COMPANY RESEARCH AND ANALYSIS REPORT

S-Pool, Inc.

2471

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Index

Summary

The high growth of special needs employment services is continuing. Is aiming for net sales of ¥41bn and operating profit of ¥5bn in FY11/25

S-Pool, Inc. <2471> (hereafter, also "the Company") is developing two business segments: the Human Resources Solutions segment to provide staffing services, such as to call centers, 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 2020, it was managing 23 farms in Chiba Prefecture, Aichi Prefecture, Saitama Prefecture and Tokyo, and created employment for a total of more than 1,900 people with disabilities.

1. FY11/20 results

In FY11/20, net sales increased 19.9% year on year (YoY) to ¥21,009mn and operating profit rose 38.9% to ¥2,228mn. Both exceeded the Company's forecasts (net sales of ¥20,636mn and operating profit of ¥2,000mn) and were once again new record highs. Some operations were impacted by the novel coronavirus pandemic (hereafter, the coronavirus), but the Human Resources Solutions segment, centered on call center services, and special needs employment services in the Business Solutions segment both achieved sales increases of over 20% and drove the results. In special needs employment services, alongside the increase in user companies, operations management income, which is stock-type income, increased greatly, rising 48.9% YoY to ¥1,546mn. In June 2020, blue dot green Inc., which provides environmental management support services*, was made a subsidiary, which provided an increase of ¥120mn to net sales and ¥12mn to operating profit.

* Provides consulting and programs for companies to reduce CO_2 emissions, various credit mediation services, etc. Currently, credit mediation services provide approximately 90% of net sales.

2. FY11/21 outlook

The outlook for FY11/21 is that double-digit growth will continue, with net sales increasing 18.0% YoY to ¥24,800mn and operating profit rising 12.2% to ¥2,500mn. In the Human Resources Solutions segment, net sales will grow not only of call center services, but also of other services, such as over-the-counter sales support services and nursing care services, so net sales are forecast to increase 14.8%. In the Business Solutions segment, the high growth of sales of special needs employment services will continue, increasing 27.1%, while sales of both logistics outsourcing services and employment support services will also grow by double digits, up 19.0% and 22.0%, respectively. In addition, environmental management support services will contribute for the full fiscal year, so total net sales are forecast to increase 27.2%. In special needs employment services, the Company is entering Osaka Prefecture for the first time to open two farms, and plans to open a total of six farms, including in Aichi Prefecture and the Tokyo metropolitan area. At the same time, the number of equipment sales plots is forecast to increase 10.6% to 1,035 plots. Inquiries are being actively received in advance of the statutory employment rate for people with disabilities being raised from 2.2% to 2.3% in March 2021, and at FISCO, we think that the forecasts are at achievable levels so long as the severity of the impact of the coronavirus does not increase. The Company anticipates the operating profit margin will decline, but this is because the slightly conservative forecast incorporates increases in employment costs in the Human Resources Solutions segment and upfront investment in special needs employment services.

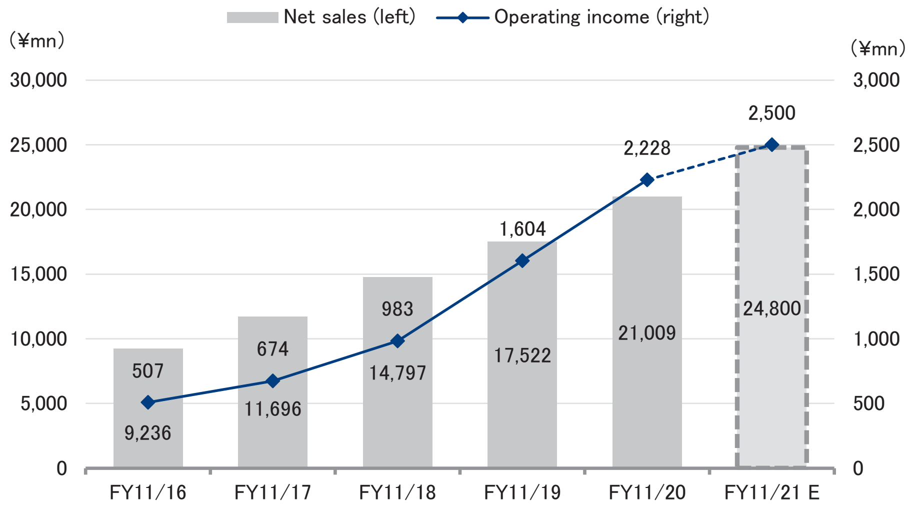
3. New medium-term management plan

The Company has announced its five-year medium-term management plan up to FY11/25. In addition to continued growth from further deepening the existing businesses, its policy is to develop new pillars of earnings with an eye to the next 10 years and work to strengthen the management foundation on the axis of ESG. The plan's numerical targets are net sales of ¥41bn and operating profit of ¥5bn. The average annual growth rates are 14.3% for net sales and 17.5% for operating profit. In special needs employment services, it is aiming to have 60 farms and to create employment for 5,000 people with disabilities, targeting net sales of approximately ¥8bn in the plan's final fiscal year. The outlook is that this business will account for more than half the total operating profit and will continue to drive results. Also, toward realizing carbon neutrality by 2050, which is government policy, environmental management support services, a new business, are forecast to grow. Going forward, mainly major companies are expected to progress initiatives to reduce CO_2, emissions and it seems that needs will grow for consulting services to calculate and reduce emissions. Viewed from the perspective of ESG investment, in addition to social contribution through work support for people with disabilities and others and employment creation in regional areas, it is anticipated that interest in the Company will further increase as it is seen as a company that is also newly contributing to environmental conservation.

Key Points

- The FY11/21 results outlook is for the double-digit increases in sales and profits to continue from the growth of the main businesses
- In special needs employment services, will enter Osaka Prefecture for the first time and intends to expand business in three major metropolitan areas
- Has announced the new medium-term management plan, targeting net sales of ¥41bn and operating profit of ¥5bn in FY11/25

Results trend



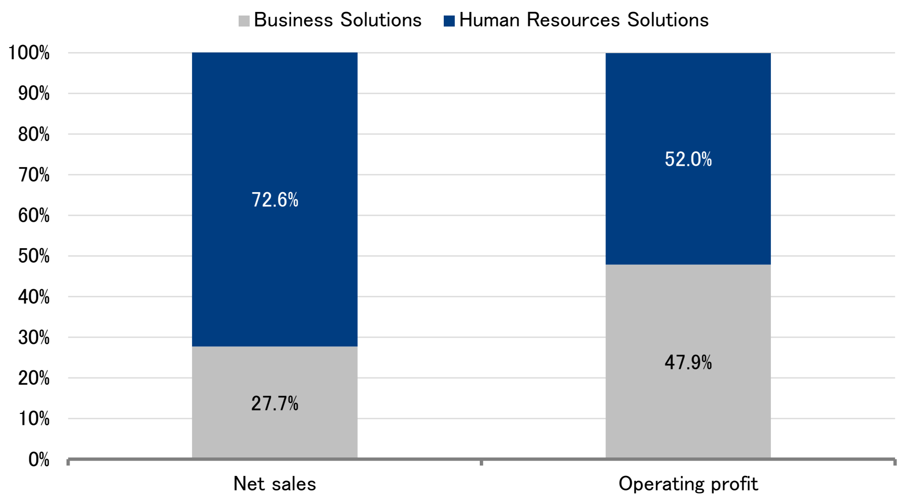
Source: Prepared by FISCO from the Company's financial results

Business overview

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

The Company has two business segments, the Business Solutions segment and Human Resources Solutions segment. Looking at the composition of results by business segment in FY11/20, the Human Resources Solutions segment provided the majority of net sales, 72.6%, but segment profit was practically even, with the Business Solutions segment contributing 47.9% and the Human Resources Solutions segment 52.0%, so the Company is maintaining a well-balanced earnings portfolio. In the Business Solutions segment, special needs employment services provide most of profits and is the main pillar of earnings. Descriptions of both business segments are provided below.

