

RareJob, Inc.

6096

Tokyo Stock Exchange Mothers

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Summary

The largest company in the online English tutorial industry in Japan, aims to accelerate growth by cultivating the market targeting corporations and educational institutions, as well as by developing new businesses

RareJob, Inc. <6096> provides services centered on the online English tutorial service “RareJob Eikaiwa.” With 6,000 Filipino tutors, the Company continues to grow sales by providing high-quality services at low prices. Recently, in addition to strengthening its business targeting corporations and educational institutions, the Company has expanded its business domain by adding the highly-synergistic global leader development business and the career-related business, and it has also invested in peer companies in Asia as it expands its overseas network.

1. Financial performance targets

For its future growth strategy, the Company plans to further expand its English-related business and develop new businesses. The three-year plan through FY3/22 targets net sales of ¥6.23bn and operating income of ¥700mn, with these being targets for the existing English-related business alone. Looking at the three-year average annual growth rate, the Company is forecasting net sales to grow by 19.4% and operating income to grow by 57.8%, as profitability is expected to improve along with higher sales. The Company's net sales have been growing by double digits annually due to the increase in the number of paying members. However, since FY3/16, the profit growth rate has been limited due to the Company's upfront investments to build a foundation for growth. In addition to these investments almost coming to an end, the business for corporations and educational institutions is expected to drive sales growth, and the increase in sales is expected to directly improve profitability.

2. Growth strategy

In the English-related business, the Company will target further growth by evolving its services from services that provide “opportunities” to speak English (English education 2.0) to services that provide “successful outcomes” that make people able to speak English (English education 3.0). As specific efforts to realize this, the Company will both bolster sales of the Smart Method® course, a performance-guaranteed service launched for corporations in the fall of 2018, and use AI and other technologies to greatly improve learning efficiency. Concerning the use of AI, the Company is developing a system for automatically scoring speaking tests and a recommendation system (optimal learning plan proposals) and is also analyzing lesson data, with the Company aiming to put some of this into practice in FY2020. The Company is focusing on these initiatives to enhance competitiveness. In addition, the Company will develop the global leader development business and the career-related business as new businesses. The Company plans to efficiently grow its business by integrating English learning services possessing the Company's expertise, its enormous amount of accumulated learning data, and its customer base of 800,000 non-paying members on a cumulative basis and 2,300 companies, with other companies' resources such as human resources training expertise and human resource matching systems. The Company will consider M&A and alliances as well. The Company's growth potential will increase by expanding into peripheral domains from its origins in the English-related business.

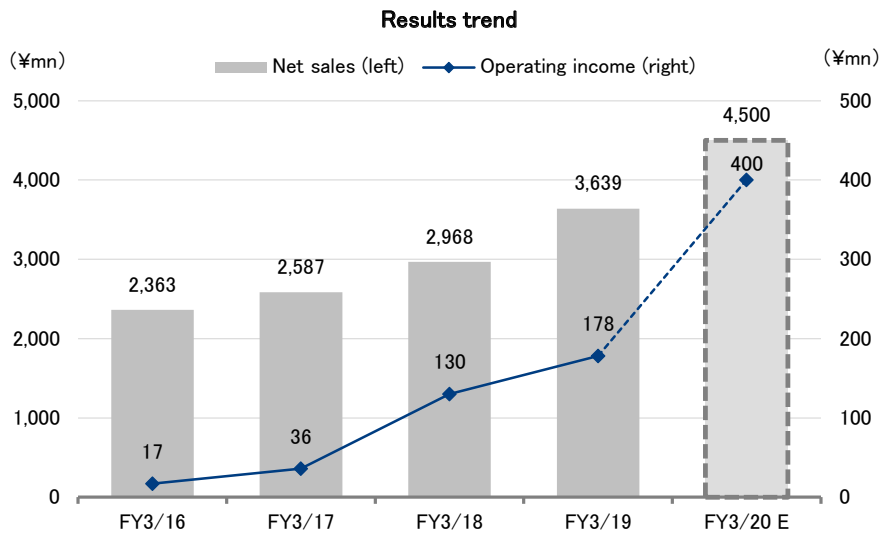
Summary

3. Outlook for FY3/20

The Company has upwardly revised its forecasts for FY3/20 consolidated results. It now expects net sales of ¥4,500mn (+23.6% YoY) and operating income of ¥400mn (+124.5%), which are higher than the Company's initial guidance of ¥4,400mn and ¥300mn, respectively. The main reasons for these upward revisions are the steady growth in individual members as well as the adoption of the Company's corporate services by a number of large companies, including JR East <9020>, with services launching from 2H FY3/20. We believe that the revised guidance is quite conservative, and that there is a strong possibility that performance will exceed these forecasts. With respect to the revised profit guidance, despite a significant increase in sales in 2H, operating margin in the second half is expected to be only 9.0% compared to 11.5% in 1H.

Key Points

- The largest player in the online English tutorial service industry in Japan, cumulative non-paying members exceeds 800,000
- Further growth in the English-related business along with the development of new businesses in peripheral domains
- FY3/20 results will likely exceed even the Company's upwardly revised guidance



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

■ Company profile

The largest player in the online English tutorial service industry in Japan, over 800,000 cumulative non-paying members

1. Company profile

(1) Management vision and mission

The Company was founded in 2007 and is the largest online English tutorial service, providing online English conversation learning services for individuals, corporations and educational institutions, centered on “RareJob Eikaiwa.” The Company is growing out its business with the aim of realizing its Group Vision of “Chances for everyone, everywhere.” “Chances for everyone, everywhere” refers to “Building a platform for people to play active roles globally,” and this means that the Company will offer chances to learn new things, chances to develop abilities, and chances to encounter something new, to all people in all places through the Internet, and build a society in which people all over the world can thrive beyond national borders and languages.

In the English-related business, the Company operates the online English tutorial service “RareJob Eikaiwa” with a service mission of “Encouraging 10 million Japanese to speak fluent English.” Over the past few years, Japanese people have had more opportunities to encounter English in their daily lives, as the number of foreign visitors to Japan has increased significantly and the Tokyo Olympic and Paralympic Games will be held in 2020. Also, with the globalization of corporate activities, developing global human resources has become an issue for companies, and companies are increasingly looking to add English tutorial as a part of their training programs. In schools, English has become a compulsory part of curriculums at elementary schools as a part of the Ministry of Education, Culture, Sports, Science, and Technology’s curriculum revision with the “Guidelines for the Course of Study,” and English conversation skill has become more of a point of emphasis. Demand for English conversation learning services is expected to grow even more going forward.

