COMPANY RESEARCH AND ANALYSIS REPORT

WORLD HOLDINGS CO., LTD.

2429

Tokyo Stock Exchange First Section

9-Dec.-2019

FISCO Ltd. Analyst

Yuzuru Sato

FISCO Ltd.

http://www.fisco.co.jp

Index

Summary

Responded to changes in the market environment and reviewed the Mid-term Management Plan, aiming for solid growth

WORLD HOLDINGS CO., LTD., <2429> (hereafter, also "the Company") is a holding company conducting multiple businesses, including the Human Resources and Education Business (worker dispatching and business contracting businesses) and the Real Estate Business. The scope of the Human Resources and Education Business, which is the core business, has expanded in recent years from contracting and dispatch of staff in the manufacturing area to the logistics, services, and retail industries as well. Also, in order to build a rock-solid management structure, the Company is developing the Real Estate Business from its previous focus on condominium developments to also include renovations, detached housing and others, expanding its scope to be a comprehensive real estate business.

1. Overview of the FY12/19 1H results

In the FY12/19 1H consolidated results, net sales increased 3.8% year-on-year (YoY) to ¥66,827mn and operating profit rose 26.2% to ¥2,529mn, for higher sales and profits that exceeded the initial Company forecasts (net sales of ¥66,514mn and operating profit of ¥1,057mn). In profits, the main factor causing profits to exceed the forecasts was that in the Real Estate Business, the delivery period of some strategic properties was pushed forward (initially scheduled for 4Q). But results in all segments, including the Human Resources and Education Business, were above forecast.

2. FY2019 Business Forecasts

For the FY12/19 consolidated results, the Company has left the initial forecasts unchanged, with net sales to increase 8.8% YoY to ¥155,452mn and operating profit to decrease 17.9% to ¥6,049mn. This is because the forecasts are for results in the Human Resources and Education Business and the Real Estate Business to be concentrated in the 2H, and also due to the continuation of the uncertain factors in the external environment, including the prolonging of the US-China trade friction. By business segment, profits are set to decline by double digits in the Real Estate Business due to the impact of the Company's cautious approach to purchases of commercial premises from the sense that conditions in the real estate market are overheating. However, profits are expected to increase in the Human Resources and Education Business and the Information and Telecommunications Business. In the Human Resources and Education Business, profits are forecasts to grow in every business, of the Factory Staffing Business, in which the growth of the logistics field is continuing; the Technology Staffing Business, in which demand for engineer dispatching is strong; and the R&D Staffing Business, in which the dispatch of researchers is growing and the structural reforms and contract business for clinical trials are being progressed. In the Human Resources and Education Business, a risk factor is the effects on smartphones and semiconductor-related of the intensification of US-China trade friction. But the Company intends to cover for this through expanding in the logistics field, acquiring new customers, and obtaining orders for new projects.

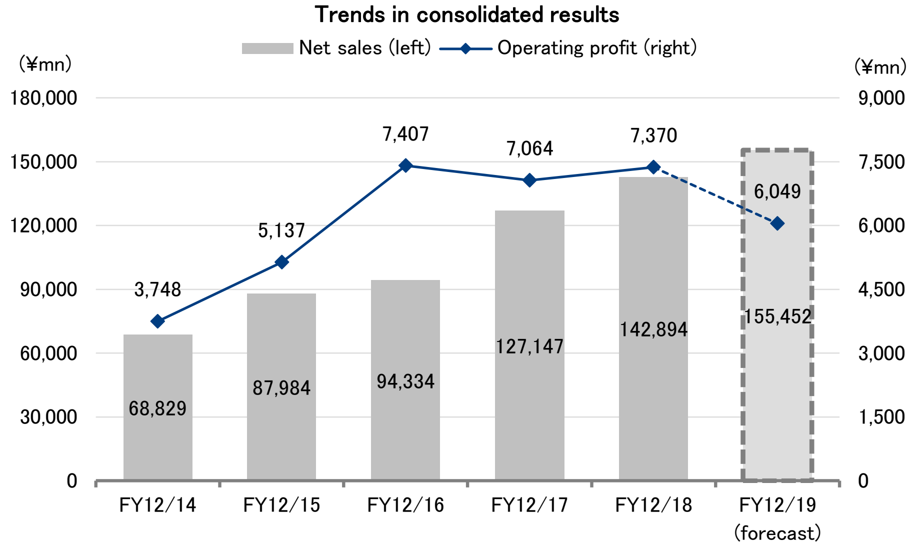
3. Rolling plan for New Mid-term Management Plan 2021

Based on the recent changes to its market environment, the Company announced the Rolling plan for New Mid-term Management Plan 2021. Within its implementation of its core strategy toward achieving growth in the medium- to long-term, it is pursuing "uniqueness" and aiming for solid growth. In the initial plan, it anticipated expanding scale through an M&A strategy. But due to various factors, including the rise in prices in the M&A market at the current time, it judged that the risk from conducting M&A was high, so instead it is aiming to grow using internal resources. Also, in the Real Estate Business, the sense that market conditions are overheating has continued longer than expected. So the Company has no choice but to be cautious about purchasing activities in the development business, and it intends to focus on real estate regeneration-related (renovations and conversions) and new businesses up to 2021. The numerical management goals for FY12/21 are net sales of ¥175bn and operating profit of ¥8bn, which are revised from the initial forecasts (net sales of ¥200bn and operating profit of ¥10bn), and they are achievable goals based on the growth of the existing businesses, even without considering M&A. By business segment, net sales in the Real Estate Business and the Information and Telecommunications Business are expected to remain at the same levels as in FY12/19, so the Company is aiming to achieve the goals through the growth of the Human Resources and Education Business. In the Human Resources and Education Business, it is aiming to be the No.1 brand in the manufacturing area by building a human resources platform organized through investment in developing human resources and in realizing co-sourcing* as a true corporate partner. There have been no changes to the shareholder returns policy and the Company continues to aim for a dividend payout ratio of 30% and stable and continuous dividend growth.

* An approach to provide high-level outsourcing to work together with the client on its management issues by isolating the core expertise and HR part that are necessary for the client's main business and providing it with full support for the HR part.

Key Points

- The Company is growing by conducting multiple businesses, including the Human Resources and Education Business and Real Estate Business
- The outlook is for higher sales and profits in all the businesses in the core Human Resources and Education Business
- In response to changes in the market environment, the Company has revised the trajectory in the New Mid-term Management Plan to aim for solid growth



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

Company Profile

The Company is growing by conducting multiple businesses, including the Human Resources and Education Business and Real Estate Business

1. Company History

The Company was founded in Kitakyushu in February 1993 by the current Chairman and President Eikichi Iida. Its focus was on creating employment opportunities and at the same time, developing a human resources business (dispatching of manufacturing workers and business contracting) to provide solutions to contribute to "regenerating the cost competitiveness" of Japan's manufacturing industry. Subsequently, it expanded its business, widening the areas for staff dispatches and contracting to not only the manufacturing field, but also to the technology-development and the R&D fields. In 2005, as the second business it launched the Information and Telecommunications Business, centered on cellular phone sales agencies. In 2010, it diversified the business to the Real Estate business, which was the founder President Iida's original business, and thereby established the current business foundation. The Company transitioned to a holding company structure in July 2014 and established a system for responsive decision making by management, and it is aiming to realize stable and solid growth while widening its business areas.

