

S-POOL INC. (2471 JP)**IMPROVED SALES MIX MIGHT LEAD TO A POTENTIAL UPSIDE IN MEDIUM-TERM OP TARGET****FY21 RESULTS**

S-Pool Inc's (2471 JP) FY21 (Nov year-end) results notched up another year of record earnings with OP rising 19.7% YoY to ¥2,668mil on sales of ¥24,862mil (+18.3% YoY). Thanks to its diversified business portfolio, S-Pool managed to avoid the negative impact from COVID. Sales were largely in line with the firm's expectations, but OP overshoot the company's guidance by 6.7%, thanks to better-than-expected sales of hydroponic farm facilities in the Special Needs Employment Service segment, which generates an impressive OPM of approx. 80%.

In Q4 alone, S-Pool reported Q4 OP of ¥736mil (+9.9% YoY / -1.6% QoQ) on sales of ¥6,831mil (+19.0% YoY / +6.9% QoQ). In Human Resources Solutions [HRS] segment, the core Call Centre Staff Dispatching services reported another record level of quarterly sales, coming in at ¥3,911mil (+22.1% YoY / +1.0% QoQ), but the recovery in the Sales Support business was delayed due to COVID-related closures. On the other hand, Business Support Solutions [BS] segment enjoyed solid growth in Q4 sales (¥2,352mil, +32.8% YoY / +24.7% QoQ), thanks to 1) more-than-estimated hydroponic plots sold, and 2) contribution from new businesses.

S-Pool Inc. (2471 JP): Results & Forecasts (Cumulative)							
¥mi / Nov yr-end	FY20		FY21				
	1H	FY	1H	FY	FYCE	YoY (%)	vs. CE (%)
Sales	9,759	21,009	11,641	24,862	24,800	18.3	0.3
GP	2,874	6,377	3,361	7,530	7,106	18.1	6.0
GPM (%)	29.4	30.4	28.9	30.3	28.7	-0.1pp	+1.6pp
SG&A	1,883	4,148	2,177	4,862	4,606	17.2	5.6
SG&A/Sales (%)	19.3	19.7	18.7	19.6	18.6	-1.1pp	+1.0pp
OP	991	2,228	1,184	2,668	2,500	19.7	6.7
OPM (%)	10.2	10.6	10.2	10.7	10.1	+0.1pp	+0.6pp
RP	989	2,229	1,197	2,673	2,488	19.9	7.5
NP attributed for the parent's shareholders	688	1,580	780	1,881	1,635	19.0	15.0
EPS (¥)	8.71	20.00	9.88	23.81	20.70	19.1	15.0
Dividend (¥)	n/a	3.30	n/a	6.00	4.10	81.8	46.3
Dividend P/O (%)	n/a	16.5	n/a	25.2	19.8	n/a	n/a

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

EXECUTIVE SUMMARY

- S-Pool Inc. (2471 JP) reported FY21 (Nov year-end) yet another year of record earnings with OP of ¥2,668mil (+19.7% YoY) on sales of ¥24,862mil (+18.3% YoY). OP overshoot the firm's guidance thanks primarily to much stronger facilities sales in Special Needs Employment Services. Another positive surprise was that the firm's two new businesses outperformed the firm's guidance for the year.
- For the first time, segment OP of the Business Solutions [BS] Segment surpassed that of Human Resources Solutions [HRS] Segment, thanks to solid sales of high margin plots.
- S-Pool is guiding for FY22 full-year OP of ¥3,200mil (+19.9% YoY) on sales of ¥28,770mil (+15.7% YoY), which will be its 7th year of record earnings.
- Key factors for FY22 earnings growth include: 1) the promotion of call centre outsourcing for the Call Centre Staff Dispatch Service, 2) another record level of plot sales and the subsequent rise in facility management fees from as many as approx. 6,000 plots under management, 3) a rise in TCFD-related consulting works in Environmental Management Support, 4) seven more centres to be opened in Shared BPO Services.
- The Medium-term Plan to FY25 was also revised – while there was no change to total sales and OP targets, the sales breakdown was revised, which indicates potential upside to OP thanks to the improved sales mix.
- S-Pool also commits to improving its dividend pay-out ratio to 30% or more by FY25. FY22 annual dividend will be ¥8/share, which gives a dividend pay-out ratio of 29.7%.

