

Summary of Consolidated Financial Results For the Third Quarter Ended November 30, 2018 [Japan GAAP]

Name of Company: CAREERLINK CO., LTD.
 Stock Code: 6070
 Stock Exchange Listing: Tokyo Stock Exchange, First Section
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 Date of quarterly securities report (tentative): January 11, 2019
 Date of commencement of dividend payment (tentative): -
 Quarterly earnings supplementary explanatory documents: No
 Quarterly earnings presentation: No

(Yen in millions, rounded down)

1. Financial results for the first three quarters of the fiscal year ending February 2019 (March 1, 2018 – November 30, 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 three quarters ended Nov. 2018	13,822	8.1	41	(90.9)	117	(76.4)	43	(87.1)
First three quarters ended Nov. 2017	12,783	-	458	-	496	-	336	-

Note: Comprehensive income: First three quarters of FY2/2019: 38 million yen (-88.5%)
 First three quarters of FY2/2018: 336 million yen (-%)

	Earnings per share		Earnings per share fully diluted	
	Yen		Yen	
First three quarters ended Nov. 2018	3.55		3.48	
First three quarters ended Nov. 2017	26.93		26.88	

Note: Careerlink has prepared quarterly consolidated financial statements since the fiscal year ended in February 2018. As a result, there are no comparisons with the previous fiscal year for the first three quarters ended November 2017.

(2) Financial Position (Consolidated)

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
As of November 30, 2018	5,892		3,260		54.6	
As of February 28, 2018	5,764		3,384		58.1	

Reference: Shareholders' equity

As of November 30, 2018: 3,218 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				
Fiscal year ended February 2018	-	0.00	-	10.00	10.00
Fiscal year ending February 2019	-	0.00	-		
Fiscal year ending February 2019 (est.)			-	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
Full year	19,042	13.5	134	(75.6)	237	(60.9)	144	(65.2)	11.79

Note: Change in the forecast from the latest announcement: No

* 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 (4) Notes to Quarterly Consolidated Financial Statements (Significant changes in subsidiaries during the first half)” 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 November 30, 2018: 12,555,800 As of February 28, 2018: 12,555,800

(b) Treasury shares

As of November 30, 2018: 313,355 As of February 28, 2018: 240,954

(c) Average number of shares (first three quarters)

Period ended November 30, 2018: 12,239,777 Period ended November 30, 2017: 12,510,793

Note: The number of treasury shares 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 61,800 shares in this trust account in the figure of as of November 30, 2018 and 62,600 shares in the figure of as of February 28, 2018. 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 62,368 shares in this trust account in the figure of period ended November 30, 2018 and 44,853 shares in the figure of period ended November 30, 2017.

* 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.

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1. Results of Operations

(1) Overview on business performance

The Japanese economy continued to recover slowly during the first three quarters of the current fiscal year. Due to government economic stimulus measures and other reasons, corporate earnings, employment and personal income continued to improve, consumer spending rebounded, and capital expenditures increased.

The overseas economy was generally healthy, including a continuation of U.S. economic growth. However, the direction of the global economy remains unclear because of uncertainty about how U.S. trade policies will affect the global economy, slowing economic growth in the eurozone and other issues.

In the Japanese human resources industry, the labor shortage is becoming even worse in the IT, construction, transportation, retail, services and many other sectors. The jobs-to-applicants ratio remained high at seasonally adjusted 1.63 in November 2018. The environment for hiring people has been improving mainly because the total number of workers is increasing due to the decline in unemployed people and rise in labor force participation by women and older people. Human resource companies in Japan need to respond to amendments to two laws. First, a Labor Contract Act amendment that became effective in April 2018 gives workers employed under fixed-term contracts for at least five years the right to request permanent employment. Second, the amended Worker Dispatching Act established 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 took actions aimed at growth of clerical human resource services, primarily business process outsourcing (BPO) involving the creation of proposals for the outsourcing of business processes, and of manufacturing human resource services, mainly in the food processing and production process categories. 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-sector companies and government agencies. The goals of this cooperation are 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), a 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.

