

Summary of Consolidated Financial Results For the First Quarter Ended May 31, 2018 [Japan GAAP]

Name of Company: CAREERLINK CO., LTD.
 Stock Code: 6070
 Stock Exchange Listing: Tokyo Stock Exchange, First Section
 URL: <http://www.careerlink.co.jp/>
 Representative Title: President and Representative Director, President and Executive Officer
 Name: Motoaki Narusawa
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 Date of quarterly securities report (tentative): July 12, 2018
 Date of commencement of dividend payment (tentative): -
 Quarterly earnings supplementary explanatory documents: None
 Quarterly earnings presentation: None

(Yen in millions, rounded down)

1. Financial results for the first quarter of the fiscal year ending February 2019 (March 1, 2018 – May 31, 2018)

(1) Result of operations (Consolidated, year-to-date) (Percentage figures represent year on year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First quarter ended May 2018	4,445	(0.1)	23	(88.1)	45	(77.1)	20	(84.2)
First quarter ended May 2017	4,449	-	200	-	198	-	132	-

Note: Comprehensive income: 1Q FY2/2019: 19 million yen (-85.4%), 1Q FY2/2018: 132 million yen (-%)

	Earnings per share		Earnings per share fully diluted	
	Yen		Yen	
First quarter ended May 2018	1.72		1.70	
First quarter ended May 2017	10.58		10.56	

Note: Careerlink has prepared quarterly consolidated financial statements since the first quarter of the fiscal year ended in February 2018. As a result, there are no previous figures for the first quarter ended May 2017

(2) Financial Position (Consolidated)

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
As of May 31, 2018	6,063		3,240		52.8	
As of February 28, 2018	5,764		3,384		58.1	

Reference: Shareholders' equity

As of May 31, 2018: 3,203 million yen As of February 28, 2018: 3,349 million yen

2. Dividends

	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of FY	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 2018	-	0.00	-	10.00	10.00
Fiscal year ending February 2019	-				
Fiscal year ending February 2019 (est.)		0.00	-	10.00	10.00

Note: Change in the estimation of dividend from the latest announcement: None

3. Forecast for the fiscal year ending February 2019 (Consolidated, March 1, 2018 to February 28, 2019)

(Percentage figures represent year on year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	10,173	16.7	98	(70.7)	147	(55.5)	73	(66.4)	5.97
Full year	21,968	31.0	476	(13.6)	591	(2.7)	363	(12.2)	29.73

Note: Change in the forecast from the latest announcement: None

* Notes

(1) Changes in significant subsidiaries during the quarter: Yes

(Change in specified subsidiary resulting in change in scope of consolidation)

Newly included: Japan Business Service Co., Ltd.

Excluded: None

Note: For more information, see “2. Quarterly Consolidated Financial Statements and Important Notes (3) Notes to Quarterly Consolidated Financial Statements (Significant changes in subsidiaries during the quarter)” on page 7.

(2) Use of accounting methods specifically for the preparation of the quarterly financial statements: None

(3) Changes in accounting principles and estimates, and retrospective restatement

(a) Changes due to revision of accounting standards: None

(b) Changes other than in (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury shares)

As of May 31, 2018: 12,555,800 As of February 28, 2018: 12,555,800

(b) Treasury shares

As of May 31, 2018: 314,154 As of February 28, 2018: 240,954

(c) Average number of shares (first quarter)

Period ended May 31, 2018: 12,235,368 Period ended May 31, 2017: 12,526,246

Note: The number of treasury shares at the end of the fiscal year includes stock held in a trust account of Trust & Custody Services Bank, Ltd. (trust account E) for the Careerlink Employee Stock Ownership Plan trust (J-ESOP). There were 62,600 shares in this trust account in the first quarter of the current fiscal year and in the previous fiscal year. Shares in this trust account is included in treasury stock that is excluded from the average number of shares in a fiscal year. There were 62,600 shares in this trust account in the first quarter of the current fiscal year and 29,400 shares in the first quarter of the previous fiscal year.

* This report is exempt from the quarterly audit review by certified public accountants or accounting firms.

* Cautionary statement regarding forecasts of operating results and special notes

Forward-looking statements in these materials are based on information available to management at the time this report was prepared and assumptions that management believes are reasonable. These statements are not promises by the Company regarding future performance. Actual results may differ significantly from these statements for a number of reasons. For information about the forecasts, please see “1. Results of Operations (3) Forecast for the current fiscal year” on page 3.

