

Consolidated Financial Results for the Six Months Ended June 30, 2020 [Japanese GAAP]

August 14, 2020

Company name: MEDLEY, INC.

Stock exchange listing: Tokyo

Code number: 4480

URL: <https://www.medley.jp>

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Scheduled date of filing quarterly securities report: August 14, 2020

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: Yes (for institutional investors and analysts)

(Amounts of less than one million yen are rounded down)

1. Consolidated Financial Results for the Six Months Ended June 30, 2020 (January 01, 2020 to June 30, 2020)

(1) Consolidated Operating Results

(% indicates changes from the previous corresponding period)

	Net sales		EBITDA*		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended June 30, 2020	3,564	-	522	-	452	-	453	-	379	-
June 30, 2019	-	-	-	-	-	-	-	-	-	-

(Note) Comprehensive income: Six months ended June 30, 2020: ¥ 379 million [-%]
Six months ended June 30, 2019: ¥ - million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended June 30, 2020	13.41	12.24
June 30, 2019	-	-

- (Notes)
1. Because Medley, Inc. ("the Company") did not prepare consolidated quarterly financial statements for the second quarter of the consolidated fiscal year ended December 31, 2019 (consolidated Q2 FY2019), no data is provided for Q2 FY2019 and no year-on-year quarterly comparisons are provided for the second quarter of the consolidated fiscal year ending December 31, 2020 (consolidated Q2 FY2020).
 2. EBITDA = Operating profit / loss + depreciation and amortization of goodwill
Because the Company has posted no amortization of goodwill during consolidated Q2 FY2020, it is not included in calculation of EBITDA.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Million yen	Million yen	%
As of June 30, 2020	6,651	4,054	60.9
December 31, 2019	5,400	3,359	62.0

(Reference) Equity: As of June 30, 2020: ¥ 4,052 million
As of December 31, 2019: ¥ 3,345 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2019	-	0.0	-	0.0	0.0
Fiscal year ending December 31, 2020	-	0.0			
Fiscal year ending December 31, 2020 (Forecast)			-	0.0	0.0

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2020 (January 01, 2020 to December 31, 2020)

(% indicates changes from the previous corresponding period)

	Net sales		EBITDA*		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	6,600	38.5	500	100.8	330	115.5	350	96.2	300		10.61
	~	~	~	~	~	~	~	~	~	-	~
	6,900	44.8	800	221.3	630	311.3	650	264.5	550		19.44

(Note) Revision to the financial results forecast announced most recently: No

* Notes:

(1) Changes in significant subsidiaries during the six months ended June 30, 2020

(changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

Note) For details, see “Application of special accounting methods in preparation for quarterly consolidated financial statements” under “2. Quarterly consolidated financial statements and important notes (4) Important notes regarding quarterly consolidated financial statements” on page 11 of the attached documents.

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: Yes

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

June 30, 2020: 28,858,800 shares

December 31, 2019: 28,145,100 shares

2) Total number of treasury shares at the end of the period:

June 30, 2020: - shares

December 31, 2019: - shares

3) Average number of shares during the period:

Six months ended June 30, 2020: 28,285,986 shares

Six months ended June 30, 2019: - shares

Note) Because the Company did not prepare consolidated quarterly financial statements for the second quarter of the consolidated fiscal year ended December 31, 2019 (consolidated Q2 FY2019), no data is provided for average number of shares issued during that term.

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Cautionary Statements with Respect to Forward-Looking Statements and Other Notes

This preliminary earnings report contains forward-looking statements such as earnings forecasts which are based on information currently available to the Group and certain assumptions deemed to be reasonable. The Group makes no guarantee regarding the accuracy of the forecasts contained herein. Because of variable factors, actual results may differ from the forecast figures. For information regarding assumptions upon which the Group's results forecasts are based and notes regarding the use of results forecasts, please refer to “(3) Explanation regarding consolidated forecasts and forward-looking statements” under “Qualitative information regarding quarterly results” on page 6 of the attached documents.

1. Qualitative information regarding quarterly results

(1) Explanation regarding operating results

During the second quarter of the consolidated fiscal year ending December 31, 2020 (consolidated Q2 FY2020), despite the continued impact of the spread of COVID-19, the Japanese medical and nursing industry continued to face human resource shortages and issues related to financial resources and the ratio of job offers to applicants therefore trended many times higher than the average for all industries. In addition, to prevent the spread of COVID-19, on April 10, 2020, the Ministry of Health, Labour and Welfare (MHLW) issued a guidance statement temporarily allowing the use of telemedicine for patients receiving initial medical examinations.

