



Financial Results for the Third Quarter of FY2021 (Fiscal Year Ending February 2021) (Japanese GAAP, Consolidated)

January 13, 2021

Name of company: DIP Corporation Stock exchange listing: Tokyo Stock Exchange
 Stock code: 2379 URL: <https://www.dip-net.co.jp/>
 Representative: Hideki Tomita, Executive President and CEO
 Contact: Haruhiko Arai, Executive Officer and General Manager of Business Planning Division
 (TEL) +81-3-5114-1177
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 Supplementary documents to the financial results: Available
 Financial results briefing: Scheduled (for institutional investors and analysts)

(All figures are rounded down to the nearest million yen)

1. Consolidated Operating Results for the Nine Months Ended November 30, 2020

(1) Consolidated business performance

(Percentage figures indicate year-on-year change)

	Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Nine months ended November 30, 2020	24,534	-	5,938	-	5,204	-	98	-
Nine months ended November 30, 2019	-	-	-	-	-	-	-	-

(Reference) Comprehensive income: FY2021 Q3 ¥72 million (-%) FY2020 Q3 - million (-%)

	Net Income per Share	Diluted Net Income per Share
	¥	¥
Nine months ended November 30, 2020	1.80	-
Nine months ended November 30, 2019	-	-

Notes: Figures for the nine months ended November 30, 2019 and year-on-year changes are not shown since consolidated accounting has been adopted from the third quarter of the fiscal year ending February 28, 2021. Diluted net income per share for the nine months ended November 30, 2020 is not disclosed due to the absence of dilution effects although dilutive shares exist.

(2) Consolidated financial position

	Total Assets	Net Assets	Shareholders' Equity Ratio
	¥ million	¥ million	%
FY2021 Q3	35,758	30,608	83.1
FY2020	-	-	-

(Reference) Shareholders' equity: FY2021 Q3 ¥29,722 million FY2020 - million

Note: Figures for FY2020 are not shown since consolidated accounting has been adopted from FY2021 Q3.

2. Dividends

	Annual Dividends				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	¥	¥	¥	¥	¥
FY2020	-	27.00	-	29.00	56.00
FY2021	-	27.00	-		
FY2021 (forecast)				29.00	56.00

(Note) Revisions to the latest dividend forecast: Yes

3. Consolidated operating Results Forecast for FY2021 (from March 1, 2020 to February 28, 2021)

(Percentage figures indicate year-on-year change)

	Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full-year FY2021	31,850 ~33,100	-	6,400 ~7,400	-	5,600 ~6,600	-	250 ~1,000	-	4.60 ~18.41

(Note) Revisions to the latest operating results forecast: Yes

* Notes

(1) Changes in significant subsidiaries during the period (Changes in specified subsidiaries accompanying changes in scope of consolidation): Yes

Newly included: 1 (Company name: DIP Labor Force Solution Investment Business Limited Partnership)

Excluded: None

(2) Adoption of special accounting methods for the preparation of quarterly financial statements: None

(3) Changes in accounting policies, changes in accounting estimates and restatements during the period under review

- | | |
|---|------|
| 1. Changes in accounting policies resulting from revisions to accounting standards: | None |
| 2. Changes in accounting policies other than 1 above: | None |
| 3. Changes in accounting estimates: | None |
| 4. Restatements: | None |

(4) Number of outstanding shares (Common stock)

- Number of outstanding shares at end of period (including treasury shares)
- Number of treasury shares at end of period
- Average number of shares during the period

FY2021 Q3	60,140,000 shares	FY2020	62,000,000 shares
FY2021 Q3	4,813,809 shares	FY2020	7,720,493 shares
FY2021 First Nine Months	54,642,286 shares	FY2020 First Nine Months	54,563,208 shares

Treasury shares include the number of Company shares owned by the ESOP trust account (1,718,935 shares at the end of FY2020; 1,660,750 shares at the end of FY2021 Q3 and the number of Company shares owned by BIP trust account (74,206 shares at the end of FY2020; 74,206 shares at the end of FY2021 Q3).

* The Financial Results are not subject to audits by a certified public accountant or an audit firm.

* Explanation on the appropriate use of operating results forecasts and other notes

(Notes on forward-looking statements)

The forward-looking statements contained herein are based on currently-available information and certain assumptions the Company deems rational at the time of writing, and are not commitments made by the Company. Actual results may significantly differ from the forecasts depending on a variety of factors. For assumptions regarding operating results forecasts and notes on the use of the forecasts, see the section “(3) Operating Results Forecast” under “1. Qualitative Information” on page 5.