Company History

Date	Main Event
February 1993	WORLD INTEC CO., LTD. (now WORLD HOLDINGS CO., LTD.) was established in Kitakyushu City with the business objective of providing contracting services for various businesses
June 1997	Established the Field Engineer Business Division, now Technology Staffing Business Division
February 2002	Established the Research and Development Business Division
July 2003	Established Taiwan Human Resource Management (now WORLD INTEC TAIWAN CO., LTD.)
February 2005	Listed its shares on the JASDAQ Securities Exchange
April 2005	Entered the sales worker dispatching business (now operated under the Sales & Marketing Staffing Business)
December 2005	Made subsidiaries of e-support, Inc. and Network Solution Co., Ltd. and entered the information and telecommunication business
May 2008	Made a subsidiary of GEOGRAPHIC INFORMATION OF KYUSHU, INC.
February 2010	Established Advan Co., Ltd.
April 2010	Established WORLD RESIDENTIAL Co., Ltd.
June 2010	Made a subsidiary of Nichimo Real Estate Co, Ltd., a real estate consulting company
December 2010	Entered the construction engineer dispatch business (now operated under WORLD CONSTRUCTION CO., LTD.)
October 2011	Made a subsidiary of Best IT Business Co., Ltd., a cellular phone and OA equipment corporate sales company
February 2012	Established WORLD iCITY Co., Ltd., to conduct the development business mainly in the Tohoku region
March 2012	Established WORLD INTEC FUKUSHIMA CO., LTD. (now WORLD NEXT CO., LTD.) as an earthquake reconstruction support and government office consignment business company
November 2012	Made a subsidiary of DOT INTERNATIONAL Co., Ltd. (now DOT WORLD Co., Ltd.), a contract business for clinical trials company
January 2013	Established World Wisteria Homes Co., Ltd. (now World Wisteria Homes Co., Ltd.) to conduct development business mainly in the Kinki region
July 2014	Transitioned to a pure holding company and changed name to WORLD HOLDINGS CO., LTD.
November 2014	Established Suzhou HK Special Manufacturing Outer Packaging Co., Ltd., a manufacturing contractor focusing mainly on Japanese companies in China as a joint venture with ENGMA
December 2014	Made subsidiaries of Mikuni Industry Co., Ltd. (now, MIKUNI Co, Ltd.) and WORLD MIKUNI Co., Ltd., which conduct the renovation business
March 2015	Established PT. WORLD DEVELOPMENT INDONESIA, which conducts real estate business in Indonesia
August 2015	Made subsidiaries of OMACHI Co., Ltd. and Unitex Corporation (now OMACHI WORLD Co, Ltd.), which conduct manufacturing and sales of prefabricated housings
March 2016	Listed shares on the second section of the Tokyo Stock Exchange
June 2016	Listed shares on the first section of the Tokyo Stock Exchange
July 2016	Made subsidiaries of NIKKEN TECHNO CO., LTD. and NIKKEN SERVICE CO., LTD., which conduct repair business
January 2017	Made subsidiaries of HOEIKENSETSU Co., Ltd. which conducts construction and sales of detached housings
February 2017	Made a subsidiary of Farm Co., Ltd., which operates agricultural park business
February 2018	Made a subsidiary of SAIHI INFORMATION SERVICE CO., LTD., which conducts consigned software developments

Source: Prepared by FISCO from the Company's website and releases

2. Business Description

In the Human Resources and Education Business (worker dispatching and business contractor), while being centered on the manufacturing area, the Company provides services over a wide area, and from R&D through to design and development and production technologies, manufacturing, logistics, sales, repairs, and call centers. Particularly in the dispatching of manufacturing worker and business outsourcing field, it has the leading business scale in Japan. It has established a superior position in the recruitment markets, in which the competition for human resources is severe, through building a system to act as a receptacle for a wide range of human resources in which it provides one-stop service, and also by enhancing career-development support so that staff can enhance their skills.

In the Real Estate Business, the Company started from condominium developments (metropolitan Tokyo, Kinki, Tohoku, and Kyushu) and then grew by expanding the business area to detached housing (Hokkaido and Miyagi), renovations (nationwide), rental management, and the manufacturing, sales, and rentals of prefabricated housings. It also aimed to build a well-balanced management foundation through developing flow-type businesses, centered on condominiums and detached house businesses, and detached housing-related businesses, centered on the renovation and prefabricated house businesses.

In the Information and Telecommunications Business, in the Kyushu region the Company deploys a cellular phone shop business and a business to provide solutions to corporations to reduce their office-related costs. The fiscal year for all of the subsidiaries in this segment ends in September, so there is a three-month gap before their results are reflected in the consolidated results. For example, the FY12/19 1H consolidated results incorporate the October 2018 to March 2019 results of these subsidiaries.

In the Others, Advan Co., Ltd., conducts PC school management, Web production, and corporate training and teaching materials development businesses. They also include the business to operate and manage agricultural parks being conducted by Farm Co., Ltd., which was made a consolidated subsidiary in February 2017, and its subsidiary. As of the end of June 2019, they were operating and managing nine agricultural parks nationwide (of which, five facilities are directly managed).

Group Company

	Company name	Business description
Human Resources and Education Business	WORLD HOLDINGS CO., LTD.	Comprehensive worker dispatching
	WORLD NEXT CO., LTD.	Administrative entrustment/ Worker dispatching/ Business contracting
	NIKKEN TECHNO CO., LTD.	Repair of cameras and digital equipment and precision instruments
	WORLD INTEC TAIWAN CO., LTD.	Recruiting and placing/ dispatching of manufacturing workers
	DOT WORLD Co., Ltd.	Clinical trial consignment (CRO)
	GEOGRAPHIC INFORMATION OF KYUSHU, INC.	Geographic information system development/ Discipline education and training
	ENGMAINTEC CO., LTD.	Business contracting
	WORLD CONSTRUCTION CO., LTD.	Construction engineer dispatch
	WORLD STAFFING CO., LTD.	Personnel introduction and dispatch for sales, call centers and light work
	SAIHI INFORMATION SERVICE CO., LTD.	Consigned software development
	JW Solution Co., Ltd.	Hospitality outsourcing®
Real Estate Business	WORLD RESIDENTIAL Co., Ltd.	Sales of condominiums, detached housings, and residential land and building management (metropolitan area)
	PT. WORLD DEVELOPMENT INDONESIA	Real estate development
	World iCity Co., Ltd	Condominium sales and consignment sales (Tohoku region)
	World Wisteria Homes Co., Ltd.	Condominium sales (Kinki region)
	WORLD MIKUNI Co., Ltd.	Condominium sales (Kyushu region)
	Nichimo Real Estate Co, Ltd	Real estate consulting
	MIKUNI Co., Ltd.	Renovation/ Real estate brokerage/ Leasing management
	M's World Co., Ltd.	Renovation/ Real estate brokerage/ Leasing management (Hokkaido)
	OMACHI WORLD Co., Ltd.	Design development / manufacturing / sales / prefabricated housing rentals
	HOEIKENSETSU Co., Ltd.	Construction and sales of detached housing (Hokkaido, Miyagi)
Information and Telecommunications Business	e-support, Inc.	Telemarketing
	Network Solution Co., Ltd.	Mobile phone shop
	Best IT Business Co., Ltd.	Corporate sales of OA, communication equipment, LED lighting, etc.
Others	Advan Co., Ltd.	PC school operation/ Web production / creative business
	Farm Co., Ltd.	Management of agricultural parks
	Crowdeight Co., Ltd.	Management of agricultural parks

Source: Prepared by FISCO from the Company's website

Results trends

In the FY12/19 1H results, sales and profits increased and exceeded the Company forecasts

1. Overview of the FY12/19 1H results

In the FY12/19 1H consolidated results, net sales increased 3.8% YoY to ¥66,827mn, operating profit rose 26.2% to ¥2,529mn, ordinary profit grew 26.4% to ¥2,529mn, and profit attributable to owners of parent climbed 56.2% to ¥1,685mn. So every sales and profit item increased and exceeded the initial Company forecasts.

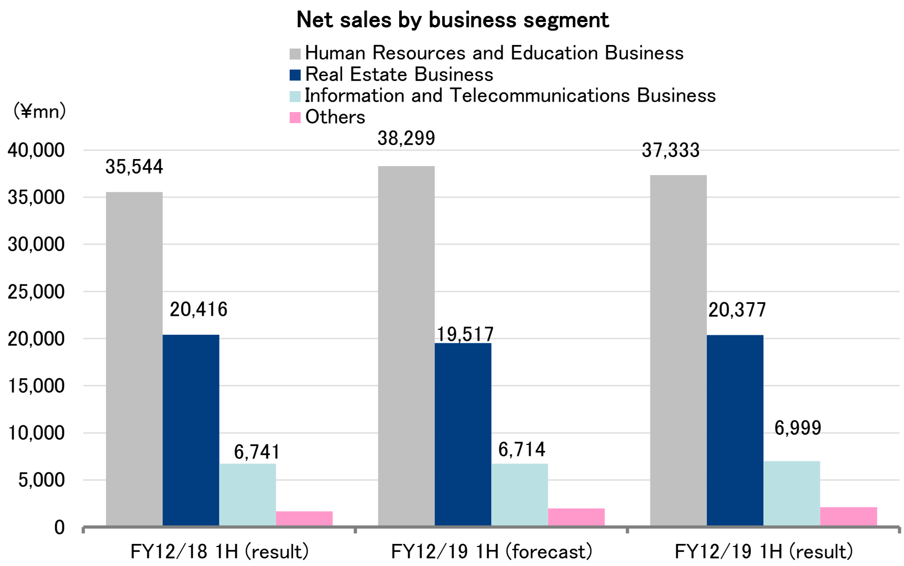
Looking by business segment, net sales increased in every segment except in the Real Estate Business. Also, compared to the initial forecasts, only the Human Resources and Education Business was below forecast, but this was mainly due to the effects of production adjustments in the smartphones and semiconductor industries. On the other hand, profits declined YoY in the Human Resources and Education Business and the Information and Telecommunications Business, but these declines were covered by the increases in the Real Estate Business and the other businesses. Profits were above the initial forecast in every business segment, but they were most noticeably above forecast in the Real Estate Business. This was mainly because the transfer periods of some strategic properties were pushed forward.

