



September 6, 2019

Consolidated Financial Results For the Six Months ended July 31, 2019

(Japanese Accounting Standards)

Name of the Listed Company: **Poletowin Pitcrew Holdings, Inc.**
 Listing: First Section of Tokyo Stock Exchange
 Stock code: 3657
 URL: <https://www.poletowin-pitcrew-holdings.co.jp>
 Representative: Teppei Tachibana, President & CEO
 Contact Person: Joji Yamauchi, Director & Chief Financial Officer
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Scheduled date to file Quarterly Securities Report: September 12, 2019

Scheduled date to commence dividend payments: —

Supplementary explanatory materials prepared: Yes

Explanatory meeting: Yes

(Millions of yen with fractional amounts discarded, unless otherwise noted.)

1. Consolidated financial results for the six months ended July 31, 2019

(from February 1, 2019 to July 31, 2019)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
July 31, 2019	12,402	5.7	1,612	9.3	1,542	7.7	954	13.7
July 31, 2018	11,735	10.8	1,474	31.1	1,432	23.0	839	35.1

(Note) Comprehensive income

Six months ended July 31, 2019: ¥915 million (27.9 %)

Six months ended July 31, 2018: ¥715 million (16.3 %)

	Net income per share	Diluted net income per share
Six months ended	Yen	Yen
July 31, 2019	25.23	25.20
July 31, 2018	23.40	23.37

(Note) The Group conducted a two-for-one split of its common shares effective as of January 1, 2019. “Net income per share” and “diluted net income per share” are calculated on the assumption that the said share split was implemented at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
July 31, 2019	16,503	13,197	80.0
January 31, 2019	15,542	12,697	81.7

(Reference) Equity

As of July 31, 2019 : ¥13,197 million

As of January 31, 2019 : ¥12,697 million

2. Cash dividends

	Cash dividends per share				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended January 31, 2019	–	0.00	–	11.00	11.00
Fiscal year ending January 31, 2020	–	0.00			
Fiscal year ending January 31, 2020 (Forecasts)			–	12.00	12.00

(Notes) Change in dividend forecasts for the fiscal year ending January 31, 2020 during the six months ended July 31, 2019: No

3. Consolidated financial forecasts for the fiscal year ending January 31, 2020 (from February 1, 2019 to January 31, 2020)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending January 31, 2020	26,217	10.3	3,179	0.5	3,150	2.2	2,045	11.2	53.65

(Note) Change in financial forecasts for the fiscal year ending January 31, 2020 during the six months ended July 31, 2019: No

* Notes:

(1) Changes in significant subsidiaries during the six months ended July 31, 2019 (changes in specified subsidiaries resulting in a change in the scope of consolidation) : No

(2) Use of particular accounting treatments in preparation of quarterly consolidated financial statements : Yes

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

- a. Changes in accounting standards due to revisions to accounting standards and other guidelines : No
- b. Changes in accounting policies due to reasons other than a. above : No
- c. Changes in accounting estimates : No
- d. Restatement of revisions : No

(4) Number of common shares issued

a. Total number of issued shares at the end of the period (including treasury stock)

As of July 31, 2019 : 38,120,000 shares

As of January 31, 2019 : 38,120,000 shares

b. Number of shares of treasury stock at the end of the period

As of July 31, 2019 : 272,934 shares

As of January 31, 2019 : 273,534 shares

c. Average number of shares (Cumulative)

For the six months ended July 31, 2019 : 37,846,695 shares

For the six months ended July 31, 2018 : 35,887,418 shares

(Note) The Group conducted a two-for-one split of its common shares effective as of January 1, 2019. “Average number of shares (Cumulative)” is calculated on the assumption that the said share split was implemented at the beginning of the previous fiscal year.

* This report falls outside the scope of quarterly review procedures of a certified public accountant or an audit firm.

* Proper use of earnings forecasts, and other special matters

(Disclaimer to forward-looking statements)

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. These statements do not guarantee that the Company will achieve its earnings forecasts. In addition, actual business and other results may differ substantially due to various factors. For details on the conditions assumed and the cautionary notes and items in the financial forecasts, please refer to (3) Qualitative Information on Consolidated Earnings Forecasts on page 4 of the Attachment Materials to this report.

(How to obtain supplementary materials explaining earnings for the quarter)

The Company discloses the Supplementary Information to the Financial Results on the TDnet on the same day. The Company plans to hold an earnings results briefing for institutional investors and analysts on Wednesday, September 11, 2019. Along with the earnings presentation materials, streaming video of the briefing session and content are scheduled to be promptly posted on the Company’s website following the briefing.

