Consolidated Financial Statements for the Six Months Ended June 30, 2020 (IFRS)

These financial statements have been prepared for reference only.

August 7, 2020

Link and Motivation Inc. Stock exchange listing: Tokyo
Code number: 2170 https://www.lmi.ne.jp/english
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Filing of Quarterly Report (*Shihanki Hokokusho*) (scheduled): August 7, 2020
Start of distribution of dividends (scheduled): September 25, 2020
Supplementary documents for quarterly results: No
Quarterly results briefing: No

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for the Six Months Ended June 30, 2020 (January 1, 2020 – June 30, 2020)

(1) Revenues and Income (Percentages represent change compared with the same quarter of the previous year.)

	Revenues (¥ million)	Change (%)	Operating income (¥ million)	Change (%)	Income before income taxes (¥ million)	Change (%)	Net income (¥ million)	Change (%)
Six months ended June 30, 2020	17,400	(9.1)	767	(47.9)	702	(50.8)	443	(49.6)
Six months ended June 30, 2019	19,134	(4.3)	1,471	(30.4)	1,426	(32.0)	879	(34.6)

	Net income attributable to owners of the parent (¥ million)	Change (%)	Comprehensive income (¥ million)	Change (%)	Basic earnings per share (¥)	Diluted earnings per share (¥)
Six months ended June 30, 2020	383	(56.5)	(399)	(150.9)	3.66	3.66
Six months ended June 30, 2019	883	(35.8)	785	(54.6)	8.36	8.34

(2) Financial Position

	Total assets (¥ million)	Total equity (¥ million)	Equity attributable to owners of the parent (¥ million)	Ratio of equity attributable to owners of the parent to total assets (%)
As of June 30, 2020	46,600	7,224	6,075	13.0
As of December 31, 2019	44,787	7,033	7,043	15.7

2. Dividends

	Dividends per share				
	1st Qtr.	2nd Qtr.	3rd Qtr.	Year-end	Total
2019	1.80	1.80	1.80	1.80	7.20
2020	1.80	1.80			
2020 (est.)			1.80	1.80	7.20

Note: Revisions since the most recently announced dividend forecast: No

3. Forecast of Consolidated Results for 2020 (January 1, 2020 – December 31, 2020)

(Percentages represent change compared with the previous fiscal year.)

	Revenues (¥ million)	(%)	Operating income (¥ million)	(%)	Net income (¥ million)	(%)	Net income attributable to owners of the parent (¥ million)	(%)	Basic earnings per share (¥)
Full-year	34,000	(11.0)	(2,700)	–	(3,650)	–	(3,600)	–	(34.31)

Note: Revisions since the most recently announced forecast of results: Yes

Adjusted operating income for year ending December 31, 2020: ¥1,000 million (-66.3%)

Adjusted operating income is a profit indicator that measures operating results by excluding temporary factors such as impairment of goodwill, right-of-use assets and fixed assets from operating income.

Regarding the revised forecast of results for the fiscal year ending December 31, 2020, see "Notice Concerning Revision of the Forecast of Results" announced today (August 7, 2020).

Notes

(1) Changes in Significant Subsidiaries during the Period: Yes

(2) Changes in Accounting Policies and Changes in Accounting Estimates
(a) Changes in accounting policies required by IFRS: Yes
(b) Changes in accounting policies other than (a) above: No
(c) Changes in accounting estimates: No

(3) Number of Shares Issued and Outstanding (Common Stock)
(a) Number of shares at the end of the period (including treasury stock)
Six months ended June 30, 2020: 113,068,000; Year ended December 31, 2019: 113,068,000
(b) Number of treasury shares at the end of the period:
Six months ended June 30, 2020: 8,145,796; Year ended December 31, 2019: 8,145,796
(c) Average number of shares outstanding (cumulative with earlier quarters):
Six months ended June 30, 2020: 104,922,204; Six months ended June 30, 2019: 105,622,237

*** These Financial Statements Are Not Subject to Review by a Certified Public Accountant or Auditing Firm**

*** Explanation of the Proper Use of Performance Forecasts and Other Special Instructions**
Consolidated forecasts and other statements regarding the future contained in this document are based on information currently available to the Company and certain reasonable assumptions. Actual performance may differ substantially due to numerous factors.