FY21 REVIEW BY SEGMENT

Human Resources Solutions [HRS] Segment

Human Resources Solutions [HRS] FY21 OP rose 8.7% YoY to ¥1,910mil on sales of ¥17,234mil (+13.0% YoY). In Q4 alone, the segment earned OP of ¥421mil (-0.5% YoY / -24.6% QoQ) on sales of ¥4.503mil (+12.9% YoY / -0.5% QoQ).

Call Centre Staff Dispatch Services, which generates 80% of segment revenue and almost 100% of OP, saw full-year sales come in at ¥14,507mil (+18.9% YoY), with Q4 sales alone hitting a new record of ¥3,911mil (+22.1% YoY / +1.0% QoQ). Demand for call centre staff remained steady due to COVID-related mandates. In general, the firm's Call Centre Staffing can be split to 80% from repeated businesses and 20% from spot businesses, but during FY21, the split was 70% vs. 30%, which improved the sales mix. The majority of the spot business was COVID-related. In addition to staffing services to call centre operators, the firm saw an increasing demand for call centre outsourcing from call centre operators. As a result, S-Pool opened three call centres which are operated by the firm's experienced Field Consultants (FCs). Actively promoting call centre outsourcing services has boosted profitability to a level higher than that of the staffing service, despite higher fixed costs.

One of the businesses that continues to fall short of the company's expectations was Sales Support Services – which is included in the HRS segment. S-Pool dispatches sales support staff to retailers such as electrical specialist retailers and mobile phone retailers. Many of these electrical retailers operate in urban areas, so were affected by the lack of inbound tourism. However, mobile phone retailers such as Conexio (9422 JP) and T-Gaia (3738 JP) have seen a slow recovery in customer traffic as major mobile carriers rapidly shifted to online promotions. The Sales Support business earned full-year sales of ¥1,670mil (-22.8% YoY) vs. the firm's full-year sales estimate of ¥2,500mil. In Q4 alone, sales were ¥341mil (-34.8% YoY / -8.3% QoQ).

Business Solutions [BS] Segment

The Business Solutions [BS] segment's FY21 OP rose 31.0% YoY to ¥2,121mil on sales of ¥7,696mil (+31.2% YoY), outperforming the firm's estimate of ¥1,873mil in OP on sales of ¥7,408mil, generating an OPM of 27.6% (flat YoY), however, thanks to a boost in the sale of hydroponic plots during Q4, the quarterly segment OPM improved to 31.2% for the quarter. Consequently, and for the first time, the absolute level of BS segment OP has overshot that of the HRS segment. Segment earnings were also boosted by a rapid growth in new businesses, such as Environmental Management Support via a subsidiary blue dot green Inc. and Wide-area Administrative BPO services that the firm started earlier this year.

Special Needs Employment Support

The Special Needs Employment Support segment saw full year FY21 sales of 4,577mil (+37.2% YoY). In Q4 alone, the sales jumped +52.8% YoY / +129.2% QoQ to ¥1,590mil thanks to a record 492 plots sold in the quarter, taking the number of facilities under management to 4,951 plots. S-Pool sold a total of 1,188 plots in FY21, more than the 1,100 plots planned, compared to 936 plots sold in FY20. As a result, the firm opened one additional farm to the planned six farms, which led to the sale of facilities rising 39.2% YoY to ¥1,903mil in FY21. S-Pool reckons that the reasons behind the stronger-than-expected sale of plots include:

- 1) Many companies in Japan are increasing the number of employees to prepare for a potential post-COVID labour shortage. Consequently, there is likely to be an increasing demand for special needs employees to meet the mandatory requirements for special needs employment quotas,
- 2) Improved traction of customers through the introduction of targeted advertisements rather than the usual pre-Covid norm of face-to-face marketing, and
- 3) Approx. 30% of existing customers repeat buying plots.
- 4) Furthermore, the recurring revenue earned from farm Facilities Management has been steadily increasing with a low churn rate (0.2% in Q4). Cumulative recurring sales from Facilities Management reached ¥2,174mil (+40.6% YoY). In Q4 alone, recurring revenue was ¥609mil (+43.6% YoY / +8.0% QoQ) which also hit record quarterly sales.

