

Consolidated Financial Results for the Year Ended December 31, 2020 [Japanese GAAP]

February 12, 2021

Company name: MEDLEY, INC.

Stock exchange listing: Tokyo

Code number: 4480

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

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Scheduled date of Annual General Meeting of Shareholders: March 26, 2021

Scheduled date of commencing dividend payments: -

Scheduled date of filing annual securities report: March 26, 2021

Availability of supplementary briefing material on annual financial results: Yes

Schedule of annual financial results briefing session: Yes

President and Chief Executive Officer
Director and Head of Corporate Division

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

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2020 (January 01, 2020 to December 31, 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	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 31, 2020	6,830	43.3	542	117.5	396	158.6	422	137.0	455	-
December 31, 2019	4,765	-	249	-	153	-	178	-	(381)	-

(Note) Comprehensive income: Fiscal year ended December 31, 2020: ¥ 455 million [- %]
Fiscal year ended December 31, 2019: ¥ (381) million [- %]

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets ratio	Operating profit to net sales ratio
	Yen	Yen	%	%	%
Fiscal year ended December 31, 2020	15.69	14.48	7.0	4.0	5.8
December 31, 2019	(14.87)	-	(11.4)	3.3	3.2

- (Notes)
1. Because Medley, Inc. ("the Company") began preparing consolidated financial statements in the fiscal year ended December 31, 2019 (FY2019), year-on-year comparisons for FY2019 are not provided herein. Rate of return on equity and ordinary profit to total assets ratio in FY2019 are calculated based on the balance as of December 31, 2019.
 2. Regarding diluted net earnings per share for the consolidated fiscal year ended December 31, 2019, while dilutive shares existed, because a per-share net loss was posted, no data is provided.
 3. EBITDA = Operating profit / loss + depreciation and amortization of goodwill
Because the Company has posted no amortization of goodwill during consolidated FY2019 and FY2020, it is not included in the calculation of EBITDA.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2020	15,519	9,717	62.6	314.53
December 31, 2019	5,400	3,359	62.0	118.88

(Reference) Equity: As of December 31, 2020: ¥ 9,715 million
As of December 31, 2019: ¥ 3,345 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
December 31, 2020	805	(283)	9,052	14,052
December 31, 2019	513	(767)	3,075	4,477

2. Dividends

	Annual dividends					Total dividends	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
December 31, 2019	-	0.0	-	0.0	0.0	-	-	-
December 31, 2020	-	0.0	-	0.0	0.0	-	-	-
Fiscal year ending								
December 31, 2021 (Forecast)	-	0.0	-	0.0	0.0		-	

(Note) Breakdown of the year-end dividend for the fiscal year ended December 31, 2020:

Commemorative dividend	- yen
Special dividend	- yen

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2021 (January 01, 2021 to December 31, 2021)

(% 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	10,000	46.4	460	(15.2)	50	(87.3)	10	(97.6)	10	(97.8)	0.32
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	10,500	53.7	1,000	84.3	590	49.0	550	30.1	470	10.3	15.22

- (Notes) 1. EBITDA = Operating profit / loss + depreciation and amortization of goodwill + share-based compensation expenses
Share-based compensation expenses are included in the calculation of EBITDA starting in FY2021.
2. Forecast earnings per share are calculated by dividing forecast net profit attributable to owners of the parent company by the number of common shares outstanding (excluding treasury stock) at end-FY2020.

* Notes:

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No

New - (Company name:)
Exclusion: - (Company name:)

(2) 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: No
3) Changes in accounting estimates: No
4) Retrospective restatement: No

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

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

December 31, 2020: 30,889,100 shares
December 31, 2019: 28,145,100 shares

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

December 31, 2020: - shares
December 31, 2019: - shares

3) Average number of shares during the period:

Fiscal Year ended December 31, 2020:	29,062,500 shares
Fiscal Year ended December 31, 2019:	25,636,762 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 "(4) Outlook" under "1. Outline of Business Performance" on page 5 of the attached documents.

1. Outline of Business Performance

(1) Outline of operating results for the consolidated fiscal year

During the consolidated FY2020, despite the 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, to prevent the spread of COVID-19, 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, in consolidated FY2020, while sales in the Recruitment Platform Business were temporarily slowed due to the promulgation of the state of emergency during Q2 FY2020, sales recovered to high levels starting in Q3 FY2020, resulting in sales growth in consolidated FY2020. Sales in the Medical Platform Business also grew in consolidated FY2020 on strong demand for the Company's telemedicine system since Q2 FY2020 and the smooth launch of its pharmacy window support system in Q3 FY2020. While the Company achieved sales growth, it also conducted investments aimed at expanding the scale of its business operations including continued investment in growth in the Recruitment Platform Business to develop systems functionality and increase the number of employees. The Company also made investments in growth in the Medical Platform Business, such as expanding its development teams and strengthening its service provision systems in preparation for the launch of pharmacy window support system.