Contents of Attachments

1. Overview of Results of Operations and Other Information

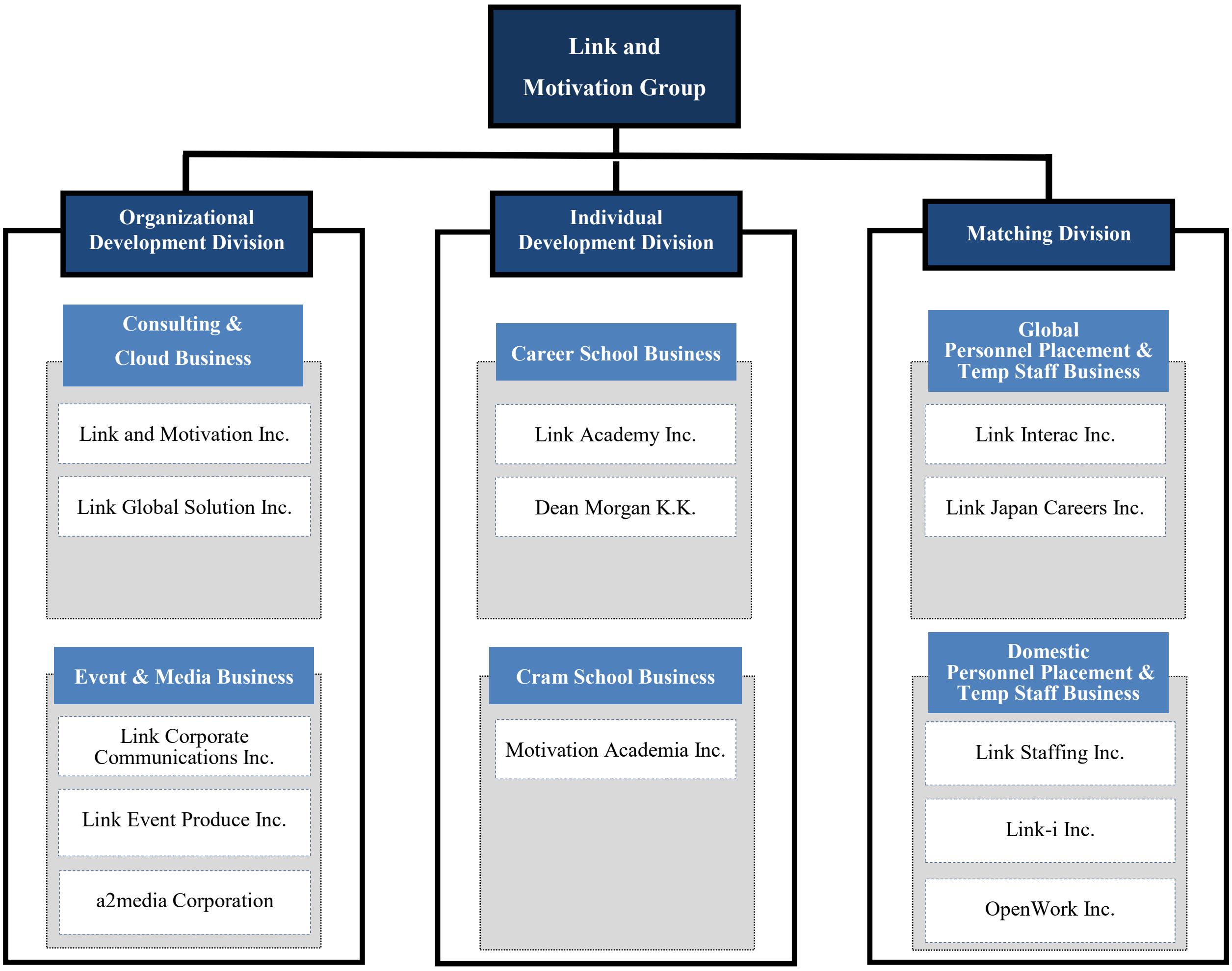
(1) Overview of Results of Operations for the Six Months Ended June 30, 2020

The Link and Motivation Group (the "Group") supports the transformation of numerous companies and individuals using "Motivation Engineering," which is the Group's core technology, backed by psychology, behavioral economics, social systems theory and other disciplines, under its corporate philosophy: "Through Motivation Engineering, we provide opportunities to transform organizations and individuals and create a more meaningful society." In industries related to the Group, the market grew moderately as demand increased for facilitation of higher labor productivity and personnel recruiting associated with the promotion of work style reform. However, since February 2020, the novel coronavirus ("COVID-19") pandemic has had a substantial impact. Even after the end of the state of emergency in Japan, concerns persist about a second or third wave in various regions, and the economic outlook remains uncertain due to the ongoing slowdown in recovery of personal consumption and curtailment of corporate hiring.

In this economic environment, the Group's revenues were ¥17,400 million (a 9.1% decrease compared with the same period of the previous year), gross profit was ¥7,142 million (a 5.3% decrease), operating income was ¥767 million (a 47.9% decrease) and net income attributable to owners of the parent was ¥383 million (a 56.5% decrease).

The segment and business classifications of the Group are as shown below, and an overview of the six months ended June 30, 2020 (the "first half of 2020") by segment and business follows.

As of the first quarter of 2020, business classifications have changed due to the inclusion of OpenWork Inc. in the scope of consolidation. Figures for the same period of the previous year have been restated for the purpose of comparison.



