

Summary of Business Results for the Third Quarter Ended June 30, 2019

[Japan GAAP] (Consolidated)

August 8, 2019

C o m p a n y **Yumeshin Holdings Co., Ltd.** Listed on the TSE
S t o c k C o d e 2362 URL <https://www.yumeshin.co.jp>
R e p r e s e n t a t i v e Daio Sato, President and Representative Director
C o n t a c t Yusaku Soeda, Managing Director, General Manager of Corporate Planning Dept. T E L: +81-3-3210-1212
 Expected date of filing of quarterly report: August 14, 2019
 Expected starting date of dividend payment: -
 Preparation of quarterly supplementary financial document: Yes
 Quarterly results briefing: None

(Rounded down to million yen)

1. Consolidated business results for the nine months ended June 2019 (October 1, 2018 through June 30, 2019)

(1) Consolidated results of operations (% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended Jun. 2019	37,708	27.1	3,772	-3.2	3,766	3.5	2,501	-7.9
Nine months ended Jun. 2018	29,662	34.1	3,898	119.3	3,639	96.8	2,715	151.1

(Note) Comprehensive income

Nine months ended June 2019: 2,528 million yen (-5.1%)

Nine months ended June 2018: 2,665 million yen (87.4 %)

	Net income per share		Diluted net income per share	
	Yen	Yen	Yen	Yen
Nine months ended Jun. 2019	32.71		32.34	
Nine months ended Jun. 2018	36.42		35.93	

(2) Consolidated financial position

	Total assets		Net assets		Shareholders' equity ratio	
	Million yen	Million yen	Million yen	Million yen	ratio	%
As of Jun. 2019	29,623		12,465			42.0
As of Sept. 2018	23,571		13,972			54.6

(Reference) Shareholders' equity

As of June 2019: 12,427 million yen

As of September 2018: 12,872 million yen

2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended Sept. 2018	-	15.00	-	20.00	35.00
Year ending Sept. 2019	-	15.00	-		
Year ending Sept. 2019 (forecast)				20.00	35.00

(Note) Revisions to dividend forecast for the current quarter: None

3. Forecast of consolidated business results for the fiscal year ending September 2019 (October 1, 2018 through September 30, 2019)

(% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable owners of parent		Net income per share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	
Year ending Sept. 2019	50,000	23.7	6,000	15.7	6,000	21.4	4,100	12.8		54.98

(Note) Revisions to business forecast for the current quarter: None

***Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Application of accounting procedures specific to preparation of the quarterly financial statements: None

(3) Changes in accounting policies, accounting estimates and restatement

① Changes in accounting policies associated with revision of accounting standards: : None

② Changes in accounting policies other than ① : None

③ Changes in accounting estimates : None

④ Restatement : None

(4) Shares outstanding (common stock)

① Number of shares outstanding at the end of period (treasury stock included)

As of June 2019 78,823,040 shares

As of September 2018 74,573,440 shares

② Treasury stock at the end of period

As of June 2019 1,767,606 shares

As of September 2018 86 shares

③ Average number of stock during period (quarterly cumulative period)

Nine months ended June 2019 76,459,890 shares

Nine months ended June 2018 74,573,354 shares

***Quarterly financial summary is not subject to the quarterly review procedures by certified public accountants or auditing firms.**

***Explanation regarding appropriate use of business forecasts and other special instructions**

Forecasts regarding future performance in this material are based on information currently available to the company and certain assumptions that the company deems to be reasonable at the time this report was prepared. The company does not make promises about the achievements. Actual results may differ significantly from the forecasts due to various factors.

Table of Contents of the Appendix

1. Qualitative Information on Results for the Current Quarter.....	2
(1) Results of Operations.....	2
2. Quarterly Consolidated Financial Statements and Major Notes.....	5
(1) Quarterly consolidated balance sheets.....	5
(2) Quarterly Consolidated Statements of Income and Statements of Comprehensive Income.....	7
(3) Notes to Quarterly Consolidated Financial Statements.....	9
(Notes on going concern assumptions)	9
(Notes on significant changes in shareholders' equity)	9
(Significant subsequent events)	10

1. Qualitative Information on Quarterly Financial Results

(1) Results of Operations

① Overview of Consolidated Business Results

During the nine months of the current fiscal year (from October 1, 2018 to June 30, 2019), the engineer temporary staffing industry, to which our group belongs, experienced a decline in the labor force population in Japan as a whole, and many industries were suffering from such shortage of human resources. As a result, demand for our company was brisk. In particular, there is a serious labor shortage in the construction industry, where the aging of the population and the shortage of young people are conspicuous, and in the IT industry, where technological innovation is remarkable. For this reason, the Group has focused on securing human resources and increasing the number of engineers at work in order to quickly supply the next generation of human resources to the construction and IT industries.

