

RELIA, INC. (4708 JP)

NEW MEDIUM-TERM MANAGEMENT PLAN ASSUMES ORGANIC GROWTH WHICH WILL LIKELY ACCELERATE FROM FY22

FY20 RESULTS SUMMARY

Relia, Inc. (4708 JP)'s FY20 results – operating profit [OP] of ¥9.7bil (-16.7% YoY) on sales of ¥127.6bil (-0.9% YoY) - were largely in line with the firm's guidance announced at the time of 1H results.

By region, the performance was as follows:

Japan: FY20 OP of ¥10.4bil (-3.9% YoY) on sales of ¥112.6bil (-1.0% YoY). The decline in the spot business revenues (¥3.0bil) was offset by an increase in revenue from the recurring business (¥3.3bil). Similarly, the impact of the ¥1.1bil decline in the spot business OP (before goodwill amortisation) was eased by the ¥1.0bil gains in the recurring business. SG&A increased by approx. ¥0.6bil due to COVID-related measures and efforts to restore trust after the inappropriate service operations at the Kagoshima centre.

Overseas: FY20 earnings fell into the red with an operating loss of ¥0.7bil (vs. FY19's OP of ¥0.7bil) on sales of ¥14.9bil (+0.4% YoY). In the 1H, the overseas business reported an operating loss of ¥0.6bil on sales of ¥6.5bil (-7.6% YoY) due to a decline in utilisation rates amid lockdowns and quarantine requirements. The firm also saw COVID-related expenses – e.g., chartering busses for its employees to commute to work during 1H. In the 2H, the staff utilisation rates returned to the normal level thanks to the implementation of work-at-home operation. Although the overseas business suffered a further ¥0.1bil operating loss in the 2H, the Q4 saw a return to profit.

By Segment**Contact Centre Business**

The segment saw a 31.0% YoY decline in FY20 OP to ¥6.3bil on sales of ¥105.8bil (-0.8% YoY). The two main factors behind the decline are as follows:

1) Drop in major spot business at the parent

In FY19, there were several large spot businesses related to the increase in the consumption tax, the deregulation of electric power and miscellaneous troubleshooting mandates both in the Contact Centre Business and the Back Office Business segments. Relia reported FY19 spot business sales for both segments combined soared 4.5x YoY to approx. ¥7.2bil while FY20 spot business revenues fell back to just approx. ¥4.2bil.

2) Overseas business

Relia's Philippine subsidiary, Inspiro Relia Inc., was loss making due to a decline in staff utilisation rates under government-forced quarantine measures in the Philippines. In Mar-April 2020, the utilisation rate in the Philippines centres fell to approx. 50%. Concurrently, the subsidiary's expenses increased, such as hiring busses specifically for employees to commute to work, due to restrictions on public transport imposed by the Philippines

EXECUTIVE SUMMARY

- Relia, Inc. (4708 JP) reported FY20 results with OP of ¥9.7bil (-16.7% YoY) on sales of ¥127.6bil (-0.9% YoY), largely in line with expectations.
- FY20 earnings in Japan fell on the back of 1) decline in spot business from the peak of FY19, 2) Increase in SG&A. Despite that, the OPM hit 9.2% thanks to stricter profit management on the firm's recurring business.
- FY20 earnings of the overseas business were in the red as 1) staff utilisation rates suffered during quarantine, 2) high COVID-related cost in 1H. However, staff utilisation rates returned to normal levels in Q3 and in Q4 alone, the business moved back into the black.
- Relia is guiding for FY21 OP of ¥8.4bil (-13.2% YoY) on sales of ¥120bil (-6.0% YoY). Reasons for YoY decline in FY21 earnings include: 1) further fall in spot business, 2) transfer of Field Operations, 3) fall in the recurring business due to the termination of projects, 4) increase in SG&A due to investment on systems and human resources.
- FY21 is the first year of the new Medium-term Plan. Final-year (FY23) numerical targets are OP of ¥12bil (3-year CAGR 7.5%) on sales of ¥135bil (3-year CAGR of 1.9%), achieved primarily through organic growth.
- In FY21, Relia plans to pay ¥42/share dividend (no change YoY) and it has announced a similar level of share buy-back (max. ¥2.5bil) as the year before to be completed from 17 May 2021 until 31 October 2021.

government. In the Q4, the proportion of staff (including those in the US and temporary staff) who work remotely from their homes reached approx. 50%, which subsequently improved the staff utilisation rate.

