

**S-POOL INC. (2471 JP)****REPORTED ANOTHER RECORD QUARTERLY EARNINGS BUT NO CHANGE IN FY22 COMPANY GUIDANCE****FY22 1H RESULTS**

S-Pool Inc (2471 JP) reported another record set of quarterly earnings with the release of its FY22 1H (Nov year-end) results. 1H operating profit [OP] reached ¥1,565mil (+32.1% YoY) on sales of ¥13,665mil (+17.4% YoY). In Q2 alone, the firm earned OP of ¥894mil (+12.2% YoY / +33.2% QoQ) on sales of ¥7,145mil (+14.7 YoY / +9.6% QoQ).

1H sales were in line with the firm's forecast, but OP surpassed the company's guidance by 12.9% or ¥179mil. In Q2 alone, OPM improved to 12.5% (-0.3ppt YoY / +2.2ppt QoQ) thanks to the following reasons:

1. Special Needs Employment Support reported record quarterly sales of ¥1,605mil (+31.3% YoY / +49.7% QoQ) – levels not usually seen until the seasonally stronger Q4 (Sept-Nov). The number of hydroponic facilities sold - 186 plots in Q1 and 438 plots in Q2- were largely in line with the firm's estimate of 400~450 plots for 1H but achieved the second highest level of sales plot in Q2.
2. Growth of two new businesses, Wide-area BPO and Environmental Management Support, led to improved sales mix. Wide-area BPO earned approx. 30% OPM vs. the firm's estimate of 20% on Q2 sales of ¥206mil (n/a YoY / +27.2% QoQ) generated through total of eight centres. Furthermore, Environmental Management Support segment operated by a subsidiary blue.dot. green Inc (which became a 100% subsidiary in April 2022) earned OPM of 45%, thanks to increase in sales of consulting mandate related to listed companies' TCFD disclosure requirement.

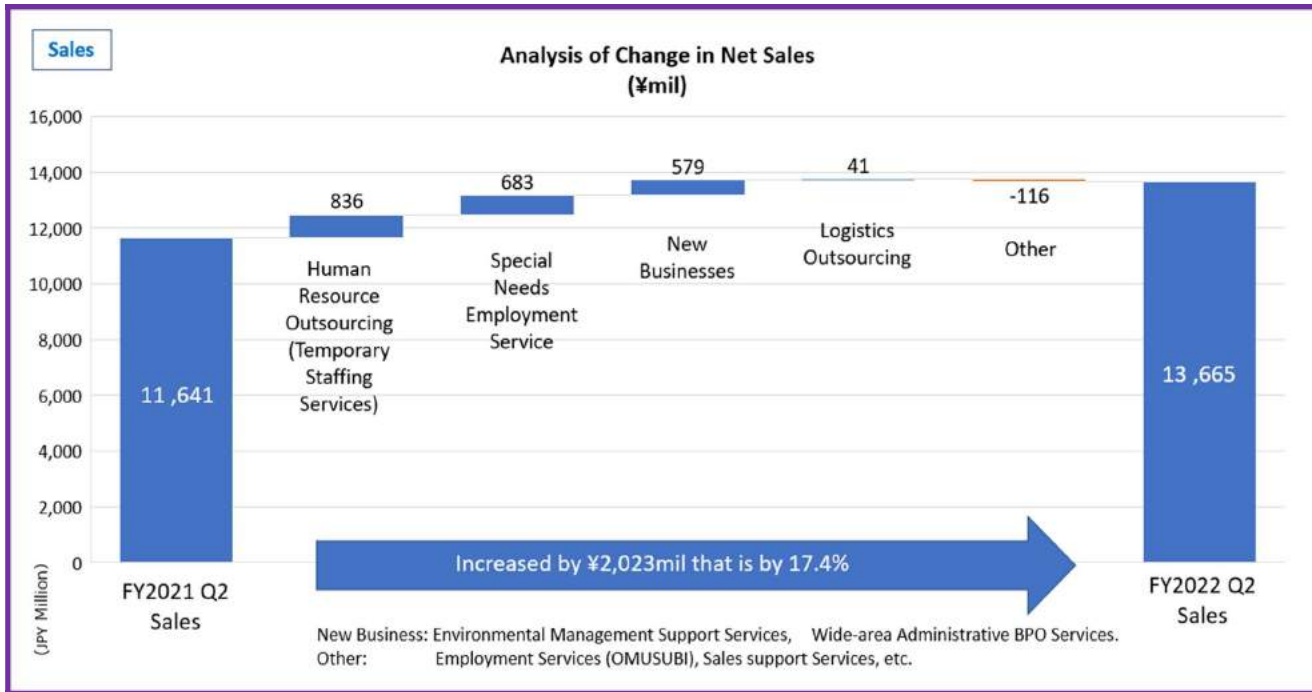
On the other hand, Call Centre Staff Dispatch Service in Human Resources showed a slowdown in demand due to completion of COVID-related spot mandates from call centre operators. Although the segment OP surpassed the firm's forecast by approx. ¥500mil in Q1, however, Q2 OP was in line.

