

**S-POOL INC. (2471 JP)****RISK REMAINS WITH CALL CENTRE STAFF DISPATCH SERVICE AND IF BUSINESS SOLUTIONS CAN OFFSET****FY22 Q3 RESULTS**

S-Pool Inc (2471 JP) reported FY22 (Nov year-end) Q3 cumulative earnings with 9-month operating profit [OP] of ¥2,274mil (+17.7% YoY) on sales of ¥20,019mil (+11.0% YoY). In Q3 alone, the firm earned OP of ¥709mil (-5.2% YoY / -20.7% QoQ) on sales of ¥6,354mil (-0.6% YoY / -11.1% QoQ). The progress rate as of Q3 to the firm's FY22 full year guidance was 69.6% in sales and 71.7% in OP.

Despite Q3 earnings growth rates contracting compared to 1H, due to low activity in the Call Centre Staff Dispatch business – one of S-Pool's core businesses – the firm reported improvements in both the gross profit margin [GPM] (+3.0ppt YoY to 32.3%) and the operating profit margin [OPM] (+0.7ppt YoY to 11.4%), thanks to changes in the sale mix.

S-Pool Inc. (2471 JP): Results & Forecasts (Cumulative)								
(¥mil)	FY21			FY22				
	1H	Q3	FY	1H	Q3	YoY (%)	FYCE	Progress (%)
Sales	11,641	18,031	24,862	13,665	20,019	11.0	28,770	69.6
GP	3,361	5,280	7,530	4,400	6,470	22.5	8,646	74.8
GPM (%)	28.9	29.3	30.3	32.2	32.3	+3.0ppt	30.1	N/A
SG&A	2,177	3,348	4,862	2,835	4,195	25.3	5,446	77.0
SG&A ratio (%)	18.7	18.6	19.6	20.7	21.0	+2.4ppt	18.9	n/a
OP	1,184	1,932	2,668	1,565	2,274	17.7	3,200	71.1
OPM (%)	10.2	10.7	10.7	11.5	11.4	+0.7ppt	11.1	N/A
RP	1,197	1,946	2,673	1,568	2,272	16.7	3,176	71.5
NP*	780	1,267	1,881	1,030	1,444	14.0	2,133	67.7
EPS (¥)	9.88	16.05	23.81	13.05	18.29	14.0	27.01	67.7
Dividend (¥)	N/A	N/A	6.00	N/A	N/A	N/A	8.00	N/A
Pay-out (%)	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 Q1-3 earnings presentation materials  
\*NP attributed for the parent's shareholders

The performance trends in S-Pool's major businesses are as follows:

**Human Resources Services [HRS] Segment**

The HRS segment 9-month cumulative Q3 FY22 OP fell -11.2% YoY to ¥1,322mil on sales of ¥12,873mil (+1.1% YoY). In the Q3 alone, OP declined -41.8% YoY / -28.9% QoQ to ¥324mil on sales of ¥3,830mil (-15.3% YoY / -14.7% QoQ). Up to 1H, the segment's core business – Call Centre Staff Dispatch services – which generates nearly all of the HRS segment OP, had expanded thanks to rising demand for staff in spot businesses, mainly associated with COVID-related tasks. However, these tasks, such as vaccinations, have come to an end. Consequently, spot demand for call centre staff saw a rapid decline. Meanwhile, the firm has is yet to see a pick-up in the retained businesses.

In Q3 alone, Call Centre Staff Dispatch sales fell -14.4% YoY / -16.2% QoQ to ¥3,311mil. The business was also affected by a greater number of absent staff amid a rise in COVID cases. As a result, Q3 segment OP fell short of the firm's forecast by ¥150mil, which dragged down segment OPM by 3.8ppt YoY / 1.7ppt QoQ to 8.5%.

**EXECUTIVE SUMMARY**

- S-Pool Inc (2471 JP) reported FY22 Q3 cumulative earnings with 9-month operating profit [OP] of ¥2,274mil (+17.7% YoY) on sales of ¥20,019mil (+11.0% YoY). In Q3 alone, OP was ¥709mil (-5.2% YoY / -20.7% QoQ) on sales of ¥6,354mil (-0.6% YoY / -11.1% QoQ).
- The Spot business that had led the Call Centre Staff Dispatch Services has clearly peaked out as COVID-related demand declines. Segment earnings remained weaker than initially expected in Q3, so the firm is hoping for demand from the usual retainer businesses picks up again.
- Special Needs Employment Support earnings landed as expected with a substantial order backlog (more than 550 plots vs. S-Pool's estimate of 400~450 in Q4)
- S-Pool's two new businesses, Wide-area Administrative BPO and the Environment Management Support Business, continued to enjoy rapid revenue growth in Q3.
- 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:
  - Resuming stable growth of call centre outsourcing for the Call Centre Staff Dispatch Service,
  - Another record level of plot sales will boost facility management fees from the 6,000 plots under management,
  - Rising demand for TCFD- and CDP-related consulting work for Environmental Management Support, and
  - Two more centres to be opened in Wide-area Administrative BPO Services (Shared BP Services) in 2H.

