COMPANY RESEARCH AND ANALYSIS REPORT

BeNEXT Group Inc.

2154

Tokyo Stock Exchange First Section

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Summary

The IT and software fields is the growth drivers

1. The three business pillars are the engineering field, manufacturing field, and overseas field

BeNEXT Group Inc. <2154> (hereafter, also "the Company") is a personnel services company whose core business is the dispatching and subcontracting of engineers and manufacturing staff. Its main area of focus is the engineering field, and its conducts dispatchhing, subcontracting, and consignment businesses in this field, such as for R&D and design work, and in particular its strengths are in dispatching and subcontracting engineers. Also, in comparison to other listed companies that dispatch engineering personnel, it has been actively conducting M&A and developing its business overseas. In addition to the engineering field, the Company has two other business pillars; the manufacturing field which conducts a subcontracting and dispatching business for manufacturing processes in automotive and machinery manufacturers, and the overseas field which conducts personnel dispatches of manufacturing staff in the UK and other countries. Moreover, it manages a special subsidiary that handles employment for people with disabilities. The percentages of total net sales by business are 49.4% from the engineering field, 12.2% from the manufacturing field, and 38.3% from the overseas field. The engineering field contributes almost half of sales and these 3 business pillars provide close to 100% of sales. In the percentages of segment income, the engineering field provides the majority, at 89.4% (FY6/19, before adjustments).

2. Changed company name to BeNEXT Group Inc., with the aims of improving engineers' "value" and shareholder value

In terms of the work of the engineers in the various industries, in addition to design and development work specific to each industry, introductions of IT and software have become urgent tasks. The various companies in the personnel services industry are strengthening their recruitment and training of engineers in response to these environmental changes. The Company is no different, and in particular it strongly supports its engineers improving their skills and evaluations through its approach of dispatching to customer companies engineers whose skills are matched to that customer, which is one of its features, and also through its own "EV (Engineer Value) model" that supports engineers' skills improvements. In addition, the Company changed its name from Trust Tech Inc. to BeNEXT Group Inc., because it wanted to change the name away from "Tech," which invokes the ideas of design and development, to expand to wider business areas, including IT and software, and also to clearly show its philosophy of increasing the "value" of engineers to parties both inside and outside of the Company. In conjunction with this change of company name, it also transitioned to a holding company structure to focus on growing the businesses of subsidiaries, which have increased in number through M&A, and to effectively control their management. Through these measures, it is aiming to achieve sustainable growth and improve shareholder value.

3. Executing the new Mid-Term Management Plan and plans to achieve EBITDA of more than ¥10bn in FY6/22

In advance of the change of company name, in August 2019 the Company formulated a three-year, Mid-Term Management Plan. In the previous Mid-Term Management Plan, it had shown an attitude of prioritizing growth by fully utilizing M&A with the aim of establishing its position in the market, but in the new Mid-Term Management Plan, the Company set the three main targets 1) achieving EBITDA* of ¥10bn in FY6/22, 2) double-digit growth of sales and EBITDA in each period in the engineering field, and 3) in addition to paying dividends and to having acquisitions of treasury shares in sight, focusing on growth mainly in the domestic engineering field. It is prioritizing the engineering field in the new Mid-Term Management Plan, but in particular it is focusing on the IT and software fields, for which needs are strong in every industry. The Company plans to leverage its features to expand in the IT and software fields and increase sales from these fields by approximately 2.5 times the amount in FY6/19 to around ¥25bn in FY6/22. For the manufacturing field and the overseas field, it is aiming to build foundations, but also conduct M&A actively if there are candidates that satisfy its conditions.

* EBITD = operating profit + amortization of goodwill + depreciation + M&A acquisition temporary costs

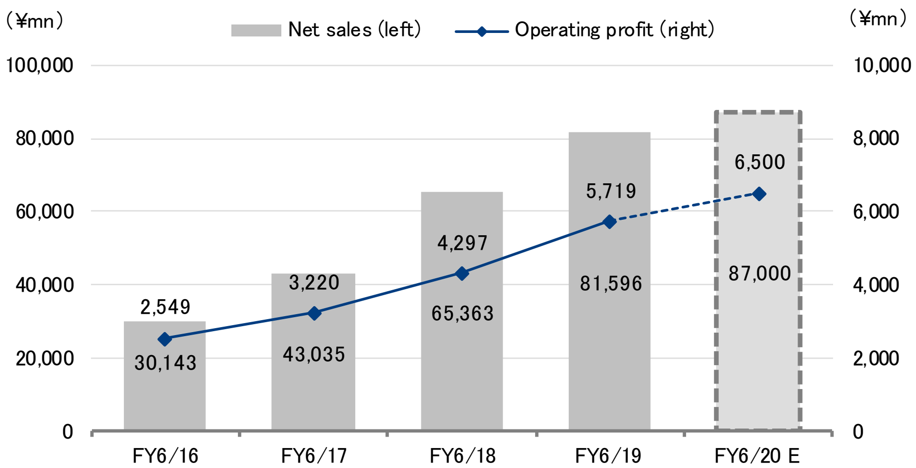
4. Targeting double-digit profit growth in FY6/20 from a recovery in the 2H, but the new coronavirus is a cause for concern

The FY6/20 1H results were again strong, with net sales of ¥40,889mn (up 1.6% YoY), operating profit of ¥2,741mn (down 11.2%), and EBITDA of ¥3,403mn (7.4% down). The reason for strong results with increased sales and decreased profits is due to the decrease in profits in the 1H was due to a temporary decline in the employee utilization rate because of a fall in the number of work days and an increase in recruitment, which was as initially expected. The Company is forecasting a major recovery in the 2H, as the number of work days will increase and engineers who have been on standby will be utilized. Therefore, for the FY6/20 full year, it is forecasting net sales of ¥87,000mn (up 6.6%), operating profit of ¥6,500mn (up 13.6%), and EBITDA of ¥7,533mn (up 10.1%), for double-digit increases in profits. However, the global turmoil caused by the new coronavirus has become a new cause for concern, so it can be said that the future is somewhat unclear.

Key Points

- Alongside the expansion of business scope, company name was changed to the “BeNEXT Group” to reflect its corporate philosophy
- Against the backdrop of the active investment in the IT and software fields, aiming for EBITDA of more than ¥10bn in FY6/22
- Targeting double-digit profit growth for the FY6/20 full year, but concerns about the new coronavirus are spreading

Results trend



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

Company profile

Currently sustaining robust growth with multiple acquisitions in Japan and abroad

1. Company profile and history

The Company is a personnel services company that conducts businesses including dispatches and work sub-contracting of engineers and manufacturing staff. In particular, its strengths are in dispatching and subcontracting engineers, and it provides personnel dispatches and other services mainly to manufacturers in Japan and overseas, including automotive and electrical equipment industries. Among the listed companies that dispatch engineers, it is strongly growth orientated, and it has been actively conducting M&A and developing its business overseas. Therefore, the Company's current business fields have expanded to the engineering field, manufacturing field, and overseas field.

