

Consolidated Financial Statements for the Three Months Ended March 31, 2024 (IFRS)

These financial statements have been prepared for reference only.

May 14, 2024

Link and Motivation Inc.

Stock exchange listing: Tokyo, Prime Market
Code number: 2170

<http://www.lmi.ne.jp/english>

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Filing of Quarterly Report (*Shihanki Hokokusho*) (scheduled):

May 14, 2024

Start of distribution of dividends (scheduled):

June 25, 2024

Supplementary documents for quarterly results:

Yes

Quarterly results briefing:

No

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for the Three Months Ended March 31, 2024

(January 1, 2024 - March 31, 2024)

(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 (%)
Three months ended March 31, 2024	8,307	3.7	800	(7.5)	784	(7.5)	547	7.8
Three months ended March 31, 2023	8,008	0.8	865	8.1	848	17.4	507	(2.4)

	Net income attributable to owners of the parent (¥ million)	Change (%)	Comprehen- sive income (¥ million)	Change (%)	Basic earnings per share (¥)	Diluted earnings per share (¥)
Three months ended March 31, 2024	525	24.3	896	37.9	4.84	4.84
Three months ended March 31, 2023	422	(11.4)	650	36.6	3.79	3.77

(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 March 31, 2024	30,897	12,752	9,948	32.2
As of December 31, 2023	30,843	12,940	10,165	33.0

2. Dividends

	Dividends per share				
	1st Qtr.	2nd Qtr.	3rd Qtr.	Year-end	Total
2023	2.80	2.80	2.80	2.90	11.30
2024	2.90				
2024 (est.)		3.00	3.00	3.00	11.90

Note: Revisions since the most recently announced dividend forecast: Yes

3. Forecast of Consolidated Results for 2024 (January 1, 2024 - December 31, 2024)

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

	Revenues		Operating income		Net income		Net income attributable to owners of the parent		Basic earnings per share (¥)
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	
Full-year	36,900	8.6	5,330	15.3	3,600	14.7	3,248	14.3	32.31

Note: Revisions since the most recently announced forecast of results: No

Notes

- (1) Changes in Significant Subsidiaries during the Period (Changes in Specified Subsidiaries Due to Change in Scope of Consolidation): Yes

Added: – company (Name: –)

Removed: 1 company (Name: Link Interac Inc.)

We conducted an absorption-type merge in which Link Japan Careers Inc. is the surviving company and Link Interac Inc. is dissolved as the absorbed company. Following the merger, Link Japan Careers Inc. changed its name to Link Interac Inc.

- (2) Changes in Accounting Policies and Changes in Accounting Estimates

(a) Changes in accounting policies required by IFRS: No

(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)

Three months ended March 31, 2024: 113,068,000; Year ended December 31, 2023: 113,068,000

(b) Number of treasury shares at the end of the period:

Three months ended March 31, 2024: 4,911,968; Year ended December 31, 2023: 3,617,168

(c) Average number of shares outstanding (cumulative with earlier quarters):

Three months ended March 31, 2024: 108,559,030; Three months ended March 31, 2023: 111,561,532

*** 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**

Note regarding forward-looking statements:

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.

How to obtain supplementary quarterly financial information:

Supplementary quarterly financial information is disclosed on the same day on TDnet in Japanese. For information in English, please see the Company website.

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1. Overview of Results of Operations and Other Information

Forward-looking statements in the following text are based on judgments as of March 31, 2024, the last day of the consolidated accounting period under review.

(1) Overview of Results of Operations for the Three Months Ended March 31, 2024

The Group supports the transformation of numerous organizations and individuals using “Motivation Engineering” (the Group’s core technology), incorporating academic results in business administration, social systems theory, behavioral economics, psychology and other disciplines, under its mission: “Through Motivation Engineering, we provide opportunities to transform organizations and individuals and create a more meaningful society.” During the three months ended March 31, 2024, the Japanese economy recovered gradually with the improvement of the employment and income environment. However, the economic outlook remains unclear because of the depreciation of the yen due to monetary easing, and geopolitical risks due to the unstable international situation. Under these economic conditions, the Group perceives a growing need for companies to promote human capital management in order to deal with change, and more specifically, a need to improve employee engagement (the degree of mutual understanding and affinity between a company and its employees), and to secure and develop human resources.

