

S-POOL INC. (2471 JP)

1Q OP SURPASSED EXPECTATION BUT COMPANY GUIDANCE REMAIN UNCHANGED

FY20 1Q EARNINGS RESULT AND FY20 OUTLOOK

FY20 1Q RESULTS

S-Pool Inc. (2471 JP) announced FY20 1Q (Nov year-end) results on 3 April, with better-than-expected OP of ¥386mil (+82.8% YoY / -3.5% QoQ) vs original estimate of ca. ¥250mil, on sales coming in as expected: ¥4,675mil (+20.3% YoY / -3.0% QoQ).

There were mainly two reasons for the OP overshoot.

- 1) The Special Needs Employment Service segment, which generates GPM of 80% and OPM of 70%, reported the same of 156 plots of hydroponic facilities, a sharp increase over the 108 plots sales estimated at the beginning of the fiscal year.
- 2) Call Centre staff dispatch sales rose 27% YoY, slightly above S-Pool's forecast. Costs, on the other hand, such as hiring cost, did not go up along with sales increase thanks to improved efficiency.

While many firms in the temping staff industry have been affected by the rapid change in the employment market amid COVID-19, S-Pool's earnings are proving resilient. Learning from the painful lessons of the Lehman Crisis, which dramatically hit the labour market and especially temporary staff mandates, S-Pool's expansion into supporting the mandatory placement of those with special needs has resulted in its earnings being more resilient than its peers in economic downturns.

The firm maintains 1H and full-year earnings guidance for now. 1H guidance is OP of ¥788mil (+3.3% YoY) on sales of ¥9,633mil (+16.1% YoY). For the full year, the firm is guiding for OP of ¥2,000mil (+24.7% YoY) on sales of ¥20,636mil (+17.8% YoY).

S-Pool Inc. (2471 JP): Results & Forecasts (¥mil)

Year to November	FY18		FY19		FY20		
	FY	1Q	FY	1Q	YoY (%)	FYCE	YoY (%)
Sales	14,797	3,888	17,522	4,675	20.2	20,636	17.8
GP	4,022	994	5,214	1,311	31.9	6,122	17.4
GPM (%)	27.2	25.6	29.8	28.0	+0.8ppt	29.7	-0.1ppt
SG&A	3,038	783	3,610	924	18.0	4,121	14.2
SG&A/Sales (%)	20.5	20.1	20.6	19.8	-0.7ppt	20.0	-0.6ppt
OP	983	211	1,604	386	82.9	2,000	24.7
OPM (%)	6.6	5.4	9.2	8.3	+1.7ppt	9.7	+0.5ppt
RP	1,007	216	1,626	390	80.6	1,988	22.3
NP	619	125	1,082	302	141.6	1,288	19.0
EPS (¥)	7.58	1.60	13.7	3.82	138.8	16.3	18.9
Dividend (¥)	1.0	n/a	2.0	n/a	n/a	n/a	n/a
Dividend Yield (%)	12.7	n/a	14.6	n/a	n/a	n/a	n/a

Source: Nippon Investment Bespoke Research UK Ltd based on S-Pool Inc.'s presentation materials

EXECUTIVE SUMMARY

- S-Pool Inc. announced FY20 1Q (Nov year-end) results on Apr 3, with better-than-expected OP of ¥386mil (+82.8% YoY / -3.5% QoQ) on sales of ¥4,675mil (+20.3% YoY / -3.0% QoQ).
- Sales were in line, but OP overshoot the firm's estimate thanks to more than expected hydroponic facility sales in Special Needs Employment Support and better efficiency in the Call Centre business.
- The firm forecasts 1H OP of ¥788mil (+3.3% YoY) on sales of ¥9,633mil (+16.1% YoY), and for the full year, OP of ¥2,000mil (+24.7% YoY) on sales of ¥20,636mil (+17.8% YoY).
- Impact of COVID-19 has not yet been apparent but may become more visible in 2H. Call centres will be run with lower utilisation rates once stricter social distancing requirements and as staggered work hours are introduced.
- The forecast for facility sales in Special Needs Employment Support has not been revised but the split between urban indoor farms and suburban outdoor farms was revised amid risks associated with urban locations and indoor environments.
- Logistics Outsourcing Service and Employment Process Support Service (OMUSUBI) were both in line. Logistics is least likely to be affected by the coronavirus impact, but OMUSUBI may be affected for it is the service for retailers and restaurants.