Under these conditions, in consolidated FY2020, the Company posted net sales of ¥6,830,791 thousand (up 43.3% YoY), EBITDA of ¥542,679 thousand (up 117.5% YoY), operating profit of ¥396,094 thousand (up 158.6% YoY), ordinary profit of ¥422,687 thousand (up 137.0% YoY), and net profit attributable to owners of the parent company of ¥455,986 thousand (compared with net loss attributable to owners of the parent company of ¥381,226 thousand in 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 Q2 of its consolidated fiscal year (ending on December 31).

Earnings by business segment are as follows.

Intersegment eliminations and unallocated companywide shared costs totaled ¥1,432,877 thousand (up 41.7% YoY).

1. Recruitment Platform Business

During consolidated FY2020, the Recruitment Platform Business was impacted by the promulgation of the state of emergency in response to the spread of COVID-19 during Q2 and Q3. However, after the lifting of the state of emergency, the Company saw a recovery and the number of customer offices served rose by 18.6% compared with the end of the previous fiscal year to over 216,000 locations, whereas the number of positions listed increased by 6.1%, to just over 215,000.

The Company also continuously improved the functionality of its service websites by adding online interviewing and video record/upload functions to enhance user convenience. Also, in Q1 FY2020, the Company invested in television advertising aimed

at increasing the number of medical and healthcare professionals making use of the Company's services to find employment.

As a result of the above, consolidated FY2020 segment net sales were ¥5,650,569 thousand (up 37.4% YoY) and segment profit before allocation of companywide shared costs (operating profit) was ¥2,371,070 thousand (up 34.1% YoY).

2. Medical Platform Business

During consolidated FY2020, amid increased interest in telemedicine as a measure to prevent the spread of COVID-19, the number of medical institutions using the Company's cloud-based CLINICS medical support systems rose rapidly in addition to the smooth launch of its pharmacy window support system (Pharms) in September 2020. As a result, the total number of medical institutions using the Company's Medical Platform systems increased by 373.0% compared with the end of the previous consolidated fiscal year, to over 5,600. 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. The Company also continued to update and expand content for MEDLEY media service, including information related to COVID-19 in cooperation with groups of experts, Google Japan, and MedicalNote, Inc. since July 2020. Also, in December 2020, the Company acquired OTO, Inc. and converted it into a consolidated subsidiary (wholly owned subsidiary) for the purpose of conducting proof-of-concept testing aimed at expanding the functionality of its pharmacy window support system and developing new products.

As a result of the above, consolidated FY2020 segment net sales were ¥1,072,005 thousand (up 99.7% YoY) and the segment posted a loss before allocation of companywide shared costs (operating loss) of ¥461,415 thousand (compared with an operating loss of 515,748 thousand).

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

3. New Services Segment

In consolidated FY2020, 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 spread of COVID-19 since Q2 FY2020. However, the Company continued to proactively conduct operations to continuously expand content and increase the number of facilities that can be introduced using Kaigo-no Honne service.

As a result of the above, consolidated FY2020 segment net sales were ¥108,216 thousand (down 7.5% YoY) and the segment posted a loss before allocation of companywide shared costs (operating loss) of ¥80,682 thousand (compared with operating loss of ¥88,715 thousand in FY2019).

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

(2) Outline of financial position for the consolidated fiscal year

Assets

Current assets as of end-consolidated FY2020 totaled ¥14,545,664 thousand, an increase of ¥9,790,087 thousand compared with the end of the previous consolidated fiscal year. This increase was mainly attributable to an increase of ¥9,574,638 thousand in cash and deposits and an increase of ¥58,774 thousand in accounts receivable (trade) and an increase of ¥34,771 thousand in pre-paid expenses. Non-current assets as of end-consolidated FY2020 totaled ¥933,470 thousand, an increase of ¥295,288 thousand compared with the end of the previous consolidated fiscal year. This increase was mainly attributable to an increase of ¥11,512 thousand in tangible non-current assets, an increase of ¥140,922 thousand in intangible non-current assets, and an increase of ¥142,853 thousand in investments and other assets compared with the end of the previous consolidated fiscal year.