Composition of total net sales and operating profit by business segment (FY11/20)



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

1. Business Solutions segment

In the Business Solutions segment, the subsidiaries provide various services, including special needs employment services, logistics outsourcing services, employment support services, sales support services, and environmental management support services. In addition, the Company itself develops professional human resource services and other new businesses. Looking at the composition of the segment's total net sales in FY11/20, special needs employment services provided approximately 57%, logistics outsourcing services approximately 20%, and employment support service approximately 10%, so these three businesses provided the majority of sales. Looking at the composition of profits also, we see that special needs employment services is the mainstay business, providing approximately 90% 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 or in buildings it has leased, and then leases this facility to companies as a "Work Happiness Farm," (hydroponic equipment is sold). 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 2020, it had opened a total of 23 farms in Chiba Prefecture, Aichi Prefecture, Saitama Prefecture and Tokyo, and it had created employment for 1,915 people with disabilities at 321 contracting companies. Previously, it had only opened outdoor farms, but in August 2020, it opened its first-ever indoor farm, Plus Tokyo Itabashi (Itabashi Ward, Tokyo). It has concluded collaboration agreements and opened farms with all local governments other than Chiba Prefecture. Collaborations with local governments have merits including efficiently facilitating activities to secure candidate sites and to recruit people with disabilities as prospective workers.

Work Happiness Farms

Location	Name	No. of 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, No. 2 and No. 3 farms, Kashiwa No. 1, No. 2 and No. 3 farms, Chiba Hanamigawa farm, Matsudo farm, Chiba Yachiyo farm	15
Aichi	Aichi Toyoake farm*, Aichi Miyoshi farm*, Aichi Kasugai farm*, Aichi Komaki farm*, Aichi Tokai farm*	5
Saitama	Saitama Iwatsuki farm, Saitama Kawagoe farm	2
Tokyo	Plus Tokyo Itabashi farm*	1

* Government collaboration
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 farm management fees and human resource referral fees for the people with disabilities working on the farms and the managers. The basic business model is a hybrid combining flow- and stock-type models where the Company builds a vinyl greenhouse farm on leased land of around 3,000 tsubo (where 1 tsubo is 3.3m^2), divides it into around 150 plots, and sells hydroponic equipment for each plot to contracting companies. It also provides human resource 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 (approximately ¥1.8mn for indoor farms), 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 the same about ¥500,000 for managers. Therefore, assuming 6 plots, sales will be approximately ¥11mn. The operations management fees also vary depending on the location, but they are around ¥40,000-¥45,000 per plot per month (Plus Tokyo Itabashi farm is ¥65,000 per plot). 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 the fiscal year all 150 plots are sold, net sales for that fiscal year would total ¥356mn, comprised of hydroponic equipment sales of ¥225mn, human resource referral fees of ¥50mn, and operations management fees of ¥81mn. Conversely, the amount invested in equipment would be approximately ¥250mn (such as the vinyl greenhouse and vehicles, depreciation periods range from 4–14 years). In the first fiscal year sales, 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 lowers because flow sales end, but depreciation and amortization costs and 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 resource 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.

In FY11/20, due to reasons including management conditions at customer companies, eight companies cancelled their contracts. For plots made empty by the cancelled contracts where the hydroponic equipment is in good condition, the Company resells it at a discounted price from the regular price to new customer companies. For human resource referrals, the employees who worked at the companies cancelling contracts are referred to the new customer companies to continue working, and no referral fee is collected. In terms of the effect on profits, resales of hydroponic equipment contribute to increasing profits, so it seems that the profit margin slightly increases in the case of reselling plots after a contact cancellation.

(2) Logistics outsourcing services

Logistics outsourcing services, which are provided by the subsidiary S-Pool Logistics, Inc., consists of two businesses: product shipment agency services, mainly for e-commerce businesses, and management agency services to outsource all or part of the operation of logistics centers, such as for wholesalers and logistics businesses. Up until 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 e-commerce businesses, and in FY11/20, product shipment agency services provided approximately 90% of net sales. There are two bases for these services: the Tsukuba Center (Tsukuba City, Ibaraki Prefecture, opened September 2013, 1,000 tsubo) and the Shinagawa Center (Minato Ward, Tokyo, opened February 2018, 2,300 tsubo). Comparatively small merchandise are handled by the Shinagawa Center, while small-volume, multiple-variety merchandise, such as apparel and accessories, are handled by the Tsukuba Center. The Shinagawa Center is introducing IT and automation systems, including a contactless ID system and automated packaging equipment, and its productivity is higher than that of the Tsukuba Center.

(3) Employment support services

Employment support services, which were launched by S-Pool itself in 2016, are provided as the OMUSUBI employment support services, including for part-time workers, mainly for the restaurant, retail, and delivery industries. In order to further expand this business, the Company newly established and transferred operations to S-Pool Link, Inc. in December 2019. In October 2017, it began a business cooperative agreement with TSUNAGU SOLUTIONS Inc. (currently TSUNAGU GROUP HOLDINGS Inc. <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 help wanted advertising costs compared to the past and improve their employment efficiency. At the end of November 2020, the Company had 91 customers companies and was accepting an average of 45,000 applications a month, with around 100 operators responding at the Company's 5 call centers (1 in Hokkaido, 1 in Aomori, 2 in Miyazaki, and 1 in Tokushima). As net sales are from results-based remuneration working out to about ¥1,000-¥1,500 per interview arranged. If the operators remain the same, the increase in the number of interviews arranged corresponds to the increase in the amount of profits.

(4) 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.

(5) Environmental management support services

This is the business of blue dot green, which the Company acquired the shares of (investment ratio 70%) and made a subsidiary in June 2020. It provides services such as consulting services to support carbon offset and for CO_2 emissions calculations and various types of credit (emission permits) mediation services. Currently, credit mediation services provide approximately 90% of net sales. But going forward, its policy is to focus on consulting services, including developing a CO_2 emissions reduction program, for which needs are expected to increase due to the government policy of aiming to achieve carbon neutrality. It had fewer than 10 employees at the time it was made a subsidiary, but recently this has increased to around 15 employees through secondments of sales staff from S-Pool itself.

(6) New businesses

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.

2. 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 over-the-counter sales support operations, such as for mobile phones and consumer electronic appliances. For the composition of the segment's net sales in FY11/20, call center services provided approximately 80% and over-the-counter sales support services around 14%, while the remainder was provided by other staffing services (dispatches of nursing care and nursing-related staff).

The Company has opened 18 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 major mobile phone sales agencies, such as CONEXIO Corporation <9422> and T-Gaia Corporation <3738>, and major consumer electronics retailers, like Yamada Holdings Co., Ltd. <9831> and BICCAMERA INC. <3048>.

As of November 2020, the Company Group was comprised of six 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
blue dot green	70.0	Environmental management support services

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

Result trends

The FY11/20 results once again marked new record highs due to the strong performances of the two main businesses

1. Overview of the FY11/20 results

In the FY11/20 consolidated results, net sales increased 19.9% YoY to ¥21,009mn, operating profit rose 38.9% to ¥2,228mn, ordinary profit grew 37.1% to ¥2,229mn, and profit attributable to owners of parent increased 46.0% to ¥1,580mn. So sales and profits increased by double digits, and all items exceeded the Company forecasts and reached new record highs again. Net sales increased for the eighth consecutive period and every profit item increased for the fifth consecutive period. The coronavirus had an impact on some operations, but results were driven by the strong performances of the main businesses of the Human Resources Solutions segment and special needs employment services.

