Consolidated Business Results for the Fiscal Year Ended December 2020 (Jan.–Dec. 2020)

February 12, 2021
FULLCAST HOLDINGS CO., LTD. (4848)

Agenda

1. FY12/20 Consolidated Business Highlights (Jan.–Dec. 2020)

FY12/20 Comparison vs. Business Forecast

- Consolidated results exceeded our revised full-year business forecast for the fiscal year ended December 2020 as we **exceeded our forecasts for net sales (103.9%), operating profit (107.6%), ordinary profit (108.8%), and profit attributable to owners of parent (107.0%)**.
- Despite ongoing concerns about the spread of COVID-19 infections in the third quarter and beyond, which impacted developments in the recovery in client demand, net sales, gross profit, and operating profit bottomed in the third quarter and then recovered to the revised earnings forecast level heading into the end of the fiscal year thanks to efforts to acquire demand for short-term staffing.

(Million yen)

	Revised full-year FY12/20 forecast	FY12/20 results	Difference	Achievement rate
Net sales	41,600	43,226	1,626	103.9%
Gross profit	17,279	17,718	439	102.5%
Operating profit	5,700	6,131	431	107.6%
Ordinary profit	5,680	6,180	500	108.8%
Profit attributable to owners of parent	3,845	4,113	268	107.0%
Basic earnings per share (yen)	104.4	111.7	7.3	107.0%
(Reference)				
ROE	23.8%	25.7%	–	1.9PT

FY12/20 Comparison vs. Business Forecast (By Segment)

- In our Group's mainstay "Short-Term Operational Support Business", sales of the mainstay placement and BPO services grew following a recovery in customer demand and outsourcing services grew following the restart of various events, including professional baseball games. As a result, consolidated net sales exceeded the revised full-year business forecast for the fiscal year ended December 2020 as each sub-segment posted increased sales driven mainly by increases in sales compared to the revised business forecasts.

(Million yen)

		Revised full-year FY12/20 forecast	FY12/20 results	Difference	Achievement rate
Short-Term Operational Support Business	Net sales	35,333	36,700	1,368	103.9%
Sales Support Business	Net sales	4,275	4,377	101	102.4%
Security, Other Businesses	Net sales	1,992	2,149	157	107.9%
Consolidated	Net sales	41,600	43,226	1,626	103.9%

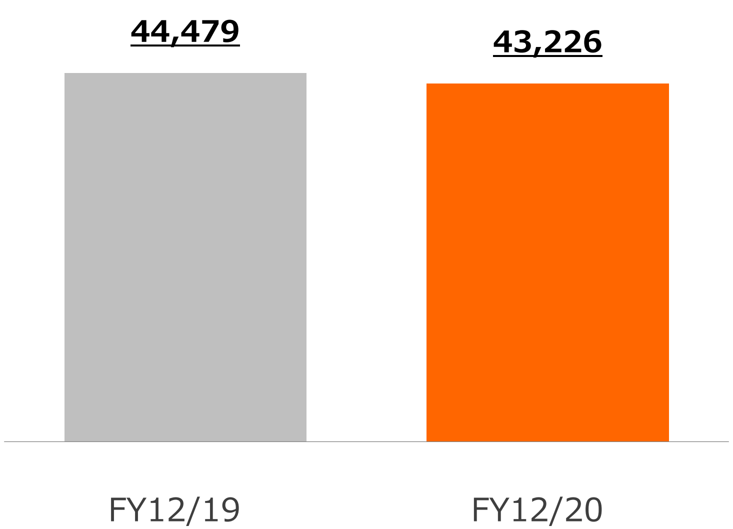
Consolidated: FY12/20 Year-on-Year Comparison

- **Net sales declined by 2.8% year-on-year**, due to the impacts dampening overall client demand caused by the slowdown in business activities in the mainstay “Short-Term Operational Support Business” from COVID-19 and the impacts on recovery in client demand caused by concerns over further spread of the disease, while a recovery trend was seen heading into the last month of the fiscal year even after the third quarter.
- **Operating profit declined by 15.1% year-on-year and operating profit ratio dropped by 2.1 PT** due to the drop in revenue from the mainstay “Short-Term Operational Support Business”.

