

## RECOMM CO., Ltd.

3323

Tokyo Stock Exchange JASDAQ

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<http://www.fisco.co.jp>

## ■ Index

■ <b>Summary</b> .....	01
■ <b>Company outline</b> .....	03
1. Company outline .....	03
2. History .....	03
■ <b>Business overview</b> .....	05
1. Group company conditions .....	05
2. Business description .....	07
■ <b>Strengths and business risks</b> .....	09
1. Competitors and strengths .....	09
2. Business risks .....	10
■ <b>Results trends</b> .....	10
1. FY9/19 results .....	10
2. Financial position and management indicators .....	13
■ <b>Outlook</b> .....	15
1. FY9/20 outlook .....	15
2. Strategy according to business .....	16
3. Dividend forecast .....	16
■ <b>The growth strategy in the future</b> .....	17
1. The Group management vision .....	17
2. Main indicators .....	18
3. Growth strategy by business .....	18
■ <b>Information security</b> .....	19

## ■ Summary

**In FY9/19, sales increased for the fifth consecutive fiscal period and ordinary profit and profit attributable to owners of parent were new record highs**

**In the FY9/20 full year, business growth will further accelerate, centered on the Overseas Corporate Business, and results are expected to grow greatly, including due to the effects of M&A**

RECOMM CO., LTD. <3323> (hereafter, also “the Company”) conducts four businesses: the Information and Communication Business, in which it sells information and communication equipment, such as business phones and multifunction printers, to approximately 60,000 companies in Japan, mainly SMEs, through directly managed stores, franchise (FC) stores, and agency stores, and also provides a one-stop service, from the installation work relating to the products it sells through to maintenance services; the Environment-related Business, in which it sells LED lighting and business-use air conditioners and conducts agency sales of new electric power; the BPO Business, in which overseas subsidiaries conduct work outsourced to them from customer companies in China and elsewhere, including back-office work and payroll accounting work; and the Overseas Corporate Business, in which it conducts sales of LED lighting, business-use air conditioners, and information and communication equipment outside of Japan, including in China, Vietnam, and Malaysia.

In the FY9/19 consolidated results, net sales increased 35.1% year-on-year (YoY) to ¥9,858mn, operating profit decreased 21.7% to ¥511mn, ordinary profit increased 2.3% to ¥642mn, and profit attributable to owners of parent rose 4.3% to ¥318mn. Net sales increased significantly and also rose for the fifth consecutive fiscal period. Operating profit decreased YoY, but both ordinary profit and profit attributable to owners of parent increased for the second consecutive fiscal period and achieved new record highs. Results bottomed-out with the recording of an operating loss of ¥64mn in FY9/15, and since then, the Company has been improving profitability and expanding its business.

For the FY9/20 full year results, the Company is forecasting net sales to increase 52.2% YoY to ¥15,000mn, operating profit to rise 95.6% to ¥1,000mn, ordinary profit to climb 55.7% to ¥1,000mn, and profit attributable to owners of parent to grow 41.5% to ¥450mn. Net sales are expected to increase for the sixth consecutive fiscal period and achieve a new record high, while for the profit indicators also, the forecasts are for new record highs

Looking at the YoY changes against the full fiscal year results forecasts, they appear somewhat bullish. But at FISCO, we think that the key to achieving the full fiscal year forecasts will be the extent of growth at the newly established subsidiaries and the consolidated subsidiaries newly added to the Group through M&A.

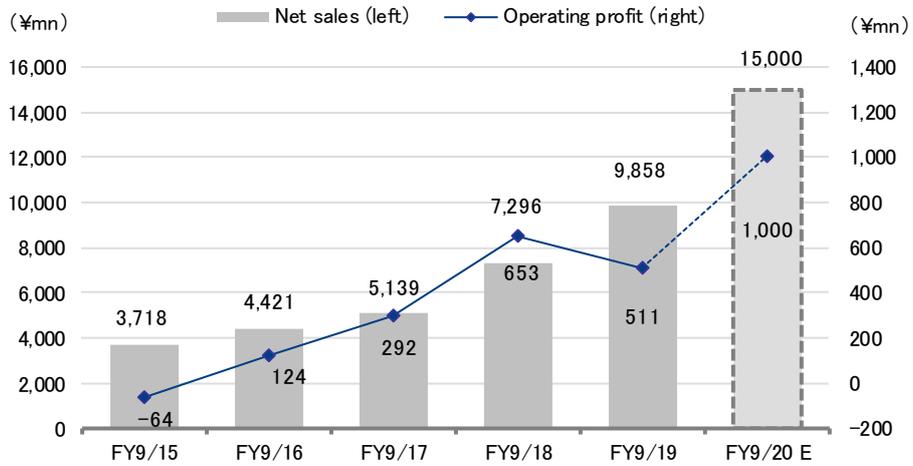
FY9/20 is the first fiscal year of the new three-year medium-term management plan. The Company celebrated the 25th anniversary of its foundation on September 30, 2019, and it clarified the outline of its growth strategy for the future in November 2019. It has positioned the new medium-term management plan, which runs from FY9/20 onwards, as the growth strategy, and set specific numerical targets to become a corporate group with net sales of ¥100bn and operating profit of ¥10bn in 2025. It plans to publish the details when it announces its Q1 FY9/20 results.

Summary

**Key Points**

- In FY9/19, sales increased for the fifth consecutive fiscal period, and although operating profit declined, ordinary profit and profit attributable to owners of parent were new record highs
- Aiming for major increases in sales and profits through high growth in each business and the effects of M&A for FY9/20
- Aiming to be a “global company that leads the world” in the next 25 years (the 50th anniversary of its foundation)

**Results trends**



Source: Prepared by FISCO from the Company's financial results

## ■ Company outline

**With the Information and Communication Business for SMEs in Japan as its core driver, and the Company is developing the Environment-related Business, the BPO Business, and the Overseas Corporate Business, in which it sells LED lighting and information and communication equipment in the ASEAN region**

### 1. Company outline

The Company conducts four businesses; the Information and Communication Business, in which it sells information and communication equipment, such as business phones and multifunction printers, to approximately 60,000 companies in Japan, mainly SMEs, through directly managed stores, FC stores, and agency stores, and also provides a one-stop service, from the installation work relating to the products it sells through to maintenance services; the Environment-related Business, in which it sells LED lighting and business-use air conditioners and conducts agency sales of new electric power; the BPO Business, in which overseas subsidiaries conduct work outsourced to them from customer companies in China and elsewhere, including back-office work and payroll accounting work; and the Overseas Corporate Business, in which it conducts sales of LED lighting, business-use air conditioners, and information and communication equipment outside of Japan, including in China, Vietnam, and Malaysia.

### 2. History

The predecessor of the Company was RECOMM JAPAN Co., Ltd., which was established by the founder, President, Representative Director, and Group CEO Hidehiro Ito\* in September 1994 in order to sell information and communication equipment and office automation (OA) equipment. In May 2004, it was listed on the Nippon New Market Hercules of the Osaka Stock Exchange Nippon (currently, the Tokyo Stock Exchange (TSE) JASDAQ)

\* He had previously worked in sales and management positions in FORVAL CORPORATION <8275> in the same industry. He founded the company in order to create a nationwide sales franchise network for corporations, to provide salesman with opportunities to independently start a business.

