

S-POOL INC. (2471 JP)

AIMS TO GROW AT A RATE OF MORE THAN 10% P.A. FOR THE NEXT 5 YEARS MOSTLY FROM ORGANIC GROWTH OF EXISTING BUSINESSES

FY20 RESULTS SUMMARY

S-Pool Inc. (2471 JP) reported FY20 (Nov yr-end) operating profit [OP] of ¥2,228mil (38.9% YoY) on sales of ¥21,009mil (+19.9% YoY). Both figures hit a record level for a fifth consecutive year and overshot the company's estimate by 1.8% and 11.4% respectively, thanks to:

- Better-than-expected earnings in Call Centre Staff Dispatch Service, which saw sales improve 28.2% YoY and beat guidance by 12.2%.
- A rapid recovery in Special Needs Employment Service which reported record hydroponic plots sales in Q4 alone (366 plots).

Of the ¥3,487mil YoY increase in FY20 sales, ¥2,733mil was generated from a 21.8% gain in the Human Resources Solution [HRS] segment, whose core business is the Call Centre Staff Dispatch Service. S-Pool's business portfolio has proved to be resilient to the current pandemic as the negative impact to sales from COVID was just ¥176mil.

FY20 OP saw a net increase of ¥624mil YoY. The largest contribution came from improved sales and an increase in cost reductions in the HRS segment. This boosted the HRS segment OP by 48.5% to ¥574mil YoY and led to a 2.0ppt YoY rise in the OPM to 11.5% thanks to demand from a series of COVID-related spot mandates, such as call centre services for the government subsidies. More than 90% of the segment OP is generated from the Call Centre Staff Dispatch Service.

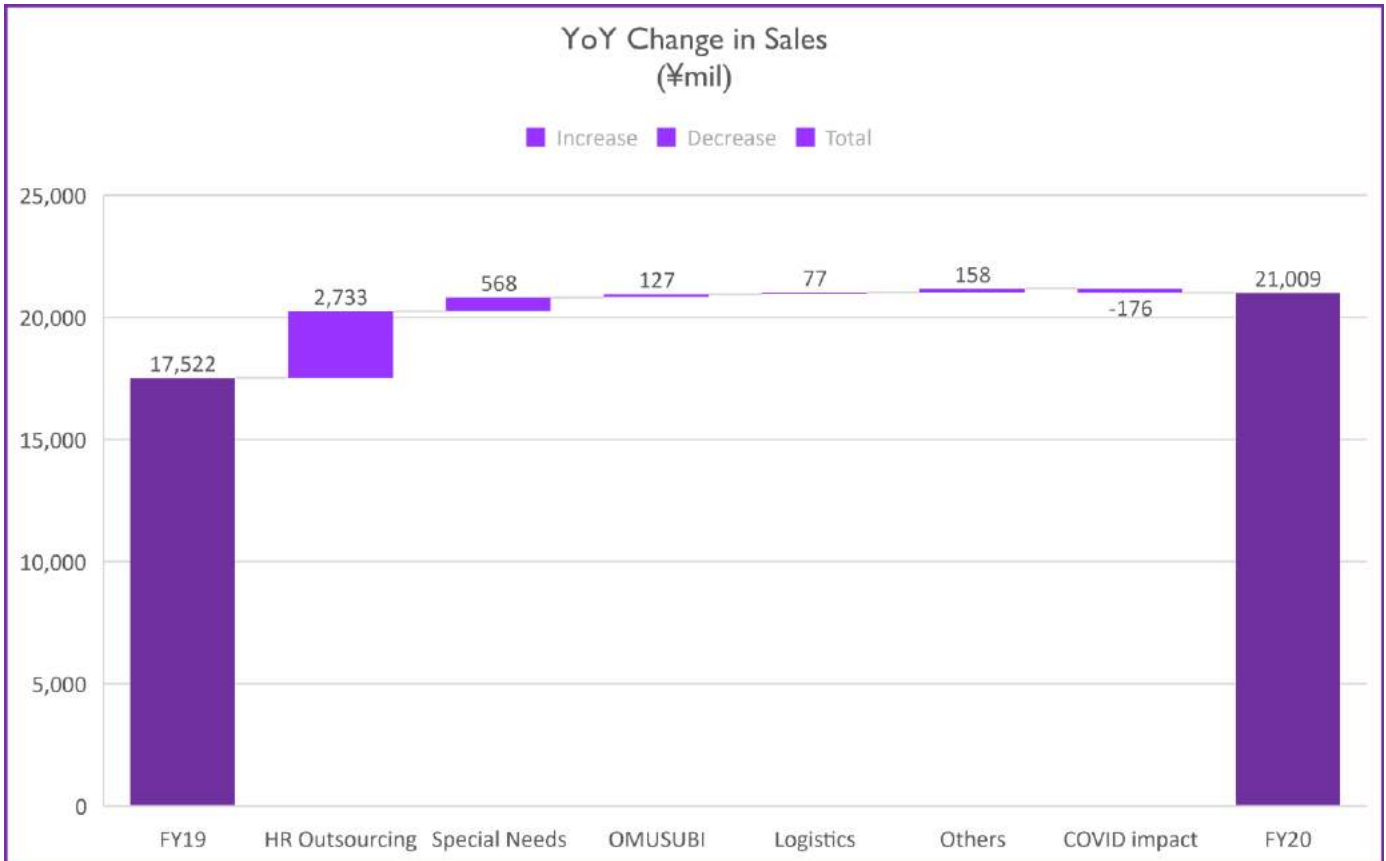
Another core business, Special Needs Employment Support, which is in the Business Solutions [BS] segment, reported FY20 sales of ¥3,335mil (+20.6% YoY). The business was somewhat hit by the COVID during the first three quarters because the firm was not able to engage in any marketing activities to sell hydroponic plots to customers, as well as delays in the training of jobseekers with special needs. However, in the Q4 alone, S-Pool saw record sales in the numbers of plots (366 plots vs. the previous record of 310 plots), earning sales of ¥519mil (+19.0% YoY / +119.0% QoQ). Special Needs Employment Support comprises more than 90% of the BS segment OP, with plot sales enjoying an OPM of 50%. This rapid recovery in hydroponic plots sales boosted the overall Q4 OPM by +0.9pp YoY / +13.3pp QoQ to 33.5%.

