

S-POOL INC. (2471 JP)*Q1 RESULTS WERE IN LINE. AIMING AT 6 CONSECUTIVE RECORD FULL-YEAR EARNINGS IN FY21***FY21 Q1 RESULTS**

S-Pool Inc. (2471 JP) reported FY21 (Nov yr-end) Q1 OP of ¥387mil (+0.1% YoY) on sales of ¥5,410mil (+15.7% YoY), largely in line with the firm's expectation.

BY SEGMENTS**Human Resources Solutions [HRS] Segment**

Human Resources Solutions [HRS] Segment earned FY21 Q1 OP of ¥414mil (+17.8% YoY) on sales of ¥3,943mil (+13.9% YoY). The segment operating profit margin [OPM] was 10.5%, +0.3ppt YoY thanks mainly to improvement in the staff utilisation rate.

In the Call Centre Staff Dispatch Service – HRS's core business that earns ca. 80% of segment revenue and 100% of the OP – Q1 sales came in at ¥3,188mil (+18.0% YoY / -0.4% YoY). The slight drop in QoQ sales was due to (1) there being one less operating day in February, and (2) a temporary drop in spot mandates. However, recurring businesses such as food delivery and customer centre services for a mobile phone operator supported sales growth.

Business Solutions [BS] Segment

The Business Solutions [BS] segment reported FY21 Q1 OP of ¥274mil (-10.8% YoY) on sales of ¥1,477mil (+20.9% YoY) and led to a 6.6ppt decline in the OPM to 18.6% as sales of the high-margin (OPM ca. 80%) hydroponic farm facilities decline 9.5% YoY.

Special Needs Employment Support

The Special Needs Employment Support segment earned Q1 sales of ¥772mil (+18.1% YoY / -31.1% QoQ). Sales of hydroponic farm facilities was ¥219mil (-9.5% YoY / -57.8% QoQ). While the firm saw stronger than expected demand for hydroponic farm plots thanks to revision in mandatory employment quotas of special needs workers – from 2.2% of total employees to 2.3% by April 2021 – due to the second Statement of Emergency closures, sales of 30~40 plots (ca. ¥45~60mil) are being pushed into the Q2 and beyond. As a result, the firm only sold 144 plots of hydroponic facilities (-7.7% YoY / -60.0% QoQ) during Q1. The total number of facilities under management reached 3,973 plots, which saw Q1 recurring sales of ¥484mil (+40.2% YoY / +14.1% QoQ).

Special Needs Employment Support earns ca. 90% of the BS segment OP. The fall in segment OP was due to slower sales of hydroponic farm plots due to the closures, as well as an increase in investment on four new hydroponic farms. Those four farms will likely be opened in Q2; however, the rent has already been logged, squeezing Q1 profitability.

S-Pool plans to sell 351 plots in Q2, of which it already has an order backlog of 330 plots. Training of special needs workers and farm openings are progressing well to meet Q2 demand. Thanks to stronger than expected demand for indoor farms, the firm plans to increase openings of indoor farms from six to seven farms in FY21.

EXECUTIVE SUMMARY

- FY21 Q1 results reported by S-Pool Inc. (2471 JP) were largely in line with expectations.
- One of the two core businesses, Call centre Staff Dispatch Service in the HRS Segment continued to see solid demand although Q1 tends to be a seasonally low quarter due to less operating days in February. Also demand for call centre staff from spot mandates temporarily peaked.
- Another core business, Special Needs Employment Support Service, saw stronger than expected demand for the hydroponic farm facilities due to changes in mandatory employment quotas for special needs workers in April. However, due to the COVID-related closures, sales of ca. 30~40 plots were postponed, leading to a fall in segment OP.
- S-Pool is guiding for FY21 1H OP of ¥1,100mil (+11.0% YoY) on sales of ¥11,876mil (+21.7% YoY), and full-year OP of ¥2,500mil (+12.2% YoY) on sales of ¥24,800mil (+18.0% YoY), notching up yet another year of record earnings for the 6th consecutive year. There was no change in the company's guidance.
- A potential risk to earnings is S-Pool's core customer has been increasing direct hires of call centre staff, leaving the possibility for less demand for the dispatch of call centre staff.
- The firm is adding one more indoor farm opening this year, however, has not changed the earnings forecast.

