

S-POOL INC. (2471 JP)**HIT A RECORD EARNINGS FOR THE SIX CONSECUTIVE YEARS. AWARDED A STATUS OF AN ESG STOCK****FY21 Q1 RESULTS**

S-Pool Inc. (2471 JP) reported FY21 (Nov year-end) 1H OP of ¥1,184mil (+19.5% YoY) on sales of ¥11,641mil (+19.3% YoY). Sales fell short of the firm's guidance by 2.0%, however, OP overshot the forecast by 7.6% thanks primarily to the continued strength in the Call Centre Staffing Dispatch Service and the firm's Special Needs Employment Service.

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

Human Resources Solutions [HRS] FY21 1H OP rose 18.4% YoY to ¥931mil on sales of ¥8,205mil (+14.9% YoY), and saw its operating profit margin [OPM] rise +0.4ppt YoY to 11.4%, thanks mainly to an improvement in the staff utilisation rate.

In the Call Centre Staff Dispatch Service, which generates 80% of segment revenue and 100% of the segment OP, 1H sales came in at ¥6,724mil (+20.0% YoY). Although spot demand from call centres in relation to the COVID vaccination programme was not as large as expected, other COVID-related spot work as well as recurring business led to earnings growth.

S-Pool mainly engages with inbound call centre services such as customer support. During 1H, the number of Field Consultants [FCs], who play an important role in retaining customers, increased by 12% YoY. Compared to the same period last year which saw the segment revenue growth due to an increase in spot mandates, the firm saw growth in recurring revenue.

Business Solutions [BS] Segment

The Business Solutions [BS] segment's FY21 1H OP rose 18.9% YoY to ¥880mil on sales of ¥3,458mil (+30.8% YoY) but saw OPM fall 2.5ppt YoY to 25.5% due to a shortfall in sales of the high margin (OPM approx. 80%) hydroponic farm facilities – the Q1 was particularly affected due to delay in administrative procedures under COVID.

Special Needs Employment Support

The Special Needs Employment Support segment saw 1H sales of 1,994mil (+32.7% YoY). In Q2 alone, the firm reported record segment sales of ¥1,222mil (+44.1% YoY / +58.3 QoQ), with 474 plots sold, taking the number of facilities under management to 4,267 plots. The firm saw stronger-than-expected demand for hydroponic farm plots thanks to the revision in mandatory employment quotas of special needs workers – revised up from 2.2% of total employees to 2.3% in March 2021. In addition to the 144 plots sold in Q1, a further 330 plots were sold in Q2 alone. However, due to the State of Emergency [SoE] closures, the sale of 54 plots (approx. ¥81mil) are being pushed into the 2H or beyond.

Only two out of 355 companies cancelled their contracts for S-Pool's hydroponic facilities. As a result, the churn rate remained as low as 0.5% on a semi-annual basis, which makes the annualised rate just 1.0%.

EXECUTIVE SUMMARY

- FY21 (Nov year-end) 1H earnings reported another record although sales fell short of the firm's forecast while OP overshot the guidance by 7.6%.
- The Call Centre Staff Dispatch service continued to enjoy strong business momentum. However, unlike last year when spot call centre projects pushed sales higher, the growth driver this year is due to an increase in recurring business.
- Special Needs Employment Support Service saw a delay in the opening of a farm which affected the planned sales of hydroponic farming plots. The sale of 54 plots (approx. ¥81mil) are being pushed into the 2H or beyond. However, management reckons it could sell more plots than currently planned in 2H, which makes the existing full year FY21 guidance look conservative.
- S-Pool is guiding for FY21 full-year OP of ¥2,500mil (+12.2% YoY) on sales of ¥24,800mil (+18.0% YoY), notching up its 6th consecutive year or record earnings.
- FY21 full-year earnings risks remain in two of the sub-segments – Logistics and Sales Support – of the Business Solutions segment. The company has not changed its full-year guidance as the potential shortfall of those two sub-segments will likely be offset by strength in Call Center Staff Dispatch and Special Needs Employment Support.
- S-Pool is now an officially ESG stock with ratings awarded by FTSE Russell and MSCI.

