

Consolidated Financial Results for the Nine Months Ended September 30, 2020 [Japanese GAAP]

November 13, 2020

Company name: MEDLEY, INC.

Stock exchange listing: Tokyo

Code number: 4480

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

Representative: Kohei Takiguchi

Representative: Goichiro Toyoda

Contact: Yuta Tamaru

Phone: +813-6372-1265

President and Chief Executive Officer

Representative Director (Medical Doctor)

Director and Head of Corporate Division

Scheduled date of filing quarterly securities report: November 13, 2020

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: Yes

(Amounts of less than one million yen are rounded down)

1. Consolidated Financial Results for the Nine Months Ended September 30, 2020 (January 01, 2020 to September 30, 2020)

(1) Consolidated Operating Results

(% indicates changes from the previous corresponding period.)

	Net sales		EBITDA*		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2020	5,226	42.2	647	30.9	541	26.4	552	20.6	461	-
September 30, 2019	3,675	-	494	-	428	-	458	-	(38)	-

(Note) Comprehensive income: Nine months ended September 30, 2020: ¥ 461 million [-%]
 Nine months ended September 30, 2019: ¥ (38) million [-%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2020	16.15	14.81
September 30, 2019	(1.49)	-

- (Notes)
- Regarding quarterly diluted net earnings per share for the third quarter of the consolidated fiscal year ended December 31, 2019 (consolidated Q3 FY2019), while dilutive shares existed, because Medley, Inc. ("the Company") was unlisted at the time and it is not possible to determine the average share price for the term, and also because a per-share quarterly net loss was posted, no data is provided.
 - EBITDA = Operating profit / loss + depreciation and amortization of goodwill
 Because the Company has posted no amortization of goodwill during consolidated Q3 FY2019 and consolidated Q3 FY2020, it is not included in calculation of EBITDA.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Million yen	Million yen	%
September 30, 2020	12,264	9,596	78.2
December 31, 2019	5,400	3,359	62.0

(Reference) Equity: As of September 30, 2020: ¥ 9,594 million
 As of December 31, 2019: ¥ 3,345 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2019	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2020	-	0.00	-		
Fiscal year ending December 31, 2020 (Forecast)				0.00	0.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2020 (January 01, 2020 to December 31, 2020)

(% indicates changes from the previous corresponding period.)

	Net sales		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	6,600	38.5	500	100.8	330	115.5	350	96.2	300	-	10.49
	~	~	~	~	~	~	~	~	~	~	~
	6,900	44.8	800	221.3	630	311.3	650	264.5	550		19.23

(Note) Revision to the financial results forecast announced most recently: No

* Notes:

(1) Changes in significant subsidiaries during the nine months ended September 30, 2020

(changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

Note) For details, see “Application of special accounting methods in preparation for quarterly consolidated financial statements” under “2. Quarterly consolidated financial statements and important notes (3) Important notes regarding quarterly consolidated financial statements” on page 10 of the attached documents.

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

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: Yes

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued shares (common shares)

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

September 30, 2020: 30,223,900 shares

December 31, 2019: 28,145,100 shares

2) Total number of treasury shares at the end of the period:

September 30, 2020: - shares

December 31, 2019: - shares

3) Average number of shares during the period:

Nine months ended September 30, 2020: 28,595,920 shares

Nine months ended September 30, 2019: 25,494,400 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Cautionary statements with respect to forward-looking statements and other notes

This preliminary earnings report contains forward-looking statements such as earnings forecasts which are based on information currently available to the Company and certain assumptions deemed to be reasonable. The Company makes no guarantee regarding the accuracy of the forecasts contained herein. Because of variable factors, actual results may differ from the forecast figures. For information regarding assumptions upon which the Company's results forecasts are based and notes regarding the use of results forecasts, please refer to “(3) Explanation regarding consolidated forecasts and forward-looking statements” under “Qualitative information regarding quarterly results” on page 6 of the attached documents.

1. Qualitative information regarding quarterly results

(1) Explanation regarding operating results

During the third quarter of the consolidated fiscal year ending December 31, 2020 (consolidated Q3 FY2020), despite the continued impact of the spread of COVID-19, the Japanese medical and nursing industry continued to face human resource shortages and issues related to financial resources and the ratio of job offers to applicants therefore trended many times higher than the average for all industries. In addition, on April 10, 2020, the Ministry of Health, Labour and Welfare (MHLW) issued a guidance statement temporarily allowing the use of telemedicine for patients receiving initial medical examinations. Also, the administration of Prime Minister Suga, who took office in September 2020, is considering making the temporary measures related to telemedicine permanent as a part of its measures to promote Japan's digital transformation.