In October 2008, it transitioned to a pure holding company through a company split, and the company name was changed to RECOMM HOLDINGS CO., Ltd., and RECOMM CO., LTD., became the operating company. To restructure the business, in June 2013 RECOMM HOLDINGS and RECOMM merged and the company name became RECOMM CO., LTD. In February 2017, it once again transitioned to a pure holding company due to the fact that it had cultivated multiple business pillars through business expansion. In January 2018, the head office was relocated to Yoyogi 3-Chome, Shibuya Ward, Tokyo, with the aims of strengthening the holding company's functions and increasing synergies between Group companies. In FY9/19, the Company made ASEAN bases of UNDEN, which handles household-use solar power systems and other products, and FTGroup Co., Ltd.<2763> consolidated subsidiaries through M&A, while in Japan, it reorganized the Information and Communication Business into companies responsible for the East Japan and West Japan regions.

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Company outline

**History**

Date	History
September 1994	Established RECOMM JAPAN CO., LTD., (capital ¥10mn) to conduct sales and maintenance of communication equipment and OA equipment Started sales of communication equipment made by NTT
May 1995	Started to recruit FC stores
April 2000	Launched RET'S COPY, a fixed-price maintenance service for digital, multifunction printer (MFP)
August 2001	Concluded a business agreement with KYOCERA MITA Corporation
January 2002	Changed the company name to RECOMM CO., LTD.
October 2003	Established Dalian RECOMM Communication Services Co., Ltd. as a subsidiary in Dalian City, Liaoning Province, China, and launched a call center business
May 2004	Listed its shares on the Nippon New Market Hercules of the Osaka Stock Exchange
June 2005	Launched the RET'S BIZ business, an Internet portal service for customer companies
March 2006	Acquired all of the shares of KES Co., Ltd., which manufactures and sells information and communication equipment, and made it a consolidated subsidiary
April 2008	Succeeded the Kaunet businesses of Water One Co., Ltd. and Cyber One Ltd.
August 2008	Entered-into a capital alliance with KYOCERA MITA Corporation Acquired 80% of the shares of COMS CO., LTD., and made it an equity method affiliate
October 2008	Transitioned to a pure holding company by a company split and changed the company name to RECOMM HOLDINGS CO., LTD. Established RECOMM CO., LTD., as the operating company
October 2009	Started sales of ANOA, the Company's own brand of IP business phones. Ended the capital alliance with KYOCERA MITA
April 2011	Entered-into a capital and business alliance with Hikari Tsushin, Inc.
July 2012	Dalian RECOMM and KYOCERA Document Solutions Japan Inc., concluded a business outsourcing agreement
August 2012	Launched @RECOMM, a portal website for customers
June 2013	Changed the company name of RECOMM HOLDINGS CO., LTD., to RECOMM CO., LTD., and merged it with the RECOMM operating company
July 2013	Following the merger of the Tokyo Stock Exchange and the Osaka Securities Exchange, RECOMM was listed on JASDAQ (Standard).
September 2013	Transferred ASMO Corporation's information and communication equipment manufacturing business to Sanyo Chemical Industries Ltd. Sold the Kaunet sales agency business to Alpha Rise
March 2015	Conducted an absorption merger of New Wave Business Solutions Co., Ltd., and HJ Offshore Services Co., Ltd., into RECOMM BPO Solutions Co., Ltd.
July 2015	Acquired all of the outstanding shares of COSMO Information Equipment Co., Ltd., and made into a subsidiary
January 2016	Succeeded the office furniture sales business of Hoei Co., Ltd.
March 2016	Consolidated subsidiary Dalian RECOMM Communication Equipment Co., Ltd. established a Shanghai Branch Office in Shanghai, the People's Republic of China, combined, and changed the company name to RECOMM Business Solutions (Dalian) Investment Corp.
April 2016	Concluded a capital alliance agreement with AI inside Inc.
June 2016	Established RECOMM Energy Partner Co., Ltd., an electric power sales company, as a joint venture with Hikari Tsushin (the Company 51%, Hikari Tsushin 49%) and entered-into the electric power business
August 2016	Concluded a capital and business alliance agreement with FTGroup Co., Ltd.
December 2016	The company name of Shanghai BEST BPO Service Limited was changed to RECOMM Business Solutions (Shanghai) Co., Ltd.
February 2017	Transitioned to a holding company structure through a company split-type, newly established spin-off At the same time, transferred the Information and Communication Business to RECOMM JAPAN Co., Ltd., a newly established subsidiary
June 2017	Changed the name of consolidated subsidiary RECOMM Business Solutions (Dalian) Investment Corp., to RECOMM Business Solutions (Dalian) Co., Ltd., through a demutualization
July 2017	Established Vietnam RECOMM Co., Ltd., in Ho Chi Minh City, the Socialist Republic of Vietnam, and launched sales of LED lighting and other businesses in Vietnam
January 2018	Acquired 51% shares of IE Group ECO Inc., from IE Group Inc, a subsidiary of Hikari Tsushin, and changed its company name to RECOMM IE Partner Co., Ltd. in February 1, 2018
February 2018	Established RECOMM Business Solutions (Malaysia) SDN BHD in Kuala Lumpur City, Malaysia, and launched sales of LED lighting, business-use air conditioners and other businesses
April 2018	Acquired all of the outstand shares of RS Co., Ltd., and GS Communications Co., Ltd., and made them subsidiaries
August 2018	Established RECOMM Business Solutions (Myanmar) Co., Ltd, in Yangon City, the Republic of the Union of Myanmar, and launched sales of LED lighting, business-use air conditioners and other businesses Concluded a business alliance agreement with Masterpiece Group, Inc.
September 2018	Conducted an absorption merger with RECOMM IE Partner, with RECOMM Energy Partner as the surviving company, and changed the name of the surviving company to RECOMM IE Partner Co., Ltd.
October 2018	Completed the establishment registration of RECOMM Business Solutions India Private Limited. (Gurugram City, Haryana, India), and launched sales of environment-related products, including LED lighting and business-use air conditioners RECOMM Business Solutions (Dalian) Co., Ltd., was listed on China's National Equities Exchange and Quotations

We encourage readers to review our complete legal statement on "Disclaimer" page.

Company outline

Date	History
November 2018	RECOMM Business Solutions (Dalian) Co., Ltd., acquired all of the shares of Masterpiece Dalian Co., Ltd, and made it a subsidiary
December 2018	Acquired all of the shares of SUNDEN, which manufactures solar power generation systems
February 2019	Conducted a merger of RECOMM Japan and COSMO Information Equipment Co., Ltd.
April 2019	Established TAIWAN RECOMM EIGHTH TOOL BUSINESS SOLUTIONS CO., LTD., as a joint venture with eighth tool Co., Ltd, and started operations
June 2019	Completed the share acquisition procedures for the five subsidiaries of the FTGroup in the three ASEAN countries (Thailand, the Philippines, and Indonesia) In the reorganization of RECOMM Japan and RS (absorption-type split), changed the company names to RECOMM Japan East Co., Ltd., and RECOMM Japan West Co., Ltd.