The delay in hydroponic plot sales was due to government-led administrative procedures for the Nagakute Farm related to COVID. However, thanks to the steady increase of facilities under management, quarterly revenue from the farm management (recurring revenue) hit ¥517mil (+39.4% YoY / +6.8% QoQ).

Special Needs Employment Business : sales breakdown (Quarterly)											
(¥ million)	FY20					FY21CE					
	Q1	Q2	Q3	Q4	FY	Q1	Q2	YoY (%)	QoQ (%)	FYCE	YoY (%)
Sale of facilities (flow revenue)	242	369	237	519	1,367	219	545	47.7	148.9	1,645	20.3
Farm management fee (stock revenue)	345	371	406	424	1,546	484	517	39.4	6.8	2,247	45.3
Others (Recruitment Fee)	66	107	67	181	421	68	158	47.7	132.4	352	-
Special Needs Support Total	654	848	712	1,121	3,335	772	1,222	44.1	58.3	4,240	27.1

Source: S-Pool Inc. FY20 and FY21 1H Earnings Results Presentation Materials

Logistics Outsourcing Service

Logistics Outsourcing Service sales rose 6.6% YoY to ¥599mil. Segment sales can be split to (1) e-commerce [EC] shipping outsourcing services, sales of which were ¥540mil (+6.0% YoY), and (2) distribution centre operations, sales of which were ¥59mil (+7.0% YoY). Segment profitability worsened from 12.8% in FY20 Q2 to 8% in FY21 Q2 due to one of S-Pool's large tenants, from which the firm received ca. 20% of segment revenue. The tenancy agreement with the tenant was terminated in June. This will lead to a temporary decline in revenues from 2H onwards but since the contract was relatively low margin, segment profitability recovered to 10.3% in June alone.

Employment Process Support Service, OMUSUBI

Employment Process Support Services saw record quarterly revenues in Q2 despite restaurants and bars – ca. 30% of the segment's customers – being negatively affected by the SoE closures. 1H sales rose 22.9% YoY to ¥342mil, of which Q2 alone, sales saw ¥187mil (+21.4% YoY / +20.6% QoQ). The firm reckons that the fourth SoE announcement, together with a temporary abolition of alcoholic beverages during the Tokyo Olympic Games, will likely affect the hiring by restaurants and bars and subsequently have a negative impact on segment earnings.

S-Pool Inc. (2471): Segment Sales and Operating Profit (Quarterly)													
(¥million)		FY19				FY20				FY21			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY (%)	QoQ (%)
HRS	Call Centres	2,134	2,288	2,447	2,649	2,708	2,916	3,373	3,203	3,188	3,536	21.3	10.9
	Sales Support	615	651	651	576	576	556	507	523	494	462	-16.9	-6.5
	Others	93	109	145	159	178	208	239	263	261	264	26.9	1.1
	Total segment sales	2,842	3,047	3,242	3,384	3,462	3,680	4,119	3,988	3,943	4,262	15.8	8.1
	Segment OP	271	320	343	249	352	434	548	423	414	517	19.1	24.9
	Segment OPM (%)	9.5	10.5	10.6	7.4	10.2	11.8	13.3	10.6	10.5	12.1	+0.7pp	+1.6pp
BS	Special Needs	441	820	647	859	654	848	712	1,121	772	1,222	44.1	58.3
	Logistics	321	271	240	265	252	310	303	307	287	312	0.6	8.7
	Sales Promotion	147	119	115	136	140	57	n/a	n/a	n/a	n/a	n/a	n/a
	OMUSUBI	87	111	113	125	123	154	139	148	155	187	21.4	20.6
	Professional HR Bank	60	54	57	64	53	40	n/a	n/a	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	1,981	39.3	34.1
	Segment OP	162	511	369	472	307	433	285	594	274	606	40.0	121.2
	Segment OPM (%)	15.4	37.3	31.5	32.6	25.1	30.5	20.2	33.5	18.6	30.6	+0.1pp	+12.0pp
Total	Sales	3,896	4,418	4,412	4,832	4,684	5,102	5,529	5,760	5,420	6,243	22.4	15.2
	OP	433	831	712	722	659	867	833	1,017	688	1,123	29.5	63.2
Adjustment	OP	-222	-280	-271	-320	-272	-264	-265	-347	-302	-326	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	6,231	22.5	15.2
	OP	211	551	440	400	386	605	568	670	387	797	31.7	105.9
	OPM (%)	5.4	12.5	10.0	8.3	8.3	11.9	10.3	11.7	7.2	12.8	+0.9pp	+5.6pp

