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Consolidated Financial Results for the Six Months Ended June 30, 2022 [Japanese GAAP]

August 12, 2022

Company name: MEDLEY, INC.

Stock exchange listing: Tokyo

Code number: 4480

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

Representative: Kohei Takiguchi

President and Chief Executive Officer

Contact: Ryo Kawahara

Chief Financial Officer

Phone: +813-6372-1265

Scheduled date of filing quarterly securities report: August 12, 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

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

1. Consolidated Financial Results for the Six Months Ended June 30, 2022 (January 01, 2022 to June 30, 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	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2022	7,031	-	1,573	-	1,272	-	1,405	-	969	-
June 30, 2021	5,538	55.4	1,036	98.6	838	85.0	850	87.4	589	55.4

(Note) Comprehensive income: Six months ended June 30, 2022: ¥ 969 million [-%]
Six months ended June 30, 2021: ¥ 585 million [54.3%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2022	30.32	29.71
June 30, 2021	18.82	18.06

- (Note) 1. EBITDA = Operating profit / loss + depreciation and amortization of goodwill + share-based compensation expenses
2. 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 Q2 FY2021.
3. 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 Q2 FY 2022 reflect the application of the relevant accounting standards, etc.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Million yen	Million yen	%
June 30, 2022	20,940	14,787	70.2
December 31, 2021	20,208	14,049	69.1

(Reference) Equity: As of June 30, 2022: ¥ 14,705 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 Q2 FY2022 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
Fiscal year ended December 31, 2021	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen 0.00
Fiscal year ending December 31, 2022	-	0.00			
Fiscal year ending December 31, 2022 (Forecast)			-	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 six months ended June 30, 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 (4) Important notes regarding quarterly consolidated financial statements (Application of special accounting methods in preparation for quarterly consolidated financial statements) on page 12 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):

June 30, 2022: 32,625,800 shares

December 31, 2021: 32,462,500 shares

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

June 30, 2022: 603,622 shares

December 31, 2021: 603,100 shares

3) Average number of shares during the period:

Six months ended June 30, 2022: 31,972,776 shares

Six months ended June 30, 2021: 31,312,829 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 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 Q2 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 Q2 FY2021. Therefore, YoY 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 (Adoption of Accounting Standard for Revenue Recognition) under 2. Quarterly Consolidated Financial Statements and Important Notes (4) 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 (4) Important notes regarding quarterly consolidated financial statements (Segment information, etc.).

(1) Explanation regarding operating results

During the second quarter of the consolidated fiscal year ending December 31, 2022 (consolidated Q2 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.

Amid this business environment, in consolidated Q2 FY2022, sales in the HR PF Business increased due to a steady increase in the number of customer offices and in our pool of registered workers for recruitment system JobMedley and the number of customer offices for online training system JobMedley Academy also grew.

Although sales in the HR PF 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 Q2 FY2022. We also achieved sales growth in the Medical PF 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 PF 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 PF Business, such as continuing to increase the number of employees.

As a result of the above, in consolidated Q2 FY2022, the Group posted net sales of ¥7,031 million (compared with ¥5,538 million in Q2 FY2021), EBITDA of ¥1,573 million (EBITDA of ¥1,036 million in Q2 FY2021), an operating profit of ¥1,272 million (profit of ¥838 million in Q2 FY2021), an ordinary profit of ¥1,405 million (profit of ¥850 million in Q2 FY2021), and a net profit attributable to owners of the parent company of ¥969 million (profit of ¥589 million in Q2 FY2021).

The HR PF 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 ¥1,074 million (¥883 million in Q2 FY2021).

1. HR PF Business

During consolidated Q2 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 PF Business as a whole therefore grew 7.1% compared with the end of consolidated FY2021, to over 273 thousand, and the number of job offers listed rose by 5.0% over the

same period, to over 266 thousand.

As a result of the above, consolidated Q2 FY2022 segment net sales were ¥5,328 million (¥4,143 million in Q2 FY2021), and segment profit before allocation of group-wide shared costs (operating profit) was ¥2,595 million (¥1,982 million in Q2 FY2021).