Back Office Business

The segment earned FY20 OP of ¥2.9bil (+27.3% YoY) on sales of ¥17.9bil (+5.9% YoY). The YoY growth in OP was due to profitable orders which well offset the aforementioned drop in the spot business.

Sales and OP by Segment (Cumulative)											
(¥mil / March yr-end)		FY18	FY19				FY20				YoY (%)
		FY	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Contact Centre Business	Sales	94,351	25,111	50,982	78,120	106,709	26,130	51,327	77,290	105,802	-0.8
	OP	4,172	1,777	3,463	6,112	9,099	1,693	2,701	3,971	6,279	-31.0
	OPM (%)	4.4	7.1	6.8	7.8	8.5	6.5	5.3	5.1	5.9	-2.6pp
Back Office Business	Sales	15,400	3,512	7,618	11,703	16,941	4,215	8,824	12,878	17,941	5.9
	OP	1,307	218	728	1,202	2,273	644	1,484	1,998	2,894	27.3
	OPM (%)	8.5	6.2	9.6	10.3	13.4	15.3	16.8	15.5	16.1	+2.7pp
Field Operations Business	Sales	5,998	1,261	2,531	3,879	5,080	1,007	1,996	3,054	3,859	-24.0
	OP	47	49	88	186	235	77	138	305	497	111.5
	OPM (%)	0.8	3.9	3.5	4.8	4.6	7.6	6.9	10.0	12.9	+8.3pp
Total	Sales	115,750	29,885	61,131	93,703	128,731	31,354	62,148	93,223	127,603	-0.9
	OP	5,526	2,045	4,279	7,501	11,608	2,415	4,324	6,275	9,672	-16.7
	OPM (%)	4.8	6.8	7.0	8.0	9.0	7.7	7.0	6.7	7.6	-1.4pp

Source: Nippon-IBR based on Relia, Inc.'s FY20 earnings presentation material

Sales & OP by Segment (Quarterly)											
		FY19				FY20				YoY (%)	QoQ (%)
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Contact Centre Business	Sales	25,111	25,871	27,138	28,589	26,130	25,197	25,963	28,512	-0.3	9.8
	OP	1,777	1,686	2,649	2,987	1,693	1,008	1,270	2,308	-22.7	81.7
	OPM (%)	7.1	6.5	9.8	10.4	6.5	4.0	4.9	8.1	-2.3pp	+3.2pp
Back Office Business	Sales	3,512	4,106	4,085	5,238	4,215	4,609	4,054	5,062	-3.3	24.9
	OP	218	510	474	1,071	644	840	514	896	-16.3	74.6
	OPM (%)	6.2	12.4	11.6	20.4	15.3	18.2	12.7	17.7	-2.6pp	+5.0pp
Field Operations Business	Sales	1,261	1,270	1,348	1,201	1,007	989	1,058	804	-33.0	-23.9
	OP	49	39	98	49	77	61	167	192	291.8	15.3
	OPM (%)	3.9	3.1	7.3	4.1	7.6	6.2	15.8	23.9	+19.8pp	+8.1pp
Total	Sales	29,885	31,246	32,572	35,028	31,354	30,794	31,075	34,379	-1.8	10.6
	OP	2,043	2,236	3,222	4,107	2,415	1,909	1,951	3,397	-17.3	74.2
	OPM (%)	6.8	7.2	9.9	11.7	7.7	6.2	6.3	9.9	-1.8pp	+3.6pp

Source: Nippon-IBR based on Relia, Inc.'s FY20 earnings presentation material

FY21 OUTLOOK

Relia is guiding for FY21 OP of ¥8.4bil (-13.2% YoY) on sales of ¥120bil (-6.0% YoY). This year is the first of the three-year Medium-term Management Plan that is to be completed in FY23. The firm aims to achieve the followings during the Plan's period:

- Build a solid IT security foundation and service quality control.
- Promote digital transformation [DX] in all areas of services to be rendered, operational process and corporate administration.
- Enhance profitability and competitiveness through further strengthening the overseas business and the Back Office Business.