Source: Prepared by FISCO from the Company's materials

## Business overview

**The mainstay business is the sales of business phones, multifunction printers, and other information and communication equipment, but in recent years, it has also actively developed an overseas business**

### 1. Group company conditions

At the end of FY9/19, the Company Group was comprised of a total of 26 companies; of the Company and 25 consolidated subsidiaries inside and outside of Japan. The mainstay Information and Communication Business is conducted by RECOMM Japan East Co., Ltd., which is responsible for East Japan, RECOMM Japan West Co., Ltd, which is responsible for West Japan, and Venustech Japan Co., Ltd., which is a joint venture with Venustech, a major Chinese company for security products.

The Environment-related Business is conducted by RECOMM IE Partner Co., Ltd., which conducts wholesales and direct sales of environment-related products such as LED lighting, and agency sales of new electric power service Haluene Denki; SUNDEN, a newly consolidated subsidiary in FY9/19, which conducts sales of household-use solar power systems and other products; and OPUS Co., Ltd., which is engaged in the installation and maintenance of equipment.

The BPO Business is conducted by RECOMM Business Solutions (Dalian) Co., Ltd. RECOMM BPO Co., Ltd., conducts sales within Japan, while the BPO centers in China (Dalian and Changchun) and in Myanmar conduct operations. In the Overseas Corporate Business, which was launched in 2015, RECOMM Business Solutions (Dalian) Co., Ltd., started the business of sales of LED lighting, business-use air conditioners, and information and communication equipment, and accelerating its business expansion, centered on the ASEAN region, by Vietnam RECOMM established in Ho Chi Minh City in Vietnam, RECOMM Business Solutions (Malaysia), RECOMM Business Solutions (Myanmar), and RECOMM Business Solutions (India). Moreover, in FY9/19, each of the FTGroup's bases in Thailand, the Philippines, and Indonesia, and TAIWAN RECOMM EIGHTH TOOL BUSINESS SOLUTIONS, were newly made consolidated subsidiaries. In terms of earnings, the Overseas Corporate Business is the biggest business segment.

Business overview

Following the reorganization in October 2019, the business names are to be changed from FY9/20, with the BPO Business becoming the BPR Business and the Environment-related Business becoming the Energy Solutions Business.

**Overview of the main Group companies (from FY9/20)**

Name	Location of head office	Business description
RECOMM Japan East	Information and Communication Business (IT Solutions Business head office)	Sales and maintenance of office information equipment, including business phones, multifunction printers, and Urchin Tracking Modules (UTM) (East Japan region)
RECOMM Japan West	Information and Communication Business (IT Solutions Business head office)	Sales and maintenance of office information equipment, including business phones, multifunction printers, and UTM (West Japan region)
Venustech Japan	Information and Communication Business (IT Solutions Business head office)	Wholesales of UTM and other Internet security equipment
RECOMM Business Solutions (Dalian)*	BPR Business (IT Solutions Business head office)	BPO for office work, including data input agency work and payroll work
RECOMM TENGYUAN BUSINESS SOLUTIONS (Dalian)	BPR Business (IT Solutions Business head office)	BPO for office work, including data input agency work and payroll work
RECOMM Business Solutions (Changchun)	BPR Business (IT Solutions Business head office)	BPO for office work, including data input agency work and payroll work
MYANMAR RECOMM CO.,LTD	BPR Business (IT Solutions Business head office)	BPO for office work, including data input agency work and payroll work
RECOMM BPO	BPR Business (IT Solutions Business head office)	BPO Business, BPR Business
RECOMM IE Partner	Energy Solutions Business head office	Sales of environment-related products, such as LED lighting, and sales of a new electric power service
SUNDEN	Energy Solutions Business head office	Sales of household-use solar power systems and complete electrification for systems
SUNDEN Techno	Energy Solutions Business head office	Installation work for household-use solar power systems and complete electrification for systems
OPUS	Energy Solutions Business head office	Installation work and maintenance, including of communication equipment and OA equipment
RECOMM Business Solutions (Dalian)*	Overseas Corporate Business head office	Sales, etc., of LED lighting and business-use air conditioners Branches: Tianjin, Shanghai, Guangzhou
TAIWAN RECOMM EIGHTH TOOL BUSINESS SOLUTIONS	Overseas Corporate Business head office	Sales, etc., of LED lighting and business-use air conditioners
FTGroup (Philippines) Inc.	Overseas Corporate Business head office	Sales, installation, etc., of LED lighting, air conditioning equipment, and other environment-related products
VIETNAM RECOMM CO.,LTD	Overseas Corporate Business head office	Sales, etc., of LED lighting and business-use air conditioners Branches: Hanoi, Ho Chi Minh
RECOMM Business Solutions (Myanmar)	Overseas Corporate Business head office	Sales, etc., of LED lighting and business-use air conditioners
RECOMM Business Solutions (Malaysia)	Overseas Corporate Business head office	Sales, etc., of LED lighting and business-use air conditioners
RECOMM Business Solutions (India)	Overseas Corporate Business head office	Sales, etc., of LED lighting and business-use air conditioners
FTGroup (Thailand) Co., Ltd.	Overseas Corporate Business head office	Sales, installation, etc., of LED lighting, air conditioning equipment, and other environment-related products
FTGroup Indonesia	Overseas Corporate Business head office	Sales, installation, etc., of LED lighting, air conditioning equipment, and other environment-related products

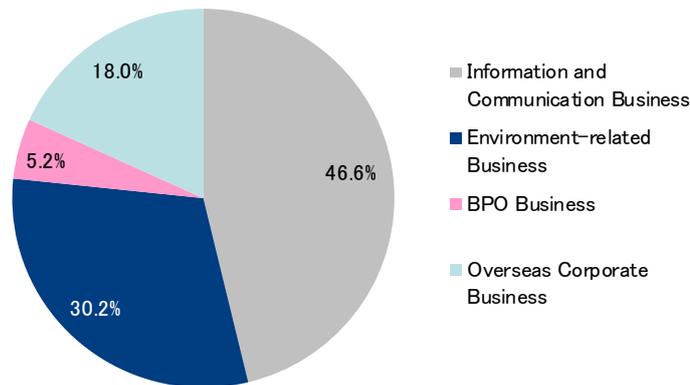
\*RECOMM Business Solutions (Dalian) belongs to the BPR Business (IT Solutions Business head office) and the Overseas Corporate Business head office.  
Source: Prepared by FISCO from the Company's results briefing materials, etc.