Net Sales

(Million yen)

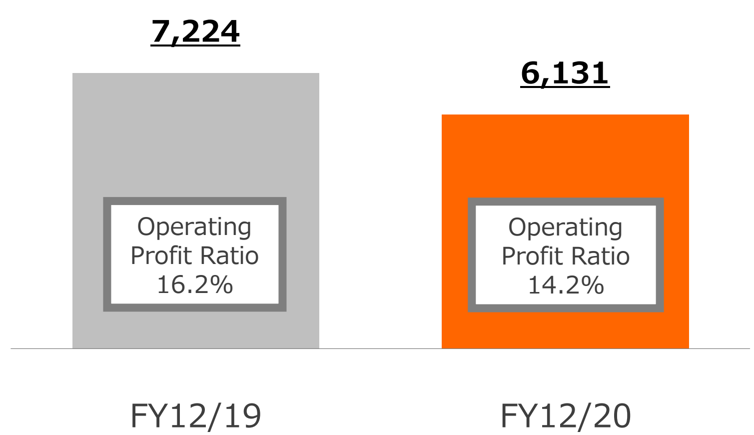
(2.8)%



Operating Profit

(Million yen)

(15.1)%



Consolidated: FY12/20 Year-on-Year Comparison

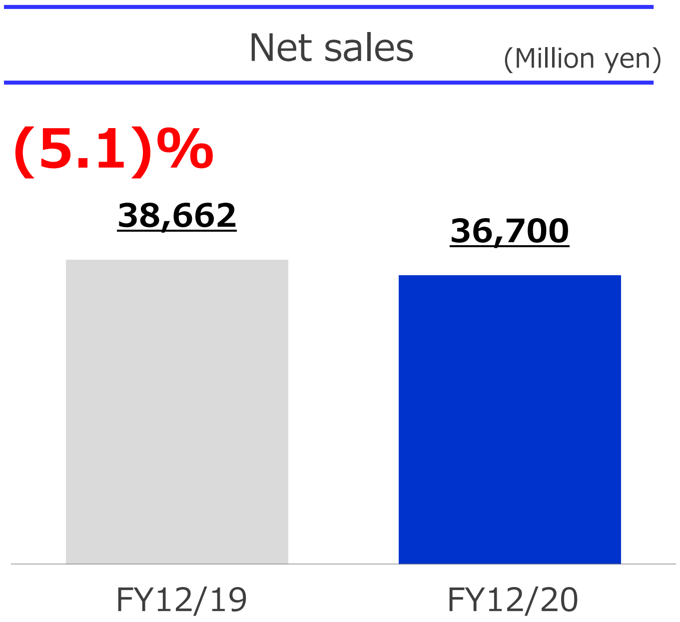
- As a main factor, **SG&A expenses were the same as the previous year**, thanks to efforts to control SG&A expenses mainly in the way of recruitment expenses, despite the inclusion of the business performance of NIHON DENKI SERVICE Co., Ltd. and HR Management Co., Ltd. after the two companies became consolidated subsidiaries from this fiscal year. **SG&A expenses excluding these two companies declined by 3.6% year-on-year**.
- **Ordinary profit fell by 12.5% year-on-year** due to the impacts of the COVID-19 pandemic.
- **Profit attributable to owners of parent declined by 11.4% year-on-year**, because gain on sales of investment securities of 250 million yen was booked as an extraordinary income following the partial sale of investment securities during the second quarter, and loss on COVID-19 of 62 million yen was booked as an extraordinary loss among other factors.

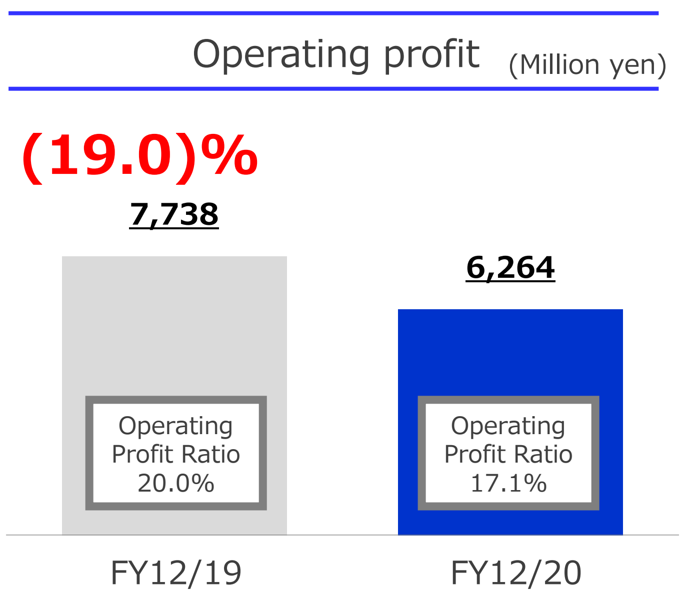
(Million yen)

