

RareJob, Inc.

6096

Tokyo Stock Exchange Prime Market

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■ Summary

Aiming to become an AI assessment company from online English tutoring provider

RareJob, Inc. <6096> is one of the largest online English tutoring service providers. The Company's main service is the online English tutorial service "RareJob Eikaiwa." With 6,000 Filipino tutors, the Company continues to grow sales by providing high-quality services at low prices. The Company has recently been strengthening business targeting corporations and is expanding its business scope particularly to global leader development, which is highly synergistic with English tutorial services. It aims to become a platform company for developing people who can succeed globally from an online English tutoring provider. The Company advocates "Chances for everyone, everywhere" as the Group vision, and is promoting efforts to expand business with the aim of realizing a world where everyone can unlock their potential to be valued. To build the assessment data platform, which will serve as the foundation for these efforts, in June 2020, the Company launched PROGOS, which is an English speaking exam that utilizes AI technology, and the Company is working to expand introduction of PROGOS to companies and universities. The Company is working to grow by collecting assessment data with the PROGOS test and providing a variety of services created based on the platform.

1. Overview of FY3/22 results

In the FY3/22 consolidated results, the Company posted ¥5,598mn in net sales (+5.0% YoY), operating profit of ¥291mn (-56.4%), ordinary profit of ¥242mn (-61.5%), and profit attributable to owners of parent of ¥184mn (-52.7%). The initial sales forecast was revised downward due to factors including the dulling of the increase in interest in studying English in B2C services due to the impact of prolonged restrictions on overseas travel as a result of the COVID-19 pandemic as well as the fact that training budgets were pushed back in the business targeting B2B, but net sales hit a new record high. In operating profit, the initial forecast was revised downward due to factors including upfront investment in personnel, especially for PROGOS, Inc., as well as systems-related investments essential for growth over the medium term. Still, operating profit ended up exceeding the revised forecast.

2. Outlook for FY3/23

In the FY3/23 consolidated forecast, the Company projects net sales of ¥6,000mn (+7.2% YoY), operating profit of ¥50mn (-82.9%), ordinary profit of ¥80mn (-67.0%), and ¥0mn (-100%) in profit attributable to owners of parent. In terms of the breakdown of net sales, the Company expects B2C sales to increase 5.3% to ¥4,100mn due to the contribution from shikaku square, Inc. and other factors, and B2B and B2School sales to increase 11.5% to ¥1,900mn due to the expansion of the B2B business. Although the Company forecasts an increase in sales for the 15th straight fiscal year since its founding, it expects a decline in all profit lines year on year due to investment targeting growth (acquisition of B2B sales personnel, system development, etc.) and the impact of foreign exchange rates.

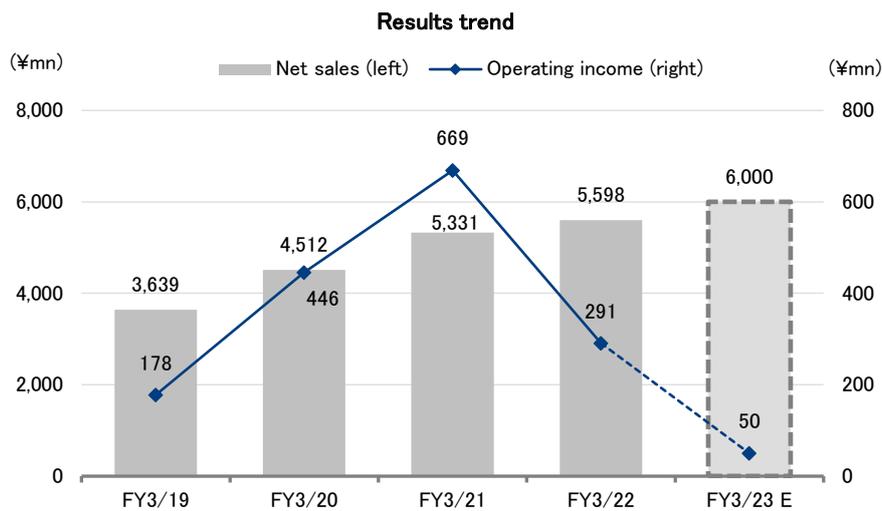
Summary

3. Mid-term Business Plan

For a mid-term management target, the Company will aim for operating profit of ¥1bn in FY3/25. The Company will execute a variety of initiatives in order to achieve this target, including adding B2B sales personnel and investing in system development. PROGOS is the service at the heart of the Company’s growth strategy. The Company is positioning the assessment data platform, which consolidates data collected by the PROGOS test in various businesses, as the source of its competitive advantage. The Company will start with accumulating assessment data for English-speaking ability, and then plans to expand the scope of assessments to cover English reading, listening, and writing ability, as well as other skills necessary in global business. In the future, the Company aims to become an AI assessment company from an online English tutorial service company.

Key Points

- Posted record high net sales in FY3/22 despite the decline in profit due to upfront investments
- Expects record high net sales in FY3/23, but will continue to make investments targeting future growth
- Established a target of ¥1bn in operating profit in FY3/25, with PROGOS as the nucleus of the growth strategy



Source: Prepared by FISCO from the Company's financial results

■ Company profile

The one of the largest players in the online English tutorial service industry in Japan, over 1,000,000 cumulative non-paying members

1. Company profile

(1) Management vision and mission

The Company is the largest company that is mainly involved in online English tutorial services. It provides online English tutorial learning services for individuals, corporations and educational institutions, centered on “RareJob Eikaiwa.” The Company is growing out its business with the aim of realizing its Group Vision of “Chances for everyone, everywhere.” “Chances for everyone, everywhere” refers to “Building a platform for people to demonstrate their respective abilities and play active roles globally,” and this means that the Company will offer chances to learn new things, chances to develop abilities, and chances to encounter something new, to all people in all places through the Internet, and build a society in which people all over the world can thrive beyond national borders and languages.

The Company mainly operates the online English tutorial service “RareJob Eikaiwa” with a service mission of “Encouraging 10 million Japanese to speak fluent English.” Demand is growing for English speaking skills as these skills become even more important in individual careers. Also, with the globalization of business activities, developing global talents has become an issue for companies, and companies are increasingly looking to add English tutorial as a part of their training programs. In schools, English has become a compulsory part of curriculums at elementary schools as a part of curriculum revision with the “Guidelines for the Course of Study” by the Ministry of Education, Culture, Sports, Science, and Technology. In addition, English speaking skill has become more of a point of emphasis. Demand for English conversation learning services is expected to grow even more going forward.