Business overview

2. Business description

The Company Group’s businesses are divided into four business segments; the Information and Communication Business, which conducts sales of business phones, MFP, security equipment, OA equipment such as optical lines, and information and communication-related products; the BPO Business, which conducts work outsourced to it mainly from companies within Japan; the Overseas Corporate Business, which conducts sales outside of Japan of eco-products, such as LED lighting, and information and communication equipment; and the Environment-related Business, which conducts sales of LED lighting and business-use air conditioners, and agency sales of new electric power. The composition of net sales by business segment in FY9/19 (to external customers) were 46.6% from the Information and Communication Business, 30.2% from the Environment-related Business, 5.2% from the BPO Business, and 18.0% from the Overseas Corporate Business.

Composition of net sales by segment (FY9/19)



Source: Prepared by FISCO from the Company's financial results

a) Information and Communication Business

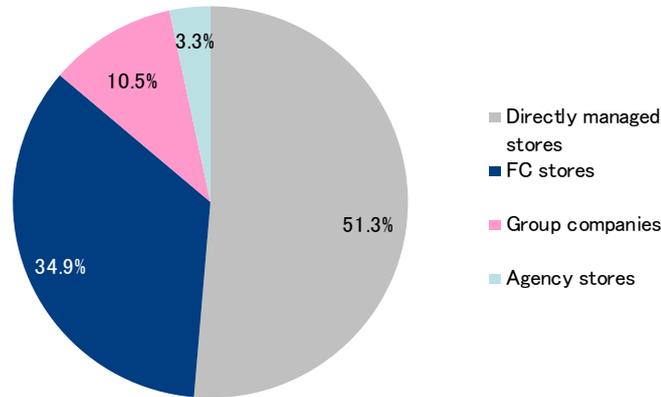
The Information and Communication Business entails sales to approximately 60,000 SMEs of products including business phones (The Nippon Telegraph and Telephone Corporation <9432> products, SAXA, Inc.,\*2 products), multifunction printers (Kyocera Corporation <6971> products, Konica Minolta, Inc. <4902> products), UTM and other security equipment, and other OA equipment, via directly managed stores, FC stores\*1, agency stores, and Group company channels.

\*1 The Company adopts a non-store franchise system. This is a franchise system that mainly involves door-to-door sales by members of a sales organization, rather than over-the-counter sales at sales stores, and it is the foundation of the Company's business development.

\*2 The operating company of SAXA Holdings, Inc. <6675>, the holding company.

Business overview

**Composition of net sales by sales channel in the Information and Communication Business (FY9/19)**



Source: Prepared by FISCO from the Company's financial results

The Information and Communication Business posted ¥4,592mn in net sales (external sales only) and ¥193mn in segment profit in FY9/19. Looking by sales channel, sales from directly managed stores were ¥2,357mn (accounting 51.3% of the sales for the Information and Communication Business), FC stores were ¥1,601mn (34.9%), agency stores were ¥153mn (3.3%), and sales from the Group companies, including Venustech Japan, were ¥480mn (10.5%).

**b) Environment-related Business**

The Environment-related Business was separated from the Information and Communication Business in FY9/18 and made an independent segment. RECOMM IE Partner conducts sales of eco-products, such as LED lighting, and electric power retail (agency) sales. In December 2018, SUNDEN, which conducts sales of household-use solar power systems and other products, was newly made a consolidated subsidiary. The Environment-related Business recorded ¥2,977mn in net sales and ¥28mn in segment profit in FY9/19.

**c) BPO Business**

In the BPO Business, domestic subsidiary RECOMM BPO conducts customer acquisition in Japan, and depending on the content of the outsourced work (from back-office work to business card data entry work, other data entry work, etc.), the work is allocated to the following four business centers; RECOMM Business Solutions (Dalian), RECOMM Business Solutions (Changchun) and RECOMM TENGYUAN BUSINESS SOLUTIONS (Dalian), which was newly made a consolidated subsidiary in FY9/10 (formerly Masterpiece Dalian), in China, and Myanmar RECOMM. The BPO Business posted ¥511mn (not including sales within the Group) in net sales and ¥82mn in segment profit in FY9/19. It has a track record of orders from a total of 150 companies (of which, 93 are ongoing customers) with no bias toward a particular industry among the user companies. It conducts the outsourced work including back-office work, payroll accounting work, and data entry work at the four bases.

## Business overview

**d) Overseas Corporate Business**

The Overseas Corporate Business conducts sales of eco-products, such as LED lighting and business-use air conditioners, and information and communication equipment, with the main customers being Japanese manufacturers developing businesses overseas. This business is conducted by RECOMM Business Solutions (Dalian), RECOMM Business Solutions (Shanghai), Vietnam RECOMM (the Ho Chi Minh branch and the Hanoi branch), RECOMM Business Solutions (Malaysia), RECOMM Business Solutions (India), and TAIWAN RECOMM EIGHTH TOOL BUSINESS SOLUTIONS. Moreover, in June 2019, the FTGroup's five companies in the three ASEAN countries (Thailand, the Philippines, and Indonesia) were newly made consolidated subsidiaries. The Overseas Corporate Business posted ¥1,776mn in net sales and ¥235mn in segment profit in FY9/19.

## Strengths and business risks

**Strengths include a customer base of approximately 60,000 companies and a sales network that responds to customers' overseas business development by providing high-value added, high quality products and services**

### 1. Competitors and strengths

The Company's competitors in its mainstay Information and Communication Business, include the FTGroup and FORVAL CORPORATION for communication equipment, such as business phones. Also, its competitors for multi-function printers include OTSUKA CORPORATION<4768> and Canon Marketing Japan Inc.<8060>. On the other hand, in the BPO Business, its competitors are considered to be outsourcing companies with a model that utilizes offshore bases, led by the major company transcocosmos inc.<9715>.

In this situation, the Company's strengths include that it has a customer base of approximately 60,000 SMEs, and in addition, that it provides high-value added, high quality products and services at inexpensive prices. Also, supporting this, its consulting salesforce, who mainly conduct door-to-door sales, are a major strength. Moreover, in recent years, with the expectations of direct synergies, it has conducted M&A to acquire companies in the same businesses as each of its existing businesses, and they have contributed greatly to the growth in results. Another major strength of the Company is the expertise that it has cultivated up to the present time for trading company functions. Further, in the BPO Business, it has built a system to provide a full lineup of outsourcing from its three bases in Dalian, Changchun, and Myanmar, and a factor differentiating it from its competitors is that it has created a structure to provide a one-stop BPO services that does not require users to divide the work that they outsource. Furthermore, it can be said that its other strengths include that it is building a network for proposals and sales of LED lighting and information and communication devices for customers in the manufacturing industry that are entering-into overseas markets, mainly China and ASEAN, and that it has a partnership model with lease companies in various countries.

## 2. Business risks

One business risk is securing and training human resources. In the Company's medium-term management plan, its strategy is to greatly improve performance results in each business by recruiting and training sales personnel, mainly in the Environment-related Business in Japan, and then to subsequently redeploy them to the Information and Communication Business, the BPO Business, and the Overseas Corporate Business. So results may grow sluggishly if the Company is unable to recruit and train human resources as planned. However, as of the end of FY9/19, the redeployment of human resources was progressing smoothly. The numbers of sales personnel is temporarily declining, mainly in directly managed stores. This is because sales personnel in directly managed stores have been redeployed to the BPO Business and the Overseas Corporate Business, and that some people left the Group companies at the time these companies were newly made subsidiaries by M&A. The Company plans to secure the required number of personnel through recruitment of new graduates in 2020.