Sanei Shoji Inc. and others established Kyousei Sangyou Inc. (Trust Tech's predecessor) in 1997 as a special subsidiary based on the Act on Employment Promotion etc. of Persons with Disabilities. Amuse Capital acquired all of the company's shares and changed its name to Trust Works Sanei Inc. in 2004 and also expanded business scope to dispatching services (specified worker dispatching business) and other areas. Trust Works Sanei acquired all the shares in former Trust Tech Inc., which was a company under Amuse Capital in 2005 and entered the engineer dispatching business. It merged with former Trust Tech in 2008 and changed its name to Trust Tech Inc., completing the foundation of current operations.

Subsequently, the Company conducted several M&A and expanded its business scope. It made subsidiaries of PLM Co., Ltd. (changed name to BeNEXT Partners, Inc.) in March 2009 and Freedom Co., Ltd. (changed name to TRUST NEXT SOLUTIONS Inc.) in July 2015, and Kanamoto Engineering (changed its name to Trial but was absorbed into the Company in October 2016) in October 2015. Also, as part of its measures to strengthen in the IT and software fields, it made a subsidiary of FUSIONi Co., Ltd. (changed name to Trust iPowers Inc.) in March 2017, and merged it with TRUST NEXT SOLUTIONS Inc., in July 2019 to establish BeNEXT Solutions Inc. Moreover, in November 2019, with the aim of expanding IT engineering field, it made subsidiaries of AXIS CREATE Inc., and Faith Inc., which are IT engineer dispatch companies, and AXIS HUMAN DEVELOPMENT Inc., ICT engineer training company.

Overseas, in June 2010 the Company made a subsidiary of HKTT Limited in Hong Kong, and since 2015, centered on HKTT Limited, it has expanded the areas to entered-into China and Indonesia through joint ventures. Elsewhere, in August 2016 it made a subsidiary of personnel dispatches company MTrec Limited (hereafter, MTrec) to serve as a stepping stone to start providing personnel dispatches services in the UK. In December 2017, it made a subsidiary of Gap Personnel Holdings Limited (hereafter, Gap Personnel) (the direct target of the acquisition was the holding company, 1998 Holdings Limited), and then in August 2018, it made a subsidiary of Quattro Group Holdings Limited (hereafter, Quattro Group) through Gap Personnel. Through these acquisitions, it started its fully fledged provision of personnel dispatches services in the UK. In January 2019, it entered-into Vietnam, so it is also not neglecting to strengthen its business in Asia.

Advancing the rebranding to BeNEXT and maximizing enterprise value

2. Transitioning to a holding company structure and branding

In January 2020, the Company transitioned to a holding company structure and at the same time, it changed its company name from Trust Tech Inc., to BeNEXT Group Inc.

Change of company-name logo

TRUST TECH ⇨ BENEXT

Source: Prepared by FISCO from the Company's website

The reason for transitioning to a holding company structure was that the Company judged that it would be more effective to be a pure holding company than its previous business holding company-type organizational form, from its situation of having a large number of business companies domestically and overseas through M&A, and increasing management efficiency and speed and creating opportunities for engineers to be active and to improve their skills through participating in new technologies and new industries. The aims of the transition include for the business subsidiaries to exclusively focus on growth, and for the holding company to be responsible for aspects like the planning of M&A and management strategy, and business management. It can be said to be an extremely effective choice toward maximizing enterprise value.

On the other hand, the change to the new company name of "BeNEXT" is to express the mission to be realized each and every day, which is to continue to create opportunities to take on the "NEXT" challenge and to create sustainable business value through "respecting individuals," "pursuing possibilities," and "acting in harmony with society." It is considered that "respecting individuals" means respecting the value and the humanity of each individual engineer, who are the Company's most important assets, and supporting them as they utilize their talents to take on the challenge of new technologies and improving their skills. "Pursuing possibilities" means continuously creating growth opportunities for people and the organization by looking to the future with a flexible mindset that is open to possibilities, and "acting in harmony with society" means contributing to society through its businesses, not just through legal compliance, and providing a variety of value through its diverse personnel. Although the previous name of "Trust Tech" had sufficiently high name recognition, the Company is expressing its commitment to realizing sustainable growth, while it can also be expected to have the effect of demonstrating its presence in the job-change market and the dispatches industry through this branding.

Business overview

Dispatches engineers and manufacturing staff in the engineering, manufacturing, and overseas fields

1. Business overview

The Company's business fields are divided into three business segments: the engineering field, in which it conducts dispatching, subcontracting, and consignment businesses for the engineering field, mainly for R&D, design, production technologies, and so on; the manufacturing field, in which it is conducts subcontracting, outsourcing and dispatching businesses for manufacturing processes, such as for automotive and machinery manufacturers; and the overseas field, in which it conducts personnel dispatches of manufacturing staff and engineers mainly in the UK, but also in China and other countries. Other than these, in the special subsidiary BeNEXT With Inc., that handles employment for people with disabilities. Currently, under the holding Company, each of the business subsidiaries conduct the businesses in these fields, and the percentages of total net sales by business are 49.4% from the engineering field, 12.2% from the manufacturing field, 38.3% from the overseas field, and 0.1% from others. The engineering field contributes almost half of sales, and the 3 business pillars provide close to 100% of sales. In the percentages of segment income, the engineering field provides the majority, at 89.4% (FY6/19, before adjustments). These businesses are conducted by 14 business subsidiaries operating under the holding company.

Overview of BeNEXT Group business subsidiaries

Business segment	Company name	Business content	Comment
Engineering field	BeNEXT Technologies Inc.	Provides dispatching, subcontracting, outsourcing, and recruitment services in the engineering field	Established in July 2019
	BeNEXT Solutions Inc.	Provides control-related software development and dispatching and outsourcing services in the ICT field	Established through the merger of former Trust iPowers Inc. and TRUST NEXT SOLUTIONS Inc.
	AXIS CREATE Inc.	Provides dispatching services	Acquired as a subsidiary in November 2019
	AXIS HUMAN DEVELOPMENT Inc.	ICT engineer training	Acquired as a subsidiary in November 2019
Manufacturing field	BeNEXT Partners Inc.	Provides subcontracting and dispatching services in the manufacturing field	Former TTM Inc.
Other	BeNEXT With Inc.	Provides an environment for people with disabilities to engage with others as members of society	Former Trust Tech With Inc.
Overseas field	HKTT Limited (HKTT)	Provides personnel placement services	
	MTrec Limited	Provides personnel dispatching and placement	Acquired shares in August 2016
	PT. Trust Tech Engineering Service Indonesia	Provides personnel placement services	Established in September 2016
	Shan Dong Trust Bridge Human Resources Inc.	Provides personnel (manufacturing staff and engineers) dispatching, subcontracting and personnel placement services	Established in October 2016
	Trust Tech Human Business Consulting Shanghai Inc.	Provides personnel placement services	Established in July 2017
	Guangzhou Trust Dianmi Human Resources Inc.	Provides personnel (manufacturing staff and engineers) dispatching, subcontracting and personnel placement services	Established in June 2017
	Group Personnel	Provides personnel (manufacturing staff and engineers) dispatching and personnel placement services	Acquired shares in December 2017; acquired Quattro's share in August 2018
	L&A INVESTMENT CORPORATION (LAI)	Provides personnel dispatching, personnel placement and executive research services	Acquired shares in January 2019

Source: Prepared by FISCO from the Company's securities report, website and press releases

The keys to the growth of the engineering field are securing engineers and improving their skills

2. Engineering field

In the engineering field business, the Company dispatches its engineers to the R&D, design, and production technology departments of its customer companies, while it also receives subcontracts from customers for development, design, and other work. In this way, the engineering field can be broadly dividend into dispatches of engineers and subcontracting, with the former providing slightly less than 90% of the segment's sales and the latter slightly more than 10%. A feature of the engineering field is that the contract unit price is higher than that of the manufacturing field, because it provides the added value of "engineering," and there is a difference in the profit margins of these two segments. On comparing dispatches and subcontracting in the same engineering field, subcontracting should inherently provide more profits as it takes more time. But in reality, subcontracting uses the customer company's facilities to conduct development and design in many cases, while there is also a tendency for deviations to occur compared to the initial budgets, such as to the estimated work hours and the delivery time. As a result, it seems that the difference in the profit margins between the two is not that large.