As a result of the above, total assets as of end-consolidated FY2020 totaled ¥15,519,992 thousand, an increase of ¥10,119,504 thousand compared with the end of the previous consolidated fiscal year.

Liabilities

Current liabilities as of end-consolidated FY2020 totaled ¥2,943,829 thousand, an increase of ¥1,176,225 thousand compared with the end of the previous consolidated fiscal year. This increase was mainly attributable to an increase of ¥635,570 thousand in the current portion of long-term loans payable, an increase of ¥272,106 thousand in advances received, and an increase of ¥88,564

thousand in consumption taxes payable. Non-current liabilities as of end-consolidated FY2020 totaled ¥2,858,569 thousand, an increase of ¥2,585,474 thousand compared with the end of the previous consolidated fiscal year. This increase was attributable to an increase of ¥2,585,474 thousand in long-term loans payable.

As a result of the above, total liabilities as of end-consolidated FY2020 totaled ¥5,802,398 thousand, an increase of ¥3,761,699 thousand compared with the end of the previous consolidated fiscal year.

Net assets

Net assets as of end-consolidated FY2020 totaled ¥9,717,594 thousand, an increase of ¥6,357,805 thousand compared with the end of the previous consolidated fiscal year. This increase was mainly attributable to increases of ¥2,956,909 thousand each in capital and capital reserves owing to issuance of shares related to overseas share offerings and the exercise of stock options and increase of ¥455,986 thousand in retained earnings.

(3) Outline of cash flows for the consolidated fiscal year

Cash and cash equivalents (hereinafter, net cash) as of end-consolidated FY2020 totaled ¥14,052,034 thousand, an increase of ¥9,574,638 thousand compared with the end-FY2019. Cash flows during consolidated FY2020 were as follows.

Cash flows from operating activities

Net cash provided by operating activities during consolidated FY2020 was ¥805,762 thousand (compared with ¥513,982 thousand in FY2019). This increase was mainly attributable to ¥422,632 thousand in pretax net profit, adjusted for ¥146,584 thousand in depreciation and amortization costs, an increase of ¥58,774 thousand in accounts receivable (trade), an increase of ¥272,106 thousand in advances received, ¥126,122 thousand in taxes paid and ¥19,066 thousand in settlement payments received.

Cash flows from investing activities

Net cash used in investing activities during consolidated FY2020 was ¥283,149 thousand (compared with ¥767,964 thousand in FY2019). This was mainly attributable to ¥191,717 thousand from software development costs and ¥55,122 thousand from the acquisition of shares of subsidiary companies related to changes in the scope of consolidated accounting.

Cash flows from financing activities

Net cash provided by financing activities during consolidated FY2020 was ¥9,052,025 thousand (compared with ¥3,075,285 thousand in FY2019). This was mainly attributable to ¥5,860,481 thousand in proceeds from the issuance of shares, ¥3,500,000 thousand in long-term borrowings, and ¥308,456 thousand in repayment of long-term loans.

(4) Outlook

The Company views the providing of value to its customers, in other words, maximization of companywide sales, as essential to maximization of long-term free cash flow, leading to growth in corporate value. The Company therefore positioned net sales as a key performance indicator to be considered when making management decisions. Specifically, the Company will focus on developing its business based on a business model focused on stable relationships with customers in order to achieve continuous high growth in sales (number of customer offices × ARPU*). The Company will also strive to maximize customer numbers while strengthening its product lineup in order to continuously improve ARPU. In order to achieve these goals, to the extent possible, the Company plans to conduct the necessary investment in growth to continue to win customers, increase the customer usage rate, and expand the range of functions offered by its services.

Based on the above, in addition to net sales, which the Company views as the main source of long-term free cash flow, the Company focuses on EBITDA, a profit indicator that it views as closer to free cash flow. The Company will proactively disclose information on these two indicators to shareholders and investors. Profit indicators other than EBITDA include operating profit, ordinary profit, and net profit attributable to owners of the parent company. When M&A is conducted, accounting standards can have a sizable impact on progress made in terms of the abovementioned investment in growth. The Company therefore focuses on EBITDA as a profit indicator that measures actual profitability and is not impacted by such factors.

Regarding the Company's sales in FY2021, owing to uncertain factors such as the rate of earnings growth and the pace of new business startups, in order to provide investors with highly transparent information disclosure, its full-year forecast is provided in the form of a range. At present, the declaration of the second state of emergency in January 2021 appears to be having a smaller impact on operations compared with the first declaration promulgated in April 2020. The Company's forecast factors in the difference in the scale of these impacts.

