



RELIA, INC.

(4708 JP)

Initiation Report

ONE OF THE TOP 3 CALL / CONTACT
CENTRE BPO SERVICE PROVIDERS IN JAPAN

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Nippon Investment Bespoke Research UK Ltd

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A player specialised in contact centre BPO, the market in the global growth trajectory.

Relia, Inc. is a business process outsourcing [BPO] service provider which specialises in call (contact) centre outsourcing and related back-office functions. The firm was founded in 1987 as a call centre operator Moshi Moshi Hotline by 12 investors including two of the current top two shareholders Mitsui & Co. (8031 JP) and Central Security Patrols (9740 JP), which own 35.47% and 9.26%, respectively. Bellsystem 24 (6183 JP) – the pioneer of Japan’s call centre industry– was founded in 1982 and is Relia’s closest competitor to date.

The call centre industry in Japan is estimated to be a ¥1,015bil (ca. US\$9.3bil) market and is expected to grow at a compound annual growth rate [CAGR] of 1.4% from FY20 to FY22, according to a report by the Yano Research Institute [YRI], *2020 Call Centre Market in Japan ~ Services and Solutions*. The report also estimates that the call centre outsourcing market comprises ca. 44.5% of the overall call centre market. Relia is one of the main players in the call centre outsourcing market along with its listed competitors such as Bellsystem 24 and Transcosmos (NB: Transcosmos does not disclose domestic call centre revenues as an independent segment).

According to YRI, the FY20 call centre outsourcing market in Japan, which YRI classifies as a part of the call centre industry universe, is estimated to be worth ¥452bil (US\$4.1bil) and is expected to grow at a CAGR of 1.9% over FY20~FY22. The CAGR estimated by YRI contrasts with estimates by Businesswire, which forecasts growth of 3% CAGR in the global call centre outsourcing market between CY20~CY24 to reach US\$90bil. The critical difference in the growth rate estimates stems from the fact that many organisations in Japan still operate in-house call centres via their subsidiaries. This suggests that there is still room for growth in Japan’s call centre outsourcing market. As corporations continue to find ways to improve efficiency and profitability, outsourcing provides such a solution.

Relia’s Contact Centre Business in Japan has been stable thanks to recurring revenue from its diversified client base. In 2016, to explore further growth opportunities in this business area, Relia acquired two companies in the Philippines for ¥20bil, forming its subsidiary Inspiro Group. This acquisition enabled Relia to access the APAC market, where the call centre outsourcing business is seeing firm growth (5-yr CAGR ca 6.8%) and the US, the largest BPO market in the world. As a global trend, companies will likely continue outsourcing their call centre functions to independent call centre service providers in the APAC regions. The regions offer rich human resources, low labour costs and multilingual skills that lure clients. Inspiro Group has been profitable (before goodwill amortisation) since the acquisition, however, Relia reported goodwill impairments in 2018 to hedge against the potential risk of seeing less revenue from its largest US customer.

The second pillar of Relia’s business is the Back Office Business. The Back Office Business provides various back-office outsourcing services, especially those peripheral to the call centre operations, to clients that include private companies and the public sector such as government agencies. Many Japanese companies have not yet outsourced back-office tasks, although Relia expects that the shift to digitalisation and pressure to improve profitability will be the catalyst for this service to grow.

Although call centre outsourcing is relatively advanced in Japan, the rest of Japan's BPO market is yet to bloom. Historically, Japanese companies prefer handling back-office operations in-house, primarily due to rather a rigid personnel system. However, as global competition increases, Japanese companies have stepped up to improve their business return measures by better allocating resources to critical and core activities. As a result, non-core activities, such as various back-office operations, be it simple or cumbersome, are target areas for outsourcing. Furthermore, multiple closures and restrictions under COVID made companies realise the importance of customer engagement. COVID-related spot projects boosted demand for call centre outsourcing throughout FY20. Call (contact) centre operators such as Bellsystem 24 and Transcosmos have reported a boost in earnings in FY20 thanks to an increase in various spot mandates. Over the longer term, however, advanced digitalised processes required at call (contact) centres will likely push companies to outsource customer communication functions to specialist operators on a more permanent basis.

