

**RELIA, INC. (4708 JP)**

FY21 Q2 RESULTS WERE IN LINE WITH EXPECTATION. STEADILY PROGRESSING WITH THE MEDIUM-TERM MANAGEMENT PLAN

**FY21 Q2 RESULTS SUMMARY**

Relia, Inc. (4708 JP) reported FY21 Q2 results that were largely in line with the firm's guidance, with operating profit [OP] coming in at ¥3.1bil (-28.9% YoY) on sales of ¥58.2bil (-6.4% YoY). As of FY21 Q2, the firm has achieved 48.5% and 36.6% of its full-year sales and OP guidance, respectively. The full-year forecasts remain unchanged as the decline in revenues from recurring businesses and increases in SG&A were already factored in.

In Japan, Relia reported FY1H OP of ¥2.9bil (-42.0% YoY) on sales of ¥49.8bil (-10.6% YoY). The impact of a review of its low-margin projects last year, as well as the termination and scaling down of some of its existing operations, saw revenue from its recurring businesses decline. ¥4.4bil YoY in 1H. The decline in operating profit was more pronounced than the fall in sales due to (1) a fall in sales of recurring businesses and (2) a deterioration in profitability due to lower capacity utilisation. On the other hand, revenues for large spot business rose ¥0.5bil thanks to an increase in COVID-related projects.

The overseas business returned to profit as sales rose 29.5% YoY to ¥8.4bil. Despite continuing to be affected by COVID restrictions in terms of costs, the firm was able to maintain utilization rates and captured demand in North America (mainly mail-order related) as some staff are able to work remotely from home.

By segment, the Contact Centre Business reported FY21 1H OP of ¥2.3bil (-14.0% YoY) on sales of ¥50.6bil (-1.5% YoY) for the aforementioned reasons. The Back Office Business was affected by a YoY decline in large spot business and several government-related projects came to an end. In the Back Office Business, Relia reported 1H OP of ¥0.7bil (-49.5% YoY) on sales of ¥7.6bil (-13.8% YoY).

**Relia, Inc. (4708 JP): Domestic and Overseas Sales and OP**

(¥mil)	FY20		FY21		
	1H	FY	1H	FYCE	YoY (%)
Net Sales	62,148	127,603	58,196	120,000	-6.0
Domestic	55,600	112,600	49,800	105,000	-6.7
Overseas	6,500	14,900	8,400	15,000	0.7
Operating Profit	4,324	9,672	3,075	8,400	-13.2
Domestic	5,000	10,400	2,900	7,600	-26.9
OPM (%)	9.0	9.2	5.8	7.2	-2.0pp
Overseas	-600	-700	200	800	n/a
OPM (%)	n/a	n/a	2.4	5.3	n/a

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

**EXECUTIVE SUMMARY**

- Relia, Inc. (4708 JP) reported FY21 Q2 results that were largely in line with the firm's expectation, with operating profit [OP] coming in at ¥3.1bil (-28.9% YoY) on sales of ¥58.2bil (-6.4% YoY).
- There was no change in the full-year FY21 guidance for OP of ¥8.4bil (-13.2% YoY) on sales of ¥120.0bil (-6.0% YoY). The drop is due to 1) further weakness in spot business, 2) the transfer of Field Operations which is now excluded from the firm's business portfolio, 3) a fall in the recurring business as several projects were terminated, and 4) higher SG&A for investment in systems and human resources.
- Although the impact of COVID will likely be an ongoing issue, Relia expects a more stable operating environment and that higher utilisation rates can be maintained as staff are now able to work remotely from home. Demand in the US remains strong and will lead to a further boost in the Overseas Business revenue.
- In FY21, Relia plans to pay ¥42/share dividend (no change YoY). As of the end October, the firm completed a buy-back in total of 1,982,600 shares at a cost of approx.¥2.5bil.
- FY21 marks the first year of Relia's new medium-term management plan. During 1H, Relia started working on three key themes of the Plan - "Create customer experience [CX]", "Create employee experience [EX]" and "Strengthen the business foundation".

Sales and OP by Segment (Cumulative)												
(¥mil)		FY19				FY20				FY21		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY (%)
Contact Centre Business	Sales	25,111	50,982	78,120	106,709	26,130	51,327	77,290	105,802	25,545	50,575	-1.5
	OP	1,777	3,463	6,112	9,099	1,693	2,701	3,971	6,279	1,235	2,324	-14.0
	OPM (%)	7.1	6.8	7.8	8.5	6.5	5.3	5.1	5.9	4.8	4.6	-0.7pp
Back Office Business	Sales	3,512	7,618	11,703	16,941	4,215	8,824	12,878	17,941	3,825	7,604	-13.8
	OP	218	728	1,202	2,273	644	1,484	1,998	2,894	333	749	-49.5
	OPM (%)	6.2	9.6	10.3	13.4	15.3	16.8	15.5	16.1	8.7	9.9	-6.9pp
Field Operation Business	Sales	1,261	2,531	3,879	5,080	1,007	1,996	3,054	3,859	7	16	n/a
	OP	49	88	186	235	77	138	305	497	0	0	n/a
	OPM (%)	3.9	3.5	4.8	4.6	7.6	6.9	10.0	12.9	n/a	n/a	n/a
Total	Sales	29,885	61,131	93,703	128,731	31,354	62,148	93,223	127,603	29,378	58,196	-6.4
	OP	2,045	4,279	7,501	11,608	2,415	4,324	6,275	9,672	1,569	3,075	-28.9
	OPM (%)	6.8	7.0	8.0	9.0	7.7	7.0	6.7	7.6	5.3	5.3	-1.7pp