Organizational Development Division

The Organizational Development Division offers corporate customers services that provide support for building and strengthening relationships with a company's stakeholders (employees, job applicants, customers, shareholders) using "Motivation Engineering," which is the core technology of the Group.

In this segment, segment revenues for the first half of 2020 were ¥4,885 million (a 16.3% decrease), and segment income was ¥3,348 million (a 13.0% decrease), both decreasing substantially compared with the same period of the previous year. An overview of operating results by business for the first half of 2020 is as follows.

Consulting & Cloud Business

The Consulting & Cloud business acts under the concept of creating numerous "Motivation Companies" in which employee motivation is the growth engine of an organization. As its method of providing services, the business diagnoses employee engagement based on its original diagnostic framework and offers one-stop solutions for innovations related to organizations and personnel, including hiring, training, systems and culture. The business is also rolling out the Motivation Cloud series of cloud-based services that allow customer companies to manage employee engagement themselves.

In this business, revenues for the first half of 2020 were ¥3,794 million (an 11.9% decrease) and gross profit was ¥3,004 million (a 12.2% decrease). Results by product in the Consulting & Cloud business were as follows.

Table 1. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Six months ended June 30, 2019	Six months ended June 30, 2020	YoY change (%)
Consulting & Cloud Business	4,306 [3,422]	3,794 [3,004]	(11.9) (12.2)
Consulting	3,227	2,502	(22.4)
Cloud	1,079	1,291	19.6

In the first half of 2020, although the business stepped up provision of online training from the first quarter onward, mainly due to the impact of postponement or cancellation of new employee training associated with the COVID-19 pandemic, first-half revenues and gross profit both decreased substantially. Going forward, the business will lay the groundwork for providing fundamental value for organizational development through diagnostics and transformation by continuing to enhance the value it provides online using "Motivation Engineering."

On the other hand, monthly fee revenue increased substantially compared with the same period of the previous year for the Motivation Cloud series of products, which are part of the Cloud category and are priority services for the Group. Progress in the number of deliveries and monthly fee revenue was as follows.

Table 2. Number of Deliveries and Monthly Fee Revenue for the Motivation Cloud Series at Quarter-End

	2019				2020	
	March	June	September	December	March	June
Number of deliveries	872	889	900	921	906	795
Monthly fee revenue (¥ thousand)	145,271	158,286	172,027	197,101	203,789	183,600

The Motivation Cloud series is a group of cloud-based services in the field of HR Tech (human resources combined with technology) for managing employee engagement (mutual understanding, empathy and commitment between companies and employees). The business began providing these subscription-model products in July 2016.

The recent environmental change of shifting to adapt to the labor market to target human resources, both employees and job applicants, is a management issue for many companies. Amid these circumstances, improving employee engagement through corporate organizational activities is a key management theme. In addition, the widespread adoption of remote work due to the COVID-19 pandemic has made it difficult to monitor employees. As a result, it is the business's stance that importance of improving employee engagement, including visualization of organizational status, is increasing.

On the other hand, during the first half there were cancellations and suspensions of Motivation Cloud, mainly among industries directly impacted by the COVID-19 pandemic, particularly small and medium-sized enterprises and venture companies whose business environment has deteriorated. As a result, total monthly fee revenue for the Motivation Cloud series of products for the month of June 2020 totaled ¥183,600 thousand.

The business will promote the continuation of contracts with existing customers and strengthen sales and development for a swift return of customers that have suspended service and work to make new introductions at major companies.

Event & Media Business

The Event & Media business produces events and media for various types of communication associated with business activities to support the "creation of Motivation Companies" at corporations. In its event production, the business assists in stimulating the interest and promoting the understanding of stakeholders through support for creation of physical and virtual forums such as anniversary events, recruiting presentations, promotional events and shareholders' meetings. In its media production, the business is involved in printed media such as company newsletters, corporate brochures and annual reports for shareholders, as well as web-based media such as corporate websites and investor relations (IR) sites and visual media such as videos that explain products and webcasts of shareholders' meetings.

In this business, revenues for the first half of 2020 were ¥1,389 million (a 25.5% decrease) and gross profit was ¥506 million (a 14.7% decrease). Results by product in the Event & Media business were as follows.

Table 3. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Six months ended June 30, 2019	Six months ended June 30, 2020	YoY change (%)
Event & Media Business	1,866 [593]	1,389 [506]	(25.5) (14.7)
Event	683	324	(52.5)
Media	1,182	1,064	(10.0)

In the first half of 2020, revenues from the Event business continued a significant decline that started in the first quarter as a result of requests to voluntarily refrain from holding events.

In the Media business, despite steady growth in revenues from IR-related media, which have low sensitivity to economic conditions, segment revenues and gross profit both decreased substantially compared with the same period of the previous year due to a decline in media production for internal use as a result of budget cuts at customer companies.

Going forward, the business will actively promote online events using its Internet, video and print production capabilities, and continue to focus on its strongly performing IR-related media business.