Consolidated Financial Results for FY12/19 1H

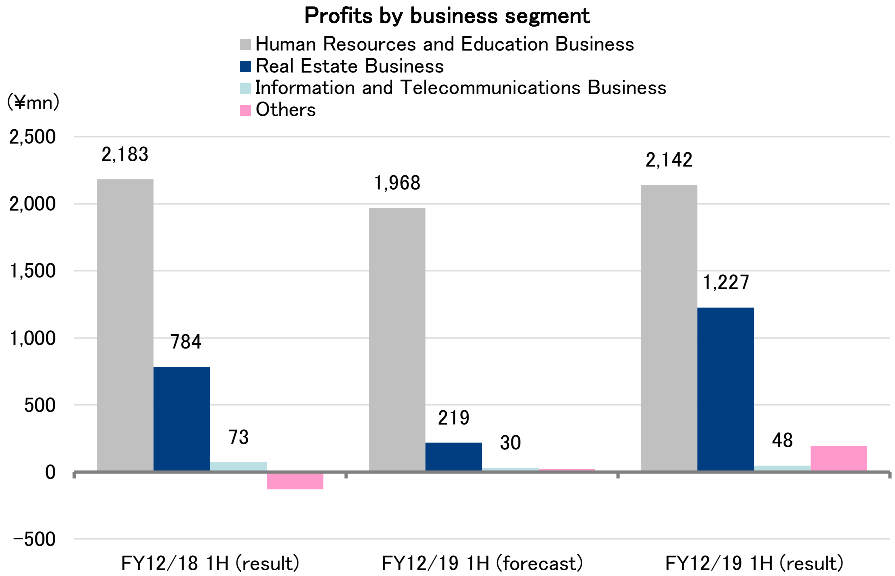
(¥mn)

	FY12/18 1H		FY12/19 1H			YoY	vs. forecast
	Result	% of net sales	Initial forecast	Result	% of net sales		
Net sales	64,379	-	66,514	66,827	-	3.8%	0.5%
Operating profit	2,005	3.1%	1,057	2,529	3.8%	26.2%	139.3%
Ordinary profit	2,001	3.1%	992	2,529	3.8%	26.4%	154.9%
Profit attributable to owners of parent	1,079	1.7%	605	1,685	2.5%	56.2%	178.5%

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



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



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

In the mainstay Human Resources and Education Business, profits declined due to upfront investment in human resources development, but steady progress is being made in building the foundations for growth

2. Trends by business segment

(1) Human Resources and Education Business

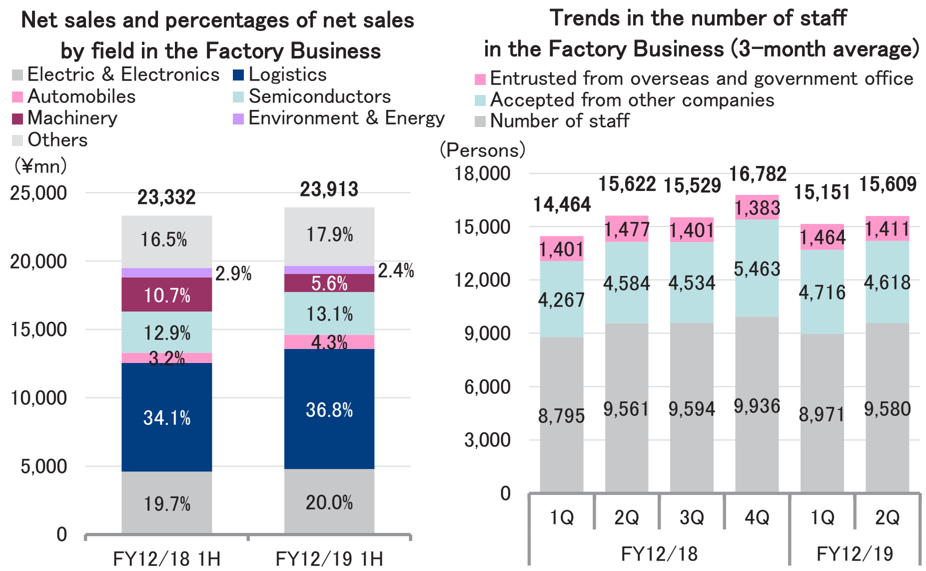
In the Human Resources and Education Business, net sales increased 5.0% YoY to ¥37,333mn, while segment profit decreased 1.8% to ¥2,142mn. Against the backdrop of the chronic shortages of human resources within companies and the movement toward outsourcing, sales steadily increased in the Factory Staffing Business, the Technology Staffing Business, and the R&D Staffing Business. Looking at the increasing and decreasing factors in profits, the increasing factors include ¥210mn from an increase in dispatched staff and ¥53mn from the rise in unit prices, while the decreasing factor was ¥304mn from the increase in various types of investment, including in human resources development. The results trends by segment are shown below.

a) Factory Staffing Business

In the Factory Staffing Business, net sales increased 2.5% YoY to ¥23,913mn and segment profit decreased 18.3% to ¥1,137mn. Looking at the sales trend by field, due to the impact of product adjustments for smartphones and semiconductor-related, the increases slowed down in the Electric & Electronics Sector, up 4.2% YoY, and in the semiconductor field, up 4.1%. In addition, in the Machinery Sector, which includes semiconductor-manufacturing machinery, sales decreased significantly, down 46.2%. Conversely, against the backdrop of the expansion of the EC market, sales continued to trend favorably in the logistics field, up 10.7%, while they also increased 11.2% in other fields due to the progress made in acquiring new customers.

The segment profit margin fell by 1.2 percentage points (PP) YoY to 4.8%. This was because of the rise in the percentage of sales provided by the logistics field, which has a low profit margin compared to other fields, due to the use of cooperative companies from the 3PL structure, and also because the Company aggressively worked on measures for human resources development. Specifically, it enhanced the technological training system in the Technology & Technical Center and worked on developing human resources for value-added fields, such as equipment maintenance, and on developing administrators toward the launches of new logistics bases.

For recruitment, the number of new graduate recruits increased from 239 people in the previous year to 274 people. Also, the number of people registered on JOB PAPER, a human resources recruitment site, grew to 68,000 people (from 62,000 people at the end of 2018). The average number of staff members in April to June 2019 (including those entrusted from overseas and government offices and accepted from other companies) was 15,609 people, down 0.1% YoY.



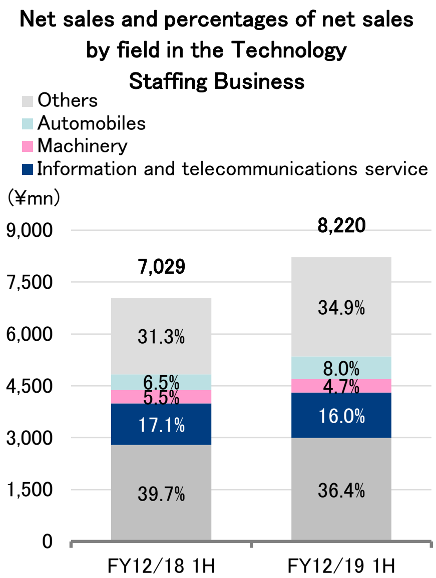
Source: Prepared by FISCO from the Company's results briefing materials

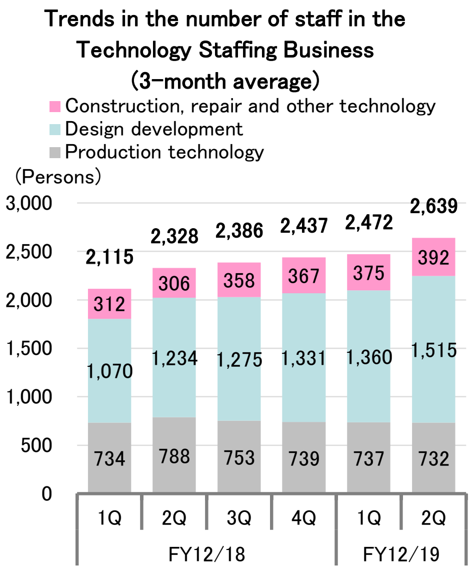
b) Technology Staffing Business

In the Technology Staffing Business, net sales increased 16.9% YoY to ¥8,220mn and segment profit rose 28.1% to ¥774mn. The scheme for developing and producing engineers titled Academy for Creating the Ways We Live*, which the Company has been working on in the last few years, is proving successful. Engineers are being steadily produced, mainly machinery design engineers for automobile related, and client company numbers have increased. In information and telecommunication services-related also, it increased client company numbers through strengthening sales. Looking at the sales trends by field, sales in the Automobiles Sector grew greatly, up 43.6% YoY, while they also trended strongly in the mainstay semiconductor field, up 7.0%, and in the information and telecommunication services field, up 9.2%. Sales also grew in the other fields, up 30.5%, but this was mainly because SAINS Co., Ltd., a consigned systems development company, was made a subsidiary from FY12/18 1Q.

