COMPANY RESEARCH AND ANALYSIS REPORT

S-Pool, Inc.

2471

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Index

Summary

Is aiming to further grow special needs employment services through starting to provide an indoor farm

S-Pool, Inc. <2471> (hereafter, also "the Company") is developing two business segments; the Human Resources Solutions segment to provide staffing services, such as call center and counter sales support services, and the Business Solutions segment, which is centered on special needs employment services and logistics outsourcing services. In special needs employment services, it conducts sales and operations management of allotment equipment for companies and provides services to support the employment of people with disabilities, while for the business model, it utilizes a hybrid model that combines the flow-type and the stock-type. It started in business in 2010, and as of the end of November 2019, it was managing 18 farms in Chiba Prefecture, Aichi Prefecture, and Saitama Prefecture, and it had provided services to 259 companies and created employment for a total of more than 1,400 people with disabilities.

1. FY11/19 results

In FY11/19, net sales increased 18.4% year-on-year (YoY) to ¥17,522mn and operating profit grew 63.1% to ¥1,604mn, with both results exceeding the initial Company forecasts (net sales of ¥17,066mn and operating profit of ¥1,260mn) to achieve new record highs. Net sales from temporary staffing services increased 20.5% and from special needs employment services grew 39.3%, and these two mainstay businesses both performed well and drove sales as a whole. For operating profit, in addition to the higher profits of the two mainstay businesses, logistics outsourcing services and employment support services became profitable, which also contributed to the increase in profits. In addition, the main reason why the results exceeded the Company forecasts was the growth of equipment sales, which have a relatively high profit margin, in special needs employment services (the number of plot sales was 922 plots, which exceeded the forecast of 880 plots).

2. FY11/20 outlook

The outlook for FY11/20 is for the double-digit increases in sales and profits to continue, with net sales to rise 17.8% YoY to ¥20,636mn and operating profit to grow 24.7% to ¥2,000mn. Temporary staffing services and special needs employment services will continue to drive the results. In temporary staffing services, the high-quality services through group-based staffing have acquired excellent reputations among customers, and the forecasts are for net sales to increase 15.9% and operating profit to rise 19.1% from the growth of share among customers. On the other hand, in special needs employment services, the Company is opening new farms in order to respond to the strong needs to recruit people with disabilities, and in addition, from 3Q, it plans to launch a new indoor-farm service in Tokyo's 23 wards, and the forecasts are for net sales to increase 27.6% and operating profit to rise 11.1%. The number of farm plot sales is expected to increase 11.3% to 1,026 plots, but at FISCO, we think that, based on the favorable inquiries situation, it is fully possible that the result will exceed this forecast.

3. Outlook is for special needs employment services to grow

In special needs employment services, the Company has previously provided services that utilize outdoor farms. But from FY11/20 3Q, it plans to launch a new indoor service. At FISCO, we think that the growth of this business will be accelerated by this indoor farm, as it can be developed in cities where the potential demand from both companies and people with disabilities is enormous. It plans to continue to open new farms in the outdoor farm, while for the future, the new addition of the indoor farm will make it possible to realize annual equipment sales of 2,000 plots and to create employment for 1,000 people with disabilities. Through the incremental raising of the requirements in the Act on Employment Promotion of Persons with Disabilities, by FY21 it will be necessary to newly create employment for approximately 51,000 people*, which is an excellent opportunity for business expansion for the Company. If sales of the indoor farm get on track, its scale of sales may exceed ¥10bn, and it is expected to drive the Company results in the medium term.

* As of June 2019, the number of people with disabilities employed in private sector companies (the statutory employment rate is 2.2%) was 560,000 people (an increase of 25,000 people YoY) for an actual employment rate of 2.11% (up 0.06 of a percentage point (pp)). In April 2021, the statutory employment rate will be raised to 2.3% (or the employment of 611,000 people with disabilities).

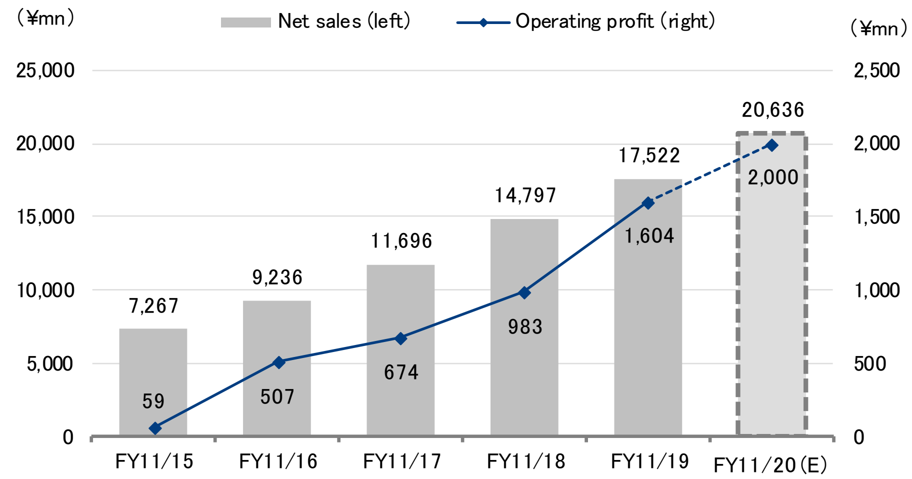
4. Shareholder return policy

From FY11/20, the Company has changed its dividend policy, from the previous policy of a ratio of dividends to consolidated shareholders' equity of 5% as the standard, to a consolidated dividend payout ratio of 20% as the standard. Its policy is to aim to stably and continuously improve dividends in the future, while being aware of capital efficiency, through growing earnings and strengthening the financial base (even if profits decrease, it will not decrease the dividend as long as the dividend payout ratio is less than 60%).

Key Points

- In addition to the strong performances of the two mainstay businesses, logistics outsourcing and employment support services became profitable
- The results outlook is for sales and profits to continue to increase by double digits, driven by the two mainstay businesses, while the impression is that the Company forecasts are conservative
- Is newly launching an indoor farm for special needs employment services, with the aim of accelerating growth

Results trend



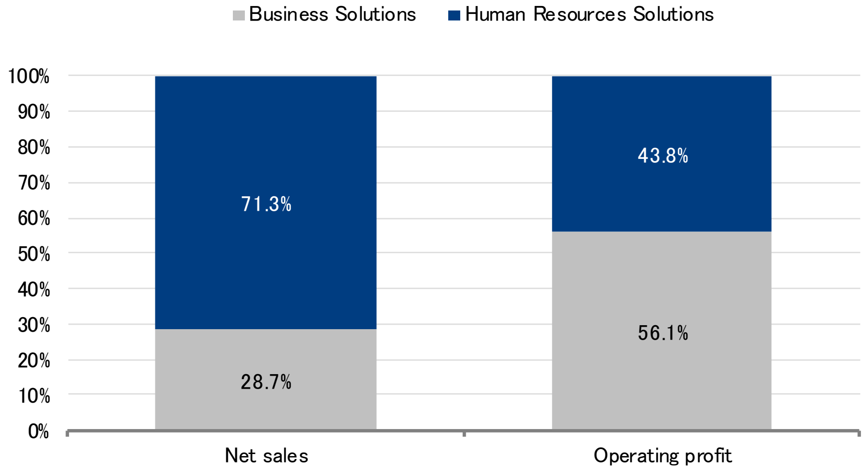
Source: Prepared by FISCO from the Company's financial results