Consolidated results for FY11/20

(¥mn)

	FY11/19		FY11/20				
	Results	vs. net sales	Initial forecast	Results	vs. net sales	YoY	vs. forecast
Net sales	17,522	-	20,636	21,009	-	19.9%	1.8%
Gross profit	5,214	29.8%	6,122	6,377	30.4%	22.3%	4.2%
SG&A expenses	3,610	20.6%	4,121	4,148	19.7%	14.9%	0.7%
Operating profit	1,604	9.2%	2,000	2,228	10.6%	38.9%	11.4%
Ordinary profit	1,626	9.3%	1,988	2,229	10.6%	37.1%	12.1%
Profit attributable to owners of parent	1,082	6.2%	1,288	1,580	7.5%	46.0%	22.7%

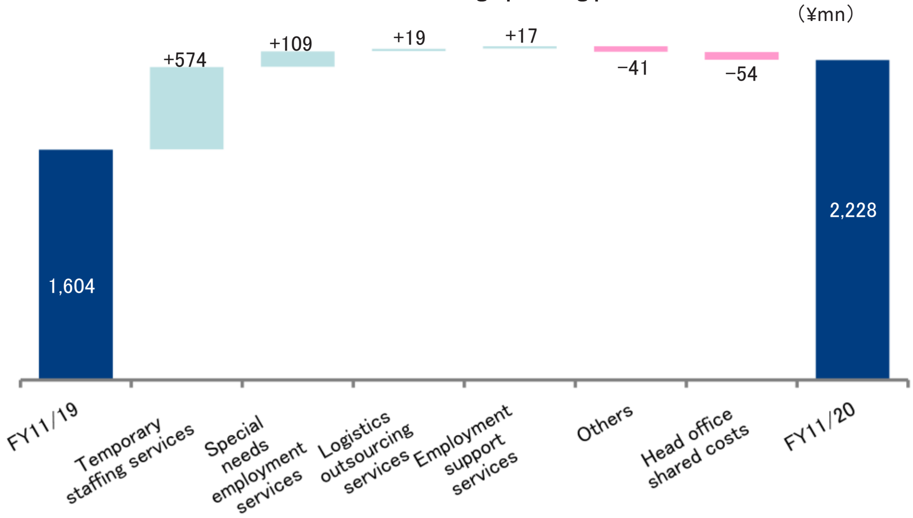
Source: Prepared by FISCO from the Company's financial results

Looking at the sales conditions of the main businesses, in the Human Resources Solutions segment, net sales increased 21.8% YoY to ¥15,250mn, contributing approximately 70% of the total increase in sales. In the Business Solutions segment as well, there were increases in net sales of 20.6% in special needs employment services, 7.0% in logistics outsourcing services, and 29.1% in employment support services. In addition, blue dot green, which was made a subsidiary in June 2020, recorded net sales of ¥120mn, which offset the negative impact of the coronavirus of ¥176mn (sales declines, including of sales support services and professional human resource services).

The gross profit margin increased 0.6 of a percentage point (pp) to 30.4%, mainly due to the effect of the increase in sales and changes to the composition of total net sales. SG&A expenses rose 14.9% YoY, mainly as a result of personnel expenses, but the SG&A expenses ratio improved 0.9pp, including due to the effect of the increase in sales and suppressing costs, such as temporary staffing recruitment costs. As a result, the operating profit margin rose 1.4pp to 10.6% for a new record high and achieved a 10% level, which is the Company's target in the medium-term management plan.

Looking at the main influencing factors for operating profit, the increases were ¥574mn in temporary staffing services, ¥109mn in special needs employment services, ¥19mn in logistics outsourcing services, and ¥17mn in employment support services, which covered an increase of head office shared costs and a decline of profits in other businesses, and therefore operating profit increased. The reason for the high rate of increase in profit attributable to owners of parent was that the effective tax rate declined from 35.6% to 28.3% due to the application of a special deduction on the corporate tax amount as a result of increases in employee salaries, etc. and capital investment.

Factors influencing operating profit



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

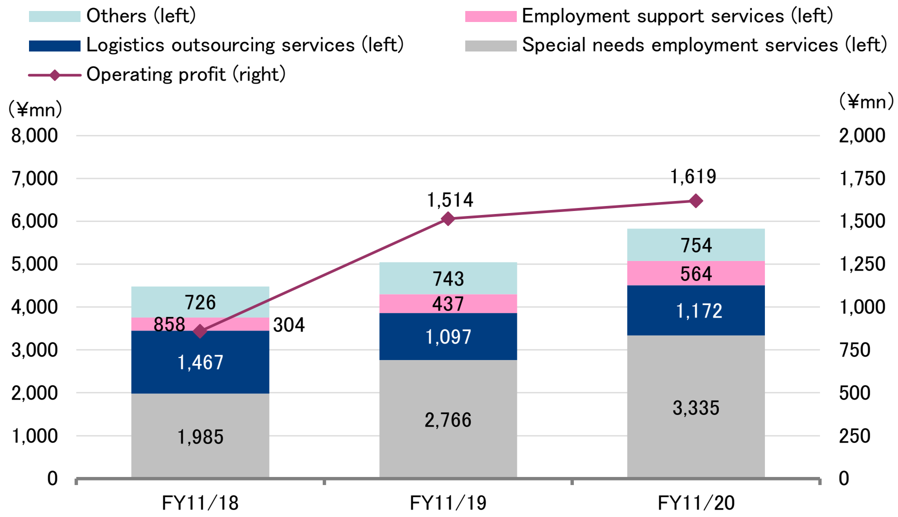
Results for special needs employment services fell below the initial forecasts due to the coronavirus, but sales and profits still increased as demand continues to be strong

2. Trends by business segment

(1) Business Solutions segment

In the Business Solutions segment, sales and profits continued to increase, with net sales rising 15.5% YoY to ¥5,825mn and operating profit growing 6.9% to ¥1,619mn. Due to the coronavirus, sales and profits decreased for sales support services and professional human resources bank services. But overall, sales and profits increased due to the higher sales and profits in the mainstay special needs employment services, logistics outsourcing services and employment support services. In addition, the results of blue dot green, which was newly made a subsidiary in June 2020, were positive factors of approximately ¥120mn for net sales and ¥12mn for operating profit.