Sales & OP by Segment (Quarterly)												
(¥mil)		FY19			FY20				FY21			YoY (%)
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	QoQ (%)	
Contact Centre Business	Sales	25,871	27,138	28,589	26,130	25,197	25,963	28,512	25,545	25,030	-2.0	-0.7
	OP	1,686	2,649	2,987	1,693	1,008	1,270	2,308	1,235	1,089	-11.8	8.0
	OPM (%)	6.5	9.8	10.4	6.5	4.0	4.9	8.1	4.8	4.4	-0.4pp	+0.4pp
Back Office Business	Sales	4,106	4,085	5,238	4,215	4,609	4,054	5,062	3,825	3,779	-1.2	-18.0
	OP	510	474	1,071	644	840	514	896	333	416	24.9	-50.5
	OPM (%)	12.4	11.6	20.4	15.3	18.2	12.7	17.7	8.7	11.0	+2.3pp	-7.2pp
Field Operation Business / Others	Sales	1,270	1,348	1,201	1,007	989	1,058	804	7	9	28.6	n/a
	OP	39	98	49	77	61	167	192	0	0	n/a	n/a
	OPM (%)	3.1	7.3	4.1	7.6	6.2	15.8	23.9	n/a	n/a	n/a	n/a
Total	Sales	31,246	32,572	35,028	31,354	30,794	31,075	34,379	29,378	28,818	-1.9	-6.4
	OP	2,236	3,222	4,107	2,415	1,909	1,951	3,397	1,569	1,506	-4.0	-21.1
	OPM (%)	7.2	9.9	11.7	7.7	6.2	6.3	9.9	5.3	5.2	-0.1pp	-1.0pp

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

## FY21 OUTLOOK

Relia has kept its FY21 guidance unchanged with OP of ¥8.4bil (-13.2% YoY) on sales of ¥120.0bil (-6.0% YoY). The firm assumes that new projects, in both recurring and spot, will come on board from 2H.

### Domestic Business

Relia is forecasting a 26.9% YoY decline in OP to ¥7.6bil on sales of ¥105.0bil (-6.8% YoY) in Japan – the weak figures reflect the transfer of the Field Operations Business. Excluding the impact of the Field Operations Business, the estimated fall in FY21 sales and OP is likely to be -3.5% YoY and -23.2% YoY, respectively. In addition to this one-off impact, the firm assumes:

- A ¥1.2bil decline in FY21 sales and a ¥0.8bil decline in OP from a fall in large spot business.
- Recurring revenue to fall by ¥2.5bil due to the termination of some projects and costs related to the restructuring of its business portfolio, therefore reducing OP by ¥0.3bil.
- A ¥1.1bil rise in SG&A to invest in human resources for quality control and systems for IT security. The firm has newly established the Quality Control Division at the headquarters 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.

### **Overseas Business**

Relia is guiding for FY21 Overseas OP of ¥0.8bil (vs. a loss of ¥0.7bil in FY20) on sales of ¥15.0bil (+0.6% YoY). Although the impact of COVID will likely be an ongoing issue, given the recent surge in cases in the Philippines, Relia expects a more stable operating environment and that higher utilisation rates can be maintained as staff are now able to work remotely from home. Risk remains with a potential increase in COVID-related costs if there were any restrictive policies implemented in the Philippines. However, demand in North America remains strong which will lead to a further boost in the overseas revenue.

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## **SHAREHOLDER RETURN**

In FY21, Relia plans to pay a dividend of ¥42/share (unchanged from FY20) or an estimated total dividend payment of ¥2.8bil on Net Profit [NP] of ¥5.6bil (-27.8% YoY), which brings the dividend pay-out ratio to 50.1%. 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 during the same fiscal year.

Relia implements share buy-backs in conjunction with levels of growth investment, capital efficiency and the previous year's annual earnings. Between 17 May and 31 October, the firm conducted a buy-back programme and repurchased in total of 1,982,600 shares (approx. ¥2.5bil). Relia subsequently cancelled 1,982,688 treasury shares (approx. 3% of outstanding shares) on 26 November.

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## **PROGRESS OF THE MEDIUM-TERM MANAGEMENT PLAN DURING 1H**

FY21 marks the first year of Mid-term Management Plan 2023. During 1H, Relia started working on three key themes of the Plan – "Create customer experience [CX]", "Create employee experience [EX]" and "Strengthen the business foundation".

### 1. Create CX

- Relia established a new Digital Transformation [DX] Strategy Sector to develop new services, improve the productivity and quality of operations, and enhance the productivity of the corporate department. The firm announced the "Relia DX Strategy", a strategy to improve CX through DX.
- In addition to promoting hybrid operations that combine AI and manned support, the firm also developed a high-security home operation infrastructure.

### 2. Create EX

The firm commenced initiatives to improve employee experience [EX] as follows:

- Conducted employee satisfaction surveys.
- Conducted training and seminars to promote diversity.
- Renewed training for supervisors and operators.
- Introduced a mind support system in which employees who are not direct supervisors provide support and advice to individual staff members to improve the work environment and mental wellbeing.

### 3. Strengthen the business foundation

- The firm newly established the Quality Control Division and the Security Management Division.
- Also formulated and disseminated a new code of conduct and strengthened the case review function.

## FINANCIAL SUMMARY

<b>P&amp;L Summary</b>										
(¥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

<b>Balance Sheet Summary</b>										
(¥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

<b>Cash Flow Summary</b>									
(¥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

<b>Per-share indicators</b>										
(¥ / 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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