Business overview

Is developing two business segments, the Business Solutions segment and the Human Resources Solutions segment

The Company has two business segments, the Business Solutions segment and the Human Resources Solutions segment. Looking at the percentages of results by business segment in FY11/19, the Human Resources Solutions segment provided the majority of total net sales, of 71.3%, but conversely, the Business Solutions segment provided more than half of segment profit, of 56.1%. This is because special needs employment services, which have high added value, are included in this business segment. Descriptions of both business segments are provided below.

Percentages of total net sales and operating income by business segment (FY11/19)



Note: the percentages are before internal eliminations
Source: Prepared by FISCO from the Company's financial results

1. The Business Solutions segment

The Business Solutions segment is centered on special needs employment services and logistics outsourcing services, while it is also comprised of businesses including sales support services, employment support services, and new businesses. Looking at the percentages of the segment's total net sales in FY11/19, special needs employment services provided approximately 55% and logistics outsourcing services around 22%, so these two businesses provided the majority of sales. Looking at the percentages of profits also, we see that special needs employment services is the mainstay business, providing the majority of the profits in this business segment.

(1) Special needs employment services

Special needs employment services are provided by the subsidiary S-Pool Plus, Inc., including the management of allotments for companies specializing in people with disabilities and services to support the employment of people with disabilities. The business model is that the Company installs hydroponic equipment on land that it has leases, and then leases these equipment to companies as "Work Happiness Farms," (hydroponic equipment sales). It also obtains fees for the referrals of people with disabilities engaging in work and their managers at the relevant farm. The Company started this business in 2010, and by November 2019 it had opened a total of 18 farms in Chiba Prefecture, Aichi Prefecture, and Saitama Prefecture, and it had created employment for 1,480 people with disabilities at 259 contracting companies.

Work Happiness Farms

Chiba	Ichihara No. 1 and No. 2 farms, Mobara No. 1 and No. 2 farms, Chiba Wakaba No. 1 and No. 2 farms, Funabashi No. 1 and No. 2 farms, Kashiwa No. 1 and No. 2 farms, Hanamigawa farm, Matsudo farm, Chiba Yachiyo farm
Aichi	Aichi Toyoake No. 1 and No. 2 farms, Aichi Miyoshi farm, Aichi Kasugai farm
Saitama	Saitama Iwatsuki farm

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

This service's net sales are comprised of farm equipment sales income obtained at the time the contract is entered-into (hydroponic equipment sales), and also farm management fees and human resources referral fees for the people with disabilities working on the farms and the managers. The basic business model is that the Company builds a greenhouse farm on land of around 3,000 tsubo (where 1 tsubo is 3.3m2), divides it into around 120 plots, and sells hydroponic equipment for each plot to the contracting companies. It also provides human resources referrals for the people with disabilities working on the farm and the managers and obtains monthly operations management fees. It sells 6 plots (3 people with disabilities and 1 manager) as one package. The hydroponic equipment costs approximately ¥1.5mn per plot, and while the referral fees for people with disabilities differ depending on whether the disability is mild or severe, on average they are about ¥500,000, and they are ¥400,000 for managers. Therefore, assuming 6 plots, sales will be ¥11mn. The operations management fees also vary depending on the location, but they are around ¥40,000 per plot per month. Sales of hydroponic equipment and referral fees are flow sales, while operations management fees are obtained monthly as recurring revenue, so they are a stable source of earnings.

Supposing that at the beginning of fiscal year all 120 plots are sold, the net sales for that fiscal year would be a total of ¥276mn, comprised of hydroponic equipment sales of ¥180mn, human resources referral fees of ¥38mn, and management fees of ¥58mn. Conversely, the amount invested in equipment would be approximately ¥200mn (the depreciation periods for the equipment, such as the vinyl greenhouse and vehicles, range from 4 to 14 years). In the first fiscal year, flow revenue, which has a high profit margin, is recorded, so the contribution to profits is high. But from the second fiscal year onwards, the profit margin falls because the flow sales end, but the depreciation and amortization costs and the maintenance costs remain. But in reality, against the backdrop of the strong demand for the employment of people with disabilities, farm equipment sales and human resources referrals have continued to grow, and the operating profit margin has also remained at the high level of over 40% for a number of years. The workers are mainly people with intellectual disabilities, but as the employment retention rate is high at over 92%, this service has been highly evaluated by customer companies, and the Company has received additional orders from approximately 30% of these companies.

(2) Logistics outsourcing services

Logistics outsourcing services, which are provided by the subsidiary S-Pool Logistics, Inc., consists of two business; product shipment agency services, mainly for EC businesses, and management agency services to outsource all or part of the operation of logistics centers, such as for wholesalers and logistics businesses. Up to FY11/15, sales from management agency services were large but profitability was low. So from FY11/16, the Company shifted the focus to product shipment agency services for EC businesses, and in FY11/19, product shipment agency services provided approximately 84% of net sales. The Company has two centers for this business, the Tsukuba Center (opened in September 2013 in Tsukuba City, Ibaraki Prefecture, 1,000 tsubo) and the Shinagawa Center (Minato Ward, Tokyo, 2,300 tsubo).

(3) Sales support services

Sales support services, which are provided by the subsidiary S-Pool Sales Support, Inc., include face-to-face sales promotion support services for sales promotions at commercial facilities, such as for credit cards and home water deliveries; merchandising services to visit retail stores instead of the responsible person at the manufacturer; and operations support for various types of campaigns and promotions. In the last few years, net sales have trended stably at around ¥500mn a year.

(4) Employment support services

In FY11/16, the Company itself launched employment support services, in which it provides support services, mainly to restaurant chains, for the employment of part-time workers. In October 2017, it began a business cooperative agreement with TSUNAGU SOLUTIONS Inc (currently TSUNAGU GROUP HOLDINGS <6551>). In this agreement, TSUNAGU SOLUTIONS is mainly responsible for the recruitment agency services and the Company is responsible for part-time job application reception services through its call centers.

By providing agency services for the process relating to, for example, interviews of part-time workers for restaurants and other establishments, and receiving results-based remuneration (number of interviews arranged x fee), customer companies are able to reduce their advertising costs compared to the past and improve their employment efficiency. At the end of November 2019, the Company had 89 customers companies and was accepting an average of 33,000 applications a month, with 100 operators responding at the Company's 4 call centers (1 in Hokkaido, 2 in Miyazaki, and 1 in Tokushima). As net sales are from results-based remuneration, if the operators remain the same, the increase in the number of interviews arranged corresponds to the increase in the amount of profits.