SEGMENTS

HR SOLUTIONS SERVICES SEGMENT

HR Solutions Services Segment OP was ¥307mil (+13.3% YoY / +23.3% QoQ) on sales of ¥3,462mil (+21.8% YoY / +2.3% QoQ) in IQ.

Nearly 80% of HR Solutions Services Segment comes from the call centre business, in which S-Pool dispatches groups of its staff members to call centre operators. Sales from call centre rose 27% YoY / 2.2% QoQ to ¥2,708mil thanks to continuous growth in demand for technical support and new services such as customer services for food delivery companies. S-Pool reckons that it continues to be the top staff dispatch agent for Bellsystem 24 (6183 JP). Sales to Bellsystem 24 increased 35% YoY in IQ.

IQ sales from call centre staff dispatch business overshot the initial expectation by 5.8%. So far, there has not been any impact to the call centre business in relation to COVID-19. Since many companies now accept that customer service is an important element of their businesses, demand for call centres is on an uptrend. However, amid challenges and new Government's requests related to the virus, S-Pool reckons there may be some negative impact from 2H. For example, to meet social distancing requirements, call centres need to place one empty desk between each desk and encourage workers to stagger their work hours so that the centres will not be overcrowded. Such measures will likely affect call centre utilisation rates by as much as 50% and require less numbers of operators. Given most call centres are concentrated in Tokyo, measures such as a lock down in Tokyo, will have a negative impact on the call centre business. S-Pool has an advantage in that 50% of its staff are dispatched to locations other than Tokyo, which can offset a potential slowdown in Tokyo should the lock down come into effect.

S-Pool is guiding for HR Solutions Services OP of ¥1,410mil (+19.3% YoY) on sales of ¥14,500mil (+15.9% YoY) in FY20, comprising call centre staff dispatch business sales of ¥10,875mil (+14.3% YoY). Although call centre business is likely to slow down in 2H, the firm reckons it is still possible to achieve the full-year guidance.

BUSINESS SOLUTIONS SEGMENT

Business Solutions Segment earned IQ OP of ¥352mil (+117.3% YoY / -25.4% QoQ) on IQ sales of ¥1,222mil (+15.9% YoY / -15.6% QoQ). S-Pool is guiding for Business Solutions Segment OP of ¥1,808mil (+19.4% YoY) on sales of ¥6,214mil (+23.2% YoY) in FY20.

Special Needs Employment Support Business

Some 54% of segment sales comes from the Special Needs Employment Support – a business that helps corporates meet the mandatory number of workers employed with disabilities, as well as helping jobseekers with disabilities to find jobs.

In IQ, S-Pool sold 156 plots of hydroponic facilities, well above the planned 108 plots, despite the fact that IQ (Dec-Feb) is a low season for the business. Total number of facilities under management has reached 3,091 plots (+43.2% YoY / +4.4% QoQ). Thanks to steady growth in facilities sold, monthly subscription fees from facility management has also improved: In IQ, sales from monthly subscription was ¥345mil (+57.5% YoY / +13.5% QoQ). The number of corporates using S-Pool's service as of the end of IQ was 261 companies, including 10+ new customers added in IQ, which implies an increase in repeat customers who buys more plots.

That corporates are required by law to hire 2.2% of their work force from special needs jobseekers is an area S-Pool has identified to be the least affected by the current event with COVID-19, given there is a hefty penalty and potential reputational risk if companies do not comply. As of the end of IQ, there is an order backlog of 384 plots vs. FY20 facility sales estimate of 1,026 plots. While the firm has not revised its guidance for facility sales, it has reviewed the farm locations amid the risk of Covid-19 exposure being higher in the urban area. Previously, the plan was to open

three suburban outdoor farm locations and two urban indoor farms. This has been revised to opening five outdoor farms and just one indoor farm. In 1Q, just one outdoor farm was opened. Three farms are to be opened in 2Q, followed by one farm in 4Q – locations for which have all been secured. Even though there are enough jobseekers near those locations to fulfil the roles, S-Pool also managed to convince corporates that usually want urban locations (as they are more convenient and there is often a higher number of special needs jobseekers) to be redirected to the outdoor farms.

Should farms need to be temporarily closed due to lock down, S-Pool's contracts with its existing customers stipulate that the firm is still entitled to receive the monthly management fee. Therefore, the firm has not yet altered its guidance to reflect the impact of stricter measures for the Special Needs Employment Support service.