In addition, in the mainstay Information and Communication Business, the sales form used is lease agreements. Therefore, results may be adversely affected if these lease agreements can no longer be established, such as due to changing accounting standards to international accounting standards. On the other hand, risks in the BPO Business and the Overseas Corporate Business include country risk relating to China and the ASEAN countries where the bases for business operations are located.

The M&A the Company has actively conducted up to the present time have been successful and contributed greatly to its results. But should a collaboration with a business partner fail, the loss would not be limited to the investment amount, as it may also impact the Company's business as a whole, such as lowering motivation of employees.

## ■ Results trends

**In FY9/19, although operating profit declined, ordinary profit and profit attributable to owners of parent were new record highs. Although the Company did not achieve the targets in the medium-term management plan, the trends of improving profitability and business growth are continuing**

### 1. FY9/19 results

#### 1) FY9/19 consolidated results

In the FY9/19 consolidated results, net sales increased 35.1% year-on-year (YoY) to ¥9,858mn, operating profit decreased 21.7% to ¥511mn, ordinary profit increased 2.3% to ¥642mn, and profit attributable to owners of parent rose 4.3% to ¥318mn. Net sales increased significantly and also rose for the fifth consecutive fiscal period. Operating profit decreased YoY, but both ordinary profit and profit attributable to owners of parent increased for the second consecutive fiscal period and achieved new record highs. Results bottomed-out on the recording of an operating loss of ¥64mn in FY9/15, and since then, the trends of improving profitability and business expansion have continued.

Results trends

Conversely, the results were below the initial forecasts (net sales of ¥11,400mn, operating profit of ¥1,200mn, ordinary profit of ¥1,200mn, and profit attributable to owners of parent of ¥670mn), net sales by 13.5%, operating profit by 57.4%, ordinary profit by 46.5%, and profit attributable to owners of parent by 52.5%. The results were also below the numerical targets for the final fiscal year of the medium-term management plan (net sales of ¥10bn and operating profit of ¥1bn), net sales by 1.4% and operating profit by 48.9%.

The initial forecasts were upwardly revised at the end of Q2, while the reasons why ultimately results were below forecast include that the FTGroup's subsidiaries in the three ASEAN countries had been scheduled to be made consolidated subsidiaries in Q3, but this was pushed back to Q4; that some time was required to integrate into the Group the former RS Co., Ltd. (currently, RECOMM Japan West) and SUNDEN that joined the Group through M&A in FY9/18; and that sales promotion expenses for agency stores increased, including because sales as a whole were sluggish from August onwards.

**FY9/19 results**

	(¥mn)					
	FY9/18 results	Initial forecast	FY9/19 results	% of sales	YoY	vs. forecast
Net sales	7,296	11,400	9,858	-	35.1%	-13.5%
Cost of sales	4,766	-	6,473	65.7%	35.8%	-
Gross profit	2,530	-	3,384	34.3%	33.8%	-
SG&A expenses	1,877	-	2,873	29.1%	53.1%	-
Operating profit	653	1,200	511	5.2%	-21.7%	-57.4%
Ordinary profit	627	1,200	642	6.5%	2.3%	-46.5%
Profit attributable to owners of parent	304	670	318	3.2%	4.3%	-52.5%

Source: Prepared by FISCO from the Company's financial results

Net sales increased greatly YoY, and the major reason for this was the additions to sales of the companies that were newly made consolidated subsidiaries and the various companies that launched businesses from FY9/18 to FY9/19. In the Information and Communication Business, the former RS became a consolidated subsidiary from Q3; in the Environment-related Business, SUNDEN became a consolidated subsidiary from Q1 FY9/19; and in the Overseas Corporate Business, the ASEAN bases of the FTGroup became consolidated subsidiaries from Q3 FY9/19. Alongside the growth in sales, gross profit increased 33.8% YoY to ¥3,384mn, but SG&A expenses also increased 53.1% to ¥2,873mn due to the expansion of business scale. As a result, operating profit decreased 21.7% to ¥511mn. However, ordinary profit and profit attributable to owners of parent increased for the second consecutive fiscal period, by 2.3% and 4.3%, respectively, setting new record highs. This was due to the recording of non-operating profit in the Information and Communication Business from the capital gain on FC stores' locational business succession.

## 2) Trends by segment

### a) Information and Communication Business

In the Information and Communication Business as a whole, net sales increased 0.1% YoY to ¥4,592mn, while segment profit rose 42.9% to ¥193mn. So sales and profits grew YoY, but both were below the targets in the medium-term management plan. Due to the management integration of RS in the previous fiscal period, the number of sales personnel decreased due to people leaving this company in the process of integrating it with the direct sales bases in the West Japan direct sales business, and this caused the sluggish growth of net sales and the gross profit margin. Operating profit improved greatly YoY, and it is estimated that this was because of the reduction in SG&A expenses due to the reorganization, and other reasons.

## Results trends

Looking at sales by channel, in the directly managed stores channel, the Company is focusing on acquiring new customers, while it is also working to conduct efficient sales activities that utilize the customer database and to strengthen sales of its proprietary UTM products as measures to defend against cyberattacks targeting companies, which are becoming more complex and sophisticated each year. Also, in order to increase synergies with the directly managed stores channel, it incorporated the former COSMO's information equipment, and the former RS into directly managed stores, and as a result of these efforts, sales from this channel increased 31.9% YoY to ¥2,357mn.

In the FC store channel, the Company is promoting to share the sales methods with FC stores while also strengthening sales support for security products, such as UTM. Sales from the FC stores channel decreased 10.3% YoY to ¥1,601mn. In the agency stores channel, it is promoting the reorganization of agency stores with a focus on profitability, and also actively implementing sales support at each agency store for security products and other products. Sales from this channel declined 1.9% YoY to ¥153mn. In the Group companies, sales of UTM by Venustech Japan steadily increased. Also, RECOMM IE Partner was changed to the Environment-related Business and measures were implemented to increase Group synergies, and net sales from Group companies decreased 44.1% YoY to ¥480mn.

**b) Environment-related Business**

In the Environment-related Business, net sales increased greatly, up 131.0% YoY to ¥2,977mn following the consolidation of SUNDEN, which sells solar power generation systems, in December 2018. Conversely, in the solar power generation systems sales business, fixed costs grew heavier due to the increase in the number of sales personnel, and direct sales in the LED lighting sales business trended at a low level, while other factors include an increase in sales promotion expenses for agency stores. As a result, segment profit decreased 86.0% to ¥28mn.

The main reason why net sales were below forecast was the decline in sales in the solar power generation systems sales business. In addition to this decline in sales, the main factor behind profits being below forecast was the deterioration of profits in the LED lighting sales business. Although sales increased greatly YoY, the majority of this increase was from the effects of the M&A, and it is estimated that the main factors in this business were the sluggish growth in the direct sales of LED lighting and increases in wholesale rebates and sales promotion costs.

