

S-POOL INC. (2471 JP)**REPORTED Q1 RESULTS WITH BETTER THAN EXPECTED PROFITS, THANKS TO CORE AND NEW BUSINESSES****FY22 Q1 RESULTS**

S-Pool Inc (2471 JP) reported another record set of quarterly earnings with the release of its FY22 Q1 (Nov year-end) results. Operating profit [OP] surged 73.3% YoY to ¥671mil on sales of ¥6,520mil (+20.5% YoY).

Q1 sales were in line with the firm's forecast but OP surpassed the company's guidance by approx. ¥200mil, thanks to the following reasons:

1. Continued strength in demand for spot jobs especially related to COVID; this boosted demand for Call Centre Staff Dispatch Services and pushed the segment OP by approx. ¥50mil. Although S-Pool had expected spot demand would fade out in FY22, demand for COVID-related projects continues to come in.
2. OP of Special Needs Employment Support surpassed the firm's budget by ¥100mil. The number of hydroponic facilities sold - 186 plots - were largely in line with the firm's estimate of 150~200 plots for Q1. However, Referral Fees surpassed management's forecast by ¥20mil as approx. 40 workers were allocated to fill vacancies. Furthermore, S-Pool initially budgeted extra costs, such as for fuel, but did not spend it all. The delay of spending associated with opening of new indoor farms to be opened in Q4 also contributed to improvement of Q1 segment OP.
3. Two new businesses, Wide-area BPO and Environmental Management Support, together generated approx. ¥50mil higher OP than expected.

S-Pool Inc. (2471 JP): Results & Forecasts (Cumulative)								
¥mil	FY21			FY22				Progress (%)
	Q1	1H	FY	Q1	YoY (%)	1HCE	FYCE	
Nov yr-end								
Sales	5,410	11,641	24,862	6,520	20.5	13,522	28,770	22.7
GP	1,446	3,361	7,530	2,024	40.0	4,063	8,646	23.4
GPM (%)	26.7	28.9	30.3	31.1	+4.4pp	30.1	30.1	n/a
SG&A	1,058	2,177	4,862	1,353	27.8	2,677	5,446	24.8
SG&A/Sales (%)	19.6	18.7	19.6	20.8	+1.2pp	19.8	18.9	n/a
OP	387	1,184	2,668	671	73.3	1,385	3,200	21.0
OPM (%)	7.2	10.2	10.7	10.3	+3.1pp	10.2	11.1	n/a
RP	382	1,197	2,673	667	74.3	1,373	3,176	21.0
NP*	250	780	1,881	447	78.5	943	2,133	21.0
EPS (¥)	3.17	9.88	23.81	5.66	78.5	11.94	27.01	21.0
Dividend (¥)	n/a	n/a	6.00	n/a	n/a	n/a	8.00	n/a
Dividend P/O (%)	n/a	n/a	25.2	n/a	n/a	n/a	29.6	n/a

Source: Nippon-IBR based on S-Pool Inc. FY21 & FY22 Q1 earnings presentation materials

* NP attributed for the parent's shareholders

EXECUTIVE SUMMARY

- S-Pool Inc (2471 JP) reported another record set of quarterly earnings in Q1 FY22 (Nov year-end). OP rose 73.3% YoY to ¥671mil on sales of ¥6,520mil (+20.5% YoY). While Q1 sales were largely in line with expectations, OP came in ahead by ¥200mil.
- Call Centre Staff Dispatch Services pushed the segment OP by approx. ¥50mil, thanks to the continued strength of spot demand related to COVID vaccination works. Segment OPM also improved due to rising full call centre outsourcing services.
- OP of Special Needs Employment Support beat the firm's budget by ¥100mil. S-Pool sold 186 plots of hydroponic facilities – largely in line with the firm's 150~200 target for Q1, while Referral Fees surpassed the firm's forecast by ¥20mil due to allocating some 40 workers to fill vacancies. For Q2, S-Pool plans to sell 400~450 plots. This should be readily met given the level of order backlogs (400 plots) and two new farms will open during Q2.
- S-Pool's two new businesses, Wide-area Administrative BPO and the Environment Management Support Business, continued to enjoy rapid revenue growth in Q1.
- For FY22, S-Pool is guiding for 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 to support 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 6,000 plots under management,
 3. Demand for TCFD and CDP-related consulting work for Environmental Management Support is rising, and
 4. Seven more centres to be opened in Wide-area Administrative BPO Services (Shared BP Services).

