

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)

FY2019 (June 1, 2019 to May 31, 2020)

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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Date of Annual General Meeting of shareholders: August 20, 2020
 Scheduled payment date of cash dividends: August 6, 2020
 Scheduled filing date of the securities report: August 21, 2020
 Supplemental materials prepared for financial results: Yes
 Holding of financial results meeting: Yes (for analysts and institutional investors)

(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 attributable to owners of parent	
		%		%		%		%
FY2019	324,984	(0.6)	10,577	11.8	10,236	10.8	594	(69.9)
FY2018	326,984	5.0	9,465	44.7	9,237	39.3	1,975	53.4

(Note) Comprehensive income FY2019: ¥3,369 million FY2018: ¥4,616 million

	Net Income per Share	Diluted Net Income per Share	Return on Equity	Ordinary Income to Total Assets	Operating Income to Net Sales
	Yen	Yen	%	%	%
FY2019	15.21	—	2.0	7.9	3.3
FY2018	50.52	—	7.6	8.0	2.9

(Reference) Equity in earnings of unconsolidated subsidiaries and affiliates FY2019: ¥(3) million FY2018: ¥(7) million

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
May 31, 2020	140,441	42,316	22.7	813.28
May 31, 2019	119,459	40,253	23.7	724.91

(Reference) Equity As of May 31, 2020: ¥31,811 million As of May 31, 2019: ¥28,355 million

(3) Consolidated Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents, End of Period
FY2019	11,424	(6,964)	12,102	48,147
FY2018	9,186	(6,519)	3,962	31,793

2. DIVIDENDS

	Dividends per Share (Yen)					Total Dividend Payment (Annual)	Dividend Payout Ratio (Consolidated)	Ratio of Dividends to Net Assets (Consolidated)
	End of First Quarter	End of Second Quarter	End of Third Quarter	Fiscal Year-End	Annual			
FY2018	—	0.00	—	18.00	18.00	712	35.6%	2.7%
FY2019	—	0.00	—	19.00	19.00	758	124.9%	2.5%
FY2020(Forecast)	—	0.00	—	19.00	19.00		—	

3. FORECAST OF RESULTS FOR THE FISCAL YEAR ENDING MAY 31, 2021

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 Share
		%		%		%		%	Yen
FY2020 Full Fiscal Year	310,000	(4.6)	10,000	(5.5)	10,000	(2.3)	2,500	320.3	63.91

(Note) Only forecast of results of full fiscal year is disclosed in the fiscal year ending May 31, 2021.

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) 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
- (3) Number of shares issued and outstanding (Common shares)
 - 1) The number of shares issued and outstanding as of the period-end (including treasury shares)
May 31, 2020: 41,690,300 shares May 31, 2019: 41,690,300 shares
 - 2) The number of treasury shares as of the period-end
May 31, 2020: 2,574,776 shares May 31, 2019: 2,574,573 shares
 - 3) Average number of shares for the period
FY2019: 39,115,590 shares FY2018: 39,111,439 shares

(Reference) NON-CONSOLIDATED BUSINESS RESULTS

FY2019 (June 1, 2019 to May 31, 2020)

(1) Non-Consolidated Financial Results

Percentage figures represent year-on-year increase / (decrease).

	Net Sales		Operating Income (Loss)		Ordinary Income (Loss)		Net Income	
		%		%		%		%
FY2019	9,497	8.5	(2,287)	—	(2,664)	—	1,569	130.3
FY2018	8,751	0.5	(1,809)	—	(2,139)	—	681	(8.0)

	Net Income per Share		Diluted Net Income per Share	
		Yen		Yen
FY2019		40.12		—
FY2018		17.42		—

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
May 31, 2020	78,213	20,148	25.8	515.10
May 31, 2019	59,306	19,292	32.5	493.21

(Reference) Equity as of May 31, 2020: ¥20,148 million As of May 31, 2019: ¥19,292 million

(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.

This Financial Report is not subject to a 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 7.

We are planning to hold a financial results online meeting for analysts and institutional investors on July 20, 2020. Supplemental materials for the financial results will be posted on the Company’s website (<https://www.pasonagroup.co.jp/ir/>) immediately after the meeting.

FY2019 Consolidated Financial Report

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FY2019 Consolidated Financial Report

(June 1, 2019 – May 31, 2020)

1. Information Concerning Consolidated Business Results

(1) Consolidated Business Results

	(Millions of yen)		
	FY2018	FY2019	YoY
Net sales	326,984	324,984	(0.6)%
Operating income	9,465	10,577	11.8%
Ordinary income	9,237	10,236	10.8%
Profit attributable to owners of parent	1,975	594	(69.9)%

Segment Information (Figures include intersegment sales)

Consolidated Net Sales by Segment

(Millions of yen)