Individual Development Division

The Individual Development Division applies "Motivation Engineering," which is the core technology of the Group, to businesses in areas including career schools and cram schools, to offer individual customers "career navigation" services, which provide total support for independent and autonomous career creation.

In this segment, segment revenues for the first half of 2020 were ¥3,090 million (a 21.6% decrease) and segment income was ¥830 million (a 40.9% decrease). An overview of operating results by business for the first half of 2020 is as follows.

Career School Business

The Career School business defines human resources who act independently and autonomously, without depending on an organization, as "i-Companies" and supports the production of numerous "i-Companies." As for specific services, the business provides one-stop services for individual career advancement, targeting mainly university students and working adults, under the six service brands of "Aviva" personal computer schools, "Daiei" qualification schools, "Aviva Pro" programming schools, and "Rosetta Stone Learning Center," "Rosetta Stone Premium Club" and "Hummingbird" foreign language schools. Previously, the business mainly used classroom lectures to provide continuing learning support, but currently provides both in-school and online services in response to Japan's state of emergency and new lifestyles.

In this business, revenues for the first half of 2020 were ¥2,803 million (a 23.0% decrease) and gross profit was ¥705 million (a 45.5% decrease). Results by product in the Career School business were as follows.

Table 4. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Six months ended June 30, 2019	Six months ended June 30, 2020	YoY change (%)
Career School Business	3,639 [1,294]	2,803 [705]	(23.0) (45.5)
IT	2,060	1,494	(27.5)
Qualifications	1,275	1,032	(19.0)
English conversation	302	276	(8.8)

During the first half of 2020, schools were temporarily closed nationwide in April and May due to the state of emergency. Although the number of new enrollees is gradually recovering due to the restart of operations at all schools in June and the promotion of both in-school and online services, it has not been enough to cover the period when schools were closed. As a result, revenues and gross profit both decreased substantially.

This business will continue to promote online attendance of various courses.

Cram School Business

Unlike typical cram schools, the Cram School business operates under the business concept of producing numerous "i-Companies" in addition to improving the academic ability of its students. Its services consist of operating "Motivation Academia" cram schools for junior high and high school students to provide a place where students can not only prepare for school entrance exams but also develop skills to play a role in society. The business also operates "SS-1," an individualized instruction school for students preparing for junior high school entrance exams. The Cram School business utilizes its assets in programming education and English conversation education to provide a place for students from elementary school straight through to high school to develop skills that will be of use in society. Like the Career School business, it now offers both in-school and online services in response to Japan's state of emergency and new lifestyles.

In this business, revenues for the first half of 2020 were ¥289 million (a 5.9% decrease) and gross profit was ¥125 million (a 13.0% increase).

During the first half of 2020, revenues decreased compared with the same period of the previous year due to a slump in the number of new enrollees caused by temporary school closures in April and May as a result of the impact of the COVID-19 pandemic. This business has only one product.

By continuing to provide value online and applying the know-how in training adults that has been cultivated in the Consulting & Cloud business, this business aims to offer one-stop services unattainable by conventional cram schools, ranging from elementary to high school students and adults.

Matching Division

The Matching Division provides services under the concept of matching organizations with hiring needs and individuals who want to advance their careers through "motivation matching," which applies "Motivation Engineering," the core technology of the Group, to its personnel placement and temp staff businesses. Its main targets are foreign nationals who want to work in Japan, students who want to find a job, employees who want to change jobs and temporary workers.

In this segment, segment revenues for the first half of 2020 were ¥9,921 million (a 0.8% increase) and segment income was ¥3,403 million (a 26.1% increase), with segment revenues increasing slightly and segment income increasing substantially compared with the same period of the previous year. An overview of operating results by business for the first half of 2020 is as follows.

Global Personnel Placement & Temp Staff Business

The Global Personnel Placement & Temp Staff business dispatches foreign assistant language teachers (ALTs) of foreign languages to elementary, junior high and high schools throughout Japan and provides English-language instruction services on contract. In this business, where barriers to entry are extremely high due to the importance placed on relationships of trust with customers and a company's track record, the Group has established the predominant number-one share among private companies. The business is also capturing needs for employment of foreigners by conducting a business that provides one-stop foreigner recruiting, training and labor support to companies seeking to hire them.

In Japan, reforms of English education by the Ministry of Education, Culture, Sports, Science and Technology (MEXT) are promoting an earlier start for English-language learning. In fiscal 2020, English education will start from the third grade of elementary school, and will be treated as a formal subject from the fifth grade of elementary school. Accordingly, ALT placement is proceeding rapidly. Meanwhile, because dispatch to all local governments has not been completed, the business expects continuing expansion of the English education market in Japan.

In this business, revenues for the first half of 2020 were ¥6,221 million (a 1.2% decrease) and gross profit was ¥1,949 million (a 1.4% increase).