Results in the Business Solutions segment

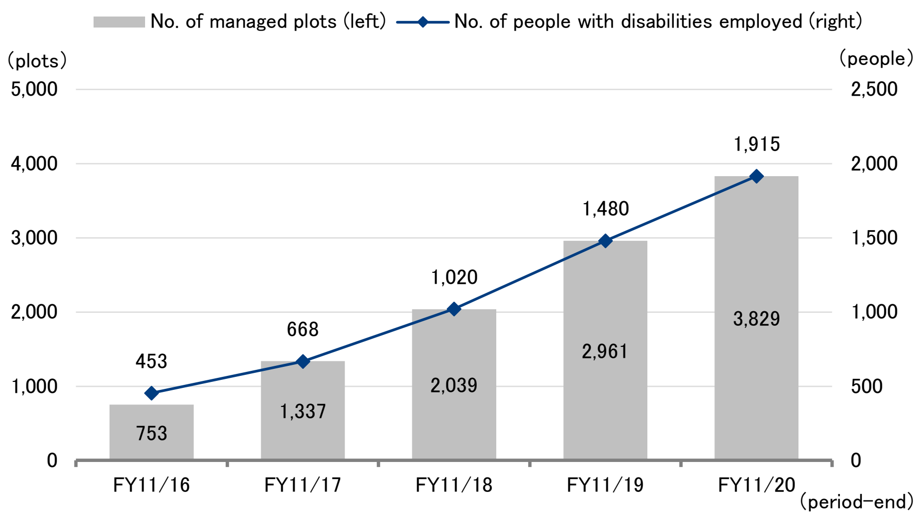


Source: Prepared by FISCO from the Company's results briefing materials

a) Special needs employment services

In special needs employment services, net sales increased significantly, rising 20.6% YoY to ¥3,335mn, while operating profit increased ¥109mn to slightly less than ¥1.5bn. Due to the coronavirus, temporary restrictions were placed on sales activities and the education and training of people with disabilities, so although the number of farm equipment sales plots increased by 14 YoY to 936 plots, it was below the initial forecast of 1,026 plots. However, demand continues to be strong, and the number of sales in the current 4Q was 366 plots, which was a new record high on a quarterly basis (previously, 310 plots). Also, at the end of FY11/20, the number of managed plots had increased by 868 compared to the end of the previous fiscal year to 3,829 plots, the number of people with disabilities employed had grown by 435 to 1,915 people, and the number of contracting companies had risen by 62 to 321 companies, so each had steadily increased. The difference between the number of sales plots (936 plots) and the number of increased managed plots (868 plots) is the number of plots from cancelled contracts.

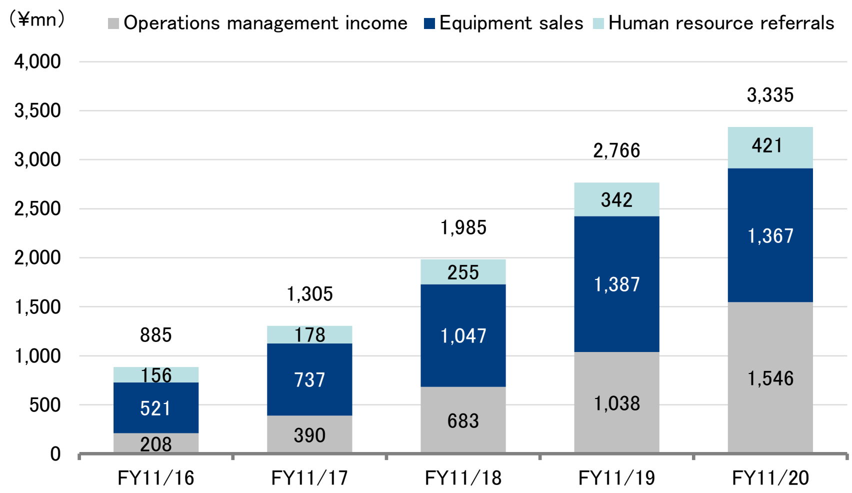
No. of managed plots and no. of people with disabilities employed



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

Looking at the breakdown of net sales, due to the increase in the number of managed plots, operations management income grew significantly, rising 48.9% YoY to ¥1,546mn. Other income (referral fees for people with disabilities and administrators) also continued to grow by double digits, increasing 23.1% to ¥421mn. However, equipment sales changed direction and decreased, if only slightly, down 1.4% to ¥1,367mn. It seems that the main reason for the decline in sales was that although the number of sales plots increased, the average sales unit price, which includes some resales of equipment, fell. Also, it seems that the reasons why the growth of other income was high compared to the number of sales plots were the rise in the average unit price of referral fees for people with disabilities and the recording of referral fees as sales one month ahead of equipment sales.

Net sales of special needs employment services



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

Of the six newly opened farms, two farms in Aichi Prefecture (Tokai City and Komaki City) and one farm in Tokyo (Itabashi Ward) were opened in collaboration with local governments, while one farm in Saitama Prefecture (Kawagoe City) and two farms in Chiba Prefecture (Kashiwa City and Funabashi City) were independently opened by the Company. Also, the farm in Itabashi Ward is the Company's first indoor farm, and it has made a smooth start since opening in August 2020, with 54 plots out of the total 222 plots sold and orders for the remainder having already been completed as of January 2021.

In FY11/20, the operating profit margin declined slightly. It is considered to have been caused by changes to the composition of total net sales (an increase in the percentage of total net sales provided by operations management income), and the opening of the indoor farm, for which the burden of rental fees is high. Looking at the Itabashi Ward farm case, its rental fees are approximately ¥5mn a month, which is around five times the fees of nearby outdoor farms, and this burden had been incurred for the six months before the opening. The burden of rental fees will be absorbed through collecting monthly management income and setting high prices for the hydroponic equipment (so in the case of full operations, the profit margin will be around the same as other farms). But during the period when the farm's operating rate is still low, the profit margin will also be low.

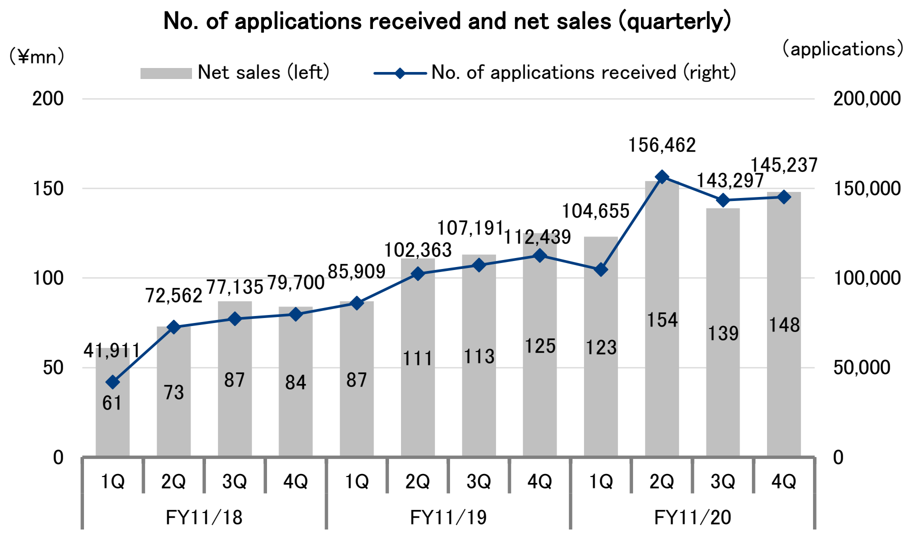
b) Logistics outsourcing services

In logistics outsourcing services, sales and profits increased, with net sales rising 7.0% YoY to ¥1,172mn and operating profit growing ¥19mn to ¥150mn. Accounting standards were changed during the previous fiscal year (shipping fees included in net sales are changed to advances paid), and if calculated using the previous accounting standard, net sales actually increased 25%.

Looking at the breakdown of net sales, e-commerce shipment agency services increased 13.9% YoY to ¥1,054mn (an actual sales increase of 30%) and logistics center management agency services decreased 32.0% to ¥117mn. E-commerce shipment agency services are benefitting from the growth of nesting (stay-at-home) consumption because of the coronavirus, while the Company's logistics centers (Shinagawa Ward and Tsukuba City) continue to operate at close to full capacity. Conversely, logistics center management agency services were negatively impacted by the coronavirus, as they mainly involve logistics work for department stores.

c) Employment support services

In employment support services, sales and profits increased by double digits, with net sales rising 29.1% YoY to ¥564mn and operating profit growing ¥17mn to ¥60mn. Due to the coronavirus, demand cooled down from the restaurant industry, which provides around 30% of sales, but this was covered by the growth of orders from strongly performing industries, including drugstores, delivery service providers, and supermarkets. The number of applications received increased 35% YoY to 549,000 applications, while the number of customers increased by 10 companies compared to the end of the previous fiscal year to 91 companies.



