

# Link and Motivation Inc.

## Consolidated Financial Information

### for the Fiscal Year Ended December 31, 2015



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Link and Motivation Group



1. Completion of Measures to Prevent a Recurrence of Improper Accounting
2. Announcement of Results for 2015
3. Plan for 2016
4. Topics

# 1

## Completion of Measures to Prevent a Recurrence of Improper Accounting

# Progress of Measures to Prevent a Recurrence of Improper Accounting

## Measures implemented to prevent a recurrence based on the findings of the Special Investigation and Verification Committee

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- Improve approval and purchasing processes, strengthen checks and balances

Completed

⇒ Begin application using new restructured processes

- Raise awareness of compliance

⇒ Conduct training for all Group employees in early October

Completed

⇒ Start training with enhanced content from mid-November

- Strengthen and expand internal auditing

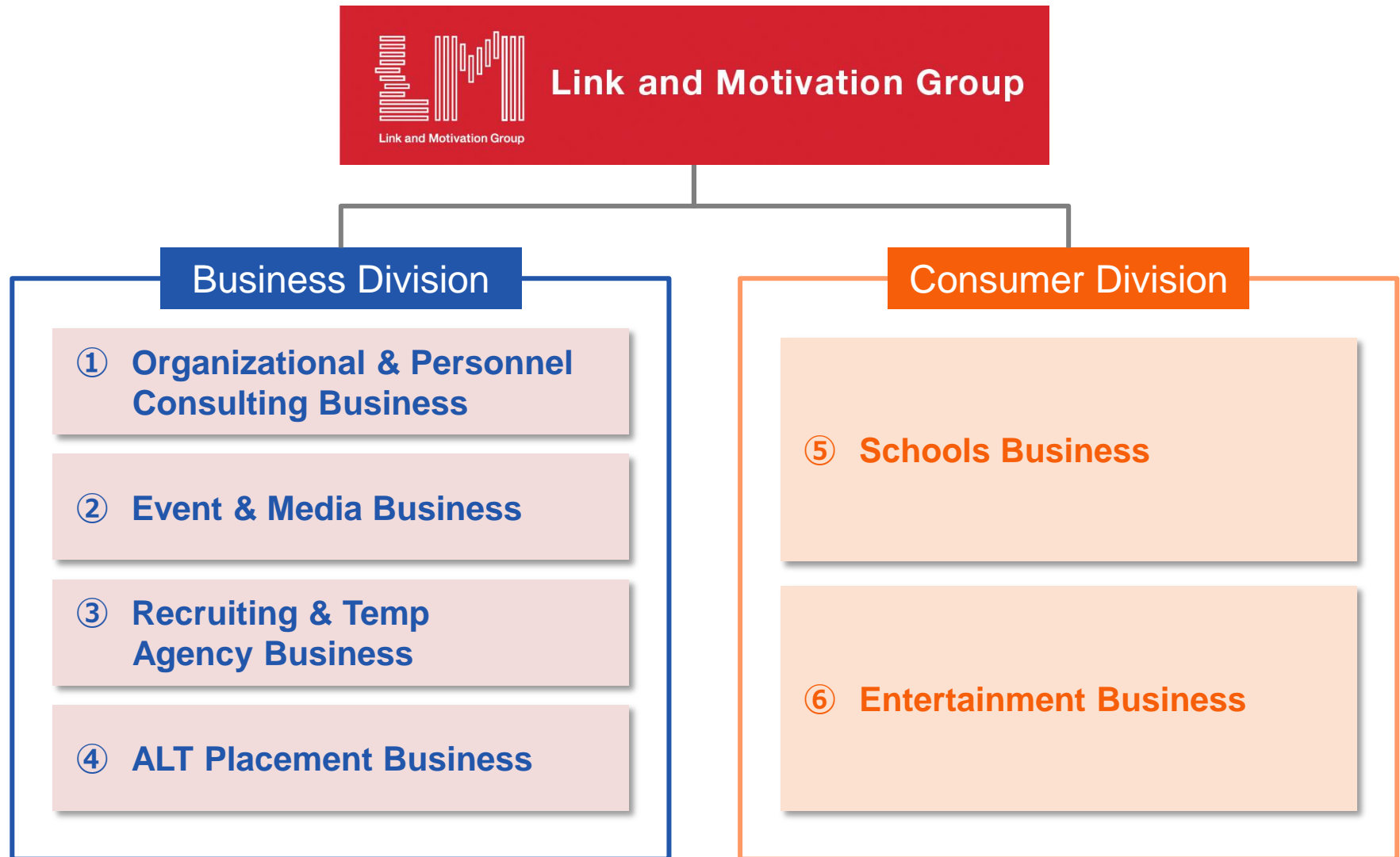
Completed

⇒ Expand the effective scope of evaluation of internal controls

# 2

## Announcement of Results for 2015

# Link and Motivation Group Operating Structure



# Overview of Business Structure

## LM Group

### Business Division

#### ① Organizational & Personnel Consulting Business

Organizational/personnel consulting focused on employee motivation  
⇒ Offers organizational diagnostics, education and training, HR system building, recruiting consulting, etc.