Amid this business environment, during consolidated Q3 FY2020, sales in the Recruitment Platform Business rose and the pace of sales growth recovered to levels seen before the outbreak of COVID-19.

Sales in the Medical Platform Business also continued to grow on strong sales of telemedicine systems and the smooth launch of our pharmacy window support system. While we achieved sales growth, we also conducted investments aimed at expanding the scale of our business operations including continued investment in growth in the Recruitment Platform Business to develop systems functionality and increase the number of employees. We also made aggressive investments in growth in the Medical Platform Business, such as strengthening our development teams.

Under these conditions, in consolidated Q3 FY2020, the Company posted net sales of ¥5,226,176 thousand (up 42.2% YoY), EBITDA of ¥647,668 thousand (up 30.9%), operating profit of ¥541,311 thousand (up 26.4%), ordinary profit of ¥552,404 thousand (up 20.6%), and a quarterly net profit attributable to owners of the parent company of ¥461,810 thousand (compared with a net loss of ¥38,100 thousand in Q3 FY2019).

The Recruitment Platform Business posts sales based on the hiring dates of persons using the Company's services to find employment at companies seeking employees. The posting of sales therefore tends to be concentrated in April, when Japanese companies tend to hire more employees (because this is often the beginning of Japanese companies' fiscal years). The posting of the Company's net sales therefore tends to be concentrated in 2Q of our consolidated fiscal year (ending on December 31).

In response to the rapid spread of COVID-19 in Japan, the Japanese government declared a state of emergency in April-May 2020. While Japan's economy is currently in a moderate recovery trend compared to that time, the situation still requires the utmost caution. We have implemented companywide measures to prevent the spread of diseases while continuing our business activities. For example, we have ensured that all employees are fully aware of our policies regarding work when there is a possibility of infection or when they are not feeling well. We have also been offering employees onsite influenza vaccines ahead of its season. However, if the COVID-19 crisis does not wind down and voluntary quarantines and voluntary suspension of business operations resume owing to the declaration of another state of emergency, resulting in a prolonged slowdown in the Japanese economy, this could have an adverse impact on the development of the Company's business and on our operational results.

After the full lifting of the state of emergency, the Japanese government has left in place the temporary easing of restrictions on telemedicine and online drug administration guidance. As a result, our Medical Platform Business has seen a sustained increase in the overall number of medical institutions using its services. Also, we have conducted some measures to help our customers in the Recruitment Platform Business with hiring processes and activity has recovered to levels seen before the outbreak of COVID-19. At present, we have not seen a material impact on the Company's businesses development and financial results. We will continue to monitor trends that may result in the spread of COVID-19 having an impact on our businesses and provide timely disclosures if we see a material risk resulting from the spread of the virus.

Earnings by business segment are as follows.

Intersegment eliminations and unallocated companywide shared costs totaled ¥1,044,038 thousand (up 62.6% YoY).

1. Recruitment Platform Business

During consolidated Q3 FY2020, our Recruitment Platform Business was impacted by the promulgation of the state of emergency in response to the spread of COVID-19. However, after the lifting of the state of emergency, we saw a recovery and the number of customer offices served rose by 13.6% compared with the end of the previous fiscal year to over 207,000 locations, but the number of positions listed declined 5.0%, to over 192,000.

We also continuously improved the functionality of our service websites to enhance user convenience and, in Q1, invested in television advertising aimed at further broadening our customer base of medical and healthcare professionals that make use of the Company's services to find employment.

As a result of the above, consolidated Q3 FY2020 segment net sales were ¥4,378,617 thousand (up 37.3% YoY) and segment profit before allocation of companywide shared costs (operating profit) was ¥2,010,816 thousand (up 32.9%).

2. Medical Platform Business

During consolidated Q3 FY2020, amid increased interest in telemedicine as a means to prevent the spread of COVID-19, the number of medical institutions using our cloud-based CLINICS medical support systems rose and, in September 2020, we officially launched Pharms, our pharmacy window support system. As a result, the number of medical institutions using these systems rose by 274% compared with the end of the previous consolidated fiscal year, to over 4,300. Also, NaCl Medical, Inc., which was converted into a consolidated (wholly owned) subsidiary in March 2019, remains entrusted with the development of Online Receipt Computer Advantage (ORCA) medical accounting software. In August 2020, we also established MEDS, Inc. as a subsidiary and began efforts to provide digitalization services to pharmaceutical companies and medical device manufacturers. In addition, starting in July 2020, through MEDLEY, our online medical encyclopedia, we began cooperating with groups of experts, Google Japan, and MedicalNote, Inc. to provide information on COVID-19 and we continued to update and expand content.