	FY2018	FY2019	YoY
HR Solutions	322,405	319,686	(0.8)%
Expert Services (Temporary staffing), BPO Services (Contracting), Others	272,801	267,043	(2.1)%
Expert Services (Temporary staffing)	158,597	151,450	(4.5)%
BPO Services (Contracting)	97,152	99,781	2.7%
HR Consulting, Education & Training, Others	9,086	8,015	(11.8)%
Global Sourcing (Overseas)	7,965	7,796	(2.1)%
Career Solutions (Placement / Recruiting, Outplacement)	15,142	15,371	1.5%
Outsourcing	34,461	37,271	8.2%
Life Solutions	5,660	6,250	10.4%
Regional Revitalization Solutions	2,561	2,990	16.7%
Eliminations and Corporate	(3,642)	(3,942)	—
Total	326,984	324,984	(0.6)%

Consolidated Operating Income (Loss) by Segment

(Millions of yen)

	FY2018	FY2019	YoY
HR Solutions	18,557	21,063	13.5%
Expert Services (Temporary staffing), BPO Services (Contracting), Others	7,353	9,139	24.3%
Expert Services (Temporary staffing)	6,690	8,941	33.6%
BPO Services (Contracting)			
HR Consulting, Education & Training, Others			
Global Sourcing (Overseas)	662	197	(70.1)%
Career Solutions (Placement / Recruiting, Outplacement)	3,562	3,549	(0.4)%
Outsourcing	7,641	8,375	9.6%
Life Solutions	168	224	33.6%
Regional Revitalization Solutions	(1,254)	(1,876)	—
Eliminations and Corporate	(8,006)	(8,834)	—
Total	9,465	10,577	11.8%

※Since 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

In FY2019, as a result of financing to prepare for securing long-term working capital and financial needs in case of emergence of new coronavirus infection and increasing liquidity at hand, cash and deposits increased by ¥16,816 million compared with May 31, 2019. As outsourced projects increased in 4Q FY2019, notes and accounts receivable-trade increased by ¥3,331 million compared with May 31, 2019. As a result, total assets as of May 31, 2020 stood at ¥140,441 million, an increase of ¥20,981 million or 17.6%, compared with May 31, 2019.

Liabilities

Total liabilities as of May 31, 2020 stood at ¥98,124 million, an increase of ¥18,918 million or 23.9%, compared with May 31, 2019. This was mainly attributable to an increase of ¥2,606 million in accrued consumption taxes due to the consumption tax increase, an increase of ¥2,194 million in Bonds payable, and an increase of ¥10,352 million in long-term loans payable due to above mentioned financing.

Net Assets

Net assets as of May 31, 2020 stood at ¥42,316 million, an increase of ¥2,063 million or 5.1%, compared with May 31, 2019. This was mainly due to an increase of ¥5,827 million in capital surplus due to the partial sales of shares of one of our subsidiaries, and a decrease of 2,372 million in capital surplus due to acquisition of treasury shares of one of our subsidiaries by the subsidiary.

As a result of financing, equity ratio decreased by 1.0 percentage points, compared with May 31, 2019, to 22.7%.

(3) Overview of Cash Flows

Cash and cash equivalents (hereafter “net cash”) as of May 31, 2020 increased by ¥16,354 million, compared with May 31, 2019, to ¥48,147 million.

Cash Flows from Operating Activities

Net cash used in operating activities in FY2019 increased by ¥2,238 million, compared with FY2018, to ¥11,424 million (¥9,186 million in FY2018).

Major cash inflows included income before income taxes totaling ¥7,583 million (¥8,894 million in FY2018), depreciation and amortization totaling ¥4,013 million (¥4,303 million in FY2018), impairment loss totaling ¥2,202 million (¥214 million in FY2018), an increase in accrued consumption taxes totaling ¥2,803 million (decrease in ¥162 million in FY2018) due to an increase in temporary consumption tax due to the consumption tax rate increase, and an increase in deposits received totaling ¥1,389 million (decrease in ¥170 million in FY2018).

Principal cash outflows included income taxes paid totaling ¥5,406 million (¥4,175 million in FY2018) and an increase in notes and accounts receivable-trade totaling ¥3,536 million (decrease in ¥737 million in FY2018) due to an increase in outsourced projects towards the end of the term.

Cash Flows from Investing Activities

Net cash used in investing activities in FY2019 increased by ¥445 million, compared with FY2018, to ¥6,964 million (¥6,519 million in FY2018).

Major cash outflows were purchase of property, plant and equipment with the establishment of commercial facilities in regional revitalization totaling ¥4,810 million (¥3,628 million in FY2018), and purchase of intangible assets with system investment totaling ¥1,894 million (¥1,577 million in FY2018).

Cash Flows from Financing Activities

Net cash provided in financing activities in FY2019 increased by ¥8,139 million, compared with FY2018, to ¥12,102 million (¥3,962 million in FY2018).

Major cash inflows were proceeds from long-term loans payable totaling ¥19,035 million (¥5,328 million in FY2018), proceeds from issuance of bonds totaling ¥2,309 million (none in FY2018) to prepare for securing long-term working capital and financial needs in case of emergence of new coronavirus infection and increasing liquidity at hand, and proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation totaling ¥8,658 million (¥4,899 million in FY2018).

Principal cash outflows were repayment of long-term loans payable amounting to ¥6,429 million (¥6,541 million in FY2018), and expenditure by purchase of treasury shares of subsidiaries and proceeds from disposal of treasury shares of subsidiaries amounting to ¥4,908 million (¥325 million in FY2018).