The Company also provides its full-year EBITDA and other profit forecasts in the form of ranges. This is because 1) the Company provides its full-year sales forecast in the form of a range, 2) hiring costs and labor costs may be higher or lower than expected owing to uncertain factors regarding planned companywide hiring that is part of the Company's efforts to strengthen its organization, and 3) the value of investments targeting medium- to long-term growth could be higher or lower than expected owing to factors such as changes in the external environment. EBITDA and other profit differ from the Company's forecast due to depreciation and amortization of goodwill and costs related to share-based remuneration.

Based on the above factors, the Company's full-year forecast for FY2021 is as shown below. The Company's forecast does not factor in any impact from the launch of new businesses or M&A not currently included in our business plan or from liberalization of regulations.

Full-year forecast for consolidated FY2020

Net Sales	10,000	million yen	10,500	million yen
EBITDA	460	million yen	1,000	million yen
Operating profit	50	million yen	590	million yen
Ordinary profit	10	million yen	550	million yen
Profit attributable to owners of parent	10	million yen	470	million yen

The above forward-looking statements include forecasts are based on information currently available to the Company and certain assumptions deemed to be reasonable. These statements include risks and uncertainties. Actual results may vary due to various uncertain factors.

Please note that, because the Company is providing its full-year sales forecasts in the form of ranges, if, during FY2020, it calculates new in-house forecasts, it is likely that the Company will revise its forecast and disclose its new forecast in accordance with earnings forecast disclosure standards.

Please also refer to the Company's financial results presentation materials for more details.

(Note) ARPU (Average Revenue Per User) = average sales per Group customer business office

2. Fundamental view regarding selection of accounting standards

The Company has adopted Japanese accounting standards as a means to allow comparison between companies. The Company has the policy of appropriately adopting International Financial Reporting Standards (IFRS), taking into consideration conditions in Japan and overseas.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousand yen)

	As of December 31,2019	As of December 31,2020
Assets		
Current assets		
Cash and deposits	4,477,395	14,052,034
Accounts receivable - trade	241,498	300,272
Merchandise and finished goods	211	11,657
Work in process	-	4,338
Prepaid expenses	37,192	71,963
Accrued income	3,033	2,134
Other	20,241	134,327
Allowance for doubtful accounts	(23,995)	(31,065)
Total current assets	4,755,577	14,545,664
Non-current assets		
Property, plant and equipment		
Buildings, net	38,911	43,680
Tools, furniture and fixtures, net	17,096	20,336
Vehicles, net	-	3,503
Total property, plant and equipment	56,007	67,520
Intangible assets		
Software	222,324	275,196
Software in progress	-	7,222
Goodwill	-	80,828
Total intangible assets	222,324	363,247
Investments and other assets		
Leasehold deposits	359,717	372,567
Deferred tax assets	-	125,648
Other	131	4,485
Total investments and other assets	359,849	502,702
Total non-current assets	638,181	933,470
Deferred assets		
Share issuance costs	6,729	40,858
Total deferred assets	6,729	40,858
Total assets	5,400,488	15,519,992

	As of December 31,2019	As of December 31,2020
Liabilities		
Current liabilities		
Accounts payable - trade	1,495	57,287
Short-term borrowings	500,000	500,000
Current portion of long-term borrowings	190,256	825,826
Accounts payable - other	557,636	587,056
Accrued expenses	44,766	72,609
Advances received	149,286	421,392
Deposits received	81,597	141,492
Income taxes payable	106,922	112,300
Accrued consumption taxes	105,302	193,866
Provision for bonuses	1,461	-
Provision for refund of sales	8,596	10,656
Provision for cashback for newly hired	12,987	19,368
Provision for other	7,295	1,971
Total current liabilities	1,767,604	2,943,829
Non-current liabilities		
Long-term borrowings	273,095	2,858,569
Total non-current liabilities	273,095	2,858,569
Total liabilities	2,040,699	5,802,398
Net assets		
Shareholders' equity		
Share capital	1,011,523	3,968,433
Capital surplus	2,833,471	5,790,380
Retained earnings	(499,137)	(43,151)
Total shareholders' equity	3,345,857	9,715,662
Share acquisition rights	13,932	1,932
Total net assets	3,359,789	9,717,594
Total liabilities and net assets	5,400,488	15,519,992

