

COMPANY RESEARCH AND ANALYSIS REPORT

CAREERLINK CO., LTD.

6070

Tokyo Stock Exchange Prime Market

14-Jul.-2022

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FISCO Ltd.

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

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14-Jul.-2022
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Index

Summary	01
1. Overview of FY3/22 results	01
2. Outlook for FY3/23	01
3. Medium-term management plan	02
4. Shareholder return policy	02
Business overview	03
1. Clerical human resource service business	04
2. Manufacturing human resource service business	05
3. Sales human resource service business	05
Results trends	05
1. Overview of FY3/22 results	05
2. Trends by business segment	07
Financial condition and management indicators	11
Outlook	13
1. Outlook for FY3/23	13
2. Medium-term management plan	14
Shareholder return policy and initiatives for SDGs	18
1. Shareholder return policy	18
2. Initiatives for SDGs	19

CAREERLINK CO., LTD.
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14-Jul.-2022
<http://careerlink.co.jp/ir/en/index.html>

Summary

Benefitting from the government's promotion of digitalization, BPO services are growing and the outlook is for the double-digit annual growth rate to continue

Careerlink Co., Ltd. <6070> (hereafter, also, "the Company") and its group companies are comprehensive human resources development companies that mainly conduct a clerical human resource service business centered on BPO (Business Process Outsourcing) related business, as well as a manufacturing human resource service business and a sales human resource service business. Its strengths include its operations expertise for projects that require large numbers of personnel and to be launched quickly. In April 2022, its listing was transferred to the Tokyo Stock Exchange (TSE) Prime Market following the TSE's reorganization of its market categories.

1. Overview of FY3/22 results

In the FY3/22 (a fiscal period of 13-months) consolidated results, sales and profits increased considerably, with net sales rising 42.4% year-on-year (YoY) to ¥43,100mn and operating profit growing 62.1% to ¥4,423mn. As a result, the operating profit target for FY2/24, the final fiscal year of the medium-term management plan, was achieved two years ahead of schedule. The main factors were the steady progress made in recruiting and training core personnel, the receipts of many orders for Social Security and Individual Number Cards and for the cards' points-related work and for one-time benefit payments-related work, while the high evaluations of the Company's operational capabilities by BPO vendors also led to the increase in transactions. The number of municipalities with which the Company has transactions increased from 56 in the previous fiscal year to 76. In the manufacturing human resource service business as well, sales and profits increased greatly as it made progress in developing business for the other bases of existing customers, mainly in the manufacturing and processing industries, and in acquiring new customers, and these increases made up for the decrease of sales in human resource service business.

2. Outlook for FY3/23

The outlook for FY3/23 is that sales and profits will continue to increase, with net sales set to rise 16.1% YoY to ¥50,019mn and operating profit to grow 4.9% to ¥4,642mn. Results will be driven by the increase in BPO projects, mainly to municipalities. Also, sales of manufacturing and sales human resource services are forecast to increase by more than 20%. The profit margin will decline, but this will be due to the increase in new BPO projects. In BPO services, productivity tends to improve as projects are carried out, so the profit margin is expected to rise from the continuing orders of new projects that started in FY3/23. Since many new projects start from the summer onwards, in FY3/23 as well, results will be concentrated in the 2H. The outlook for the 1H results is that net sales will increase 40.0% compared to the same period in the previous fiscal year to ¥22,736mn and operating profit will rise 16.5% to ¥1,639mn.

CAREERLINK CO., LTD.
6070 Tokyo Stock Exchange Prime Market

14-Jul.-2022
<http://careerlink.co.jp/ir/en/index.html>

Summary

3. Medium-term management plan

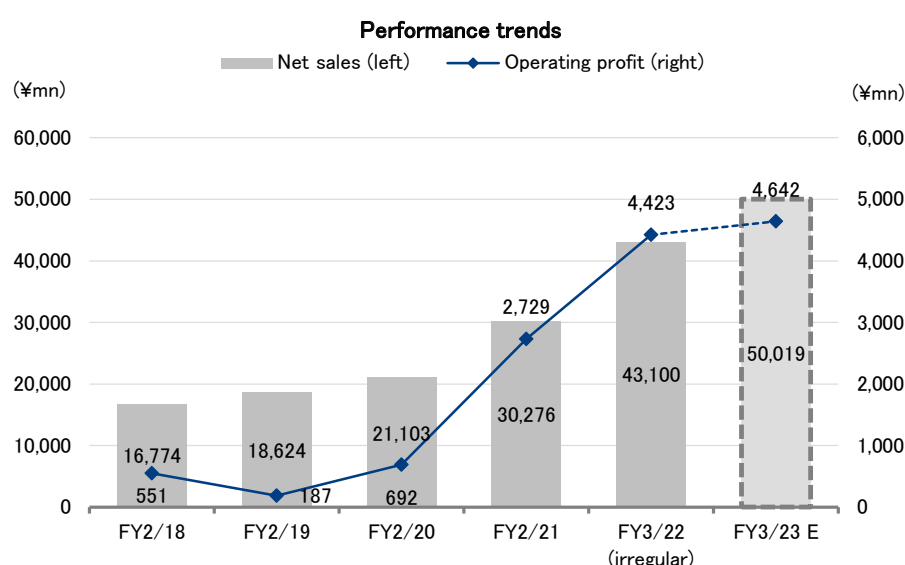
The Company has announced its three-year medium-term management plan to run until FY3/25. The FY3/25 results targets are net sales of ¥61,476mn and operating profit of ¥6,053mn, while the three-year compound annual growth rates (CAGR) are forecast to be double-digit growth, with 12.6% for net sales and 11.0% for operating profit. Results will be driven by clerical human resource services, and in particular, while the government is promoting digitalization, BPO projects that incorporate IT elements are expected to increase. A strength of the Company is its track record of managing projects, including those for Social Security and Individual Number Cards and the cards' points-related work and one-time benefit payments work, and it is aiming to double the number of municipalities with which it has transactions in the next three years. The increase in costs necessary to realize high growth, including investments in human resources, systems, and infrastructure, will be absorbed by the effects of higher sales.

4. Shareholder return policy

The Company's basic dividend policy has been to continue to stably and appropriately pay dividends based on a comprehensive judgment of factors including securing internal reserves and management results. In FY3/22, alongside earnings growth, it increased the dividend per share by ¥20.0 YoY to ¥40.0, and in FY3/23 as well, it plans to increase it by ¥10.0 to ¥50.0 (a dividend payout ratio of 18.6%). Looking to the future, it has clarified that its policy is to target a dividend payout ratio of 30%, so dividends can be expected to increase if earnings continue to grow. It also has a shareholder benefit program, and at the end of September each year, gives QUO cards to shareholders depending on the number of shares they hold and the years they have continuously held them.

