

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP) FY2020 (June 1, 2020 to May 31, 2021)

Listed company name: Pasona Group Inc.
 Listing stock exchange: The First Section of the Tokyo Stock Exchange
 Securities code number: 2168
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Date of Annual General Meeting of shareholders: August 20, 2021

Scheduled payment date of cash dividends: August 6, 2021

Scheduled filing date of the securities report: August 23, 2021

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	
		%		%		%		%
FY2020	334,540	2.9	19,940	88.5	20,379	99.1	6,784	—
FY2019	324,984	(0.6)	10,577	11.8	10,236	10.8	594	(69.9)

(Note) Comprehensive income FY2020: ¥10,251 million FY2019: ¥3,369 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	%	%	%
FY2020	173.36	—	19.4	14.0	6.0
FY2019	15.21	—	2.0	7.9	3.3

(Reference) Equity in earnings of unconsolidated subsidiaries and affiliates FY2020: ¥(110) million FY2019: ¥(3) million

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
May 31, 2021	151,641	49,779	25.2	974.85
May 31, 2020	140,441	42,316	22.7	813.28

(Reference) Equity As of May 31, 2021: ¥38,155 million As of May 31, 2020: ¥31,811 million

(3) Consolidated Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents, End of Period
FY2020	18,868	(9,665)	(5,147)	52,298
FY2019	11,424	(6,964)	12,102	48,147

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			
FY2019	—	0.00	—	19.00	19.00	758	124.9%	2.5%
FY2020	—	0.00	—	30.00	30.00	1,196	17.3%	3.4%
FY2021(Forecast)	—	0.00	—	30.00	30.00		15.7%	

3. FORECAST OF RESULTS FOR THE FISCAL YEAR ENDING MAY 31, 2022

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
FY2021 First Half	171,000	3.7	8,500	(21.3)	8,500	(21.7)	3,000	(29.9)		76.65
FY2021 Full Fiscal Year	350,000	4.6	20,000	0.3	20,000	(1.9)	7,500	10.6		191.62

(Note) Since FY2021, Accounting Standards for Revenue Recognition, or Corporate Accounting Standards No.29, has been applied.

Above percentage figures of the increase / (decrease) for the corresponding period of the previous fiscal year are calculated,

based on business performance of the corresponding period before reclassification.

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, 2021: 41,690,300 shares May 31, 2020: 41,690,300 shares
 - 2) The number of treasury shares as of the period-end
May 31, 2021: 2,550,899 shares May 31, 2020: 2,574,776 shares
 - 3) Average number of shares for the period
FY2020: 39,132,377 shares FY2019: 39,115,590 shares

(Reference) NON-CONSOLIDATED BUSINESS RESULTS

FY2020 (June 1, 2020 to May 31, 2021)

(1) Non-Consolidated Financial Results

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

	Net Sales		Operating Income (Loss)		Ordinary Income (Loss)		Net Income	
		%		%		%		%
FY2020	14,477	52.4	3,312	—	2,846	—	1,295	(17.5)
FY2019	9,497	8.5	(2,287)	—	(2,664)	—	1,569	130.3

	Net Income per Share		Diluted Net Income per Share	
		Yen		Yen
FY2020		33.10		—
FY2019		40.12		—

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
May 31, 2021	80,170	18,578	23.2	474.67
May 31, 2020	78,213	20,148	25.8	515.10

(Reference) Equity as of May 31, 2021: ¥18,578 million As of May 31, 2020: ¥20,148 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 21, 2021. Supplemental materials for the financial results will be posted on the Company’s website (<https://www.pasonagroup.co.jp/ir/>) immediately after the meeting.

FY2020 Consolidated Financial Report

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FY2020 Consolidated Financial Report

(June 1, 2020 – May 31, 2021)

1. Information Concerning Consolidated Business Results

(1) Consolidated Business Results

	(Millions of yen)		
	FY2019	FY2020	YoY
Net sales	324,984	334,540	2.9%
Operating income	10,577	19,940	88.5%
Ordinary income	10,236	20,379	99.1%
Profit attributable to owners of parent	594	6,784	1,040.4%

Segment Information (Figures include intersegment sales)