In the engineering field, how many excellent engineers a company can secure is a point of differentiation and the key to growth. Under the current tight labor supply-demand conditions, securing engineers has become even more difficult than finding dispatch destinations. Therefore, the Company is focusing on recruiting mid-career hires who can be dispatched to the field immediately, and since FY6/19, it has further accelerated the pace of recruitment. Also, since several years ago, it has been actively recruiting new graduates, and in April 2018, around 500 new graduates, and then in April 2019, more than 700 new graduates, joined the Company. Together with recruitment, the key in this field is improving the employee retention rate, while the Company is also aiming to raise-up the dispatch unit price by matching engineers to dispatch destinations with high unit prices. Matching is essential to improve the skills of engineers, and it strongly supports each individual engineer's skills improvements through incorporating its "EV (Engineer Value) model," which is described below.

Securing profitability is an issue, but also growth-potential oriented

3. Manufacturing field

In the manufacturing field, the Company provides a personnel service that utilizes its manufacturing line staff. It takes two forms, operations subcontracting (on-site subcontracting) and dispatches. The percentages of results provided by subcontracting and dispatches fluctuate over time, but it seems they each provide around half. On comparing subcontracting and dispatches, profitability can be expected to improve for subcontracting compared to dispatches due to self-efforts, but in reality, the conditions on the customer side that affect the scale of services have become more severe, so there is not that great of a difference between the profitability of the two. Also, on comparing the manufacturing field and the engineering field, in the manufacturing field the unit price is lower, sales fluctuations are large as it is easily affected by changes in demand for the product to be manufactured, and in addition, the contract period tends to be short. Therefore, it is considered to have lower profitability.

In the manufacturing field, the Company is progressing locally-oriented personnel recruitment and sales activities. This is because if the workers and the subcontracting and dispatch destinations can be secured in the same locality, not only is it possible to keep down and reduce the costs of moving to and remaining at a site, it also improves the matching efficiency. As a result of this, it is thought that the Company is currently securing profitability that is said to be the highest level in the industry. That said, demand for subcontracting and dispatches in the manufacturing area is easily affected by economic fluctuations and customer companies' needs to reduce labor costs, so profitability tends to vary. Therefore, the Company, while securing employees in the manufacturing field in a range of 2,000 to 2,500 people, flexibly responds to conditions by combining indefinite-term employment contract employees and fixed-term employment contract employees. Conversely, as subcontracting and dispatching needs are expected to increase at manufacturing sites in the medium- to long-term, going forward, it is considering increasing the number of employees to in a range of 2,500 to 3,000 people.

Profits has grown in the UK by strengthening earnings and currently building foundations in Asia.

4. Overseas field

The Company has entered-into the UK and Asia, starting with China. The overseas field has an important position in its growth strategy, and as the stages of development of the personnel services industries differ depending on the degree of maturity of each countries' society, it has changed to a strategy of separating the mature markets of advanced countries like the UK, which are its main targets, from immature markets such as in Asia. Incidentally, the majority of this segment's earnings are provided by the UK business.

In the UK, where personnel services have been developed in a mature market, the Company aimed to enter-into and expand its business through conducting M&A of local companies including MTrec, Gap Personnel and Quattro Group. Therefore, while sales have continued to grow rapidly in recent years, a round of M&A costs has currently been completed, so the situation is that profits are rapidly growing. The business content is the same as that in the domestic manufacturing field, and the earnings structure appears to be also about the same. Conversely in Asia, which can be said to have immature markets, the Company can be said to be currently at the feasibility-studies stage, which includes conducting market surveys of each area and collecting information. Therefore, it is advancing into local areas through joint ventures which place on it only a small burden in many cases, while for the business content, it is only conducting personnel placements. As the scale of this business is still small and the cost structure is light, its impact of earnings can be said to be minimal.

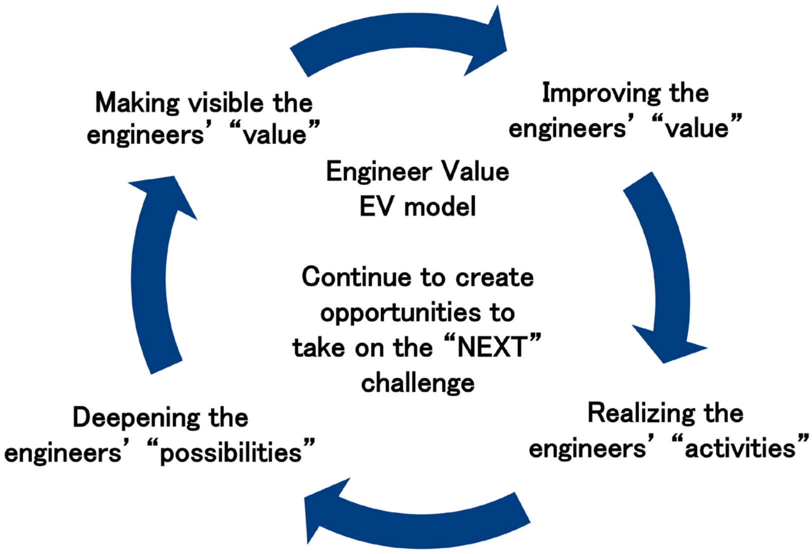
Strengths include the idea of engineers as the starting point and the "EV model," which builds close relationships with engineers

5. The Company's strengths

The general approach of dispatch companies is to dispatch those engineers that meet the requirements of their customer companies, but the Company's approach is to dispatch engineers whose skills are matched to the customer companies. In the general approach, it is necessary to hire highly skilled engineers one after another, but when using the Company's approach, it becomes possible to match the engineers to more high-level customer companies by improving their skills. This leads to an increase in the contract unit price and improvements to engineer motivation, while it also has the advantage for the Company, of improving margins and reducing the employee turnover rate by improving motivation. Therefore, the Company forms close relationships with each individual engineer and provides them with finely-tuned support so they can improve their skills based on data. It utilizes the "EV (Engineer Value) model," which is its own framework for training engineers, and while considering each and every engineers' current skills, potential, orientation, and other aspects, it provides them with strong support so they can improve their skills. This approach, which takes the engineers as the starting point, is considered to be one of the Company's strengths that forms the basis of its business model.