The Logistics Outsourcing Service, which offers warehouse and merchandise dispatch services to e-commerce ventures, saw a 7.0% YoY increase in FY20 sales to ¥1,172mil. There was a change to customer delivery cost charges, however, excluding that change, Logistics sales would have risen 25% YoY.

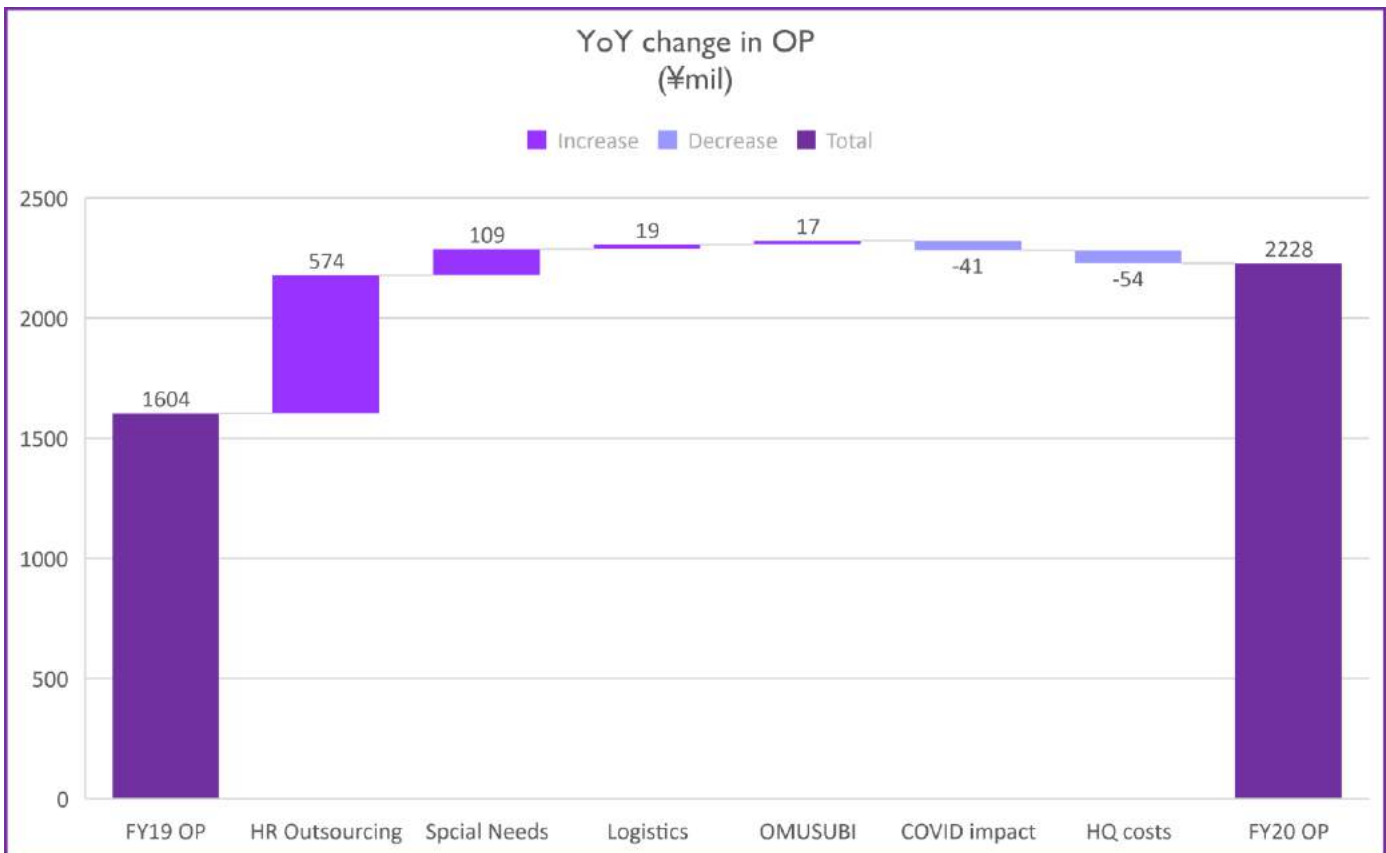
Sales in the Employment Process Support business, OMUSUBI, rose 29.1% YoY to ¥564mil. Although negatively affected by lower levels of hiring from restaurants, that was well enough offset by demand from other customers, such as supermarkets, drug stores and security guards.