Consolidated Net Sales by Segment

	(Millions of yen)		
	FY2019	FY2020	YoY
HR Solutions	319,660	329,572	3.1%
Expert Services (Temporary staffing), BPO Services (Contracting), Others	268,986	277,864	3.3%
Expert Services (Temporary staffing)	151,448	149,133	(1.5)%
BPO Services (Contracting)	99,756	114,055	14.3%
HR Consulting, Education & Training, Others	9,984	7,613	(23.7)%
Global Sourcing (Overseas)	7,796	7,061	(9.4)%
Career Solutions (Placement / Recruiting, Outsourcing)	13,401	13,863	3.4%
Life Solutions	6,250	6,570	5.1%
Regional Revitalization Solutions	2,990	3,244	8.5%
Eliminations and Corporate	(3,916)	(4,846)	—
Total	324,984	334,540	2.9%

Consolidated Operating Income (Loss) by Segment

	(Millions of yen)		
	FY2019	FY2020	YoY
HR Solutions	21,067	31,256	48.4%
Expert Services (Temporary staffing), BPO Services (Contracting), Others	9,543	17,543	83.8%
Expert Services (Temporary staffing)			
BPO Services (Contracting)	9,346	17,427	86.5%
HR Consulting, Education & Training, Others			
Global Sourcing (Overseas)	197	116	(41.3)%
Career Solutions (Placement / Recruiting, Outsourcing)	3,147	3,919	24.5%
Life Solutions	224	203	(9.6)%
Regional Revitalization Solutions	(1,876)	(2,327)	—
Eliminations and Corporate	(8,837)	(9,191)	—
Total	10,577	19,940	88.5%

※The segment of some subsidiaries has been changed with the reorganization of subsidiaries.
The above tables regarding results in FY2019 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 May 31, 2021 stood at ¥151,641 million, an increase of ¥11,200 million or 8.0%, compared with May 31, 2020. This was mainly attributable to an increase of ¥5,411 million in cash and deposits, an increase of ¥1,523 million in notes and accounts receivable-trade due to the increase in contracted projects, an increase of ¥1,268 million in lease and guarantee deposits due to the increase in floor space of the rented properties used in the contracted projects, and an increase of ¥1,961 million in property, plant and equipment mainly in “Regional Revitalization Solutions”.

Liabilities

Total liabilities as of May 31, 2021 stood at ¥101,861 million, an increase of ¥3,737 million or 3.8%, compared with May 31, 2020. This was mainly attributable to a decrease of ¥2,171 million in accrued expenses due to the elimination of the effects of the bank holiday on May 31, 2020, a decrease of ¥1,374 million in loans payable due to the repayment, an increase of ¥1,553 million in unearned revenue, an increase of ¥1,337 million in advances received in other current liabilities, an increase of ¥1,106 million in deposits received in other current liabilities due to the increase in contracted projects, and an increase of ¥1,396 million in accounts payable-other.

Net Assets

Net assets as of May 31, 2021 stood at ¥49,779 million, an increase of ¥7,462 million or 17.6%, compared with May 31, 2020. This was mainly attributable to an increase of ¥6,012 million in retained earnings due to profit attributable to owners of parent of ¥6,784 million.

As a result, equity ratio increased by 2.5 percentage points, compared with May 31, 2020, to 25.2%.

(3) Overview of Cash Flows

Cash and cash equivalents (hereafter “net cash”) as of May 31, 2021 increased by ¥4,150 million, compared with May 31, 2020, to ¥ 52,298 million.

Cash Flows from Operating Activities

Net cash provided in operating activities in FY2020 increased by ¥7,444 million, compared with FY2019, to ¥18,868 million (¥11,424 million in FY2019).

Major cash inflows included income before income taxes totaling ¥16,706 million (¥7,583 million in FY2019), depreciation and amortization totaling ¥3,794 million (¥4,013 million in FY2019), and impairment loss totaling ¥3,238 million (¥2,202 million in FY2019).

Principal cash outflows included income taxes paid totaling ¥7,820 million (¥5,406 million in FY2019), an increase in notes and accounts receivable-trade totaling ¥1,422 million (¥3,536 million in FY2019), and a decrease in operating debt totaling ¥845 million (increase in ¥1,248 million in FY2019) due to the elimination of the effects of the bank holiday on May 31, 2020.

Cash Flows from Investing Activities

Net cash used in investing activities in FY2020 increased by ¥2,700 million, compared with FY2019, to ¥9,665 million (decrease in ¥6,964 million in FY2019).

