

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)
FY2019 (June 1, 2019 to May 31, 2020)
Three Months Ended August 31, 2019

Listed company name: Pasona Group Inc.
 Listing stock exchange: The First Section of the Tokyo Stock Exchange
 Securities code number: 2168
 URL: <https://www.pasonagroup.co.jp>
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Scheduled filing date of quarterly report: October 11, 2019
 Supplemental materials prepared for quarterly financial results: Yes
 Holding of quarterly financial results meeting: No

(All amounts are in millions of yen rounded down unless otherwise stated)

1. CONSOLIDATED BUSINESS RESULTS

(1) Consolidated Financial Results

Percentage figures are the increase / (decrease) for the corresponding period of the previous fiscal year.

	Net Sales		Operating Income		Ordinary Income		Profit (Loss) attributable to owners of parent	
		%		%		%		%
Three months ended August 31, 2019	79,626	(4.1)	1,243	(14.4)	930	(23.9)	46	—
Three months ended August 31, 2018	82,997	14.5	1,451	40.5	1,222	21.4	(7)	—

(Note) Comprehensive income 3M FY2019: ¥821 million 3M FY2018: ¥458 million

	Net Income (Loss) per Share	Diluted Net Income per Share
	Yen	Yen
Three months ended August 31, 2019	1.19	—
Three months ended August 31, 2018	(0.19)	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
August 31, 2019	119,260	44,807	28.3
May 31, 2019	119,459	40,253	23.7

(Reference) Equity As of August 31, 2019: ¥33,753 million As of May 31, 2019: ¥28,355 million

2. DIVIDENDS PER SHARE

	End of First Quarter	End of Second Quarter	End of Third Quarter	Fiscal Year-End	Total
	Yen	Yen	Yen	Yen	Yen
FY2018	—	0.00	—	18.00	18.00
FY2019	—				
FY2019 (Forecast)		0.00	—	19.00	19.00

(Note) Revision to dividend forecast in the current quarter: None

3. FORECAST OF RESULTS FOR THE FISCAL YEAR ENDING MAY 31, 2020

Percentage figures are the increase / (decrease) for the corresponding period of the previous fiscal year.

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent		Net Income per Shares
		%		%		%		%	Yen
FY2019 First Half	168,000	2.0	4,000	7.2	3,600	1.7	400	(36.6)	10.23
FY2019 Full Fiscal Year	344,000	5.2	11,000	16.2	10,700	15.8	2,300	16.4	58.80

(Note) Revision to forecast of results in the current quarter: None

4. NOTES

- (1) Changes in important subsidiaries during the current period: None
(Changes in specified subsidiaries that caused changes in the scope of consolidation)
- (2) Application of the special accounting practices in the preparation of quarterly consolidated financial statements:
None
- (3) Changes of accounting principles, changes in accounting estimates and retrospective restatement
 - 1) Changes of accounting principles in line with revisions to accounting and other standards: None
 - 2) Changes of accounting principles other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Number of shares issued and outstanding (Common shares)
 - 1) The number of shares issued and outstanding as of the period-end (including treasury shares)
August 31, 2019: 41,690,300 shares May 31, 2019: 41,690,300 shares
 - 2) The number of treasury shares as of the period-end
August 31, 2019: 2,574,649 shares May 31, 2019: 2,574,573 shares
 - 3) Average number of shares for the period (Quarterly cumulative period)
Three months ended August 31, 2019: 39,115,651 shares
Three months ended August 31, 2018: 39,106,520 shares

(Note)

The Company has introduced “Board Benefit Trust (BBT)” and “Employment Stock Ownership Plan (J-ESOP)”. The Company’s shares in the BBT and J-ESOP, which are reported as treasury shares under Shareholders’ equity, are counted as the number of treasury shares as of the average number of shares outstanding for the period for the purpose of not including for computing earnings and net assets per share.

The Quarterly Financial Report is not subject to a quarterly review conducted by CPA or audit firm.

Cautionary statement and other explanatory notes

The aforementioned forecasts are based on assumptions and beliefs in light of information available to management at the time of document preparation and accordingly include certain unconfirmed factors. As a result, readers are advised that actual results may differ materially from forecasts for a variety of reasons. Please refer to “Overview of Consolidated Forecasts” on page 5.

Method to obtain supplemental materials for quarterly financial results

Supplemental materials for the quarterly financial results have been posted on the Company’s website (<https://www.pasonagroup.co.jp/ir/>) since October 11, 2019.