In this economic environment, the Group’s revenues for the first quarter of 2024 were ¥8,307 million (a 3.7% increase compared with the same period of the previous year), gross profit was ¥4,456 million (a 7.3% increase), operating income was ¥800 million (a 7.5% decrease) and net income attributable to owners of the parent was ¥525 million (a 24.3% increase).

In the first quarter, revenues increased year on year as a result of growth centered on the Consulting & Cloud business, ALT Placement business and Personnel Placement business. Gross profit increased year on year due to the growth of the high-margin Consulting & Cloud business and the Personnel Placement business, which includes OpenWork Inc. (“OpenWork”). Operating income decreased year on year as a result of an increase in advertising and promotional expenses to expand recognition of OpenWork as planned at the beginning of the year, but overall progressed as expected. Net income attributable to owners of the parent increased significantly due to factors including a decrease in income taxes.

The segment and business classifications of the Group are as shown below, and an overview of the first quarter of 2024 by segment and business follows.

Organizational Development Division

The Organizational Development Division provides support for the creation of companies that are chosen by individuals (“Motivation Companies”). In concrete terms, it offers services that provide support for increasing engagement with a company’s stakeholders (employees, job applicants, customers, shareholders) by applying “Motivation Engineering,” which is the core technology of the Group.

In this segment, segment revenues for the first quarter of 2024 were ¥3,001 million (a 4.6% increase), and segment income was ¥2,126 million (a 6.2% increase). An overview of operating results by business for the first quarter of 2024 is as follows.

Consulting & Cloud Business

To increase employee engagement, the Consulting & Cloud business diagnoses engagement based on its original diagnostic framework and offers one-stop solutions for innovations in recruiting, training, systems and corporate culture related to organizations and personnel. The business also provides the Motivation Cloud series of cloud-based services that allow customer companies to manage employee engagement themselves.

In this business, revenues for the first quarter of 2024 were ¥2,664 million (a 4.2% increase) and gross profit was ¥1,968 million (a 3.7% increase). Results by product in the Consulting & Cloud business were as follows.

Table 1. Revenues by Product

Product (¥ million) (Figures in brackets are gross profit)	Three months ended March 31, 2023	Three months ended March 31, 2024	YoY change (%)
Consulting & Cloud Business	2,557 [1,898]	2,664 [1,968]	4.2% 3.7%
Consulting	1,518	1,326	-12.6%
Cloud	1,038	1,338	28.8%

In the first quarter, revenues and gross profit increased compared with the same period of the previous year, with the growth of the Motivation Cloud series contributing to results. Further growth is anticipated from the second quarter onward, as the business focuses on sales to major companies to increase the number of new contracts.

In the Consulting category, the business is transitioning from consulting the cloud in order to increase profitability, and is also revising its product portfolio by focusing on high-margin areas such as human capital consulting. Revenues in the first quarter decreased mainly because of weakness in obtaining recruiting orders, but orders for core products have been steadily progressing in the second quarter.

The need to promote human capital management continued to grow, primarily at major companies. Currently, this business is supporting approximately 1,500 companies, but considering that there are roughly 100,000 companies with 50 or more employees in Japan, the potential for future expansion is still significant. The Group will continue to expand its support by leveraging its unique ability to comprehensively support the human capital management of companies through the cycle of identification of problems through diagnosis, transformation of those problems, and disclosure of the transformation initiatives and results.

Monthly fee revenue increased substantially compared with the previous year for the Motivation Cloud series of products, which are part of the Cloud category and are priority services. The number of deliveries and monthly fee revenue were as follows.

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

	2023				2024
	March	June	September	December	March
Number of deliveries	846	851	883	915	883
Monthly fee revenue (¥ thousand)	339,179	358,792	395,398	427,345	424,550

Since its founding in 2000, the Group has not only diagnosed the engagement status of companies and employees but has also supported their transformation. The Motivation Cloud series is a group of cloud-based services in the field of HR Tech (human resources combined with technology) for improving employee engagement. The Group migrated the organization diagnosis service it has offered since its founding to the cloud and started providing the Motivation Cloud service in July 2016. Motivation Cloud is currently ranked number one in share of sales by vendor in the employee engagement market (the sixth consecutive year: fiscal 2017 to fiscal 2022 forecast) in *ITR Market View: Human Resources Management Market 2023*, a market research report published by ITR Corporation.