Major cash outflows included purchase of property, plant and equipment with the establishment of commercial facilities in regional revitalization and new offices in company-wide segments totaling ¥7,031 million (¥4,810 million in FY2019), purchase of intangible assets with system investment totaling ¥1,721 million (¥1,894 million in FY2019), and lease and guarantee deposits related to the rented properties used in the contracted projects totaling ¥1,592 million (¥816 million in FY2019).

Cash Flows from Financing Activities

Net cash used in financing activities in FY2020 decreased by ¥17,249 million, compared with FY2019, to ¥5,147 million (increase in ¥12,102 million in FY2019).

Major cash inflows included proceeds from long-term loans payable totaling ¥7,511 million (¥19,035 million in FY2019) to prepare for securing long-term working capital and capital investment funds.

Principal cash outflows included repayment of long-term loans payable totaling ¥8,901 million (¥6,429 million in FY2019), and dividends paid totaling ¥2,797 million (¥2,761 million in FY2019).

(Reference) Cash Flow Benchmarks

	FY2016	FY2017	FY2018	FY2019	FY2020
Equity ratio	20.1%	21.0%	23.7%	22.7%	25.2%
Equity ratio based on market capitalization	35.8%	58.9%	54.8%	35.7%	49.0%
Ratio of interest-bearing debt to cash flows (years)	2.9	2.5	2.7	3.2	1.8
Interest coverage ratio	43.0	51.1	41.9	57.9	64.5

Notes:

1. 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
2. Each benchmark is calculated based on the consolidated financial statements.
3. 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).
4. Cash flows from operating activities are used in calculations for cash flows.
5. Interest-bearing debt includes all interest-bearing debt under liabilities recorded on the consolidated balance sheets.

(4) Overview of Consolidated Forecasts

Consolidated Business Results Forecast

	FY2020	FY2021 Forecast	YoY
Net sales	334,540	350,000	4.6%
Operating income	19,940	20,000	0.3%
Ordinary income	20,379	20,000	(1.9)%
Profit attributable to owners of parent	6,784	7,500	10.6%

(5) Policy on the Appropriation of Profits and Dividends for FY2020 and FY2021

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 continuously developing 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.

Sales and profits increased in FY2020 in spite of the effects of COVID-19 infection. Therefore, the Company has declared an annual dividend for the fiscal year ended May 31, 2021 of ¥30 per share, based on the resolution of the Board of Directors' meeting held on July 15, 2021, and payment start date or effective date of cash dividends on August 6, 2021, ahead of schedule like last year.

Regarding dividends for the fiscal year ending May 31, 2022, although the effects of COVID-19 infection are still unclear, because the business forecast is about the same level as FY2020, the Company intends to pay a period-end cash dividend of ¥30 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, 2020	As of May 31, 2021
ASSETS		
Current assets		
Cash and deposits	49,122	54,533
Notes and accounts receivable-trade	42,744	44,267
Inventories	2,250	2,717
Income taxes receivable	106	486
Other	6,878	6,913
Allowance for doubtful accounts	(124)	(57)
Total current assets	100,977	108,862
Non-current assets		
Property, plant and equipment		
Buildings	12,827	13,479
Accumulated depreciation	(5,682)	(6,217)
Buildings, net	7,145	7,261
Structures	2,111	3,676
Accumulated depreciation	(402)	(570)
Structures, net	1,708	3,105
Land	2,609	3,234
Lease assets	3,085	2,982
Accumulated depreciation	(1,790)	(2,092)
Lease assets, net	1,295	890
Construction in progress	2,466	2,683
Other	6,641	6,962
Accumulated depreciation	(5,260)	(5,569)
Other, net	1,380	1,393
Total property, plant and equipment	16,606	18,568
Intangible assets		
Goodwill	2,140	1,644
Software	4,151	4,104
Lease assets	124	58
Customer assets	632	434
Other	132	119
Total intangible assets	7,181	6,361
Investments and other assets		
Investment securities	4,420	4,966
Long-term loans receivable	158	39
Net defined benefit asset	1,203	1,348
Deferred tax assets	2,757	3,182
Lease and guarantee deposits	5,482	6,751
Other	1,600	1,490
Allowance for doubtful accounts	(135)	(97)
Total investments and other assets	15,488	17,681
Total non-current assets	39,275	42,610