(2) Consolidated Statements of Income and Comprehensive Income
Consolidated Statements of Income

(Thousand yen)

	For the fiscal year ended December 31,2019	For the fiscal year ended December 31,2020
Net sales	4,765,312	6,830,791
Cost of sales	1,551,336	2,159,623
Gross profit	3,213,975	4,671,167
Selling, general and administrative expenses	3,060,816	4,275,072
Operating profit	153,159	396,094
Non-operating income		
Interest income	15	36
Subsidy income	13,560	12,585
Settlement received	29,417	24,750
Other	7,041	9,143
Total non-operating income	50,034	46,514
Non-operating expenses		
Interest expenses	6,995	10,143
Amortization of share issuance costs	1,583	7,208
Listing Expenses	15,467	-
Outsourcing expenses	-	2,128
Other	799	441
Total non-operating expenses	24,845	19,921
Ordinary profit	178,347	422,687
Extraordinary losses		
Impairment loss	494,489	-
Loss on abandonment of non-current assets	0	55
Total extraordinary losses	494,489	55
Profit (loss) before income taxes	(316,141)	422,632
Income taxes - current	65,084	92,293
Income taxes - deferred	-	(125,648)
Total income taxes	65,084	(33,354)
Profit (loss)	(381,226)	455,986
Profit (loss) attributable to owners of parent	(381,226)	455,986

Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the fiscal year ended December 31,2019	For the fiscal year ended December 31,2020
Profit (loss)	(381,226)	455,986
Other comprehensive income		
Total other comprehensive income	-	-
Comprehensive income	(381,226)	455,986
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(381,226)	455,986
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statements of Changes in Net Assets

For the fiscal year ended December 31, 2019

(Thousand yen)

	Shareholders' equity					Share acquisition rights	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at beginning of period	50,000	1,144,447	(117,911)	-	1,076,536	13,932	1,090,468
Changes during period							
Issuance of new shares	961,523	961,523			1,923,047		1,923,047
Disposal of treasury shares		727,500		475,000	1,202,500		1,202,500
Profit (loss) attributable to owners of parent			(381,226)		(381,226)		(381,226)
Purchase of treasury shares				(475,000)	(475,000)		(475,000)
Net changes in items other than shareholders' equity							
Total changes during period	961,523	1,689,023	(381,226)	-	2,269,320	-	2,269,320
Balance at end of period	1,011,523	2,833,471	(499,137)	-	3,345,857	13,932	3,359,789

For the fiscal year ended December 31, 2020

(Thousand yen)

	Shareholders' equity					Share acquisition rights	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at beginning of period	1,011,523	2,833,471	(499,137)	-	3,345,857	13,932	3,359,789
Changes during period							
Issuance of new shares	2,956,909	2,956,909			5,913,818		5,913,818
Disposal of treasury shares							
Profit (loss) attributable to owners of parent			455,986		455,986		455,986
Purchase of treasury shares							
Net changes in items other than shareholders' equity						(12,000)	(12,000)
Total changes during period	2,956,909	2,956,909	455,986	-	6,369,805	(12,000)	6,357,805
Balance at end of period	3,968,433	5,790,380	(43,151)	-	9,715,662	1,932	9,717,594

(4) Consolidated Statements of Cash Flows

(Thousand yen)

	For the fiscal year ended December 31,2019	For the fiscal year ended December 31,2020
Cash flows from operating activities		
Profit (loss) before income taxes	(316,141)	422,632
Depreciation	96,402	146,584
Impairment loss	494,489	-
Amortization of security deposit	4,522	5,866
Increase (decrease) in allowance for doubtful accounts	(15,534)	7,069
Increase (decrease) in provision for bonuses	(2,297)	(1,461)
Interest and dividend income	(15)	(36)
Interest expenses	6,995	10,143
Amortization of share issuance costs	1,583	7,208
Settlement received	(29,417)	(24,750)
Loss on abandonment of non-current assets	0	55
Decrease (increase) in trade receivables	(26,961)	(58,774)
Decrease (increase) in inventories	(211)	(4,148)
Increase (decrease) in trade payables	488	15
Increase (decrease) in accounts payable - other	209,688	24,792
Increase (decrease) in advances received	26,555	272,106
Increase (decrease) in accrued consumption taxes	50,574	88,564
Other, net	7,292	27,935
Subtotal	508,013	923,804
Interest and dividends received	15	36
Interest paid	(6,670)	(11,023)
Settlement package received	14,918	19,066
Income taxes paid	(2,294)	(126,122)
Net cash provided by (used in) operating activities	513,982	805,762
Cash flows from investing activities		
Purchase of property, plant and equipment	(17,434)	(22,176)
Purchase of intangible assets	(149,761)	(191,717)
Payments of leasehold and guarantee deposits	(104,001)	(14,133)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(496,636)	(55,122)
Other, net	(131)	-
Net cash provided by (used in) investing activities	(767,964)	(283,149)
Cash flows from financing activities		
Proceeds from short-term borrowings	500,000	-
Proceeds from long-term borrowings	100,000	3,500,000
Repayments of long-term borrowings	(175,262)	(308,456)
Proceeds from issuance of shares	1,923,047	5,860,481
Purchase of treasury shares	(475,000)	-
Proceeds from disposal of treasury shares	1,202,500	-
Net cash provided by (used in) financing activities	3,075,285	9,052,025
Net increase (decrease) in cash and cash equivalents	2,821,303	9,574,638
Cash and cash equivalents at beginning of period	1,656,092	4,477,395
Cash and cash equivalents at end of period	4,477,395	14,052,034