Key Points

- In the FY3/22 results, sales and profits increased significantly due to the growth in orders for BPO projects
- The outlook for the FY3/23 results is that the higher sales and profits will continue through acquisitions of new BPO projects in the public sector
- Aims for sales and profits to increase in the 10% range annually by capture BPO demand created by the government's promotion of digitalization



Note: FY3/22 was an irregular 13-month period

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

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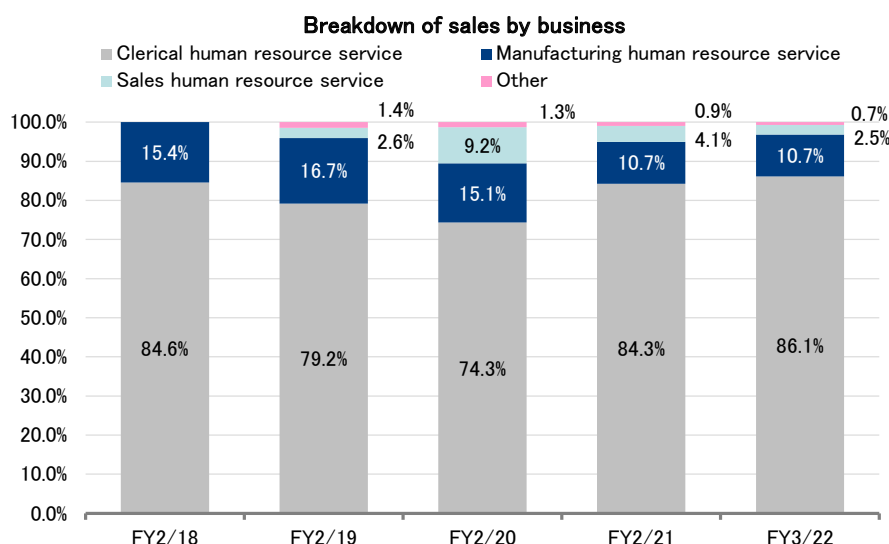
14-Jul.-2022
<http://careerlink.co.jp/ir/en/index.html>

Business overview

A comprehensive human resources services company that started from a clerical human resource service business but that also conducts manufacturing- and sales-related businesses

The Company was founded in 1996 as a staffing services company. It has continued to grow, centered on the clerical human resource service business, through its strengths of operations expertise that enables it to mobilize large numbers of staff and launch projects in short periods. In addition to its Tokyo Head Office, it has branches in Sapporo, Sendai, Osaka, Fukuoka, and Okinawa. In March 2017, due to the accelerating growth of the manufacturing human resource service business, it newly established Careerlink Factory Co., Ltd., as a subsidiary which took over this business in June of the same year. In October 2018, the Company further expanded its business scope and launched a sales human resource service business. Also, in March 2018, it acquired all of the shares of Japan Business Service Co., Ltd (hereafter, JBS), a subsidiary of DSB Co., Ltd., and made it into a subsidiary. The businesses of JBS include a human resource service business for the finance industry, mainly for major securities companies, and a personnel salary calculation outsourcing business.

Looking at the percentages of consolidated net sales in FY3/22, the majority were provided by the clerical human resource service business, which is mainly the BPO-related business segment, at 86.1%, followed by the manufacturing human resource service business at 10.7%, the sales human resource service business at 2.5%, and the other business (a vehicle management business carried out by Tokyo Vehicle Management Co., Ltd., a subsidiary of JBS) at 0.7%. Since FY2/21, the percentage of the clerical human resource service business has been rising. Descriptions of each business are provided below.



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

CAREERLINK CO., LTD.
6070 Tokyo Stock Exchange Prime Market

14-Jul.-2022
<http://careerlink.co.jp/ir/en/index.html>

Business overview

1. Clerical human resource service business

(1) BPO-related business segment

The BPO-related business segment, which contributes more than 70% of sales in the clerical human resource service business, is mainly staffing for BPO work outsourced by BPO vendors* and planning and proposal-type outsourced work for some parts of companies' and municipalities' work processes, while there are also some projects ordered directly from the final customers.

* BPO vendors: BPO is the name given to the external outsourcing of some parts of work processes by government ministries and municipalities, companies and others. BPO vendors are the vendors to which this work is outsourced.

By outsourcing some of their business processes, companies and government organizations can reduce their fixed costs, since there is no need to adjust the number of personnel to busy business periods, and lower their administrative costs. Reception desk and call center services can improve the quality of their services by outsourcing some of their business processes. The Act on Reform of Public Services by Introduction of Competitive Bidding, which was implemented in 2006, requires public agencies and other organizations affiliated with the government to use competitive bidding by the private sector for projects carried out under market testing.

The Company's main strength is the possession of operational know-how that allows it to launch even large projects requiring over 1,000 workers in the short span of roughly one month. Using its proprietary system for matching workers with jobs (a web-based system that tests the abilities of workers and confirms their desired work schedules), the Company can assemble optimal human resources in a short amount of time. Also, by having staff permanently stationed at work sites, it can not only strengthen operations at work sites, including management of staff operations, but also, by working to improve work efficiency such as by proposing improvements to operations, can aim to maintain and improve service quality, leading to improved levels of customer satisfaction.

To execute BPO work, the Company organizes its staff into teams led by supervisors with extensive experience. The supervisors organize teams of about 10 employees to undertake daily administrative functions, mainly business processing, data entry, and document shipments. Assigned to client projects, the supervisors instruct dispatched employees about the business processes of the clients and standardize the work shifts of these employees, enabling the rapid start-up of the projects and a smooth increase in productivity. This system is particularly ideal for large projects requiring many workers.

(2) CRM-related business segment

CRM tries to develop good relationships between a provider of goods or services and its customers, thereby improving customer satisfaction. The Company provides services including staffing and referrals for telemarketing work outsourced by telemarketing businesses, and staffing and referrals for the contact centers of companies and others. In staffing for telemarketing businesses, it is working to increase its share of customers by dispatching teams, just like in the BPO-related business segment.

(3) Office Services business segment

This business carries out staffing, referrals and planned staff dispatches, targeting generical clerical work. In staffing services among the general clerical field, competition is fierce with major staffing companies such as Persol Holdings <2181> and Pasona Group <2168>, but the Company positions this business as playing the role of drawing in orders for BPO projects.

CAREERLINK CO., LTD.
6070 Tokyo Stock Exchange Prime Market

14-Jul.-2022
<http://careerlink.co.jp/ir/en/index.html>

Business overview

2. Manufacturing human resource service business

The manufacturing human resource service business is conducted by the subsidiary Careerlink Factory. Approximately 50% of net sales are from services to food processing companies, while it also provides services for the manufacturing and processing industries, including for the transportation equipment, electronic devices, and medical equipment fields. One feature is that it actively recruits and dispatches foreign workers, and the percentage of foreign workers among the total workforce rose to the 50% range in FY3/22 compared to 25% four years previously. For the sales bases, to expand the business scope in FY3/22, it newly opened 6 bases in Yokkaichi, Okazaki, Atsugi, Chiba, Sannomiya, and Fukuoka, and together with its existing bases (the Himeji Head Office and the Ikebukuro, Shizuoka, Amagasaki, Kumamoto, and Okinawa branches), it currently manages 12 bases in total. Going forward, its policy is to open bases mainly in areas where there are many international students and foreign residents of Japan.

3. Sales human resource service business

The sales human resource service business conducts outsourced work on a nationwide scale to propose and support introductions mainly of cashless payment systems that use smartphones. The target customers are primarily retail stores and eating and drinking establishments and work activities are carried out under a team structure, just like in the BPO-related business segment.