(2) Corporate history

The Company was established in 2007, by current President and CEO Gaku Nakamura and the former CEO and Chairman Tomohisa Kato. When the Company was founded, people generally learned English conversation by going to an English tutorial school or by studying abroad. However, both of these are expensive options and there were no inexpensive places to speak English. However, with the advancement of Internet technology and the increasing speed of communication networks, the free-call communication tool “Skype” became widely used, and these changes caused the founders to decide to establish the Company based on the concept of using Skype to provide inexpensive English tutorial services.

The Company hired English tutors in the Philippines, where English is the official language. At that time, through an acquaintance who was a Filipino college student, they started a pre-service by gathering classmates who could speak English. Because compensation and working conditions for tutors was competitive, the tutor network has expanded through word-of-mouth, and the Company currently has a large network of roughly 6,000 tutors. RareJob Philippines, Inc. was established in 2008 as a subsidiary to select, train, and manage these tutors.

Company profile

In November 2007, the Company launched the English tutorial service “RareJob” (currently “RareJob Eikaiwa”) for individuals. The number of students went on to increase steadily based on the fact that the service made it less expensive to take lessons. Specifically, the Company started offering lessons at a significantly lower price than in-person English tutorial schools, had a billing model that offered users free lessons at the beginning, and then would charge them a monthly fee to continue if they liked the service, and also eliminated additional costs such as learning materials costs, enrollment fees, and early cancellation fees. In 2009, the Company began offering services to corporations, and in June 2014 the Company went public on the Mothers section of the Tokyo Stock Exchange.

From 2015 onwards, the Company improved the quality of its service, shifting from a service that matched Japanese learners to Filipino tutors and gave them an opportunity to speak English, to an English education service that provides the outcome of being able to speak English. As an online English tutorial service, the Company expanded its service menu, such as adding the “Business English Course” and the “Young Learner Course.” The Company also improved the quality of its curriculum and learning materials, and worked to raise the standards for hiring tutors as well as bolster training for tutors. Other initiatives included providing services to educational institutions as a new market and opening one in-person English tutorial school “RareJob Honkijuku.” In June 2017, the Company also started offering the “RareJob Eikaiwa Abroad” service to corporations. Also, in October 2018, the Company launched the “Smart Method® Course,” a performance-guaranteed service.

In July 2015, the Company concluded a capital and business alliance agreement with Mitsui & Co., Ltd. <8031>, and leveraged Mitsui & Co.'s network to strengthen initiatives such as sales of corporate services and overseas expansion. In February 2016, the Company concluded a capital and business alliance agreement with Zoshinkai Publishers, Inc. (currently Zoshinkai Holdings Inc.), and is speeding up its business development by entering into business alliances with large companies. Such moves include joint development of “Z-kai Asteria” and “NEW TREASURE Online Speaking,” English tutorial programs for Z-kai Inc. group members, and starting a partnership in the education business. In February 2019, through a company split, the Company established Envizion, Inc., a subsidiary that operates the online English tutorial service for schools and the online English tutorial service for kids “Ripple Kids Park.”* In April 2019, Zoshinkai Holdings Inc. invested in Envizion, Inc. (33.41% stake), thereby strengthening the collaborative framework in the educational business domain.

* Converted into a subsidiary in December 2016 (later absorbed in merger in November 2018) by acquiring all of the shares of Ripple Kidspark Co., Ltd., which operates “Ripple Kids Park,” an online English tutorial service for kids. Tutors are hired by Philippine subsidiary RIPPLE KIDS EDUCATIONAL SERVICES, INC., and the business model is almost identical to that of “RareJob Eikaiwa.”

Also, in 2018, in order to improve the usability and learning efficiency of “RareJob Eikaiwa,” the Company started shifting from the external tool Skype to “Lesson Room,” a proprietary lesson-taking system that utilizes WebRTC technology. When using Skype, users have to log in to their “RareJob Eikaiwa” page and then enter their Skype email address and password to log in. On the other hand, with “Lesson Room,” users only need to log in to their “RareJob Eikaiwa” page, which not only makes it more convenient, but also makes it more functional, as it allows them to record the content of lessons with tutors and save chat histories, and so it is expected to improve learning efficiency in addition to improving convenience. Also, companies and schools have issues with security if they use Skype for lessons, so the benefits of moving to “Lesson Room” are likely to be significant.

Company profile

Furthermore, in 2019 the Company started the global leader development business in order to help people not only learn English but also obtain the skills needed to thrive globally. In November 2019, the Company started a business alliance with CAPLAN Corporation of Pasona Group <2168>, which offers face-to-face human resources training services, while Geos Language Centre Pte Ltd., an English tutorial school in Singapore that the Company converted into a wholly-owned subsidiary in April 2019, began global, advanced R&D on program development. In addition, the Company established the RareJob Career Preparation Office and is preparing to launch the career-related business in order to provide opportunities to human resources who have obtained the English skills and other skills necessary to thrive on the global stage through “RareJob Eikaiwa” and the global leader development business, as well as to help existing corporate clients resolve the issues they face concerning hiring human resources.

Corporate history

Date	Main events
October 2007	RareJob, Inc. established
November 2007	Launched online English tutorial service “RareJob” (currently “RareJob Eikaiwa”)
October 2008	Established RareJob Philippines, Inc. in Manila, the Philippines
August 2009	Started providing corporate services
June 2014	Listed on Mothers section of Tokyo Stock Exchange
April 2015	Started providing Business English Course Started offering services for educational institutions
July 2015	Capital and business alliance with Mitsui & Co.
September 2015	Started providing Young Learner Course
October 2015	Started Brazil business (exited in November 2017)
January 2016	Started offering “RareJob Honkijuku”
February 2016	Capital and business alliance with Zoshinkai Publishers, Inc. (currently Zoshinkai Holdings Inc.)
April 2016	Established Kansai branch office
August 2016	Started offering the “RareJob Eikaiwa” iOS app
August 2016	Established ENVIZION PHILIPPINES, INC. in Cagayan de Oro, Philippines
January 2017	Brought Ripple Kidspark Co., Ltd., which operates kids online English Tutorial service Ripple Kids Park, into the group
April 2017	Established Chubu branch office
March 2018	Started providing the proprietary lesson-taking system “Lesson Room”
April 2018	Established Kyushu branch office
October 2018	Started providing the performance-guaranteed English tutorial service “Smart Method® course”
February 2019	Established Envizion, Inc. and concluded merger agreement with Zoshinkai Holdings Inc.
April 2019	Converted Geos Language Centre Pte Ltd. (Singapore) into a wholly-owned subsidiary
October 2019	Concluded business alliance on global leader development business with CAPLAN Corporation