	As of May 31, 2020	As of May 31, 2021
Deferred assets		
Bond issue cost	187	168
Total deferred assets	187	168
Total assets	140,441	151,641

(Millions of yen)

	As of May 31, 2020	As of May 31, 2021
LIABILITIES		
Current liabilities		
Accounts payable-trade	5,704	6,377
Short-term loans payable	8,640	9,433
Lease obligations	640	660
Accounts payable-other	6,963	8,359
Accrued expenses	17,324	15,152
Income taxes payable	3,700	4,071
Accrued consumption taxes	6,108	7,187
Unearned revenue	1,808	3,362
Provision for bonuses	4,111	4,580
Provision for directors' bonuses	14	17
Asset retirement obligations	2	17
Other	9,461	11,555
Total current liabilities	64,482	70,775
Non-current liabilities		
Bonds payable	2,482	2,176
Long-term loans payable	23,158	20,990
Lease obligations	1,003	562
Provision for directors' stock benefit	318	457
Provision for employees' stock grant	303	438
Net defined benefit liability	2,172	2,263
Deferred tax liabilities	1,328	1,028
Asset retirement obligations	1,971	2,125
Other	905	1,043
Total non-current liabilities	33,642	31,086
Total liabilities	98,124	101,861
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	14,013	14,029
Retained earnings	14,789	20,801
Treasury shares	(2,442)	(2,417)
Total shareholders' equity	31,360	37,413
Other comprehensive income		
Valuation difference on available-for-sale securities	499	694
Foreign currency translation adjustment	(90)	10
Remeasurements of defined benefit plans	41	36
Total other comprehensive income	451	741
Share acquisition rights	—	4
Non-controlling interests	10,504	11,619
Total net assets	42,316	49,779
Total liabilities and net assets	140,441	151,641

(2) Consolidated Statements of Income

(Millions of yen)

	FY2019	FY2020
Net sales	324,984	334,540
Cost of sales	248,295	251,570
Gross profit	76,689	82,969
Selling, general and administrative expenses	66,111	63,028
Operating income	10,577	19,940
Non-operating income		
Interest income	37	40
Subsidy	80	636
Real estate rent	744	743
Other	325	283
Total non-operating income	1,187	1,704
Non-operating expenses		
Interest expenses	200	290
Share of loss of entities accounted for using equity method	3	110
Commitment fee	52	56
Provision of allowance for doubtful accounts	18	—
Rent expenses on real estates	610	635
Commission fee	412	—
Other	231	171
Total non-operating expenses	1,529	1,265
Ordinary income	10,236	20,379
Extraordinary income		
Gain on sales of non-current assets	0	0
Gain on sales of investment securities	29	4
Gain on sales of subsidiaries and affiliates' stocks	4	0
Gain on change in equity	17	—
Total extraordinary income	52	5
Extraordinary loss		
Loss on sales and retirement of non-current assets	173	367
Impairment loss	2,202	3,238
Loss on sale of investment securities	—	0
Loss on valuation of investment securities	242	14
Loss on valuation of shares of subsidiaries and associates	86	56
Total extraordinary loss	2,705	3,678
Income before income taxes	7,583	16,706
Income taxes-current	3,647	7,939
Income taxes-deferred	612	(915)
Income taxes	4,260	7,024
Profit	3,323	9,682
Profit attributable to non-controlling interests	2,728	2,898
Profit attributable to owners of parent	594	6,784

(3) Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2019	FY2020
Profit	3,323	9,682
Other comprehensive income		
Valuation difference on available-for-sale securities	44	449
Foreign currency translation adjustment	(121)	117
Remeasurements of defined benefit plans	123	2
Share of other comprehensive income of entities accounted for using equity method	0	—
Total other comprehensive income	46	569
Comprehensive income	3,369	10,251
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	676	7,074
Comprehensive income attributable to non-controlling interests	2,692	3,177

(4) Consolidated Statements of Changes in Shareholders' Equity

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

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained Earnings	Treasury shares	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				Share acquisition rights	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

