

en-japan inc.



2nd Quarter FY March 2020 Earnings Announcement [Japan GAAP] (Consolidated)

November 13, 2019

Company Name	en-japan inc.	Listing Exchanges	First Section of the Tokyo Stock Exchange
Stock Code	4849	URL	https://corp.en-japan.com/
Representative (Title)	President	(Name)	Takatsugu Suzuki
	Executive Officer and		
Contact (Title)	Administration Division	(Name)	Tomoki Tamai
	Director		Telephone +81-3-3342-4506
Scheduled Date for Submission of Quarterly Report	November 14, 2019		
Scheduled Date to Begin Dividend Payments	—		
Preparation of Quarterly Summary Supplementary Explanatory Materials	Yes		
Quarterly Earnings Briefing	Yes (for analysts and institutional investors)		

(Figures rounded down to nearest million yen)

1. FY Ending March 2020 Cumulative Second Quarter Operating Results (From April 1, 2019 to September 30, 2019)

(1) Consolidated Operating Results (cumulative) (percentages indicate percent change from prior fiscal year)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FYE 3/20 2nd Qtrr	28,204	23.0	6,200	-7.3	6,197	-9.8	4,108	-14.7
FYE 3/19 2nd Qtrr	22,924	21.3	6,692	39.1	6,871	40.6	4,819	41.9

(Note) Comprehensive income FYE 3/20 2nd Qtrr 3,842 million yen (-18.9%) FYE 3/19 2nd Qtrr 4,736 million yen (44.3%)

	EPS	Fully Diluted EPS
	Yen	Yen
FYE 3/20 2nd Qtrr	90.06	89.79
FYE 3/19 2nd Qtrr	105.91	105.60

(2) Consolidated Financial Position

	Total Assets	Net Assets	Net Asset Ratio
	Million yen	Million yen	%
FYE 3/20 2nd Qtrr	49,262	36,360	72.4
FYE 3/19	49,852	35,466	69.8

(Reference) Core capital FYE 3/20 2nd Qtrr 35,645 million yen FYE 3/19 34,774 million yen

2. Dividends

	Dividends per Share				
	1st Quarter-end	2nd Quarter-end	3rd Quarter-end	Year-end	Full Year
	Yen	Yen	Yen	Yen	Yen
FYE 3/19	—	0.00	—	62.80	62.80
FYE 3/20	—	0.00	—	—	—
FYE 3/20 (projected)	—	—	—	85.50	85.50

(Note) Revisions to the Company's latest dividend forecast: None

3. FY Ending March 2020 Projected Consolidated Operating Results (April 1, 2019 - March 31, 2020)

(Percentages indicate percentage change from prior fiscal year)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		EPS
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	60,000	23.1	12,200	4.6	12,219	3.2	8,210	0.8	180.02

(Note) Revisions to the Company's latest operating results projections: None

* Notes

- (1) Changes in material subsidiaries during the cumulative quarter under review (Change in specific subsidiaries that will accompany a change in scope of consolidation) No
 Newly included None (Name of company) –
 Exclusion None (Name of company) –
- (2) Adoption of special accounting treatment used in preparation of the quarterly consolidated financial statements Yes
- (3) Changes in accounting policy, changes in accounting estimates, or restatement due to correction
 a. Changes in accounting policy accompanying amendment of accounting principles: No
 b. Changes in accounting policy other than "a." No
 c. Changes in accounting estimates: No
 d. Restatement due to correction: No
- (4) Number of shares issued (common share)
 a. Number of shares issued at the end of the period (including treasury shares)
 FYE 3/20 2nd Qtr 49,716,000 shares FYE 3/19 49,716,000 shares
 b. Number of shares of treasury shares at the end of the period
 FYE 3/20 2nd Qtr 4,075,629 shares FYE 3/19 4,110,384 shares
 c. Average number of shares issued during the period (Quarter Year-to-Date)
 FYE 3/20 2nd Qtr 45,620,995 shares FYE 3/19 2nd Qtr 45,500,176 shares

* The quarterly earnings announcement is not within the scope of the quarterly review procedure by a certified public accountant or an audit corporation.