Business Model

Relia currently has two business pillars run by the parent, nine consolidated subsidiaries, two non-consolidated subsidiaries, and two equity method companies. Those business segments are as follows:

1. Contact Centre Business

The Contact Centre Business is Relia's core business. Over FY20 Q1~Q3, this segment has generated 63.3% of total OP and 82.9% of total sales. Having originally started as a call centre operator, Relia has expanded its services in response to expanding digital channels and the penetration of internet and smartphones. These include digitalised communication methods such as email, webform, SNS, voice recognition and chat (both AI chatbot and human chat), as well as a conventional telephone communication. In the domestic contact centre business, the firm competes mainly with Japan's two large call (contact) centre operators Bellsystem 24 and Transcosmos.

Relia's role is to provide planning, designing and the management of call (contact) centre operations for companies in:

- 1) Inbound (handling incoming customer contacts such as customer support),
- 2) Outbound (handling outgoing customer contacts such as telemarketing and survey) and
- 3) Non-voice (similar to call handling but instead of speaking on the phone the service agents answer support tickets, emails, and live chat services) services. Functions covered through these services include help desk services – customer support, sales support, technical support – doing surveys, providing multi-channel diagnosis and VoC analysis.

Call (contact) centres are the first point of contact for consumers. Therefore, the response and handling given by the call (contact) centre determine the quality of customer services. Outsourcing call centre functions has become relatively common among Japanese companies and will likely continue to have demand going forward. While a traditional call centre primarily uses a telephone channel, an advanced call (contact) centre offers multi-channel communication, including emails, webforms, text and chats, in addition to a telephone channel. The operation of an advanced call (contact) centre requires operators to have the skills to handle such multi-channel communication requirements. Moreover, those services often need to be sufficiently staffed and to operate 24/7. This suggests it would be inefficient for a company to have such an operation in-house.

While the domestic business generates stable earnings, Relia first entered the overseas market through a joint investment with Mitsui & Co. in MOCAP Limited in Thailand in 2008. More recently, in 2016, the firm acquired SPi CRM, Inc. (currently Inspiro Relia, Inc.) and Infocom Technologies, Inc., CRM (customer relationship management) companies in the Philippines. Through these mergers, Relia gained access to the US market – the largest BPO market in the world – and to the APAC markets which require services in multiple languages.

2. Back Office Business

In this business, Relia provides more bespoke functions to meet clients' miscellaneous outsourcing needs. Initially, the firm started providing back-office services peripheral to call centres, such as paperwork and data processing. The firm is then able to cross-sell to the Contact Centre Business clients. This has led to an increasing number of clients who now solely rely on Relia for extended services in HR, and general administration. Competitors in this segment include (1) BPO service providers such as Toppan Forms (7862 JP), and (2) the BPO segment of staffing service providers such as Persol Holdings (2181 JP) and Pasona Group (2168 JP), to name a few. Over the 9-months of FY20, the Back Office segment generated 31.8% of total OP and 13.8% of total sales. The segment FY20 Q1~Q3 OPM of 15.5% is higher than that of the Contact Centre Business OPM of 5.1% thanks to an increase in spot business.

The Back Office Business has a close correlation to the Contact Centre Business. Relia aims to cross-sell the back-office services to companies that use its call centre services. Although outsourcing call centre functions have become more common among Japanese companies, back-office outsourcing has not progressed. Relia sees growth potential in its Back Office Business on the back of Japan's labour shortage. The Japanese government aims to digitalise many public office tasks, which will likely boost outsourcing demand. As aforementioned, companies are constantly under pressure to improve profitability, hence outsourcing non-core operations to reduce costs / overheads.

Industry Barrier-to-Entry

Relia, along with Bellsystem 24 and Transcosmos, is one of Japan's three major call (contact) centre outsourcing service providers. YRI estimates Japan's call centre outsourcing market size to be ca. ¥452bil in FY20. Although Transcosmos's domestic revenue includes revenue sources other than call centre outsourcing, Relia and Bellsystem 24's call (contact) centre outsourcing revenues combined are approximately 50% of the market as defined by YRI. That said, the Call Centre Association [CCA] of Japan, has ca. 100 active members – is evidence of just how fragmented the market remains, though the CCA members also include quasi-in-house call centre operators that are call centre subsidiaries of big corporations. This implies that there are a limited number of pure outsourcing players.

