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Consolidated Financial Results for the Six Months Ended June 30, 2024 [Japanese GAAP]

August 14, 2024

Company name: MEDLEY,INC.

Listing: Tokyo

Securities code: 4480

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

Representative: Kohei Takiguchi

President and Chief Executive Officer

Inquiries: Ryo Kawahara

Chief Financial Officer

Telephone: +81-3-6372-1265

Scheduled date to file semi-annual securities report: August 14, 2024

Scheduled date to commence dividend payments: -

Preparation of supplementary material on financial results: Yes

Holding of financial results briefing: Yes

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated Financial Results for the Six Months Ended June 30, 2024 (January 1, 2024 to June 30, 2024)

(1) Consolidated Operating Results

(Percentages indicate year-on-year changes.)

	Net sales		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended June 30, 2024	14,706	37.3	2,923	6.1	2,261	(6.6)	3,167	13.9	2,008	6.6
June 30, 2023	10,707	52.3	2,756	75.2	2,420	90.3	2,781	97.9	1,884	94.4

(Note) Comprehensive income: Six months ended June 30, 2024: ¥ 2,083 million [8.5 %]

Six months ended June 30, 2023: ¥ 1,921 million [98.1 %]

	Basic earnings per share	Diluted earnings per share
Six months ended June 30, 2024	Yen 61.90	Yen 61.50
June 30, 2023	58.48	57.65

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Millions of yen	Millions of yen	%
June 30, 2024	42,165	19,534	46.1
December 31, 2023	25,430	17,637	69.0

(Reference) Equity: As of June 30, 2024: ¥ 19,445 million

As of December 31, 2023: ¥ 17,552 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2023	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2024	-	0.00			
Fiscal year ending December 31, 2024 (Forecast)			-	0.00	0.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2024(January 1, 2024 to December 31, 2024)

(Percentages indicate year-on-year changes.)

	Net sales		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	29,400	43.2	4,640	36.7	2,950	10.8	4,440	18.2	3,000	16.9	92.72

(Note) Revision to the financial results forecast announced most recently: None

* Notes:

(1) Significant changes in the scope of consolidation during the period: Yes
 Newly included: 1 (Company name): GUPPY's Inc.)

(2) Adoption of accounting treatment specific to the preparation of semi-annual consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates, and restatement
 1) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 2) Changes in accounting policies due to other reasons: None
 3) Changes in accounting estimates: None
 4) Restatement: None

(4) Number of issued shares (common shares)

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

June 30, 2024: 32,738,600 shares
 December 31, 2023: 32,738,600 shares

2) Number of treasury shares at the end of the period:

June 30, 2024: 253,635 shares
 December 31, 2023: 384,191 shares

3) Average number of shares outstanding during the period:

Six months ended June 30, 2024: 32,451,930 shares
 Six months ended June 30, 2023: 32,219,642 shares

* Semi-annual financial results reports are exempt from review conducted by certified public accountants or an audit firm.

* Proper use of earnings forecasts, and other special matters

(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. Outline of Business Performance" on page 3.

1. Outline of Business Performance

(1) Explanation regarding operating results

During the six months ended June 30, 2024 (consolidated H1 FY2024), both the HR PF Business and the Medical PF Business, Japanese medical and nursing industry continued to face human resource shortages and issues related to national budget shortage.

Amid this business environment, in consolidated H1 FY2024, 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. 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. Even as the Group achieved sales growth, we proactively worked to achieve medium-to-long term growth, conducting marketing activities aimed at expanding the HR PF Business and investing in the expansion of our online training system. In the Medical PF Business, we continued to increase the number of employees and, in the area of medical nursing care, we brought human resource service company GUPPY's Inc. into the scope of consolidated accounting.

As a result of the above, in consolidated H1 FY2024, the Group posted net sales of ¥14,706 million (up 37.3% YoY), EBITDA of ¥2,923 million (up 6.1% YoY), operating profit of ¥2,261 million (down 6.6% YoY), ordinary profit of ¥3,167 million (up 13.9% YoY), and net profit attributable to owners of the parent company of ¥2,008 million (up 6.6% YoY).

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 tend to be concentrated in April, when Japanese companies tend to hire more employees (because this is often the beginning of Japanese companies' fiscal years).

Earnings by business segment are as follows.

