

Link and Motivation Inc.

Securities Code: 2170

Consolidated Financial Information for the Three Months Ended March 31, 2019 (First Quarter of 2019)

May 14, 2019



Link and Motivation Group

- 1. Company Overview**
- 2. Business Report
(Announcement of Results for the
Three Months Ended March 31, 2019)**

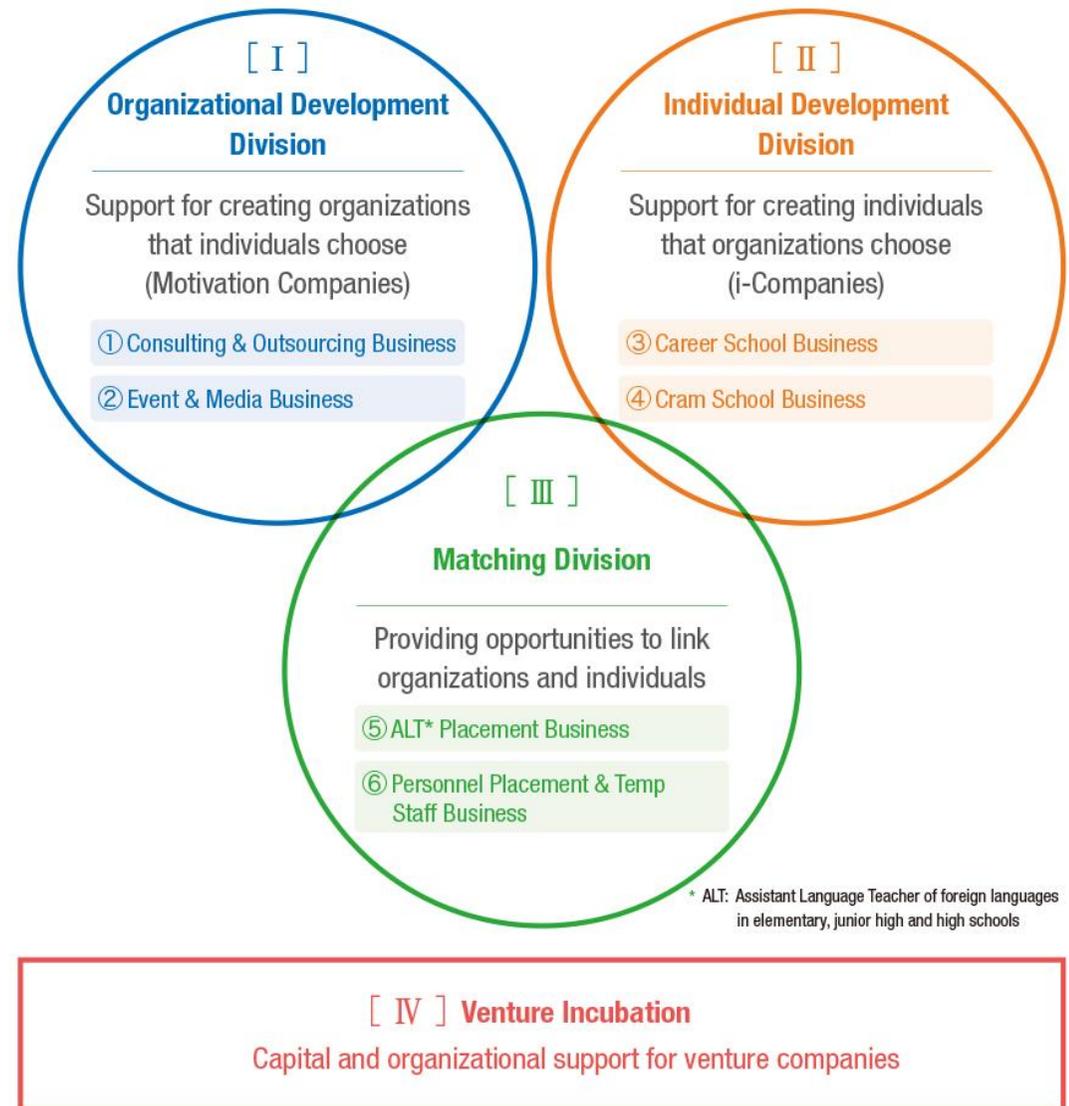
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Company Overview

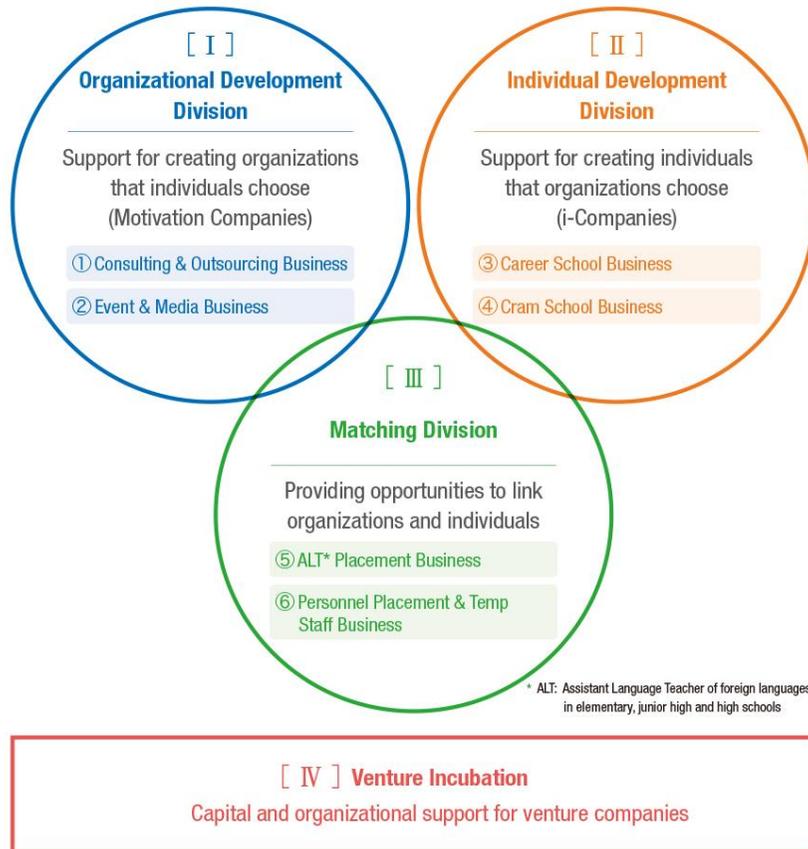
Operating Structure of the Link and Motivation Group

Mission

*Through Motivation Engineering, we provide opportunities to transform **organizations** and **individuals** and create a more meaningful society.*



Core Technology Motivation Engineering



【Strength ①】“Only One” Status

Promotion of businesses that are the **only one of their kind** in their markets through the application of our core technology **Motivation Engineering**

【Strength ②】Profit Stability and Growth*

Operation of businesses that can pursue **both profit stability and growth** in business fields ranging widely from individuals to corporations

* Segments with high stability: Individual Development Division, Matching Division

【Strength ③】Engagement in the Company

The Link and Motivation Group is **an organization with a high level of engagement** through the application of our core technology **Motivation Engineering**

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Business Report
(Announcement of Results for the
Three Months Ended March 31, 2019)

Consolidated Statements of Operations (Results/YoY Change/vs. Forecast)

(¥ million)	2018 1Q Results	2019 1Q Forecast	2019 1Q Results	YoY Change	Results vs. Forecast
Revenues	9,642	10,000	9,189	-4.7%	-8.1%
Operating Income	862	400	424	-50.7%	+6.2%
Net Income	533	-	197	-63.0%	-

Key Points



- Revenues decreased year-on-year (YoY) and fell below the forecast as growth did not exceed assumptions in either the Organizational Development Division or the Individual Development Division.
- Operating income decreased substantially YoY because SG&A expenses, which had initially been as expected, rose temporarily, but **exceeded** the forecast due to growth in sales of Motivation Cloud in the Organizational Development Division and solid performance by the ALT Placement Business in the Matching Division.