The Company acquired shikaku square, Inc., which provides online study courses to obtain difficult-to-pass legal-related qualifications as a subsidiary in December 2021, and is expanding its business into a wider range of learning.

(2) Corporate history

The Company was established in 2007, by current President and CEO Gaku Nakamura and the former CEO and Chairman Tomohisa Kato. When the Company was founded, people generally learned English speaking skill by going to a brick-and-mortar English tutorial school or by studying abroad. However, both of these are expensive options and there were no reasonable option to learn how to speak English. In this context, with inroads by the free calling communication tool Skype aided by advances in Internet technology and faster communication networks, the Company started business premised on provision of low-cost English speaking learning service using Skype.

The Company hired English tutors in the Philippines, where English is the official language. At that time, through an acquaintance who was a Filipino college student, they started a pre-service after recruiting classmates who could speak English. Because compensation and working conditions for tutors were competitive, the tutor network has expanded through word-of-mouth, and the Company currently has a large network of roughly 6,000 tutors. RareJob Philippines, Inc. was established in 2008 as the subsidiary to recruit, train, and manage these tutors.

Company profile

RareJob (now, RareJob Eikaiwa) online English speaking learning service for individuals started in November 2007 and realized steady growth in the number of students thanks to provision of service at much cheaper rates than in-person English language schools, a billing model of offering free lesson at first and then switching to monthly contracts as a paid member if the person is satisfied with the service, and reduction of the cost hurdle for entry by eliminating additional costs besides lesson fees, such as lesson materials and sign-up and cancellation fees. In 2009, the Company began offering services to corporations, and in June 2014 the Company went public on the Mothers section of the Tokyo Stock Exchange.

From 2015 onwards, the Company improved the quality of its service, shifting from a matching service for Japanese learners and Filipino tutors that gave them an opportunity to speak English, to an English education service that provides the outcome of being able to speak English. As an online English tutorial service, the Company expanded its service menu, such as the “Business English Course” and the “Young Learner Course.” The Company also improved the quality of its curriculum and learning materials, and worked to raise the standards for hiring tutors as well as improve training for tutors. Other initiatives included providing services to educational institutions as a new market and opening one in-person English tutorial school “RareJob Honkijuku.” For B2B market, the Company began RareJob Eikaiwa Ryugaku service in June 2017 to send customers abroad to study English and Smart Method course, the intensive English conversation learning service that guarantees results, in October 2018.

In July 2015, the Company concluded a capital and business alliance agreement with Mitsui & Co., Ltd. <8031>, and leveraged Mitsui & Co.’s network to strengthen initiatives such as sales of corporate services and overseas expansion. In February 2016, the Company concluded a capital and business alliance agreement with Zoshinkai Publishers, Inc. (currently Zoshinkai Holdings Inc.), and is speeding up its business development by entering into business alliances with large companies. Such moves include joint development of “Z-kai Asteria” and “NEW TREASURE Online Speaking,” English tutorial programs for Z-kai Inc. group members, and starting a partnership in B2School. In February 2019, through a company split, the Company established Envizion, Inc., the subsidiary that operates the online English tutorial service for schools and the online English tutorial service for kids “Ripple Kids Park.” In April 2019, Zoshinkai Holdings Inc. invested in Envizion, Inc. (33.41% stake), thereby strengthening the collaborative framework in the B2School domain.

Furthermore, in 2019 the Company started the global leader development business in order to help people not only learn English but also obtain the skills needed to play active roles globally. The Company announced a business alliance in November 2019 with Caplan Corporation, which handles in-person training business as part of Pasona Group Inc. <2168>, and is jointly developing a training program that assists global leader development. Additionally, it spun off the B2B business and established PROGOS Inc. in March 2021. The PROGOS test: the AI English speaking exam developed in June 2020 collects assessment data, and the Company intends to develop multi-faceted assessment of skills needed by global leaders with the assessment data platform as the starting point. Through the multi-faceted skill assessment, it hopes to expand scope to hiring, development, assessment, and assignment areas and reinforce services that support corporate personnel functions. These efforts seek to accelerate growth in B2B market.

In October 2021, the Company acquired a 49.000% stake of BORDERLINK, INC., which is engaged in the businesses of dispatching ALTs (Assistant Language Teachers) and operating English language schools. Then, in December 2021, the Company made shikaku square, Inc. a subsidiary by acquiring its shares after Sight Visit Inc. created shikaku square, Inc. and spun it off. The Company then took over the shikaku square business which provides online learning programs for professional qualifications. Furthermore, in January 2022, the Company spun off its Technology Department, creating the new company RareJob Technologies, Inc., and this April the company began the AI-related R&D business.

Company profile

Corporate history

Date	Main events
October 2007	RareJob, Inc. established
November 2007	Launched online English tutorial service "RareJob" (currently "RareJob Eikaiwa")
October 2008	Established RareJob Philippines, Inc. in Manila, the Philippines
August 2009	Started providing corporate services
June 2014	Listed on Mothers section of Tokyo Stock Exchange
April 2015	Started providing Business English Course Started offering services for educational institutions
July 2015	Capital and business alliance with Mitsui & Co.
September 2015	Started providing Young Learner Course
October 2015	Started Brazil business (exited in November 2017)
January 2016	Started offering "RareJob Honkijuku"
February 2016	Capital and business alliance with Zoshinkai Publishers, Inc. (currently Zoshinkai Holdings Inc.)
April 2016	Established Kansai branch office
August 2016	Started offering the "RareJob Eikaiwa" iOS app
August 2016	Established ENVIZION PHILIPPINES, INC. in Cagayan de Oro, Philippines
January 2017	Brought Ripple Kidspark Co., Ltd., which operates kids online English Tutorial service Ripple Kids Park, into the group
April 2017	Established Chubu branch office
March 2018	Started providing the proprietary lesson-taking system "Lesson Room"
April 2018	Established Kyushu branch office
October 2018	Started providing the performance-guaranteed English tutorial service "Smart Method course"
February 2019	Established Envizion, Inc. and concluded merger agreement with Zoshinkai Holdings Inc.
April 2019	Converted Geos Language Centre Pte Ltd. (Singapore) into a wholly-owned subsidiary
October 2019	Concluded business alliance on global leader development business with CAPLAN Corporation
June 2020	Developed the PROGOS test: the AI English speaking exam
November 2020	Changed the stock listing to the First Section of Tokyo Stock Exchange
March 2021	Established PROGOS Inc. to conduct corporate business
April 2021	Launched recruitment business specializing in foreign nationals and Japanese tutoring business
June 2021	Established Babel Method, Inc. to develop a Japanese speaking learning program
September 2021	Formed capital and business alliance with BORDERLINK, INC.
December 2021	shikaku square, Inc., which engages in the business to help people attain professional qualifications, joined the Group
April 2022	RareJob Technologies, Inc. established by spinning off the Technology Division, launched the AI-related R&D business
April 2022	Changed stock market listing to the Prime Market of the Tokyo Stock Exchange

Source: Prepared by FISCO from the Company's website

(3) Status of group companies

At the end of May 2022, the Group comprised the Company and eight consolidated subsidiaries (four companies in Japan and four companies in the Philippines), and three equity-method affiliates (two companies in Japan and one company in the Philippines).

