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Consolidated Financial Results for the Three Months Ended March 31, 2022 [Japanese GAAP]

May 13, 2022

Company name: MEDLEY, INC.

Stock exchange listing: Tokyo

Code number: 4480

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

Representative: Kohei Takiguchi

Contact: Yuta Tamaru

Phone: +813-6372-1265

Scheduled date of filing quarterly securities report: May 13, 2022

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: Yes

President and Chief Executive Officer

Director and Head of Corporate Division

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

1. Consolidated Financial Results for the Three Months Ended March 31, 2022 (January 01, 2022 to March 31, 2022)

(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	%
Three months ended March 31, 2022	2,850	-	97	-	(56)	-	(26)	-	(30)	-
March 31, 2021	2,125	70.1	(73)	-	(138)	-	(133)	-	(129)	-

(Note) Comprehensive income: Three months ended March 31, 2022: ¥ (32) million [-%]
Three months ended March 31, 2021: ¥ (129) million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended March 31, 2022	(0.95)	-
March 31, 2021	(4.18)	-

(Note) 1. Regarding diluted net earnings per share, while dilutive shares existed, because a per-share net loss was posted, no data is provided.

2. EBITDA = Operating profit / loss + depreciation and amortization of goodwill + share-based compensation expenses.
Because there were no share-based compensation expenses during consolidated Q1 FY2021, such expenses are not included in the calculation of EBITDA.

3. As of the end of consolidated FY2021, the Company finalized provisional accounting methods for business combinations and decisions regarding said provisional accounting methods are reflected in reporting for consolidated Q1 FY2021.

4. Starting in FY2022, the Company adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29), and percentage increases/decreases are not provided above because figures for Q1 FY 2022 reflect the application of the relevant accounting standards, etc.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Million yen	Million yen	%
As of March 31, 2022	19,461	13,768	70.3
December 31, 2021	20,208	14,049	69.1

(Reference) Equity: As of March 31, 2022: ¥ 13,688 million
As of December 31, 2021: ¥ 13,968 million

Starting in FY2022, the Company adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29), and figures for Q1 FY 2022 reflect the application of the relevant accounting standards, etc.

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, 2021	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2022	-				
Fiscal year ending December 31, 2022 (Forecast)		0.00	-	0.00	0.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2022 (January 01, 2022 to December 31, 2022) (% 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	13,950	-	1,550	-	900	-	900	-	650	-	20.40

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

Starting in FY2022, the Company adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) and percentage increases/decreases are not provided above because figures in the above consolidated forecasts reflect the application of the relevant accounting standards, etc.

* Notes:

(1) Changes in significant subsidiaries during the three months ended March 31, 2022

(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, please refer to 2. Quarterly Consolidated Financial Statements and Important Notes (3) Important notes regarding quarterly consolidated financial statements (Application of special accounting methods in preparation for 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: Yes
- 2) Changes in accounting policies other than 1) above: No
- 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):

March 31, 2022: 32,590,500 shares
December 31, 2021: 32,462,500 shares

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

March 31, 2022: 603,200 shares
December 31, 2021: 603,100 shares

3) Average number of shares during the period:

Three months ended March 31, 2022: 31,938,325 shares
Three months ended March 31, 2021: 30,966,075 shares

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

(Cautionary statement regarding forward-looking statements)

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 1. Qualitative information regarding quarterly results" on page 6.

(Regarding changes to monetary units)

Amounts of line items and other items presented in the Company's quarterly consolidated financial statements have previously been presented in units of ¥1,000. However, starting with the current consolidated Q1 FY2022 and consolidated aggregate Q1 FY2022 consolidated financial statements, the Company will present figures in units of ¥1,000,000. For ease of comparison, figures for the previous consolidated fiscal year and Q1 FY2021 are also presented in units of ¥1,000,000.

1. Qualitative information regarding quarterly results

Starting in consolidated Q1 FY2022, the Company adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020). As a result, accounting methods for revenue differ from those used in Q1 FY2021. Therefore, QoQ percentage increases/decreases are not provided for operating results below.