Consolidated Financial Report

Three Months Ended August 31, 2019

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3M FY2019 Consolidated Financial Report

(June 1, 2019 – August 31, 2019)

1. Information Concerning Quarterly Consolidated Business Results

(1) Consolidated Business Results

	(Millions of yen)		
	3M FY2018	3M FY2019	YoY
Net sales	82,997	79,626	(4.1)%
Operating income	1,451	1,243	(14.4)%
Ordinary income	1,222	930	(23.9)%
Profit (loss) attributable to owners of parent	(7)	46	

Segment Information (Figures include intersegment sales)

Consolidated Net Sales by Segment

	(Millions of yen)		
	3M FY2018	3M FY2019	YoY
HR Solutions	82,049	78,166	(4.7)%
Expert Services (Temporary staffing), BPO Services (Contracting), Others	70,464	65,870	(6.5)%
Expert Services (Temporary staffing)	43,626	38,011	(12.9)%
BPO Services (Contracting)	22,779	23,765	4.3%
HR Consulting, Education & Training, Others	2,096	2,032	(3.1)%
Global Sourcing (Overseas)	1,961	2,060	5.0%
Career Solutions (Placement / Recruiting, Outplacement)	3,821	3,616	(5.4)%
Outsourcing	7,763	8,679	11.8%
Life Solutions	1,355	1,527	12.7%
Regional Revitalization Solutions	543	815	50.2%
Eliminations and Corporate	(950)	(882)	-
Total	82,997	79,626	(4.1)%

Consolidated Operating Income (Loss) by Segment

	(Millions of yen)		
	3M FY2018	3M FY2019	YoY
HR Solutions	3,698	4,244	14.7%
Expert Services (Temporary staffing), BPO Services (Contracting), Others	1,169	1,640	40.3%
Expert Services (Temporary staffing)			
BPO Services (Contracting)	992	1,515	52.7%
HR Consulting, Education & Training, Others			
Global Sourcing (Overseas)	177	125	(29.1)%
Career Solutions (Placement/Recruiting, Outplacement)	853	686	(19.6)%
Outsourcing	1,675	1,916	14.4%
Life Solutions	18	(12)	-
Regional Revitalization Solutions	(376)	(517)	-
Eliminations and Corporate	(1,889)	(2,470)	-
Total	1,451	1,243	(14.4)%

Since 3M FY2019, “Insourcing” has been changed to “BPO Services”, and “Public Solutions” has been changed to “Regional Revitalization Solutions”. In line with the segment name changes, the segment of some subsidiaries has been changed at the same time. With regard to the operating income (loss) by segment, “Global Sourcing” has been individually disclosed as an independent segment. The above tables regarding results in FY 2018 show the figures reclassified into the new segment classification.

(2) Overview of Consolidated Financial Position

Status of Assets, Liabilities and Net Assets

Assets

Total assets as of August 31, 2019 stood at ¥119,260 million, a decrease of ¥199 million or 0.2%, compared with May 31, 2019. This was mainly attributable to a decrease of ¥2,078 million in notes and accounts receivable-trade, an increase of ¥1,226 million in property, plant and equipment, and an increase of ¥752 million in prepaid expenses included in other item of current assets.

Liabilities

Total liabilities as of August 31, 2019 stood at ¥74,452 million, a decrease of ¥4,753 million or 6.0%, compared with May 31, 2019. This was mainly attributable to a decrease of ¥2,671 million in accounts payable-trade, a decrease of ¥3,135 million in short-term loans payable, and an increase of ¥1,365 million in accrued expenses.

Net Assets

Net assets as of August 31, 2019 stood at ¥44,807 million, an increase of ¥4,553 million or 11.3%, compared with May 31, 2019. This was mainly due to profit attributable to owners of parent of ¥46 million, an increase of ¥5,956 million in capital surplus due to the partial sales of shares of one of our subsidiaries, a decrease of ¥843 million in non-controlling interests, and the payment of dividends totaling ¥712 million.

As a result, equity ratio improved by 4.5 percentage points from the end of previous consolidated fiscal year to 28.3%.