* Explanation regarding appropriate use of operating results projections, other special notes

- Forward-looking statements including projected operating results contained in this report and supplementary materials are based on information currently available to the Company and on certain assumptions deemed as rational, and are not intended to guarantee achievements by the Company. Actual results may differ significantly from such projections due to various factors. For assumptions used when preparing projected operating results and reminders when using projected operating results, please refer to "1. Qualitative Information of Consolidated Performance during the Quarter under Review (3) Explanation of Future Projections such as Projections of Consolidated Operating Results" on page 3 of the Attachments.

Attachments Table of Contents

1. Qualitative Information of Consolidated Performance during the Quarter under Review	2 -
(1) Explanation of Operating Results.....	2 -
(2) Explanation of Financial Position	3 -
(3) Explanation of Future Projections such as Projections of Consolidated Operating Results	3 -
2. Quarterly Consolidated Financial Statements and Key Notes	4 -
(1) Quarterly Consolidated Balance Sheets	4 -
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income	5 -
(3) Quarterly Consolidated Statements of Cash Flows	7 -
(4) Notes regarding Quarterly Consolidated Financial Statements	9 -
(Notes relating to the Going Concern Assumption).....	9 -
(Notes on Significant Changes to Shareholders' Equity).....	9 -
(Adoption of Special Accounting Treatment Used in Preparation of the Quarterly Consolidated Financial Statements).-	9 -
(Segment Information)	9 -
(Business Combination-related)	10 -

1. Qualitative Information of Consolidated Performance during the Quarter under Review

(1) Explanation of Operating Results

[1] Operating Results for the Cumulative Second Quarter of the Fiscal Year Ending March 31, 2020

The Company recorded an increase in net sales mainly in overseas business and job boards in Japan. Expenses increased in advertising expenses for job boards in Japan and HR-Tech service “engage,” personnel expenses and related expenses due to the staff increase in regard to permanent recruitment services in Japan with a view to medium-term growth. Furthermore, operating results of Future Focus Infotech Pvt. Ltd. (hereinafter “FFI”), an IT-related temporary staffing company based in India, have been reflected from the first quarter of the fiscal year ending March 31, 2020.

As a result, operating results for the cumulative second quarter of the fiscal year ending March 31, 2020 are as follows:

(Unit: Million yen)

	Cumulative Second Quarter of the Previous Fiscal Year (From April 1, 2018 to September 30, 2018)	Cumulative Second Quarter of the Current Fiscal Year (From April 1, 2019 to September 30, 2019)	Change	Percent change (%)
Net sales	22,924	28,204	+5,280	+23.0
Operating income	6,692	6,200	-491	-7.3
Ordinary income	6,871	6,197	-674	-9.8
Profit attributable to owners of parent	4,819	4,108	-710	-14.7

(Notes) 1. Since Talent Alliance (Beijing) Technology Development Limited (hereinafter “Talent Alliance”), a Chinese equity method affiliate, has been included in the scope of consolidation since the end of the fiscal year ended March 31, 2019, its operating results are not included in net sales and operating income of the cumulative second quarter of the fiscal year ended March 31, 2019.

Reportable segments of en-japan group were classified under the Hiring Business and Education/Evaluation Business but have been changed to come under the single segment of the Human Resources Service Business from the first quarter of the fiscal year ending March 31, 2020. For this purpose, a summary of major businesses is stated as follows:

[2] Summary of Major Businesses

(Domestic Job Board)

“[en]Career Change Info” steadily continued to increase its share of corporate customers with large hiring budgets, leading to an increase in the unit price for posting. While marketing activities temporarily declined due to the structural change conducted in the beginning of the period, with activities increasing in the second quarter of the fiscal year ending March 31, 2020, the number of postings is on a recovery trend.

In the service for job placement agencies, “[en]Career Change Consultant” and “AMBI,” a site for young, high-profile positions, both showed a steady performance. With the increase in number of new members and website customer access in both websites, the number of successful job placements at companies increased.

In the service for temporary staffing companies, both “en HAKEN” and “en BAITO” saw a continuous increase in advertisement placement by customers of major temporary staffing companies, leading to an increase in the unit price per customer.

As a result, domestic job advertisement websites recorded higher net sales year on year.