FY22 Q1 REVIEW BY SEGMENT

Human Resources Solutions [HRS] Segment

Human Resources Solutions [HRS] FY22 Q1 OP rose 30.4% YoY to ¥540mil on sales of ¥4,549mil (+15.4% YoY). Within this segment, Call Centre Staff Dispatch Services, which generates 80% of segment revenue and almost 100% of OP, saw Q1 sales come in at ¥4,009mil (+25.7% YoY) The business hit another quarterly record in revenue at the Q1, thanks to continued strength in spot businesses. This performance suggests S-pool is on track to meet its full year guidance which calls for 1) a sales increase of ¥2,000mil p.a., 2) OPM of 10% or so.

In addition to providing 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 (two in Tokyo and one in Fukuoka) in FY21, which are operated by the firm's experienced Field Consultants (FCs). Full outsourcing of call centre operations occurs when call centre operators cannot set up their own centres at short notice. Actively promoting call centre outsourcing services has boosted profitability to a level higher than that of the staffing service, despite higher fixed costs. However, given such jobs are mostly short-term spot projects, S-Pool has been building expertise to mitigate the higher cost burden that full outsourcing incurs.

The Sales Support Services business – which is included in the HRS segment – is one of area that continues to fall short of the company's expectations. Here, S-Pool dispatches sales support staff to retailers such as electrical specialist retailers and mobile phone retailers. However, due to the prolonged Prevention of Spreading Policy, the expected recovery was delayed and resulted in a 35.9% YoY decline in Q1 sales to ¥316mil.

Business Solutions [BS] Segment

The Business Solutions [BS] segment's FY22 Q1 OP surged 76.8% YoY to ¥485mil on sales of ¥1,995mil (+35.1% YoY), generating an OPM of 24.3% (+5.3ppt YoY), thanks to growth in the Special Needs Employment Service business, supported by the steady growth of Facilities Management Fee (stock revenue) on the back of a large jump in facilities sales (+39.2% YoY) in FY21. Two new businesses, Wide-area Administrative BPO service and Environmental Management Support (blue dot green Inc.), made a small but solid profit. The Logistics Outsourcing Service generated a 10% OPM. Consequently, the absolute level of BS segment OP overshot that of the HRS segment in Q1.

Special Needs Employment Support

The Special Needs Employment Support segment reported full year FY22 Q1 sales of ¥1,072mil (+38.8% YoY). For FY22 Q1, a total of 186 (+29.2% YoY) hydroponic facilities plots were sold, which was in line with the firm's target to sell between 150~200 plots.

S-Pool plans to sell 400~450 plots of hydroponic facilities in Q2, which will likely to be achieved given Q1 order backlog of 400 plots. Demand for Special Needs employment will continue to be strong thanks to:

1. An increase in mandatory employment quotas of special needs workers from April 2021.
2. Corporates increase hiring which leads to increase in hiring of special needs employees.
3. The firm also noted that among several large corporates, despite having already met the mandatory employment quota in-house, have started considering using the firm's special needs employment service after experiencing difficulties in managing workers during Statement of Emergency closures.

S-Pool plans to open two new farms – one indoor farm in Yokohama and one outdoor farm in Kawagoe, both within one-hour distance from Central Tokyo – to meet rising demand in Q2. Furthermore, the recurring revenue earned from Facilities Management has been steadily increasing and, more importantly, has a low churn rate (just 0.2% in Q1). The number of hydroponic facilities under management reached 5,131 plots in Q1, and if the planned 400~450 plots are sold in Q2, the total facilities under management will surpass 5,500 plots. Recurring revenue also achieved record quarterly sales of ¥678mil (+40.1% YoY / +11.3% QoQ) and will likely continue renewing record levels of quarterly revenue from Q2 onwards as more facilities are sold.

