



Creek & River / 4763

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Research Coverage Report by Shared Research Inc.

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company’s most recent earnings. First-time readers should start at the business section later in the report.

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Executive summary

Offering Agency and Production businesses targeting professionals

- █ Creek & River was founded in March 1990 by President Ikawa, who used to be a freelance creator. Launching an agency business in the visual field, he subsequently diversified into creative services, expanding the scope of these services to include doctors, IT engineers, lawyers, accountants, architects, fashion designers, researchers, and chefs in the view that Creek & River's business model is applicable to many such specialists. The company's growth strategy lies in simultaneously expanding professional services and deepening business content.
- █ Creek & River consists of the Agency business, the Production business, and the Rights business. As of FY02/19, the majority of operating profit was generated by Agency and Production. Since FY02/17, though, the Rights business's earnings contribution has risen also. The company divides its services into Creative and Technical, Medical Staffing, IT, Legal, and Accounting. It has also launched new businesses in architecture, fashion, chef, professor, virtual reality (VR), chatbot, drone, performing arts, and researcher operations. The company also has peripheral operations such as recruitment media, data analysis, VR hardware for professionals, language services, and SNS.
- █ Mainstay business Creative and Technical (Japan) (FY02/19: 74.6% of sales; 68.3% of operating profit) offers recruiting and temporary staffing, outsourcing services targeting creators in television and film, games, web, advertising, publishing, and rights management (distribution of intellectual property). As of the end of February 2019, about 85,000 creators were registered with the company.
- █ Medical Staffing (FY02/19: sales ratio of 12.5%; operating profit ratio of 34.0%) provides medical specialist employment services to physicians, resident physicians, and medical students. Approximately 123,000 members (physicians and medical students) are registered with the company and the majority of medical institutions in Japan (around 13,000) are registered as clients.

Trends and outlook

- █ In FY02/19, the company booked sales of JPY30.0bn (+10.7% YoY), operating profit of 1.6bn (-12.6% YoY), recurring profit of JPY1.6bn (-13.1% YoY) and net income attributable to parent company shareholders of JPY969mn (-12.1%).
- █ In FY02/20 the company forecasts sales of JPY33.0bn (+11.6% YoY), operating profit of JPY2.4bn (+48.8% YoY), recurring profit of JPY2.4bn (+48.2% YoY), and net income attributable to parent company shareholders of JPY1.5bn (+49.5% YoY). The company looks for solid sales growth and profit growth on the disappearance of one-time expenses booked in FY02/19 and improved earnings of new businesses.
- █ For the medium term, the company expects 10% annual growth in profits in existing businesses centered around Creative and Technical (Japan) and Medical. It further projects medium-term profits from the new businesses of architecture, fashion, chef and professor agency, VR, JURISTERRA (a global SNS platform for worldwide lawyers), Professional Media (subsidiary operating recruitment media for professionals), Idrasys (provides system planning, development, sales, operation, and maintenance services using AI), Economic Index (data analysis business), and game development company ClayTech Works. These new group companies collectively booked an operating loss of JPY330mn in FY02/19 (JPY215mn operating loss in FY02/18).

Strengths and weaknesses

Shared Research believes that Creek & River's strengths lie in its brand recognition and track record in selective fields, President Ikawa's original insights and ideas, and its business model as a one-stop company recruiting both skilled short-term and

permanent staff. Its weaknesses are a high SG&A-to-sales ratio, issues with execution, and the Rights (intellectual property) business, which is still a work-in-progress. (See Strengths and weaknesses section for details.)

Key financial data

Income statement (JPYmn)	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Est.
Sales	13,050	14,137	15,458	17,533	20,612	22,926	24,909	26,581	26,709	29,569	33,000
YoY	-13.0%	8.3%	9.3%	13.4%	17.6%	11.2%	8.7%	6.7%	0.5%	10.7%	11.6%
Gross profit	4,140	4,597	5,124	5,994	6,392	7,240	7,996	9,234	10,168	11,366	
YoY	-4.1%	11.0%	11.5%	17.0%	6.6%	13.3%	10.4%	15.5%	10.1%	11.8%	
GPM	31.7%	32.5%	33.1%	34.2%	31.0%	31.6%	32.1%	34.7%	38.1%	38.4%	
Operating profit	142	287	637	992	1,093	1,296	1,178	1,610	1,806	1,579	2,350
YoY	-72.8%	102.1%	122.2%	55.7%	10.1%	18.6%	-9.1%	36.7%	12.2%	-12.6%	48.8%
OPM	1.1%	2.0%	4.1%	5.7%	5.3%	5.7%	4.7%	6.1%	6.8%	5.3%	7.1%
Recurring profit	158	300	691	1,036	1,092	1,320	1,116	1,478	1,825	1,585	2,350
YoY	-68.6%	90.4%	130.3%	49.9%	5.5%	20.9%	-15.5%	32.4%	23.5%	-13.1%	48.2%
RPM	1.2%	2.1%	4.5%	5.9%	5.3%	5.8%	4.5%	5.6%	6.8%	5.4%	7.1%
Net income	-46	89	156	335	491	744	627	893	1,104	970	1,450
YoY	-	-	75.6%	114.1%	46.8%	51.5%	-15.8%	42.4%	23.7%	-12.1%	49.5%
Net margin	-	0.6%	1.0%	1.9%	2.4%	3.2%	2.5%	3.4%	4.1%	3.3%	4.4%
Per share data (split-adjusted; JPY)											
Shares issued (year-end; '000)	22,609	22,609	22,609	22,609	22,609	22,609	22,609	22,609	22,609	22,609	
EPS	-	4.1	7.3	15.5	22.8	35.1	30.2	42.9	52.3	45.7	68.0
Dividend per share	1.0	1.0	2.0	4.0	5.0	7.0	8.0	9.0	11.0	12.0	15.0
Book value per share	138.0	140.7	146.7	162.6	185.7	229.0	227.6	265.5	305.4	334.9	
Balance sheet (JPYmn)											
Cash and deposits	2,237	2,100	2,465	2,481	2,788	3,293	3,143	3,978	4,966	5,172	
Total current assets	4,066	4,109	4,510	5,598	7,046	6,515	6,684	8,107	9,079	9,747	
Tangible fixed assets	166	174	182	194	214	217	250	233	167	883	
Intangible fixed assets	635	488	334	257	313	307	537	518	498	581	
Investments and other assets	668	753	727	824	978	2,013	1,476	2,154	2,109	2,103	
Total assets	5,535	5,524	5,753	6,873	8,551	9,053	8,947	11,012	11,852	13,314	
Operating accounts payable	649	814	715	992	2,468	1,218	1,407	1,606	1,427	1,532	
Short-term debt	424	440	399	400	450	500	750	1,106	1,325	1,212	
Total current liabilities	1,888	1,998	2,199	3,006	4,063	3,426	3,583	4,266	4,231	4,711	
Long-term debt	139	49	-	-	63	52	-	517	384	1,103	
Total fixed liabilities	366	146	107	92	170	485	175	698	579	1,402	
Total liabilities	2,253	2,144	2,306	3,098	4,233	3,912	3,758	4,964	4,809	6,113	
Net assets	3,282	3,380	3,447	3,775	4,319	5,141	5,189	6,048	7,043	7,201	
Total interest-bearing debt	563	489	399	400	513	552	750	1,623	1,709	2,315	
Cash flow statement (JPYmn)											
Cash flows from operating activities	474	193	589	317	634	1,350	622	1,185	1,104	1,625	
Cash flows from investing activities	-641	-197	-129	-588	-326	-14	-1,375	-1,041	-272	-1,044	
Cash flows from financing activities	300	-98	-114	-44	-38	-557	42	710	124	-156	
Financial ratios											
ROA (RP-based)	2.9%	5.4%	12.3%	16.4%	14.2%	15.0%	12.4%	14.8%	16.0%	12.6%	
ROE	-	3.0%	5.1%	10.1%	13.1%	17.0%	13.2%	17.3%	18.3%	14.3%	
Equity ratio	53.7%	54.8%	54.9%	50.9%	46.8%	52.6%	52.8%	50.7%	54.6%	53.6%	

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Net income refers to net income attributable to parent company shareholders.

Recent updates

Highlights

On **July 4, 2019**, Creek & River Co., Ltd announced earnings results for Q1 FY02/20; see the results section for details.

On **May 22, 2019**, Shared Research updated the report following interviews with the company.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Quarterly performance

Cumulative (JPYmm)	FY02/19				FY02/20				FY02/20		FY02/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of 1H	1H Est.	% of FY	FY Est.
Sales	7,367	14,819	22,084	29,569	8,233				50.2%	16,400	24.9%	33,000
YoY	-4.1%	4.5%	8.8%	10.7%	11.8%					10.7%		11.6%
Gross profit	3,087	5,891	8,613	11,366	3,419							
YoY	7.9%	7.8%	10.3%	11.8%	10.8%							
GPM	41.9%	39.8%	39.0%	38.4%	41.5%							
SG&A expenses	2,313	4,626	7,220	9,787	2,631							
YoY	10.2%	9.7%	14.2%	17.1%	13.8%							
SG&A ratio	31.4%	31.2%	32.7%	33.1%	32.0%							
Operating profit	774	1,265	1,393	1,579	788				60.6%	1,300	33.5%	2,350
YoY	1.7%	1.5%	-6.3%	-12.6%	1.9%					2.8%	48.8%	48.8%
OPM	10.5%	8.5%	6.3%	5.3%	9.6%					7.9%	7.1%	7.1%
Recurring profit	770	1,256	1,392	1,585	790				60.8%	1,300	33.6%	2,350
YoY	0.6%	0.2%	-6.1%	-13.1%	2.6%					3.5%	48.2%	48.2%
RPM	10.5%	8.5%	6.3%	5.4%	9.6%					7.9%	7.1%	7.1%
Net income	455	738	811	970	507				63.3%	800	34.9%	1,450
YoY	-1.1%	0.6%	-6.6%	-12.1%	11.4%					8.4%	49.5%	49.5%
Net margin	6.2%	5.0%	3.7%	3.3%	6.2%					4.9%	4.4%	4.4%

Quarterly (JPYmm)	FY02/19				FY02/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	7,367	7,452	7,265	7,485	8,233			
YoY	-4.1%	14.8%	18.8%	16.7%	11.8%			
Gross profit	3,087	2,804	2,722	2,753	3,419			
YoY	7.9%	7.7%	16.0%	16.9%	10.8%			
GPM	41.9%	37.6%	37.5%	36.8%	41.5%			
SG&A expenses	2,313	2,313	2,594	2,567	2,631			
YoY	10.2%	9.1%	23.2%	26.0%	13.8%			
SG&A ratio	31.4%	31.0%	35.7%	34.3%	32.0%			
Operating profit	774	491	128	186	788			
YoY	1.7%	1.4%	-47.0%	-41.7%	1.9%			
OPM	10.5%	6.6%	1.8%	2.5%	9.6%			
Recurring profit	770	486	135	193	790			
YoY	0.6%	-0.6%	-40.8%	-43.4%	2.6%			
RPM	10.5%	6.5%	1.9%	2.6%	9.6%			
Net income	455	284	73	158	507			
YoY	-1.1%	3.5%	-45.9%	-32.5%	11.4%			
Net margin	6.2%	3.8%	1.0%	2.1%	6.2%			

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Net income refers to net income attributable to parent company shareholders.

Quarterly performance by segment

Cumulative (JPYmn)	FY02/19				FY02/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	7,367	14,819	22,084	29,569	8,233			
YoY	-4.1%	4.5%	8.8%	10.7%	11.8%			
Creative (Japan)	5,303	10,729	16,349	22,213	5,927			
YoY	9.8%	14.3%	16.0%	16.3%	11.8%			
Medical	1,182	2,328	3,063	3,709	1,322			
YoY	3.3%	0.9%	4.6%	4.2%	11.8%			
Legal and Accounting	493	942	1,440	1,952	514			
YoY	11.2%	3.5%	5.4%	8.1%	4.3%			
Other	442	953	1,425	1,913	514			
YoY	-	42.3%	33.2%	31.2%	16.3%			
Eliminations, company-wide	-53	-134	-193	-217	-43			
Operating profit	774	1,265	1,393	1,579	788			
YoY	1.7%	1.5%	-6.3%	-12.6%	1.9%			
Creative (Japan)	414	649	840	1,072	344			
YoY	12.8%	20.4%	2.4%	-7.2%	-16.8%			
Medical	365	638	600	533	472			
YoY	-3.9%	-4.1%	3.2%	-7.3%	29.4%			
Legal and Accounting	40	43	80	146	56			
YoY	17.7%	-40.9%	-33.7%	-1.1%	40.9%			
Other	-35	-52	-119	-182	-79			
YoY	-	-	-	-	-			
Eliminations, company-wide	-10	-14	-8	9	-5			
Recurring profit	770	1,256	1,392	1,585	790			
YoY	0.6%	0.2%	-6.1%	-13.1%	2.6%			
Net income	455	738	811	970	507			
YoY	-1.1%	0.6%	-6.6%	-12.1%	11.4%			

Quarterly performance (JPYmn)	FY02/19				FY02/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	7,367	7,452	7,265	7,485	8,233			
YoY	-4.1%	14.8%	18.8%	16.7%	11.8%			
Creative (Japan)	5,303	5,426	5,619	5,864	5,927			
YoY	9.8%	19.1%	19.4%	17.0%	11.8%			
Medical Staffing	1,182	1,145	735	645	1,322			
YoY	3.3%	-1.5%	18.1%	2.8%	11.8%			
Medical Staffing	493	449	498	512	514			
YoY	11.2%	-3.8%	9.3%	16.2%	4.3%			
Other	442	511	472	488	514			
YoY	-	-	-	-	-			
Eliminations, company-wide	-53	-80	-59	-24	-43			
Operating profit	774	491	128	186	788			
YoY	1.7%	1.4%	-47.0%	-41.7%	1.9%			
Creative (Japan)	414	236	191	232	344			
YoY	12.8%	36.7%	-32.1%	-30.7%	-16.8%			
Medical Staffing	365	274	-38	-67	472			
YoY	-3.9%	-4.5%	-	-	29.4%			
Medical Staffing	40	3	37	66	56			
YoY	17.7%	-91.3%	-22.6%	143.3%	40.9%			
Other	-35	-18	-67	-63	-79			
YoY	-	-	-	-	-			
Eliminations, company-wide	-10	-4	5	18	-5			
Recurring profit	770	486	135	193	790			
YoY	0.6%	-0.6%	-40.8%	-43.4%	2.6%			
Net income	455	284	73	158	507			
YoY	-1.1%	3.5%	-45.9%	-32.5%	11.4%			

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Net income refers to net income attributable to parent company shareholders.

Note: From Q1 FY02/19, the accounting and legal businesses which had been included in the Other segment became an independent reporting segment.

Note: From Q1 FY02/20, Creative and Technical (South Korea) has been excluded as an independent segment, and included in the Other segment, as a result of reduced quantitative significance. The figures for FY02/19 are reference figures, adjusted so as to fit the segment classification after this change.

Results by business

Cumulative (JPYmm)	FY02/19				FY02/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	7,367	14,819	22,084	29,569	8,233			
YoY	-4.1%	4.5%	8.8%	11.2%	11.8%			
TV and video	1,370	2,786	4,240	5,766				
YoY	0.2%	8.5%	1.9%	4.3%				
Games	1,635	3,408	5,256	7,422				
YoY	5.3%	10.8%	21.6%	25.2%				
Web	1,702	3,230	4,814	6,505				
YoY	10.7%	10.1%	11.9%	13.3%				
Medical	1,171	2,312	3,026	3,637				
YoY	2.3%	0.6%	4.2%	3.2%				
Accounting	435	830	1,303	1,715				
YoY	8.8%	2.7%	7.0%	7.0%				
E-books	383	845	1,303	1,685				
YoY	-	-	-	-				
Operating profit	774	1,265	1,393	1,579	788			
YoY	1.7%	1.5%	-6.3%	-1.9%	1.9%			
TV and video	48	86	187	249				
YoY	-70.1%	-61.2%	-31.8%	-23.3%				
OPM	3.5%	3.1%	4.4%	4.3%				
Games	221	391	581	742				
YoY	32.2%	28.6%	18.7%	6.7%				
OPM	13.5%	11.5%	11.1%	10.0%				
Web	154	224	345	475				
YoY	17.6%	3.9%	33.5%	44.6%				
OPM	9.0%	6.9%	7.2%	7.3%				
Medical	360	603	578	513				
YoY	-5.1%	-9.5%	0.2%	-10.1%				
OPM	30.7%	26.1%	19.1%	14.1%				
Accounting	36	29	85	120				
YoY	33.6%	-40.1%	-7.8%	7.2%				
OPM	8.2%	3.5%	6.5%	7.0%				
Legal	4	11	-	21				
YoY	-43.5%	-54.3%	-	-40.2%				
E-books	57	114	175	204				
YoY	-	-	-	-				
OPM	14.9%	13.5%	13.5%	12.1%				
Other	-106	-195	-559	-745				

Quarterly (JPYmm)	FY02/19				FY02/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	7,367	7,452	7,265	7,485	8,233			
YoY	-4.1%	14.8%	18.8%	14.0%	11.8%			
TV and video	1,370	1,416	1,454	1,526				
YoY	0.2%	18.1%	-8.8%	11.5%				
Games	1,635	1,773	1,848	2,166				
YoY	5.3%	16.3%	48.3%	34.8%				
Web	1,702	1,529	1,584	1,691				
YoY	10.7%	9.4%	15.8%	17.4%				
Medical	1,171	1,140	714	611				
YoY	2.3%	-1.0%	17.9%	-1.9%				
Accounting	435	395	473	412				
YoY	8.8%	-3.3%	15.5%	7.1%				
E-books	383	462	458	382				
YoY	-	-	-	-				
Operating profit	774	491	128	186	788			
YoY	1.7%	1.4%	-47.0%	-28.5%	1.9%			
TV and video	48	38	101	63				
YoY	-70.1%	-37.8%	94.0%	22.0%				
OPM	3.5%	2.7%	6.9%	4.1%				
Games	221	170	190	161				
YoY	32.2%	24.2%	2.5%	-21.8%				
OPM	13.5%	9.6%	10.3%	7.4%				
Web	154	70	122	130				
YoY	17.6%	-17.4%	181.2%	85.5%				
OPM	9.0%	4.6%	7.7%	7.7%				
Medical	360	244	-25	-65				
YoY	-5.1%	-15.3%	-	-				
OPM	30.7%	21.4%	-	-				
Accounting	36	-6	56	35				
YoY	33.6%	-129.6%	28.1%	77.0%				
OPM	8.2%	-	11.8%	8.5%				
Legal	4	8	-11	21				
YoY	-43.5%	-58.4%	-	238.5%				
E-books	57	57	62	28				
YoY	-	-	-	-				
OPM	14.9%	12.3%	13.5%	7.4%				
Other	-106	-89	-364	-187				

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Sales and operating profit by business area are calculated by Shared Research based on percentage breakdown disclosed by the company.

Seasonality: Physician referral revenue at Medical Principle Co. (fiscal year ends on October 31) is normally concentrated in April, as well as in July and October (when physicians tend to transfer). As a result, quarterly sales at Medical Principle are usually highest in February–April, followed by May–July, August–October, and November–January. Meanwhile, fluctuations in quarterly expenses are smaller than those in sales, so operating profit tends to be higher in February–April, while August–October and November–January see losses. Medical Principle’s financial year ends in a different month from that of Creek & River, meaning Q1 sales in the Medical Staffing segment cover February–April, and so on for Q2, Q3, and Q4. This means consolidated operating profit tends to be higher in Q2 and lower in Q3 and Q4.

Q1 FY02/20 results

- ▷ Sales: JPY8.2bn (+11.8% YoY)
- ▷ Operating profit: JPY788mn (+1.9% YoY)
- ▷ Recurring profit: JPY790mn (+2.6% YoY)
- ▷ Net income*: JPY507mn (+11.4% YoY)

*Net income attributable to parent company shareholders

- ▷ Sales were up at all segments. In Creative and Technical (Japan), the company worked to respond to personnel and production needs, utilizing resources at its production studios. The doctor referral business expanded in Medical Staffing.
- ▷ On the profit front, SG&A expenses rose 13.8% YoY to JPY2.6bn, but the profit items from operating profit and below increased YoY due to higher sales. SG&A expenses grew due to a rise in personnel aimed at enhancing existing businesses in each segment and launching new businesses. Relocating and consolidating the group headquarters established in the Tokyo area in October 2018 also pushed up SG&A expenses. Sales were down in the Creative and Technical (Japan) and Other segments, but up in the Medical Staffing and Accounting and Legal segments.

The results of individual segments are detailed below.

Note: Starting in Q1 FY02/20, the Creative and Technical (South Korea) segment has been excluded as an independent segment and included in the Other segment, as a result of reduced quantitative significance.