For details regarding the impact of the adoption of these accounting standards on the Company's operational results and financial position, please refer to (Application of accounting standards for revenue recognition, etc.) under 2. Quarterly Consolidated Financial Statements and Important Notes (3) Important notes regarding quarterly consolidated financial statements (Changes to accounting policies) and 3. Matters related to changes in reportable segments, etc. under 2. Quarterly Consolidated Financial Statements and Important Notes (3) Important notes regarding quarterly consolidated financial statements (Segment information, etc.).

(1) Explanation regarding operating results

During the first quarter of the consolidated fiscal year ending December 31, 2022 (consolidated Q1 FY2022), the Japanese medical and nursing industry continued to face human resource shortages and issues related to national budget shortage, and the ratio of job offers to applicants therefore trended at a level higher than the average for all industries. In addition, in response to the resumption of the spread of COVID-19, semi-emergency coronavirus measures were implemented in many areas of Japan starting in January 2022 but, owing to widespread vaccination, progress toward normalization of the economy is being made.

Amid this business environment, sales in the HR Platform Business increased through steady increase in the number of customer offices and in our pool of registered workers. Although sales in the HR Platform Business saw an impact from the administration of vaccinations by medical institutions in consolidated FY2021 as vaccinations resulted in delays in hiring processes, the impact was limited in consolidated Q1 FY2022. We also achieved sales growth in the Medical Platform Business as installation of our products at customers' facilities went smoothly, resulting in growth in the number of medical institution users. While the Group achieved sales growth, it also implemented measures aimed at expanding the scale of its business operations in the HR Platform Business including marketing activities and investment in our online training product. The Group also made proactive investments in medium-to-long term growth in the Medical Platform Business, such as continuing to increase the number of employees.

As a result of the above, in consolidated Q1 FY2022, the Group posted net sales of ¥2,850 million (compared with ¥2,125 million in Q1 FY2021), EBITDA of ¥97 million (negative EBITDA of ¥73 million in Q1 FY2021), an operating loss of ¥56 million (loss of ¥138 million in Q1 FY2021), an ordinary loss of ¥26 million (loss of ¥133 million in Q1 FY2021), and a net loss attributable to owners of the parent company of ¥30 million (loss of ¥129 million in Q1 FY2021).

The HR Platform Business posts sales based on the hiring dates of persons using the Group's services to find employment at companies seeking employees. The 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 Group's net sales therefore tends to be concentrated in Q2 (April-June) of its consolidated fiscal year (ending on December 31).

Earnings by business segment are as follows.

Intersegment eliminations and unallocated group-wide shared costs totaled ¥493 million (¥470 million in Q1 FY2021).

1. HR Platform Business

During consolidated Q1 FY2022, in contrast with the previous consolidated fiscal year, recruitment system JobMedley saw little impact from delays in hiring processes associated with the administration of COVID-19 vaccines. In addition, the Group continuously improved the functionality of its service websites with the aim of improving user convenience, which resulted in growth in the number of job applicants. The number of customer offices in the HR Platform Business as a whole therefore grew 3.7% compared with the end of consolidated FY2021, surpassing 264,000, and the number of job offers listed rose by 2.3% over the same period, to over 258,000.

As a result of the above, consolidated Q1 FY2022 segment net sales were ¥1,985 million (¥1,491 million in Q1 FY2021), and

segment profit before allocation of group-wide shared costs (operating profit) was ¥554 million (¥441 million in Q1 FY2021).

2. Medical Platform Business

During consolidated Q1 FY2022, the number of medical institution users served by the Medical Platform Business increased compared with the previous consolidated fiscal year, rising 7.1% compared with the end of consolidated FY2021 to 11,361 users. We also launched “Dentis” cloud-based dental clinic support system.

As a result of the above, consolidated Q1 FY2022 segment net sales were ¥790 million (¥605 million in Q1 FY2021) and segment loss before allocation of group-wide shared costs (operating loss) was ¥101 million (¥96 million loss in Q1 FY2021).