**EXECUTIVE SUMMARY**

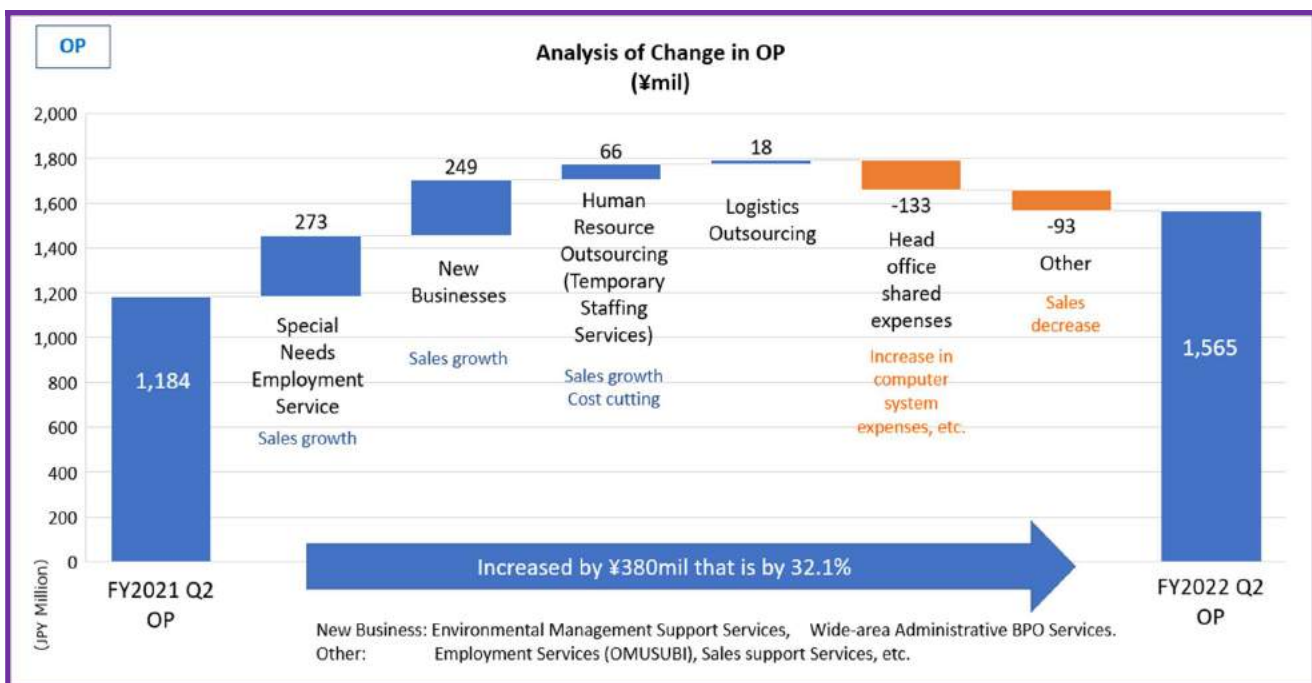
- S-Pool Inc (2471 JP) reported another record set of quarterly earnings with the release of its FY22 1H (Nov yr-end) results. 1H OP hit ¥1,565mil (+32.1% YoY) on sales of ¥13,665mil (+17.4% YoY). In Q2 alone, OP came in at ¥894mil (+12.2% YoY / +33.2% QoQ) on sales of ¥7,145mil (+14.7 YoY / +9.6% QoQ).
- 1H OP surpassed the firm's estimate by 12.9% thanks to 1) a solid performance from the Special Needs Employment Support segment, and 2) rapid growth in two new businesses, both of which proved to be highly profitable.
- The Spot business that had led the Call Centre Staff Dispatch Services has begun to wane after COVID-related demand falls. Segment earnings will remain weaker than initially expected in Q3 until demand from the usual retainer businesses picks up.
- Special Needs Employment Support earnings remain strong thanks to the continued high level of demand for the firm's hydroponic facilities and the subsequent rise in facility management revenue. Order backlog as of the end of Q2 reached 400 plots.
- S-Pool's two new businesses, Wide-area Administrative BPO and the Environment Management Support Business, continued to enjoy rapid revenue growth in Q2.
- 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 7<sup>th</sup> year of record earnings.
- Key factors to support FY22 earnings growth include:
  - 1) Resuming stable growth of call centre outsourcing for the Call Centre Staff Dispatch Service,
  - 2) Another record level of plot sales which will boost facility management fees from the 6,000 plots under management,
  - 3) Rising demand for TCFD- and CDP-related consulting work for Environmental Management Support, and
  - 4) Two more centres to be opened in Wide-area Administrative BPO Services (Shared BP Services) in 2H.