Incidentally, the “EV model” is a framework to continuously improve the skills of engineers by turning the cycle, which involves making visible the engineers’ “value” → improving their “value” → realizing their “activities” → and deepening their “possibilities.” Specifically, first information is collected from various perspectives, such as on skills, experience, achievements, and evaluations by places of work. Then high-density information is collected from the engineers through interviews or using a smartphone website on their technical capabilities, career orientation, and employment preferences, and this collected data is analyzed using AI to make visible the engineers’ “value”. Next, a framework for improving skills in response to the engineers’ abilities, issues, and orientations that have been made visible is constructed using HR tech and other means, and the engineers’ “value” is improved by providing them with an assignment plan in accordance with the technical level of each engineer and by utilizing requests appropriately. Through personnel evaluations and employment forms that are tailored to each technical area, the Company flexibly responds to engineers’ individual diversity and changes to ways of working, while through an award system, salary increases, a bonus system, and a training system, it supports their feeling of pride in their work as engineers and their feelings of satisfaction in their work, which realizes their “activities”. Moreover, the Company deepens “possibilities” for the engineers by making full use of online interviews and marketing tools, and enhancing expertise in the sales process through division of labor and specialization, and by increasing the accuracy of matching. In this way, the “EV model” is the platform that embodies the approach that is characteristic of the Company.

EV (Engineer Value) model



Source: Prepared by FISCO from the Company's website

Medium-term growth strategy

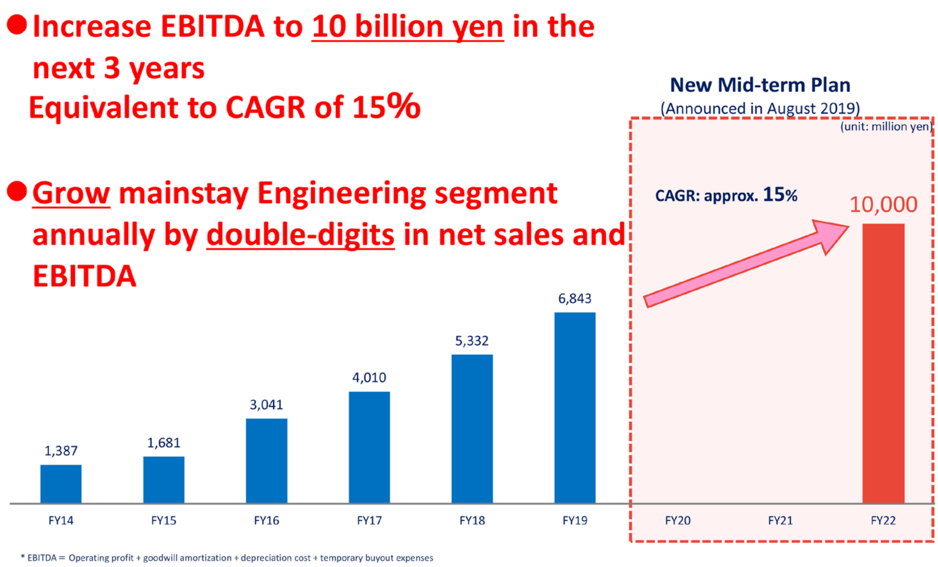
Targeting EBITDA in excess of ¥10bn for FY6/22

1. Mid-term management plan's goals

In August 2019, the Company announced its Mid-Term Management Plan. In the previous Mid-Term Management Plan, it had aimed for growth in the engineering field as a whole by further expanding to the IT and software fields from an earnings structure that was previously strong in machinery, transportation equipment, and the so-called mechanical- and electric-related fields. It made steady progress in implementing the previous Mid-Term Management Plan and was able to achieve its targets two years ahead of schedule. Therefore, it has formulated the new Mid-Term Management Plan, and in this plan, based on the mission of “Continue to create opportunities to take on the “NEXT” challenge,” it is targeting further growth in the engineering IT field, while at the same time aiming to create opportunities toward realizing its engineer concept, such as with regards to new technologies and ways of working, to raise-up its engineers’ “value,” and as a result, to improve shareholder value.

Specifically, the Company plans to achieve EBITDA of more than ¥10bn in FY6/22. While maintaining growth in the manufacturing field and the overseas field, it will conduct growth investment with a particular focus on the engineering field, targeting double-digit growth in every period for both net sales and EBITDA in the engineering field. Within the engineering field also, it considers the IT and software fields to especially be the growth drivers, and it is aiming to significantly increase sales in these fields. At the same time, it is strongly aware of returning profits to shareholders, and it has not only dividend payments, but also acquisitions of treasury shares in sight. In these ways, it is thought that it intends to improve shareholder value while realizing continuous EPS growth.

EBITDA target in the Mid-term Management Plan



Source: The Company’s Mid-term Management Plan briefing materials

The engineering field will drive growth in the medium-term, the manufacturing field is maintaining profitability, and the overseas field is solidifying its foundations.

2. Strategies and policies by business segment

It is considered that the Company will implement the strategies and policies by business segment in the Mid-Term Management Plan after considering the market scales and market growth rates in each field and analyzing in detail the opportunities and threats.

Strategies and policies by business segment

		Staffing market size	Market growth rate	Our Opportunity (O) and Threat (×)	Strategies and Policies under Mid-term Plan
Engineering Segment		Approx. 0.9 trillion yen	8 to 10% per annum	O Active R&D investment Shortened technological cycles Changes in laws and regulations Foreign engineers × Decrease in workers with science and engineering background Shortage of workers in IT field	■ Seek both sales growth and operational efficiency by investing management resources (M&A, tie-ups, ads, etc.) and sophisticating business models (enhancement of systems and shared services). • We have abundant growth potential due to increased staffing demand (esp. IT and software related) and diversified supply. • Move business sophistication/differentiation initiatives (sophistication of business models) to an execution phase. • Enhance synergy effects of integration and concentration of IT operating company
Manufacturing Segment		Approx. 2.5 trillion yen	5% or so per annum	O Production return to Japan Shift to manufacturing staffing × Shortage of workers	■ Maintain high profitable scheme* and continue steady business expansion. • Focus on high priced projects and limited area models. * Operating profit of 5% (Among the highest in the industry)
Overseas Segment	UK Industrial sector*	Approx. 0.7 trillion yen	0 to 3% per annum	O Stable market Shortage of workers × Brexit impact FX risk	■ Aim to sustain "highly profitable" growth of the business worth 30 billion yen in sales • As MA initial one-off cost is completed, and local management and support system are in place, the business is on a cruise mode. • Seek investment opportunity in IT/engineer fields in the mid to long term.
	China**	Approx. 1.7 trillion yen**	China:10 to 15% per annum	O High economic growth Emerging staffing market × Inadequate labor laws Business customs	■ Transfer from Seeding to Sprouting stages • In China, annual sales of our JV staffing agency (Shandong Province) has grown to a 1 billion yen during its second year. Expected to grow further at high rate. • Acquire a 44% stake in a largest staffing company in Vietnam (annual sales of 4 billion yen) in Jan. 2019, to make it a subsidiary in the future
	Vietnam	Approx. 0.4 trillion yen	Vietnam: 20% per annum		

*UK industrial sector: Staffing market catering for manufacturing and logistics (light work at warehouses) in such industries as machinery, transport equipment and consumer products. The sector accounts for 17% of the total staffing market in UK (Approx. 4 trillion yen) .
**Market size in China: Estimated market size of Japanese-style staffing with which a staffing company employs dispatched workers as its own employee.