This business became profitable for the first time in FY11/19. Alongside this, it was spun-off in December 2019, and the policy is to expand this business as the newly established S-Pool Link, Inc.

(5) New businesses

Other than the above, the Company itself conducts the businesses that is has positioned as new businesses. Currently, the main such service is the job placement services for senior professionals to dispatch or refer human resources, such as qualified personnel who have expertise and officer-class experience in mainly listed companies to SMEs and venture companies. The scale of sales in FY11/19 was slightly more than ¥200mn.

2. The Human Resources Solutions segment

In the Human Resources Solutions segment, the mainstay business is temporary staffing services provided by the subsidiary S-Pool Human Solutions, Inc., which mainly involves providing staffing services for call center operations and for over-the-counter sales support operations, such as for mobile phones and home electronic appliances. For the percentages of the segment's net sales in FY11/19, call center services provided approximately 76% and over-the-counter sales support services around 20%, while the remainder was provided by other staffing services (dispatches of nursing-care and nursing-related staff).

The Company has opened 15 offices in all of the major cities in Japan, from Hokkaido to Okinawa. Its main customers for call center services include Bellsystem 24 Holdings, Inc. <6183>, Relia, Inc. <4708>, and transcosmos inc. <9715>. For over-the-counter sales support services, its main customers include the major mobile phone sales agencies, such as CONEXIO Corporation <9422> and T-Gaia Corporation <3738>, and also the major consumer electronics retailers, like Yamada Denki <9831> and BicCamera <3048>.

As of December 2019, the Company Group was comprised of 5 consolidated subsidiaries, with the Company itself serving as the holding company and being responsible for the new business development function.

List of consolidated subsidiaries

Company name	Ownership ratio (%)	Main business
S-Pool Human Solutions	100.0	Staffing and outsourcing services
S-Pool Plus	100.0	Special needs employment services
S-Pool logistics	100.0	Logistics outsourcing services
S-Pool Sales Support	100.0	Sales support services
S-Pool Link	100.0	Employment support services

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

Result trends

In the FY11/19 results, earnings increased significantly due to the strong performances of the two mainstay businesses, while the results also exceeded the initial Company forecasts

1. Overview of the FY11/19 results

The Company reported for FY11/19 consolidated results at ¥17,522mn in net sales (+18.4% YoY), ¥1,604mn in operating profit (+63.1%), ¥1,626mn in ordinary profit (+61.4%), and ¥1,082mn in profit attributable to owners of parent (+74.7%). These results exceeded the initial forecasts and showed an increase in both sales and profits, once again reaching record highs.

Consolidated results for FY11/19

(¥mn)

	FY11/18		FY11/19				
	Results	vs. net sales	Initial forecast	Results	vs. net sales	YoY	vs. forecast
Net sales	14,797	-	17,066	17,522	-	18.4%	2.7%
Gross profit	4,022	27.2%	4,834	5,214	29.8%	29.6%	7.9%
SG&A expenses	3,038	20.5%	3,573	3,610	20.6%	18.8%	1.0%
Operating profit	983	6.6%	1,260	1,604	9.2%	63.1%	27.3%
Ordinary profit	1,007	6.8%	1,248	1,626	9.3%	61.4%	30.3%
Profit attributable to owners of parent	619	4.2%	811	1,082	6.2%	74.7%	33.4%

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

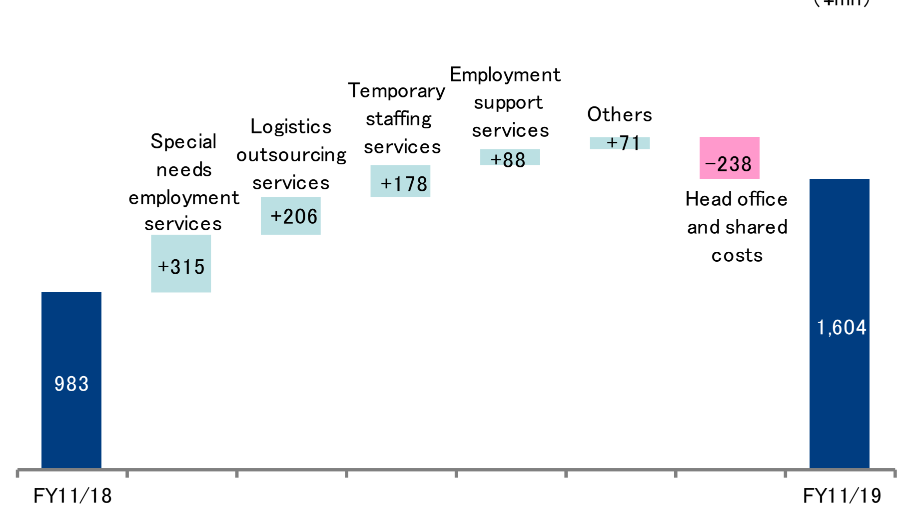
Net sales increased 20.5% YoY for temporary staffing services and 39.3% for special needs employment services, and the strong performances of both of these two mainstay businesses was the main reason for the higher sales. The gross profit margin also rose 2.6pp YoY to 29.8%, including due to the significant growth of special needs employment services, which are highly profitable, and from the effects of the improved earnings of logistics outsourcing services. SG&A expenses increased 18.8% YoY, mainly due to the rise in personnel expenses alongside the business expansion, but because of the strong results, special bonuses of ¥84mn were recorded in FY11/19 4Q.

Due to the improvement in the gross profit margin, the operating profit margin rose 2.6pp YoY to 9.2%, which was once again a new record high. Looking at the main factors causing operating profit to change, the profit-increase factors were ¥315mn from special needs employment services, ¥206mn from logistics outsourcing services, ¥178mn from temporary staffing services, ¥88mn from employment support services, and ¥71mn from other businesses, and these increases absorbed the rise in head office and shared costs of ¥238mn. In particular, a feature of the results in FY11/19 is that not only did profits increase in the two mainstay businesses, but also logistics outsourcing services and employment support services, which had recorded losses in the previous fiscal period, became profitable, meaning that all of the main businesses were profitable.

In September 2019 a typhoon hit Japan that caused damage, including to farm equipment, and as a result the Company recorded an extraordinary loss of ¥100mn. But conversely, it recorded extraordinary profit of ¥157mn as the insurance money received relating to this damage.

The main reason why results exceeded the Company forecasts was the performance of special needs employment services. In order to respond to the strong need for the employment of people with disabilities, it has steadily opened new farms and secured workers. As a result, the number of farm plot sales was 922 plots, exceeding the initial forecast of 800 plots, and net sales, including from equipment sales and human resources referrals, grew more than forecast.