(Domestic Permanent Recruitment)

The Company’s subsidiary, en world Japan K.K., achieved favorable results in its core job placement service. The job placement service of en-japan, “en AGENTS,” strengthened its development of human resources with a view toward medium-term growth.

As a result, the domestic job placement service recorded higher net sales year on year.

(Overseas)

In the overseas business, the job board continued to show favorable performance in Vietnam, a country that the Company is

focusing on. In addition, operating results of FFI have been reflected since the first quarter of the fiscal year ending March 31, 2020 for India, likewise a country focused on.

As a result, the overseas business recorded significantly higher net sales year on year.

(HR-Tech)

As for the personnel and recruitment support platform “engage,” thanks to active promotional activities, the number of user companies steadily increased up to 230,000 (as of September 2019). Furthermore, the number of companies using the fee-based service plan launched in April 2019 continued to show steady growth, with its net sales increasing as expected.

(2) Explanation of Financial Position

[1] Status of Assets, Liabilities and Net Assets

Total assets at the end of the second quarter of the year ending March 31, 2020 decreased ¥589 million from the end of the previous fiscal year to ¥49,262 million.

Current assets decreased ¥2,131 million to ¥35,124 million. This was mainly due to a decrease in cash and deposits of ¥2,221 million. Non-current assets increased ¥1,541 million to ¥14,138 million. This was mainly due to an increase in investment securities of ¥957 million.

Total liabilities at the end of the second quarter of the fiscal year ending March 31, 2020 were ¥12,901 million, a decrease of ¥1,483 million compared to the end of the previous fiscal year.

Current liabilities decreased ¥1,625 million to ¥11,648 million. This mainly stemmed from a decrease in accounts payable - other of ¥1,619 million. Non-current liabilities increased ¥141 million to ¥1,253 million. This was primarily due to an increase in long-term accounts payable of ¥150 million.

Total net assets were ¥36,360 million, up ¥893 million from the end of the previous fiscal year. This was mainly attributable to an increase in retained earnings of ¥1,093 million and an increase in capital surplus of ¥112 million.

[2] Status of Cash Flows

(Cash Flows from Operating Activities)

Net cash provided by operating activities in the cumulative second quarter of the fiscal year ending March 31, 2020 were ¥3,511 million (against ¥4,745 million in the same period of the previous fiscal year). This was primarily a result of posting profit before income taxes of ¥6,164 million, which was reduced by income taxes paid of ¥1,889 million.

(Cash Flows from Investing Activities)

Net cash used in investing activities in the cumulative second quarter of the fiscal year ending March 31, 2020 were ¥3,055 million (against ¥1,336 million in the same period of the previous fiscal year). This was mainly due to purchase of investment securities of ¥1,270 million.

(Cash Flows from Financing Activities)

Net cash used in financing activities in the cumulative second quarter of the fiscal year ending March 31, 2020 were ¥3,184 million (against ¥2,135 million in the same period of the previous fiscal year). This mainly consisted of cash dividend paid of ¥3,010 million.

(3) Explanation of Future Projections such as Projections of Consolidated Operating Results

While net sales and each level of income and profit for the first six months of the fiscal year ending March 31, 2020 exceeded the projections of operating results, additional investment mainly for the promotion of “engage” in the HR-Tech business will be made in the latter half of the fiscal year under review.

As a result, there has been no change from the projections of consolidated operating results for the full fiscal year ending March 31, 2020 announced on May 14, 2019.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: Million yen)

