COMPANY RESEARCH AND ANALYSIS REPORT

CAREERLINK CO., LTD.

6070

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Summary

Likely to head toward renewed growth from FY2/19 on expansion of personal ID number business for financial institutions

CAREERLINK CO., LTD. <6070> (hereafter, also "the Company") provides comprehensive human resource services, primarily business process outsourcing (BPO). Its main strength is know-how in operating projects that need to be launched quickly and require large amounts of labor. With a track record of many projects for the public sector, the Company is targeting large-scale projects in the private sector. In March 2017, the Company established Careerlink Factory Co., Ltd. through a company split to focus on manufacturing human resource services. This subsidiary was consolidated from FY2/18.

1. Sales and profits down in 1H FY2/18

The Company reported 1H FY2/18 (March-August 2017) consolidated results with ¥8,718mn in net sales and ¥335mn in operating profit. These levels were down by 8.1% and 40.0% compared to non-consolidated results from the previous year. They also slightly missed targets from period-start forecast by 4.9% in net sales and 2.0% in operating profit. Manufacturing human resource services were upbeat with a 23.4% YoY rise in net sales, mainly driven by food processing companies and major consumer electronics manufacturers. Mainstay BPO, however, came under pressure from a larger decline in work processing volume than expected in a major BPO project for a private-sector company. Furthermore, a lull in work related to personal identification numbers (My Number) and one-time benefit payments in BPO projects for the public sector contributed to weaker sales.

2. Outlook for profit decline in FY2/18, though with healthier momentum from 2H

The Company retained its period-start forecast for FY2/18 consolidated earnings that projects a 3.2% YoY rise in net sales to ¥19,056mn and a 29.5% decline in ordinary profit to ¥700mn. While sales for a certain major private-sector corporate BPO project and public-sector projects should continue to trend lower in 2H, it expects a switch to upward momentum on a half-year basis from 2H. This switch will be due to likely growth in personal ID number (My Number) work for financial institutions and electric power services work in BPO and the prospect of further gains in manufacturing human resource services led by food processing companies.

3. Targets consolidated net sales of ¥26,800mn and consolidated ordinary profit of ¥1,430mn for FY2/20

The Group's three-year medium-term management plan sets final fiscal-year (FY2/20) goals of ¥26,800mn in net sales and ¥1,430mn in ordinary profit. This plan seeks to expand sales by 1.5-fold in mainstay BPO from ¥12,193mn in FY2/17 to ¥18,600mn three years later and by 2.1-fold in manufacturing human resource services from ¥2,120mn to ¥4,500mn. BPO business has opportunities from FY2/19 in preparations for the full-fledged start of linking bank savings accounts to personal ID numbers. The Company's manufacturing human resource services strategy seeks to expand sales by steadily broadening sales areas and promoting team dispatches that incorporate seniors and foreign exchange students. The Group is also reviewing potential M&A deals for IT-related companies and others with the aim of strengthening the competitiveness of its BPO.

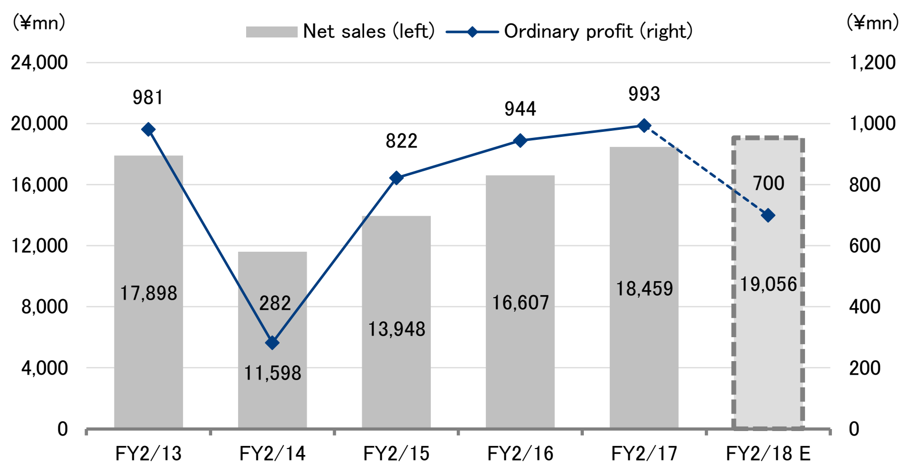
4. Shareholder return policy is to pay steady dividends reflecting income growth and to extend gifts