S-Pool Inc. (2471 JP): Results & Forecasts (Cumulative)								
(¥mil)	FY21		FY22					
	1H	FY	1H	1HCE	YoY (%)	vs. CE (%)	FYCE	Progress (%)
Sales	11,641	24,862	13,665	13,522	17.4	1.1	28,770	47.5
GP	3,361	7,530	4,400	4,063	30.9	8.3	8,646	50.9
GPM (%)	28.9	30.3	32.2	30.1	+3.3pp	+2.1pp	30.1	n/a
SG&A	2,177	4,862	2,835	2,677	30.2	5.9	5,446	52.1
SG&A/Sales (%)	18.7	19.6	20.7	19.8	+2.0pp	+0.9pp	18.9	n/a
OP	1,184	2,668	1,565	1,385	32.1	12.9	3,200	48.9
OPM (%)	10.2	10.7	11.5	10.2	+1.3pp	+1.3pp	11.1	n/a
RP	1,197	2,673	1,568	1,373	31.0	14.2	3,176	49.4
NP*	780	1,881	1,030	943	32.1	9.3	2,133	48.3
EPS (¥)	9.88	23.81	13.05	11.94	32.1	9.3	27.01	48.3
Dividend (¥)	n/a	6.00	n/a	n/a	n/a	n/a	8.00	n/a
Dividend P/O (%)	n/a	25.2	n/a	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