FY2020 (For the fiscal year ended May 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained Earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current period	5,000	14,013	14,789	(2,442)	31,360
Changes of items during the period					
Dividends from surplus			(758)		(758)
Net income attributable to owners of parent			6,784		6,784
Disposal of treasury shares by stock benefit trust				24	24
Change of scope of consolidation		14	(14)		0
Change of scope of equity method			(0)		(0)
Change in treasury shares of parent arising from transactions with non-controlling shareholders		3			3
Capital increase of consolidated subsidiaries		(0)			(0)
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	16	6,012	24	6,052
Balance at the end of current period	5,000	14,029	20,801	(2,417)	37,413

	Total accumulated other comprehensive income				Share acquisition rights	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	499	(90)	41	451	—	10,504	42,316
Changes of items during the period							
Dividends from surplus				—			(758)
Net income attributable to owners of parent				—			6,784
Disposal of treasury shares by stock benefit trust				—			24
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
Capital increase of consolidated subsidiaries				—			(0)
Net changes of items other than shareholders' equity	194	100	(5)	290	4	1,114	1,410
Total changes of items during the period	194	100	(5)	290	4	1,114	7,462
Balance at the end of current period	694	10	36	741	4	11,619	49,779

(5) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2019	FY2020
Cash flows from operating activities		
Income before income taxes	7,583	16,706
Depreciation and amortization	4,013	3,794
Impairment loss	2,202	3,238
Amortization of goodwill	819	662
Increase (decrease) in allowance for doubtful accounts	25	(106)
Increase (decrease) in provision for bonuses	26	464
Increase (decrease) in net defined benefit liability	125	128
Decrease (increase) in net defined benefit asset	77	(177)
Increase (decrease) in provision for directors' stock benefit	2	159
Increase (decrease) in provision for employees' stock grant	46	139
Interest and dividends income	(65)	(75)
Interest expenses	200	290
Subsidy income	(80)	(636)
Share of (profit) loss of entities accounted for using equity method	3	110
Loss (gain) on sales and retirement of non-current assets	172	367
Loss (gain) on sales of investment securities	(29)	(3)
Loss (gain) on valuation of investment securities	329	71
Decrease (increase) in notes and accounts receivable-trade	(3,536)	(1,422)
Decrease (increase) in inventories	(216)	(458)
Decrease (increase) in other assets	(307)	(1,013)
Increase (decrease) in operating debt	1,248	(845)
Increase (decrease) in accrued consumption taxes	2,803	527
Increase (decrease) in deposits received	1,389	1,102
Increase (decrease) in other liabilities	(444)	3,127
Other	479	104
Subtotal	16,867	26,256
Interest and dividends income received	79	87
Interest expenses paid	(197)	(292)
Proceeds from subsidy	80	636
Income taxes paid	(5,406)	(7,820)
Net cash provided by operating activities	11,424	18,868

	FY2019	FY2020
Cash flows from investment activities		
Decrease (increase) in time deposits	(466)	755
Purchase of property, plant and equipment	(4,810)	(7,031)
Proceeds from sales of property, plant and equipment	855	10
Purchase of intangible assets	(1,894)	(1,721)
Purchase of investment securities	(242)	(33)
Proceeds from sales of investment securities	41	7
Purchase of shares of subsidiaries resulting in charge in scope of consolidation	—	(183)
Payments of loans receivable	(5)	(59)
Collection of loans receivable	23	61
Payments for lease and guarantee deposits	(816)	(1,592)
Proceeds from collection of lease and guarantee deposits	224	326
Payments for asset retirement obligation	(24)	(123)
Payments for transfer of business	(0)	(14)
Other	153	(66)
Net cash used in investment activities	(6,964)	(9,665)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(3,000)	5
Proceeds from long-term loans payable	19,035	7,511
Repayment of long-term loans payable	(6,429)	(8,901)
Repayments of finance lease obligations	(744)	(645)
Proceeds from issuance of bonds	2,309	—
Redemption of bonds	(56)	(306)
Purchase of treasury shares	(498)	—
Proceeds from disposal of treasury shares	498	—
Purchase of treasury shares of subsidiaries	(5,173)	(0)
Proceeds from disposal of treasury shares of subsidiaries	264	—
Payments from changes in ownership interests in subsidiaries	(0)	(19)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	8,658	0
Cash dividends paid	(710)	(756)
Dividends paid to non-controlling interests	(2,050)	(2,041)
Other	(0)	5
Net cash provided by (used in) financing activities	12,102	(5,147)
Effect of exchange rate change on cash and cash equivalents	(91)	95
Net increase (decrease) in cash and cash equivalents	16,470	4,150
Cash and cash equivalents at the beginning of the period	31,793	48,147
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(116)	—
Cash and cash equivalents at the end of the period	48,147	52,298

(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: 62 companies

b. Major consolidated subsidiaries

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

c. New consolidated subsidiaries: 4 companies

Establishment

- Pasona Oversea Recruitment (Thailand) Co., Ltd.
- Pasona Intellectual Property Trust Inc.
- Pasona Value Creation Institute Inc.