(How to obtain supplementary documents on the financial results)

Supplementary documents on the financial results are scheduled to be posted on the Company’s website on January 13, 2021.

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1. Qualitative Information

A comparative analysis with the nine months ended November 30, 2019 has not been made since the Group has adopted consolidated accounting from FY2021 Q3.

For comparisons with the nine months ended November 30, 2019 in the non-consolidated financial statements for FY2021 Q3, see the section “(4) Notes on Consolidated Financial Statements (Reference Information)” under “2. Quarterly Consolidated Financial Statements and Principal Notes.”

(1) Operating Results

Since its establishment in 1997, DIP Corporation (hereinafter, the “Company”) has assisted its client companies with recruiting and the utilization of human resources by providing online job information sites, as well as creating an environment where each individual can work with enthusiasm and energy, based on its corporate philosophy of “Here at DIP, we want to tap into dreams, ideas and passion to create a better society.”

In the fiscal year ended February 29, 2020 (FY2020), the Company began developing and providing services utilizing AI/RPA*¹ (digital labor force) in addition to its human work force services under its new corporate vision of becoming a “Labor force solution company.” In terms of human work force, the Company will direct its effort toward solving the various issues related to the securing of labor while maintaining close communication with its customers and users. In terms of digital labor force, the Company will offer solutions using technology as an alternative to manpower. It aims to achieve further evolution and growth as a “General Trading Company Dealing in Labor Force.”

*1: RPA=Robotic Process Automation

Sales for the nine months ended November 30, 2020 ended at ¥24,534 million. This was attributable to the negative impact on job advertisements by client companies caused by the continued spread of COVID-19. However, the year-on-year change (%) of sales has been recovering steadily on the back of a rise in the Company’s share of transactions as a result of its efforts to increase the number of subscriber companies in the Personnel Recruiting Services Business, helped by government-led initiatives for economic recovery.

In terms of costs, the Company made investments in human resources such as in recruiting new graduates,*² while substantially cutting SG&A costs mainly by reducing advertising spending. As a result, for the nine months ended November 30, 2020, operating income ended at ¥5,938 million and ordinary income totaled ¥5,204 million. In March 2020, the Company purchased investment securities as a financial hedge against an economic downturn to protect employees’ jobs. An extraordinary loss was recorded since the prices of these investment securities, which were designed to become profitable when economic conditions deteriorated, dropped due to a recovery of the market. As a result, net income attributable to owners of parent decreased to ¥98 million. For details, please refer to the press release “Notice of Extraordinary Loss (Loss on Valuation of Investment Securities) and Revisions to Full-year Operating Results Forecasts” dated December 1, 2020.

*2: The Company hired 399 new graduates in April 2020.

The following is an overview of results by segment.

(i) Personnel Recruiting Services Business

The personnel recruiting services business operates job advertising platforms, including Baitoru, a job information site for part-time workers, Baitoru NEXT, a job information site for regular employees and contract employees, and Hatarako.net, a comprehensive job information site. The Company aims to expand the user and customer base for these platforms through the vigorous efforts of its sales force and the award-winning quality of its websites.

Although sales at Baitoru and Hatarako.net have declined since April 2020 due to the declaration of a state of emergency and its subsequent expansion and extension in duration following the COVID-19 pandemic, sales shifted to a recovery phase after the state of emergency was lifted in late May 2020. As the restaurant, light work and manufacturing areas saw a marked recovery and the essential work area (health/elderly care) continued to see a larger growth than in Q3 of the previous year in Q3, sales and profit in the segment for the first nine months of FY2021 ended at ¥24,056 million and ¥9,415 million, respectively.

The Company will continue its efforts to increase the number of subscriber companies as well as strengthen proposals that differentiate itself from competitors by combining job advertisement services and RPA products.

(ii) AI/RPA Business

AI/RPA has recently been attracting considerable attention as a technology with the potential to solve labor shortages and improve productivity. Furthermore, coupled with the proliferation of working from home and changes in work styles due to the COVID-19 pandemic, the need for business automation has been increasing rapidly.

The Company launched its AI/RPA business in the fiscal year ended February 2020 and since September 2019 has been offering KOBOT, an RPA service that can be introduced easily and used at a low cost. The Company's uniquely packaged KOBOT, which combines existing RPA tools, is offered in different formats such as a monthly payment model that includes maintenance and support.

During the nine months ended November 30, 2020, sales of the KOBOT series increased (led by sales of Interview KOBOT, the services of which include the automatic setting of interview dates), due to a reinforced sales system featuring collaboration with sales staff from personnel recruiting services. The enhancement of our product lineup saw steady progress with the launch of Sales Pack, a sales support tool for dispatch companies, the addition of services to Real Estate KOBOT, a work efficiency tool for real estate companies, and the commencement of sales of KOBOT Platform, an RPA development and management tool. As a result, sales and loss of the segment for the first nine months of FY2021 ended at ¥477 million and ¥484 million, respectively.