Source: S-Pool, Inc. FY2022 Q2 earning results presentation



Source: S-Pool, Inc. FY2022 Q2 earning results presentation

## FY22 1H REVIEW BY SEGMENT

### Human Resources Solutions [HRS] Segment

Human Resources Solutions [HRS] reported FY22 1H OP of ¥997mil (+7.1% YoY) on sales of ¥9,042mil (+10.2% YoY). Within this segment, Call Centre Staff Dispatch Services, which generates 80% of segment revenue and almost 100% of OP, saw 1H sales come in at ¥7,959mil (+18.4% YoY). Although the Call Centre Staff Dispatch Service hit a quarterly record in revenue in Q1 thanks to continued strength in spot business, Q2 spot business started to decline, resulting in Q2 revenue coming in at ¥3,950mil (+11.7% YoY / -1.5% QoQ). S-Pool reckons that call centre operators are experiencing a peak-out of COVID-related spot business and the firm is also in the middle of shifting its focus to longer-term retainer businesses. However, although S-Pool assumes that demand will remain weak through to Q4, management does not expect the current slowdown in demand will last for long and thinks business can recover by 1)

reallocating excess call centre staff members to other segment, and 2) being a dominant subcontractor to large call centre operators.

In addition to providing staffing services to call centre operators, the firm saw a rise in 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, demand for the outsourcing service waned in Q2. S-Pool reckons that although the demand for full outsourcing has peaked out, the silver lining is that the firm gained expertise in being able to open and close a call centre within a month, which will become handy in the future when there is a surge in spot demand.

The Sales Support Services business – which is included in the HRS segment – is one 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. The firm noted that the recovery in demand from mobile phone retailers has been delayed due to revenue structure changes such as a decrease in kickbacks from mobile phone operators and the shift to internet sales. The business earned 1H revenue of ¥632mil (-33.8% YoY) and for the Q2 alone, revenue was ¥317mil (-31.4% YoY / +0.3% QoQ).

### **Business Solutions [BS] Segment**

The Business Solutions [BS] segment's FY22 1H OP surged 50.8% YoY to ¥1,328mil on sales of ¥4,681mil (+35.4% YoY), generating an OPM of 28.4% (+2.9ppt YoY). In addition to the steady growth of Facilities Management Fee (stock revenue) from 5,567 plots under management – up from 4,267 plots in FY21 1H and 5,131 plots in FY22 Q1 – the number of plots sold in 1H reached 624 plots (vs 186 plots in Q1 and 438 plots in Q2). In Q2 alone, sales from hydroponic farm plot earned revenue of ¥725mil, a similar level to FY21 Q4 despite Q2 not usually being a seasonally strong quarter. 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.

### **Special Needs Employment Support Performance**

The Special Needs Employment Support segment reported FY22 1H sales of ¥2,677mil (+34.2% YoY). In Q2 alone, the segment earned sales of ¥1,605mil (+31.3% YoY / +49.7% QoQ).

- The firm sold a total of 252 hydroponic plots in Q1, of which approx. 25% of customers are those who already use the firm's service.
- The number of customers reached 459 companies as of the end of Q2 (vs 432 companies in Q1) and had no churn.
- Two new farms opened during Q2 (one indoor farm in Yokohama and one outdoor farm in Kawagoe, both within one-hour proximity from the Central Tokyo) were sold out within one month from opening.
- Order backlog as of the end of Q2 reached 400 plots.

The firm reckons that demand for Special Needs employment will continue to be strong thanks to an increase in mandatory employment quotas of special needs workers from April 2021.

- Corporates have begun to increase hiring again which will lead to a rise in the hiring of special needs employees.
- The firm also noted that among several large corporates, despite having already met their in-house mandatory employment quotas, have started considering using S-Pool's special needs employment service after experiencing difficulties in managing workers during Statement of Emergency closures.
- Corporates are keen to enhance their ESG initiatives. Many of those companies also disclose their special needs employment data as a part of ESG data disclosure.

