COMPANY RESEARCH AND ANALYSIS REPORT

S-Pool, Inc.

2471

Tokyo Stock Exchange Prime Market

14-Mar.-2025

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Contents

Summary

Growth drivers are special needs employment services, wide-area administrative BPO services, and environmental management support services

S-Pool, Inc. <2471> (hereafter, also "the Company") is developing the Business Solutions Segment, which is centered on special needs employment services, and the Human Resources Solutions Segment, which operates mainly temporary staffing services for call centers. In the special needs employment services, it conducts sales and operations management of allotment equipment for companies and provides services to support the employment of people with disabilities. Since starting in business in 2010, it has opened 53 farms in Tokyo metropolitan area, Aichi, and Osaka Prefectures, and created employment for a total of more than 4,400 people with disabilities as of November 30, 2024.

1. Overview of FY11/24 results

Consolidated results for FY11/24 were almost flat, with revenue down 0.9% year on year (YoY) to ¥25,554mn and operating profit up 0.2% to ¥2,783mn. A double-digit decrease in sales and profit in the Human Resources Solutions Segment, mainly in call center staffing services, was covered by growth in the Business Solutions Segment, including special needs employment services, wide-area administrative BPO services, and environmental management support services. The mainstay special needs employment services saw rapid growth not only in new customers, but also in additional orders from existing customers, with revenue increasing at double-digit rates by 16.4% to ¥8,035mn, and operating profit also increasing by ¥217mn.

2. FY11/25 forecasts

For FY11/25 consolidated results, the Company is forecasting increased sales and profits, with revenue to increase 5.0% to ¥26,828mn and operating profit to increase 10.4% to ¥3,074mn. In the Human Resources Solutions Segment, sales and profits are expected to be only slightly lower YoY, as the downturn in sales has stopped, reaching the bottom in 2H of FY11/24, and while the Business Solutions Segment is set to continue driving results. However, the wide-area administrative BPO and environmental management support services sales plan is skewed toward 2H, so that for 1H, revenue is expected to increase 1.8% to ¥12,313mn and operating profit to decrease 32.3% to ¥502mn. In special needs employment services, the Company is forecasting continued growth in sales and profits, with growth in farm management fees and human resource referral fees expected to cover planning temporary restraint on equipment sales as it prioritizes measures to fill vacancies at existing farms.

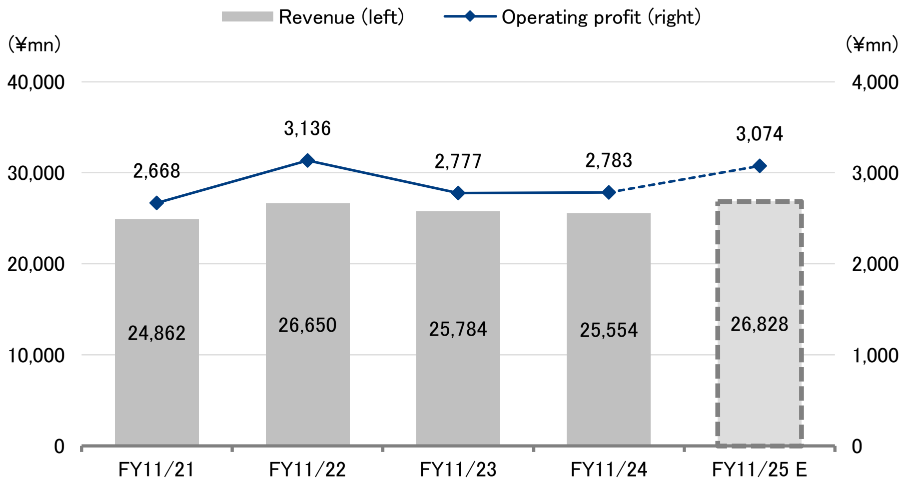
3. Medium-term management plan

The Company announced a five-year medium-term management plan starting from FY11/25. Under a basic policy of “building the management foundations for the next decade,” the Company has set out earnings targets for revenue of ¥36.0bn (CAGR of 7.1%) and operating profit of ¥4.5bn (CAGR of 10.1%). As business strategies, the Company aims to maintain organic growth based on core businesses, advance business through Group synergies, improve profitability and management efficiency through AI and digital transformation (DX), and develop a diverse workforce for the next generation. For the mainstay special needs employment services, previously the company developed these in the three main urban areas, but from 2026 onward, it plans to achieve revenue growth with CAGR of 10.6% per year by progressively expanding its operation in major regional cities such as Sapporo, Sendai, Hiroshima, and Fukuoka, where there is a large number of potential employment seekers. The burden of capital expenditure for new farm openings is a factor that is causing some financial pressure, but from 2027 onward, cash flow is expected to see an upturn due to the accumulation of recurring revenue, and earnings will likely continue to see stable growth going forward. As such, we at FISCO believe there is a strong possibility that earnings will continue to grow stably going forward. With regard to shareholder returns, the Company has maintained the same policy as before of a consolidated dividend payout ratio of 30% or higher (even if a decline in profits is recorded, the policy is not to decrease the dividend as long as the ratio remains less than 60%), and the forecast for FY11/25 is for a dividend of ¥10.0 per share (dividend payout ratio 41.4%), level with the previous fiscal year.

Key Points

- Despite a slight decrease in sales for FY11/24, the Company managed to secure an increase in operating profit
- Revenue for FY11/25 is forecast to reach a record high for the first time in three years, while operating profit is also expected to show a double-digit increase
- Medium-term management plan announced, aiming for revenue of ¥36.0bn and operating profit of ¥4.5bn in FY11/29

Results trend



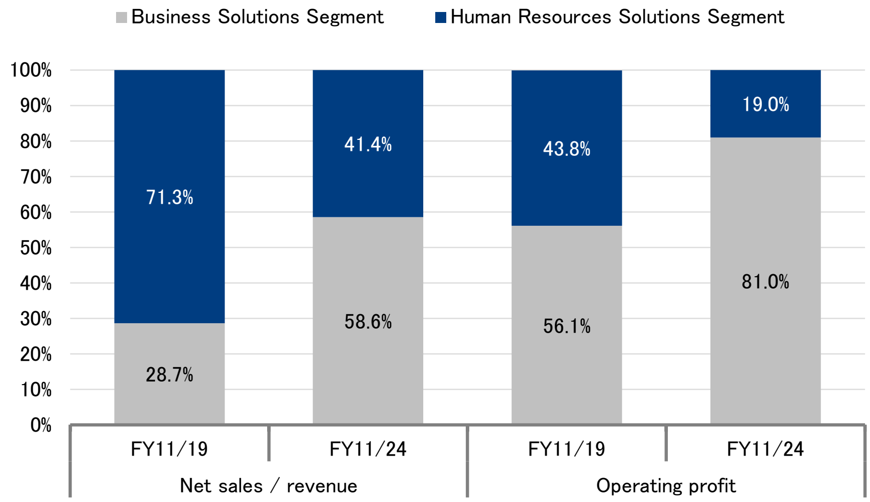
Note: IFRS adopted from FY11/23. Results presented under IFRS from FY11/22
Source: Prepared by FISCO from the Company’s financial results

Business overview

Developing the Business Solutions Segment and Human Resources Solutions Segment

The Company has two business segments, the Business Solutions Segment and Human Resources Solutions Segment. Looking at the composition of results by business segment in FY11/24, the Business Solutions Segment provided the majority of revenue, 58.6%, and operating profit, 81.0%, representing a significant change in business composition over the past five fiscal years (28.7% of net sales and 56.1% of operating profit in FY11/19). The main reasons for this are the ongoing expansion of special needs employment services in the Business Solutions Segment and steady growth of new businesses, namely the wide-area administrative BPO services and environmental management support services, which did not exist prior to FY11/19. On the other hand, the Human Resources Solutions Segment experienced a downturn, mainly due to the end of a temporary surge in call center staffing services demand from 2020 driven by COVID-19, and a decrease in demand for operators due to the spread of AI. Compared to FY11/29, the scale of sales in the Business Solutions Segment has expanded to approximately 3 times the previous level, while in the Human Resources Solutions Segment, the scale has stayed at about 0.85 times the previous level. Looking ahead, the percentage of sales from the Business Solutions Segment is expected to continue increasing.