Results trends

In the FY3/22 results, sales and profits increased significantly through the growth of orders for BPO projects

1. Overview of FY3/22 results

In the FY3/22 (a 13-month period) consolidated results, sales and profits increased significantly, with net sales rising 42.4% YoY to ¥43,100mn, operating profit growing 62.1% to ¥4,423mn, ordinary profit climbing 60.2% to ¥4,441mn, and profit attributable to owners of parent increasing 51.7% to ¥3,114mn. Every item was higher than the Company's upwardly revised forecasts announced in January 2022, and moreover, each profit item achieved the medium-term results targets set for FY2/24 (operating profit of ¥4,240mn, ordinary profit of ¥4,235mn, and net profit of ¥2,910mn) two years ahead of schedule. The results are for 13 months and include two results for March, in which sales are large. But even when excluding this factor, the results can be said to be excellent.

CAREERLINK CO., LTD.
 6070 Tokyo Stock Exchange Prime Market

14-Jul.-2022
<http://careerlink.co.jp/ir/en/index.html>

Results trends

FY3/22 consolidated results

(¥mn)

	FY2/21		FY3/22 (results for 13 months)			YoY	Compared to forecast
	Results	% of sales	Forecast	Results	% of sales		
Net sales	30,276	-	41,000	43,100	-	42.4%	5.1%
Cost of sales	23,761	78.5%	-	33,644	78.1%	41.6%	-
Selling, general and administrative expenses	3,785	12.5%	-	5,032	11.7%	32.9%	-
Operating profit	2,729	9.0%	3,700	4,423	10.3%	62.1%	19.6%
Ordinary profit	2,772	9.2%	3,700	4,441	10.3%	60.2%	20.0%
Profit attributable to owners of parent	2,053	6.8%	2,540	3,114	7.2%	51.7%	22.6%

Note: FY3/22 Company forecasts are those announced in January 2022.

FY3/22 was an irregular 13-month period. The YoY values are simple comparisons with the FY2/21 results

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

Net sales were sluggish in the sales human resource service business, down 14.9% YoY, due to the impact of the novel coronavirus pandemic (hereafter, COVID-19), but increased significantly in the mainstay clerical human resource service business, up 45.5%. In the manufacturing human resource service business, where sales had slumped in the previous fiscal year due to COVID-19, sales recovered sharply and rose 42.3%. The reason why results were higher than forecast was that in relation to the emergency support measures announced by the government at the start of the year, the Company was able to acquire a greater-than-expected number of new BPO projects, including those from municipalities and major BPO vendors.

Looking at the factors behind the change in operating profit, following the increase in net sales and the improvement of the cost-of-sales ratio, profit increased ¥2,941mn as a result of the rise in gross profit, which absorbed the increase in SG&A expenses of ¥1,247mn. The cost-of-sales ratio was initially higher than its level in the previous fiscal year, but it ultimately declined 0.4 of a percentage point (pp) YoY to 78.1%, including due to the higher-than-expected increase in orders for BPO projects. Also, SG&A expenses increased 32.9% YoY, partly because of the increases in personnel costs and recruitment costs following the active recruitment of core personnel, the costs to establish bases, and the costs to promote DX. However, due to the effects of the higher sales, the SG&A expenses ratio declined 0.8pp to 11.7%. As a result, the operating profit margin rose 1.3pp to 10.3% and exceeded 10% for the first time. At the end of FY3/22, the consolidated number of employees had increased by 84 from the end of the previous fiscal year to 841 employees.

CAREERLINK CO., LTD.
6070 Tokyo Stock Exchange Prime Market

14-Jul.-2022
<http://careerlink.co.jp/ir/en/index.html>

Results trends

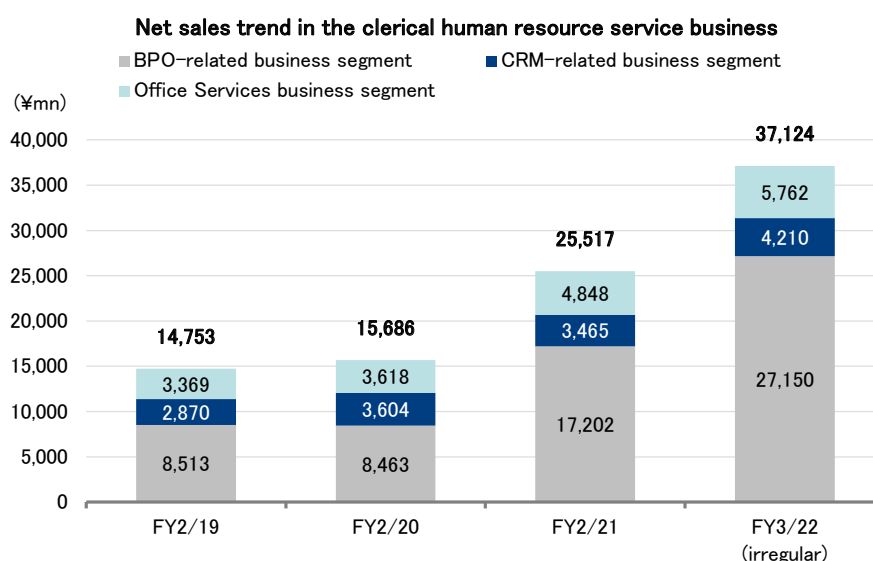
High growth of the BPO-related business segment is continuing due to the increase in newly ordered projects from municipalities and major BPO vendors

2. Trends by business segment

(1) Clerical human resource service business

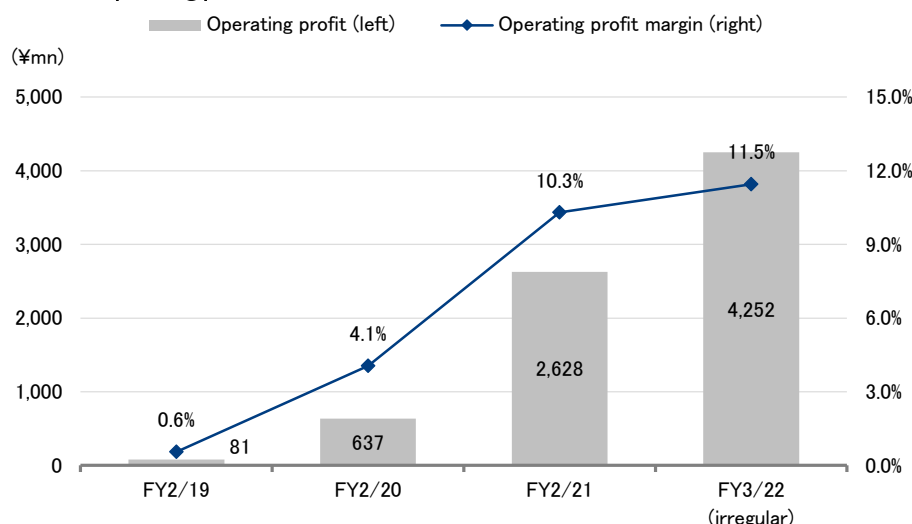
In the clerical human resource service business, net sales increased 45.5% YoY to ¥37,124mn and operating profit rose 61.8% to ¥4,252mn*. In the BPO-related business segment, steady progress was made in acquiring newly ordered projects, including from municipalities and major BPO vendors, and in acquiring new customers, so sales increased significantly. In the CRM-related business segment and the Office Services business segment as well, sales increased by double digits due to the growth of orders. In profits, although costs increased, including recruitment costs and personnel costs for dispatched staff and core personnel, and costs to introduce BPO operations systems that utilize IT, these increases were absorbed by the effects of the higher sales, and the operating profit margin rose from 10.3% in the previous fiscal year to 11.5%.