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

d) Others

In sales support services, sales and profits declined, with net sales decreasing 21% to ¥410mn and operating profit of approximately ¥30mn. This was because the number of sales campaigns for commercial facilities decreased due to the coronavirus. Also, in professional human resources bank services, sales and profits decreased, with net sales declining by a single digit YoY to ¥230mn and operating profit of ¥15mn.

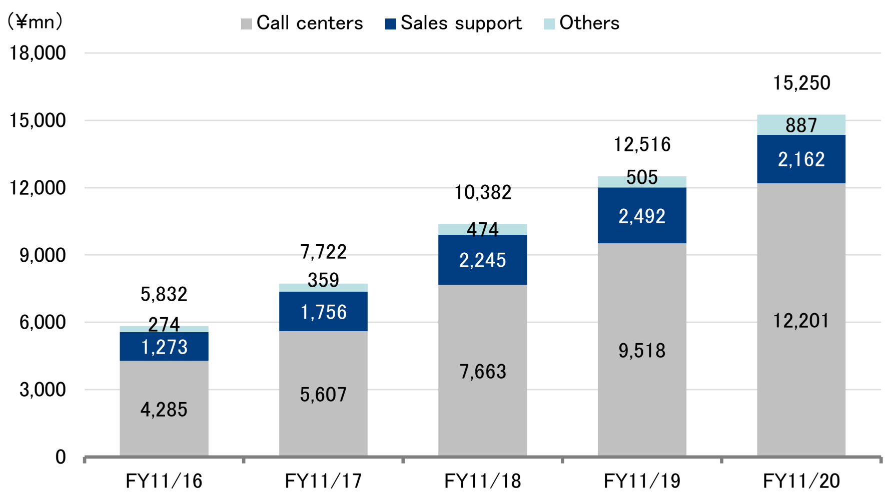
In environmental management support services, net sales were ¥120mn and operating profit was ¥12mn. In the results immediately before blue dot green was made a subsidiary (FY3/20), net sales were ¥283mn and operating profit was ¥46mn, so the earnings level appears to have declined. But this is mainly because at the same time it was made a subsidiary, the eco points management office business, which provided roughly half of net sales, was ended. Since being made a subsidiary, the credit mediation business provides 90% of net sales and results are growing on an existing-businesses basis.

(2) Human Resources Solutions segment

In the Human Resources Solutions segment, sales and profits increased significantly, with net sales rising 21.8% YoY to ¥15,250mn and operating profit growing 48.5% to ¥1,757mn. Looking at the breakdown of net sales, the mainstay call center dispatches saw steady growth with a 28.2% increase to ¥12,201mn, sales support services for consumer electronics retailers and other customers recorded a 13.2% decrease to ¥2,162mn due to the coronavirus, and other services, which is mainly nursing care dispatches, saw a 75.6% increase to ¥887mn. The operating profit margin rose from 9.5% in the previous fiscal year to 11.5% as a result of the higher sales and restrained recruitment costs.

The strong performance of call center services was because the high-quality services provided through group dispatches continued to be favorably evaluated and the share of transactions with main customers grew. Also, the main positive factors affecting sales were a pay increase of around 4% that took effect in April 2020 following the introduction of the Equal Pay for Equal Work system and an order for a government-related short-term spot project in FY11/20 3Q.

Net sales in the Human Resources Solutions segment



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

Is further progressing the strengthening of the financial structure through earnings growth

3. Financial condition and management indicators

Looking at the financial condition at the end of FY11/20, total assets were up ¥2,646mn compared to the end of the previous fiscal year to ¥11,305mn. The main influencing factors were that in current assets, cash and deposits increased ¥395mn due to the implementation of extraordinary borrowings in order to be able to respond to unforeseen circumstances due to the coronavirus, and that notes and accounts receivable - trade rose ¥329mn following the increase in sales, mainly in the Human Resources Solutions segment. In non-current assets, due mainly to the openings of new farms and expansions of facilities at existing farms, property, plant and equipment increased ¥1,754mn, while toward the growth of the Business Solutions segment, leasehold and guarantee deposits rose ¥131mn following openings of new facilities for the Company, S-Pool Plus, and S-Pool Link.

Total liabilities increased ¥1,214mn compared to the end of the previous fiscal year to ¥6,837mn. Looking at the influencing factors, there were increases of interest-bearing debt of ¥772mn, accrued consumption taxes of ¥256mn, and accrued expenses of ¥264mn. Net assets were up ¥1,433mn compared to the end of the previous fiscal year to ¥4,468mn. Although there were dividends paid of ¥157mn, retained earnings increased due to the recording of profit attributable to owners of parent of ¥1,580mn.

Looking at the management indicators, the equity ratio, which indicates management stability, rose from 35.1% at the end of the previous fiscal year to 39.4%, and the interest-bearing debt ratio fell from 68.9% to 64.2%. So it can be judged that the Company's financial soundness has improved alongside its earnings growth. The indicators of profitability both declined slightly, with ROA falling 0.3pp to 22.3%, and ROE decreasing 0.6pp to 42.2%. This was mainly due to the increase in total assets for ROA, and the declines in the total assets turnover ratio and financial leverage for ROE. However, alongside the growth of the main businesses, the operating profit margin rose for the fifth consecutive period, up 1.4pp to 10.6%.

Consolidated balance sheet

(¥mn)

	FY11/17	FY11/18	FY11/19	FY11/20	Change
Current assets	2,969	3,311	5,034	5,735	701
(Cash and deposits)	1,240	1,087	2,119	2,514	395
Non-current assets	1,524	2,442	3,625	5,569	1,944
Total assets	4,493	5,754	8,659	11,305	2,646
Total liabilities	3,019	3,721	5,623	6,837	1,214
(Interest-bearing debt)	1,145	1,203	2,091	2,863	772
Net assets	1,473	2,032	3,035	4,468	1,433
Management indicators					
(Stability)					
Equity ratio	32.5%	35.2%	35.1%	39.4%	4.3pt
Interest-bearing debt ratio	78.5%	59.4%	68.9%	64.2%	-4.7pt
(Profitability)					
ROA	16.7%	19.7%	22.6%	22.3%	-0.3pt
ROE	34.0%	35.6%	42.8%	42.2%	-0.6pt
Operating profit margin	5.8%	6.6%	9.2%	10.6%	1.4pt

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

Outlook

The FY11/21 results outlook is that the double-digit increases in sales and profits will continue due to the growth of the main businesses

1. Outlook for FY11/21

The outlook for the FY11/21 consolidated results is for the double-digit increases in sales and profits to continue, with net sales to rise 18.0% YoY to ¥24,800mn, operating profit to grow 12.2% to ¥2,500mn, and ordinary profit to increase 11.6% to ¥2,488mn. As it is assumed that the effective tax rate, which decreased in the previous fiscal year, will return to its former level, the rate of increase in profit attributable to owners of parent is expected to be smaller, rising 3.5% to ¥1,635mn.