The same trend is also evidenced in the global market, where there are a small number of dominant players and multiple numbers of small players. Although setting up a call (contact) centre may not cost much, the expertise required, such as managing human resources with high turnover, having the capability to hire enough manpower with required skills in a timely manner, being able to educate staff and operate the entire centre, provides a high barrier to entry.

Growth Factors

Relia currently has a diversified client base made of 634 companies to whom it provides support in 12 languages. The firm has over 36,000 employees spread across 60+ centres globally. Call centre operators commonly seek growth potential in the following two factors:

Sales by Customer Industries					
(¥mil)	FY18	FY19		FY20	
	FY	IH	FY	IH	FYCE
Telecom	18,300	9,200	18,200	9,200	
Financial	20,100	10,700	23,100	11,800	
Utilities / Infrastructure	22,300	12,600	27,200	13,200	
Public Offices	11,100	5,500	12,900	6,000	
Broadcasting	2,600	1,500	2,800	1,200	
Manufacturing	9,600	5,000	9,700	4,500	
IT	7,800	4,000	7,900	3,900	
Consumption / Logistics	6,800	4,000	8,300	4,300	
Services & Others	3,100	1,800	3,800	1,600	
Total Domestic Sales	101,700	54,300	113,900	55,700	111,000
Recurring	100,000		106,700		107,000
Spot	1,600		7,200		4,000

Source: Nippon-IBR based on earnings results materials by Relia, Inc.

- **High proportion of recurring revenue**
Some 80~90% of Relia's domestic sales comes from its top 100 clients out of 600+ customer base. More importantly, many of its customers, including those top 100 customers, provide repeat business. Consequently, the firm generates recurring revenue, though any large spot project can cause volatility to its revenue stream. Currently, ca. 70% of the firm's domestic sales (ca. 88% of the total sales) comes from customers within the telecom, financial industry as well as from EPCOs and public entities. That said, Relia also has a diversified customer base. For example, on the parent basis, sales (Contact Centre and Back Office together) from a single top client does not exceed ¥5,000mil.

Relia is guiding for FY20 domestic recurring revenue of ¥107,000mil (+0.3% YoY), ca. 96% of total domestic revenue.

- **Overseas call (contact) centre operation**
Through the overseas subsidiaries and affiliates, Relia has gained access to overseas markets. Specifically, it has access to the outsourcing demand by US and other English speaking countries which exhibit a much larger market

size than Japan's. At the same time, through the acquisition of Inspiro Group, the firm gained access to the low-cost yet skilful call (contact) centre outsourcing labour market and their clients.

Earnings Risks

There are two major earnings risks. Those are:

- **Top line volatility**
In general, revenue relies on clients' projects and product cycles. Hence the revenue trend tends to be volatile. Volatility also arises from the receipt of spot / short-term projects. To mitigate the risk of earnings volatility, Relia focuses on recurring business. Consequently, ca. 95% of the domestic revenue is recurring.
- **Low staff utilisation rate and high staff turnover**
There are two factors that raise the fixed cost ratio in call (contact) centre operators: (1) low staff utilisation, often caused by unprecedented events such as COVID, and (2) high staff turnover due to the stressful nature of the job.

Medium-term Management Plan <Business Strategy 2020>

While the BPO market will likely continue to grow, the business environment surrounding BPO has become challenging with more diverse and complex customer and consumer needs, the rapid progress in digitalisation, and Japan's structural labour shortage. In overseas markets, diversity and complexity in customer demands are also a challenge.