Of these companies, RareJob Philippines, Inc., a subsidiary in the Philippines, recruits, trains, and manages English tutors in the Philippines (there are currently 6,000 tutors on the roster in the Philippines). The domestic subsidiary Envizion, Inc. provides an online English tutorial learning service for schools and Ripple Kids Park, an online English tutorial learning service designed for children. Of the subsidiaries in the Philippines, ENVIZION PHILIPPINES, INC. and RIPPLE KIDS EDUCATIONAL SERVICES, INC. each primarily provide lessons for schools and for Ripple Kids Park from the lesson supply center they operate. Both ENVIZION PHILIPPINES, INC. and RIPPLE KIDS EDUCATIONAL SERVICES, INC. are subsidiaries that are respectively 99.999% and 99.995% owned by Envizion, Inc., so from the perspective of RareJob, the parent company of Envizion, Inc., it has a 66.593% ownership stake in both of these companies.

Company profile

In October 2021, the Company acquired 49.000% of the issued shares of BORDERLINK, INC., a consolidated subsidiary of WILL GROUP, INC. which engages in the foreign language educational support business. The Company has been granted call options that can be exercised on or after April 1, 2023, for the 51.000% of the shares that WILL GROUP, INC. continues to own. The Company will exercise the call options and acquire BORDERLINK, INC. as a consolidated subsidiary if, by April 2023, the Company is able to create synergies between the two companies and enhance the corporate value of BORDERLINK, INC.

Status of major group companies (As of the end of May 2022)

Classification	Company Name	Descriptions of the main businesses	Ownership Ratio
Consolidated subsidiary	RareJob Philippines, Inc.	Recruitment, training, and management of English tutors	99.997%
	Envizion, Inc.	B2School business	66.593%
	ENVIZION PHILIPPINES, INC.	Provision of online English tutoring lessons	66.593% (66.593%)
	RIPPLE KIDS EDUCATIONAL SERVICES, INC.	Provision of online English tutoring lessons for kids	66.593% (66.593%)
	RareJob English Assessment, Inc.	Provision of online English tutoring lessons	99.995%
	PROGOS, Inc.	B2B business	100.000%
	shikaku square, Inc.	Operation of an online learning service "shikaku square" for professional qualification exam preparation	70.000%
	RareJob Technologies, Inc.	AI (artificial intelligence) related R&D business, etc.	100.000%
Equity-method affiliate	Grandline Philippines Corporation	Operation of language schools (Partner for English conversation study abroad business for corporations)	20.000%
	Babel Method, Inc.	Development of Japanese speaking learning programs	49.180%
	BORDERLINK, INC.	Foreign language tutor dispatch business, operation of language schools	49.000%

Note: Figures in parenthesis for ownership ratio indicate indirect ownership ratio included in the total
 Source: Prepared by FISCO from the Company's securities report and others

Filipino tutors living in the Philippines support the business foundation

2. Business description

The Company provides low-cost, high-quality online English tutorial services by connecting Filipino tutors with strong English skills and users via the Internet. Currently, the main service is "RareJob Eikaiwa." The Company has a General English Course and a Business English Course and other courses. More than 90% of individuals take the General English Course, while many companies take the Business English Course. For the General English Course, the most popular plan is the ¥6,380 (including tax)-per-month/25minutes-per-day plan. Customers can take one lesson per day, so if they take a lesson every day it ends up being a bargain at ¥206 (including tax) per lesson. Most of the users are business people, with approximately 70% of users who are between their 20s and 40s, but the service is used by people in a wide range of age groups ranging from 10s to 70s. The ratio of male and female users is about 60:40.

As a profit structure, users pay a fixed monthly fee as discussed above, while tutors are mostly paid according to the number of lessons they provide. Increase in the user lesson attendance rate hence lowers profit margin. Nevertheless, the actual lesson attendance rate, despite exhibiting some seasonality, does not significantly change year-on-year other than in a situation similar to FY3/21 with school closures and a guidance to stay home by a government in the COVID-19 pandemic.

Company profile

Main courses and fee lists of “RareJob Eikaiwa”

General English Course	¥6,380/month (Can take one 25-minute lesson each day, ¥206 per lesson if one lesson is taken every day) ¥4,620/month (Can take 8 lessons each month, comes to ¥578 per lesson)
Business English Course (Business-focused course with certified tutors who have received special training and use exclusive teaching materials)	¥10,780/month (Can take one 25-minute lesson each day, ¥348 per lesson if a lesson is taken each day)
Young Learner Course (This course strengthens the four skills needed in high school and university entrance exams with instruction by a certified teacher who has received special training and global learning materials specifically for the course.)	¥10,780/month (Can take one 25-minute lesson each day, ¥348 per lesson if a lesson is taken each day)

* In addition to the above-mentioned course, the “Anshin Pack” (¥1,078/month) provides learning consultation with a dedicated Japanese counselor and automatic lesson reservations.