Net sales / revenue and operating profit by segment

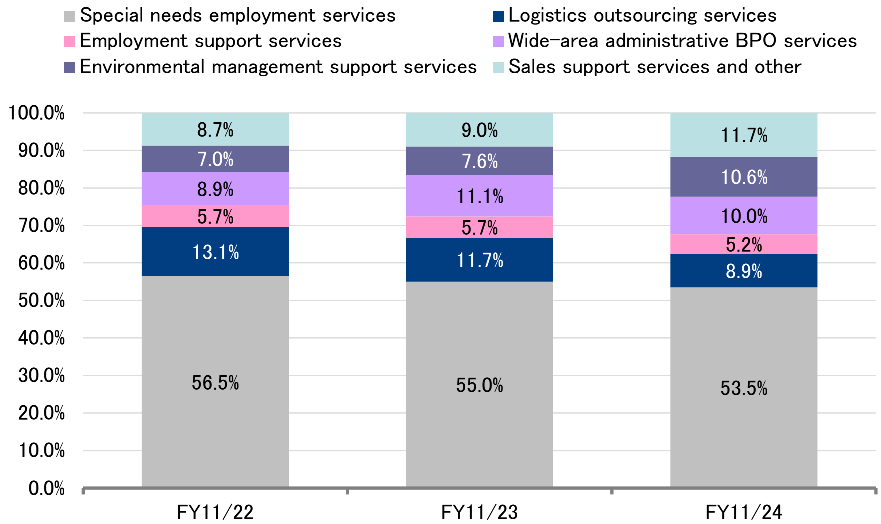


Notes: 1. The percentages are before internal eliminations.
2. FY11/19 results are presented in accordance with JGAAP, while FY11/24 results are presented in accordance with IFRS.
Source: Prepared by FISCO from the Company's financial results

1. Business Solutions Segment

In the Business Solutions Segment, the subsidiaries provide various services, including special needs employment services, wide-area administrative BPO services, environmental management support services, logistics outsourcing services, employment support services, and sales support services. The Company itself develops new businesses classified as "other." In the composition of sales for FY11/24, special needs employment services made up the majority at 53.5%, followed by wide-area administrative BPO services at 10.0% and environmental management support services at 9.5%, each having grown to a substantial scale. In the breakdown of profit, special needs employment services accounted for over 70% of the operating profit, while environmental management support services accounted for just under 20%.

Revenue composition by service



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

(1) Special needs employment services

The special needs employment services are provided by the subsidiary S-Pool Plus, Inc. The business model is that S-Pool Plus installs hydroponic equipment on land or in buildings it has leased, and then leases this facility to companies as a "Work Happiness Farm," (hydroponic equipment is sold). It also obtains fees for the referrals of people with disabilities (primarily people with intellectual disabilities) engaging in work and their managers at the relevant farm. The Company started this business in 2010, and by November 2024, it had opened a total of 53 farms in Tokyo metropolitan area, Aichi, and Osaka Prefectures and it had created employment for 4,405 people with disabilities at 664 contracting companies. Previously, it had only opened outdoor farms, but it began promoting indoor farms as well in urban areas from 2020 onward as a countermeasure against severe heat and other factors (14 farms as of November 30, 2024). It also opened farms through collaboration agreements with local governments in some cases. Collaborations with local governments have merits including efficiently facilitating activities to secure candidate sites and to recruit people with disabilities as prospective workers.

Work Happiness Farms (As of the end of November 2024)

Location	Name	No. of farms
Chiba	Ichihara No. 1 and No. 2 farms, Mobara No. 1 and No. 2 farms, Chiba Wakaba No. 1 and No. 2 farms, Funabashi No. 1, No. 2, and No. 3 farms, Kashiwa No. 1, No. 2, and No. 3 farms, Chiba Hanamigawa farm, Matsudo farm, Chiba Yachiyo farm, Ichikawa farm, Chiba Noda farm, Chiba Inzai farm	18
Saitama	Saitama Iwatsuki No. 1 and No. 2 farms, Saitama Kawagoe No. 1, No. 2, and No. 3 farms, Saitama Koshigaya No. 1 and No. 2 farms, Saitama Urawa No. 1 and No. 2 farms, Saitama Iruma farm, Plus Saitama Misato farm, Saitama Omiya farm	12
Aichi	Aichi Toyoake farm, Aichi Miyoshi farm, Aichi Kasugai farm, Aichi Komaki No. 1 and No. 2 farms, Aichi Tokai farm, Plus Nagoya No. 1 and No. 2 farms, Aichi Nagakute farm, Aichi Toyota farm	10
Osaka	Plus Osaka Settsu farm, Osaka Hirakata farm, Plus Osaka No. 1 and No. 2 farms, Osaka Daito farm, Plus Higashiosaka farm	6
Tokyo	Plus Tokyo Itabashi No. 1 and No. 2 farms, Plus Tokyo East farm, Plus Toyosu farm, Plus Tokyo Tachikawa farm	5
Kanagawa	Plus Yokohama No. 1 and No. 2 farms	2

Note: Indoor farms include the word "Plus" in their name. Red text indicates farms opened in FY11/24.
Source: Prepared by FISCO from the Company's IR news release

Under the basic business model, the Company builds a vinyl greenhouse farm on leased land of around 1,000 m^2, divides it into around 150–180 plots, and sells hydroponic equipment for each plot to contracting companies. It also provides human resource referrals for the people with disabilities and managers who work on the farm. It sells six plots (including the referral of three people with disabilities and one manager) as one package. It is a hybrid business model combining transactional revenue and recurring revenue models. The hydroponic equipment was being sold at approximately ¥1.5mn per plot (approximately ¥1.8mn for indoor farms), but after considering commodity price increases, the Company increased its prices by approximately 7% in FY11/24. Human resource referral fees (average of ¥600,000 for people with disabilities and ¥500,000 for managers) were also increased by the same degree. Operations management fees vary by location, averaging around ¥50,000/month/plot (¥65,000/month/plot for indoor plots).

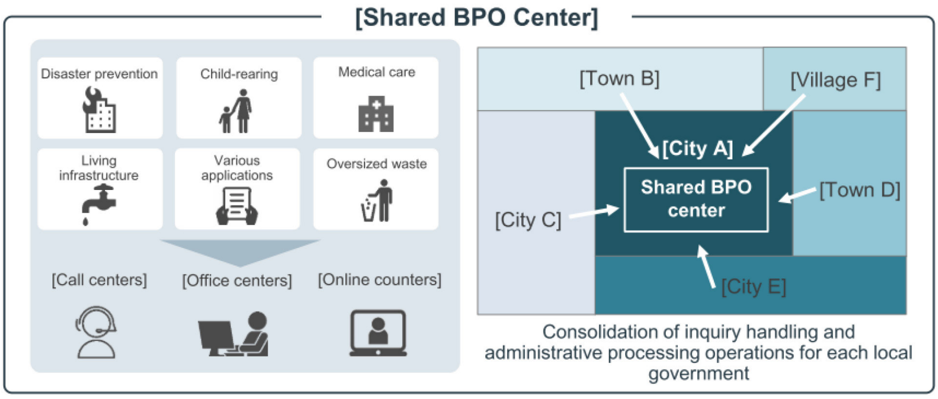
Supposing that at the beginning of the fiscal year one outdoor farm (150 plots) is sold, net sales for that fiscal year would total ¥390mn, comprised of hydroponic equipment sales of ¥240mn, human resource referral fees of ¥60mn, and operations management fees of ¥90mn. Conversely, the amount invested in equipment would be approximately ¥250mn (such as the vinyl greenhouse and vehicles, depreciation periods range from 4–14 years). In the first fiscal year sales, transactional revenue, which has a high profit margin, is recorded, so the contribution to profits is high. But from the second fiscal year onwards, the profit margin lowers because transactional sales end, but depreciation and amortization costs and maintenance costs remain. The operating profit margin for FY11/24 was approximately 34%, but looking only at recurring sales, it appears to be in the 10% level. In the case of indoor farms, capital expenditure is around ¥350mn–450mn, while fixed costs such as electricity charges and lease fees are higher than outdoor farms. There is therefore a risk that the profit margin can be low for the short term depending on the progress of sales after the farm opens.

The employment retention rate is higher than general companies at approximately 92% (one year after recruitment), which is one of the advantages of the Company's services. The Company works to provide a working environment where employees can work comfortably, and it is highly rated by customer companies, employees and their families. Thirteen companies cancelled their contracts in FY11/24, but in all cases, the reasons were due to the customer (poor business performance, change in operating structure, etc.). For plots made empty by the cancelled contracts where the hydroponic equipment is in good condition, the Company resells it at a discounted price from the regular price to new customer companies. For human resource referral fees, the employees who worked at the companies cancelling contracts are referred to the new customer companies to continue working, and no referral fee is collected. In terms of the effect on profits, resales of hydroponic equipment contribute more to profits than the referral fees, so it seems that the profit margin slightly increases in the case of reselling plots after a contact cancellation.