Consolidated Statements of Operations (Results/YoY Change)

(¥ million)	2018 1Q Results	2019 1Q Results	YoY Change
Total SG&A Expenses	2,889	3,066	+6.2%
① Personnel Expenses	1,304	1,264	-3.1%
② Recruiting, Training and Welfare Expenses	200	207	+3.5%
③ Office and System Expenses	591	603	+0.8%
④ Sales-related Expenses	549	749	+36.5%
⑤ Transportation and Other Expenses	242	242	+0.0%

Note: Due to the adoption of IFRS 16, right-of-use assets related to land leases are accounted for as depreciation expenses.

Key
Points



- ① Personnel Expenses decreased slightly YoY due to more efficient management operations and an increase in on-site staff.
- ④ Sales-related Expenses **increased substantially YoY** due to a major concentration of sales promotion expenses on Motivation Cloud and other priority businesses.
- As a result, **overall SG&A expenses increased YoY.**

Revenues and Gross Profit by Segment (Results/YoY Change)

(¥ million)		2018 1Q Results	2019 1Q Results	YoY Change
Organizational Development Division	Revenues	3,097	2,555	-17.5%
	Gross Profit	2,105	1,772	-15.8%
Individual Development Division	Revenues	1,874	1,893	+1.0%
	Gross Profit	664	633	-4.6%
Matching Division	Revenues	5,080	5,029	-1.0%
	Gross Profit	1,296	1,369	+5.6%

Key Points



- In the Organizational Development Division, revenues and gross profit both decreased substantially YoY due to slower growth in the Consulting & Outsourcing Business.
- In the Individual Development Division, despite slower growth in the Cram School Business, firm performance by the Career School Business resulted in a **slight increase in revenues YoY** and a slight decrease in gross profit YoY.
- In the Matching Division, despite slower growth in the Personnel Placement & Temp Staff Business, firm performance by the ALT Placement Business resulted in a slight decrease in revenues YoY and an **increase in gross profit YoY**.

Reference: Organizational Development Division Product Revenues by Business (Results/YoY Change)

Product (¥ million) [Gross profit in brackets]	2018 1Q Results	2019 1Q Results	YoY Change
① Consulting & Outsourcing Business	2,505 [1,949]	2,019 [1,608]	-19.4% -17.5%
Package*	595	434	-26.9%
Consulting	1,238	847	-31.6%
Member/database services	437	578	+32.3%
Outsourcing	234	157	-32.6%
② Event & Media Business	842 [268]	733 [255]	-13.0% -4.6%
Event production	324	306	-5.5%
Media production	517	426	-17.7%

* Primarily standardized training products

Key Points



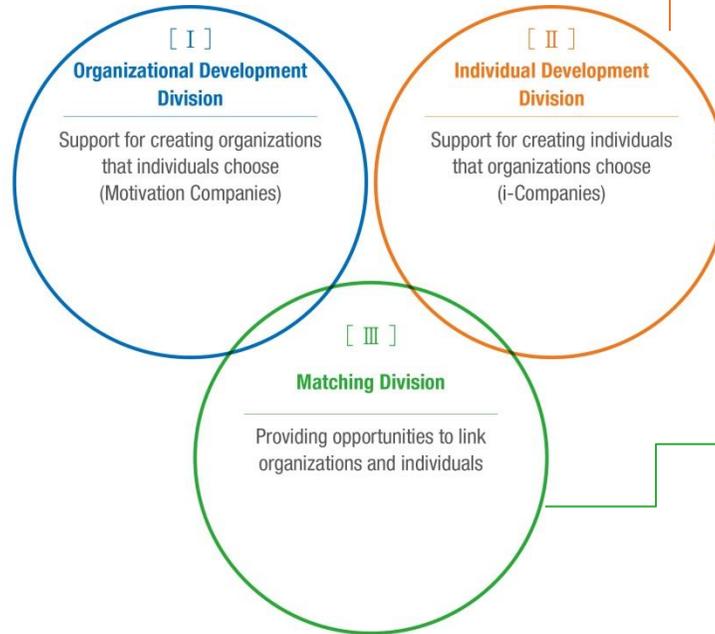
- In ① the Consulting & Outsourcing Business, Package and Consulting revenues decreased substantially YoY.
- Growth in Package and Consulting sales in the first quarter of 2019 was no more than expected as a result of the Consulting & Outsourcing Business staff's concentration on sales of Motivation Cloud in the fourth quarter of 2018.
- As a recovery measure, the business has been divided into one organization specializing in Motivation Cloud and another specializing in Package and Consulting sales, and their respective roles are being clearly delineated.

Business KPIs by Segment

Organizational Development Division

**Motivation Cloud
Monthly Fee Revenue**
(Subscription Model)

**Gross Profit per
Customer**
(Consulting/Outsourcing
Model)



Individual Development Division

Number of Enrollees
·
Lifetime Value (LTV*)

* LTV = Total amount of customer course fees until contract termination

Matching Division

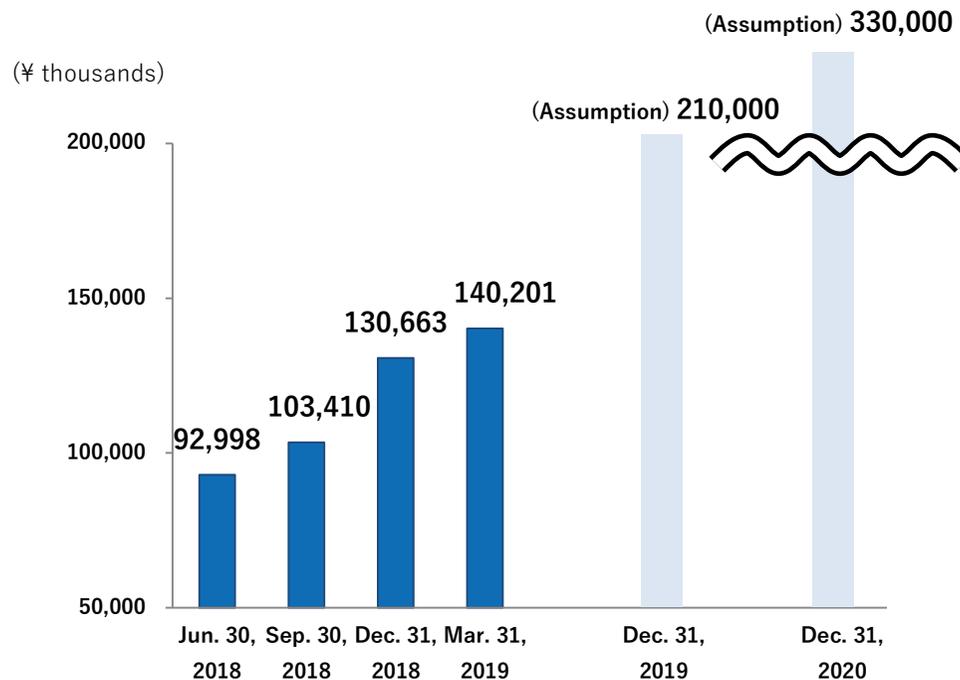
**Number of Staff
Dispatched**
·
**Number of
Introductions**

Key
Point

- We set business KPIs* for each segment.