Share acquisition

- More-Selections Inc.

d. Exclusion from the scope of consolidation: 9 companies

- Pasona Tech Systems Inc. *1
- Pasona Job Support Inc. *2
- Pasona Digital Solutions Inc. *3
- Pasona JOB HUB Inc. *4
- Pasona Komon Network Inc. *4
- Pasona Marketing, Inc. *5
- Pasona HR Consulting Inc. *5
- Pasona Okayama Inc. *5
- Tango Kingdom Inc. *6

*1 It merged with Pasona Tech Inc., consolidated subsidiary, and expired.

*2 It merged with Pasona Human Solutions Inc., consolidated subsidiary, and expired. Pasona Human Solutions Inc. changed the trade name to Pasona HS Inc.

*3 It merged with Pasona Inc., consolidated subsidiary, and expired. Pasona Tech Inc., consolidated subsidiary, has inherited the business.

*4 They merged with Pasona Fortune Inc., consolidated subsidiary, and expired. Pasona Fortune Inc. changed the trade name to Pasona JOB HUB Inc.

*5 They merged with Pasona Inc., consolidated subsidiary, and expired.

*6 Tango Kingdom Inc. was excluded from scope of consolidation upon completion of liquidation. Tango Kingdom Brewery Inc., consolidated subsidiary, has inherited a part of the business.

2) Non-consolidated subsidiary

a. No. of non-consolidated subsidiaries: 13 companies

b. Major non-consolidated subsidiaries

- Pasona Force Inc.

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.

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: 10 companies

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

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

- Circlace Inc. *1
- c. New affiliated companies that are accounted for by the equity method: 1 company
 Trust Inc. *2
- d. Exclusion from affiliated companies that are accounted for by the equity method: 2 company
 Bio Agri Inc. *3
 Degibana Inc. *4
- *1 Pasona Tquila Inc. changed the trade name to Circlace Inc.
 *2 Benefit One Inc., consolidated subsidiary, has acquired new shares of Trust Inc.
 *3 Bio Agri Inc. was excluded from scope of equity method upon completion of liquidation.
 *4 Degibana Inc. was excluded from scope of equity method because all of the shares had been sold by Benefit One Inc., consolidated subsidiary.
- 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: 9 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) Additional information:

Accounting estimates with the spread of COVID-19 infections

The business of “Regional Revitalization Solutions”, especially developing restaurant business, amusement business, and accommodation business, has been forced to suspend business or work shorter hours due to the effect of COVID-19 infections, while taking measures to prevent the spread of COVID-19 infection at each facility. However, especially in Awaji Island, the business conditions of some facilities have been steady because of receiving support as a holiday destination of day trip or short stay, that is rich in nature and without the three Cs, from neighboring area, although business conditions vary depending on the facilities. Although it is difficult to predict accurately when the effect of COVID-19 infections will end in the future. 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, based on assumptions that demand for domestic tourism focusing on neighboring areas will recover with the progress of vaccination in the future.

If the effects of COVID-19 infection are prolonged, impairment assumptions may be changed and the Groups' financial position and business performance may be affected.

(9) 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 comprehensive human resource-related support services. 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 FY2020, with the reorganization of subsidiaries, the segment of some subsidiaries has been changed from “Career Solutions” to “Expert Services, BPO Services, Others” .