1. Qualitative Information on Financial Results

(1) Analysis of Operating Results

During the second quarter of the consolidated fiscal year under review, although weakness would remain for the time being, the Japanese economy looked set for a mild recovery owing to an ongoing improvement in the employment outlook, income climates and government policies. Under these circumstances, impact of trade issue trends on global economy, uncertainties about the Chinese economy, overseas economic trends and policies, impact of financial and capital market fluctuations warrant close attention.

It was against that backdrop the Poletowin Pitcrew Holdings Group's core Testing/Verification & Evaluation Business experienced ongoing growth in the global social games market and demand expanded for testing in multiple languages, localization and for customer support amid the rising popularity of smartphones and tablet PCs. At the same time, sales were favorable in the consumer electronic game market for Nintendo Switch. Additionally, game companies and internet companies have announced they will launch into cloud games thus a revitalization of the game market is expected.

In markets related to the Group's Internet Supporting Business, online shopping, flea market apps, video, e-book, and other forms of e-commerce are catching on. This, in turn, is pushing up demand for handling merchandise checks, the review of Internet advertising based on the Pharmaceuticals and Medical Devices Act (formerly the Pharmaceutical Affairs Act), the Act against Unjustifiable Premiums and Misleading Representations, and other laws and regulations, and for handling the rights infringement investigations and end-user inquiries and so forth. Also, new internet business such as AI and FinTech services is creating demand for data recognition evaluation and fraud prevention services.

The Group provides checking, testing, monitoring and inspection services that require human input on a contractual basis to corporate clients. The demand for such services has been growing as these clients have diversified and expanded overseas, and as business processes have become more advanced and sophisticated. As new services are created in the market, both Testing/Verification & Evaluation Business and Internet Supporting Business, are seeing new business opportunities. During the second quarter of the consolidated fiscal year under review, in order to expand BPO service for client companies, Pole To Win Co., Ltd. formed a capital and business alliance with CREST JOB Inc., making it an equity method affiliate in March and in order to improve service for client companies, merged SARUGAKUCHO Inc. in May. PITCREW CO., LTD increased floor space for Kita Kyushu Service Center in April and Nagoya Service Center in July to accommodate order expansion,

Collaboration has stepped up between eighteen delivery centers in ten countries and Japanese Group companies to provide a one-stop, full-service platform in areas for defect detection (finding bugs), localization, Internet monitoring, and customer support.

As a result of these factors, consolidated net sales for the term were ¥12,402,196 thousand (up 5.7%). Operating profit was ¥1,612,109 thousand (up 9.3%). Ordinary profit was ¥1,542,329 thousand (up 7.7%) and Profit attributable to owners of parent was ¥954,761 thousand (up 13.7%).

Results by segment were as follows.

Segment name presented as "Medical Related Business", in the second quarter of the previous consolidated fiscal year, has been changed to be included in "Others" as its quantitative importance decreased. Segment information for the second quarter of the previous consolidated fiscal year is presented in accordance with current period. For fair comparison, the amounts reported in the same period of the previous year are modified according to the new classification.

Testing/Verification & Evaluation Business

By promoting collaboration between domestic and overseas group companies the group strived to support global deployment for domestic and foreign game makers, thus orders for outsourcing services including defect detection, localization customer support (overseas) and voice recording increased. Also, orders for outsourcing services for the amusement equipment increased. As a result, Testing/Verification & Evaluation Business sales increased by 3.1% year on year, to ¥9,365,693 thousand. Operating profit decreased by 6.6%, to ¥1,459,230 thousand.

Internet Supporting Business

In the Internet Supporting Business, the Group increased orders for outsourcing services such as customer support (domestic) services for end-users by phone call, e-mail chat and chatbot for E-commerce sites. Additionally, orders for AI related services such as evaluation of data recognition increased. FinTech related services such as QR code settlement or virtual currency and support services for infringement also increased. To expand business for Customer Support in the game market, collaboration with Testing/Verification & Evaluation Business for sales activities was enhanced. As a result, Internet Supporting Business sales increased by 17.7%, to ¥2,918,630 thousand. Operating profit increased by 13.4%, to ¥116,004 thousand.

Others

Palabra Inc. provide services to produce barrier-free subtitles and audio guides to prepare for the advent of barrier-free motion pictures. Recently, promotion of barrier-free is increasing in theatrical entertainment, and Palabra Inc. provides barrier-free subtitles and audio guides to theaters such as “The Little Prince” and “Helen Keller”. IMAid Inc. provides support services such as visa obtainment, school enrollment and daily life procedures for foreign personnel working in medical institutes. The sales resulted in a decrease of 31.9% to ¥117,873 thousand and operating loss of ¥2,524 thousand, down from operating loss of ¥209,329 thousand a year earlier.