* A scheme to further deepen the education and skills possessed by existing employees for their new career path. Inexperienced persons receive 3D-CAD training at the Design Center and production engineering training at the Production Engineering Center, and other training, including programming training and network infrastructure training in collaboration with Advan.

The segment profit margin rose 0.8 PP YoY to 9.4%. In addition to the effects of the higher sales, the main factor was the progress made in raising charges alongside the development of highly skilled human resources. The number of new graduates recruited in 2019 increased greatly, from 111 people in the previous year to 175 people. This is because the Company conducted aggressive recruitment activities as it has built a human resources development system. The average number of staff members in April to June 2019 increased 13.4% YoY to 2,639 people, for a new record high. Within this number, the number of design development staff also grew greatly, up 22.8% to 1,515 people.



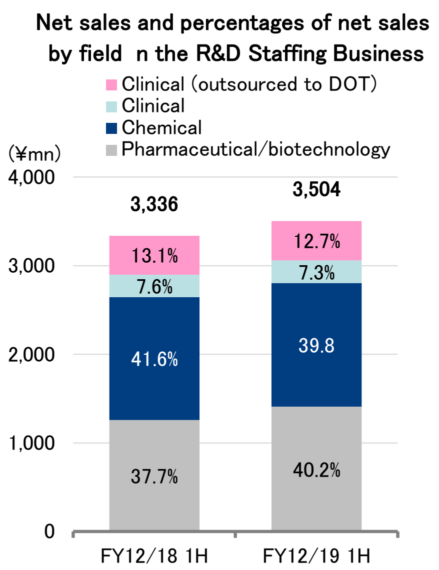


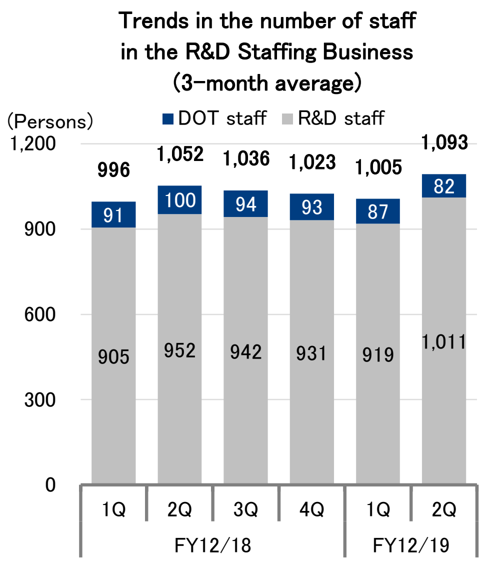
Source: Prepared by FISCO from the Company's results briefing materials

c) R&D Staffing Business

In the R&D Staffing Business, net sales increased 5.0% YoY to ¥3,504mn and segment profit rose 6.7% to ¥263mn. Looking at the sales trends, within the engineer dispatching segment, in the Pharmaceutical & Biotechnology Sector, transactions with existing customers grew and sales performed well, up 11.8% YoY. They also increased 0.4% in the Chemical Sector and 2.1% in the clinical field. Elsewhere, in the corporate clinical trial segment, DOT World is progressing structural reforms, and in this situation, it is steadily conducting consigned projects for companies' trials, and sales increased 1.7%. The segment profit margin rose 0.1 of a PP to 7.5%.

In the engineer dispatching segment, through the joint research laboratories in its alliance universities, including in the University of Tokyo and Kyoto University, the Company enhanced the development of highly skilled human resources and external training, centered on hospitality mind. For recruitment also, it carefully selected and recruited excellent research staff and further deepened its industry position, of evolving from being a "dispatch business operator" to a "technical support enterprise." Elsewhere, DOT World worked to optimize personnel, while it is also implementing a strategy to acquire orders by targeting, for example, foreign bio-ventures conducting clinical trials in Japan. The number of new graduate recruits in 2019 increased from 66 people in the previous year to 96 people, and the average number of staff members in April to June 2019 (current staff members) increased 3.9% YoY to 1,093 people, a new record high.





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

d) Sales & Marketing Staffing Business

In the Sales & Marketing Staffing Businesss, net sales decreased 8.2% YoY to ¥1,695mn, and the segment loss was ¥33mn (compared to a loss of ¥60mn in the same period in the previous fiscal year). In addition to expanding transactions in existing areas, such as for mass retailers and call centers, the Company worked to enter-into high value-added fields. Looking on a quarterly basis, in FY12/19 2Q, net sales increased 10.5% YoY to ¥885mn, the first increase in eight fiscal periods, and the loss amount also shrunk to ¥16mn (compared to a loss of ¥48mn in the same period in the previous fiscal year). The average number of dispatched staff in April to June 2019 increased 14.4% YoY to 1,362 people, and going forward, the outlook is for earnings to improve alongside the rise in the number of dispatched staff.

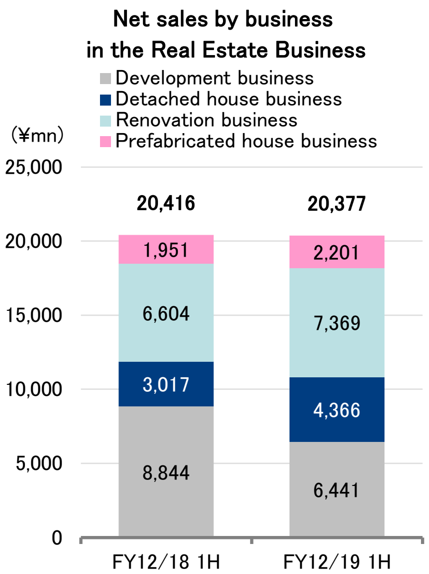
In addition, in order to start a comprehensive human resources service specializing in the hotel industry as a new field from the second half of 2019, in April of the same year the Company founded JW Solution Co., Ltd., through a joint investment with JTB Communication Design, Inc. (investment ratio, 80.2%). By integrating the Company's expertise in human resources recruitment, hiring, and management with JTB Communication Design's expertise in human resources development that utilizes its own hospitality method, they are expected to develop a high-quality human resources solutions service specializing in the tourism industries, including the hotel industry.

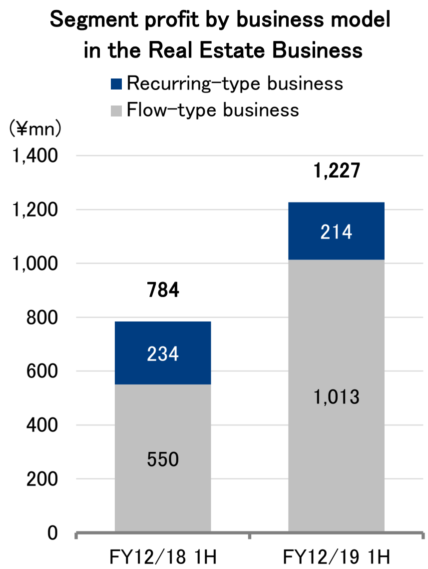
(2) Real Estate Business

In the Real Estate Business, net sales decreased 0.2% YoY to ¥20,377mn and segment profit increased 56.5% to ¥1,227mn. The higher profit was due to purchasing properties at an optimum time in the development business (the Company's own developments), strategically selling some commercial premises in advance that were initially scheduled for Q4, and steadily expanding the renovation and detached housing-related businesses.

Looking at net sales by field, in the development business, a round of sales of a large-scale condominium project has been completed, so sales declined 27.2% YoY to ¥6,441mn. In the renovation business, the Saitama and Nara sales offices, which opened in the previous fiscal period, started full-scale operation. In addition, from March 2019 the Kobe sales office started operation as the 13th base. So the sales area expanded, and including from the effects of this, sales increased 11.6% to ¥7,369mn. Sales grew significantly in the detached housing-related business as well, up 44.7% to ¥4,366mn, mainly in Hokkaido. Other than the above, steady progress was made in the prefabricated house business, in which the strengthening of sales in the Kyushu area proved successful, with sales increasing 18.7% to ¥813mn, and in sales consignment business and etc. posted a strong sales increase of 9.6% to ¥1,388mn.

This business is divided into the flow-type (development and detached housing-related businesses) and the recurring-type (renovation-and prefabricated house, sales consignment, and other businesses) business models. On looking at results by business model, for the flow-type, net sales decreased 8.9% YoY to ¥10,807mn and segment profit increased 84.2% to ¥1,013mn, while for the recurring-type, net sales increased 11.9% to ¥9,570mn and segment profit decreased 8.5% to ¥214mn.