Source: Prepared by FISCO from the Company’s website

(3) Status of group companies and number of employees

As of the end of September 2019, the Company had six consolidated subsidiaries: one in Japan, four in the Philippines, and one in Singapore. It also has one equity method affiliate in the Philippines. Of these companies, RareJob Philippines, Inc. selects, trains, and manages English tutorial tutors in the Philippines (there are currently 6,000 tutors on the roster in the Philippines). Domestic subsidiary Envizion, Inc. provides and manages online English tutorial services for schools and Ripple Kids Park, the online English tutorial service exclusively for kids. As of March 31, 2019, the Company held 100% of the voting rights, but because Zoshinkai Holdings made a 33.41% investment in April 2019, RareJob’s ownership stake as of September 30, 2019, was 66.59%.

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Company profile

Of the subsidiaries in the Philippines, ENVIZION PHILIPPINES, INC. and RIPPLE KIDS EDUCATIONAL SERVICES, INC. each primarily provide lessons for schools and lessons for Ripple Kids Park from the lesson supply center they operate. Both ENVIZION PHILIPPINES, INC. and RIPPLE KIDS EDUCATIONAL SERVICES, INC. are subsidiaries that are 99.995% owned by Envizion, Inc., so RareJob, the parent company of Envizion, Inc., has a 66.59% ownership stake in both of these companies.

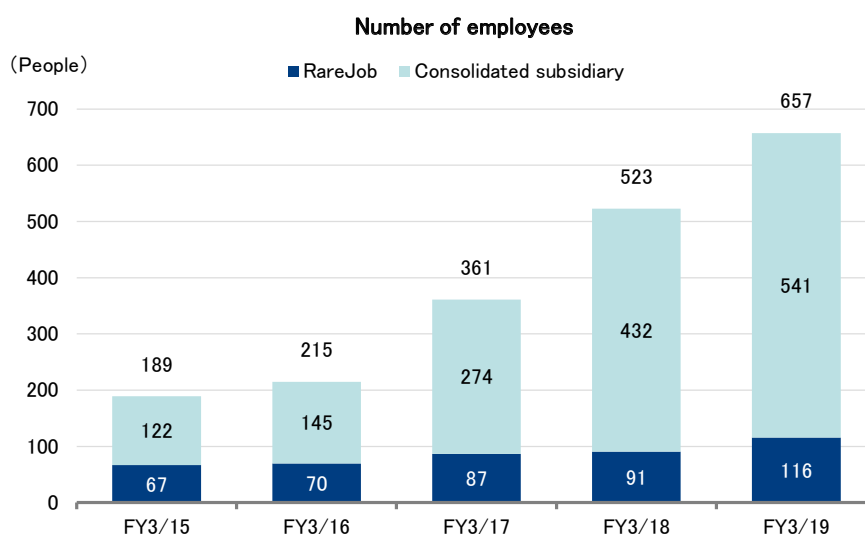
All overseas subsidiaries have fiscal years that end in December, and the Company uses financial statements as of the same date for its consolidated financial results, making the necessary adjustments for consolidation for significant transactions that occurred through the end of March.

The number of group employees has been increasing each year with the expansion of business. As of March 31, 2019, the Company had 116 employees on a standalone basis and 657 employees on a consolidated basis.

**Status of major group companies
(As of the end of September 2019)**

Company Name	Ownership Ratio	Descriptions of the main businesses	Number of people
<i>(Consolidated subsidiary)</i>			
RareJob Philippines, Inc.	99.997%	Selection, training, and management of English tutorial tutors	198
Envizion, Inc.	66.59%	Education business	-
ENVIZION PHILIPPINES, INC.	66.59% (66.59%)	Provision of online English conversation lessons	183
RIPPLE KIDS EDUCATIONAL SERVICES, INC.	66.59% (66.59%)	Provision of online English conversation lessons for kids	125
Geos Language Centre Pte Ltd.	100.00%	Operation of language schools, etc.	-
<i>(Equity-method affiliate)</i>			
Grandline Philippines Corporation	20.0%	Operation of language schools (Partner for English conversation study abroad business for corporations)	-

Note: Figures in parenthesis for ownership ratio indicate indirect ownership ratio included in the total
 Source: Prepared by FISCO from the Company's securities report and others



Source: Prepared by FISCO from the Company's securities report

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Company profile

2. Business description

The Company provides low-cost, high-quality online English tutorial services by connecting Filipino tutors with strong English skills and users via the Internet. Currently, the main service is “RareJob Eikaiwa.” The Company has both a General English Course and a Business English Course, as well as other courses, and more than 90% of individuals take the General English Course, while many companies use the business English conversation course. For the General English Course, the most popular plan is the ¥5,800-per-month/25 minutes-per-day plan. Customers can take one lesson per day, so if they take a lesson every day it ends up being a bargain at ¥187 per lesson. Most of the users are business people, with approximately 70% of users being in their 20s or 30s, but the service is used by people in a wide range of age groups ranging from people in their teens to people in their 70s. The ratio of male and female users is about 50:50.

As a profit structure, users pay a fixed monthly fee as discussed above, while tutors are mostly paid according to the number of lessons they provide. As a result, profitability fluctuates according to users’ lesson attendance rate, and while there are certain seasonal trends in the actual lesson attendance rate, there are no significant changes compared to the past, such as in comparison to the same month of the previous year.

“RareJob Eikaiwa’s” main courses and plans

General English Course	25 minutes/day plan ¥5,800/month (Can take one 25-minute lesson each day, ¥187 per lesson if one lesson is taken every day) 8 lessons/month plan ¥4,200/month (Can take 8 lessons each month, comes to ¥525 per lesson)
Business English Course (Business-focused course with certified tutors who have received special training and use exclusive teaching materials)	25 minutes/each day plan ¥9,800/month (Can take one 25-minute lesson each day, ¥316 per lesson if a lesson is taken each day)
Young Learner Course (Course with certified tutors who have received special training and use exclusive teaching materials to strengthen the four skills tested on high school/university entrance exams)	25 minutes/each day plan ¥9,800/month (Can take one 25-minute lesson each day, ¥316 per lesson if a lesson is taken each day)

* In addition to the above courses, the Company offers speaking tests (2,980/test), an Assurance Package (¥980/month; learning consultations provided by Japanese counselors, automatic lesson reservations, and 67% discounts on speaking tests).