(Reference) Cash Flow Benchmarks

	FY2015	FY2016	FY2017	FY2018	FY2019
Equity ratio	22.2%	20.1%	21.0%	23.7%	22.7%
Equity ratio based on market capitalization	32.2%	35.8%	58.9%	54.8%	35.7%
Ratio of interest-bearing debt to cash flows (years)	32.3	2.9	2.5	2.7	3.2
Interest coverage ratio	3.0	43.0	51.1	41.9	57.9

Notes:

- Equity ratio: Shareholders' equity / Total assets
Equity ratio based on market capitalization: Market capitalization / Total assets
Ratio of interest-bearing debt to cash flows: Interest-bearing debt / Cash flows
Interest coverage ratio: Cash flows / Interest payments
- Each benchmark is calculated based on the consolidated financial statements.
- Market capitalization is calculated by multiplying the period-end closing share price with the number of outstanding shares at the period-end (after deducting treasury shares).
- Cash flows from operating activities are used in calculations for cash flows.
- Interest-bearing debt includes all interest-bearing debt under liabilities recorded on the consolidated balance sheets.
- FY2015's ratio of interest-bearing debt to cash flows, in comparison to FY2014's ratio, changed drastically. The main reason behind this was the reduction in accrued consumption taxes of cash flows from operating activities. Due to consumption tax rate increase, the balance of accrued consumption taxes had grown largely by the end of FY2014. Payment of these accrued consumption taxes led to a decrease in cash flows from operating activities in FY2015.

(4) Overview of Consolidated Forecasts

Consolidated Business Results Forecast

	FY2019	FY2020 Forecast	YoY
Net sales	324,984	310,000	(4.6)%
Operating income	10,577	10,000	(5.5)%
Ordinary income	10,236	10,000	(2.3)%
Profit attributable to owners of parent	594	2,500	320.3%

(5) Policy on the Appropriation of Profits and Dividends for FY2019 and FY2020

In connection with the appropriation of profits, the Company takes into consideration the funds required to engage in new businesses and capital investments aimed at fulfilling the Company's responsibilities as a social solution company, to strengthen the Company's operating platform and earnings capacity and to expand shareholders' returns by enhancing corporate value. On this basis and for the foreseeable future, the Company has adopted the basic policy to implement a consolidated dividend payout ratio target of 30% in an effort to continuously deliver adequate and stable returns to shareholders taking into consideration its operating performance.

Although profit attributable to owners of parent in FY2019 was below the initial plan, it was due to the temporary factor of recording impairment loss of non-current assets at the end of the period as results of reviewing future outlook according to the impact of new coronavirus infection mainly. Therefore, focusing on maintaining a continuous and stable dividend, the Company has declared an annual dividend for the fiscal year ended May 31, 2020 of ¥19 per share following ratification at a Board of Directors' meeting held on July 17, 2020, and payment start date or effective date of cash dividends on August 6, 2020 ahead of time.

Regarding dividends for the fiscal year ending May 31, 2021, although there is a strong sense of uncertainty regarding the timing of the new coronavirus infection and the concern about the occurrence of the second wave, based on the plan of increase in profit attributable to owners of parent, the Company intends to pay a period-end cash dividend of ¥19 per share same as the previous term.

2. Basic consideration on selecting our accounting standard

The Group has adopted Japanese GAAP as our accounting standard, considering the period comparability of the consolidated financial statements and the comparability between companies. Regarding the application for IFRS (International Financial Reporting Standards), we will proceed with consideration based on domestic and international situation.

3. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2019	As of May 31, 2020
ASSETS		
Current assets		
Cash and deposits	32,305	49,122
Notes and accounts receivable-trade	39,412	42,744
Inventories	2,035	2,250
Income taxes receivable	10	106
Other	6,662	6,878
Allowance for doubtful accounts	(107)	(124)
Total current assets	80,317	100,977
Non-current assets		
Property, plant and equipment		
Buildings	12,883	12,827
Accumulated depreciation	(5,162)	(5,682)
Buildings, net	7,721	7,145
Structures	1,476	2,111
Accumulated depreciation	(257)	(402)
Structures, net	1,218	1,708
Land	3,060	2,609
Lease assets	3,044	3,085
Accumulated depreciation	(1,415)	(1,790)
Lease assets, net	1,629	1,295
Construction in progress	1,081	2,466
Other	6,799	6,641
Accumulated depreciation	(4,784)	(5,260)
Other, net	2,015	1,380
Total property, plant and equipment	16,725	16,606
Intangible assets		
Goodwill	3,029	2,140
Software	4,022	4,151
Lease assets	170	124
Customer assets	896	632
Other	133	132
Total intangible assets	8,252	7,181
Investments and other assets		
Investment securities	4,359	4,420
Long-term loans receivable	159	158
Net defined benefit asset	1,043	1,203
Deferred tax assets	2,369	2,757
Lease and guarantee deposits	4,913	5,482
Other	1,445	1,600
Allowance for doubtful accounts	(126)	(135)
Total investments and other assets	14,163	15,488
Total non-current assets	39,141	39,275
Deferred assets		
Bond issue cost	—	187
Total deferred assets	—	187
Total assets	119,459	140,441