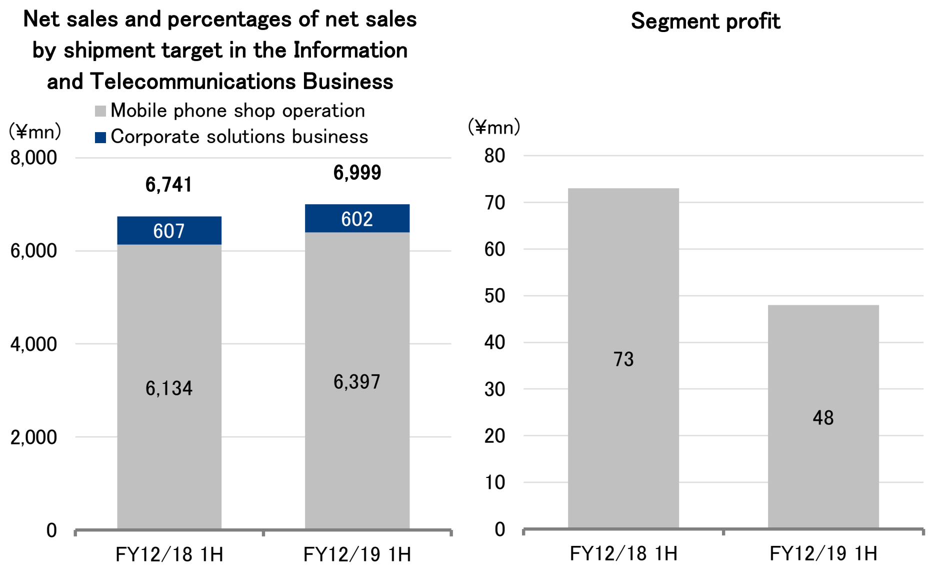
Source: Prepared by FISCO from the Company's financial results and the results briefing materials

(3) Information and Telecommunications Business

In the Information and Telecommunications Business, net sales increased 3.8% YoY to ¥6,999mn and segment profit decreased 33.4% to ¥48mn. Looking at the breakdown of net sales, they increased 4.2% in the mobile phone shop operation and decreased 1.0% in the corporate solutions business.

In the mobile phone shop operation, the Company is progressing the consolidation of shops for building a superior store network, and at the end of FY12/19 2Q, the number of directly managed shops was down by 8 on the end of the previous fiscal period to 43 shops. However, net sales per shop increased due to the larger scale of shops. In the corporate solutions business, the Company worked to strengthen the sales structure for the 2H onwards, including measures to establish call centers for sales of new merchandise.

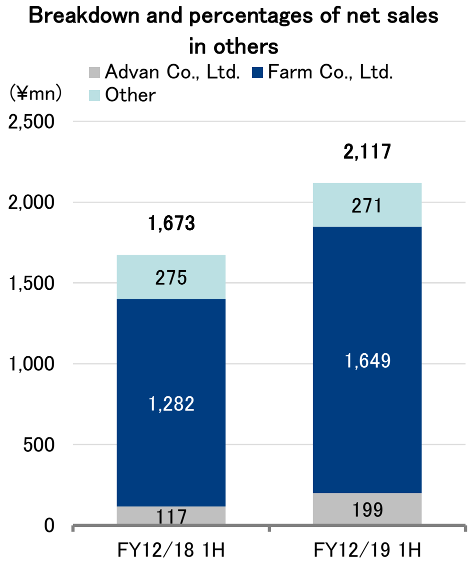
Results trends

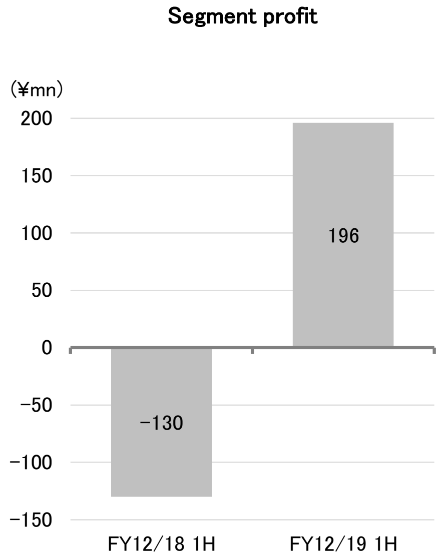


Source: Prepared by FISCO from the Company's results briefing materials

(4) Others

In others, net sales increased 26.4% YoY to ¥2,117mn and segment profit was ¥196mn (compared to a loss of ¥130mn in the same period in the previous fiscal year). Looking at the breakdown of net sales, they were strong in the agricultural park management business conducted by Farm, increasing 28.6%. In March 2019, it opened a giant athletics facility, Alps Gym, in Blumen Hugel Farm, Shiga Agricultural Park, and the number of visitors to this facility increased 65% YoY. In addition, the effects of the investment were actualized, including at Sylvanian Park that is being developed in Comorebi Ibaraido Forest (Inashiki City, Ibaraki Prefecture), where park attendance grew 33%. Park attendance for the Group as a whole rose 14.4% to 544,000 people, which was a factor increasing profits. Profitability is improving from the effects of the higher sales, and this business has in sight the profit-loss break-even line before depreciation in FY12/19 and then becoming profitable after depreciation in FY12/20. Also, at Advan, which operates PC schools, sales increased 69.2% YoY as Web production performed well and sales of educational services within the Group were also strong.





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

Real estate for sale increased under a cautious stance for purchases

3. Financial position and management goals

Looking at the financial position at the end of FY12/19 1H, total assets were up ¥2,112mn on the end of the previous fiscal year to ¥82,076mn. The main increasing and decreasing factors were that in current assets, cash and deposits decreased ¥3,299mn and notes and accounts receivable-trade declined ¥761mn, but real estate for sale and real estate for sale in process increased ¥6,829mn. Renovation and detached housing-related businesses increased alongside the business expansion, while the Company progressed purchase activities for commercial premises for development, prioritizing profitability in a situation in which prices remain high in the real estate market. In non-current assets, property, plant and equipment increased ¥246mn and goodwill decreased ¥306mn.

Total liabilities increased ¥1,815mn on the end of the previous fiscal period to ¥59,432mn. Interest-bearing-debt rose ¥4,198mn, while in current liabilities, there were decreases in accounts payable-real estate of ¥569mn, income taxes payable of ¥834mn, and accrued consumption taxes of ¥361mn. In non-current liabilities, provision for directors' retirement benefits decreased ¥498mn. Also, total net assets increased ¥296mn to ¥22,644mn. Due to the recording of profit attributable to owners of parent of ¥1,685mn, and dividend payments of ¥1,397mn, retained earnings increased ¥305mn.

Looking at the management indicators, the equity ratio, which indicates financial stability, declined slightly, from 26.3% at the end of the previous fiscal year to 26.0%, while the interest-bearing debt ratio rose from 178.0% to 195.4%. So the financial structure deteriorated slightly, but a factor behind this was the increase in borrowing for purchases of real estate for sale, which will lead to earnings in the future, and the indicators can be judged to be at levels that are not a problem. The Company's strategy is to increase the overall efficiency of cash and improve the financial structure through developments with comparatively short capital-recovery periods, such as for the detached house and renovation businesses.

Consolidated balance sheet

(¥mn)

	FY12/16	FY12/17	FY12/18	FY12/19 2Q	Change
Current assets	66,996	70,315	69,823	71,958	2,135
(Cash and deposits)	15,770	18,227	18,825	15,525	-3,299
(Real estate for sale / Real estate for sale in process)	38,839	37,008	34,317	41,146	6,829
Non-current assets	6,395	9,724	10,140	10,117	-23
Net assets	73,392	80,039	79,964	82,076	2,112
Total liabilities	57,928	60,899	57,616	59,432	1,815
(Interest-bearing debt)	42,245	42,660	37,433	41,631	4,198
Total net assets	15,464	19,140	22,347	22,644	296
Main management indicators					
(Stability)					
Equity ratio	19.4%	22.3%	26.3%	26.0%	-0.3pt
Interest-bearing debt ratio	297.5%	239.4%	178.0%	195.4%	17.4pt
(Profitability)					
ROA (Return on Assets)	11.3%	9.1%	9.2%		
ROE (Return on Equity)	33.5%	28.8%	23.9%		
Operating profit margin	7.9%	5.6%	5.2%		

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

Outlook

The Company has left the initial forecasts unchanged for FY12/19

1. FY2019 Business Forecasts

For the FY12/19 consolidated results, the Company forecasts net sales to increase 8.8% YoY to ¥155,452mn, operating profit to decrease 17.9% to ¥6,049mn, ordinary profit to decrease 19.7% to ¥5,910mn, and profit attributable to owners of parent to fall 21.0% to ¥3,672mn. Results were trending above the initial forecasts up to 1H. But in the current fiscal period, results are expected to be concentrated in the 2H, mainly in the Real Estate Business, while business sentiment about the manufacturing industry in Japan is worsening due to the intensification of US-China trade friction, and therefore the Company has left the initial forecasts unchanged.