Special Needs Employment Business: sales breakdown (Quarterly)									
¥ million)	FY21				FY22				
	Q1	Q2	Q3	Q4	Q1	YoY (%)	QoQ (%)	FYCE	YoY (%)
Sale of facilities (flow revenue)	219	545	346	793	306	39.7	-61.4	2,041	7.3
Farm management fee (stock revenue)	484	517	564	609	678	40.1	11.3	3,078	41.6
Recruitment Fee	68	158	81	188	88	29.4	-53.2	374	-24.4
Special Needs Support Total	772	1,222	992	1,590	1,072	38.9	-32.6	5,500	20.2

Source: S-Pool Inc. FY20, FY21& FY22 Q1 Earnings Results Presentation Materials

Logistics Outsourcing Service

The Logistics Outsourcing Service reported FY22 Q1 sales of ¥320mil (+11.8% YoY). After a restructuring in FY21, which included the termination of a contract with a low-margin customer and cost cutting efforts, the business earned OP of approx. ¥30mil. Since the existing two centres, Shinagawa, and Tsukuba, together reached the maximum monthly sales of ¥100mil, S-Pool has opened a new centre leased in Urayasu. However, it will refrain from further investing in this business and rather maintain the OPM of 10% level going forward, to focus on its new high growth / high margin businesses discussed below.

Employment Process Support Service, OMUSUBI

Employment Process Support Services reported FY22 Q1 sales of ¥118mil (-23.8% YoY). This is the only segment which underperformed the firm's expectation. During the same period last year, the steady hiring activity at supermarkets and drug stores – demand for workers remain firm despite the lockdown – was able to offset the low hiring demand in the hospitality sector. However, in FY22 Q1, hiring demand by supermarkets and drug stores, as well as the hospitality sector, was lacklustre due to the prolonged Prevention of Spreading Disease measures. As a result, the number of job applications fell 28.3% YoY to 37,540. S-Pool reckons that Q1 was the bottom of the down trend and has started to see orders from large corporates gradually increase.

New Businesses

S-Pool continue to enjoy rapid growth of two new businesses in FY22 Q1.

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

Wide-area Administrative BPO services saw a favourable start to the year, thanks to needs associated with COVID vaccination. Q1 sales reached ¥162mil, surpassing FY21 sales of ¥130mil. The business rapidly expanded to five centres including two new centres opened in Q1 in Kagawa and Oita prefectures. With those five centres, the firm conducts BPO works for 41 municipalities.

As of March 2022, S-Pool has confirmed the opening of eight BPO centres – just two shy of the 10 centres targeted for 1H. Currently, approx. 30% of revenue is from COVID vaccine-related jobs. Q1 segment OP reached approx. ¥50mil (OPM 30%). Initially, S-Pool was modelling for an OPM of around 20%. However, since there are multiple jobs associated with COVID vaccinations, the utilisation of its centres was high, which boosted profitability. Lower opening costs also added to the higher-than-expected OPM. Although higher margin spot jobs such as vaccination-related work will eventually fade out, the firm reckons that the business can generate an OPM of 25% as further improvement in staff utilisation is realised.

S-Pool is anticipating around 100 towns and cities with a population between 5,000~100,000 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 is able to hire local people to work in its centres without difficulties. Given the multitude of tasks local governments undertake, management reckon there will be a steady flow of business from this service. The firm estimates that one Wide-area Administrative BPO centre could earn up to ¥100mil~150mil per annum.

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

S-Pool consolidated the carbon offset solution provider blue dot green Inc in 2020. The subsidiary reported Q1 revenue of ¥98mil (+129.7% YoY) on the back of a rapid increase in consulting requests from Japanese listed companies in relation to disclosure guidelines, such as 1) consultancy work associated with TCDF- [Task Force on Climate-related Financial Disclosures] related support service to Japanese listed companies. The firm had approx. 40 companies using its service, and 2) demand for its services from Japanese listed companies that that have been requested to provide environment-based disclosures by Carbon Disclosure Project [CDP] – 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. S-Pool currently supports approx. 50 listed companies in Japan in their disclosure to CDP, out of 500 listed companies targeted by CDP.

As the Tokyo Stock Exchange has shifted to new market categorisations, disclosure requirements by CDP will be expanded to all Prime Market listed companies (1,850 companies). S-Pool reckons that the expansion of the target population will continue to provide growth opportunities.