Special Needs Employment Business: sales breakdown (Quarterly)										
(¥mil)	FY21				FY22					
	Q1	Q2	Q3	Q4	Q1	Q2	YoY (%)	QoQ (%)	FYCE	YoY (%)
Sale of facilities (flow revenue)	219	545	346	793	306	725	33.0	136.9	2,041	7.3
Farm management fee (stock revenue)	484	517	564	609	678	717	38.7	5.8	3,078	41.6
Recruitment Fee	68	158	81	188	88	162	2.5	84.1	381	-23.24
Special Needs Support Total	772	1,222	992	1,590	1,072	1,605	31.3	49.7	5,500	20.2

Source: S-Pool Inc. FY20, FY21& FY22 Q2 Earnings Results Presentation Materials

### Logistics Outsourcing Service

The Logistics Outsourcing Service reported FY22 1H sales of ¥640mil (+6.9% YoY). After restructuring in FY21, which included the termination of a contract with a low-margin customer and cost cutting efforts, the business earned OPM of 10%. Since the existing two centres, Shinagawa, and Tsukuba, together reached 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 as long as the OPM stays at around the current 10% level. Instead it will allocate resources on its new high growth / high margin new businesses discussed below.

Many of the Logistics Outsourcing Service customers are e-commerce merchants whose merchandise are so-called repeat merchandise such as supplements and cosmetics. The new law implemented prevents those e-commerce companies to automatically enter subscription contracts after customers order free samples. In response to this change, S-Pool quickly started marketing to capture new customers for its logistics service, which will see its effect from 2H onwards.

### Employment Process Support Service, OMUSUBI

Employment Process Support Services reported FY22 1H sales of ¥273mil (-20.3% YoY). The hiring demand among the hospitality sector has resumed with the lifting of restrictions. After seeing a dip in the number of applicants to 112,620 (37,540 per months on average) via the firm's job application system, in Q2 the figure soared to 175,740 (58,580 per month on average) – the second highest since FY21 Q2. 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 lower demand from 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. However, S-Pool reckons that revenues bottomed in Q1, and the firm 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 1H.

#### 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. 1H sales reached ¥368mil, a substantial improvement on FY21 sales of ¥130mil. In Q2 alone, the business earned sales of ¥206mil (+27.2% QoQ), thanks to the earlier-than-expected opening of three new centres. The business rapidly expanded to eight centres which includes the three new centres opened in Q2 in Mutsu city in Aomori, Ishikawa, and Yamaguchi prefectures. With those eight centres, the firm conducts BPO works for nearly 50 municipalities.

The services include typical BPO services such as call centre operations and administrative tasks. S-Pool's strength lies in smart contacts located in shopping centres, where residents can visit and get to access to services of their municipalities via online counters. Initially, S-Pool was modelling for an OPM of around 20%. However, since there are multiple jobs associated with COVID vaccinations as well as other services, the utilisation rate of its centres was high, thus boosting 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 rates 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 much difficulty. 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 fully consolidated the carbon offset solution provider blue dot green Inc in April 2022. The subsidiary reported 1H revenue of ¥291mil (+259.0% YoY). In Q2 alone, the revenue reached ¥193mil (+407.9% YoY / +96.9% QoQ) 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 TCFD - [Task Force on Climate-related Financial Disclosures] related support. 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 (Cumulative)										
(¥mil)		FY19		FY20		FY21		FY22		
		FY	1H	FY	1H	FY	1H	YoY (%)	FYCE	YoY (%)
HRS	Call Centres	9,518	5,624	12,200	6,724	14,507	7,959	18.4	16,450	13.4
	Sales Support	2,492	1,132	2,162	956	1,670	634	-33.7	1,830	9.6
	Others	505	386	887	525	1,058	450	-14.3	960	-9.3
	Total Segment Sales	12,516	7,142	15,250	8,205	17,234	9,042	10.2	19,240	11.6
	Segment OP	1,182	786	1,757	931	1,910	997	7.1	2,137	11.9
	Segment OPM (%)	9.5	11.0	11.5	11.3	11.1	11.0	-0.3pp	11.1	+0.0pp
BS	Special Needs	2,766	1,503	3,335	1,994	4,577	2,677	34.2	5,500	20.1
	Logistics	1,095	562	1,172	599	1,261	640	6.9	1,427	13.1
	Sales Support	517	197	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	OMUSUBI	437	277	564	342	616	273	-20.3	641	4.0
	Prof. HR Bank	235	93	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	blue dot green Inc.	n/a	n/a	n/a	81	258	291	259.0	384	48.8
	Wide-area Administrative BPO	n/a	n/a	n/a	n/a	130	368	n/a	665	411.5
	Total Segment Sales	5,043	2,644	5,825	3,458	7,696	4,681	35.4	9,650	25.4
	Segment OP	1,514	740	1,619	880	2,121	1,328	50.9	2,592	22.2
Segment OPM (%)	30.0	28.0	27.8	25.5	27.6	28.4	+2.9pp	26.9	-0.7pp	
Total	Sales	17,559	9,787	21,075	11,641	24,930	13,723	17.9	28,890	15.9
	OP	2,696	1,527	3,376	1,811	4,032	2,326	28.4	4,730	17.3
Adjustment	Sales	-37	-27	-65	-22	-67	-58	n/a	-120	n/a
	OP	-1,093	-536	-1,148	-628	-1,363	-761	n/a	-1,530	n/a
Value as in P&L	Sales	17,522	9,759	21,009	11,641	24,862	13,665	17.4	28,770	15.7
	OP	1,604	991	2,228	1,184	2,668	1,565	32.1	3,200	19.9
	OPM (%)	9.2	10.2	10.6	10.2	10.7	11.5	+1.3pp	11.1	+0.4pp