Analysis of changes to operating income



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

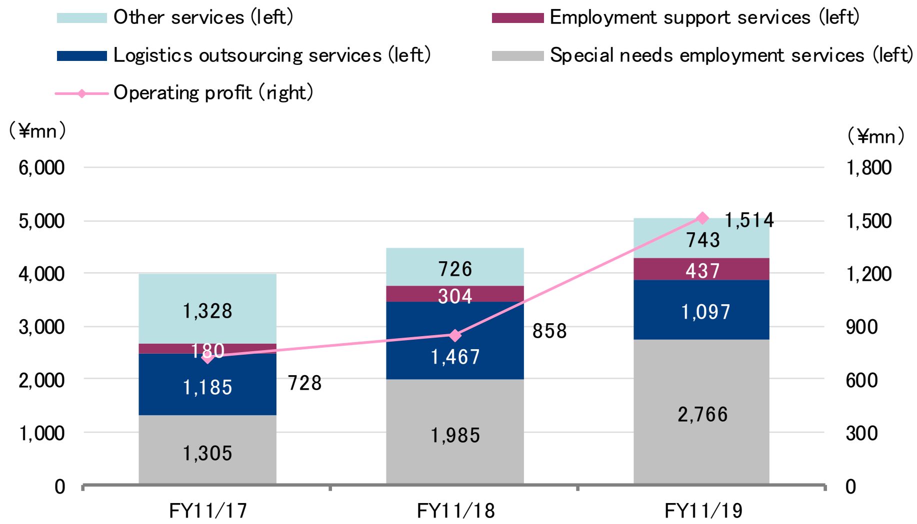
In addition to the strong performances of the two mainstay businesses, logistics outsourcing and employment support services became profitable

2. Trends by business segment

(1) The Business Solutions segment

In the Business Solutions segment, sales and profits both increased by double digits, with net sales rising 12.5% YoY to ¥5,043mn and operating profit growing 76.5% to ¥1,514mn. The operating profit margin also rose greatly, up from 19.1% in the previous fiscal period to 30.0%. As previously explained, the main reasons for this were the strong performance of special needs employment services, and also that logistics outsourcing services and employment support services became profitable.

Results in the Business Solutions segment



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

a) Special needs employment services

Net sales of special needs employment services increased 39.3% YoY to ¥2,766mn. Operating profit also rose approximately 30% YoY, and this seems to have provided the majority of the profits of the Business Solutions segment. The profit margin was slightly low, but this is because the percentage of total net sales provided by farm management fees, which has a relatively low profit margin, increased from 34.4% in the previous fiscal period to 37.5%.

The status of farms newly opened in FY11/19 is that a total of 18 farms (13 in Chiba Prefecture, 4 in Aichi Prefecture, and 1 in Saitama Prefecture) were opened, in Miyoshi City in December 2018 (Aichi Prefecture), Chiba City in April 2019 (Chiba Prefecture), Kasugai City in May of the same year (Aichi Prefecture) and in Saitama City (Saitama Prefecture) and Yachiyo City (Chiba Prefecture) in August of the same year. The farms in Miyoshi City, Kasugai City, and Saitama City are cooperative projects with the government, and this was the first time the Company has opened a farm in Saitama Prefecture. Cooperating with the government generates positive effects, as it not only enables the procedures until the farm is opened to be progressed efficiently, it also enables the referrals of people with disabilities who want to work to go more smoothly than when a farm is opened independently, and it was a factor behind the results exceeding the forecasts.

Looking at the breakdown of net sales, farm equipment sales (the number of plot sales) increased 32.5% YoY to ¥1,387mn (the number of sale plots increased 31.3% to 922 plots), management fees rose 52.0% to ¥1,038mn, and other sales (human resources referrals) grew 34.1% to ¥342mn. Also, at the end of FY11/19, the total number of managed plots was 2,961 plots, a significant increase of 45.2% on the end of the previous fiscal period, while the number of contracting companies had also risen by 73 to 259 companies.

b) Logistics outsourcing services

Net sales of logistics outsourcing services decreased 25.2% YoY to ¥1,097mn, but operating profit was ¥120mn, becoming profitable for the first time in two fiscal periods. The main factors behind the decrease in net sales were that, as measures to improve earnings, shipping fees that had previously been included in net sales were changed to be included in advance payments to customer companies, and also due to the progress made in reviewing the transactions for low-profit projects. If the effects of the recording change of shipping fees is excluded, it seems that sales were actually basically unchanged YoY.

In profits, profitability was achieved due to the measures to improve earnings, including the effects of replacing customers and consolidating the logistics centers (from four centers in the previous fiscal period to two centers), the unification of the logistics system, and the suspension of agency operations. Among the distribution centers, the operating rate of the Tsukuba EC Center is trending stably at around 90%, and the rate at the Shinagawa EC Center had also risen from approximately 60% at the end of May 2019 to around 75% at the end of November 2019, and the rise in operating rates at the centers also contributed to the improved earnings.

c) Employment support services

Net sales of the OMUSUBI employment support service increased 43.8% YoY to ¥437mn, while operating profit was also approximately ¥40mn, which is the first time this business has been profitable since it was launched. Against the backdrop of the chronic labor shortage in the food-service industry, there is a strong need for the Company's services, of an agency service to arrange interviews of people looking for part-time work, and the number of companies using this service steadily increased from 55 companies at the end of the previous fiscal period to 89 companies. The average number of applications received per month also grew 50.0% YoY to 33,000 applications. For the customers companies, this service enables them to save labor for the work of arranging interviews and also to reduce advertising costs, so its adoption is spreading among companies.

d) Other services

Net sales of the sales support service declined 2.8% YoY to ¥517mn due to a reduction in merchandising operations, while operating profit also fell. Conversely, net sales of the professional human resources bank service rose 20.5% YoY to ¥235mn following the strengthening of the sales structure, and operating profit increased.