2. Medical PF Business

During consolidated Q2 FY2022, the number of medical institution users served by the Medical PF Business increased compared with the previous consolidated fiscal year, rising 24.1% compared with the end of consolidated FY2021 to 13,172 users. The main reason for this is that existing customers increased the number of offices that use our Pharms, cloud-based pharmacy support system, because we increased its usefulness by adding functions.

As a result of the above, consolidated Q2 FY2022 segment net sales were ¥1,544 million (¥1,276 million in Q2 FY2021) and segment loss before allocation of group-wide shared costs (operating loss) was ¥224 million (¥229 million loss in Q2 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 Q2 FY2022, the Kaigo-no Honne nursing facility search website business continued to be 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 content and increase the number of facilities that can be introduced using the Kaigo-no Honne service.

As a result, consolidated Q2 FY2022 segment net sales were ¥160 million (¥118 million in Q2 FY2021) and segment loss before allocation of group-wide shared costs (operating loss) was ¥24 million (¥31 million loss in Q2 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 Q2 FY2022 totaled ¥15,981 million, an increase of ¥440 million, compared with the end of the previous consolidated fiscal year. This was mainly attributable to an increase of ¥343 million in cash and deposits and ¥159 million in accounts receivable (trade). Non-current assets as of end-consolidated Q2 FY2022 totaled ¥4,908 million, an increase of ¥308 million compared with the end of the previous consolidated fiscal year. This was mainly attributable to an increase of ¥366 million in investments and other assets and ¥41 million in Property, plant and equipment and a decrease of ¥99 million in intangible fixed assets.

As a result of the above, total assets as of end-consolidated Q2 FY2022 totaled ¥20,940 million, an increase of ¥732 million compared with the end of the previous consolidated fiscal year.

Liabilities

Current liabilities as of end-consolidated Q2 FY2022 totaled ¥3,836 million, an increase of ¥495 million compared with the end of the previous consolidated fiscal year. This was mainly attributable to increases of ¥855 million in contract liabilities, ¥174 million in accounts payable (other), ¥62 million in income taxes payable, ¥60 million in accrued expenses, ¥30 million in deposits received, ¥25 million in refund liabilities, and ¥13 million in provision for continuous service bonuses and decreases of ¥539 million in advances received, ¥108 million in the current portion of long-term borrowings, ¥41 million in accrued consumption taxes, ¥26 million in accounts payable (trade), and ¥15 million in provision for refund of sales. Non-current liabilities as of end-consolidated Q2 FY2022 totaled ¥2,316 million, a decrease of ¥500 million compared with the end of the previous consolidated fiscal year. This was mainly attributable to decreases of ¥410 million in long-term borrowings and ¥90 million in deferred tax liabilities.

As a result of the above, total liabilities as of end-consolidated Q2 FY2022 totaled ¥6,153 million, a decrease of ¥5 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 Q2 FY2022 totaled ¥14,787 million, an increase of ¥737 million compared with the end of the previous consolidated fiscal year. This was mainly attributable to increases of ¥34 million each in share capital and capital surplus due to the exercising of stock acquisition rights and an increase of ¥969 million in retained earnings due to the posting of quarterly net profit attributable to owners of the parent company and a decrease of ¥301 million in retained earnings due to adjustments to the balance at the beginning of the period owing to the adoption of new accounting standards related to revenue recognition.

(Cash flows)

Cash and cash equivalents (hereinafter, net cash) as of end-consolidated Q2 FY2022 totaled ¥14,456 million, an increase of ¥438 million compared with the end of the previous consolidated fiscal year. Cash flows during the six months ended June 30, 2022, were as follows.

Cash flows from operating activities

Net cash provided by operating activities during the six months ended June 30, 2022, was ¥1,254 million (compared with ¥795 million in Q2 FY2021). This increase was mainly attributable to ¥1,403 million in profit before income taxes, adjusted for ¥191 million in depreciation costs, ¥79 million in amortization of goodwill, an increase of ¥159 million in accounts receivable (trade), an increase of ¥96 million in accounts payable (other), an increase of ¥855 million in contract liabilities, decreases of ¥1,000 million in advances received and ¥272 million in taxes paid.

