1. Qualitative Information on Financial Results

(1) Operating Results

In the first three months of the fiscal year ending May 31, 2023, the Japanese economy was expected to recover supported in part by the effects of various initiatives as advances in measures to combat the pandemic contributed to progress in normalizing economic and social activities. However, a downturn in overseas economies driven by global monetary tightening and other factors raised the risk of downward pressure on the Japanese economy. Against this backdrop, the LIKE Group must pay close attention to the impact of price increases on households and companies, and factors such as supply constraints. The Group must also continue to monitor these developments with a sense of caution.

Despite this unpredictable environment, the situation has provided an opportunity for the Group to reaffirm the social significance of its businesses. At the same time, we believe the changes in our operating environment present opportunities for business growth for the Group.

Each of the Group's businesses is closely related to social issues, such as nursery waiting lists, participation of women in the workforce, labor shortages, the creation of employment, and circumstances that require workers to leave their jobs to care for elderly family members. We are confident that improving the quality of the value we provide and expanding our business will contribute to the resolution of social issues and the realization of a sustainable society.

Going forward, based on its Group philosophy, "… planning the future: developing people and creating the future," the LIKE Group aims to become a corporate group that is truly indispensable to the world through the provision of high-quality services in the Child-Rearing Support Service, Comprehensive Human Resources Service, and Nursing Care-Related Service businesses. At the same time, we will focus on expanding the working population in an aging society with a declining birthrate by supporting diverse forms of employment.

In the three months ended August 31, 2022, our operating results (profit lines) were weighed down by a ¥178 million year-on-year decline in the amount of deferred subsidies recorded in the Child-Rearing Support Service business, the booking of expenses accompanying the opening of a new facility in the Nursing Care-Related Service business, and the absence of facilities subsidy income for childcare facilities.

As a result, net sales reached ¥14,186 million (+5.1% year on year), operating profit was ¥582 million (-23.2%), and ordinary profit came to ¥579 million (-42.6%). Profit attributable to owners of parent amounted to ¥330 million (-47.7%).

Segment Results

Child-Rearing Support Service Business

According to the Summary Report of Annual Vital Statistics of Japan (final data) released by the Ministry of Health, Labour and Welfare in September 2022, the number of births in 2021 came to 811,622, down from 840,835 in the previous year, and the lowest since the survey began. In addition, according to an April 2022 survey by the Ministry of Health, Labour and Welfare, the number of children on nursery waiting lists stood at 2,944 (down 2,690 year on year), the lowest since the survey began. However, the number of latent children on waiting lists (those seeking nursery services that do not appear on waiting lists) totaled 61,283, and the number of children on waiting lists for after-school clubs was 13,416 (as of May 1, 2021), indicating that the waitlist issue remains serious, especially in the Tokyo metropolitan area. Furthermore, the employment rate of women, which has temporarily declined due to the spread of COVID-19, is expected to rise again going forward. As such, childcare demand is projected to remain high in metropolitan areas, and promoting various measures to ensure the availability of childcare services is still an urgent matter.

To this end, in addition to opening private licensed nurseries, our consolidated subsidiary LIKE Kids, Inc. has made efforts to improve the availability of childcare from various angles by, for example, conducting outsourced operation of nurseries established by local governments, opening new nurseries in large development projects of real estate developers, conducting outsourced operation of on-site childcare facilities including company-led nurseries located at hospitals, companies, and universities, and conducting outsourced operation of after-school clubs and children's centers of local governments. It has also focused on recruiting excellent nursery teachers to ensure the quality of its childcare services by working closely with our other consolidated subsidiary, LIKE Staffing, Inc.

As a result, sales in the three months ended August 31, 2022 totaled ¥6,541 million (+1.1% year on year) and operating profit came to ¥191 million (-49.1%). The outcome reflected a ¥178 million year-on-year drop in the amount of deferred subsidies recorded during the period.

Comprehensive Human Resources Service Business

Securing human resources is an important management issue in our main business domains, which can be described as social infrastructure, as the working population shrinks in Japan due to declining birthrates and an aging population.