Index for Supplementary Information

1. Results of Operations	2
(1) Overview on business performance	2
(2) Overview of financial condition	3
(3) Forecast for the current fiscal year.....	3
2. Quarterly Consolidated Financial Statements and Important Notes.....	4
(1) Quarterly consolidated balance sheet.....	4
(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income	5
Quarterly consolidated statements of income	5
Quarterly consolidated statements of comprehensive income	6
(3) Notes to quarterly financial statement	7
(Notes to going concern assumptions)	7
(Significant change in shareholders' equity).....	7
(Significant changes in subsidiaries during the first quarter).....	7
(Segment information, etc.)	7
(Business combinations, etc.)	8

1. Results of Operations

(1) Overview on business performance

The Japanese economy continued to recover slowly during the first quarter of the current fiscal year. Backed by economic stimulus measures and monetary easing, corporate earnings, the labor market and personal income improved and consumer spending rebounded. There was also a gradual increase in capital expenditures and production.

The global economy was generally healthy as the U.S. economy continued to grow and there was an upturn in the economies in Europe and China. However, the outlook is unclear because of U.S. trade policies, uncertainty about Britain's departure from the EU and other issues.

In the Japanese human resources industry, the jobs-to-applicants ratio was consistently high. Japan's labor shortage became even more serious in the IT, construction and transportation sectors as well as in the retailing and services and many other categories. The result was growth in demand for human resource services. Human resource companies in Japan are now faced with the need to respond to amendments to two laws. First, based on the amended Labor Contract Act, workers employed under fixed-term contracts for at least five years can request permanent employment starting in April 2018. Also the amended Worker Dispatching Act places a 3-year limit on the temporary placement of workers starting in October 2018. Issues resulting from these two amended acts are the so-called "2018 employment problem" in Japan.

As in the previous fiscal year, the Careerlink Group concentrated on new orders for clerical human resource services, which is primarily business process outsourcing (BPO) involving the creation of proposals for the outsourcing of business processes, and for manufacturing human resource services, mainly in the food processing industry. Careerlink has been sharing resources with Daiko Securities Business Co., Ltd. (DSB) for BPO and call center services for securities companies, banks and other financial services companies and BPO services involving recruiting for private companies and government agencies. The goals of this cooperation were the growth of these business activities at both companies and higher efficiency. To strengthen this relationship, Careerlink and DSB signed a business and capital alliance contract on February 23, 2018. The two companies also signed a contract for the sale to Careerlink of Japan Business Service Co., Ltd. (JBS), wholly owned subsidiary of DSB engaged primarily in temporary staffing services. Careerlink acquired all JBS stock on March 31, 2018, making this company a wholly owned subsidiary of Careerlink.

While first quarter performance was negatively affected by the decline in the volume of a large private-sector BPO project and lower sales for staffing services involving government benefit payments, there were positive contributions from sales growth in the manufacturing human resource services segment and newly consolidated subsidiary JBS. As a result, sales totaled 4,445,131 thousand yen, down 0.1% from one year earlier. Earnings were down significantly from one year earlier. One cause is that the profit margins of new BPO orders were lower than the margins of the highly profitable large BPO project where the volume of work declined and the margins of staffing services for processing government benefit payments. Other causes were the inclusion of JBS in the consolidated financial statements, the higher expenses for recruiting workers due to the rising cost of attracting applicants, and the increase in selling, general and administrative expenses resulting from an improvement in employee compensation and benefits and other reasons. First quarter operating profit was down 88.1% to 23,745 thousand yen, ordinary profit was down 77.1% to 45,356 thousand yen and profitable attributable to owners of parent was down 84.2% to 20,992 thousand yen.

Careerlink acquired JBS on March 31, 2018 and this company and its subsidiary Tokyo Jidosha Kanri Co., Ltd. are included in the consolidated financial statements. As a result, starting with the first quarter of the current fiscal year, the automobile management business of Tokyo Jidosha Kanri has been added to the Careerlink Group's business segments and is included in the "other" category, which is not a reportable segment.

Business segment performance was as follows.