(2) Wide-area administrative BPO services

Wide-area administrative BPO services are provided by the subsidiary S-Pool Glocal, Inc., and were launched in FY11/21. Targeting small local governments with populations of 200,000 or loss, the distinctive feature of the services is shared services, in which multiple local governments receive resident services in bulk (such as handling inquiries and processing services for payments and My Number Card applications, etc.), which have previously been conducted separately by each local government. The company establishes administrative satellite counters in convenient locations such as large-scale shopping centers, and offers both in-person and online responses by installing information terminals. Under this business model, each location is able to capture annual revenues of between ¥100mn–¥150mn (approximately 30 employees), with an operating profit margin that enables it to capture around 30% of this amount. Currently, short-term spot projects make up the majority of sales, and profitability tends to vary depending on how these sales are trending. However, in the future, the company's strategy is to stabilize its profitability by making regular work for local governments the main component of sales. As of the end of FY11/24, the company had opened 21 BPO centers nationwide.

Diagram of shared BPO centers



Source: The Company's results briefing materials

Areas where BPO centers are established

Operation start	Local government	Planned number of employees
2021	Kitami (Hokkaido)	15
August 2021	Daisen (Akita)	50
September 2021	Hirosaki (Aomori)	50
February 2022	Mitoyo (Kagawa)	30
February 2022	Nakatsu (Oita)	30
March 2022	Kahoku (Ishikawa)	40
March 2022	Mutsu (Aomori)	40
May 2022	Iwakuni (Yamaguchi)	40
October 2022	Sapporo (Hokkaido)	15
November 2022	Minamisoma (Fukushima)	40
November 2022	Komatsu (Ishikawa)	40

Operation start	Local government	Planned number of employees
March 2023	Nagahama (Shiga)	40
March 2023	Tanabe (Wakayama)	35
April 2023	Shima (Mie)	30
May 2023	Takeo (Saga)	30
May 2023	Iizuka (Fukuoka)	30
May 2023	Ofunato (Iwate)	30
May 2023	Hamada (Shimane)	25
May 2023	Uozu (Toyama)	30
October 2023	Kobe (Hyogo)	40
July 2024	Ginowan (Okinawa)	20

Source: Prepared by FISCO from the Company's IR news release

(3) Environmental management support services

Environmental management support services are operated by the subsidiary S-Pool Blue Dot Green, Inc. They include consulting services for carbon offset support and CO_2 emission calculation and credit* brokerage services. In 2020, at the time when the company was made a subsidiary, credit brokerage services accounted for the majority of sales; however, with the subsequent introduction of a requirement for listed companies to disclose information regarding their SDGs initiatives, the company saw a surge in demand for consulting services, such as support for responding to the Carbon Disclosure Project (CDP) and support for providing disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD), and consulting services grew to make up the majority of sales.

* Credit refers to the purchasing of credits from the markets by companies whose CO_2 emissions reductions are insufficient, to make up for their reduction shortfall, by creating the right to emit a certain volume of greenhouse gases (GHGs).

CDP is a non-profit organization based in the United Kingdom which surveys and evaluates companies' environmental activities (GHG emissions reduction and climate change initiatives, etc.), then publishes the data for stakeholders. Many of the world's investors utilize CDP information when investing in ESG-related stocks. CDP sends out an annual questionnaire to companies that it surveys on themes such as climate change, water security, and forests, then scores the responses and publishes them. In Japan, the questionnaire was sent to 500 listed companies in 2021 and then expanded the target for sending questionnaires to all companies* listed on the Tokyo Stock Exchange (TSE) Prime Market in 2022, and also to small and medium-sized enterprises from 2024. The scoring operation is conducted by partner companies trained by CDP, and S-Pool Blue Dot Green is also a scoring partner. The company also operates consulting services for assisting companies to answer the questions appropriately, with a sales unit price of approximately ¥2mn per company.

* Approximately 2,000 companies responded to the questionnaire in Japan in 2023.

Meanwhile, TCFD refers to a framework for companies to disclose financial information regarding the impacts of their initiatives on climate change. Companies listed on the Prime Market of the TSE have been effectively obliged to disclose governance and risk management systems in their annual securities reports since FY2022, and it has been recommended that they also disclose their climate change-related strategies, metrics, and targets. This has created demand for disclosure support services (six-month contract period, ¥5mn).

In FY11/24, S-Pool Blue Dot Green utilized its knowledge to launch a decarbonization support service for local governments. The service provides support for local governments in calculating their greenhouse gas emissions and drafting and executing road maps for reducing them. It also promotes environmental activities to local residents and business operators. The company enters comprehensive cooperation agreements and so forth with local governments while working to realize a decarbonized society and to resolve social issues facing local communities.

(4) Logistics outsourcing services

In logistics outsourcing services, which are provided by the subsidiary S-Pool Logistics, Inc., product shipment agency services, mainly for e-commerce businesses, are operated at two locations: the Shinagawa Center (Minato Ward, Tokyo, opened February 2018, 7,273 m^2), and the Nagareyama Center (Nagareyama City, Chiba Prefecture, opened August 2023, 11,620 m^2).

(5) Employment support services

In employment support services, the subsidiary S-Pool Link, Inc., provides OMUSUBI agency services, including receiving applications and arranging interviews, primarily for part-time workers, mainly for the restaurant, retail, and delivery industries. In October 2017, the Company began a business cooperative agreement with TSUNAGU SOLUTIONS Inc. (currently TSUNAGU GROUP HOLDINGS Inc. <6551>). In this agreement, TSUNAGU SOLUTIONS is mainly responsible for the recruitment agency services and the Company is responsible for part-time job application reception services through its call centers (five locations).

By providing agency services for the process relating to, for example, interviews of part-time workers, and receiving results-based remuneration (number of interviews arranged × fee), customer companies are able to reduce their help wanted advertising costs compared to the past and improve their employment efficiency. The fee is about ¥1,000 per interview arranged. Although unit prices for results-based remuneration are decreasing recently due to the advance of automation through the use of AI, an increase in productivity has driven the operating profit margin up to nearly 20%. S-Pool Link also provides online interview services, which account for around 10% of its revenue.

(6) Sales support services and other

Sales support services, which are provided by the subsidiary S-Pool Sales Support, Inc., mainly comprise face-to-face sales promotion support services for sales promotions at commercial facilities, such as for credit cards and home water deliveries; and operations support for various types of campaigns and promotions. In addition, it operates the TAKUWIL professional human resource utilization service, which dispatches or refers human resources, such as qualified personnel who have expertise and officer-class experience in mainly listed companies, to SMEs and venture companies, and it is also developing new businesses.

2. Human Resources Solutions Segment

In the Human Resources Solutions Segment, the subsidiary S-Pool Human Solutions, Inc. mainly provides temporary staffing services for the call center business and over-the-counter sales support business, such as for mobile phones and consumer electronic appliances. For the composition of the segment's net sales in FY11/24, the call center business provided approximately 81% and over-the-counter sales support services around 12%, while the remainder was provided by other temporary staffing services (dispatches of construction, hotel, and airport staff). The Company has opened nine offices in major cities in Japan, from Hokkaido to Okinawa.

Its main customers for the call center business include Bellsystem 24 Holdings, Inc. <6183>, Relia, Inc., and transcosmos inc. <9715>. For over-the-counter sales support business, its main customers include major mobile phone sales agencies, such as CONEXIO Corporation, and major consumer electronics retailers, like Yamada Holdings Co., Ltd. <9831>.

Results trends

Despite a slight decrease in sales for FY11/24, the Company managed to secure an increase in operating profit

1. Overview of FY11/24 results

In consolidated results for FY11/24, revenue was down 0.9% YoY to ¥25,554mn, operating profit was up 0.2% to ¥2,783mn, profit before tax was down 3.0% to ¥2,569mn, and profit attributable to owners of parent was up 21.4% to ¥2,099mn. The Company secured a modest increase in profit at the operating profit level as strong performance in the Business Solutions Segment, mainly in special needs employment services, covered a continuing downturn in the Human Resources Solutions Segment, including a third consecutive period of decreases in sales and profits. Profit attributable to owners of parent increased as the recording of approximately ¥400mn in deferred tax assets offset a decrease in profit before tax due to an increase in finance costs. Compared to the Company's plan, revenue was lower by 5.6%, due to lower-than-planned results in human resource outsourcing services and logistics outsourcing services, despite higher-than-planned results for all of the three core businesses (special needs employment services, wide-area administrative BPO services, and environmental management support services). Operating profit exceeded the plan by 1.2% as higher-than-planned results in the three core businesses covered the shortfall in revenue.