S-Pool Inc. (2471 JP): Special Needs Employment Business: sales breakdown (Quarterly)															
(¥ million)	FY20					FY21									
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	YoY (%)	QoQ (%)	FY	FYCE	YoY (%)	
Sale of facilities (flow revenue)	242	369	237	519	1,367	219	545	346	793	52.8	129.2	1,903	1,645	39.2	
Farm management fee (stock revenue)	345	371	406	424	1,546	484	517	564	609	43.6	8.0	2,174	2,247	40.6	
Recruitment Fee	66	107	67	181	421	68	158	81	188	3.9	132.1	495	352	17.6	
Special Needs Support Total	654	848	712	1,121	3,335	772	1,222	992	1,590	41.8	60.3	4,577	4,240	37.2	

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

Logistics Outsourcing Service

The Logistics Outsourcing Service reported full-year sales of 1,261mil (+7.5% YoY). The segment saw a dip in profitability in Q2 when a large tenant's business rapidly slowed down due to COVID, which led to S-Pool terminating the tenancy contract. This limited sales growth in 2H but since the contract was relatively low margin, segment profitability recovered to steadily from Q2's 8% to 15% in 2H. As well as taking on new tenants – the number of tenants rose by 18 to 145 in FY21 – the firm noted that its own efforts, such as cutting personnel cost, helped improve gross profit margin [GPM].

Employment Process Support Service, OMUSUBI

Employment Process Support Services reported FY21 sales of ¥616mil (+9.3% YoY). After hitting a record level of quarterly revenue in Q2 despite restaurants and bars – ca. 30% of the segment's customers – being negatively affected by the SoE closures, the number of job applicants peaked out in 2H. In Q4 alone, while hiring demand rebounded sharply, especially in the part-time job market for the hospitality sector, the number of applicants dropped to 127,682 vs 199,989 in Q2. The firm reckons that applications from students and overseas students, who used to apply for part-time positions in the hospitality sector, fell as they now prefer working in other sectors less affected by COVID-related closures. As a result, in Q4 alone, segment sales dipped -7.4% YoY / 0.0% QoQ to ¥137mil.

S-Pool Inc. (2471 JP): Segment Sales and Operating Profit (Quarterly)											
(¥million)		FY20				FY21					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY (%)	QoQ (%)
HRS	Call Centres	2,708	2,916	3,373	3,203	3,188	3,536	3,871	3,911	22.1	1.0
	Sales Support	576	556	507	523	494	462	372	341	-34.8	-8.3
	Others	178	208	239	263	261	264	282	251	-4.6	-11.0
	Total segment sales	3,462	3,680	4,119	3,988	3,943	4,262	4,525	4,503	12.9	-0.5
	Segment OP	352	434	548	423	414	517	558	421	-0.5	-24.6
	Segment OPM (%)	10.2	11.8	13.3	10.6	10.5	12.1	12.3	9.3	-1.3pp	-3.0pp
BS	Special Needs	654	848	712	1,121	772	1,222	992	1,590	41.8	60.3
	Logistics	252	310	303	307	287	312	328	333	8.5	1.5
	Sales Promotion Support	140	57	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	OMUSUBI	123	154	139	148	155	187	137	137	-7.4	0.0
	Professional HR Bank	53	40	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Total segment sales	1,222	1,422	1,410	1,771	1,477	1,981	1,886	2,352	32.8	24.7
	Segment OP	307	433	285	594	274	606	507	734	23.6	44.8
	Segment OPM (%)	25.1	30.5	20.2	33.5	18.6	30.6	26.9	31.2	-1.8pp	4.8pp
Total	Sales	4,684	5,102	5,529	5,760	5,420	6,243	6,411	6,855	19.0	6.9
	OP	659	867	833	1,017	688	1,123	1,065	1,155	13.7	8.5
Adjustment	OP	-272	-264	-265	-347	-302	-326	-316	-419	n/a	n/a
Total as in PL	Sales	4,675	5,085	5,508	5,741	5,410	6,231	6,390	6,831	19.0	6.9
	OP	386	605	568	670	387	797	748	736	9.9	-1.6
	OPM (%)	8.3	11.9	10.3	11.7	7.2	12.8	11.7	10.8	-0.9pp	-0.9pp