Source: The Company's Mid-term Management Plan briefing materials

(1) Engineering field

The scale of the dispatches market in the engineering field is estimated to be approximately ¥0.9tn and the market growth rate to be 8% to 10% a year, and the Company's awareness of the situation is that, although it is benefiting from the continuous strong R&D investment, the shortening of the technology cycle, and the active utilization of overseas engineers, it also has concerns about increases in costs from competition to acquire scarce science personnel and IT personnel. In this situation, its policy is to actively invest management resources in areas like M&A and alliances, and in advertising and publicity, while to increase the sophistication of its business model by strengthening systems and shared services. In the engineering field, which is expected to play the role as the main engine of growth in this way, the Company is aiming for EBITDA to grow by double digits every period (annual average growth rate of around 15%) and to achieve ¥8bn to ¥9bn in FY6/22. As described below, in the previous Mid-Term Management Plan, the important strategic fields were the IT and software fields, while in the new plan as well, their importance has increased even more.

(2) Manufacturing field

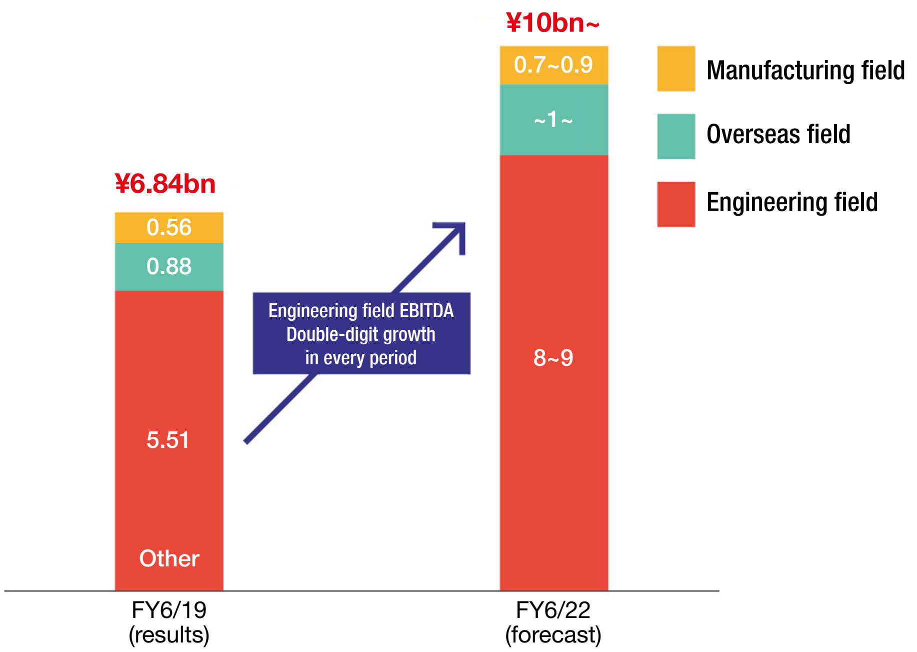
In the manufacturing field, the scale of the dispatches market is estimated to be approximately ¥2.5tn and the market growth rate to be around 5% a year, and the Company also aware that there are positive aspects including the recovery of domestic production and the shift to manufacturing dispatching, but there is also the negative aspect of a workforce shortage. Therefore, the Company's policy is to steadily expand this business while maintaining a high earnings structure by strengthening high unit-price projects in niches, focused on local areas. In the Mid-Term Management Plan, the manufacturing field does not stand out in comparison to the engineering field, but it still has an important position as an essential part of the portfolio to stably secure revenue for the Company as a whole. From the above, the Company is targeting increasing EBITDA in the manufacturing field from ¥0.56bn in FY6/19 to ¥0.7bn to ¥0.9bn in FY6/22.

(3) Overseas field

The scale of the UK dispatches market, which is a mature market, is estimated to be approximately ¥0.7tn and the market growth rate to be 0% to 3%. Although it is a market with stable workforce demand, it seems that there are concerns about risks relating to Brexit and exchange-rate fluctuations. In order to build a more robust foundation through rapid growth, the Company plans to enhance the local management and support systems and to continuously realize profit-focused growth. However, in the UK also, it is searching for investment opportunities in the IT and software fields, and it is considered possible that it will conduct new M&A.

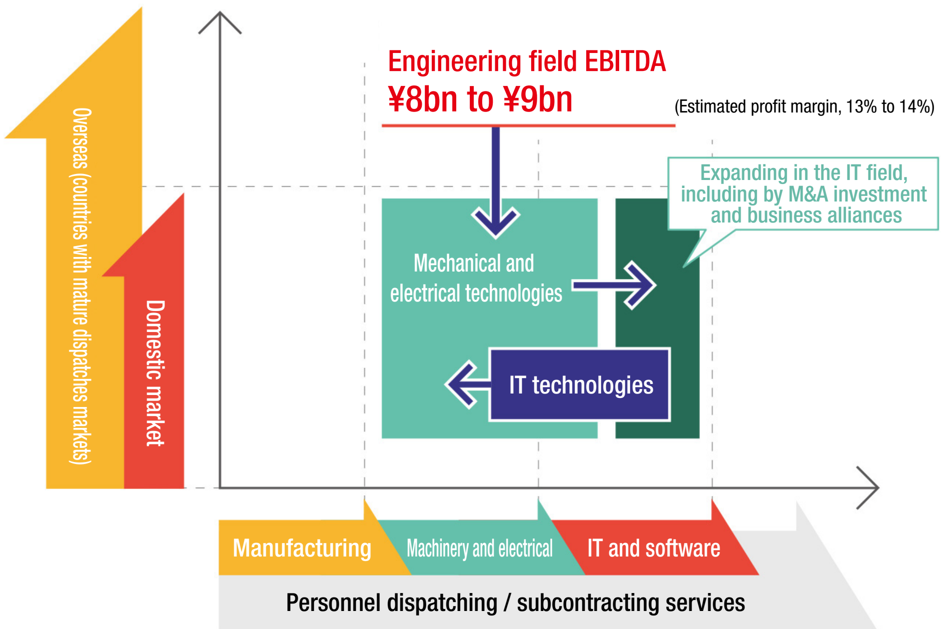
Conversely, in the immature markets of Asia, it is estimated that the scale of the Chinese dispatches market is approximately ¥1.7tn and the market growth rate is 10% to 15%, while the scale of the Vietnamese dispatches market is about ¥0.4tn and the market growth rate is 20%. It is thought that each region is extremely appealing to the Company for their high economic growth and dispatches markets that are still in their initial growth period, but at the same time they have risks, including underdeveloped legal systems and local labor practices. For this reason, it has entered-into these areas while hedging risk, such as through joint ventures, and for the future, it wants to proceed from the stage of planting the seeds to having these seeds grow. Of course, as these regions have high market growth rates, it is considered that, if things go smoothly, there is at least some possibility that it will conduct new investment. In this way, although the conditions in the UK and Asia are completely different, the Company is aiming to increase EBITDA from ¥0.88bn in FY6/19 to around ¥1bn in FY6/20 for the overseas field as a whole.