Looking at the increase and decrease factors for operating profit, the Company projects an increase of ¥653mn in the core Human Resources and Education Business due to the actualization of the effects of the upfront investment conducted in the last few years, including in human resources development. It is also expecting increases of ¥154mn in the Information and Telecommunications Business and ¥315mn in others. On the other hand, the Company projects a decrease of ¥1,836mn in the Real Estate Business, reflecting the reduction in properties held due to the cautious stance adopted for development business purchases up to the previous fiscal year. Another decrease factor is the increase in Company-wide costs of ¥608mn (an increase of ¥181mn in the 1H), mainly to upgrade the management information system. The 1H progress rate against the full year operating profit forecast was 41.8%. But at FISCO, we think it is fully possible for the Company to achieve this forecast, due to the growth of the logistics field in the Factory Staffing Business. and as sales of condominiums are scheduled for 4Q in the development business.

FY12/19 consolidated results outlook

(¥mn)

	FY12/18		FY12/19		YoY	Rate of progress up to 2Q
	Result	% of net sales	Forecast	% of sales		
Net sales	142,894	-	155,452	-	8.8%	43.0%
Operating profit	7,370	5.2%	6,049	3.9%	-17.9%	41.8%
Ordinary profit	7,357	5.1%	5,910	3.8%	-19.7%	42.8%
Profit attributable to owners of parent	4,650	3.3%	3,672	2.4%	-21.0%	45.9%
Earnings per share (¥)	276.38		218.11			

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

Results outlook by segment

(¥mn)

Segment	Business segment		FY12/18 result	FY12/19 forecast	YoY	1H progress rate
Human Resources and Education Business	Factory Business	Net sales	49,524	53,427	7.9%	44.8%
		Segment profit	3,169	3,309	4.4%	34.4%
		Profit margin	6.4%	6.2%		
	Technology Business	Net sales	15,200	18,228	19.9%	45.1%
		Segment profit	1,337	1,548	15.8%	50.0%
		Profit margin	8.8%	8.5%		
	R&D Business	Net sales	6,779	7,638	12.7%	45.9%
		Segment profit	559	719	28.6%	36.6%
		Profit margin	8.3%	9.4%		
	Sales & Marketing Business	Net sales	3,533	4,066	15.1%	41.7%
		Segment profit	-100	40	-	-
		Profit margin	-	1.0%		
	Sub-total	Net sales	75,038	83,361	11.1%	44.8%
		Segment profit	4,964	5,617	13.2%	38.1%
		Profit margin	6.6%	6.7%		
Real Estate Business	Real Estate Business	Net sales	52,011	56,063	7.8%	36.3%
		Segment profit	4,589	2,753	-40.0%	44.6%
		Profit margin	8.8%	4.9%		
Information and Telecommunications Business	Information and Telecommunications Business	Net sales	12,376	12,019	-2.9%	58.2%
		Segment profit	3	157	5133.3%	30.6%
		Profit margin	0.0%	1.3%		
Others	Others	Net sales	3,467	4,008	15.6%	52.8%
		Segment profit	-270	45	-	435.6%
		Profit margin	-	1.1%		

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

The outlook is for higher sales and profits in all the businesses in the core Human Resources and Education Business

2. Outlook by business segment

(1) Human Resources and Education Business

a) Factory Staffing Business

In the Factory Staffing Business, the outlook is for net sales to increase 7.9% YoY to ¥53,427mn and segment profit to grow 4.4% to ¥3,309mn. In the initial forecasts, it was anticipated that the electric and electronics and the semiconductor fields would recover from the 2H onwards. However, it is now thought that their recovery periods have been pushed-back due to the impact of the US-China trade friction. But the Company intends to cover for this, such as through the growth of the logistics field and the acquisitions of new customers.

b) Technology Staffing Business

In the Technology Staffing Business, the outlook is for net sales to increase 19.9% YoY to ¥18,228mn and segment profit to grow 15.8% to ¥1,548mn. The Company is moving ahead with increasing charges because demand for engineers continues to be strong and it is enhancing individual skills through human resources development. So the forecasts are for results to trend favorably in the 2H also, mainly in the automobile field and the Information and Telecommunications Service.

c) R&D Staffing Business

In the R&D Staffing Business, the outlook is for net sales to increase 12.7% YoY to ¥7,638mn and segment profit to grow 28.6% to ¥719mn. The stable growth of the engineer dispatching segment will continue, while profits are also expected to improve from the effects of the business structural reforms in DOT World, which recorded a loss in the previous fiscal period.

d) Sales & Marketing Staffing Business

The Sales & Marketing Staffing Business is expected to become profitable, with net sales increasing 15.1% YoY to ¥4,066mn and segment profit of ¥40mn (compared to a loss of ¥100mn in the previous fiscal year). As previously stated, this business has gotten on a recovery track on entering the 2H, with the number of dispatched staff and net sales changing direction to become positive YoY. Also, in the 2H it will launch a service for the hotel industry, so it seems that the forecasts are achievable.

(2) Real Estate Business

In the Real Estate Business, the outlook is for net sales to increase 7.8% YoY to ¥56,063mn and segment profit to decrease 40.0% to ¥2,753mn. In the development business, the Company has not changed its policy of cautiously conducting purchases, as it anticipates conditions in the real estate market, in which prices remain high, will deteriorate. Therefore, it intends to conduct sales while maintaining a certain level of inventory with an eye toward FY12/20. There are also other profit-decrease factors, including the completion of a large-scale project for newly constructed condominiums. On the other hand, sales in the renovation business are expected to grow through the Company's strength of being able to make purchases at reasonable prices at all its sales bases, while the number of housings delivered in the detached housing-related business is expected to increase 9% YoY to 350 houses. Therefore, the outlook for each business is for higher sales and profits.

(3) Information and Telecommunications Business

In the Information and Telecommunications Business, the forecasts are for net sales to decrease 2.9% YoY to ¥12,019mn and segment profit of ¥157mn (compared to ¥3mn in the previous fiscal year). In the mobile phone shop operation, sales are expected to decrease because the Company will continue with the scrap & build of shops, and also as the demand trend for smartphones is stagnant. But in profits, this business is expected to become profitable due to the reduction in unprofitable stores and the measures to improve the profit margin. From 2020 onwards, it is anticipated that new services will be created alongside the transition to 5G, which is expected to increase business opportunities for the mobile phone shop business also. The Company is positioning this period as a time to strengthen the earnings power of each shop to enjoy the merits for the remaining players. Conversely, for the corporate solutions business, it is strengthening new merchandise toward achieving stable growth.

(4) Others

In the Others, the outlook is for this business segment to become profitable, with net sales increasing 15.6% YoY to ¥4,008mn and segment profit of ¥45mn (compared to a loss of ¥270mn in the previous fiscal year). In the agricultural park management business, profitability is forecast to improve as the Company intends to increase park attendance through progressing the development of facilities in the parks, and also through raising the unit price per customer. The synergies with Advan are expected to continue, including its training of engineers within the Group. As profits in the 1H were ¥196mn, which is already above the full fiscal year forecast, it is highly likely that profits will exceed the forecast.

Rolling plan for New Mid-term Management Plan 2021

In response to the changes in the market environment, the Company has revised the trajectory in the New Mid-term Management Plan to aim for solid growth

1. Outline of the Rolling plan for New Mid-term Management Plan 2021

The Company has announced the New Mid-term Management Plan 2021, which is the rolling plan up to 2021. It revised the Mid-term Management Plan announced in February 2017 in order to respond to the subsequent changes in the market environment. There have been two changes in the market environment: first, initially the Company expected to grow through an M&A strategy, but this became difficult due to the sharp rises in sales prices in the M&A market, and second, the bubble in the real estate market has continued longer than expected, which has pushed-back the timings on which to actively conduct purchases in the development business. At the current point in time, the Company has judged that implementing the initial growth strategy is too high risk, and instead it is aiming for steady growth by pursuing “uniqueness.”

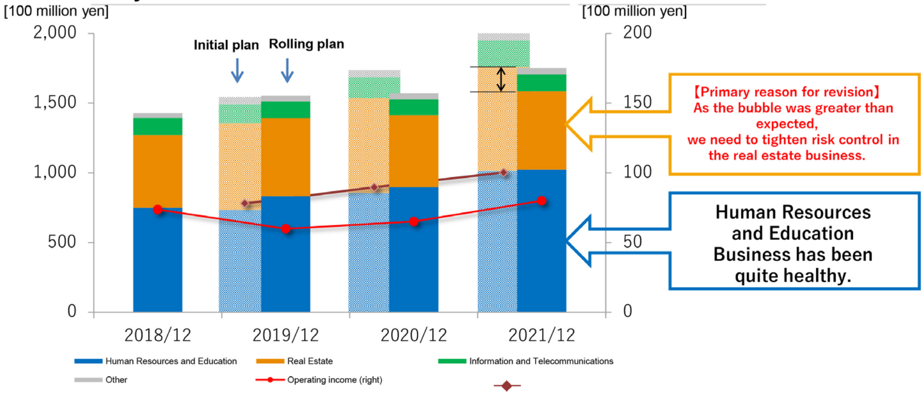
For “uniqueness,” the Company is working on the following three points with an eye on accurately ascertaining future potential in the medium- to long-term.