EXECUTIVE SUMMARY

- S-Pool Inc. (2471 JP) renewed a record result with FY20 OP of ¥2,228mil (38.9% YoY) on sales of ¥21,009mil (+19.9% YoY) for a fifth year in a row.
- Growth in Call Centre Staff Dispatch Services, a sub-segment of the Human Resources Solutions (HRS) division, was greater than expected thanks to strong demand for customer services due to COVID.
- Special Needs Employment Service, which is in the Business Solutions (BS) segment, had a slow start during the first three quarters due to COVID. However, Q4 saw a rapid recovery in hydroponic facility sales prior to rise in employment quota for special needs employment in April 21.
- S-Pool is guiding for FY21 earnings with OP of ¥2,500mil (+12.2% YoY) on sales of ¥24,800mil (+18.0% YoY), renewing a record earnings.
- Although sales of Call Centre Staff Dispatch Service are forecast to grow +13.1% YoY, the firm expects segment OPM to fall 0.5ppt YoY due to moderate price rises and an increase in hiring cost.
- Special Needs Employment Services sales growth is estimated at +27.1% YoY but the segment OPM will likely fall by 2.5pp YoY due to change in sales mix with increase in indoor farms and longer void period in new farms in Aichi and Kansai.
- New 5-year management plan is announced. Under the plan, the firm aims to achieve OP of ¥5,000mil (5-yr CAGR 17.5%) on sales of ¥41,000mil (5-yr CAGR 14.3%) in FY25. ¥40,000mil out of the final year target sales will likely be earned by existing businesses' organic growth.



Source: S-Pool Inc., FY20 earnings presentation



Source: S-Pool Inc., FY20 earnings presentation

SEGMENTS

Human Resources Solutions (HRS) Segment

HRS FY20 OP hit ¥1,757mil (48.5% YoY) on sales of ¥15,250mil (+21.8% YoY). In the Q4 alone, OP was ¥423mil (+69.9% YoY / -32.2% QoQ) on sales of ¥3,988mil (+17.8% YoY / -3.2% QoQ). The core Call Centre Staff Dispatch service showed resilience under the pandemic as customer services are considered as essential for many businesses. Furthermore, S-Pool saw greater demand for call centre staff from spot contracts thanks to series of COVID-related government subsidies. As a result, HRS sales and OP overshot the company's estimate by 5.2% and 24.6% respectively.

Call Centre Staff Dispatch Service

Within the HRS segment is the Call Centre Staff Dispatch Service. This business reported FY20 sales of 12,200mil (+28.2% YoY), which surpassed the company's guidance by 12.2%. S-Pool did not suffer any cancellations from its existing mandates. Many companies see customer services an important factor to retain customers. The firm saw an increase in demand for customer services from sectors such as food delivery, technical support for PCs and software, mobile phone operators and broadband service providers. Furthermore, spot mandates for call centre rose on the back of COVID-related government subsidies. Usually, spot mandates are around 10% of the Service's sales, however, demand jumped to more than 15% in the Q3. Call Centre Staff Dispatch Service earned nearly 100% of the segment profit. Since spot mandates offer better margins than those on retainer, Q3 segment OPM reached 13.3% vs 11.8% in Q2 and 10.6% in FY19 Q3. The full year FY20 OPM for the full year reached 11.5%, +1.8pp above the company estimate and +2.1pp YoY.

Another reason for an improvement in the segment OPM was a reduction in hiring costs. The job market in Japan, measured by the Job Offers-to-Applicants ratio, peaked in FY19 at 1.6x. It hovered above 1.5x then fell when the COVID pandemic started in Japan to below 1.4x in Feb 20. Concurrent to the job market weakening, S-Pool observed that 1) it could hire staff without spending much on job advertisement costs, and 2) the retention rate of the existing staff improved. Together with strong sales momentum, lower hiring costs helped push the segment OPM higher. Monthly average of staff on assignment rose 14% YoY to 5,625 staff in FY20. At the same time, the firm continued to hire 4,378 people on average per month (+18% YoY). The key personnel, Field Consultants, who supervise other S-Pool staff onsite, also increased from 248 in FY19 to 298 in FY20.