The Company will strive to further expand its business by continuing to enhance its products, while at the same time ensuring stable stock revenue.

(2) Financial Position

(i) Analysis of Financial Position

Total assets recorded at the end of FY2021 Q3 were ¥35,758 million. The main breakdown is ¥7,914 million in cash and deposits, ¥3,697 million in notes and accounts receivable (trade), ¥1,755 million in property, plant and equipment, ¥6,341 million in intangible assets, and ¥15,078 million in investments and other assets.

Total liabilities were ¥5,150 million. The main breakdown is ¥214 million in accounts payable (trade), ¥750 million in income taxes payable, ¥2,852 million in other current liabilities, ¥524 million in asset retirement obligations, and ¥442 million in other non-current liabilities.

Total net assets were ¥30,608 million. The main breakdown is ¥27,761 million in retained earnings.

(ii) Status of Cash Flows

Cash and cash equivalents (hereinafter referred to as “cash”) in the nine months ended November 30, 2020 totaled ¥7,914 million.

The cash flow breakdown is as follows:

(Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥3,673 million. This was mainly because inflows such as income before income taxes of ¥432 million, depreciation of ¥1,486 million, equity in losses of affiliates of ¥692 million, loss on valuation of investment securities of ¥5,017 million and a decrease of ¥2,106 million in trade receivables exceeded outflows such as a decrease of ¥1,953 million in accounts payable (other), a decrease of ¥680 million in other liabilities and income taxes paid of ¥3,430 million.

(Cash flows from investing activities)

Net cash used in investing activities totaled ¥11,931 million. This mainly reflects the purchase of intangible assets amounting to ¥2,267 million and the purchase of investment securities totaling ¥9,519 million.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥3,068 million. This was mainly attributable to ¥3,150 in dividend payments.

(3) Operating Results Forecast

As announced in “Notice Regarding Change in Specified Subsidiary” dated September 30, 2020, the Company has adopted consolidated accounting from FY2021 Q3. The consolidated and non-consolidated operating results forecasts for FY2021 are as described below.

Furthermore, the government declared a state of emergency for Tokyo and three neighboring prefectures on January 7, 2021 and is expected to issue a declaration for three prefectures in the Kansai region and four other prefectures, namely Aichi, Gifu, Fukuoka and Tochigi, on January 13, 2021. DIP is revising its operating results forecasts, as these developments are expected to have a negative impact on job advertisements by client companies. For details, see “Notice of Revisions to Full-year Operating Results Forecast for Fiscal Year Ending February 2021” dated January 13, 2021.

(i) Consolidated operating results forecast for FY2021 (from March 2020 to February 2021)

	FY2020 (Actual)	FY2021 (Forecast)	Change (yen)	Change (%)
	¥ million	¥ million	¥ million	%
Sales	-	31,850 ~ 33,100	-	-
Operating Income	-	6,400 ~ 7,400	-	-
Ordinary Income	-	5,600 ~ 6,600	-	-
Net Income Attributable to Owners of Parent	-	250 ~ 1,000	-	-

(ii) Non-consolidated operating results forecast for FY2021 (from March 2020 to February 2021)

	FY2020 (Actual)	FY2021 (Forecast)	Change (yen)	Change (%)
	¥ million	¥ million	¥ million	%
Sales	46,415	31,850 ~ 33,100	(14,565) ~ (13,315)	(31.4) ~ (28.7)
Operating Income	14,356	6,450 ~ 7,450	(7,906) ~ (6,906)	(55.1) ~ (48.1)
Ordinary Income	14,393	6,350 ~ 7,350	(8,043) ~ (7,043)	(55.9) ~ (48.9)
Net Income	10,012	400 ~ 1,150	(9,612) ~ (8,862)	(96.0) ~ (88.5)

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Consolidated Balance Sheet

(Thousand Yen)