The Group pays stable dividends and awards gifts to its shareholders. It also aims to increase its annual dividends as its profits grow. For FY2/18, the Company plans to pay full-year dividends of ¥10.0 per share, which would equal the dividends it paid for FY2/17, even though it foresees income declines in FY2/18. This payment would provide a dividend payout ratio of 26.8% based on the Company's EPS forecast for FY2/18. Every year, the Company presents to its shareholders at the end of August QUO cards worth ¥500–2,000 each, depending on the number of shares held.

Key Points

- Comprehensive human resource services company with just over 60% of sales from BPO
- Sales and profits declined in 1H FY2/18 because of diminished work volume for a private-sector BPO project and for the public sector
- By aggressively expanding its BPO and manufacturing human resource services, the Company aims to achieve consolidated net sales of ¥26,800mn and ordinary profit of ¥1,430mn in FY2/20

Net sales and ordinary profit



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

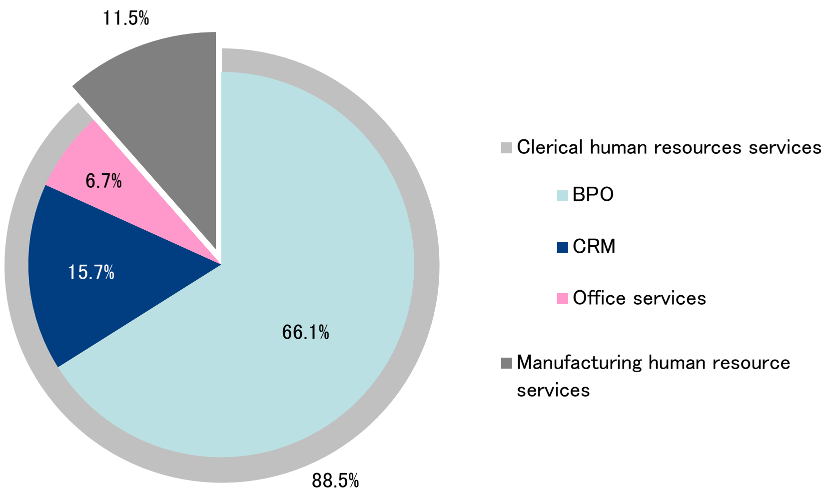
Business overview

Comprehensive human resource services company with just over 60% of sales from BPO

The Group began as a staffing company in 1996 and expanded business scope, mainly to BPO, by leveraging operational knowhow for high-volume mobilization and business ramp-up in a short period. The sales breakdown shows clerical human resources services composed of BPO, customer relationship management (CRM) and office services at 88.5% of total net sales (FY2/17 result) and manufacturing human resource services at 11.5%. The Company spun off the latter in March 2017 as subsidiary Careerlink Factory and is running the business through this entity.

CRM and office services serve as hooks that create opportunities for BPO. The Company books additional orders for related tasks from customers as sales in BPO. Key customers for its BPO are major BPO vendors and major system integrators. There are also some cases of direct orders from customers. Manufacturing human resource services generates about 60% of sales from food processing companies and primarily operates in western Japan.

Breakdown of FY2/17 net sales by division



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

Results trends

Sales and profits declined in 1H FY2/18 because of diminished work volume for a private-sector BPO project and the public sector

1. 1H FY2/18 results

The Company reported 1H FY2/18 consolidated results with ¥8,718mn in net sales (-8.1% YoY), ¥335mn in operating profit (-40.0%), ¥331mn in ordinary profit (-40.3%), and ¥217mn in net profit (-38.9%). Manufacturing human resource services were upbeat with a 23.4% YoY rise in sales led by food processing companies. However, the 11.8% drop in net sales for clerical human resources services, mainly in BPO, resulted in the overall sales and profit setbacks.