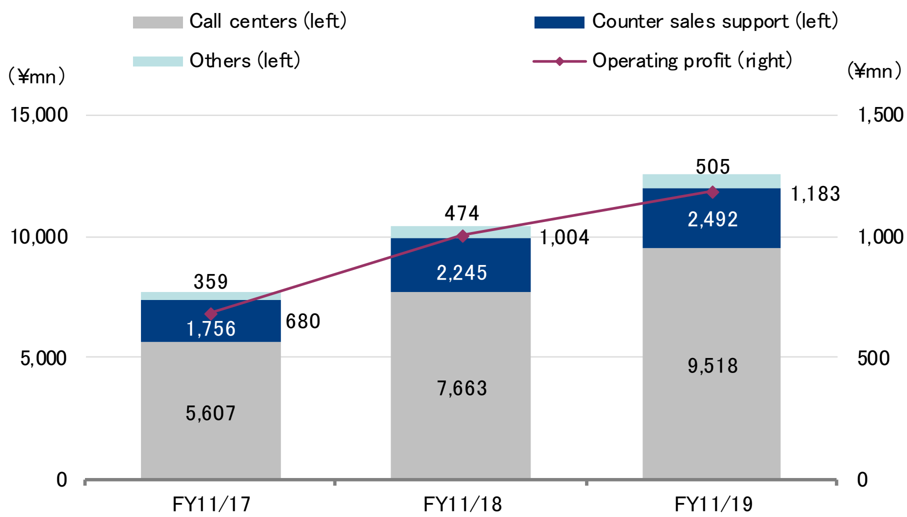
(2) The Human Resources Solutions segment

In the Human Resources Solutions segment, sales and profits increased by double digits, with net sales rising 20.5% YoY to ¥12,516mn and operating profit growing 17.8% to ¥1,183mn. This is mainly because group-based staffing, which combines field consultants (FC) with staff dispatches, has been well received by customers, and the Company's share of transactions in the main customers is growing strongly. FC staff are also being steadily recruited, increasing by 53 people on the end of the previous fiscal period to 249 people, which is basically as forecasted.

Breaking down net sales, call center services increased 24.2% YoY to ¥9,518mn, over-the-counter sales support services rose 11.0% to ¥2,492mn, and other sales grew 6.5% to ¥505mn. In call center services, sales to the main customer, Bellsystem 24, increased 40% YoY to approximately ¥3.5bn, while sales to the other main customers also grew. The employment retention rate of dispatched staff and the high quality of the service have resulted in it acquiring an excellent reputation. The competition for staffing for call centers includes the Will Group <6089> and CRG Holdings <7041>, but the sales growth rate in the most recent year was the Company's highest ever, suggesting that its market share within the industry is increasing.

On the other hand, in over-the-counter sales support services, net sales to mobile phone agencies, which provide around 70% of the total, trended unchanged YoY, but sales to consumer electronics retailers were favorable. Needs for staffing among consumer electronics retailers are strong due to the chronic shortage of staff within their stores. Other than these services, the nursing care-related staffing service, which was launched about two years ago, has started to grow and it became profitable. In the same field also, it seems that sales have started to increase following the start of the development of group-based dispatches, in which holders of nursing qualifications act as the FC. While the scale of this business is still small, the potential demand in the nursing-care field is enormous, so we will be paying attention to developments in the future.

Results in the Human Resources Solutions segment



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

Is strengthening the financial base, and profitability has improved significantly

3. Financial condition and management indicators

Looking at the financial condition at the end of FY11/19, total assets were up ¥2,905mn on the end of the previous fiscal year to ¥8,659mn. The main change factors were that in current assets, alongside the growth in sales, mainly in the Human Resources Solutions segment, notes and accounts receivable rose ¥534mn, and also that following the increase in borrowing, cash and deposits rose ¥1,031mn. In noncurrent assets, tangible assets increased ¥1,103mn due to new openings and strengthened investment.

Total liabilities were up ¥1,902mn on the end of the previous fiscal year to ¥5,623mn. Looking at the main change factors, in order to invest in new farm equipment and other items, interest-bearing debt increased ¥888mn, and in addition, there were increases in accrued expenses, mainly unpaid salaries, of ¥194mn, accounts payable of ¥141mn, accrued income tax of ¥153mn, and accrued consumption tax of ¥82mn. Net assets were up ¥1,003mn on the end of the previous fiscal year to ¥3,035mn. Although there were dividend payments of ¥78mn, retained earnings increased due to the recording of profit attributable to owners of parent of ¥1,082mn.

Looking at the management indicators, the equity ratio, which is an indicator of management stability, was 35.1%, basically unchanged from 35.2% at the end of the previous fiscal period. But conversely, the interest-bearing debt ratio had risen from 59.4% to 68.9%. However, if looking at net cash (cash and deposits – interest-bearing debt), we see it is slightly positive, and moreover the interest-bearing debt ratio is not at a high level, so the Company's financial condition can be judged to be sound. Looking at the indicators of profitability as well, ROA rose 2.9pp YoY to 22.6%, ROE increased 7.2pp to 42.8%, and the gross profit margin climbed 2.6pp to 9.2%. So every indicator improved, and it would seem that profitability is improving alongside the growth of special needs employment services.

Consolidated balance sheet and management indicators

(¥mn)

	FY11/16	FY11/17	FY11/18	FY11/19	Change
Current assets	2,542	2,969	3,311	5,034	1,722
(Cash and deposits)	1,074	1,240	1,087	2,119	1,031
Noncurrent assets	1,174	1,524	2,442	3,625	1,183
Total assets	3,717	4,493	5,754	8,659	2,905
Total liabilities	2,675	3,019	3,721	5,623	1,902
(Interest-bearing debt)	1,205	1,145	1,203	2,091	888
Net assets	1,041	1,473	2,032	3,035	1,003
Management indicators					
(Stability)					
Equity ratio	27.8%	32.5%	35.2%	35.1%	0.1pt
Interest-bearing debt ratio	116.5%	78.5%	59.4%	68.9%	9.5pt
(Profitability)					
ROA	15.6%	16.7%	19.7%	22.6%	2.9pt
ROE	48.2%	34.0%	35.6%	42.8%	7.2pt
Gross profit margin	5.5%	5.8%	6.6%	9.2%	2.6pt

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

Outlook

The policy for FY11/20 is to progress management with an awareness of portfolio management with a balance that is strong against environmental changes, and of high ROE

1. The FY11/20 business policy

In FY11/20, which is the final fiscal year of the medium-term management plan, in order to advance the management of a business portfolio with a balance that is strong against environmental changes, the Company's policy is to target a gross profit margin of 10% by expanding the provision of services with high profit margins from the high-added value derived from the three key phrases of "high levels of social contribution, strong against economic changes, and high barriers to entry." In FY11/19, the operating profit margin improved to 9.2% due to the growth of special needs employment services. This is a level close to the target, so this target can be said to be basically in sight.

In this situation, as its business policy for FY11/20, the Company intends to advance management with an awareness of high ROE, and it plans to take on this challenge on the following three points.

(1) From Raising of our stable profit base and obtaining of new profit-earning opportunities to Enhancement of further profitability by strengthening our existing services and developing new services.
(2) From Investment promotion for the future to Planning of business/capital investments and capital alliance to face our future growth.
(3) From Increasing of investment in IT infrastructure to Utilization of technologies such as AI, RPA increasing our productivity

The results outlook is for sales and profits to continue to increase by double digits, driven by the two mainstay businesses, although the impression is that the Company forecasts are conservative

2. Outlook

The outlook for the FY11/20 consolidated results is for the double-digit increases in sales and profits to continue to achieve new record highs, with net sales to rise 17.8% YoY to ¥20,636mn, operating profit to grow 24.7% to ¥2,000mn, ordinary profit to rise 22.3% to ¥1,988mn, and profit attributable to owners of parent to increase 19.0% to ¥1,288mn. Special needs employment services and temporary staffing services will continue to drive the results. The outlook for the 1H is that the operating profit growth rate will slow down, increasing 3.3% to ¥788mn. But this will be mainly due to the major growth in farm equipment sales in the same period in the previous fiscal year and that as in FY11/20, sales will be concentrated in the 2H. Overall, the impression is that the forecasts are slightly conservative, and at FISCO we think that, as long as there are no major changes to the market environment, it is highly likely that results will exceed the Company forecasts as in the previous fiscal year.