To seek growth in such a challenging environment, Relia announced the medium-term management plan *Business Strategy 2020* in November 2018, which took it to the end of FY20. The firm plans to announce the new medium-term management plan later this fiscal year after reviewing the outcome of the *Business Strategy 2020* plan, the key components of which are summarised below:

The four innovations implemented during *Business Strategy 2020* were:

1. **Digital Innovation** – shifting services to a digital format: Relia aimed to utilise various digital methods to improve customer experience and consequently lead to further growth.
2. **Service Innovation** – developing services that add value to its customers: The firm aimed to develop high value-added tailor-made outsourcing services to its customers, leading them to identify potential customer needs.
3. **Overseas Expansion** – becoming a global outsourcing partner to its customers: Relia's goal was to become a global outsourcing partner by combining its expertise developed in Japan with multilingual services. It can offer such services to multinational companies in high growth markets such as APAC and the US through its overseas subsidiaries.
4. **Management Innovation** – maximising human resources potential: Relia's true asset as a BPO service provider is its human resources. There is a continuous shortage in call centre staff due to the work's stressful nature, which often leads to a lower staff retention rate. As the complexity of the job in call (contact) centres increases, the training of staff, being able to retain them, and ensuring they have a variety of skills, is becoming increasingly important. Currently, ca. 25% of the contact centre staff is dispatched from temp staff agencies, mainly allocated to handle spot business. However, Relia aimed to increase directly hired skilled personnel for repeat businesses. The firm offers those staff members career opportunities in an effort to retain them.

In addition to the above four innovations, the firm rigorously reviewed the profitability of all the projects in its portfolio. The result saw the proportion of projects with a GPM lower than 10% in Japan decline 4.7ppt YoY in 1H. In FY20 Q3 alone, the firm improved staff turnover rate to below 3%/month (36% annualised).

Numerical targets under *Business Strategy 2020* are shown in the table below. In FY19, Relia had already achieved OP before goodwill amortisation of ¥12,000mil (+65.9% YoY) on sales of ¥128,731mil (+11.2% YoY), both of which surpassed the FY20 target of ¥9,300 mil (CAGR over 3 years +9.8%) of OP before goodwill amortisation and ¥116,000 mil (CAGR over 3 years +1.8%) of sales, respectively. The OPM before goodwill amortisation of 9.3% also

overshot the targeted 8%. The firm reckons the FY19 figures were boosted by large spot mandates in both the Contact Centre Business and Back Office Business segments.

A part of Goodwill on Inspiro Group (including two companies in the Philippines, one in the US and another in Nicaragua) was impaired in FY18. Hence annual amortisation costs significantly dropped from the pre-impairment cost of ca. ¥1,700mil p.a. to ca. ¥400mil p.a. The firm's FY20 guidance suggest that both sales and OP before goodwill amortisation, ¥125,000mil and ¥10,000mil respectively, will generate an OPM before goodwill amortisation of 8%.

Business Strategy 2020¹					
(¥mil)	FY14 (Actual)	FY17 (Actual)	FY18 (Actual)	FY20 (Target)	3-yr CAGR (%)
Sales	74,235	109,800	115,750	116,000	1.8
OP	3,669	5,290	5,526	7,600	12.8
OP before goodwill amortisation	3,717	7,027	7,232	9,300	9.8
OPM before goodwill amortisation (%)	5.0	6.4	6.2	8.0	n/a
ROE (%)	5.8	7.1	n/a	8.0+	n/a

Source: Nippon-IBR based on Relia, Inc.'s presentation material on Business Strategy 2020

Earnings Trend

FY20Q3

Relia reported FY20 cumulative Q1~Q3 earnings OP of ¥6,275mil (-16.3% YoY) on sales of ¥93,223mil (-0.5% YoY). In Q3 alone, the firm earned OP of ¥1,951mil (-39.4% YoY / +2.2% QoQ) on sales of ¥31,075mil (-4.6% YoY / +0.9% QoQ).

Segments

I. Contact Centre Business

The Contact Centre Business reported FY20 Q1~Q3 (cumulative) OP of ¥3,971mil (-35.0% YoY) on sales of ¥77,290mil (-1.1% YoY). In Q3 alone, segment OP was ¥1,270mil (-52.1% YoY / +26.0% QoQ) on sales of ¥25,963mil (-4.3% YoY / +3.0% QoQ).