## Business Solutions [BS] Segment

Business Solutions [BS] reported 9-month cumulative Q3 FY22 OP of ¥2,053mil (+48.0%) on sales of ¥7,243mil (+35.5%). In the BS segment, there are three growing businesses: 1) Special Needs Employment, 2) Wide-area Administrative BPO (started in June 2021), and 3) Environment Management Support (via S-Pool's 100% subsidiary blue dot green Inc, which was fully consolidated in April 2022) – of which the latter two are new businesses.

- 1) Special Needs Employment Support:** Cumulative 9-month Q3 FY22 sales rose +31.8% YoY to ¥3,937mil. In the Q3 alone, sales reached ¥1,259mil (+26.9% YoY / -21.6% QoQ). The QoQ decline in sales is due to seasonality, which is usually the highest in Q4, especially for hydroponic facility sales. The number of hydroponic facilities sold (186 plots in Q1 / 438 plots in Q2/ 218 plots in Q3) were largely in line with the firm's estimate of 400~450 plots for 1H and 175~225 plots for Q3 alone. Demand for S-Pool's special needs employment support remains high and is reflected in the Q3 order backlog (550 plots vs. Q4 sales estimate of 400~450 plots). Two farms were also opened during Q3.

Special Needs Employment Business: Sales Breakdown (Quarterly)											
(¥ million)	FY21				FY22						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY (%)	QoQ (%)	FYCE	YoY (%)
Sale of facilities (flow revenue)	219	545	346	793	306	725	350	1.2	-51.7	2,041	7.3
Farm management fee (stock revenue)	484	517	564	609	678	717	779	38.1	8.6	3,078	41.6
Recruitment Fee	68	158	81	188	88	162	129	59.3	-20.4	374	-24.4
Special Needs Support Total	772	1,222	992	1,590	1,072	1,605	1,259	26.9	-21.6	5,500	20.2

Source: S-Pool Inc. FY21& FY22 Q3 Earnings Results Presentation Materials

- 2) Wide-area Administrative BPO:** For this new business area, S-Pool planned to open 10 centres in FY22 and guided for full-year revenue of ¥655mil. As of Q3, eight BPO centres have been opened, specifically targeting at municipalities with a population of 100,000 people. Several centers have reported better-than-expected sales, exceeding average sales of ¥10mil/center, thanks to an increase in spot businesses such as COVID vaccination-related tasks. This resulted in cumulative 9-month Q3 FY22 sales surging 7.7x YoY to ¥605mil. Despite this strong performance, and even though sales are now just 10% away from meeting management's annual target, S-Pool has not yet revised up its full year FY22 sales estimate.

Municipalities are also keen to register residents to the government's My Number system which has been taking longer than expected to establish. Four out of eight centres have been set up with smart counter facilities to handle customer service tasks that residents require. All centres are equipped with online counters from which the residents' enquiries and requests are handled remotely. S-Pool has set up new online-only service counters to 12 municipalities, including Sapporo City (population 1.95mil). This online-only service will enable the firm to roll out the shared BPO service to larger cities.

- 3) Environmental Management Support:** This business is operated by subsidiary bluedot green Inc (which became a 100% subsidiary in April 2022). Cumulative 9-month Q3 FY22 sales increased +189.2% YoY to ¥639mil. In the Q3 alone, sales hit ¥347mil (+150.4% YoY / +80.3% QoQ). Cumulative 9-month OPM reached 50% (in Q3 alone, it was 54.2%), a significant improvement from 45% as of 1H thanks to an increase in demand for S-Pool's consulting services which include:
- Providing services to help companies prepare the environment-based disclosures required 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, 70% of the existing customers have renewed their contract, and

- Consultancy work associated with TCFD- [Task Force on Climate-related Financial Disclosures] related support. The firm has approx. 70 companies using its service, a sharp improvement on the initial estimate of 40 companies for FY22.

Two other businesses in the BS segment that are not seeing as fast a pace in sales growth are 1) Logistics Outsourcing and 2) Employment Support Service (OMUSUBI), S-Pool aims to maintain stable earnings.

- 1) **Logistics Outsourcing:** This business saw a +6.2% YoY increase in 9-month sales to ¥983mil. After restructuring in FY21, which included the termination of a contract with a low-margin customer and cost cutting efforts, the business generated an OPM of 10%. Since the existing two centres, Shinagawa, and Tsukuba, have both reached maximum monthly sales of ¥100mil, S-Pool has leased a new centre based 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 items, such as supplements and cosmetics. A new law implemented prevents those e-commerce companies to automatically enter subscription contracts after a customer's order free sample has been sent. In response to this change, S-Pool quickly started marketing to capture new customers for its logistics service and has already started seeing an increase in sales in Q3.