Consolidated results for FY11/24

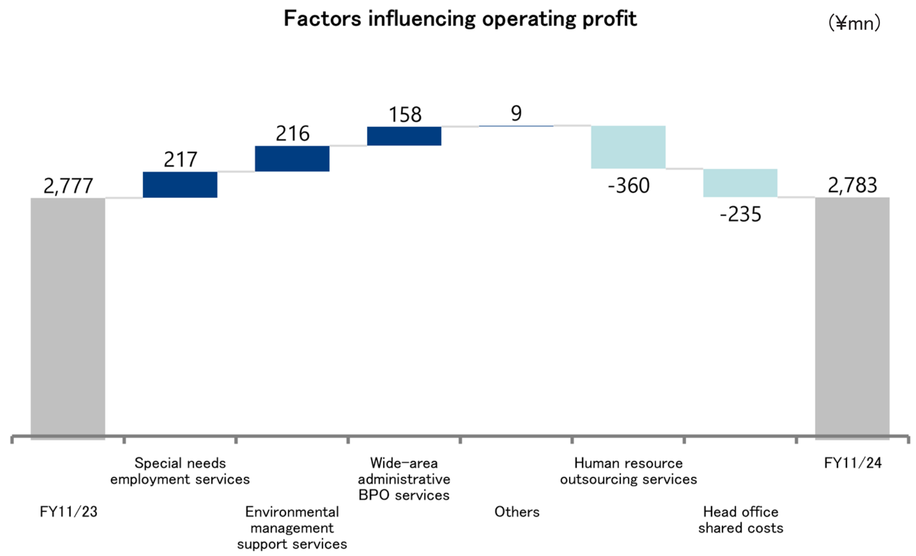
(¥mn)

	FY11/23		FY11/24				
	Results	vs. revenue	Forecast	Results	vs. revenue	YoY	vs. forecast
Revenue	25,784	-	27,060	25,554	-	-0.9%	-5.6%
Gross profit	8,907	34.5%	9,625	9,454	37.0%	6.1%	-1.8%
SG&A expenses	6,223	24.1%	6,875	6,709	26.3%	7.8%	-2.4%
Operating profit	2,777	10.8%	2,750	2,783	10.9%	0.2%	1.2%
Profit before tax	2,649	10.3%	2,726	2,569	10.1%	-3.0%	-5.7%
Profit attributable to owners of parent	1,730	6.7%	1,829	2,099	8.2%	21.4%	14.8%

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

The gross profit margin increased from 34.5% in the previous fiscal year by 2.5 percentage points (pp) to 37.0% due to an increase in the revenue composition ratio of the high profitability special needs employment services and environmental management support services. On the other hand, the SG&A expense ratio also increased from 24.1% to 26.3%. In monetary terms, SG&A expenses increased by ¥485mn, however, this was mainly due to an increase in personnel expenses (up ¥340mn).

Looking at the main influencing factors for operating profit, the increase factors were ¥217mn in special needs employment services, ¥216mn in environmental management support services, and ¥158mn in wide-area administrative BPO services. On the other hand, decreasing factors were ¥360mn in human resource outsourcing services and ¥235mn in head office shared costs.



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

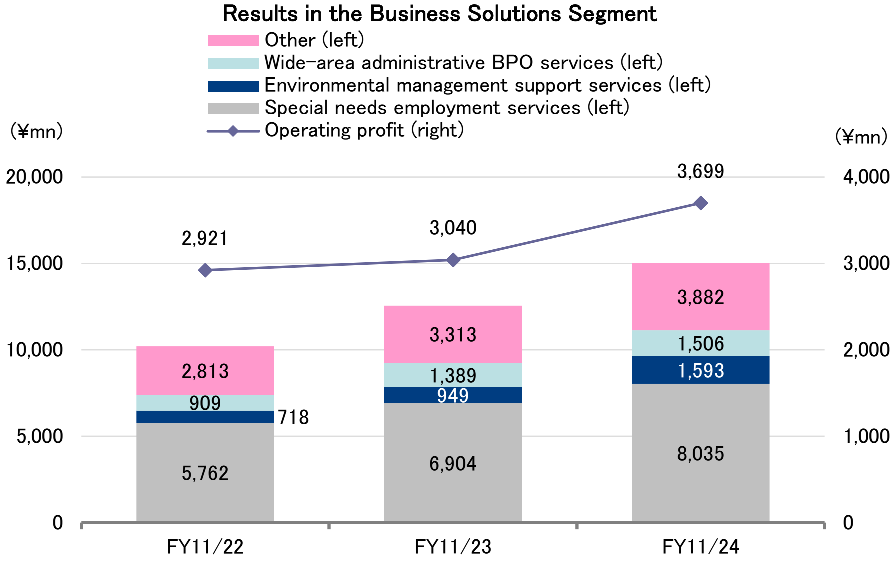
12th consecutive fiscal year of double-digit sales increases in the Business Solutions Segment

2. Trends by business segment

(1) Business Solutions Segment

The Business Solutions Segment recorded new record high results with revenue increasing 19.6% to ¥15,016mn and operating profit increasing 21.7% to ¥3,699mn. Revenue recorded double-digit growth for a 12th consecutive fiscal year. Almost all businesses recorded higher sales and profits, with the exception of logistics outsourcing, and results were driven particularly by special needs employment services, wide-area administrative BPO services, and environmental management support services, which have been positioned as the three core businesses.

Results trends



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

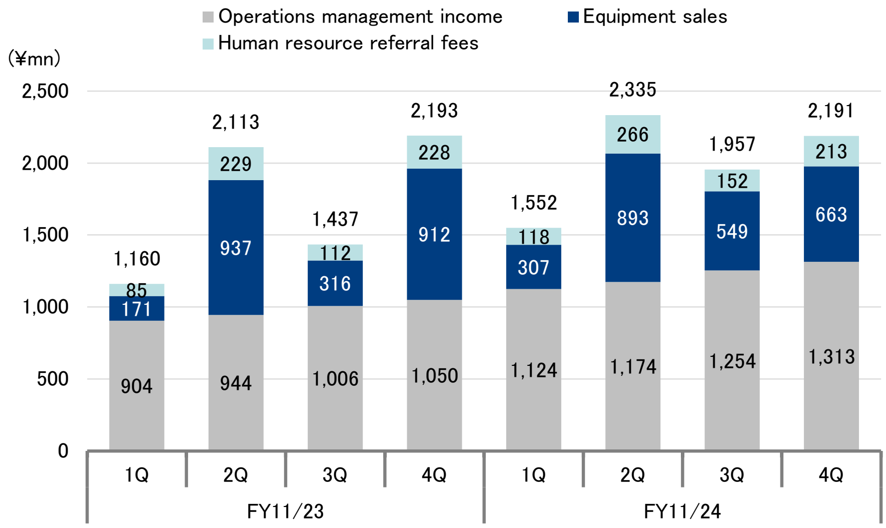
a) Special needs employment services

Special needs employment service revenue continued double-digit growth, increasing 16.4% YoY to ¥8,035mn, while operating profit was approximately ¥2.7bn (approximately ¥2.5bn in the previous fiscal year). The operating profit margin declined from approximately 36% in the previous fiscal year to approximately 34%, mainly due to changes in the compositional ratio of revenue (increase in the compositional ratio of farm management fees, which are recurring sales) and an increase in depreciation expense (up by approximately ¥700mn). Revenue and operating profit both achieved the plan, as a price hike (about 7%) for hydroponic equipment and human resource referral fees in 2H absorbed a lower-than-planned number of equipment sales plots, at 1,398 plots compared to a planned 1,450 plots, mainly due to the impact of sales being recognized in a later period.

Looking at the breakdown of revenue, equipment sales increased 3.2% YoY to ¥2,413mn, operations management income increased by 24.6% to ¥4,867mn, and human resource referral fees grew 14.7% to ¥751mn. Seven new farms (four outdoor and three indoor) were opened, but the number of sales plots saw a downturn for the first time since the service started, declining 3.3% to 1,398 plots. The factor behind the shortfall in the number of sales plots was an inability to meet demand for referrals, including filling positions vacated by retirees, in the face of additional orders from existing customers (approximately 30–40% of the total) and vigorous inquiries from new customers following an increase in the statutory rate for employees with disabilities at companies from 2.3% to 2.5% in April 2024. The annual turnover rate remained low at 8%; however, the number of retirees is also increasing as the number of managed plots increases, and the Company prioritized filling positions vacated by retirees at existing customers. The number of referrals of people with disabilities increased by around 20% from over 800 in the previous fiscal year to over 1,000.

