1. Qualitative Information on Financial Results

(1) Operating Results

In the first six 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 COVID-19 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 six months ended November 30, 2022, operating results (profit lines) were weighed down by increases in food ingredient and utility costs driven by soaring commodity prices, in addition to ongoing impact from the ¥178 million year-on-year decline in the amount of deferred subsidies recorded in the Child-Rearing Support Service business in the first three months ended August 31 and upfront expenditures for the opening of a new facility in the Nursing Care-Related Service business.

As a result, in the six-month period under review, net sales amounted to ¥28,659 million (+5.5% year on year), operating profit to ¥1,079 million (-22.9%), ordinary profit to ¥1,244 million (-24.8%), and profit attributable to owners of parent to ¥710 million (-30.7%).

Segment Results

Child-Rearing Support Service Business

According to the Summary Report of Annual Vital Statistics of Japan (preliminary data for October 2022) released by the Ministry of Health, Labour and Welfare in December 2022, the number of births in 2022 is expected to decline further from the 811,622 recorded in the previous year to below 800,000 for the first time 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.

Meanwhile, the latent number of children on waiting lists (the number of children 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 15,180 (as of May 1, 2022), up 1,764 year on year, 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. The Japanese government has vowed to take unprecedented measures to tackle the declining birthrate, and is expected to step up efforts aimed at resolving the issue.

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.

Further, on October 1, 2022, we opened Nijiiro Nursery Ichigaya Kagacho.

As a result, in the six months ended November 30, 2022, sales amounted to ¥13,150 million (+3.3% year on year), reflecting the ¥178 million year-on-year decline in the amount of deferred subsidies recorded in the three months ended August 31, and operating profit was ¥357 million (-40.6%) due to increases in food ingredient and utility costs driven by soaring commodity prices.

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, competition has further intensified among mobile carriers to acquire customers. This change in the competitive environment has 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 pandemic, is steadily improving as the economy showed signs of recovery. In addition, Japan’s entry restrictions have largely been lifted, which has 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.

We have also begun operating rehabilitation facilities for COVID-19 patients under contract from local governments, and through these projects, we intend to accumulate operational expertise and build relationships with local governments.

As a result, sales in the six months ended November 30, 2022 amounted to ¥11,528 million (+9.4% year on year), and operating profit came to ¥1,004 million (+19.2%).

Nursing Care-Related Service Business

In the Nursing Care-Related Service business, consolidated subsidiary LIKE Care, Inc. operates assisted-living 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 six months ended November 30, 2022 totaled ¥3,857 million (+2.6% year on year), and operating profit amounted to ¥124 million (-48.7%), with the decline in the latter attributable to upfront expenditures for the opening of the new facility and a rise in utility costs driven by soaring commodity prices.

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 six months ended November 30, 2022 came to ¥123 million (-3.8% year on year), and the operating loss was ¥8 million (operating profit of ¥2 million in the six months ended November 30, 2021).

(2) Financial Position

As of November 30, 2022, total assets stood at ¥38,235 million, down ¥1,145 million from May 31, 2022. Total net assets amounted to ¥14,139 million, up ¥117 million. The shareholders' equity ratio increased 1.4 percentage points from May 31, 2022, to 37.0%.

Current assets

Current assets as of November 30, 2022 came to ¥16,024 million, down ¥1,723 million from May 31, 2022. This was mainly the result of a ¥1,180 million decrease in notes and accounts receivable–trade, and contract assets.

Non-current assets

Non-current assets as of November 30, 2022 amounted to ¥22,210 million, up ¥578 million from May 31, 2022. This mainly reflected a ¥915 million increase in property, plant and equipment due to new facility openings in the Child-Rearing Support Service business, partially offset by a ¥222 million decrease in goodwill due to amortization.

Current liabilities

As of November 30, 2022, current liabilities stood at ¥10,886 million, down ¥754 million from May 31, 2022. This was attributable primarily to decreases of ¥216 million in accounts payable–other, ¥177 million in income taxes payable, and ¥226 million in accrued consumption taxes.

Non-current liabilities

Non-current liabilities as of November 30, 2022 amounted to ¥13,209 million, down ¥508 million from May 31, 2022. This mainly reflected a ¥1,524 million decrease in long-term borrowings, partially offset by a ¥1,111 million increase in lease obligations.

Net assets

As of November 30, 2022, net assets totaled ¥14,139 million, up ¥117 million from May 31, 2022. This was due primarily to the booking of ¥710 million in profit attributable to owners of parent, which was partially offset by ¥498 million in dividends paid.