Business Solutions (BS) Segment

FY20 segment OP was ¥1,619mil (+6.9% YoY) on sales of ¥5,825mil (+15.5% YoY) and below the company's estimate by 10.5% and 6.3%, respectively. Slower-than-expected hydroponic facility sales during the Q1~Q3 in Special Needs Employment Support was the largest cause of the shortfall. Special Needs Employment Service earns more than 90% of the segment OP. Hydroponic plot sales trend influences the level of the segment OPM for it is the highest margin business. FY20 segment OPM was down 2.2pp to 27.8%. However, Q4 OP alone surged +25.8% YoY / +108.4% QoQ to ¥594mil on sales of ¥1,771mil (+22.3% YoY / +25.6% QoQ).

Special Needs Employment Support

Special Needs Employment Support earned FY20 sales of ¥3,335mil (+20.6% YoY). The business revenue is divided into (1) the sale of hydroponic farm plots to corporates who want to hire jobseekers with special needs jobseekers, to meet employment quotas (spot sales), and (2) management fees for those plots (recurring revenue on a monthly fee basis). Sales of hydroponic plots, whose OPM is as high as 80%, had a slow start in FY20 due to a lack of marketing opportunities such as viewing by customers and delays in training jobseekers with special needs due to COVID.

FY20 hydroponic plots sales fell short of target at 936 plots (sales of ¥1,367mil, -1.4% YoY) vs the planned 1,026 (sales of ¥1,576mil). In the Q4 alone, plot sales spiked to hit a record in quarterly sales of 366 plots (sales of ¥519mil, +19.0% YoY / +119.0% QoQ). In Q3, S-Pool introduced web-marketing tools such as virtual viewing for customers as well as online training material for jobseekers.

Furthermore, the employment quota for special needs people under the Employment Promotion Law for Persons with Disabilities will be revised up from the current 2.2% of total employees to 2.3% by April 2021. Demand from companies that need to meet this legal requirement was stronger than S-Pool had imagined. The firm reckons that corporates are now becoming increasingly aware of ESG and SDGs issues. Consequently, this trend has helped boost demand for workplaces and opportunities for special needs jobseekers. When S-Pool first opened its Itabashi urban indoor farm in Q2, there was not much traction as customers were concerned about the indoor space under the pandemic. However, by Q4, all 222 plots were sold.

The recurring revenue from the farm management fees gradually increased throughout the year. In FY20, farm management fee revenues improved 48.9% YoY to ¥1,546mil, comprising 46.4% of the Special Needs Employment Support business. As of the end of FY20, the number of plots under management reached 3,829 plots – those plots generate a monthly subscription fee – and had an annual churn rate of 4%, lower than the average churn rate of enterprise SaaS companies (ca 5~7%), whose business model is to earn a monthly subscription fee from corporate customers.

At the end of FY20, S-Pool had an order back-log of only 50 hydroponic plots. In recent years, S-Pool's stock price tends to correlate with the quarterly order backlog of plots, especially around the earnings results. However, the lead-time between plot orders and sales has shortened from 3~6 months to less than 3 months thanks to expertise gained over time. Hence S-Pool is not concerned about a low order backlog. As of 13 January 2021, the order back-log increased to ca. 200 plots.

During FY20, the total number of companies that use the scheme increased to 321 from 259 in FY19 and number of special needs workers working at the farms rose from 1,480 workers in FY19 to 1,915 workers in FY20.

Special Needs Employment Business : sales breakdown (Quarterly)

¥ million)	FY19				FY20								FY21CE	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY	FYCE	YoY (%)	vs. CE(%)	FYCE	YoY (%)
Sale of facilities (flow revenue)	180	465	306	436	242	369	237	519	1,367	1,576	-1.4	-13.3	1,645	20.3
Farm management fee (stock revenue)	219	239	276	304	345	371	406	424	1,546	1,654	48.9	-6.5	2,247	45.3
Recruitment Fee	42	115	66	119	66	107	67	181	421	299	23.1	40.8	352	-16.4
Special Needs Support Total	441	820	647	859	654	848	712	1,121	3,335	3,530	20.6	-5.5	4,240	27.1

Source: S-Pool Inc. FY20 Presentation Material

Logistics Outsourcing Service

FY20 sales rose 7.0% YoY to ¥1,172mil on the back of firm sales in (1) merchandise dispatch services for e-commerce companies (FY20 sales of ¥1,054mil, +13.9% YoY) and (2) logistics centre management service (¥117mil, -32.0% YoY). If there was not change to the way delivery costs were charged to customers, sales would have risen by 25% YoY. Increasing e-commerce consumption under the pandemic has proved to be a tailwind for the business. Both logistics centres in Shinagawa and Tsukuba were operating at above 90% utilisation rate.