(5) Notes on consolidated financial statements

(Notes related to of going concern assumptions)

Not applicable

(Changes in Accounting Policies)

(Consolidated statements of cash flows)

In the previous consolidated fiscal year (FY2019), under “Cash flows from operating activities”, “Increase/decrease in consumption taxes payable” and “Increase/decrease in advances received” were included in “Other”. As these items have become significant in terms of value, starting from consolidated FY2020, they will be reported independently as separate line items. Consolidated financial statements for FY2019 have been revised to reflect this change in accounting policies.

As a result of the above, the Consolidated statement of cash flows for FY2019 has been revised. Previously, “Other” under “Cash flows from operating activities” was reported as ¥84,422 thousand. However, this has been revised to show “Increase/decrease in consumption taxes payable” of ¥50,574 thousand, “Increase/decrease in advances received” of ¥26,555 thousand, and “Other” of ¥7,292 thousand.

(Additional information)

(Accounting estimates regarding the impact 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 the Company expect the impact on its business from the spread of COVID-19 to vary from segment to segment, it does not currently expect a material impact that would necessitate a major revision to its consolidated FY2020 earnings forecast.

However, given the highly uncertain impact on economic activity from the spread of COVID-19, any changes to the assumptions provided above could impact the Company’s financial condition and operational performance.

(Segment information, etc.)

(Segment information)

1. Overview of reportable segments

(1) Classification of reportable segments

The business segments the Company reports are the business units from which individual financial information can be obtained, and on which the Board of Directors can conduct periodic investigations to determine the appropriate distribution of operational resources and evaluate business performance.

Based on its mission of “Creating the future of medical healthcare”, the Company develops and provides online services in the field of medical healthcare. In this field, despite daily advances in medical treatment technologies, owing to regulations and delays in the application of technologies, there are many obstacles that must be overcome before large numbers of patients can benefit from advances in medicine. Faced with this situation, the Company believes that joining together with a wide range of stakeholders in the field of medical healthcare to leverage network technologies to solve issues one by one will allow medical care businesses to provide patients with excellent medical care. The Medley Group therefore provides services that respond to the needs of society.

The Company’s reportable segments are composed of the following three units: Recruitment Platform Business, Medical Platform Business, and New Services Segment.

(2) Services provided by each reportable segment

The Recruitment Platform Business handles JobMedley hiring support service that runs on a placement fee business model and assists companies in the medical healthcare field to address issues such as labor shortages and uneven regional distribution of medical professionals.

The Medical Platform Business handles CLINICS cloud medical support system, Pharms pharmacy window support system, and MEDLEY medical information service. It also includes consolidated subsidiaries (wholly owned subsidiaries) NaCl Medical, which conducts outsourced development of medical accounting software, and OTO, Inc., which conduct proof-of concept testing for Pharms.

The New Services Segment handles Kaigo-no Honne nursing facility search website aimed at people searching for nursing care facilities.

2. Method of calculating sales and profit (loss), identifiable assets and liabilities, and other items by reportable segment

Accounting methods for reportable segments are basically the same as those used when creating financial statements. Profit by reportable segment is reported on an operating profit basis.