As a result of the above, consolidated Q3 FY2020 segment net sales were ¥766,458 thousand (up 89.9% YoY) and the segment posted a loss before allocation of companywide shared costs (operating loss) of ¥362,917 thousand (compared with an operating loss of ¥369,179 thousand in Q3 FY2019).

Factors behind the posting of an operating loss in the segment included 1) investments in growth aimed at securing new medical institution users for our cloud-based CLINICS medical support systems and expanding its functionality, 2) upfront investment in our pharmacy window support system, and 3) posting the acquisition of the EMR assets of another company as a one-time expense.

3. New Services Segment

During consolidated Q3 FY2020, as in the previous quarter, our Kaigo-no Honne nursing facility search website business was impacted by postponement of facilities tours and limitations on accepting new patients and residents resulting from the COVID-19 crisis. However, we continued to proactively conduct operations to expand content, including a redesign of our website, and to increase the number of facilities that can be introduced using our Kaigo-no Honne service.

As a result of the above, consolidated Q3 FY2020 segment net sales were ¥81,101 thousand (down 2.9% YoY) and the segment posted a loss before allocation of companywide shared costs (operating loss) of ¥62,548 thousand (operating loss of ¥73,198 thousand in Q3 FY2019).

Factors behind the posting of an operating loss in the segment included investments in optimizing the earnings structure of our Kaigo-no Honne service.

(2) Outline of financial position

Assets

Current assets as of end-consolidated Q3 FY2020 totaled ¥11,516,420 thousand, an increase of ¥6,760,843 thousand compared with the end of the previous consolidated fiscal year. This increase was mainly attributable to an increase of ¥6,514,753 thousand in cash and deposits and an increase of ¥147,308 thousand in accounts receivable (trade). Non-current assets as of end-consolidated Q3 FY2020 totaled ¥702,845 thousand, an increase of ¥64,663 thousand compared with the end of the previous consolidated fiscal year. This increase was mainly attributable to an increase of ¥8,002 thousand in tangible non-current assets and an increase of ¥47,031 thousand in intangible non-current assets. Deferred assets as of end-consolidated Q3 FY2020 totaled ¥44,840 thousand, an increase of ¥38,110 thousand compared with the end of the previous consolidated fiscal year.

As a result of the above, total assets as of end-consolidated Q3 FY2020 totaled ¥12,264,105 thousand, an increase of ¥6,863,617 thousand compared with the end of the previous consolidated fiscal year.

Liabilities

Current liabilities as of end-consolidated Q3 FY2020 totaled ¥2,139,431 thousand, an increase of ¥371,826 thousand compared with the end of the previous consolidated fiscal year. This increase was mainly attributable to an increase of ¥225,981 thousand in advances received, an increase of ¥62,535 thousand in the current portion of long-term loans payable, and an increase of ¥62,292 thousand in

accrued consumption taxes. Non-current liabilities as of end-consolidated Q3 FY2020 totaled ¥528,468 thousand, an increase of ¥255,373 thousand compared with the end of the previous consolidated fiscal year. This increase was mainly attributable to an increase of ¥255,373 thousand in long-term loans payable.

As a result of the above, total liabilities as of end-consolidated Q3 FY2020 totaled ¥2,667,899 thousand, an increase of ¥627,199 thousand compared with the end of the previous consolidated fiscal year.

Net assets

Net assets as of end-consolidated Q3 FY2020 totaled ¥9,596,206 thousand, an increase of ¥6,236,417 thousand compared with the end of the previous consolidated fiscal year. This increase was mainly attributable to increases of ¥2,887,305 thousand each in capital and capital surplus owing to issuance of shares through an international offering and exercise of subscription rights to new shares, and ¥461,810 thousand in retained earnings.