Special Needs Employment Business : sales breakdown (Quarterly)

(# million)	FY19				FY20					FY21CE			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY	Q1	YoY (%)	FYCE	YoY (%)
Sale of facilities (flow revenue)	180	465	306	436	242	369	237	519	1,367	219	-9.5	1,645	20.3
Farm management fee (stock revenue)	219	239	276	304	345	371	406	424	1,546	484	40.2	2,247	45.3
Others (Recruitment Fee)	42	115	66	119	66	107	67	181	421	68	3.0	352	-16.4
Special Needs Support Total	441	820	647	859	654	848	712	1,121	3,335	772	18.1	4,240	27.1

Source: S-Pool Inc. FY20 and FY21 Q1 Earnings Results Presentation Materials

Logistics Outsourcing Service

Logistics Outsourcing Service earned Q1 sales of ¥287mil (+14.3% YoY). The sales can be split to (1) e-commerce shipping outsourcing services, sales of which were ¥259mil (+19.4% YoY / -5.8% QoQ), and (2) distribution centre operations, sales of which were ¥29mil (-17.1% YoY / -9.4% QoQ). Marketing to new prospects led to an increase in orders from larger companies in addition to existing middle-size e-commerce operators including start-ups. However, e-commerce shipping outsourcing sales saw a QoQ drop due to weaker shipment volumes from existing customers that sell supplements and beauty products. Those merchants tend to see growth in repeat business while they aggressively launch TV commercials. However, during Q1, they stopped advertising, which led to drop in shipments.

Employment Process Support Service, OMUSUBI

Employment Process Support Services saw steady growth in the number of job applications, up 50% YoY to 52,350 cases/month on average for Q1. The total number of job applications handled by the service reached 157,050 – a record quarterly number. In this business, S-Pool conducts job interviews of part-timers for its customers such as restaurants, drugstores, supermarkets, and delivery services. Job interview requests rose from industries that have seen an increase in demand under the COVID such as drugstores and food delivery services. As a result, Q1 sales rose 25.3% to ¥155mil.

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

(#million)		FY19				FY20				FY21		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	YoY (%)	QoQ (%)
HRS	Call Centres	2,134	2,288	2,447	2,649	2,708	2,916	3,373	3,203	3,188	18.0	-0.5
	Sales Support	615	651	651	576	576	556	507	523	494	-14.2	-5.5
	Others	93	109	145	159	178	208	239	263	261	46.6	-0.8
	Total segment sales	2,842	3,047	3,242	3,384	3,462	3,680	4,119	3,988	3,943	13.9	-1.1
	Segment OP	271	320	343	249	352	434	548	423	414	17.8	-2.1
	Segment OPM (%)	9.5	10.5	10.6	7.4	10.2	11.8	13.3	10.6	10.5	+0.3pp	-0.1pp
BS	Special Needs	441	820	647	859	654	848	712	1,121	772	18.1	-31.1
	Logistics	321	271	240	265	252	310	303	307	287	14.3	-6.5
	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	155	25.3	4.7
	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	1,477	20.9	-16.6
	Segment OP	162	511	369	472	307	433	285	594	274	-10.8	-53.9
	Segment OPM (%)	15.4	37.3	31.5	32.6	25.1	30.5	20.2	33.5	18.6	-6.6pp	-14.9pp
Total	Sales	3,896	4,418	4,412	4,832	4,684	5,102	5,529	5,760	5,420	15.7	-5.9
	OP	433	831	712	722	659	867	833	1,017	688	4.4	-32.4
Adjustment	Sales	-8	-10	-9	-10	-8	-19	-20	-18	-9	n/a	n/a
	OP	-222	-280	-271	-320	-272	-264	-265	-347	-302	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	5,410	15.7	-5.8
	OP	211	551	440	400	386	605	568	670	387	0.1	-42.2
	OPM (%)	5.4	12.5	10.0	8.3	8.3	11.9	10.3	11.7	7.2	-1.1pp	-4.5pp