The Domestic Contact Centre business was lightly affected by a low utilisation rate under the pandemic, especially in contact centres in the urban areas during the first State of Emergency closures (April~May 2020), however saw a swift recovery in a utilisation rate after the State of Emergency measure was lifted. Furthermore, many companies reconfirmed the importance of providing seamless customer communication during the closures, which boosted demand for outsourcing consumer support functions.

Furthermore, there were continuous spot mandates on the back of demand triggered by COVID. While other contact centre operators enjoyed the benefit of the rise in these spot projects, Relia did not proactively seek to win those mandates during the first State of Emergency as it was prioritising the health and safety of operators. Competitors such as Bellsystem 24 and Transcosmos both reported positive YoY growth in their Call Centre business thanks mainly to increase in various spot call centre mandates. However, the Relia indirectly benefited as it endeavoured to enhance the digital solutions it offered its customers, such as diverting calls to an optimal channel during the emergency, providing high-function live chat services and supporting to customers in their problem-solving. As a result, recurring revenue was largely unaffected during the cumulative nine months.

However, for the Contact Centre Business overall, there were two company-specific reasons why earnings fell:

I. COVID-related restrictions at Inspiro

¹ Business Strategy 2020 was a 2.5-year management plan. 3-yr CAGR to FY20 target numbers (with FY17 figures as denominators) on the table is calculated solely to demonstrate medium-term growth potential. Relia Inc. did not disclose those figured.

The firm's Philippine subsidiary, Inspiro Relia Inc., which was acquired in September 2016, was loss making due to a decline in staff utilisation rates due to government-forced quarantine measures. In Mar~April 2020, the utilisation rate in the Philippines centres fell to ca. 50%. Concurrently, the subsidiary's expenses, such as hiring buses specifically for its employees to commute to work, increased in order to secure the welfare of its employees under the pandemic. In 1H, the firm reported a ¥132mil rise in SG&A at Inspiro Group.

In Q3, ca. 50% of overseas staff (including those in the US) worked remotely from their homes and the utilisation rate recovered to as high as 98%. Relia expects overseas earnings will bottom in Q3 and will return to profitability in Q4.

2. Drop in large spot mandates at the parent.

In FY19, there were several large spot mandates related to the increase in the consumption tax, deregulation of electric power deregulation and miscellaneous troubleshooting mandates in both the Contact Centre and the Back Office businesses. The firm reported ca. FY19 spot sales of ¥7,200mil (4.5x YoY) of which ¥4,800mil came in 2H. Relia is guiding for FY20 spot sales of ¥4,000mil (-44.4% YoY), of which ¥2,600mil will likely be in the 2H.

In Q3 alone, the firm reported only ¥300mil sales from spot mandates. Spot mandates are generally higher in margin, which explains the larger YoY decline in OP during Q1~Q3. Both Contact Centre and Back Office segments receive spot business. OPM in the domestic business peaked at 12.3% in FY19 Q4, which dropped to 8.6% in FY20 Q2 and 8.2% in Q3. In general, Q4 is seeing a rise in contact centre demand.

3. Back Office Business

FY20 Q3 (cumulative) OP was ¥1,998mil (66.2% YoY) on sales of ¥12,878mil (+10.0% YoY). In Q3 alone, the segment made OP of ¥514mil (+8.2% YoY / -38.8% QoQ) on sales of ¥4,054mil (-12.0% YoY / -0.8% QoQ). The most recent peak of quarterly revenue was FY19 Q4 when the firm received several large spot projects. However, recurring revenue has been steadily rising. The YoY growth in OP is due to profitable orders received last year which will contribute to this year's earnings.

Full-year Guidance

Relia announced FY20 full-year earnings at the time of 1H results, when the situation at Inspiro became clear enough to estimate the COVID impact on consolidated earnings. The company is guiding for FY20 OP of ¥9,600mil (-17.3% YoY) on sales of ¥125,000 (-2.9% YoY).