1. HR PF Business

During consolidated H1 FY2024, the Group continuously improved the functionality of its websites in order to improve user convenience. As a result, customer offices in the HR PF Business as a whole therefore grew 14.4% compared with the end of consolidated FY2023, to 388 thousand; and listed job offers rose by 3.4% over the same period, to 373 thousand. Also, during the period, the GUPPY Kyujin and GUPPY Shinsotsu businesses of GUPPY's Inc. contributed to further growth in earnings.

As a result of the above, consolidated H1 FY2024 segment net sales were ¥10,866 million (up 41.9 % YoY), and segment profit before allocation of group-wide shared costs (operating profit) was ¥4,596 million (up 21.6 % YoY).

2. Medical PF Business

During consolidated H1 FY2024, the number of medical institution users in the Medical PF Business continued to grow, rising 11.3% compared with the end of consolidated FY2023, to 18 thousand users. The main reason for this is that existing customers increased the number of offices that use our cloud-based pharmacy support system, Pharms, because we increased its usefulness by adding functions.

As a result of the above, consolidated H1 FY2024 segment net sales were ¥3,510 million (up 22.1 % YoY) and segment profit before allocation of group-wide shared costs (operating loss) was ¥30 million (in H1 FY2023, the segment posted an operating loss of ¥38 million).

3. New Services Segment

During consolidated H1 FY2024, the Group conducted investments being made in business expansion for the recruitment system in the U.S. In addition, nursing facility search website, Kaigo-no Honne, continued proactive sales efforts to expand its content, as well as number of listed facilities.

As a result, consolidated H1 FY2024 segment net sales were ¥331 million (up 85.4% YoY) and segment loss before allocation of group-wide shared costs (operating loss) was ¥119 million (¥121 million loss in H1 FY2023).

Factors that drove the operating loss in the segment include costs related to investments being made in business expansion and operational development in the U.S.

In addition, adjustments not attributable to any segment (intersegment eliminations and companywide expenses not allocated to any segment) totaled ¥2,246 million (up 87.4% YoY).

(2) Outline of financial position

Assets

Current assets as of end-consolidated H1 FY2024 totaled ¥25,660 million, an increase of ¥6,728 million, compared with the end of the previous consolidated fiscal year. This was mainly attributable to an increase of ¥5,500 million in cash and deposits, ¥832 million in accounts receivable - trade. Non-current assets as of end-consolidated H1 FY2024 totaled ¥16,504 million, a ¥10,012 million increase compared with the end of the previous consolidated fiscal year. This was mainly attributable to an increase of ¥11,079 million in intangible fixed assets and a decrease of ¥1,092 million in investments and other assets.

As a result of the above, total assets as of end-consolidated H1 FY2024 totaled ¥42,165 million, an increase of ¥16,735 million compared with the end of the previous consolidated fiscal year.

Liabilities

Current liabilities as of end-consolidated H1 FY2024 totaled ¥10,433 million, an increase of ¥4,201 million compared with the end of the previous consolidated fiscal year. This was mainly attributable to an increase of ¥2,363 million in Current portion of long-term borrowings, ¥1,137 million in Accounts payable - other. Non-current liabilities as of end-consolidated H1 FY2024 totaled ¥12,197 million, an increase of ¥10,637 million compared with the end of the previous consolidated fiscal year. This was mainly attributable to an increase of ¥8,858 million in long-term borrowings, ¥1,755 million in deferred tax liabilities.

As a result of the above, total liabilities as of end-consolidated H1 FY2024 totaled ¥22,631 million, an increase of ¥14,838 million compared with the end of the previous consolidated fiscal year.

Net assets

Net assets as of end-consolidated H1 FY2024 totaled ¥19,534 million, an increase of ¥1,896 million compared with the end of the previous consolidated fiscal year. This was mainly attributable to, an increase of ¥56 million in capital surplus and a decrease of ¥87 million in treasury shares due to the disposal of treasury shares as restricted stock for a Director, auditor or employee, a decrease of ¥273 million in capital surplus and ¥299 million in treasury shares due to the disposal of treasury shares associated with the exercising of stock acquisition rights, a decrease of ¥305 million in capital surplus due to change in ownership interest of parent due to transactions with non-controlling interests, and an increase of ¥2,008 million in retained earnings due to incurring a profit attributable to owners of parent.

(Cash flows)

Cash and cash equivalents (hereinafter, net cash) as of end-consolidated H1 FY2024 totaled ¥20,852 million, an increase of ¥5,500 million compared with the end of the previous consolidated fiscal year. Cash flows during the six months ended June 30, 2024, were as follows.