Factors behind the posting of the operating loss in the segment included investments in growth over the medium-to-long term such as increasing the number of employees, and continued development of products.

3. New Services Segment

During consolidated Q1 FY2022, the 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 spread of COVID-19. However, the Company continued to proactively conduct operations to expand the variety of the contents and increase the number of facilities that can be introduced using Kaigo-no Honne service.

As a result, consolidated Q1 FY2022 segment net sales were ¥73 million (¥27 million in Q1 FY2021) and segment loss before allocation of group-wide shared costs (operating loss) was ¥16 million (¥13 million loss in Q1 FY2021).

Factors behind the posting of the operating loss in the segment included continued investment in growth aimed at expanding the variety of the contents on the Kaigo-no Honne website.

(2) Outline of financial position

Assets

Current assets as of end-consolidated Q1 FY2022 totaled ¥14,730 million, a decrease of ¥811 million, compared with the end of the previous consolidated fiscal year. This was mainly attributable to a decrease of ¥823 million in cash and deposits and an increase of ¥79 million in accounts receivable (trade). Non-current assets as of end-consolidated Q1 FY2022 totaled ¥4,672 million, an increase of ¥72 million compared with the end of the previous consolidated fiscal year. This was mainly attributable to an increase of ¥148 million in investments and other assets and decreases of ¥57 million in intangible fixed assets and ¥18 million in tangible fixed assets. As a result of the above, total assets as of end-consolidated Q1 FY2022 totaled ¥19,461 million, a decrease of ¥747 million compared with the end of the previous consolidated fiscal year.

Liabilities

Current liabilities as of end-consolidated Q1 FY2022 totaled ¥3,170 million, a decrease of ¥171 million compared with the end of the previous consolidated fiscal year. This was mainly attributable to decreases of ¥539 million in advances received, ¥356 million in income taxes payable, ¥101 million in the current portion of long-term borrowings, ¥89 million in accrued consumption taxes, ¥40 million in accrued expenses, ¥23 million in accounts payable (trade), and ¥15 million in provision for refund of sales and increases of ¥871 million in contract liabilities and ¥21 million in refund liabilities. Non-current liabilities as of end-consolidated Q1 FY2022 totaled ¥2,522 million, a decrease of ¥294 million compared with the end of the previous consolidated fiscal year. This was mainly attributable to decreases of ¥209 million in long-term borrowings and ¥85 million in deferred tax liabilities.

As a result of the above, total liabilities as of end-consolidated Q1 FY2022 totaled ¥5,692 million, a decrease of ¥466 million compared with the end of the previous consolidated fiscal year.

In connection with the adoption of new accounting standards related to new revenue recognition, items reported as advances received and provision for refund of sales under current liabilities on consolidated balance sheets in previous fiscal years are now reported as contract liabilities and refund liabilities, respectively.

Net assets

Net assets as of end-consolidated Q1 FY2022 totaled ¥13,768 million, a decrease of ¥281 million compared with the end of the previous consolidated fiscal year. This was mainly attributable to increases of ¥26 million each in share capital and capital surplus, a decrease of ¥301 million in retained earnings due to adjustment to the balance at the beginning of the period owing to the adoption of new accounting standards related to revenue recognition and the posting of a quarterly net loss of ¥30 million.

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

Figures in the Company's full-year consolidated FY2022 forecast have not been changed from the forecast provided in the Consolidated Financial Results for the Year Ended December 31, 2021 [Japanese GAAP] published on February 14, 2022.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of December 31,2021	As of March 31,2022
Assets		
Current assets		
Cash and deposits	14,294	13,470
Accounts receivable - trade	848	927
Merchandise and finished goods	39	55
Work in process	3	2
Prepaid expenses	168	146
Other	206	153
Allowance for doubtful accounts	(19)	(25)
Total current assets	15,541	14,730
Non-current assets		
Property, plant and equipment	166	148
Intangible assets		
Goodwill	819	778
Customer relationship	1,456	1,429
Other	308	319
Total intangible assets	2,584	2,526
Investments and other assets	1,849	1,997
Total non-current assets	4,600	4,672
Deferred assets	66	58
Total assets	20,208	19,461