During the first half of 2020, as a result of a decrease in the number of ALTs working due to an extension of the period elementary, junior high and high schools were closed nationwide, revenues decreased slightly and gross profit increased slightly. This business has only one product.

In the third quarter and thereafter, stable operations are expected as various municipalities are moving to increase the number of classes from July to make up for temporary school closures. The business will continue working to retain foreign teachers and raise their quality with a view toward further expanding English education in Japan.

Domestic Personnel Placement & Temp Staff Business

The Domestic Personnel Placement & Temp Staff business provides services in the form of referrals and temp staffing of the human resources an organization needs to grow. The main businesses include new graduate recruiting and referral that connects university students looking for employment with company orientation meetings and interviews, mid-career referral that matches working adults looking to change jobs with companies, and temp staffing that dispatches personnel for sales, clerical work and other fields. OpenWork Inc., which was added to the scope of consolidation as of the first quarter, operates OpenWork, one of Japan's largest employee online review platforms for job seekers, and its main source of income is from referrals to employment agencies.

In this business, revenues for the first half of 2020 were ¥3,731 million (a 4.6% increase) and gross profit was ¥1,484 million (an 85.4% increase). Results by product in the Domestic Personnel Placement & Temp Staff business were as follows.

Table 5. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Six months ended June 30, 2019	Six months ended June 30, 2020	YoY change (%)
Domestic Personnel Placement & Temp Staff Business	3,566 [800]	3,731 [1,484]	4.6 85.4
Temp staff dispatch	3,158	2,545	(19.4)
Personnel placement	408	1,186	190.6

During the first half of 2020, despite progress in switching the portfolio of customer companies from the former apparel-related businesses to supermarkets and call centers, where demand is expected, temp staff dispatch revenues decreased substantially due to the impact of temporary business closures by customer companies and curtailment of corporate hiring. However, personnel placement revenues grew substantially due to the addition to the Group of OpenWork Inc., which has a high profit margin. As a result, revenues increased and gross profit increased significantly.

In temp staff dispatch, the severity of the decline in the number of staff dispatched has moderated since June, and the business will continue to reorient its portfolio toward the types of jobs for which it can expect demand.

Venture Incubation

In addition to its divisions, the Group conducts venture incubation. In venture incubation, the Group provides its know-how in organizational and personnel consulting in addition to funding, as well as support for growing venture companies on an organizational level with the aim of listing their stock. The two main criteria for selection of investees are (1) sympathy with creating a "Motivation Company" and (2) aim to list stock. Gains on sales and other results generated from venture incubation are recorded as other components of equity on the statements of financial position.

(2) Overview of Financial Position for the Six Months Ended June 30, 2020

Total assets as of June 30, 2020 were ¥46,600 million, an increase of ¥1,813 million from the end of the previous year. This was mainly due to factors including a ¥2,249 million decrease in investments in associates in connection with making OpenWork Inc. a consolidated subsidiary and a ¥1,307 million decrease in other non-current financial assets, offset by a ¥4,922 million increase in cash and cash equivalents as a result of securing working capital and making OpenWork Inc. a consolidated subsidiary.

Total liabilities as of June 30, 2020 were ¥39,375 million, an increase of ¥1,621 million from the end of the previous year. This was mainly due to factors including a ¥2,747 million increase in interest-bearing and other financial liabilities to secure working capital, offset by decreases of ¥639 million in trade and other payables and ¥363 million in income tax payable, among other factors.

Total equity as of June 30, 2020 was ¥7,224 million, an increase of ¥191 million from the end of the previous year. This was mainly due to factors including an increase in non-controlling interests in connection with making OpenWork Inc. a consolidated subsidiary, offset by a decrease in other components of equity associated with a decrease in other non-current financial assets, among other factors.

(3) Overview of Cash Flow for the Six Months Ended June 30, 2020

Cash and cash equivalents ("cash") as of June 30, 2020 were ¥7,082 million, an increase of ¥4,922 million during the period.

Cash flow during the six months ended June 30, 2020 was as follows.

Cash Flow from Operating Activities

Net cash provided by operating activities was ¥789 million, a decrease of ¥1,212 million compared with the same period of the previous year. The principal factors decreasing net cash were decreases of ¥724 million in income before income taxes and ¥757 million in trade and other payables compared with the same period of the previous year, while the principal factors increasing net cash included an increase of ¥239 million in in trade and other receivables compared with the same period of the previous year.

Cash Flow from Investing Activities

Net cash provided by investing activities was ¥2,355 million (in the same period of the previous year, investing activities used net cash totaling ¥753 million). Principal factors included a ¥2,290 million increase in cash and cash equivalents in connection with making OpenWork Inc. a consolidated subsidiary.