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

FY21 EARNINGS GUIDANCE

S-Pool is guiding for FY21 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. Although the two core businesses – Call Centre Staff Dispatch Service and the Special Needs Employment Service – will likely surpass the firm's existing guidance, two risks emerged during Q2. Those are 1) the Sales Support in Business Solutions Segment, and 2) the Logistics Business.

S-Pool Inc. (2471 JP) : Results & Forecasts										
(¥mi / Nov yr-end)	FY20			FY21						
	1H	2H	FY	1H	1HCE	YoY (%)	vs. CE (%)	2HCE	FYCE	YoY (%)
Sales	9,759	11,250	21,009	11,641	11,876	19.3	-2.0	12,923	24,800	18.0
GP	2,874	3,502	6,377	3,361	3,353	16.9	0.2	3,752	7,106	11.4
GPM (%)	29.5	31.1	30.4	28.9	28.2	-0.5pp	+0.7pp	29.0	28.7	-1.7pp
SG&A	1,883	2,265	4,148	2,177	2,253	15.6	-3.4	2,353	4,606	11.0
SG&A/Sales (%)	19.3	20.1	19.7	18.7	19.0	-0.6pp	-0.3pp	18.2	18.6	-1.1pp
OP	991	1,237	2,228	1,184	1,100	19.5	7.6	1,399	2,500	12.2
OPM (%)	10.2	11.0	10.6	10.2	9.3	-0.9pp	+0.9pp	10.8	10.1	-0.5pp
RP	989	1,240	2,229	1,197	1,094	21.0	9.4	1,393	2,488	11.6
NP attributed for the parent's shareholders	688	892	1,580	780	712	13.4	9.6	922	1,635	3.5
EPS (¥)	8.7	11.3	20.0	9.9	9.02	13.4	9.5	20.7	20.7	3.5
Dividend (¥)	n/a	n/a	3.3	n/a	n/a	n/a	n/a	n/a	4.1	24.2
Dividend P/O (%)	n/a	n/a	16.5	n/a	n/a	n/a	n/a	n/a	19.8	n/a

Source: Nippon-IBR based on S-Pool Inc. earnings 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).

The segment earnings risk remains with the Sales Support business, in which the firm dispatches staff to support the sale of products such as smartphones at specialist retailers. The business has been negatively affected by the SoE and anti-infection measures. S-Pool is currently guiding for FY21 Sales Support revenue of ¥2,500mil (+15.6% YoY), but any shortfall will likely be offset by solid growth in the segment's core business – the Call Centre Staff Dispatch Service.

The performance of the Call Centre Staff Dispatch Service has been stronger than expected thanks to stable demand from its largest customer, Bellsystem 24 (6183 JP) and an increase in business with other call centre operators. Despite this growth, increases in direct hires by call centre operators will likely lead to less demand for temp staff. S-Pool recognises that relying on one large customer can be a risk, therefore, it is hoping to expand its business with several other call centre operators. Although call centres are always looking 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 out to call centres.