	As of December 31,2021	As of March 31,2022
Liabilities		
Current liabilities		
Accounts payable - trade	109	85
Current portion of long-term borrowings	934	832
Accounts payable - other	804	808
Accrued expenses	92	52
Advances received	539	-
Contract liabilities	-	871
Deposits received	169	159
Income taxes payable	376	19
Accrued consumption taxes	198	109
Provision for refund of sales	15	-
Refund liabilities	-	21
Provision for continuous service bonuses	24	34
Other	77	175
Total current liabilities	3,341	3,170
Non-current liabilities		
Long-term borrowings	2,172	1,962
Deferred tax liabilities	518	433
Other	126	126
Total non-current liabilities	2,817	2,522
Total liabilities	6,158	5,692
Net assets		
Shareholders' equity		
Share capital	6,695	6,721
Capital surplus	8,517	8,543
Retained earnings	520	188
Treasury shares	(1,763)	(1,763)
Total shareholders' equity	13,968	13,689
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-	(1)
Total accumulated other comprehensive income	-	(1)
Share acquisition rights	0	0
Non-controlling interests	80	79
Total net assets	14,049	13,768
Total liabilities and net assets	20,208	19,461

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (For the three months)

(Million yen)

	For the three months ended March 31,2021	For the three months ended March 31,2022
Net sales	2,125	2,850
Cost of sales	822	994
Gross profit	1,302	1,856
Selling, general and administrative expenses	1,441	1,913
Operating loss	(138)	(56)
Non-operating income		
Interest income	0	0
Settlement received	3	49
Subsidy income	7	0
Other	3	2
Total non-operating income	14	52
Non-operating expenses		
Interest expenses	5	3
Amortization of share issuance costs	3	8
Outsourcing expenses	-	7
Other	0	2
Total non-operating expenses	9	22
Ordinary loss	(133)	(26)
Extraordinary losses		
Loss on abandonment of non-current assets	0	-
Total extraordinary losses	0	-
Loss before income taxes	(133)	(26)
Income taxes	(4)	5
Loss	(129)	(31)
Profit (loss) attributable to non-controlling interests	0	(0)
Loss attributable to owners of parent	(129)	(30)

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

(Million yen)

	For the three months ended March 31,2021	For the three months ended March 31,2022
Loss	(129)	(31)
Other comprehensive income		
Valuation difference on available-for-sale securities	-	(1)
Total other comprehensive income	-	(1)
Comprehensive income	(129)	(32)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(129)	(31)
Comprehensive income attributable to non-controlling interests	0	(0)

(3) Important notes regarding quarterly consolidated financial statements

(Notes related to going concern assumptions)

Not applicable

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

Not applicable

(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 Q1 FY2022.

(Changes to accounting policies)

(Adoption of Accounting Standard for Revenue Recognition)

Starting in consolidated Q1 FY2022, the Company adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020). As a result of this, when control of promised goods or services is transferred to a customer, revenue is recognized at the amount expected to be received in exchange for said goods or services. Main changes resulting from this are as follows.

Previously, for some transactions conducted in the Medical Platform Business initial cost sales were recognized as revenue upon commencement of services to customers. However, these are now recognized as revenue throughout the period of service provision. In the HR Platform Business, some early retirement refunds were posted under cost of goods sold, but they are now deducted from net sales.