(3) Overview of Consolidated Forecasts

As for the financial income in the first quarter of FY2019, the profits have been generally in line with plans. Therefore, the forecasts previously announced on July 12, 2019 remain unchanged.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2019	As of August 31, 2019
ASSETS		
Current assets		
Cash and deposits	32,305	32,260
Notes and accounts receivable-trade	39,412	37,334
Inventories	2,035	2,400
Other	6,672	7,336
Allowance for doubtful accounts	(107)	(104)
Total current assets	80,317	79,227
Non-current assets		
Property, plant and equipment	16,725	17,952
Intangible assets		
Goodwill	3,029	2,825
Other	5,222	5,204
Total intangible assets	8,252	8,029
Investments and other assets		
Other	14,289	14,175
Allowance for doubtful accounts	(126)	(126)
Total investments and other assets	14,163	14,049
Total non-current assets	39,141	40,032
Total assets	119,459	119,260

	As of May 31, 2019	As of August 31, 2019
LIABILITIES		
Current liabilities		
Accounts payable-trade	6,534	3,862
Short-term loans payable	9,391	6,256
Accrued expenses	15,090	16,455
Income taxes payable	2,708	2,308
Provision for bonuses	4,143	3,215
Provision for directors' bonuses	41	14
Asset retirement obligations	1	7
Other	21,206	23,838
Total current liabilities	59,116	55,957
Non-current liabilities		
Bonds payable	288	288
Long-term loans payable	12,806	11,150
Provision for directors' stock benefit	315	336
Provision for employees' stock grant	257	256
Net defined benefit liability	1,996	2,035
Asset retirement obligations	1,854	1,958
Other	2,570	2,469
Total non-current liabilities	20,089	18,494
Total liabilities	79,206	74,452
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	10,263	16,220
Retained earnings	14,907	14,240
Treasury shares	(2,185)	(2,185)
Total shareholders' equity	27,985	33,275
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	447	589
Foreign currency translation adjustment	14	(43)
Remeasurements of defined benefit plans	(91)	(68)
Total accumulated other comprehensive income	370	477
Non-controlling interests	11,898	11,054
Total net assets	40,253	44,807
Total liabilities and net assets	119,459	119,260

(2) Quarterly Consolidated Statements of Income

(Millions of yen)

	3M FY2018	3M FY2019
Net sales	82,997	79,626
Cost of sales	64,946	61,356
Gross profit	18,051	18,270
Selling, general and administrative expenses	16,599	17,026
Operating income	1,451	1,243
Non-operating income		
Interest income	7	8
Share of profit of entities accounted for using equity method	-	18
Subsidy	6	18
Real estate rent	174	178
Other	81	133
Total non-operating income	269	357
Non-operating expenses		
Interest expenses	53	49
Commitment fee	11	9
Share of loss of entities accounted for using equity method	26	-
Rent expenses on real estates	144	146
Commission fee	236	409
Other	26	55
Total non-operating expenses	499	670
Ordinary income	1,222	930
Extraordinary income		
Gain on sales of non-current assets	8	-
Total extraordinary income	8	-
Extraordinary loss		
Loss on sales and retirement of non-current assets	12	4
Loss on valuation of investment securities	5	7
Total extraordinary loss	17	11
Income before income taxes	1,212	918
Income taxes-current	(145)	(202)
Income taxes-deferred	821	480
Income taxes	675	278
Profit	536	640
Profit attributable to non-controlling interests	544	593
Profit (loss) attributable to owners of parent	(7)	46

(3) Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	3M FY2018	3M FY2019
Profit	536	640
Other comprehensive income		
Valuation difference on available-for-sale securities	(65)	223
Foreign currency translation adjustment	0	(65)
Remeasurements of defined benefit plans	(12)	23
Share of other comprehensive income of entities accounted for using equity method	0	0
Total other comprehensive income	(77)	181
Comprehensive income	458	821
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(51)	153
Comprehensive income attributable to non-controlling interests	510	667

(4) Notes to Going Concern Assumption

Not applicable

(5) Notes on Significant Changes in the Shareholders' Equity

During the first quarter of FY2019, as the Company sold a portion of the shares of our consolidated subsidiary, Benefit One Inc., the capital surplus increased by ¥5,957 million. As a result, the capital surplus at the end of the first quarter of FY2019 was ¥16,220 million.

(6) Segment Information

i) Three months ended August 31, 2018

a) Information regarding net sales and segment income (loss) by reporting segment

(Millions of yen)

	Reporting segments					Total	Adjustment (Note 2)	Figures in consolidated statements of income (Note 3)
	HR Solutions			Life Solutions	Regional Revitalization Solutions			
	Expert Services (Temporary staffing), BPO Services (Contracting), Others (Note 1)	Career Solutions (Placement / Recruiting, Outplacement)	Outsourcing					
Net sales								
(1) Sales to outside customers	69,761	3,804	7,674	1,320	436	82,997	-	82,997
(2) Intersegment sales and transfers	702	17	88	34	107	950	(950)	-
Total	70,464	3,821	7,763	1,355	543	83,948	(950)	82,997
Operating income (loss)	1,169	853	1,675	18	(376)	3,341	(1,889)	1,451