* FY3/22 was an irregular 13-month period. The YoY values are simple comparisons with the FY2/21 results (same below).



Note: FY3/22 was an irregular 13-month period
Source: Prepared by FISCO from the Company's financial results

Results trends

Operating profit trend in the clerical human resource service business


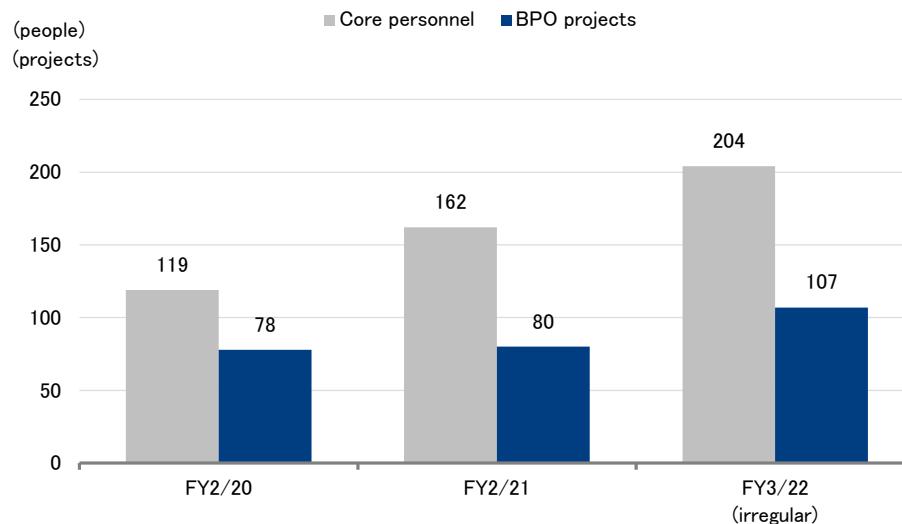
Note: FY3/22 was an irregular 13-month period
Source: Prepared by FISCO from the Company's financial results

Looking at the trends by business segment, in the BPO-related business segment, net sales increased 57.8% YoY to ¥27,150mn. The Company is actively moving ahead with sales activities, including strengthening ordering activities for municipalities, while it also established three BPO centers (in Yokohama, Kobe, and Osaka) to respond to the growth in BPO demand, so newly ordered projects and transactions with new BPO vendors increased, which led to the major increase in sales. For government ministries and agencies, work for Social Security and Individual Number Cards and for the cards' points continued to increase. Municipalities' backbone work (reception desk work, etc.) and spot projects (one-time benefit payments, etc.) also increased, while sales via BPO vendors accounted for the majority of the increase in sales.

The factors behind the increase in orders for BPO projects include the fact that the Company's stable operations capabilities have been highly evaluated by government ministries and agencies and BPO vendors, and also that it has made steady progress in recruiting core personnel that conduct work including the design, build and business development of BPO projects, and systems development. Its number of core personnel has increased at a pace of more than 40 people a year, from 119 people at the end of FY2/20 to 204 people at the end of FY3/22. Alongside this, the number of BPO projects has also increased, from 78 projects in FY2/20 to 107 projects in FY3/22. A certain length of time is required from the recruitment of core personnel until they can be actually deployed in the field, so in FY3/23 as well, the Company thinks that the number of BPO projects may further increase. The number of municipalities with which it has transactions has increased greatly, from 56 in FY2/21 to 76 in FY3/22. Among the 20 ordinance-designated cities, the Company has a track record of transactions with 12 such cities, and based on this track record, it is horizontally developing its businesses to other municipalities. This is mainly for work relating to the Social Security and Individual Number Cards and the cards' points, and one-time benefit payments-related work, but based on this work track record, there are also cases starting to appear of it acquiring orders for backbone work as well. Moreover, the repeat rate of municipalities with which it has transactions is high at a level of 81%.

Results trends

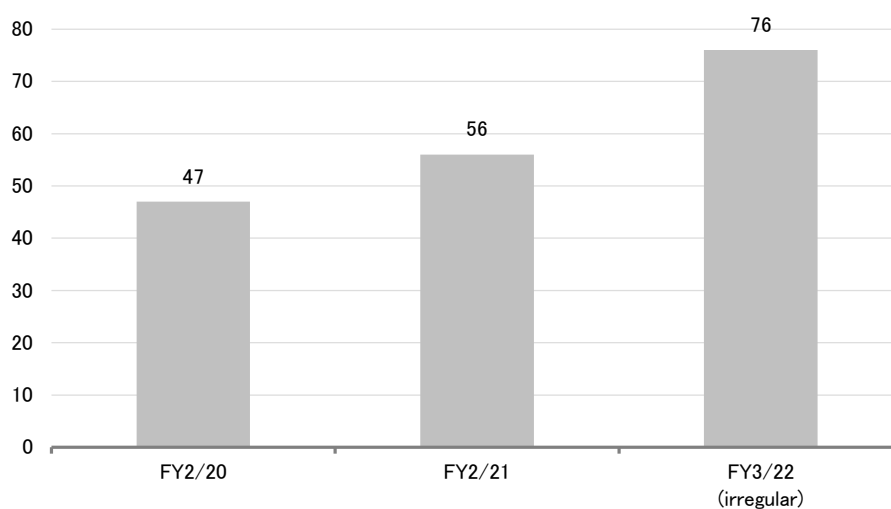
Trends in the number of core personnel and BPO projects



Note: FY3/22 was an irregular 13-month period

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

Trend in the number of municipalities with which it has transactions



Note: FY3/22 was an irregular 13-month period

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

In the CRM-related business segment, net sales increased for the first time in two periods, rising 21.5% YoY to ¥4,210mn. The main factors behind the increase in sales were that the Company increased its share of transactions with existing customers, including telemarketing businesses, and also that it used the opportunity of orders for BPO projects to acquire other orders, such as for call center work. Moreover, the scale of sales was higher than the level before COVID-19.

CAREERLINK CO., LTD.
6070 Tokyo Stock Exchange Prime Market

14-Jul.-2022
<http://careerlink.co.jp/ir/en/index.html>

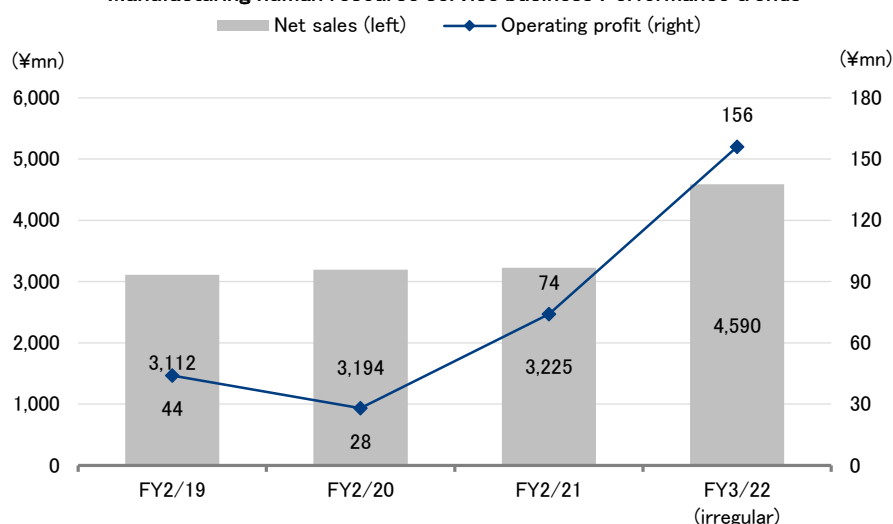
Results trends

Sales continued to increase in the Office Services business segment, with net sales rising 18.9% YoY to ¥5,762mn. Sales of staff dispatch projects for financial institutions were strong, while orders from municipalities, mainly for new staff dispatch projects, were also excellent. At the majority of existing customers, the transaction level has recovered to the same level as before COVID-19.