#### ② Event & Media Business

Event planning and management/media production focused on organizational communication  
⇒ Offers anniversary events, recruiting events, PR/IR tools, webcasting, etc.

#### ③ Recruiting & Temp Agency Business

Recruiting/temp staffing to meet corporate HR needs  
⇒ Offers recruitment of new graduates/mid-career hires, temp staffing for sales and clerical workers, etc.

#### ④ ALT Placement Business

Dispatch of ALTs to meet needs for teachers at educational institutions  
⇒ Offers ALT dispatch/contracts for elementary/secondary schools throughout Japan

### Consumer Division

#### ⑤ Schools Business

School management with the concept of “developing i-companies”  
⇒ Management of career schools such as Aviva PC schools and Daiei qualification schools; management of Motivation Academia preparatory schools

#### ⑥ Entertainment Business

Providing entertainment with the concept of “creating quality of life” for individuals  
⇒ Management of Link Tochigi Brex basketball team, Link Dining restaurant

# Consolidated Statements of Operations (Results vs. Plan/YoY Change)

(¥ million)	2014 Results	2015 Plan	2015 Results	Results vs. Plan	YoY Change
Net Sales	28,873	31,800	31,950	+0.5%	+10.7%
Operating Income	1,751	1,050	868	-17.3%	-50.5%
Ordinary Income	1,665	1,000	767	-23.3%	-53.9%
Net Income	950	680	-316	-	-

- Due to the addition of Interac to the scope of consolidation, net sales slightly exceeded the plan and increased substantially YoY.
- On the other hand, due to higher SG&A expenses caused by an increase in the cost ratio in the Business Division, dealing with improper accounting and other factors, operating income fell substantially, both compared with the plan and YoY.
- Recorded a net loss due to a profit balance among Group companies that resulted in higher-than-expected taxes, proactive reduction of the present value of incubation companies with unfavorable results, and the carryover of the right to apply a tax refund to next year's projected net income.



# Consolidated Statements of Operations: SG&A Expenses (Results/YoY Change)

(¥ million)	2014 Results	2015 Results	YoY Change
Personnel Expenses	3,780	4,298	13.7%
Recruiting, Training and Welfare Expenses	390	516	32.3%
Rent	619	674	8.9%
Office and System Expenses	790	1,031	30.5%
Sales-related Expenses	1,626	1,765	8.5%
Transportation and Other Expenses	721	788	9.3%
Amortization of Goodwill	675	733	8.6%
Expenses for Dealing with Improper Accounting	-	212	-
Total SG&A Expenses	8,604	10,021	16.5%

- Overall YoY increase due to addition of Interac Co., Ltd. (amount of impact: ¥678 million)
- Due to establishment of integrated offices and renewal of core systems to promote business synergy within the Group, rent and office and system expenses increased. (amount of impact: ¥214 million)
- Recorded one-time expenses for auditor compensation, etc., to deal with improper accounting (amount of impact: ¥212 million)
- Due to an increase in employees caused by the expansion of the size of the business, personnel expenses increased (amount of impact: ¥128 million)

# Sales and Gross Profit by Segment (Results/YoY Change)

(¥ million) [Gross profit in brackets]		2014 Results	2015 Results	YoY Change
Business Division	Sales	21,532	25,096	+16.6%
	Gross Profit	[7,826]	[8,187]	+4.6%
Consumer Division	Sales	8,429	7,840	-7.0%
	Gross Profit	[3,031]	[3,052]	+0.7%

- In the Business Division, with the contribution of the addition of Interac Co., Ltd. to the scope of consolidation, sales increased substantially and gross profit increased YoY.
- In the Consumer Division, due to the impact of closure or consolidation of unprofitable locations in the Schools Business, sales decreased YoY. However, by improving the profit structure, gross profit increased slightly YoY.