Sales in the first three quarters were negatively affected by a larger than expected decrease in the volume of work at a large private-sector BPO project and by lower sales at projects involving government benefit payments and Japan’s social security and tax number system (My Number System). However, there were contributions to sales from higher manufacturing human resource services sales and a new order for clerical services associated with cashless payment processing. In addition, newly consolidated subsidiary JBS made its first contribution to sales. As a result, sales increased 8.1% compared with one year earlier to 13,822,152 thousand yen. Although sales increased, operating profit was down 90.9% to 41,489 thousand yen. One reason was higher expenses for paid vacation time associated with people who were assigned to the large private-sector BPO project that was downsized. Furthermore, the operating margins of new BPO projects were lower than the margin at this large BPO project where sales declined and lower than the margin for government benefit payment staffing services and other activities. Also, higher recruiting expenses for the temporary staffing workforce, an increase in salaries and other employee compensation, and the operating expenses of newly consolidated subsidiary JBS caused selling, general and administrative expenses to increase. Ordinary profit was down 76.4% to 117,089 thousand yen and profit attributable to owners of parent was down 87.1% to 43,431 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 resources services)

Sales in this segment were reduced by a larger than expected decrease in the volume of work at a large private-sector BPO project and by lower sales for projects involving government benefit payments and Japan’s My Number System. These declines were offset by the growth of services in the BPO category, new orders from large BPO companies and revisions to fees charged for services. New projects contracted included a project related to cashless settlements systems. Moreover, newly consolidated subsidiary JBS also contributed to sales in this segment. As a result, sales increased 4.1% to 11,316,083 thousand yen. Segment earnings were negatively impacted by several factors. One was higher expenses for paid vacation time associated with people who were assigned to the large private-sector BPO project that was downsized. Another is the lower operating margins of new BPO projects compared with the margin at the large BPO project where sales declined and the margin for government benefit payment staffing services and other activities. Also, higher recruiting expenses for the temporary staffing workforce, an increase in salaries and other employee compensation, and the operating expenses of newly consolidated subsidiary JBS caused selling, general and administrative expenses to increase. As a result, there was an operating loss of 407 thousand yen compared with operating profit of 422,614 thousand yen in the first three quarters of the previous fiscal year.

(a) Business Process Outsourcing

There were new orders from large BPO companies, the public sector and financial institutions and rates for BPO services were revised. Performance also benefited from the receipt of a new order in October 2018 for outsourced cashless payment processing tasks. However, sales in this sector decreased 24.6% to 6,671,614 thousand yen mainly because of the larger than expected decline in the volume of outsourced work at a large private-sector BPO project and lower sales at projects involving government benefit payments and Japan’s My Number System.

(b) Customer Relationship Management

New orders from telemarketing companies in the Tokyo area, Sapporo, Osaka, Fukuoka and other locations recovered and this sector now includes the sales of newly consolidated subsidiary JBS. As a result, sales were 2,137,985 thousand yen, 54.3% higher than one year earlier.

(c) Office Services

New public and private-sector temporary staffing orders increased and the office services business of newly consolidated subsidiary JBS contributed to sales growth. As a result, sales increased 295.3% to 2,506,483 thousand yen.

(Manufacturing human resource services)

Due to a large volume of orders from food processors, major home electronics manufacturers and other companies, segment sales increased 20.6% to 2,308,843 thousand yen. Operating profit increased 14.2% to 40,796 thousand yen despite an increase in selling, general and administrative expenses resulting from higher recruiting expenses, the addition of new sales and service locations, and higher salaries and other compensation for employees.

(2) Overview of financial condition

(Assets)

Total assets were 5,892,173 thousand yen at the end of the third quarter, an increase of 128,113 thousand yen compared with the end of the previous fiscal year. Cash and deposits decreased 428,507 thousand yen and there were increases of 290,876 thousand yen in notes and accounts receivable-trade, 115,274 thousand yen in other current assets, 100,000 thousand yen in securities, and 83,901 thousand yen in investments and other assets.

(Liabilities)

Liabilities increased 252,916 thousand yen to 2,632,080 thousand yen at the end of the third quarter. There were decreases of 66,000 thousand yen in short-term loans payable, 64,987 thousand yen in long-term loans payable (including the current portion), and 58,395 thousand yen in the provision for bonuses. Accounts payable-other increased 265,534 thousand yen and other current liabilities increased 230,868 thousand yen.

(Net assets)

Net assets decreased 124,802 thousand yen to 3,260,093 thousand yen at the end of the third quarters. Retained earnings decreased 80,845 thousand yen, treasury shares decreased 39,199 thousand yen, and the valuation difference on available-for-sale securities decreased 10,523 thousand yen.