- 2) **Employment Support Service (OMUSUBI):** Cumulative FY22 Q3 sales fell -11.8% YoY to ¥422mil. Given the resurgence of COVID cases during that period, hiring by the hospitality sector dipped again. Although hiring demand in the hospitality sector has resumed, the number of applicants has not increased since the lifting of stricter restrictions. Consequently, the number of applicants in the Q3 alone was 57,285/month compared to 58,580 applicants per month in Q2. S-Pool continues to actively market the service to increase in number of customers, as the firm aims to capture the recovery in demand post the current wave of COVID.

S-Pool Inc. (2471): Segment Sales and Operating Profit (Cumulative)										
(¥million)		FY19	FY20	FY21		FY22				
				Q3	FY	1H	Q3	YoY (%)	FYCE	YoY (%)
HRS	Call Centres	9,518	12,200	10,595	14,507	7,959	11,271	6.4	16,450	13.4
	Sales Support	2,492	2,162	1,328	1,670	633	934	-29.7	1,830	9.6
	Others	505	887	807	1,058	450	669	-17.1	960	-9.3
	Total Segment Sales	12,516	15,250	12,730	17,234	9,042	12,873	1.1	19,240	11.6
	Segment OP	1,182	1,757	1,489	1,910	997	1,322	-11.2	2,137	11.9
	Segment OPM (%)	9.5	11.5	11.7	11.1	11.0	10.3	-1.4ppt	11.1	-0.4ppt
BS	Special Needs	2,766	3,335	2,986	4,577	2,677	3,937	31.8	5,500	20.1
	Logistics	1,095	1,172	927	1,261	640	984	6.1	1,427	13.1
	OMUSUBI	437	564	479	616	273	422	-11.9	641	4.0
	blue dot green Inc.	N/A	N/A	220	258	291	639	189.2	384	48.8
	Wide-area Administrative BPO	N/A	N/A	78	130	368	605	675.6	665	411.5
	Total Segment Sales	5,043	5,825	5,344	7,696	4,658	7,243	35.5	9,650	25.4
	Segment OP	1,514	1,619	1,387	2,121	1,328	2,053	48.0	2,592	22.2
Segment OPM (%)	30.0	27.8	26.0	27.6	28.5	28.3	+2.3ppt	26.9	-0.7ppt	
Total	Sales	17,559	21,075	18,074	24,930	13,723	20,116	11.3	28,890	15.9
	OP	2,696	3,376	2,876	4,032	2,326	3,375	17.4	4,730	17.3
Adjustment	Sales	-37	-65	-42	-67	-58	-96	n/a	-120	n/a
	OP	-1,093	-1,148	-944	-1,363	-761	-1,100	n/a	-1,530	n/a
Value as in P&L	Sales	17,522	21,009	18,031	24,862	13,665	20,019	11.0	28,770	15.7
	OP	1,604	2,228	1,932	2,668	1,565	2,274	17.7	3,200	19.9
	OPM (%)	9.2	10.6	10.7	10.7	11.5	11.4	+0.7ppt	11.1	+0.1ppt

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)										
(¥million / Nov yr-end)		FY21				FY22				
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY (%)	QoQ (%)
HRS	Call Centres	3,188	3,536	3,871	3,911	4,009	3,950	3,312	-14.4	-16.2
	Sales Support	494	462	372	341	316	317	301	-19.1	-5.0
	Others	261	264	282	251	224	226	219	-22.3	-3.1
	Total segment sales	3,943	4,262	4,525	4,504	4,549	4,493	3,830	-15.4	-14.7
	Segment OP	414	517	558	421	540	457	324	-41.9	-28.9
	Segment OPM (%)	10.5	12.1	12.3	9.3	11.9	10.2	8.5	-3.8ppt	-1.7ppt
BS	Special Needs	772	1,222	992	1,590	1,072	1,605	1,259	26.9	-21.6
	Logistics	287	312	328	333	320	320	343	4.6	7.5
	OMUSUBI	155	187	137	137	118	155	149	8.8	-3.9
	blue dot green	43	38	139	37	98	193	347	149.6	80.3
	Wide-area Administrative BPO	n/a	n/a	78	51	162	206	236	202.6	15.0
	Total segment sales	1,477	1,981	1,886	2,352	1,995	2,663	2,561	35.8	-2.9
	Segment OP	274	606	507	734	485	843	724	42.8	-14.0
Segment OPM (%)	18.6	30.6	26.9	31.2	24.3	31.7	28.3	+1.1ppt	-3.7ppt	
Total as in PL	Sales	5,410	6,231	6,390	6,831	6,520	7,145	6,354	-0.6	-11.1
	OP	387	797	748	736	671	894	709	-5.2	-20.7
	OPM (%)	7.2	12.8	11.7	10.8	10.3	12.5	11.2	-0.5ppt	-1.3ppt