Amid this business environment, during consolidated Q2 FY2020, sales in the Recruitment Platform Business were impacted by hiring process delays, but sales in this business began to recover in June following the lifting of the emergency declaration and quarterly sales increased on a year-on-year basis.

Companywide sales also rose, as sales in the Medical Platform Business increased on growth in the number of medical institutions adopting CLINICS telemedicine system in response to the MHLW's guidance statement temporarily lifting the ban on the use of telemedicine for initial medical examinations. While we achieved sales growth, we also conducted investments aimed at expanding the scale of our business operations including continued investment in growth in the Recruitment Platform Business to develop systems functionality and increase the number of employees. We also made investments in growth in the Medical Platform Business, such as continuing to expand our development teams, strengthening our service provision systems in preparation for the launch of our online drug administration guidance support system Business, and acquiring the electronic medical record (EMR) assets of another company.

Under these conditions, in consolidated Q2 FY2020, the Group posted net sales of ¥3,564,832 thousand, EBITDA of ¥522,270 thousand, operating profit of ¥452,992 thousand, ordinary profit of ¥453,681 thousand, and a quarterly net profit attributable to owners of the parent company of ¥379,185 thousand.

The Recruitment Platform Business posts sales based on the hiring dates of persons using the Group's services to find employment at companies seeking employees. The posting of sales therefore tends to be concentrated in April, when Japanese companies tend to hire more employees (because this is often the beginning of Japanese companies' fiscal years). The posting of the Group's net sales therefore tends to be concentrated in 2Q of our consolidated fiscal year (ending on December 31).

In response to the rapid spread of COVID-19 in Japan, on April 7, 2020, the Japanese government declared a state of emergency in accordance with the Act on Special Measures for Pandemic Influenza and New Infectious Diseases Preparedness and Response. Subsequently, on May 25, 2020, the state of emergency was fully lifted in many regions of Japan, including the Tokyo Metropolitan Area, where the Company's headquarters is located, but the situation still requires the utmost caution.

The Company has implemented measures to prevent the spread of the virus while continuing our business activities. For example, we have ensured that all employees are fully aware of our policies regarding work when there is a possibility of infection or when they are not feeling well. However, if voluntary quarantines and voluntary suspension of business operations resume owing to the declaration of another state of emergency, resulting in a prolonged slowdown in the Japanese economy, this could have an adverse impact on the development of the Group's business and on our operational results.

After the full lifting of the state of emergency, in response to the MHLW guidance statement temporarily easing restrictions on the use of telemedicine, our Medical Platform Business has seen a sustained increase in the number of customers using our CLINICS telemedicine system. While some of our customers in the Recruitment Platform Business postponed hiring, they are now in the process of restarting hiring activities. We have not seen a material impact on the Group's businesses development and financial results at present. We will continue to monitor trends that may result in the spread of COVID-19 having an impact on our businesses and provide timely disclosures if we see a material risk resulting from the spread of the virus.

Earnings by business segment are as follows.

1. Recruitment Platform Business

During consolidated Q2 FY2020, our Recruitment Platform Business was impacted by delays in hiring interviews and hiring postponements resulting from the promulgation of the state of emergency in response to the spread of COVID-19. However, after the lifting of the state of emergency, we saw a recovery and the number of customer offices served rose by 8.6% compared with the end of the previous fiscal year to over 197,000 locations, but the number of positions listed declined 6.0%, to just over 190,000. We also continuously improved the functionality of our service websites to enhance user convenience and, in Q1, invested in television advertising aimed at increasing the number of medical and healthcare professionals making use of the Company's services to find employment.

As a result of the above, consolidated Q2 FY2020 segment net sales were ¥3,009,876 thousand and segment profit before allocation of companywide shared costs (operating profit) was ¥1,438,202 thousand.

2. Medical Platform Business

During consolidated Q2 FY2020, in response to the temporary lifting of the ban on use of telemedicine for patients receiving initial medical examinations as a measure to prevent the spread of COVID-19, the number of medical institutions using our cloud-based CLINICS medical support systems rose by 66.0% compared with the end of the previous consolidated fiscal year, to over 1,900. In addition, our online drug administration guidance support system business, for which we had originally planned a full-scale launch in September 2020, has gotten off to a smooth early start. Also, NaCl Medical, Inc., which was converted into a consolidated (wholly owned) subsidiary in March 2019, remains entrusted with the development of Online Receipt Computer Advantage (ORCA) medical accounting software. We also continued to update and expand content for our Medley media service, including information related to COVID-19.