(Millions of yen)

	As of May 31, 2019	As of May 31, 2020
LIABILITIES		
Current liabilities		
Accounts payable-trade	6,534	5,704
Short-term loans payable	9,391	8,640
Lease obligations	665	640
Accounts payable-other	7,424	6,963
Accrued expenses	15,090	17,324
Income taxes payable	2,708	3,700
Accrued consumption taxes	3,502	6,108
Unearned revenue	1,471	1,808
Provision for bonuses	4,143	4,111
Provision for directors' bonuses	41	14
Asset retirement obligations	1	2
Other	8,142	9,461
Total current liabilities	59,116	64,482
Non-current liabilities		
Bonds payable	288	2,482
Long-term loans payable	12,806	23,158
Lease obligations	1,499	1,003
Provision for directors' stock benefit	315	318
Provision for employees' stock grant	257	303
Net defined benefit liability	1,996	2,172
Deferred tax liabilities	198	1,328
Asset retirement obligations	1,854	1,971
Other	872	905
Total non-current liabilities	20,089	33,642
Total liabilities	79,206	98,124
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	10,263	14,013
Retained earnings	14,907	14,789
Treasury shares	(2,185)	(2,442)
Total shareholders' equity	27,985	31,360
Other comprehensive income		
Valuation difference on available-for-sale securities	447	499
Foreign currency translation adjustment	14	(90)
Remeasurements of defined benefit plans	(91)	41
Total other comprehensive income	370	451
Non-controlling interests	11,898	10,504
Total net assets	40,253	42,316
Total liabilities and net assets	119,459	140,441

(2) Consolidated Statements of Income

(Millions of yen)

	FY2018	FY2019
Net sales	326,984	324,984
Cost of sales	252,274	248,295
Gross profit	74,710	76,689
Selling, general and administrative expenses	65,245	66,111
Operating income	9,465	10,577
Non-operating income		
Interest income	37	37
Subsidy	54	80
Real estate rent	748	744
Other	249	325
Total non-operating income	1,089	1,187
Non-operating expenses		
Interest expenses	217	200
Share of loss of entities accounted for using equity method	7	3
Commitment fee	49	52
Provision of allowance for doubtful accounts	79	18
Rent expenses on real estates	597	610
Commission fee	236	412
Other	131	231
Total non-operating expenses	1,318	1,529
Ordinary income	9,237	10,236
Extraordinary income		
Gain on sales of non-current assets	17	0
Gain on sales of investment securities	—	29
Gain on sales of subsidiaries and affiliates' stocks	—	4
Gain on change in equity	—	17
Total extraordinary income	17	52
Extraordinary loss		
Loss on sales and retirement of non-current assets	129	173
Impairment loss	214	2,202
Loss on valuation of investment securities	16	242
Loss on valuation of shares of subsidiaries and associates	—	86
Total extraordinary loss	360	2,705
Income before income taxes	8,894	7,583
Income taxes-current	3,652	3,647
Income taxes-deferred	470	612
Income taxes	4,122	4,260
Profit	4,771	3,323
Profit attributable to non-controlling interests	2,795	2,728
Profit attributable to owners of parent	1,975	594

(3) Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2018	FY2019
Profit	4,771	3,323
Other comprehensive income		
Valuation difference on available-for-sale securities	(25)	44
Foreign currency translation adjustment	3	(121)
Remeasurements of defined benefit plans	(133)	123
Share of other comprehensive income of entities accounted for using equity method	(0)	0
Total other comprehensive income	(155)	46
Comprehensive income	4,616	3,369
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	1,846	676
Comprehensive income attributable to non-controlling interests	2,770	2,692

(4) Consolidated Statements of Changes in Shareholders' Equity

FY2018 (For the fiscal year ended May 31, 2019)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained Earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	5,000	6,967	13,461	(2,194)	23,233
Changes of items during the period					
Dividends from surplus			(514)		(514)
Net income attributable to owners of parent			1,975		1,975
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares				9	9
Purchase of treasury stock by stock benefit trust					—
Change of scope of consolidation		(35)	19		(15)
Change of scope of equity method			(34)		(34)
Change in treasury shares of parent arising from transactions with non-controlling shareholders		3,331			3,331
Capital increase of consolidated subsidiaries		(0)			(0)
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	3,295	1,446	9	4,751
Balance at the end of current period	5,000	10,263	14,907	(2,185)	27,985

	Total accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	345	9	39	394	10,261	33,889
Changes of items during the period						
Dividends from surplus				—		(514)
Net income attributable to owners of parent				—		1,975
Purchase of treasury shares				—		(0)
Disposal of treasury shares				—		9
Purchase of treasury stock by stock benefit trust				—		—
Change of scope of consolidation				—		(15)
Change of scope of equity method				—		(34)
Change in treasury shares of parent arising from transactions with non-controlling shareholders				—		3,331
Capital increase of consolidated subsidiaries				—		(0)
Net changes of items other than shareholders' equity	101	5	(131)	(24)	1,636	1,612
Total changes of items during the period	101	5	(131)	(24)	1,636	6,363
Balance at the end of current period	447	14	(91)	370	11,898	40,253