Relia, Inc. (4708 JP): FY21 Guidance				
(¥mil)	FY20	FY21CE	YoY (%)	
Net Sales	127,603	120,000	-6.0	
Domestic	112,600	105,000	-6.8	
Overseas	14,900	15,000	0.6	
Operating Profit	9,672	8,400	-13.2	
Domestic	10,400	7,600	-26.9	
OPM (%)	9.2	7.2	-2.0pp	
Overseas	-700	800	n/a	
OPM (%)	n/a	5.3	n/a	

Source: Nippon-IBR based on Relia, Inc.'s FY20 earnings presentation material

Regional Performance

Relia forecasts OP of ¥7.6bil (-26.9% YoY) on sales of ¥105bil (-6.8% YoY) in Japan. The negative impact in domestic sales and OP, approx. ¥3.9bil and ¥0.5bil respectively, is due to the business transfer of the Field Operations Business –it was removed from Relia's business portfolio as of last year. Excluding the impact of the Field Operations Business, the decline in FY21 sales and OP is likely to be -3.5% YoY and -23.2% YoY, respectively. Apart from the one-off impact, the firm assumes:

- Approx. ¥1.2bil (-28.6% YoY) decline in FY21 sales and ¥0.8bil decline in OP from drop in spot business.
- ¥2.5bil YoY fall in recurring revenue due to the termination of projects and review of business portfolio. There will be ¥0.3bil negative YoY impact to OP.
- ¥1.1bil increase in SG&A to invest on systems and human resources for IT security and quality control. For example, the firm has established a new Quality Control Department at HQ and plans to centrally supervise the quality control of each centre.

As a result, the OPM in Japan will likely drop to 7.2% in FY21, down from 9.2% reported in FY20.

Relia is guiding for FY21 earnings of the overseas business with OP of ¥0.8bil (vs. a loss of ¥0.7bil in FY20) on sales of ¥15bil (+0.6% YoY). Although the impact of COVID will likely be an ongoing issue, the firm expects more stable operations and higher utilisation rates can be maintained as staff are now able to work remotely from home. COVID-related cost will also be reduced.

THE NEW MEDIUM-TERM MANAGEMENT PLAN 2023

Relia announced its new three-year strategy which commences this year. Prior to its launch, the firm reviewed the previous *Business Strategy 2020* plan which focused on four innovations.

Review of Business Strategy 2020

- Digital Innovation
- Service Innovation
- Overseas Expansion
- Management Innovation

In addition to the above four innovations, Relia rigorously reviewed the profitability of all the projects in its portfolio. This led to a reduction in the ratio of the recurring business sales with a GPM of less than 10% to nearly 10% as of FY20 Q4 (excluding the impact of terminated businesses), compared to over 15% in FY19 Q1. In terms of productivity improvement, Relia focused on enhancing its recruiting and training, gradually reduced the staff turnover rates during the three years.

The final year's target which called for OP before goodwill amortisation of ¥9.3bil on sales of ¥116bil, was achieved one year ahead of schedule in FY19, when the firm reported record earnings (OP of ¥11.6bil on sales of ¥128.7bil). In FY19, the overseas business record earnings were achieved thanks to a surge in spot business demand. Relia reckons that although the spot business somewhat helped the firm enjoy a hike in the overseas business OPM, the earning power of the recurring business also improved thanks to management's thorough review of profitability on each project. In the overseas business, despite the impact of COVID in the final year of the Plan, solid demand in North America led to steady sales growth (3-year CAGR of 4.9%) during the period of the Plan.

Medium-term Management Plan 2023

Relia's new mid-term management plan is based on the recognition of several ongoing trends such as 1) the change in demographic movement, 2) progress in technology, 3) responses to climate change, and 4) COVID pandemic and the "new normal", the impact of which is expected to be as follows:

- Demand for outsourcing and attending to clients' needs will likely continue to rise as the labour market continues to tighten.
- Technology will likely bring in some major changes. Consumer needs will become more complex and advanced, where new technologies will add value in more complicated tasks, which will subsequently help create a higher customer experience [CX].
- Corporate value will be defined by how a firm can contribute to solutions for social issues through business activities.