As a result of the above, consolidated Q2 FY2020 segment net sales were ¥503,043 thousand and the segment posted a loss before allocation of companywide shared costs (operating loss) of ¥253,421 thousand.

Factors behind the posting of an operating loss in the segment included 1) investments in growth aimed at securing new medical institution users for our cloud-based CLINICS medical support systems and expanding its functionality, 2) upfront investment in our online drug administration guidance support system business, and 3) posting the acquisition of the EMR assets of another company as a one-time expense.

3. New Services Segment

During consolidated Q2 FY2020, our Kaigo-no Honne nursing facility search website business was impacted by postponement of facilities tours and limitations on accepting new patients and residents resulting from the promulgation of the state of emergency in response to the spread of COVID-19. However, we continued to proactively conduct operations to continuously expand content and increase the number of facilities that can be introduced using our Kaigo-no Honne service.

As a result of the above, consolidated Q1 FY2020 segment net sales were ¥51,912 thousand and the segment posted a loss before allocation of companywide shared costs (operating loss) of ¥40,600 thousand.

Factors behind the posting of an operating loss in the segment included investments in optimizing the earnings structure of our Kaigo-no Honne service.

Intersegment eliminations and unallocated companywide shared costs totaled ¥691,187 thousand.

(2) Outline of financial position

Assets

Current assets as of end-consolidated Q2 FY2020 totaled ¥5,969,352 thousand, an increase of ¥1,213,775 thousand compared with the end of the previous consolidated fiscal year. This increase was mainly attributable to an increase of ¥1,003,115 thousand in cash and deposits and an increase of ¥166,926 thousand in accounts receivable (trade). Non-current assets as of end-consolidated Q2 FY2020 totaled ¥677,079 thousand, an increase of ¥38,898 thousand compared with the end of the previous consolidated fiscal year. This increase was mainly attributable to an increase of ¥9,256 thousand in tangible non-current assets, an increase of ¥32,484 thousand in intangible non-current assets, and a decline of ¥2,842 thousand in investments and other assets.

As a result of the above, total assets as of end-consolidated Q2 FY2020 totaled ¥6,651,620 thousand, an increase of ¥1,251,131 thousand compared with the end of the previous consolidated fiscal year.

Liabilities

Current liabilities as of end-consolidated Q2 FY2020 totaled ¥2,018,585 thousand, an increase of ¥250,981 thousand compared with the end of the previous consolidated fiscal year. This increase was mainly attributable to an increase of ¥161,491 thousand in advances received, an increase of ¥91,700 thousand in the current portion of long-term loans payable, and a decrease of ¥68,400 thousand in accounts payable. Non-current liabilities as of end-consolidated Q2 FY2020 totaled ¥578,467 thousand, an increase of ¥305,372 thousand compared with the end of the previous consolidated fiscal year. This increase was mainly attributable to an increase of ¥305,372 thousand in long-term loans payable.

As a result of the above, total liabilities as of end-consolidated Q2 FY2020 totaled ¥2,597,052 thousand, an increase of ¥556,353 thousand compared with the end of the previous consolidated fiscal year.

Net assets

Net assets as of end-consolidated Q2 FY2020 totaled ¥4,054,567 thousand, an increase of ¥694,778 thousand compared with the end of the previous consolidated fiscal year. This increase was mainly attributable to increases of ¥163,796 thousand each in capital and capital surplus and ¥379,185 thousand in retained earnings.

Cash flows

Cash and cash equivalents (hereinafter, net cash) as of end-consolidated Q2 FY2020 totaled ¥5,480,511 thousand. Cash flows and sources thereof during consolidated Q2 FY2020 were as follows.

Cash flows from operating activities

Net cash provided by operating activities during consolidated Q2 FY2020 was ¥398,251 thousand. This was mainly attributable to ¥453,681 thousand in Q2 pretax profit, adjusted for an increase of ¥166,926 thousand in accounts receivable (trade), an increase of ¥161,491 thousand in advances received, and ¥67,337 thousand in taxes paid.

Cash flows from investing activities

Net cash used in investing activities during consolidated Q2 FY2020 was ¥107,800 thousand. This was mainly attributable to ¥91,230 thousand from acquisition of intangible non-current assets and ¥16,569 thousand from acquisition of tangible non-current assets.

Cash flows from financing activities

Net cash provided by financing activities during consolidated Q2 FY2020 was ¥712,664 thousand. This was mainly attributable to ¥500,000 thousand in long-term borrowings, ¥315,592 thousand in proceeds from the issuance of shares due to the exercise of new share acquisition rights, and ¥102,928 thousand in repayment of long-term loans.