(3) Forecast for the current fiscal year

There are no revisions to the consolidated forecast announced on October 5, 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)	Third quarter ended November 2018 (As of November 30, 2018)
ASSETS		
Current assets		
Cash and deposits	3,084,127	2,655,620
Notes and accounts receivable - trade	1,789,535	2,080,412
Securities	-	100,000
Inventories	2,569	2,595
Income taxes receivable	15,049	1,581
Other	164,699	279,973
Allowance for doubtful accounts	(463)	(433)
Total current assets	5,055,519	5,119,750
Non-current assets		
Property, plant and equipment	96,152	88,054
Intangible assets	109,676	97,756
Investments and other assets	502,711	586,612
Total non-current asset	708,540	772,423
Total assets	5,764,059	5,892,173
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	266,067
Accounts payable - other	857,474	1,123,009
Income taxes payable	31,722	28,688
Asset retirement obligations	13,788	-
Provision for bonuses	88,449	30,053
Other	302,390	533,258
Total current liabilities	1,688,681	2,021,077
Non-current liabilities		
Bonds payable	100,000	60,000
Long-term loans payable	476,176	416,478
Provision for employee stock ownership plan	23,782	22,636
Net defined benefit liability	-	13,809
Asset retirement obligations	44,027	46,010
Other	46,496	52,068
Total non-current liabilities	690,482	611,003
Total liabilities	2,379,163	2,632,080
Net ASSETS		
Shareholders' equity		
Capital stock	388,005	388,005
Capital surplus	231,718	231,718
Retained earnings	2,880,500	2,799,655
Treasury shares	(150,736)	(189,935)
Total shareholders' equity	3,349,488	3,229,443
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-	(10,523)
Total accumulated other comprehensive income	-	(10,523)
Subscription rights to shares	16,285	16,285
Non-controlling interests	19,122	24,887
Total net assets	3,384,896	3,260,093
Total liabilities and net assets	5,764,059	5,892,173

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income
(Quarterly consolidated statements of income)
(For the first three quarters)

(Thousand yen)

	First three quarters ended Nov. 2017 (March 1, 2017 – November 30, 2017)	First three quarters ended Nov. 2018 (March 1, 2018 – November 30, 2018)
Net sales	12,783,475	13,822,152
Cost of sales	10,390,327	11,377,157
Gross profit	2,393,147	2,444,994
Selling, general and administrative expenses	1,934,816	2,403,505
Operating profit	458,330	41,489
Non-operating income		
Interest income	486	542
Dividend income	-	439
Gain on consumption taxes etc.	43,132	75,763
Other	130	3,752
Total non-operating income	43,749	80,496
Non-operating expenses		
Interest expenses	4,016	4,180
Amortization of bond issuance cost	604	-
Other	930	716
Total non-operating expenses	5,551	4,897
Ordinary profit	496,528	117,089
Profit before income taxes	496,528	117,089
Income taxes-current	101,729	73,112
Income taxes-deferred	57,927	(5,220)
Total income taxes	159,656	67,892
Profit	336,872	49,197
Profit attributable to non-controlling interests	-	5,765
Profit attributable to owners of parent	336,872	43,431

(Quarterly consolidated statements of comprehensive income)
(For the first three quarters)

(Thousand yen)

	First three quarters ended November 2017 (March 1, 2017 – November 30, 2017)	First three quarters ended Nov. 2018 (March 1, 2018 – November 30, 2018)
Profit	336,872	49,197
Other comprehensive income		
Valuation difference on available-for-sale securities	(37)	(10,523)
Total other comprehensive income	(37)	(10,523)
Comprehensive income	336,835	38,673
Comprehensive income attributable to owners of parent	336,835	32,908
Comprehensive income attributable to non-controlling interests	-	5,765

(3) Notes to quarterly financial statement

(Notes to going concern assumptions)

None

(Significant change in shareholders' equity)

None

(Significant change in subsidiary during the first three quarters)

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 three quarters ended November 2017 (March 1, 2017 – November 30, 2017)

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

(Thousand yen)

	Reporting segments			Other	Total	Adjustment	Amount on the quarterly consolidated statements of income (Note)
	Clerical human resources services	Manufacturing human resource services	Total				
Net sales (of which to outside customers)	10,868,799	1,914,676	12,783,475	-	12,783,475	-	12,783,475
(of which inter-segment)	-	-	-	-	-	-	-
Total	10,868,799	1,914,676	12,783,475	-	12,783,475	-	12,783,475
Segment income	422,614	35,716	458,330	-	458,330	-	458,330

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

2. Change in reportable segments

On March 1, 2017, Careerlink established CareerLinkFactory Corporation 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 three quarters ended November 2018 (March 1, 2018 – November 30, 2018)

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

(Thousand yen)

	Reporting segments			Other (Note 1)	Total	Adjustment	Amount on the quarterly consolidated statements of income (Note 2)
	Clerical human resources services	Manufacturing human resource services	Total				
Net sales (of which to outside customers)	11,315,305	2,308,843	13,624,149	198,002	13,822,152	-	13,822,152
(of which inter-segment)	777	-	777	-	777	(777)	-
Total	11,316,083	2,308,843	13,624,927	198,002	13,822,930	(777)	13,822,152
Segment income (loss)	(407)	40,796	40,389	1,100	41,489	-	41,489

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

Note 2: The segment income (loss) 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 three quarters 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