Cash flows from investing activities

Net cash used in investing activities during the six months ended June 30, 2022, was ¥366 million (compared with ¥2,104 million in consolidated Q2 FY2021). This was mainly attributable to ¥325 million from payments of leasehold and guarantee deposits, ¥131 million from purchase of intangible assets, ¥105 million from payments into time deposits, and ¥200 million from proceeds from withdrawal of time deposits.

Cash flows from financing activities

Net cash provided by financing activities during the six months ended June 30, 2022, was ¥449 million (compared with ¥4,346 million in consolidated Q2 FY2021). This was mainly attributable to ¥519 million in repayments of long-term borrowings, and ¥69 million in proceeds from issuance of shares.

(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 June 30,2022
Assets		
Current assets		
Cash and deposits	14,294	14,638
Accounts receivable - trade	848	1,008
Merchandise and finished goods	39	62
Work in process	3	5
Prepaid expenses	168	178
Other	206	112
Allowance for doubtful accounts	(19)	(24)
Total current assets	15,541	15,981
Non-current assets		
Property, plant and equipment	166	208
Intangible assets		
Goodwill	819	739
Customer relationship	1,456	1,401
Other	308	343
Total intangible assets	2,584	2,485
Investments and other assets	1,849	2,215
Total non-current assets	4,600	4,908
Deferred assets	66	49
Total assets	20,208	20,940

(Million yen)

	As of December 31,2021	As of June 30,2022
Liabilities		
Current liabilities		
Accounts payable - trade	109	83
Current portion of long-term borrowings	934	826
Accounts payable - other	804	979
Accrued expenses	92	152
Advances received	539	-
Contract liabilities	-	855
Deposits received	169	199
Income taxes payable	376	438
Accrued consumption taxes	198	157
Provision for refund of sales	15	-
Refund liabilities	-	25
Provision for continuous service bonuses	24	37
Other	77	80
Total current liabilities	3,341	3,836
Non-current liabilities		
Long-term borrowings	2,172	1,761
Deferred tax liabilities	518	428
Other	126	126
Total non-current liabilities	2,817	2,316
Total liabilities	6,158	6,153
Net assets		
Shareholders' equity		
Share capital	6,695	22
Capital surplus	8,517	15,258
Retained earnings	520	1,187
Treasury shares	(1,763)	(1,764)
Total shareholders' equity	13,968	14,705
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-	(0)
Total accumulated other comprehensive income	-	(0)
Share acquisition rights	0	0
Non-controlling interests	80	81
Total net assets	14,049	14,787
Total liabilities and net assets	20,208	20,940

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (For the six months)

(Million yen)

	For the six months ended June 30,2021	For the six months ended June 30,2022
Net sales	5,538	7,031
Cost of sales	1,781	1,949
Gross profit	3,757	5,082
Selling, general and administrative expenses	2,919	3,810
Operating profit	838	1,272
Non-operating income		
Interest income	0	0
Settlement received	14	163
Subsidy income	13	8
Other	8	5
Total non-operating income	35	177
Non-operating expenses		
Interest expenses	10	6
Amortization of share issuance costs	10	16
Outsourcing expenses	-	17
Other	2	4
Total non-operating expenses	23	44
Ordinary profit	850	1,405
Extraordinary income		
Gain on sale of businesses	23	-
Total extraordinary income	23	-
Extraordinary losses		
Loss on sale of non-current assets	-	1
Loss on abandonment of non-current assets	0	0
Total extraordinary losses	0	1
Profit before income taxes	873	1,403
Income taxes	287	433
Profit	585	970
Profit (loss) attributable to non-controlling interests	(4)	1
Profit attributable to owners of parent	589	969

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

(Million yen)