Monthly fee revenue from the Motivation Cloud series at the end of March 2024 was ¥424,550 thousand (a 25.2% increase). For the first quarter, new orders progressed as expected. Monthly fee revenue decreased compared with the end of December 2023 because there was one withdrawal of a large order for a company with many employees, and in another, a contract divided by subsidiary was modified to a contract for the whole group. However, orders for the second quarter, which is the beginning of the new fiscal year for companies with fiscal years ending March 31, have increased. The business continues to focus on developing new contracts with major companies. Monthly fee revenue is projected to be ¥450,000 thousand at the end of June 2024, and is progressing as expected toward the monthly fee revenue target of ¥530,000 thousand at the end of December 2024.

In addition, for Stretch Cloud, a human resource development cloud service, business is expanding steadily in the human resource development market, which exceeds ¥500 billion. The Group will continue to focus on introducing Stretch Cloud at major companies, where there is substantial room for development, and will accelerate growth by improving customer satisfaction, thereby further extending the length of contracts.

IR Support Business

The IR Support business provides one-stop support for corporate branding through various media and events centered on the field of investor relations for the “creation of Motivation Companies” at corporations. In addition to printed media such as integrated reports for shareholders and investors, web-based media such as investor relations (IR) sites, and visual media such as videos that explain products and webcasts of shareholders’ meetings, the business creates physical and virtual forums for shareholders’ meetings and other events.

In this business, revenues for the first quarter of 2024 were ¥404 million (a 7.7% increase) and gross profit was ¥206 million (a 48.4% increase).

In the first quarter, revenues increased compared with the previous year as production of integrated reports, the core service, expanded in line with expectations. Gross profit increased significantly compared with the previous year due to increased productivity.

Needs for disclosure of non-financial capital, particularly human capital information, are continuing to increase with the requirement to disclose human capital information in securities reports. The number of companies disclosing the diagnosis results of Motivation Cloud, which we provide, was 121 at the end of March 2024. Disclosure of employee engagement is also steadily increasing. The business will generate synergies with the Consulting & Cloud business by continuing to enhance disclosure of human capital information based on diagnosis and transformation.

Individual Development Division

The Individual Development Division supports the creation of individuals who are chosen by organizations (“i-Companies”). Specifically, it applies “Motivation Engineering,” which is the core technology of the Group, to businesses in areas including career schools and cram schools, to provide one-stop services to customers from elementary school students to working adults. These services range from helping to set goals to understanding individual issues and formulating and implementing study plans.

In this segment, segment revenues for the first quarter of 2024 were ¥1,531 million (a 2.7% decrease) and segment income was ¥682 million (a 1.8% increase). An overview of operating results by business for the first quarter of 2024 is as follows.

Career School Business

The Career School business provides five services aimed at the career advancement of university students and working adults: “Aviva” personal computer schools, “Daiei” qualification schools, “Rosetta Stone Learning Center,” “Rosetta Stone Premium Club” and “Hummingbird” foreign language schools.

In this business, revenues for the first quarter of 2024 were ¥1,342 million (a 4.2% decrease) and gross profit was ¥606 million (a 0.9% increase).

In the first quarter of 2024, the business faced difficulty in attracting new enrollees, and a recovery in the second half of the quarter was not enough to make up for the decrease. Consequently, revenue decreased compared with the same period of the previous year. On the other hand, as a result of restructuring that has been taking place since October 2022, the gross profit margin for the first quarter was 45.1%, an improvement compared with 42.9% in the first quarter of the previous year. In 2024, we anticipate a recovery in the second quarter and later, when there are more new enrollees. In addition, the business will improve efficiency and customer satisfaction by expanding online services.

Cram School Business

The Cram School business operates two cram schools in both in-person and online formats—“SS-1,” an individualized instruction school for students preparing for junior high school entrance exams, and “Motivation Academia” cram schools for junior high and high school students—to improve the academic ability of elementary, junior

high and high school students. For Motivation Academia in particular, unlike typical cram schools, students can not only improve their academic ability but also acquire skills to play an active role in society.

In this business, revenues for the first quarter of 2024 were ¥188 million (a 10.3% increase) and gross profit was ¥75 million (a 9.4% increase).