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 (Cumulative)

(#million)		FY19	FY20			FY21CE			
		FY	Q1	IH	FY	Q1	YoY (%)	FYCE	YoY (%)
HRS	Call Centres	9,518	2,708	5,624	12,200	3,188	18.0	13,800	13.1
	Sales Support	2,492	576	1,132	2,162	494	-14.2	2,500	15.6
	Others	505	178	386	n/a	261	46.6	1,200	n/a
	Segment Total	12,516	3,462	7,142	15,250	3,943	13.9	17,500	14.8
	Segment OP	1,182	352	786	1,757	414	17.8	1,930	9.8
	Segment OPM (%)	9.5	10.2	11.0	11.5	10.5	+0.3pp	11.0	-0.5pp
BS	Special Needs	2,766	654	1,503	3,335	772	18.1	4,240	27.1
	Logistics	1,095	252	562	1,172	287	14.3	1,400	19.5
	Sales Support	517	140	197	n/a			n/a	n/a
	OMUSUBI	437	123	277	564	155	25.3	690	22.3
	Prof. HR Bank	235	53	93	n/a			n/a	n/a
	Total Segment Sales	5,043	1,222	2,644	5,825	1,477	20.9	7,408	27.2
	Segment OP	1,514	307	740	1,619	274	-10.8	1,873	15.7
	Segment OPM (%)	30.0	25.1	28.0	27.8	18.6	-6.5pp	25.3	-2.5pp
Total	Sales	17,559	4,684	9,787	21,075	5,420	15.7	24,908	18.2
	OP	2,696	659	1,527	3,376	688	4.4	3,803	12.6
Adjustment	Sales	-37	-8	-27	-65	-9	n/a	-108	n/a
	OP	-1,093	-272	-536	-1,148	-302	n/a	-1,303	n/a
Value as in P&L	Sales	17,522	4,675	9,759	21,009	5,410	15.7	24,800	18.0
	OP	1,604	386	991	2,228	387	0.1	2,500	12.2
	OPM (%)	9.2	8.3	10.2	10.6	7.2	-1.1pp	10.1	-0.5pp

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

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

(#mi / Nov yr-end)	FY19	FY20				FY21					
	FY	Q1	IH	2H	FY	Q1	YoY (%)	IHCE	2HCE	FYCE	YoY (%)
Sales	17,522	4,675	9,759	11,250	21,009	5,410	15.7	11,876	12,923	24,800	18.0
GP	5,214	1,311	2,874	3,502	6,377	1,446	10.3	3,353	3,752	7,106	11.4
GPM (%)	29.8	28.0	29.4	31.1	30.4	26.7	-1.3pp	28.2	29.0	28.7	-1.7pp
SG&A	3,610	924	1,883	2,265	4,148	1,058	14.5	2,253	2,353	4,606	11.0
SG&A/Sales (%)	20.6	19.8	19.3	20.1	19.7	19.6	-0.2pp	19.0	18.2	18.6	-1.1pp
OP	1,604	386	991	1,237	2,228	387	0.3	1,100	1,399	2,500	12.2
OPM (%)	9.2	8.3	10.2	11.0	10.6	7.2	-0.9pp	9.3	10.8	10.1	-0.5pp
RP	1,626	390	989	1,240	2,229	382	-2.1	1,094	1,393	2,488	11.6
NP	1,082	302	688	892	1,580	250	-17.2	712	922	1,635	3.5
EPS (¥)	13.7	3.82	8.7	11.3	20.0	3.17	-17.0	9.02	20.7	20.7	3.5
Dividend (¥)	2.0	n/a	n/a	n/a	3.3	n/a	n/a	n/a	n/a	4.1	24.2
Dividend P/O (%)	14.6	n/a	n/a	n/a	16.5	n/a	n/a	n/a	n/a	19.8	n/a

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

FY21 EARNINGS GUIDANCE

S-Pool is guiding for FY21 IH OP of ¥1,100mil (+11.0% YoY) on sales of ¥11,876mil (+21.7% YoY), and full-year OP of ¥2,500mil (+12.2% YoY) on sales of ¥24,800mil (+18.0% YoY), notching up yet another year of record earnings for the 6th consecutive year.