Employment Process Support Service, OMUSUBI

The Employment Process Support Service has somewhat been influenced by COVID. The firm reported FY20 sales of ¥564mil (+29.1% YoY). Ca. 30% of segment sales come from the restaurant and hospitality sector, which saw weak demand for hiring staff. However, the dip in demand from such sectors was more than offset by supermarkets, drug stores and manned security.

S-Pool Inc. (2471): Segment Sales and Operating Profit (Cumulative)

(¥million)		FY19	FY20						FY21CE		
		FY	Q1	IH	Q3	FY	FYCE	vs. CE (%)	YoY (%)	FYCE	vs. CE (%)
HRS	Call Centres	9,518	2,708	5,624	8,997	12,200	10,875	12.2	28.2	13,800	13.1
	Sales Support	2,492	576	1,132	1,640	2,162	3,000	-27.9	-13.2	2,500	15.6
	Others	505	178	386	625	n/a	625	n/a	n/a	1,200	n/a
	Segment Total	12,516	3,462	7,142	11,261	15,250	14,500	5.2	21.8	17,500	14.8
	Segment OP	1,182	352	786	1,334	1,757	1,410	24.6	48.6	1,930	9.8
	Segment OPM (%)	9.5	10.2	11.0	11.9	11.5	9.7	+1.8pp	+2.0pp	11.0	-0.5pp
BS	Special Needs	2,766	654	1,503	2,215	3,335	3,530	-5.5	20.6	4,240	27.1
	Logistics	1,095	252	562	867	1,172	1,200	-2.3	7.0	1,400	19.5
	Sales Support	517	140	197	n/a	n/a	600	n/a	n/a	n/a	n/a
	OMUSUBI	437	123	277	418	564	600	-6.0	29.1	690	22.3
	Prof. HR Bank	235	53	93	n/a	n/a	282	n/a	n/a	n/a	n/a
	Total Segment Sales	5,043	1,222	2,644	4,054	5,825	6,214	-6.3	15.5	7,408	27.2
	Segment OP	1,514	307	740	1,025	1,619	1,808	-10.5	6.9	1,873	15.7
	Segment OPM (%)	30.0	25.1	28.0	25.3	27.8	29.1	-1.3pp	-2.2pp	25.3	-2.5pp
Total	Sales	17,559	4,684	9,787	15,315	21,075	20,714	1.7	20.0	24,908	18.2
	OP	2,696	659	1,527	2,359	3,376	3,218	4.9	25.2	3,803	12.6
Adjustment	Sales	-37	-8	-27	-47	-65	-78	n/a	n/a	-108	n/a
	OP	-1,093	-272	-536	-801	-1,148	-1,217	n/a	n/a	-1,303	n/a
Value as in P&L	Sales	17,522	4,675	9,759	15,268	21,009	20,636	1.8	19.9	24,800	18.0
	OP	1,604	386	991	1,559	2,228	2,000	11.4	38.9	2,500	12.2
	OPM (%)	9.2	8.3	10.2	10.2	10.6	9.7	+0.9pp	+1.4pp	10.1	-0.5pp

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				YoY (%)	QoQ (%)
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
HRS	Call Centres	2,134	2,288	2,447	2,649	2,708	2,916	3,373	3,203	20.9	-5.0
	Sales Support	615	651	651	576	576	556	507	523	-9.2	3.2
	Others	93	109	145	159	178	208	239	263	65.4	10.0
	Total segment sales	2,842	3,047	3,242	3,384	3,462	3,680	4,119	3,988	17.8	-3.2
	Segment OP	271	320	343	249	352	434	548	423	69.9	-22.8
	Segment OPM (%)	9.5	10.5	10.6	7.4	10.2	11.8	13.3	10.6	+3.2pp	-2.7pp
BS	Special Needs	441	820	647	859	654	848	712	1,121	30.5	57.4
	Logistics	321	271	240	265	252	310	303	307	15.8	1.3
	Sales Promotion Support	147	119	115	136	140	57	n/a	n/a	n/a	n/a
	OMUSUBI	87	111	113	125	123	154	139	148	18.4	6.5
	Professional HR Bank	60	54	57	64	53	40	n/a	n/a	n/a	n/a
	Total segment sales	1,054	1,371	1,170	1,448	1,222	1,422	1,410	1,771	22.3	25.6
	Segment OP	162	511	369	472	307	433	285	594	25.8	108.4
	Segment OPM (%)	15.4	37.3	31.5	32.6	25.1	30.5	20.2	33.5	+0.9pp	+13.3pp
Total	Sales	3,896	4,418	4,412	4,832	4,684	5,102	5,529	5,760	19.2	4.2
	OP	433	831	712	722	659	867	833	1,017	40.9	22.1
Adjustment	Sales	-8	-10	-9	-10	-8	-19	-20	-18	n/a	n/a
	OP	-222	-280	-271	-320	-272	-264	-265	-347	n/a	n/a
Total as in PL	Sales	3,888	4,408	4,403	4,822	4,675	5,085	5,508	5,741	19.1	4.2
	OP	211	551	440	400	386	605	568	670	67.5	18.0
	OPM (%)	5.4	12.5	10.0	8.3	8.3	11.9	10.3	11.7	+3.4pp	+0.0pp