# Business Division: Product Sales by Business (Results/YoY Change)

(¥ million) [Gross profit in brackets]		2014 Results	2015 Results	YoY Change
① Organizational & Personnel Consulting Business		6,077 [3,500]	6,480 [3,413]	+6.6% -2.5%
	Package	2,280	2,226	-2.4%
	Consulting	2,732	2,766	+1.2%
	Outsourcing <sup>1</sup>	494	915	+85.2%
	Database	430	415	-3.5%
	Member services	142	156	+9.9%
② Event & Media Business		2,965 [1,097]	3,280 [922]	+10.6% -15.9%
	Event production	2,142	2,236	+4.4%
	Media production	823	1,044	+26.8%

(¥ million) [Gross profit in brackets]		2014 Results	2015 Results	YoY Change
③ Recruiting & Temp Agency Business		7,491 [1,838]	7,503 [1,792]	+0.2% -2.5%
	Store temp staff	5,905	5,978	+1.2%
	Sales temp staff	161	139	-13.7%
	Office temp staff	233	604	+159.2%
	Contract sales <sup>1</sup>	652	227	-65.2%
	New graduates	481	487	+1.2%
	Mid-career	59	64	+8.5%
④ ALT Placement Business <sup>2</sup>		6,957 [1,788]	9,820 [2,623]	+41.1% +46.7%

2. ALT (Assistant Language Teacher): Foreign language teaching assistant in elementary and middle schools

1. Contract sales in ③ are recorded under Outsourcing in ① from the second quarter of 2015.

- ① The Organizational & Personnel Consulting Business captured needs for sales and recruiting, and sales increased, but due to an increase in outsourcing costs in the recruiting field, gross profit decreased slightly.
- ② The Event & Media Business captured needs for video and print media and sales increased substantially, but due to an increase in outsourcing costs in the recruiting field, gross profit decreased substantially.
- ③ The Recruiting & Temp Agency Business captured corporate needs to increase personnel and sales increased slightly, but due to high personnel procurement costs, gross profit decreased slightly.
- ④ In the ALT Placement Business, sales and gross profit both grew steadily as the number of instructors increased smoothly.

# Consumer Division: Product Sales by Business (Results/YoY Change)

(¥ million)		2014		2015		YoY Change
		Results	% of total	Results	% of total	
⑤	Schools Business	7,773 [2,729]	-	7,114 [2,732]	-	-8.5% <b>+0.1%</b>
	PC courses	4,018	52%	3,618	51%	-9.9%
	Civil servant courses	795	10%	903	13%	<b>+13.6%</b>
	Accounting courses	667	9%	562	8%	-15.7%
	National exam courses	470	6%	506	7%	<b>+7.7%</b>
	Corporate training, etc.	1,109	14%	977	14%	-11.9%
	Sales of educational materials, etc.	404	5%	327	5%	-19.1%
	Sales of tests, etc.	65	1%	81	1%	<b>+25.4%</b>
	Preparatory schools	242	3%	136	2%	-43.8%
⑥	Entertainment Business	690 [315]	-	768 [339]	-	<b>+11.3%</b> <b>+7.6%</b>

- In the Schools Business, due to the closure or consolidation of unprofitable locations (128 schools → 108 schools), sales decreased YoY. Despite progress in improving the profit structure, gross profit was basically unchanged.
- Amid an overall decrease in sales due to closure or consolidation of locations, sales of civil servant courses and national exam courses remained firm and increased substantially YoY.
- Preparatory school sales decreased substantially YoY with the impact of the strategic withdrawal from the Kashiwa School (sales at existing schools increased 22.1% YoY).
- In the Entertainment Business, ticket and sponsorship income increased due to the strong performance of the Link Tochigi Brex, and sales increased substantially and gross profit increased YoY.

# Consolidated Balance Sheets (Results/YoY Change)

(¥ million)	Dec. 31, 2014	Dec. 31, 2015	YoY Change
Current Assets	6,198	5,851	-347
Property and Equipment	11,687	11,616	-71
Assets Carried Over	10	6	-4
Total Assets	17,896	17,474	-422
Current Liabilities	7,785	8,866	1,081
Long-term Liabilities	3,276	2,575	-701
Net Assets	6,834	6,032	-802
Total Liabilities and Net Assets	17,896	17,474	-422

- Current liabilities increased substantially due to short-term borrowings for funds to pay taxes.
- Long-term liabilities decreased steadily due to the regular repayment of long-term debt.
- Due to a decrease in net assets, the net worth ratio decreased to 34.5%.

- Dividend Policy for 2015

- Dividends paid quarterly

- Scheduled fourth-quarter dividend for 2015

- A dividend of 110 yen per unit is scheduled to be paid on Friday, March 25 as planned.