Accordingly, consolidated subsidiary LIKE Staffing, Inc. engaged in proactive sales activities to increase working populations in the business domains of mobile phone, logistics and manufacturing, call center, childcare and nursing care, and construction industries.

In the mobile phone industry, the fourth carrier, which newly entered the market in April 2020, has reached its target population coverage ratio after installing base stations and expanding its network coverage area. It then shifted focus toward strengthening its sales force to capture more subscriptions, which has further intensified competition among mobile carriers to acquire customers. These changes in the competitive environment have translated into major human resource demand at home electronics mass retailers, which is the epicenter of competition for customers, and orders for our human resources service have increased alongside this trend. In addition, the demand for human resources at call centers was robust as carriers took steps to move their registration processes online. Although there have been reports that some carriers are reducing their store count, we believe that the consolidation of carrier stores will only have a negligible impact on our business performance as our mobile phone staff are generally assigned to home electronics mass retailers. Sales in the logistics industry grew in response to strong demand for human resources as large logistics facilities began operations one after another across Japan to support the expanding e-commerce market. In the childcare and nursing care industries, where human resource shortages are increasing, we are reviewing our in-house sales system, promoting measures to optimize recruiting channels, and linking the facilities management expertise of consolidated subsidiaries LIKE Kids, Inc. and LIKE Care, Inc. with recruitment capabilities to strengthen our staffing and placement services.

In addition, we continued to develop businesses to serve as growth drivers, with a focus on expanding our services for the construction industry and our employment support services for foreign nationals. We have promoted these services for the last few years.

To ensure the availability of services for the construction industry, which continues to incur sweeping impact from Japan's aging population, we are recruiting construction managers, site supervisors (assistants), on-site administrative staff, and building information modeling (BIM) and computer-aided design (CAD) operators. In addition, we are creating new value by offering our full-time employees serving as "experts" in the mobile phone industry a new career in the construction industry as a construction manager to encourage them to reskill while at the same time matching these expert employees with our clients' recruiting needs. Moreover, we have established a training model for BIM and CAD operators, for which the construction industry lacks sufficient training, by providing a two-month course and practical training program aimed at developing skills up to a certain level, and this has enabled us to dispatch and place human resources with higher added value. Further, through aggressive sales activities, we are steadily cultivating new clients, and the number of inquiries from companies seeking human resources is on the rise.

Regarding employment support services for foreign nationals, human resource demand in various industries, which had temporarily slowed down due to the COVID-19 pandemic, is steadily improving as the economy showed signs of recovery. In addition, Japan's entry restrictions have been eased gradually, which enabled us to recruit and place not only foreign nationals that are already in Japan, but also those from overseas. As a result, we actively engaged in sales activities in the nursing care industry, which we had initially expected, as well as in the building cleaning, restaurant, accommodation, and food and beverage manufacturing industries. At the same time, we are also working to create comfortable working environments, including support for daily life, so that more companies will be able to accept these workers effortlessly.

As a result, sales in the three months ended August 31, 2022 amounted to ¥5,662 million (+10.9% year on year), and operating profit came to ¥525 million (+23.9%).

Nursing Care-Related Service Business

In the Nursing Care-Related Service business, consolidated subsidiary LIKE Care, Inc. operates assisted-living paid nursing homes in the metropolitan area of Kanagawa, Tokyo, and Saitama, where large numbers of people aged 65 or older reside. Leveraging strong collaborations with medical institutions, many of these facilities offer end-of-life care with round-the-clock nursing support, providing living quarters to many individuals who are in need of intensive nursing care and for whom receiving nursing care at home is prohibitively difficult. As a result, the occupancy rate of these facilities has remained high.

Furthermore, we newly opened Sunrise Villa Itabashi Mukaihara (64 rooms) on July 1, 2022, bringing the total number of facilities in operation to 26.

As a result, sales in the three months ended August 31, 2022 totaled ¥1,927 million (+3.4% year on year), and operating profit amounted to ¥71 million (-38.8%), with the decline in the latter attributable to an increase in costs accompanying the opening of the new facility.