Source: Prepared by FISCO from the Company’s website

(1) B2C Services

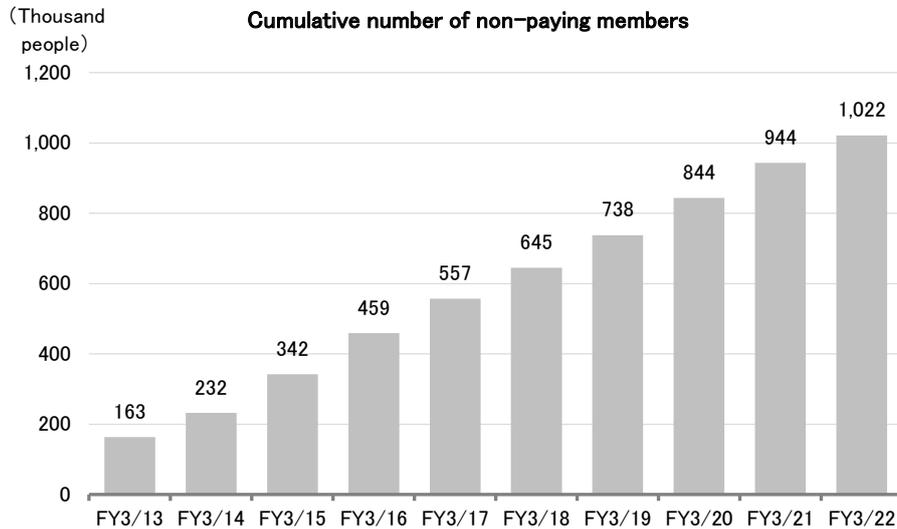
The Company’s services for B2C are RareJob Eikaiwa; Ripple Kids Park, the online English speaking learning service dedicated to children; Smart Method course, the intensive English speaking learning course that guarantees results; and shikaku square, an online learning service to assist in acquiring difficult professional qualifications. RareJob Eikaiwa generates the majority of sales.

Looking at the flow of business using “RareJob Eikaiwa” as an example, the Company acquires customers through online marketing (listing advertisements, affiliate advertisements, social media, etc.) to attract customers to the “RareJob Eikaiwa” site. First, a user who views the “RareJob Eikaiwa” site registers as a non-paying member (this allows them to take two free lessons), then takes the lessons and decides whether to enroll in the paid service. Therefore, the KPI for revenue growth include the initiatives to attract people to the website, the number of non-paying members, the rate at which non-paying members become paying members (conversion rate), and the paying member retention rate. Improving these KPI will lead to higher net sales. As of the end of FY3/22, the number of cumulative non-paying members had exceeded 1,000,000, and roughly 90,000 people are registering each year. While the Company is taking steps to improve the paying member continuation rate through steadfast enhancement of lesson quality, updates of teaching materials, and addition of highly convenient features, since members often leave after they reach a certain level of English language skill, the average period of taking courses is roughly a year.

The Company began to offer the Smart Method course as the B2B service. Since October 2020, it started its service for B2C as well and is increasing sales as a product that address demand for guaranteed enhancement of English communication capability in a short period.

Furthermore, in addition to the aforementioned English language-related services, the Company provides “shikaku square,” an online learning service that helps people prepare for difficult-to-pass qualification exams, including a preliminary examination for a Lawyer, patent attorney exam and so on.

Company profile



Source: Prepared by FISCO from the Company's results briefing materials

(2) B2B services

The Company is promoting B2B services at PROGOS Inc., which is established in March 2021. In this business, it delivers various programs that meet customer needs, including the PROGOS test: the AI English speaking exam, RareJob Eikaiwa (business English conversation) as a business English training program, Smart Method course, an English conversation learning course that guarantees results, and global leader development training, and has cumulative deployments at 3,400 companies.

The PROGOS test, a new service, gives questions related to business scene (meeting, interview, presentation, etc.) for about 20 minutes and uses AI technology to confirm results in as little as a few minutes and give feedback on studying methods to improve skills along with the test score (there is manual scoring in some cases). The indicator for the test complies with CEFR*1 international standard, and assesses skills by “what can be done” and “the extent to which it can be done” rather than the volume of words and grammar knowledge. The PROGOS test received a silver award in the assessment category of the Reimagine Education Award 2020*2, one of the world’s largest educational contests. The Company was the first Japanese entity to receive this award and indicates that the service is highly rated internationally as well. The Company hopes to roll out the PROGOS test as a way of visualizing the English language skills of an organization and aims to boost earnings through joint provision of a language training program and other services.

Company profile

The Smart Method course is the service that improves the level of English conversation skill in a short period of time with certified tutors who have received training specifically for this course, special teaching materials, as well as support by a dedicated Japanese consultant. The course lasts approximately 16 weeks (Mon-Fri: 50-minute lesson/day, a 20-minute test each weekend to check progress, two hours of self-study). It costs ¥495,000 (including tax), which is more expensive than the regular “RareJob Eikaiwa” service. However, the Company guarantees that the student will improve by at least one level from the time they begin the course based on the Company’s criteria, which are equivalent to the 10 levels of English-speaking ability based on CEFR-J*³. There has been a lot of positive responses from customers and healthy sales growth since the service launch.

*1 Common European Framework of Reference for Languages (CEFR) is a common standard that indicates the extent of language acquisition and linguistic performance of foreign language learners in Europe. It is widely used in academic and business communities, including use by the Ministry of Education, Culture, Sports, Science, and Technology as an English assessment indicator in new learning guidelines.

*2 The Reimagine Education Award is one of the world’s leading awards for initiatives in innovative education and is also known as the “Oscars” of the educational industry. It had more than 1,400 applications from 72 countries worldwide in FY2020 and selected recipient organizations following rigorous evaluation by 260 judges from around the world.

*3 CEFR-J is an English language ability achievement index designed for use in English education in Japan based on CEFR, an international standard that indicates level of language communication skill.

(3) B2School Services

The Company conducts sales activities targeting educational institutions through its subsidiary, Envizion, Inc. and its partner Z-kai. The Company offers two services: an online English tutorial service mainly provided in school classes, an online English tutorial service as an extracurricular program. For public schools, the services need to be adopted by the board of education of each municipality, so the Company markets to boards of education. For private schools, Z-kai, which has its own network, handles most sales and proposals.

(4) Tutors

Looking at the situation of Filipino tutors, which are the foundation for the Company’s growth, the Company initially hired mainly students and graduates of the University of the Philippines, but now the Company recruits throughout the Philippines based on referrals by existing tutors and via Facebook advertisements. Tutors sign contracts after their English proficiency and aptitude as a tutor are assessed. Tutors are given training and then start serving as tutors on their own after their lesson quality becomes good enough. Most of the Company’s 6,000 Filipino tutors have independent contractor agreements, but some are full-time tutors and some are tutors from partner companies. Tutors hired as independent contractors are recruited from all over the Philippines and offer lessons from home. Compensation is paid in local currency (Philippine pesos) based on the number of lessons provided. Full-time tutors provide lessons from the two lesson supply centers in the Philippines, and offer lessons for educational institutions, Ripple Kids Park, and “RareJob Eikaiwa.” Because these lessons are provided from these centers equipped with stable communication equipment, including spare lines, lessons from these centers are particularly high-quality as there is thorough tutor training and management (including in-person training). Because costs are fixed, low usage rates result in high costs, but usage rates are currently improving. Some instructors provided service from home due to the COVID-19 pandemic, but this does not appear to have disrupted business operations.