	Previous Fiscal Year (As of March 31, 2019)	Second Quarter of Current Fiscal Year (As of September 30, 2019)
Assets		
Current assets		
Cash and deposits	28,409	26,187
Notes and accounts receivable - trade	5,614	5,653
Securities	2,000	2,047
Other	1,291	1,321
Allowance for doubtful accounts	-59	-84
Total current assets	37,255	35,124
Non-current assets		
Property, plant and equipment	719	712
Intangible assets		
Goodwill	3,412	3,363
Other	3,445	3,742
Total intangible assets	6,858	7,105
Investments and other assets		
Investment securities	1,968	2,926
Shares of subsidiaries and associates	46	56
Other	3,250	3,584
Allowance for doubtful accounts	-248	-247
Total investments and other assets	5,018	6,319
Total non-current assets	12,596	14,138
Total assets	49,852	49,262
Liabilities		
Current liabilities		
Accounts payable - trade	126	597
Income taxes payable	2,072	2,168
Provision for bonuses	1,117	1,175
Provision for directors bonuses	7	8
Advances received	2,642	2,587
Other	7,306	5,111
Total current liabilities	13,274	11,648
Non-current liabilities		
Provision for share benefits	310	340
Asset retirement obligations	279	279
Other	521	633
Total non-current liabilities	1,111	1,253
Total liabilities	14,385	12,901
Net assets		
Shareholders' equity		
Capital stock	1,194	1,194
Capital surplus	538	651
Retained earnings	35,496	36,590
Treasury shares	-2,795	-2,767
Total shareholders' equity	34,434	35,669
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-31	-185
Foreign currency translation adjustment	372	161
Total accumulated other comprehensive income	340	-23
Subscription rights to shares	136	148
Non-controlling interests	555	566
Total net assets	35,466	36,360
Total liabilities and net assets	49,852	49,262

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

Quarterly Consolidated Statements of Income

Cumulative Second Quarter

(Unit: Million yen)

	Cumulative Second Quarter of the Previous Fiscal Year (From April 1, 2018 to September 30, 2018)	Cumulative Second Quarter of the Current Fiscal Year (From April 1, 2019 to September 30, 2019)
Net sales	22,924	28,204
Cost of sales	2,284	5,178
Gross profit	20,640	23,026
Selling, general and administrative expenses	13,947	16,825
Operating income	6,692	6,200
Non-operating income		
Interest income	27	29
Dividend income	9	10
Share of profit of entities accounted for using equity method	95	—
Foreign exchange gains	27	—
Other	32	17
Total non-operating income	193	56
Non-operating expenses		
Interest expenses	0	14
Loss on investments in partnership	9	19
Foreign exchange losses	—	13
Other	4	12
Total non-operating expenses	14	60
Ordinary income	6,871	6,197
Extraordinary income		
Gain on sales of non-current assets	1	23
Total extraordinary income	1	23
Extraordinary losses		
Loss on retirement of non-current assets	1	0
Loss on valuation of investment securities	—	56
Total of Extraordinary losses	1	56
Profit before income taxes	6,871	6,164
Income taxes-current	2,050	1,945
Total income taxes	2,050	1,945
Profit	4,820	4,218
Profit attributable to non-controlling interests	1	110
Profit attributable to owners of parent	4,819	4,108

Quarterly Consolidated Statements of Comprehensive Income

Cumulative Second Quarter

(Unit: Million yen)

	Cumulative Second Quarter of the Previous Fiscal Year (From April 1, 2018 to September 30, 2018)	Cumulative Second Quarter of the Current Fiscal Year (From April 1, 2019 to September 30, 2019)
Profit	4,820	4,218
Other comprehensive income		
Valuation difference on available-for-sale securities	49	-153
Foreign currency translation adjustment	-120	-222
Share of other comprehensive income of entities accounted for using equity method	-13	—
Total other comprehensive income	-84	-376
Comprehensive income	4,736	3,842
(Break down)		
Comprehensive income attributable to owners of parent	4,731	3,744
Comprehensive income attributable to non-controlling interests	4	98

(3) Quarterly Consolidated Statements of Cash Flows

(Unit: Million yen)