Source: Nippon-IBR based on S-Pool Inc.'s earnings presentation materials

New Businesses

S-Pool enjoyed rapid sales growth of two new businesses in FY21

1) Environment Management Support Service via blue dot green Inc.

S-Pool consolidated the 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 in 1H because it failed in its bid to win carbon credits given the sharp rise in carbon emission credit prices. In Q3, however, consultancy demand from Japanese listed companies requested to disclose their environmental measures by Carbon Disclosure Project [CDP] has rapidly surged 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, some of whom blue dot green Inc. offers its consulting services to (for the preparation of their carbon disclosure). As a result, FY21 sales reached ¥258mil (+115.7%), overshooting the annual sales target of ¥235mil – the break-even level of sales for the subsidiary. The subsidiary's sales mix improved as the higher margin consulting work is now approx. 40% of sales.

2) Wide-area Administrative BPO Service, a newly established subsidiary

S-Pool announced the launch of a new 100% subsidiary specialising in the shared business process outsourcing [BPO] business together with Q3 results and transferred its Wide-area Administrative BPO business to the subsidiary, which provides Wide-area Administrative BPO services to a group of local governments. The business started in Hokkaido and rapidly expanded to Aomori and Akita prefectures. The firm has its own call centre in the Kitami City, Hokkaido, and Hirosaki in Aomori, where it has taken on COVID-related local government work. In Q4, the firm received orders from three additional municipalities.

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 Wide-area Administrative BPO service in which a group of local governments in close proximity can use the Wide-area Administrative 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 to use the Wide-area Administrative 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 Wide-area Administrative BPO business has already earned FY21 annual sales of ¥130mil and due to the service utilising facilities and idling human resources of OMUSUBI business, OPM reached as high as 40%. S-Pool reckons that even without using OMUSUBI resources, the Wide-area Administrative BPO business can earn 20~30% OPM going forward. The firm estimates that one Wide-area Administrative BPO centre could earn up to ¥100mil~150mil per annum.

S-Pool Inc. (2471): Segment Sales and Operating Profit (Cumulative)									
(¥million)		FY19	FY20		FY21				
		FY	1H	FY	1H	FY	FYCE	YoY (%)	VS. CE (%)
HRS	Call Centres	9,518	5,624	12,200	6,724	14,507	13,800	18.9	5.1
	Sales Support	2,492	1,132	2,162	956	1,670	2,500	-22.8	-33.2
	Others	505	386	887	525	1,058	1,200	19.3	-11.8
	Total Segment Sales	12,516	7,142	15,250	8,205	17,234	17,500	13.0	-1.5
	Segment OP	1,182	786	1,757	931	1,910	1,930	8.7	-1.0
	Segment OPM (%)	9.5	11.0	11.5	11.3	11.1	11.0	-0.4pp	+0.1pp
BS	Special Needs	2,766	1,503	3,335	1,994	4,577	4,240	37.2	7.9
	Logistics	1,095	562	1,172	599	1,261	1,400	7.6	-9.9
	Sales Support	517	197	n/a	n/a	n/a	n/a	n/a	n/a
	OMUSUBI	437	277	564	342	616	690	9.2	-10.7
	Prof. HR Bank	235	93	n/a	n/a	n/a	n/a	n/a	n/a
	Blue dot green	n/a	n/a	n/a	81	258	235	n/a	9.8
	Wide-area Administrative BPO	n/a	n/a	n/a	n/a	130	n/a	n/a	n/a
	Total Segment Sales	5,043	2,644	5,825	3,458	7,696	7,408	32.1	3.9
	Segment OP	1,514	740	1,619	880	2,121	1,873	31.0	13.2
	Segment OPM (%)	30.0	28.0	27.8	25.4	27.6	25.3	-0.1pp	+2.4pp
Total	Sales	17,559	9,787	21,075	11,641	24,930	24,908	18.3	0.1
	OP	2,696	1,527	3,376	1,811	4,032	3,803	19.4	6.0
Adjustment	Sales	-37	-27	-65	-22	-67	-108	n/a	n/a
	OP	-1,093	-536	-1,148	-628	-1,363	-1,303	n/a	n/a
Value as in P&L	Sales	17,522	9,759	21,009	11,641	24,862	24,800	18.3	0.2
	OP	1,604	991	2,228	1,184	2,668	2,500	19.7	6.7
	OPM (%)	9.2	10.2	10.6	10.2	10.7	10.1	+0.1pp	+0.6pp