Other

In the multimedia services business, we operate a mobile phone store serving as an antenna shop for the mobile phone industry as part of the Comprehensive Human Resources Service business. Due to a change in the carrier's store incentive policy, sales in the three months ended August 31, 2022 came to ¥54 million (-12.9% year on year), and the operating loss was ¥7 million (operating loss of less than ¥1 million in the three months ended August 31, 2021).

(2) Financial Position

As of August 31, 2022, total assets stood at ¥38,615 million, down ¥764 million from May 31, 2022. Total net assets amounted to ¥13,831 million, down ¥190 million. The shareholders' equity ratio increased 0.2 percentage points from May 31, 2022, to 35.8%.

Current assets

Current assets as of August 31, 2022 came to ¥16,076 million, down ¥1,672 million from May 31, 2022. This was mainly the result of a ¥1,228 million decrease in notes and accounts receivable–trade, and contract assets.

Non-current assets

Non-current assets as of August 31, 2022 amounted to ¥22,539 million, up ¥907 million from May 31, 2022. This mainly reflected a ¥1,062 million increase in property, plant and equipment, partially offset by a ¥111 million decrease in goodwill due to amortization.

Current liabilities

As of August 31, 2022, current liabilities stood at ¥10,717 million, down ¥922 million from May 31, 2022. This was attributable primarily to decreases of ¥466 million in income taxes payable and ¥272 million in provision for bonuses.

Non-current liabilities

Non-current liabilities as of August 31, 2022 amounted to ¥14,067 million, up ¥348 million from May 31, 2022. This mainly reflected a ¥1,171 million increase in lease obligations, partially offset by decreases of ¥762 million in long-term borrowings and ¥57 million in move-in deposits received.

Net assets

As of August 31, 2022, net assets totaled ¥13,831 million, down ¥190 million from May 31, 2022. This was due primarily to ¥498 million in dividends paid, which partially offset the booking of ¥330 million in profit attributable to owners of parent.

(3) Consolidated Earnings Forecast and Other Forward-Looking Statements

We have made no changes to our consolidated earnings forecast for the fiscal year ending May 31, 2023 released on July 11, 2022.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	As of May 31, 2022	As of August 31, 2022
Assets		
Current assets		
Cash and deposits	10,623,285	10,668,996
Notes and accounts receivable–trade, and contract assets	5,425,661	4,196,837
Merchandise	9,971	9,701
Raw materials and supplies	7,695	7,983
Other	1,690,907	1,202,270
Allowance for doubtful accounts	(9,023)	(9,671)
Total current assets	17,748,498	16,076,118
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	12,535,915	12,311,149
Machinery, equipment and vehicles, net	12,085	10,994
Leased assets, net	2,649,014	3,860,966
Construction in progress	35,766	127,563
Other, net	450,342	434,894
Total property, plant and equipment	15,683,125	16,745,569
Intangible assets		
Goodwill	517,075	406,059
Other	164,373	157,220
Total intangible assets	681,449	563,280
Investments and other assets		
Investment securities	552,887	481,760
Shares of subsidiaries and associates	46,000	46,000
Long-term loans receivable	883,252	867,929
Guarantee deposits	2,683,839	2,740,490
Deferred tax assets	768,567	768,478
Other	374,249	369,480
Allowance for doubtful accounts	(41,171)	(43,354)
Total investments and other assets	5,267,625	5,230,785
Total non-current assets	21,632,200	22,539,634
Total assets	39,380,698	38,615,753

(Thousands of yen)