EBITDA targets by business



Source: Company website

Image of the business portfolio



Source: Company website

In the IT and software fields, strengthening recruitment and training and aiming for net sales of ¥25bn in FY6/22

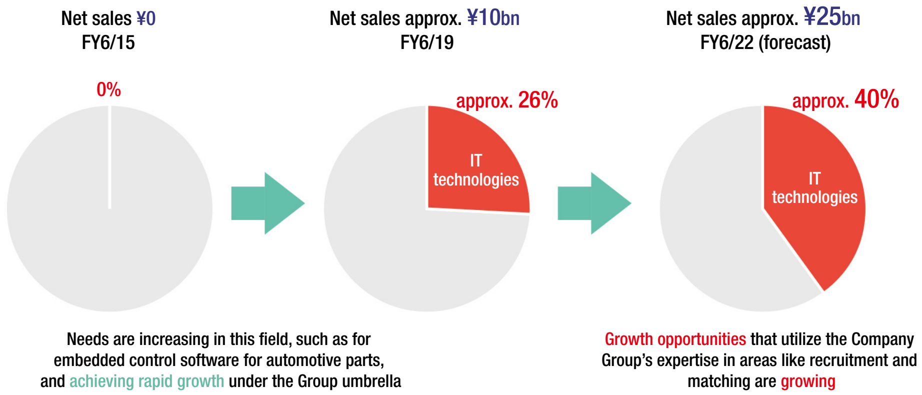
3. The IT and software fields are the growth drivers

As previously explained, the Company's strengths include its idea of having engineers as the starting point and its approach of building close relationships with its engineers and supporting their efforts to improve their skills, and "EV model" that is used as the platform for this.In terms of the factors that greatly supported the growth rate in the previous Mid-Term Management, it goes without saying that the aspect of demonstrating these strengths was significant, but it can also be said that a major cause of growth itself was the Company newly incorporating the IT and software fields into the engineering field. The needs of customers companies for IT and software, such as for embedded control software for automotive parts, are strengthening, and in this situation, the Company has been able to grow net sales from these fields from zero to around ¥10bn in the short period of time of just 4 years by focusing on the IT and software fields.

In this way, the Company's growth has been driven by the IT and software fields, but in fact, the conventional approach of analyzing business confidence and the demand and supply of engineers by industry no longer applies. This is because, alongside the evolution of business models in the manufacturing industry and the development of technologies like IoT and 5G in the IT and software fields, the technologies in the IT and software fields have become elemental technologies and infrastructure technologies for industry in general. In other words, the need for dispatches in the engineering field previously only had a single, industry axis, but it now has a two-axis structure, with the cross-industry axis of IT and software being added to the industry axis. That is to say, needs are growing stronger in each industry for engineers who understand IT, or for IT engineers who understand a particular industry. It is thought that this is not limited to manufacturers, such as of vehicles and machinery, as the same trend can be seen in industries like retail and services.

In response to this situation, the Company intends to further strengthen in the IT and software fields. As one part of these efforts, it made subsidiaries of AXIS CREATE, IT engineers dispatches company, and of AXIS HUMAN DEVELOPMENT, an IT engineers training company in November 2019. Also, it has been necessary to train multi-engineers in a certain sense, but for the training of these personnel, the Company is further increasing the sophistication of its optimized approach and EV model for engineers, alongside the change of company name. Moreover, through recruitment and M&A, it plans to increase the number of engineers in the engineering field from 6,273 people at the end of FY6/19 to more than 10,000 people at the end of FY6/22. Through these proactive measures, it is aiming to raise net sales from the IT and software fields by around 2.5 times the amount in FY6/19 to approximately ¥25bn in FY6/22.

In the previous Mid-Term Management Plan and the new Mid-Term Management Plan, the IT and software fields are the growth drivers



Source: Company website

Business performance

Although profits decreased, results were basically as expected

1. FY6/20 1H results

In the FY6/20 1H results, sales increased and profit decreased, with net sales of ¥40,889mn (up 1.6% YoY), operating profit of ¥2,741mn (down 11.2%), ordinary profit of ¥2,718mn (down 11.0%), and profit attributable to owners of parent of ¥1,648mn (down 17.0%). Compared to the initial results forecasts, net sales were ¥921mn below forecast, but operating profit, ordinary profit, and profit attributable to owners of parent were respectively ¥10mn, ¥82mn, and ¥88mn above forecast, so it can be said that the results were strong and basically as forecast. EBITDA was ¥3,403mn (down 7.4%).

Overview of 1H FY6/20 results

(¥mn)

	1H FY6/19			1H FY6/20			
	Amount	Vs. net sales	Progress rate	Amount	Vs. net sales	Change (%)	Progress rate
Net sales	40,246	100.0%	49.3%	40,889	100.0%	1.6%	47.0%
Gross profit	8,583	21.3%	50.8%	8,384	20.5%	-2.3%	-
SG&A expenses	5,496	13.7%	49.2%	5,642	13.8%	2.7%	-
Operating profit	3,087	7.7%	54.0%	2,741	6.7%	-11.2%	42.2%
Ordinary profit	3,054	7.6%	54.5%	2,718	6.6%	-11.0%	42.8%
Profit attributable to owners of parent	1,986	4.9%	53.6%	1,648	4.0%	-17.0%	42.9%
EBITDA	3,673	9.1%	53.7%	3,403	8.3%	-7.4%	45.2%

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

Although net sales increased due to the steady rise in the number of employees, growth was low due to factors including the number of work days declined 2 days YoY, the growth in the number of utilized employees was limited because they were on stand-by to attend training, and the number of dispatches was not as many as expected for some industries. The profit-decrease factor was that costs increased because of g temporary costs in November 2019 to conduct M&A for AXIS CREATE and two other companies, transition to the holding company structure, improvement of employee benefits, and the active recruitment.

The engineering field continued to grow in actual terms, while profits increased significantly in the overseas field

2. 1H FY6/20 results by segment

The engineering field's 1H results were net sales of ¥21,550mn (up 8.4% YoY), operating profit of ¥2,500mn (down 10.2%), and EBITDA of ¥2,813mn (down 6.6%). The number of employees was 6,761 people (up 1,140 people YoY, including 377 people from AXIS CREATE, etc.), the utilization rate was 95.2% (down 2.1 percentage points (pp)), the contract unit price was ¥3,536 (up 0.4%), and the number of work days was 111.6 days (down 1.0 day). In net sales by industry, sales trended basically unchanged YoY for every industry, but within the focus fields of the IT and software fields, they were 1.5 times in the information and communication industry as the number of employee assignments grew. In profits, operating profit was kept down by the decline in the utilization rate due to the rise in employees on stand-by because of the increased recruitment, and by the costs arising from the M&A of AXIS CREATE and two other companies.