	FY12/19	FY12/20	Difference	Rate of change
Net sales	44,479	43,226	(1,253)	(2.8)%
Gross profit	18,814	17,718	(1,096)	(5.8)%
SG&A expenses	11,590	11,587	(3)	(0.0)%
Operating profit	7,224	6,131	(1,093)	(15.1)%
Operating profit ratio	16.2%	14.2%	—	(2.1)PT
Ordinary profit	7,064	6,180	(884)	(12.5)%
Profit attributable to owners of parent	4,644	4,113	(531)	(11.4)%

2. FY12/20 Segment Highlights (Jan.–Dec. 2020)

Short-Term: FY12/20 Year-on-Year Comparison





Net Sales

- **Net sales declined by 5.1% year-on-year, due to the impacts from the contraction in overall demand among client companies in the event- and service-related sectors (restaurants, retail, accommodations) caused by the COVID-19 pandemic. However, a recovery trend was seen heading into the final month of the fiscal year after bottoming in the third quarter.**

Operating Profit

- **Operating profit decreased by 19.0% year-on-year and operating profit ratio fell by 2.9 PT, due mainly to the decline in gross profit resulting from the drop in net sales.**

Short-Term: FY12/20 Year-on-Year Comparison (By Service Category)

(Million yen)

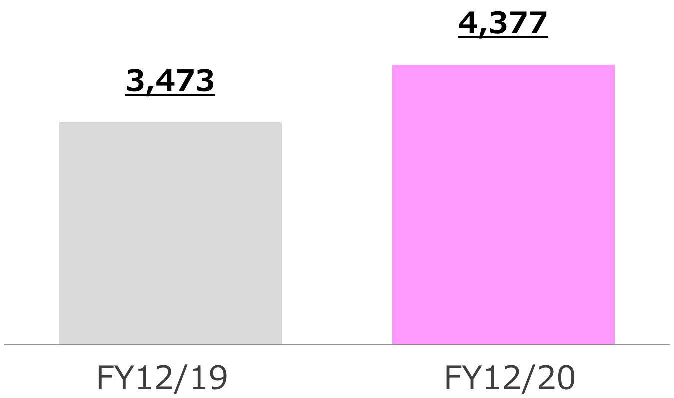
	FY12/19	FY12/20	Difference	Rate of change
Net sales	38,662	36,700	(1,962)	(5.1)%
Placement	6,101	4,420	(1,681)	(27.6)%
BPO	6,573	6,232	(341)	(5.2)%
Dispatching	21,554	23,477	1,923	8.9%
Outsourcing	4,434	2,571	(1,863)	(42.0)%
Gross profit	16,890	15,171	(1,720)	(10.2)%
Placement	5,917	4,324	(1,592)	(26.9)%
BPO	6,232	5,808	(424)	(6.8)%
Dispatching	3,631	4,094	462	12.7%
Outsourcing	1,110	944	(165)	(14.9)%

- We were able to increase sales of "Dispatching" services and boost gross profit, even in an environment impacted by COVID-19, because we responded to long-term staffing needs from among hiring demand of client companies.
- However, spot demand shrank temporarily due to the impacts of COVID-19. As such, gross profit of "Placement" services declined, despite the recovery seen in demand heading into the end of the fiscal year.
- Both net sales from "Outsourcing" and gross profit declined due to the COVID-19 impacts of postponements and cutbacks in the size of professional baseball games and various other events.
- Among our BPO services, the "Part-Time Worker Payroll Management" services posted smaller declines in sales and gross profit than in the "Placement" services. In addition, HR Management Co., Ltd. was newly added as a consolidated subsidiary and BOD Co., Ltd. grew. As a result, "BPO" services declined by 5.2% and gross profit dropped by 6.8%.