Creative and Technical (Japan)

- ▷ Sales: JPY5.9bn (+11.8% YoY)
- ▷ Operating profit: JPY344mn (-16.8% YoY)

Sales were up YoY. Profit narrowed due to increased SG&A expenses, even though the number of high margin production consignment projects at the company’s production studios increased, and the company worked to improve its efficiency at attracting clients through its own media. SG&A expenses increased due to personnel enhancements in response to increased demand at existing businesses, the launch of a new agency business, strengthening efforts in new markets such as VR and AI, and the relocation and consolidation of group headquarters in the Tokyo area.

Video, TV, and video technology-related businesses

- ▷ The company strengthened TV show planning and production mainly at its production studios, stepped up content for its video distribution service, and responded to the increase in demand for shows on BS and terrestrial television such as variety shows, educational programs, and documentaries.
- ▷ Services were expanded to include TV director training courses and networking broadcasters all around Japan, and the number of television production staff increased. Recruitment from EIZOshigoto.com (established in August 2017), a job information site specializing in the visual media industry, also expanded.

YouTube Online Creators (OC)

- ▷ At YouTube Online Creators, the company saw a steady rise in the views of uploads by YouTubers and won more contracts to operate YouTube channels for companies and television programs.
- ▷ In May 2018, it began operating foreign language channels on behalf of YouTubers, making use of the AI-driven speech synthesizing technology (RECAIUS™) developed by its strategic partner Toshiba Digital Solutions. The company presented profitability measures for domestic YouTubers, such as launching and managing Kids Line World (an English-language subtitled version of the popular YouTuber Kids Line, aimed at children), with an aim to increasing the number of channels it operated. Using the RECAIUS technology, the company also collaborated with WatchMojo.com—a popular overseas YouTube channel—to jointly start and operate the Japanese language versions of WatchMojo.com’s subchannels.
- ▷ The company accelerated its efforts in the video market, establishing OC Studio for video content production in its new office following relocation. It has been planning, producing, and managing the YouTube channel ULTRA TEENS Channel, which is popular among teenagers, since March 2019 in collaboration with Ultra Teens. It has also strengthened its offering for VTubers.

Games business

- ▷ In video games, at its production studio, the company undertook new production projects on behalf of clients, worked together with the group's Korean subsidiary (Creek & River Korea Co., Ltd.) on joint development projects, and progressed with its own development work using licensed IP.
- ▷ At its production studio, the company primarily employed staff involved in game development (such as with VFX to enhance the visual effects of a game, or those who work on the scenario and thereby influence the appearance of the in-game world), and offered contract development and operations management work in the consumer, amusement, and social media fields. Working primarily from its production studio, the company also established training academies (Creative Academy and Tech Stadium) for people with no experience in the industry in an effort to address the shortage of qualified personnel in the game industry.
- ▷ In July 2018, the company acquired shares in ClayTech Works, Co., Ltd. and made it a consolidated subsidiary. ClayTech Works is a newly established spinoff from Silicon Studio Corporation that took over part of Silicon Studio's content business. Creek & River also started working to blend its creative talents with those of ClayTech Works, which has a great deal of expertise in the area of video game content development.
- ▷ The company also focused on boosting the event business, which includes eSport (competitive video gaming). In May 2019, it collaborated with the Pokémon Company to host a corporate Pokémon tournament for “Pokémon: Let’s Go, Pikachu! and Let’s Go, Eevee!” on Nintendo Switch™, and Pokémon cards, gathering 120 participating companies. In addition, the company hosted an event called the Attraction Festa at various locations in the Greater Tokyo area. The Attraction Festa, which combines anime and game content with a live event, establishing a new revenue model in intellectual property distribution and event management.

VR

- ▷ In VR, the company developed a system to deliver VR content (such as the VR remote medical training system) using the VR goggles from consolidated subsidiary VR Japan and IDEALENS. It also began rolling out a comprehensive business solutions service (including everything from the hardware to the content). The target markets include corporate education and training facilities, amusement facilities, hotels, tourist facilities, events, and exhibitions.

Web business

- ▷ At its web business, the company grew its Agency business by strengthening recruitment of website creators and the company's network among website creators through the web business-oriented job information site Webist, which is one of the largest of its kind in the web, advertising, and publishing industries.
- ▷ There was an increase in the number of large-scale web site production projects for government ministries and agencies at the web studio that was expanded in FY02/16.
- ▷ Creek & River also began operating Symbiorise, a job information website for people working AI and IoT fields, and expanded its digital marketing services, including referral of data analysts to companies.

Publishing business

- ▷ In publishing, the company distributed (as an agent) e-books through electronic bookstores, including Amazon Kindle. In this e-book distribution agent business, the company reported a steady increase in downloads and distribution of e-books.
- ▷ To capture the growing demand of video content in China, the company also expanded its overseas agency business that works to license the rights to make videos for the local market based on the works of Japanese authors.
- ▷ In April 2019, the company started distribution of "Portie," a story app that reads novels and rakugo (Japanese traditional style comedy) content with audio in a chat format.

Architecture business

- ▷ In the architecture business, the agency business (a referral service of certified class 1 architects) showed steady growth. The architectural design business that proposes rental housing with distinctive designs under the Creative Residence® brand launched a new series of property called the Staple House, which is a detached house with an integral garage. Inquiries from interested parties have increased as a result.
- ▷ In February 2019, the company created the store design for an Italian restaurant that opened in the Ginza Mitsukoshi department store, as it worked to build a track record in the architecture design business by taking advantage of its network with approximately 1,000 design offices.

Initiatives in new fields

- ▷ In the professor agency business, in which the company operates a staffing business for researchers and doctors centered on the AI domain, Creek and River launched its support for researchers starting businesses in earnest. Its first project was to provide Metrica Co., Ltd., a startup from Keio University students dealing with AI and medical care, with marketing, contract, and product management support. In February 2019, the company also launched an agency business for R&D support staff to assist with R&D in the life sciences, including biology and chemistry.
- ▷ With the performing art agency business that launched in March 2018, the company developed its sales activities to open up new venues for performing artists to work in, such as the launch of its new "Dramatic Corporate History" service, in which professional actors use drama to instill a company's core principles during corporate training.
- ▷ In March 2019, the company launched its professional languages service, for professionals in various fields to enhance their expertise and language abilities.

Medical Staffing

- ▷ Sales: JPY1.3bn (+11.8% YoY)
- ▷ Operating profit: JPY472mn (+29.4% YoY)

Sales and operating profit were up YoY. The chronic shortage of physicians nationwide and the uneven distribution of doctors by regions continued to underpin steady demand for doctors. In order to enhance the doctor referral business, the company strengthened recruitment of doctors by investing in advertising. Additionally, it made progress in effectively allocating personnel. Both of these measures contributed to higher earnings.

To meet the various needs of medical institutions, municipal governments, doctors, and nurses, the company rolled out services in its medical staffing business such as Resinavi fair for medical students and residents; Resinavi, a clinical trial training information site; MediGate, a job search website for doctors; and Minkan Ikyoku Academy, a training program for doctors. In September 2018, the company opened its Eastern Kanto branch office in Funabashi City, Chiba Prefecture, bringing the total number of facilities in Japan to 16.

Accounting and Legal

- ▷ Sales: JPY514mn (+16.3% YoY)
- ▷ Operating profit: JPY56mn (+40.9% YoY)

Solid demand for professionals with expertise in the accounting and legal fields led to higher YoY sales and operating profit.

The company aims to expand the agency business and increase its name recognition in the industry through joint seminars with client companies and firms as well as strengthen relationships with organizations in related industries.

Making use of the network it has already established, Creek & River expanded its service offering with the full-scale launch of business succession and M&A support services in order to better meet the business succession planning needs of accounting firms and their clients. It also began a referral service for accounting staff who wish to telecommute in an effort to address work style diversification in the accounting field.

In the legal space, the company also made developmental progress as it heads toward full operation of the SNS platform JURISTERRA, which links legal professionals around the world, by adding the voice dictation editor, which utilizes the voice recognition technology RECAIUS™.

Other

- ▷ Sales: JPY514mn (+16.3% YoY)
- ▷ Operating loss: JPY79mn (operating loss of JPY35mn in FY02/19)

Sales rose YoY thanks in large part to growth in the Agency business in the IT industry. Operating profit fell YoY as the company strengthened initiatives for new markets, such as VR and AI.

- ▷ Leading Edge Co., Ltd., which operates the IT staffing agency business, continued to focus on hiring, training, and referral of IT engineers in response to market demand for robotics and artificial intelligence, creating a network of more than 4,000 engineers adept at the Python programming language.
- ▷ Inter Belle Inc. which operates the group's agency business in the fashion industry, made progress in reconstructing its business foundation through such efforts as reviewing unprofitable projects. It also strengthened sales staff training.

- ▷ Professional Media Co., Ltd., which operates a personnel media business, established a profit base for its media business centered on Koukokutenshoku.com (an online job board for advertising and web professionals) and Creative-haken.com (an online job board for temporary workers with advertising and web expertise), which revamped in July 2018. It also expanded the same business model in the video and fashion industries in an effort to diversify its income.
- ▷ VR Japan Co., Ltd., a consolidated subsidiary, promoted the VR goggles with Creek & River to expand sales in Japan. It aims to expand this business through aggressive marketing of its virtual reality safety training service to companies in the construction industry.
- ▷ Consolidated subsidiary Idrasys Co., Ltd. provides system planning, development, sales, operation, and maintenance services using AI. The subsidiary moved ahead with domestic business development of SmartRobot™, an AI platform developed by Intumit. Idrasys strengthened marketing of SmartRobot™ in Japan, centered on chatbot—automated chat program utilizing SmartRobot™. Based on information gained from the marketing activity, the company conducted R&D for systems in Japan using AI. The company aims to partner with multiple AI vendors and position itself as the AI solution partner for customers.
- ▷ Consolidated subsidiary Economic Index Co., Ltd. which operates data analysis business, worked to generate profit from its data analysis service and consulting (suggesting measures for clients to improve on the basis of unique methods of analysis), and provided solution services based on the results of data analysis.

For details on previous annual results, please refer to the Historical performance section.

Full-year company forecasts

FY02/20 Forecasts (JPYmn)	FY02/19			FY02/20		
	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.
Sales	14,819	14,751	29,569	16,400	16,600	33,000
YoY	4.5%	17.7%	10.7%	10.7%	12.5%	11.6%
Cost of sales	8,928	9,275	18,203			
Gross profit	5,891	5,475	11,366			
YoY	7.8%	16.4%	11.8%			
GPM	39.8%	37.1%	38.4%			
SG&A expenses	4,626	5,162	9,787			
SG&A ratio	31.2%	35.0%	33.1%			
Operating profit	1,265	314	1,579	1,300	1,050	2,350
YoY	1.5%	-44.0%	-12.6%	2.8%	234.4%	48.8%
OPM	8.5%	2.1%	5.3%	7.9%	6.3%	7.1%
Recurring profit	1,256	329	1,585	1,300	1,050	2,350
YoY	0.2%	-42.3%	-13.1%	3.5%	219.3%	48.2%
RPM	8.5%	2.2%	5.4%	7.9%	6.3%	7.1%
Net income	738	232	970	800	650	1,450
YoY	0.6%	-37.4%	-12.1%	8.4%	180.5%	49.5%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Forecasts by segment

Forecasts by segment (JPYmn)	FY02/18	FY02/19	FY02/20
	Act.	Act.	Est.
Sales	26,709	29,569	33,000
YoY	0.5%	10.7%	11.6%
Creative (Japan)	19,102	22,213	24,450
YoY	11.8%	16.3%	10.1%
Medical	3,558	3,709	4,150
YoY	7.5%	4.3%	11.9%
Accounting and legal	1,807	1,952	2,140
YoY	-	8.0%	9.6%
Other	1,454	1,913	2,825
YoY	-	-	47.7%
Adjustments	-197	-218	-565
Operating profit	1,806	1,578	2,350
YoY	12.2%	-12.6%	48.9%
OPM	6.8%	5.3%	7.1%
Creative (Japan)	1,155	1,072	1,580
YoY	6.7%	-7.2%	47.4%
OPM	6.0%	4.8%	6.5%
Medical	575	533	700
YoY	32.8%	-7.3%	31.3%
OPM	16.2%	14.4%	16.9%
Accounting and legal	148	146	180
YoY	-	-1.4%	23.3%
OPM	8.2%	7.5%	8.4%
Other	-83	-182	5
YoY	-	-	-102.7%
OPM	-	-	0.2%
Adjustments	8	41	-115

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods

Note: Creative and Technical (South Korea) is included in the Other segment from FY02/19.

For FY02/20, the company projects sales of JPY33.0bn (+11.6% YoY), operating profit of JPY2.4bn (+48.8% YoY), recurring profit of JPY2.4bn (+48.2% YoY), and net income of JPY1.5bn (+49.5% YoY).

As well as anticipating steady sales growth, the company also expects profit to expand due to the absence of one-off expenses associated with relocating and consolidating the group headquarters.

The outlook for each business segment is as follows.

Creative and Technical (Japan)

The company forecasts sales of JPY24.5bn (+10.1% YoY) and operating profit of JPY1.6bn (+47.4% YoY).

The company plans to strengthen its Production business which utilizes production studios, and enhance its Agency business by recruiting and developing unique creators. Further, in addition to growth in existing businesses, the company plans to strengthen new business initiatives (architecture, fashion, chefs, professors, drones, performing arts, researchers, languages). Also responding to new technologies such as VR and AI, the company aims to expand its distribution of Japanese content to overseas markets and develop its own Rights business.

The company forecasts higher profit driven by growth of existing businesses, earnings improvement at ClayTech Works and new agency businesses, and the absence of one-time expenses booked in FY03/19.

- ▷ Growth of existing businesses: The company forecasts double-digit sales and profit growth of existing businesses. Profit margins have been improving especially in the video, TV, and video technology-related businesses since 2H FY02/19 due to an increase in sales of contract production which is relatively profitable. The company expects an increase in contract production in FY02/20 as well as profit margin improvement.
- ▷ Earnings improvement at ClayTech Works: In July 2018, C&R made ClayTech Works (a video game development company) a subsidiary. ClayTech Works posted an operating loss of JPY50mn in FY02/19, but is expected to break even in FY02/20, as it is scheduled to release new game titles in 2H and the company is working to improve profitability of development projects under contract.
- ▷ Earnings improvement of new agency businesses: New agency businesses (architecture, fashion, chefs, professor, drones, and performing arts) posted a JPY100mn operating loss in FY02/19. The company forecasts continued sales and profit growth in the architecture business, because the architecture agency business posted a profit in FY02/19 and inquiries have been brisk in the architecture design business. Although the fashion and professor businesses posted an operating loss in FY02/19, they are expected to turn profitable in FY02/20.
- ▷ Absence of one-time expenses: In FY02/19, the company recorded several one-off expense items, including JPY350mn for group headquarters relocation and consolidation in the Tokyo area in October 2018 and JPY60mn associated with a change in the calculation method of retirement benefit obligations. Although seven months' rent (JPY210mn) is an expense in FY02/20, the disappearance of the above one-time expenses is a positive factor for profit.

Medical Staffing

The company forecasts sales of JPY4.2bn (+11.9% YoY) and operating profit of JPY700mn (+31.3% YoY).

Creek & River aims to continue focusing on the doctor referral business in view of strong demand for physicians. It plans to increase headcount and add a new facility, thus expanding its sales capabilities and placing it in a position to capitalize on the nationwide shortage and uneven regional distribution of doctors. It also intends to raise its brand profile with an expanded range of services, including opportunities for healthcare professionals to network and exchange information.

The company forecasts higher profit due to growth of existing businesses, contribution from new businesses, and the disappearance of one-off expenses booked in FY02/19.

- ▷ Growth of existing businesses: The company expects ongoing growth of the doctor referral business in view of strong demand for physicians as noted above. In 2H FY02/19, it began utilizing data in approaching the 123,000 registered members (doctors and medical students). The company looks for earnings growth by strengthening this initiative.
- ▷ Contribution from new businesses: As of April 2019, the company had 13,000 medical institutions as clients. It plans to create new businesses such as acting as an intermediary for buying and selling businesses that fulfill hospitals' succession planning needs by harnessing its relationship with these medical institutions.

- ▷ Absence of one-time expenses booked in FY02/19: The company booked a JPY40mn charge associated with a change in the method of booking bonus provisions. The absence of this one-time factor is positive for profits in FY03/20.

Accounting and Legal**Accounting business**

In the accounting business, the company aims to improve the presence of its brand in the industry by raising its name awareness among accountants and tax accountants through assorted seminars, events, and the Accountant's Library. It aims to improve profitability by promoting development of services that cater to the needs of society such as Work-From-Home Staffing Service for those who have experience working at accounting firms.

Legal business

In the legal business, the company plans to strengthen its legal staff network to establish its presence in the industry. The company aims to strengthen profitability and its business foundation by hiring more staff. Further, the company is expanding its business with JURISTERRA, a global SNS platform for lawyers.

Other (IT, fashion, and other businesses)

The company forecasts sales of JPY2.8bn (+47.7% YoY) and operating profit of JPY5mn (JPY182mn operating loss in FY02/18). Creative and Technical (South Korea) is included in this segment.

VR Japan, Idrasys, and Economic Index posted a JPY180mn operating loss and Creative and Technical (South Korea) posted a JPY32mn operating loss in FY02/19. The company expects these losses to narrow in FY02/20.

IT business

The company plans to strengthen initiatives to produce engineers whose skills match the needs of the robot and AI markets, focusing on hiring and training engineers skilled in the Python programming language, as well as expand development and outsourcing businesses.

Fashion business

At Inter Belle Inc., the company plans to boost earnings power by hiring and training more staff, making changes at the unprofitable projects, utilizing its network of relationships with apparel manufacturers and expertise in training sales staff.

Other

Professional Media Co., Ltd., which operates a personnel media business, aims to strengthen the profitability of Koukokutenshoku.com (a job board for advertising and web professionals) and expand services by applying the same business model to other professional industries.

VR Japan Co., Ltd. will promote sales of Idealens' integrated head-mounted display (HMD), Idealens K2+, and new higher-resolution HMD model Idealens K4 scheduled for future release.

Idrasys Co., Ltd. aims to strengthen services and develop products necessary to launch the AI platform SmartRobot™, developed by Intumit, in Japan. It will also conduct R&D for assorted Japanese systems which will use AI. Orders have increased as a result of hiring the staff needed in FY03/19. The company thus expects profit improvement in FY02/20.

Economic Index, which operates a data analysis business, will work to generate profit from its data analysis service and consulting (which suggest measures for clients to improve on the basis of unique methods of analysis). Profits have been improving since 2H FY02/19 due to sales growth. The company targets breakeven in 2H FY02/20 by taking steps such as revising its cost structure.

Outlook

The mid- and long-term outlook for the company can be split into two themes—continued revenue growth and profitability improvement in existing businesses, and attaining profitability while expanding revenues in new business areas.

In April 2013, Creek & River published minimum targets for FY02/18: sales of JPY25.0bn and operating profit of JPY2.0bn. The company added that these figures were based on its estimates for existing businesses. When including new businesses, sales and operating profit targets are JPY30.0bn and JPY3.0bn, respectively, according to the company. As of April 2014, the company was on track to meet these minimum targets.

Outlook by segment

Segment	Existing businesses	New businesses
Creative & Technical (Japan)	Sustained demand for TV program, game, and web creators	E-book and online creator businesses turn a profit, continuing their growth momentum
		Architecture agency expected to break even in FY02/18
		Fashion, chef, and professor agencies still in the beginning stages, but losses are contracting; aiming to turn profitable in FY02/20
		Launched drone and performing arts operations in FY02/19, and researcher agency and language services operations in FY02/20
Medical Staffing	Shortage of doctors and varied availability of diagnostic departments nationwide resulted in robust demand from medical institutions; opened more offices	Plans to create new businesses, such as intermediary in buying and selling businesses to fulfill hospitals' succession planning needs. Plans to operate nationwide doctor visit services after establishing new operation centers
Accounting and Legal	Strong demand for accounting and legal professionals	Operates business succession and M&A support services in Accounting, and JURISTERRA (a global SNS platform for lawyers) in Legal business
Other	Aiming for business growth in Other business through increasing registered members and company personnel	VR Japan undertakes exclusive sales of Idealens products, marketing, and platform operation in Japan
		Professional Media, which runs recruitment site for professionals, plans to strengthen profitability of Kokukokutenshoku.com, a recruitment site for advertising and web professionals. Plans to apply same business model to recruitment of other professionals.
		Idrasys markets SmartRobot™ AI platform, developed by Taiwanese company Intumit, in Japan
		Economic Index provides data analysis and consulting services using proprietary methods that make improvement recommendations to clients and a solution service based on data analysis results.