In the first quarter, revenues increased substantially year on year and gross profit also increased, driven by improvement of the continuation rate from SS-1 for elementary school students to Motivation Academia for junior high and high school students after they have completed junior high school entrance exams. This business will continue to increase the number of new enrollees by providing learning opportunities through online courses to a wide range of students, not just those in areas where they can attend physical schools.

Matching Division

The Matching Division operates the ALT (assistant language teacher) Placement business and the Personnel Placement business in order to provide opportunities to connect organizations and individuals. It creates matches with a high retention rate by applying “Motivation Engineering,” the core technology of the Group, to go beyond the skill requirements of companies and local governments and provide support for matching organizations and individuals based on the characteristics of each individual and other relevant data.

In this segment, segment revenues for the first quarter of 2024 were ¥3,969 million (a 4.0% increase) and segment income was ¥1,836 million (a 7.9% increase). An overview of operating results by business for the first quarter of 2024 is as follows.

ALT Placement Business

The ALT Placement business dispatches non-Japanese assistant language teachers (ALTs) to elementary, junior high and high schools throughout Japan and provides English-language instruction services on contract, in order to match non-Japanese people who want to work in Japan with local governments. In this business, barriers to entry are extremely high due to the importance placed on relationships of trust with customers and a company’s track record, and the Group has established the predominant number-one share among private companies.

In this business, revenues for the first quarter of 2024 were ¥3,010 million (a 2.0% increase) and gross profit was ¥896 million (a 4.6% increase).

In the first quarter of 2024, the number of ALTs dispatched increased in line with expectations, resulting in a slight increase in revenues and an increase in gross profit compared with the same period of the previous year. This business faced an intensely competitive environment until 2023 due to the impact of the requirement to enroll ALTs in social insurance. In 2024, the competitive environment has flattened, and the business has strengthened communication activities to target customers. As a result, contracts for the new fiscal year beginning in April are progressing steadily, and the number of ALTs dispatched is expected to increase in line with expectations. The Group will continue to aim for recovery of revenues and expansion of market share by shifting some services online and utilizing ICT, in addition to dispatching high-quality ALTs, one of its strengths.

Personnel Placement Business

The Personnel Placement business operates a referral service for human resources that introduces the human resources necessary for business growth in order to find the right fit between job applicants and companies. Mainly, it provides mid-career referrals that match working adults looking to change jobs with companies, and conducts new graduate recruiting and referrals that match university students looking for employment with companies.

In this business, revenues for the first quarter of 2024 were ¥965 million (a 10.7% increase) and gross profit was ¥946 million (an 11.0% increase).

In the first quarter, OpenWork, which has a particularly high growth rate, continued to steadily accumulate registered users as well as employee online reviews and evaluation scores. The direct recruiting service (OpenWork Recruiting) continued to make an active investment in marketing, which led to an increase in the number of online resume registrations. The cumulative number of online resume registrations (working adults and students) has grown to approximately 1,110,000. In addition, as a result of efforts to stimulate recruiting activity among existing customers and increase employment opportunities, recruiting by employers and applications from job seekers expanded, and revenues from this service were ¥511 million (a 29.2% increase).

This business will continue to expand synergy with the Organizational Development Division, and will ramp up its matching services by considering not only the skills of individuals but also the type of job seekers.

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 on an organizational level for growing venture companies that aim to list their stock. The two main criteria for selection of investees are sympathy with the idea of “creation of Motivation Companies” and aim to list stock. Gains on sales and other results generated from venture incubation are recorded in retained earnings on the condensed consolidated statements of financial position, or under other income or other expenses on the consolidated statements of operations.

(2) Overview of Financial Position for the Three Months Ended March 31, 2024

Total assets as of March 31, 2024 were ¥30,897 million, an increase of ¥54 million from the end of the previous year. This was mainly due to a ¥224 million decrease in other current assets, offset by a ¥132 million increase in property, plant and equipment and a ¥145 million increase in other non-current financial assets.

Total liabilities as of March 31, 2024 were ¥18,144 million, an increase of ¥242 million from the end of the previous year. This was mainly due to factors including a ¥145 million decrease in lease liabilities, a ¥604 million decrease in income tax payable, a ¥124 million decrease in deferred tax liabilities, and a ¥1,167 million increase in interest-bearing and other financial liabilities.

Total equity as of March 31, 2024 was ¥12,752 million, a decrease of ¥188 million from the end of the previous year. This was mainly because the Group posted net income attributable to owners of the parent and other comprehensive income. However, total equity decreased due to share buybacks and payment of cash dividends.