For its Domestic business, the firm is forecasting FY20 OP of ¥10,100mil (-6.5% YoY) on sales of ¥111,000 (-2.5% YoY) based on the following assumptions:

1. A conservative outlook for seasonal demand due to COVID
2. YoY declines in spot mandates for Contact Centre and Back Office segments
3. Increased costs associated with overseas subsidiaries amid continuous impact of COVID
4. Temporary slowdown of marketing due to COVID and a compliance violation at its Kagoshima contact centre

In 1H, the Domestic business reported OP of ¥4,900mil (+22.5% YoY) on sales of ¥55,600mil (+2.7% YoY) which suggests a 2H OP estimate of ¥5,200mil (-23.5% YoY / +6.1% HoH) on sales of ¥55,400mil (-7.4% YoY / -0.4% HoH). However, the Overseas business is expected to report an FY20 operating loss of ¥500mil on sales of ¥14,000mil (-5.4% YoY), though Relia anticipates sales at Inspiro to recover in the 2H. Furthermore, on the cost side, improvements in staff utilisation rates, as ca. 35% of staff are working from home, will likely see Covid-related expenses – e.g., chartering buses for its employees to commute to work – peak out. In 1H, the Overseas business reported a loss of ¥600mil at the operating level on sales of ¥6,500mil (-10.9% YoY). For the 2H, the firm is guiding for OP of ¥100mil on sales of ¥7,500mil (0.0% YoY / +15.4% HoH).

Relia did not aggressively market to gain those COVID-related mandates, therefore, will be less likely see earnings volatility triggered by such one-off projects in FY21.

Sales and OP by Segment (Cumulative)										
(¥mil / March yr-end)		FY18	FY19				FY20			
		FY	Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY (%)
Contact Centre Business	Sales	94,351	25,111	50,982	78,120	106,709	26,130	51,327	77,290	-1.1
	OP	4,172	1,777	3,463	6,112	9,099	1,693	2,701	3,971	-35.0
	OPM (%)	4.4	7.1	6.8	7.8	8.5	6.5	5.3	5.1	-2.7pp
Back Office Business	Sales	15,400	3,512	7,618	11,703	16,941	4,215	8,824	12,878	10.0
	OP	1,307	218	728	1,202	2,273	644	1,484	1,998	66.1
	OPM (%)	8.5	6.2	9.6	10.3	13.4	15.3	16.8	15.5	+5.2pp
Field Operation Business	Sales	5,998	1,261	2,531	3,879	5,080	1,007	1,996	3,054	-21.3
	OP	47	49	88	186	235	77	138	305	63.7
	OPM (%)	0.8	3.9	3.5	4.8	4.6	7.6	6.9	10.0	+5.2pp
Total	Sales	115,750	29,885	61,131	93,703	128,731	31,354	62,148	93,223	-0.5
	OP	5,526	2,045	4,279	7,501	11,608	2,415	4,324	6,275	-16.3
	OPM (%)	4.8	6.8	7.0	8.0	9.0	7.7	7.0	6.7	-1.3pp

Source: Nippon-IBR based on Relia, Inc.'s earnings presentation materials

Sales and OP by Segment (Quarterly)											
(¥mil / March yr-end)		FY19				FY20				YoY (%)	QoQ (%)
		Q1	Q2	Q3	Q4	Q1	Q2	Q3			
Contact Centre Business	Sales	25,111	25,871	27,138	28,589	26,130	25,197	25,963	-4.3	3.0	
	OP	1,777	1,686	2,649	2,987	1,693	1,008	1,270	-52.1	26.0	
	OPM (%)	7.1	6.5	9.8	10.4	6.5	4.0	4.9	-4.9pp	+0.9pp	
Back Office Business	Sales	3,512	4,106	4,085	5,238	4,215	4,609	4,054	-0.8	-12.0	
	OP	218	510	474	1,071	644	840	514	8.4	-38.8	
	OPM (%)	6.2	12.4	11.6	20.4	15.3	18.2	12.7	+1.1pp	-5.5pp	
Field Operation Business	Sales	1,261	1,270	1,348	1,201	1,007	989	1,058	-21.5	7.0	
	OP	49	39	98	49	77	61	167	70.4	173.8	
	OPM (%)	3.9	3.1	7.3	4.1	7.6	6.2	15.8	+8.5pp	+9.6pp	
Total	Sales	29,885	31,246	32,572	35,028	31,354	30,794	31,075	-4.6	0.9	
	OP	2,043	2,236	3,222	4,107	2,415	1,909	1,951	-39.4	2.2	
	OPM (%)	6.8	7.2	9.9	11.7	7.7	6.2	6.3	-3.7pp	+0.1pp	