The Company holds a strong competitive advantage over its competitors

3. The Company's strengths and its competitors

(1) Strong competitive advantage

The Company has four main strengths: being able to provide high-value-added English tutorial services with high-quality curriculum, teaching materials, and tutors, at a low price; operational capabilities that allow the Company to maintain a stable and large number of high-quality tutors and lessons; strong sales capabilities and a robust customer base including collaborations with partners; and expansion into businesses that are highly synergistic, such as the business leader development business and the career-related business.

(2) Competitors

The competitors in B2C online English speaking tutorial services are DMM Eikaiwa and Native Camp. The companies that operate these services are privately held, so their respective sizes are unknown. In the case of DMM, the price is almost the same as RareJob, and it has more than 10,000 tutors located not only in the Philippines but in 134 countries around the world and users can take lessons any time of the day.

Competitors in the field of learning services helping people prepare for difficult-to-pass legal-related qualification exams such as the preliminary examination for a lawyer include Itojuku and Agaroot Academy.

In B2B services, the main competitors are Berlitz and Gaba with long-standing results in a business model that still primarily utilizes the in-person format. The market for online services began from around 2015, and Bizmates is a competitor in this area.

(3) SWOT analysis

The Company's internal environment (strengths, weaknesses) and external environment (opportunities, threats) can be summarized as follows.

a) Internal environment (strengths)

- High-quality curriculum, teaching materials, tutors
- Operational capability to continually offer high-quality tutors and lessons
- Strong sales capabilities and robust corporate client network including business partners
- Business deployment capabilities based on the assessment data platform

b) Internal environment (weaknesses)

- Bringing in casual users
- Dependent on Filipino tutors, so the Company is assuming a country risk (the Philippines)

c) External environment (opportunities)

- Growth of the online English tutorial market
- Business growth by introducing services at companies and educational institutions
- Growing needs for developing talents that can work globally

d) External environment (threats)

- Invention of timeless and accurate simultaneous interpretation machines
- Increasing competition due to an increase in companies entering the online English tutorial market
- Exchange rate risk (costs will increase if the yen depreciates against the Philippine peso)

■ Market environment

Markets for helping people play active roles globally will continue to expand

Japan's population is on a declining trend, and in particular the working-age population is dramatically declining. Specifically, according to "Population Projections in Japan (estimated in 2017)" published by the National Institute of Population and Social Security Research, Japan's working-age population in 2030 is expected to be approximately seven million people less than in 2020, falling to 68,750,000 people. In this situation, companies will need to increase operational efficiency and promote automation, but they will also need to create environments such as those for employing non-Japanese people. In addition, it is projected that people with the skills that allow them to work with foreign personnel, which means human resources that are capable of working and/or managing non-Japanese people, will become extremely valuable to society.

Demand for English speaking tutorial service has temporarily slowed due to decline in foreigners visiting Japan and a steep drop in opportunities for overseas travel amid the prolonged COVID-19 pandemic situation. Nevertheless, the B2C market is likely to continue an expansion trend over the longer term on further advances in globalization, recovery in the number of foreigners visiting Japan, and the switch to English education as a requirement at elementary schools.

In the B2B market, despite continuation of a flat level in the past few years, the share of online training is growing. Even though the pandemic has temporarily slowed business, English speaking learning demand should continue to expand with increase in expatriates amid globalization, growing contacts with overseas companies in Japan, and more foreign personnel.

In the B2School market, English classes became a requirement from the fifth year of elementary school in FY3/21 and enhancement of English-speaking ability received more emphasis in updated instruction guidelines, including at junior high school and high school. Adoption of online English speaking learning service at educational entities is forecast to accelerate.

Results trends

Posted record high net sales in FY3/22 despite the decline in profit due to upfront investments

1. Overview of FY3/22 results

In the FY3/22 consolidated results, the Company posted ¥5,598mn in net sales (+5.0% YoY), operating profit of ¥291mn (-56.4%), ordinary profit of ¥242mn (-61.5%), and profit attributable to owners of parent of ¥184mn (-52.7%). The initial sales forecast was revised downward due to factors including the dulling of the rise in interest in studying English in B2C business due to the impact of prolonged restrictions on overseas travel as a result of the COVID-19 pandemic as well as the fact that training budgets in the B2B business were pushed back, but net sales were still a new record high. In operating profit, the initial forecast was revised downward due to factors including upfront investment in personnel, especially in corporate sales, as well as systems-related investments which are essential for growth over the medium term. Still, operating profit ended up exceeding the revised forecast.

FY3/22 results

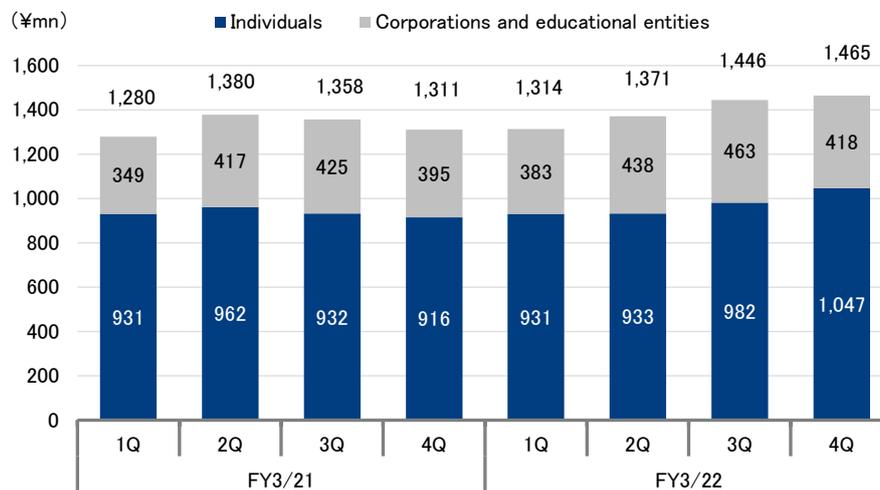
	FY3/21				FY3/22		YoY
	Results	% of sales	Initial plan	Revised plan	Results	% of sales	
Net sales	5,331	-	6,500	5,650	5,598	-	5.0%
B2C	3,742	70.2%	4,080	3,930	3,894	69.6%	4.0%
B2B&B2School	1,589	29.8%	2,420	1,720	1,704	30.4%	7.2%
Operating profit	669	12.5%	800	250	291	5.2%	-56.4%
Ordinary profit	628	11.8%	760	200	242	4.3%	-61.5%
Profit attributable to owners of parent	391	7.3%	530	120	184	3.3%	-52.7%

*Initial plan as announced in May 2021, revised plan as announced in November 2021

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Net sales of services for B2C increased 4.0% YoY to ¥3,894mn, and this appears to be due to the contribution to sales by shikaku square which was made a subsidiary in December 2021. Services for B2B&B2School increased 7.2% to ¥1,704mn. This was driven by growth in sales to corporate customers despite the fact that there are seasonal factors each quarter.