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

In consolidated Q3 FY2020, consolidated results trended in line with the Company's initial full-year forecast for consolidated FY2020. Based on this, and in consideration of the impact on our businesses from changes in supply and demand trends resulting from the spread of COVID-19, we make no changes to the quantitative forecasts for consolidated FY2020 published in our Summary of Consolidated Financial Results for the Year Ended December 31, 2019 [Japanese GAAP] published on February 14, 2020.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31,2019	As of September 30,2020
Assets		
Current assets		
Cash and deposits	4,477,395	10,992,149
Accounts receivable - trade	241,498	388,807
Merchandise and finished goods	211	59
Work in process	-	1,787
Prepaid expenses	37,192	65,997
Other	23,274	103,217
Allowance for doubtful accounts	(23,995)	(35,598)
Total current assets	4,755,577	11,516,420
Non-current assets		
Property, plant and equipment	56,007	64,010
Intangible assets	222,324	269,355
Investments and other assets	359,849	369,478
Total non-current assets	638,181	702,845
Deferred assets	6,729	44,840
Total assets	5,400,488	12,264,105
Liabilities		
Current liabilities		
Accounts payable - trade	1,495	1,673
Short-term borrowings	500,000	500,000
Current portion of long-term borrowings	190,256	252,791
Accounts payable - other	557,636	510,859
Accrued expenses	44,766	43,499
Advances received	149,286	375,267
Deposits received	81,597	125,695
Income taxes payable	106,922	92,150
Accrued consumption taxes	105,302	167,595
Provision for bonuses	1,461	27,207
Provision for refund of sales	8,596	16,039
Provision for cashback for newly hired	12,987	23,388
Other allowance	7,295	3,263
Total current liabilities	1,767,604	2,139,431
Non-current liabilities		
Long-term borrowings	273,095	528,468
Total non-current liabilities	273,095	528,468
Total liabilities	2,040,699	2,667,899
Net assets		
Shareholders' equity		
Share capital	1,011,523	3,898,829
Deposits for subscriptions to shares	-	11,996
Capital surplus	2,833,471	5,720,776
Retained earnings	(499,137)	(37,327)
Total shareholders' equity	3,345,857	9,594,274
Share acquisition rights	13,932	1,932
Total net assets	3,359,789	9,596,206
Total liabilities and net assets	5,400,488	12,264,105

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (For the nine months)

(Thousand yen)

	For the nine months ended September 30,2019	For the nine months ended September 30,2020
Net sales	3,675,444	5,226,176
Cost of sales	1,139,334	1,536,215
Gross profit	2,536,110	3,689,960
Selling, general and administrative expenses	2,107,842	3,148,649
Operating profit	428,267	541,311
Non-operating income		
Interest income	15	36
Penalty income	1,630	808
Subsidy income	13,560	9,690
Settlement received	18,817	11,250
Miscellaneous income	1,941	1,229
Other	922	776
Total non-operating income	36,887	23,790
Non-operating expenses		
Interest expenses	4,992	6,901
Amortization of share issuance cost	1,053	3,226
Outsourcing expenses	-	2,128
Other	1,000	441
Total non-operating expenses	7,046	12,698
Ordinary profit	458,108	552,404
Extraordinary losses		
Impairment loss	494,489	-
Total extraordinary losses	494,489	-
Profit (loss) before income taxes	(36,381)	552,404
Income taxes - current	1,719	90,593
Total income taxes	1,719	90,593
Profit (loss)	(38,100)	461,810
Profit (loss) attributable to owners of parent	(38,100)	461,810

Quarterly Consolidated Statements of Comprehensive Income (For the nine months)

(Thousand yen)

	For the nine months ended September 30,2019	For the nine months ended September 30,2020
Profit (loss)	(38,100)	461,810
Other comprehensive income		
Total other comprehensive income	-	-
Comprehensive income	(38,100)	461,810
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(38,100)	461,810
Comprehensive income attributable to non-controlling interests	-	-

(3) Important notes regarding quarterly consolidated financial statements

(Notes related to going concern assumptions)

Not applicable

(Notes on significant changes in the amount of shareholders' equity)

(Significant changes in shareholders' equity)

During consolidated Q3 FY2020, capital and capital surplus each increased by ¥2,887,305 thousand due to issuance of shares through an international offering and exercise of subscription rights to new shares. As a result, as of end-consolidated Q3 FY2020, capital totaled ¥3,898,829 thousand and capital surplus totaled ¥5,720,776 thousand.

(Application of special accounting methods in preparation for quarterly consolidated financial statements)

Tax expenses are calculated by multiplying quarterly net income before income taxes by an effective tax rate reasonably estimated after applying tax effect accounting on net income for the consolidated fiscal year including Q3 FY2020.