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).

Although there have been various spot mandates – e.g., related to COVID subsidies and vaccines – those businesses are often obtained through open competitive bidding processes. There are new entrants in the bidding process from companies whose core business is not call centre outsourcing, therefore, to obtain mandates they tend to offer lower prices. As a result, S-Pool's customers, main call centre operators, are losing tenders as they are unwilling to enter into aggressive bidding wars to win spot mandates. S-Pool focuses on obtaining regular, recurring mandates.

Furthermore, main call centre operators such as Bellsystem 24 (6183 JP) from whom S-Pool earned ca. 21% of FY20 consolidated sales, has been increasing its direct hires. At the peak, S-Pool dispatched ca. 10,000 operators/month to Bellsystem 24, however, it will likely be reduced to 7,000 operators/month. Although the Call Centre Staff Dispatch Service has been growing faster than the firm expected, increases in direct hires by call centre operators will lead to a shrink in demand for temp staff. S-Pool recognises that by relying on one large customer can be a risk and aims to expand its business with a variety of call centre operators. Although call centres wish to increase direct hires for the technically more complicated tasks, demand for call centre outsourcing will likely continue to remain firm. S-Pool's strength lies in its ability to promptly gather a group of operators and send them to a call centre. Under the ongoing 5-year medium-term plan that completes in FY25, the firm is guiding for HSR Segment sales of 27,500 (CAGR over the 5 years is 12.5%), assuming that despite the potential risk of fall in demand for staff dispatch to its top customer, S-Pool will be able to see a steady growth in the Call Centre Staff Dispatch Services.

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 FY21 sales of ¥4,240mil (+27.1% YoY). S-Pool initially planned 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 in FY21, but thanks to favourable reactions to its marketing efforts, the firm decided to add one more indoor farm in Tokyo.

The total number of plot sales, however, remains unchanged from the original 1,035 plots (¥1,645mil, +20.3% YoY) in FY21. S-Pool thought that six farms will be enough to achieve 1,035 plots of sales, however, sales of the first indoor farms were completed faster than expected and there is a demand for another, therefore one more indoor farm was added to the pipeline. Sales of plots generates 80% OPM, therefore, additional sales of plots will be a positive boost to earnings. However, at the moment, the firm remains cautious as there was, at first, a reluctant reaction to the first indoor farm during the first State of Emergency measures.

Logistics Outsourcing Service

In FY21, S-Pool is guiding for Logistics Outsourcing Service sales of ¥1,400mil (+19.0% YoY). In Q2, S-Pool expects a better performance QoQ thanks to the recovery in shipments by existing clients as well as business with a large new customer commencing. The firm serves to a selected 100 customers over two distribution centres, which are currently running at ca. 80% utilisation rate. Unlike FY20, when the utilisation rate peaked at 90%, owning its own warehouse asset will unlikely be high on the agenda during FY21. However, to achieve the OPM target of 20% by the end of the 5-year Medium-term Management Plan, S-Pool will need 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.

New Business – Environment Management Support Service via blue dot green Inc.

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 become break-even on sales of ¥235mil. In Q1, the subsidiary made an operating loss of ¥5mil on sales of ¥40mil. During Q1, procurement costs of carbon credits went up by 20% YoY on the back of a rapid surge in demand for carbon offsetting solutions. Currently, 90% of sales is generated from carbon credit broking and 10% from consulting. Its main customers include EPCOS, airlines and manufacturers. However, S-Pool reckons that the subsidiary will need to focus on consulting and research works in carbon reduction and environment to become profitable.

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

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