Consolidated outlook for FY11/20

(¥mn)

	FY11/19		FY11/20		
	Results	vs. net sales	Forecast	vs. net sales	YoY
Net sales	17,522	-	20,636	-	17.8%
Gross profit	5,214	29.8%	6,122	29.7%	17.4%
SG&A expenses	3,610	20.6%	4,121	20.0%	14.2%
Operating profit	1,604	9.2%	2,000	9.7%	24.7%
Ordinary profit	1,626	9.3%	1,988	9.6%	22.3%
Profit attributable to owners of parent	1,082	6.2%	1,288	6.2%	19.0%

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

FY11/20 results outlook (consolidated, fiscal half year)

(¥mn)

	FY11/19		FY11/20			
			1H		2H	
	1H results	2H results	Forecast	YoY	Forecast	YoY
Net sales	8,296	9,225	9,633	16.1%	11,002	19.3%
Gross profit	2,426	2,788	2,777	14.5%	3,344	19.9%
SG&A expenses	1,663	1,947	1,988	19.5%	2,132	9.5%
Operating profit	763	841	788	3.3%	1,212	44.1%
Ordinary profit	778	847	782	0.5%	1,206	42.4%
Profit attributable to owners of parent	496	585	509	2.6%	778	33.0%

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

Has started to develop a new indoor farm for special needs employment services, with the aim of accelerating growth

3. Outlook by business segment

Net sales, operating profit, and operating profit margin by segment

(¥mn)

	FY11/16	FY11/17	FY11/18	FY11/19 (forecast)	Growth rate
Net sales by segment					
Business Solutions	3,998	4,482	5,043	6,214	23.2%
Special needs employment services	1,305	1,985	2,766	3,530	27.6%
Logistics outsourcing	1,185	1,467	1,097	1,200	9.4%
Employment support services	180	304	437	600	37.4%
Other services	1,328	726	743	884	19.0%
Human Resources Solutions	7,722	10,382	12,516	14,500	15.9%
Internal eliminations	-25	-68	-37	-78	-
Total	11,696	14,797	17,522	20,636	17.8%
Operating profit by business					
Business Solutions	728	858	1,514	1,808	19.4%
Human Resources Solutions	680	1,004	1,183	1,410	19.1%
Internal eliminations	-734	-879	-1,093	-1,217	-
Total	674	983	1,604	2,000	24.7%
Operating profit margin by segment					
Business Solutions	18.2	19.1	30.0	29.1	-0.9pt
Human Resources Solutions	8.8	9.7	9.5	9.7	0.2pt
Total	5.8	6.6	9.2	9.7	0.5pt

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

(1) The Business Solutions segment

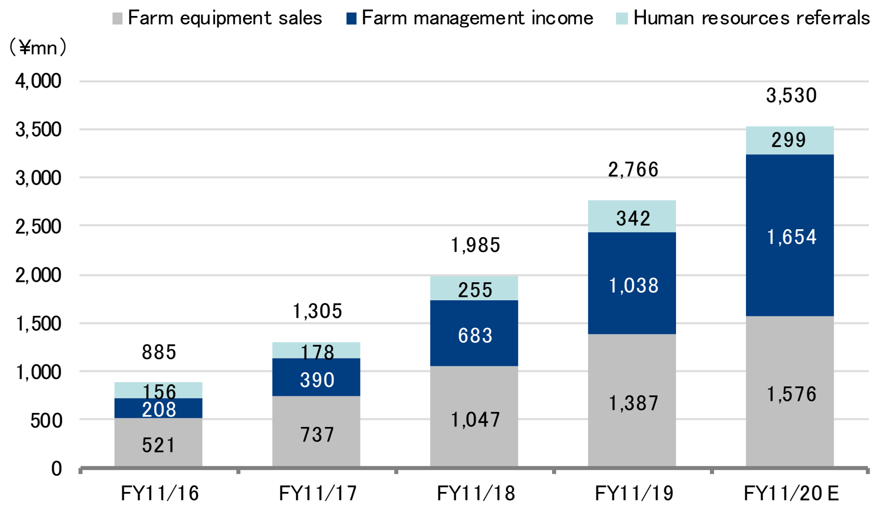
In the Business Solutions segment, the forecasts are for net sales to increase 23.2% YoY to ¥6,214mn and operating profit to grow 19.4% to ¥1,808mn.

a) Special needs employment services

In special needs employment services, the forecasts are for net sales to increase 27.6% YoY to ¥3,530mn and operating profit to grow approximately 11%. The decrease in the operating profit margin will be due to the rise in the percentage of net sales provided by farm management profit, which is the same situation as in the previous fiscal year, and also because the Company plans to newly launch an indoor farm and before it is sold externally, its use will be tested in-house, for which the Company has conservatively estimated costs, such as to ascertain any issues in its management and to improve them.

Breaking down net sales, the forecasts are for farm equipment sales to increase 13.6% YoY to ¥1,576mn, farm management fee to rise 59.3% to ¥1,654mn, and other sales (human resources referrals) to decrease 12.6% to ¥299mn. Equipment sales (plot sales) are expected to increase 11.3% YoY to 1,026 plots (1Q: 108 plots, 2Q: 342 plots, 3Q: 294 plots, 4Q: 282 plots). Breaking this down, the forecasts are for 738 plots in outdoor farms and 288 plots in the new indoor farm. Even if openings of the indoor type do not proceed as planned, there is sufficient excess sales capacity for outdoor farms, so the Company is highly likely to achieve its forecasts as long as demand for the employment of people with disabilities does not slow down. Looking at the orders situation, at the end of December 2019, the Company had already received orders for around 300 plots. This is a slightly low level compared to 483 plots in December of the previous fiscal year, which included large orders, but the awareness is that the positive sales momentum at work sites continues to be strong.

Net sales of special needs employment services



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

As the plan for new openings of outdoor farms, the Aichi Tokai farm (Tokai City, Aichi Prefecture) was opened through a public sector-private sector collaboration in December 2019, while the plan is to open one new farm in Chiba Prefecture in 2Q and one farm in Saitama Prefecture in 3Q. On the other hand, for the indoor type, the Company plans to open 2 farms, targeting the areas adjacent to the Yamanote line in Tokyo's 23 wards. For the first farm, it expects to conclude a contract with the leaser in January 2020, and then in the following few months, to conduct several months of demonstration testing in-house. Then, after determining the sales prices and other matters, it plans to launch sales from FY11/20 3Q.