Results trends

Breakdown of Quarterly Net Sales


Source: Prepared by FISCO from the Company's results briefing materials

In terms of unit costs, despite higher costs due to the increase in tutor fees and the purchase of training services, the unit cost ratio was on par with the previous fiscal year at 41.2%. In terms of SG&A expenses, there was an increase in corporate sales personnel and an increase in expenses accompanying the move to make shikaku square a subsidiary.

Cost structure

(¥mn)

	FY3/21		FY3/22		YoY
	Results	% of sales	Results	% of sales	
Net sales	5,331	-	5,598	-	5.0%
Cost of sales	2,200	41.3%	2,307	41.2%	4.9%
Tutor fees	1,700	31.9%	1,711	30.6%	0.6%
Other	500	9.4%	596	10.6%	19.2%
SG&A expenses	2,462	46.2%	2,999	53.6%	21.8%
Labor cost	1,199	22.5%	1,394	24.9%	16.3%
Advertising	282	5.3%	419	7.5%	48.3%
Other	980	18.4%	1,185	21.2%	20.9%
Operating profit	669	12.5%	291	5.2%	-56.4%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Results trends

The balance of cash and deposits is increasing ahead of future M&A execution

2. Financial situation

(1) Consolidated balance sheets

At the end of FY3/22, total assets were ¥6,343mn, a YoY increase of ¥1,874mn. Current assets were ¥3,503mn, an increase of ¥288mn from the end of the previous fiscal year. This was mainly due to a ¥256mn increase in cash and deposits, among other factors. Non-current assets were ¥2,840mn, an increase of ¥1,585mn from the end of the previous fiscal year. This was mainly the result of a ¥984mn increase in investments and other assets, a ¥775mn increase in goodwill, and other factors.

Total liabilities increased ¥1,512mn from the end of the previous fiscal year to ¥3,684mn. Current liabilities increased ¥1,492mn to ¥2,529mn, mainly due to a ¥1,112mn increase in the current portion of long-term borrowings, a ¥584mn increase in advances received, and other factors. Non-current liabilities increased ¥20mn YoY to ¥1,334mn. Despite a ¥252mn increase in long-term borrowings, lease liabilities declined.

Total net assets were ¥2,479mn, an increase of ¥362mn compared to the end of previous fiscal year. This was mainly due to an increase in capital surplus and retained earnings, among other factors.

Condensed consolidated balance sheets and key business indicators

	FY3/19	FY3/20	FY3/21	FY3/22	Change
	(¥mn)				
Total current assets	1,727	2,698	3,214	3,503	288
Cash and deposits	1,251	2,153	2,860	3,116	256
Accounts receivable - trade	346	456	225	121	-104
Total non-current assets	794	859	1,254	2,840	1,585
Property, plant and equipment	139	197	461	191	-270
Intangible assets	510	489	586	1,458	872
Goodwill	95	83	70	846	775
Investments and other assets	144	172	206	1,190	984
Total assets	2,522	3,557	4,468	6,343	1,874
Total current liabilities	789	1,174	1,037	2,529	1,492
Current portion of long-term borrowings	130	280	30	1,142	1,112
Advances received	125	118	132	717	584
Total non-current liabilities	382	781	1,314	1,334	20
Long-term borrowings	370	690	960	1,212	252
Total liabilities	1,172	1,955	2,351	3,864	1,512
Interest-bearing debt	500	970	990	2,355	1,365
Total net assets	1,350	1,602	2,116	2,479	362
Shareholders' equity	1,327	1,363	1,826	2,182	355
Accumulated other comprehensive income	11	1	12	37	24
Total liabilities and net assets	2,522	3,557	4,468	6,343	1,874
Capital ratio	53.1%	38.4%	41.2%	35.0%	-
Return on equity (ROE)	9.9%	15.2%	24.4%	9.1%	-
Net profit margin	3.4%	4.5%	7.3%	3.3%	-
Total asset turnover (times)	1.5	1.5	1.3	1.0	-
Financial leverage (times)	1.9	2.2	2.5	2.7	-

Note: Capital ratio = Capital / Total assets
 Total asset turnover = Net sales / Total assets
 Financial leverage = Total assets / Capital
 Source: Prepared by FISCO from the Company's financial results

Results trends

(2) Consolidated statements of cash flows

In FY3/22, free cash flow temporarily became negative due to the execution of two M&A deals. The following is an overview of cash flows.

a) Cash flows from operating activities

Operating activities provided net cash of ¥292mn (compared to ¥1,089mn of net cash provided in FY3/21). This was mainly due to recording ¥250mn in depreciation and other factors, despite expenditure for income taxes paid.

b) Cash flows from investing activities

Net cash used in investing activities was ¥1,507mn (compared to ¥335mn of net cash used in FY3/21). This was primarily due to expenditure for the purchase of shares of subsidiaries and associates, the purchase of shares of subsidiaries resulting in change in scope of consolidation, and the purchase of intangible assets.

c) Cash flows from financing activities

Net cash provided by financing activities was ¥1,464mn (compared to ¥54mn used in FY3/21). This was mainly due to proceeds from long-term borrowings.