Sales: FY12/20 Year-on-Year Comparison

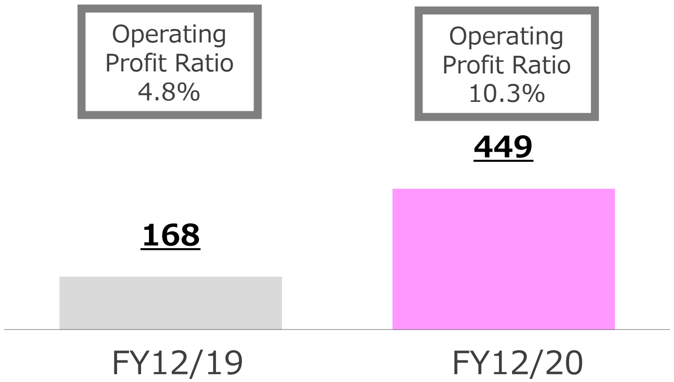
Net Sales (Million yen)

+26.0%



Operating Profit (Million yen)

+167.5%



Net Sales

- **Net sales increased by 26.0% year-on-year, due mainly to the acquisition of telework for the sale of Internet access, which is a mainstay business, during Japan's state of emergency as special demand in the second quarter of the fiscal year, and the inclusion of the earnings of NIHON DENKI SERVICE Co., Ltd., a newly consolidated subsidiary from this fiscal year.**

Operating Profit

- **Operating profit rose by 167.5% year-on-year due to the increase in net sales.**

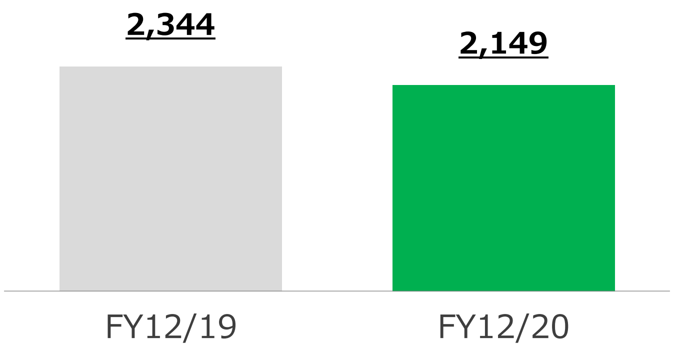
✓ NIHON DENKI SERVICE Co., Ltd., which was an unconsolidated subsidiary equity method affiliate, has been included in the scope of consolidation from the first quarter of the fiscal year ended December 2020.

✓ The "Sales Support Business" segment is mainly comprised of the "call center", "online", "alliance", "entertainment" and "electricity charge reduction service" businesses.

Security, Other: FY12/20 Year-on-Year Comparison

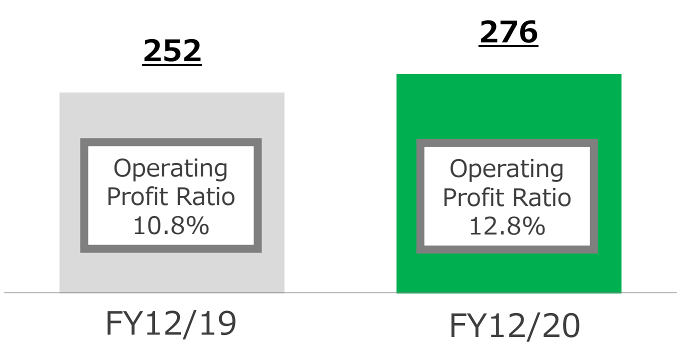
Net sales (Million yen)

(8.3)%



Operating Profit (Million yen)

+9.4%



Net Sales

- **Net sales declined by 8.3% year-on-year due mainly to a decline in temporary security projects caused by the impacts of COVID-19 pandemic.**

Operating Profit

- **Operating profit increased by 9.4% due to an rise in operating profit ratio of 2.1 PT through achieved by curtailing SG&A expenses, mainly in recruitment and personnel costs, and covering the drop in net sales.**

3. FY12/20 Summary

Business Targets and Strategy for the Fiscal Year Ended December 2020

Business Targets for the Fiscal Year Ended December 2020

Achieving the targets of the final fiscal year of the Medium-Term Management Plan by expanding "Short-Term Operational Support Business" and promoting to gain new business opportunities in neighboring business fields