* KPI = Key Performance Indicator

Business KPI	Motivation Cloud Monthly Fee Revenue
2019 1Q Results	¥140,201 thousand



Breakdown of Monthly Fee Revenue in March 2019

Contact points¹: 803
 Delivered orders²: 688
 Average monthly fee³: ¥203,000/month
 (December 2018: ¥197,000/month)

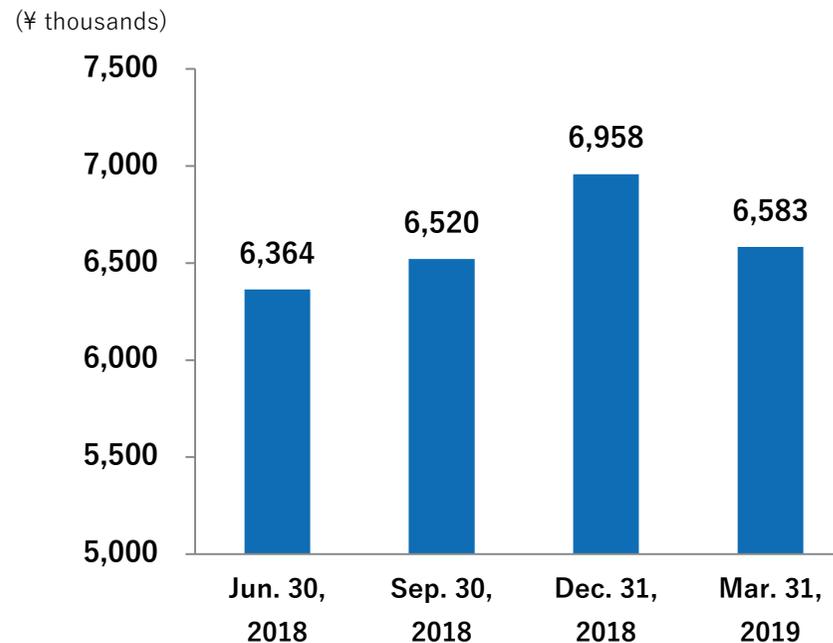
1. Number of companies subscribed to Motivation Cloud
2. Number of companies where Motivation Cloud service delivery has started
3. Monthly fee revenue ÷ number of delivered orders

Key Points >

- We have set **Motivation Cloud monthly fee revenue** as the business KPI for the subscription model.
- Revenue for 1Q of 2019 increased 7.3% from the previous quarter.
- Aiming for continuing growth in monthly fee revenue to ¥210 million by 4Q of 2019 and ¥330 million by 4Q of 2020.

Organizational Development Division Business KPI Results over Time (Consulting/Outsourcing Model)

Business KPI	Average Gross Profit per Customer for the Past 12 Months
2019 1Q Results	¥6,583 thousand



Note: The consulting/outsourcing model is for Organizational Development Division businesses other than Motivation Cloud and the Event & Media Business.

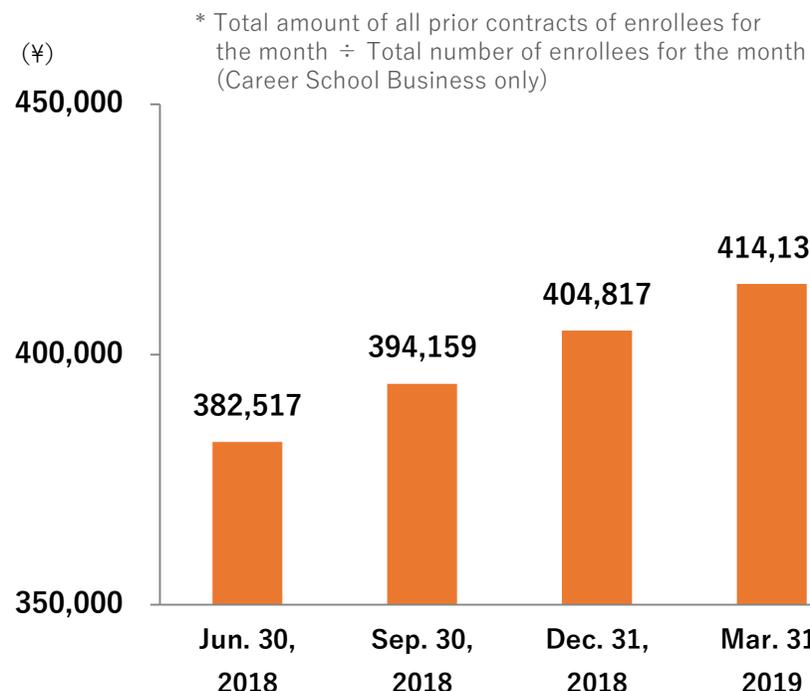
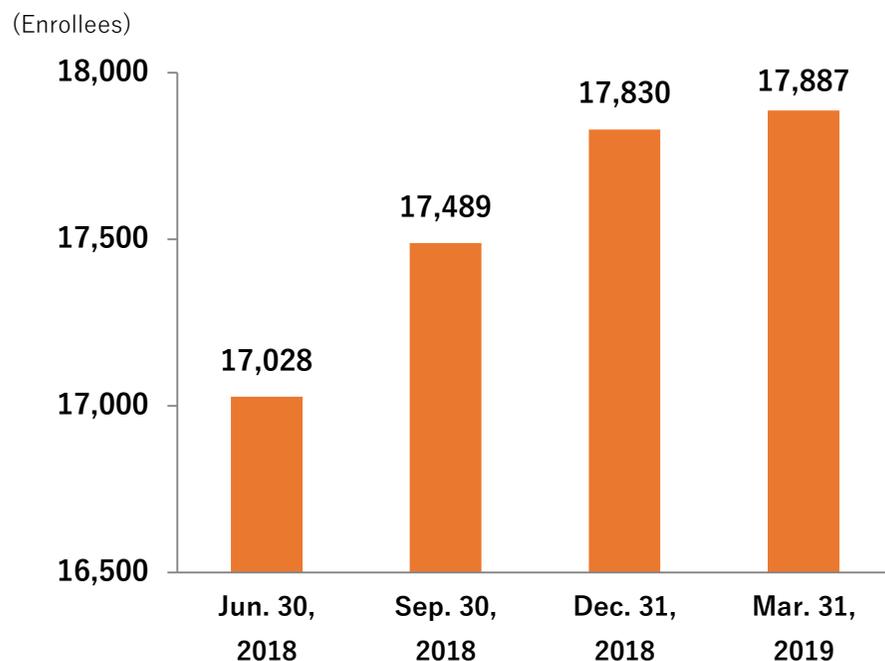
Key Points



- We have set **average gross profit per customer for the past 12 months** as the business KPI for the consulting/outsourcing model.
- 1Q of 2019 results decreased 5.4% from the previous quarter.