Source: Shared Research based on company data

Existing businesses

The main contributors to the company's operating profit are Creative and Technical (Japan), which accounted for 74.6% of sales and 68.3% of operating profit in FY02/19, and Medical Staffing (12.5% of sales and 34.0% of operating profit in FY02/19). In fact, the company sees growth potential for the Creative and Technical (Japan) and Medical Staffing segments over several years to come and, therefore, aims for about 10% average annual growth in profits.

Earnings growth of Creative and Technical (Japan) In Creative and Technical (Japan), Creek & River forecasts two-digit sales growth by keeping up with a growing order book in the existing businesses of visual, game, web, advertising, and publishing. Moreover, Shared Research thinks profit margins will improve as a result of higher profit due to sales growth and increased share of production business, which has a relatively large profit margin.

In the five years from FY02/14 to FY02/19, Creative and Technical (Japan) business recorded average annual sales growth of 10.9%. Operating profit grew on average 6.8% per year, but OPM fell from 5.8% in FY02/14 to 4.8% in FY02/19. However, in FY02/19, the company had one-time expenses relating to its headquarters relocation (JPY350mn) and change in calculation method of retirement benefit obligations (JPY60mn). Excluding this factor, average annual growth of operating profit was 13.9% and OPM was 6.7%. During the five-year period, the sales share of the relatively low margin agency business contracted from 50% to 37%, while the share of the more lucrative production business increased from 36% to 41%.

Earnings growth of Medical Staffing

In the five years from FY02/14 to FY02/19, Medical Staffing recorded average annual sales growth of 7.8% and operating profit growth of 10.3%. OPM rose from 12.9% in FY02/14 to 14.4% in FY02/19.

Based on MHLW's "Employment Referrals for General Workers," the active job openings-to-applicants ratio for physicians in FY2017 was 5.41x, consistently exceeding 1.38x for all job categories. In the medium term, there are chronic doctor shortages all over Japan due to uneven regional distribution. Thus the demand for doctors remains high, which we believe indicates significant growth potential for the Medical Staffing business.

In the medical field, the company, which has 16 nationwide offices as of April 2019, plans to increase the number as a growth strategy in the medium term. The company plans to operate nationwide doctor visit services after establishing new operation centers around the country.

As of April 2019, around 13,000 medical institutions in Japan were registered as clients. In the medium term, the company seeks to harness its relationship with these medical institutions to create new businesses, such as acting as an intermediary for buying and selling businesses that fulfill hospitals' succession planning needs.

New business areas

If the company is successful in establishing its new businesses, the earnings growth potential would be substantial. The company is working to make that happen in such areas as:

- ▷ E-books
- ▷ Online creator
- ▷ Agency operations in new fields

Upfront startup expenses for new businesses resulted in an operating loss of JPY330mn in FY02/19 (JPY215mn operating loss in FY02/18).

The e-book business turned into the black in FY02/16, and the architecture business turned profitable in FY02/18. In FY02/19, the fashion, chef, and professor agency businesses posted an operating loss, but the company aims for a turn to profitability in FY02/20.

A summary of new businesses as of April 2019 is provided below.

New business 1: E-books

In Japan, Creek & River started an optimization service for e-book production from July 2011, responding to a strong need from publishers. In addition, the company has signed a contract assigning it digitization and agent services for leading e-book distribution* platforms (Rakuten's Kobo and Amazon.com's Kindle). The company's income is generated in two forms: one at the e-book production stage (digitization of paper-based books) and the other when distributing books as a wholesaler. As of April 2019, its main source of earnings from e-books is wholesale distribution.

In the wholesale distribution business, Creek & River earns royalties on the number of downloads from e-book distribution platforms. According to the company, the e-book business turned profitable in FY02/16 and both sales and profits have since been growing in tandem with an increase in downloads and distribution. In FY02/19, e-books and copyright accounted for 5.7% of sales (4.3% in FY02/18) and 12.9% of operating profit (5.0%).

***E-book distribution:** Publishing distributors are companies that act as intermediaries between publishers and book retailers. Distributors purchase books and magazines from publishers and wholesale them to retailers. The e-book distribution channel involves: 1) provision of an e-book by a publisher, 2) supply of the e-book by a publishing distributor to multiple e-book stores, and 3) purchase of the e-book by an end-user. The end-user's payment for the e-book collected by the e-book store is allocated to the parties involved in accordance with the distribution contract.

Copyright is an overseas copyright agency business that offers Japanese original works mainly to Chinese companies and acts as an intermediary for making them into movies locally.

New business 2: Online creator

As a new initiative in the online creator business, in July 2013, the company commenced operation of a multichannel network (MCN). MCNs are entities that affiliate with multiple YouTube channels and provide support services for the production environment and monetization opportunities of creators. Specifically, the company receives advertising revenue based on the number of times videos are viewed on YouTube, and profits are shared between the company and video creators. The company also provides monetization support for creators in terms of sales to client companies.

The business turned a profit in FY02/18. It saw a steady rise in the views of uploads by creators. Further, it expanded its service, including operation and management of companies' official YouTube channels.

New business 3: Agency operations in new fields

In the area of agency operations in new fields, the architectural agency business launched in 2013 turned profitable in FY02/18. The architecture, fashion, chef, professor, drone, and performing arts agency business posted a JPY100mn operating loss in FY02/19 versus a JPY170mn operating loss in FY02/18.

Architecture business

With regard to the architecture business, which is mainly an architect referral service, the company launched a specialist web site called "Architect Agency" in April 2013. The number of registered architects was about 1,800 in FY02/18.

Creek & River has started a business of packaging design proposals for made-to-order houses submitted by registered architects and providing them to small- and medium-sized homebuilders.

Starting in FY02/16, Creek & River has joined with the National Association of Property Management Businesses to sponsor a number of architectural design competitions. Dubbed the "3+ Project," this partnership is planning condominiums with such conceptual themes as golf and gardening. As of FY02/19, the architecture business offered condo developers and rental property owners a portfolio of 12 architect-designed residences under the Creative Residence® brand. Whereas previously the company's business model consisted of providing architect designs for made-to-order homes and receiving a fee for design consultation or construction management services, Creek & River now has completed the process to become a registered architects' office, which will make it possible to undertake design contracts.

Fashion designer agency business

For the fashion designer agency business, in May 2013 the company launched a specialist web site called "Fashion Creator Agency," and began accepting registrations from designers and apparel companies. In October 2014, the company opened a fashion business information site SOW.TOKYO and is working on establishing the brand and strengthening the site's capacity to communicate information. As yet another medium-term plan, the company may package ideas of registered designers and provide them to apparel makers in Japan, China, and South Korea.

In December 2013, the company made Inter Belle Inc. a consolidated subsidiary (included in the Other segment) after acquiring shares through a third-party allocation. Creek & River will seek to improve the efficiency and profitability of Inter Belle Inc.

Chef agency and professor agency business

Creek & River started up the chef agency and professor agency businesses in FY02/16, which posted operating losses in FY02/19. In FY02/20, Creek & River aims to make a profit at both the chef agency and professor agency businesses.

Performing arts agency business

In March 2018 the company launched a performing arts agency business, where it provides networking services, produces performing arts events, undertakes corporate promotions, and acts as an agent for all manner of performing artists including theater actors, rakugo comic storytellers, singers, and magicians. In December 2018, the company also launched a "corporate history theater performance" service, in which professional actors perform plays telling the story of a company's history or management philosophy. In future, Creek & River aims to establish a fund specifically for performing artists, as well as owning and operating theaters and producing theatrical companies.

New business 4: VR business

In August 2016, the company established VR Japan (51.0% stake) with Wang Han (partner of investment fund New Margin Ventures, which is the top shareholder of Idealens Technology Co., Ltd.) to move into Japan's virtual reality (VR) and augmented reality (AR) markets. VR Japan is the sole distributor of Idealens' VR head-mount displays (HMDs) in Japan and is also responsible for marketing and platform operation. In addition, Creek & River is engaged in the planning and development of VR content.

VR Japan aims to expand sales in Japan by promoting new higher-resolution 4K HMD models (Idealens K4) which will be launched around spring 2019.

New business 5: Juristerra

In April 2016, the company launched the beta version of Juristerra, an SNS for lawyers worldwide. JURISTERRA is positioned as an SNS platform connecting lawyers of all specialties around the world, with features that allow them to share knowledge and expertise with each other and communicate with clients. The platform is designed to help lawyers' problem-solving, such as expanding their client base and scope of specialization, finding partners to work with, and strengthening their overseas/cross-border caseload.

New business 6: Professional Media

Creek & River acquired shares in Professional Media, which operates Koukokutenshoku.com (a job board for the advertising and web industries), by third-party allocation and made it a subsidiary.

The company already has established a profit base for its media business centered on the advertising and web industry job board Koukokutenshoku.com, and now has expanded the same business model in the video and fashion industries in an effort to diversify its revenue

New business 7: Idrasys Co., Ltd.

In January 2018, the company established Idrasys Co., Ltd. (a company that provides system planning, development, sales, operation, and maintenance services using AI) with Taiwanese company Intumit Inc., whose main businesses are development and sales of AI platforms and robotic process automation (RPA). The company has an 80.11% stake in Idrasys.

In October 2017, Creek & River began exclusive sales in Japan of AI platform SmartRobot™* developed by Intumit. The company is offering a chatbot** that utilizes the platform as a solution to financial institutions, travel agencies, real estate agents, game companies, and companies in the leisure industry. In the past three years, four out of Taiwan's five megabanks have adopted the platform, giving Intumit an extensive database (data count of 500mn). Impressed by this track record, Sawakami Asset Management Inc. in Japan started to use chatbot.

* SmartRobot™ is an AI platform that integrates voice synthesis, voice recognition, voice interaction, knowledge search, image recognition, and translation. It is used by 80% of major banks in Taiwan.

** Chatbot: A term combining "chat" and "robot" that refers to an automated chat program that uses AI.

New business 8: Economic Index Co., Ltd.

Economic Index was founded in September 2012. The company provides data analysis and consulting services leveraging its own unique analysis methods that propose improvements to clients and solutions services based on data analysis results.

The company made Economic Index an equity-method affiliate through a third party allotment of shares in May 2015, and a consolidated subsidiary in February 2018, because its importance had increased. Economic Index posted an operating loss in FY02/19, but profits have been improving since 2H FY02/19 due to sales growth, and targets breakeven in 2H FY02/20, partly as a result of cost restructuring.

Business

Business description

The company defines itself as an agency business. Given the main sources of earnings are its recruitment services such as temporary staffing and employment agency businesses, one could view Creek & River as simply an employment agency. However, President Yukihiko Ikawa's ambition is broader—providing higher value added services, including contracting/outsourcing and rights management (distribution of intellectual property).

By business

The company's business officially consists of the Agency, Production, and Rights management businesses. In FY02/19, the Agency business (temporary staffing and employment) accounted for the bulk of both sales and gross profits, at 52% and 63%, respectively. The Production business made up 41% of sales and 29% of gross profits, and the Rights management business accounted for the remaining 7% and 8%, respectively.

Over the past five years, the contribution of the Agency business (temporary staffing) has been declining, while those of the Agency (employment), Production, and Rights management business have been increasing.

Sales by business

By business (JPYmn)	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19
Total sales	20,612	22,926	24,909	26,581	26,709	29,569
YoY	17.6%	11.2%	8.7%	6.7%	0.5%	10.7%
Agency: Temporary staffing	10,300	11,000	12,200	11,700	10,400	10,900
YoY	-	6.8%	10.9%	-4.1%	-11.1%	4.8%
% of total sales	50.0%	48.0%	49.0%	44.0%	39.0%	37.0%
Agency: Employment	2,300	2,500	3,000	3,500	4,000	4,400
YoY	-	8.7%	20.0%	16.7%	14.3%	10.0%
% of total sales	11.0%	11.0%	12.0%	13.0%	15.0%	15.0%
Production	7,400	8,700	9,000	10,100	10,400	12,100
YoY	-	17.6%	3.4%	12.2%	3.0%	16.3%
% of total sales	36.0%	38.0%	36.0%	38.0%	39.0%	41.0%
Rights management	400	700	700	2,100	1,900	2,100
YoY	-	75.0%	0.0%	200.0%	-9.5%	10.5%
% of total sales	2.0%	3.0%	3.0%	8.0%	7.0%	7.0%
Gross profit	6,392	7,240	7,996	9,234	10,168	11,366
GPM	48.3%	50.5%	52.5%	54.0%	53.2%	51.2%
Agency: Temporary staffing	1,900	2,200	2,000	2,300	2,400	2,800
YoY	-	15.8%	-9.1%	15.0%	4.3%	16.7%
GPM	18.4%	20.0%	16.4%	19.7%	23.1%	25.7%
% of gross profit	30.0%	30.0%	25.0%	25.0%	24.0%	25.0%
Agency: Employment	2,300	2,500	2,800	3,500	4,000	4,300
YoY	-	8.7%	12.0%	25.0%	14.3%	7.5%
GPM	100.0%	100.0%	93.3%	100.0%	100.0%	97.7%
% of gross profit	36.0%	35.0%	35.0%	38.0%	39.0%	38.0%
Production	2,000	2,200	3,000	2,800	2,900	3,300
YoY	-	10.0%	36.4%	-6.7%	3.6%	13.8%
GPM	27.0%	25.3%	33.3%	27.7%	27.9%	27.3%
% of gross profit	32.0%	31.0%	38.0%	30.0%	29.0%	29.0%
Rights management	100	300	200	900	800	900
YoY	-	200.0%	-33.3%	350.0%	-11.1%	12.5%
GPM	25.0%	42.9%	28.6%	42.9%	42.1%	42.9%
% of gross profit	2.0%	4.0%	2.0%	10.0%	8.0%	8.0%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Agency business: the company acts as an agent between client companies and various specialists. The two contractual forms of the relationship are: temporary staffing (for short-term temporary positions such as for the duration of a project) and employment agency (or recruiter; for long-term positions).

- ▷ **Temporary staffing:** after an employment contract is signed between the client company and a specialist, Creek & River dispatches the specialist to client sites to perform work. The company invoices the wage amount plus its own management fee.

Temporary staffing accounted for 39% of sales and 24% of gross profit in FY02/18. In FY02/19, the Agency business (temporary staffing) accounted for 37% of sales (39% in FY02/18) and 25% of gross profit (25%), and had a GPM of 25.7% (23.1%).

▷ **Employment agency:** the company refers professionals who are registered to client companies. The business model is such that if the referred professional is hired directly by the employer as an employee of the client, then the client pays the company a fixed finder's fee. The employment agency business accounted for 15% of sales and 39% of gross profit in FY02/18. In FY02/19, the Agency business (employment agency) accounted for 15% of sales (15% in FY02/18) and 38% of gross profit (39%), and had a GPM of 97.7% (100.0%).

Production business: the company assists clients in content production and other businesses, using its specialists to produce and manage visual, game and web content. In FY02/19, the Production business accounted for 41% of sales (39% in FY02/18) and 29% of gross profit (29%), and had a GPM of 27.3% (27.9%).

Rights management business: the company distributes and manages copyrighted material produced mainly by the creative staff registered with it. In FY02/19, the Rights management business accounted for 7% of sales (7% in FY02/18) and 8% of gross profit (8%), and had a GPM of 42.9% (42.1%).

Segments

Creek & River provides above three services in business segments of Creative and Technology, Medical, Accounting and Legal, and Other (including IT, fashion). The company's roots are in the creative sector, which includes such areas as TV and cinematic production, web design, and computer game development. Subsequently, the company added new businesses in publishing (e-book distribution in Japan and the author agency business overseas), architecture, fashion, and online creator fields. As of April 2019, the company had new businesses such as chef, professor, drone, performing arts, VR, and AI chatbot operations.

Segments and business description

Segment		Business description
Creative and Technical (Japan)		Offers employment and temporary staffing, as well as outsourcing services targeting creators in visual, games, web, and publishing. Also includes publishing (e-book distribution in Japan and the author agency business overseas), architecture, fashion, and online creator businesses.
Medical		Consolidated subsidiary Medical Principle Co., Ltd. provides medical specialist (mostly doctor) employment services
Accounting and Legal		Consolidated subsidiary C&R Legal Agency Co., Ltd. provides employment services for lawyers. Consolidated subsidiary JUSNET Communications Co., Ltd. provides employment and temporary staffing services for chartered accountants and licensed tax accountants
Other	IT	Consolidated subsidiary Leading Edge Co., Ltd. provides employment and temporary staffing services for IT engineers
	Fashion	Consolidated subsidiary Inter Belle Inc. operates the group's agency business in the fashion industry.
	Recruitment media	Consolidated subsidiary Professional Media operates recruitment sites specializing in advertising and Web industries.
	VR	Consolidated subsidiary VR Japan Co., Ltd. is marketing IDEALENS all-in-one VR headsets in Japan.
	AI	Consolidated subsidiary Idrasys Co., Ltd. operates the SmartRobot™ chatbot system business in Japan.
	Data analysis	Consolidated subsidiary Economic Index Co., Ltd. provides a data analysis service that proposes improvements to clients using unique analysis methods.

Note: From Q1 FY02/19, the accounting and legal businesses which had been included in the Others segment became an independent reporting segment.

Sales and operating profits by segment

Segment sales and OP (JPYmn)	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Sales	13,050	14,137	15,458	17,533	20,612	22,926	24,909	26,581	26,709	29,569
YoY	-13.0%	8.3%	9.3%	13.4%	17.6%	11.2%	8.7%	6.7%	0.5%	10.7%
Creative (Japan)	8,911	9,311	10,019	11,196	13,236	14,340	15,237	17,089	19,102	22,212
YoY	-18.7%	4.5%	7.6%	11.7%	18.2%	8.3%	6.3%	12.2%	11.8%	16.3%
Creative (South Korea)	1,576	1,811	2,007	2,208	2,984	3,276	3,820	3,301	986	32
YoY	-29.0%	14.9%	10.8%	10.0%	35.1%	9.8%	16.6%	-13.6%	-70.1%	-96.8%
Medical	1,886	1,961	2,154	2,535	2,542	2,732	2,909	3,311	3,558	3,709
YoY	30.7%	4.0%	9.8%	17.7%	0.3%	7.5%	6.5%	13.8%	7.5%	4.2%
Accounting and legal	-	-	-	-	-	-	-	-	1,807	1,952
YoY	-	-	-	-	-	-	-	-	-	8.1%
Other	-	-	-	-	-	-	-	-	1,458	1,881
YoY	-	-	-	-	-	-	-	-	-	29.0%
Accounting, Legal, IT, other	863	1,355	1,396	1,680	1,894	2,619	2,968	2,956	3,260	-
YoY	80.6%	57.0%	3.0%	20.3%	12.7%	38.3%	13.3%	-0.4%	10.3%	-
Elimination or company-wide expenses	-185	-302	-118	-85	-43	-41	-25	-76	-201	-217
Operating profit	142	287	637	992	1,093	1,296	1,178	1,610	1,806	1,579
YoY	-72.8%	102.1%	122.2%	55.7%	10.1%	18.6%	-9.1%	36.7%	12.2%	-12.6%
OPM	1.1%	2.0%	4.1%	5.7%	5.3%	5.7%	4.7%	6.1%	6.8%	5.3%
Creative (Japan)	-34	184	454	621	772	804	719	1,083	1,155	1,072
YoY	-	-	146.7%	36.6%	24.4%	4.1%	-10.6%	50.7%	6.7%	-7.2%
OPM	-	2.0%	4.5%	5.5%	5.8%	5.6%	4.7%	6.3%	6.0%	4.8%
Creative (South Korea)	16	42	42	35	22	41	23	18	3	-32
YoY	-33.6%	156.6%	0.5%	-17.4%	-37.6%	87.8%	-43.0%	-20.4%	-85.0%	-
OPM	1.0%	2.3%	2.1%	1.6%	0.7%	1.2%	0.6%	0.6%	0.3%	-
Medical	265	135	231	339	327	361	409	433	575	533
YoY	327.1%	-49.2%	71.9%	46.6%	-3.6%	10.6%	13.3%	5.9%	32.8%	-7.3%
OPM	14.0%	6.9%	10.7%	13.4%	12.9%	13.2%	14.1%	13.1%	16.2%	14.4%
Accounting and legal	-	-	-	-	-	-	-	-	148	146
YoY	-	-	-	-	-	-	-	-	-	-1.1%
Other	-	-	-	-	-	-	-	-	-83	-150
YoY	-	-	-	-	-	-	-	-	-	-
Accounting, Legal, IT, other	-82	12	-102	-12	-41	85	24	77	65	-
YoY	-	-	-	-	-	-	-71.6%	216.5%	-15.7%	-
Elimination or company-wide expenses	-23	-86	12	9	13	5	2	-1	8	9

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: From Q1 FY02/19, the accounting and legal businesses which had been included in the Others (IT, Legal, Accounting, other) segment became an independent reporting segment.