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

## FY22 EARNINGS GUIDANCE

S-Pool kept its FY22 full-year guidance unchanged with 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 cumulative 9-months earnings were within the firm's expectation, management remain cautious on the Q4 earnings given the peak-out in spot demand in the Call Centre Dispatch Service, which fell short the firm's respective sales and OP Q3 budget by approx. ¥800mil and ¥150mil, respectively. The half-yearly and quarterly earnings trend are shown on the table below:

S-Pool Inc. (2471 JP): Semi-Annual / FY Earnings Performance and Guidance						
(¥million / Nov yr-end)	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

S-Pool Inc. (2471 JP): Quarterly / FY Earnings Performance and Guidance							
(¥million / Nov yr-end)	FY22						
	1H			2H*			FY
	Q1	Q2	CUM	Q3	Q4CE	CUM	CE
Sales	6,520	7,145	13,665	6,354	8,751	15,105	28,770
Gross Profit [GP]	2,024	2,376	4,400	2,070	2,176	4,246	8,646
GPM (%)	31.1	33.4	32.2	32.6	32.6	28.1	30.1
SG&A	1,353	1,482	2,835	1,360	1,251	2,611	5,446
SG&A/Sales (%)	20.8	20.7	20.7	21.4	14.3	17.3	18.9
Operating Profit [OP]	671	894	1,565	709	926	1,635	3,200
OPM (%)	10.3	12.5	11.5	11.2	10.6	10.8	11.1
Recurring Profit	667	901	1,568	704	904	1,608	3,176
NP attributed to parent's shareholders	447	583	1,030	414	689	1,103	2,133

Source: Nippon-IBR based on S-Pool Inc.'s FY22 Q1-Q3 earnings presentation materials  
\*2H = FYCE-1H results

## FY22 GUIDANCE BY SEGMENT

### Human Resources Solutions [HRS] Segment

S-Pool has not changed the FY22 guidance which calls for HRS segment OP of ¥2,137mil (+11.9% YoY) on sales of ¥19,240mil (+11.6% YoY), despite the -14.4% YoY / -16.2% QoQ fall in Q3 earnings due to the slowdown in Call Centre Dispatch Services. S-Pool has maintained its full-year sales guidance of Call Centre Staff Dispatch Services at ¥16,450mil (+13.4% YoY). Although the firm aims to reduce costs by ¥20mil/month by 1) reallocating excess staff members to other segments, such as Wide-area Administrative BPO, and 2) reducing the number of branches, there is still a risk of a shortfall in FY22 sales and that a recovery in sales will not come until after FY23.

### 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 sale of 1,250 plots, the firm had to sell 626 plots (175~225 plots in Q3 and 400~450 plots in Q4) – matching 1H levels. With Q3 plots sales of 218 plots and a backlog of 550 plots as of Q3, management reckon that combined with the usual high seasonal demand in Q4, it likely the target can be surpassed.

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 companies are required to meet the mandatory employment quota. Moreover, the employment quota rose 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.

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

In the Wide-area Administrative BPO Business, S-Pool is looking for FY22 sales of ¥665mil (+411.5% YoY). Despite the fact that Q3 sales had already achieved more than 90% of the full-year target, S-Pool has not yet revised the forecast. The firm opened three new centres in 1H, and will open an additional three centres in Q4, taking the total to 11. Then in FY23, a further 10 centres are planned, to bring the total to 21 centres. Its medium-term target (ending Nov 2025) is to have 25 centres generating sales of ¥3,000mil. 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. S-Pool aims to boost the number of customers for its new online customer service counter which was introduced by 12 municipalities in Q3 to 25 municipalities by the end of this fiscal year.

### ***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. The business has already achieved the FY22 full-year sales target as of Q3. 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. In FY23, however, most tasks required for TCFD will be disclosure of risk rather than risk analysis. Consequently, the fee received per customer will likely decline, so future sales growth will depend on if the firm can expand the customer base.

### ***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 agreement 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 FY22 full-year guidance. Although the firm's marketing activities are generating interest from prospective customers, sales growth will likely be slow due to the prolonged replacement of low-margin customers.

### ***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. Due to the prolonged impact from COVID in the hospitality sector, cumulative 9-month sales were below the firm's expectation. S-Pool aims to offset this by cultivating demand from other sectors, such as job interview settings for elderly nursing homes.

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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 have 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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For further enquiry, please contact:

Nippon Investment Bespoke Research UK Ltd  
118 Pall Mall  
London SW1Y 5EA  
TEL: +44 (0)20 7993 2583  
Email: [enquiries@nippon-ibr.com](mailto:enquiries@nippon-ibr.com)



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