Customization Costs in a Cloud Computing Arrangement (IAS No. 38), an agenda decision by IFRIC

At a foreign subsidiary where the International Financial Reporting Standards (IFRS) are applied, configuration or customization costs in a cloud computing arrangement were previously recognized as intangible assets by applying the IAS No. 38 Intangible Assets. Effective in the three months ended December 31, 2021, however, the method was changed to one with which the above costs are recognized as costs generated when the configuration or customization service is received, based on the "Configuration or Customization Costs in a Cloud Computing Arrangement (IAS No. 38)", an agenda decision by the IFRS Interpretations Committee (IFRIC) that was announced in April 2021.

This change in accounting policy is applied retroactively, and the change is reflected in the quarterly consolidated financial statements for the three months ended June 30, 2021 and consolidated financial statements for the previous fiscal year.

As a result, compared to values before the retroactive application, operating profit, ordinary profit, and profit before income taxes for the three months ended June 30, 2021 decreased 164 million yen. The beginning balance of retained earnings decreased 1,483 million yen and foreign currency translation adjustment decreased 74 million yen for the previous fiscal year due to the application of the cumulative effect to net assets as of the beginning of the previous fiscal year.

From these results, quarterly net profit per share for the three months ended June 30, 2021 decreased 0.47 yen.

Change in Accounting for Asset Retirement Obligations

Previously, asset retirement obligations related to obligation to restore to original condition set forth in real-estate lease agreements signed by the Company and its consolidated subsidiaries in Japan were posted in the following way. The amount of leasehold deposits related to the said real-estate lease agreements which was not expected to be collected finally was reasonably estimated, and then, the portion of the above amount to be allocated to each quarter was posted. However, the non-current asset management system was reviewed, and more appropriate accounting has become possible. Therefore, starting from the three months ended June 30, 2022, expenses for restoration to original condition is posted as asset retirement obligations, and removal cost corresponding to the asset retirement obligations is included in property, plant and equipment and depreciated.

This change in accounting policy is applied retroactively, and the change is reflected in the quarterly consolidated financial statements for the three months ended June 30, 2021 and consolidated financial statements for the previous fiscal year.

As a result, in the consolidated balance sheet for the previous consolidated fiscal year, buildings and structures, net increased 1,348 million yen, deferred tax assets increased 91 million yen, investments and other assets (other) increased 1,892 million yen, asset retirement obligations increased 3,791 million yen, and deferred tax liabilities increased 48 million yen, while non-current liabilities (other) decreased 559 million yen, compared to before the retroactive application.

Asset retirement obligations of 638 million yen, which were included in other under non-current liabilities in the previous consolidated fiscal year, are presented as a separate item from the previous consolidated fiscal year, as the combined effect of the retrospective application of this change in accounting policy exceeded 1/100th of total liabilities and net assets.

The beginning balance of retained earnings for the previous consolidated fiscal year decreased by 329 million yen due to the application of the cumulative effect to net assets as of the beginning of the previous consolidated fiscal year.

The change has a minor effect on profit and quarterly net profit per share for the three months ended June 30, 2021.

Changes in Accounting Estimates

Changes in Estimates of Facilities attached to Buildings

In the three months ended June 30, 2022, the Company changed its office strategy to permit diverse workstyles, such as remote work. The Company took this change as an opportunity to review the number of years during which facilities attached to buildings installed at leasehold estates of the Company and its consolidated subsidiaries in Japan are expected to be used. As a result, the expected lifetime of those facilities was changed from the previous 3 to 15 years to 2 to 10 years.

As described in Changes in Accounting Policies, effective from the beginning of the three months ended June 30, 2022, removal cost corresponding to asset retirement obligations is added to the book value of facilities attached to buildings as relevant property, plant and equipment. The removal cost has been distributed based on the number of years during which the facilities attached to buildings are expected to be used.

As a result of this change, operating profit, ordinary profit, and profit before income taxes for the three months ended June 30, 2022 decreased 577 million yen.