**c) BPO Business**

In the BPO Business, net sales increased 61.2% YoY to ¥511mn and segment profit rose 34.0% to ¥82mn. Although sales and profits increased, both were slightly below forecast, and this was mainly due to a large-scale project being pushed back to FY9/20. In this business, the Company promoted the acquisition of new sales through introduction sales and inquiries via the Internet, while it also worked to acquire additional work from existing customers. The BPO centers worked to improved efficiency and quality and obtained outsourced work by utilizing the characteristics of these three bases, which lead to an improvement in earnings as a whole. In Q2, the BPO centers worked to strengthen their organizations, including by recruiting personnel from the outside for positions such as executives and site managers, and it seems the effects of this are appearing.

**d) Overseas Corporate Business**

In the Overseas Corporate Business net sales increased 61.3% YoY to ¥1,776mn, while segment profit decreased 69.8% to ¥235mn. So sales increased and profits decreased, but both results were below forecast. This was due to the delays in the share acquisition procedures of the subsidiaries acquired through M&A (in Thailand, the Philippines, and Indonesia), which were not incorporated into the scope of consolidation until Q4, and the delay in sales launches in the China business for business-use air conditioners and compressors, which are the products to follow-on from LED lighting.

Results trends

## 2. Financial position and management indicators

At the end of FY9/19, total assets had increased by ¥3,845mn on the end of the previous fiscal year to ¥9,777mn. This was due to a ¥2,242mn increase in current assets, including increases in cash and deposits (up ¥664mn), notes and accounts receivable-trade (up ¥691mn), and merchandise and finished products (up ¥474mn), and following the acquisition of subsidiaries, a ¥1,584mn increase in non-current, including increases in goodwill (up ¥1,375mn) and other investment assets (up ¥130mn).

Total liabilities had increased by ¥2,837mn on the end of the previous fiscal year to ¥5,576mn. This was due to a ¥1,396mn increase current liabilities, mainly accounts payable-trade (up ¥198mn), and short-term borrowings, including the current portion of long-term borrowings, and a ¥1,440 increase in non-current liabilities, mainly increases in long-term borrowings (up ¥434mn) and bonds payable (up ¥1,000mn). Interest-bearing debt increased ¥2,262mn on the end of the previous fiscal year to ¥3,376mn due to the rise in short-term and long-term borrowings following the acquisitions of subsidiaries.

Net assets had increased by ¥1,007mn on the end of the previous fiscal year to ¥4,201mn. This was because capital and capital surplus increased ¥531mn following payments from the issuing of new shares and the exercising of share subscription rights, and as retained earnings increased ¥217mn due to the recording of profit attributable to owners of parent.

For the cash flow conditions, at the end of FY9/19, cash and cash equivalents were up ¥621mn on the end of the previous fiscal year to ¥2,106mn. Looking at the change factors for each of the cash flows, although there were positive factors, such as the recording of profit before income taxes of ¥642mn and amortization of goodwill of ¥228mn, these were exceeded by the negative factors, including an increase in accounts receivable of ¥316mn, income from franchise agreement cancellations of ¥127mn, a decrease in other current liabilities of ¥405mn, and income tax payments, etc., of ¥205mn. As a result, cash flow used in operating activities was ¥57mn. Cash flow used in investing activities was ¥1,487mn, mainly due to a payment of ¥1,447mn to acquire the shares of subsidiaries following a change in the scope of consolidation. Conversely, cash flow provided by financing activities was ¥2,189mn, primarily because of the issuing of shares (¥497mn) and the issuing of convertible bonds with share subscription rights (¥1,000mn). Also, in interest-bearing debt, net increase in short-term borrowings was ¥565mn and net-increase in long-term borrowings was ¥247mn.

Looking at the management indicators, the equity ratio, which indicates financial soundness, was down 12.6 percentage points (pp) on the end of the previous fiscal year to 37.1%, while the current ratio declined 10.6pp to 175.7%. The interest-bearing debt ratio rose 55.3pp to 93.1% due to the increase in borrowings. Toward strategic business expansion in the future, in June the Company issued convertible bonds with share subscription rights (¥1,000mn) to raise funds to acquire subsidiaries through M&A, and has resulted in the slight deterioration of the financial condition. It has covered the fund raising required for M&A in Q3 and Q4 through a capital increase. Conversely, for the indicators of profitability, compared to the major growth of net sales and total assets, ordinary profit and profit attributable to owners of parent grew only slightly YoY, so each of the indicators declined slightly compared to in the previous fiscal period.

Overall in FY9/19, the structure of the balance sheet changed significantly, including due to the increase in borrowings and the implementation of M&A through a capital increase. However, it is considered that the Company will maintain or improve the soundness of its financial condition in the future, such as because the equity ratio has fallen below the 50% level. Going forward also, it plans to actively conduct M&A, but it seems it will strategically select proposals within a range in which there is no unnecessary spending.

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## Results trends

## Balance sheet

	FY9/18	FY9/19	YoY	Main factor
(¥mn)				
Current assets	3,751	5,993	2,242	Cash and deposits+664, Notes and accounts receivable – trade+691, Merchandise and finished goods+474
Non-current assets	2,178	3,762	1,584	Goodwill+1,375
<b>Total assets</b>	<b>5,932</b>	<b>9,777</b>	<b>3,845</b>	
Current liabilities	2,014	3,410	1,396	Short-term borrowings+619, Current portion of long-term borrowings+208, Accounts payable – trade+198, Accounts payable – other+332
Non-current liabilities	724	2,165	1,440	Bonds payable+1,000, Long-term borrowings+434
<b>Total liabilities</b>	<b>2,738</b>	<b>5,576</b>	<b>2,837</b>	
Net assets	3,193	4,201	1,007	Capital and capital surplus (payments from the issuing of new shares and the exercising of share subscription rights, etc.) +531, Retained earnings+217
<b>Total liabilities and net assets</b>	<b>5,932</b>	<b>9,777</b>	<b>3,845</b>	
(Interest-bearing debt)	1,114	3,376	2,262	Increase in borrowing from the acquisition of subsidiaries
(Net cash)	525	-1,127	-1,653	
<b>(Stability)</b>				
Current ratio	186.3%	175.7%	-10.6pt	
Equity ratio	49.7%	37.1%	-12.6pt	
Interest-bearing debt ratio	37.8%	93.1%	55.3pt	
<b>(Profitability)</b>				
ROA (Return on assets)	13.8%	9.9%	-3.9pt	
ROE (Return on equity)	13.0%	9.7%	-3.3pt	
Gross profit margin	9.0%	5.2%	-3.8pt	
<b>(Cash flow)</b>				
Cash flow from operating activities	250	-57	-308	
Cash flow from investing activities	-970	-1,487	-516	
Cash flow from financing activities	984	2,189	1,204	
<b>Cash and cash equivalents at end of period</b>	<b>1,484</b>	<b>2,106</b>	<b>621</b>	

Source: Prepared by FISCO from the Company's financial results

## ■ Outlook

### For FY9/20, the first year of the new medium-term management plan, the Company is aiming for major increases in sales and profits through high growth in each business and the effects of M&A

#### 1. FY9/20 outlook

For the FY9/20 full fiscal year results, the Company is forecasting net sales to increase 2.2% YoY to ¥15,000mn, operating profit to rise 95.6% to ¥1,000mn, ordinary profit to climb 55.7% to ¥1,000mn, and profit attributable to owners of parent to grow 41.5% to ¥450mn. Net sales are expected to increase for the sixth consecutive fiscal period and achieve a new record high, while for the profit indicators also, the forecasts are for new record high profits. FY9/20 is the first fiscal year of the new three-year medium-term management plan. Looking at the YoY changes against the full fiscal year results forecasts, they appear somewhat bullish. But at FISCO, we think that the key to achieving the full fiscal year forecasts will be the extent of growth at the newly established subsidiaries and the consolidated subsidiaries newly added to the Group through M&A.