FY2019 (For the fiscal year ended May 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained Earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current period	5,000	10,263	14,907	(2,185)	27,985
Changes of items during the period					
Dividends from surplus			(712)		(712)
Net income attributable to owners of parent			594		594
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		257		241	498
Purchase of treasury stock by stock benefit trust				(498)	(498)
Change of scope of consolidation			(0)		(0)
Change of scope of equity method			(0)		(0)
Change in treasury shares of parent arising from transactions with non-controlling shareholders		3,500			3,500
Capital increase of consolidated subsidiaries		(7)			(7)
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	3,750	(117)	(257)	3,374
Balance at the end of current period	5,000	14,013	14,789	(2,442)	31,360

	Total accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	447	14	(91)	370	11,898	40,253
Changes of items during the period						
Dividends from surplus				—		(712)
Net income attributable to owners of parent				—		594
Purchase of treasury shares				—		(0)
Disposal of treasury shares				—		498
Purchase of treasury stock by stock benefit trust				—		(498)
Change of scope of consolidation				—		(0)
Change of scope of equity method				—		(0)
Change in treasury shares of parent arising from transactions with non-controlling shareholders				—		3,500
Capital increase of consolidated subsidiaries				—		(7)
Net changes of items other than shareholders' equity	52	(105)	133	81	(1,393)	(1,311)
Total changes of items during the period	52	(105)	133	81	(1,393)	2,063
Balance at the end of current period	499	(90)	41	451	10,504	42,316

(5) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2018	FY2019
Cash flows from operating activities		
Income before income taxes	8,894	7,583
Depreciation and amortization	4,303	4,013
Impairment loss	214	2,202
Amortization of goodwill	963	819
Increase (decrease) in allowance for doubtful accounts	81	25
Increase (decrease) in provision for bonuses	329	26
Increase (decrease) in net defined benefit liability	41	125
Decrease (increase) in net defined benefit asset	(95)	77
Increase (decrease) in provision for directors' stock benefit	156	2
Increase (decrease) in provision for employees' stock grant	115	46
Interest and dividends income	(59)	(65)
Interest expenses	217	200
Subsidy income	(54)	(80)
Share of (profit) loss of entities accounted for using equity method	7	3
Loss (gain) on sales and retirement of non-current assets	111	172
Loss (gain) on sales of investment securities	—	(29)
Loss (gain) on valuation of investment securities	16	329
Decrease (increase) in notes and accounts receivable-trade	737	(3,536)
Decrease (increase) in inventories	(86)	(216)
Decrease (increase) in other assets	(1,089)	(307)
Increase (decrease) in operating debt	(1,524)	1,248
Increase (decrease) in accrued consumption taxes	(162)	2,803
Increase (decrease) in deposits received	(170)	1,389
Increase (decrease) in other liabilities	262	(444)
Other	235	479
Subtotal	13,446	16,867
Interest and dividends income received	80	79
Interest expenses paid	(219)	(197)
Proceeds from subsidy	54	80
Income taxes paid	(4,175)	(5,406)
Net cash provided by operating activities	9,186	11,424

	FY2018	FY2019
Cash flows from investment activities		
Decrease (increase) in time deposits	(188)	(466)
Purchase of property, plant and equipment	(3,628)	(4,810)
Proceeds from sales of property, plant and equipment	95	855
Purchase of intangible assets	(1,577)	(1,894)
Purchase of investment securities	(515)	(242)
Proceeds from sales of investment securities	—	41
Payments of loans receivable	(58)	(5)
Collection of loans receivable	28	23
Payments for lease and guarantee deposits	(681)	(816)
Proceeds from collection of lease and guarantee deposits	433	224
Payments for asset retirement obligation	(99)	(24)
Payments for transfer of business	(327)	(0)
Other	(0)	153
Net cash used in investment activities	(6,519)	(6,964)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,016	(3,000)
Proceeds from long-term loans payable	5,328	19,035
Repayment of long-term loans payable	(6,541)	(6,429)
Proceeds from sale and leaseback	87	—
Repayments of finance lease obligations	(800)	(744)
Proceeds from issuance of bonds	—	2,309
Redemption of bonds	(56)	(56)
Purchase of treasury shares	(0)	(498)
Proceeds from disposal of treasury shares	—	498
Purchase of treasury shares of subsidiaries	(325)	(5,173)
Proceeds from disposal of treasury shares of subsidiaries	—	264
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(0)	(0)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	4,899	8,658
Cash dividends paid	(514)	(710)
Dividends paid to non-controlling interests	(1,131)	(2,050)
Other	—	(0)
Net cash provided by (used in) financing activities	3,962	12,102
Effect of exchange rate change on cash and cash equivalents	(3)	(91)
Net increase (decrease) in cash and cash equivalents	6,626	16,470
Cash and cash equivalents at the beginning of the period	25,054	31,793
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	112	—
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(116)
Cash and cash equivalents at the end of the period	31,793	48,147

(6) Notes to Going Concern Assumption

None

(7) Important Items Considered Fundamental to the Preparation of Consolidated Financial Statements

1. Scope of Consolidation

1) Consolidated subsidiaries

a. No. of consolidated subsidiaries: 67 companies

b. Major consolidated subsidiaries

- Pasona Inc.
- Benefit One Inc.
- Bewith, Inc.
- Pasona Tech, Inc.
- Pasona Panasonic Business Service Co., Ltd.

c. New consolidated subsidiaries: 4 companies

Increased importance

- Tango Kingdom Brewery Inc.