The grand vision of the new Plan is that "Relia will be reborn as the No 1 Reliable Company" for each and every stakeholder. The targets (see table that follows) are expected to be achieved by improving corporate value through the creation of CX and EX (employee experience) on a more solid corporate foundation. Furthermore, the firm has sustainability goals to achieve. Those are:

- Raise the proportion of female managers to 20% (from the current 11.5%).
- Obtain the highest *Platinum Eruboshi* [L-star] certification. This is awarded by the Ministry of Health, Labour and Welfare [MHLW] for companies that satisfy the criteria of its Women's Active Promotion Act and demonstrate an active policy to promote female employees.
- Visualise and improve the use of environmental assets such as usage of power and paper and reduction in CO₂ emissions.
- Continue to have zero major compliance-related violations.

Medium-term Management Plan					
(¥mil)	Previous Plan		New Plan		
	FY20 (Target)	FY20 (Results)	FY21CE	FY23 Target (Final Year)	3-year CAGR (%)
Sales	116,000	127,603	120,000	135,000	1.9
OP	7,600	9,672	8,400	12,000	7.5
OPM (%)	6.6	7.6	7.0	8.9	n/a
ROE (%)	8.0+	17.6	12.4	15.0	n/a

Source: Nippon-IBR based on Relia, Inc.'s FY20 earnings results material & Medium-term Management Plan presentation

The Plan's final-year target (FY23) is OP of ¥12bil (3-year CAGR 7.5%) on sales of ¥135bil (3-year CAGR of 1.9%), with the domestic Contact Centre Business as the core driver. At the same time, the firm aims to capture growth in the overseas business and the Back Office Business. While the 3-year CAGR on sales at 1.9% may appear rather lacklustre, if revenue from the Field Operations Business and spot business is removed from FY20 results, 3-year sales CAGR will improve to approx. 4.0%.

Furthermore, given the firm assumes a drop in earning in FY21 as discussed above, growth will need to pick up in pace from FY22 onwards to meet the Plan's final year target. Relia's medium-term target is based solely on organic growth. For the domestic Contact Centre Business, the firm aims to achieve growth by promoting DX. In the overseas business, the firm plans to expand business, especially in the North America. In the Back Office Business, the firm aims to expand business in the public domains, and improve competitiveness through hybrid operations of people, digital and offshore.

SHAREHOLDER RETURN

Relia steadily generates free cash flow [FCF] every year. In FY20, FCF was ¥8.3bil. In FY19 and FY20, the total return to shareholders was 63% and 68% respectively, bolstered by share buy-backs. In FY20, the firm repurchased 2.1mil shares (total cost of approx. ¥2,3bil) in addition to a total dividend payment of ¥2.8bil, or 36.4% of net profit attributed to the parent's shareholders.

In FY21, Relia plans to pay ¥42/share dividend (unchanged from FY20) or estimated total dividend payment of ¥2.8bil on Net Profit [NP] of ¥5.6bil (-27.8% YoY), which will make the dividend pay-out ratio of 50.1%. Furthermore, the firm has already announced up to ¥2.5bil of a new share buy-back programme from 17 May 2021 until 31 October 2021.

Relia's principal shareholder return policy is a total pay-out ratio of more than 50%. Dividend payments will be in line with profit growth achieved through the recurring business, while share buy-back will be implemented in conjunction with levels of growth investment, capital efficiency and annual earnings.