Due to the impact of suppressing new sales, the number of new contracting companies decreased from 106 companies in the previous fiscal year to 69 companies. At the fiscal year-end, the number of contracting companies was up by 58 from the previous fiscal year-end to 664 companies, and the number of operations management plots at the fiscal year-end had increased 16.7% to 8,809 plots. The unit sales amount for operations management fees was increased by around 5%, but the main factor was an increase in the ratio of indoor farms, which have a high unit price. In addition, at the end of FY11/24, the backlog of orders stood at around 570 plots, a slight decrease from around 580 plots at the end of the previous fiscal year; however, it remains at a high level and the Company has not changed its assessment that strong demand continues.

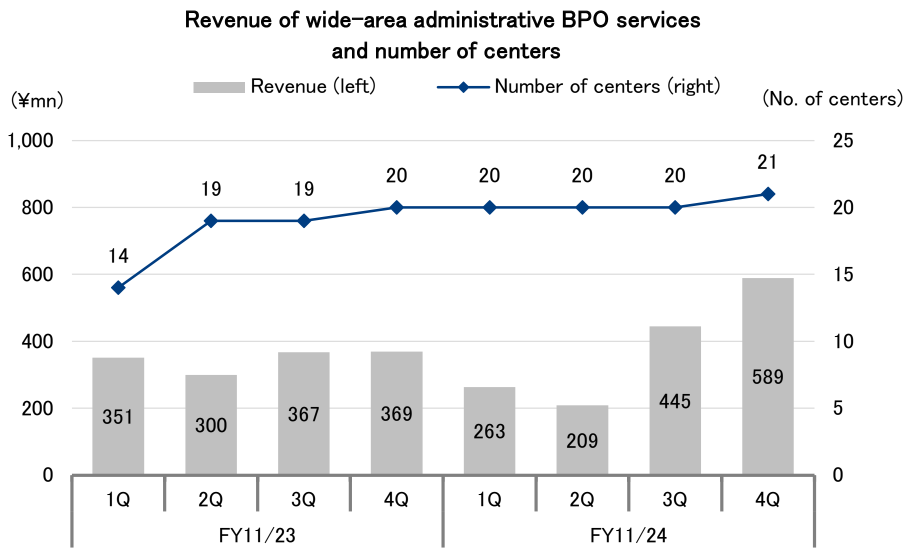
Revenue of special needs employment services



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

b) Wide-area administrative BPO services

In wide-area administrative BPO services, revenue increased 8.4% YoY to ¥1,506mn, and operating profit exceeded the Company's plan slightly at about ¥150mn (operating loss of ¥5mn in the previous fiscal year). During 1H, operating losses of around ¥200mn were recorded due to the impact of spot operations such as COVID-19- and My Number-related operations either contracting or terminating. In 2H, the Company started fixed-amount tax reduction-related operations, and revenue recovered, while efforts to control SG&A expenses such as system revisions also contributed to improved earnings. On a quarterly basis, sales in 4Q marked a new record high at ¥589mn. Moreover, the Company opened a new BPO center in Ginowan (Okinawa Prefecture, opened July 2024), increasing the number of centers at the end of the fiscal year by 1 YoY to 21 centers.

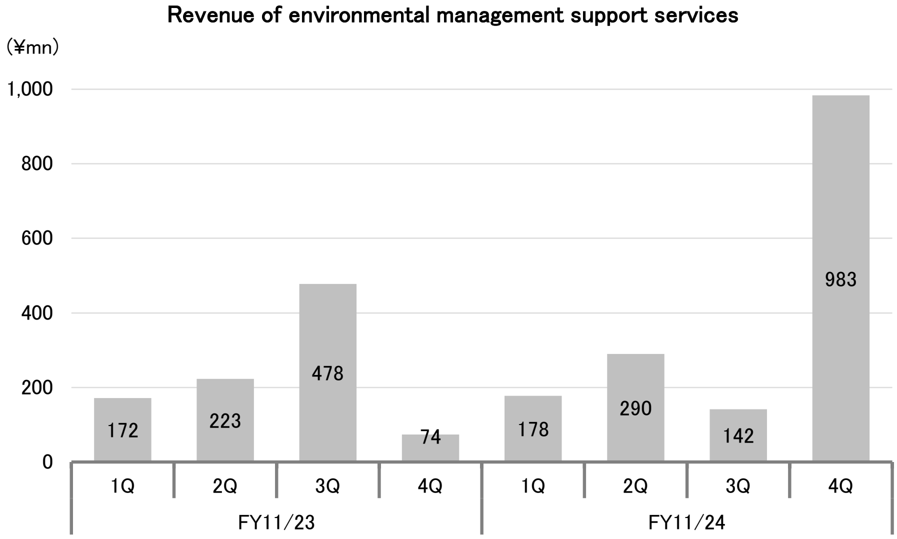


Source: Prepared by FISCO from the Company's results briefing materials

c) Environmental management support services

In environmental management support services, sales and profits increased to surpass the Company's plan (revenue ¥1,430mn and operating profit approximately ¥600mn), with revenue increasing 67.8% YoY to ¥1,593mn and operating profit of approximately ¥700mn (approximately ¥500mn in the previous fiscal year). In CDP response support services for listed companies, the number of companies placing orders increased by a factor of 1.5 from 167 companies in the previous year to 250 companies. In addition, greenhouse gas emission calculation services and so forth also performed strongly. The newly launched decarbonization support service for local governments also performed favorably, utilizing Group synergies to win orders from over 50 local governments (of which the Company has concluded comprehensive cooperation agreements with 18).

Revenue from sales to companies increased 37.9% YoY to ¥1,309mn, while revenue from sales to local governments was ¥283mn. On a quarterly basis, revenue was concentrated in 4Q, at ¥983mn, but this mainly reflected the concentration of timing for recognizing sales of CDP response support services, which make up over 70% of sales to companies, in 4Q, when the delivery deadlines are concentrated (in the previous year, delivery deadlines were in 3Q.)



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

d) Other

In logistics outsourcing services, revenue decreased 9.5% YoY to ¥1,331mn and operating profit was approximately ¥20mn (approximately ¥80mn in the previous fiscal year), falling below the Company's plan. Revenue decreased by ¥124mn due to the impact of withdrawing from logistics center operation agency services, while e-commerce shipment agency services also saw a 1.1% decrease in revenue due to the impact of effort invested in the start of operations at the Nagareyama Center, which was established in August 2023. On the profit front, profit decreased, mainly due to a decrease in productivity associated with the large number of inexperienced workers at the start of operations of the Nagareyama Center as well as an increase in personnel expenses. Although most of the issues with the center's operations were resolved in 2Q; the operating profit margin in 2H remained low at around 4% and remains a challenge to be addressed.

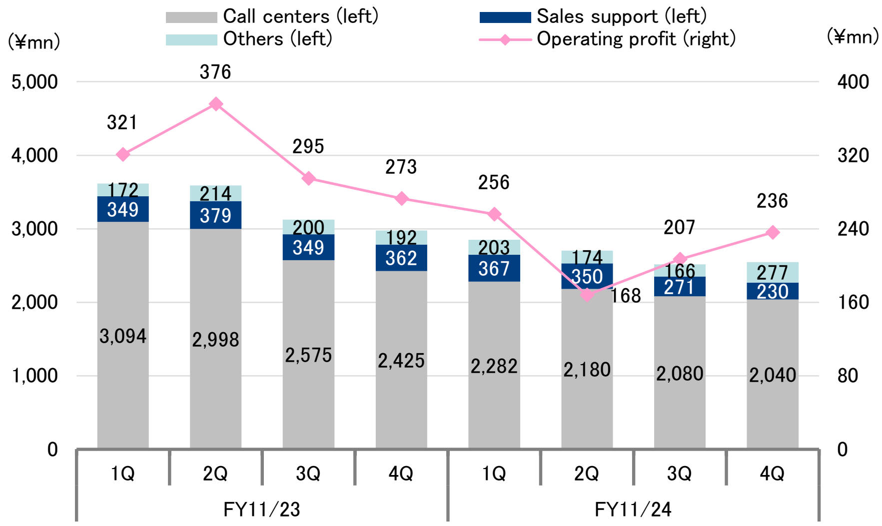
In employment support services, revenue grew 10% YoY to ¥787mn, boosted by expansion in demand for part-time workers in the service sector (restaurants, retail, etc.), while operating profit reached a new record high at approximately ¥140mn (approximately ¥100mn in the previous fiscal year). The use of AI has caused a decline of over 10% in the sales unit price per job, but an increase in the number of jobs has covered the impact. Furthermore, online interview services, which account for approximately 10% of revenue, have grown steadily, with a double-digit increase in sales. Operating profit margin has also increased by almost 20% due to an increase in productivity driven by the use of AI. The number of customer companies at the end of the fiscal year stood at 215 companies, an increase from 168 companies at the end of the previous fiscal year.