Establishment

- Pasona Komon Network Inc.
- Pasona Smile Inc.
- Pasona HR Consulting (Thailand) Co., Ltd

d. Exclusion from the scope of consolidation: 4 companies

- Pasona Tquila Inc. *1
- Benefit One Healthcare Inc. *2
- CAPLAN Holdings (Thailand) Co., Ltd. *3
- CAPLAN (Thailand) Co., Ltd. *4

*1 Because Pasona Tquila Inc. no longer met the control criteria, it was transferred to equity method affiliate. It changed the trade name to Circlace Inc. as of July 1, 2020

*2 Benefit One Healthcare Inc. merged with Benefit One Inc., consolidated subsidiary, and expired.

*3 CAPLAN Holdings (Thailand) Co., Ltd. was excluded from scope of consolidation upon completion of liquidation.

*4 CAPLAN (Thailand) Co., Ltd. was excluded from scope of consolidation because all of the shares had been sold.

2) Non-consolidated subsidiary

a. No. of non-consolidated subsidiaries: 8 companies

b. Major non-consolidated subsidiaries

- Pasona Force Inc. *5

c. Reasons for exclusion from the scope of consolidation

The assets, sales, net profit and loss (the amount equivalent to equity shareholdings) and retained earnings (the amount equivalent to equity shareholdings) are considered insignificant and deemed to have immaterial impact on the consolidated financial statements. As a result, these non-consolidated subsidiaries have been excluded from the scope of consolidation.

*5 The trade name was changed from DF Management Inc..

2. Application of the Equity Method

1) Affiliated companies that are accounted for by the equity method

a. No. of affiliated companies that are accounted for by the equity method: 11 companies

b. Major affiliated companies that are accounted for by the equity method

- E-Staffing Co., Ltd.
- National Examination Center Inc.
- Pasona Tquila Inc.

c. New affiliated companies that are accounted for by the equity method: 1 company

- Pasona Tquila Inc. *6

d. Exclusion from affiliated companies that are accounted for by the equity method: 1 company

- Social Drone Inc. *7

*6 Pasona Tquila Inc. was transferred from consolidated subsidiaries because it no longer met the control criteria. The trade name was changed to Circlace Inc. as of July 1, 2020.

*7 Social Drone Inc. was excluded from scope of equity method upon completion of liquidation.

- 2) Non-consolidated subsidiaries and affiliated companies not accounted for by the equity method
 - a. No. of non-consolidated subsidiaries and affiliated companies not accounted for by the equity method: 11 companies
 - b. Major non-consolidated subsidiaries and affiliated companies not accounted for by the equity method
Pasona Force Inc.
 - c. Reasons for exclusion from the scope of the equity method
Non-consolidated subsidiaries and affiliated companies not accounted for by the equity method were excluded from the scope of consolidation as their net profit and loss (the amount equivalent to equity shareholdings) and retained earnings (the amount equivalent to equity shareholdings) had an immaterial impact on the Group, and their overall importance to the Group's performance was limited.

(8) Change in Presentation:

Relating to Consolidated Balance Sheet

Since FY2019, "Structures" and "Construction in progress" have been disclosed independently because of increased monetary importance. They had been included in "Other, net" of "Property, plant and equipment" in FY2018. To reflect this display method, consolidated financial statements have been reclassified in FY2018.

As a result, the consolidated balance sheet for FY2018 has also been reclassified, and "Other, net" of "Property, Plant and equipment" of ¥4,314 million has been reclassified into "Structures, net" of ¥1,218 million, "Construction in progress" of ¥1,081 million, and "Other, net" of ¥2,015 million.

Relating to Consolidated Statements of Cash Flows

Since FY2019, "Purchase of treasury shares" has been disclosed independently because of increased monetary importance. It had been included in "Other" of "Cash flows from financing activities" in FY2018. To reflect this display method, consolidated financial statements have been reclassified in FY2018.

As a result, the consolidated statements of cash flows for FY2018 have also been reclassified, and "Other" of "Cash flows from financing activities" of ¥(0) million has been reclassified into "Purchase of treasury shares" of ¥(0) million.

(9) Additional information:

Accounting estimates with the spread of new coronavirus infections

Based on information available when preparing consolidated financial statements, the Group makes an accounting estimate of future cash flows in non-current asset impairment accounting, by the profit plan based on assumptions that the business performance of "Regional Revitalization Solutions", especially developing restaurant business, amusement business, and accommodation business, will fall in 1 Q FY2020 due to new coronavirus infection, and that the effect will last for 1 to 1 and a half years although the business performance will gradually recover after 2Q FY2020.