The manufacturing field's 1H results were net sales of ¥4,779mn (down 6.4% YoY), operating profit of ¥182mn (down 29.9%), and EBITDA of ¥191mn (down 28.3%). The number of employees was 2,353 people (up 2 people YoY), the contract unit price was ¥1,990 (down 0.7%), and the number of work days was 108.0 days (down 2.1 days). In net sales by industry, sales trended weakly in the mainstay transportation equipment and machinery industries. For its strategically important areas like major cities, the Company promoted measures to increase the number of acquisitions of job-seeker proposals and to increase the number of matches with job applicants, but it seems that the shift from the regions to major cities is being somewhat delayed (this issue is expected to be solved when some time has passed).

For the overseas field's 1H results, net sales were ¥14,564mn (down 4.9% YoY), operating profit was ¥141mn (up 79.3%), and EBITDA was ¥481mn (up 11.2%). Within these results, net sales in the UK were approximately ¥14.5bn and EBITDA was slightly less than ¥0.5bn. The Company conducted M&A for three companies in the UK in a short period of time and achieved rapid growth, so currently, in parallel with this proactive strategy, it is progressing improvements to management and the organizational structure, and also structural reforms, including consolidating businesses and stores. Net sales declined on a yen basis due to the effects of the exchange rate, but they trended solidly on a local-currency basis, increasing 2.4% YoY. Profits rose significantly following the end of the temporary costs relating to the M&A conducted in the previous fiscal period, and also from the progress made in the ongoing cost improvements.

1H FY6/20 results by segment (before adjustment)

(¥mn)

		1H FY6/19		1H FY6/20		
		Amount	Vs. net sales	Amount	Vs. net sales	Change (%)
Net sales	Engineering field	19,875	49.4%	21,550	52.7%	8.4%
	Manufacturing field	5,105	12.7%	4,779	11.7%	-6.4%
	Overseas field	15,317	38.1%	14,564	35.6%	-4.9%
	Other	51	0.1%	96	0.2%	88.2%
		1H FY6/19		1H FY6/20		
		Amount	Vs. net sales	Amount	Vs. net sales	Change (%)
Operating profit	Engineering field	2,785	14.0%	2,500	11.6%	-10.2%
	Manufacturing field	260	5.1%	182	3.8%	-29.9%
	Overseas field	78	0.5%	141	1.0%	79.3%
	Other	-73	-143.1%	-89	-92.7%	-
		1H FY6/19		1H FY6/20		
		Amount	Vs. net sales	Amount	Vs. net sales	Change (%)
EBITDA	Engineering field	3,011	15.2%	2,813	13.1%	-6.6%
	Manufacturing field	266	5.2%	191	4.0%	-28.3%
	Overseas field	432	2.8%	481	3.3%	11.2%
	Other	-72	-141.2%	-88	-91.7%	-

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

Growth is expected to continue, centered on the IT and software fields, but there are concerns about the impact of the new coronavirus

3. Overview of the FY6/20 outlook

BeNEXT projects increased sales and profits as the initial forecast, with net sales at ¥87,000mn (up 6.6% YoY), operating profit at ¥6,500mn (up 13.6%), ordinary profit at ¥6,350mn (up 13.3%), profit attributable to owners of parent at ¥3,840mn (up 3.6%), and EBITDA at ¥7,533mn (up 10.1%) in FY6/20.

Overview of the FY6/20 outlook

(¥mn)

	2H FY6/19		2H FY6/20 E		
	Amount	Vs. net sales	Amount	Vs. net sales	Change (%)
Net sales	41,350	100.0%	46,111	100.0%	11.5%
Operating profit	2,632	6.4%	3,759	8.2%	42.8%
Ordinary profit	2,552	6.2%	3,632	7.9%	42.3%
Profit attributable to owners of parent	1,720	4.2%	2,192	4.8%	27.4%
EBITDA	3,170	7.7%	4,130	9.0%	30.3%
	FY6/19 full year		FY6/20 full year E		
	Amount	Vs. net sales	Amount	Vs. net sales	Change (%)
Net sales	81,596	100.0%	87,000	100.0%	6.6%
Operating profit	5,719	7.0%	6,500	7.5%	13.6%
Ordinary profit	5,606	6.9%	6,350	7.3%	13.3%
Profit attributable to owners of parent	3,706	4.5%	3,840	4.4%	3.6%
EBITDA	6,843	8.4%	7,533	8.7%	10.1%

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

As the 1H results were basically in line with the forecasts, for the outlook for the full fiscal year, the Company has left the initial forecasts unchanged, so for the 2H results, it is forecasting significant growth, with net sales to increase 11.5% YoY, operating profit to rise 42.8%, and EBITDA to grow 30.3%. This is because in contrast to the 1H, in which the number of work days and the utilization rate were negative, the assumptions for the 2H are that the number of work days will increase 1.4 days and that the utilization rate will also change to a positive direction because of improvements in utilizing employees who had been on stand-by to attend training and for other reasons. Therefore, it is forecast that the sales-increase rate will rise and the cost rate will improve. However, there can be said to be ongoing causes for concern, including exchange-rate fluctuations, the prolonging of the deterioration of economic conditions due to the US-China trade friction, and the effects of Brexit in the UK. There are also concerns about the impact of the new coronavirus, which has caused global turmoil since January 2020. In terms of the impact of the new coronavirus, while demand continues to remain high for the Company's personnel in the engineering field, it is expected to impact net sales by keeping down overtime and encouraging the taking of paid leave.

A major increase in profits in the engineering field is forecasted, but it will depend on the impact of the new coronavirus

4. FY6/20 results outlook by segment

In the Company's results outlook by segment, in the engineering field, the forecasts are for net sales of ¥46,735mn (up 15.6% YoY) and EBITDA of ¥6,412mn (up 16.5%); in the manufacturing field, for net sales of ¥10,300mn (up 3.1%), and EBITDA of ¥530mn (down 5.6%); and in the overseas field, for net sales of ¥29,992mn (down 4.2%) and EBITDA of ¥864mn (down 1.7%). However, these forecasts were set before the impact of the new coronavirus had become fully apparent, and as it is expected to have at least some impact, the results outlook may change in the future.