Under the ongoing 5-year medium-term plan that ends in FY25, the firm is guiding for HSR Segment sales of ¥27,500mil (5 yr CAGR 12.5%), and is based on the assumption that the steady growth in its Call Centre Staff Dispatch Services will cushion the risk of a fall in demand for staff dispatch services to its top customer.

Business Solutions [BS] Segment

S-Pool has kept its full year FY21 guidance for the BS Segment at 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 open six new farms – the first two farms in the Kansai region (including one indoor farm), 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, one more indoor farm in Tokyo has been added.

Furthermore, to meet the rise in demand for special needs employment, in response to changes in the employment quota, S-Pool is preparing to sell 1,100 plots, up from the original forecast of 1,035 plots. FY21 revenue guidance for sale of facilities is set at ¥1,645mil (+20.3% YoY) assuming that 1,035 plots are sold in FY21. Therefore, any extra plot sales will boost earnings further as they garner substantial OPMs of 80%.

Recurring revenue from Facilities Management is forecast to rise 45.3% YoY to ¥2,247mil thanks to a steady increase in the number of plots under management. The company expects 4,828 plots at the end of FY21, assuming 1,035 plots are to be sold this year. Again, any upside in the plot sales will lead to further increase in recurring revenue going forward.

Logistics Outsourcing Service

In FY21, S-Pool is guiding for Logistics Outsourcing Service sales of ¥1,400mil (+19.0% YoY). Unlike FY20, when the utilisation rate peaked at 90%, owning its own warehouse asset will unlikely be high on the agenda during FY21. Given a large though low margin e-commerce tenant has ended its warehousing contract with the company, the more pressing issue will be on how to improve the productivity of the existing capacity.

Employment Process Support Service, OMUSUBI

S-Pool is guiding for FY21 sales of ¥690mil (+22.0% YoY). However, as some customers are yet to see signs of business recovery, they have been less inclined to hire part-timers. Moreover, the current business trend is weaker than management's already conservative view on hiring demand for the restaurant / hospitality industry. This weakness, however, might be offset by the continued steady demand from drug store chains and supermarkets.

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

S-Pool consolidated carbon offset solution provider blue dot green Inc in 2020. Its current core business is to trade carbon credits with companies that are aiming for net zero carbon emissions. EU carbon emission credits [EU-ETS] hit €55/CO₂ tonne in May 2021, surpassing the previous record of €50/CO₂ tonne. During CY21 1H, EU-ETS doubled. The subsidiary's sales drastically fell short of target because it failed in its bid to win carbon credit bids in the rising carbon emission credit price. Meanwhile, demand from Japanese listed companies requested to disclose their environmental measures by Carbon Disclosure Project [CDP] has provided business opportunities for blue dot green Inc. CDP is a UK-based non-profit organisation that researches and evaluates global listed companies' measures in tackling environmental problems, such as greenhouse gas [GHG] and carbon emissions mainly for ESG funds. To date, 500 listed companies in Japan were contacted by CDP, of which 35% have not yet begun the preparation process. Here, blue dot green Inc. offers consulting services to some of these firms, helping them prepare their carbon disclosure. The subsidiary is aiming to expand the consulting service, which is more profitable than carbon trading, for companies that need to prepare Task Force Climate-Related Financial Disclosures [TCFD] for the TSE's prime market listing.

The firm is guiding for FY21 segment sales of ¥235mil, a big jump from 1H sales of ¥81mil. 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. Up to Q2, 90% of sales was generated from carbon credit broking and 10% from consulting. Sales from consulting CDP reporting will likely be reported in Q3 onwards, which will likely change the sales split to more than 50% from consulting. Its main customers include Japanese EPCOS, airlines and manufacturers. However, S-Pool reckons that the subsidiary will need to focus on consulting and research work such as preparation for CDP and TCFD submission to become profitable.