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

FY21 GUIDANCE

S-Pool is guiding for FY21 OP of ¥2,500mil (+12.2% YoY) on sales of ¥24,800mil (+18.0% YoY), notching up yet another year of record earnings. Each segment's earnings are guided as follows:

S-Pool Inc. (2471 JP) : Results & Forecasts											
(¥mil)	FY19	FY20						FY21			
	FY	1H	2H	FY	FYCE	YoY (%)	vs. CE (%)	1H	2H	FYCE	YoY (%)
Sales	17,522	9,759	11,250	21,009	20,636	19.9	1.8	11,876	12,923	24,800	18.0
GP	5,214	2,874	3,502	6,377	6,122	22.3	4.2	3,353	3,752	7,106	11.4
GPM (%)	29.8	29.5	31.1	30.4	29.7	+0.6pp	+0.7pp	28.2	29.0	28.7	-1.7pp
SG&A	3,610	1,883	2,265	4,148	4,121	14.9	0.7	2,253	2,353	4,606	11.0
SG&A/Sales (%)	20.6	19.3	20.1	19.7	20.0	-0.9pp	-0.3pp	19.0	18.2	18.6	-1.1pp
OP	1,604	991	1,237	2,228	2,000	38.9	11.4	1,100	1,399	2,500	12.2
OPM (%)	9.2	10.2	11.0	10.6	9.7	+1.4pp	+0.9pp	9.3	10.8	10.1	-0.5pp
RP	1,626	989	1,240	2,229	1,988	37.1	12.1	1,094	1,393	2,488	11.6
NP	1,082	688	892	1,580	1,288	46.0	22.7	712	922	1,635	3.5
EPS (¥)	13.7	8.7	11.3	20.0	16.3	45.9	22.7	9.02	20.7	20.7	3.5
Dividend (¥)	2.0	n/a	n/a	3.3	3.3	65.0	0.0	n/a	n/a	4.1	24.2
Dividend P/O (%)	14.6	n/a	n/a	16.5	20.2	n/a	n/a	n/a	n/a	19.8	n/a

Source: Nippon Investment Bespoke Research UK Ltd based on S-Pool Inc. FY19 & 20 presentation materials

Human Resources Solutions (HRS) Segment

The firm is guiding for FY21 HRS segment OP of ¥1,930mil (+9.8% YoY) on sales of ¥17,500mil (+14.8% YoY). Sales of Call Centre Staff Dispatch Service is guided for ¥13,800mil (+13.1% YoY).

S-Pool's largest customer is Bellsystem 24 (6183 JP), from which the firm earned ca. 21% of the FY20 sales (ca. 37% of FY20 Call Centre Staff Dispatch sales). In FY20, sales from Bellsystem grew ca. 27% YoY from ¥3,536mil earned in FY19 (20.2% of FY19 sales). However, business with the other two major call centre operators, namely, Transcosmos (9715 JP) and Relia Inc (4708 JP), generates much less revenue than that with Bellsystem. The future growth of the Service will likely depend on whether the firm can increase its presence with those customers. A potential risk to the S-Pool's Service is that call centre operators are aiming to increase their in-house call centre staff, hence management reckons that it is a risk to have too high an exposure to one operator. Moreover, given there is a continuous shortage in call centre staff due to the stressful nature of the work and often leads to a low job retention rate, steady demand for outsourcing staff will likely continue.

Segment OPM will likely fall slightly in FY21 to 11.0% from 11.5% in FY20 due to:

1. A moderate price hike YoY. In April 2020, the introduction of equal pay for equal work regulations was passed and customers had to accept paying higher wages. However, S-Pool reckons negotiations in this year will be tougher as COVID has dampened business.
2. Hiring cost will likely rise. Although the staff retention and job advertisement costs were favourable for the firm in FY20, the structural shortage of call centre staff is unlikely to change.

Business Solutions (BS) Segment

FY21 guidance for the BS Segment is OP of ¥1,873mil (+15.7% YoY) on sales of ¥7,408mil (+27.2% YoY).

Special Needs Employment Support

In Special Needs Employment Services, the firm is guiding for sales of ¥4,240mil (+27.1% YoY). In FY21, S-Pool plans to newly open six farms – the first two farms in the Kansai region (including one indoor farm), along with two farms in Aichi (of which one is indoor) and two farms in the Kanto region. S-Pool plans to sell 1,035 plots (¥1,645mil, +20.3% YoY) in FY21, with recurring revenue the main source of growth.

The average monthly management fee for an outdoor farm is ¥40,000/plot, while that of an indoor plot is ¥65,000/plot for the Itabashi and Tokyo sties, and will likely be ca. ¥60,000/plot in the new indoor farm in Kansai. The monthly fee changes depending on the rent the firm pays, however, the fee is set so that the profit margin remains the same between outdoor and indoor farms.