Source: Nippon-IBR based on S-Pool Inc.'s FY20, FY21 & FY22 Q2 earnings presentation materials

S-Pool Inc. (2471): Segment Sales and Operating Profit (Quarterly)													
(¥mil)		FY20				FY21				FY22			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY (%)	QoQ (%)
HRS	Call Centres	2,708	2,916	3,373	3,203	3,188	3,536	3,871	3,911	4,009	3,950	11.7	-1.5
	Sales Support	576	556	507	523	494	462	372	341	316	317	-31.4	0.3
	Others	178	208	239	263	261	264	282	251	224	226	-14.4	0.9
	Total segment sales	3,462	3,680	4,119	3,988	3,943	4,262	4,525	4,504	4,549	4,493	5.4	-1.2
	Segment OP	352	434	548	423	414	517	558	421	540	457	-11.6	-15.4
	Segment OPM (%)	10.2	11.8	13.3	10.6	10.5	12.1	12.3	9.3	11.9	10.2	-1.9pp	-1.7pp
BS	Special Needs	654	848	712	1,121	772	1,222	992	1,590	1,072	1,605	31.3	49.7
	Logistics	252	310	303	307	287	312	328	333	320	320	2.6	0.0
	Sales Promotion Support	140	57	n/a	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	155	-17.1	31.4
	Professional HR Bank	53	40	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	blue dot green					43	38	139	37	98	193	407.9	96.9
	Shared BPO	n/a	n/a	n/a	n/a	n/a	n/a	78	51	162	206	n/a	27.2
	Total segment sales	1,222	1,422	1,410	1,771	1,477	1,981	1,886	2,352	1,995	2,686	35.6	34.6
	Segment OP	307	433	285	594	274	606	507	734	485	843	39.1	73.8
	Segment OPM (%)	25.1	30.5	20.2	33.5	18.6	30.6	26.9	31.2	24.3	31.4	+1.1pp	-7.4pp
Total	Sales	4,684	5,102	5,529	5,760	5,420	6,243	6,411	6,855	6,544	7,179	14.6	9.4
	OP	659	867	833	1,017	688	1,123	1,065	1,155	1,025	1,300	15.8	26.8
Adjustment	Sales	-8	-19	-20	-18	-9	-13	-20	-25	-24	-34	n/a	n/a
	OP	-272	-264	-265	-347	-302	-326	-316	-419	-354	-407	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	7,145	14.7	9.6
	OP	386	605	568	670	387	797	748	736	671	894	12.2	33.2
	OPM (%)	8.3	11.9	10.3	11.7	7.2	12.8	11.7	10.8	10.3	12.5	-0.3pp	+2.2pp