(Changes in Accounting Policies)

(Changes to accounting methods used for tax expenses)

In the past, tax expenses of the Company and its consolidated subsidiaries were calculated using a principles-based approach. However, in order to more efficiently carry out quarterly account settlement operations for the Company and its consolidated subsidiaries, starting in consolidated Q1 FY2020, the method for calculating tax expenses was changed to one wherein a reasonable estimate of the effective tax rate on net income before income taxes for the consolidated fiscal year after the application of tax effect accounting is calculated and pretax quarterly net income is multiplied by said estimated effective tax rate.

The impact of this change on results is negligible.

(Additional information)

(Expected impact on earnings from the spread of COVID-19)

The Company provides accounting estimates regarding such issues as non-current asset impairment and recoverability of deferred tax assets based on information available at the time of preparation of quarterly consolidated financial statements.

While we expect the impact on the Company from the spread of COVID-19 to vary from segment to segment, we do not currently expect a material impact that would necessitate a major revision to our full-year FY2020 companywide earnings forecast.

However, given the economic uncertainty induced by COVID-19, it could adversely affect our financial condition and our operational performance when the impact becomes material.

(Segment information, etc.)

(Segment information)

Consolidated Financial Results for the Nine Months Ended September 30, 2019 (January 01, 2019 to September 30, 2019)

1. Information on net sales and operating profit (loss), identifiable assets and liabilities, and other items by reportable segment

(Thousands of yen)

	Reportable segment				Adjustment (Note)	Amount in the consolidated financial statement
	Recruitment Platform Business	Medical Platform Business	New Services	Total		
Net sales						
Sales to external customers	3,188,268	403,684	83,492	3,675,444	—	3,675,444
Inter-segment sales and transfers	—	—	—	—	—	—
Total	3,188,268	403,684	83,492	3,675,444	—	3,675,444
Segment profit (loss)	1,512,542	(369,179)	(73,198)	1,070,164	(641,896)	428,267

Notes: 1. Segment profit (loss) adjustments of (¥641,896) thousand include intersegment eliminations and corporate expenses

- unallocated to reportable segments.
2. Segment profit (loss) is adjusted under operating profit on the Quarterly Consolidated Statements of Income.

2. Information on impairment losses on non-current assets or amortization of goodwill by reportable segment

(Major impairment losses on non-current assets)

Regarding the Medical Platform Business, as future cash flow forecasts are closely associated with new businesses and future cash flow therefrom is deemed to be uncertain, the entire amount of goodwill was posted as an extraordinary loss.

The total amount of goodwill posted as mentioned above in consolidated Q3 FY2019 amounted to ¥494,489 thousand.

(Significant changes in goodwill values)

In consolidated 1Q FY2019, the acquisition of all shares of NaCl Medical, Inc. and its conversion into a consolidated subsidiary in the Medical Platform Business reporting segment resulted in goodwill of ¥494,489 thousand. However, as the full amount was posted as an extraordinary loss, there was no increase in goodwill during consolidated Q3 FY2019.

(Significant gains in negative goodwill)

Not applicable

Consolidated Financial Results for the Nine Months Ended September 30, 2020 (January 01, 2020 to September 30, 2020)

1. Information on net sales and operating profit (loss), identifiable assets and liabilities, and other items by reportable segment

(Thousands of yen)

	Reportable segment				Adjustment (Note)	Amount in the consolidated financial statement
	Recruitment Platform Business	Medical Platform Business	New Services	Total		
Net sales						
Sales to external customers	4,378,617	766,458	81,101	5,226,176	—	5,226,176
Inter-segment sales and transfers	—	—		—	—	—
Total	4,378,617	766,458	81,101	5,226,176	—	5,226,176
Segment profit (loss)	2,010,816	(362,917)	(62,548)	1,585,350	(1,044,038)	541,311

Notes: 1. Segment profit (loss) adjustments of (¥1,044,038) thousand include intersegment eliminations and corporate expenses unallocated to reportable segments.

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

2. Information on impairment losses on non-current assets or amortization of goodwill by reportable segment

(Major impairment losses on non-current assets)

Not applicable

(Significant changes in goodwill values)

Not applicable

(Significant gains in negative goodwill)

Not applicable

(Significant subsequent events)

(Substantial borrowings)

On November 13, 2020, the Company, at its meeting of the Board of Directors, approved a debt financing as set forth below. This borrowing is aimed at preparing for increased requirements in terms of working capital and other funds for future business expansion.

1) Lender MUFG Bank, Ltd.

2) Loan amount	¥3,000,000 thousand
3) Loan period	5 years
4) Repayment method	Principal-equal monthly payment
5) Loan execution date	November 30, 2020 (scheduled)
6) Interest rate type	Fixed rate
7) Security and guarantee	Unsecured and unguaranteed