New Business – Shared BPO

S-Pool started a shared business process outsourcing [BPO] service to a group of local governments in Hokkaido. The firm has its own call centre in the Kitami City, Hokkaido, where it has taken on COVID-related local government work. While the surrounding towns and cities also have their own unique outsourcing demands, many of the tasks are too small for larger BPO companies to handle. Therefore, S-Pool came up with the idea of a shared BPO service in which a group of local governments in close proximity can use the shared BPO centre for tasks such as tax collection, hazard prevention, childminding, medical and lifeline infrastructure etc. S-Pool is anticipating around 100 towns and cities with a population between 5,000 and 100,000 residents, out of 1,343 in the Kitami City area, to use the shared BPO service. Also, those towns and cities typically have less than 1x job offers-to-applicants ratio which means S-Pool can hire local people to work in its centres. Given the multitude of tasks local governments undertake, the firm reckons there will be a steady flow of business from this service.

The firm estimates that one shared BPO centre could earn up to ¥100mil per year. Contributions from the shared BPO business is not included in FY21 earnings forecast due to prior investment and depreciation costs, nor in the ongoing medium-term plan target (to FY25). From FY22, S-pool plans to open one BPO centre per month. With enquiries to the service rapidly increasing, management sees this business as the next potential pillar of growth.

S-Pool Inc. (2471): Segment Sales and Operating Profit (Cumulative)										
(¥million)		FY19	FY20			FY21CE				
		FY	Q1	1H	FY	Q1	1H	YoY (%)	FYCE	YoY (%)
HRS	Call Centres	9,518	2,708	5,624	12,201	3,188	6,724	19.6	13,800	13.1
	Sales Support	2,492	576	1,132	2,162	494	956	-15.5	2,500	15.6
	Others	505	178	386	887	261	525	36.0	1,200	35.3
	Segment Total	12,516	3,462	7,142	15,250	3,943	8,205	14.9	17,500	14.8
	Segment OP	1,182	352	786	1,757	414	931	18.4	1,930	9.8
	Segment OPM (%)	9.5	10.2	11.0	11.5	10.5	11.4	+0.4pp	11.0	-0.5pp
BS	Special Needs	2,766	654	1,503	3,335	772	1,994	32.7	4,240	27.1
	Logistics	1,095	252	562	1,172	287	599	6.6	1,400	19.5
	Sales Support	517	140	197	n/a	n/a	n/a	n/a	n/a	n/a
	OMUSUBI	437	123	277	564	155	342	23.5	690	22.3
	Prof. HR Bank	235	53	93	n/a	n/a	n/a	n/a	n/a	n/a
	Total Segment Sales	5,043	1,222	2,644	5,825	1,477	3,458	30.8	7,408	27.2
	Segment OP	1,514	307	740	1,619	274	880	18.9	1,873	15.7
Segment OPM (%)	30.0	25.1	28.0	27.8	18.6	25.5	-2.5pp	25.3	-2.5pp	
Total	Sales	17,559	4,684	9,787	21,075	5,420	11,663	19.2	24,908	18.2
	OP	2,696	659	1,527	3,376	688	1,811	18.6	3,803	12.6
Adjustment	OP	-1,093	-272	-536	-1,148	-302	-628	n/a	-1,303	n/a
Value as in P&L	Sales	17,522	4,675	9,759	21,009	5,410	11,641	19.3	24,800	18.0
	OP	1,604	386	991	2,228	387	1,184	19.5	2,500	12.2
	OPM (%)	9.2	8.3	10.2	10.6	7.2	10.2	+0.0pp	10.1	-0.5pp

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

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

OFFICIALLY AN ESG STOCK

S-Pool received an ESG rating of 3.6 (placing it in the top 20%) by FTSE Russell and became an index constituent of 228 stocks forming FTSE Blossom Japan Index. It is one of less than a handful stocks with a market cap less than ¥100bil included in the index. Furthermore, the firm was awarded “AA” ESG rating (the second highest of 7 stages) by MSCI ESG Index.

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