Cash Flow from Financing Activities

Net cash provided by financing activities was ¥1,777 million (in the same period of the previous year, financing activities used net cash totaling ¥1,862 million). Principal factors increasing net cash included a ¥4,200 million net increase in short-term financial liabilities, while the principal factors decreasing net cash included the absence of proceeds from long-term financial liabilities, which were ¥300 million in the same period of the previous year.

(4) Forecast

In the first half of 2020, due to requests for people to voluntary refrain from going out and the declaration and extension of a state of emergency, the COVID-19 pandemic had a substantial impact, including postponement or cancellation of group training activities and other services in the Organizational Development Division, a decrease in the number of new enrollees due to the temporary closure of all schools nationwide in the Individual Development Division, and a decrease in the number of domestic personnel placements and temp staff dispatched in the Matching Division. On the other hand, amid the significant transformation of working styles and lifestyles brought about by the COVID-19 pandemic, we believe that needs for employee engagement and personal learning will further increase. To steadily capture those needs, we intend to respond quickly to changes based on "Motivation Engineering" in each division. We will generate profit by strengthening the provision of new value including online services in the Organizational Development Division, conducting thorough reductions of all types of costs and stepping up promotion of online attendance of various courses in the Individual Development Division, and reorganizing the portfolio of temp staffing clients in the Matching Division. Adjusted operating income is expected to be ¥1,000 million (a year-on-year decrease of 66.3%).

Adjusted operating income is a profit indicator that measures operating results by excluding temporary factors such as impairment of goodwill, right-of-use assets and fixed assets from operating income.

On the other hand, concerns persist about a second or third wave of COVID-19 infections, so budgets for investment in personnel continue to shrink at the Group's customers, which include small and medium-sized enterprises as well as at major corporations that have been significantly impacted, and we recognize that any recovery in personal consumption is at an intermediate stage. The impact has been particularly large in the Individual Development Division, with the temporary closure of both career schools and cram schools in April and May due to the declaration of a state of emergency, and we expect this uncertain situation to persist. Under these circumstances, to conduct management that anticipates all potential future risks, we have incorporated the maximum amount of impairment of goodwill and other factors in the Individual Development Division in our forecast of financial results for 2020. Moreover, we will focus not only on the short term consisting of the fiscal year ending December 31, 2020, but also on establishing a foundation for recovery in the fiscal year ending December 31, 2021 and thereafter.

As a result of the above, for our results for the fiscal year ending December 31, 2020, we forecast ¥34,000 million in revenues (a decrease of 11.0% year-on-year), an operating loss of ¥2,700 million and ¥3,600 million in net loss attributable to owners of the parent.

The impacts described above are based on information available as of July 2020. We will continue to carefully assess the impact on the Group and announce and future revisions promptly, if they become necessary.

(5) Important Information Regarding Assumption of Going Concern

None applicable

2. Condensed Consolidated Financial Statements and Main Notes

(1) Condensed Consolidated Statements of Financial Position

(Millions of yen, rounded down to the nearest million)

	As of December 31, 2019	As of June 30, 2020
ASSETS		
Current assets		
Cash and cash equivalents	2,160	7,082
Trade and other receivables	4,114	4,109
Inventories	256	231
Other current financial assets	17	42
Other current assets	4,905	637
Total current assets	11,454	12,102
Non-current assets		
Property, plant and equipment	17,400	17,115
Goodwill	5,927	10,902
Intangible assets	2,095	2,153
Investments in associates	2,788	539
Other non-current financial assets	4,033	2,725
Deferred tax assets	839	806
Other non-current assets	248	254
Total non-current assets	33,333	34,498
Total assets	44,787	46,600

(Millions of yen, rounded down to the nearest million)

	As of December 31, 2019	As of June 30, 2020
LIABILITIES AND EQUITY		
LIABILITIES		
Current liabilities		
Trade and other payables	2,397	1,758
Contract liabilities	1,760	1,823
Interest-bearing and other financial liabilities	5,943	10,293
Income tax payable	865	502
Provisions	21	10
Other current liabilities	1,843	1,718
Total current liabilities	12,831	16,106
Non-current liabilities		
Interest-bearing and other financial liabilities	24,092	22,489
Provisions	462	479
Deferred tax liabilities	218	156
Other non-current liabilities	148	143
Total non-current liabilities	24,922	23,269
Total liabilities	37,754	39,375
EQUITY		
Equity attributable to owners of the parent		
Share capital	1,380	1,380
Capital surplus	1,987	1,855
Treasury shares	(1,733)	(1,733)
Retained earnings	5,440	5,751
Other components of equity	(31)	(1,179)
Total equity attributable to owners of the parent	7,043	6,075
Non-controlling interests	(10)	1,149
Total equity	7,033	7,224
Total liabilities and equity	44,787	46,600