While sales will continue to expand in FY21, farm management fee revenue is expected to rise 45.3% YoY to ¥2,247mil (53% of the Special Need Employment Service revenue), the firm expects BS segment OPM to drop from 27.8% in FY20 to 25.3% due to:

1. **Lead Times:** During the construction of farms, there is a void period during which S-Pool bears some fixed costs, until all the plots are sold. An outdoor farm tends to be in the red by ¥15~20mil in its first year of operation. In case of indoor farms, the fixed cost burden to S-Pool is larger because of hefty rents. In case of Itabashi, it took 10 months for all the plots to sell. For the new indoor farms in both Kansai and Aichi, the firm assumes a longer void period of one year, creating a loss of ca. ¥50mil for each of the two new indoor farms in FY21.
2. **Sales Mix Changes in Facility Sales:** The price per facility differs between indoor and outdoor plots. However, the fee is set so that the profit in value remains the same between the two. As the sales of more expensive indoor plot sales increases, the profitability of the facility sales will likely go down.

Logistics Outsourcing Service

In FY21, S-Pool is guiding for Logistics Outsourcing Service sales of ¥1,400mil (+19.0% YoY). Management sees the key to improving profitability is to have its own warehouse asset – demand and rents for warehouses is high on the back of growing e-commerce. The firm reckons that it could reduce fixed cost by 5% if it has its own warehouse instead of paying rent, the cost of which makes S-Pool's logistics business less cost competitive for its e-commerce customers. In FY20, the business achieved an OPM of 12.5%, up from 11.0% in FY19, thanks to improved utilisation rates at the two centres both of which were operating above 90% capacity. The firm is aiming for an OPM of 15% in the near-term by introducing automated processes and investing in its own distribution centre. By FY25, the end of the 5-year Medium-term Management Plan, S-Pool aims to achieve 20% OPM in the Logistics Outsourcing Service, as it should have its own warehouse facilities.

Employment Process Support Service, OMUSUBI

S-Pool is guiding for FY21 sales of ¥690mil (+22.0% YoY) although, due to COVID, management has a conservative view on hiring demand in the restaurant / hospitality industry. The firm has secured a large order for employment processing support from a nationwide drug store chain which will likely boost sales in FY21.

A New Business – Environment Management Support Service

S-Pool consolidated blue dot green Inc., a carbon offset solution provider in 2020. Its current core business is to trade carbon offset credits to companies that are aiming for net zero carbon emissions. In FY21, this new business is expected to earn sales of ¥235mil. Currently, 90% of sales is generated from carbon credit broking and 10% from consulting. Its main customers include EPCOS, airlines and manufacturers.

Shareholder Return

S-Pool plans to pay a cash dividend of ¥4.10/share in FY21. Its benchmark pay-out ratio is 20%, however, should the firm see a YoY decline in earnings, it will still commit to paying a dividend. The cash dividend will not be reduced unless the amount surpasses 60% of the year's EPS.

MEDIUM-TERM MANAGEMENT PLAN

S-Pool announced a new 5-year management plan together with its FY20 results. The company is targeting FY25 OP of ¥5,000mil (5-yr CAGR 17.5%) on sales of ¥41,000mil (5-yr CAGR 14.3%) and will focus on three key strategies:

1. Support the organic growth of its existing businesses.
2. Seek growth opportunities in new business areas.
3. Reinforce management's capability on ESG.

The company is modelling for ¥40,000mil of the ¥41,000mil in FY25 sales to come from the organic growth of its existing businesses.

In the HRS segment, S-Pool is guiding for OP of ¥3,000mil (5-yr CAGR 11.3%) on sales of ca. ¥27,500mil (5-yr CAGR 12.5%) in FY25 by becoming a top player in call centre staffing services. The firm will also seek out new business opportunities in the staff dispatch business by expanding into other types of work and its regional coverage. To date, the Call Centre Staff Dispatch business has grown organically. While there are still opportunities for growth within the existing business, S-Pool does not rule out possibilities for M&A going forward.

In Special Needs Employment Support, on average, S-Pool plans to launch 1,200 hydroponic plots/annum and expects to have a total of 10,000 plots under management in FY25. From the sale of the plots and the farm management fees, the firm forecasts OP of ¥3,000mil (5-yr CAGR ca. 15.3%) on sales of ¥8,000mil (5-yr CAGR 19.1%). Management hopes the company will become the top solution provider for the special needs job market, not only by establishing a dominant position in hydroponic solutions but also cultivating a new suite of employment opportunities to provide variety of choice for the jobseekers.

For Logistics Outsourcing Services, the firm's FY25 OP target is ¥500mil (5-yr CAGR 27.7%) on ¥2,500mil (5-yr CAGR 16.4%). Since the Lehman Crisis, S-Pool has continued to work on restructuring its balance sheet. As a result, the current shareholder's equity ratio is ca. 40%. During the next five years, the firm plans to invest in its own zero emission logistics centre in an effort to become cost competitive as the e-commerce distribution business expands.