FINANCIAL SUMMARY

P&L 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
Sales	100,484	79,209	74,235	81,500	96,188	109,800	115,750	128,731	127,603	120,000
YoY (%)	2.4	-21.2	-6.3	9.7	18.0	14.1	5.4	11.2	-0.9	-6.0
COGS	79,482	66,507	63,593	69,359	82,810	93,625	98,679	106,473	106,783	
Gross Profit (GP)	21,002	12,701	10,641	12,141	13,377	16,175	17,071	22,257	20,819	
GPM (%)	20.9	16.0	14.3	14.9	13.9	14.7	14.7	17.3	16.3	
SG&A	7,756	7,253	6,972	7,519	9,005	10,884	11,544	10,650	11,147	
Operating Profit (OP)	13,245	5,448	3,669	4,621	4,371	5,290	5,526	11,607	9,672	8,400
YoY (%)	46.6	-58.9	-32.7	25.9	-5.5	21.0	4.4	110.0	-16.7	-13.2
OPM (%)	13.1	6.8	4.9	5.6	4.5	4.8	4.7	9.0	7.6	7.0
Recurring Profit (RP)	13,387	5,605	3,862	4,685	4,371	5,343	5,595	11,772	9,811	8,400
YoY (%)	45.2	-58.2	-31.1	21.3	-6.8	22.2	4.7	110.4	-16.7	-14.4
RPM (%)	13.3	7.1	5.2	5.7	4.5	4.9	4.8	9.1	7.7	7.0
Pre-tax Profit	13,354	5,580	3,888	4,711	4,777	5,647	-5,670	11,591	10,905	
Tax costs	5,503	2,179	1,452	1,620	1,513	2,240	1,621	3,573	3,146	
Minority shareholder interest	14	50	42	10	0	0	8	0	0	
Net Profit (NP)	7,865	3,452	2,479	3,101	3,264	3,407	-7,283	8,017	7,759	5,600
YoY (%)	54.6	-56.2	-28.2	25.0	5.2	4.3	n/a	n/a	-3.2	-27.8
Comprehensive Profit	7,886	3,510	2,502	3,622	5,537	2,776	-7,686	7,776	7,397	

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	
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	50,690	
Fixed Asset	10,690	10,651	10,289	13,051	31,222	29,492	17,541	18,176	16,437	
Tangible	2,209	2,018	1,590	2,210	3,752	3,787	4,654	6,248	6,233	
Intangible	643	792	646	672	18,274	15,946	3,898	3,544	3,011	
Investment and others	7,837	7,840	8,053	10,167	9,195	9,759	8,988	8,383	7,191	
Total Asset	55,956	50,510	53,320	56,744	66,069	67,123	55,755	65,968	67,127	
Current Liability	13,539	7,598	9,757	11,301	17,115	17,567	16,346	20,324	18,793	
Fixed Liability	845	868	865	1,242	1,211	1,307	1,595	2,788	3,058	
Net Asset	41,571	42,043	42,697	44,201	47,742	48,248	37,814	42,855	45,275	
Capital	998	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	1,112	
Retained Earnings	39,977	40,397	41,032	42,135	43,401	44,528	34,497	39,779	41,968	
Treasury Shares	-592	-592	-592	-592	-592	-592	-592	-592	0	
Minority Interest	104	86	40	0	1	11	2	3	2	
Shareholders' Equity	41,466	41,956	42,657	44,201	47,740	48,236	37,811	42,852	45,272	
Shareholders' Equity Ratio (%)	74.1	83.0	80.0	77.8	72.2	71.8	67.8	64.9	67.4	
Interest-bearing Debt	0	0	0	0	3,500	2,530	500	0	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
Accounting Standard (Japan)	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	7,914
Depreciation	1,231	984	814	879	1,109	1,652	1,679	2,371	2,437
Goodwill Amortisation	77	98	48	37	434	1,737	1,705	393	385
Change in Sales Receivables	1,781	-238	-354	-3,816	-693	-550	1,087	-4,510	-242
Change in inventories	1,364	227	53	-66	46	-81	-153	-179	72
Change in Accounts Payable	-1,112	-223	132	584	368	100	-224	305	-441
Investment Cash Flow	-2,696	-2,678	1,109	-7,323	-4,172	-1,968	-3,020	-1,264	372
Free Cash Flow	9,189	-4,283	7,823	-6,733	317	5,328	4,575	9,819	8,286
Finance Cash Flow	-3,519	-3,065	-1,999	-2,108	1,501	-3,349	-4,248	-3,502	-5,423
Cash and Cash Equivalent	22,711	15,361	21,184	12,343	14,286	16,270	16,659	22,934	25,658

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	115.49	83.81
BPS	601.66	608.77	618.93	641.34	692.68	699.89	548.62	621.77	677.52	
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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