FY2021 Q3 As of November 30, 2020	
Assets	
Current assets	
Cash and deposits	7,914,674
Notes and accounts receivable - trade	3,697,535
Supplies	6,058
Other	1,086,524
Allowance for doubtful accounts	(122,376)
Total current assets	12,582,416
Non-current assets	
Property, plant and equipment	1,755,768
Intangible assets	
Software	5,191,611
Other	1,149,925
Total intangible assets	6,341,536
Investments and other assets	
Investment securities	9,532,902
Other	5,559,198
Allowance for doubtful accounts	(13,402)
Total investments and other assets	15,078,698
Total non-current assets	23,176,003
Total assets	35,758,420
Liabilities	
Current liabilities	
Accounts payable - trade	214,408
Income taxes payable	750,793
Provision for repayment	18,656
Provision for bonuses	145,130
Other	2,852,418
Total current liabilities	3,981,407
Non-current liabilities	
Provision for share-based remuneration	77,209
Provision for share-based remuneration for directors (and other officers)	124,491
Asset retirement obligations	524,723
Other	442,565
Total non-current liabilities	1,168,989
Total liabilities	5,150,397
Net assets	
Shareholders' equity	
Share capital	1,085,000
Capital surplus	3,212,376
Retained earnings	27,761,233
Treasury shares	(2,290,865)
Total shareholders' equity	29,767,744
Accumulated other comprehensive income	
Valuation difference on available-for-sale securities	(45,629)
Total accumulated other comprehensive income	(45,629)
Share acquisition rights	874,252
Non-controlling interests	11,655
Total net assets	30,608,023
Total liabilities and net assets	35,758,420

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

(Nine months ended November 30, 2020)

(Thousand Yen)

	Nine months ended November 30, 2020
Net sales	24,534,424
Cost of sales	2,394,455
Gross profit	22,139,968
Selling, general and administrative expenses	16,201,297
Operating income	5,938,671
Non-operating income	
Interest income	2,584
Insurance claim income	5,353
Dividend income of insurance	14,887
Other	10,263
Total non-operating income	33,089
Non-operating expenses	
Share of loss of entities accounted for using equity method	692,371
Other	74,883
Total non-operating expenses	767,255
Ordinary income	5,204,505
Extraordinary income	
Gain on change in equity	46,807
Gain on reversal of share acquisition rights	199,490
Total extraordinary income	246,297
Extraordinary losses	
Loss on valuation of investment securities	5,017,997
Total extraordinary losses	5,017,997
Net income before income taxes	432,805
Income taxes - current	1,646,009
Income taxes - deferred	(1,311,007)
Total income taxes	335,001
Net income	97,803
Loss attributable to non-controlling interests	(376)
Net income attributable to owners of parent	98,179

Consolidated Statement of Comprehensive Income
(Nine months ended November 30, 2020)

(Thousand Yen)

	Nine months ended November 30, 2020
Net income	97,803
Other comprehensive income	
Valuation difference on available-for-sale securities	(27,125)
Share of other comprehensive income of entities accounted for using equity method	2,117
Total other comprehensive income	(25,008)
Comprehensive income	72,795
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	73,171
Comprehensive income attributable to non- controlling interests	(376)

(3) Consolidated Statement of Cash Flows

(Thousand Yen)

	Nine months ended November 30, 2020
Cash flows from operating activities	
Net income before income taxes	432,805
Depreciation	1,486,156
Share-based remuneration expenses	325,560
Interest and dividend income	(2,584)
Insurance claim income	(5,353)
Commission expenses	9,262
Share of loss (profit) of entities accounted for using equity method	692,371
Loss (gain) on change in equity	(46,807)
Gain on reversal of share acquisition rights	(199,490)
Loss (gain) on valuation of investment securities	5,017,997
Decrease (increase) in trade receivables	2,106,432
Increase (decrease) in trade payables	(40,195)
Increase (decrease) in accounts payable - other	(1,953,217)
Increase (decrease) in unearned revenue	(45,410)
Increase (decrease) in allowance for doubtful accounts	(5,272)
Increase (decrease) in provision for bonuses	(110,566)
Increase (decrease) in provision for repayment	(6,618)
Decrease (increase) in other assets	81,328
Increase (decrease) in other liabilities	(680,423)
Other, net	42,199
Subtotal	7,098,175
Interest and dividends received	38
Proceeds from insurance income	5,353
Income taxes paid	(3,430,018)
Cash flows from operating activities	3,673,548
Cash flows from investing activities	
Purchase of property, plant and equipment	(145,631)
Purchase of intangible assets	(2,267,408)
Purchase of investment securities	(9,519,461)
Payments of leasehold and guarantee deposits	(4,246)
Proceeds from refund of leasehold and guarantee deposits	4,969
Cash flows from investing activities	(11,931,779)
Cash flows from financing activities	
Proceeds from sales of treasury shares	66,483
Dividends paid	(3,150,849)
Proceeds from share issuance to non-controlling shareholders	25,008
Other payments	(9,262)
Cash flows from financing activities	(3,068,620)
Increase (decrease) in cash and cash equivalents	(11,326,851)
Cash and cash equivalents at beginning of period	19,241,526
Cash and cash equivalents at end of period	7,914,674

(4) Notes on Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

(Changes in Scope of Consolidation or Scope of Application of Equity Method)

(Significant Change in Scope of Consolidation)

DIP Labor Force Solution Investment Business Limited Partnership (hereinafter referred to as “DIP Labor Force Solution Fund”) has been included in the scope of consolidation during FY2021 Q3 due to an increase in its significance.