Group Network

Business	Company	Year	Registered professionals and numbers	Clients
Creative	Creek & River	1990	Creators: 85,000 Production: 1,000	5,000 companies
	Creek & River Korea	2001		
	Creek & River Shanghai	2010		
	Professional Media	Became a group company in 2015		
	CREEK & RIVER ENTERTAINMENT Co., Ltd.	2016		
	forGIFT	2017		
	ClayTech Works	Became a group company in 2018		
Medical	Medical Principle	1997	Physicians and medical students: 123,000	13,000 institutions
IT	Leading Edge	2000	IT engineers: 4,000	400 companies
	Economic Index	Affiliated in 2015		
	Idrasys	2018		
Legal	C&R Legal agency	2007	Lawyers, etc.: 11,900	900 offices/companies
	Creek & River Global	March 2016		
Accounting	JUSNET Communications	2009	Accountants, etc.: 42,000	4,000 offices/companies
Publishing	Creek & River (E-books, copyright author agency)	Launched in 2012	E-book titles: 70,000 Overseas copyright titles: 4,500	800 companies
	Creek & River Shanghai	Founded in 2010		
Architectural	Creek & River	Project office established	Architects, etc.: 2,600	1,100 offices/companies

	(Architect agency)	in 2013		
Fashion	Creek & River (Fashion creator agency)	Project office established in 2013	6,500	420 companies
	Inter Belle	Consolidated in 2013		
Food	Creek & River (Chef Agency)	Project office established in 2015	2,000	300 companies
Research	Creek & River (Professor agency)	Project office established in 2015	2,000	300 companies
VR	Creek & River (VR business division)	Project office established in 2016		
	VR Japan	Established in August 2016		

Source: Shared Research based on company data

Creative (Japan)

(In FY02/19: 74.6% of sales; 68.3% of operating profit)

The creative business is run by the parent company, Creek & River Co., and is the core of the consolidated operations. Existing businesses include video-related work (TV and movies), games, web site creation, advertising and publication agency, production, rights management, publishing (e-book distribution and author agency), architecture, fashion, and online creator operations. The company has also launched new chef, professor, drone, performing arts, and VR businesses. As of FY02/19, existing businesses comprise the majority of revenue and operating profit of the company. FY02/19 operating profit includes JPY350mn headquarters relocation expenses.

Creative (Japan): sales operating profit

(JPYmn)	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19
Sales	14,340	15,237	17,089	19,102	22,212
YoY	-	6.3%	12.2%	11.8%	16.3%
Video-related work (TV and movie)	4,732	4,876	4,956	5,539	5,997
YoY	-	3.0%	1.6%	11.8%	8.3%
% of sales	33.0%	32.0%	29.0%	29.0%	27.0%
Games	3,441	4,266	4,956	5,921	6,886
YoY	-	24.0%	16.2%	19.5%	16.3%
% of sales	24.0%	28.0%	29.0%	31.0%	31.0%
Online and paper media	5,449	5,181	5,468	5,730	6,664
YoY	-	-4.9%	5.6%	4.8%	16.3%
% of sales	38.0%	34.0%	32.0%	30.0%	30.0%
E-books and YouTube	574	762	1,367	1,146	1,777
YoY	-	32.8%	79.5%	-16.2%	55.0%
% of sales	4.0%	5.0%	8.0%	6.0%	8.0%
Other	143	152	342	764	888
YoY	-	6.3%	124.3%	123.6%	16.3%
% of sales	1.0%	1.0%	2.0%	4.0%	4.0%
Operating profit	804	719	1,083	1,155	1,072
YoY	-	-10.6%	50.7%	6.7%	-7.2%
OPM	5.6%	4.7%	6.3%	6.0%	4.8%
Video-related work (TV and movie)	418	345	390	323	257
YoY	-	-17.5%	13.0%	-17.0%	-20.4%
OPM	8.8%	7.1%	7.9%	5.8%	4.3%
% of operating profit	52.0%	48.0%	36.0%	28.0%	24.0%
Games	257	446	552	693	708
YoY	-	73.3%	24.0%	25.5%	2.1%
OPM	7.5%	10.4%	11.1%	11.7%	10.3%
% of operating profit	32.0%	62.0%	51.0%	60.0%	66.0%
Online and paper media	321	180	390	335	482
YoY	-	-44.1%	117.0%	-14.1%	44.0%
OPM	5.9%	3.5%	7.1%	5.8%	7.2%
% of operating profit	40.0%	25.0%	36.0%	29.0%	45.0%
E-books and YouTube	-80	-50	54	92	204
YoY	-	-37.4%	-207.7%	70.7%	120.4%
OPM	-14.0%	-6.6%	4.0%	8.1%	11.5%
% of operating profit	-10.0%	-7.0%	5.0%	8.0%	19.0%
Other	-112	-201	-303	-289	-579
YoY	-	-	-	-	-
% of operating profit	-14.0%	-28.0%	-28.0%	-25.0%	-54.0%

Source: Shared Research based on company data

Note: Sales and OP calculated by Shared Research based on percentage breakdown disclosed in company data.

Existing operations (video-related work, games, web, advertising and publishing)

To recap, Creek & River runs Agency, Production, and Rights management businesses that provide services to creators in the fields of video-related work (TV and movies), games, web, advertising and publishing.

Existing operations

Business	Details
Video-related (TV, movies)	Agency services for creators, with skills that range from television production, movies, commercials, and music videos. Specific jobs include producers, television directors, script writers, and camera operators. Young creators receive training via the company's internship program prior to placement
Games	Agency services for creators. The company also develops its own social games and manages operations. Specific jobs include game producers, game designers, game programmers, and character designers
Web	Supports the needs of web creators, which include agency services to web production companies, along with planning, design, and operation of corporate and product websites. Specific jobs include web designers, planners, and

	writers
Advertising and publishing	Agency services for graphic designers, editors, copywriters, and editors. Also provide services for catalog and pamphlet production and outsourcing

Creators

A creator refers to mostly freelance specialists working in areas such as audiovisual production, web development, game development, software application development, advertising, and publishing. In terms of specific professions, examples include TV and movie directors and producers, script writers, photographers, web designers, computer graphics (CG) designers, game programmers, copy writers, illustrators, etc. The definition applies to the company’s Creative operations in China as well. The number of creative staff registered with the company was about 85,000 at the end of FY02/18.

Clients

The company’s clients include businesses that create and provide content, like TV stations, game development companies, website design companies, advertising agencies, and publishers, as well as general business firms that do not produce any content but only use it (examples of services here include promotional videos, web content, and printed materials). There were approximately 5,000 client companies as of end-February 2019. Breaking it down at the client level, the Agency business has a comparatively high share of clients who are TV stations, game companies, and advertising agencies, while the Production business generally has a higher share of companies in non-creative sectors as clients.

Existing business models

The Agency, Production, and Rights businesses comprise the existing businesses within the Creative segment, the only material parts as of FY02/18 revenues were the Agency and Production.

Agency business

In its Agency business the company mostly provides permanent and temporary staffing services, as well as outsourcing (subcontracting) services.

- ▷ Temporary staffing: After the company and an employee sign an employment contract, the company assigns the employee (creator) to perform services at the client’s place of business. The company invoices the wage amount paid to the creator plus its own management fee. Charges to clients vary depending on the desired skill sets of the creator, but it is normally in the 350,000–500,000 yen a month range. In this business, sales are the invoiced amounts sent to clients. The direct costs are wages paid to creators (labor cost). The gross profit margin is higher for the company, because it operates in specialized fields, than competitors that provide temporary office staff, such as PASONA Group Inc. (TSE1: 2168) or PERSOL HOLDINGS CO., LTD. (TSE1: 2181), where gross margins tend to be in the 15–25% range.
- ▷ Long-term and permanent staffing: The company introduces creative staff to clients and receives a fee when a permanent employment contract is signed. In some instances, professionals who are at the end of their temporary contracts may receive a permanent employment offer from the client. Employment service fees tend to be about 35% of the base annual salary and only the fees are booked as sales by Creek & River in its income statement. This results in 100% accounting gross profit margins, because employment service fees have no cost of sales.

Production business

(Outsourcing creative functions for clients.)

While in its staffing service the company mostly provides specialists to assist in production of creative work, in outsourcing Creek & River is involved in creation itself under contract from the client, starting from the concept and planning, and finishing with production. In outsourcing, the money paid by the client is booked as revenue, and the cost of revenue is wages paid to the employed individuals (or subcontractors if an external production team is used). According to the company, the gross profit margin is about 30% for this segment. Actual examples of outsourcing projects include creating help-wanted ads for a recruitment company, TV show production, game development, and events that utilize characters or IP.

New businesses

New businesses include publishing (e-book distribution and the author agency business), architecture, fashion, online creator, chef, and professor operations. (See Future outlook). Creek & River also has become involved in VR (virtual reality) and IoT (Internet of Things), AI (Internet of Things and artificial intelligence).

Business models of new businesses

Business	Details
E-book services	Publishing support for major e-book platforms, including the Amazon Kindle. The company receives commission according to the number of e-books downloads
Author agency	With a focus on both domestic and overseas e-book markets, provides agency sales services to publishing companies, overseas copyright support, and production and management services for book and manga authors
Online creator	Provides visual creators with the tools for their work and helps monetize their products in cooperation with YouTube channels. In particular, the company receives ad revenue based on the number of views, and shares the revenue with creators. The company also sells creators' works to major corporate clients
Architecture	Introduces architects to clients and receives a finder's fee. The company also provides these architects' designs to small- and medium-sized homebuilders and receives a fee for design consultation or construction management services
Fashion	Introduces designers to clients and receives a finder's fee. The company also plans to provide these architects' works to apparel makers in Japan, China, and South Korea
Chef	Introduces chefs to clients for both permanent and temporary jobs and receives a management fee or finder's fee. Also assists chefs in starting businesses, and provides production services (subcontracting and introduction) such as developing menus targeting food and beverage companies. Also in the pipeline are rights-management operations for the publishing of cooking-related books
Professor	Provides job support services to researchers, e.g., professors and associate professors, assisting them with finding sponsors and joint development partners for their research, aiding them in developing their intellectual property into products and services, and helping them with career upgrade in terms of employment, mid-career changes, and starting up businesses
VR	Plans and develops VR content. Also runs a rental service, IDEALENS Business VR Rental, which leases out VR head-mount displays (HMDs) to corporate clients. The company has enhanced the service to offer a one-stop solution, designing a plan based on usage, estimating the number of HMDs required, providing content, and dispatching support staff (technicians).
Performing arts agency	Provides networking services, produces performing arts events, undertakes corporate promotions, and acts as an agent for all manner of performing artists including theater actors, rakugo comic storytellers, singers, and magicians

SG&A expenses in Creative business in Japan

In terms of SG&A costs for the Creative business in Japan, the company spends very little on attracting its registered staff. It does not advertise itself on TV, relying instead on word-of-mouth and its own portal-type website. The main cost component, particularly pronounced in the case of small outsourcing projects, is sales personnel expense. The company refers to its salespeople as "agents." Creek & River agents are responsible for developing new clients, writing proposals, negotiating contracts, managing the projects, and confirming final product delivery. The parent company employed approximately 230 agents as of February 2019. These agents handle both staffing and outsourcing requests and are divided into groups by client type, e.g. TV stations, game companies, advertising agencies, and others. The company does not run television commercials and spends a trivial amount on recruiting creators. Creators are mainly recruited via portal sites, and prior to establishing portal sites, most were recruited via word-of-mouth.

SG&A costs for the Creative business in Japan

Parent earnings (JPYmn)	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18
	Par.	Par.	Par.	Par.	Par.	Par.
SG&A expenses	2,279	2,487	2,783	3,298	3,738	4,364
SG&A ratio	20.4%	18.8%	19.4%	21.6%	21.9%	22.8%
Personnel expenses	1,101	1,259	1,519	1,784	2,001	2,370
% of sales	9.8%	9.5%	10.6%	11.7%	11.7%	12.4%
% of SG&A	48.3%	50.6%	54.6%	54.1%	53.5%	54.3%
Salaries and allowances	743	825	988	1,148	1,229	1,412
Provision for bonuses	62	56	67	81	108	97
Provision for retirement benefits	11	11	14	15	16	21
Other salaries	138	195	243	289	367	510
Legal welfare expenses	146	172	207	251	280	330
Rents	307	300	277	262	261	261
% of sales	2.7%	2.3%	1.9%	1.7%	1.5%	1.4%
% of SG&A expenses	13.5%	12.0%	10.0%	7.9%	7.0%	6.0%
Others	871	928	986	1,252	1,477	1,733

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Number of employees at Creative business in Japan

(JPYmn)	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18
Number of employees	153	177	211	237	255	352
Personnel expenses per employee	7	7.6	7.8	8.0	8.1	7.8
Number of temporary employees	40	63	80	93	104	110

Source: Shared Research based on company data

Note: Personnel expenses per employee was calculated by dividing personnel expenses by the average of the number of employees at the beginning and end of a fiscal year.

Creative (Korea)

(In FY02/19: 0.1% of sales; JPY32mn operating loss)

In Creative (Korea), consolidated subsidiary Creek & River Korea Co., Ltd. (CRK) operated businesses in Korea similar to that of the parent company in Japan, including creator staffing services in the TV and movie industries.

In December, 2016, the company split off the TV-related business of its consolidated subsidiary Creek & River Korea Co., Ltd. (CRK) and established Creek & River Entertainment Co., Ltd, a company specializing exclusively in the TV market. 65% of shares of Creek & River Entertainment were then transferred to management. Creek & River Entertainment Co., Ltd. became an equity-method affiliate.

As of February 2019, CRK is the mainstay of Creative (Korea), mainly operating a rights management business. In May 2018, Creative (Korea) and Creative (Japan) launched a Japan-Korea joint publishing business that distributes popular Korean smartphone games in Japan. It distributed two smartphone game titles in Japan in August 2018.

Medical Staffing

(In FY02/19: 12.5% of sales; 34.0% of operating profit)

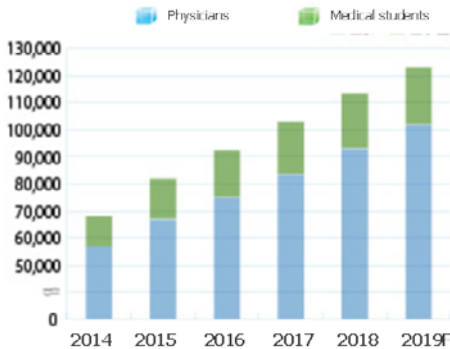
Consolidated subsidiary Medical Principle Co., Ltd. established in 1997 (Creek & River holds a 78.0% stake in the company) provides medical specialist employment services.

Professionals

The personnel targeted by Medical Principle include physicians, resident physicians, and medical students. The company targets doctors who work as hospital or clinic employees, rather than physicians with private practices (doctors who operate their own clinics or hospitals). The company also targets part-time physicians.

As of April 2019, approximately 123,000 physicians and medical students were registered with the company versus 110,000 a year earlier. Japan has approximately 319,000 registered physicians (Ministry of Health, Labour and Welfare, 2016), meaning that around 40% of physicians are registered with the company.

Registered physicians and medical students

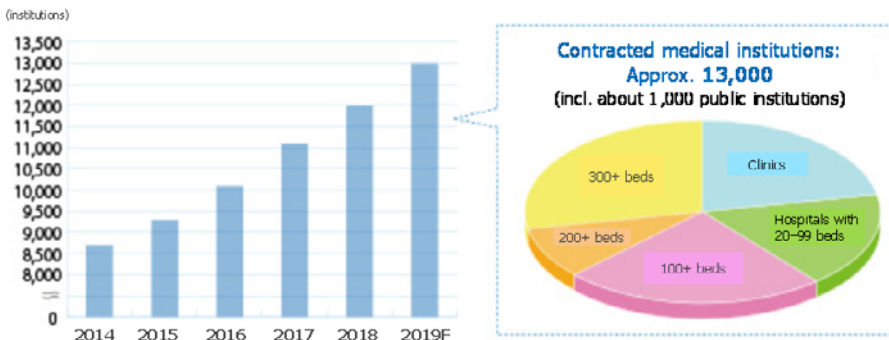


Source: Shared research based on Medical Principle Co., Ltd. data

Clients

Medical Principle’s clients are medical institutions throughout the country, healthcare related firms, and government organizations employing physicians. As of April 2019, roughly 13,000 institutions—which include hospitals and clinics—were registered with the company versus about 12,000 a year earlier. Concerning hospitals specifically, the number of hospitals in Japan was 8,357 as of end-December 2018 (Ministry of Health, Labour and Welfare); it appears that a significant number of hospitals utilize the company’s services.

Client medical institutions



Source: Shared Research based on Medical Principle Co., Ltd. data

Business details

The company mainly provides permanent staffing services (recruiting services) for physicians, resident physicians, and medical students in this segment as temporary staffing services are not allowed under the law. The company provides its services under the Minkan Ikyoku brand, which roughly translates into English as a “Private Medical Office.” In reality, the service it offers is actually a referral service (introductions) for physicians to hospitals they are interested in for permanent (long-term) employment rather than an actual private-sector medical practice.

Ikyoku—literally a medical office—is a practice unique to the Japanese medical community. It refers to a group in charge of physician hiring and placement decisions at university (medical school) hospitals. Such groups exist in each medical department and are hierarchically organized with a university professor, the head of that particular department, at the top, followed by assistant professors, instructors, assistants, physicians, residents and graduate students in that order.

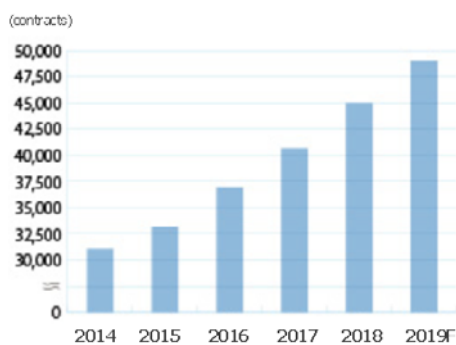
Ikyoku groups are not limited to within one university hospital, but often cover affiliated hospitals. The ability of physicians to change their professional affiliation more flexibly has been growing since 2004, because of new policies introduced by the Ministry of Health, Labor and Welfare (such as the New Resident Physician Policy). Prior to 2004, the ikyoku system held more power. For instance, doctors that graduated from a certain university hospital would normally rotate every 2-3 years from hospital

to hospital within their particular ikyoku network. Medical Principle owes its existence to the increased mobility of medical specialists made possible by deregulation that started in 2004.

Revenue structure

If a staff doctor who is registered with the company moves from hospital A to hospital B, then the revenue to the company is determined by the expected annual salary of the doctor at hospital B. According to the Basic Survey on Wage Structure compiled by the Ministry of Health, Labour and Welfare, the average annual compensation for physicians during 2018 was JPY11.6mn. If a part-time physician splits time between hospital A and hospital B, the company's revenue is determined according to the income of the part-time physician at each hospital. Because the operation is based on commission, sales amount and gross profit is nearly identical.

Number of contracts (physicians and nurses)



Source: Shared Research based on company data

The company says, similar to the approach used at its Creative segment, it does not spend heavily on advertising and promotions to encourage physicians to register with it. However, the company does host joint presentation meetings at hospitals nationwide where it invites attending medical students to register.

Accounting and Legal

(In FY02/19: 6.6% of sales; 9.3% of operating profit)

In Accounting and Legal, consolidated subsidiaries JUSNET Communications Co. and C&R Legal Agency Co. run an agency business for accountants and lawyers, respectively. In this business, Accounting area is main (in FY02/19, Accounting accounted for a 5.8% of consolidated sales [6.0% in FY02/18] and 7.6% of operating profit [7.0%]) and the ratio of sales and operating profit in the Legal area is limited.

Accounting

Established in 1996, JUSNET Communications Co. is 100.0% owned by Creek & River after becoming part of the company's group in 2009. The subsidiary provides permanent and temporary staffing, and outsourcing services for chartered accountants and licensed tax accountants. Clients include accounting firms, licensed tax accounting offices, and general businesses. As of end February 2019, the company has 42,000 registered accountants and 4,000 client firms.

Legal

Established in 2007, C&R Legal Agency Co. provides permanent and temporary staffing for lawyers and paralegals. Creek & River holds a 90.0% stake in the company. The company has about 900 client companies and offices, including law firms and general purpose businesses and 11,900 lawyers who have registered with the company. As of April 2018, there were around 41,000 lawyers in Japan according to the Japan Federation of Bar Associations website. This means around 29% of all lawyers in Japan are registered with the company.

Other (IT, fashion, others)

(In FY02/19: 6.3% of sales, JPY150mn operating loss)

The Other segment includes IT, fashion (Inter Belle), and recruitment media (Professional Media), as well as new businesses such as VR Japan, Idrasys, and Economic Index.

IT

Established in 2000, Leading Edge Co. provides permanent and temporary staffing, and production services for IT engineers. Creek & River holds a 99.9% stake in the company. Client firms include manufacturers, vendors, system integrators, and general businesses. From FY02/16 onwards, the company plans to strengthen initiatives to dispatch and train more technicians, particularly to become adept at using the Python programming language. As of February 2019, the company had 4,000 registered IT engineers and 400 client companies.