	For the six months ended June 30,2021	For the six months ended June 30,2022
Profit	585	970
Other comprehensive income		
Valuation difference on available-for-sale securities	-	(0)
Total other comprehensive income	-	(0)
Comprehensive income	585	969
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	589	968
Comprehensive income attributable to non-controlling interests	(4)	1

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended June 30,2021	For the six months ended June 30,2022
Cash flows from operating activities		
Profit before income taxes	873	1,403
Depreciation	128	191
Amortization of goodwill	53	79
Amortization of security deposit	3	15
Increase (decrease) in allowance for doubtful accounts	6	4
Interest and dividend income	(0)	(0)
Interest expenses	10	6
Amortization of share issuance costs	10	16
Settlement received	(14)	(163)
Loss on abandonment of non-current assets	0	0
Loss on sale of non-current assets	-	1
Loss (gain) on sale of businesses	(23)	-
Decrease (increase) in trade receivables	(151)	(159)
Decrease (increase) in inventories	11	(25)
Increase (decrease) in trade payables	15	(26)
Increase (decrease) in accounts payable - other	(24)	96
Increase (decrease) in advances received	56	(1,000)
Increase (decrease) in contract liabilities	-	855
Other, net	(75)	98
Subtotal	882	1,394
Interest and dividends received	0	0
Interest paid	(10)	(5)
Settlement package received	8	137
Income taxes paid	(85)	(272)
Net cash provided by (used in) operating activities	795	1,254
Cash flows from investing activities		
Payments into time deposits	(200)	(105)
Proceeds from withdrawal of time deposits	200	200
Purchase of property, plant and equipment	(24)	(7)
Purchase of intangible assets	(91)	(131)
Payments of leasehold and guarantee deposits	(107)	(325)
Proceeds from refund of leasehold and guarantee deposits	7	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,888)	-
Other, net	0	2
Net cash provided by (used in) investing activities	(2,104)	(366)
Cash flows from financing activities		
Repayments of short-term borrowings	(540)	-
Repayments of long-term borrowings	(437)	(519)
Proceeds from issuance of shares	5,323	69
Purchase of treasury shares	-	(0)
Net cash provided by (used in) financing activities	4,346	(449)
Net increase (decrease) in cash and cash equivalents	3,037	438
Cash and cash equivalents at beginning of period	14,052	14,017
Cash and cash equivalents at end of period	17,089	14,456

(4) 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)

Consolidated financial results for consolidated Q2 FY2021 (January 01, 2021, to June 30, 2021)

Significant change in shareholders' equity

On May 11, 2021, the Group received increases of ¥2,688 million each in capital and capital surplus resulting from the payment for the issuance of new shares through a third-party allotment by NTT DOCOMO, INC., and the exercise of subscription rights during the six months ended June 30, 2021. As a result of these, as of end-consolidated Q2 FY2021, share capital was ¥6,657 million and capital surplus was ¥8,479 million.

Consolidated financial results for consolidated Q2 FY2022 (January 01, 2022, to June 30, 2022)

Significant change in shareholders' equity

In consolidated Q2 FY2022, in accordance with the resolution of the Ordinary General Meeting of Shareholders held on March 25, 2022, the Company conducted a capital reduction that took effect on June 1, 2022, resulting in a ¥6,706 million decrease in share capital and a ¥6,706 million increase in capital surplus. As a result of these, as of end-consolidated Q2 FY2022, share capital was ¥22 million and capital surplus was ¥15,258 million.

(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 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 PF 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 PF 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 Q2 FY2022 net sales declined by ¥354 million, cost of sales declined by ¥373 million, and income taxes increased by ¥10 million, resulting in increases in operating profit, ordinary profit, and profit before income taxes of ¥18 million each and an increase in profit attributable to owners of parent of ¥8 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 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 FY2022. There is no impact on the consolidated financial statements of consolidated Q2 FY2022.

(Segment information, etc.)