	First Quarter (Actual)	Second Quarter (Actual)	Third Quarter (Actual)	Fourth Quarter (Scheduled)
Dividend per unit	110 yen	110 yen	110 yen	<b>110 yen</b>

# 3

## Plan for 2016



# 2016 Plan for Consolidated Statements of Operations

(¥ million)	2015	2016	YoY Change
	Results	Plan	
Net Sales	31,950	33,600	+5.2%
Operating Income	868	1,620	+86.6%
Ordinary Income	759	1,570	+106.9%
Net Income	-302	750	-

- Net sales are expected to increase YoY and operating income and the line items below it are expected to increase substantially YoY.
- A major factor is expected growth in the high-profit-margin Business Division. In addition, progress is being made in reducing outsourcing expenses and cutting costs.
- Adoption of International Financial Reporting Standards (IFRS) is under consideration to improve international comparability of financial reporting.
- If IFRS is adopted the largest impact will be on amortization of goodwill.

Note: In 2016, operating income before amortization of goodwill is forecast to be ¥2,350 million.



# 2016 Plan for Sales and Gross Profit by Segment

(¥ million) [Gross profit in brackets]		2015 Results	2016 Plan	YoY Change
Business Division	Sales	25,096	26,500	+5.6%
	Gross Profit	[8,187]	[8,700]	+6.3%
Consumer Division	Sales	7,840	7,500	-4.3%
	Gross Profit	[3,052]	[3,000]	-1.7%

- In the Business Division, sales and gross profit are both expected to increase YoY.
- In the Consumer Division, sales and gross profit are both expected to decrease slightly YoY.

# 2016 Plan for Business Division Sales and Gross Profit

	(¥ million) [Gross profit in brackets]	2015 Results	2016 Plan	YoY Change
①	Organizational & Personnel Consulting Business*	6,480 [3,413]	7,700 [4,000]	+18.8% +17.2%
②	Event & Media Business	3,280 [922]	3,500 [1,000]	+6.7% +8.3%
③	Recruiting & Temp Agency Business*	7,503 [1,792]	8,000 [1,900]	+6.6% +6.0%
④	ALT Placement Business	9,820 [2,623]	10,300 [2,800]	+4.9% +6.7%

\* With the establishment of Link Relation Engineering Inc., sales contract services have been transferred from the Recruiting & Temp Agency Business to the Organizational & Personnel Consulting Business

- ① Organizational & Personnel Consulting Business: Sales and gross profit are both expected to increase substantially YoY.  
Consulting for major companies is already strong. The Group will also introduce a new service.
- ② Event & Media Business: Sales and gross profit are both expected to increase YoY.  
The Group will expand event and media production for major companies.
- ③ Recruiting & Temp Agency Business: Sales and gross profit are both expected to increase YoY.  
The Group will deal with the corporate personnel shortage.
- ④ ALT Placement Business: Sales and gross profit are both expected to increase YoY.  
Steady growth expected amid Japan's trend toward developing global human resources.