Fashion

Inter Belle Inc. (established in 2005; owned 90.9% by Creek & River; acquired in 2013) provides human resource, training, and consulting services for the apparel industry.

Recruitment Media

Professional Media Co., Ltd. (established in 2015; 94.1% owned by Creek & River) operates Koukokutenshoku.com (a job board for advertising and web professionals) and Creative-Haken.com (a dispatch site), and also runs a recruitment business.

New businesses

In new business areas, the Other segment encompasses VR Japan Co., Ltd., Idrasys Co., Ltd., and Economic Index Co., Ltd., whose operations are as outlined below.

Business models for new businesses

Company name	Business description and business model
VR Japan Co., Ltd. (company's stake, 51.0%)	Sole distributor in Japan of head-mount displays (HMDs) from China's Idealens Technology Co., Ltd. Idealens' HMDs are distinguished from rival products in that they are cordless. They are being installed in rental video stores and hotels, as well as schools and training facilities. From around summer 2019, the company plans to start selling higher-resolution Idealens 4K.
Idrasys Co., Ltd. (company's stake, 80.1%)	Conducting R&D for systems developed for use in Japan using AI as well as strengthening services and product development for the Japanese launch of SmartRobot™, an AI platform developed by Taiwan-based Intumit. Idrasys strengthened marketing of SmartRobot™ in Japan, centered on chatbot—automated chat program utilizing SmartRobot™.
Economic Index Co., Ltd. (company's stake, 27.6%)	Provides data analysis service and consulting (suggesting measures for clients to improve on the basis of unique methods of analysis), and solution services based on the results of data analysis.

Strengths and weaknesses

Strengths

- ▶ **Brand recognition and track record in Creative and Medical Staffing.** Creek & River has a solid reputation in both of its core business areas, to such an extent that it attracts new members with minimal advertising. That word-of-mouth is the main channel for attracting new candidates suggests the company is the de facto choice for workers in those industries who are looking for job placement assistance.
- ▶ **President Yukihiro Ikawa's unique insights and ideas.** In our view, Ikawa's personal experience as a freelance specialist provided him with firsthand knowledge of the challenges connecting creative staff with the firms that need those skills. His insight that other specialists (like medical doctors) may face similar challenges has been a key contributor to the company's growth, leading him to start the company's Medical Staffing business and inspiring the company to create new businesses.
- ▶ **Highly unique business structure.** Creek & River's structure (part-staffing agency, part-talent agency) is part of what makes the company successful. The company is able to provide a "one-stop shop" for client firms that need skilled creative staff for a short term, and also connect companies with permanent staffing needs with qualified specialists. In Shared Research's understanding, there are no other competitors that offer these types of services in similar areas.

Weaknesses

- ▶ **High SG&A-to-sales ratio:** Creek & River's operating profit margin was 5.3% in FY02/19 (including headquarter relocation expenses). Creek & River's profitability is higher than that of other human resource providers in part because the company focuses on specific fields (see the business section for detail). However, the company's SG&A-to-sales ratio was 33.1% in FY02/19, also higher than many of its rivals'. Competitors include the Pasona Group (TSE1: 2168), whose SG&A-to-sales ratio was 19.4% in FY05/17 and PERSOL HOLDINGS (TSE1: 2181), whose SG&A-to-sales ratio was 18.2% in FY03/18. Shared Research believes, therefore, that the company should further streamline its business.
- ▶ **Issues with execution.** While Ikawa's ideas are one of the company's strengths, only a limited number of projects and businesses actually contribute to earnings. Without proper execution, great ideas may remain just that and could also turn into a source of distraction from core business operations. Shared Research sees this as a weakness because competitors who lack Creek & River's creative spark could try to become "fast followers" and benefit from Creek & River's innovative thinking.
- ▶ **The Rights management business still a work-in-progress.** The company positions the Agency business (temporary and long-term staffing), the Production business (subcontracting and outsourcing), and the Rights business (intellectual property management) as its core operations. It is probably fair to say that the Production and Right businesses are more difficult to handle than the Agency business. Although the company appears to be approaching the completion of a Production business model, as of April 2019 it seems the Rights management business has yet to have the right model, as its earnings contribution remains below 10%.

Cost structure

Parent earnings (JPYmm)	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19
	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.
Sales	8,911	9,311	10,019	11,196	13,236	14,340	15,237	17,089	19,102	22,199
YoY	-18.7%	4.5%	7.6%	11.7%	18.2%	8.3%	6.3%	12.2%	11.8%	16.2%
Cost of sales	6,771	7,094	7,535	8,296	9,977	10,753	11,220	12,268	13,582	
Outsourcing costs	2,389	2,547	2,389	3,214	3,038	3,605	3,316	3,355	3,972	
Labor costs	4,322	4,590	5,148	5,559	6,085	6,643	7,183	7,604	8,341	
Other costs	60	-43	-2	-477	855	504	721	1,308	1,270	
Gross profit	2,140	2,217	2,484	2,900	3,259	3,587	4,017	4,821	5,519	
GPM	24.0%	23.8%	24.8%	25.9%	24.6%	25.0%	26.4%	28.2%	28.9%	
SG&A expenses	2,175	2,033	2,030	2,279	2,487	2,783	3,298	3,738	4,364	
SG&A ratio	24.4%	21.8%	20.3%	20.4%	18.8%	19.4%	21.6%	21.9%	22.8%	
Personnel expenses	1,012	973	960	1,101	1,259	1,519	1,784	2,001	2,370	
% of sales	11.4%	10.4%	9.6%	9.8%	9.5%	10.6%	11.7%	11.7%	12.4%	
% of SG&A expenses	46.6%	47.8%	47.3%	48.3%	50.6%	54.6%	54.1%	53.5%	54.3%	
Rents	357	324	307	307	300	277	262	261	261	
% of sales	4.0%	3.5%	3.1%	2.7%	2.3%	1.9%	1.7%	1.5%	1.4%	
% of SG&A expenses	16.4%	16.0%	15.1%	13.5%	12.0%	10.0%	7.9%	7.0%	6.0%	
Others	805	736	762	871	928	986	1,252	1,477	1,733	
Operating profit	-35	184	454	621	772	804	719	1,083	1,155	1,072
YoY	-	-	146.7%	36.6%	24.4%	4.1%	-10.6%	50.7%	6.7%	-7.2%
OPM	-0.4%	2.0%	4.5%	5.5%	5.8%	5.6%	4.7%	6.3%	6.0%	4.8%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

The cost structure analysis above is based on the parent company numbers.

Gross profit margin (GPM)

GPM from FY02/09 to FY02/18 ranged from 23% to 29%. Changes in spread (billing rates for clients minus pay rates for creators) and the respective sales weightings of permanent staffing, temporary staffing, and outsourcing are the main factors affecting GPM. GPM has been on an upward trend after the company started up its own TV/game/web production studio to lower the subcontracting ratio.

Operating profit margin (OPM)

Looking at parent OPM, the picture is different. While the FY02/09 OPM was 4.6%, the company booked operating losses in FY02/10. Shared Research believes this is due to the high ratio of fixed SG&A costs, with personnel costs and rent accounting for 60% or more. For the company's OPM to improve it needs to increase sales while maintaining headcount, in other words, increase sales per agent. Shared Research thinks while the overall economic environment obviously impacts sales productivity, it is extremely important for the company to find ways to increase the inherent productivity of its sales force. Looking for sales and project/client management approaches that match the profitability of individual projects (particularly in outsourcing) appears to be an important task for management.

Market and value chain

Market overview

Advertising industry sales and IT service industry sales trends

(JPYbn)	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Advertising industry sales	5,522	4,708	4,737	5,163	5,424	5,565	5,768	5,924	6,089	5,999	5,952
YoY	-5.9%	-14.7%	0.6%	9.0%	5.0%	2.6%	3.7%	2.7%	2.8%	-1.5%	-0.8%
TV	1,573	1,388	1,418	1,434	1,488	1,493	1,546	1,519	1,544	1,524	1,502
YoY	-4.3%	-11.8%	2.2%	1.1%	3.8%	0.4%	3.5%	-1.8%	1.7%	-1.3%	-1.4%
% of total advertising industry sales	28.5%	29.5%	29.9%	27.8%	27.4%	26.8%	26.8%	25.6%	25.4%	25.4%	25.2%
IT service industry sales	11,204	10,535	10,150	9,881	10,120	10,326	10,633	10,797	10,993	11,322	11,584
YoY	0.2%	-6.0%	-3.7%	-2.7%	2.4%	2.0%	3.0%	1.5%	1.8%	3.0%	2.3%

Source: Shared Research based on Ministry of Economy, Trade and Industry data

Note: Advertising Industry includes newspaper, magazine, TV, radio, and internet.

Note: IT service includes software development, programming, information processing, software, and system integrators.

Job-to-applicant ratio trends for physicians and medical nurses

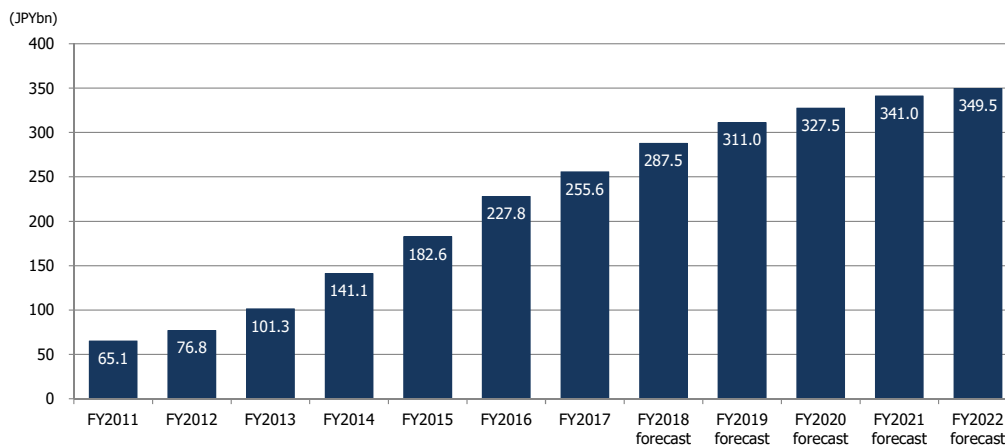
(x)	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Job-to-applicant ratio: Overall	0.77	0.45	0.56	0.68	0.82	0.87	1.00	1.11	1.25	1.38
For doctor, dentist, veterinarian, pharmacist	6.27	5.70	5.46	5.71	6.71	6.91	6.54	6.07	5.89	5.41
For nurse, midwives, obstetric nurse	2.42	2.36	2.54	2.76	2.78	2.69	2.60	2.54	2.43	2.33

Source: Shared Research based on Ministry of Health, Labour and Welfare data

The above table summarizes statistical data relevant for assessing the business environment Creek & River operates in. There are a couple of conclusions that one can draw from the data above. First, such client businesses as TV stations, web design companies, advertising agencies, and system integrators are substantially and immediately affected by macroeconomic trends. Therefore, Creek & River's Creative and IT Staffing businesses will also tend to fluctuate with changes in macroeconomic factors. On the other hand, the job-to-applicant ratio for physicians and medical nurses is well above that of other fields, and seems unaffected by economic trends. There is clearly persistently strong demand for doctors and nurses independent of what the economy is doing. If the company could work effectively to meet such demand then there is probably room for stable growth in Medical Staffing.

Market size of new business initiatives

Domestic e-book market



Source: Shared Research based on Impress Media, ICT Research & Consulting data

Note: Estimates for FY2018 onward

The e-book market, which is the focus of a new business initiative by the company, is anticipated to expand at an accelerating pace, driven by the penetration of smartphones, tablets and e-book reader devices.

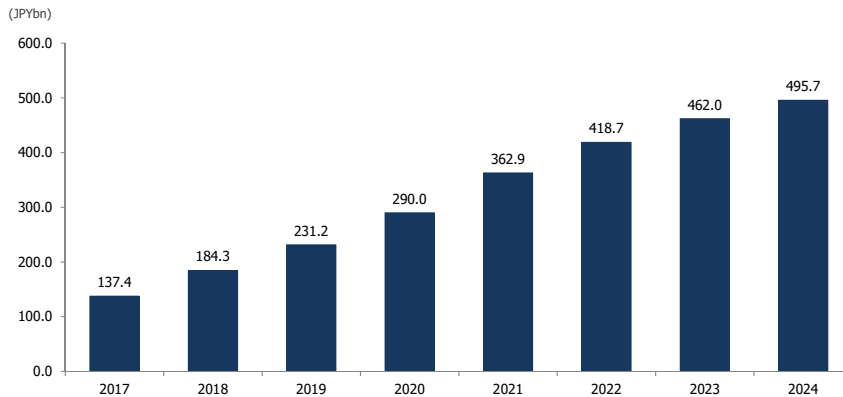
According to Impress Corporation, the Japanese e-book market (including e-magazines) grew to JPY255.6bn in FY2017 (+12.2% YoY). Impress Corporation forecasts that the Japanese e-book market will continue to grow, hitting about JPY349.5bn in FY2022, averaging 6.5% growth annually.

Advertising video market to expand fourfold in 5 years

The advertising video market, the main earnings source of the company’s online creator business, is expected to grow at an average annual rate of 20% through 2024.

According to a survey jointly conducted by Online Video Soken (run by Cyber Agent, Inc. (TSE1: 4751)) and Digital InFact, Japan’s advertising video market was worth JPY184.3bn in 2018 (+34.1% YoY). Smartphone video ads totaled JPY156.3bn, or 85% share of the market. Japan’s advertising video market is projected to grow at an average annual rate of 20.1% to reach JPY495.7bn in 2024.

Advertising video market growth projection



Source: Shared Research based on Online Video Soken and Digital InFact data

Barriers to entry

Starting a business similar to Creek & River’s is relatively simple. However, the network of clients and staff the company has built over the years cannot simply be duplicated overnight. On the other hand, the company has also entered into new low barrier to entry areas in other areas itself and is a smaller operator in these segments, such as legal, IT, and accounting staffing.

Competition

No other companies appear to be providing a wide variety of creative staffing services similar to Creek & River. However, there are a number of listed production companies like Tohokushinsha Film Corp. (JASDAQ: 2329) and AOI TYO Holdings (TSE1: 3975). Also, in many cases Creek & River clients have a choice of doing the work using internal resources, or employing staff not registered with the company (e.g. freelancers available through informal networks). Therefore it is probably fair to say that despite the company’s unique business structure, it operates in a highly competitive environment.

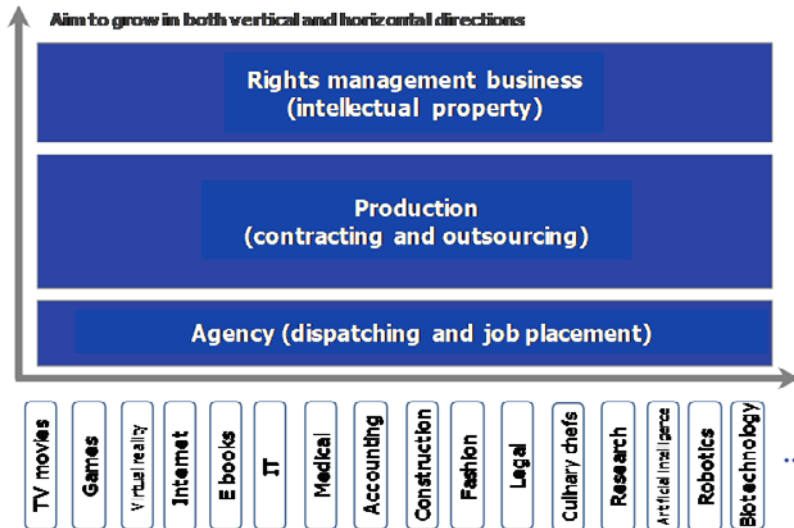
The next largest company in the Medical Staffing segment after Creek & River is Doctor’s Career, a group company of Recruit Holdings (TSE1: 6098). A large number of firms of various sizes have been entering the market recently and while the company does not see them yet as direct competitors, this may change in the future.

Strategy

Horizontal (specialists) and vertical (business) expansion

In his thinking about the business, President Yukihiro Ikawa has relied on his early experiences and focused on the difficulties that even very talented freelance specialists face in marketing their skills and securing clients. The company's strategy has been to create a win-win proposition for all sides involved, staff, clients, and Creek & River itself, by marketing the skills of its registered staff.

Creek & River future vision



Source: Shared Research based on company data

Expansion of specialized fields

The company believes all professionals share similar challenges in the networking aspect of their business, which has underpinned its gradual expansion into various sectors, such as creative, medical, IT, legal, accounting, architectural, fashion-design, culinary chefs, and producers. Creek & River plans to expand into a total of 50-some fields where Japan is thought to be internationally competitive. Along with an expansion in business fields, the number of clients (around 26,000 companies/offices as of February 2019) is also rising. According to the company, new services can also be marketed to existing clients. Thus, the 50 fields can be expected to produce synergies with existing operations.

Creek & River professional focus



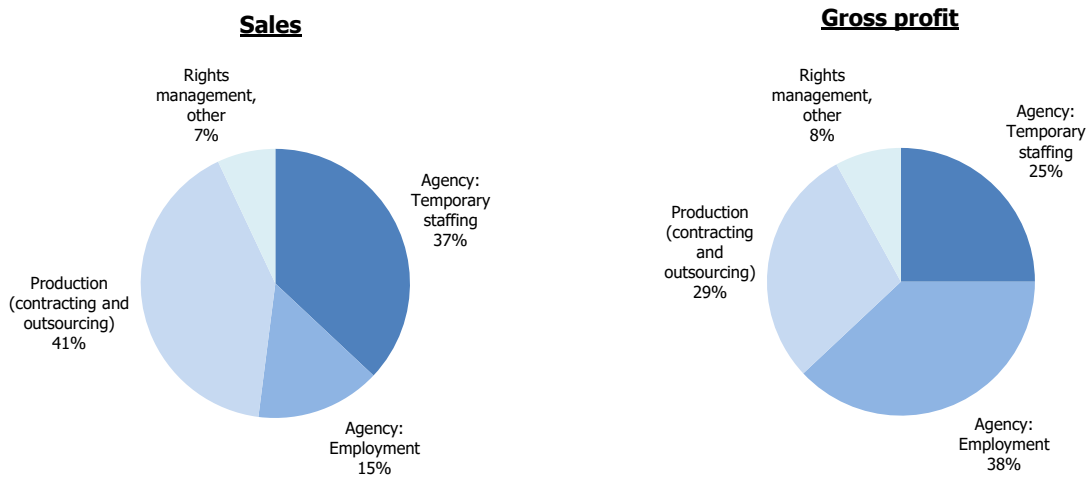
Source: Company data

Adding depth, increasing value-added

The company is also making steady progress toward adding value in the fields where it already operates, including its personnel placement agency business (temp services and job placement), contract production business (contracting and outsourcing), and rights management business (intellectual property). The rights management business distribution of internally developed games, overseas distribution, and overseas copyright distribution.

For FY02/19, agent businesses and production businesses comprised most of the company's sales and profits. The rights-management operations comprised less than 10% of the company's overall business in the latest fiscal year. However, the company wants to expand its operations in the medium to long term.

FY02/18 sales (left) and gross profit (right) breakdown



Source: Shared Research based on company data

The table below shows the company's status in various business fields as of year-end FY02/19.

Creek & River business mapping

	TV Movies	Games	Web	Publishing	VR	IT	Medical	Accounting	Architecture	Fashion	Legal	Culinary Chefs	Research
Rights managements	○	◎		◎	○	○			○		○		○
Production (contract)	◎	◎	◎	◎	○	○	○	◎	◎	○	×	○	○
Agency (Temp)	◎	◎	◎	◎		◎	×	◎	◎	◎	×	○	○
Personnel agency (recruiter)	◎	◎	◎	◎			◎	◎	◎	◎	◎	○	○

Source: Shared Research, based on company data

Note: ◎ denotes mainstay businesses; ○ denotes new business; × denotes businesses the company cannot legally pursue

Historical performance

Full-year FY02/19 results

- ▷ Sales: JPY30.0bn (+10.7% YoY)
- ▷ Operating profit: JPY1.6bn (-12.6% YoY)
- ▷ Recurring profit: JPY1.6bn (-13.1% YoY)
- ▷ Net income*: JPY969mn (-12.1% YoY)

*Net income attributable to parent company shareholders

- ▷ Sales were up at all segments except Creative and Technical segment (South Korea), but Creative and Technical (Japan) stood out as the main growth driver. The company absorbed the negative influence on sales of CREEK & RIVER ENTERTAINMENT Co., Ltd. shifting from a consolidated subsidiary to an equity-method affiliate in Q2 FY02/18, recording record-high sales. Excluding this one-time factor, sales were up 15% YoY.
- ▷ On the profit front, gross profit increased 11.8% YoY to JPY11.4bn on higher sales, but the profit items from operating profit and below fell YoY due to higher SG&A expenses, which totaled JPY9.8bn (+17.1% YoY). SG&A expenses increased by JPY750mn due to strategic hiring to add to the work force of established businesses and to start up new businesses. Non-personnel expenses also increased by JPY670mn due to one-off spending of JPY350mn on relocating and consolidating the group headquarters in the Tokyo area in October 2018, one-off expenses of JPY60mn resulting from changes to the approach to calculating retirement benefit obligations due to staff increases, and one-off expenses associated with a change in reporting bonus provisions of JPY40mn. Operating profit was up 12% YoY, excluding these one-off expenses.
- ▷ Sales of new agencies (architecture, fashion, chef, professor, drone, and performing arts) totaled JPY660mn (+56% YoY) and the operating loss contracted from JPY170mn in FY03/18 to JPY110mn in FY03/19. Sales of new group companies JURISTERRA, Professional Media, VR Japan, Idrasys, Economic Index, and ClayTech Works totaled JPY840mn (+135% YoY), but the operating loss expanded from JPY45mn in FY03/18 to JPY230mn in FY03/19.