Individual Development Division Business KPI Results over Time

Business KPI	Average Number of Enrollees for the Past 12 Months	Average LTV* for the Past 12 Months
2019 1Q Results	17,887	¥414,135



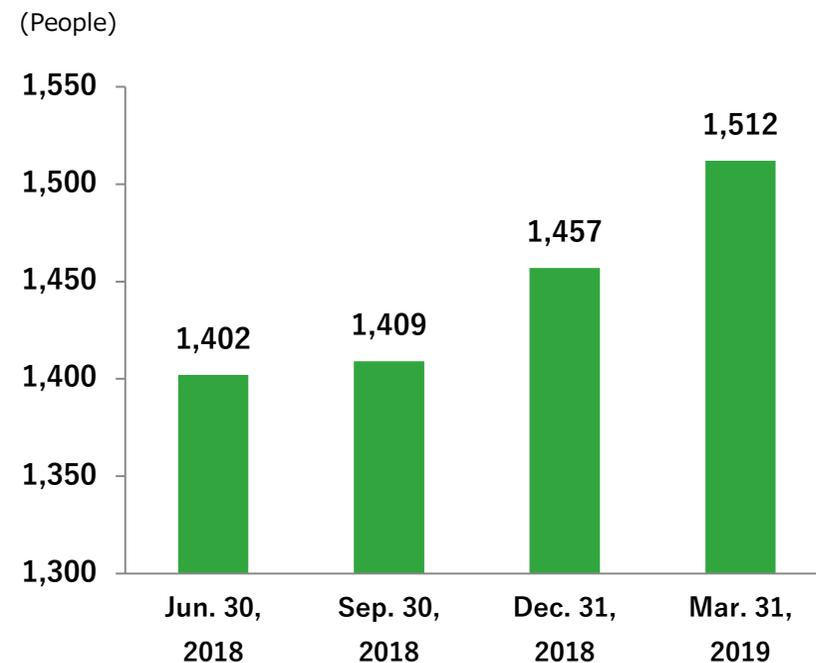
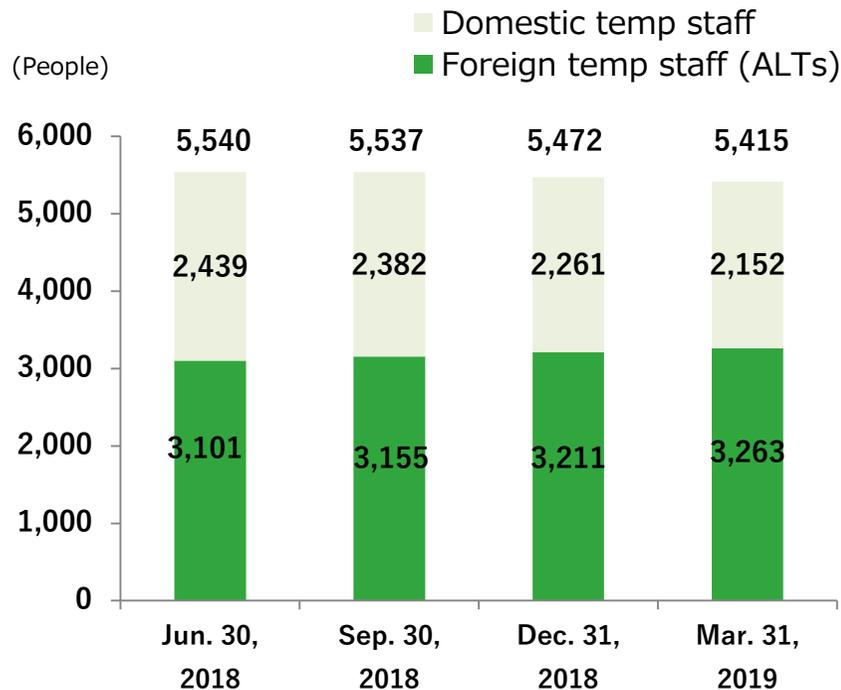
Key Points



- We have set **average number of enrollees for the past 12 months** and **average LTV for the past 12 months** as the business KPIs for the Individual Development Division.
- In 1Q of 2019, the average number of enrollees for the past 12 months increased 0.3% from the previous quarter and average LTV for the past 12 months increased 2.3% from the previous quarter.

Matching Division Business KPI Results over Time

Business KPI	Average Number of Temp Staff Dispatched during the Past 12 Months	Total Number of Introductions during the Past 12 Months
2019 1Q Results	5,415	1,512



Key
Points



- We have set the **average number of temp staff dispatched during the past 12 months** and the **total number of introductions during the past 12 months** as business KPIs for the Matching Division.
- In 1Q of 2019, the average number of temp staff dispatched during the past 12 months decreased 1.1% from the previous quarter and the total number of introductions during the past 12 months increased 3.7% from the previous quarter.

Due to the adoption of IFRS 16 “Leases,” items formerly accounted for as operating leases are treated as assets and liabilities, resulting the following changes.

Impact on the Consolidated Statement of Financial Position (As of December 31, 2018)

(¥ millions)	Before Adoption	Increase (Decrease)	After Adoption
Assets	27,664	16,676	44,340
Liabilities	19,982	17,317	37,300
Equity	7,681	(640)	7,040

Assets increased under the new standard due to recording leases as right-of-use assets.
 Liabilities increased due to recording future obligations arising from the recording of right-of-use assets as lease obligations.
 Equity decreased due mainly to recording the amount of decrease in past right-of-use assets as a deduction from retained earnings.

Key
Points



- Due to the adoption of IFRS 16, the accounting method used on the Consolidated Statement of Financial Position changed from the first quarter of 2019.
- The main change was to record rent and lease fees that are scheduled to be paid in the future as assets and liabilities.

Consolidated Statement of Financial Position (Results/YoY Change)
Effect of Adoption of IFRS 16

(¥ million)	Dec. 31, 2018 Results	Mar. 31, 2019 Results	YoY Change
① Current Assets	7,647	6,683	(964)
② Non-current Assets	36,693	37,111	418
③ Deferred Assets	0	0	0
Total Assets	44,340	43,794	(546)
④ Current Liabilities	13,667	13,067	(600)
⑤ Non-current Liabilities	23,632	23,432	(200)
Total Liabilities	37,300	36,499	(800)
⑥ Total Equity	7,040	7,295	254

Key
Points



- Assets decreased due to decreases in cash and cash equivalents and trade receivables.
- Liabilities decreased due to repayment of financial liabilities.
- Equity **increased** due to the recording of net income and an increase in the value of incubation company stock.

First Quarter of 2019 Dividends

Continuing from 2018, we will **pay quarterly dividends**.
A **dividend of 1.80 yen per share** is scheduled to be paid on
Tuesday, June 25, as originally planned.