As a result, net sales increased by 8,046 million yen (27.1%) year-on-year to 37,708 million yen due to growth in the Construction Engineer Temporary Staffing and Engineer Temporary Staffing segments attributable to an increase in the number of engineers.

Operating income decreased 125 million yen (3.2%) year on year to 3,772 million yen due to upfront investments for future growth, such as higher recruitment expenses and M&A-related expenses in anticipation of a further increase in demand for engineers.

Net income attributable to owners of parent decreased by 214 million yen (7.9%) year on year to 2,501 million yen.

The results for the cumulative third quarter of the current consolidated fiscal year are shown in the table below.

(Million yen)

	FY9/18 3Q	FY9/19 3Q	Change	Percentage change
Net sales	29,662	37,708	8,046	27.1%
Operating income	3,898	3,772	-125	-3.2%
Ordinary income	3,639	3,766	126	3.5%
Net income attributable to owners of parent	2,715	2,501	-214	-7.9%

② Results by Segment

Our reportable segments are Construction Engineer Temporary Staffing and Engineer Temporary Staffing.

Please refer to the table below for the main businesses and operating companies of each segment.

(As of June 30, 2019)

Segment name	Business Line	Company Name
Construction Engineer Temporary Staffing business	<ul style="list-style-type: none"> • Dispatch of construction management specialist to construction sites • Dispatch of CAD operators 	Yumeshin Holdings Co., Ltd. Yumeshin Co., Ltd. (Note 10)
Engineer Temporary Staffing business	<ul style="list-style-type: none"> • Dispatch of engineers to the manufacturing and IT industries • Dispatch of network engineers • Dispatch of IT engineers to the Philippines • Dispatch of IT engineers 	Yume Technology Co., Ltd. Krung thep Co., Ltd. Neplus Co., Ltd. (Note 4) Centurion Capital Pacific Limited (Note 4) P3OPLE4U, Inc. (Note 4) Information Port Co., Ltd. (Note 8)
Other businesses	<ul style="list-style-type: none"> • Recruitment consultancy service for the construction and manufacturing industries • Japanese language education for overseas local personnel and HR business • Sales and rental of IT-related equipment • Japanese language education for local Philippine personnel • Support for recruitment of local Vietnamese personnel 	Yumeshin Holdings Co., Ltd. YUMEGLOBAL CO., LTD. (Japan) (Note 6) Neplus Co., Ltd. (Note 4) YUMEGLOBAL Corp. (Note 2) YUMEGLOBAL CO., LTD. (Note 3)

<ul style="list-style-type: none"> • Course on Measures to Acquire National Construction-Related Qualifications • Offshore development in Vietnam • Planning and operation of online programming learning service • Contract Development of IT Systems • Consulting business 	<p>Construction Qualification Promotion Center Co., Ltd.</p> <p>YUMESHIN VIETNAM CO.,LTD.(Note 5) Yumeshin Holdings Co., Ltd.</p> <p>Samurai Inc. (Note 9)</p> <p>Information Port Co., Ltd. (Note 8)</p> <p>Centurion Capital Pacific Limited (Note 4) P3OPLE4U, Inc. (Note 4)</p>
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(Note 1) Yume Solutions Co., Ltd., which had been classified in the Other Business segment, merged with Yumeshin Holdings Co., Ltd. on October 1, 2018, and ceased to exist.

(Note 2) YUMEAGENT PHILIPPINES Corp. classified as Others has been renamed YUMEGLOBAL Corp. for the first quarter of the current fiscal year.

(Note 3) YUMEAGENT VIETNAM CO., LTD. are renamed YUMEGLOBAL CO., LTD. for the first quarter of the current fiscal year.

(Note 4) Centurion Capital Pacific Limited, P3OPLE4U, Inc., and Neplus Co., Ltd., which acquired shares on October 1, 2018, have been included in the Engineer Dispatch Business and other businesses since the first quarter of the current consolidated fiscal year.

(Note 5) YUMESHIN VIETNAM CO., Ltd., which was newly established on October 2, 2018, is included in the Others segment from the first quarter of the current fiscal year.

(Note 6) From the first quarter of the current fiscal year, YUMEGLOBAL CO., LTD. (Japan) has been included in the scope of consolidation, as it has become increasingly important.

(Note 1) Yume Agent Co., Ltd., which had been classified in the Other Business segment, merged with Yumeshin Holdings Co., Ltd. on June 1, 2019, and ceased to exist.