Sales support service revenue marked a new record high, increasing 44.9% YoY to ¥1,166mn, mainly due to the effect of opening new offices (Fukuoka and Sapporo) and receiving an order for a large campaign, as well as steady expansion of a newly launched joint service with Bellsystem 24 Holdings, Inc. On the other hand, operating profit stayed level YoY, remaining at about ¥100mn, partly due to up-front investment such as establishing offices and strengthening the human resource structure.

(2) Human Resources Solutions Segment

In the Human Resources Solutions Segment, sales and profits decreased YoY for a third consecutive year, with revenue down 20.2% YoY to ¥10,620mn and operating profit down 31.5% to ¥867mn. Both results were also lower than the Company's plan (revenue ¥12,325mn, operating profit ¥1,120mn). The main factors were a decrease in revenue of the mainstay call center staffing service, falling 21.8% to ¥8,583mn, as sales did not recover, with low levels of new projects after the termination of COVID-19-related services, as well as lackluster activity in the sales support business, with revenue decreasing 15.3% to ¥1,220mn due to low levels of demand in the core operation of temporary staffing services for mobile phone shops. Other operations saw a 5.1% increase to ¥817mn, partly reflecting the launch of temporary staffing service for the construction industry (construction managers, construction CAD operators, etc.) in 4Q.

Results of Human Resources Solutions Segment



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

Upfront investment period for special needs employment services and others expected to continue for another one to two years

3. Financial position and management indicators

Looking at the financial position at the end of FY11/24, total assets were up ¥6,335mn compared to the end of the previous fiscal year to ¥39,714mn. Examining the main influencing factors, in current assets, cash and cash equivalents increased by ¥436mn while trade and other receivables increased by ¥1,037mn due to expansion of revenue in the Business Solutions Segment. In addition, in non-current assets, property, plant and equipment increased by ¥2,087mn, and right-of-use assets by ¥2,404mn, mainly due to the opening of new farms and the expansion of existing farms.

Total liabilities increased by ¥5,002mn compared to the end of the previous fiscal year to ¥29,887mn. Lease liabilities (non-current liabilities) increased by ¥2,068mn due to the leasing of land and buildings, mainly in conjunction with the opening of new farms, while interest-bearing debt increased by ¥1,734mn and trade and other payables by ¥374mn. Total equity increased by ¥1,332mn from the end of the previous fiscal year to ¥9,826mn. Retained earnings increased due to the recording of profit attributable to owners of parent of ¥2,099mn, despite payment of dividends of ¥790mn.

Looking at the status of cash flows, operating activities provided net cash of ¥5,071mn, an increase of ¥973mn YoY. Depreciation and amortization increased by ¥781mn, and income taxes paid decreased by ¥322mn, absorbing a decrease of ¥80mn in profit before tax. Investing activities used net cash of ¥3,393mn, a decrease of ¥1,178mn. This mainly reflected a decrease in purchase of property, plant and equipment, mainly associated with new farm construction, from ¥4,171mn to ¥3,264mn. As a result, free cash flow was positive ¥1,678mn. Financing activities used net cash of ¥1,242mn (net cash of ¥640mn provided in the previous fiscal year), primarily for payment of dividends of ¥787mn and for repayment of lease liabilities.

Management indicators showed a moderate deterioration in the Company's financial position. The ratio of equity attributable to owners of parent to total assets, an indicator of management stability, declined slightly from 25.5% at the end of the previous fiscal year to 24.8%, while the interest-bearing debt ratio rose from 88.4% to 94.1% due to an increase in borrowings. Net cash (cash and cash equivalents – interest-bearing debt) was negative ¥5,437mn, and the negative amount of net cash has been increasing over the past few fiscal years. This is mainly due to a lengthening of the fund recovery period due to a rapid increase in the amount of capital investment accompanying an increase in the number of indoor farm facility openings. The Company is expected to be weighed by the investment burden for another one to two years, before the cash flow situation begins to improve with the accumulation of farm management fees.

With regard to profitability, the operating profit margin increased slightly from 10.8% in the previous fiscal year to 10.9%, with ROE increasing from 21.7% to 22.9%. The main factor was an increase in the compositional ratio of highly profitable special needs employment services and environmental management support services within the Business Solutions Segment. For the medium term, these highly profitable businesses are expected to grow, and we at FISCO therefore expect that the operating profit margin is highly likely to increase gradually going forward.

Consolidated balance sheet

(¥mn)

	End- FY11/23	End- FY11/24	Change
Current assets	7,125	8,777	1,652
Cash and cash equivalents	3,378	3,814	436
Non-current assets	26,254	30,937	4,683
Total assets	33,379	39,714	6,335
Total liabilities	24,885	29,887	5,002
Interest-bearing debt	7,517	9,251	1,734
Total equity	8,494	9,826	1,332

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

Cash flow statements

(¥mn)

	FY11/23	FY11/24	Change
Cash flows from operating activities	4,097	5,071	973
Cash flows from investing activities	-4,572	-3,393	1,178
Free cash flows	-475	1,678	2,153
Cash flows from financing activities	640	-1,242	-1,882
Cash and cash equivalents at end of period	3,378	3,814	436

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

Management indicators

	FY11/23	FY11/24	YoY
Ratio of equity attributable to owners of parent to total assets	25.5%	24.8%	-0.7pp
Interest-bearing debt ratio	88.4%	94.1%	5.7pp
Net cash (¥mn)	-4,139	-5,437	-1,298
ROE	21.7%	22.9%	1.2pp
Ratio of operating profit to revenue	10.8%	10.9%	0.1pp

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

Outlook

Revenue for FY11/25 is forecast to reach a record high, while operating profit is also expected to show a double-digit increase

1. FY11/25 forecasts

The outlook for FY11/25 consolidated results is for revenue to increase 5.0% YoY to ¥26,828mn, operating profit to increase 10.4% to ¥3,074mn, profit before tax to increase 9.1% to ¥2,804mn, and profit attributable to owners of parent to decrease 9.2% to ¥1,907mn. The normalization of the tax burden is expected to cause a decrease in profit attributable to owners of parent; however, revenue is forecast to reach a new record high for the first time in three years, and operating profit and profit before tax are also expected to increase. The three core businesses (special needs employment services, wide-area administrative BPO services, and environmental management support services) will continue to drive earnings. SG&A expenses are set to increase 9.1%, mainly for personnel expenses and lease fees, but the operating profit margin is forecast to rise from 10.9% in FY11/24 to 11.5% due to the effect of higher sales and changes in the composition of sales.

Since sales for wide-area administrative BPO services and environmental management support services will concentrate in 2H again, as in FY11/24, the Company's earnings will be skewed toward 2H. For 1H, revenue is expected to maintain an upward trend, increasing 1.8% YoY to ¥12,313mn; but operating profit is forecast to decrease 32.3% to ¥502mn, mainly due to an increase in the depreciation expense burden. For 2H, revenue is expected to increase 7.8% to ¥14,515, and operating profit to increase 26.0% to ¥2,572mn.

Consolidated outlook for FY11/25

(¥mn)

	FY11/24 Full year results	FY11/25			
		1H forecast	2H forecast	Full year forecast	YoY
Revenue	25,554	12,313	14,515	26,828	5.0%
Gross profit	9,454	4,119	6,187	10,306	9.0%
SG&A expenses	6,709	3,662	3,660	7,322	9.1%
Operating profit	2,783	502	2,572	3,074	10.4%
Profit before tax	2,569	367	2,437	2,804	9.1%
Profit attributable to owners of parent	2,099	250	1,657	1,907	-9.2%
Earnings per share (¥)	26.58	3.16	20.98	24.14	

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

Outlook for 13th consecutive fiscal year of double-digit sales increases in the Business Solutions Segment

2. Outlook by business segment

Results by segment

(¥mn)

	FY11/24 Results	FY11/25 Forecast	YoY
Revenue by segment			
Business Solutions Segment	15,016	16,908	12.6%
Special needs employment services	8,035	9,000	12.0%
Wide-area administrative BPO services	1,506	1,750	16.2%
Environmental management support services	1,593	1,840	15.5%
Logistics outsourcing services	1,331	1,280	-3.8%
Employment support services	787	875	11.1%
Sales support services	1,166	1,430	22.6%
Other	598	733	22.6%
Human Resources Solutions Segment	10,620	10,100	-4.9%
Internal eliminations	-81	-180	-
Total	25,554	26,828	5.0%
Operating profit by segment			
Business Solutions Segment	3,699	4,229	14.3%
Human Resources Solutions Segment	867	795	-8.3%
Internal eliminations	-1,783	-1,950	-
Total	2,783	3,074	10.4%
Operating profit margin by segment (%)			
Business Solutions Segment	24.6	25.0	0.4pp
Human Resources Solutions Segment	8.2	7.9	-0.3pp
Total	10.9	11.5	0.6pp

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

(1) Business Solutions Segment

In the Business Solutions Segment, the forecasts are for double-digit increases in sales and profits with revenue increasing 12.6% YoY to ¥16,908mn and operating profit increasing 14.3% to ¥4,229mn. The forecasts for the main services are as follows.