Source: Prepared by FISCO from the Company’s website

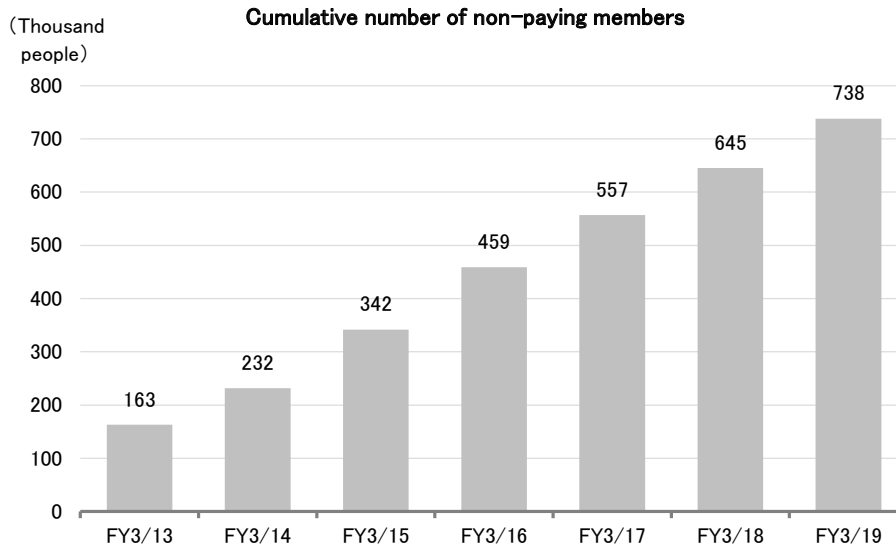
(1) Services for individuals

In addition to the “RareJob Eikaiwa” service, services for individuals include Ripple Kids Park, an online English tutorial service for kids, and the “RareJob Honkijuku.” Most of the Company’s sales come from the “RareJob Eikaiwa” service.

Looking at the flow of business using “RareJob Eikaiwa” as an example, the Company acquires customers through online marketing (listing advertisements, affiliate advertisements, CMS, SNS, etc.) to attract customers to the “RareJob Eikaiwa” site. First, a user who views the “RareJob Eikaiwa” site registers as a non-paying member (this allows them to take two free lessons), then takes the lessons and decides whether to enroll in the paid service. Therefore, the KPI for revenue growth include the initiatives to attract people to the website, the number of non-paying members, the rate at which non-paying members become paying members (conversion rate), and the paying member retention rate. Improving these KPI will lead to higher net sales. As of October 2019, the number of cumulative non-paying members had exceeded 800,000, and roughly 100,000 people are registering each year. The Company is working to improve the paying member retention rate by steadily enhancing lesson quality, updating teaching materials, and adding functions to improve usability. Users take lessons for a period of approximately one year on average.

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Company profile



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

(2) Corporate services

In terms of corporate services, in addition to the same “RareJob Eikaiwa” for individuals, the Company offers English training programs by combining services to match the needs of each customer. Options include the Smart Method® course, a performance-guaranteed service launched in the fall of 2018, “RareJob Eikaiwa” Study Abroad, and in-person sessions with tutors dispatched to companies.

To cultivate clients, the Company carries out direct sales from branch offices in Osaka, Nagoya, and Fukuoka, in addition to its Tokyo head office. The Company also receives support and referrals from Mitsui & Co. The Company proposes English training programs implemented by companies for their employees as the solutions for customers, and its services have been used by more than 2,300 companies in total since the launch of the service. In particular, when carrying out large training programs at big companies, there are more students, so it is necessary to have an adequate number of tutors, but the Company's service already has 6,000 tutors, and this serves as a strength in its services for companies. In addition, the fact that the Company is a publicly-traded company, is a partner of Mitsui & Co., and has a strong track record in corporate training gives it credibility which helps in acquiring new companies as clients.

The Smart Method® course is a service that improves the level of English conversation in a short period of time with certified tutors who have received training specifically for this course, special teaching materials, as well as support by a dedicated Japanese consultant. The course lasts approximately 16 weeks (Mon-Fri: 50-minute lesson/day, a 20-minute test each weekend to check progress, two hours of self-study). It costs ¥450,000 (excluding tax), making it more expensive than the regular “RareJob Eikaiwa” service. However, the Company guarantees that the student will improve by at least one level from the time they begin the course based on the Company's criteria, which are equivalent to the 10 levels of English-speaking ability based on CEFR-J*. Since the launch of the service, students have given the service positive reviews, and every student has improved by at least one level, except for those students that withdrew during the term for personal reasons.

* CEFR-J is an English language ability achievement index designed for use in English education in Japan based on the Common European Framework of Reference for Languages (CEFR), an international standard that indicates level of language communication skill.

Company profile

(3) Services for educational institutions

The Company conducts sales activities targeting educational institutions through subsidiary Envizion, Inc. and partners Z-kai and NTT West. The Company offers three services: an online English tutorial service mainly provided in school classes, an online English tutorial service as an extracurricular program, and an ALT (Assistant Language Teacher) dispatch service. For public schools, the services need to be adopted by the board of education of each municipality, so the Company markets to boards of education. For private schools, Z-kai, which has its own network, handles most sales and proposals.

The ALT dispatch service started in 2H FY3/20. Subsidiary ENVIZION PHILIPPINES, INC. has just under 200 tutors on its roster, and the Company believes that selecting from among them will allow it to secure and dispatch talented Filipino ALTs.

(4) Tutors

Looking at the situation with Filipino tutors, which are the foundation for the Company's growth, the Company initially hired mainly students and graduates of the University of the Philippines, but now the Company recruits throughout the Philippines based on referrals by existing tutors and via Facebook advertisements. Tutors are hired after their English proficiency and aptitude as a tutor are assessed. Employees are given training after they are hired, and then start giving lessons on their own after their lesson quality becomes good enough.

Most of the Company's 6,000 Filipino tutors have independent contractor agreements, but some are full-time tutors and some are tutors from partner companies. Tutors hired as independent contractors are recruited from all over the Philippines and offer lessons from home. Compensation is paid in local currency (Philippine pesos) based on the number of lessons provided.