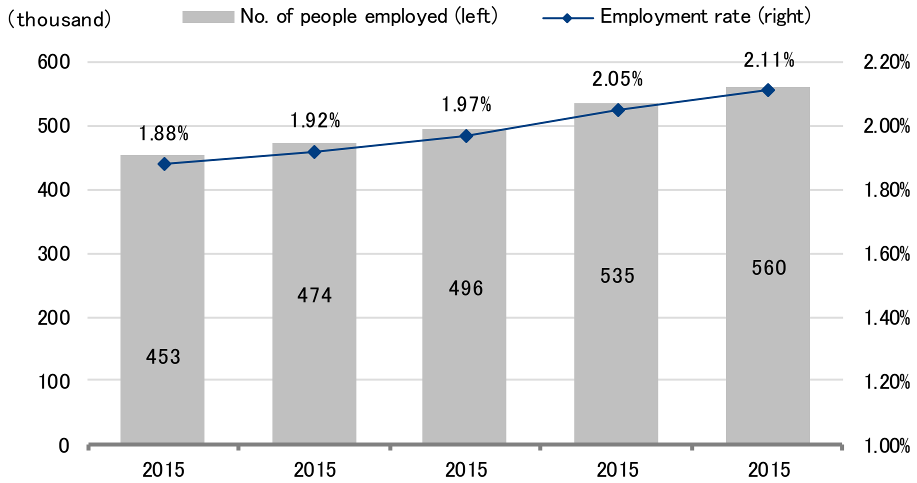
For the indoor type, the Company will utilize renovations targeting properties such as warehouses, factories, buildings and commercial properties. The features of these farms will include a hydroponic system that uses LED and spaces with a sense of openness that prioritize ease of work, making it possible to work even in casual clothes. For the time being, it plans to open them centered on Tokyo's 23 wards, where there is significant potential demand from companies and people with disabilities. But for the future, it also has in sight openings in regional cities. The business model will not change from the existing outdoor farm, while the plan is to keep the sales prices at the same level or to slightly raise them in accordance with the costs of procuring materials. Basically, the gross profit per plot will be the same as that of the existing model. Therefore, if a property's rental fees are increased, the management fees may be made higher than that of the outdoor farm (the gross profit will be the same).

The advantages of the indoor type include that the risks relating to natural disasters (such as typhoons and snow damage) are greatly reduced, that it is not necessary to secure large areas of land, and that they can be developed in inner cities, which means that compared to in the past, it will be easier to secure people with disabilities and to achieve speedy development. There are advantages from the perspective of the companies using the service as well, because if the farm is within a city close to their head office, the time required for their responsible person to visit the site is reduced and convenience is increased.

As its strategy for the future, the Company intends to accelerate growth through opening three to four farms a year in Chiba Prefecture, Saitama Prefecture, Aichi Prefecture for the outdoor farms, and in addition to this, expanding the indoor farm in cities. For the future, it is aiming to build a sales structure of 1,000 plots for the outdoor and indoor types respectively. From FY11/21, if it can increase the number of sales plots at a pace of 200 plots YoY, it is estimated that by FY11/26, this business alone will have net sales of more than ¥10bn.

The number of people with disabilities employed by private-sector companies has continued to increase in the last few years, and in 2019, it had risen to 560,000 people for an employment rate of 2.11%. However, this is still below the statutory employment rate of 2.2%, and in terms of the number of people employed, it represents an employment shortage of approximately 25,000 people. Also, the government has decided that from April 2021, the statutory employment rate will be raised to 2.3%, and in order to achieve this rate, it will be necessary to newly employ 51,000 people with disabilities by FY21. Among people with disabilities, the situation for people with physical disabilities is close to full employment, so to achieve the target statutory employment rate, it is said that in the future it will be necessary to actively employ people with intellectual and mental disabilities. The population of people with intellectual disabilities aged 18 to 64 is approximately 580,000 people, of who, the number of people employed in 2019 was slightly more than 20% of this total, of 128,000 people, so it would seem that there is considerable potential demand. For the Company, which is developing support services to employ people with intellectual disabilities for which there is little competition, this is an excellent opportunity to further expand its business, and it is expected that these services will drive its results in the next few years

Trends in the number of people with disabilities employed in private-sector companies and the employment rate



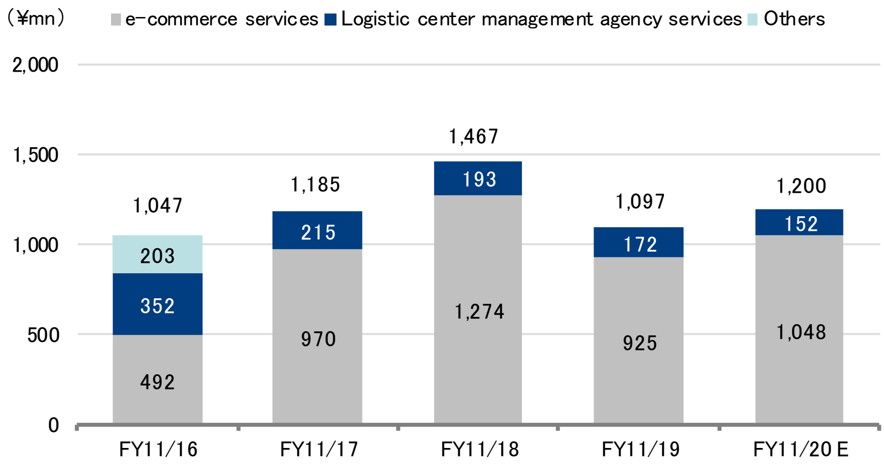
Source: prepared by FISCO from "Aggregated results of employment conditions of people with disabilities in 2019" by the Ministry of Health, Labour and Welfare

b) Logistics outsourcing services

Net sales of logistics outsourcing services increased 9.4% YoY to ¥1,200mn, while the operating profit increase rate was about at the same level. Although profitability has been improving recently YoY, the Company plans automation investment of ¥70 to ¥80mn to strengthen profitability, so its earnings estimates are conservative.

Breaking down net sales, the forecasts are for e-commerce services to increase 13.3% YoY to ¥1,048mn and logistic center management agency services to decrease 11.6% to ¥152mn. The Company's strategy for e-commerce services is to aim to capture customers by enhancing the service menu, including by providing cross-border EC services for Taiwan. Also, for the future, its policy is to advance investigations on increasing the sizes of centers and consolidating them. Currently, an issue is that both the Tsukuba Center and the Shinagawa Center are leased properties and the fixed-costs burden is heavy. To resolve this issue, it is thought that the Company intends to secure its own sites, if there are properties that satisfy its conditions, and to further strengthen profitability by aiming to increase the sales capacity and reduce fixed costs.