Condensed consolidated statements of cash flows

	FY3/19	FY3/20	FY3/21	FY3/22
	(¥mn)			
Cash flows from operating activities (a)	370	577	1,089	292
Depreciation	152	227	238	250
Amortization of goodwill	12	12	12	39
Cash flows from investing activities (b)	-230	-170	-335	-1,507
Free cash flow (a) + (b)	139	406	754	-1,214
Cash flows from financing activities	67	440	-54	1,464
Net increase in cash and cash equivalents	202	849	699	255
Cash and cash equivalents at end of period	1,317	2,166	2,866	3,121

Source: Prepared by FISCO from the Company's financial results

Future outlook

Company expects record-high net sales in FY3/23, but will continue to invest in future growth

1. FY3/23 forecast

In the FY3/23 consolidated forecast, the Company projects net sales of ¥6,000mn (+7.2% YoY), operating profit of ¥50mn (-82.9%), ordinary profit of ¥80mn (-67.0%), and ¥0mn (-100%) in profit attributable to owners of parent. In terms of the breakdown of net sales, the Company expects B2C sales to increase 5.3% to ¥4,100mn due to the contribution from shikaku square and other factors, and B2B and B2School sales to increase 11.5% to ¥1,900mn due to the expansion of sales to corporates. The Company forecasts an increase in sales for the 15th straight fiscal year since its founding. Meanwhile, the Company expects YoY declines in all profit lines due to investment targeting growth (acquisition of corporate sales personnel, system development, etc.) and the impact of foreign exchange rates.

Future outlook

FY3/23 forecast

	FY3/22		FY3/23		YoY
	Results	% of sales	Initial forecast	% of sales	
Net sales	5,598	-	6,000	-	7.2%
Individuals	3,894	69.6%	4,100	68.3%	5.3%
Corporations and educational entities	1,704	30.4%	1,900	31.7%	11.5%
Operating profit	291	5.2%	50	0.8%	-82.9%
Ordinary profit	242	4.3%	80	1.3%	-67.0%
Profit attributable to owners of parent	184	3.3%	0	0.0%	-100.0%

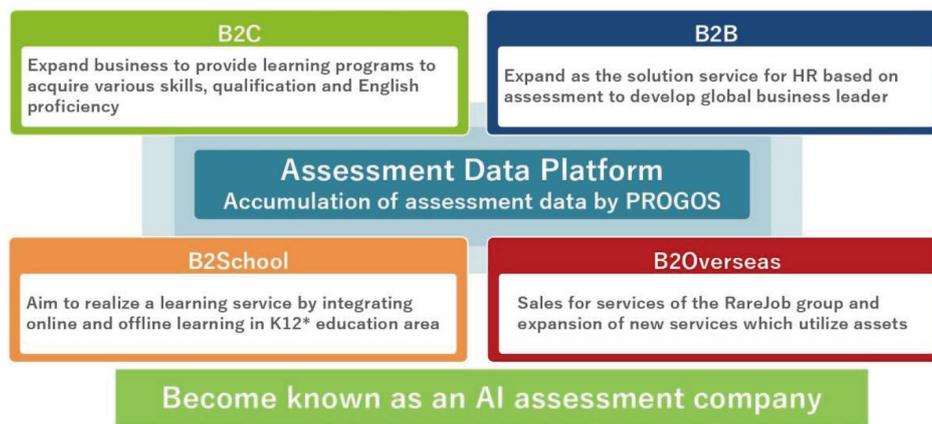
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Established target of ¥1bn in operating profit in FY3/25, with the PROGOS test as the nucleus of the growth strategy

2. Mid-term business plan

PROGOS is the service at the heart of the Company's growth strategy. The Company is positioning the assessment data platform, which consolidates data collected by the PROGOS test in various businesses, as the source of its competitive advantage. The Company will start with assessments of English speaking ability, and then plans to expand the scope of assessments to cover English reading, listening, and writing abilities, as well as other skills necessary in global business. In the future, the Company will aim to become an AI assessment company from an online English tutorial service provider.

Overall image of growth strategy



*The educational period from pre-school (kindergarten age) to high school graduation
 Source: The Company's results briefing materials

Future outlook

The Company plans to create a PROGOS ecosystem. Currently, in the world of English language ability assessments, TOEIC® has an extremely large market share for adults, while the EIKEN Test in Practical English Proficiency has a very large market share for children. For hiring, most companies use TOEIC® as a means to determine someone's English abilities. The Company estimates that the TOEIC® ecosystem is between ¥50bn and ¥100bn in size (this includes not only the market for people taking the TOEIC® exam, but also books to prepare for the TOEIC® exam and other services). The Company is first aiming to make the PROGOS test the standard for assessment for English conversational ability. Once it does that, the Company believes it will be able to create a PROGOS ecosystem that is the same size as the TOEIC® ecosystem between ¥50bn and ¥100bn in scale. The Company then expects to earn about ¥10bn to ¥20bn of the PROGOS ecosystem (about 10-20% of the ecosystem).

The Company was aiming to administer one million PROGOS tests in FY3/22. It reports that there were 1.2 million applications to take the test, which indicated the high level of interest among corporate HR officers. However, on the other hand, taking the test is in many cases left up to employees, and there were actually only about 130,000 tests administered. In other words, there is still little incentive for employees to take this assessment. The Company believes that it is important to incorporate the administration of this test into client companies' HR systems (for example, an employee would need to earn at least a certain score in order to go work in an overseas office) to increase the ratio of people who take the test. Going forward, the Company is expected to implement initiatives to achieve this.

The Company's growth strategies in each business are discussed below.

(1) B2C services

With respect to B2C services, the Company's strategy is to expand its services, centered on English online tutorial lessons, helping people to learn the wide-ranging skills and gain the qualifications necessary for success in society. However, there are some areas of concern in the current online English tutorial market, including the temporary decline in demand for English tutorial services due to the drop in international travel caused by the COVID-19 pandemic, as well as an expected deterioration in profitability due to the increase in tutor fees caused by the dramatic weakening of the yen. Given the situation, the Company's actions for growth will include revising (increasing) the prices of its services and offering high-value-added services.

The Company has made improvements to its services for individuals, but it has not changed its prices in approximately eight years. There are large price differences between the Company and in-person English conversation schools, and the Company feels it has room to increase its prices. Regarding its services, the Company is expected to add new functions to enhance its competitiveness. The Company has already launched an internal project to consider such changes, and it appears that it is eyeing price increases on the order of 30%.

(2) B2B services

The Company aims to fill an advisory position in corporate training for companies. For starters, the Company will work to make the global business skills of businesspeople visible. After that, the Company plans to expand its assessment-based solutions service for HR divisions, aiming to develop global leaders. Currently, the Company is aiming to introduce its services in companies, especially in large companies, in order to facilitate a dramatic increase in the use of the PROGOS test.