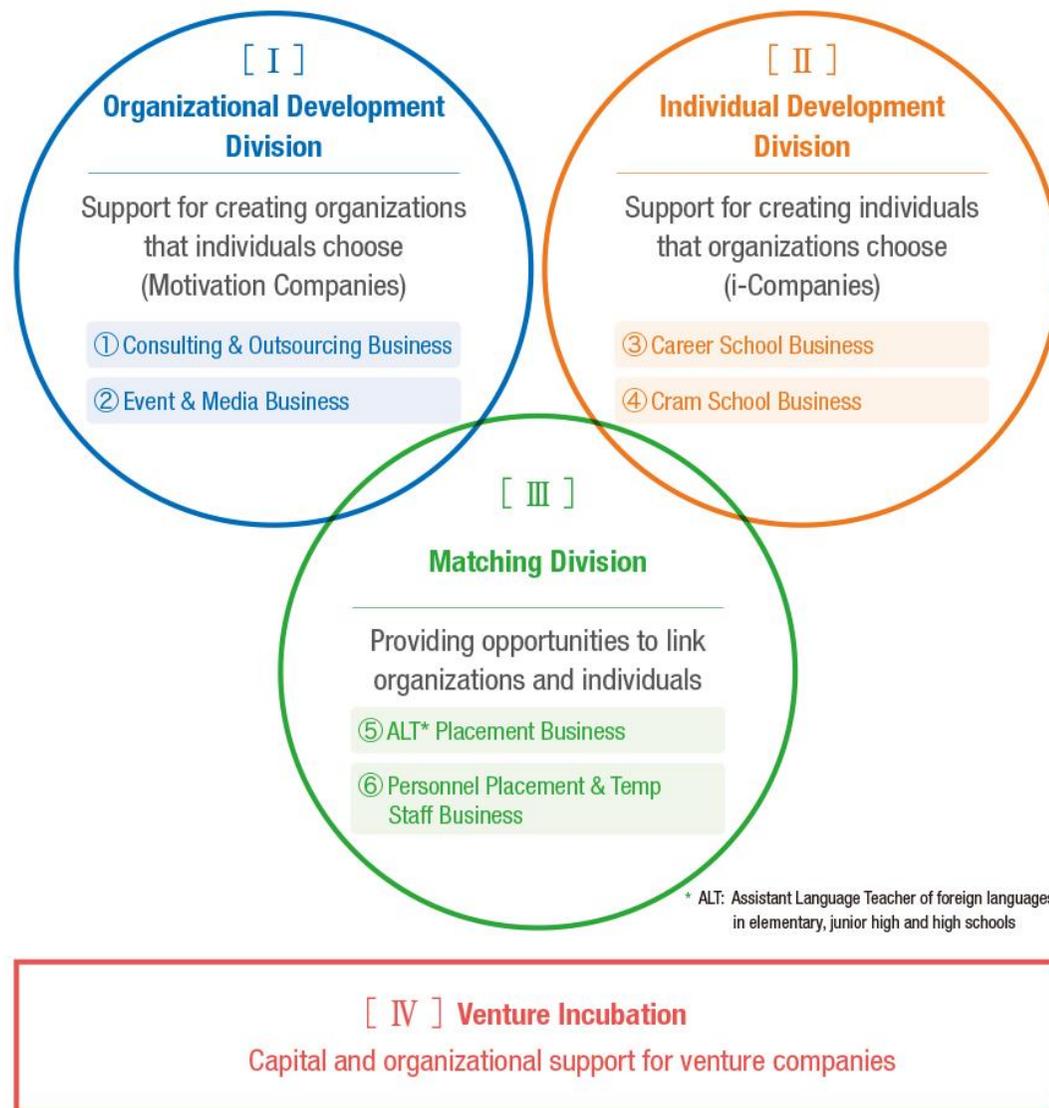
	Dividend per Share				
	First Quarter	Second Quarter (scheduled)	Third Quarter (scheduled)	Fourth Quarter (scheduled)	Annual Dividend (scheduled)
2019	1.80 yen	1.80 yen	1.80 yen	1.80 yen	7.20 yen

- Notes: 1. 100 shares per unit of the Company's stock.
2. The Company increased its dividend as of the first quarter of 2019.

Operating Structure of the Link and Motivation Group

Mission

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Reference Materials

Information by Product

Product (¥ million) [Gross profit in brackets]	2018 1Q Results	2019 1Q Results	YoY Change
① Consulting & Outsourcing Business	2,505 [1,949]	2019 [1,608]	-19.4% -17.5%
Package*	595	434	-26.9%
Consulting	1,238	847	-31.6%
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Event production	324	306	-5.5%
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* Primarily standardized training products

Key
Points



- In ① the Consulting & Outsourcing Business, revenues and gross profit both decreased substantially YoY because growth in Package and Consulting was no more than expected as a result of concentrating on sales of Motivation Cloud in Member/database services.
- In ② the Event & Media Business, revenues decreased substantially and gross profit decreased slightly YoY because progress in Media production was no more than expected due to an intentional reduction of orders with a high cost ratio.

Individual Development Division: Product Revenues by Business (Results/YoY Change) ③・④

Product (¥ million) [Gross profit in brackets]	2018 1Q Results		2019 1Q Results		YoY Change
	Results	% of total	Results	% of total	
③ Career School Business	1,700 [589]	-	1,731 [573]	-	+1.8% -2.8%
Office	735	43.2%	717	41.5%	-2.4%
Pro Series*	230	13.6%	229	13.2%	-0.5%
Accounting courses	141	8.3%	159	9.2%	+12.4%
National exam courses	156	9.2%	156	9.1%	+0.0%
Civil servant courses	309	18.2%	278	16.1%	-9.9%
Educational materials/other	43	2.5%	48	2.8%	+12.5%
English conversation	83	4.9%	140	8.1%	+68.1%
④ Cram School Business	173 [74]	-	163 [60]	-	-5.9% -18.6%

*Programming courses and other courses for specialized IT skills

Key
Points



- In ③ the Career School Business, **revenues increased slightly** and gross profit decreased slightly YoY due to firm sales of Accounting courses and English conversation courses.
- In ④ the Cram School Business, revenues decreased and gross profit decreased substantially YoY as growth in enrollment did not exceed expectations.

Matching Division: Product Revenues by Business (Results/YoY Change) ⑤・⑥

Product (¥ million) [Gross profit in brackets]	2018 1Q Results	2019 1Q Results	YoY Change
⑤ ALT* Placement Business	2,907 [806]	3,144 [911]	+8.2% +13.1%
⑥ Personnel Placement & Temp Staff Business	2,332 [617]	2,067 [592]	-11.4% -4.0%
Store sales temp staff	1,834	1,488	-18.9%
Office temp staff	160	156	-2.6%
Foreign worker support	141	165	+16.8%
Recruiting/introductions	196	258	+31.5%

* ALT: Assistant Language Teacher of foreign languages in elementary, junior high and high schools