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

FY22 EARNINGS GUIDANCE

S-Pool is guiding for FY22 full-year OP of ¥3,200mil (+19.9% YoY) on sales of ¥28,770mil (+15.7% YoY), which will be its 7th consecutive year of record earnings. The half-yearly earnings forecast is shown on the table below:

S-Pool Inc. (2471 JP): Earnings Guidance						
(¥mil)	FY21			FY22CE		
	1H	2H	FY	1H	2H	FY
Sales	11,641	13,211	24,862	13,522	15,247	28,770
Gross Profit [GP]	3,361	4,168	7,530	4,063	4,582	8,646
GPM (%)	28.9	31.5	30.3	30.1	30.1	30.1
SG&A	2,177	2,684	4,862	2,677	2,768	5,446
SG&A/Sales (%)	18.7	20.3	19.6	19.8	18.2	18.9
Operating Profit [OP]	1,184	1,483	2,668	1,385	1,814	3,200
OPM (%)	10.2	11.2	10.7	10.2	11.9	11.1
Recurring Profit	1,197	1,475	2,673	1,373	1,802	3,176
NP attributed to parent's shareholders	780	1,100	1,881	943	1,190	2,133

Source: Nippon-IBR based on S-Pool Inc.'s FY21 earnings presentation materials

FY22 GUIDANCE BY SEGMENT

Human Resources Solutions [HRS] Segment

S-Pool is guiding for FY22 HRS segment OP of ¥2,137mil (+11.9% YoY) on sales of ¥19.240mil (+11.6% YoY). Sales of Call Centre Staff Dispatch Services are forecast to rise 13.4% YoY to ¥16,450mil by 1) promoting call centre outsourcing services through its two in-house call centres, and 2) increasing its top market share in Call Centre Staff Dispatch Services with five call centre operator companies, up from the current three.

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 remain firm. This is especially true for when the hospitality sector starts increasing hires again because there is often an overlap in the attributes of people seeking jobs in the hospitality industry and those looking for jobs in call centres. S-Pool's strength lies in its ability to promptly gather a group of operators and send them out to call centres, therefore this change in status quo could prove to be a continued business opportunity for the firm.

The risk to earnings remains with the Sales Support business which has been negatively affected by COVID-related closures and anti-infection measures which has deterred people going to stores. S-Pool is currently guiding for FY22 Sales Support revenue of ¥1,830mil (+9.6% YoY) by capturing the recovery in staffing demand in electrical retailers and mobile phone shops. The firm is also looking to diversifying the customer base by expanding its sales support services to other retailers.

Business Solutions [BS] Segment

S-Pool is guiding for BS Segment at OP of ¥2,592mil (+22.2% YoY) on sales of ¥9,650mil (+25.4% YoY).

Special Needs Employment Support

In Special Needs Employment Services, the firm is guiding for FY22 sales of ¥5,500mil (+20.1% YoY). In FY22, it plans to open eight new hydroponic farms including one new location in Yokohama, Kanagawa Prefecture, with a target to sell a new record of 1,250 plots, which should generate sales of ¥2,041mil (+7.2% YoY). S-Pool assumes that corporates will increase hiring after the pandemic peaks out, and lead to an increase in demand for special needs workers so as to meet the mandatory employment quota. Furthermore, the employment quote went up by 0.1% to 2.3% from April 2021, which further increases demand for working environments where special needs employees work safely. The firm plans to sell between 550 and 650 plots in 1H to which the firm already has approx. 300 order backlogs as of the end of FY21. Any extra plot sale will boost earnings further as they garner substantial OPMs of 80%.