(2) Condensed Consolidated Statements of Operations and Comprehensive Income

Condensed Interim Consolidated Statements of Operations

Six Months Ended June 30

(Millions of yen, rounded down to the nearest million)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Revenues	19,134	17,400
Cost of sales	11,591	10,257
Gross profit	7,542	7,142
Selling, general and administrative expenses	6,050	6,395
Other income	10	42
Other expenses	31	22
Operating income	1,471	767
Financial revenues	11	7
Financial expenses	83	90
Equity in earnings of associates	27	19
Income before income taxes	1,426	702
Income taxes	547	259
Net income	879	443
(Attributable to)		
Owners of the parent	883	383
Non-controlling interests	(3)	59
Total	879	443
		(Yen)
Earnings per share attributable to owners of the parent		
Basic earnings per share	8.36	3.66
Diluted earnings per share	8.34	3.66

Condensed Quarterly Consolidated Statements of Operations
Three Months Ended June 30

(Millions of yen, rounded down to the nearest million)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Revenues	9,945	8,055
Cost of sales	5,915	4,919
Gross profit	4,029	3,135
Selling, general and administrative expenses	2,983	3,019
Other income	7	41
Other expenses	7	3
Operating income	1,046	153
Financial revenues	9	5
Financial expenses	40	44
Equity in earnings of associates	7	14
Income before income taxes	1,023	129
Income taxes	341	88
Net income	682	40
(Attributable to)		
Owners of the parent	682	13
Non-controlling interests	0	26
Total	682	40
		(Yen)
Earnings per share attributable to owners of the parent		
Basic earnings per share	6.46	0.13
Diluted earnings per share	6.46	0.13

Condensed Consolidated Statements of Comprehensive Income

Condensed Interim Consolidated Statements of Comprehensive Income

Six Months Ended June 30

(Millions of yen, rounded down to the nearest million)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Net income	879	443
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(93)	(842)
Total items that will not be reclassified to profit or loss	(93)	(842)
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	(0)	(0)
Total items that may be reclassified to profit or loss	(0)	(0)
Total other comprehensive income	(94)	(842)
Total comprehensive income	785	(399)
(Attributable to)		
Owners of the parent	788	(459)
Non-controlling interests	(3)	59
Comprehensive income	785	(399)

Condensed Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended June 30

(Millions of yen, rounded down to the nearest million)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Net income	682	40
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(329)	(403)
Total items that will not be reclassified to profit or loss	(329)	(403)
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	(1)	(0)
Total items that may be reclassified to profit or loss	(1)	(0)
Total other comprehensive income	(330)	(403)
Total comprehensive income	351	(363)
(Attributable to)		
Owners of the parent	351	(389)
Non-controlling interests	0	26
Comprehensive income	351	(363)

(3) Condensed Consolidated Statements of Changes in Equity

Condensed Interim Consolidated Statements of Changes in Equity

Six Months Ended June 30, 2019

(Millions of yen, rounded down to the nearest million)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent		
January 1, 2019	1,380	1,989	(1,373)	4,763	936	7,696	(15)	7,681
Impact of change in accounting policy				(640)		(640)		(640)
Balance at beginning of period after reflecting change in accounting policy	1,380	1,989	(1,373)	4,122	936	7,055	(15)	7,040
Net income				883	—	883	(3)	879
Other comprehensive income					(94)	(94)	—	(94)
Total comprehensive income	—	—	—	883	(94)	788	(3)	785
Acquisition of treasury shares			(0)			(0)		(0)
Dividends from surplus				(369)	—	(369)		(369)
Transfer from other components of equity to retained earnings				(56)	56	—		—
Total transactions with the owners	—	—	(0)	(426)	56	(369)	—	(369)
June 30, 2019	1,380	1,989	(1,373)	4,579	898	7,474	(18)	7,456

Six Months Ended June 30, 2020

(Millions of yen, rounded down to the nearest million)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent		
January 1, 2020	1,380	1,987	(1,733)	5,440	(31)	7,043	(10)	7,033
Net income				383	—	383	59	443
Other comprehensive income					(842)	(842)	—	(842)
Total comprehensive income	—	—	—	383	(842)	(459)	59	(399)
Change due to business combination							1,050	1,050
Change in ownership interest in subsidiaries		(94)				(94)	4	(90)
Dividends from surplus				(377)	—	(377)		(377)
Exercise of share options		(37)				(37)	45	8
Transfer from other components of equity to retained earnings				305	(305)	—		—
Total transactions with the owners	—	(132)	—	(72)	(305)	(509)	1,101	591
June 30, 2020	1,380	1,855	(1,733)	5,751	(1,179)	6,075	1,149	7,224