(Clerical human resource services)

First quarter sales activities were focused mainly on the BPO category aiming to get new orders from large BPO companies and other sources as well as to revise rates for services. However, sales decreased 4.6% to 3,698,627 thousand yen mainly because of the decline in the volume of services at a large BPO project for a private-sector company. Segment earnings decreased partly because the profit margins of new BPO orders were lower than the margins of the highly profitable large BPO project where sales declined and of government benefit payment staffing services. Other causes were the consolidation of JBS, the higher expenses for recruiting workers due to the rising cost of attracting applicants, and the increase in selling, general and administrative expenses resulting from an improvement in employee compensation and benefits and other reasons. The result was a 95.2% decrease in operating profit to 9,072 thousand yen.

(a) Business Process Outsourcing

There were new orders from large BPO companies, the public sector and financial institutions along with rate revision for services. However, due to a decline in the volume of a major BPO project for a private-sector company and other reasons, sales decreased 26.5% to 2,378,259 thousand yen.

(b) Customer Relationship Management

Orders from telemarketing companies recovered in the Tokyo area, Sapporo, Fukuoka and other areas of Japan. Performance also benefited from the consolidation of JBS. As a result, sales increased 53.7% to 660,851 thousand yen.

(c) Office Services

There were new temporary staffing orders from the public and private sectors and performance benefited from the consolidation of JBS. As a result, sales increased 210.0% to 659,516 thousand yen.

(Manufacturing human resource services)

Due to growth in orders from food processors, major home electronics manufacturers and other companies, segment sales increased 21.5% to 696,143 thousand yen and operating profit was up 5.4% to 13,863 thousand yen.

(2) Overview of financial condition

(Assets)

Total assets were 6,063,616 thousand yen at the end of the first quarter, an increase of 299,556 thousand yen compared with the end of the previous fiscal year. Cash and deposits decreased 166,321 thousand yen and there were increases of 128,312 thousand yen in notes and accounts receivable-trade, 100,000 thousand yen in securities, 95,422 thousand yen in investments and other assets, 91,065 thousand yen in other current assets, which includes deferred tax assets, prepaid expenses and other items, 21,688 thousand yen in income taxes receivable, 14,681 thousand yen in property, plant and equipment, and 14,634 thousand yen in intangible assets.

(Liabilities)

Liabilities increased 444,278 thousand yen to 2,823,442 thousand yen at the end of the first quarter. There were decreases of 88,249 thousand yen in long-term loans payable (including the current portion), 66,000 thousand yen in short-term loans payable and 37,500 thousand yen in bonds payable (including the current portion). Other current liabilities, which include accrued expenses, accrued consumption taxes and other items, increased 449,675 thousand yen and accounts payable-other increased 185,699 thousand yen.

(Net assets)

Net assets decreased 144,722 thousand yen to 3,240,173 thousand yen at the end of the fiscal year. Retained earnings decreased 103,284 thousand yen mainly because of dividend payments of 123,774 thousand yen, an increase in treasury shares reduced net assets by 39,803 thousand yen, and the valuation difference on available-for-sale securities decreased 3,221 thousand yen.

(3) Forecast for the current fiscal year

There are no revisions to the forecast announced on April 13, 2018 for the fiscal year ending in February 2019.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheet

(Thousand yen)

	Fiscal year ended February 2018 (As of February 28, 2018)	First quarter ended May 2018 (As of May 31, 2018)
ASSETS		
Current assets		
Cash and deposits	3,084,127	2,917,806
Notes and accounts receivable - trade	1,789,535	1,917,848
Securities	-	100,000
Inventories	2,569	2,582
Income taxes receivable	15,049	36,738
Other	164,699	255,764
Allowance for doubtful accounts	(463)	(403)
Total current assets	5,055,519	5,230,337
Non-current assets		
Property, plant and equipment	96,152	110,834
Intangible assets	109,676	124,310
Investments and other assets	502,711	598,134
Total non-current asset	708,540	833,279
Total assets	5,764,059	6,063,616
LIABILITIES		
Current liabilities		
Short-term loans payable	66,000	-
Current portion of bonds	57,500	40,000
Current portion of long-term loans payable	271,356	239,476
Accounts payable - other	857,474	1,043,174
Income taxes payable	31,722	45,199
Asset retirement obligations	13,788	13,788
Provision for bonuses	88,449	62,942
Other	302,390	752,065
Total current liabilities	1,688,681	2,196,645
Non-current liabilities		
Bonds payable	100,000	80,000
Long-term loans payable	476,176	419,807
Provision for employee stock ownership plan	23,782	22,548
Net defined benefit liability	-	12,901
Asset retirement obligations	44,027	43,343
Other	46,496	48,196
Total non-current liabilities	690,482	626,796
Total liabilities	2,379,163	2,823,442
Net ASSETS		
Shareholders' equity		
Capital stock	388,005	388,005
Capital surplus	231,718	231,718
Retained earnings	2,880,500	2,777,216
Treasury shares	(150,736)	(190,539)
Total shareholders' equity	3,349,488	3,206,400
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-	(3,221)
Total accumulated other comprehensive income	-	(3,221)
Subscription rights to shares	16,285	16,285
Non-controlling interests	19,122	20,709
Total net assets	3,384,896	3,240,173
Total liabilities and net assets	5,764,059	6,063,616