Recurring revenue from Facilities Management is forecast to rise 41.5% YoY to ¥3,078mil thanks to a steady increase in the number of plots under management. The company expects over 6,000 plots to be up and running at the end of FY22, assuming 1,250 plots are to be sold this year. Again, any upside in the plot sales will lead to further rise in recurring revenue going forward.

Logistics Outsourcing Service

In FY22, S-Pool is guiding for Logistics Outsourcing Service sales of ¥1,427mil (+13.1% YoY). While the firm terminated the tenancy with one of its largest customer last year, the segment managed to improve sales by 7.5% thanks to adding new customers. Although S-Pool does not consider expanding the warehouse capacity in a short period of time, it newly rented a warehouse in Urayasu City to challenge another growth potential. Currently, all of three warehouses meet Scope 3 carbon neutral requirements, which the firm expects should attract potential customers. S-Pool also has an alliance with a cross-border e-commerce service provider in Taiwan, Asian Bridge, but potential sales from this alliance is not included in the current full-year guidance.

Employment Process Support Service, OMUSUBI

S-Pool is guiding for FY22 sales of ¥641mil (+4.0% YoY). While demand for part-time workers in the hospitality sector has shown signs of recovery back to pre-COVID levels, the number of job applicants remains lacklustre, hence the conservative guidance. The firm seeks to offset weakness of demand from the hospitality sector by cultivating other sectors such as job interview settings for elderly nursing homes.

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

FY22 sales guidance for blue dot green Inc. is estimated at ¥384mil (+48.8% YoY), with the growth in the sector led by an increase in consulting which enjoys higher margin than carbon credit sales. Although a vast majority of the TSE1 listed companies will need to meet TCFD (Task Force of Climate-Related Financial Disclosures) requirements as they move to the new Prime Market, many of them do not have in-house expertise in handling such mandatory disclosures. Like the aforementioned CPD disclosure support, consulting service for TCFD generates higher margins.

New Business – Wide-area Administrative BPO, a newly established subsidiary

In the Wide-area Administrative BPO Business, S-Pool is guiding for sales of ¥665mil (+411.5%) This year, the firm aims to open an additional seven centres, taking the total to ten. The substantial leap in sales assumes one Wide-area Administrative BPO branch will likely generate approx. ¥100mil~150mil in revenues. 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. Management views the transfer of this business to the new subsidiary as a way to speed up the decision-making process.

S-Pool Inc. (2471 JP): Segment Sales and Operating Profit (Cumulative)					
(¥mil)		FY20	FY21	FY22	
		FY	FY	FYCE	YoY (%)
HRS	Call Centres	12,200	14,507	16,450	13.4
	Sales Support	2,162	1,670	1,830	9.6
	Others	887	1,058	960	-9.3
	Total Segment Sales	15,250	17,234	19,240	11.6
	Segment OP	1,757	1,910	2,137	11.9
	Segment OPM (%)	11.5	11.1	11.1	0.0pp
BS	Special Needs	3,335	4,577	5,500	20.2
	Logistics	1,172	1,261	1,427	13.2
	Sales Support	n/a	n/a	n/a	n/a
	OMUSUBI	564	616	641	4.1
	Prof. HR Bank	n/a	n/a	n/a	n/a
	Blue dot green	n/a	258	384	48.8
	Wide-area Administrative BPO	n/a	130	665	411.5
	Total Segment Sales	5,825	7,696	9,650	25.4
	Segment OP	1,619	2,121	2,592	22.2
	Segment OPM (%)	27.8	27.6	26.9	-0.8pp
Total	Sales	21,075	24,930	28,890	15.9
	OP	3,376	4,032	4,730	17.3
Adjustment	Sales	-65	-67	-120	n/a
	OP	-1,148	-1,363	-1,530	n/a
Value as in P&L	Sales	21,009	24,862	28,770	15.7
	OP	2,228	2,668	3,200	19.9
	OPM (%)	10.6	10.7	11.1	+0.4pp