Key Points

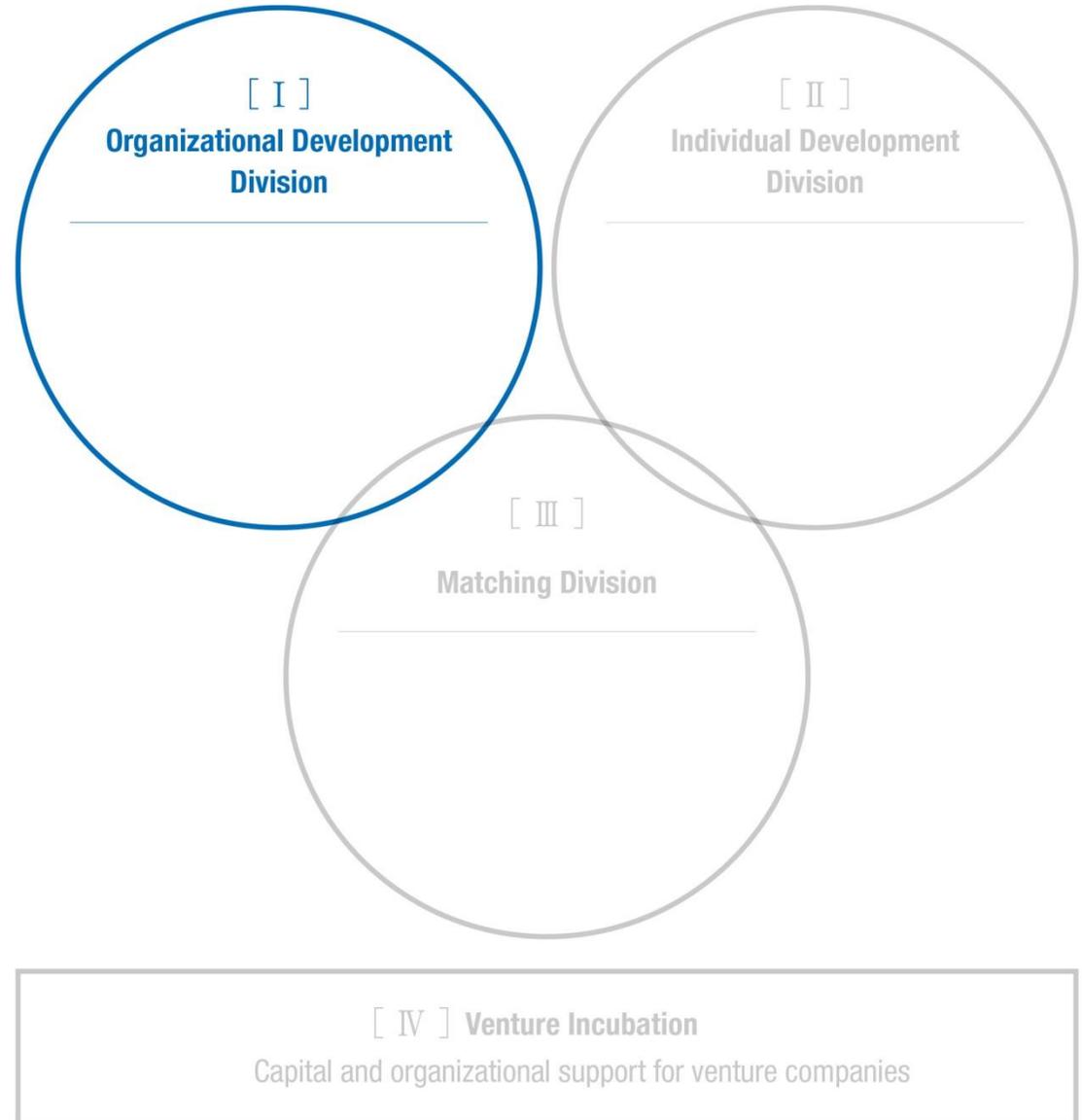


- In ⑤ the ALT Placement Business, **revenues increased and gross profit increased substantially YoY** due to firm performance from precisely capitalizing on the expansion of English education promoted by the Ministry of Education, Culture, Sports, Science and Technology (MEXT).
- In ⑥ the Personnel Placement & Temp Staff Business, revenues decreased substantially YoY due to slow growth by Store sales temp staff, which accounts for the majority of revenues, while gross profit only decreased slightly due to growth in highly profitable Foreign worker support and Recruiting/introductions.

Highlights by Division

Mission

*Through Motivation Engineering, we provide opportunities to transform **organizations** and **individuals** and create a more meaningful society.*



Motivation Cloud is a cloud-based service for improving organizations by raising **employee engagement**¹ that is **number-one in contact points in Japan.**²



A business with a monthly pay-as-you-go model that improves employee engagement by going through the PDCA cycle for ongoing organizational improvement



**MOTIVATION
CLOUD**

by Link and Motivation Group

Empowering change for all organizations

Cumulative data on **more than 1,080,000 employees at 4,690 companies**

All functions **patented** (No. 6298855)

Selected for GOOD DESIGN BEST 100



Notes:

1. Engagement (the level of mutual understanding, empathy and commitment between companies and employees) is correlated with business performance.
2. Link and Motivation data (as of March 2019)

We aim to improve employee engagement regardless of industry or company size.

Support is growing from leading companies in all industries.

信頼される安心を、社会へ。

SECOM

 **MITSUBISHI
ELECTRIC**
Changes for the Better

 **東急不動産**

S&B


Adobe


おいしい記憶をつくりたい。


FUJITSU

株式会社 富士通マーケティング


NTT Communications
Transform. Transcend.


ITOKI

We aim to improve employee engagement regardless of industry or company size.

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掘りだそう、自然の力。

Calbee

NTTテクノクロス株式会社

UZABASE

UNISYS

CA CyberAgent.

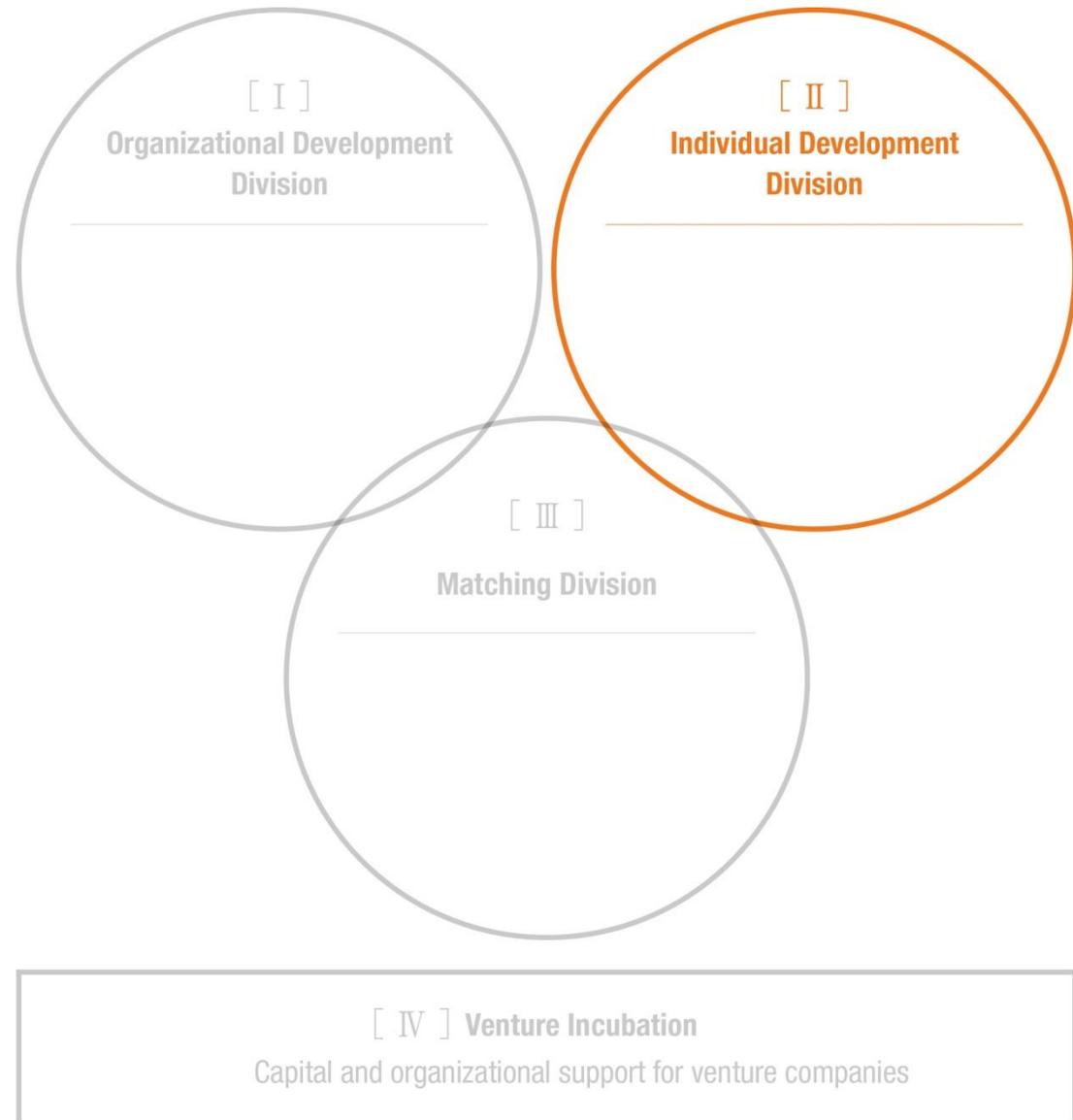
RECRUIT
リクルートキャリア

RakSul

mixi
GROUP

Mission

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Change in the Value of Education