(Note 8) Information Port Co., Ltd., which acquired shares on April 2, 2019, have been included in the Engineer Dispatch Business and other businesses since the third quarter of the current consolidated fiscal year.

(Note 9) Samurai Inc., which acquired shares on April 24, 2019, is included in the Others segment from the third quarter of the current fiscal year.

(Note 10) Yumeshin Co., Ltd., which was newly established on June 24, 2019, is included in the Construction Engineer Temporary Staffing segment from the third quarter of the current fiscal year.

Results by business segment are as follows. Segment income (loss) is adjusted with operating income.

(a) Construction Engineer Temporary Staffing business

(Million yen)

	FY9/18 3Q	FY9/19 3Q	Change	Percentage change
Net sales	21,861	26,364	4,502	20.6%
Segment profit	4,051	4,294	243	6.0%
Number of Engineers at end of period (end of June)	4,978	6,085	1,107	22.2%
Average number of engineers during the period (Oct.-Jun. avg.)	4,767	5,631	864	18.1%

Overview of the Business

In the Construction Engineer Temporary Staffing Business, the core business of the Group, demand for temporary staffing services remained strong due to the aging of engineers and a shortage of young workers at general contractors. In addition, large-scale projects such as the 2020 Tokyo Olympic and Paralympic Games and the Linear Chuo Shinkansen have begun in earnest, and the Osaka Expo is scheduled to be held in 2025. As a result, we have focused on hiring activities with an annual hiring plan of 2,800 people. As a result, the number of employees hired and the number of employees working at Osaka and other regional bases increased, resulting in a total of 2,688 employees (2,087 in the same period of the previous year) hired during the cumulative period of the third quarter. As a result, the number of engineers hired at the end of June 2019 was 1,107, an increase of 6,085 year-on-year.

<Business Results>

Net sales increased by 4,502 million yen (20.6%) year-on-year to 26,364 million yen due to an increase in the number of staffs in operation resulting from an increase in the number of engineers and an increase in the unit price of temporary staffing.

Segment income increased by 243 million yen (6.0%) year-on-year to 4,294 million yen due to a steady unit price of temporary staffing.

(b) Engineer Temporary Staffing business

(Million yen)

	FY9/18 3Q	FY9/19 3Q	Change	Percentage change
Net sales	7,507	10,786	3,279	43.7%
Segment profit	415	218	-196	-47.4%
Number of engineers at end of period (end of June)	2,158	3,394	1,236	57.3%
Average number of engineers during the period (Oct.-Jun. avg.)	1,885	2,904	1,019	54.1%

Overview of the Business

In the Engineer Temporary Staffing Business, despite the uncertain outlook for the impact of trade frictions between the United States and Central America, demand for temporary staffing remained firm, supported by firm domestic demand, in the manufacturing industries, such as automobiles, electrical equipment, and semiconductors, which are our main customers. In the IT industry, where IT engineers are dispatched to, business digitalization is an important management issue at each company. As IT investment intensifies, demand for investment in infrastructure development and information security fields continues to be at a high level.

In order to respond to the growing demand for engineers in this business environment, we have set an annual recruitment plan of 1,800 people, and have focused on strengthening our internal system by significantly increasing the number of engineers and enhancing training systems.

As a result, the total number of employees hired in the cumulative period of the current third quarter was 1,290 (732 in the same period of the previous year), and the number of engineers hired as of the end of June 2019 was 3,394, an increase of 1,236 year-on-year, due to the consolidation of companies that became subsidiaries as a result of M&A.

As a result, net sales in the third quarter increased by 3,279 million yen (45.7%) year-on-year, to 10,786 million yen, due to an increase in the number of engineers. Segment profit decreased by 196 million yen (47.4%) year-on-year to 218 million yen, due to the contribution of efficiency improvements in recruitment activities, despite the fact that profits were not virtually projected in the initial plan.

(c) Other businesses

(Million yen)

	FY9/18 3Q	FY9/19 3Q	Change	Percentage change
Net sales	351	611	259	73.8%
Segment profit (loss)	-206	23	229	-

Overview of the Business

In the Other Businesses segment, the Group have offered Japanese language classes in Vietnam, the Philippines, and Taiwan to provide staffing services for construction companies, recruitment support services for Japanese companies seeking local human resources in Vietnam, and support Japanese companies for utilization of overseas human resource. In addition, the Company began sales and rental of network equipment in the current fiscal year under.

As a result of the above, for the third quarter, net sales were 611 million yen (up 73.8% YoY), and the segment income was 23 (segment loss of 206 million yen in the same period of the previous fiscal year).