(3) Overview of Cash Flow for the Three Months Ended March 31, 2024

Cash and cash equivalents (“cash”) as of March 31, 2024 were ¥7,354 million, a decrease of ¥35 million during the period.

Cash flow during the three months ended March 31, 2024 was as follows.

Cash Flow from Operating Activities

Net cash used in operating activities was ¥131 million (compared with net cash provided of ¥70 million in the same period of the previous year). The principal factor increasing cash was a ¥395 million increase in trade and other payables compared with the same period of the previous year, while the principal factors decreasing cash included a ¥63 million decrease in income before income taxes compared with the same period of the previous year, a decrease in loss on impairment of ¥105 million compared with the same period of the previous year, an increase in trade and other receivables of ¥67 million compared with the same period of the previous year, and a ¥357 million increase in income taxes paid compared with the same period of the previous year.

Cash Flow from Investing Activities

Net cash used in investing activities was ¥85 million, an increase of ¥39 million compared with the same period of the previous year. Principal factors increasing cash included a ¥353 million increase in proceeds from sale of investment securities, while the principal factors decreasing cash included a ¥220 million increase in payments for acquisition of investment securities compared with the same period of the previous year, a ¥56 million decrease in proceeds from recovery of security deposits and guarantees compared with the same period of the previous year, and ¥75 million in payments for fulfillment of asset retirement obligations.

Cash Flow from Financing Activities

Net cash provided by financing activities was ¥179 million, a decrease of ¥744 million compared with the same period of the previous year. The principal factor increasing cash was ¥4,200 million in proceeds from long-term financial liabilities, while the principal factors decreasing cash included a decrease of ¥4,000 million in short-term financial liabilities compared with the same period of the previous year, the non-recurrence of proceeds from payments from non-controlling interests that occurred in the same period of the previous year, and an increase of ¥413 million in payments for acquisition of treasury shares.

(4) Forecast

In the first quarter ended March 31, 2024, revenues increased compared with the same period of the previous year as a result of growth mainly in the Consulting & Cloud business, ALT Placement business and Personnel Placement business. Operating income decreased compared with the same period of the previous year due to an increase in advertising and promotional expenses at OpenWork. Nevertheless, progress toward the performance forecasts for the

year ending December 31, 2024 of revenues of ¥36,900 million (an 8.6% increase) and operating income of ¥5,330 million (a 15.3% increase) is proceeding as expected.

The Group views changes in the labor market as a crucial opportunity, and will focus in the near term on the Consulting & Cloud business of the Organizational Development Division, which has high growth potential. The Group believes that there is still ample room for growth in providing support to domestic companies, and plans to leverage its ability to comprehensively support human capital management through the cycle of identification of organizational problems through diagnosis, transformation of those problems, and disclosure of the transformation results.

Specifically, the Group will focus on expanding the Motivation Cloud series, primarily at major companies in Japan. Since the sales target of this series has shifted to major companies, contracts that begin in the second quarter or later, the new fiscal year of those companies, are increasing, and monthly fee revenue is on pace toward the monthly fee revenue forecast of ¥530,000 thousand at the end of 2024. In addition, the Group is eyeing future global expansion of the series, and will introduce it at overseas subsidiaries of Japanese companies. As of March 31, 2024, the number of under contract was approximately 30, monthly fee revenues were up more than 160% from the same period a year earlier, and average monthly fee revenue per customer was up more than 60% from the same period a year earlier, with large orders also showing steady progress. As a result of efforts to expand sales of this series, the backlog of orders (total orders for future projects obtained at a given point in time) has increased significantly. As of March 31, 2024, the backlog of orders was ¥13.2 billion, up 16.1% from a year earlier, indicating steady progress toward establishment of a recurring revenue business model.

The Group also plans to actively make business investments in M&As and business alliances to accelerate the growth of the Consulting & Cloud business. Recently, the Group entered into a basic agreement on a capital and business alliance with FCE Inc. (FCE), which has strengths in enhancing human resource capabilities, including in areas such as education and training. Smart Boarding, FCE's platform for creating employee education systems, has been introduced at more than 700 small and medium-sized companies in Japan. By providing the Motivation Cloud series, the Group's employee engagement improvement service, and expanding sales of transformation services centered on human resource development to the users of Smart Boarding, as well as leveraging FCE's sales capabilities to accelerate expansion of the Motivation Cloud series to small and medium-sized enterprises, the Group aims to further expand the Consulting & Cloud business, its strategic focus. In addition, the Group will create synergy between the Individual Development Division and the Matching Division.