Content < **Motivation**



Shift in the core of value from content (what one learns) to motivation (how one learns)

Change in Working Lifespan

Lifespan of companies and business models



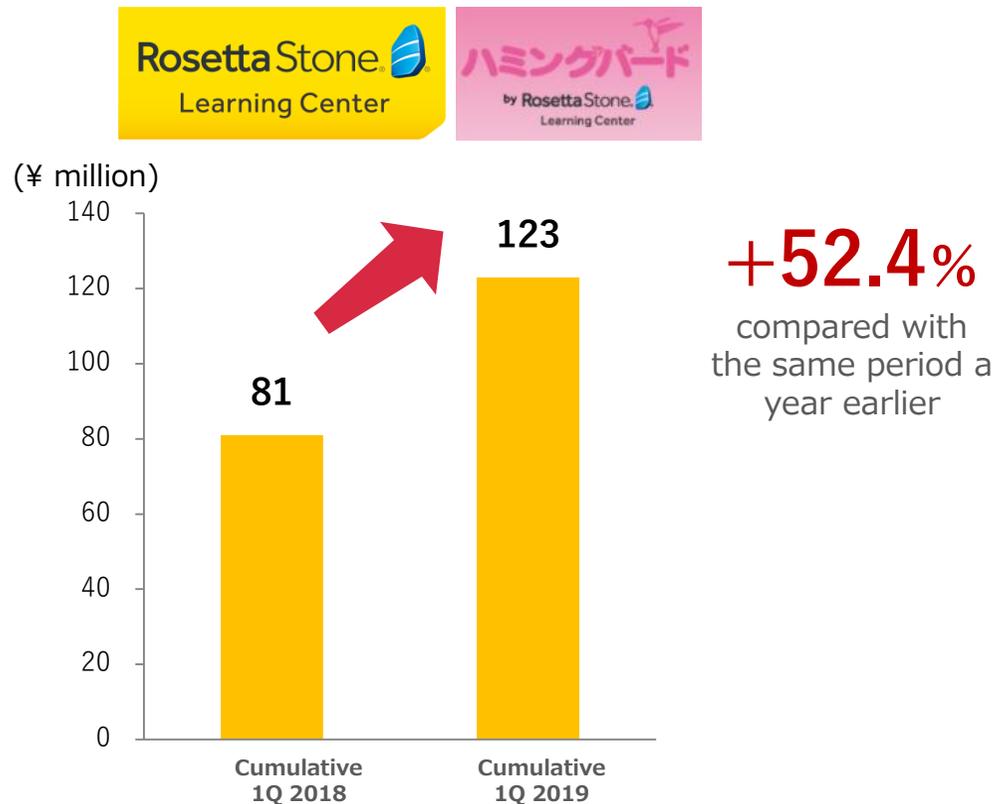
Lifespan of individuals



Increasing risk to career development of dependence on a specific skill

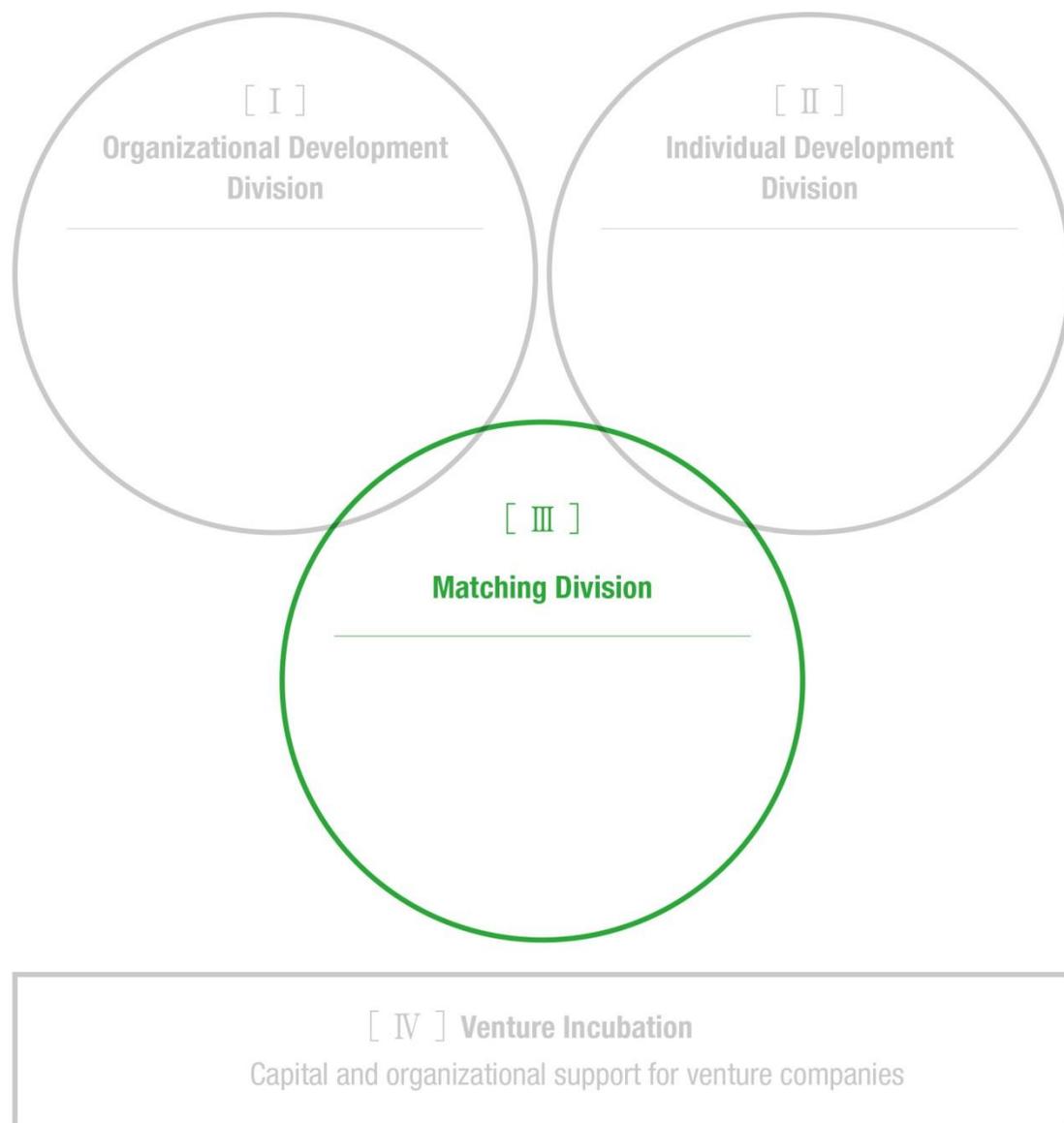
Steady growth from creating an environment where more students can study longer through **unfailing total career support**