As for dividend, the Company plans to pay a dividend per share of ¥2.0 (¥3.0 in the previous fiscal period), which is in accordance with its basic policy of “paying dividends based on a dividend payout ratio of 30%”.

#### FY9/20 outlook

	(¥mn)			
	FY9/19 results	FY9/20 forecast	% of sales	YoY
Net sales	9,858	15,000	-	52.2%
Operating profit	511	1,000	6.7%	95.6%
Ordinary profit	642	1,000	6.7%	55.7%
Profit attributable to owners of parent	318	450	3.0%	41.5%

Source: Prepared by FISCO from the Company's financial results

#### Outlook by segment for FY9/20

		(¥mn)			
		FY9/18 results	FY9/19 results	FY9/20 forecast	YoY
Information and Communication Business	Net sales	4,589	4,592	4,750	3.4%
	Segment profit	135	193	220	14.0%
BPR Business*	Net sales	452	615	650	17.4%
	Segment profit	61	82	90	9.8%
Energy Solutions Business*	Net sales	1,289	2,977	4,400	47.8%
	Segment profit	204	28	220	685.7%
Overseas Corporate Business	Net sales	1,101	1,776	5,300	198.4%
	Segment profit	279	235	470	100.0%
Consolidated	Net sales	7,296	9,858	15,000	52.2%
	Operating profit	653	511	1,000	95.6%

\* Business names were changed following the reorganization in October 2019, and the BPO Business became the BPR Business and the Environment-related Business became the Energy Solutions Business.

Source: Prepared by FISCO from the Company's results briefing materials

Outlook

**2. Strategy according to business**

For the FY9/20 full fiscal year outlook, the Company has positioned the Overseas Corporate Business and the BPR Business (named changed from the BPO Business) as the two focus businesses.

**(1) Overseas Corporate Business**

The FY9/20 forecasts are for net sales of ¥5,300mn (up 198.4% YoY) and segment profit of ¥470mn (up 100.0%). The business is expected to grow greatly YoY, including due to the full fiscal year contributions from the bases in the three ASEAN countries (Thailand, the Philippines, and Indonesia) of the former FTGroup that were made consolidated subsidiaries from Q3 FY9/19, and the bases in India and Taiwan that the Company newly established in the previous fiscal year. It will diversify the services provided, such as from sales centered on LED lighting to sales of business-use air conditioners, compressors and solar power generation systems. In FY9/20, in addition to those companies that are already the Company's overseas customers that have introduced LED products, it is targeting 10,521 Japanese manufacturing companies\*1 in the nine countries\*2 that have not yet introduced its products, and moreover, approximately 32 million local manufacturing companies in these countries\*3, and it plans to expand upselling and approaches to these companies.

\*1 According to a survey by the Ministry of Foreign Affairs

\*2 The countries the Company has entered-into are China, Taiwan, Thailand, the Philippines, Vietnam, Malaysia, Myanmar, Indonesia, and India

\*3 According to a survey of the various countries' government data

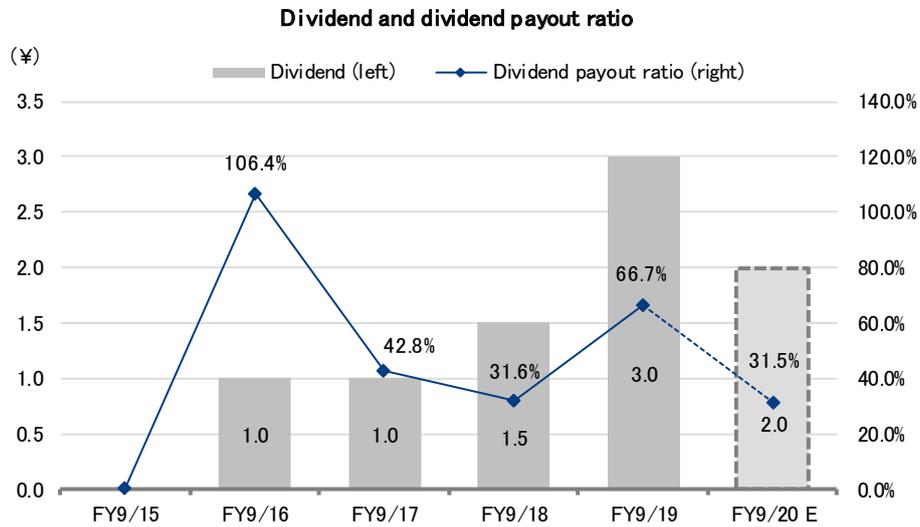
**(2) BPR Business**

The FY9/20 forecasts are for net sales (including internal sales) of ¥650mn (up 17.4% YoY) and segment profit of ¥90mn (up 9.8%). In November 2019, the Company started providing two new services through a collaboration with NTT East Japan. It expects related net sales of ¥165mn through realizing business improvements and consulting that utilizes these services, and as this will be recurring-type revenue, it will contribute cumulatively to sales from FY9/21 onwards. In terms of the content of the new services, "RETS' OCR with AI inside" can reduce time spent on routine tasks like document preparation, and on data-entry work, while "RET'S Robot Powered by Omakase RPA" aims to reduce, automate and simplify work through work automation, and it can reduce the time spent working.

**3. Dividend forecast**

The Company announced its basic dividend policy in FY9/18, of stably paying dividends based on a dividend payout ratio of 30% (total dividend amount = consolidated profit attributable to owners of parent x 30%). The final profit result in FY9/19 was greatly below the forecast, but even so, on December 25, 2019, it decided to pay a dividend per share of ¥3.0, which was as forecast and double the amount paid in FY9/19. Based on the basic policy, it is forecasting a dividend per share of ¥2.0 in FY9/20. Looking at the trends in the dividend amounts and dividend payout ratios in the previous fiscal years, we see that the Company paid a dividend for the first time in eight fiscal periods in FY9/16 and since then, results have also trended stably as a whole. Therefore, we can expect the dividend amount to steadily grow in the future as results further improve.