Since the fiscal year-end date of DIP Labor Force Solution Fund and the consolidated fiscal year-end date of the Company differ, the financial statements as of the end of Q3 have been used for DIP Labor Force Solution Fund in the preparation of quarterly consolidated financial statements. The consolidated statements have been adjusted to reflect significant transactions that took place between the end of Q3 and the consolidated quarter-end date.

(Significant Change in Scope of Application of Equity Method)

Due to a third-party allotment of shares, SpeakBUDDY Ltd., which was an affiliate accounted for using the equity method, has been excluded from the scope of application of the equity method due to a decrease in the Company’s ownership.

(Additional Information)

(Employee Stock Ownership Plan (ESOP) Trust)

In May 2012, the Company introduced an employee stock ownership plan trust (“ESOP trust”) to enhance corporate value in the medium and long term by motivating Company employees to work harder and creating a greater awareness of participation in management and by further promoting management aimed at increasing the value of Company shares.

(1) Summary of plan

By contributing funds for the acquisition of Company shares, the Company established a trust with employees who satisfy certain requirements as the beneficiaries. Over a predetermined acquisition period, the trust acquires from the stock market Company shares in the number expected to be delivered to Company employees in accordance with pre-established Stock Granting Regulations. Subsequently, the trust delivers or pays to employees without compensation, either whilst in employment or on retirement, Company shares or the proceeds from their sale according to the rank and years of service of employees during the trust period in accordance with the Stock Granting Regulations.

(2) Company shares remaining in the trust

Company shares held in the ESOP trust account are recorded as treasury shares under net assets at book value to the trust (excluding ancillary expenses). The book value and number of treasury shares are ¥106,469 thousand and 1,660,750 shares, respectively, at the end of FY2021 Q3.

(Board Incentive Plan (BIP) Trust)

In August 2016, the Company introduced a Board Incentive Plan (BIP) trust for directors (excluding outside directors and overseas residents; the same applies hereinafter) to increase their motivation to contribute to improving corporate value in the medium to long term and to share a common sense of interest with the shareholders.

(1) Summary of plan

By contributing funds for the acquisition of Company shares, the Company established a trust with directors who satisfy certain requirements as the beneficiaries. The trust acquires, by way of third-party allotment from the Company, Company shares in the number expected to be delivered to Company directors in accordance with pre-established Stock-based Compensation Regulations. Subsequently, the trust delivers to directors who meet certain beneficiary requirements on the fixed date of the beneficiary right such as their retirement Company shares or the cash equivalent of the proceeds from their sale determined according to performance indicators, etc. each fiscal year in accordance with the Stock-Based Compensation Regulations.

(2) Company shares remaining in trust

Company shares held in the BIP trust account are recorded as treasury shares under net assets at book value to the trust (excluding ancillary expenses). The book value and number of treasury shares are ¥221,950 thousand and 74,206 shares, respectively, at the end of FY2021 Q3.

(Accounting estimates following the COVID-19 pandemic)

The weakening of companies’ motivation to hire due to the COVID-19 pandemic has impacted the Company’s business activities as job advertisement from client companies has been affected.

Although business activities have begun to recover since the state of emergency was lifted in May 2020, it is extremely difficult to make an accurate forecast of the impact of the pandemic on the Group going forward, especially as infections have increased and a state of emergency was declared for Tokyo and three neighboring prefectures and is expected to be declared for three prefectures in the Kansai region and four other prefectures, namely Aichi, Gifu, Fukuoka and Tochigi.

Accounting estimates for impairment loss on fixed assets and the collectability of deferred tax assets are based on information available at the time of the preparation of quarterly financial statements under the assumption that the impact of the pandemic will continue for a certain period of time.

(Bases of Presenting Consolidated Financial Statements)

The Company has adopted consolidated accounting from FY2021 Q3. The basis of presenting consolidated financial statements is as follows.

1. Scope of consolidation

Number of consolidated subsidiaries: 1

Name of consolidated subsidiary: DIP Labor Force Solution Investment Business Limited Partnership (“DIP Labor Force Solution Fund”)

2. Application of equity method

Number of affiliates accounted for using the equity method: 5

Names of affiliates: JOLLY GOOD Inc.
GAUSS, inc.
hachidori, inc.
Marketing-Robotics INC.
TRUNK Co., Ltd.