Cash flows from operating activities

Net cash provided by operating activities during the six months ended June 30, 2024, was ¥2,510 million (compared with ¥2,758 million in H1 FY2023). This increase was mainly attributable to ¥3,170 million in profit before income taxes, adjusted for ¥1,163 million in settlement received, ¥327 million in depreciation costs, ¥283 million in amortization of goodwill, an increase of ¥433 million in accounts receivable (trade), an increase of ¥359 million in accounts payable - other, an increase of ¥867 million in settlement received, and ¥1,171 million in taxes paid.

Cash flows from investing activities

Net cash used in investing activities during the six months ended June 30, 2024, was ¥8,155 million (compared with ¥805 million in consolidated H1 FY2023). This was mainly attributable to ¥400 million in purchase of investment securities, ¥1,569 million in proceeds from sale of investment securities, ¥498 million in payments for acquisition of businesses, and ¥8,699 million in purchase of shares of subsidiaries resulting in change in scope of consolidation.

Cash flows from financing activities

Net cash provided by financing activities during the six months ended June 30, 2024, was ¥11,126 million (compared against 385 million expenditure in consolidated H1 FY2023). This was mainly attributable to ¥668 million in repayments of long-term borrowings, ¥11,800 million in proceeds from long-term borrowings.

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

The Group has revised its forecast for consolidated FY2024 and its forecast now differs from the forecast included in Consolidated Financial Results for the Year Ended December 31, 2023 [Japanese GAAP] released on February 14, 2024. For details regarding these changes, please refer to Notice Regarding Revision to Consolidated Financial Results Forecast for the Fiscal Year Ending December 2024, released on May 14, 2024.

Semi-annual Consolidated Financial Statements
Semi-annual Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2023	As of June 30, 2024
Assets		
Current assets		
Cash and deposits	15,354	20,855
Accounts receivable - trade	1,612	2,444
Merchandise and finished goods	265	238
Work in process	18	5
Accounts receivable - other	1,371	1,804
Prepaid expenses	251	312
Other	92	46
Allowance for doubtful accounts	(34)	(45)
Total current assets	18,932	25,660
Non-current assets		
Property, plant and equipment	515	541
Intangible assets		
Software	344	354
Goodwill	1,491	6,536
Customer relationship	1,359	7,383
Other	4	4
Total intangible assets	3,199	14,279
Investments and other assets	2,775	1,683
Total non-current assets	6,491	16,504
Deferred assets	6	0
Total assets	25,430	42,165

(Millions of yen)

	As of December 31, 2023	As of June 30, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	317	363
Current portion of long-term borrowings	731	3,095
Accounts payable - other	1,522	2,660
Accrued expenses	685	791
Contract liabilities	781	1,039
Deposits received	500	566
Income taxes payable	1,060	1,171
Other provisions	165	254
Other	466	490
Total current liabilities	6,232	10,433
Non-current liabilities		
Long-term borrowings	928	9,786
Deferred tax liabilities	400	2,156
Other	231	255
Total non-current liabilities	1,560	12,197
Total liabilities	7,792	22,631
Net assets		
Shareholders' equity		
Share capital	47	47
Capital surplus	14,812	14,289
Retained earnings	3,802	5,811
Treasury shares	(1,118)	(732)
Total shareholders' equity	17,543	19,416
Accumulated other comprehensive income		
Foreign currency translation adjustment	8	29
Total accumulated other comprehensive income	8	29
Non-controlling interests	85	88
Total net assets	17,637	19,534
Total liabilities and net assets	25,430	42,165

Semi-annual Consolidated Statements of Income and Comprehensive Income

(Millions of yen)

	For the six months ended June 30, 2023	For the six months ended June 30, 2024
Net sales	10,707	14,706
Cost of sales	3,395	5,028
Gross profit	7,312	9,678
Selling, general and administrative expenses	4,892	7,416
Operating profit	2,420	2,261
Non-operating income		
Interest income	0	0
Settlement received	450	1,163
Subsidy income	1	0
Other	24	11
Total non-operating income	477	1,176
Non-operating expenses		
Interest expenses	4	18
Amortization of share issuance costs	15	5
Outsourcing expenses	90	219
Other	4	25
Total non-operating expenses	116	270
Ordinary profit	2,781	3,167
Extraordinary income		
Gain on sale of shares of subsidiaries and associates	46	-
Gain on sale of non-current assets	0	2
Total extraordinary income	47	2
Extraordinary losses		
Loss on sale of non-current assets	0	-
Loss on abandonment of non-current assets	0	-
Total extraordinary losses	0	-
Profit before income taxes	2,827	3,170
Income taxes	917	1,107
Profit	1,910	2,062
Profit attributable to non-controlling interests	26	53
Profit attributable to owners of parent	1,884	2,008