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income

Quarterly consolidated statements of income

For the first quarter

(Thousand yen)

	First quarter ended May 2017 (March 1, 2017 – May 31, 2017)	First quarter ended May 2018 (March 1, 2018 – May 31, 2018)
Net sales	4,449,883	4,445,131
Cost of sales	3,606,094	3,636,582
Gross profit	843,788	808,549
Selling, general and administrative expenses	643,553	784,803
Operating profit	200,235	23,745
Non-operating income		
Interest income	225	59
Refunded consumption taxes	-	22,627
Other	72	992
Total non-operating income	298	23,679
Non-operating expenses		
Interest expenses	1,477	1,582
Amortization of bond issuance cost	604	-
Other	251	486
Total non-operating expenses	2,333	2,068
Ordinary profit	198,200	45,356
Profit before income taxes	198,200	45,356
Income taxes-current	14,139	35,632
Income taxes-deferred	51,566	(12,855)
Total income taxes	65,705	22,776
Profit	132,495	22,579
Profit attributable to non-controlling interests	-	1,587
Profit attributable to owners of parent	132,495	20,992

Quarterly consolidated statements of comprehensive income
For the first quarter

(Thousand yen)

	First quarter ended May 2017 (March 1, 2017 – May 31, 2017)	First quarter ended May 2018 (March 1, 2018 – May 31, 2018)
Profit	132,495	22,579
Other comprehensive income		
Valuation difference on available-for-sale securities	(20)	(3,221)
Total other comprehensive income	(20)	(3,221)
Comprehensive income	132,474	19,357
Comprehensive income attributable to owners of parent	132,474	17,770
Comprehensive income attributable to non-controlling interests	-	1,587

(3) Notes to quarterly financial statement

(Notes to going concern assumptions)

None

(Significant change in shareholders' equity)

None

(Significant changes in subsidiaries during the first quarter)

Careerlink acquired Japan Business Service Co., Ltd. on March 31, 2018 and this company and its subsidiary Tokyo Jidosha Kanri Co., Ltd. are included in the consolidated financial statements starting with the first quarter of the current fiscal year. Japan Business Service is a specified subsidiary of Careerlink.

(Segment information, etc.)

[Segment information]

For the first quarter ended May 2017 (March 1, 2017 – May 31, 2017)

1. Information about sales and income (loss) by reporting segments

	Reporting segments			Other	(Thousand yen)
	Clerical human resource services	Manufacturing human resource services	Total		Amount on the quarterly consolidated statements of income (Note)
Net sales (of which to outside customers) (of which inter-segment)	3,877,085 -	572,798 -	4,449,883 -	- -	4,449,883 -
Total	3,877,085	572,798	4,449,883	-	4,449,883
Segment income	187,080	13,155	200,235	-	200,235

Note: The segment income matches operating profit in the consolidated income statement.

2. Change in reportable segments

On March 1, 2017, Careerlink established Careerlink Factory Co., Ltd. as a wholly owned consolidated subsidiary. In association with this new subsidiary, Careerlink has changed its reportable segments beginning with the first quarter of the fiscal year ended in February 2018. Instead of using the single reportable segment of comprehensive human resource services business, Careerlink is now using two segments: the clerical human resource services business and the manufacturing human resource services business.