Net sales of logistics outsourcing services



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

c) Employment support services

The forecasts for employment support services are for net sales to increase 37.4% YoY to ¥600mn and operating profit of around ¥70mn. In March 2020, the Company will open a new center in Hirosaki City, Aomori Prefecture. It will be its fifth center and it will expand its capacity to process applications. It currently has a structure of around 100 operators in 4 centers, and the number of operators is expected to increase by 15 to 20 people on the start of operations of the Hirosaki Center. For the number of applications received per month, the monthly average will increase 41.2% YoY to 48,000 applications, with the target of 53,000 applications by the period-end month. The processing capacity per operator seems to be around 470 applications a month, and the profit margin is expected to improve from the rise in the operating rate.

Also, as new measures, the Company is promoting up-selling to existing customers by enhancing the service menu, while it also plans to launch a subscription-model service (OMUSUBI Light Plan) in order to expand the target customers to include small- and medium-sized restaurant chains (on a scale of a few restaurants). For the service menu, it is anticipated that it will provide services such as online interviews and a mental health check system.

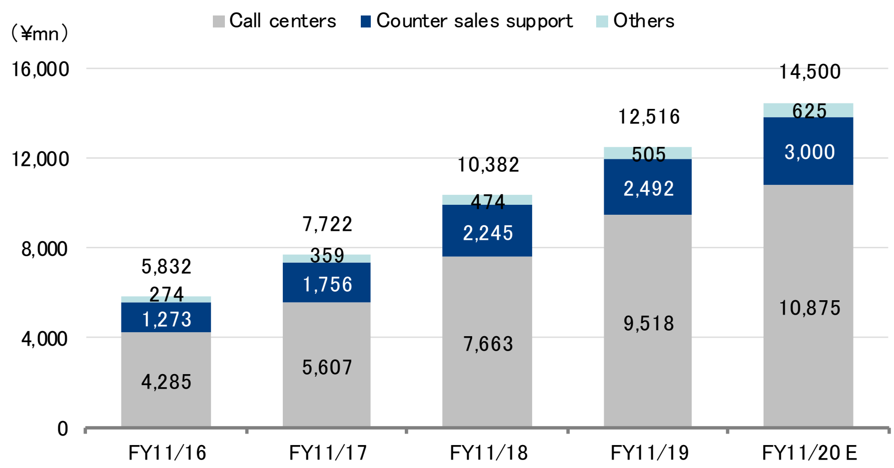
(2) The Human Resources Solutions segment

In the Human Resources Solutions segment, the outlook is for net sales to increase 15.9% YoY to ¥14,500mn and operating profit to rise 19.1% to ¥1,410mn. Breaking down net sales, call center services will increase 14.3% YoY to ¥10,875mn, over-the-counter support services will rise 20.4% to ¥3,000mn, and other sales will grow 23.8% to ¥625mn.

The Company only established 1 new center in the previous fiscal period, but in FY11/20, it will work to establish 2 to 3 centers at an early stage and to increase the number of newly registered staff. The candidate areas include Tokyo, Fukuoka, and Okinawa, and it is continuing to pursue a dominant strategy. It is also continuing with a No.1 strategy, in which it aims to acquire the leading share for transactions with the main customers. It also plans to further strengthen FC members, increasing their number by 61 YoY to 310 people. For measures to improve profitability, it is absorbing the increase in costs for staff dispatches through standardizing operations and improving efficiency by utilizing IT, while its strategy is to progress the diversification of sources of earnings, including by expanding nursing care-related staffing services.

In terms of the effects of the “equal pay for equal work” system on staff dispatches scheduled for introduction from April 2020, it will have no effect on over-the-counter sales support services, but it may have some effect on call center services, depending on the customer’s policy. Overall, it seems that it will act in the direction of raising pay, but in the event that the trend occurring at customers, of converting dispatched staff to full-time employees, progresses, it is possible that the ratio of the human resources referrals business will increase in the future. However, the situation is still fluid at the present time.

Net sales in the Human Resources Solutions segment



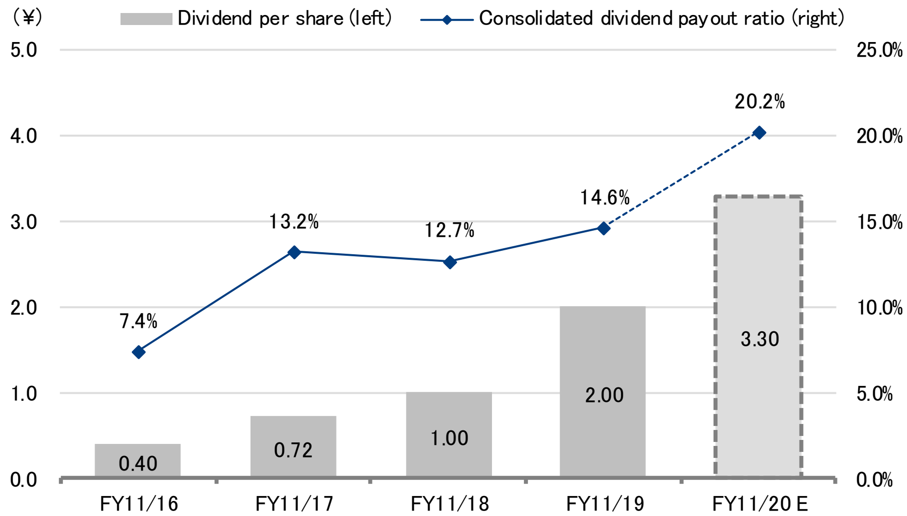
Source: Prepared by FISCO from the Company's results briefing materials

Shareholder return policy

Aims to stably pay dividends targeting a consolidated dividend payout ratio of 20% and to continuously improve the dividend

Based on the growth of results and the strengthening of its financial base, the Company has changed its dividend policy, from the previous policy of a ratio of dividends on equity (DOE: dividend in the current fiscal period ÷ shareholders' equity at the end of the previous fiscal period) of 5% as the standard, to a consolidated dividend payout ratio of 20% as the standard. Its approach to dividends is to prioritize business investment toward growth and to aim to stably and continuously improve dividends, while also being aware of capital efficiency and strengthening the financial base. Therefore, even if profits decline on a single fiscal year basis and the consolidated dividend payout ratio exceeds 20%, it will still not decrease dividends as long as the dividend payout ratio is less than 60%. Based on this new policy, in FY11/20 the Company will increase the dividend per share by ¥1.30 YoY to ¥3.30 (for a consolidated dividend payout ratio of 20.2%), which will be the fourth consecutive fiscal year of dividend increase. Moreover, we can expect a further dividend increase if results exceed the forecasts.

Dividend per share and consolidated dividend payout ratio



*A 1-to-5 share split was conducted in March 2018, and dividends have been retroactively adjusted.
Source: Prepared by FISCO from the Company's financial results

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