(Millions of yen)

	For the six months ended June 30, 2023	For the six months ended June 30, 2024
Profit	1,910	2,062
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	-
Foreign currency translation adjustment	10	20
Total other comprehensive income	10	20
Comprehensive income	1,921	2,083
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,895	2,029
Comprehensive income attributable to non-controlling interests	26	53

Semi-annual Consolidated Statements of Cash Flows

(Millions of yen)

	For the six months ended June 30, 2023	For the six months ended June 30, 2024
Cash flows from operating activities		
Profit before income taxes	2,827	3,170
Depreciation	189	327
Amortization of goodwill	112	283
Amortization of security deposit	7	6
Increase (decrease) in allowance for doubtful accounts	6	10
Interest and dividend income	(0)	(0)
Interest expenses	4	18
Amortization of share issuance costs	15	5
Settlement income	(450)	(1,163)
Gain on sale of non-current assets	(0)	(2)
Loss on sales of non current assets	0	-
Loss on abandonment of non-current assets	0	-
Gain on sale of shares of subsidiaries and associates	(46)	-
Decrease (increase) in trade receivables	(506)	(433)
Decrease (increase) in accounts receivable - other	52	(126)
Decrease (increase) in inventories	23	40
Increase (decrease) in trade payables	80	44
Increase (decrease) in accounts payable - other	51	359
Increase (decrease) in accrued expenses	110	74
Increase (decrease) in contract liabilities	(37)	(35)
Increase (decrease) in deposits received	(27)	57
Other, net	395	195
Subtotal	2,810	2,833
Interest and dividends received	0	0
Interest paid	(4)	(18)
Settlement received	263	867
Income taxes paid	(309)	(1,171)
Net cash provided by (used in) operating activities	2,758	2,510
Cash flows from investing activities		
Purchase of investment securities	(334)	(400)
Proceeds from sale of investment securities	0	1,569
Payments into time deposits	(56)	-
Proceeds from withdrawal of time deposits	50	2
Purchase of property, plant and equipment	(60)	(18)
Proceeds from sale of property, plant and equipment	4	14
Purchase of intangible assets	(100)	(117)
Payments of leasehold and guarantee deposits	(144)	(23)
Proceeds from refund of leasehold and guarantee deposits	0	14
Payments for acquisition of businesses	(262)	(498)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(8,699)
Proceeds from the sale of subsidiary shares with a change in the scope of consolidation	69	-
Other, net	28	1
Net cash provided by (used in) investing activities	(805)	(8,155)
Cash flows from financing activities		
Repayments of long-term borrowings	(413)	(668)
Proceeds from long-term borrowings	-	11,800
Proceeds from issuance of shares	14	-

(Millions of yen)

	For the six months ended June 30, 2023	For the six months ended June 30, 2024
Proceeds from disposal of treasury shares	47	14
Purchase of treasury shares	(0)	(0)
Other, net	(34)	(19)
Net cash provided by (used in) financing activities	(385)	11,126
Effect of exchange rate change on cash and cash equivalents	9	18
Net increase (decrease) in cash and cash equivalents	1,577	5,500
Cash and cash equivalents at beginning of period	14,351	15,351
Cash and cash equivalents at end of period	15,928	20,852

(4) Important notes regarding semi-annual 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 H1 FY2023 (January 01, 2023, to June 30, 2023)

Significant change in shareholders' equity

In consolidated H1 FY2023, capital surplus increased by ¥29 million and treasury shares decreased by ¥73 million due to disposal of treasury shares associated with restricted stock compensation effective April 13, 2023 in accordance with the resolution of the Board of Directors on February 27, 2023. In addition, capital surplus decreased by ¥267 million and treasury shares decreased by ¥315 million due to disposal of treasury shares associated with the exercising of stock acquisition rights. As a result of these, as of end-consolidated H1 FY2023, capital surplus was ¥15,024 million and treasury shares were ¥1,371 million.