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

Consolidated Fiscal Year 2019 (from January 1, 2019 to December 31, 2019)

(Thousands of yen)

	Reportable segment				Adjustment (Note) 1	Amount in the consolidated financial statement (Note) 2
	Recruitment Platform Business	Medical Platform Business	New Services	Total		
Net sales						
Sales to external customers	4,111,533	536,814	116,964	4,765,312	—	4,765,312
Inter-segment sales and transfers	—	—	—	—	—	—
Total	4,111,533	536,814	116,964	4,765,312	—	4,765,312
Segment profit (loss)	1,768,472	(515,748)	(88,715)	1,164,009	(1,010,849)	153,159
Segment assets	225,555	6,622	263	232,441	5,168,047	5,400,488
Other items						
Depreciation	87,169	2,592	465	90,227	6,175	96,402
Increase in property, plant and equipment and intangible assets	156,234	6,511	363	163,110	7,517	170,627

- (Notes)
1. Segment profit (loss) adjustments of (¥1,010,849) thousand include intersegment eliminations and corporate expenses unallocated to reportable segments.
 2. Segment profit (loss) is adjusted under operating profit on the Consolidated Statements of Comprehensive Income.
 3. Adjustments of identifiable segment assets of ¥5,168,047 thousand mainly include corporate expenses unallocated to reportable segments.
 4. In consolidated Q1 FY2019, NaCl Medical, Inc. was brought into the scope of consolidated accounting. As the deemed acquisition date for shares of NaCl Medical, Inc. was March 31, 2019, it was included in consolidated statements of income and comprehensive income starting in Q2 FY2019.

Consolidated Fiscal Year 2020 (from January 1, 2020 to December 31, 2020)

(Thousands of yen)

	Reportable segment				Adjustment (Note) 1	Amount in the consolidated financial statement (Note) 2
	Recruitment Platform Business	Medical Platform Business	New Services	Total		
Net sales						
Sales to external customers	5,650,569	1,072,005	108,216	6,830,791	—	6,830,791
Inter-segment sales and transfers	—	—	—	—	—	—
Total	2,371,070	1,072,005	108,216	6,830,791	—	6,830,791

Segment profit (loss)	2,371,070	(461,415)	(80,682)	1,828,972	(1,432,877)	396,094
Segment assets	285,589	97,143	597	383,330	15,136,662	15,519,992
Other items						
Depreciation	133,627	4,578	221	138,428	8,155	146,584
Increase in property, plant and equipment and intangible assets	60,033	90,521	333	150,888	15,439	166,328

- (Notes)
1. Segment profit (loss) adjustments of (¥1,432,877) thousand include intersegment eliminations and corporate expenses unallocated to reportable segments.
 2. Segment profit (loss) is adjusted under operating profit on the Consolidated Statements of Comprehensive Income.
 3. Adjustments of identifiable segment assets of ¥15,136,662 thousand mainly include corporate expenses unallocated to reportable segments.
 4. In consolidated FY2020, MEDS, INC. and OTO, Inc. were brought into the scope of consolidated accounting. As the deemed acquisition date for shares of OTO, Inc. was October 31, 2020, it was included in the consolidated balance sheet only and not in other consolidated financial statements for FY2020.

4. Information on impairment losses on non-current assets or amortization of goodwill by reportable segments

Consolidated Fiscal Year 2020 (from January 1, 2020 to December 31, 2020)

(Major impairment losses on non-current assets)

Not applicable

(Significant changes in goodwill values)

Goodwill of ¥80,828 thousand was posted at end-FY2020 in the Medical Platform Business reporting segment due to the acquisition of shares in OTO, Inc.

(Significant gains in negative goodwill)

Not applicable

(Per share information)

	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2020
Net assets per share	118.88 Yen	314.53 Yen
Net profit (loss) per share	(14.87) Yen	15.69 Yen
Diluted net profit per share	—	14.48 Yen

- (Notes)
1. Although potentially dilutive shares exist, they are not factored into diluted net profit (loss) per share (diluted earnings per share) in FY2019 because the Company has posted negative diluted earnings per share.
 2. Net profit (loss) per share and diluted net profit (loss) per share are calculated based on the following.

	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2020
Net profit (loss) per share		
Net profit (loss) attributable to owners of parent (thousand yen)	(381,226)	455,986
Amount not attributable to common shareholders (thousand yen)	—	—
Net loss attributable to parent company shareholders of common stock (thousand yen)	(381,226)	455,986
Average number of common shares during fiscal year (thousand yen)	25,636,762	29,062,500
Diluted net profit per share		
Net profit adjustment attributable to owner of parent (thousand yen)	—	—
Amount of increase in common shares (share)	—	2,431,777

Descriptions of potentially non-dilutive common shares that were not included in the calculation of diluted net profit per share	—	—
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(Significant subsequent events)

(Business combination via transaction)

(1) Summary of business combination

At a meeting held on December 17, 2020, the Board of Directors resolved to acquire 80% of issued shares of Pacific System Co., Ltd. (“Pacific System”). A share purchase agreement was signed with Pacific System and the share transaction was completed on January 4, 2021.