BPO came under pressure from declines in work processing volumes in a major BPO project for a private-sector company and projects related to personal ID numbers and one-time benefit payments for the public sector. Sales and profits increased without these impacts. The Company missed targets from period-start forecast by 4.9% in net sales and 2.0% in operating profit mainly due to a larger decline in work volume than expected in a major BPO project for a private-sector company.

Business results

(¥mn)

	1H FY2/17		1H FY2/18				
	Results	% of sales	Initial forecast	Results	% of sales	YoY	vs. forecast
Net sales	9,489	-	9,163	8,718	-	-8.1%	-4.9%
Clerical human resources services	8,501	89.6%	7,933	7,500	86.0%	-11.8%	-5.5%
BPO	6,485	68.3%	6,447	6,177	70.9%	-4.7%	-4.2%
CRM	1,393	14.7%	1,130	905	10.4%	-35.0%	-19.9%
Office services	622	6.6%	355	417	4.8%	-33.0%	17.5%
Manufacturing human resource services	987	10.4%	1,230	1,218	14.0%	23.4%	-1.0%
Cost of sales	7,560	79.7%	-	7,079	81.2%	-6.4%	-
SG&A expenses	1,369	14.4%	-	1,303	15.0%	-4.8%	-
Operating profit	558	5.9%	341	335	3.8%	-40.0%	-2.0%
Ordinary profit	554	5.8%	336	331	3.8%	-40.3%	-1.6%
Profit	355	3.7%	224	217	2.5%	-38.9%	-3.4%
No. of employees	736	-	-	634	-	-13.9%	-

Note: Non-consolidated for FY2/17
Source: Prepared by FISCO from the Company's results briefing materials

In business segment trends, clerical human resources services had ¥7,500mn in net sales (-11.8% YoY) and ¥308mn in operating profit (previous-year comparison not disclosed). Mainstay BPO sales fell 4.7% to ¥6,177mn on decline in work volume in a major BPO project for a private-sector company and weaker sales to local government entities. Meanwhile, orders from major BPO vendors, system integrators, and financial institutions are increasing and customer numbers appear to be steadily expanding as well.

CRM incurred a 35.0% YoY decline in net sales to ¥905mn. While new orders rose for regional projects from telemarketing companies, sales slipped because of weakness related to tougher competition in call center business in the metropolitan Tokyo area and transfer of some projects to BPO.

Office services sales contracted 33.0% YoY to ¥417mn. While this business acquired new orders from the public sector and private-sector companies, sales declined on the transfer of some projects to BPO.

Manufacturing human resource services delivered a 23.4% YoY rise in net sales to ¥1,218mn and ¥26mn in operating profit (previous-year comparison not disclosed). Orders expanded from food processing companies, major consumer electronics manufacturers, and others amid chronic manpower shortages at plants and other locations. Operating margin in the food processing business is lower than the Company average at 2.2% due to being a newly entered industry.

The number of employees at the end of August 2017 was down 13.9% YoY (versus the end of August 2016) at 634, mainly because of decline in variable on-site staff related to lower sales at a major BPO project for a private-sector company. We expect fluctuations in on-site staff depending on the orders situation to continue. The Company added 39 new university graduates in April 2017 (vs. 57 in the previous year) and plans to hire 30 new university graduates in 2018.

Outlook for profit decline on higher sales in FY2/18, though growth should resume from FY2/19

2. Company forecasts for FY2/18 consolidated earnings

The Company retained its period-start forecast for FY2/18 consolidated earnings that projects a 3.2% YoY rise in net sales to ¥19,056mn and declines of 29.1% in operating profit to ¥709mn, 29.5% in ordinary profit to ¥700mn, and 27.2% in net profit to ¥467mn. Earnings are likely to decline for the first time in four years. While progress rates through 1H are slightly below forecast at 45.8% for net sales and 47.3% for operating profit, the Company aims to achieve the targets as it expects sales to expand in 2H with the prospect of increased BPO with financial institutions and in electric power services and broadening of sales areas in the manufacturing human resource services.