	As of May 31, 2022	As of August 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable–trade	104,636	113,101
Short-term borrowings	1,400,000	1,400,000
Current portion of long-term borrowings	3,285,512	3,221,912
Accounts payable–other	3,684,899	3,604,307
Income taxes payable	722,116	255,522
Accrued consumption taxes	546,501	535,192
Provision for bonuses	759,229	486,776
Provision for shareholder benefit program	47,697	20,384
Other	1,089,878	1,080,389
Total current liabilities	11,640,471	10,717,586
Non-current liabilities		
Long-term borrowings	9,190,612	8,428,410
Deferred tax liabilities	95,302	85,193
Asset retirement obligations	744,090	745,625
Move-in security deposits received	825,413	768,350
Retirement benefit liability	359,471	364,785
Lease obligations	2,439,606	3,611,334
Other	63,722	63,432
Total non-current liabilities	13,718,219	14,067,132
Total liabilities	25,358,691	24,784,719
Net assets		
Shareholders' equity		
Share capital	1,548,683	1,548,683
Capital surplus	165,827	165,827
Retained earnings	12,792,238	12,623,905
Treasury shares	(741,087)	(741,087)
Total shareholders' equity	13,765,661	13,597,329
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	254,820	231,934
Remeasurements of defined benefit plans	1,524	1,769
Total accumulated other comprehensive income	256,345	233,704
Total net assets	14,022,007	13,831,034
Total liabilities and net assets	39,380,698	38,615,753

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income

First three months of the fiscal year ending May 31, 2023

(Thousands of yen)

	Three months ended August 31, 2021 (June 1, 2021 to August 31, 2021)	Three months ended August 31, 2022 (June 1, 2022 to August 31, 2022)
Net sales	13,500,462	14,186,316
Cost of sales	11,347,156	12,202,422
Gross profit	2,153,306	1,983,893
Selling, general and administrative expenses	1,394,815	1,401,690
Operating profit	758,490	582,203
Non-operating income		
Interest income	1,644	1,524
Dividend income	516	517
Gain on investments in investment partnerships	9,457	9,565
Facilities subsidy income	251,686	—
Other	7,440	7,273
Total non-operating income	270,745	18,880
Non-operating expenses		
Interest expenses	18,772	17,323
Donations	212	—
Other	553	3,932
Total non-operating expenses	19,539	21,255
Ordinary profit	1,009,697	579,827
Extraordinary losses		
Loss on retirement of non-current assets	0	4,450
Other	—	758
Total extraordinary losses	0	5,208
Profit before income taxes	1,009,697	574,619
Income taxes	378,109	244,009
Profit	631,587	330,610
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	631,587	330,610

Quarterly Consolidated Statement of Comprehensive Income

First three months of the fiscal year ending May 31, 2023

(Thousands of yen)

	Three months ended August 31, 2021 (June 1, 2021 to August 31, 2021)	Three months ended August 31, 2022 (June 1, 2022 to August 31, 2022)
Profit	631,587	330,610
Other comprehensive income		
Valuation difference on available-for-sale securities	(19,739)	(22,886)
Remeasurements of defined benefit plans, net of tax	12,953	245
Total other comprehensive income	(6,786)	(22,640)
Comprehensive income	624,801	307,969
Comprehensive income attributable to:		
Owners of parent	624,801	307,969
Non-controlling interests	—	—

(3) Notes to Quarterly Consolidated Financial Statements

Notes Regarding Assumption of a Going Concern

There are no applicable matters to report.

Notes on Significant Changes in the Amount of Shareholders' Equity

There are no applicable matters to report.

Adoption of Special Accounting Methods for Preparation of Quarterly Consolidated Financial Statements

Tax expenses are calculated by multiplying profit before income taxes by an effective tax rate that was reasonably estimated by applying tax-effect accounting to estimated profit before income taxes for the fiscal year ending May 31, 2023, including the first three months under review.

However, in cases where calculating tax expenses using an estimated effective tax rate yields a result that is notably lacking rationality, tax expenses are calculated using the statutory effective tax rate.

Changes in Accounting Policies

Adoption of Implementation Guidance on Accounting Standard for Fair Value Measurement

The Group began applying the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 issued June 17, 2021; "Fair Value Measurement Implementation Guidance") at the beginning of the first quarter of the fiscal year ending May 31, 2023, and will apply the new accounting policies prescribed by the Fair Value Measurement Implementation Guidance in accordance with the transitional treatments prescribed in Paragraph 27-2 of the Fair Value Measurement Implementation Guidance. The adoption of the Fair Value Measurement Implementation Guidance has no impact on the quarterly consolidated financial statements.