Future outlook

(3) B2School services

The Company's strategy is to expand the scope of its educational service combining online and in-person services to the K12 (the period of education from preschool [kindergarten age] to high school graduation) domain. The PROGOS test is currently just for assessing the English conversational abilities of business people, but it will be expanded to include students from upper-grade elementary school students to high school students. AI assessments are already being utilized to evaluate an English skill in the U.S. and China, and the Company foresees the same type of expansion in Japan as well.

Also, originating from the ALT dispatch business of BORDERLINK, which the Company plans to make a consolidated subsidiary in April 2023, the Company is expecting to expand the business, including, for example, dispatching foreign teachers to nursery schools and other facilities for children.

(4) B2Overseas

The Company's strategy is to sell the Group's services and develop services leveraging its business assets. Specific efforts underway include introducing PROGOS to Filipino BPO providers and supplying tutors to online English tutorial service providers in Vietnam.

(5) Numerical goals

As a mid-term management target, the Company is aiming to achieve operating profit of ¥1bn in FY3/25. The Company is expected to carry out a variety of initiatives in order to achieve this target, including adding corporate sales personnel and making investments in system development.

■ Shareholder return policy

Plans to stably and continuously increase the dividend, targeting a consolidated dividend payout ratio of approximately 20% over the mid to long term

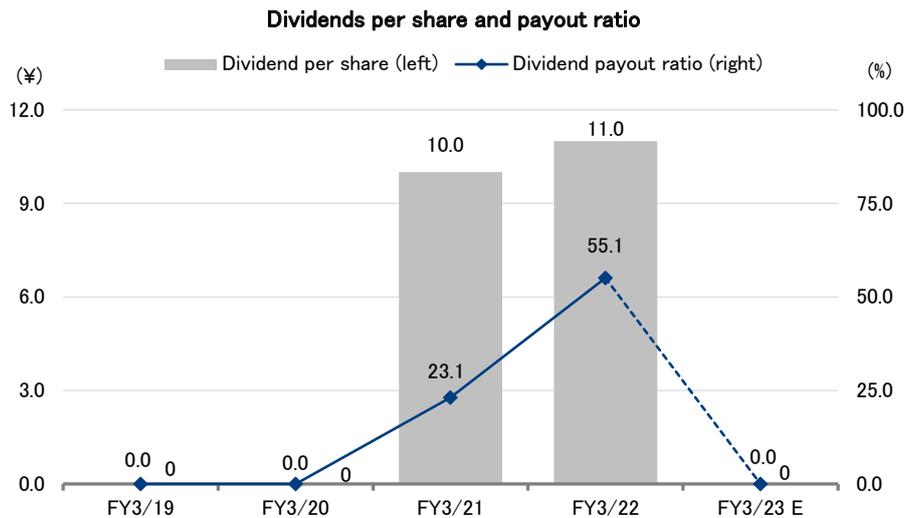
The Company announced revisions to the dividend policy in May 2021. For the purpose of strengthening financial structure to facilitate long-term stability in the management foundation and continuously expanding businesses, the Company had previously put priority on bolstering retained earnings and comprehensively decided dividends in the context of earnings, finances, and future business investment plans. With its listing on the First Section of the Tokyo Stock Exchange in 2020, it adopted a policy of targeting roughly 20% consolidated dividend payout over the longer term to support payment of dividends with stable and continuous hikes. Furthermore, it intends to prioritize strategic investments that lift enterprise value in cases of investment opportunities with return above capital cost. In share buybacks, it plans to dynamically review actions as part of earnings compensation from a comprehensive perspective that looks at business initiatives, investment plans, retained earnings level, and earnings trends.

The Company plans to pay a dividend of ¥11 per share for FY3/22. For FY3/23, the Company does not expect to pay a dividend due to the fact that it is forecasting a net profit of ¥0 per share.

Shareholder return policy

The Company has introduced a shareholder gift. It provides a shareholder gift coupon for RareJob Eikaiwa valued at ¥10,000* to shareholders who own 100 shares or more at the end of March each year, and an additional shareholder benefit coupon for the Smart Method course valued at ¥100,000 to shareholders who own 300 shares or more.

* The maximum amount that the shareholder gift coupon can be used equates to one month of the RareJob Eikaiwa service fee. There is no refund of the difference for a contract plan that costs less than ¥10,000.



Source: Prepared by FISCO from the Company's financial results

Initiatives for ESG/EDGs

A sustainable society which is the aim of the vision of “Chances for everyone, everywhere”

RareJob works to achieve a sustainable society based on each goal of SDGs and the concerns of ESG through business activities to realize its Group Vision of “Chances for everyone, everywhere.”

(1) The classification for ESG: Environmental

Reducing energy consumption by having less travel

All members and tutors at RareJob Eikaiwa don't have to transport somewhere physically to take or conduct lessons as long as they have internet access. By reducing energy consumption, we contribute to reducing environmental impacts.

Promoting paperless environment

RareJob Eikaiwa provides most of our teaching materials via online instead of paper. We also make efforts to reduce paper consumption in our offices by digitizing internal documents for meetings, proposals and so on.

We encourage readers to review our complete legal statement on “Disclaimer” page.

Initiatives for ESG/EDGs

(2) The classification for ESG: Social**Providing reasonable and high-quality educations**

Providing reasonable and high-quality educations to our students everywhere is our top priority. We contribute to eliminating inequalities in English education opportunities caused by regional/economic disparities, such as the concentration of brick-and-mortar English tutoring schools in urban areas and expensive costs of studying abroad.

More jobs for women

Roughly 80% of the Company's instructors are women. Due to flexible working hours and the benefits of working from home at any time, women who do housework, raise children, or care for family members are able to work easily with their capacities.

Creating jobs in the developing country

We create a lot of jobs in the Philippines, which is one of the developing countries. As our platform allows tutors to work anywhere and anytime, it helps to increase the number of job options, especially for people living in the rural areas of the country, where stable jobs are hard to find.

Realization of the society where people can make full use of their abilities regardless of nationality.

The Company aims to support people play active roles globally and create venues to utilize their skills for students and tutors through online English tutorial service and for foreigners seeking to build a career through recruiting services for foreign human resources service.

(3) The classification for ESG: Governance**Corporate governance**

The Company is aware of the importance of strengthening proper organizational structures and systems to ensure compliance with such matters as laws and regulations, social norms and corporate ethics. To boost corporate value in a sustainable way, we will strive to strengthen corporate governance while working on business expansion simultaneously.



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