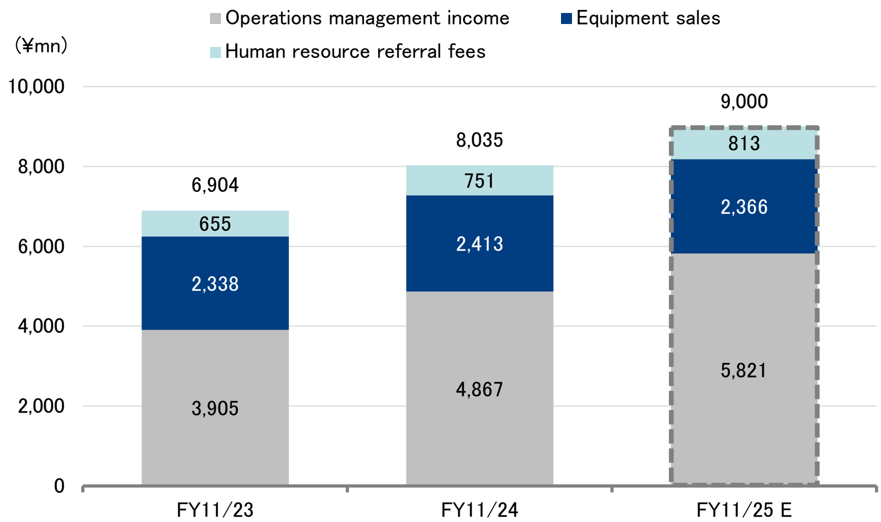
a) Special needs employment services

Special needs employment service revenue is expected to increase 12.0% YoY to ¥9,000mn, with operating profit increasing by a high single digit to approximately ¥2.9bn. The operating profit margin is forecast to fall from approximately 34% to approximately 32%; however, this is mainly due to sales composition changes and increased depreciation expenses. Breaking down revenue, equipment sales are forecast to decrease 1.9% YoY to ¥2,366mn, operations management income to increase 19.6% to ¥5,821mn, and human resource referral fees to increase 8.3% to ¥813mn.

With regard to equipment sales, the Company will open six new farms (two outdoor, four indoor; two each in Kanagawa and Osaka, one each in Tokyo and Saitama), and the number of sales plots is forecast to continue decreasing YoY again as in FY11/24, falling 7.0% to 1,300 plots. The reason for this is that in FY11/25, the Company's policy is to prioritize countermeasures to fill staff shortages at existing farms following retirements (strengthen recruiting, reduce retirements), and to temporarily suppress new sales. In the three main urban areas, it is becoming more difficult to recruit enough people with disabilities to meet demand, so from 2026 onward the Company will also make preparations in parallel to expand the service area to seven main urban areas and regional cities.

Looking at the number of sales plots by quarter, the forecast is for 1Q: 275–325 plots, 2Q: 325–375 plots, 3Q: 250–300 plots, and 4Q: 350–400 plots. If there are no cancellations, the number of operations management plots at the end of the fiscal year is expected to increase 14.8% from the end of FY11/24 to 10,109 plots. Inquiries continue to be strong as in FY11/24, and the Company is expected to be able to achieve its plan as long as recruitment of people with disabilities continues smoothly.

Revenue of special needs employment services



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

b) Wide-area administrative BPO services

In wide-area administrative services, revenue is expected to increase 16.2% YoY to ¥1,750mn, and operating profit to achieve a double-digit increase to approximately ¥320mn. As in FY11/24, national projects will concentrate in 2H, so that the sales plan is skewed toward 2H (1H ¥500mn, 2H ¥1,250mn). Three or four national projects are expected, including the fixed-amount tax reduction-related operations that were ordered in FY11/24. Of these, just two projects are estimated at over ¥1.0bn, leaving ample possibility for exceeding the plan if all projects are ordered. Since the service was launched, the number of local government clients has increased to just under 400. The Company will also focus on capturing orders for regular work at these local governments. In terms of new BPO centers, the Company has decided to start operation of a center in Ube City (Yamanashi Prefecture) in spring of 2025 and is examining the opening of another one or two centers.

c) Environmental management support services

In environmental management support services, revenue is expected to increase 15.5% YoY to ¥1,840mn, and operating profit to increase by 13% to approximately ¥800mn. Of this, sales to companies are expected to increase 17.5% to ¥1,540mn, and sales to local governments to increase 5.7% to ¥300mn. In sales to companies, the Company will work to increase the number of contracting companies for CDP response support services, which have a continuity rate of 80%, and will work to cross sell this and other services to 550 existing customers. Meanwhile, in sales to local governments, the Company expects to receive stable sales centered on local government with which it has entered comprehensive cooperation agreements. In FY11/25, the deadline for CDP response is in 3Q, so the Company is also planning to see revenue skewed toward 3Q at ¥900mn.

d) Other

In logistics outsourcing services, revenue is expected to decline by 3.8% YoY to ¥1,280mn, and operating profit is conservatively expected to be at break-even point. The revenue forecast factors in the negative impact (approximately ¥100mn) of a transaction with a major customer ending in January 2025. If the logistics centers (Shinagawa and Nagareyama) operate at full capacity, they can be expected to generate monthly sales of ¥150mn; however, for now the Company will conduct sales activities with a focus on profit, and will undertake a full restructure with a view to improving profitability.

In employment support services, revenue is expected to increase by 11.1% YoY to ¥875mn and operating profit to increase at the single-digit level to approximately ¥150mn. The part-time job application reception service is expected to increase its price competitiveness through the utilization of AI, while increasing sales by developing new customers. In addition, the Company will promote sales of packages with closely-related interview services and cross-selling to existing customers.

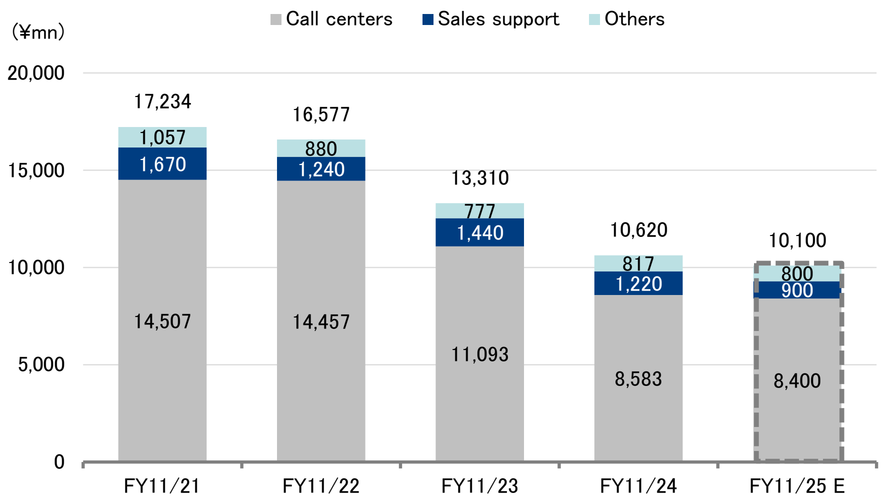
In sales support services, revenue is expected to increase 22.6% YoY to ¥1,430mn and operating profit to increase by 50% to approximately ¥150mn. Transactions with major customers are expected to make progress due to opening new offices in the previous fiscal year, and the Company expects to acquire new customers through its collaboration with Bellsystem 24. Real-world sales promotion campaign projects are increasing, including for national clients, and the Company's policy is to continue proactively taking orders.