Business Strategy for the Fiscal Year Ended December 2020

Strategy 1: Strengthen customer contact points

- Continue opening new offices (ca. 10 locations/year)
- Capture short-term demand from the Tokyo Olympics
- Increase sales staff dedicated to BPO services

Strategy 2: Improve recruitment efficiency and staff utilization rates

- Strengthen owned media and increase hiring efficiency by leveraging the media
- Reinforce marketing activities to increase the staff utilization rate

Strategy 3: Expand services related to M&A and new established subsidiaries as well as promote global business

- Promote placement services for foreign nationals with specified skills and host assistance services of foreign workers
- Expand recruiting and human support and reinforce collaboration in sales, for M&A and new subsidiaries
- Tie up with local companies in China for housekeeping services

Business Strategy for the Fiscal Year Ended December 2020

Progress of Strategy 1

- We opened a total of 13 new sales offices as initially planned, including 3 new sales offices for Minimaid Service Co., Ltd., and completed the expansion of Fullcast Co., Ltd. to all 47 prefectures in Japan. We also closed 5 registration centers following the penetration of "online registration services" in an effort to rationalize operations.

	New office openings in 1H	New office openings in 2H
Fullcast Co., Ltd.	Kushiro, Hokkaido (Feb. 1), Kitakami, Iwate Pref. (Feb. 1), Kashima, Ibaraki Pref. (Feb. 1), Tottori, Tottori Pref. (Feb. 1), and Saga, Saga Pref. (Feb. 1)	Aizuwakamatsu, Fukushima Pref. (Sept. 1), Gotemba, Shizuoka Pref. (Sept. 1), Toyohashi, Aichi Pref. (Sept. 1), Sasebo, Nagasaki Pref. (Sept. 1)
Top Spot Co., Ltd.	–	Okayama, Okayama Pref. (Aug. 1)
Minimaid Service Co., Ltd.	Yokohama region (Jan. 1), Chiba region (Jan. 1)	Chubu region (Oct. 1)

- Due to the postponement of the Tokyo Olympics, the strategy to capture relevant short-term demand will be carried over to 2021 and beyond.
- Despite COVID-19, we sharply increased net sales of the "Year-End Tax Adjustment Management service" year-on-year by expanding our sales force for BPO services.

Progress of Strategy 2

- We boosted hiring via our owned media after improving SEO.
- In the current fiscal year, we took on new initiatives to increase satisfaction of registered staff, including implementing and using the Net Promoter Score (NPS) and increasing communication with registered staff using our official LINE account, aiming to improve staff operation rate.

Progress of Strategy 3

- As part of our strategy "Promote placement services for foreign nationals with specified skills and host assistance services of foreign workers," we continue with sales activities to explore potential client demand in the future after establishing a team that can respond to Japan's "technical trainee" program, such as seeking partnerships with supervising bodies.
- We are working to increase profits using the synergistic effects of know-how and ITC infrastructure owned by the Group and HR Management Co., Ltd., a newly acquired consolidated subsidiary in January 2020 that mainly engages in human resources consulting services.
- Following the spread of COVID-19 pandemic in China, we did not make any progress with strategy "Tie up with local companies in China for housekeeping services," but we will continue with preparations aimed at tie-ups.