(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 November 30, 2022
Assets		
Current assets		
Cash and deposits	10,623,285	10,629,774
Notes and accounts receivable–trade, and contract assets	5,425,661	4,245,301
Merchandise	9,971	9,695
Raw materials and supplies	7,695	7,932
Other	1,690,907	1,143,300
Allowance for doubtful accounts	(9,023)	(11,228)
Total current assets	17,748,498	16,024,775
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	12,535,915	12,243,704
Machinery, equipment and vehicles, net	12,085	9,904
Leased assets, net	2,649,014	3,806,571
Construction in progress	35,766	137,602
Other, net	450,342	401,226
Total property, plant and equipment	15,683,125	16,599,008
Intangible assets		
Goodwill	517,075	295,043
Other	164,373	150,212
Total intangible assets	681,449	445,256
Investments and other assets		
Investment securities	552,887	413,080
Shares of subsidiaries and associates	46,000	46,000
Long-term loans receivable	883,252	851,601
Guarantee deposits	2,683,839	2,769,662
Deferred tax assets	768,567	768,370
Other	374,249	358,231
Allowance for doubtful accounts	(41,171)	(40,624)
Total investments and other assets	5,267,625	5,166,321
Total non-current assets	21,632,200	22,210,586
Total assets	39,380,698	38,235,361

(Thousands of yen)

	As of May 31, 2022	As of November 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable–trade	104,636	125,565
Short-term borrowings	1,400,000	1,400,000
Current portion of long-term borrowings	3,285,512	3,112,440
Accounts payable–other	3,684,899	3,468,372
Income taxes payable	722,116	544,878
Accrued consumption taxes	546,501	320,047
Provision for bonuses	759,229	644,830
Provision for shareholder benefit program	47,697	6,040
Other	1,089,878	1,264,253
Total current liabilities	11,640,471	10,886,429
Non-current liabilities		
Long-term borrowings	9,190,612	7,666,209
Deferred tax liabilities	95,302	53,473
Asset retirement obligations	744,090	751,802
Move-in security deposits received	825,413	745,953
Retirement benefit liability	359,471	376,927
Lease obligations	2,439,606	3,551,374
Other	63,722	64,050
Total non-current liabilities	13,718,219	13,209,791
Total liabilities	25,358,691	24,096,221
Net assets		
Shareholders' equity		
Share capital	1,548,683	1,548,683
Capital surplus	165,827	165,827
Retained earnings	12,792,238	13,003,732
Treasury shares	(741,087)	(741,087)
Total shareholders' equity	13,765,661	13,977,156
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	254,820	159,969
Remeasurements of defined benefit plans	1,524	2,015
Total accumulated other comprehensive income	256,345	161,984
Total net assets	14,022,007	14,139,140
Total liabilities and net assets	39,380,698	38,235,361

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

Quarterly Consolidated Statement of Income

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

(Thousands of yen)

	Six months ended November 30, 2021 (June 1, 2021 to November 30, 2021)	Six months ended November 30, 2022 (June 1, 2022 to November 30, 2022)
Net sales	27,158,343	28,659,519
Cost of sales	23,006,111	24,769,657
Gross profit	4,152,232	3,889,861
Selling, general and administrative expenses	2,752,296	2,810,488
Operating profit	1,399,935	1,079,372
Non-operating income		
Interest income	3,292	3,070
Dividend income	7,588	7,797
Gain on investments in investment partnerships	9,557	46,730
Facilities subsidy income	270,030	139,412
Other	13,444	13,862
Total non-operating income	303,914	210,873
Non-operating expenses		
Interest expenses	36,144	40,732
Loss on investments in investment partnerships	1,304	—
Other	12,370	5,065
Total non-operating expenses	49,819	45,798
Ordinary profit	1,654,030	1,244,448
Extraordinary income		
Gain on sale of non-current assets	—	27
Other	0	—
Total extraordinary income	0	27
Extraordinary losses		
Loss on retirement of non-current assets	1,206	4,483
Other	—	842
Total extraordinary losses	1,206	5,325
Profit before income taxes	1,652,824	1,239,149
Income taxes	628,271	528,712
Profit	1,024,553	710,437
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	1,024,553	710,437

Quarterly Consolidated Statement of Comprehensive Income

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

(Thousands of yen)

	Six months ended November 30, 2021 (June 1, 2021 to November 30, 2021)	Six months ended November 30, 2022 (June 1, 2022 to November 30, 2022)
Profit	1,024,553	710,437
Other comprehensive income		
Valuation difference on available-for-sale securities	(59,129)	(94,851)
Remeasurements of defined benefit plans, net of tax	12,302	490
Total other comprehensive income	(46,827)	(94,360)
Comprehensive income	977,725	616,076
Comprehensive income attributable to:		
Owners of parent	977,725	616,076
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 six 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.