The Group will also achieve substantial growth through recovery of revenues through flattening of the competitive environment in the ALT Placement business, in addition to substantial growth of revenues in the Personnel Placement business, including OpenWork.

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, 2023	As of March 31, 2024
ASSETS		
Current assets		
Cash and cash equivalents	7,389	7,354
Trade and other receivables	3,627	3,666
Inventories	225	294
Other current financial assets	12	0
Other current assets	1,446	1,221
Total current assets	12,701	12,538
Non-current assets		
Property, plant and equipment	604	737
Right-of-use assets	3,586	3,510
Goodwill	9,347	9,347
Intangible assets	2,194	2,188
Other non-current financial assets	1,753	1,898
Deferred tax assets	584	608
Other non-current assets	70	67
Total non-current assets	18,141	18,358
Total assets	30,843	30,897

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

	As of December 31, 2023	As of March 31, 2024
LIABILITIES AND EQUITY		
LIABILITIES		
Current liabilities		
Trade and other payables	1,821	1,780
Contract liabilities	1,244	1,267
Interest-bearing and other financial liabilities	6,158	4,217
Lease liabilities	1,005	975
Income tax payable	1,036	431
Provisions	43	5
Other current liabilities	1,816	1,783
Total current liabilities	13,127	10,462
Non-current liabilities		
Interest-bearing and other financial liabilities	1,264	4,372
Lease liabilities	2,669	2,553
Provisions	335	374
Deferred tax liabilities	386	262
Other non-current liabilities	119	119
Total non-current liabilities	4,774	7,682
Total liabilities	17,902	18,144
EQUITY		
Equity attributable to owners of the parent		
Share capital	1,380	1,380
Capital surplus	4,619	4,615
Treasury shares	(1,539)	(2,304)
Retained earnings	7,396	7,172
Other components of equity	(1,690)	(916)
Total equity attributable to owners of the parent	10,165	9,948
Non-controlling interests	2,774	2,804
Total equity	12,940	12,752
Total liabilities and equity	30,843	30,897

(2) Condensed Consolidated Statements of Operations and Comprehensive Income
Condensed Consolidated Statements of Operations

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

	Three months ended March 31, 2023	Three months ended March 31, 2024
Revenues	8,008	8,307
Cost of sales	3,854	3,850
Gross profit	4,153	4,456
Selling, general and administrative expenses	3,237	3,563
Other income	89	12
Other expenses	140	104
Operating income	865	800
Financial revenues	1	5
Financial expenses	17	21
Income before income taxes	848	784
Income taxes	341	237
Net income	507	547
(Attributable to)		
Owners of the parent	422	525
Non-controlling interests	85	22
Total	507	547

(Yen)

Earnings per share attributable to owners of the parent		
Basic earnings per share	3.79	4.84
Diluted earnings per share	3.77	4.84

Condensed Consolidated Statements of Comprehensive Income

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

	Three months ended March 31, 2023	Three months ended March 31, 2024
Net income	507	547
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	142	350
Total of items that will not be reclassified to profit or loss	142	350
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	(0)	(1)
Total of items that may be reclassified to profit or loss	(0)	(1)
Total other comprehensive income	142	349
Total comprehensive income	650	896
(Attributable to)		
Owners of the parent	564	874
Non-controlling interests	85	22
Comprehensive income	650	896

(3) Condensed Consolidated Statements of Changes in Equity
Three months ended March 31, 2023

(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, 2023	1,380	4,464	(320)	5,385	(1,851)	9,057	2,185	11,243
Net income	—	—	—	422	—	422	85	507
Other comprehensive income	—	—	—	—	142	142	—	142
Total comprehensive income	—	—	—	422	142	564	85	650
Change in ownership interest in subsidiaries	—	161	—	—	—	161	305	467
Dividends from surplus	—	—	—	(223)	—	(223)	—	(223)
Exercise of stock options	—	8	—	—	(8)	—	—	—
Share-based payment transactions	—	—	—	—	2	2	—	2
Transfer from other components of equity to retained earnings	—	—	—	(205)	205	—	—	—
Total transactions with the owners	—	169	—	(428)	200	(58)	305	247
March 31, 2023	1,380	4,633	(320)	5,378	(1,508)	9,563	2,577	12,140