The results of individual segments are detailed below.

Note: Starting in Q1 FY02/19, the accounting and legal businesses, which had been included in the Others segment, will be reported as an independent segment due to an expansion of related businesses.

Creative and Technical (Japan)

- ▷ Sales: JPY22.2bn (+16.3% YoY)
- ▷ Operating profit: JPY1.1bn (-7.2% YoY)

Sales were up YoY. Profit narrowed due to higher SG&A expenses resulting from one-off spending on relocating and consolidating the group headquarters in the Tokyo area (JPY350mn), one-off expenses resulting from changes to the approach to calculating retirement benefit obligations due to staff increases (JPY60mn), the launch of a new agency business, and the acquisition of ClayTech Works, Co., Ltd. in July 2018. However, putting aside the one-off expenses, the Agency business (personnel dispatch services) expanded, in addition to an increase to high profit margin orders won by the company's production studios. The company has also made progress with new businesses, building a foundation to achieve profitability. Excluding one-off expenses related to the group headquarters relocation and a change in calculation method of retirement benefit obligations, operating profit grew 28% YoY. The operating losses of new agencies (JPY100mn versus JPY170mn in FY03/18) and costs related to making ClayTech Works a subsidiary (JPY50mn) were negative factors for profit.

Video, TV, and video technology-related businesses

- ▷ The Video, TV, and video technology-related businesses posted lower profit on higher sales. Profits fell because of a decline in sales of contract production, which offer relatively high profit margins. However, sales of contract production increased YoY in 2H, resulting in sales and profit growth.
- ▷ The company strengthened TV show planning and production mainly at its production studios, stepped up content for its video distribution service, and responded to the increase in demand for shows on BS and terrestrial television such as variety shows, educational programs, and documentaries.
- ▷ Services were expanded to include TV director training courses and networking broadcasters all around Japan, and the number of television production staff increased. Recruitment from EIZOshigoto.com (established in August 2017), a job information site specializing in the visual media industry, also expanded.

Games business

- ▷ The Games business posted sales and profit growth, although profit margins declined as a result of making ClayTech Works a subsidiary.
- ▷ In video games, at its production studio, the company undertook new production projects on behalf of clients, worked together with the group's Korean subsidiary (Creek & River Korea Co., Ltd.) on joint development projects, did its own development work using licensed IP, and held joint events featuring the content of other companies.
- ▷ At its production studio, the company primarily employed staff involved in game development (such as with VFX to enhance the visual effects of a game, or those who work on the scenario and thereby influence the appearance of the in-game world), and offered contract development and operations management work in the consumer, amusement, and social media fields.

Working primarily from its production studio, the company also established training academies (Creative Academy and Tech Stadium) for people with no experience in the industry in an effort to address the shortage of qualified personnel in the game industry.

- ▷ In July 2018, the company acquired shares in ClayTech Works, Co., Ltd. and made it a consolidated subsidiary. ClayTech Works is a newly established spinoff from Silicon Studio Corporation that took over part of Silicon Studio's content business. Creek & River also started working to blend its creative talents with those of ClayTech Works, which has a great deal of expertise in the area of video game content development. ClayTech Works posted an operating loss of JPY50mn in FY02/19. It posted a JPY30mn operating loss in Q2 (June–August 2018), a JPY8mn operating profit in Q3 (September–November 2018), and a JPY28mn operating loss in Q4 (December 2018–February 2019). The profit in Q3 was due to booking a profit in the contracting business, but the company was back in the red in Q4 because of an increase in expenses associated with developing its own game titles.
- ▷ The company also focused on boosting the event business, which includes eSport (competitive video gaming). In August 2018, it hosted an eSport tournament for working adults where players were divided into teams by companies, and in December 2018, it collaborated with the Pokémon Company to host a Pokémon card game tournament gathering together 80 participating companies.

Web business

- ▷ The web business posted sales and profit growth and improved profit margins. The profit growth rate accelerated in 2H as a result of booking earnings from contract production work upon inspection.

- ▷ The company grew its Agency business by strengthening recruitment of website creators and the company's network among website creators through the web business-oriented job information site Webist, which is one of the largest of its kind in the web, advertising, and publishing industries.
- ▷ There was an increase in the number of large-scale web site production projects for government ministries and agencies at the web studio that was expanded in FY02/16.
- ▷ Creek & River also began operating Symbiorise, a job information website for people working AI and IoT fields, and expanded its digital marketing services, including referral of data analysts to companies.

E-books and copyright business

- ▷ Sales and profit grew in the E-books and copyright business.
- ▷ E-books businesses E-books, the company distributed (as an agent) e-books through electronic bookstores, including Amazon Kindle. In this e-book distribution agent business, the company reported a steady increase in downloads and distribution of e-books.
- ▷ In the copyright business, to capture the growing demand of video content in China, the company also expanded its overseas agency business that works to license the rights to make videos for the local market based on the works of Japanese authors.

YouTube Online Creators (OC)

- ▷ At YouTube Online Creators, the company saw a steady rise in the views of uploads by YouTubers and won more contracts to operate YouTube channels for companies and television programs.
- ▷ In May 2018, it began operating foreign language channels on behalf of YouTubers, making use of the AI-driven speech synthesizing technology (RECAIUS™) developed by its strategic partner Toshiba Digital Solutions. The company presented profitability measures for domestic YouTubers, such as launching and managing Kids Line World (an English-language subtitled version of the popular YouTuber Kids Line, aimed at children), with an aim to increasing the number of channels it operated. Using the RECAIUS technology, the company also collaborated with WatchMojo.com—a popular overseas YouTube channel—to jointly start and operate the Japanese language versions of WatchMojo.com's subchannels.

The company accelerated its efforts in the video market, establishing OC Studio for video content production in its new office following relocation, and also strengthening its offering for VTubers.

Architecture business

- ▷ The Architecture business turned profitable in FY02/18 and posted a profit for two years in a row in FY02/19.
- ▷ In the architecture business, the agency business (a referral service of certified class 1 architects) showed steady growth. The architectural design business that proposes rental housing with distinctive designs under the Creative Residence® brand launched a new series of property called the Staple House, which is a detached house with an integral garage. Inquiries from interested parties have increased as a result.
- ▷ In February 2019, the company created the store design for an Italian restaurant that opened in the Ginza Mitsukoshi department store, as it worked to build a track record in the architecture design business by taking advantage of its network with approximately 1,000 design offices.

VR

In VR, the company developed a system to deliver VR content (such as the VR remote medical training system) using the VR goggles from consolidated subsidiary VR Japan and IDEALENS. It also began rolling out a comprehensive business solutions service (including everything from the hardware to the content). The target markets include corporate education and training facilities, amusement facilities, hotels, tourist facilities, events, and exhibitions.

Initiatives in new fields

- ▷ The company launched the performing art agency business for artists who perform in spaces or stages, such as theater actors, rakugo comic storytellers, singers, and magicians, and rolled out marketing activities. The company developed its sales activities to open up new venues for performing artists to work in, such as the launch of its new “Dramatic Corporate History” service, in which professional actors use drama to instill a company’s core principles during corporate training.
- ▷ In February 2018, the company launched an agency service for R&D support personnel to assist with R&D in the life sciences (biology, chemistry, etc.).

Creative and Technical (South Korea)

- ▷ Sales: JPY32mn (JPY986mn in FY02/18)
- ▷ Operating loss: JPY32mn (operating profit of JPY3mn in FY02/18)

From Q2 FY02/18, CREEK & RIVER ENTERTAINMENT Co., Ltd. was transferred from a consolidated subsidiary to an equity-method affiliate. As a result, sales dropped YoY. The company posted an operating loss, because the games business launched in 2H took longer than expected to turn profitable.

In collaboration with the company, in May 2018 this affiliate began a Japan-South Korea joint publishing business to launch popular South Korean smartphone games in Japan. It also drew up plans to launch a rights management business.

In August 2018, the company and CREEK & RIVER ENTERTAINMENT began joint distribution of the game *Freezing Extension* (a 3D battle-romance role playing game). The company also began joint distribution of the role playing game *Five Kingdoms: Itsuwari no Okoku* with Liica Inc. The two games have both enjoyed a steady rise in downloads since their launch. Additionally, distribution of *Ceres M'* (a version of *Five Kingdoms: Itsuwari no Okoku* developed for global users) has been launched in part from Korea, and the company is making efforts to build a profitable model both within Japan and overseas.

Medical Staffing

- ▷ Sales: JPY3.7bn (+4.2% YoY)
- ▷ Operating profit: JPY533mn (-7.3% YoY)

The chronic shortage of physicians nationwide and the uneven distribution of doctors by regions continued to underpin steady demand for doctors and strong growth at the company’s medical staffing business, leading to higher YoY sales. Profit narrowed due to a JPY40mn one-time expense increase associated with a change in booking bonus provisions, the establishment of the Eastern Kanto branch office in September 2018, and strategic investment in increasing headcount for future growth and in advertising.

To meet the various needs of medical institutions, municipal governments, doctors, and nurses, the company rolled out services in its medical staffing business such as Resinavi fair for medical students and residents; Resinavi, a clinical trial training information site; MediGate, a job search website for doctors; and Minkan Ikyoku Academy, a training program for doctors. In September 2018, the company opened its Eastern Kanto branch office in Funabashi City, Chiba Prefecture, bringing the total number of facilities in Japan to 16.

Accounting and Legal

- ▷ Sales: JPY2.0bn (+8.1% YoY)
- ▷ Operating profit: JPY146mn (-1.1% YoY)

Solid demand for professionals with expertise in the accounting and legal fields led to higher YoY sales. However, operating profit remained largely flat YoY, due to the added cost of strategic hiring and advertising and promotional spending.

The company aims to expand the agency business and increase its name recognition in the industry through joint seminars with client companies and firms as well as strengthen relationships with organizations in related industries.

Making use of the network it has already established, Creek & River expanded its service offering with the full-scale launch of business succession and M&A support services in order to better meet the business succession planning needs of accounting firms and their clients. It also began a referral service for accounting staff who wish to telecommute in an effort to address work style diversification in the accounting field.

In the legal space, the company also made developmental progress as it heads toward full operation of the SNS platform JURISTERRA, which links legal professionals around the world, by adding the voice dictation editor, which utilizes the voice recognition technology RECAIUS™.

Other

- ▷ Sales: JPY1.9bn (+29.0% YoY)
- ▷ Operating loss: JPY150mn (operating loss of JPY83mn in FY02/18)

Sales rose YoY thanks in large part to growth in the Agency business in the IT industry. Operating profit fell YoY due to higher SG&A expenses as the company strengthened initiatives for new markets, such as AI.

- ▷ Leading Edge Co., Ltd., which operates the IT staffing agency business, continued to focus on hiring, training, and referral of IT engineers in response to market demand for robotics and artificial intelligence, creating a network of more than 4,000 engineers adept at the Python programming language.
- ▷ Inter Belle Inc. which operates the group's agency business in the fashion industry, made progress in reconstructing its business foundation through such efforts as reviewing unprofitable projects. It also strengthened sales staff training.
- ▷ Professional Media Co., Ltd., which operates a personnel media business, established a profit base for its media business centered on Koukokutenshoku.com (an online job board for advertising and web professionals) and Creative-haken.com (an online job board for temporary workers with advertising and web expertise), which revamped in July 2018. It also expanded the same business model in the video and fashion industries in an effort to diversify its income.
- ▷ VR Japan Co., Ltd., a consolidated subsidiary, promoted the VR goggles with Creek & River to expand sales in Japan. It aims to expand this business through aggressive marketing of its virtual reality safety training service to companies in the construction industry.
- ▷ Consolidated subsidiary Idrasys Co., Ltd. provides system planning, development, sales, operation, and maintenance services using AI. The subsidiary moved ahead with domestic business development of SmartRobot™, an AI platform developed by Intumit. Idrasys strengthened marketing of SmartRobot™ in Japan, centered on chatbot—automated chat program utilizing

SmartRobot™. Based on information gained from the marketing activity, the company conducted R&D for systems in Japan using AI.

- ▷ Consolidated subsidiary Economic Index Co., Ltd. which operates data analysis business, worked to generate profit from its data analysis service and consulting (suggesting measures for clients to improve on the basis of unique methods of analysis), and provided solution services based on the results of data analysis.

Q3 FY02/19 results

- ▷ Sales: JPY22.1bn (+8.8% YoY)
- ▷ Operating profit: JPY1.4bn (-6.3% YoY)
- ▷ Recurring profit: JPY1.4bn (-6.1% YoY)
- ▷ Net income*: JPY811mn (-6.6% YoY)

*Net income attributable to parent company shareholders

Sales were up at all segments except Creative segment (South Korea), but Creative (Japan) stood out as the main growth driver. At Creative segment (South Korea), sales declined YoY as CREEK & RIVER ENTERTAINMENT Co., Ltd. was shifted from a consolidated subsidiary to an equity-method affiliate in Q2 FY02/18. Adjusted for this one-time factor, sales grew 14% YoY.

On the profit front, operating profit was down YoY. The company booked a one-time expense of JPY350mn related to its headquarters relocation in October 2018. Adjusted for this one-time expense, operating profit rose 10% YoY.

Sales of new Agency businesses (architecture, fashion, chef, professor, drone, and performing arts) grew 48% YoY to JPY480mn and the operating loss contracted from JPY150mn a year earlier to JPY82mn. However, the operating loss increased from JPY13mn a year earlier to JPY170mn for new businesses (JURISTERRA, Professional Media, VR Japan, Idrasys, Economic Index, and ClayTech Works) despite a 115% YoY sales increase to JPY580mn. Of the operating losses posted by new Agency and other businesses, the total operating loss of businesses started in FY02/19 (drone, performing arts, Idrasys, Economic Index, and ClayTech Works) accounted for JPY160mn.

Gross profit was JPY8.6bn (+10.3% YoY). GPM rose 0.6pp to 39.0%. GPM went up on an increase in high-margin projects undertaken by production studios in the Creative segment (Japan).

SG&A expenses were JPY7.2bn (+14.2% YoY, + JPY896mn). Personnel expenses increased by JPY440mn due to expanding the work force in established businesses and strategic recruitment prior to starting up new businesses. Non-personnel expenses also increased by JPY450mn, including a JPY250mn one-time expense related to headquarters relocation.

Progress toward the company's full-year targets was as follows: 74.9% for sales (versus 76.0% in Q3 FY02/18), 71.4% for operating profit (82.3%), 71.4% for recurring profit (81.3%), and 70.6% for net income attributable to parent company shareholders (78.7%). Although making ClayTech Works a subsidiary (not reflected in initial company forecast) was a JPY22mn negative factor for profit, progress was on track overall.

The results of individual segments are detailed below.

Note: Starting in Q1 FY02/19, the accounting and legal businesses, which had been included in the Others segment, will be reported as an independent segment due to an expansion of related businesses.

Creative (Japan)

- Sales: JPY16.3bn (+16.0% YoY)
- Operating profit: JPY840mn (+2.4% YoY)

Sales were up YoY, increasing mainly in video games, web Agency business, and contract work. In addition to increasing personnel in response to higher demand in existing business, SG&A expenses rose on the acquisition of ClayTech Works, Co., Ltd. in July 2018 and the launch of a new agency business. However, segment profit grew YoY as the number of high profit margin orders won by the company's production studios increased and the personnel dispatch and other services under the Agency business continued to grow. These positive effects were enough to absorb the JPY350mn one-time cost of group headquarters consolidation in October 2018, leading segment profit to reach a record-high. Operating profit grew 33% YoY adjusted for this one-time expense. The operating loss of the new Agency business contracted from JPY150mn a year earlier to JPY82mn, while making ClayTech Works a subsidiary was a JPY22mn negative factor for profit.

Progress toward the FY02/19 company forecast was on track at 74% for sales (74% in Q3 FY02/18) and 73% (71%) for operating profit.

- ▷ The video, TV, and video technology-related businesses posted lower profit on higher sales. The company strengthened TV show planning and production mainly at its production studios, stepped up content for its video distribution service, and responded to the increase in demand for shows on BS and terrestrial television such as variety shows, educational programs, and documentaries. Services were expanded to include TV director training courses and networking broadcasters all around Japan, and the number of television production staff increased. Profit wise, operating profit was down YoY due to lower sales of relatively high-margin contract production work. However, sales of contract production work increased YoY in Q3 (September to November 2018), when profits grew despite lower sales.
- ▷ The video games business posted higher sales and profits. At its production studio, the company undertook new production projects on behalf of clients, worked together with the group's Korean subsidiary (Creek & River Korea Co., Ltd.) on joint development projects, did its own development work using licensed IP, and held joint events featuring the content of other companies. Profits were up, absorbing the JPY22mn negative impact of ClayTech Works becoming a consolidated subsidiary.
 - At its production studio, the company did contract development and operations management work in the consumer, amusement, and social media fields. Working primarily from its production studio, the company also established a free training academies (Creative Academy and Tech Stadium) for people with no experience in the industry in an effort to address the shortage of qualified personnel in the game industry.
 - In July 2018, the company acquired shares in ClayTech Works, Co., Ltd. and made it a consolidated subsidiary. ClayTech Works is a newly established spinoff from Silicon Studio Corporation that took over part of Silicon Studio's content business. Creek & River also started working to blend its creative talents with those of ClayTech Works, which has a great deal of expertise in the area of video game content development. The business posted a JPY30mn operating loss in Q2 (June to August 2018), but turned profitable in Q3 (September to November 2018) with an operating profit of JPY8mn. The profit margin of the video game business improved. The company commented that Palette Parade (an online game for training artists) is scheduled for release in 2019 and expected to contribute to profits. We note that in Q3, the company finalized a provisional accounting treatment (recorded in Q2) for the goodwill related to the acquisition of ClayTech Works; the goodwill came to JPY54mn (JPY21mn less than the provisional amount).
 - The company also focused on boosting the event business, which includes eSport (competitive video gaming). In August 2018, it hosted a fighting game tournament for working adults where players were divided into teams by companies. In addition, the company hosted an event called the Attraction Festa at various locations in the Greater Tokyo area. The Attraction Festa, which combines anime and game content with a live event, reflects the company's effort to explore a new revenue model in intellectual property distribution and event management.

- ▷ The web business posted sales and profit growth and profit margins improved. The profit growth rate accelerated in Q3 as a result of booking earnings from inspection work on content produced under contract. The company grew its Agency business by strengthening recruitment of website creators and the company's network among website creators through the web business-oriented job information site Webist, which is one of the largest of its kind in the web, advertising, and publishing industries. There was an increase in the number of large-scale web site production projects for government ministries and agencies. They were handled mainly by account producers who were hired and trained by the company in its web studio that was expanded in FY02/16. Creek & River also began operating Symbiorise, a job information website for people working AI and IoT fields, and expanded its digital marketing services, including referral of data analysts to companies.
- ▷ The e-book and copyright businesses posted sales and profit growth.
 - In publishing, the company distributed (as an agent) e-books through electronic bookstores, including Amazon Kindle. In this e-book distribution agent business, the company reported an increase in downloads and distribution of e-books.
 - In the copyright business, the company also expanded its overseas agency business that works to license the rights to make videos for the local market based on the works of Japanese authors to capture the growing demand of video content in China.
- ▷ At YouTube Online Creators, the company saw a steady rise in the views of uploads by YouTubers and won more contracts to operate YouTube channels for companies and television programs. It also began operating foreign language channels on behalf of YouTubers, making use of the AI-driven speech synthesizing technology (RECAIUS™) developed by its strategic partner Toshiba Digital Solutions. The company took these additional steps that would lead to new revenue streams for YouTubers and in doing so was able to increase the number of channels it operated. Using the RECAIUS technology, the company also collaborated with WatchMojo.com—a popular overseas YouTube channel—to jointly start and operate the Japanese language versions of WatchMojo.com's three subchannels (Unveiled, MojoPlays, and MsMojo). The Japanese channels were launched in October 2018.
- ▷ In the architecture business, which turned profitable in FY02/18, the agency business (a referral service of certified class 1 architects) showed steady growth through Q3. The architectural design business that proposes rental housing with distinctive designs to property owners under the Creative Residence® brand launched a new series of property called the Staple House, which is a detached house with an integral garage. Inquiries from interested parties have increased as a result.
- ▷ In VR, the company developed a system to deliver VR content (such as the VR remote medical training system) using the VR goggles from consolidated subsidiary VR Japan and IDEALENS. It also began rolling out a comprehensive business solutions service (including everything from the hardware to the content). The target markets include corporate education and training facilities, amusement facilities, hotels, tourist facilities, events, and exhibitions.
- ▷ In terms of initiatives in new fields, the company is taking efforts to make the drone business profitable. It also launched the performing art agency business for artists who perform in spaces or stages, such as theater actors, rakugo comic storytellers, singers, and magicians, and rolled out marketing activities.