2. [Quarterly Consolidated Financial Statements]

Quarterly consolidated balance sheets

(Thousand yen)

	Previous Fiscal Year (September 30, 2018)	Current Third Quarter (June 30, 2019)
Assets		
Current assets		
Cash and deposits	11,300,821	10,714,807
Notes and accounts receivable	5,973,462	7,682,477
Electronically Recorded Monetary Claims	9,529	5,817
Inventories	887	44,481
Other	1,255,817	1,748,964
Allowance for doubtful accounts	-17,834	-79,794
Total current assets	18,522,683	20,116,754
Fixed assets		
Property, plant and equipment	938,286	1,373,836
Intangible assets		
Goodwill	610,028	3,548,196
Other	134,241	308,550
Total intangible fixed assets	744,270	3,856,747
Investments and other assets		
Investment securities	2,052,529	2,170,541
Other	1,345,201	2,162,255
Allowance for doubtful accounts	-38,872	-56,555
Total investment and other assets	3,358,859	4,276,241
Total noncurrent assets	5,041,416	9,506,825
Deferred assets		
Stock issuance	7,334	-
Total deferred assets	7,334	-
Total assets	23,571,433	29,623,579
Liabilities		
Current liabilities		
Accounts payable-trade	9,175	178,674
Short-term borrowings	100,000	2,808,474
Current portion of long-term loans payable	1,208,850	1,780,400
Income taxes payable	1,082,346	636,405
Provision for bonuses	634,663	948,877
Allowance for shareholder benefit program	74,294	-
Other	3,537,234	4,555,754
Total current liabilities	6,646,564	10,908,587
Fixed liabilities		
Bonds with share acquisition rights	-	50,351
Long-term debt	2,538,000	5,672,616
Obligations for retirement plan	306,790	422,271
Asset retirement obligations	66,183	66,023
Other	41,337	38,030
Total fixed liabilities	2,952,310	6,249,292
Total liabilities	9,598,874	17,157,879

(Thousand yen)

	Previous Fiscal Year (September 30, 2018)	Current Third Quarter (June 30, 2019)
Shareholders' equity		
Shareholders' equity		
Capital stock	805,147	821,441
Capital surplus	9,717,657	10,767,929
Retained earnings	2,266,936	2,102,573
Treasury stock	-9	-1,318,060
Total shareholders' equity	12,789,731	12,373,884
Other accumulated comprehensive income		
Valuation difference on securities	89,098	64,936
Foreign currency translation adjustment	-4,791	-8,996
Remeasurements of defined benefit plans	-1,595	-1,881
Total other accumulated comprehensive income	82,711	54,057
Share subscription rights	72,142	37,757
Non-controlling shareholders' equity	1,027,973	-
Total net assets	13,972,559	12,465,699
Total liabilities and net assets	23,571,433	29,623,579

[Quarterly Consolidated Statements of Income and Statements of Comprehensive Income]

Quarterly Consolidated Statement of Income Current Second Quarter

[Third Quarter]

(Thousand yen)

	Previous Third Quarter (October 1, 2017 - June 30, 2018)	Current Third Quarter (October 1, 2018 - June 30, 2019)
Net sales	29,662,416	37,708,862
Cost of sales	20,553,530	26,553,840
Gross profit	9,108,885	11,155,022
Selling, general and administrative expenses	5,210,657	7,382,701
Operating income	3,898,228	3,772,320
Non-operating income		
Interest income	1,434	9,062
Dividends income	13,358	13,778
Rent income	39,826	30,938
Other	71,173	111,294
Total non-operating income	125,792	165,073
Non-operating expenses		
Interest expenses	17,888	33,493
Cost of rental revenue	24,466	21,192
Equity in losses of affiliates	275,187	-
Expenses for shareholder benefit program	-	47,705
Other	66,907	68,601
Total non-operating expenses	384,450	170,993
Ordinary income	3,639,570	3,766,401
Extraordinary income		
Loss on sales of noncurrent assets	-	203
Gain on sales of stock of affiliates	440,997	-
Gain on reversal of subscription rights to shares	1,612	3,382
Other	4,177	-
Total extraordinary income	446,787	3,585
Extraordinary loss		
Loss on sales of fixed assets	4,035	613
Loss on retirement of fixed assets	19,189	4,276
Loss on valuation of investment securities	55,190	-
Loss on sales of investment securities	-	17,760
Impairment loss	70,842	-
Other	-	761
Total extraordinary loss	149,258	23,412
Profit before income taxes	3,937,099	3,746,575
Income taxes	1,357,914	1,307,183
Income taxes-deferred	-163,120	-116,854
Total income tax	1,194,793	1,190,329
Net income	2,742,305	2,556,246
Net income attributable to owners of non-controlling	26,603	55,182
Net income attributable to owners of parent	2,715,702	2,501,063