Notes:

1. The “Expert Services (Temporary staffing), BPO Services (Contracting), Others” segment includes each of the businesses of Expert Services (Temporary staffing), BPO Services (Contracting), HR Consulting/Education & Training/Others and Global Sourcing (Overseas).
2. Adjustments of ¥(1,889) million with Operating income (loss) includes corporate expenses of ¥(1,896) million which primarily consist of Group management costs relating to the Company and incubation cost for our new business and the elimination of intersegment transactions of ¥7 million.
3. Segment income is adjusted with operating income under consolidated statements of income.

ii) Three months ended August 31, 2019

a) Information regarding net sales and segment income (loss) by reporting segment

(Millions of yen)

	Reporting segments					Total	Adjustment (Note 2)	Figures in consolidated statements of income (Note 3)
	HR Solutions			Life Solutions	Regional Revitalization Solutions			
	Expert Services (Temporary staffing), BPO Services (Contracting), Others (Note 1)	Career Solutions (Placement / Recruiting, Outplacement)	Outsourcing					
Net sales								
(1) Sales to outside customers	65,234	3,605	8,589	1,471	725	79,626	-	79,626
(2) Intersegment sales and transfers	636	10	89	56	90	882	(882)	-
Total	65,870	3,616	8,679	1,527	815	80,509	(882)	79,626
Operating income (loss)	1,640	686	1,916	(12)	(517)	3,714	(2,470)	1,243

Notes:

1. The “Expert Services (Temporary staffing), BPO Services (Contracting), Others” segment includes each of the businesses of Expert Services (Temporary staffing), BPO Services (Contracting), HR Consulting/Education & Training/Others and Global Sourcing (Overseas).
2. Adjustments of ¥(2,470) million with Operating income (loss) includes corporate expenses of ¥(2,475) million which primarily consist of Group management costs relating to the Company and incubation cost for our new business and the elimination of intersegment transactions of ¥5 million.
3. Segment income is adjusted with operating income under consolidated statements of income.

b) Matters concerning changes in reporting segment

Reviewing our business management department and organizations, new segment classification method has been adopted since FY2018, in which the public contract business and the human resource consulting business which were conventionally included in the “Career Solutions” are included in the “Expert Services (Temporary staffing), BPO Services (Contracting), Others”.

Furthermore, since the first quarter of FY2019, “Insourcing” has been changed to “BPO Services”, and “Public Solutions” has been changed to “Regional Revitalization Solutions”. In line with the segment name changes, the segment of some subsidiaries has been changed at the same time.

The segment information in the previous fiscal year was recorded in the way of new segment classification method.

(7) Important Subsequent Events

Acquisition and cancellation of treasury shares by our subsidiary.

Our consolidated subsidiary, Benefit One Co., Ltd., (hereinafter “Benefit One”, one of the companies with fiscal year ended in March) resolved to acquire treasury shares and the method of specific acquisition at the Board of Directors meeting held on July 29, 2019, in accordance with the provisions of Article 459, Paragraph 1 of the Companies Act and implemented it. Furthermore, they resolved to cancel part of its treasury shares in accordance with Article 178 of the Companies Act at the Board of Directors meeting held on the same day and implemented it.

1.The reason for the acquisition and cancellation of the treasury shares by Benefit One

It was to improve their capital efficiency and return their profits to shareholders.

2.Matters concerning acquisition

The type of acquired share: Common share of Benefit One

The number of shares to be acquired: 1,800,000 shares (upper limit)

The ratio to the total number of issued shares excluding treasury stock was 1.11% as of June 30, 2019.

Total amount of share acquisition price: ¥3,600 million (upper limit)

The day of share acquisition: July 30, 2019

The method of share acquisition: Purchase through the off-hours trading system (ToSTNeT-3) of the Tokyo Stock Exchange

3.The result of acquisition

The type of acquired share: Common share of Benefit One

The number of shares to be acquired: 1,800,000 shares

Total amount of share acquisition price: ¥3,526 million

The day of share acquisition: July 30, 2019

The method of share acquisition: Purchase through the off-hours trading system (ToSTNeT-3) of the Tokyo Stock Exchange

4.Matters concerning cancellation

The type of cancelled share: Common share of Benefit One

The number of shares to be cancelled: All treasury shares acquired based on 3 above.

The day of share cancellation: August 16, 2019

5.Impact on the Company's consolidated financial statements due to the acquisition

The acquisition of Benefit One treasury shares increased the Company's share in Benefit One. As a result, capital surplus is expected to decrease by ¥ 1,694 million in the first half of FY2019.