(2) Manufacturing human resource service business

In the manufacturing human resource service business, net sales increased 42.3% YoY to ¥4,590mn and operating profit rose 110.8% to ¥156mn. Sales and profit increased, nearly unaffected by COVID-19, as the Company worked actively to expand the business scope, including by establishing 6 sales bases from 3Q onwards (in Atsugi, Chiba, Yokkaichi, Okazaki, Kobe, and Fukuoka). The new sales bases not only acquired orders for projects from existing customers, but also acquired orders from new customers. In particular, orders increased from the manufacturing and processing industries, such as those for transportation equipment, and its sales were about the same level as those of the food processing industry.

Manufacturing human resource service business Performance trends

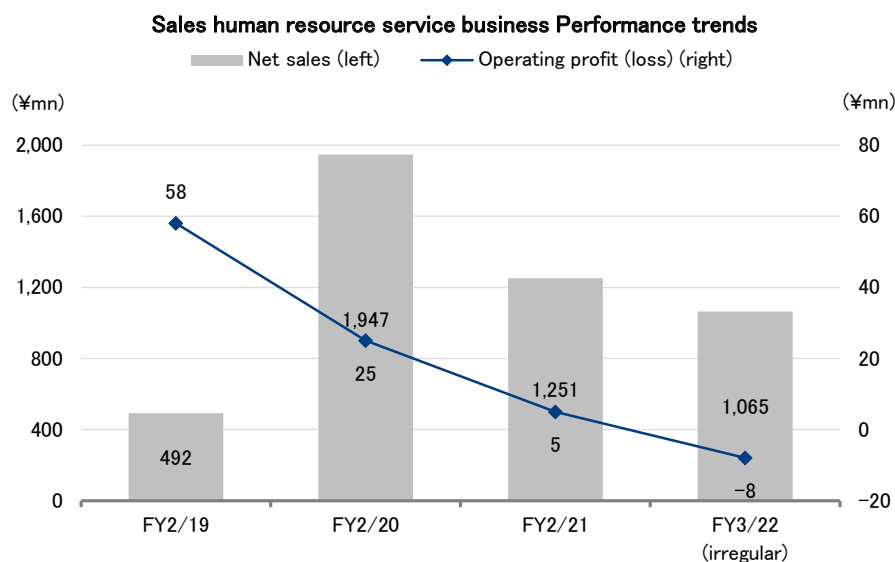


Note: FY3/22 was an irregular 13-month period
Source: Prepared by FISCO from the Company's financial results

(3) Sales human resource service business

In the sales human resource service business, net sales decreased 14.9% YoY to ¥1,065mn and operating loss was ¥8mn (profit of ¥5mn in the previous fiscal year). The main reason for the decline in sales was that following the repeated declarations of a state of emergency and the implementation of quasi-state of emergency COVID-19 measures, sales activities were restricted at eating and drinking establishments and retail stores, which are the main customers. Due to requests from major customers in 4Q, the Company has been moving the location its call center and increasing floor space.

Results trends



Note: FY3/22 was an irregular 13-month period
Source: Prepared by FISCO from the Company's financial results

(4) Other business

Other business is the vehicle management business of Tokyo Vehicle Management, a subsidiary of JBS. Results were strong, with net sales increasing 13.5% YoY to ¥320mn and operating profit rising 9.5% to ¥23mn.

Financial condition and management indicators

Financial soundness improved due to earnings growth

Looking at the Company's financial condition at the end of FY3/22, total assets increased ¥5,020mn from the end of the previous fiscal year to ¥16,543mn. Among current assets, the main factors behind the changes were an increase of ¥596mn in cash and deposits, an increase of ¥4,607mn in notes and accounts receivable-trade, and a ¥389mn decrease in inventory assets. In non-current assets, the main factors were respective increases of ¥170mn in property, plant and equipment and ¥56mn in intangible assets.

Total liabilities increased ¥2,098mn from the end of the previous fiscal year to ¥8,139mn. Interest-bearing debt increased ¥118mn, while there were also increases of accounts payable of ¥996mn, income taxes payable of ¥471mn, and accrued expenses of ¥337mn. Total net assets increased ¥2,921mn to ¥8,404mn. Retained earnings rose ¥2,878mn, with the main items being dividend payments of ¥236mn and the recording of profit attributable to owners of parent of ¥3,114mn.

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Financial condition and management indicators

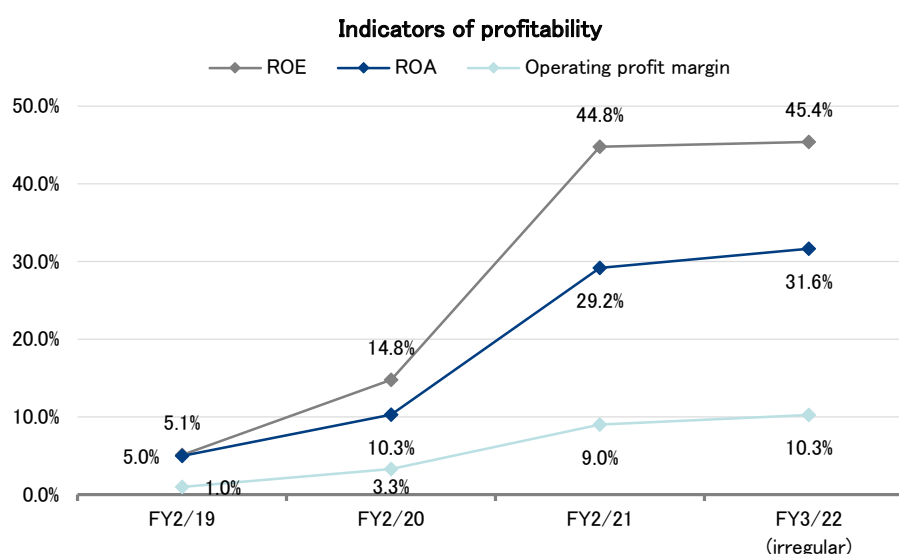
Looking at the management indicators, for indicators of stability, the equity ratio rose from 46.9% at the end of the previous fiscal year to 50.2% and the interest-bearing debt ratio declined from 16.0% to 11.8%, so the Company's financial soundness appears to have improved alongside the growth of earnings. Net cash (cash and deposits – interest-bearing debt) also increased by ¥478mn from the end of the previous fiscal year to ¥6,050mn, its highest level ever, further strengthening the Company's financial foundation. Looking at the indicators of profitability, the operating profit margin was 10.3% and continues to rise, while both ROA and ROE are at the high levels of 31.6% and 45.4%, respectively. The Company has positioned ROE to be an important management indicator, and is aiming to sustainably improve enterprise value by continuously achieving ROE that is higher than cost of equity (currently, the Company recognizes it to be 13.2%).