Ongoing Initiatives

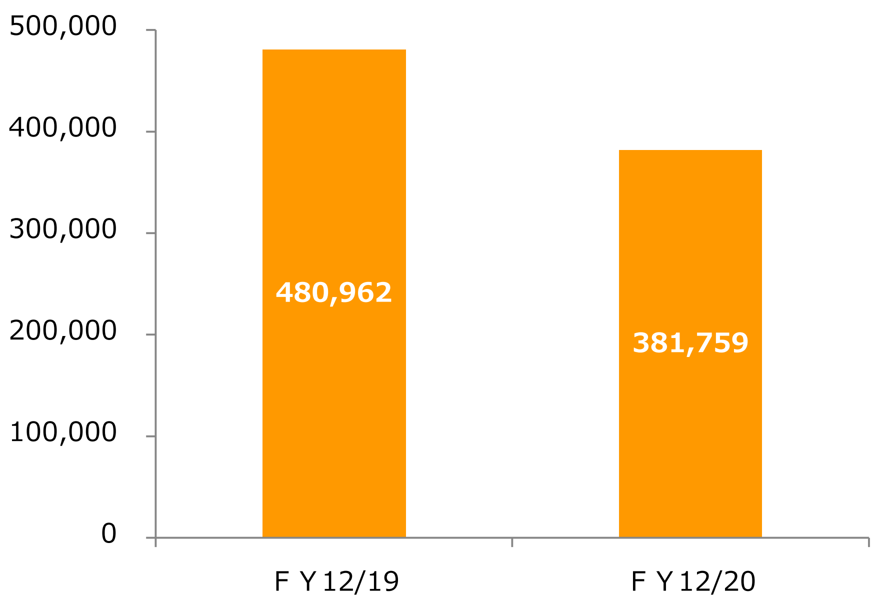
Initiative 1: Strengthen Hiring Capability

- Hiring activities were curtailed following the state of emergency issued by the government, in line with contracting client company demand. Therefore, the number of hires totaled 381,759 persons (down 20.6% year-on-year).

- Following the curtailment of hiring activities, recruitment expenses declined by 270 million yen year-on-year, and the ratio of recruitment expenses to gross profit dropped by 1.35 PT.

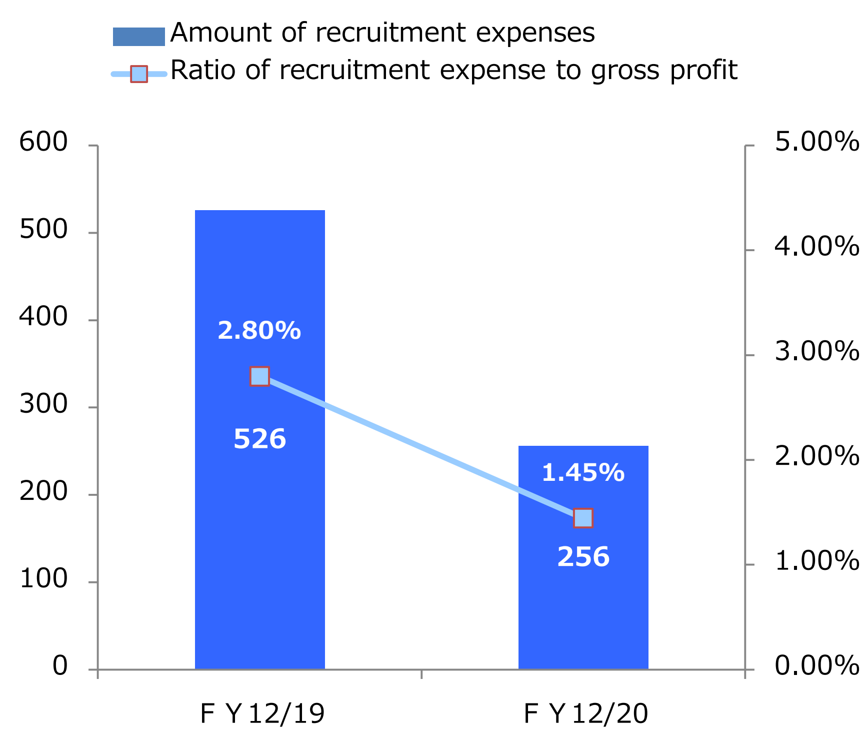
Number of hires

(Persons)



Recruitment expenses

(Million yen)



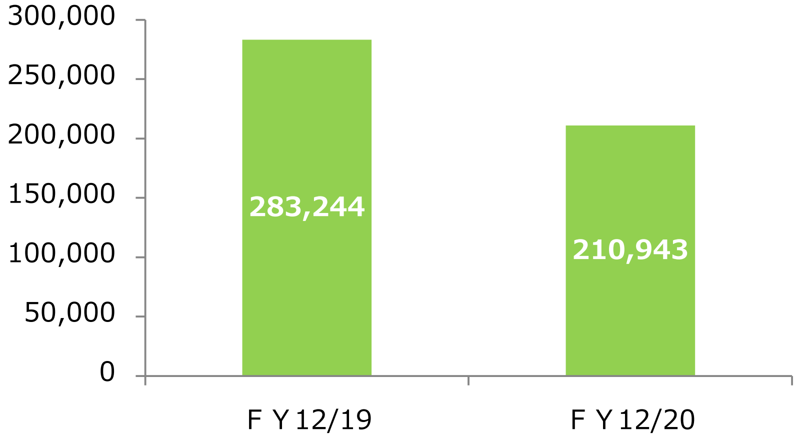
Ongoing Initiatives

● Initiative 2: Increase Operating Workers

- The number of operating workers declined by 25.5% year-on-year due to the contraction in demand among client companies because of the impacts of COVID-19 pandemic.