	Cumulative Second Quarter of the Previous Fiscal Year (From April 1, 2018 to September 30, 2018)	Cumulative Second Quarter of the Current Fiscal Year (From April 1, 2019 to September 30, 2019)
Cash flows from operating activities		
Profit before income taxes	6,871	6,164
Depreciation	539	600
Amortization of goodwill	168	232
Increase (decrease) in allowance for doubtful account	-14	25
Increase (decrease) in provision for bonuses	-205	57
Increase (decrease) in provision for directors bonuses	0	0
Interest and dividend income	-36	-39
Interest expenses	—	14
Foreign exchange losses (gains)	-27	13
Share of (profit) loss of entities accounted for using equity method	-95	—
Loss (gain) on investments in partnership	9	19
Loss (gain) on sales of non-current assets	-1	-23
Loss on retirement of non-current assets	1	0
Decrease (increase) in notes and accounts receivable - trade	95	-49
Increase (decrease) in notes and accounts payable - trade	-18	476
Loss (gain) on valuation of investment securities	—	56
Increase (decrease) in accounts payable - other	-1,069	-1,600
Increase (decrease) in advances received	396	-39
Other, net	-29	-546
Subtotal	6,582	5,361
Interest and dividend income received	36	39
Interest expenses paid	—	-14
Income taxes paid	-1,888	-1,889
Income taxes refund	14	15
Net cash provided by (used in) operating activities	4,745	3,511
Cash flows from investing activities		
Payments into time deposits	-279	-774
Proceeds from withdrawal of time deposits	—	102
Purchase of property, plant and equipment	-66	-105
Proceeds from sales of property, plant and equipment	—	24
Purchase of intangible assets	-622	-823
Purchase of investment securities	-235	-1,270
Proceeds from sales and redemption of investment securities	6	5
Payment for lease and guarantee deposits	-73	-81
Proceeds from collection of lease and guarantee deposits	6	11
Purchase of insurance funds	-6	-6
Payments of loans receivable	-65	-40
Collection of loans receivable	—	2
Purchase of shares of subsidiaries and associates	—	-10
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	-90
Net cash provided by (used in) investing activities	-1,336	-3,055

	Cumulative Second Quarter of the Previous Fiscal Year (From April 1, 2018 to September 30, 2018)	Cumulative Second Quarter of the Current Fiscal Year (From April 1, 2019 to September 30, 2019)
Cash flows from financing activities		
Purchase of treasury shares	-0	-0
Cash dividends paid	-2,225	-3,010
Repayments of lease obligations	-7	-0
Proceeds from share issuance to non-controlling shareholders	98	—
Dividends paid to non-controlling interests	—	-103
Other payments	—	-69
Net cash provided by (used in) financing activities	-2,135	-3,184
Effect of exchange rate change on cash and cash equivalents	-29	-90
Net increase (decrease) in cash and cash equivalents	1,243	-2,818
Cash and cash equivalents at beginning of period	25,505	29,942
Cash and cash equivalents at end of period	26,749	27,123

(4) Notes regarding Quarterly Consolidated Financial Statements

(Notes relating to the Going Concern Assumption)

There are no pertinent items.

(Notes on Significant Changes to Shareholders' Equity)

The Company acquired shares of JapanWork, Inc. as of July 12, 2019 and has included the firm in the scope of consolidation. As a result of disposing of its treasury stock through a third-party allocation to pay consideration for the applicable share acquisition, in the first six months of the fiscal year ending March 31, 2020, capital surplus increased by ¥112 million while treasury shares decreased by ¥28 million. As of the end of the second quarter of the fiscal year under review, capital surplus totaled ¥651 million and treasury shares came to ¥2,767 million.

(Adoption of Special Accounting Treatment Used in Preparation of the Quarterly Consolidated Financial Statements)

(Calculation of tax expenses)

The Company calculates tax expenses by rationally estimating the effective tax rate after applying tax effect accounting on profit before income taxes on a consolidated basis for the fiscal year including the first six months of the period. It then multiplies the estimated effective tax rate by profit before income taxes for the quarter.

Note, however, that if calculating tax expenses using the estimated effective tax rate produces a result which significantly lacks reasonableness, the Company adopts the statutory tax rate.

(Segment Information)

[Segment Information]

I Cumulative second quarter of the previous fiscal year (April 1, 2018 to September 30, 2018)

Description is as in "II. Cumulative second quarter of the fiscal year under review (Matters related to changes and others in the reportable segments)."

II Cumulative second quarter of the fiscal year under review (from April 1, 2019 to September 30, 2019)

Description is omitted since en-japan group is formed under a single segment.

(Matters related to changes and others in the reportable segments)

Reportable segments of en-japan group were classified under the Hiring Business and Education/Evaluation Business, but have been changed to come under a single segment from the first quarter of the fiscal year ending March 31, 2020.