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

(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	266,353	13,349	36,603	6,060	2,616	324,984	—	324,984
(2) Intersegment sales and transfers	2,632	52	668	190	373	3,916	(3,916)	—
Total	268,986	13,401	37,271	6,250	2,990	328,901	(3,916)	324,984
Operating income (l oss)	9,543	3,147	8,375	224	(1,876)	19,415	(8,837)	10,577
Segment assets	67,996	16,367	29,786	2,028	9,877	126,055	14,385	140,441
Other items								
Depreciation and Amortization	1,636	322	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	1,201	222	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), BPO Services (Contracting), HR Consulting/Education & Training/Others and Global Sourcing (Overseas).
- The following are included in the adjustment item.
 - Adjustment of segment income (loss) totaling ¥(8,837) 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 ¥38 million.
 - Adjustment of segment assets totaling ¥14,385 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 ¥(30,524) 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 and intersegment sales and transfers totaling ¥(27) million.
- Segment income (loss) is adjusted with operating income under consolidated statements of income.

FY2020 (For the fiscal year ended May 31, 2021)

(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	274,957	13,833	36,747	6,257	2,744	334,540	—	334,540
(2) Intersegment sales and transfers	2,906	30	1,097	312	500	4,846	(4,846)	—
Total	277,864	13,863	37,844	6,570	3,244	339,387	(4,846)	334,540
Operating income (loss)	17,543	3,919	9,794	203	(2,327)	29,132	(9,191)	19,940
Segment assets	75,655	18,531	35,855	2,136	11,273	143,452	8,188	151,641
Other items								
Depreciation and Amortization	1,419	257	778	52	683	3,192	602	3,794
Amortization of Goodwill	649	—	8	0	2	662	—	662
Impairment losses	736	—	—	—	2,502	3,238	—	3,238
Increase in tangible and intangible fixed assets	1,188	84	1,300	173	4,210	6,957	2,431	9,388

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 ¥(9,191) million includes Group management costs relating to the Company and incubation cost of our new business totaling ¥(9,237) million, as well as intersegment sales and transfers totaling ¥45 million.
 - Adjustment of segment assets totaling ¥8,188 million includes the Company’s cash and deposits and assets relating to Group management totaling ¥46,926 million as well as intersegment sales and transfers totaling ¥(38,737) million.
 - Adjustment of depreciation and amortization totaling ¥602 million are mainly comprised of depreciation and amortization of assets relating to Group management totaling ¥610 million as well as intersegment sales and transfers totaling ¥(7) million.
 - Adjustment of increase in tangible and intangible fixed assets totaling ¥2,431 million are mainly comprised of an increase of assets relating to Group management and headquarters function totaling ¥2,478 million as well as intersegment sales and transfers totaling ¥(46) million.
- Segment income (loss) is adjusted with operating income under consolidated statements of income.

(10) Related information

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.

FY2020 (For the fiscal year ended May 31, 2021)

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.

(11) Information regarding Impairment Loss on fixed assets

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.

FY2020 (For the fiscal year ended May 31, 2021)

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

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

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

FY2020 (For the fiscal year ended May 31, 2021)

(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	1,640	—	4	—	—	—	1,644

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

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

None

FY2020 (For the fiscal year ended May 31, 2021)

None

(14) Per Share Information

(Yen)

	FY2019	FY2020
Net assets per share	813.28	974.85
Net income per share	15.21	173.36

(Notes)

- Diluted net income per share of the current consolidated fiscal year is not stated because there was no diluted share.
- 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 467,600 in FY2019 and 452,100 in FY2020 in terms of BBT, and were 314,129 in FY2019 and 305,752 in FY2020 in terms of J-ESOP (year-end basis). The number of treasury shares deducted for calculation of net income per share were 346,944 in FY2019 and 455,964 in FY2020 in terms of BBT, and were 234,129 in FY2019 and 308,912 in FY2020 in terms of J-ESOP (year average basis).
- The following shows the basis of calculating net earnings per share

(Millions of yen)

Items	FY2019	FY2020
Earnings per share		
Profit attributable to owners of parent	594	6,784
Amount not applicable to shareholders of common stock	—	—
Profit attributable to owners of parent applicable to	594	6,784
Average number of shares for the period (shares)	39,115,590	39,132,377
Overview of diluted share excluded from the calculation of net income per share after adjusting for diluted share because of lack of diluting effect	—	Share acquisition rights of consolidated subsidiary:

- The following shows the basis of calculating net assets per share

(Millions of yen)

Items	As of May 31,	As of May 31,
Total net assets	42,316	49,779
Amount deducted from total net assets	10,504	11,624
Net assets applicable to common stock as of the fiscal period-end	31,811	38,155
Number of common stock used to calculate net assets per share	39,115,524	39,139,401

(15) Important Subsequent Events

None