Creative (South Korea)

Sales: JPY26mn (JPY986mn in Q3 FY02/18)

Operating loss: JPY12mn (operating profit of JPY5mn in Q3 FY02/18)

From Q2 FY02/18, CREEK & RIVER ENTERTAINMENT Co., Ltd. was transferred from a consolidated subsidiary to an equity-method affiliate. As a result, sales and profit dropped YoY.

In collaboration with the company, in May 2018 this affiliate began a Japan-South Korea joint publishing business to launch popular South Korean smartphone games in Japan. It also drew up plans to launch a rights management business.

In August 2018, the company and CREEK & RIVER ENTERTAINMENT began joint distribution of the game *Freezing Extension* (a 3D battle-romance role playing game). The company also began joint distribution of the role playing game *Five Kingdoms: Itsuwari no Okoku* with Liica Inc. The two games have both enjoyed a steady rise in downloads since their launch.

Medical Staffing

Sales: JPY3.1bn (+4.6% YoY)
 Operating profit: JPY600mn (+3.2% YoY)

The chronic shortage of physicians nationwide and the uneven distribution of doctors by regions continued to underpin steady demand for doctors and growth at the company's medical staffing business, leading to higher YoY sales and profit.

Progress toward the full-year company forecast was 82% for sales (versus 84% in Q3 FY02/18) and 100% (111%) for operating profit.

To meet the various needs of medical institutions, municipal governments, doctors, and nurses, the company rolled out services in its medical staffing business such as Resinavi fair for medical students and residents; Resinavi, a clinical trial training information site; MediGate, a job search website for doctors; and Minkan Ikyoku Academy, a training program for doctors. In September 2018, the company opened its Eastern Kanto branch office in Funabashi City, Chiba Prefecture, bringing the total number of facilities in Japan to 16.

In August 2018, the company entered into an alliance agreement with Teikyo University's Graduate School of Public Health with the aim of providing comprehensive support in education, training, and career development in the field of public health. Under this agreement, the company has begun providing recruitment services for students with expertise in labor safety and health fields including employee health maintenance, mental health, and problems associated with overwork.

Accounting and Legal

Sales: JPY1.4bn (+5.4% YoY)
 Operating profit: JPY80mn (-33.7% YoY)

- ▷ Demand for professionals with expertise in the accounting and legal fields was solid, leading to higher YoY sales. Operating profit finished down, however, hurt by the added cost of strategic hiring and advertising and promotional spending as well as lower sales from relatively high-margin staffing business.
- ▷ The company aims to expand the agency business and increase its name recognition in the industry through joint seminars with client companies and firms as well as strengthen relationships with organizations in related industries.
- ▷ Making use of the network it has already established, Creek & River expanded its service offering with the full-scale launch of business succession and M&A support services in order to better meet the business succession planning needs of accounting firms and their clients. It also began a referral service for accounting staff who wish to telecommute in an effort to address work style diversification in the accounting field.
- ▷ In the legal space, the company also made developmental progress as it heads toward full operation of the SNS platform JURISTERRA, which links legal professionals around the world, by adding the voice dictation editor, which utilizes the voice recognition technology RECAIUS™.

Other

Sales: JPY1.4bn (+30.8% YoY)
 Operating loss: JPY108mn (operating loss of JPY40mn in Q3 FY02/18)

Sales rose YoY thanks in large part to growth in the Agency business in the IT industry. Operating profit fell YoY due to higher SG&A expenses as the company strengthened initiatives for new markets, such as AI.

- ▷ Leading Edge Co., Ltd., which operates the IT staffing agency business, posted sales and profit growth. It continued to focus on hiring, training, and referral of IT engineers in response to market demand for robotics and artificial intelligence, creating a network of more than 4,000 engineers adept at the Python programming language.
- ▷ Inter Belle Inc. which operates the group's agency business in the fashion industry, posted sales and profit growth. It made progress in reconstructing its business foundation through such efforts as reviewing unprofitable projects. It also strengthened sales staff training.
- ▷ Earnings were strong at Professional Media Co., Ltd., which operates a personnel media business, having established a profit base for its media business centered on Koukokutenshoku.com (an online job board for advertising and web professionals) and Creative-haken.com (an online job board for temporary workers with advertising and web expertise), which revamped in July 2018. It also expanded the same business model in the video and fashion industries in an effort to diversify its income.
- ▷ VR Japan Co., Ltd., a consolidated subsidiary, posted lower profit on higher sales. It promoted the VR goggles with Creek & River to expand sales in Japan.
 - It aims to expand this business through aggressive marketing of its virtual reality safety training service to companies in the construction industry. The company is also developing a VR remote medical training and communication system and VR systems for education and language fields in collaboration with universities.
 - Although 2.5K VR goggles (IDEALENS K2+) were in short supply as of January 2019, VR Japan plans to release the higher resolution 4K goggles (IDEALENS K3-4K) in 1H 2019 and expand sales in Japan.
- ▷ Consolidated subsidiary Idrasys Co., Ltd., which provides system planning, development, sales, operation, and maintenance services using AI, posted an operating loss. The subsidiary moved ahead with domestic business development of SmartRobot™, an AI platform developed by Intumit. Idrasys strengthened marketing of SmartRobot™ in Japan, centered on chatbot—automated chat program utilizing SmartRobot™. Based on information gained from the marketing activity, the company conducted R&D for systems in Japan using AI.
- ▷ Although consolidated subsidiary Economic Index Co., Ltd. which operates data analysis business, posted an operating loss, its earnings performance is improving. The company has taken efforts to generate profits from its data analysis service “Strategy Finder,” which analyzes uniquely developed keywords and topics and offers suggestions for improvement plans. The subsidiary also provided solutions services related to online marketing and digital marketing based on the results of data analyses.

1H FY02/19 results

- ▷ Sales: JPY14.8bn (+4.5% YoY)
- ▷ Operating profit: JPY1.3bn (+1.5% YoY)
- ▷ Recurring profit: JPY1.3bn (+0.2% YoY)
- ▷ Net income*: JPY738mn (+0.6% YoY)

*Net income attributable to parent company shareholders

1H sales were up at all segments except Creative segment (South Korea), but Creative (Japan) stood out as the main growth driver. At Creative segment (South Korea), sales declined YoY as CREEK & RIVER ENTERTAINMENT Co., Ltd. was shifted from a consolidated subsidiary to an equity-method affiliate in Q2 FY 02/18. Adjusted for this factor, sales grew 12% YoY.

Creative (Japan) was also the main growth driver for earnings, delivering enough growth at its Production business (centered on its production studio) and Agency business (personnel dispatch services) to cover the added spending on new businesses that were either recently established or acquired. Sales of new business areas were JPY570mn (+54% YoY) and the operating loss was JPY140mn (JPY110mn loss in 1H FY02/18), of which operating loss from businesses started in FY02/19 (drones, performance arts, Idrasys, and Economic Index Co., Ltd.) accounted for JPY86mn.

Gross profit was JPY5.9bn (+7.8% YoY). GPM rose 1.2pp YoY to 39.8%. As noted above, GPM went up due to an increase in profitable projects for production studios in Creative (Japan).

SG&A expenses were JPY4.6bn, increasing 9.7% (+JPY407mn) YoY. Personnel expenses rose JPY230mn due to additional hiring by existing businesses and strategic hiring associated with the startup of new businesses. Non-personnel expenses increased by JPY170mn, including JPY80mn related to headquarters relocation.

Progress toward the 1H company forecast was 102.9% for sales, 101.2% for operating profit, 100.5% for recurring profit, and 98.4% for net income. Progress toward the full-year company forecast was 50.2% for sales (54.2% in 1H FY02/18 versus FY02/18 results), 64.9% for operating profit (69.0%), 64.4% for recurring profit (68.7%), and 64.2% for net income (66.5%). The company made solid progress toward the full-year forecast despite making ClayTech Works Co., Ltd. a subsidiary (JPY30mn negative factor for profit), which had not been factored into the initial company forecast. As noted above, earnings of the Medical Staffing business tend to be concentrated in 1H due to the timing of physician transfers, which we consider to be the main reason for progress rates (versus full-year results and forecasts) exceeding 50%.

The results of individual segments are detailed below.

Note: Starting in Q1 FY02/19, the accounting and legal businesses, which had been included in the Others segment, will be reported as an independent segment due to an expansion of related businesses.

Creative (Japan)

Sales: JPY10.7bn (+14.3% YoY)
 Operating profit: JPY649mn (+20.4% YoY)

Sales were up YoY, mainly in games, Web personnel dispatch, and contracting businesses. In addition to increasing personnel in response to higher demand in existing business, SG&A expenses rose on the acquisition of ClayTech Works, Co., Ltd. in July 2018 and the launch of a new agency business. However, segment profit grew YoY as the number of high profit margin orders won by the company's production studios increased and the personnel dispatch and other services under the Agency business continued to grow, leading to record-high profits. The new Agency businesses posted an operating loss of around JPY40mn, while making ClayTech Works a subsidiary had a JPY30mn negative impact on profit.

Progress toward the full-year company forecast was 48.8% for sales (49.1% in 1H FY02/18 versus full-year FY02/18 results) and 48.1% for operating profit (46.7%).

Video, TV, and video technology-related businesses

Profits declined on higher sales in video, TV, and video technology-related businesses. From FY02/18, the company has been focusing on rectifying the practice of long working hours, reducing the workload of employees by assigning temporary workers to avoid excessive overtime. This resulted in higher expenses and lowered profits. Creek & River strengthened TV show planning

and production mainly at its production studios, stepped up content for its video distribution service, and responded to the increase in demand for shows on BS and terrestrial television such as variety shows, educational programs, and documentaries. Services were expanded to include TV director training courses and networking broadcasters all around Japan, and the number of television production staff increased. The company commented that there is strong demand among broadcasters and others for program production, but it is taking a selective approach to projects in view of business efficiency, and reviewing the practice of taking on low-margin program production contracts. Program production is set to increase in 2H FY02/19 (in both Q3 and Q4), and progress as of 1H is on track.

Games business

Games posted higher sales and profits. Creator agency, contract production, and contract operation services performed strongly. Contract production of amusement machine-related games was sluggish through 1H due to voluntary regulations, but is showing signs of recovery in Q2. The business posted profit growth, absorbing the JPY30mn negative impact on profit of making ClayTech Works Co., Ltd. a consolidated subsidiary in Q2. In video games, at its production studio, the company undertook new production projects on behalf of clients, worked together with the group's Korean subsidiary (Creek & River Korea Co., Ltd.) on joint development projects, did its own development work using licensed IP, and held joint events featuring the content of other companies. At its production studio, the company did contract development and operations management work in the consumer, amusement, and social media fields. Working primarily from its production studio, the company also established a free training academy (Creative Academy and Tech Stadium) for people with no experience in the industry in an effort to address the shortage of qualified personnel in the game industry.

In July 2018, the company acquired shares in ClayTech Works, Co., Ltd. and made it a consolidated subsidiary. ClayTech Works is a newly established spinoff from Silicon Studio Corporation that took over part of Silicon Studio's content business. Creek & River also started working to blend its creative talents with those of ClayTech Works, which has a great deal of expertise in the area of video game content development. ClayTech works had been developing its own game titles as well as doing contract production, but is seeking to improve earnings by making contract production its core business from Q3 FY02/19 onward.

Web business

Sales and profits were up at its web business, but profit margins declined. Although the Agency business grew, booking profit in the contracting business was delayed in 1H. The company grew its Agency business by strengthening recruitment of website creators and the company's network among website creators through the web business-oriented job information site Webist, which is one of the largest of its kind in the web, advertising, and publishing industries. There was an increase in the number of large-scale web site production projects for government ministries and agencies. They were handled mainly by account producers who were hired and trained by the company in its web studio that was expanded in FY02/16. The company also entered a business alliance with Kenshoo, Ltd., a global company which provides tools to optimize automatized advertising. Through this alliance, the company offered digital marketing support, including proposal of optimized internet advertising measures and operations, and expanded various services and began Kenshoo Digital Agent Services, which introduces advertising operation personnel to companies. Creek & River also began operating Symbiorise, a job information website for people working AI and IoT fields, and expanded its digital marketing services, including referral of data analysts to companies.

Publishing business

In publishing, the company distributed (as an agent) e-books through electronic bookstores, including Amazon Kindle. In this e-book distribution agent business, the company reported an increase in downloads and distribution of e-books. To capture the growing demand of video content in China, the company also expanded its overseas agency business that works to license the rights to make videos for the local market based on the works of Japanese authors.

YouTube Online Creators

At YouTube Online Creators, the company saw a steady rise in the views of uploads by YouTubers and won more contracts to operate YouTube channels for companies and television programs. It also began operating foreign language channels on behalf of YouTubers, making use of the AI-driven speech synthesizing technology (RECAIUS™) developed by its strategic partner Toshiba Digital Solutions. At the same it was moving into overseas markets, the company also took additional steps that would lead to

new revenue streams for YouTubers and in doing so was able to increase the number of channels it operated. To better handle needs of creators of video streaming websites and online videos, it also started a video editing academy to train new video creators.

Architecture business

The architecture business turned profitable in FY02/18. The architecture agency business contributed to earnings in 1H FY02/19. The architectural design business that proposes designs by architects to condominium developers and rental property owners established a portfolio of 12 architect-designed residences under the Creative Residence® brand. The first was Golf Living (a condo for golfers) and the second a terraced house with a roof garden, both of which have been built and are in operation. The third, Staple House (rental house with integral garage that can be used for DIY), has recently been completed.

Professor agency business

The professor agency business has been collaborating with many universities and companies. It posted sales and profit growth YoY in 1H FY02/19. It has strengthened the artificial intelligence (AI) researcher agency business.

VR

In VR, the company developed a platform to deliver VR content using the VR goggles from consolidated subsidiary VR Japan and IDEALENS. It also began rolling out a comprehensive business solutions service (including everything from the hardware to the content). The target markets include education and training facilities, amusement facilities, hotels, tourist facilities, events, and exhibitions.

Other businesses (new agencies)

In terms of initiatives in new fields, the company is taking efforts to make the drone business profitable. It also began the performing art agency business for artists who perform in spaces or stages, such as theater actors, rakugo comic storytellers, singers, and magicians.

Creative (South Korea)

Sales: JPY7mn (JPY985mn in 1H FY02/18)
 Operating loss: JPY11mn (operating loss of JPY5mn in 1H FY02/18)

From Q2 FY02/18, CREEK & RIVER ENTERTAINMENT Co., Ltd. was transferred from a consolidated subsidiary to an equity-method affiliate.

In collaboration with the company, this affiliate began a Japan-South Korea joint publishing business to launch popular South Korean smartphone games in Japan. It also drew up plans to launch a rights management business.

In August 2018, the company and CREEK & RIVER ENTERTAINMENT began joint distribution of the game *Freezing Extension* (a 3D battle-romance role playing game). The company also began joint distribution of the role playing game *Five Kingdoms: Itsuwari no Okoku* with Liica Inc. The two games have both enjoyed a steady rise in downloads since their launch. Earnings from the distribution of these games will be booked in 2H onward.

Medical Staffing

Sales: JPY2.3bn (+0.9% YoY)
 Operating profit: JPY638mn (-4.1% YoY)

The chronic shortage of physicians nationwide and the uneven distribution of doctors by regions continued to underpin steady demand for doctors and growth at the company's medical staffing business, leading to higher YoY sales. However, the sales growth rate was modest due to changes to the timing of group orientation sessions and variability of employment start dates for medical students and interns. Profits declined YoY due to expenses used to reinforce personnel in order to strengthen the medical staffing business.

Progress toward the full-year forecast was 62.9% for sales (64.8% in 1H FY02/18 versus full-year FY02/18 results) and 106.4% for operating profit (115.8%).

To meet the various needs of medical institutions, municipal governments, doctors, and nurses, the company rolled out services in its medical staffing business such as Resinavi fair for medical students and residents; Resinavi, a clinical trial training information site; MediGate, a job search website for doctors; and Minkan Ikyoku Academy, a training program for doctors. In September 2018, the company opened its Eastern Kanto branch office in Funabashi City, Chiba Prefecture, bringing the total number of facilities in Japan to 16.

In August 2018, the company entered into an alliance agreement with Teikyo University's Graduate School of Public Health with the aim of providing comprehensive support in education, training, and career development in the field of public health. Under this agreement, the company has begun providing recruitment services for students with expertise in labor safety and health fields including employee health maintenance, mental health, and problems associated with overwork.

Accounting and Legal

Sales: JPY942mn (+3.5% YoY)

Operating profit: JPY43mn (-40.9% YoY)

Demand for professionals with expertise in the accounting and legal fields was solid, leading to higher YoY sales. Operating profit finished down, however, hurt by the added cost of strategic hiring and advertising and promotional spending.

The company aims to expand the Agency business and increase its name recognition in the industry through joint seminars with client companies and firms as well as strengthen relationships with organizations in related industries. According to the company, orders are on the rise and earnings growth is expected in 2H onward.

Making use of the network it has already established, Creek & River expanded its service offering with the full-scale launch of business succession and M&A support services in order to better meet the business succession planning needs of accounting firms and their clients. The company also made developmental progress as it heads toward full operation of the SNS platform JURISTERRA, which links legal professionals around the world, by adding the voice dictation editor, which utilizes the voice recognition technology RECAIUS™.

Other

Sales: JPY946mn (+41.2% YoY)

Operating loss: JPY41mn (operating loss of JPY38mn in 1H FY02/18)

Sales rose YoY thanks in large part to growth in the Agency business in the IT industry. Operating profit fell YoY due to higher SG&A expenses as the company strengthened initiatives for new markets, such as AI. New business areas posted an operating loss of around JPY100mn, of which Idrasys and Economic Index accounted for JPY70mn.

IT (Leading Edge Co., Ltd.)

Leading Edge Co., Ltd., which operates the IT staffing agency business, recorded higher sales and profits YoY. It continued to focus on hiring, training, and referral of IT engineers in response to market demand for robotics and artificial intelligence, creating a network of more than 4,000 engineers adept at the Python programming language.

Fashion (Inter Belle Inc.)

Inter Belle Inc. which operates the group's agency business in the fashion industry, posted sales growth and continued to shrink its operating loss. The company made progress in reconstructing its business foundation through such efforts as reviewing unprofitable projects. It also strengthened sales staff training.

Personnel media (Professional Media Co., Ltd.)

Professional Media Co., Ltd., which operates a personnel media business, has turned profitable, posting sales and profit growth in 1H FY02/19. The company established a profit base for its media business centered on Koukokutenshoku.com (an online job board for advertising and web professionals) and Creative-haken.com (an online job board for temporary workers with advertising and web expertise), which revamped in July 2018. It also expanded the same business model in the video and fashion industries in an effort to diversify its income.

VR (VR Japan Co., Ltd.)

VR Japan Co., Ltd., a consolidated subsidiary, also turned profitable, posting sales and profit growth in 1H FY02/19. The company promoted the VR head-mount display (HMD) Idealens K2+ with Creek & River to expand HMD sales in Japan, which contributed to sales growth. It aims to expand this business through aggressive promotion of its virtual reality safety training service to companies in the construction industry. VR Japan plans to launch high-resolution 4K HMD Idealens K3-4K around winter 2018 and expand sales in Japan.

AI (Idrasys Co., Ltd.)

Consolidated subsidiary Idrasys Co., Ltd. provides system planning, development, sales, operation, and maintenance services using AI. The subsidiary posted an operating loss, but earnings continued to improve. Idrasys moved ahead with domestic business development of SmartRobot™, an AI platform developed by Intumit. Idrasys strengthened marketing of SmartRobot™ in Japan, centered on chatbot—automated chat program utilizing SmartRobot™. Based on information gained from the marketing activity, the company conducted R&D for systems in Japan using AI.

Data analysis services (Economic Index Co., Ltd.)

Consolidated subsidiary Economic Index Co., Ltd. which operates data analysis business, posted an operating loss in 1H FY02/19, but earnings continued to improve. The company has taken efforts to generate profits from its data analysis service “Strategy Finder,” which analyzes uniquely developed keywords and topics and offers suggestions for improvement plans. The subsidiary also provided solutions services related to online marketing and digital marketing based on the results of data analyses.