3. Fiscal periods of consolidated subsidiaries

The fiscal year-end date of consolidated subsidiary DIP Labor Force Solution Fund is November 30. The financial statements as of the end of Q3 have been used for DIP Labor Force Solution Fund in the preparation of the quarterly consolidated financial statements. The consolidated statements have been adjusted to reflect significant transactions that took place between the end of Q3 and the consolidated quarter-end date.

4. Accounting policies

(1) Valuation of major assets

(i) Securities

Available-for-sale securities

Fair value available: At market, based on market quotes at closing date (net unrealized gains or losses are reported as a component of shareholders' equity and cost of securities sold is calculated by the moving-average method)

Fair value not available: At cost using the moving-average method

(ii) Inventories

Supplies: Valued at cost using the last purchase method (the carrying value on the balance sheet is written down to reflect the effect of lower profit margins)

(2) Depreciation of major fixed assets

(i) Property, plant and equipment

Property, plant and equipment are depreciated using the declining-balance method, except for buildings which are depreciated using the straight-line method.

However, facilities attached to buildings and structures acquired on or after April 1, 2016 are depreciated using the straight-line method.

The principal useful lives are as follows.

Buildings: 3–47 years

Structures: 15–20 years

Vehicles: 5 years

Tools, furniture and fixtures: 2–20 years

(ii) Intangible assets

Intangible assets are amortized using the straight-line method.

Software for internal use is amortized over the period of internal use, i.e., 5 years.

(3) Major reserves

(i) Allowance for doubtful accounts

As contingency against losses from default of notes and accounts receivable, an allowance equal to the estimated amount of uncollectible receivables is provided for ordinary receivables based on historical bad debt ratios and for certain receivables such as highly doubtful receivables based on collectability estimated on an individual basis.

(ii) Allowance for refunds

As contingency against losses from future refunds of placement fees of Nurse de Hatarako, a job agency service for nurses, an amount equal to the amount of refunds expected in the future has been set aside.

(iii) Provision for bonuses

As contingency against the payment of bonuses to employees, a provision for bonuses has been set aside based on the estimated payment amount to be borne at the end of FY2021 Q3.

(iv) Provision for share-based remuneration

As contingency against the provision of Company shares to employees based on the Share Allotment Regulations, an estimated amount has been set aside in accordance with the points allotted to employees at the end of FY2021 Q3.

(v) Provision for share-based remuneration for directors (and other officers)

As contingency against the provision of Company shares to directors based on the Share-based Remuneration Regulations, an estimated amount has been set aside in accordance with the points allotted to incumbent directors at the end of FY2021 Q3.

(4) Definition of “cash (cash and cash equivalents)” in consolidated statement of cash flows

Cash and cash equivalents as shown in the consolidated statement of cash flows consist of cash in hand, bank deposits that can be withdrawn or converted to cash at immediate notice, and short-term investments with maturities of no more than 3 months from acquisition date that carry minimal risk of fluctuations in value.

(5) Other bases of presenting consolidated financial statements

Accounting of consumption tax, etc.:

Consumption tax, etc. are accounted for by the tax-exclusion method.

(Notes on Material Changes in Shareholders' Equity)

In accordance with the resolution of the Board of Directors meeting held on May 27, 2020, the Company provided 1,000,549 treasury shares, or ¥640,250 thousand, as restricted stock-based compensation and recorded a gain on disposal of treasury shares of ¥2,190,302 thousand as capital surplus. In addition, based on the resolution of the Board of Directors meeting held on July 8, 2020, the Company cancelled 1,860,000 treasury shares on July 31, 2020. As a result, capital surplus and treasury shares each decreased by ¥1,190,212 thousand.

Due to the above, capital surplus and treasury shares at the end of FY2021 Q3 stood at ¥3,212,376 thousand and ¥2,290,865 thousand, respectively.

(Segment Information etc.)

[Segment information]

Nine months ended November 31, 2020

1. Information on amounts of sales and profit or loss by reported segment

(Thousand Yen)

	Reported segment Total (Note 1)			Adjustment (Note 1)	Amount recorded in statement of income (Note 2)
	Personnel recruiting services business	AI/RPA business	Total		
Sales					
Sales — outside customers	24,056,611	477,812	24,534,424	-	24,534,424
Sales and transfer — inter-segment	-	-	-	-	-
Total	24,056,611	477,812	24,534,424	-	24,534,424
Segment profit (loss)	9,415,959	(484,995)	8,930,964	(2,992,293)	5,938,671

(Notes) 1. Adjustment of segment profit (loss) of (¥2,992,293 thousand) is corporate expenses not allocated to any reported segment. Corporate expenses are mainly selling, general, and administrative expenses that are not attributable to reported segments.