Consolidated balance sheet and management indicators

	End-FY2/19	End-FY2/20	End-FY2/21	End-FY3/22 (irregular)	Change
Current assets	5,117	6,668	10,533	15,326	4,793
(Cash and deposits)	2,683	3,916	6,435	7,031	596
Non-current assets	800	812	990	1,217	226
Total assets	5,917	7,480	11,523	16,543	5,020
Total liabilities	2,512	3,640	6,040	8,139	2,098
(Interest-bearing debt)	799	616	862	980	118
Total net liabilities	3,404	3,840	5,483	8,404	2,921
Management indicators					
(Stability)					
Equity ratio	56.5%	50.3%	46.9%	50.2%	3.3pt
Interest-bearing debt ratio	23.9%	16.4%	16.0%	11.8%	-4.2pt
Net cash	1,884	3,300	5,573	6,050	478
(Profitability)					
ROA (ratio of ordinary profit to total assets)	5.0%	10.3%	29.2%	31.6%	2.4pt
ROE (return on equity)	5.1%	14.8%	44.8%	45.4%	0.6pt
Operating profit margin	1.0%	3.3%	9.0%	10.3%	1.3pt

Note: FY3/22 was an irregular 13-month period

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



Note: FY3/22 was an irregular 13-month period

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

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14-Jul.-2022
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Outlook

The outlook for the FY3/23 results is for the higher sales and profits to continue through acquiring new BPO projects in the public sector

1. Outlook for FY3/23

The outlook for the FY3/23 consolidated results is that sales and profits will continue to increase, with net sales set to rise 16.1% YoY to ¥50,019mn, operating profit to grow 4.9% to ¥4,642mn, ordinary profit to climb 4.5% to ¥4,640mn, and profit attributable to owners of parent to increase 1.9% to ¥3,173mn. Although there will be one month fewer than in the previous fiscal year, which was an irregular 13-month period, the forecasts are for the double-digit increase in sales to continue in the mainstay clerical human resource service business through the increase in BPO projects for municipalities and via BPO vendors, and also for sales to increase by double digits in the manufacturing and sales human resource service businesses.

The main reason why the operating profit margin will decline from 10.3% in the previous fiscal year to 9.3% is that the gross profit margin will decrease due to the increase in new BPO projects. The productivity of a BPO project tends to be low in the initial period after it is launched and then improve as the work is carried out and process improvements are implemented. In particular, in FY3/23, many projects will be started from the summer onwards, so results will also be concentrated in the 2H (the 1H forecasts are for net sales to increase 40.0% compared to the same period in the previous fiscal year to ¥22,736mn and operating profit to rise 16.5% to ¥1,639mn).

Outlook for FY3/23

	FY3/22 (results for 13-months)		FY3/23		YoY
	Results	% of sales	Forecast	% of sales	
Net sales	43,100	-	50,019	-	16.1%
Clerical human resource service business	37,124	86.1%	42,753	85.5%	15.2%
Manufacturing human resource service business	4,590	10.6%	5,626	11.2%	22.6%
Sales human resource service business	1,065	2.5%	1,347	2.7%	26.5%
Other business	320	0.7%	293	0.6%	-8.6%
Operating profit	4,423	10.3%	4,642	9.3%	4.9%
Ordinary profit	4,441	10.3%	4,640	9.3%	4.5%
Profit attributable to owners of parent	3,114	7.2%	3,173	6.3%	1.9%
Earnings per share (¥)	263.89		268.73		

Note: FY3/22 was an irregular 13-month period. YoY values are simple comparisons with the FY3/22 results
Source: The Company's financial results and results briefing materials

(1) Sales outlook by business

In the clerical human resource service business, the outlook is for net sales to increase 15.2% YoY to ¥42,753mn. The number of BPO projects will increase from 107 in the previous fiscal year to 130 projects, while in terms of work content, the Company is actively targeting BPO projects that incorporate IT elements. Its policy is to respond to the strong demand while continuing to conduct measures including strengthening the personnel structure and training human resources so that they can meet various needs.

CAREERLINK CO., LTD.
6070 Tokyo Stock Exchange Prime Market

14-Jul.-2022
<http://careerlink.co.jp/ir/en/index.html>

Outlook

In the manufacturing human resource service business, the outlook is that net sales will increase 22.6% YoY to ¥5,626mn. Orders are forecast to grow at the new sales bases opened in the previous fiscal year. Recently, uncertainty about the future of the Japanese economy has intensified due to factors such as the rises in energy prices and foodstuff costs. However, the Company is still aiming for double-digit growth by providing services that are highly cost competitive, mainly through foreign workers.

In the sales human resource service business, the outlook is for net sales to increase 26.5% YoY to ¥1,347mn. The policies are to strengthen the sales structure and to focus on acquiring orders for new products. Also, sales from existing cashless payments service projects are forecast to increase through the increase in floor space at a call center. Sales will be strong because there are multiple new projects, but the growth rate may be limited in the event that the COVID-19 pandemic continues.

(2) Priority measures

In FY3/23, the Company's priority measures will continue to be: 1) acquire new customers and new business partners, 2) further strengthen relationships with existing customers and existing business partners, 3) build an environment in which resident managers can maximize performance, 4) achieve the prompt and optimal operations of outsourced projects during the COVID-19 pandemic, and 5) promote the receipt of orders for projects from government agencies and municipalities and large projects from BPO vendors.

In particular, with regards to municipalities, while the Japanese government is promoting the digitalization of government services as its policy, it appears that needs are growing for BPO operations that incorporate IT elements. To respond to this demand, the Company's strategy is to leverage its strength of a track record of conducting work for Social Security and Individual Number Cards and the cards' portal sites, which is its strength, to develop its businesses for the major municipalities.

Aims for sales and profits to increase in the 10% range annually by capturing the BPO demand created by the government's promotion of digitalization

2. Medium-term management plan

Every year, the Company formulates a three-year medium-term management plan. The results targets for FY3/24 announced one year previously were net sales of ¥46,980mn and operating profit of ¥4,240mn, but it achieved the operating profit target two years ahead of schedule and expects to achieve the net sales target one year ahead of schedule. This is mainly due to the steady progress made in recruiting and training core personnel in order to acquire BPO projects and that sales of BPO services have grown significantly. Based on this situation, the medium-term results targets for FY3/25 in the recently formulated plan are net sales of ¥61,476mn, operating profit of ¥6,053mn, ordinary profit of ¥6,051mn, and profit attributable to owners of parent of ¥4,139mn. The CAGR forecasts for the next three years are in the 10% range for net sales, operating profit, and ordinary profit. The operating profit margin is forecast to fall temporarily to 9.3% in FY3/23 but then recover and rise from FY3/24 onwards and reach 9.8% in FY3/25.