Outlook



Note: did not pay a dividend in FY9/15  
 Source: Prepared by FISCO from the Company's financial results

## ■ The growth strategy in the future

### Aiming to be a “global company that leads the world” in the next 25 years (the 50th anniversary of its foundation)

The Company celebrated the 25th anniversary of its foundation on September 30, 2019, and it has announced an outline of its growth strategy for the future. It has positioned the new medium-term management plan, which will run from FY9/20 onwards, as the growth strategy. It plans to publish the details when it announces its 1H FY9/20 results.

The outline of the growth strategy announced by the Company is described below.

#### 1. The Group management vision

Although the Company has made no particular changes to the previously announced RECOMM Group Management Vision, it has slightly changed its phrasing to reflect the form it is aiming to become in the future, from “A global professional trading company originating from Japan,” to “A global company that will lead the world in the next 25 years.” It would seem that the main point of this change is to go beyond the framework of “Japan” and “professional trading company” to include the idea of becoming a global company that leads the world.

The growth strategy in the future

**2. Main indicators**

In terms of specific indicators, the targets for the Company Group are net sales of ¥100bn and operating profit of ¥10bn in 2025. This means that compared to the FY9/19 results, net sales will need to increase by more than 10 times for an annual growth rate of 50%, and operating profit to increase by approximately 20 times. This can be said to be rapid growth, so at FISCO, we think that in order to achieve these targets, active development, including M&A, would seem to be necessary. We await the announcement of the numerical targets in the new medium-term management plan, which is scheduled to be announced at the same time as the Q1 FY9/20 results, and we will be closely watching the direction taken in the future.

**3. Growth strategy by business**

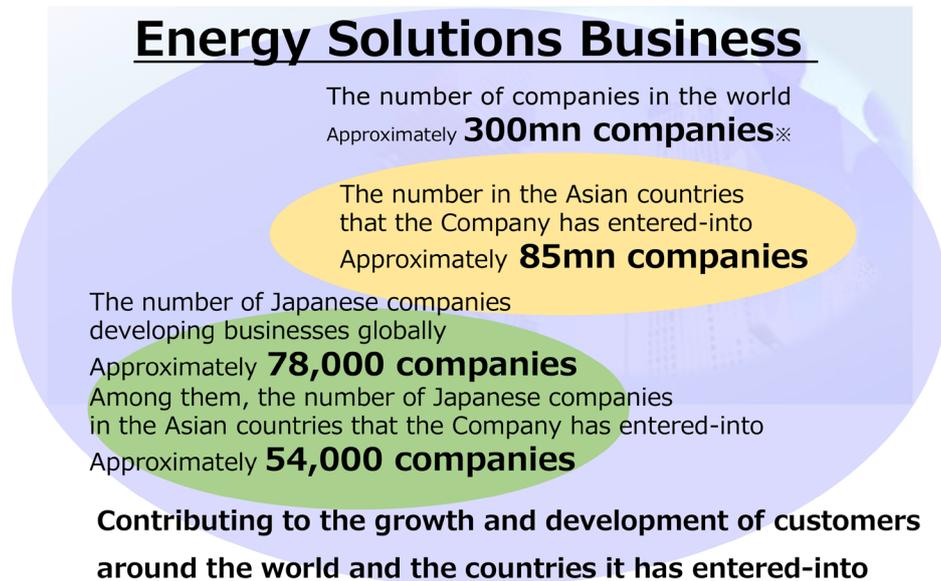
In the FY9/20 results forecasts described above, the Overseas Corporate Business and the BPR Business were positioned as focusing businesses. But here, the Company has disclosed strategies of the other businesses, the Energy Solutions Business (formerly the Environment-related Business) and the Information and Communication Business, and the IT Solutions Business, together with the BRP business.

**1) Energy Solutions Business**

There are approximately 54,000\* Japanese companies in the Asia region which the Company has currently entered. But the grand vision for the Energy Solutions Business is ultimately to target around 300 million companies around the world by developing and expanding the target customers from Japanese companies operating overseas to local companies.

\* Estimates from a Company survey

Prospects for the Energy Solutions Business



\* Estimates according to a Company survey. Others is equivalent to the (Overseas Corporate Business) statistics in the FY9/20 full fiscal year outlook in the previous item.  
 Source: The Company's results briefing materials

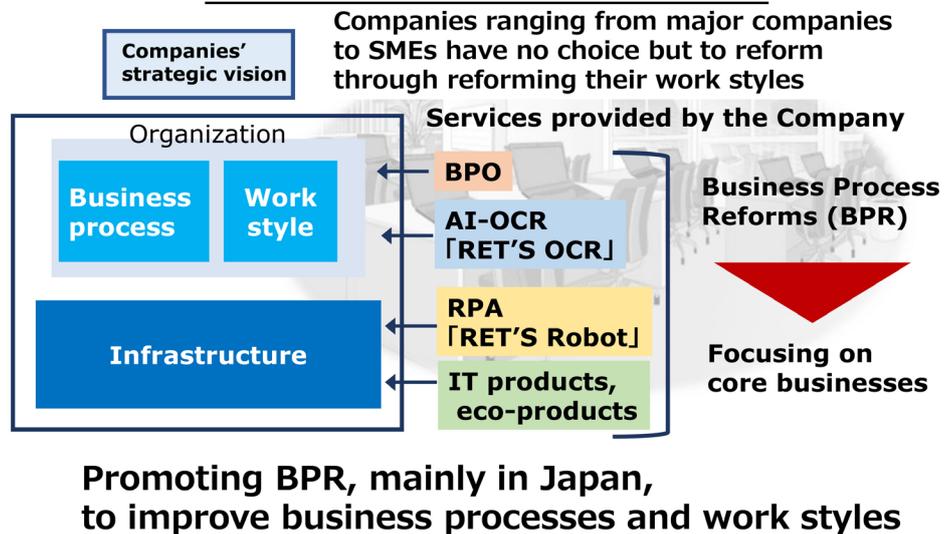
The growth strategy in the future

**2) IT Solutions Business**

The idea is to promote BPR, mainly in Japan, to improve customers’ business processes and work styles through the integration of the Information and Communication Business, which is centered on equipment sales, and the BPO Business, which has provided services since the past. Starting with “RETS’ OCR with AI inside” and “RET’S Robot Powered by Omakase RPA”, which are the new services in the BPR business mentioned above, it will provide a variety of services to support the promotion of customers’ business reforms. This business is centered on Japan at the present time, but previously the Company conducted the overseas development of the BPO Business, so it is considered that it intends to develop it globally in the future.

Prospects for the IT Solutions Business

## IT Solutions Business



Source: The Company's results briefing materials

## Information security

The businesses conducted by the Company Group are mainly in the information and communication field and require strict management for the handling of information that includes its customers’ personal information. Therefore, the Company Group has constructed an internal management organizational structure, and it implements and maintains measures to protect information, including by information management and security training for employees, while it also works continuously to improve these measures. As part of these efforts, in October 2017 RECOMM BPO acquired the PrivacyMark certification, and it ensures the security of the personal information it handles.



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