(2) Human Resources Solutions Segment

In the Human Resources Solutions Segment, revenue is expected to decrease by 4.9% YoY to ¥10,100mn, and operating profit to decrease by 8.3% to ¥795mn. Breaking down revenue, the call center business is expected to see a 2.1% decline to ¥8,400mn, the sales support business is expected to see a decrease of 26.2% to ¥900mn, and other is expected to decrease 2.1% to ¥800mn. The sales support business is expected to see a continued contraction in business for mobile phone shops. In other operations, temporary staffing services for the construction industry are expected to generate sales of about ¥300mn. Overall revenue is forecast based on the level of 2H FY11/24 (¥5,064mn), as demand for the call center business is currently on a moderate recovery trend.

FY11/25 revenue is forecast to decrease to around 60% of the peak four years earlier (FY11/21); however, the Company will welcome in the president of a major call center firm to revive call center staffing services by strengthening services from the customer's perspective. The Company will capture demand from call centers for services that cannot be replaced by AI, aiming to provide highly productive, high-value-added services, mainly by increasing the frontline improvement capabilities and retention rates of assigned staff through enhanced training of resident staff onsite at placement destinations (field consultants).

Revenue of Human Resources Solutions Segment



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

Aiming for revenue of ¥36.0bn and operating profit of ¥4.5bn in FY11/29

3. Medium-term management plan

The Company announced a five-year medium-term management plan starting from FY11/25. Under a basic policy of "building the management foundations for the next decade," the Company has set out earnings targets for revenue of ¥36.0bn (CAGR of 7.1%) and operating profit of ¥4.5bn (CAGR of 10.1%). The targets assume CAGR of over 10% in sales and profits in the Business Solutions Segment and approximately level growth in the Human Resources Solutions Segment. The earnings forecast also excludes M&As and new businesses that will be started going forward. To achieve the plan, the Company's policy is to promote the following four priority strategies.

Medium-term management plan

(¥bn)

	FY11/24	FY11/29	CAGR
Revenue	25.55	36.00	7.1%
Operating profit	2.78	4.50	10.1%
Operating profit margin	10.9%	12.5%	
Business Solutions Segment			
Revenue	15.02	25.00	10.7%
Operating profit	3.70	6.20	10.9%
Operating profit margin	24.6%	24.8%	
Human Resources Solutions Segment			
Revenue	10.62	11.00	0.7%
Operating profit	0.87	0.90	0.7%
Operating profit margin	8.2%	8.2%	

Source: Prepared by FISCO from Company's IR news release and interviews

(1) Maintaining organic growth based on core businesses

The Company has identified its core business fields, where it has a combination of high growth potential and competitive capabilities, as special needs employment services, sustainability support (environmental management support services), and regional revitalization support (wide-area administrative BPO services). In human resource outsourcing services, faced with the potential for declining demand in call center staffing due to the acceleration of AI and DX, the Company aims to differentiate by adding high value and has a policy of at least maintaining its current status by increasing its competitive advantages.

a) Special needs employment services

The Company is targeting FY11/29 revenue of ¥13.0bn with a CAGR of 10.6%. The special needs employment services are expected to see continued high demand, with plans for an increase in the statutory employment rate for people with disabilities in private-sector companies from the current 2.5% to 2.7% in July 2026. In this environment, the Company aims to continuously grow by expanding its service area. The initiative includes plans to expand the number of people with disabilities recruited by expanding the area in which it opens farms from the current three major urban areas to seven major urban areas, successively adding Sapporo, Sendai, Hiroshima, and Fukuoka from 2026 onward. In addition, from 2027 onward, the Company will start development of a small-scale farm model to enable development in regional cities with populations of 100,000 or less.

In regional areas, there are few companies that employ people with intellectual disabilities who seek employment. The Company will meet this demand by developing farms and providing services to major companies. The number of farms is forecast to increase from 53 at the end of FY11/24 to 90 at the end of FY11/29, opening at a pace of around 7–8 farms per year from FY11/26 onward.

b) Environmental management support services

The Company is targeting FY11/29 revenue of ¥2.4bn with a CAGR of 8.5%. Aiming to become a leading company in the area of sustainability management consulting, the Company will promote business expansion and increased brand power. Going forward, it will continue to expand its customer base by proactively acquiring new customers, while aiming to cultivate further business through expansion of its service menu and cross-selling. In addition, it established the online community platform “Boyadge”* in 2024 as a means for expanding customer contact and strengthening relationships by providing various sustainability related information and services, aiming for further business growth. The Company will also focus on human resource development, which is the source of its competitive advantage, with the aim of building an organization with higher expertise.

* A members website that currently provides free new information and Q&As regarding sustainability, along with a noticeboard and other functions

c) Wide-area administrative BPO services

The Company is aiming for FY11/29 revenue of ¥2.9bn, with CAGR of 14.0%. With a policy of expanding business while achieving both sales expansion and profitability increase, the Company aims to increase the number of BPO centers from 21 currently to 30, and to stabilize its earnings base by lifting the ratio of regular work related to governments from 30% in FY11/24 to 70%. In FY11/25, the fluctuation in earnings by quarter will increase due to the majority of sales arising from national spot projects. However, from FY11/26 onward, revenue is expected to stabilize with the increased ratio of sales from regular work.

2) Advancing business through Group synergies

The Company will create new business opportunities by fully utilizing the strengths and customer bases of its operating companies throughout the Group, using them to generate revenue growth. In particular, for special needs employment services, environmental management support services, and wide-area administrative BPO services, the Company aims to expand its business domains by proactively developing new services for excellent customer markets. The Company also aims to increase operating efficiency and drive sales growth in other existing businesses as well by strengthening links within the Group.

3) Improving profitability and management efficiency through AI and DX

The Company will promote active companywide utilization of AI and DX. It will work to increase operational efficiency and reduce costs in back-office operations by proactively advancing the application of digital technologies and automation. It will also leverage AI in sales divisions to innovate its business strategy formation, customer analysis, and sales processes in order to realize more efficient and effective sales activities.

4) Developing a diverse workforce for the next generation

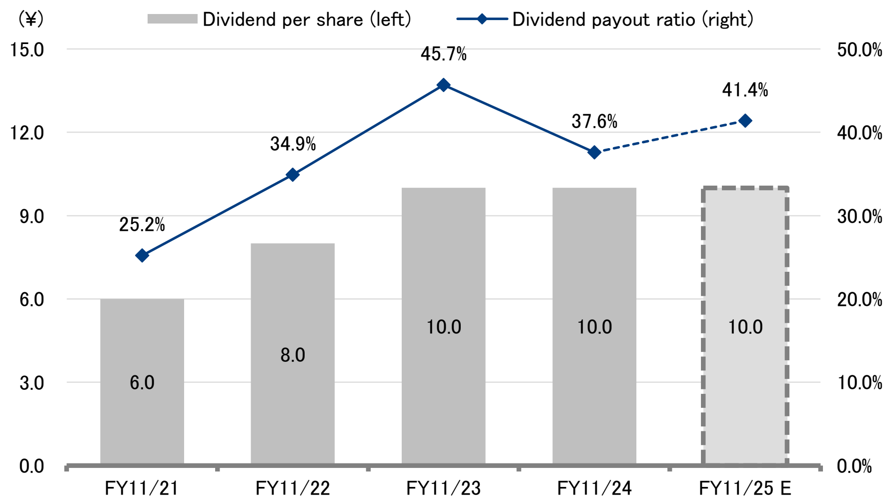
Guided by the policy of “employee growth driving company growth,” the Company is creating an environment where diverse individuals are respected and can fully utilize their talents, with the aim of being an organization where individual employees can participate with high motivation and grow while sharing common values. Moreover, by focusing on the development of core personnel who are responsible for Group management and developing leaders who are able to proactively engage in challenges with fear of change, the Company will support continuous growth and development.

Shareholder return policy

A policy of maintaining and increasing stable dividends, aiming for a consolidated dividend payout ratio of 30% or higher

The Company has maintained the same dividend policy as before of a consolidated dividend payout ratio of 30% or higher (even if a decline in profits is recorded, the policy is not to decrease the dividend as long as the ratio remains less than 60%). Based on the policy, the Company decided to pay a dividend of ¥10.0 per share (consolidated dividend payout ratio of 37.6%) for FY11/24, unchanged from the previous fiscal year. For FY11/25, the Company plans to pay the same amount, ¥10.0 (consolidated dividend payout ratio of 41.4%). Looking ahead, the Company can be expected to increase the dividend if the consolidated payout ratio falls below 30%.

Dividend per share and dividend payout ratio



Note: IFRS adopted from FY11/23. Results presented under IFRS from FY11/22
Source: Prepared by FISCO from the Company's financial results

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