Consolidated financial results for consolidated H1 FY2024 (January 01, 2024, to June 30, 2024)

Significant change in shareholders' equity

In consolidated H1 FY2024, capital surplus increased by ¥56 million and treasury shares decreased by ¥87 million due to disposal of treasury shares associated with restricted stock compensation effective April 11, 2024 in accordance with the resolution of the Board of Directors on February 22, 2024 and March 26, 2024. In addition, capital surplus decreased by ¥273 million and treasury shares decreased by ¥299 million due to disposal of treasury shares associated with the exercising of stock acquisition rights. Furthermore, capital surplus decreased by ¥305 million due to change in ownership interest of parents due to transactions with non-controlling interests. As a result of these, as of end-consolidated H1 FY2024, capital surplus was ¥14,289 million and treasury shares were ¥732 million.

(Application of special accounting methods in preparation for semi-annual consolidated financial statements)

Tax expenses are calculated by multiplying semi-annual 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 H1 FY2024.

(Segment information, etc.)

(Segment information)

Consolidated financial results for consolidated H1 FY2023 (January 01, 2023, to June 30, 2023)

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	7,654	2,874	178	10,707	—	10,707
Other revenue	—	—	—	—	—	—
Sales to external customers	7,654	2,874	178	10,707	—	10,707
Inter-segment sales and transfers	1	—	—	1	(1)	—
Total	7,655	2,874	178	10,709	(1)	10,707
Segment profit (loss)	3,779	(38)	(121)	3,619	(1,198)	2,420

Notes: 1. Segment profit (loss) adjustments of (¥1,198 million) include intersegment eliminations and corporate expenses unallocated to reportable segments.

2. Segment profit (loss) is adjusted under operating profit on the semi-annual 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)

In consolidated H1 FY2023, the Company acquired the pharmacy business of Bamboo Inc. As a result, goodwill in the Medical PF Business increased by ¥236 million.

(Significant gains in negative goodwill)

Not applicable

Consolidated financial results for consolidated H1 FY2024 (January 01, 2024, to June 30, 2024)

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	10,864	3,510	239	14,614	—	14,614
Other revenue	—	—	92	92	—	92
Sales to external customers	10,864	3,510	331	14,706	—	14,706
Inter-segment sales and transfers	2	—	—	2	Δ2	—
Total	10,866	3,510	331	14,708	Δ2	14,706
Segment profit (loss)	4,596	30	Δ119	4,507	Δ2,246	2,261

Notes: 1. Segment profit (loss) adjustments of (¥2,246 million) include intersegment eliminations and corporate expenses unallocated to reportable segments.

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

2. Information on assets by segment

(Significant increase in assets)

In consolidated H1 FY2024, GUPPY's Inc. was brought into the scope of consolidated accounting. In the HR PF Business, goodwill arising from the acquisition of shares in the company and identified intangible assets increased.

3. 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 H1 FY2024, the Company acquired Lalune business of Ateam Wellness, Inc. As a result, goodwill in the Medical PF Business increased by ¥491 million.

Also, the Company acquired shares of GUPPY's Inc. and brought it into the scope of consolidated accounting. As a result, goodwill in the HR PF Business increased by ¥4,838 million.

(Significant gains in negative goodwill)

Not applicable

(Business combination via transaction)

(1) Summary of business combination

1) Name and description of business of acquired corporation

Name of acquired corporation: Ateam Wellness, Inc.

Description of business activities: Lalune business

2) Main purpose of business combination

The Company has built a strong business base in the medical healthcare area, such as telemedicine application CLINICS. By adding to our portfolio the Lalune business, which boasts one of the largest registered memberships in Japan, we believe we can achieve growth and expand our business opportunities. Going forward, we will improve access to healthcare for patients

by creating synergies between the Lalune business and the Company's other businesses.

3) Business combination date

February 1, 2024

4) Legal form of business combination

Absorption-type demerger wherein the Company is the successor company and Ateam Wellness is the divesting entity.

5) Name of acquired company after acquisition

Medley, Inc.

6) Primary basis for determination of acquiring company

The Company will take over the Lalune business of Ateam Wellness Inc. for cash consideration

(2) Period of acquired company's business results included in semi-annual consolidated financial statements

February 1, 2024 to June 30, 2024

(3) Acquisition cost and breakdown by type of considerations

Consideration paid in cash: 500 million yen

Acquisition cost: 500 million yen

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

Compensation for advisory services 7 million yen

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

1) Goodwill recognized

491 million yen

2) Reason of recognized

Mainly recognized based on the future earnings potential from the expected future development of businesses.