Special Needs Employment Business: sales breakdown (Quarterly)									
Year to November									
(¥ million)	FY19					FY20			
	1Q	2Q	3Q	4Q	FY	1Q	YoY (%)	FYCE	YoY (%)
Sale of facilities (flow revenue)	180	465	306	436	1,387	242	34.4	1,576	13.6
Farm management fee (stock revenue)	219	239	276	304	1,038	345	57.5	1,654	59.3
Others (Recruitment Fee)	42	115	66	119	342	66	57.1	299	-12.6
Special Needs Employment Support Service	441	820	647	859	2,766	654	48.3	3,530	27.6

Source: S-Pool Inc. FY20 1Q Results Material

Logistics Outsourcing Services

1Q Logistics Outsourcing Services sales were ¥252mil (-21.5% YoY / -4.9% QoQ) – largely in line with guidance. Sales fell YoY because of changes in delivery costs charged to customers which came into effect in FY19. As of the end of Feb, the utilisation rate at the Shinagawa Centre was 70% and 85% at the Tsukuba Centre. Due to the COVID-19, online shopping demand has been surging. Since S-Pool's customers in this business are e-commerce merchants, the boost in online shopping and the subsequent increase in cargo volume are, in general, positive for the logistics services. However, such a positive impact has been affected by disruptions to the supply chain in China as many of its customers largely source their merchandises from China. Overall, S-Pool estimates that the impact from COVID-19 is neutral for this business.

OMUSUBI – Employment Process Support Service

Employment Process Support is a service that supports the employment process for retailers and restaurants. 1Q sales was ¥123mil (+41.5% YoY / -1.6% QoQ). 1Q (Nov~Feb) is a quiet season for job application. April and May are the busy months for filling part-time positions at restaurants and retailers as students start picking up part-time jobs. S-Pool reckons that the service is likely to be affected by COVID-19 as many restaurants have voluntarily closed. In April, it was expected that number of the job applications would be 50,000. Due to the impact of the virus, it is more likely to be 40,000 – though still higher than the 35,000 applicants recorded in 1Q. S-Pool has been working to enhance the services provided to include web-based interviews, provide video manual and offer preventive mental health services through tie-ups with HR technology companies, which can potentially raise the monthly ARPU of this service.

S-Pool Inc. (2471): Segment Sales and Operating Profit (Cumulative)										
¥million		FY19					FY20			
		1Q	2Q	3Q	FY	YoY (%)	1Q	YoY (%)	FYCE	YoY (%)
Human Resources Solution	Call Centres	2,134	4,422	6,869	9,518	24.2	2,708	26.9	10,875	14.3
	Sales Support	615	1,265	1,916	2,492	11.0	576	-6.3	3,000	20.4
	Others	93	202	347	505	6.5	178	91.4	625	23.8
	Segment Total	2,842	5,889	9,131	12,516	20.6	3,462	21.8	14,500	15.9
	Segment OP	271	591	934	1,182	17.7	307	29.8	1,410	19.3
	Segment OPM (%)	9.5	10.0	10.2	9.4	-0.3ppt	8.9	-0.6ppt	9.7	+0.3ppt
Business Solutions	Special Needs Employment Support Service	441	1,260	1,907	2,766	39.3	654	48.3	3,530	27.6
	Logistics Outsourcing Service	321	592	832	1,095	-25.4	252	-21.5	1,200	9.6
	Sales Support	147	266	381	517	-3.5	140	-4.8	600	16.1
	Employment process support (OMUSUBI)	87	198	311	437	43.8	123	41.4	600	37.3
	Professional HR Bank	60	114	171	235	20.5	53.0	-11.7	282	20.0
	Total Segment Sales	1,054	2,425	3,596	5,043	12.5	1,222	15.9	6,214	23.2
	Segment OP	162	673	1,042	1,514	76.5	352	89.1	1,808	19.4
	Segment OPM (%)	15.4	27.8	29.0	30.0	+10.5ppt	28.8		29.1	-0.9ppt
Total	Sales	3,896	8,314	12,727	17,559	18.1	4,684	20.2	20,714	18.0
	OP	433	1,264	1,976	2,696	44.8	659	52.2	3,218	19.4
Adjustment	Sales	-8	-18	-27	-37	n/a	-8	n/a	-78	n/a
	OP	-222	-502	-773	-1,093	n/a	-272	n/a	-1,217	n/a
Value as in P&L	Sales	3,888	8,296	12,699	17,522	18.4	4,675	20.2	20,636	17.8
	OP	211	763	1,203	1,604	65.9	386	82.9	2,000	24.7
	OPM (%)	5.4	9.2	9.5	9.2	+2.6ppt	8.3	+2.9ppt	9.7	+0.5ppt

Source: Nippon Investment Bespoke Research UK Ltd based on publicly available information on S-Pool Inc.