Full-time tutors provide lessons from the two lesson supply centers in the Philippines, and offer lessons for educational institutions, Ripple Kids Park, and "RareJob Eikaiwa." Because these lessons are provided from these centers equipped with stable communication equipment, including spare lines, the communication lines are stable, and since there is thorough tutor training and management (including in-person training), lessons from these centers are particularly high-quality. Because costs are fixed, low usage rates result in high costs, but usage rates are currently improving.

3. The Company's strengths and its competitors**(1) Strong competitive advantage**

The Company has four main strengths: being able to provide high-value-added English tutorial services with high-quality curriculum, teaching materials, and tutors, at a low price; operational capabilities that allow the Company to maintain a stable and large number of high-quality tutors and lessons; strong sales capabilities and a robust customer base including collaborations with partners; and expansion into businesses that are highly synergistic, such as the business leader development business and the career-related business.

Company profile

(2) Competitors

Competitors in services for individuals include DMM, NativeCamp and Bizmates. The companies that operate these services are privately held, so their respective sizes are unknown. In the case of DMM, the price is almost the same as RareJob, and it has 6,500 tutors located not only in the Philippines but in 120 countries around the world, making it roughly equivalent to the Company in terms of scale, and users can take lessons any time of the day.

In terms of corporate services, Berlitz and Gaba are key players that still offer in-person lessons and both have a well-established track record over many years. The market for online services began five years ago, and Bizmates is a competitor in this area. In services for educational institutions, many educational institutions use Gakken Holdings' <9470> online English tutorial service "kimini," and weblio, Benesse, OLECO, and others are also being used by schools and cram schools.

(3) SWOT analysis

The Company's internal environment (strengths, weaknesses) and external environment (opportunities, threats) can be summarized as follows.

a) Internal environment (strengths)

- High-quality curriculum, teaching materials, tutors
- Operational capability to continually offer high-quality tutors and lessons
- Strong sales capabilities and robust corporate client base including business partners
- Expansion into highly-synergistic businesses

b) Internal environment (weaknesses)

- Bringing in casual users
- Dependent on Filipino tutors, so the Company is assuming a country risk (the Philippines)

c) External environment (opportunities)

- Growth of the online English tutorial market
- Business growth by introducing services at companies and educational institutions
- Growing needs for developing human resources that can work globally

d) External environment (threats)

- Invention of timeless and accurate simultaneous interpretation machines
- Increasing competition due to an increase in companies entering the online English tutorial market
- Exchange rate risk (costs will increase if the yen depreciates against the Philippine peso)

■ Market Environment and Growth Strategy

In addition to the services for individuals, the market for online English tutorial services for companies and educational institutions is expected to grow going forward

1. Market environment

The market for English tutorial services is expected to continue to expand due to globalization, the increase in the number of foreign visitors to Japan, and English education reforms. According to a research firm, the total size of the language business market in FY2018 increased 2.3% YoY to ¥886.6 billion. Of this, the foreign language classroom market grew only 0.7% YoY to ¥353 billion, while the e-learning market (including online English tutorial) grew 13.6% to ¥12.5 billion, as double-digit growth continued. In terms of the annual average growth rate over three years, the foreign language classroom market grew at 0.9%, while the e-learning market grew at 16.0%. This shows how learning format is shifting from in-person learning to remote learning. The strong growth is due to the environment for widespread online services to now being in place, as with the spread of computers and smart devices, and faster communication lines, low-cost, high-quality voice and image transmission has become possible anytime, anywhere. The growth in the market is also a product of the increasing number of companies providing such services.

Developing global human talent has become a management issue for companies due to the progress of globalization, while the number of foreign visitors to Japan and the number of foreigners living in Japan have both increased, bringing about more opportunities to use English in business. For these reasons, more companies are introducing English training as part of their corporate training programs. In particular, demand for low-cost online English tutorial services with no restrictions on time and/or location is growing, and double-digit growth in the market is expected to continue. In addition, from FY2020, English classes will be compulsory from the fifth grade of elementary school, and the improvement of English conversation skills has been emphasized more in line with the revision of educational guidelines, including for junior high schools and high schools. The use of online English tutorial services in schools is expected to accelerate going forward.

Further growth in the English-related business and development of new businesses in peripheral domains

2. Medium-term business strategy

As its future growth strategy, the Company is aiming for further business growth by not only growing its mainstay English-related business, but also by developing the global leader development business and the career-related business as new businesses by leveraging data in order to address changes in the market environment and needs related to human resources.

(1) English-related business

a) Use AI to improve learning effects

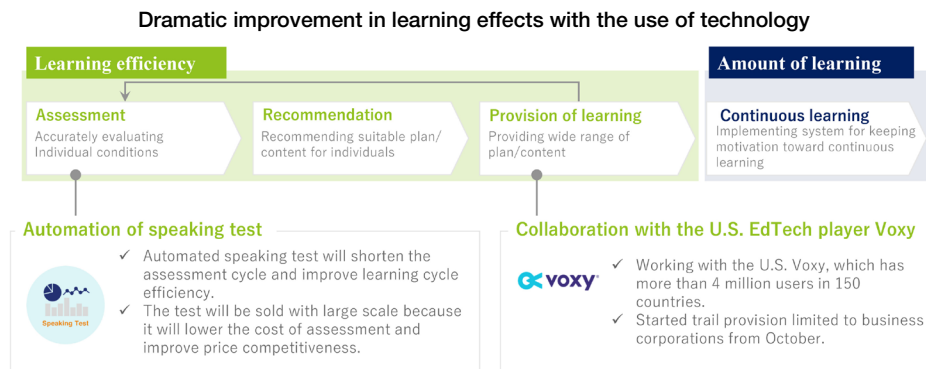
In the English-related business, the Company will aim to provide “successful outcomes” that allow everyone to speak English by building a mechanism that uses technology to improve learning efficiency and creating optimal learning plans for each person. Learning results are determined by “learning efficiency” x “amount of learning.” By utilizing technologies such as AI and big data analysis, the Company will improve efficiency through individual optimization and advance initiatives that aim to increase amount of learning through motivation.

Market Environment and Growth Strategy

The general flow of learning starts with an assessment (accurate evaluation of an individual's level), followed by a recommendation (recommend suitable learning plan/content) based on the assessment results, which is then followed by the provision of the learning service. The Company is working on a system to automatically score speaking tests in the assessment process. Currently, these speaking tests are graded by people, which relies on human resources. However, if the Company is able to automate the scoring process with AI technology in the future, the scoring period will be shortened and the learning cycle will become more efficient. On top of this, significantly reducing the cost of scoring will improve price competitiveness, which will make it possible to provide service to very large numbers of test takers. The Company is currently developing an automatic scoring system for speaking tests compliant with CEFR-J, and aims to put the system into practical use in FY2020.