Three months ended March 31, 2024

(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, 2024	1,380	4,619	(1,539)	7,396	(1,690)	10,165	2,774	12,940
Net income	—	—	—	525	—	525	22	547
Other comprehensive income	—	—	—	—	349	349	—	349
Total comprehensive income	—	—	—	525	349	874	22	896
Acquisition of treasury shares	—	—	(765)	—	—	(765)	—	(765)
Change in ownership interest in subsidiaries	—	(9)	—	—	—	(9)	7	(2)
Dividends from surplus	—	—	—	(317)	—	(317)	—	(317)
Exercise of stock options	—	5	—	—	(5)	—	—	—
Share-based payment transactions	—	1	—	—	(1)	0	—	0
Transfer from other components of equity to retained earnings	—	—	—	(431)	431	—	—	—
Total transactions with the owners	—	(3)	(765)	(749)	425	(1,092)	7	(1,084)
March 31, 2024	1,380	4,615	(2,304)	7,172	(916)	9,948	2,804	12,752

(4) Condensed Consolidated Statements of Cash Flow

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

	Three months ended March 31, 2023	Three months ended March 31, 2024
Cash flow from operating activities		
Income before income taxes	848	784
Depreciation and amortization	403	404
Loss on impairment	136	30
Loss (gain) on sales of fixed assets	—	(0)
Financial revenues and financial expenses	16	15
Decrease (increase) in trade and other receivables	27	(39)
Decrease (increase) in inventories	(21)	(69)
Increase (decrease) in trade and other payables	(545)	(150)
Other	(89)	(45)
Subtotal	776	929
Interest and dividends received	0	3
Interest paid	(18)	(19)
Income tax refund	0	0
Income taxes paid	(687)	(1,044)
Net cash provided by (used in) operating activities	70	(131)
Cash flow from investing activities		
Payments for acquisition of property, plant and equipment	(21)	(42)
Proceeds from sale of property, plant and equipment	—	0
Payments for acquisition of intangible assets	(112)	(128)
Payments for acquisition of investment securities	(79)	(300)
Proceeds from sale of investment securities	112	465
Payments for security deposits and guarantees	(15)	(18)
Proceeds from recovery of security deposits and guarantees	59	3
Payments for fulfillment of asset retirement obligations	—	(75)
Other	10	11
Net cash provided by (used in) investing activities	(46)	(85)
Cash flow from financing activities		
Net increase (decrease) in short-term financial liabilities	1,300	(2,700)
Proceeds from long-term financial liabilities	—	4,200
Repayment of long-term financial liabilities	(354)	(332)
Proceeds from exercise of stock options	16	10
Payments of cash dividends	(223)	(317)
Repayment of lease liabilities	(266)	(266)
Proceeds from payments from non-controlling interests	452	—
Payments for acquisition of treasury shares	(0)	(413)
Net cash provided by (used in) financing activities	924	179
Cash and cash equivalents translation adjustment	0	1
Net increase (decrease) in cash and cash equivalents	949	(35)
Cash and cash equivalents at beginning of quarter	6,112	7,389
Cash and cash equivalents at end of quarter	7,061	7,354

**(5) Notes to Condensed Consolidated Financial Statements
(Change in Accounting Policies)**

None applicable

(Significant Accounting Policies)

The significant accounting policies applied in these condensed consolidated financial statements are the same as those applied in the consolidated financial statements for the previous fiscal year.

Income taxes expense for the three months ended March 31, 2024 was calculated using the estimated average annual effective tax rate.

(Notes Regarding Significant Accounting Estimates and Judgements)

In preparing the 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 estimate-related judgments that have a significant impact on these condensed consolidated financial statements are the same as those in the condensed consolidated financial statements for the same period of the previous fiscal year.

(Notes Regarding Assumption of Going Concern)

None applicable

(Significant Subsequent Events)

(Authorization of Share Buyback)

At a Board of Directors meeting held on May 14, 2024, the Group authorized the repurchase of shares of its common stock pursuant to the provisions of Article 459, paragraph 1 of the Companies Act of Japan, and Article 43 of the Articles of Incorporation, as outlined below.