S-Pool Inc. (2471): Segment Sales and Operating Profit (Quarterly)										
¥million		FY19				FY20				
		1Q	2Q	3Q	4Q	1Q	YoY (%)	QoQ (%)		
Human Resources Solution	Call Centres	2,134	2,288	2,447	2,649	2,708	26.9	2.2		
	Sales Support	615	651	651	576	576	-6.3	0.0		
	Others	93	109	145	159	178	91.4	11.9		
	Total segment sales	2,842	3,047	3,242	3,384	3,462	21.8	2.3		
	Segment OP	271	320	343	249	307	13.3	23.3		
	Segment OPM (%)	9.5	10.5	10.6	7.4	8.9	-0.6ppt	+0.3ppt		
Business Solutions	Special Needs Employment Support Service	441	820	647	859	654	48.3	-23.9		
	Logistics Outsourcing Service	321	271	240	265	252	-21.5	-4.9		
	Sales Support	147	119	115	136	140	-4.8	2.9		
	Employment process support (OMUSUBI)	87	111	113	125	123	41.4	-1.6		
	Professional HR Bank	60	54	57	64	53	-11.7	-17.2		
	Total segment sales	1,054	1,371	1,170	1,448	1,222	15.9	-15.6		
	Segment OP	162	511	369	472	352	117.3	-25.4		
	Segment OPM (%)	15.4	37.3	31.5	32.6	28.8	+13.4ppt	-0.8ppt		
Total	Sales	3,896	4,418	4,412	4,832	4,684	20.2	-3.1		
	OP	433	831	712	722	659	52.2	-8.7		
Adjustment	Sales	-8	-10	-9	-10	-8	n/a	n/a		
	OP	-222	-280	-271	-320	-272	n/a	n/a		
Value as in P&L	Sales	3,888	4,408	4,403	4,822	4,675	20.2	-3.0		
	OP	211	551	440	400	386	82.9	-3.5		
	OPM (%)	5.4	12.5	10.0	8.3	8.3	+2.9ppt	+0.0ppt		

Source: Nippon Investment Bespoke Research UK Ltd based on publicly available information on S-Pool Inc.

BUSINESS MODEL SUMMARY

Human Resources Solutions Segment					
Business	Services	Target workforce	Clients	Business environment	Competitors
Temporary Staffing Service	Dispatch workers in a group with S-Pool's Field Consultants (group supervisors). Staff work as call centre staff and sales support at mobile phone stores and electrical retailers.	Those with no previous work experience (housewives) or workers who used to do different jobs, people in their 20s-30s with no notable job experiences	Call centre operators, makers of smartphones and electrical goods who need sales staff at retailers' stores	Demand from call centres remain solid. FY19 Sales from its top client Bell System 24 (6183 JP) doubled YoY. Demand for smartphone sales staff has already peaked. On the other hands, demand for onsite sales staff team from non-Japanese manufacturers of electrical goods and electrical retailers are rapidly surging.	WILL Group (6089 JP) CRG (7041 JP) Like (2462 JP) Hito Comm (3654 JP)
Business Solutions Segment					
Business	Services	Target workforce	Clients	Business environment	Competitors
Special Needs Employment Service	Bringing employers and jobseekers with intellectual disabilities together by providing work placement solutions (hydroponic farms)	Workers with disabilities, especially intellectual disabilities.	Firms with 45.5+ employees: Apparently, there are around 91,000 workers able for employment under the quota specified by the Employment Act	Under the Act on Employment Promotion of Persons with Disabilities, it is mandatory for companies with staff of more than 45.4 to hire 2.2% of its employees from people with disabilities. Nearly 46% of firms that meet this criterion are still in breach of the Act, risking a hefty penalty and having it on their permanent record. Jobseekers with physical disabilities are already fully employed. Therefore, to meet the mandatory requirements, the need to source workers from those with intellectual challenges will rise.	Startline (unlisted)
Logistics Outsourcing	E-commerce merchandise dispatch outsourcing services	No previous work experience, such as students and housewives	Small-to-medium e-commerce companies, especially so-called "repeat ECs"	S-Pool cancelled contracts with agencies which used to find tenants for the firm and cut off those that were unprofitable. With trucking companies having raised their fees, it also changed the fee structure to customers, therefore, sales fell YoY in FY19, but the business moved into the black.	Scroll (8005 JP)
OMUSUBI	Recruitment support for restaurants and branches	Part-time workers	Restaurants and retailers	Restaurant and retail branch managers are busy with day to day operations and often miss the opportunity to hire suitable part-time workers.	Misc.
Sales Support	Provide part-time workers for roles in merchandising and promotion, i.e. stacking shelves at supermarkets and drug stores	No previous work experience, especially housewives who often are unable to have fixed dates and/or times to work but prefer working in jobs that fits their day-to-day routines	Daily consumables makers	Supermarket and drug stores see daily merchandise offers as baits to draw more customers to their stores. Therefore, they are eager to fill shelf spaces with competitive and attractive products.	Mediaflag (6067 JP)