2. Segment profit (loss) was adjusted with operating income on the statement of income.

2. Information on impairment loss or goodwill, etc. on non-current assets by reported segment

Not applicable.

(Significant Subsequent Events)

None

(Reference Information)

(1) Statement of Income

(Thousand Yen)

	Nine months ended November 30, 2019	Nine months ended November 30, 2020	Change (yen)	Change (%)
Sales	34,751,131	24,534,424	(10,216,707)	(29.4)
Cost of sales	2,243,144	2,394,455	151,310	6.7
Gross profit	32,507,986	22,139,968	(10,368,018)	(31.9)
Selling, general and administrative expenses	21,332,664	16,168,206	(5,164,457)	(24.2)
Operating income	11,175,322	5,971,762	(5,203,560)	(46.6)
Non-operating income				
Interest income	2,590	2,584	(5)	(0.2)
Dividend income of insurance	2,145	14,887	12,742	594
Insurance claim income	17,766	5,353	(12,413)	(69.9)
Other	13,720	10,263	(3,457)	(25.2)
Total non-operating income	36,222	33,089	(3,132)	(8.6)
Non-operating expenses				
Loss on investments in investment partnerships	-	32,760	32,760	-
Loss on amortization of restricted share-based payment	-	64,990	64,990	-
Other	3,631	9,893	6,262	172.5
Total non-operating expenses	3,631	107,643	104,012	2,864.5
Ordinary income	11,207,913	5,897,208	(5,310,705)	(47.4)
Extraordinary income				
Gain on reversal of share acquisition rights	34,270	199,490	165,220	482.1
Total extraordinary income	34,270	199,490	165,220	482.1
Extraordinary losses				
Loss on valuation of investment securities	2,758	5,017,997	5,015,239	181,843.3
Loss on sales of shares of subsidiaries and associates	152,600	-	(152,600)	(100.0)
Loss on valuation of shares of subsidiaries and associates	-	810,040	810,040	-
Total extraordinary losses	155,358	5,828,038	5,672,680	3,651.4
Net income before income taxes	11,086,825	268,660	(10,818,165)	(97.6)
Income-taxes - current	3,319,814	1,646,009	(1,673,805)	(50.4)
Income taxes - deferred	125,342	(1,558,879)	(1,684,221)	(1,343.7)
Total income taxes	3,445,157	87,129	(3,358,027)	(97.5)
Net income	7,641,668	181,530	(7,460,137)	(97.6)

(2) Statement of Cash Flows

(Thousand Yen)

	Nine months ended November 30, 2019	Nine months ended November 30, 2020
Cash flow from operating activities		
Net income before income taxes	11,086,825	268,660
Depreciation	1,243,119	1,486,156
Share-based remuneration expenses	168,169	325,560
Interest and dividend income	(2,590)	(2,584)
Insurance claim income	(17,766)	(5,353)
Commission expenses	968	9,262
Gain on reversal of share acquisition rights	(34,270)	(199,490)
Loss (gain) on valuation of investment securities	2,758	5,017,997
Loss on sales of shares of subsidiaries and associates	152,600	-
Loss on valuation of shares of subsidiaries and associates	-	810,040
Loss on investments in investment partnerships	-	32,760
Decrease (increase) in trade receivables	(599,700)	2,106,432
Increase (decrease) in trade payables	(22,443)	(40,195)
Increase (decrease) in unearned revenue	17,647	(45,410)
Increase (decrease) in accounts payable - other	(179,585)	(1,953,217)
Increase (decrease) in allowance for doubtful accounts	(3,905)	(5,272)
Increase (decrease) in provision for bonuses	(99,398)	(110,566)
Increase (decrease) in provision for repayment	(8,545)	(6,618)
Decrease (increase) in other assets	(156,709)	97,782
Increase (decrease) in other liabilities	547,258	(680,423)
Other, net	26,899	42,199
Subtotal	12,121,330	7,147,720
Interest and dividends received	44	38
Proceeds from insurance income	17,766	5,353
Income taxes paid	(3,971,214)	(3,430,018)
Cash flow from operating activities	8,167,926	3,723,094
Cash flows from investing activities		
Purchase of property, plant and equipment	(182,213)	(145,631)
Purchase of intangible assets	(1,602,032)	(2,267,408)
Purchase of investment securities	(439,088)	(9,519,461)
Payments of leasehold and guarantee deposits	(9,321)	(4,246)
Proceeds from refund of leasehold and guarantee deposits	18,355	4,969
Payments for asset retirement obligations	(11,200)	-
Purchase of shares of subsidiaries and associates	(380,490)	-
Proceeds from sales of shares of subsidiaries and associates	100,000	-
Payments for investments in capital of subsidiaries and associates	-	(374,848)
Cash flows from investing activities	(2,505,991)	(12,306,627)
Cash flow from financing activities		
Purchase of treasury shares	(1,805,225)	-
Proceeds from sales of treasury shares	60,102	66,483
Proceeds from exercise of employee share options	12,363	-
Dividends paid	(2,983,012)	(3,150,849)
Other	(968)	(9,262)
Cash flow from financing activities	(4,716,740)	(3,093,629)
Increase (decrease) in cash and cash equivalents	945,194	(11,677,162)
Cash and cash equivalents at beginning of period	14,741,455	19,241,526
Cash and cash equivalents at end of period	15,686,649	7,564,364