Source: Nippon-IBR based on Relia, Inc.'s earnings presentation materials

Balance sheet, shareholder structure and shareholder return policy

In general, call (contact) centre outsourcing services are cash generative as long as sales are stable, and a high utilisation rate is achieved. In FY19, Relia generated free cash flow of ¥9,819mil (+2.1x YoY) and the use of cash for CAPEX – mostly on maintenance for existing contact centres and investment on new centres – was kept within operating cash flow. As of FY20 Q3, Relia has cash and cash equivalents of ¥21,383mil – around 25% of its market cap.

In terms of shareholder return, Relia aims for a 45% dividend pay-out ratio (based on EPS without goodwill amortisation and adjusted to treasury shares). In FY20, the firm is guiding for an annual dividend of ¥42/share (43.2% pay-out) – with the swings in pay-out ratio due to the fluctuation in earnings from spot projects. However, the firm aims to pay a stable dividend. Relia bought back 3.05% of total shares outstanding (net of treasury) during FY20 1H.

Currently, Mitsui & Co and Central Security Patrol own 35.47% and 9.26% of Relia's shares, respectively. The firm works together with Mitsui & Co. in the knocking doors to develop its overseas businesses, however, the decision on which companies to acquire was solely that of Relia. Sales to Mitsui & Co., is negligible.

Although Relia is operationally independent of Mitsui & Co., the Board's independence is often questioned by proxy advisory firms. The Board comprises six directors and four auditors including three external directors and three external auditors which means it is made up of 50% of external Board members. However, both President and CFO are ex-Mitsui employees. Furthermore, one of external directors is an executive director in charge of Mitsui's ICT

business division, whom ISS and Glass Lewis recommended to vote against in the last AGM. Furthermore, one of external auditors is currently the chairman at Central Security Patrol. Relia explains that it set its own independence criteria and carefully selected those members based on those criteria, hence concluded that a conflict of interest was unlikely. Moreover, the other external members who do not have any history with Relia's largest shareholder outnumber those directors who are currently in doubt of being unbiased.

Relia, Inc. (4708 JP) - Financial Summary

P&L Summary										
(¥mil / March yr-end)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20CE	FY21Cons
Accounting Standard (Japan)	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol
Sales	100,484	79,209	74,235	81,500	96,188	109,800	115,750	128,731	125,000	125,500
YoY (%)	2.4	-21.2	-6.3	9.7	18.0	14.1	5.4	11.2	-2.9	0.4
COGS	79,482	66,507	63,593	69,359	82,810	93,625	98,679	106,473		
Gross Profit (GP)	21,002	12,701	10,641	12,141	13,377	16,175	17,071	22,257		
GPM (%)	20.9	16.0	14.3	14.9	13.9	14.7	14.7	17.3		
SG&A	7,756	7,253	6,972	7,519	9,005	10,884	11,544	10,650		
Operating Profit (OP)	13,245	5,448	3,669	4,621	4,371	5,290	5,526	11,607	9,600	10,100
YoY (%)	46.6	-58.9	-32.7	25.9	-5.5	21.0	4.4	110.0	-17.3	5.2
OPM (%)	13.1	6.8	4.9	5.6	4.5	4.8	4.7	9.0	7.6	8.0
Recurring Profit (RP)	13,387	5,605	3,862	4,685	4,371	5,343	5,595	11,772	9,500	10,100
YoY (%)	45.2	-58.2	-31.1	21.3	-6.8	22.2	4.7	110.4	-19.3	6.3
RPM (%)	13.3	7.1	5.2	5.7	4.5	4.9	4.8	9.1	7.6	8.0
Pre-tax Profit	13,354	5,580	3,888	4,711	4,777	5,647	-5,670	11,591		
Tax costs	5,503	2,179	1,452	1,620	1,513	2,240	1,621	3,573		
Minority shareholder interest	14	50	42	10	0	0	8	0		
Net Profit (NP)	7,865	3,452	2,479	3,101	3,264	3,407	-7,283	8,017	6,100	6,350
YoY (%)	54.6	-56.2	-28.2	25.0	5.2	4.3	n/a	n/a	-23.9	0.7
Comprehensive Profit	7,886	3,510	2,502	3,622	5,537	2,776	-7,686	7,776		