Source: Nippon-IBR based on publicly available materials

S-Pool Inc (2471 JP)							
(JPY million)	FY14	FY15	FY16	FY17	FY18	FY19	FY20CE
Sales	6,604	7,267	9,236	11,696	14,797	17,522	20,636
Operating Profit	207	59	507	674	983	1,604	2,000
Recurring Profit	191	49	496	687	1,007	1,626	1,988
Net Profit	165	-68	408	423	619	1,082	1,288
EPS (JPY)	58.89	-22.86	135.85	136.60	39.27	13.71	16.30
Adjusted EPS (JPY)	-	-	130.24	134.14	39.20	13.70	-
Cash flow from operation (CFO)	291	-253	725	801	724	1,696	-
Cash flow from investment (CFI)	-188	-388	-480	-577	-878	-1,474	-
Cash flow from finance (CFF)	229	513	138	-58	1	809	-
Cash and cash equivalent	819	691	1,074	1,240	1,087	2,119	-
Free cash flow (FCF)	103	-641	245	224	-154	1,032	-
CFO per share (JPY)		-84.24	241.40	258.43	45.88	-	-
FCF per share (JPY)	36.67	-213.43	81.58	72.27	-9.76	-	-
Total asset	2,155	2,664	3,717	4,493	5,801	8,659	-
Liabilities	1,399	2,000	2,675	3,019	3,769	5,623	-
Net asset	756	663	1,041	1,473	2,032	3,035	-
Capital	351	351	351	366	368	372	-
Shareholders' equity	756	657	1,035	1,459	2,024	3,035	-
BPS (JPY)	251.66	218.74	344.52	462.71	128.27	38.42	-
OPM (%)	3.13	0.81	5.49	5.76	6.64	9.15	9.69
ROE (%)	34.96	-9.62	48.23	33.92	35.54	42.78	-
ROA (%)	10.59	2.08	15.61	16.27	19.00	22.02	-
Shareholders' equity ratio (%)	35.08	24.66	27.85	32.47	34.89	35.05	-
D/E ratio (%)	185.05	304.41	258.45	206.92	186.22	185.27	-
Total asset turnover (X)	3.61	3.02	2.89	2.85	2.87	2.42	-
Interest coverage (x)	15.92	6.56	56.33	112.33	164.00	133.67	-
Current ratio (%)	138.46	126.14	111.64	110.17	100.51	109.32	-
Interest-bearing debt	494	1,037	1,204	1,144	1,203	2,091	-
EBITDA	253	144	673	913	1,286	2,006	-
EBITDA margin (%)	3.83	1.98	7.29	7.81	8.69	11.45	-
Number of full-time employees	243	341	411	546	623	721	-
Annual dividend (JPY / share)	10.00	10.00	10.00	18.00	5.00	2.00	3.30
Normal dividend	10.00	10.00	10.00	18.00	5.00	1.40	-
Commemorative dividend	-	-	-	-	-	0.60	-
Dividend pay-out ratio (%)	17.00	-	7.40	13.20	12.70	14.60	-
DoE (%)	6.20	4.30	3.60	4.50	4.50	6.20	-
Shares outstanding as of the end of fiscal year (shares)	3,003,400	3,003,400	3,003,400	3,153,400	15,780,500	79,007,500	-
Interim average shares outstanding (shares)	2,809,089	3,003,338	3,003,338	3,099,494	15,776,586	78,965,047	-
Treasury shares (shares)	62	62	62	129	692	3,855	-
Potential dilution (shares)	-	-	129,407	56,886	30,393	38,731	-

Source: Nikkei Value Search

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