Consolidated outlook for FY11/21

(¥mn)

	FY11/20		FY11/21		
	Results	vs. net sales	Forecast	vs. net sales	YoY
Net sales	21,009	-	24,800	-	18.0%
(Business Solutions)	5,825	27.7%	7,408	29.9%	27.2%
(Human Resources Solutions)	15,250	72.6%	17,500	70.6%	14.8%
(Adjustment)	-65	-	-108	-	-
Operating profit	2,228	10.6%	2,500	10.1%	12.2%
(Business Solutions)	1,619	27.8%	1,873	25.3%	15.7%
(Human Resources Solutions)	1,757	11.5%	1,930	11.0%	9.8%
(Shared costs)	-1,148	-	-1,303	-	-
Ordinary profit	2,229	10.6%	2,488	10.0%	11.6%
Profit attributable to owners of parent	1,580	7.5%	1,635	6.6%	3.5%

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

Sales are forecast to increase by double digits in both the Business Solutions segment and Human Resources Solutions segment, while the profit margin for both is forecast to fall compared to FY11/20. In the Business Solutions segment, the forecast profit margin for special needs employment services is conservative, while in the Human Resources Solutions segment, the profit margin is expected to decline because of the increase in recruitment costs, which were suppressed in FY11/20. Therefore, if net sales are in line with the forecast, at FISCO, we think there is room for profits to be higher than forecast.

In special needs employment services, has entered Osaka Prefecture for the first time and intends to expand business in three major metropolitan areas

2. Outlook by business segment

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

(¥mn)

	FY11/18	FY11/19	FY11/20	FY11/21 (forecast)	YoY
Net sales by segment					
Business Solutions	4,482	5,043	5,825	7,408	27.2%
Special needs employment services	1,985	2,766	3,335	4,240	27.1%
Logistics outsourcing	1,467	1,097	1,172	1,400	19.0%
Employment support services	304	437	564	690	22.0%
Other services	726	743	754	1,078	43.0%
Human Resources Solutions	10,382	12,516	15,250	17,500	14.8%
Internal eliminations	-68	-37	-65	-108	-
Total	14,797	17,522	21,009	24,800	18.0%
Operating profit by segment					
Business Solutions	858	1,514	1,619	1,873	15.7%
Human Resources Solutions	1,004	1,183	1,757	1,930	9.8%
Internal eliminations	-879	-1,093	-1,148	-1,303	-
Total	983	1,604	2,228	2,500	12.2%
Operating profit margin by segment					
Business Solutions	19.1	30.0	27.8	25.3	-2.5pt
Human Resources Solutions	9.7	9.5	11.5	11	-0.5pt
Total	6.6	9.2	10.6	10.1	-0.5pt

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

(1) Business Solutions segment

In the Business Solutions segment, the forecasts are for net sales to increase 27.2% YoY to ¥7,408mn and operating profit to grow 15.7% to ¥1,873mn. The forecasts for the main services are as follows.

a) Special needs employment services

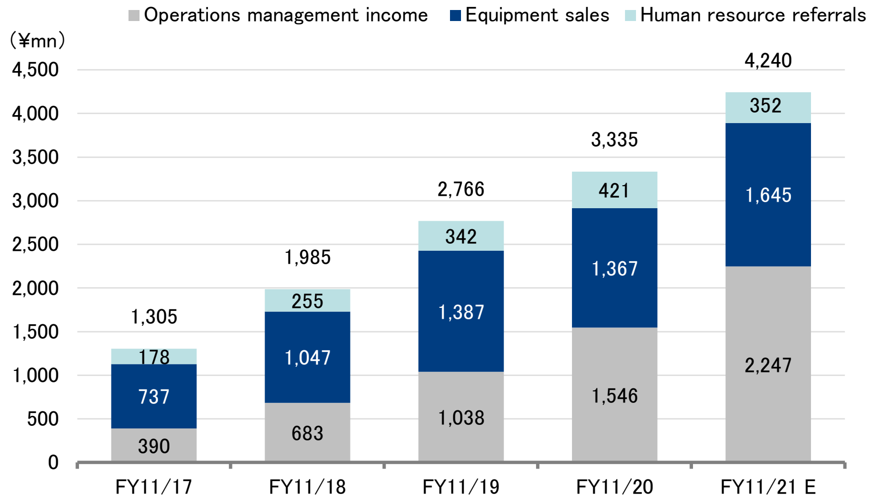
In special needs employment services, the forecasts are for net sales to increase 27.1% YoY to ¥4,240mn and operating profit to rise approximately 7%. The Company will open six new farms, the same as in the previous fiscal year. By area, it will open one farm in Chiba Prefecture (Ichikawa City), one farm in Saitama Prefecture (Koshigaya City), two farms in Aichi Prefecture (Nagoya City and Nagakute City), and two farms in Osaka Prefecture (Settsu City and Hirakata City), entering Osaka Prefecture for the first time. The two farms in Nagakute City and Hirakata City will open in collaboration with local governments, while the farms in Ichikawa City, Nagoya City, Koshigaya City, and Settsu City will open independently. Of these, the two farms in Settsu City and Nagoya City will be indoor farms.

As for commencement periods in FY11/21, the Company plans to open four farms in 2Q (Koshigaya City, Nagoya City, Nagakute City, and Settsu City) and two farms in 3Q (Hirakata City and Ichikawa City). In March 2021, the statutory employment rate of people with disabilities is scheduled to be raised from the previous 2.2% to 2.3%, so it is expected that demand will increase up to the employment rate calculation base date (June 1), and the new farms will be opened to coincide with this peak in demand. Depending on how demand trends in the future, the Company also has in its sights opening an additional farm in 4Q.

The number of sales plots is forecast to increase by 99 YoY to 1,035 plots (1Q: 138 plots, 2Q: 351 plots, 3Q: 255 plots, 4Q: 291 plots). At the end of FY11/20, the backlog of orders had decreased by around 50 plots, but by the middle of January, it had accumulated to a level of more than 200 plots. At FISCO, we think that the Company can achieve the sales forecast through the increase in demand due to the rise in the statutory employment rate and by aiming to capture demand from companies in the Kansai area through entering Osaka Prefecture. There are few concerns regarding the impact of the coronavirus, because in the previous fiscal year, the Company established non-face-to-face processes for sales activities, including holding online seminars. However, if the spread of the coronavirus has a severe impact on economic activities, it may also impact the progress made for sales, including the education and training of people with disabilities.

Breaking down net sales, equipment sales will increase 20.3% YoY to ¥1,645mn, operations management income will rise 45.3% to ¥2,247mn, and others (human resource referrals) will decrease 16.4% to ¥352mn. The main reasons for the increase in equipment sales will be the rise in the number of sales plots and the increase in the average sales unit price due to the opening of the indoor farm. The number of operations management plots at the end of the fiscal year, if there are no contract cancellations, is forecast to rise by 27.0% compared to the end of the previous fiscal year to 4,864 plots. For operations management income, the average sales unit price per plot will rise, mainly because of the increase in sales for the indoor farm. Other income is somewhat conservatively forecast to decline.