With respect to recommendations, the Company is also developing a system to propose personalized plans extracted based on the analysis of massive volumes of personal data. In the provision of learning content, in addition to the existing "RareJob Eikaiwa," the Company developed "Circuit Training," a comprehensive business English conversation learning training service compatible with Voxy,* an English learning service offered by Voxy, Inc., an EdTech company in the United States, and began offering a Beta version trial in October 2019 exclusively for corporations. Circuit Training is a training service that completely links inputs and outputs (online lessons). The training sessions are focused on business situations, and the first service is for beginners. The Company will decide the next steps based on results of effectiveness through the provision of trials.

* Voxy is an English-language learning service used by more than 4 million people in 150 countries worldwide. AI analyzes the level of learners and their answers to create and offer a personally optimized learning program.



Source: The Company's results briefing materials

b) Basic strategy

As a basic strategy, the Company will focus on increasing sales in the English-related business by double digits annually, as well as on sales of the Smart Method® course, a performance-guaranteed service for corporations. Until now, the Company has been expanding its business by providing English-speaking "opportunities," but going forward it will provide "successful outcomes," thereby increasing added value and accelerating sales growth. Although the profit margin of the Smart Method® course is still low due to the fact that it is still in the upfront investment stage, the profit margin is expected to improve if the number of users reaches a certain level. This is because up until the number of users reaches a certain level, profits are weighed down by the upfront investments to build and stabilize the operation system and the significant fixed costs for highly-skilled, full-time tutors and full-time Japanese consultants.

In addition, the Company will enhance its learning contents while collaborating with other companies' products, work to create a platform for learning English, and focus on automated scoring of speaking tests.

Market Environment and Growth Strategy

c) Financial performance targets

In its performance targets for the three years starting FY3/20, the Company has included FY3/22 targets of net sales of ¥6.23bn, operating income of ¥700mn, and amount of profit* of ¥500mn. These targets assume that double-digit growth continues in sales of services for individuals, corporations and educational institutions, and they do not include figures for the global leader development business and the career-related businesses, which are new businesses.

These figures would result in the operating margin rising due to the increase in sales, doubling from 4.9% in FY3/19 to 11.2% in FY3/22.

* Amount of profit is consolidated ordinary income after adjustment for minority interests in subsidiaries, which is one of the requirements for listing on the First Section of the Tokyo Stock Exchange.

With respect to FY3/20 results, the number of “RareJob Eikaiwa” users, particularly individual users, has been steadily growing, and the Company announced an upward revision of its guidance for net sales to ¥4,500mn and operating income to ¥400mn, so things have gotten off to a solid start.

Three-year performance targets

	(¥100mn)				
	FY3/19 Results	FY3/20 Initial forecast	FY3/21 Target	FY3/22 Target	FY3/20 Revised forecast
Net sales	36.3	44.0	52.2	62.3	45.0
(YoY)	22.6%	20.9%	18.7%	19.3%	23.6%
B2C Sales	25.1	29.3	33.1	37.4	30.3
(YoY)	13.1%	16.7%	13.1%	13.1%	20.7%
B2B & B2School Sales	11.2	14.7	19.1	24.8	14.7
(YoY)	50.9%	30.2%	30.0%	30.0%	30.2%
Operating income	1.7	3.0	5.0	7.0	4.0
Amount of profit	1.6	2.5	3.0	5.0	-
ROE	9.9%	9.9% or more	10% or more	10% or more	-

* The above performance targets do not include the global leader development business or the career-related business.
 Source: Prepared by FISCO from the Company's results briefing materials

(2) Expansion of business domains

a) Background for business domain expansion

The Company has formulated a plan to expand its business domains from the English-related business to the global leader development business and the career-related business. This plan is based on the fact that changes in the social environment have led to increased needs, not only for acquiring English skills, but also for skills needed to work globally, and the Company anticipates that its clients will want and need these skills. Therefore, these businesses are expected to yield synergistic effects. The purpose of learning English for the Company's individual members is to succeed and thrive at work, and “RareJob Eikaiwa” alone can satisfy only a part of such needs. Similarly, corporate members also have training needs besides English, but in many cases, they are not providing such training. The Company's strategy is to utilize business alliances and M&A to capture these latent needs. Furthermore, there are needs with respect to finding places and opportunities for the Company's individual members to work after they have acquired English skills and other skills needed to work globally. Meanwhile, the Company's corporate clients have needs to hire people who have acquired such skills, and the Company is preparing to roll out a career-related business that matches people with companies, utilizing business alliances and M&A to do so.

Market Environment and Growth Strategy

b) Global leader development business

In the global leader development business, the Company will provide additional skills and experience necessary to work globally as added value. As a specific initiative, in November 2019 the Company announced a business alliance with CAPLAN Corporation which runs an in-person human resource training business in Pasona Group <2168>. Going forward, by combining the expertise of both companies, the Company will provide the necessary global leader development training as a program matching the needs of each customer, starting with assessments. For example, the Company will combine the services that individual customers need and create tailored training programs comprising services including “RareJob Eikaiwa,” the Smart Method® course, study abroad programs, and learning counseling. In addition, assessment results as well as training program outcomes will be converted into databases, with the aim of developing global leaders based on the data.

Aiming to develop globally-advanced programs, in April 2019 the Company made Geos Language Center Pte Ltd., an English tutorial school in Singapore, a wholly-owned subsidiary, and made it one of its R&D bases. In addition, the Company continues to look into M&A and business alliances with human resource training companies.

c) Career-related business

In the career-related business, the Company will provide opportunities for people to work globally and appropriate human resources matching as added value. In other words, the Company will provide exit opportunities to members who have acquired the English skills and other skills necessary to work globally through “RareJob Eikaiwa” and the global leader development business, where they can showcase their skills. The Company will also assist its corporate customers in recruiting and hiring human resources possessing such skills. Corporate clients are looking to both develop human resources through training and enhance the abilities of existing employees, as well as hire talented people from the outside. In particular, many of the companies that use English speaking skill as a part of hiring decisions often use tests such as TOEIC and TOEFL as criteria for their hiring decisions, but the Company believes that it can introduce personnel that better match companies’ needs by leveraging its own learning data on individuals, along with other data. The Company created the RareJob Career Preparation Office in October 2019, and it has started carrying out testing there. Going forward, as it looks to grow the business, the Company will pursue M&A and business alliances with companies possessing management expertise in staffing introductions.