Source: Nippon-IBR based on S-Pool Inc.'s FY20, FY21 & FY22 Q2 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 7<sup>th</sup> consecutive year of record earnings. Although 1H 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			FY22		
	1H	2H	FY	1H	2H*	FYCE
Sales	11,641	13,221	24,862	13,665	15,105	28,770
Gross Profit [GP]	3,361	4,168	7,530	4,400	4,246	8,646
GPM (%)	28.9	31.5	30.3	32.2	28.1	30.1
SG&A	2,177	2,684	4,862	2,835	2,611	5,446
SG&A/Sales (%)	18.7	20.3	19.6	20.7	17.3	18.9
Operating Profit [OP]	1,184	1,483	2,668	1,565	1,635	3,200
OPM (%)	10.2	11.2	10.7	11.5	10.8	11.1
Recurring Profit	1,197	1,475	2,673	1,568	1,608	3,176
NP attributed to parent's shareholders	780	1,100	1,881	1,030	1,103	2,133

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

\* 2H = FYCE-1H results

## 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). Although spot business peaked out in Q2, S-Pool maintained full-year sales guidance of Call Centre Staff Dispatch Services at ¥16,450mil (+13.4% YoY) – although weaker than expected earnings will likely continue in Q3. The firm aims to achieve the full-year segment guidance by 1) reducing costs by reallocating excess staff members to other segments, such as Wide-area Administrative BPO, and 2) increasing its top market share in Call Centre Staff Dispatch Services among the five call centre operator companies, up from the current three.

The Spot business that led segment earnings up until Q1 tends to take place at call centres in the Metropolitan area. However, as call centre operators are now allocating resources to retainer businesses, tasks will be carried out in cities other than Tokyo. Therefore, S-Pool closed one out of its four call centres in Shinjuku. The firm also tries to accelerate operation in other cities and reallocate staff to those areas. Management reckons that its market share for top call centre operators remain unchanged and has more room to grow. 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 long-term 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 have 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 forecasts FY22 sales of ¥5,500mil (+20.1% YoY). It also plans to open six new hydroponic farms in 2H, with a target to sell a new record of 1,250 plots, which should generate sales of ¥2,041mil (+7.2% YoY). To achieve the goal to sell 1,250 plots, the firm needs to sell 626 plots (176~226 plots in Q3 and 400~450 plots in Q4) – matching 1H levels – but management reckon that it is possible to exceed the target due to the high level of order backlog as of the end of Q2 reached 400 plots, and the usual high seasonal demand in Q4.

S-Pool assumes that corporates will continue to increase hiring to get back to post pandemic levels, and that is expected to lead to a rise in demand for special needs workers as they are required 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. Consequently, any additional plot sales will boost earnings further as they garner substantial OPMs of 80%.

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

#### *Logistics Outsourcing Service*

S-Pool is guiding for FY22 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. S-pool is currently close to signing contracts with two new customers, contributions for which are not reflected in the current forecast.

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 also 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 – Wide-area Administrative BPO, a newly established subsidiary

In the Wide-area Administrative BPO Business, S-Pool is looking for sales of ¥665mil (+411.5%) The firm opened three new centres in 1H and plans to open an additional two 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. Since demand for the shared BPO service is strong, more centres could be opened. However, the firm would rather focus on improving utilisation rates at each existing centre and targeting budget allocations at each municipality. With enquiries to the service rapidly increasing, S-Pool sees this business as the next potential pillar of growth. Management views the transfer of this business to a new subsidiary as a way to speed up the decision-making process.