Company forecasts for FY2/18 versus results in FY2/17

(¥mn)

	FY2/17 (non-consolidated)			FY2/18 (consolidated)			
	Results	% of sales	YoY	1H results	Full-year forecast	YoY	1H progress rate
Net sales	18,459	100.0%	11.2%	8,718	19,056	3.2%	45.8%
Clerical human resources services	16,339	88.5%	9.1%	7,500	16,200	-0.9%	46.3%
BPO	12,193	66.1%	12.3%	6,177	12,900	5.8%	47.9%
CRM	2,903	15.7%	-1.0%	905	2,800	-3.5%	32.3%
Office services	1,242	6.7%	4.5%	417	500	-59.7%	83.4%
Manufacturing human resource services	2,120	11.5%	29.9%	1,218	2,600	22.6%	46.8%
Operating profit	1,000	5.4%	4.3%	335	709	-29.1%	47.3%
Ordinary profit	993	5.4%	5.2%	331	700	-29.5%	47.3%
Profit	642	3.5%	8.6%	217	467	-27.2%	46.6%

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

The FY2/18 outlook guides for a 5.8% YoY rise in BPO sales to ¥12,900mn. The major BPO project with a private-sector company that weighed on sales in 1H is likely experience moderate decline compared to the 1H result again in 2H. However, the Company intends to offset this impact with higher sales from personal ID number business at financial institutions and other existing projects.

The outlook also targets net sales of ¥2,800mn in CRM (-3.5% YoY) and ¥500mn in office services (-59.8%). In CRM, the Company hopes to continue to recruit orders from regional telemarketing operators in Kyushu and other areas. Transfers to BPO affect both of these businesses, and the impact is likely to heavily influence full-year trends as well.

The outlook projects a 22.6% YoY rise in net sales for manufacturing human resource services to ¥2,600mn. This business seeks to acquire new customers and expand business to other plant sites at existing customers mainly at food processing companies faced with chronic labor shortages. It offers low-cost operations with dispatches of teams that incorporate seniors, foreign exchange students, and others as a differentiation strategy. In sales areas, plans call for broadening scope from Kansai to Shikoku, the Tokai area, and the metropolitan Tokyo area.

Medium-term management plan

By aggressively expanding its BPO and manufacturing human resource services, the Company aims to achieve consolidated net sales of ¥26.8bn in FY2/20

The Group's three-year medium-term management plan sets final fiscal-year (FY2/20) goals of ¥26,800mn in net sales and ¥1,440mn in operating profit. It envisions three-year average growth rates of 13% in both sales and operating profit. While operating margin might rise to about 6% thanks to decline in the ratio of indirect costs accompanying expansion of business scale, the plan takes a conservative view of just targeting restoration to the 5.4% level on par with FY2/17.

Medium-term management plan

(¥mn)

	FY2/17 results	FY2/18 plan	FY2/19 plan	FY2/20 plan	CAGR (FY2/17-FY2/20)
Net sales	18,459	19,056	22,300	26,800	13.2%
Clerical human resources services	16,339	16,200	18,700	22,200	10.6%
BPO	12,193	12,900	15,300	18,600	15.1%
CRM	2,903	2,800	2,900	3,000	1.1%
Office services	1,242	500	500	600	-21.5%
Manufacturing human resource services	2,120	2,600	3,500	4,500	28.5%
Operating profit	1,000	709	1,010	1,440	12.9%
(Operating profit margin)	5.4%	3.7%	4.5%	5.4%	-
Ordinary profit	993	700	1,000	1,430	12.9%
Profit attributable to owners of parent	642	467	670	970	14.7%

Note: Non-consolidated for FY2/17
Source: Prepared by FISCO from the Company's results briefing materials

Sales strategy aiming for realization of medium-term plan goals will focus on expanding mainstay BPO and cultivating manufacturing human resource services. In BPO, the Company intends to continue pursuit of orders for large projects. While large projects involve hiring many people and ramping up operations in a short period, the Group will seek new orders by capitalizing on its strength of operational knowhow with team dispatches accumulated up to now. In particular, it has opportunities from 2018 in the start of preparation for linking bank savings accounts to personal ID numbers. This activity has already started in the securities industry, and demand in the banking industry should be ramping up from 2018. The Company expects this application to drive growth in BPO sales. The manufacturing human resource services strategy aims to broaden sales area coverage and expand overall scale.