The application of the Revenue Recognition Accounting Standard follows the provisional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effects in the case of retroactively applying the new accounting policy to the period before the beginning of consolidated Q1 FY2022 are adjusted in retained earnings at the beginning of consolidated Q1 FY2022, and the new accounting policy is applied from this initial balance. As a result, consolidated Q1 FY2022 net sales declined by ¥124 million, cost of sales declined by ¥149 million, and income taxes increased by ¥6 million, resulting in declines in operating loss, ordinary loss, and loss before income taxes of ¥24 million each and a decline in loss attributable to owners of parent of ¥18 million. In addition, retained earnings at the beginning of FY2022 declined by ¥301 million. In connection with the adoption of new accounting standards related to new revenue recognition, items reported as advances received and provision for refund of sales under current liabilities on consolidated balance sheets in previous fiscal years are now reported as contract liabilities and refund liabilities, respectively. The Company has also complied with the transitional treatment set forth in Article 89-2 of the Accounting Standard for Revenue Recognition, meaning that it is not presenting data from consolidated FY2021 modified to conform to the revised standard. The Company has additionally complied with the transitional treatment set forth in Article 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12; March 21, 2020), meaning that it is not presenting a breakdown of revenue derived from contracts with customers as regards consolidated FY2021.

(Application of accounting standards for market value calculation)

"Accounting Standard for Market Value Calculation" (ASBJ Statement No. 30, July 4, 2019), etc., was applied from the beginning of consolidated Q1 FY2022. Also, following Paragraph 19 of the Accounting Standard for Market Value Calculation and the transitional treatment stipulated in Paragraph 44-2 of "Accounting Standard for Financial Instruments" (Corporate Accounting Standard No. 10, July 4, 2019), the new accounting policy stipulated by the market value accounting standards, etc. was applied from the beginning of consolidated Q1 FY2022. There is no impact on the consolidated financial statements of consolidated Q1 FY2022.

(Additional information)

(Capital reduction)

At the Board of Directors meeting held on February 28, 2022, the Company resolved to submit a proposal to the 13th General Meeting of Shareholders to be held on March 25, 2022, regarding a capital reduction, and the proposal was approved at said meeting.

(1) Purpose of Capital Reduction

The Company plans to transfer from the amount of its stated capital to other capital surplus in order to maintain a flexible and dynamic capitalization strategy in accordance with Article 447, Paragraph 1 of the Companies Act.

(2) Amount of Capital Reduction

As of February 28, 2022, capital totaled ¥6,716 million. This will be reduced by ¥6,706 million, resulting in capital of ¥10 million. However, the amount of capital after reduction may change if stock options (share acquisition rights) issued by the Company are exercised by the effective date of the capital reduction.

(3) Method of Capital Reduction

The Company will conduct a capital reduction without refund in accordance with Article 447, Paragraph 1 of the Companies Act. There will be therefore no change in the total number of shares issued by the Company and there will be no impact on the number of shares held by shareholders or the amount of net assets per share.

(4) Schedule for Capital Reduction

- i) Resolution by Board of Directors February 28, 2022
- ii) Resolution at the 13th Annual General Meeting of Shareholders March 25, 2022
- iii) Final date for Objections of Creditors May 25, 2022 (tentative)
- iv) Effective date of capital reduction June 1, 2022 (tentative)

(Segment information, etc.)

(Segment information)

Consolidated financial results for consolidated Q1 FY2021 (January 01, 2021, to March 31, 2021)

1. Information on net sales and operating profit (loss) by reportable segment

	Reportable segment				(Million yen)	
	HR Platform Business	Medical Platform Business	New Services	Total	Adjustment (Note)	Amount in the consolidated financial statement
Net sales						
Sales to external customers	1,491	605	27	2,125	—	2,125
Inter-segment sales and transfers	—	—	—	—	—	—
Total	1,491	605	27	2,125	—	2,125
Segment profit (loss)	441	(96)	(13)	331	(470)	(138)

Notes: 1. Segment profit (loss) adjustments of (¥470 million) include intersegment eliminations and corporate expenses not attributed to any reportable segments.

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

3. In consolidated Q1 FY2021, Pacific Medical, Inc. and MEDiPASS Co., Ltd. were added to the scope of consolidated accounting. As the deemed acquisition date for shares of MEDiPASS Co., Ltd. was March 31, 2021, for consolidated Q1 FY2021, it is included on the consolidated balance sheet only and not on other consolidated financial statements.