(3) Overseas business development

Since the start of 2019, the Company has been steadily building a foundation for overseas business development. Following the conversion of an English tutorial school in Singapore into a subsidiary, the Company took a minority stake in Globish Academia (Thailand) Company Limited (“Globish”), an online English tutorial company in Thailand in June 2019. The Company had been advancing initiatives with an eye towards overseas expansion mainly in Southeast Asia, and had been developing a relationship with Globish since 2017. Since then, Globish had been steadily expanding its business, and the Company made the decision to invest in Globish, believing that collaborating with Globish would help speed up its global business expansion. While there are multiple online English tutorial companies in Thailand, Globish is one of the largest. Going forward, the Company will pursue market research in Thailand through Globish’s network, as they discover useful services and expertise, the goal is to create synergy by incorporating them mutually.

Market Environment and Growth Strategy

The Company also announced in November 2019 that it had made a minority investment in Multibhashi Solutions Pvt Ltd. (“Multibhashi”), an online English tutorial company in India. In India, about 10% of the population can speak English, and a person’s ability to speak English has a significant impact on their salary level. Therefore, there is a large potential market for English learning services. In the Indian English education market, most companies are either conventional, expensive brick-and-mortar businesses, or online players which only offered self-learning and focused more on gamification.* Among these varied players, Multibhashi stood out with its focus on learning outcomes and a unique model to deliver real learning outcomes through a combination of self-learning and tutor-led lessons. Over the past few years, Multibhashi has built one of the largest tutor networks in India, and has expanded its business. The Company believes this minority investment presents an opportunity to expand into India. For the time being, the Company will pursue market research in India through Multibhashi’s network and as they discover useful services and expertise, the goal is to create synergy by incorporating them mutually.

| *The application of game design elements and gaming principles to things besides games. |

For FY3/20 results, high likelihood that the Company exceeds even its upwardly revised guidance.

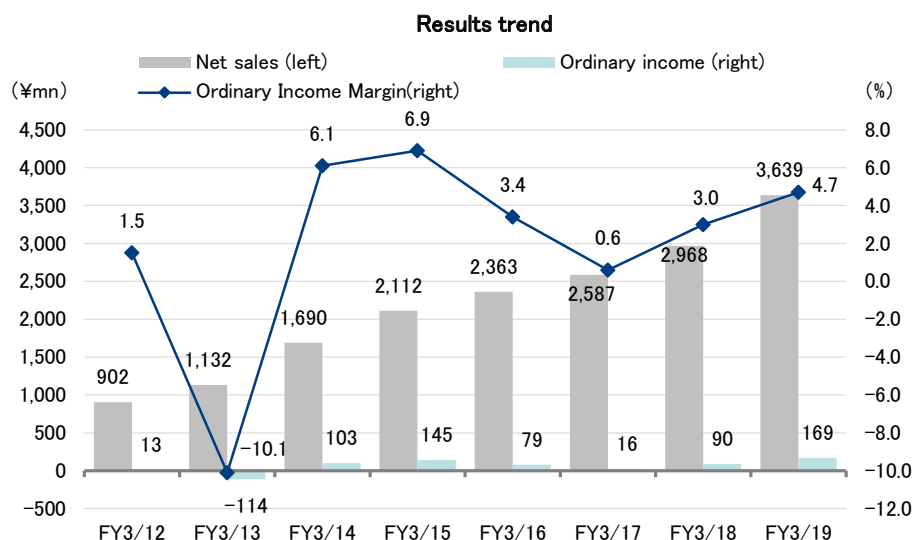
3. Results trends

(1) Past results

Looking at the Company’s past results, sales have been growing steadily with the increase in the number of members, but profits and profit margins have been weak. The Company’s business model has a high marginal profit ratio, so profit margin would normally rise along with an increase in sales, but the weakness in profit and profit margin is due to the impact of the yen’s depreciation immediately after the Company’s 2014 stock market listing and the Company’s upfront investments targeting business expansion since FY3/16. Specifically, the Company has invested in strengthening its internal management system, developing curriculum to allow the Company to transition from being a service that provides opportunities to speak English by matching Japanese learners with Filipino tutors, to an English education service that provides the outcome of being able to speak English (improvement in quality), bolstering tutor training, establishing a lesson supply center, and developing the Smart Method® course, among other initiatives. In addition, in order to improve usability and learning efficiency, the Company migrated from Skype to Lesson Room beginning in 2018. The Company has worked to expand the sales team targeting companies and educational institutions.

Such upfront investment likely peaked out to a certain extent in FY3/19, and the increase in profit and profit margin was reflected starting in FY3/19, and thus record-high ordinary income was posted.

Market Environment and Growth Strategy



Source: Prepared by FISCO from the Company's securities report

(2) 1H FY3/20 results

In 1H FY3/20, both revenue and profit increased significantly, setting new record highs on a 1H basis, while profitability also improved greatly. Consolidated net sales increased 26.9% YoY to ¥2,083mn, operating income increased 895.8% YoY to ¥182mn, ordinary income rose 704.8% YoY to ¥172mn, and net income attributable to owners of parent was ¥93mn (versus ¥1mn in 1H FY3/19).

1H FY3/20 results

	1H FY3/19		1H FY3/20		YoY
	Results	% of sales	Results	% of sales	
Net sales	1,641	-	2,083	-	26.9%
(B2C Sales)	1,190	72.5%	1,482	71.2%	24.6%
(B2B & B2School Sales)	451	27.5%	600	28.8%	33.0%
Cost of sales	634	38.6%	809	38.8%	27.6%
SG&A expenses	989	60.2%	1,091	52.4%	10.3%
Operating income	18	1.1%	182	8.8%	895.8%
Ordinary income	21	1.3%	172	8.3%	704.8%
Net Income Attributable to owners of parent	1	0.1%	93	4.5%	-

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

Looking at the breakdown of net sales, net sales to individuals increased 24.6% YoY to ¥1,482mn, growing faster than expected. This was due to efforts to strengthen online marketing and improve services, a steady increase in membership due to the continuing growth in English learning needs, and the contribution from Geos Language Center Pte Ltd. after making it a wholly-owned subsidiary. Net sales to corporations and educational institutions rose 33.0% YoY to ¥600mn, which was generally as expected. In particular, demand for English training at corporations is on the rise due to the progress of globalization, the increase in foreign visitors to Japan due to the Tokyo Olympics and Paralympics, while the hiring of foreign engineers is rapidly expanding due to the shortage of IT personnel, and Japanese companies bringing in such personnel increasingly need English language training. Amid these growing needs for English training, the Company's services have grown significantly as the market appreciates the positives of being able to take lessons at a low cost with no restrictions on time or location.