(3) Explanation regarding consolidated forecasts and forward-looking statements

In consolidated Q2 FY2020, consolidated results trended in line with the Company's initial full-year forecast for consolidated FY2020. Based on this, and in consideration of the impact on our businesses from changes in supply and demand trends resulting from the spread of COVID-19, we make no changes to the quantitative forecasts published in our Summary of Consolidated Financial Results for the Year Ended December 31, 2019 [Japanese GAAP] published on February 14, 2020.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31,2019	As of June 30,2020
Assets		
Current assets		
Cash and deposits	4,477,395	5,480,511
Accounts receivable - trade	241,498	408,424
Merchandise and finished goods	211	425
Work in process	-	324
Prepaid expenses	37,192	54,753
Other	23,274	65,041
Allowance for doubtful accounts	(23,995)	(40,128)
Total current assets	4,755,577	5,969,352
Non-current assets		
Property, plant and equipment	56,007	65,263
Intangible assets	222,324	254,809
Investments and other assets	359,849	357,006
Total non-current assets	638,181	677,079
Deferred assets	6,729	5,187
Total assets	5,400,488	6,651,620
Liabilities		
Current liabilities		
Accounts payable - trade	1,495	1,633
Short-term borrowings	500,000	500,000
Current portion of long-term borrowings	190,256	281,956
Accounts payable - other	557,636	489,236
Accrued expenses	44,766	41,419
Advances received	149,286	310,777
Deposits received	81,597	126,240
Income taxes payable	106,922	98,819
Accrued consumption taxes	105,302	127,394
Provision for bonuses	1,461	-
Provision for refund of sales	8,596	16,021
Provision for cashback for newly hired	12,987	22,485
Other allowance	7,295	2,600
Total current liabilities	1,767,604	2,018,585
Non-current liabilities		
Long-term borrowings	273,095	578,467
Total non-current liabilities	273,095	578,467
Total liabilities	2,040,699	2,597,052
Net assets		
Shareholders' equity		
Share capital	1,011,523	1,175,320
Capital surplus	2,833,471	2,997,267
Retained earnings	(499,137)	(119,952)
Total shareholders' equity	3,345,857	4,052,635
Share acquisition rights	13,932	1,932
Total net assets	3,359,789	4,054,567
Total liabilities and net assets	5,400,488	6,651,620

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income (For the six months)

(Thousand yen)

	For the six months ended June 30,2020
Net sales	3,564,832
Cost of sales	1,000,120
Gross profit	2,564,712
Selling, general and administrative expenses	2,111,719
Operating profit	452,992
Non-operating income	
Interest income	12
Penalty income	808
Settlement received	3,750
Miscellaneous income	1,226
Other	445
Total non-operating income	6,242
Non-operating expenses	
Interest expenses	4,012
Amortization of share issuance cost	1,541
Total non-operating expenses	5,554
Ordinary profit	453,681
Profit before income taxes	453,681
Income taxes - current	74,495
Total income taxes	74,495
Profit	379,185
Profit attributable to owners of parent	379,185

Quarterly Consolidated Statements of Comprehensive Income (For the six months)

(Thousand yen)

	For the six months ended June 30,2020
Profit	379,185
Other comprehensive income	
Total other comprehensive income	-
Comprehensive income	379,185
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	379,185
Comprehensive income attributable to non-controlling interests	-

(3) Quarterly Consolidated Statements of Cash Flows

(Thousand yen)

	For the six months ended June 30,2020
Cash flows from operating activities	
Profit before income taxes	453,681
Depreciation	69,278
Amortization of security deposit	2,933
Increase (decrease) in allowance for doubtful accounts	16,132
Increase (decrease) in provision for bonuses	(1,461)
Interest and dividend income	(12)
Interest expenses	4,012
Amortization of share issuance cost	1,541
Settlement received	(3,750)
Decrease (increase) in trade receivables	(166,926)
Decrease (increase) in inventories	(538)
Increase (decrease) in trade payables	137
Increase (decrease) in accounts payable - other	(71,307)
Increase (decrease) in advances received	161,491
Other, net	(5,726)
Subtotal	459,486
Interest and dividends received	12
Interest paid	(4,505)
Settlement package received	10,596
Income taxes paid	(67,337)
Net cash provided by (used in) operating activities	398,251
Cash flows from investing activities	
Purchase of property, plant and equipment	(16,569)
Purchase of intangible assets	(91,230)
Net cash provided by (used in) investing activities	(107,800)
Cash flows from financing activities	
Proceeds from long-term borrowings	500,000
Repayments of long-term borrowings	(102,928)
Proceeds from issuance of shares	315,592
Net cash provided by (used in) financing activities	712,664
Net increase (decrease) in cash and cash equivalents	1,003,115
Cash and cash equivalents at beginning of period	4,477,395
Cash and cash equivalents at end of period	5,480,511