The change is based on the judgement, resulting from a review on business segmentation, that Hiring Business and Education/Evaluation Business is appropriate to be managed as a single segment of Human Resources Service Business. With the sales of all shares of Cbase Corporation executed in the fiscal year ended March 31, 2019, net sales and income in Education/Evaluation Business became insignificant as Cbase Corporation was then a consolidated subsidiary classified under Education/Evaluation Business. Under such circumstances and from a perspective of en-japan group's actual situation in regard to business development, management resource allocation, and management control structure, the aforementioned businesses were thought practical to be treated as an integrated business.

As a result of such change, description of segment information in the cumulative second quarter of the fiscal year ended March 31, 2019 and the cumulative second quarter of the fiscal year ended March 31, 2020 have been omitted.

(Business Combination-related)
Business combination by acquisition

The Company resolved at its meeting of Board of Directors held on June 20, 2019 to acquire some outstanding shares of JapanWork, Inc. (hereinafter “JapanWork”) to make it a subsidiary, dispose of its treasury stock through a third-party allocation to pay the consideration for the applicable share acquisition, and afterward enter into a basic agreement to perform a stock swap, with the Company serving as the stock swap wholly owning parent company and JapanWork as the stock wholly owned subsidiary.

(1) Overview of the business combination

[1] Name and business of the acquired company

Company name	: JapanWork, Inc.
Business activities:	: Job offer business for foreigners

[2] Primary reason for the business combination

The Company is expanding its business to support recruitment and success after joining companies with a focus on the management of job advertisement websites and job placement services for those looking to change careers. The Mid-term Management Plan, for which the final fiscal year is the fiscal year ending March 31, 2022, sets out the aim of strengthening M&A in the field of technology as a new growth strategy.

JapanWork, which the Company will now make into its subsidiary, operates the “JapanWork” bulk job search site for foreigners. It started a chat concierge service to handle exchange for companies and foreigners in December 2018. This service utilizes technology to not only effectively reduce the workload of those in charge of recruitment but also to improve the rate of successful recruitment of foreign workers with language barriers. As a result, it began increasing its customers of mainly cleaning and factory-related staffing companies immediately following the launch of service.

Making JapanWork into a subsidiary will contribute to the provision of added value and business growth to the Company’s corporate customers through the foreign worker business, leading to enhanced corporate value.

[3] Date of business combination

July 12, 2019

[4] Legal form of business combination

Acquisition of shares in exchange for cash and treasury stock disposed of through a third-party allocation

[5] Name following the business combination

No change

[6] Ratio of voting rights acquired

51%

[7] Primary basis for determining the acquired company

The Company acquired shares in exchange for cash and treasury stock disposed of through a third-party allocation.

(2) Period of operating results of the acquired company included in the quarterly consolidated statements of income for the first six months of the fiscal year

Since the deemed acquisition date of the acquired company is set at September 30, 2019 and thus only balance sheets are consolidated, operating results of the acquired company are not included in the quarterly consolidated statements of income.

(3) Breakdown of cost for acquisition of the acquired company and type of consideration

Consideration of acquisition	Cash	¥88 million
	Treasury shares	¥140 million
Acquisition cost		¥229 million

(4) Major acquisition-related expenses and amount

Advisory fees, etc. ¥5 million

(5) Amount of goodwill generated, reason for generation, method and period of amortization

1) Amount of goodwill generated

¥254 million

2) Reason for generation

Since the acquisition costs exceeds the net amount of assets acquired and liabilities assumed, the difference is recorded as goodwill.

3) Method and period of amortization

Amortized over a period of 10 years using the straight-line method

(6) Assets received and liabilities undertaken on the date of business combination, their amounts and major breakdown items

Current assets	¥150 million
No-current assets	¥0 million
Total assets	¥150 million
Current liabilities	¥8 million
Non-current liabilities	¥166 million
Total liabilities	¥175 million

(7) Allocation of acquisition cost

Since identifiable assets and liabilities are yet to be specified and fair market values are yet to be calculated as of the date of business combination, acquisition cost has not been allocated as of the end of the second quarter of the fiscal year under review. Consequently, the Company has carried out provisional accounting treatment based on reasonable information available at that time.