3) Amortization method and period of goodwill

Goodwill will be amortized evenly using the straight-line method for a period of not more than 20 years, which is determined in consideration of its estimated period of effect.

(6) Amount and major breakdown of assets received and liabilities assumed on business combination date

Current assets	32 million yen
Non-current assets	1 million yen
Total assets	33 million yen
Current liabilities	24 million yen
Total liabilities	24 million yen

(Business combination via transaction)

(1) Summary of business combination

1) Name and description of business of acquired corporation

Name of acquired corporation: GUPPY's Inc.

Description of business activities: Human resource service business specializing in medical care, nursing care, and welfare, and healthcare business utilizing a health management app

2) Main purpose of business combination

The Company has been searching for opportunities to further improve the value proposition in human resources services in the medical healthcare field by measures such as carrying out M&As with competitors. The Company came to believe that it would be possible to achieve further value proposition enhancements through the mutual sharing and utilization of both parties' business knowhow and assets as the Company and the Target have developed different business models while working to resolve the social issues faced by patients, professionals, and businesses, etc. in the same medical healthcare field.

3) Business combination date

April 26, 2024 (Deemed acquisition date: March 1, 2024)

4) Legal form of business combination

Acquisition of shares in exchange for cash.

5) Name of acquired company after acquisition

GUPPY's Inc.

6) Percentage of voting rights acquired

Voting rights ratio acquired through the tender offer	38.26%
Voting rights ratio additionally acquired on the date of the business combination	—%
Voting rights ratio additionally acquired after the date of the business combination (Note)	56.47%
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Voting rights ratio after additional acquisition	94.73%

(Note) Voting rights ratio is calculated based on the number of shares prior to the effective date of the reverse stock split.

Does not include subsidiary shares acquired from non-controlling shareholders included under (additionally acquired subsidiary shares)

7) Main basis for determining the acquiring company

The Company acquired a portion of the shares of GUPPY's Inc. in exchange for cash and, together with the voting rights of those consenting to the acquisition, the Company has acquired more than a majority of the voting rights of GUPPY's Inc. and also appointed the Company's officers as directors and further has resolved to change its delegation of authorization chart, which has resulted in the Company controlling important financial, operating, and business policy decisions.

(2) Summary of accounting procedures adopted

On June 14, 2024, the Company acquired additional shares of a company in which it already owned shares. This acquisition was conducted in accordance with "Accounting Standards for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Implementation Guidance on Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019). Because the share acquisition which took place on April 26, 2024 together with the aforementioned share acquisition constituted a single business combination, they were treated as one acquisition. For this reason, goodwill related to the additional interest acquired after obtaining a controlling interest is calculated as if goodwill had been recorded at the time the controlling interest was obtained.

(3) Period of acquired company's business results included in semi-annual consolidated financial statements

March 1, 2024 to May 31, 2024

(4) Acquisition cost and breakdown by type of considerations

Acquisition cost	at time of tender offer	cash	4,790 million yen
	at time of acquisition of additional interest	cash	6,377 million yen
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Acquisition cost:			11,168 million yen

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

Compensation for advisory services 177 million yen

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

1) Goodwill recognized

4,838 million yen

2) Reason of recognized

Mainly recognized based on the future earnings potential from the expected future development of businesses.

3) Amortization method and period of goodwill

Goodwill will be amortized evenly using the straight-line method for a period of not more than 20 years, which is determined in consideration of its estimated period of effect.

(7) Amount and major breakdown of assets received and liabilities assumed on business combination date

Current assets	2,890 million yen
Non-current assets	6,308 million yen
Total assets	9,198 million yen
Current liabilities	652 million yen
Non-current liabilities	1,913 million yen
Total liabilities	2,565 million yen

(additionally acquired subsidiary shares)

(1) Summary of transactions

1) Name of acquired corporation: GUPPY's Inc.

2) Period of additional purchase

June 25, 2024 (Deemed acquisition date: June 30, 2024)

3) Legal form

Acquisition of shares in exchange for cash.

4) Percentage of voting rights acquired

Voting rights ratio before the date of additional acquisition	94.73%
Voting rights ratio additionally acquired	5.27%
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Voting rights ratio after additional acquisition	100.00%

(2) Acquisition cost and breakdown by type of considerations

Consideration paid in cash: 659 million yen

Acquisition cost: 659 million yen

(3) Changes in equity related to transactions with noncontrolling shareholders

Capital surplus declined by ¥305 million yen due to the acquisition of subsidiary shares from noncontrolling shareholders