Net sales of special needs employment services



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

b) Logistics outsourcing services

In logistics outsourcing services, the forecasts are for net sales to increase 19.0% YoY to ¥1,400mn and operating profit to rise 13%. Breaking down net sales, the forecasts are for e-commerce services to increase 16.7% to ¥1,230mn and logistics center management agency services to grow 45.3% to ¥170mn. E-commerce services continue to benefit from the expansion of the market, so the aim is for double-digit growth. As the logistics centers are operating at close to full capacity, the plan is to relocate and increase the floor space of the Tsukuba Center by around the summer of 2021. The Company intends to approximately double the floor space at the existing centers, to around 2,000 to 2,500 tsubo, while it also plans to introduce automation systems to improve productivity. The profit margin will temporarily decline due to the increase in the investment burden, but the increase in profits will be maintained from the effect of the higher sales. Also, at the existing centers, measures are continuing to improve net sales per tsubo (replacing projects with low profits and improving productivity), and the policy is to focus on maximizing earnings. For logistics center management agency services, orders from main customers are expected to recover, however, like FY11/20, there is a downside risk should the coronavirus become prolonged, but its impact on profits would be small.

c) Employment support services

In employment support services, the forecasts are for net sales to increase 22.0% YoY to ¥690mn and operating profit to rise 67%. Although demand from the restaurant industry will continue to slump due to the coronavirus, demand is expected to increase from other industries, including delivery services, supermarkets, and call center businesses. Sales are also forecast to increase from upselling due to the strengthening of peripheral services, including the aptitude diagnostic service that was launched in September 2020. The business model for these new services is to collect monthly system usage fees and performance-based fees. Although still minor in terms of composition of total sales, even during the coronavirus pandemic they are expected to grow in the future as recruitment results have continued improving, efficiency is increasing and demand is forecast to continue.

d) Environmental management support services

In environmental management support services, the forecasts are net sales of ¥235mn and, conservatively, a zero base for operating profit. Credit mediation services, which provide approximately 90% of sales, seem to have a gross profit margin of around 15% and are a stable source of earnings. But going forward, the policy is to focus on consulting services as well, from CO_2 emissions calculations to measures to decrease emissions.

The Japanese government has set the target of realizing carbon neutrality by 2050 so going forward, it is anticipated that measures for environmental management will become increasingly active, especially among large companies, and this is expected to be a positive development for the Company. In FY11/21, its policy is to focus on acquiring new customers to grow transactions in the future, and it is providing sales proposals for companies participating in RE100*, and we shall pay attention to developments in this area in the future. In profits, personnel expenses are forecast to increase alongside strengthening the sales structure.

* The abbreviation of Renewable Energy 100%, in which companies aim to cover 100% of the electric power they use in their businesses from renewable energy. The RE100 project was established in 2014 by an international environmental NGO based in the UK. As of January 2021, 46 companies in Japan and around 280 companies globally were participating.

e) Others

In sales support services, which are being impacted by the coronavirus, sales and profits are forecast to increase, as there is the sense that conditions are returning to normal, including orders for sales promotion campaigns, such as for health foods for seniors and beverages. For professional human resources bank services as well, in an environment in which sales activities to acquire new customers are being restricted during the coronavirus pandemic, needs are strong for human resources who possess networks of key persons from potential customers, and sales and profits are forecast to increase. For the antiviral coating service, which was launched in July 2020 as a measure to prevent infection by the novel coronavirus, its sales scale is around several million yen a month, but competition in this area is fierce, sales activities are not being actively expanded, and services are mainly provided to the Group's customers.

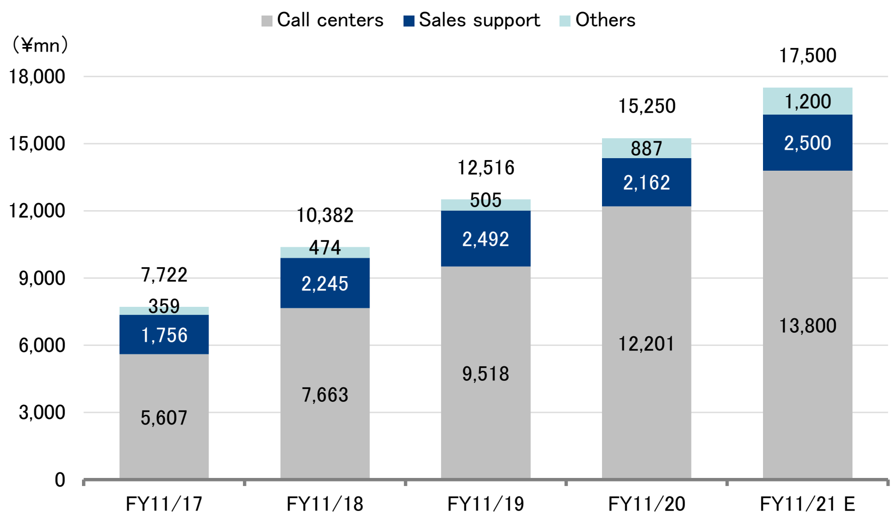
(2) Human Resources Solutions segment

In the Human Resources Solutions segment, the outlook is for net sales to increase 14.8% YoY to ¥17,500mn and operating profit to rise 9.8% to ¥1,930mn. Breaking down net sales, call center services will increase 13.1% YoY to ¥13,800mn, over-the-counter sales support services will rise 15.6% to ¥2,500mn, and other sales will grow 35.3% to ¥1,200mn.

For call center services, under the "No. 1 Strategy," the Company is aiming to increase its shares of transactions with main customers. Currently, among main customers, it has the top share for one company, but is targeting increasing this to three companies. It is also aiming to progress acquisitions of new customers and improve sales. In over-the-counter sales support services, in addition to dispatches to consumer electronics retailers and mobile phone shops, demand is expected to increase for dispatches for kitting with smart devices conducted by mobile phone sales agencies for corporate customers. In others, dispatches in the nursing care field, in which demand is strong, will continue to drive results.

In order to continue to achieve double-digit annual growth, the Company will increase the number of business bases from 18 at the end of the previous fiscal year to 20 bases. It also plans to increase the number of field consultants (FC), who constitute the core of group dispatches, from 298 people at the end of the previous fiscal year to 350 people.

Net sales in the Human Resources Solutions segment



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

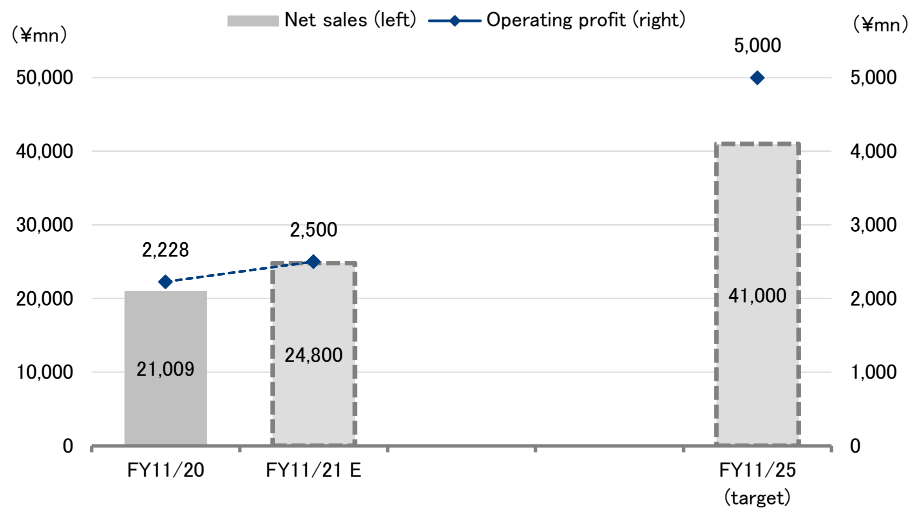
Announced the new medium-term management plan. Is targeting net sales of ¥41bn and operating profit of ¥5bn in FY11/25

3. New medium-term management plan

The Company has announced its five-year medium-term management plan that will start from FY11/21. The plan's basic policy is to "Create both societal value and economic value," and its numerical targets are net sales of ¥41bn and operating profit of ¥5bn in FY11/25. Looking at the average annual growth rates, it is aiming to continue to achieve double-digit growth of 14.3% for net sales and 17.5% for operating profit.