3. Information about impairment loss or goodwill etc.in non-current assets by reporting segments

Not applicable

For the first quarter ended May 2018 (March 1, 2018 – May 31, 2018)

1. Information about sales and income (loss) by reporting segments

	Reporting segments			Other (Note 1)	Amount on the quarterly consolidated statements of income (Note 2)
	Clerical human resource services	Manufacturing human resource services	Total		
Net sales (of which to outside customers) (of which inter- segment)	3,698,627 -	696,143 -	4,394,771 -	50,360 -	4,445,131 -
Total	3,698,627	696,143	4,394,771	50,360	4,445,131
Segment income	9,072	13,863	22,936	808	23,745

Note: 1. “Other” is the automobile management business of Tokyo Jidosha Kanri which is not a reportable segment.

2. The segment income matches operating profit in the consolidated income statement.

2. Change in reportable segments

Careerlink acquired Japan Business Service Co., Ltd. on March 31, 2018 and this company and its subsidiary Tokyo Jidosha Kanri Co., Ltd. are included in the consolidated financial statements. As a result, starting with the first quarter of the current fiscal year, the automobile management business of Tokyo Jidosha Kanri has been added to the Careerlink Group’s business segments and is included in the “others” category, which is not a reportable segment. Segment information for the first quarter of the previous fiscal year is based on the new method used for business segments.

3. Information about impairment loss or goodwill etc.in non-current assets by reporting segments

Omitted because of lack of materiality

(Business combinations, etc.)

The Careerlink Board of Directors approved a resolution on February 23, 2018 to purchase all shares of Japan Business Service Co., Ltd., a wholly owned subsidiary of Daiko Securities Business (DSB), and to establish a capital and business alliance with DSB. On the same day, Careerlink and DSB signed a contract for Careerlink to purchase all shares of Japan Business Service and a contract for the capital and business alliance. On March 31, 2018, Careerlink purchased all shares of Japan Business Service.

1. Summary of business combination

(1) Profile of company acquired

Name: Japan Business Service Co., Ltd.

Activities: Temporary staffing, payroll service, cost-reduction consulting

(2) Main reason for the business combination

The Careerlink Group has two business sectors. Clerical human resource services are primarily business process outsourcing, which involves creating proposals for the outsourcing of business processes in order to improve the efficiency and quality of the operations of private and public-sector clients. Manufacturing human resource services serves mainly the food processing industry.

The DSB Group pursues the vision of “jointly creating value by supplying innovative comprehensive outsourcing services that utilize highly advanced specialized skills”. The goal is to establish a position as a joint infrastructure company for the securities industry. The DSB Group is a source of total solutions for securities operations in order to provide broad-based support for the activities of securities companies, banks and other clients.

Careerlink and DSB have agreed to cooperate by sharing their resources for the provision of BPO services and call centers services to securities companies, banks and other financial instrument dealers and of BPO services related to recruiting activities at private-sector companies and the public sector. The goals are to expand both of their business operations and to make them more efficient. To establish and strengthen a framework for this cooperation, Careerlink purchased all of the shares of Japan Business Service, a wholly owned subsidiary of DSB that is engaged primarily in temporary staffing. In addition, Careerlink and DSB signed a contract for the establishment of a capital and business alliance.

(3) Business combination date

March 31, 2018

(4) Business combination legal structure

Purchase of stock by using a cash payment

(5) Name of company after the combination

No change

(6) Pct. of voting rights acquired

100%

- (7) Primary basis for selecting the company to be acquired
 Careerlink used cash to purchase stock that resulted in the acquisition of 100% of the voting rights of Japan Business Service.
2. Period of inclusion of the acquired company's performance to the quarterly consolidated statements of income
 From April 1, 2018 to May 31, 2018
3. Acquisition cost of Japan Business Service and type of payment
- | | | |
|------------------|------|-----------------|
| Payment | Cash | 918,165,203 yen |
| Acquisition cost | | 918,165,203 yen |
4. Major transaction expenses
 Advisory fees, etc. 2,750,000 yen
5. Goodwill, cause of goodwill, and amortization method and period
- (1) Amount
 5,999,265 yen
- (2) Cause
 The difference at the time of the business combination between the acquisition cost and net assets, which were less than the acquisition cost, was recognized as goodwill.
- (3) Amortization method and period
 All goodwill amortized at once because the amount of goodwill is not significant.