If the effects of new coronavirus infection are prolonged, impairment assumptions may be changed and the Groups' financial position and business performance may be affected.

(10)Segment Information, etc.

1. Overview of reportable segments

The business segments reported by the Group are the business units for which the Group is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigations to determine the distribution of management resources and evaluate their business results.

The Group's principal business activities are human resource-related support services as typified by temporary staffing, contracting, placement and recruiting, outplacement, employee fringe benefit outsourcing services, childcare and nursing care, and regional revitalization. Accordingly, the Group has designated "Expert Services (Temporary staffing), BPO Services (Contracting), Others", "Career Solutions (Placement/ Recruiting, Outplacement)", "Outsourcing", "Life Solutions" and "Regional Revitalization Solutions" as reporting segments. Pasona Group Inc., a holding company, pursues the formulation of strategies for Group management and support operation execution, governance of management and the proper allocation of management resources, as well as developing new businesses related to job creation.

Since FY2019, considering the actual situation of the business, "Expert Services (Temporary staffing), Insourcing (Contracting), Others" has been changed to "Expert Services, BPO Services, Others", 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 of this report was provided through the new method, and the result was referred to the following "3. Information regarding net sales, income (loss), assets, liabilities and other items by reporting segment".

2. Method of computing net sales, income (loss), assets, liabilities and other items by reporting segment

The accounting treatment method for the Group's reporting segments is generally same as the consolidated financial statements.

Also, segment income is based on operating income.

The prices of intersegment transactions and transfers are determined by price negotiations based on the Group's submission of preferred prices after taking market conditions into account.

3. Information regarding net sales, income (loss), assets, liabilities and other items by reporting segment

FY2018 (For the fiscal year ended May 31, 2019)

(Millions of yen)

	Reporting segments					Total	Adjustment (Note 2)	Figures in consolidated statements of income
	HR Solutions			Life Solutions	Regional Revitalization Solutions			
	Expert Services, BPO Services, Others (Note 1)	Career Solutions	Outsourcing					
Net sales								
(1) Sales to outside customers	270,240	15,068	34,111	5,502	2,061	326,984	—	326,984
(2) Intersegment sales and transfers	2,560	73	349	157	500	3,642	(3,642)	—
Total	272,801	15,142	34,461	5,660	2,561	330,627	(3,642)	326,984
Operating income (loss)	7,353	3,562	7,641	168	(1,254)	17,471	(8,006)	9,465
Segment assets	61,340	13,378	35,069	1,768	7,163	118,720	739	119,459
Other items								
Depreciation and Amortization	1,744	364	832	51	549	3,543	760	4,303
Amortization of Goodwill	925	—	38	—	—	963	—	963
Impairment losses	—	—	93	—	121	214	—	214
Increase in tangible and intangible fixed assets	1,526	225	803	27	1,765	4,347	1,540	5,887

Notes:

1. The “Expert Services , BPO Services, 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. The following are included in the adjustment item.
 - (1) Adjustment of segment income (loss) totaling ¥(8,006) million includes Group management costs relating to the Company and incubation cost of our new business totaling ¥(8,017) million as well as intersegment sales and transfers totaling ¥11 million.
 - (2) Adjustment of segment assets totaling ¥739 million includes the Company’s cash and deposits and assets relating to Group management totaling ¥23,428 million as well as intersegment sales and transfers totaling ¥(22,688) million.
 - (3) Adjustment of depreciation and amortization totaling ¥760 million are mainly comprised of depreciation and amortization of assets relating to Group management totaling ¥762 million as well as intersegment sales and transfers totaling ¥(2) million.
 - (4) Adjustment of increase in tangible and intangible fixed assets totaling ¥1,540 million are mainly comprised of an increase of assets relating to Group management totaling ¥1,629 million and intersegment sales and transfers totaling ¥(89) million.
3. Segment income (loss) is adjusted with operating income under consolidated statements of income.

	Reporting segments					Total	Adjustment (Note 2)	Figures in consolidated statements of income
	HR Solutions			Life Solutions	Regional Revitalization Solutions			
	Expert Services, BPO Services, Others (Note 1)	Career Solutions	Outsourcing					
Net sales								
(1) Sales to outside customers	264,396	15,307	36,603	6,060	2,616	324,984	—	324,984
(2) Intersegment sales and transfers	2,646	63	668	190	373	3,942	(3,942)	—
Total	267,043	15,371	37,271	6,250	2,990	328,927	(3,942)	324,984
Operating income (loss)	9,139	3,549	8,375	224	(1,876)	19,412	(8,834)	10,577
Segment assets	67,063	17,345	29,786	2,028	9,877	126,101	14,340	140,441
Other items								
Depreciation and Amortization	1,631	327	819	46	699	3,525	488	4,013
Amortization of Goodwill	811	—	8	—	—	819	—	819
Impairment losses	84	—	11	—	2,106	2,202	—	2,202
Increase in tangible and intangible fixed assets	1,174	249	767	48	4,054	6,293	821	7,114

Notes:

- The “Expert Services, BPO Services, Others” segment includes each of the businesses of Expert Services (Temporary staffing), Insourcing (Contracting), HR Consulting/Education & Training/Others and Global Sourcing (Overseas).
- The following are included in the adjustment item.
 - Adjustment of segment income (loss) totaling ¥(8,834) million includes Group management costs relating to the Company and incubation cost of our new business totaling ¥(8,875) million, as well as intersegment sales and transfers totaling ¥41 million.
 - Adjustment of segment assets totaling ¥14,340 million includes the Company’s cash and deposits and assets relating to Group management totaling ¥44,910 million as well as intersegment sales and transfers totaling ¥(30,570) million.
 - Adjustment of depreciation and amortization totaling ¥488 million are mainly comprised of depreciation and amortization of assets relating to Group management totaling ¥491 million as well as intersegment sales and transfers totaling ¥(3) million.
 - Adjustment of increase in tangible and intangible fixed assets totaling ¥821 million are mainly comprised of an increase of assets relating to Group management totaling ¥848 million as well as intersegment sales and transfers totaling ¥(27) million.
- Segment income (loss) is adjusted with operating income under consolidated statements of income.

(11) Related information

FY2018 (For the fiscal year ended May 31, 2019)

1. Information by product and service

Nothing is stated herein as similar information is disclosed in Segment information.

2. Information on geographic areas

1) Net sales

Since the percentage of net sales in Japan exceeds 90%, information on geographic areas is omitted in this report.

2) Property, plant and equipment

Since the percentage of total property, plant and equipment located in Japan exceeds 90%, information on geographic areas is omitted in this report.

3. Information by major customer

No major customer is stated because no customer accounted for more than 10% of net sales.

FY2019 (For the fiscal year ended May 31, 2020)

1. Information by product and service

Nothing is stated herein as similar information is disclosed in Segment information.

2. Information on geographic areas

1) Net sales

Since the percentage of net sales in Japan exceeds 90%, information on geographic areas is omitted in this report.

2) Property, plant and equipment

Since the percentage of total property, plant and equipment located in Japan exceeds 90%, information on geographic areas is omitted in this report.

3. Information by major customer

No major customer is stated because no customer accounted for more than 10% of net sales.

(12) Information regarding Impairment Loss on fixed assets

FY2018 (For the fiscal year ended May 31, 2019)

Since an impairment loss on fixed assets has been already disclosed in the segment information, it is omitted in this report.

FY2019 (For the fiscal year ended May 31, 2020)

Since an impairment loss on fixed assets has been already disclosed in the segment information, it is omitted in this report.

(13) Information regarding Unamortized Balance of Goodwill by reporting segment

FY2018 (For the fiscal year ended May 31, 2019)

(Millions of yen)

	Reporting segments					Adjustment	Total
	Expert Services, BPO Services, Others	Career Solutions	Outsourcing	Life Solutions	Regional Revitalization Solutions		
Balance at the end of the period	3,008	—	21	—	—	—	3,029

FY2019 (For the fiscal year ended May 31, 2020)

(Millions of yen)

	Reporting segments					Adjustment	Total
	Expert Services, BPO Services, Others	Career Solutions	Outsourcing	Life Solutions	Regional Revitalization Solutions		
Balance at the end of the period	2,127	—	12	—	—	—	2,140

(14) Information regarding Gain on Bargain Purchase by reporting segment

FY2018 (For the fiscal year ended May 31, 2019)

None

FY2019 (For the fiscal year ended May 31, 2020)

None

(15) Per Share Information

(Yen)

	FY2018	FY2019
Net assets per share	724.91	813.28
Net income per share	50.52	15.21

(Notes)

1. Diluted net income per share of the current consolidated fiscal year is not stated because there was no diluted share.
2. The Company's shares in the BBT and J-ESOP, which are reported as treasury shares under Shareholders' equity, are not counted toward the number of treasury shares as of the period-end and the average number of shares outstanding for the period for the purpose of computing earnings and net assets per share.

The number of treasury shares deducted for calculation of net assets per share were 283,600 in FY2018 and 467,600 in FY2019 in terms of BBT, and were 192,129 in FY2018 and 314,129 in FY2019 in terms of J-ESOP (year-end basis). The number of treasury shares deducted for calculation of net income per share were 286,560 in FY2018 and 346,944 in FY2019 in terms of BBT, and were 193,508 in FY2018 and 234,129 in FY2019 in terms of J-ESOP (year average basis).

3. The following shows the basis of calculating net earnings per share

(Millions of yen)

Items	FY2018	FY2019
Earnings per share		
Profit attributable to owners of parent	1,975	594
Amount not applicable to shareholders of common stock	—	—
Profit attributable to owners of parent applicable to common stock	1,975	594
Average number of shares for the period (shares)	39,111,439	39,115,590

4. The following shows the basis of calculating net assets per share

(Millions of yen)

Items	As of May 31, 2019	As of May 31, 2020
Total net assets	40,253	42,316
Amount deducted from total net assets	11,898	10,504
Net assets applicable to common stock as of the fiscal period-end	28,355	31,811
Number of common stock used to calculate net assets per share (shares)	39,115,727	39,115,524

(16) Important Subsequent Events

None