FY6/20 outlook by segment

(¥mn)

		FY6/19		FY6/20 E		
		Amount	Vs. net sales	Amount	Vs. net sales	Change (%)
Net sales	Engineering field	40,439	49.4%	46,735	53.6%	15.6%
	Manufacturing field	9,989	12.2%	10,300	11.8%	3.1%
	Overseas field	31,308	38.3%	29,992	34.4%	-4.2%
	Other	105	0.1%	188	0.2%	79.0%

		FY6/19		FY6/20 E		
		Amount	Vs. net sales	Amount	Vs. net sales	Change (%)
EBITDA	Engineering field	5,506	13.6%	6,412	13.7%	16.5%
	Manufacturing field	561	5.6%	530	5.1%	-5.6%
	Overseas field	878	2.8%	864	2.9%	-1.7%
	Other	-182	-	-292	-	-

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

The forecasts in the engineering field are for double-digit increases in sales and profits YoY. Demand is strong in the focus fields of IT and software, and in addition, it is expected that the number of utilized employees will increase and the utilization rate will improve due to the utilization of employees on stand-by, including to the mainstay transportation equipment and electrical equipment industries. The forecasts for the manufacturing field are for higher sales but lower profits. The main factors behind the lower profits will be the sales-growth rate will be slightly below the market-growth rate of 5% due to prioritizing profitability, and that it is in a transition period toward building a high-earnings structure through being locally oriented. For the overseas field, it would seem the forecasts are for higher sales and profits on a local-currency basis in the UK, which provides the majority of earnings, but due to the strong yen (the UK pound has fallen against the yen from ¥145.7 in the previous fiscal period to ¥132.0 in FY6/20), sales and profits are expected to decline on a yen basis. The Company's policy for M&A is that, if there are candidates for which synergies and contributions to growth can be expected, it will actively conduct them even outside of the engineering field. However, the above was before the impact of the new coronavirus became fully apparent, and as it is expected to have at least some impact, the results outlook may change in the future.

Simplified income statement and key indicators

(¥mn)

	FY6/16	FY6/17	FY6/18	FY6/19	FY6/20 forecast
Net sales	30,143	43,035	65,363	81,596	87,000
YoY	44.8%	42.8%	51.9%	24.8%	6.6%
Gross profit	7,192	9,344	13,302	16,891	-
Gross profit margin	23.9%	21.7%	20.4%	20.7%	-
SG&A expenses	4,643	6,124	9,005	11,171	-
SG&A expenses ratio	15.4%	14.2%	13.8%	13.7%	-
Operating profit	2,549	3,220	4,297	5,719	6,500
YoY	59.6%	26.3%	33.4%	33.1%	13.6%
Operating profit margin	8.5%	7.5%	6.6%	7.0%	7.5%
Ordinary profit	2,528	3,185	4,228	5,606	6,350
YoY	55.8%	26.0%	32.7%	32.6%	13.3%
Profit attributable to owners of parent	1,523	1,923	2,569	3,706	3,840
YoY	48.7%	26.3%	33.5%	44.3%	3.6%
EPS after the stock split (¥)	39.45	49.58	64.31	87.47	90.60
Dividend after the stock split (¥)	20.00	22.50	27.50	35.00	40.00
BPS after the stock split (¥)	137.40	169.68	320.65	364.26	-

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

Simplified balance sheet

(¥mn)

	As of June 30, 2015	As of June 30, 2016	As of June 30, 2017	As of June 30, 2018	As of June 30, 2019
Current assets	6,551	8,984	11,999	20,190	22,199
Cash and deposits	3,038	3,930	4,581	9,410	10,257
Notes and accounts receivable - trade	2,954	4,060	6,245	10,045	10,905
Non-current assets	1,174	2,929	4,805	7,936	9,008
Property, plant and equipment	221	256	427	595	647
Intangible assets	130	2,202	3,845	5,960	6,199
Investment and other assets	821	471	532	1,380	2,161
Total assets	7,725	11,914	16,805	28,127	31,207
Current liabilities	3,287	6,531	7,641	12,405	13,886
Accrued expenses	1,754	2,394	3,031	4,208	5,044
Short-term loans payable	-	1,900	1,571	2,641	2,395
Non-current liabilities	31	60	2,466	2,005	1,518
Long-term loans payable	-	-	2,306	1,810	714
Shareholders' equity	4,409	5,323	6,520	13,385	15,369
Capital stock	1,529	1,538	1,562	4,199	4,216
Capital surplus	687	696	720	3,356	3,321
Retained earnings	2,193	3,089	4,238	5,830	7,833
Accumulated other comprehensive income	-3	-5	74	196	70
Net assets	4,406	5,322	6,697	13,715	15,802
Total liabilities and net assets	7,725	11,914	16,805	28,127	31,207

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

Cash flow statement

(¥mn)

	FY6/15	FY6/16	FY6/17	FY6/18	FY6/19
Cash flows from operating activities	1,209	1,418	2,274	5,144	5,028
Cash flows from investing activities	-147	-1,807	-2,395	-2,720	-1,430
Cash flows from financing activities	-459	1,287	764	2,415	-2,748
Effect of exchange rate change on cash and cash equivalents	6	-6	8	-12	-2
Net increase (decrease) in cash and cash equivalents	609	892	651	4,828	847
Cash and cash equivalents at beginning of period	2,429	3,038	3,930	4,581	9,410
Cash and cash equivalents at end of period	3,038	3,930	4,581	9,410	10,257

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

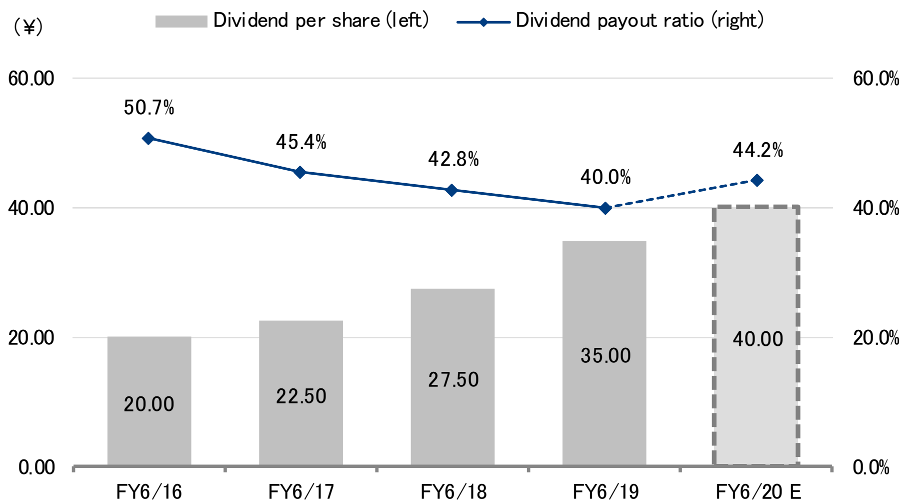
Shareholder returns

In FY6/20, the dividend will increase by ¥5 in actual terms, and acquiring treasury shares in the medium-term is under consideration

The Company is aware that returning profits to shareholders is an important management issue, and paying dividends is its basic method of doing this. When determining the dividend amount, while prioritizing dividend stability, it adjusts the dividend amount according to results, while also maintaining the internal reserves needed to expand the business scope and strengthen structures. For FY6/20, the Company plans to pay a dividend per share of ¥40 (interim ¥15, period-end ¥25), and at the current time, it does not intend to change this plan.

In the new Mid-Term Management Plan, the Company clarified its policy to incorporate the acquisition of treasury shares into the methods of returning profits to shareholders. If it adds the acquisition of treasury shares to the previous dividend increases, this will strengthen returns to shareholders, which can be expected to be positively received by the stock markets. On July 1, 2019, the Company conducted a 2-for-1 share split (it also conducted a 2-for-1 share split of ordinary shares on April 1, 2016).

Dividend per share and dividend payout ratio



Note: conducted 2-for-1 share splits on April 1, 2016, and on July 1, 2019. The figures have been retroactively adjusted.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

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