In terms of the assumed awareness of the environment, although economic conditions in the future continue to be unclear in the short- and medium-term, at FISCO, we think that increases in the mobilization of human resources and demand for outsourcing by companies will continue. In this environment, in terms of factors specific to the Company, we consider that the increase in obligatory employment for people with disabilities, the expansion of the e-commerce market, and the rise of the environmental conservation movement will each lead to growth opportunities. So the plan's period is being positioned not only for the growth of the existing businesses, but also for the establishment of the third and fourth pillars of earnings with an eye to the next 10 years.

Results targets



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

Growth strategies for the future are as follows.

(1) Organic growth through deepening the existing businesses

a) Special needs employment services

In special needs employment services, based on its mission of "Contributing to society by employing as many people with disabilities as possible," the Company is working to create 10,000 operations management plots, employment for 5,000 people with disabilities, and 60 farms in 5 years. It is believed that reaching the level of 10,000 plots can be achieved by expanding development in three major metropolitan areas. Going forward, it intends to progress government collaborations in each area, open new farms at a pace of 6 or 7 farms a year, and accumulate sales at a rate of 1,300 plots per year from FY11/22 onwards. At FISCO, we forecast that if it makes steady progress, it will achieve a sales scale of around ¥8bn and an operating profit margin of slightly less than 40% in FY11/25. Moreover, this business will earn the majority of total operating profit in FY11/25.

b) Logistics outsourcing services

In logistics outsourcing services, based on the mission of "Establishing next-generation, eco-friendly logistics services," the Company's policy is to work to expand business scale centered on e-commerce and to open its own logistics center that realizes zero emissions for the first time in Japan. The opening period of the zero-emissions logistics center is scheduled for around 2022 to 2023, and preparations are underway. Companies with a high awareness of environmental management are expressing an interest, and the aim is to grow net sales by double digits annually.

c) Employment support services

In employment support services, based on the mission of "Supporting regional revitalization through job creation," the Company is expanding the scale of this business. It is aiming to further grow business scale by acquiring the industry's leading share for part-time employment support operations, and by working to provide comprehensive services, from recruitment through to retention of employees.

d) Staffing services

In staffing services, based on the mission of "Realizing diverse work styles for young people with no or little work experience," the Company is working to acquire the leading share in the call center dispatch field and to develop business in new dispatch areas (such as for work that is difficult to replace with automation and areas it has not yet entered). Net sales are continuing to grow at a pace of ¥2.5bn a year and the target for FY11/25 is ¥27.5bn (annual growth rate of 12.5%).

(2) Acquire growth opportunities in new areas

As a new business, the focus is on business development in the environmental business area, which is being conducted by blue dot green, and on progressing into the BPO business area. Currently, blue dot green is providing services including consulting on CO_2 emissions calculations and emissions reductions and credit mediation to compensate a company's inability to achieve reduction targets. It is also currently developing a CO_2 emissions reduction program and is aiming for further growth through provision of this service. The net sales target for FY11/25 is ¥1bn. Conversely, in the BPO business area, in addition to the areas peripheral to the existing businesses, such as e-commerce and personnel, it intends to progress business development for the government administration field. Other than the above, the plan is to progress collaborations with companies with expertise, including by investing in venture companies with which business synergies can be expected.

Strengthening the management foundation on the axis of ESG

Priorities	
Environment	• Lessening our environmental impact through autonomous eco-friendly initiatives ✓ Participation in the RE Action initiative* in the logistics business • Contributing to solutions to environmental challenges through our business activities ✓ Proactive business development in the environmental domain based on Blue Dot Green
Social	• Promoting diversity and inclusion ✓ Promoting women in the workplace (making working environments more comfortable, proactive appointment to managerial positions) • Hiring and training human resources with high levels of sensitivity to social issues ✓ Training human resources able to identify societal changes and issues with sensitivity and take action toward solutions on their own
Governance	• Continuing a high degree of transparency in management and appropriate disclosure ✓ Appropriately disclosing financial and nonfinancial information, and promoting constructive dialogue with investors • Thorough compliance and information security

* RE Action is a new framework for promoting a full shift to renewable energy, under which businesses, local governments, educational institutions, medical institutions, and other organizations declare their intentions and actions for meeting their power needs with 100% renewable energy.

Source: Reprinted from the Company's medium-term management plan briefing materials

(3) Strengthening the management foundation, based on ESG

As its organizational strategy, the Company is working on strengthening the management foundation on the axis of ESG. For the E (environment) field, in the logistics outsourcing services business, it is aiming to reduce its own environmental impact through voluntary environmental-consideration measures, including participating in RE Action initiative*. It is also contributing to solving environmental problems through its environment-related business activities, centered on blue dot green. For the S (society) field, it is working to promote diversity and foster a sense of unity in organizational management, including by actively appointing female employees to management positions, while also working to recruit and train human resources who are highly sensitive to and understand societal changes and problems and can work proactively toward solutions. For the G (governance) field, it is continuously working on realizing highly transparent management and appropriate information disclosure, while also thoroughly conducting measures for compliance and information security and working to further strengthen governance.

* A new framework to promote the use of 100% renewable energy, and it indicates the intention and the actions of companies, local governments, educational institutions, medical institutions, and other organizations to convert 100% of the electric power they use to be sourced from renewable energy.

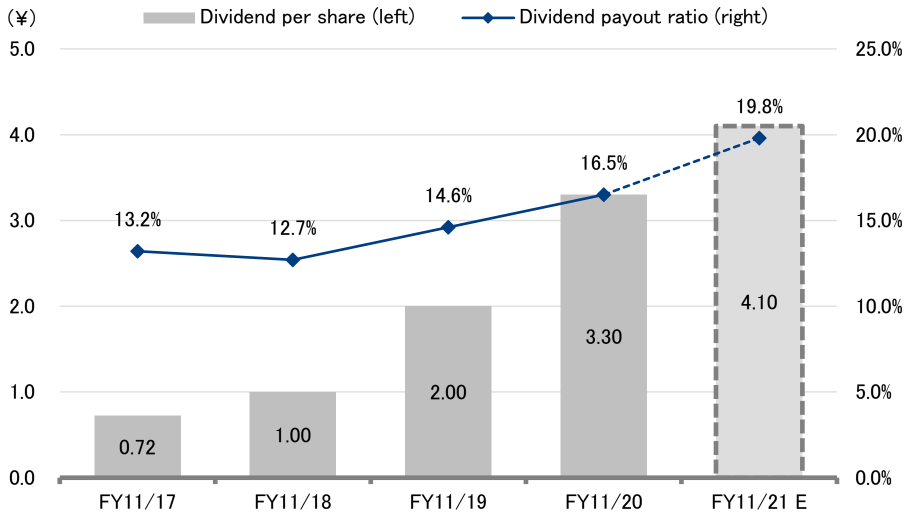
Shareholder return policy

Aims to incrementally raise the consolidated dividend payout ratio to more than 30% by FY11/25

The Company changed its dividend policy to target a consolidated dividend payout ratio of 20% from FY11/20 based on results growth and progress made in strengthening the financial foundation*. In FY11/21, it plans to pay a dividend per share of ¥4.1 (dividend payout ratio of 19.8%), an increase of ¥0.8 compared to the previous fiscal year, marking a fifth consecutive period of dividend increases. Also, in the newly announced medium-term management plan, it clarified intentions to raise the consolidated dividend payout ratio to more than 30% in FY11/25, and incremental increases in the level of the dividend payout ratio are expected. If sales and profits continue to increase, it will continue to raise the dividend.

* Even if a decline in profits is recorded in a single fiscal year and the dividend payout ratio is above 20%, the policy is not to decrease the dividend if the ratio remains less than 60%.

Dividend per share and dividend payout ratio



Note: A 5-for-1 stock 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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