CAREERLINK CO., LTD. | 14-Jul.-2022
6070 Tokyo Stock Exchange Prime Market | <http://careerlink.co.jp/ir/en/index.html>

Outlook

Medium-term management plan

(¥mn)

	FY3/22 (irregular) Results	FY3/23 Target	FY3/24 Target	FY3/25 Target	versus FY3/22 Compared to results	Three-year CAGR
Net sales	43,100	50,019	55,389	61,476	42.6%	12.6%
Clerical human resource service business	37,124	42,753	47,150	52,101	40.3%	12.0%
Manufacturing human resource service business	4,590	5,626	6,310	7,092	54.5%	15.6%
Sales human resource service business	1,065	1,347	1,636	1,990	86.9%	23.2%
Other business	320	293	293	293	-8.4%	-2.9%
Operating profit	4,423	4,642	5,268	6,053	36.9%	11.0%
Operating profit margin	10.3%	9.3%	9.5%	9.8%	-	-
Ordinary profit	4,441	4,640	5,266	6,051	36.3%	10.9%
Profit attributable to owners of parent	3,114	3,173	3,602	4,139	32.9%	9.9%

Note: FY3/22 was an irregular 13-month period

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

(1) Investment plan

The Company's policy is to continuously conduct investment in order to realize an annual sales growth rate in the 10% range. First, demand is forecast to grow from municipalities and others, so it is focusing on recruiting core personnel necessary to acquire orders for BPO projects that incorporate IT elements and training them to be next-generation core personnel. Core personnel includes personnel involved in upstream processes, such as the planning, design, and construction of BPO services, and also business development personnel and systems development personnel. The recruited personnel are trained and granted the experience of BPO work at actual work sites, after which they are allocated to various work sites as the people responsible for that site. Therefore, increasing core personnel enables the Company to obtain orders for many BPO projects.

Second, the Company will invest in systems to improve productivity. Specifically, it plans to expand the knowledge management tools for human resources development, and will also start enhancing the staff websites and staff management functions. In addition, it intends to actively work on RPA both inside and outside the Group and to improve work efficiency.

Third, the Company is investing in infrastructure in order to expand business scale. Specifically, it will expand the BPO Center to meet demand, while it also intends to further expand business scope in the manufacturing human resource service business by opening bases in new areas. In addition, it plans to establish infrastructure to secure the safety of employees, customers, and staff, and to respond to new working styles.

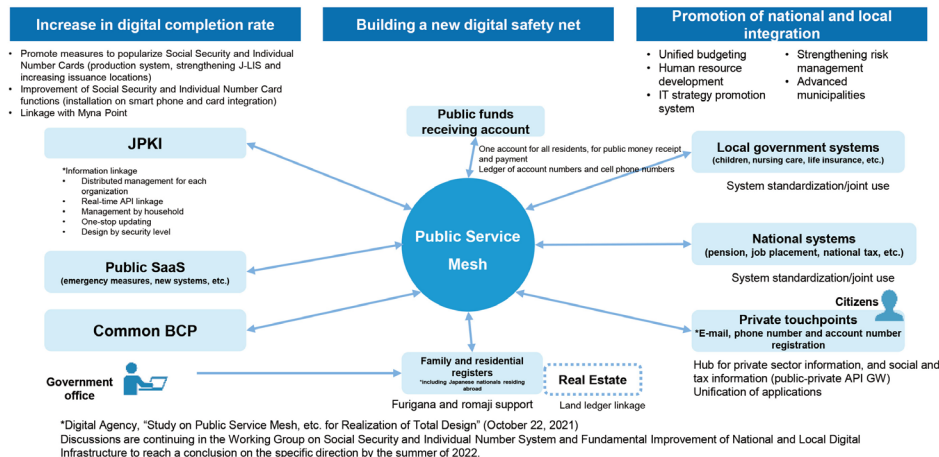
(2) Growth strategy

a) Clerical human resource services

The clerical human resource service business is targeting an annual net sales growth rate of 12.0%. As a growth strategy, the most important policy is to capture BPO demand generated by the implementation of DX in the public sector. According to the "Priority Policy Program for Realizing Digital Society" announced by the Digital Agency in December 2021, the aim is to integrate the operating systems of the national government and municipalities by FY2025, and the plan is to build a government cloud system that can be used by all municipalities based on a shared cloud infrastructure. Therefore, it will be necessary to advance the transition from municipalities' former systems to the new standard system, and demand for BPO services is expected within this transition work.

Outlook

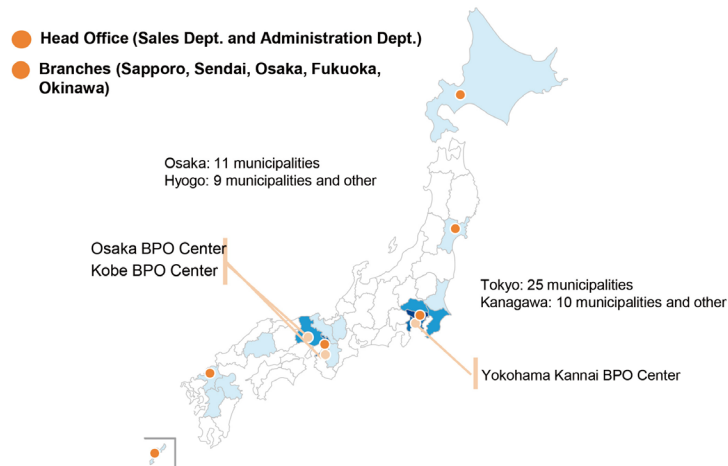
Vision aimed at the true digitalization of the national government and municipalities (2025)



Source: The Company's results briefing materials

For municipalities' BPO projects, a track record of management performance is a major factor when deciding on a service provider, so this is a strength for the Company that has handled a lot of work for Social Security and Individual Number Cards and the cards' portal sites. Its objective is to nearly double the number of municipalities with which it has transactions (including repeat-outsourcing municipalities) from 79, its number in the last three years, to 161 municipalities. Doubling appears to be an aggressive target, but the contract continuation rate is high at over 80% and it is making progress with recruiting and training core personnel to acquire BPO projects, so we at FISCO think it is an achievable target.