(4) Condensed Consolidated Statements of Cash Flow

(Millions of yen, rounded down to the nearest million)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Cash flow from operating activities		
Income before income taxes	1,426	702
Depreciation and amortization	1,251	1,271
Loss on impairment	5	1
Financial revenues and financial expenses	71	83
Equity in (earnings) losses of associates	(27)	(19)
Decrease (increase) in trade and other receivables	(76)	162
Loss (gain) on step acquisition	—	16
Decrease (increase) in inventories	(38)	24
Increase (decrease) in trade and other payables	59	(698)
Other	329	170
Subtotal	3,002	1,716
Interest and dividends received	8	5
Interest paid	(71)	(88)
Income tax refund	57	28
Income taxes paid	(995)	(871)
Net cash provided by operating activities	2,002	789
Cash flow from investing activities		
Payments for acquisition of property, plant and equipment	(285)	(147)
Payments for acquisition of intangible assets	(391)	(385)
Proceeds from acquisition of subsidiary stock associated with a change in consolidation	—	2,290
Payments for acquisition of investment securities	(99)	—
Proceeds from sale of investment securities	35	636
Payments for security deposits and guarantees	(70)	(20)
Proceeds from refund of security deposits and guarantees	110	27
Other	(52)	(45)
Net cash provided used in investing activities	(753)	2,355
Cash flow from financing activities		
Net increase (decrease) in short-term financial liabilities	200	4,400
Proceeds from long-term financial liabilities	300	—
Repayment of long-term financial liabilities	(968)	(1,126)
Payments for acquisition of interests in subsidiaries from non-controlling interests	—	(90)
Payments of cash dividends	(368)	(377)
Repayment of lease liabilities	(1,025)	(1,036)
Payments from non-controlling interests	—	8
Other	(0)	—
Net cash used in financing activities	(1,862)	1,777
Cash and cash equivalents translation adjustment	(0)	(0)
Net increase (decrease) in cash and cash equivalents	(615)	4,922
Cash and cash equivalents at beginning of the quarter	1,979	2,160
Cash and cash equivalents at end of the quarter	1,364	7,082

(5) Notes to Condensed Consolidated Financial Statements

(Changes in Accounting Policies)

The significant accounting policies applied to these condensed consolidated financial statements are the same as the accounting policies applied to the consolidated financial statements for the previous fiscal year, except for the following.

Income tax expenses for the six months ended June 30, 2020 have been calculated using the estimated average annual effective tax rate.

As of the second quarter of the current fiscal year, the Group has adopted early application of the following standard.

IFRS		Overview of New Standard/Amendment
IFRS 16	Leases	Amended accounting treatment for COVID-19-related rent concessions

This amendment recognizes the selection of simplified accounting treatment for lessees of leases that have received rent concessions as a direct consequence of the novel coronavirus (“COVID-19”) pandemic.

This amendment permits lessees, as a practical expedient, to choose not to assess whether particular rent concessions related to COVID-19 that meet specified requirements are “lease modifications” as stipulated in IFRS 16.

The Group has applied this expedient to rent concessions that meet the above requirements.

The application of this expedient increased income before income taxes by ¥21 million in the six months ended June 30, 2020.

(Notes Regarding Significant Accounting Estimates and Judgements)

In preparing the condensed consolidated financial statements, management makes judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The results of accounting estimates may differ from actual results.

The estimates and their underlying assumptions are reviewed on an ongoing basis. The effects of a review of accounting estimates are recognized in the accounting period in which the estimates are reviewed as well as in future periods.

Estimates and judgments that have a significant impact on the amounts in these condensed consolidated financial statements are the same as those in the consolidated financial statements for the previous fiscal year in principle, but include the following factors in consideration of the impact of COVID-19.

Due to requests for people to voluntarily refrain from going out and the declaration of a state of emergency associated with the COVID19 pandemic, the Group lost opportunities to provide its services. These lost opportunities included the postponement or cancellation of group training activities and other services in the Organizational Development Division, a decrease in the number of new enrollees due to the temporary closure of all schools nationwide in the Individual Development Division, and a decrease in the number of domestic personnel placements and temp staff dispatched in the Matching Division. Consequently, consolidated business results for the six months ended June 30, 2020 worsened in comparison with a typical year, and revenues for the full fiscal year are projected to drop by about one-tenth compared with the previous fiscal year. However, the business environment has gradually been recovering since the third quarter, when the state of emergency was completely lifted, and the business results of the Individual Development Division, which was most impacted by COVID-19, are on a recovery track, despite the closure of its schools for approximately two months, as the Group perceives a growing trend for greater needs for individual learning. As a result, the demand forecast for 2021 and thereafter is expected to be the same as the forecast as of the end of 2019.

Despite the extreme difficulty of predicting factors such as the timing of the end of the spread of COVID-19 and the scope of infection, in light of the above, the Group has made accounting estimates regarding impairment of fixed assets, including goodwill, the recoverability of deferred tax assets and other matters based on the information available as of the date of preparation of these condensed consolidated financial statements.

The financial position and operating results of the Group may be affected by the state of the spread of infection in the future.

(Notes Regarding Assumption of Going Concern)

None applicable

(Significant Subsequent Events)

None applicable