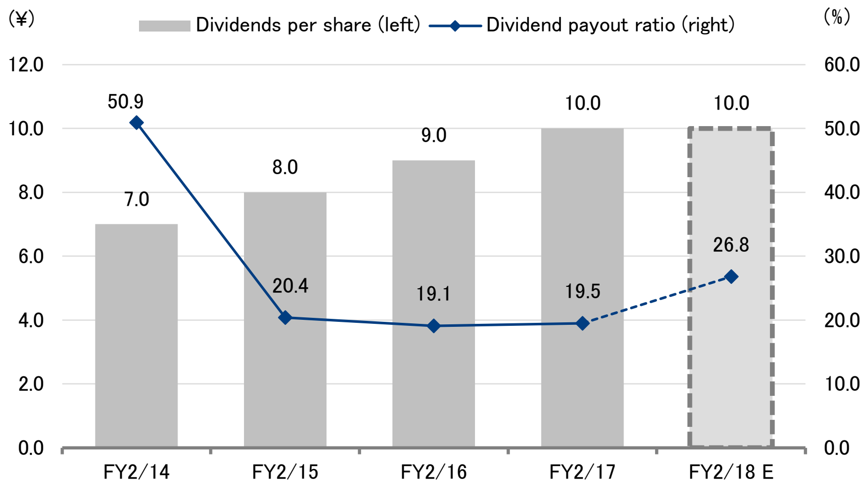
The Company is also considering M&A to acquire capabilities in systems development, which would improve the competitiveness of BPO. In the current business environment, however, it is difficult to find an M&A target company. Thus, the Company has not included the contribution of such a target company in its medium-term plan.

Shareholder return policy

The Company pays stable dividends reflecting its income growth and extends gifts to shareholders

The Group intends to pay steady dividends to its shareholders reflecting its profit growth as it retains enough funds for its top priority of increasing its enterprise value by measures such as investing in information technology and acquiring other companies. For FY2/18, it plans to pay dividends of ¥10.0 per share, which is the dividends it paid for FY2/17, even though it projects income declines for FY2/18. This would result in a dividend payout ratio of 26.8%, based on the Company's projection of earnings per share for FY2/18. The Company also presents QUO cards worth ¥500–2,000, depending on the holdings, to all shareholders as of the end of August. Holders of 100–199 shares receive a card worth ¥500. Holders of 200–499 shares receive a card worth ¥1,000, and holders of 500 shares or more get a card worth ¥2,000.

Dividends per share and the dividend payout ratio



Note: Dividends per share have been adjusted for a 2-for-1 stock split implemented on June 1, 2016.
Source: Prepared by FISCO from the Company's financial results

Shareholder gifts

Qualifying shareholders	All shareholders registered at the end of August	
Gift	Holders of 100-199 shares	QUO card with ¥500
	Holders of 200-499 shares	QUO card with ¥1,000
	Holders of 500 shares or more	QUO card with ¥2,000
Frequency and timing	Once a year, scheduled for the latter part of October	

Source: Prepared by FISCO from Company materials

Information security measures

Organizational and continuous approach to employee education and security management

The Group handles large amounts of personal and confidential information in its activities and is well aware of the importance of information security and risks. It has prepared information security guidelines and acquired ISO/IEC27001* certification in April 2010. It takes an organizational and continuous approach to employee education and security management.

* ISO/IEC27001 refers to the international standard for information security management (key elements include information storage methods, antivirus measures, e-mail usage guidelines, and action plans for problems).

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