Market Environment and Growth Strategy

As a big project, JR East adopted the Company's English training program for all of its employees, and in October 2019 the Company started providing services to several thousand employees (a one-year program). In addition, the Company expects to see rapid growth in corporate sales in 2H, as it won projects that will contribute to sales in 2H FY3/20.

Looking at expenses, cost of sales rose 27.6% YoY to ¥809mn. Expenses paid to tutors increased 28% YoY to ¥562mn due to an increase in the number of lessons accompanying membership growth, and other costs of sales also increased 26% YoY to ¥246mn due to an increase in expenses for new services. With this, the cost of sales ratio rose 0.2 percentage points.

Meanwhile, SG&A expenses increased 10.3% YoY to ¥1,091mn, as a result of efforts to curb costs by improving productivity and improving business efficiency, and the SG&A ratio fell 7.8 percentage points. Looking at the main expenses, personnel expenses rose 20% to ¥521mn due to the aggressive hiring of sales personnel in the previous period and the increase in stock compensation costs associated with the granting of stock acquisition rights. However, advertising expenses fell 15% YoY to ¥116mn due to aggressive investments in advertising made in the same period of the previous year as well as improved operational efficiency. Other SG&A expenses increased 8% YoY to ¥453mn.

(3) FY3/20 outlook

In terms of consolidated results FY3/20, the Company upwardly revised its initial guidance, and is now forecasting net sales to increase 23.6% YoY to ¥4,500mn, operating income to increase 124.5% to ¥400mn, ordinary income to grow 106.6% to ¥350mn, and net income attributable to owners of parent to increase 60.5% to ¥200mn. The 1H progress rates were 46.3% for net sales and 45.7% for operating profit, both falling short of the 50% mark. However, the number of paying members is increasing steadily and in 2H corporate sales are expected to increase sharply, so we believe that the revised guidance is actually on the conservative side and think that results will likely exceed guidance.

Consolidated operating performance outlook for FY3/20

(¥mn)

	FY3/19		FY3/20			YoY	Progress rate for 2Q
	Results	% of sales	Initial guidance	Revised guidance	% of sales		
Net sales	3,639	-	4,400	4,500	-	23.6%	46.3%
(B2C Sales)	2,510	69.0%	2,930	3,030	67.3%	20.7%	48.9%
(B2B & B2School Sales)	1,129	31.0%	1,470	1,470	32.7%	30.2%	40.9%
Operating income	178	4.9%	300	400	8.9%	124.5%	45.7%
Ordinary income	169	4.7%	250	350	7.8%	106.6%	49.2%
Net Income Attributable to owners of parent	124	3.4%	130	200	4.4%	60.5%	46.6%

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

The Company's business plan for 2H is to improve profitability, as the system for business operation is rounding into form, and the growth rate of employees, excluding Filipino tutors, has leveled off, so the Company will further improve productivity and improve business efficiency.

In terms of sales, in addition to steady growth in sales to individuals, the Company aims to increase sales to corporations centered on expanding sales of the performance-guarantee service Smart Method® course. In addition, the Company plans to continue building a platform to prepare for the rapid growth in sales to educational institutions from FY2020 in conjunction with English education reforms.

Market Environment and Growth Strategy

In R&D eyeing the utilization of technology, the Company will develop an automated scoring system for speaking tests by combining AI and speech recognition technology, as well as analyze massive amounts of accumulated lesson data to research ways to improve learning efficiency and increase the retention rate.

■ Corporate governance, shareholder return policy, risk factors

Aiming to quickly move its shares to the First Section of the TSE

1. Corporate governance system

In June 2016, the Company transitioned its corporate governance structure from a company with a board of statutory auditors to a company with audit and supervisory committee. The Company assigned directors who are Audit & Supervisory Committee members with voting rights, and by bolstering the supervisory functions of the Board of Directors, the system will further enhance corporate governance and improve management efficiency.

The Board of Directors is chaired by President and Representative Director Nakamura, and the other members comprise two directors and four outside directors. The Board of Directors passes resolutions on important matters and supervises the status of business execution by directors based on the Board of Directors' rules. The Audit and Supervisory Committee comprises three outside directors who participate in Board of Directors meetings and Management Committee meetings, etc., bringing with them their expert viewpoints, and each member states exacting opinions on the legality of decision-making and business execution by the directors. The Company has also introduced an executive officer system, which aims to speed up the decision-making process and increase the efficiency of business execution.

2. Shareholder return policy

With respect to shareholder returns, after it moves its shares to the First Section of the Tokyo Stock Exchange, which the Company is currently aiming to do, the Company will consider paying dividends, comprehensively taking into account overall trends in its business performance, financial situation, and future investment plans, while also keeping a balance with retained earnings. Concerning the listing on the First Section of the Tokyo Stock Exchange, the Company is currently carrying out the detailed preparations to file a market change application. If the Company achieves its guidance for FY3/20, it is expected that one of the formal requirements, "amount of profit," will be satisfied.

In terms of shareholder gifts, shareholders who own at least 100 shares as of March 31 each year receive "RareJob Eikaiwa" cash-back tickets (one-month worth of lesson fees for "RareJob Eikaiwa," up to maximum amount of ¥10,000). The Company executed a 1:2 stock split on December 6, 2019.

3. Risk factors

There are three major risk factors that could impact the Company's business results. The first is foreign exchange risk (compensation for tutors and expenses for subsidiaries in the Philippines are paid in Philippine pesos, so costs will increase if the yen weakens). Although the Company partially hedges its foreign exchange risk with currency forward contracts, a sharp depreciation of the yen could negatively impact earnings.

Corporate governance, shareholder return policy, risk factors

The second risk is the Philippines country risk. The Company's online English tutorial services are provided by Filipino tutors living in the Philippines, so any disruption to the service due to political turmoil or a major disaster could affect earnings.

The third risk is that if corporate profits decline due to an economic recession, companies will likely reduce their training budgets, which could affect the growth of the Company's corporate services.



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