(1) It will estimate the suitable scale of each business and expand each business by itself (organic growth). It will strive to grow stably through risk management, rather than just keeping up with short term economic trends.
(2) It won't resort to M&A for growth. However, it may conduct M&A to acquire the necessary functions for its strategy after examining the corporate value and price calmly.
(3) It will pursue its unique position in its industry, while triggering innovation.

The numerical management goals for the current rolling plan's final fiscal year (FY12/21) are net sales of ¥175bn (up 12.6% compared to FY12/19), operating profit of ¥8bn (up 32.3%), and ROE of 20% or above (23.9% in FY12/18), and these goals have been revised from the initial forecasts (net sales of ¥200bn and operating profit of ¥10bn) to highly feasible values. Looking at net sales by business segment, in the Human Resources and Education Business, sales are expected to grow in line with the initial forecast, but the forecasts for the Real Estate Business and the Information and Telecommunications Business have been revised, and sales are now expected to continue at the same levels from FY12/19 onwards.

Numerical goals for 2021

	2021	(For your reference) 2018
Sales	175 billion yen	142.8 billion yen
Operating income	8 billion yen	7.3 billion yen
ROE	20%	23.9%
Payout ratio	30%	30.0%



Source: Reprinted from the Company's results briefing materials

Aiming to be logistic field in the manufacturing area by using internal resources in the Human Resources and Education Business

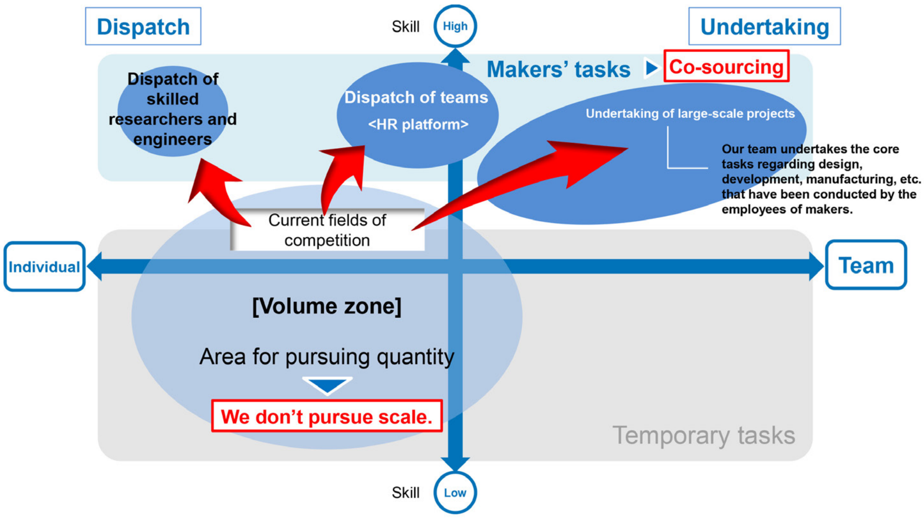
2. Strategy by business

(1) Human Resources and Education Business

The market environment surrounding the Human Resources and Education Business is somewhat more sluggish than was initially expected due to the movement to weed-out companies in industries following the revision to the Worker Dispatch Act. However, in the context of the fully-fledged measures by companies' working-style reforms, new business opportunities are being created, and there has been no change to the previous outlook, that the staff dispatch and contracting markets will continue to grow in the future. In this situation, the Company's policy is not to conduct high-risk M&A and instead to focus on using internal resources.

Specifically, it is aiming to realize co-sourcing as a true corporate partner and to become the No1. brand in the manufacturing area by conducting multi-faceted strategic investment in human resources development, including in management staff and staff with technical skills, and by building a competitive human resources platform capable of dispatching teams including for management, and large-volume subcontracting.

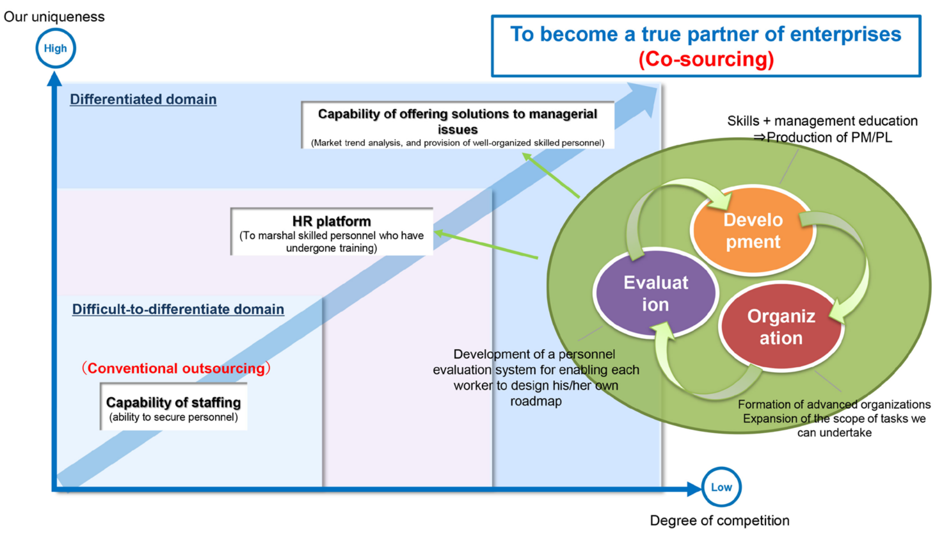
Human Resources and Education Business Basic Strategy (Position)



Source: Reprinted from the Company's results briefing materials

In particular, due to the introduction of the equal labor, equal pay system from April 2020, customers companies will strictly scrutinize the quality of the services provided by dispatch business operators more than even before. So it will be important for these companies to have not only mobilizing power (the ability to secure human resources) as in the past, but also organizational abilities, capable of managing the human resources they dispatch. Therefore, the Company's strategy is to work to firmly establish the development of project leaders and project managers and to build a platform for these human resources, with the aims of strengthening its ability to provide solutions to the management problems facing its customer companies and to differentiate itself from other companies.

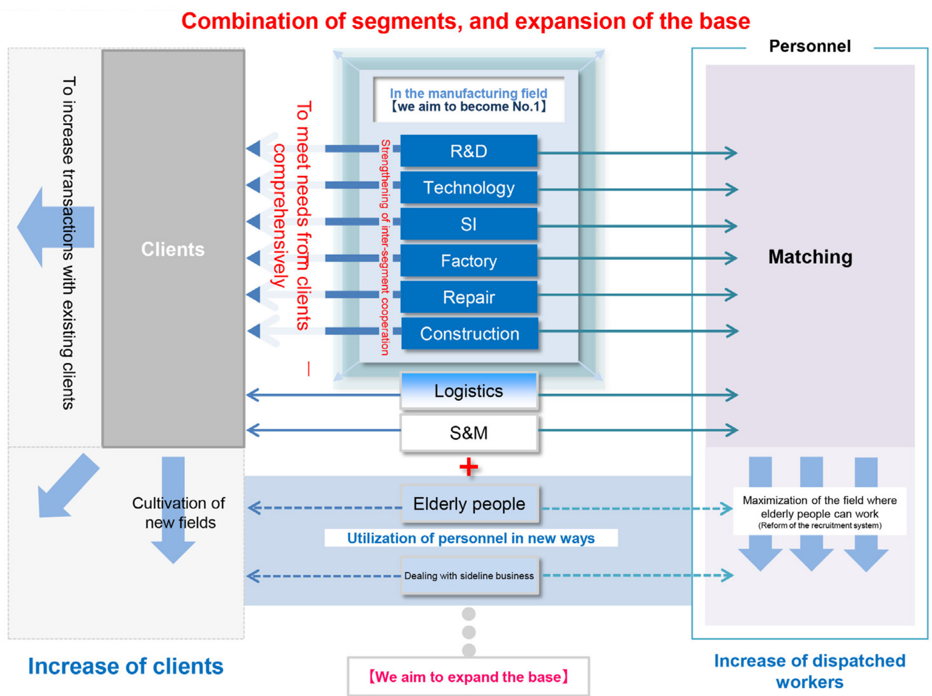
Human Resources and Education Business Basic Strategy (Our Uniqueness)