### 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, which 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 the mandatory disclosures. Like the aforementioned CDP disclosure support, consulting services for TCFD generates higher margins. CDP target companies increased from previous 500 to all Prime Market listed companies (1,850 companies), which means S-Pool's prospective client list has expanded 3.5-fold. The firm expects demand to surge because of new leads as well as continued demand from existing customers. Approx. 70% of existing customers maintain contracts to receive services from S-Pool.

S-Pool Inc. (2471 JP): Segment Sales and Operating Profit (Cumulative)											
(¥mil)		FY21			FY22						
		1H	2H	FY	1H	2H CE*	YoY (%)	HoH (%)	FYCE	YoY (%)	
HRS	Call Centres	6,724	7,783	14,507	7,959	8,491	9.1	6.7	16,450	13.4	
	Sales Support	956	714	1,670	633	1,197	67.6	89.1	1,830	9.6	
	Others	525	533	1,058	450	510	-4.3	13.3	960	-9.3	
	Total Segment Sales	8,205	9,029	17,234	9,042	10,198	12.9	12.8	19,240	11.6	
	Segment OP	931	979	1,910	997	1,140	16.4	14.3	2,137	11.9	
	Segment OPM (%)	11.4	10.8	11.1	11.0	11.2	+0.4pp	+0.2pp	11.1	0.0pp	
BS	Special Needs	1,994	2,583	4,577	2,677	2,823	9.3	5.5	5,500	20.1	
	Logistics	599	662	1,261	640	787	18.9	23.0	1,427	13.1	
	Sales Support	n/a		n/a	n/a				n/a	n/a	
	OMUSUBI	342	274	616	273	368	34.3	34.8	641	4.0	
	Prof. HR Bank	n/a		n/a	n/a				n/a	n/a	
	blue dot green Inc.	81	177	258	291	93	-47.5	-68.0	384	48.8	
	Wide-area Administrative BPO	n/a	130	130	368	297	128.5	-19.3	665	411.5	
	Total Segment Sales	3,458	4,238	7,696	4,681	4,969	17.2	6.2	9,650	25.4	
	Segment OP	880	1,241	2,121	1,328	1,264	1.9	-4.8	2,592	22.2	
Segment OPM (%)	25.5	29.3	27.6	28.4	25.4	-3.9pp	-3.0pp	26.9	-0.7pp		
Total	Sales	11,664	13,267	24,930	13,723	15,167	14.3	10.5	28,890	15.9	
	OP	1,811	2,221	4,032	2,326	2,404	8.2	3.4	4,730	17.3	
Adjustment	Sales	-22	-45	-67	-58	-62	37.8	6.9	-120	n/a	
	OP	-628	-735	-1,363	-761	-769	4.6	1.1	-1,530	n/a	
Value as in P&L	Sales	11,641	13,221	24,862	13,665	15,105	14.3	10.5	28,770	15.7	
	OP	1,184	1,484	2,668	1,565	1,635	10.2	4.5	3,200	19.9	
	OPM (%)	10.2	11.2	10.7	11.5	10.8	-0.4pp	-0.7pp	11.1	+0.4pp	

Source: Nippon-IBR based on S-Pool Inc.'s FY21 and FY22 Q2 earnings presentation materials  
\* 2H = FYCE-1H results



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## CAPITAL ALLOCATION POLICY

In the ongoing medium-term management plan, which will complete in FY25, the firm allocates resources in three main areas: 1) capturing organic growth in existing businesses, 2) growth opportunities in the new businesses that proved to be highly profitable, and 3) solidifying management capabilities focusing on the ESG initiatives. S-Pool aims to achieve OP of ¥5,000mil (CAGR of 17.5% over five years to FY25) on sales of ¥41,000mil (CAGR of 14.3%), which generates an OPM of 12.2%. During the remaining tenure of the plan, S-Pool will likely maintain its shareholder return policy of 30% pay-out ratio. S-Pool has not implemented share buyback in the past.

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