Sales of Rosetta Stone and Hummingbird Language Courses



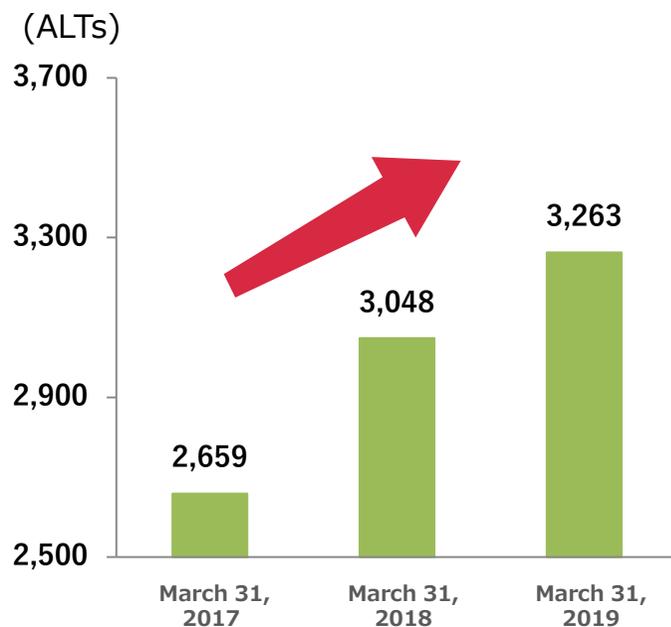
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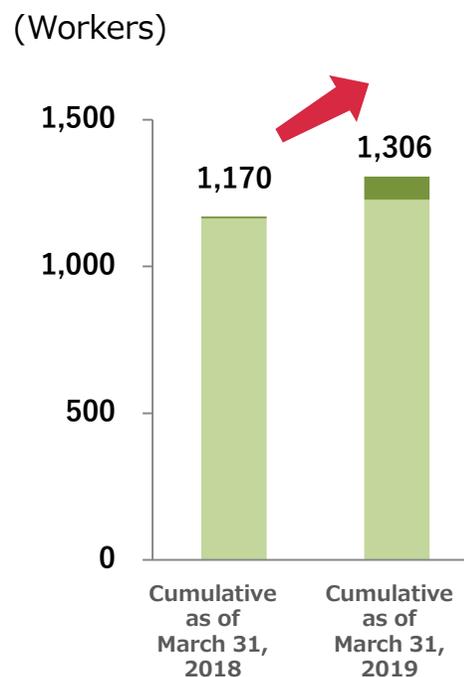


Firm growth in both placements of our own ALTs and the number of introductions due to rising demand for foreign workers

ALTs Placed by Link and Motivation



Number of Foreign Worker Introductions (Past 12 months cumulative)



Breakdown of cumulative foreign worker introductions as of March 31, 2019

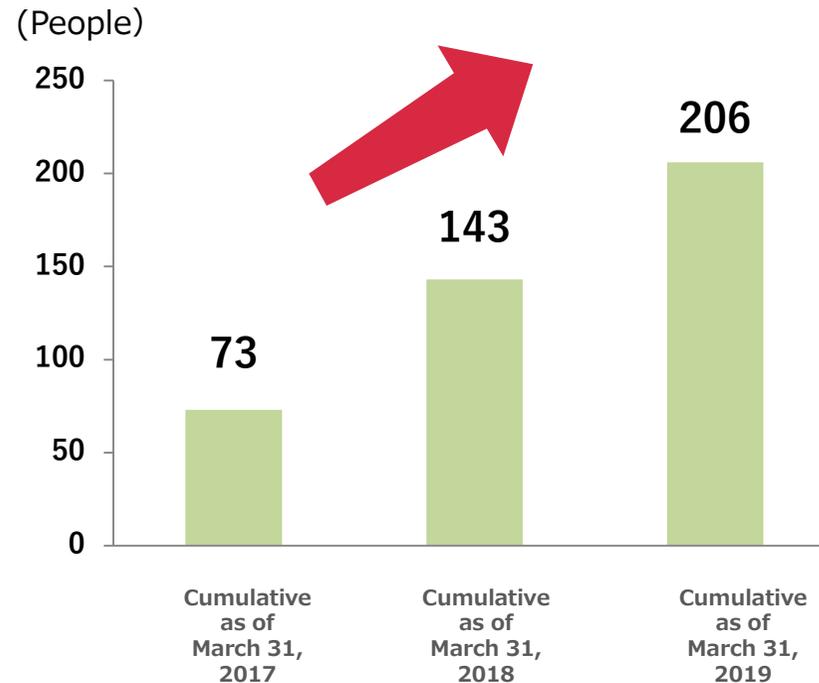
ALTs:	1,228
Non-ALTs:	78

Breakdown of cumulative foreign worker introductions as of March 31, 2018

ALTs:	1,164
Non-ALTs:	6

The number of temp staff is gradually declining but **the number of temp staff placed by the Individual Development Division is growing steadily**

Number of Individual Development Division Students Placed in Employment (Cumulative for the quarter)



Venture Incubation Business: Investments at a Glance

Note: Some company names have changed.

① **RichMedia Co., Ltd.**
Media design/Inbound marketing



② **from scratch Co., Ltd.**
Marketing support/Dispatch of technical staff



Investment 1. Stock Listed March 17, 2016

③ **Akatsuki Inc.**
App development/Smartphone service development



④ **FiNC Technologies Inc.**
FiNC diet coaches/Wellness management support



⑤ **NEO CAREER CO., LTD**
Personnel introduction/
Temp staffing (medical/nursing/daycare/IT)



⑥ **Leading Mark, Inc.**
New graduate recruiting support/
Job search consulting



⑦ **schoo Inc**
Schoo Web campus



Investment 3. Stock Listed May 31, 2018

⑧ **RAKSUL INC.**
E-commerce
printing/Support for attracting customers



⑨ **Renoveru Co., Ltd.**
Used housing renovation



⑩ **LiB, Inc.**
Job-change support for upper-
female employees



⑪ **PLAN-B Co., Ltd**
Web consulting centered on SEO



Key
Points

- Two selection criteria: (1) Sympathy with creating a Motivation Company; (2) Aim to list stock.
- Contribution to business growth through support in the organizational and personnel field.

Venture Incubation Business: Investments at a Glance

Note: Some company names have changed.

Investment 2. Stock Listed December 21, 2016

⑫ **Innovation Inc.** 
Marketing support specializing in BtoB

⑬ **First Brand Inc.**  **First Brand**
Corporate and individual branding support

⑭ **BizReach, Inc.** 
Job-change website for upper-echelon employees

⑮ **GlobalCast Co., Ltd.**
Industry-specific business process outsourcing



⑯ **ashita-team Inc.** 
Creation of/support for personnel evaluation systems

⑰ **Tasuki Consulting** 
Accounting and tax consulting

⑱ **Willgate, Inc.** 
Content marketing/media business

⑲ **YARUKI Switch Group Holdings Co., Ltd.** 
Individualized instruction/operation of day care facilities

Investment 4. Buyout on August 31, 2018

⑳ **Phone Appli Inc.** 
Planning, development and sale of Web phone directory services

㉑ **Fond, Inc.** 
Employee perks and rewards platform services

㉒ **Gojo & Company, Inc.** 
Financial services in developing countries

㉓ **Vogaro Inc.** 
Consulting for digital innovation

Key Points

- Two selection criteria: (1) Sympathy with creating a Motivation Company; (2) Aim to list stock.
- Contribution to business growth through support in the organizational and personnel field.

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