(4) Important notes regarding quarterly consolidated financial statements

(Notes related to of going concern assumptions)

Not applicable

(Notes on significant changes in the amount of shareholders' equity)

Significant changes in shareholders' equity

During consolidated Q2 FY2020, capital and capital surplus each increased by ¥163,796 thousand due to the exercise of new share acquisition rights. As a result, as of end-consolidated Q2 FY2020, capital totaled ¥1,175,320 thousand and capital surplus totaled ¥2,997,267 thousand.

(Application of special accounting methods in preparation for quarterly consolidated financial statements)

Tax expenses are calculated by multiplying quarterly net income before income taxes by an effective tax rate reasonably estimated after applying tax effect accounting on net income for the consolidated fiscal year including Q2 FY2020.

(Changes in Accounting Policies)

(Changes to accounting methods used for tax expenses)

In the past, tax expenses of the Company and its consolidated subsidiaries were calculated using a principles-based approach. However, in order to more efficiently carry out quarterly account settlement operations for the Company and its consolidated subsidiaries, starting in consolidated Q1 FY2020, the method for calculating tax expenses was changed to one wherein a reasonable estimate of the effective tax rate on net income before income taxes for the consolidated fiscal year after the application of tax effect accounting is calculated and pretax quarterly net income is multiplied by said estimated effective tax rate.

The impact of this change on results is negligible.

(Additional information)

(Expected impact on earnings from the spread of COVID-19)

The Group provides accounting estimates regarding such issues as non-current asset impairment and recoverability of deferred tax assets based on information available at the time of preparation of quarterly consolidated financial statements.

While we expect the impact on the Group from the spread of COVID-19 to vary from segment to segment, we do not currently expect a material impact that would necessitate a major revision to our full-year FY2020 group-wide earnings forecast.

However, given the economic uncertainty induced by COVID-19, it could adversely affect our financial condition and our operational performance when the impact becomes material.

(Segment information, etc.)

(Segment information)

Consolidated Financial Results for the Six Months Ended June 30, 2020 (January 01, 2020 to June 30, 2020)

1. Information on net sales and operating profit (loss), identifiable assets and liabilities, and other items by reportable segment

(Thousands of yen)

	Reportable segment				Adjustment (Note)	Amount in the consolidated financial statement
	Recruitment Platform Business	Medical Platform Business	New Services	Total		
Net sales						
Sales to external customers	3,009,876	503,043	51,912	3,564,832	—	3,564,832
Inter-segment sales and transfers	—	—	—	—	—	—
Total	3,009,876	503,043	51,912	3,564,832	—	3,564,832
Segment profit (loss)	1,438,202	(253,421)	(40,600)	1,144,180	(691,187)	452,992

Notes: 1. Segment profit (loss) adjustments of (¥691,187) thousand include intersegment eliminations and corporate expenses unallocated to reportable segments.

2. Segment profit (loss) is adjusted under operating profit on the Quarterly Consolidated Statements of Income.

2. Information on impairment losses on non-current assets or amortization of goodwill by reportable segment

(Major impairment losses on non-current assets)

Not applicable

(Significant changes in goodwill values)

Not applicable

(Significant gains in negative goodwill)

Not applicable

(Significant subsequent events)

Establishment of subsidiary

Based on the decision of the Board of Directors at a meeting held on July 17, 2020, a subsidiary was established on August 3, 2020 (details below).

1. Purpose of establishment of subsidiary

In recent years, pharmaceutical companies and medical device manufacturers have shown increased interest in services that can improve patient experiences and treatment outcomes. Since the outbreak of COVID-19, the Company has received even more inquiries regarding such services. The Company had been formulating plans for a future initiative to create integrated patient services highly compatible with our Medical Platform Business, but in response to recent societal needs, we have decided to establish a subsidiary for the purpose of providing digitalization services to pharmaceutical companies and medical device manufacturers.

2. New subsidiary profile

(1) Company Name: MEDS, INC.

(2) Address: 3-2-1 Roppongi, Minato-ku, Tokyo, Japan

(3) Name and position of representative: Fumihiko Ugajin, President and CEO

(4) Main business: Provision of digitalization services to pharmaceutical companies and medical device manufacturers

(5) Registered capital: 50 million yen

(6) Date of establishment: August 3, 2020

(7) Fiscal year end: December 31

(8) Major shareholders and ownership ratios: MEDLEY, INC., 100%