Municipality customers



Source: The Company's results briefing materials

CAREERLINK CO., LTD.
6070 Tokyo Stock Exchange Prime Market

14-Jul.-2022

<http://careerlink.co.jp/ir/en/index.html>

Outlook

b) Manufacturing human resource services

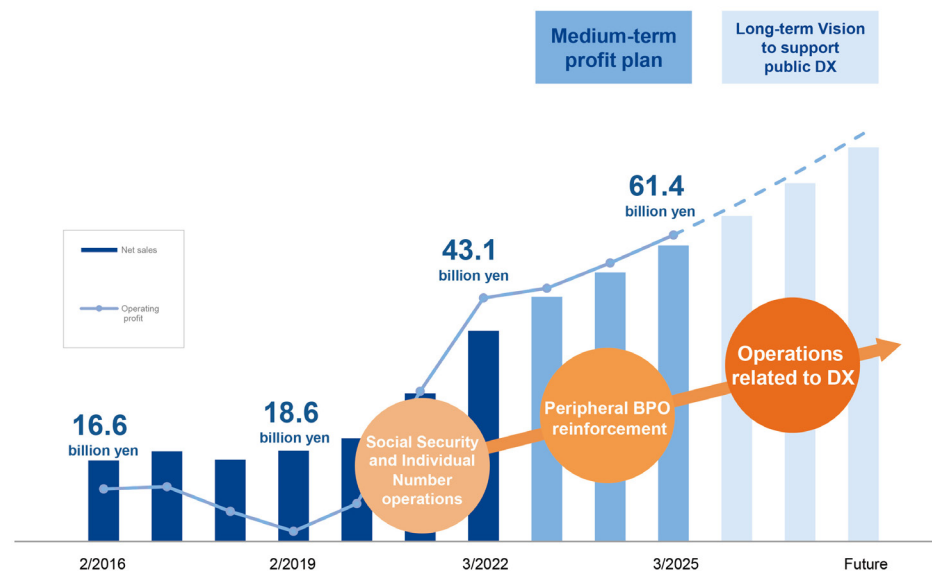
The manufacturing human resource service business is aiming for an annual net sales growth rate of 15.6%. It is highly evaluated by customers for “compliance management that prioritizes compliance for foreign workers,” and while aiming to accumulate and master knowledge related to this topic, it intends to expand sales areas and grow sales. The Company’s share of the manufacturing staff dispatch market is still low, and it is targeting a double-digit annual growth rate by developing its business horizontally for the other bases of its existing major customers and by acquiring new customers through newly entering into areas. The percentage of foreign workers among dispatched staff is high at more than 50%, and it will continue opening bases as a priority in areas where many foreigners reside. It appears to have unique expertise in recruiting foreign workers and is able to recruit them easily. In the future, it will also benefit from the fact that the restrictions on foreigners entering Japan are expected to be gradually eased.

c) Sales human resource services

The sales human resource service business is targeting a net sales annual growth rate of 23.2%. Four years have passed since this business was launched, and it has accumulated knowledge on management relating to sales activities such as acquiring new products over a wide area. It has faced a difficult battle over the last two periods due to COVID-19, but it seems that it is aiming for growth not only from continuing orders from its main customers, but also through obtaining orders for projects based on the keywords of “new products x wide area.”

From FY3/26 onward as well, the Company’s policy is to utilize its strength as a BPO platformer and aim for sustainable growth while capturing DX demand in the public sector.

Medium- to long-term growth image



Source: The Company's results briefing materials

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14-Jul.-2022

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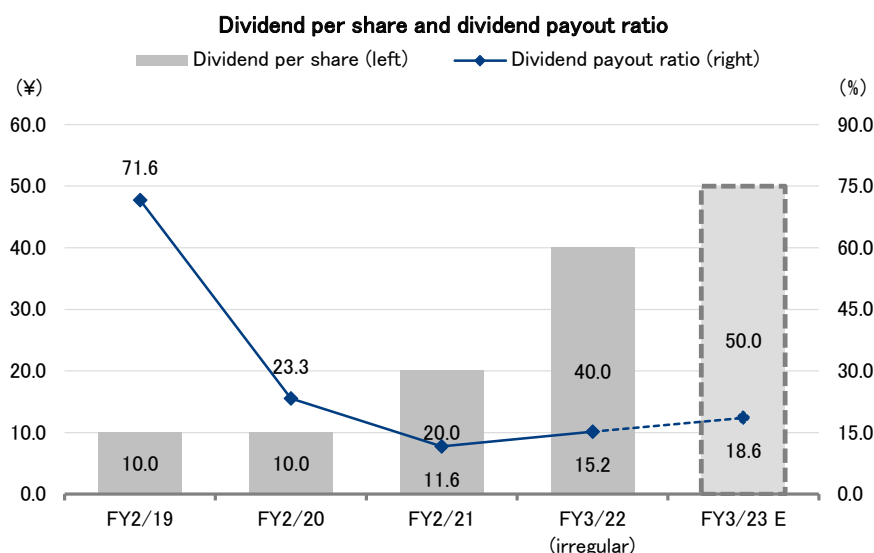
Shareholder return policy and initiatives for SDGs

Targets a dividend payout ratio at the 30% level in the future

1. Shareholder return policy

The Company's shareholder return policy is to pay dividends and to provide shareholder benefits. Its basic dividend policy is to continuously and stably pay an appropriate dividend based on a comprehensive consideration of management performance and management as a whole, while also securing the internal funds necessary for business development and to strengthen the management foundation to achieve sustainable growth. In FY3/22, based on a comprehensive consideration of its results, financial situation, and other factors, it increased the dividend per share by ¥20.0 YoY to ¥40.0 (a dividend payout ratio of 15.2%). In FY3/23, it plans to increase the dividend for the third consecutive period with an increase from ¥10.0 to ¥50.0 (18.6%). Going forward also, it has clarified that its policy is to continue increasing the dividend in order to achieve a dividend payout ratio at the 30% level in the future.

For its shareholder benefit program, the Company presents QUO cards at the end of September every year (was changed from the end of August following the change of fiscal period) to its shareholders, depending on the number of shares held. Specifically, it presents a card worth ¥500 to shareholders holding from 100 to 199 shares, a card worth ¥1,000 to those holding from 200 to 499 shares, and a card worth ¥2,000 to those holding 500 shares or more. Also, through shipments of QUO cards in November 2022, it will enhance the benefits for long-term shareholdings, and shareholders continuously holding shares for at least three years will receive a QUO card worth ¥2,000 if they hold from 200 to 299 shares, a card worth ¥3,000 if they hold from 300 to 399 shares, a card worth ¥4,000 if they hold from 400 to 499 shares, and a card worth ¥5,000 if they hold 500 shares or more.



Note: FY3/22 was an irregular 13-month period

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

Shareholder return policy and initiatives for SDGs

Description of shareholder benefits

Shares held	Shareholder benefit	
	Held for less than three years	Held continuously for at least three years
100 to 199 shares	QUO card (worth ¥500)	QUO card (worth ¥500)
200 to 299 shares	QUO card (worth ¥1,000)	QUO card (worth ¥2,000)
300 to 399 shares	QUO card (worth ¥1,000)	QUO card (worth ¥3,000)
400 to 499 shares	QUO card (worth ¥1,000)	QUO card (worth ¥4,000)
500 shares or more	QUO card (worth ¥2,000)	QUO card (worth ¥5,000)

Note: Eligible shareholders are those listed in the register of shareholders at the end of September.

The conditions for "continuous holding for at least three years" are that on the reference date of September 30, the shareholder has been listed or registered in the register of shareholders at the end of March and September in each year with the same shareholder number for seven consecutive times or more

Source: Prepared by FISCO from the Company's release

2. Initiatives for SDGs

Since the Company was founded in 1996, the mission of the Company Group has been to contribute to society by increasing recruitment. It also aims to be "Japan's most thoughtful personnel services company" and has been working on providing opportunities for many job seekers to find a wide range of work. It intends to continue advancing initiatives for SDGs based on its corporate mission of "Helping people to find satisfaction through work."

For the advancement of women, it provides equal opportunities regardless of gender, including appointments to managerial positions and training, while it has also established various systems for childbirth and childcare so that employees can balance their home and work lives. Through these initiatives, it has achieved a return-to-work rate from childcare leave of 100% (FY2/21). In addition, as its initiatives for a work-life balance, it has introduced systems to support a variety of working styles, including a telecommuting system, a region-limited working system, a working system limited to core duties, and a system with reduced working hours. Its other efforts including encouraging employees to take paid leave through a refresh leave system and incorporating a special day of the week on which employees are guaranteed no overtime.

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