(2) Analysis of Financial Position

The group has applied the amendments from “Partial Amendments to Accounting Standard for the Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No.28, February 16, 2018) from the beginning of quarter under review. Therefore, comparisons for financial position have been made after replacing the figures for previous consolidated fiscal year.

Total Assets

Current assets increased by ¥1,040,275 thousand or 8.1% from the previous fiscal year-end, to ¥13,903,709 thousand. This was mainly attributable to an increase of ¥294,159 thousand in cash and deposits, ¥697,221 thousand in notes and accounts receivable-trade and ¥35,625 thousand in work in process.

Non-current assets increased by ¥78,874 thousand, or 2.9% from the previous fiscal year-end, to ¥2,599,696 thousand. The key factor was an increase of ¥92,918 thousand in investment securities, offset by a decrease of ¥141,702 thousand in goodwill and ¥24,219 thousand in other intangible assets.

As a result, total assets increased by ¥961,401 thousand or 6.2% from the previous fiscal year-end, to ¥16,503,406 thousand.

Liabilities

Current liabilities increased by ¥441,576 thousand or 16.5% from the previous fiscal year-end, to ¥3,111,897 thousand. The key factors were rises of ¥165,325 thousand in accounts payable-other, ¥78,844 thousand in accrued expenses, ¥120,579 thousand in income taxes payable, ¥41,407 thousand in provision for bonuses.

Non-current liabilities increased by ¥20,122 thousand or 11.6% from the previous fiscal year-end, to ¥194,069 thousand. This was mainly due to increase of ¥14,116 thousand in net defined benefit liability.

As a result, total liabilities increased by ¥461,699 thousand or 16.2% from the end of the previous fiscal year-end, to ¥3,305,966 thousand.

Net assets

Net assets increased by ¥499,701 thousand or 3.9% from the previous fiscal year-end, to ¥13,197,440 thousand. This was mainly because there was a ¥40,540 thousand decrease in foreign currency translation adjustment but an increase of ¥538,450 thousand in retained earnings for profit attributable to owners of parent and dividend payment.

(3) Qualitative Information on Consolidated Earnings Forecasts

Both revenues and earnings were broadly on target in the period under review. In the third quarter, therefore, management expects to generally remain on target, and has therefore retained the consolidated earnings forecasts that it disclosed on March 11, 2019.

Note, however, that the earnings forecasts are based on information currently available to the Company and on certain assumptions deemed to be reasonable. These statements do not guarantee that the Company will achieve its earnings forecasts. In addition, actual business and other results may differ substantially due to various factors.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousands of yen)

	Fiscal 2019 (As of January 31, 2019)	2Q Fiscal 2020 (As of July 31, 2019)
Assets		
Current assets		
Cash and deposits	9,345,965	9,640,125
Notes and accounts receivable - trade	2,989,495	3,686,716
Merchandise and finished goods	14,491	14,797
Work in process	70,612	106,237
Other	445,822	459,486
Allowance for doubtful accounts	(2,952)	(3,654)
Total current assets	12,863,434	13,903,709
Non-current assets		
Property, plant and equipment		
Buildings and structures	792,005	806,556
Accumulated depreciation	(404,486)	(434,297)
Buildings and structures, net	387,518	372,259
Machinery, equipment and vehicles	19,444	22,988
Accumulated depreciation	(12,285)	(13,181)
Machinery, equipment and vehicles, net	7,159	9,806
Tools, furniture and fixtures	1,268,742	1,298,432
Accumulated depreciation	(1,013,000)	(1,055,827)
Tools, furniture and fixtures, net	255,741	242,604
Total property, plant and equipment	650,419	624,670
Intangible assets		
Goodwill	820,472	678,770
Software	102,925	101,689
Other intangible assets	72,352	48,133
Other	2,395	2,395
Total intangible assets	998,146	830,988
Investments and other assets		
Investment securities	152,014	244,932
Lease and guarantee deposits	521,147	540,295
Deferred tax assets	225,155	223,356
Other	219,452	238,147
Allowance for doubtful accounts	(87,763)	(102,694)
Total investments and other assets	1,030,005	1,144,037
Total non-current assets	2,678,571	2,599,696
Total assets	15,542,005	16,503,406

(Thousands of yen)