Source: Nippon Investment Bespoke Research UK Ltd based on S-Pool Inc.'s FY21 earnings presentation material

FIVE-YEAR MEDIUM-TERM MANAGEMENT PLAN

S-Pool announced a new medium-term plan (FY21~FY25). In the final year of the plan, the firm aims to achieve OP of ¥5,000mil (CAGR of 17.5%) on sales of ¥41,000mil (CAGR of 14.3%). With the release of the FY21 results, while the firm has not changed the plan's sales and OP targets, it has changed the sales breakdown to reflect a higher exposure to the Business Solutions segment and likely lead to higher profitability. Upside to the medium-term OP target depends on 1) the level of plot sales, and 2) how quickly the new businesses contribute to consolidated profits.

FY21 Guidance and 5-Year Medium-Term Management Plan								
(¥mil)	FY20	FY21	FY22CE	YoY (%)	FY25CE (Old)	FY25CE (Revised)	Change (%)	5-yr CAGR revised (%)
HRS Segment Sales	15,250	17,234	19,240	11.6	27,500	25,200	-8.4	10.5
Call Centre	12,201	14,507	16,450	18.9	n/a	n/a	n/a	n/a
Sales Support	2,162	1,670	1,830	-22.8	n/a	n/a	n/a	n/a
Others	887	1,057	960	19.2	n/a	n/a	n/a	n/a
Segment OP	1,757	1,910	2,137	11.9	3,000	2,685	-10.5	9.3
OPM (%)	11.5	11.1	11.1	0.0pp	10.9	10.7	-0.2pp	n/a
BS Segment Sales	5,825	7,663	9,650	25.4	13,500	15,800	17.0	22.1
Special Needs	3,335	4,577	5,500	20.1	7,760	8,100	4.4	19.4
Other existing Services	1,736	1,877	2,068	10.2	5,398	4,340	-19.6	20.1
incl. Logistics	1,172	1,261	1,427	13.1	2,500	2,000	-20.0	11.3
incl. OMUSUBI	564	616	641	4.0	1,500	1,000	-33.3	12.1
New Businesses	0	365	1,049	187.4	500	3,500	600.0	n/a
incl. blue dot green Inc.	n/a	235	384	48.8	500	500	0.0	n/a
incl. Wide-area Admin BPO	n/a	130	665	411.5	n/a	3,000	n/a	n/a
Segment OP	1,619	2,121	2,592	15.7	3,900	4,534	16.3	20.7
OPM (%)	27.8	27.7	26.9	-0.8pp	28.9	28.7	-0.2pp	n/a
Sales	21,009	24,800	28,770	18.0	41,000	41,000	0.0	14.3
HQ costs	1,148	1,363	1,530	13.5	1,900	2,000	0.0	n/a
OP	2,228	2,668	3,200	12.2	5,000	5,000	0.0	17.5
OPM (%)	10.6	10.8	11.1	+0.3pp	12.2	12.2	+0.0pp	n/a

Source: Nippon-IBR based on S-Pool Inc.'s presentation materials

The HRS Segment forecast was revised down due to the slow recovery of Sales Support Services. However, Call Centre Staff Dispatch Service revenues are estimated to grow by approx. ¥2,000mil p.a. during the five years, which is a similar level of sales growth in recent years.

In the BS Segment, the firm has high hopes for revenue growth from Wide-area Administrative BPO Services. S-Pool aims to open 30 BPO centres by the end of the Plan with each generating sales of approx. ¥100~150mil p.a. Furthermore, the firm reckons that business will steadily continue within Special Needs Employment Services and aims to sell approx. 1,200~1,300 plots a year which will subsequently result in management's to run 10,000 plots being achieved ahead of schedule.

S-Pool also commits to improve the dividend pay-out ratio to more than 30% by FY25. In FY22, the firm plans to pay an annual dividend of ¥8 / share, making the pay-out ratio of 29.6%.

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