Source: Reprinted from the Company's results briefing materials

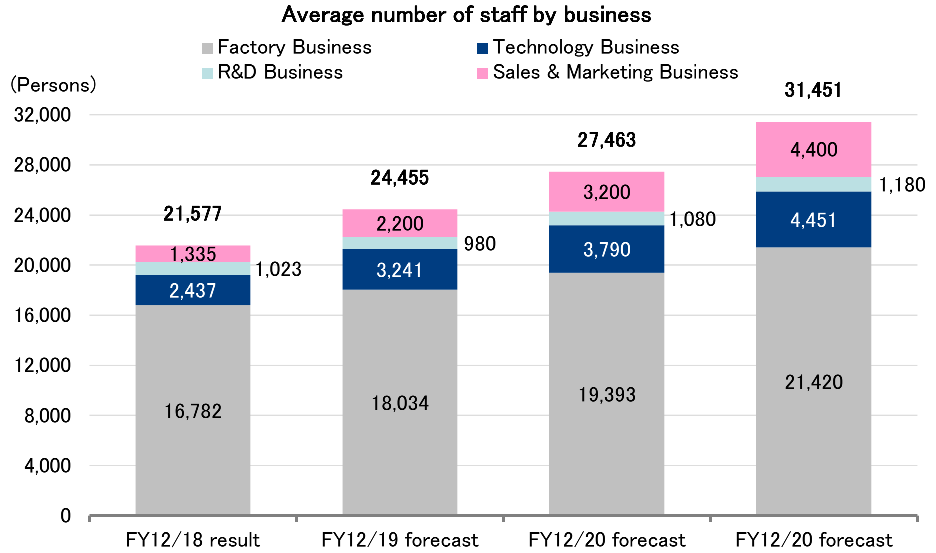
Also, by strengthening collaborations between each business segment, of the Factory, Technology, R&D, and Sales & Marketing segments, the Company is working to comprehensively cover its customer companies' needs and to grow net sales per customer. In addition, in order to respond to new societal needs, such as for senior citizen staff dispatching and side jobs, it intends to increase the number of companies it does business with and the number of dispatched staff. As stated above, from the second half of 2019, it has newly launched a human resources service specializing in the tourism industries, while it has also started to steadily expand its field of view for business areas, such as beginning staff dispatch services for real estate sales work, so steady growth is expected in the future.

Basic Strategy and Vision of Human Resources and Education Business



Source: Reprinted from the Company's results briefing materials

The number of enrolled workers in the Human Resources and Education Business is forecast to increase by around 1.5 times, from 21,577 people in FY12/18 to 31,451 people in FY12/21. Breaking down this number, in the Factory Staffing Business, the number will increase by 1.3 times to 21,420 people; in the Technology Staffing Business, by 1.8 times to 4,451 people; in the R&D Staffing Business, by 1.2 times to 1,180 people, and in Sales & Marketing Staffing Business, by 3.3 times to 4,400 people. So the increases in the Technology Staffing Business and the Sales & Marketing Staffing Business stand out. In the Technology Staffing Business, the shortage of engineers in industry as a whole is continuing, and in this situation, going forward the Company will increase the number of enrolled workers by acting as a receptable that is able to create futures for engineers through a mechanism that can lead to new career paths for existing staff, in addition to providing education for inexperienced persons. Staff members in the Sales & Marketing Staffing Business are registered staffs, and going forward, needs are expected to grow other than in the existing sales staff, call center, and tourism industries, including for shortened working hours for senior citizens and for side jobs.



Note: The values in each fiscal year are the average number of staff in the October to December period. Values for the Factory Business includes acceptance of other companies' workers.
Source: Prepared by FISCO from the Company's results briefing materials

(2) Real Estate Business

In the Real Estate Business, the outlook has been revised to sales remaining unchanged until FY12/21. At the stage of formulating the initial Mid-term Management Plan, it was considered that a temporary adjustment phase would arrive in the real estate market around 2019, and the Company's policy was to actively conduct purchases on timings that were aligned with this. However, the bubble in the real estate market has continued longer than anticipated, so it has continued with a cautious approach to purchases, and the reduction in the number of saleable properties held up to FY12/21 was a factor behind the revision to the net sales forecast.

Therefore, the Company's policy for the development business is to maintain earnings within the suitable scale up to FY12/21 and to focus on real estate regeneration-related business (renovations and conversions). For the renovation business, it is aiming to first acquire the top market shares in regional areas, including in Kyushu, Tohoku, and Hokkaido, by further expanding the sales areas and strengthening the sales structure. Also, in order to respond to demand, including for shared offices due to working-style reforms and for accommodation facilities, it has started measures for conversions in buildings, and it seems that it will fully develop this business from FY12/20 onwards. Other than this, it is also considering launching a new real estate business.

The Company is aiming to build a stable earnings foundation that is resistant to the economic environment by conducting optimized purchases and sales in response to changing market conditions for the recurring-type business of real estate regeneration-related business, such as renovations and conversions, and for the flow-type of development and detached housing-related businesses, at the same time as expanding the foundation for stable growth, including from prefabricated housings, rental management, and buying and selling agency operations. It has already determined its business strategy for the phase after the adjustment in conditions in the real estate market.

(3) Information and Telecommunications Business

In the Information and Telecommunications Business, in the mobile phone shop operation, the trend within the industry of consolidating shops is expected to become prolonged due to the decline in stock earnings because of the fall in customers' ARPU and the lengthening of the cycle to buy a replacement handset. So at the current time, the Company is steadily progressing with building a superior store network and advancing preparations for the start of commercial 5G services from 2020 onwards. There has been no change to its policy for the future, of aiming for top market share in the Kyushu region while utilizing M&A. On the other hand, for the corporate solutions business, its strategy is to target stable growth not only through providing cost-reduction solutions for SMEs, but also by enhancing IT-related new merchandise and expanding the sales area.

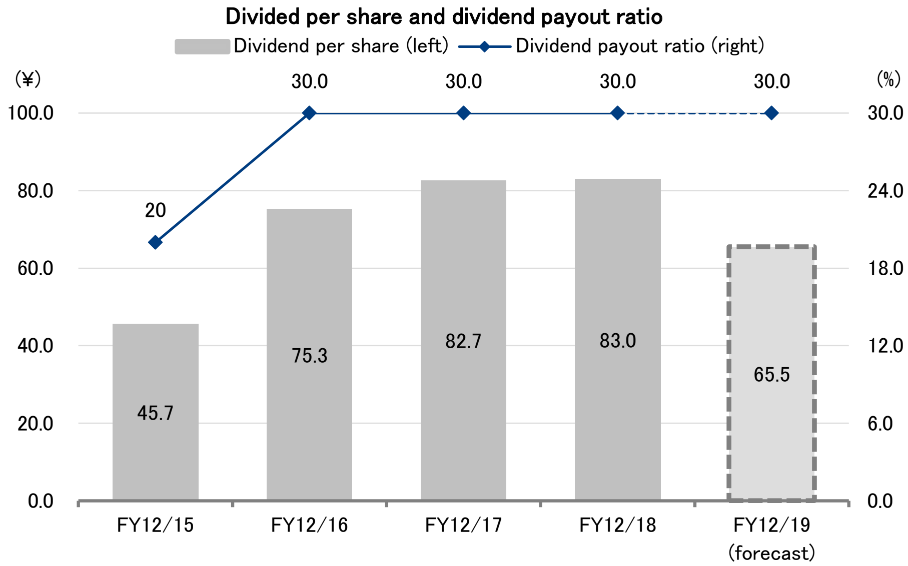
(4) Others

In the agricultural park management business, which began in 2017 when Farm was made into a subsidiary, the Company is horizontally deploying its success case studies, such as Comorebi Morino Ibaraido and Shiga Agricultural Park Blumen Hugel Farm, to other management facilities, with the aim of generating earnings at an early stage. It is working on this business as a social contribution business with goals such as the regeneration of regional areas, so its contribution to earnings is not expected to be that high. However, in Japan there are many unprofitable agricultural park facilities that are being managed by local governments, so it also has in its sights the outsourced management of these parks, and thereby participating in regeneration.

Shareholder return policy

Pays dividends targeting a dividend payout ratio of 30%

As the shareholder returns policy, the Company aims for a dividend payout ratio of 30% even while prioritizing investment for business expansion, and it has indicated its intention to continue to pay dividends in the future. In FY12/19, profits are expected to decline, and therefore the outlook is that the dividend per share will decrease ¥17.5 YoY to ¥65.5 (dividend payout ratio, 30.0%). But going forward, we can expect the dividend to increase, linked to the growth in earnings.



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

Information Security Measures

The Company considers information security measures to be an important management issue. It has constructed a strict management system for the handling of personal information, including the acquisition of the Privacy Mark by each Group company. Also, while it uses Cloud services for in-Company information systems, it conducts various security measures for them, including to prevent unauthorized access from the outside and to protect against malware.

FISCO

Disclaimer

■ For inquiry, please contact: ■
FISCO Ltd.
5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (Financial information Dept.)
Email: support@fisco.co.jp