	Fiscal 2019 (As of January 31, 2019)	2Q Fiscal 2020 (As of July 31, 2019)
Liabilities		
Current liabilities		
Accounts payable - other	1,404,034	1,569,360
Accrued expenses	181,837	260,682
Income taxes payable	461,186	581,766
Provision for bonuses	36,471	77,878
Other	586,790	622,210
Total current liabilities	2,670,320	3,111,897
Non-current liabilities		
Net defined benefit liability	69,571	83,687
Deferred tax liabilities	15,836	11,976
Other	88,538	98,405
Total non-current liabilities	173,946	194,069
Total liabilities	2,844,267	3,305,966
Net assets		
Shareholders' equity		
Capital stock	1,237,642	1,237,642
Capital surplus	2,377,651	2,377,884
Retained earnings	9,334,880	9,873,330
Treasury shares	(170,059)	(169,686)
Total shareholders' equity	12,780,115	13,319,171
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,778	13,963
Foreign currency translation adjustment	(95,155)	(135,695)
Total accumulated other comprehensive income	(82,377)	(121,731)
Total net assets	12,697,738	13,197,440
Total liabilities and net assets	15,542,005	16,503,406

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income (Six-month period ended July 31, 2019)

(Thousands of yen)

	Six months ended July 31, 2018	Six months ended July 31, 2019
Net sales	11,735,052	12,402,196
Cost of sales	7,947,763	8,581,575
Gross profit	3,787,288	3,820,620
Selling, general and administrative expenses	※ 2,312,687	※ 2,208,511
Operating profit	1,474,601	1,612,109
Non-operating income		
Subsidy income	4,932	11,117
Insurance premiums refunded cancellation	5,886	1,393
Other	9,360	14,470
Total non-operating income	20,179	26,981
Non-operating expenses		
Interest expenses	635	—
Foreign exchange losses	48,900	86,202
Share issuance cost	5,560	—
Share of loss of entities accounted for using equity method	—	9,006
Other	7,299	1,552
Total non-operating expenses	62,395	96,761
Ordinary profit	1,432,385	1,542,329
Extraordinary income		
Gain on sales of investment securities	4,499	—
Total extraordinary income	4,499	—
Extraordinary losses		
Loss on retirement of non-current assets	13,986	—
Loss on sales of non-current assets	49	—
Loss on valuation of investment securities	16,999	—
Directors' retirement benefits	71,887	—
Loss on business withdrawal	71,970	—
Total extraordinary losses	174,893	—
Profit before income taxes	1,261,992	1,542,329
Income taxes	422,062	587,568
Profit	839,929	954,761
Profit attributable to owners of parent	839,929	954,761

Consolidated Statement of Comprehensive Income (Six-month period ended July 31, 2019)

(Thousands of yen)

	Six months ended July 31, 2018	Six months ended July 31, 2019
Profit	839,929	954,761
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,092)	1,185
Foreign currency translation adjustment	(123,242)	(40,540)
Total other comprehensive income	(124,334)	(39,354)
Comprehensive income	715,594	915,406
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	715,594	915,406
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated Statements of Cash Flows

(Thousands of yen)

	Six months ended July 31, 2018	Six months ended July 31, 2019
Cash flows from operating activities		
Profit before income taxes	1,261,992	1,542,329
Depreciation	195,341	167,723
Amortization of goodwill	129,576	128,949
Increase (decrease) in allowance for doubtful accounts	45,496	15,632
Increase (decrease) in provision for bonuses	83,547	44,840
Increase (decrease) in net defined benefit liability	3,415	14,116
Interest and dividend income	(1,621)	(1,445)
Share of loss (profit) of entities accounted for using equity method	—	9,006
Interest expenses	635	—
Share issuance cost	5,560	—
Foreign exchange losses (gains)	13,484	21,484
Loss on retirement of non-current assets	13,986	—
Loss (gain) on sales of non-current assets	49	—
Directors' retirement benefits	71,887	—
Loss on withdrawal from business	71,970	—
Loss (gain) on valuation of investment securities	16,999	—
Loss (gain) on sales of investment securities	(4,499)	—
Decrease (increase) in notes and accounts receivable - trade	(593,307)	(770,886)
Decrease (increase) in accounts receivable - other	(70,382)	355
Increase (decrease) in accounts payable - other	159,113	170,455
Increase (decrease) in accrued expenses	25,293	81,196
Increase (decrease) in accrued consumption taxes	(11,748)	(37,568)
Increase (decrease) in deposits received	100,838	68,275
Other, net	(30,637)	(20,965)
Subtotal	1,486,990	1,433,500
Interest and dividend income received	1,602	1,211
Interest expenses paid	(635)	—
Payments for directors' retirement benefits	(71,887)	—
Income taxes paid	(436,313)	(429,186)
Net cash provided by (used in) operating activities	979,756	1,005,525
Cash flows from investing activities		
Purchase of property, plant and equipment	(189,422)	(101,854)
Proceeds from sales of property, plant and equipment	1,712	1,818
Purchase of intangible assets	(6,292)	(12,776)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(83,844)	—
Purchase of investment securities	(300,330)	(100,112)
Proceeds from sales of investment securities	4,500	—
Payments of loans receivable	(16,128)	(14,518)
Collection of loans receivable	184,105	15,695
Payments for lease and guarantee deposits	(20,922)	(34,498)
Proceeds from collection of lease and guarantee deposits	7,266	8,522
Net cash provided by (used in) investing activities	(419,357)	(237,724)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	500,000	—
Repayments of long-term loans payable	(403,550)	—
Cash dividends paid	(340,512)	(416,311)
Purchase of treasury shares	(77)	—
Proceeds from disposal of treasury shares	629,853	—
Proceeds from issuance of share acquisition rights	10,770	—
Net cash provided by (used in) financing activities	396,484	(416,311)
Effect of exchange rate change on cash and cash equivalents	(91,552)	(57,329)
Net increase (decrease) in cash and cash equivalents	865,330	294,159
Cash and cash equivalents at beginning of period	5,746,832	9,345,965
Cash and cash equivalents at end of period	※ 6,612,163	※ 9,640,125