Quarterly Consolidated Statements of Comprehensive Income Current Second Quarter

[Third Quarter]

(Thousand yen)

	Previous Third Quarter (October 1, 2017 - June 30, 2018)	Current Third Quarter (October 1, 2018 - June 30, 2019)
Net income	2,742,305	2,556,246
Other comprehensive income		
Valuation difference on securities	-76,294	-23,963
Foreign currency translation adjustment	-1,774	-4,204
Remeasurements of defined benefit plans	1,193	720
Total other comprehensive income	-76,875	-27,448
Comprehensive income	2,665,430	2,528,797
Breakdown		
Comprehensive income attributable to owners of parent	2,635,211	2,468,939
Comprehensive income attributable to owners of non-controlling shareholders	30,219	59,858

Notes on Quarterly Consolidated Financial Statements

(Notes on going concern assumptions)

None

(Notes on significant changes in shareholders' equity)

During the third quarter of the fiscal year under review, capital surplus increased by 1,033,977 thousand yen due to the share exchange in which we became the wholly-owning parent company and Yume Technology Co., Ltd. became a wholly owned subsidiary of the Company. In addition, the Company purchased 1,766,400 shares of treasury stock by 1,317,161 thousand yen pursuant to the resolution of the Board of Directors on December 2018 and June 7, 2019.

As a result, capital surplus was 10,767,929 thousand yen, and treasury stock was -1,318,060 thousand yen at the end of the third quarter of the current fiscal year.

(Significant subsequent events)

Acquisition of a company through acquisition of shares

Acquisition of Garenet Co., Ltd.

At a meeting of the Board of Directors held on June 26, 2019, the Company resolved to acquire Garenet Co., Ltd. and make it a subsidiary. On July 1, 2019, the Company acquired shares of Samurai Inc. and made it a subsidiary.

The outline of the Business Combination

① Name and business of the acquired company

Name of acquired company: Garenet Co., Ltd. (hereinafter "Garenet")

Description of Business: Dispatch of IT Engineers and Contract Development of IT Systems

② Main reasons for the business combination

In addition to our mainstay Construction Engineer Temporary Staffing and Engineer Temporary Staffing businesses, the Group has formulated a Medium-Term Management Plan (FY9/19-FY9/21) aimed at aggressively recruiting human resources and achieving a target of more than 10,000 group engineers at an early stage. The entire Group is working together to achieve this goal.

Garenet dispatches IT engineers and develops IT systems on a consignment basis. Its strengths lie in the upstream process of network system design. Their main customers are the most upstream companies in the network market, and they have nearly 40 high-class engineers in charge of upstream processes. In addition, Garenet continues to recruit and train beginner engineers, and clients have accepted these beginner engineers.

Based on the above, we expect that acquiring the shares of Garenet will provide an opportunity for young engineers to enter upstream processes in the IT industry and further strengthen their development capabilities for the Group, which is led by our young engineers. For Garenet, it expects to leverage the Group's customer base of more than 800 companies to dispatch engineers and cultivate new clients for contract development. We also believe that sharing the Group's recruitment know-how will complement our recruitment capabilities. We have decided to acquire the shares because we have determined that the affinity is very high.

Date of business combination

July 1, 2019

④ Legal form of business combination

Acquisition of shares

⑤ Name following business combination

There is no change in the name of the company after the business combination.

⑥ Percentage of voting rights acquired

70.0%

⑦ Main reasons for deciding the acquired company

This was due to the acquisition of shares by us for cash consideration.

(2) Acquisition cost of the acquired company and breakdown by type of consideration

Cash consideration of 700,000 thousand yen

Acquisition cost of 700,000 thousand yen

(3) Details and amount of major acquisition-related expenses

At this time, we have not determined

(4) Goodwill, reason for recognizing goodwill, amortization method and amortization term

At this time, we have not determined

(5) Assets acquired and liabilities assumed on the date of the business combination

At this time, we have not determined

(6) Details of contingent acquisition consideration stipulated in the business combination agreement and accounting policies for the current consolidated fiscal year and beyond

Contingent acquisition consideration

Additional cash (up to 3,039 million yen) may be paid as additional consideration in the event Garenet achieves certain milestones after the business combination.

(7) In cases where the allocation of the acquisition cost has not been completed, a statement to that effect and the reason

The allocation of acquisition costs has not been completed as the identification of identifiable assets and liabilities and the calculation of fair value has not been completed.