1) Name and description of business of acquired corporation

Name of acquired corporation Pacific System Co., Ltd.

Description of business activities Development and sales of EMR; outsourced system development; storage and maintenance of servers; planning, designing, and consulting related to system installation

2) Main purpose of business combination

Over the past 17 years, Pacific System has provided highly functional, low cost electronic medical record (EMR) systems, achieving high customer satisfaction as demonstrated by its 98% repeat customer rate. While the market of EMR for small- to medium-sized hospitals has been expanding, adoption of digital technologies in this market has been slow and a majority of these hospitals still use paper-based medical records. In order to achieve sustainable regional healthcare in Japan even as the population ages and declines, the Company believes it is essential to increase the adoption of highly functional, low cost EMR systems by small- to medium-sized hospitals. The Company converted Pacific System into a subsidiary to enter the hospital EMR market. The Company and Pacific System will leverage the Company’s customer base to expand their share of the hospital EMR market and accelerate the adoption of digital technologies in the healthcare industry by aggressively creating synergies with telemedicine systems.

3) Business combination date

January 4, 2021 (deemed date of acquisition: January 1, 2021)

4) Legal form of business combination

Acquisition of shares

5) Name of acquired company after business combination

Pacific System Co., Ltd.

6) Percentage of voting rights acquired

Percentage of voting rights held after business combination: 80%

7) Primary basis for determination of acquiring company

The Company paid cash in consideration for acquiring 80% of the voting rights of Pacific System Co., Ltd.

(2) Acquisition cost and breakdown by type of considerations

Consideration paid in cash	792 million yen
Acquisition cost	792 million yen

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

Not determined at present time

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

Not determined at present time

(5) Breakdown of the amount of major assets accepted and liabilities assumed on the date of business combination

Not determined at present time

(Business combination via transaction)

(1) Summary of business combination

The Company resolved at the Board of Directors Meeting held on February 12, 2021, to enter into a share purchase agreement with ND Software Co., Ltd. (“ND Software”) to acquire all outstanding shares of MEDiPASS Co., Ltd. (“MEDiPASS”).

1) Name and description of business of acquired corporation

Name of acquired corporation	MEDiPASS Co., Ltd.
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Description of business activities	Operation of online video nursing training service “MEDiPASS Academy”, online introduction service for paid senior living facilities “Goika no Kaigo”, operational support for home healthcare and nursing providers
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2) Main purpose of business combination

In line with its mission of “Connecting people and creating systems to solve the problems of super-aging society”, MEDiPASS offers services for healthcare and nursing care providers. Especially, since the launch of online video training service “MEDiPASS Academy” in 2018, MEDiPASS has built an impressive track record by providing nursing care providers with a wide range of contents. MEDiPASS also offers “Goika no Kaigo”, an online introduction service for paid senior living facilities, which has strengths in the arrangement of discharge of patients, and operational support for medical institutions which provide residents of nursing care facilities with medical care, etc.

The acquisition of MEDiPASS will enable the Company to enter the field of online training and accelerate digital transformation in medical and healthcare industries by expanding the product lineup offered via JobMedley. The Company will continue to address the challenges which medical and healthcare industries are facing such as the shortage of medical workers and low availability of medical services in local areas by creating synergies through business expansion leveraging the customer base of JobMedley

3) Business combination date

February 26, 2021 (deemed date of acquisition: March 31, 2021)

4) Legal form of business combination

Acquisition of shares

5) Name of acquired company after acquisition

MEDiPASS Co., Ltd.

6) Percentage of voting rights acquired

Percentage of voting rights held after business combination: 100%

7) Primary basis for determination of acquiring company

The Company will pay cash in consideration for acquiring 100% of the voting rights of MEDiPASS Co., Ltd.

(2) Acquisition cost and breakdown by type of considerations

Consideration paid in cash	1,500 million yen
Acquisition cost	1,500 million yen

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

Not determined at present time

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

Not determined at present time

(5) Breakdown of the amount of major assets accepted and liabilities assumed on the date of business combination

Not determined at present time