# 2016 Plan for Consumer Division Sales and Gross Profit by Business

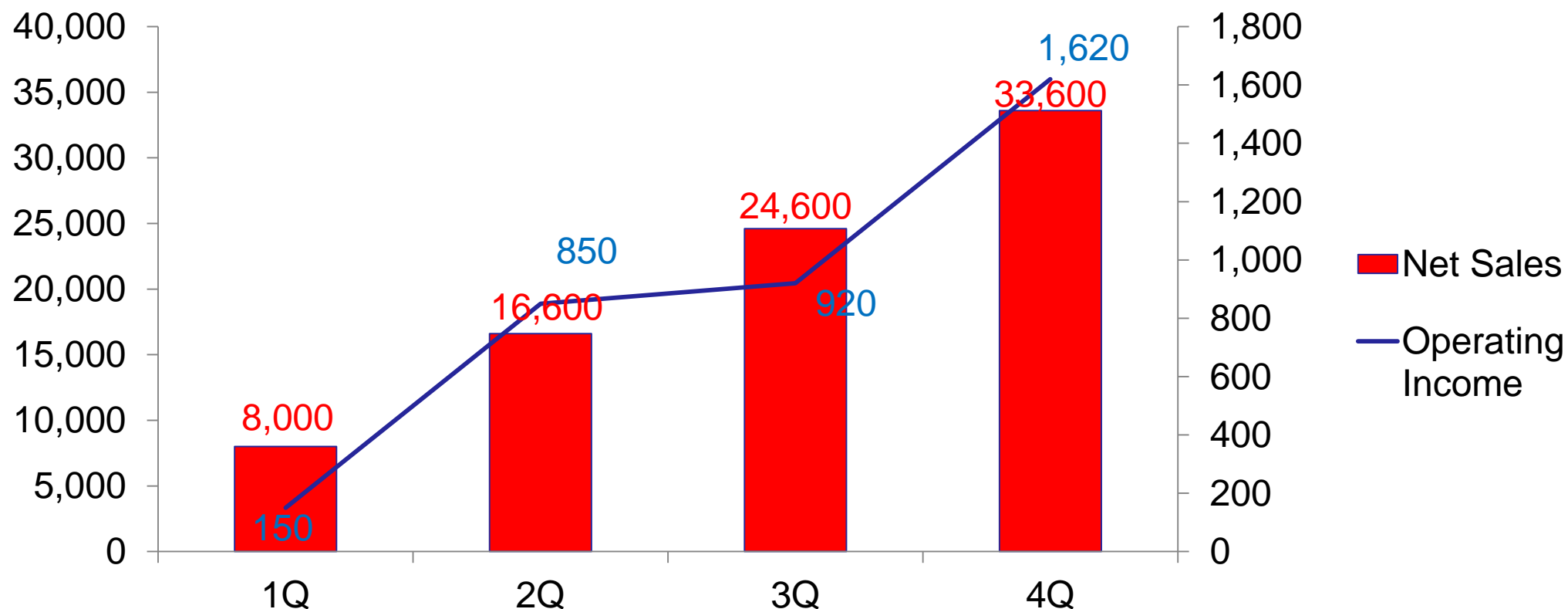
(¥ million) [Gross profit in brackets]		2015 Results	2016 Plan	YoY Change
⑤	Schools Business	7,114	6,800	-4.4%
		[2,731]	[2,700]	-1.1%
⑥	Entertainment Business	768	780	+1.4%
		[339]	[340]	+0.3%

- ⑤ Schools Business: Sales and gross profit are both expected to decrease YoY.  
The Group will work to increase the profit margin while continuing to strengthen links between learning and work, centered on AVIVA-PRO.
- ⑥ Entertainment Business: Sales and gross profit are both expected to increase slightly YoY.

# 2016 Plan for Consolidated Net Sales and Operating Income

Net Sales

Operating Income



- Steady growth in net sales expected in each quarter
- Significant increases in operating income forecast for the second and fourth quarters. Substantial growth expected in high-profit-margin personnel recruiting and training services in the Organizational & Personnel Consulting Business.

# 4

## Topics



# Topic 1: Dividend Increase

- From 2016, we plan a dividend increase of 15 yen compared with the previous year
  - Dividend per unit: 110 yen  $\Rightarrow$  125 yen
  - Annual dividends: 440 yen  $\Rightarrow$  500 yen

	First Quarter Dividend Forecast	Second Quarter Dividend Forecast	Third Quarter Dividend Forecast	Fourth Quarter Dividend Forecast
Dividends per unit	125 yen	125 yen	125 yen	125 yen
Number of shares in a unit	100	100	100	100

## Topic 2: Strengthening Management

**Candidate for Outside Director** (Pending approval at shareholders meeting to be held on March 30, 2016)

**Etsuko Okajima, President and Representative Director of ProNova Inc.**

### Employment History

1989	Graduated from College of International Studies, University of Tsukuba
1989	Entered Mitsubishi Corporation
2000	MBA from Harvard Business School
2001	Entered McKinsey & Company
2002	Entered Globis Management Bank, Inc.
2005	Representative Director of Globis Management Bank, Inc.
2007	Established ProNova Inc. as representative director

### Current Positions

President and Representative Director of ProNova Inc.

Professor, Graduate School of Management, Globis University

Outside Director of Astellas Pharma, Inc.

External Director of Marui Group Co., Ltd.

Outside Director of Lancers, Inc.

External Director of Septeni Holdings Co., Ltd.



# Topic 3: Approval of Listing of Incubation Business

## Akatsuki Inc.

**Established:** 2010

**Representatives:** Genki Shiota, CEO  
Tetsuro Kouda, COO

**Employees:** 65 (as of December 31, 2015)

**Capital:** ¥1,400,860 thousand

**Society vision:** “A society that develops  
with emotion as a reward”

**Mission:** “Making the world happy with the  
power of games”

**Business:** Planning and development of smartphone  
services and social network apps



- For the 12 incubation businesses other than Akatsuki Inc., we will continue to provide organizational as well as capital support.



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