(1) Reason for the Share Buyback

The Group is implementing a flexible capital policy to enhance capital efficiency and shareholder returns, after comprehensively considering its financial condition and stock price. Having sufficiently secured the cash necessary for growth investments, and the Group believes that although the stock price is determined by the market, its future profitability is not fully reflected in the current stock price level, and therefore made the decision to buy back its own shares.

(2) Details of the Share Buyback

1) Type of shares to be bought back	Common stock
2) Total number of shares to be bought back	1,700,000 shares (upper limit) (1.57% of total shares issued, excluding treasury stock)
3) Total amount of buyback	¥1,000 million (upper limit)
4) Buyback period	May 15, 2024 – December 27, 2024

(Basic Agreement on a Capital and Business Alliance)

At a Board of Directors meeting held on May 14, 2024, the Group approved the decision to conclude and sign a basic agreement on a capital and business alliance (“the Alliance”) with FCE Inc. The basic agreement for the Alliance is based on the assumption of formally concluding a capital and business alliance between the Group and FCE. The specific details of that capital alliance will be negotiated at a later date.

Going forward, the terms of the Alliance will be based on negotiations with FCE. Upon signing of the Alliance, it is expected that FCE will become an equity method affiliate.

(1) Reason for the Alliance

The Group provides support for creating companies that are chosen by individuals (“Motivation Companies”), individuals who are chosen by organizations (“i-Companies”) and matching that connects organizations and individuals based on its mission: “Through Motivation Engineering, we provide opportunities to transform organizations and individuals and create a more meaningful society.” FCE’s purpose is to “create a world in which everyone can approach and solve challenges with all their might” and its mission is to “contribute to maximizing human capital through “People” x “Tech.” It has strengths in enhancing human resource capabilities through education and training, including programs based on *Seven Habits of Highly Effective People J*[®]. The reason for entering into the Alliance is to combine the strengths of the Group and FCE, and to enable both organizations to offer unique value in realizing their respective visions.

The synergies the Group expects in each of its business areas through the Alliance are as follows.

Organizational Development Division

Smart Boarding, FCE’s platform for creating employee education systems, has been introduced at more than 700 small and medium-sized companies in Japan. By providing the Motivation Cloud series, the Group’s employee engagement improvement service, and expanding sales of transformation services centered on human resource development to the users of Smart Boarding, as well as leveraging FCE’s sales capabilities to accelerate expansion of the Motivation Cloud series to small and medium-sized enterprises, the Group aims to further expand the Consulting & Cloud business, its strategic focus.

Individual Development Division

FCE owns extensive education and training content (over 450 types), including a program based on *Seven Habits of Highly Effective People J*[®]. The Group has a broad customer base of approximately 14,000 enrollees (on average) in its Career School business and Cram School business. In these businesses, the Group expect to create synergy by offering comprehensive learning opportunities for elementary, junior high and high school students, university students, and working adults.

Matching Division

FCE’s “Foresight Handbook,” which helps children to cultivate independence, has been used by approximately 340,000 people and in 1,100 schools. In its ALT Placement business, the Group has transactions with approximately 440 local governments and 6,440 schools, and has the number-one private-sector share in the number of ALTs dispatched to schools. The Group anticipates that synergy between FCE and the ALT Placement business will enable the Group to provide even greater value to public education.

(2) Details of the Alliance

We aim to sign the capital and business alliance in August 2024. Under the Alliance, the Company will acquire 20% of the stock of FCE, which will become an equity method affiliate. The two companies will have discussions to determine details such as the specific content of the Alliance and the method of forming the Alliance, and will sign contracts accordingly.

(3) Summary of the Other Party in the Alliance

1) Name	FCE Inc.
2) Location	Shinjuku NS Building, 10F, 2-4-1 Nishi-Shinjuku, Tokyo
3) Name and Title of Representative	Ishikawa Junetsu, President and Representative Director
4) Business	Provision of information on corporate management, business, products, technologies and real estate, and consulting business.
5) Capital	¥181 million (As of December 31, 2023)
6) Date of Establishment	April 21, 2017

(4) Schedule

1) Date of Board of Directors Resolution	May 14, 2024
2) Date of Signing of Basic Agreement on Capital and Business Alliance	May 14, 2024
3) Date of Signing of Capital and Business Alliance Agreement	August 9, 2024 (scheduled)