4. Segment information for Q1 FY2021 reflects a significant revision to the initial allocation of acquisition costs due to the finalization of the provisional accounting methods for business combinations.

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)

In consolidated Q1 FY2021, the Group acquired shares of Pacific Medical, Inc. and MEDiPASS Co., Ltd. and integrated them into the scope of consolidated accounting. As a result, goodwill in the Medical Platform Business increased by ¥572 million and goodwill in the HR Platform Business increased by ¥225 million. The amount of said goodwill reflects a significant revision to the initial allocation of acquisition costs due to finalization of provisional accounting methods for business combinations.

(Significant gains in negative goodwill)

Not applicable

Consolidated financial results for consolidated Q1 FY2022 (January 01, 2022, to March 31, 2022)

1. Information on net sales and operating profit (loss) by reportable segment and revenue analysis information

(Million yen)

	Reportable segment				Adjustment (Note)	Amount in the consolidated financial statement
	HR Platform Business	Medical Platform Business	New Services	Total		
Net sales						
Revenue from contracts with customers	1,985	790	73	2,850	—	2,850
Other revenue	—	—	—	—	—	—
Sales to external customers	1,985	790	73	2,850	—	2,850
Inter-segment sales and transfers	—	—	—	—	—	—
Total	1,985	790	73	2,850	—	2,850
Segment profit (loss)	554	(101)	(16)	436	(493)	(56)

Notes: 1. Segment profit (loss) adjustments of (¥493 million) 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

3. Matters related to changes in reportable segments, etc.

The Company has applied the Accounting Standard for Revenue Recognition from the beginning of Q1 FY2022 as described in Changes in Accounting Policies and has changed its accounting methods related to revenue recognition. The calculation method for profit (loss) by business segment has therefore been changed accordingly.

As a result of these changes, compared with under the previous accounting policy, in Q1 FY2022, in the HR Platform Business, net sales declined by ¥138 million and segment profit increased by ¥9 million, in the Medical Platform Business, net sales increased by

¥15 million and segment loss declined by ¥15 million, and in the New Services, net sales declined by ¥1 million and there was no impact on segment loss.

(Business combinations, etc.)

Significant revision to initial allocation of acquisition costs in comparative information

(Pacific Medical, Inc.)

In the business combination with Pacific Medical, Inc. conducted on January 4, 2021 (deemed acquisition date: January 1, 2021), provisional accounting procedures were applied in consolidated Q1 FY2021, but were finalized at the end of consolidated FY2021. With the finalization of the provisional accounting procedures, in the comparative information included in the quarterly financial statements for consolidated Q1 FY2022, a significant revision is reflected in the initial allocation of acquisition costs. As a result of the allocation of ¥426 million to customer relationship, ¥33 million to other intangible assets, ¥146 million to deferred tax liabilities, and ¥76 million to non-controlling interests, provisionally calculated goodwill of ¥686 million was decreased by ¥237 million to ¥448 million.

(MEDiPASS Co., Ltd.)

In the business combination with MEDiPASS Co., Ltd. conducted on February 26, 2021 (deemed acquisition date: March 31, 2021), provisional accounting procedures were applied in consolidated Q1 FY2021, but were finalized at the end of consolidated FY2021. With the finalization of the provisional accounting procedures, in the comparative information included in the quarterly financial statements for consolidated Q1 FY2022, a significant revision is reflected in the initial allocation of acquisition costs. As a result of the allocation of ¥1,120 million to customer relationship and ¥387 million to deferred tax liabilities, provisionally calculated goodwill of ¥1,080 million was decreased by ¥732 million to ¥348 million.

As a result of the above, in the quarterly financial statements for consolidated Q1 FY2021, mainly due to an increase of ¥5 million in depreciation of intangible fixed assets and decreases of ¥5 million in amortization of goodwill and ¥2 million in income taxes, the quarterly net loss and the quarterly net loss attributable to owners of the parent company decreased by ¥2 million each.