Full-year FY02/18 results

- ▷ Sales: JPY26.7bn (+0.5% YoY)
- ▷ Operating profit: JPY1.8bn (+12.2% YoY)
- ▷ Recurring profit: JPY1.8bn (+23.5% YoY)
- ▷ Net income*: JPY1.1bn (+23.7% YoY)

*Net income attributable to parent company shareholders

In FY02/18, sales rose YoY due to robust results in the Creative segment (Japan) and the Medical Staffing segment, despite a JPY2,315mn YoY drop in sales in the Creative segment (South Korea) as Creek & River Entertainment Co., Ltd. was transferred from a consolidated subsidiary to an equity-method affiliate. Without this factor, sales were 10% higher YoY.

In the Creative segment (Japan), SG&A expenses increased due to strategic hiring as the company launched new businesses and reinforced the workforce of existing businesses. There were 70 mid-career hires, up from 40 in FY02/17. However, profits still reached record highs as a result of improved profit margin owing to an increase in the number of high profit margin orders won by its production studios and robust performance in the Medical Staffing segment. New businesses posted sales of JPY770mn (+66% YoY), and an operating loss of JPY180mn (an improvement over the FY02/17 loss of JPY240mn).

There were one-time blows to profits from a JPY170mn increase in personnel costs accompanying hiring with a view to future growth, and JPY150mn in costs related to office relocation.

Gross profits came in at JPY10.2bn (+10.1% YoY), and the GPM improved 3.3pp to 38.1%. The GPM benefited from the increase in high-margin orders won by production studios at the Creative segment (Japan), and also from rising sales at the Medical Staffing segment's medical specialist employment business.

SG&A expenses totaled JPY8.4bn (+JPY738mn YoY, +9.7%). Personnel costs were JPY410mn higher YoY due to strategic hiring as the company launched new businesses and reinforced the workforce of existing businesses. Creek & River also incurred JPY150mn in costs related to office relocation, as well as increases in system- and hiring-related costs.

Creative (Japan)

Sales: JPY19.1bn (+11.8% YoY)

Operating profit: JPY1.2bn (+6.7% YoY)

Sales were solid on the whole, exceeding forecasts and rising YoY. In addition to increasing personnel in response to higher demand in existing business, SG&A expenses rose because the company launched a new agency business and strengthened initiatives to enter new markets such as VR and AI. As a consequence, personnel and hiring-related costs rose JPY170mn YoY, and the segment also booked JPY150mn in office relocation costs. However, segment profit grew YoY and exceeded forecasts as the number of high profit margin orders won by the company's production studios increased.

The company's production studios employed over 700 employees as of February 2018 versus 600 a year earlier. Production studios create games, TV shows, and web and YouTube content. The additional head count means less outsourcing and more of the work being produced in-house, leading to stronger profitability. According to the company, some 2,000 employees assigned or contracted out to client firms have returned after gaining business experience and are leveraging their experience in subsequent outsourcing work to build a virtuous cycle. This allows Creek & River to take on projects with a high level of difficulty, which lifts profit margins.

Businesses related to visual, television, and visual technology

Sales increased but profits were down in businesses related to visual, television, and visual technology. Sales grew because of expansion in revenue from TV program production. The company strengthened TV show planning and production mainly at its production studios, stepped up content for its video distribution service, and responded to the increase in demand for shows on BS and terrestrial television such as variety shows, educational programs, and documentaries. However, profits were down amid an increase in spending aimed at relieving long working hours.

Services were expanded to include TV director training courses and networking broadcasters all around Japan, and the number of television production staff increased. The company also opened ELZOshigoto.com, a job information site specializing in the visual media industry. Further, in October 2017 it began offering a nationwide service that utilizes drones, taking advantage of its network with TV stations and track record in filming.

YouTube Online Creators

At YouTube Online Creators, the company saw a steady rise in the views of uploads by creators. Furthermore, it expanded its service and held tie-up contests with other companies.

Video games

In video games, both sales and profits increased amid growth in agency services for creators and contracted production projects. The company strengthened efforts at its studios to secure production orders, advance joint development with overseas partners, and develop products in-house using its IPs. In addition to working on contracted production projects, the studios also responded to the increased demand from clients by hiring and training creators in the fields of consumer, amusement, and social gaming.

VR

In VR, in November 2017 the company launched rental service IDEALENS Business VR Rental, which leases out IDEALENS K2+ VR head-mount displays (HMD) to corporate clients. The service is not limited to equipment rental. The company has enhanced it to offer a one-stop solution, designing a plan based on usage, estimating the number of HMDs required, providing content, and dispatching support staff (technicians).

Web business

At the company's web business, sales grew but profits fell. There was an increase in the number of large-scale web site production projects for government ministries and agencies. They were handled mainly by account producers who were hired and trained by the company in its web studio that was expanded in FY02/16. Profits decreased, though, because spending outpaced sales as projects grew larger and longer. In November 2017, the company opened a web business-oriented job information site Webist, which is the largest of its kind in the industry.

Publishing

In publishing, both sales and profits declined. The company distributed (as an agent) e-books on several dedicated devices including Amazon Kindle, and in this e-book distribution agent business, it reported an increase in downloads and distribution of e-books. There was a one-time boost to earnings in FY02/17 from a sales promotion campaign for Amazon Kindle Unlimited, but in FY02/18 this positive effect wore off. The company seeks to train manga artists, produce content, and protect the intellectual property rights of works. As it is involved in manga production, the company started the Manga LABO, which is expected to contribute to this industry.

Architecture

In architecture, sales and profits both improved and the business turned profitable. The company expanded its network of top-class architects and continued to establish its architecture agency business, which focuses on staffing and dispatch services. The architecture production business, which provides designs to condo developers and rental property owners, offers a portfolio of 10 architect-designed residences under the Creative Residence® brand. The company also completed the process to become a registered architects' office, which makes it possible to undertake design contracts.

Other (new agency businesses)

New agency businesses for fashion, chefs, and professors posted operating losses, as these businesses are still in their infancy. The fashion agency business, though, turned a profit in 4Q, while the professor agency business was profitable in 2H in terms of the number of contracts signed, amid strong demand in this field for job support.

In addition, in March 2018 the company launched a performing arts agency business, where it provides networking services, produces performing arts events, undertakes corporate promotions, and acts as an agent for all manner of performing artists including theater actors, rakugo comic storytellers, singers, and magicians.

Other (IoT and AI initiatives)

In IoT and AI, the company invested in the Taiwanese company Intumit Inc. (headquartered in New Taipei City; hereinafter "Intumit"), whose main businesses are development and sales of knowledge management systems and robotic process automation (RPA). The company also signed a strategic partnership agreement with Toshiba Digital Solutions, which possesses communications AI technology that supports business and lifestyle by understanding human intention from audio or video materials.

Creative (South Korea)

Sales: JPY986mn (-70.1% YoY)
 Operating profit: JPY3mn (-85.0% YoY)

From Q2, CREEK & RIVER ENTERTAINMENT Co., Ltd. was transferred from a consolidated subsidiary to an equity-method affiliate, leading to lower sales YoY.

Medical Staffing

Sales: JPY3.6bn (+7.5% YoY)
 Operating profit: JPY575mn (+32.8% YoY)

The chronic shortage of physicians nationwide and the uneven distribution of doctors by regions continued to underpin steady demand for doctors and growth at the company's medical staffing business. The number of concluded recruitment contracts increased, as approximately 110,000 members (physicians and medical students) now are registered with the company (up from around 100,000 in FY02/17), as are around 12,000 medical institutions (up from 11,000).

To meet the various needs of medical institutions, municipal governments, doctors, and nurses, the company rolled out services in its medical staffing business such as Resinavi fair for medical students and residents; Resinavi, a clinical trial training information site; MediGate, a job search website for doctors; and Minkan Ikyoku Academy, a training program for doctors. In August 2017, the company opened the Joshinetsu branch office in Takasaki City, Gunma Prefecture, bringing the number of facilities to 15 across Japan.

Other

Sales: JPY3.3bn (+10.3% YoY)
 Operating profit: JPY65mn (-15.7% YoY)

Despite the negative effects of a review of unprofitable businesses within agency business for the fashion industry, results were robust in the IT, legal and accountant staffing agency businesses, leading to higher YoY sales. Profits fell YoY due to spending for new businesses, primarily in the VR field, and costs related to reconstructing the business foundation of the agency business for the fashion industry.

IT (Leading Edge Co., Ltd.)

Both sales and profits increased in the IT business. Leading Edge Co., Ltd., which operates the IT staffing agency business, continued to focus on hiring and training of engineers in response to market demand for robotics and artificial intelligence (AI), mainly those adept at the Python programming language.

Legal (C&R Legal Agency Co., Ltd.)

In the legal business, sales grew but profits decreased. At the sales level, the lawyer recruitment agency business grew at legal staffing agency subsidiary C&R Legal Agency Co., Ltd., where the number of registered lawyers increased to over 10,700. However, profits fell amid an increase in expenditure as the company opened the beta version of JURISTERRA, a social media platform addressing global needs for lawyers. Toward its full-scale operation, the company collaborated with US-based subsidiary Creek and River Global Inc. as it aimed to expand services globally including in the US.

Accounting (JUSNET Communications)

Sales and profits both rose in the accounting business. The accountant dispatch and recruitment agency businesses grew at accountant staffing agency subsidiary JUSNET Communications Co., Ltd. However, the company also sought to diversify its profit sources through its "Advanced Accountant Support Services," a service which handles accounting operations not only for accounting and tax matters for companies, but can also operate in areas such as legal, intellectual property rights, finance, and international operations (IFRS, USGAAP, US-SOX, overseas IPO, cross border M&A, and international tax matters). The company also sought to increase its name recognition in the accounting industry by strengthening its relations with each accounting-related organization and holding joint seminars with client companies and accounting firms.

Fashion (Inter Belle)

In fashion, both sales and profits were down YoY. Inter Belle Inc. a consolidated subsidiary for agency business in the fashion industry, made progress in reconstructing its business foundation through such efforts as reviewing unprofitable projects. It also strengthened sales staff training.

Personnel media (Professional Media)

Professional Media Co., Ltd., which operates a personnel media business, posted an operating loss owing to an increase in costs associated with launching a new job information site. The company already has established a profit base for its media business centered on Koukokutenshoku.com, a job board for advertising and web professionals, and also has expanded the same business model in the video and fashion industries in an effort to diversify its income.

VR (VR Japan)

The VR business posted an operating loss. VR Japan Co., Ltd., a consolidated subsidiary, promoted the Idealens K2 VR head-mount display (HMD) with Creek & River to expand sales in Japan. From June 2017, it aimed to expand its business by launching Idealens K2+, which has higher resolution than Idealens K2. Focused on B2B sales, this new product is being installed in rental video stores, hotels, and schools and training facilities. However, this business has not really taken off, as development of new products with even better resolution was underway at the same time.

In summer 2018, the company plans to release and promote sales of higher-resolution 4K HMDs Idealens K3-4K and Idealens K3-Pro in Japan.

AI (Idrasys)

In January 2018, the company established the consolidated subsidiary Idrasys along with Intumit (stakes of 66.6% and 33.4%, respectively) with the aim of operating systems planning, development, sales, operations, and maintenance business which utilized AI. Idrasys has conducted R&D for systems in Japan using AI as well as strengthened service and product development for the Japanese launch of SmartRobot™, an AI platform developed by Intumit.

Overseas screen rights agency business (Creek & River Shanghai Co., Ltd.)

Consolidated subsidiary Creek & River Shanghai Co., Ltd. is growing its business of promoting screen rights for Japanese novels and so forth overseas. In 2017, the subsidiary inked license agreements for the screen rights to at least 10 books.

Other information

History

Creek & River was formed in March 1990 by President Yukihiro Ikawa, himself a former freelance film producer, with the mission to increase the lifetime value of creative staff and help customers create value. The company started as a staffing agency focusing on the video production area and subsequently expanded into web and mobile application development staffing, as well as broader creative staffing and outsourcing. The company sees its business model as applying to any type of professional staff and it has been expanding to include such professions as medical doctors, IT engineers, lawyers, accountants, architects, fashion designers, chefs, researchers, and performing artists.

Year	Month	Summary
1990	March	Creek & River established
1992	July	Begins staffing agency business for video production creators
1993	November	Approved to begin fee-based employment agency business
1996	December	Begins staffing agency business for game creators
1997	January	Medical Principle Co. established
1997	July	Begins staffing agency business for creators in publishing and advertising
2000	June	Stocks listed on NASDAQ Japan (now JASDAQ)
2000	July	Leading Edge established
2001	January	Acquires shares in wholly owned subsidiary of TV Tokyo
2001	August	Creek & River Korea established in Seoul
2003	March	Rights business launched
2007	August	C&R Legal Agency established
2009	June	JUSNET Communications becomes a consolidated subsidiary
2010	March	Creek & River Shanghai established
2012	July	Begins e-book distribution business
2013	January	Begins architect staffing agency business
2013	February	Begins fashion creator staffing agency business
2013	July	Begins online creator staffing agency business
2013	December	Inter Belle becomes a consolidated subsidiary
2015	March	Begins chef staffing agency business
2015	April	Professional Media becomes a consolidated subsidiary
2015	May	Economic Index becomes an equity-method subsidiary
2015	July	Begins professor staffing agency business
2016	February	Listing change to Tokyo Stock Exchange Second Section
2016	March	US subsidiary Creek & River Global, Inc. established
2016	August	VR Japan established
2016	August	Listing change to Tokyo Stock Exchange First Section
2017	January	MCR Analytics established
2017	December	forGIFT established
2018	January	Idrasys established
2018	March	Launched performing arts agency business
2018	March	Launched drone business
2018	July	ClayTech Works becomes a consolidated subsidiary
2019	February	Launched researcher agency business

News and topics

Major shareholders

Top shareholders	Shares held	Shareholding ratio
C&R Co., Ltd.	6,293,000	28.96%
Yukihiro Ikawa	3,768,000	17.34%
Japan Trustee Services Bank, Ltd. (Trust account)	2,402,300	11.05%
The Nomura Trust and Banking Co., Ltd. (Trust account)	762,400	3.51%
Hideo Sawada	520,000	2.39%
Tatsumi Yoda	422,000	1.94%
Northern Trust Co. (AVFC) Re Northern Trust (Guernsey) Limited Re GGDP Re: AIF Clients 15.315 Percent Non Treaty Account (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch, Custody Department)	340,000	1.56%
Rikihiro Madarame	284,700	1.31%
The Master Trust Bank of Japan, Ltd. (Trust account)	278,700	1.28%
Creek & River Employees Shareholding Association	222,800	1.03%
SUM	15,293,900	70.37%

As of end-February 2019
 Excludes treasury stock
 Source: Shared Research based on company data

Company profile

Company Name	Head Office
Creek & River Co., Ltd.	SHINTORA-DORI CORE 4-1-1 Shimbashi, Minato-ku Tokyo, Japan 105-0004
Phone	Listed On
+81-3-4550-0011	Tokyo Stock Exchange 1st Section
Established	Exchange Listing
March 20, 1990	June 19, 2000
Website	Fiscal Year-End
http://www.cri.co.jp/en/	February
IR Contact	IR Web
IR Mail	IR Phone

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at <http://www.sharedresearch.jp>.

Current Client Coverage of Shared Research Inc.

Accordia Golf Trust	FRONTEO, Inc.	NS TOOL CO., LTD.
ADJUVANT COSME JAPAN CO., LTD.	Fujita Kanko Inc.	OHIZUMI MFG. CO., LTD.
Aeon Delight Co., Ltd.	Gamecard-Joyco Holdings, Inc.	Oki Electric Industry Co., Ltd
Aeon Fantasy Co., Ltd.	GCA Corporation	ONO SOKKI Co., Ltd.
Ai Holdings Corporation and factory, inc.	Good Com Asset Co., Ltd.	ONWARD HOLDINGS CO.,LTD.
ANEST IWATA Corporation	Grandy House Corporation	Pan Pacific International Holdings Corporation
AnGes Inc.	Hakuto Co., Ltd.	PARIS MIKI HOLDINGS Inc.
Anicom Holdings, Inc.	Happinet Corporation	PIGEON CORPORATION
Anritsu Corporation	Harmonic Drive Systems Inc.	RACCOON HOLDINGS, Inc.
Apaman Co., Ltd.	HOUSEDO Co., Ltd.	Raysum Co., Ltd.
ARATA CORPORATION	IDOM Inc.	RESORTTRUST, INC.
Arealink Co.,Ltd.	IGNIS LTD.	ROUND ONE Corporation
Artspark Holdings Inc.	i-mobile Co.,Ltd.	RVH Inc.
AS ONE CORPORATION	Inabata & Co., Ltd.	RYOHIN KEIKAKU CO., LTD.
Ateam Inc.	Infocom Corporation	SanBio Company Limited
Aucfan Co., Ltd.	Infomart Corporation	SANIX INCORPORATED
AVANT CORPORATION	Intelligent Wave, Inc.	Sanrio Company, Ltd.
Axell Corporation	ipet Insurance CO., Ltd.	SATO HOLDINGS CORPORATION
Azbil Corporation	istyle Inc.	SBS Holdings, Inc.
AZIA CO., LTD.	Itochu Enex Co., Ltd.	Seikagaku Corporation
AZoom, Co., Ltd.	JSB Co., Ltd.	Seria Co.,Ltd.
BEENOS Inc.	JTEC Corporation	SHIP HEALTHCARE HOLDINGS, INC.
Bell-Park Co., Ltd.	J Trust Co., Ltd	SIGMAXYZ Inc.
Benefit One Inc.	Japan Best Rescue System Co., Ltd.	SMS Co., Ltd.
B-lot Co.,Ltd.	JINS HOLDINGS Inc.	Snow Peak, Inc.
Broadleaf Co., Ltd.	JP-HOLDINGS, INC.	Solasia Pharma K.K.
Canon Marketing Japan Inc.	KAMEDA SEIKA CO., LTD.	SOURCENEXT Corporation
Career Design Center Co., Ltd.	Kenedix, Inc.	Star Mica Holdings Co., Ltd.
Carna Biosciences, Inc.	KFC Holdings Japan, Ltd.	Strike Co., Ltd.
CARTA HOLDINGS, INC	KI-Star Real Estate Co., Ltd.	SymBio Pharmaceuticals Limited
CERES INC.	Kondotec Inc.	Synchro Food Co., Ltd.
Chiyoda Co., Ltd.	Kumiai Chemical Industry Co., Ltd.	TAIYO HOLDINGS CO., LTD.
Chugoku Marine Paints, Ltd.	Lasertec Corporation	Takashimaya Company, Limited
cocokara fine Inc.	LUCKLAND CO., LTD.	Take and Give Needs Co., Ltd.
COMSYS Holdings Corporation	MATSUJI SECURITIES CO., LTD.	Takihyo Co., Ltd.
CRE, Inc.	Medical System Network Co., Ltd.	TEAR Corporation
CREEK & RIVER Co., Ltd.	MEDINET Co., Ltd.	Tempo Innovation Inc.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.	MedPeer,Inc.	3-D Matrix, Ltd.
Daiseiki Co., Ltd.	Mercuria Investment Co., Ltd.	TKC Corporation
DIC Corporation	Micronics Japan Co., Ltd.	TOKAI Holdings Corporation
Digital Arts Inc.	Milbon Co., Ltd.	TOYOBO CO., LTD.
Digital Garage Inc.	MIRAIT Holdings Corporation	Toyo Tanso Co., Ltd.
Dream Incubator Inc.	Monex Goup Inc.	Tri-Stage Inc.
Earth Corporation	MORINAGA MILK INDUSTRY CO., LTD.	VISION INC.
Elecom Co., Ltd.	NAGASE & CO., LTD	VISIONARY HOLDINGS CO., LTD.
en-Japan Inc.	NAIGAI TRANS LINE LTD.	WirelessGate, Inc.
euglena Co., Ltd.	NanoCarrier Co., Ltd.	YELLOW HAT LTD.
Evolable Asia Corp.	Net One Systems Co.,Ltd.	YOSHINOYA HOLDINGS CO., LTD.
FaithNetwork Co., Ltd.	Nichi-Iko Pharmaceutical Co., Ltd.	YUMESHIN HOLDINGS CO., LTD.
Ferrotec Holdings Corporation	Nihon Denkei Co., Ltd.	Yume no Machi Souzou Iinkai Co., Ltd.
FIELDS CORPORATION	Nippon Koei Co., Ltd.	Yushiro Chemical Industry Co., Ltd.
Financial Products Group Co., Ltd.	NIPPON PARKING DEVELOPMENT Co., Ltd.	ZAPPALLAS, INC.
FreeBit Co., Ltd.	NIPRO CORPORATION	
	Nissinbo Holdings Inc.	

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