(3) Selling, general and administrative expenses

The breakdown of SG&A in accordance with the categories stated in the presentation materials is disclosed below.

Selling, general and administrative expenses

(Thousand Yen)

	Nine months ended November 30, 2019	Nine months ended November 30, 2020	Change (yen)	Change (%)
Personnel expenses (Note)	9,168,907	9,595,407	426,500	4.7
Advertising and sales promotion expenses	8,936,964	3,542,283	(5,394,681)	(60.4)
Rent expenses on land and buildings	795,160	871,451	76,291	9.6
Other	2,431,632	2,159,063	(272,568)	(11.2)
Total	21,332,664	16,168,206	(5,164,457)	(24.2)

(Note) Personnel expenses include salaries, welfare benefits, etc., as well as recruitment-related expenses and educational expenses.

(4) Segment Information

I Nine months ended November 30, 2019

1. Information on amounts of sales and profit or loss by reported segment

(Thousand Yen)

	Reported segment		Other (Note 1)	Total	Adjustment (Note 2)	Amount recorded in statement of income (Note 3)
	Personnel recruiting services business	AI/RPA business				
Sales						
Sales — outside customers	34,743,145	7,985	-	34,751,131	-	34,751,131
Sales and transfer — inter-segment	-	-	-	-	-	-
Total	34,743,145	7,985	-	34,751,131	-	34,751,131
Segment profit (loss)	14,448,475	(320,209)	245	14,128,510	(2,953,188)	11,175,322

(Notes) 1. The “Others” segment includes businesses not included in the reported segments such as the BANQ business.

2. Adjustment of segment profit (loss) of (¥2,953,188) is corporate expenses not allocated to any reported segment. Corporate expenses are mainly selling, general, and administrative expenses that are not attributable to reported segments.

3. Segment profit (loss) was adjusted with operating income on the statement of income.

2. Information on impairment loss or goodwill, etc. on non-current assets by reported segment

Not applicable.

II Nine months ended November 30, 2020

1. Information on amounts of sales and profit or loss by reported segment

(Thousand Yen)

	Reported segment			Adjustment (Note 1)	Amount recorded in statement of income (Note 2)
	Personnel recruiting services business	AI/RPA business	Total		
Sales					
Sales — outside customers	24,056,611	477,812	24,534,424	-	24,534,424
Sales and transfer — inter-segment	-	-	-	-	-
Total	24,056,611	477,812	24,534,424	-	24,534,424
Segment profit (loss)	9,415,959	(484,995)	8,930,964	(2,959,202)	5,971,762

(Notes) 1. Adjustment of segment profit (loss) of (¥2,959,202) is corporate expenses not allocated to any reported segment.

Corporate expenses are mainly selling, general, and administrative expenses that are not attributable to reported segments.

2. Segment profit (loss) was adjusted with operating income on the statement of income.

2. Information on impairment loss or goodwill, etc. on non-current assets by reported segment

Not applicable.

3. Matters related to changes in reported segments

In FY2020, under its new corporate vision of becoming a “Labor force solution company”, the Company began developing and providing a service utilizing AI/RPA (digital labor force) in addition to its activities assisting clients in recruiting a human work force. In view of ongoing efforts to strengthen the services of the AI/RPA business and the future expansion of the business, the business is no longer included in the “other” segment effective FY2021 Q1 but is reported as a separate segment due to an increase in its quantitative significance.

Segment information for the nine months ended November 30, 2019 has been restated to reflect the change in reported segments.

(Note) English documents are prepared as a courtesy to our stakeholders. In the event of any inconsistency between English-language documents and the Japanese-language documents, the Japanese-language documents will prevail.