Source: Nippon-IBR based on Relia's presentation materials, YUHOs and Toyo Keizai estimate

Balance Sheet Summary										
(¥mil / March yr-end)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21CE
Accounting Standard (Japan)	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol
Current Asset	45,265	39,858	43,030	43,693	34,847	37,630	38,214	47,791		
Fixed Asset	10,690	10,651	10,289	13,051	31,222	29,492	17,541	18,176		
Tangible	2,209	2,018	1,590	2,210	3,752	3,787	4,654	6,248		
Intangible	643	792	646	672	18,274	15,946	3,898	3,544		
Investment and others	7,837	7,840	8,053	10,167	9,195	9,759	8,988	8,383		
Total Asset	55,956	50,510	53,320	56,744	66,069	67,123	55,755	65,968		
Current Liability	13,539	7,598	9,757	11,301	17,115	17,567	16,346	20,324		
Fixed Liability	845	868	865	1,242	1,211	1,307	1,595	2,788		
Net Asset	41,571	42,043	42,697	44,201	47,742	48,248	37,814	42,855		
Capital	998	998	998	998	998	998	998	998		
Capital Surplus	1,202	1,202	1,202	1,112	1,112	1,112	1,112	1,112		
Retained Earnings	39,977	40,397	41,032	42,135	43,401	44,528	34,497	39,779		
Treasury Shares	-592	-592	-592	-592	-592	-592	-592	-592		
Minority Interest	104	86	40	0	1	11	2	3		
Shareholders' Equity	41,466	41,956	42,657	44,201	47,740	48,236	37,811	42,852		
Shareholders' Equity Ratio (%)	74.1	83.0	80.0	77.8	72.2	71.8	67.8	64.9		
Interest-bearing Debt	0	0	0	0	3,500	2,530	500	0		

Source: Nippon-IBR based on Relia's presentation materials, YUHOs and Toyo Keizai estimate

Cash Flow Summary										
(¥mil / March yr-end)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21CE
Accounting Standard (Japan)	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol	Consol
Operating Cash Flow	11,885	-1,605	6,714	590	4,489	7,296	7,595	11,083		
Depreciation	1,231	984	814	879	1,109	1,652	1,679	2,371		
Goodwill Amortisation	77	98	48	37	434	1,737	1,705	393		
Change in Sales Receivables	1,781	-238	-354	-3,816	-693	-550	1,087	-4,510		
Change in inventories	1,364	227	53	-66	46	-81	-153	-179		
Change in Accounts Payable	-1,112	-223	132	584	368	100	-224	305		
Investment Cash Flow	-2,696	-2,678	1,109	-7,323	-4,172	-1,968	-3,020	-1,264		
Free Cash Flow	9,189	-4,283	7,823	-6,733	317	5,328	4,575	9,819		
Finance Cash Flow	-3,519	-3,065	-1,999	-2,108	1,501	-3,349	-4,248	-3,502		
Cash and Cash Equivalent	22,711	15,361	21,184	12,343	14,286	16,270	16,659	22,934		

Source: Nippon-IBR based on Relia's presentation materials, YUHOs and Toyo Keizai estimate

Per-share indicators										
(¥mil / March yr-end)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21CE
EPS	114.12	50.09	35.97	45.01	47.36	49.44	-105.68	116.33	94.30	95.00
BPS	601.66	608.77	618.93	641.34	692.68	699.89	548.62	621.77		
Dividend	58.00	29.00	29.00	29.00	29.00	36.00	36.00	39.00	42.00	42.00

Source: Nippon-IBR based on Relia's presentation materials, YUHOs and Toyo Keizai estimate

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