The Employment Process Support, *OMUSUBI*, FY25 target is for OP of ¥400mil on sales of ¥1,500mil (5-yr CAGR 21.6%). Its new business at blue dot green Inc. is expected to earn sales of ¥1,000mil.

FY21 Guidance and 5-Year Medium-Term Management Plan

(¥mil)	FY20	FY21CE	YoY (%)	FY25CE	5-yr CAGR (%)
HRS Segment Sales	15,250	17,500	14.8	27,500	12.5
Call Centre	12,201	13,800	13.1	n/a	n/a
Sales Support	2,162	2,500	15.6	n/a	n/a
Others	887	1,200	35.3	n/a	n/a
Segment OP	1,757	1,930	9.8	3,000	11.3
OPM (%)	11.5	11.0	-0.5pp	10.9	n/a
BS Segment Sales	5,825	7,408	27.2	11,800	15.2
Special Needs	3,335	4,240	27.1	8,000	19.1
Logistics	1,172	1,400	19.5	2,500	16.4
OMUSUBI	564	690	22.3	1,500	21.6
blue dot green Inc.	n/a	235	n/a	1,000	n/a
Segment OP	1,619	1,873	15.7	3,900	19.2
OPM (%)	27.8	25.3	-2.5pp	33.1	n/a
Sales	21,009	24,800	18.0	41,000	14.3
HQ costs	1,148	1,303	13.5	1,900	n/a
OP	2,228	2,500	12.2	5,000	17.5
OPM (%)	10.6	10.1	-0.5pp	12.2	n/a

Source: Nippon-IBR based on S-Pool Inc.'s presentation materials

Financial Summary						
(¥mil)	FY16	FY17	FY18	FY19	FY20	FY21CE
Sales	9,236	11,696	14,797	17,522	21,009	24,800
Operating Profit	507	674	983	1,604	2,228	2,500
Recurring Profit	496	687	1,007	1,626	2,229	2,488
Net Profit	408	423	619	1,082	1,580	1,635
EPS (JPY)	135.85	136.60	39.27	13.71	20.00	20.69
Adjusted EPS (JPY)*	130.24	134.14	39.20	13.70	-	-
Cash flow from operation (CFO)	725	801	724	1,696	2,234	-
Cash flow from investment (CFI)	-480	-577	-878	-1,474	-2,054	-
Cash flow from finance (CFF)	138	-58	1	809	215	-
Cash and cash equivalent	1,074	1,240	1,087	2,119	2,514	-
Free cash flow (FCF)	245	224	-154	222	-	-
CFO per share (JPY)	241.40	258.43	45.89	21.48	-	-
FCF per share (JPY)	81.58	72.27	-9.76	2.81	-	-
Total asset	3,717	4,493	5,754	8,659	11,305	-
Liabilities	2,675	3,019	3,721	5,623	6,837	-
Net asset	1,041	1,473	2,032	3,035	4,468	-
Capital	351	366	368	372	372	-
Shareholders' equity	1,035	1,459	2,024	3,035	4,459	-
BPS (JPY)	344.52	462.71	128.27	38.42	56.43	-
OPM (%)	5.49	5.76	6.64	9.15	10.60	10.08
ROE (%)	48.23	33.92	35.54	42.78	42.17	-
ROA (%)	15.61	16.27	19.09	22.09	22.15	-
Shareholder equity ratio (%)	27.85	32.47	35.18	35.05	39.44	-
D/E ratio (%)	258.45	206.92	183.84	185.27	153.33	-
Total asset turnover (X)	2.89	2.85	2.89	2.43	2.10	-
Interest coverage (x)	56.33	112.33	164.00	133.67	101.50	-
Current ratio (%)	111.64	110.17	98.42	109.32	101.08	-
Interest-bearing debt	1,204	1,144	1,203	2,091	2,863	-
EBIT	505	693	1,013	1,638	-	-
EBIT Margin (%)	5.47	5.93	6.85	9.35	-	-
EBITDA	673	913	1,286	2,006	2,750	-
EBITDA margin (%)	7.29	7.81	8.69	11.45	13.09	-
Dividend (JPY) ¹	0.40	0.72	1.00	2.00	3.30	4.10
Total dividend payment from retained earnings	30	56	78	158	260	-
Dividend pay-out ratio (%)	7.40	13.20	12.70	14.60	16.50	19.82
DOE (%)	3.60	4.50	4.50	6.20	7.00	-
Shares outstanding (shares) ²	3,003,400	3,153,400	15,780,500	79,007,500	79,007,500	79,007,500
Treasury (shares)	62	129	692	3,855	3,855	3,855

Source: Nikkei Value Search

¹ Dividend figures are adjusted for 1:5 stock split in March 18 and another 1:5 stock split in October 19.² 1:5 stock split in March 18 and the same 1:5 split in October 19.

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