S-Pool Inc. (2471): Segment Sales and Operating Profit (Quarterly)												
(¥million)		FY20				FY21				FY22		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	YoY (%)	QoQ (%)
HRS	Call Centres	2,708	2,916	3,373	3,203	3,188	3,536	3,871	3,911	4,009	25.7	2.5
	Sales Support	576	556	507	523	494	462	372	341	316	-35.9	-7.3
	Others	178	208	239	263	261	264	282	251	224	-14.2	-10.8
	Total segment sales	3,462	3,680	4,119	3,988	3,943	4,262	4,525	4,504	4,549	15.4	1.0
	Segment OP	352	434	548	423	414	517	558	421	540	30.4	28.3
	Segment OPM (%)	10.2	11.8	13.3	10.6	10.5	12.1	12.3	9.3	11.9	+1.4pp	+2.7pp
BS	Special Needs	654	848	712	1,121	772	1,222	992	1,590	1,072	38.8	-32.6
	Logistics	252	310	303	307	287	312	328	333	320	11.8	-3.9
	Sales Promotion Support	140	57	n/a	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	118	-23.8	-13.9
	Professional HR Bank	53	40	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	blue dot green Inc.	n/a	n/a	n/a	n/a	43	38	139	37	98	129.7	164.9
	Wide-area Admin. BPO	n/a	n/a	n/a	n/a	n/a	n/a	78	51	162	n/a	217.6
	Total segment sales	1,222	1,422	1,410	1,771	1,477	1,981	1,886	2,352	1,995	35.1	-15.2
	Segment OP	307	433	285	594	274	606	507	734	485	76.8	-33.9
Segment OPM (%)	25.1	30.5	20.2	33.5	18.6	30.6	26.9	31.2	24.3	+5.7pp	-6.9pp	
Total	Sales	4,684	5,102	5,529	5,760	5,420	6,243	6,411	6,855	6,544	20.7	-4.5
	OP	659	867	833	1,017	688	1,123	1,065	1,155	1,025	49.0	-11.3
Adjustment	Sales	-8	-19	-20	-18	-9	-13	-20	-25	-24	n/a	n/a
	OP	-272	-264	-265	-347	-302	-326	-316	-419	-354	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	6,520	20.5	-4.6
	OP	386	605	568	670	387	797	748	736	671	73.3	-8.8
	OPM (%)	8.3	11.9	10.3	11.7	7.2	12.8	11.7	10.8	10.3	+3.1pp	-0.5pp

Source: Nippon-IBR based on S-Pool Inc.'s FY20, FY21 & FY22 Q1 earnings presentation materials

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. Although Q1 profits surpassed the firm's expectation, the guidance remains unchanged. 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	13,221	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 & FY22 Q1 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 also 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 more technically complicated tasks, demand for call centre outsourcing will likely remain firm. This is especially true for when the hospitality sector starts to increase hires again as 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 to send 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). It also 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 that is expected to lead to a rise in demand for special needs workers as they need to meet the mandatory employment quota. Furthermore, the employment quota went up by 0.1ppt to 2.3% from April 2021, which further increases demand for working environments where special needs employees can work safely. The firm plans to sell between 550~650 plots in 1H; this should not be too much of a challenge to achieve given the Q1 backlog was already at a healthy level of 400 plots as well as Q1 sale of 186 plots. Moreover, any additional plot sales 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 a further boost 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 a tenancy with one of its largest customer last year, the segment managed to improve FY21 sales by 7.5% YoY as it signed up new customers. Since the two existing centres are fully utilised, a new warehouse facility in Urayasu City has been rented and is expected to add annual sales of ¥300~400mil once it hits full occupancy.

Currently, all three warehouses meet carbon neutral requirements, which management expects should attract new customers. S-Pool also has an alliance with a cross-border e-commerce service provider in Taiwan, Asian Bridge, but any potential sales from this alliance have not been 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 getting 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 demand for consulting – and commands higher margins than carbon credit sales. Although a vast majority of the TSE1 listed companies will need to meet TCFD 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 CDP disclosure support, consulting services 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 each 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	20.1
	Logistics	1,172	1,261	1,427	13.1
	Sales Support	n/a	n/a	n/a	n/a
	OMUSUBI	564	616	641	4.0
	Prof. HR Bank	n/a	n/a	n/a	n/a
	blue dot green Inc.	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	-0.7pp	
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 & FY22 Q1 earnings presentation material

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