(4) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

(Use of particular accounting treatments in preparation of quarterly consolidated financial statements)

(Calculation of income taxes payable)

The tax expenses of the Group and certain consolidated subsidiaries are estimated reasonably based on effective tax rates after applying tax effect accounting for income before income taxes and minority interests for the consolidated fiscal year, including the second quarter under review, multiplying quarterly income before income taxes and minority interests by the relevant estimated effective tax rate.

(Segment Information)

1. Six months ended July 31, 2018 (from February 1, 2018 to July 31, 2018)

(1) Net sales and income (loss) by reporting segment

(Thousands of yen)

	Reporting segment			Others* ¹	Total	Adjustments* ²	Per quarterly consolidated financial statements* ³
	Testing/ Verification & Evaluation Business	Internet Supporting Business	Total				
Sales							
Revenues from external customers	9,081,437	2,480,627	11,562,065	172,986	11,735,052	—	11,735,052
Transactions with other segments	93,209	20,401	113,610	—	113,610	(113,610)	—
Net sales	9,174,647	2,501,029	11,675,676	172,986	11,848,662	(113,610)	11,735,052
Segment profit (loss)	1,563,022	102,286	1,665,309	(209,329)	1,455,980	18,621	1,474,601

- *Notes:
1. Others covers operations not included in reporting segments, and mainly encompasses the publishing, media and medical related businesses.
 2. Adjustment for segment profit (loss) of ¥18,621 thousand comprises elimination of intersegment transactions of ¥285,040 thousand and unallocated corporate expenses of - ¥266,418 thousand. Unallocated corporate expenses are mainly general administrative expenses.
 3. Segment profit (loss) is adjusted against the operating profit recorded in the consolidated statements of income.

(2) Information regarding impairment losses on fixed assets and goodwill by reporting segment
Not applicable

2. Six months ended July 31, 2019 (from February 1, 2019 to July 31, 2019)

(1) Net sales and income (loss) by reporting segment

(Thousands of yen)

	Reporting segment			Others* ¹	Total	Adjustments* ²	Per quarterly consolidated financial statements* ³
	Testing/ Verification & Evaluation Business	Internet Supporting Business	Total				
Sales							
Revenues from external customers	9,365,693	2,918,630	12,284,323	117,873	12,402,196	—	12,402,196
Transactions with other segments	2,428	19,053	21,482	154	21,636	(21,636)	—
Net sales	9,368,122	2,937,683	12,305,805	118,027	12,423,833	(21,636)	12,402,196
Segment profit (loss)	1,459,230	116,004	1,575,235	(2,524)	1,572,710	39,399	1,612,109

- *Notes: 1. Others covers operations not included in reporting segments, and mainly encompasses the publishing, media and medical related businesses.
2. Adjustment for segment profit (loss) of ¥39,399 thousand comprises elimination of intersegment transactions of ¥394,452 thousand and unallocated corporate expenses of - ¥355,053 thousand. Unallocated corporate expenses are mainly general administrative expenses.
3. Segment profit (loss) is adjusted against the operating profit recorded in the consolidated statements of income.

(2) Information regarding impairment losses on fixed assets and goodwill by reporting segment
Not applicable

(3) Information on changes in reporting segments

From the previous consolidated fiscal year, as the quantitative importance of “Medical Related Business” has decreased, it is changed to be included in “Others”. Following this change, the segment information of the same period of previous year was revised.