(Segment information)

Consolidated financial results for consolidated Q2 FY2021 (January 01, 2021, to June 30, 2021)

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

	Reportable segment				(Million yen)	
	HR PF Business	Medical PF Business	New Services	Total	Adjustment (Note)	Amount in the consolidated financial statement
Net sales						
Sales to external customers	4,143	1,276	118	5,538	—	5,538
Inter-segment sales and transfers	0	—	—	0	(0)	—
Total	4,143	1,276	118	5,538	(0)	5,538
Segment profit (loss)	1,982	(229)	(31)	1,721	(883)	838

Notes: 1. Segment profit (loss) adjustments of (¥883 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. Segment information for Q2 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 PF Business increased by ¥572 million and goodwill in the HR PF 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 Q2 FY2022 (January 01, 2022, to June 30, 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 PF Business	Medical PF Business	New Services	Total		
Net sales						
Revenue from contracts with customers	5,327	1,544	160	7,031	—	7,031
Other revenue	—	—	—	—	—	—
Sales to external customers	5,327	1,544	160	7,031	—	7,031
Inter-segment sales and transfers	1	—	—	1	(1)	—
Total	5,328	1,544	160	7,033	(1)	7,031
Segment profit (loss)	2,595	(224)	(24)	2,346	(1,074)	1,272

Notes: 1. Segment profit (loss) adjustments of (¥1,074 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 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 Q2 FY2022, in the HR PF Business, net sales declined by ¥385 million and segment profit declined by ¥16 million, in the Medical PF Business, net sales increased by ¥35 million and segment loss declined by ¥35 million, and in the New Services, net sales declined by ¥3 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 Q2 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 Q2 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 Q2 FY2022, mainly due to an increase of ¥33 million in depreciation of intangible fixed assets, and decreases of ¥47 million in amortization of goodwill, ¥11 million in income taxes, and ¥8 million in net income (loss) attributable to non-controlling interests, SG&A expenses and general administrative expenses declined by ¥13 million. Also, operating profit, ordinary profit, and profit before income taxes increased by ¥13 million each, quarterly net profit increased by ¥25 million, and quarterly net profit attributable to owners of the parent company increased by ¥33 million.

(Significant subsequent events)

(Business combination via transaction)

(1) Summary of business combination

At a meeting held on July 20, 2022, the Board of Directors of MEDiPASS Co., Ltd., our wholly owned subsidiary, resolved to acquire 100% of issued shares of At Home Inc.. A share purchase agreement was signed with At Home and the share transaction was completed on August 1, 2022.

1) Name and description of business of acquired corporation

Name of acquired corporation : At Home Inc.

Description of business activities : Pharmacy and home medical care

2) Main purpose of business combination

The Medley Group proactively conducts proof-of-concept testing and business development using digital technologies aimed at creating sustainable regional healthcare. Starting in January 2022, Medley's consolidated subsidiary Pacific Medical, Inc. began providing MINET, a regional comprehensive healthcare solution that promotes collaboration and information sharing among a wide range of professions. Also, Medley's consolidated subsidiary MEDiPASS Co., Ltd. provides various support services helping to promote collaboration between regional medical institutions and nursing care facilities.

The recently acquired company, At Home Inc., provides pharmaceutical dispensing services to homebound patients and patients in elderly care facilities in collaboration with physicians, visiting nurses, and care managers. The two companies will combine their knowhow to improve the Group's products and thereby promote the use of digital technologies to create sustainable regional healthcare.

3) Business combination date

August 1, 2022

4) Legal form of business combination

Acquisition of shares in exchange for cash

5) Name of acquired company after acquisition

At Home Inc.

6) Percentage of voting rights acquired

Percentage of voting rights held after business combination: 100%

7) Primary basis for determination of acquiring company

The Company paid cash in consideration for acquiring 100% of the voting rights of At Home Inc.

(2) Acquisition cost and breakdown by type of considerations

Consideration paid in cash : 279 million yen

Acquisition cost : 279 million yen

(3) Breakdown and amount of main costs related to acquisition

Not determined at present time

(4) Amount, reason for recognition, amortization method, and period of goodwill

Not determined at present time

(5) Breakdown of the amount of major assets accepted and liabilities assumed on the date of business combination

Not determined at present time