Number of operating workers

(Persons)

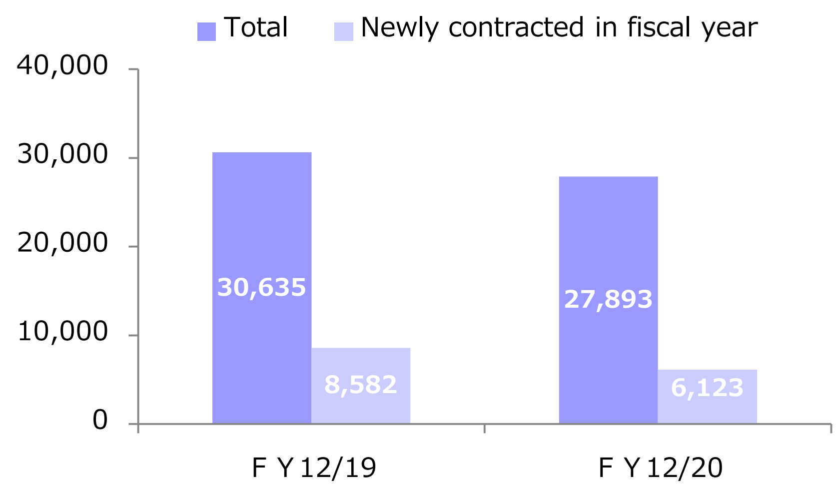


● Initiative 3: Increase Customers

- The number of customers also declined by 9.0% year-on-year due mainly to the decrease in new customers of 28.7% year-on-year following the curtailment of new sales activities under Japan's state of emergency.

Number of customers

(Companies)



● Initiative 4: Gross profit per 1 yen of personnel costs

	FY12/19	FY12/20	Rate of change
Gross profit per 1 yen of personnel costs (yen)	2.7	2.5	(8.6)%

- "Gross profit per 1 yen of personnel costs" declined by 8.6% year-on-year to 2.5 yen due to a drop in gross profit.

4. FY12/21 Business Targets and Strategy

Business Targets and Strategy for the Fiscal Year Ending December 2021

Business Targets for the Fiscal Year Ending December 2021

Quickly restoring performance using customer-first approaches by addressing the external environment in a flexible manner

Business Strategy for the Fiscal Year Ending December 2021

Strategy 1: Prepare for further business growth by investing in digital transformation aimed at a post-COVID-19 world and by cultivating new businesses

- Increase convenience for clients and staff by improving services and utilizing digital transformation and other tools
- Examine M&A opportunities to expanding our services or employment opportunities for staff
- Continue opening new offices in areas with high sales effect (around 10 locations/year)
- Expand sales of BPO services by increasing headcount at BPO departments and strengthening Group collaboration

Strategy 2: Transform into an organization that can yield profits even with the negative impacts of COVID-19

- Improve operating efficiency using RPA and BI tools
- Implement initiatives to improve profitability through increased work flow efficiency, shifting fixed costs to variable costs, improving productivity and thoroughly managing costs

5. FY12/21 Business Forecasts

FY12/21 Business Forecasts

- We aim to promptly restore its performance in the mainstay "Short-Term Operational Support Business".
- Our forecasts assume that Japan's state of emergency will be lifted in 10 prefectures on March 7, 2021 there onwards demand from client companies will recover at a moderate pace.
- Furthermore, the full-year business forecast for the fiscal year ending December 2021 is based on the fact that in the fiscal year ended December 2020, which is used for comparison, the first quarter performance was largely unaffected by the impacts of the pandemic and special demand following the pandemic was seen in the second quarter, as well as extraordinary profit of 250 million yen booked mainly for the partial sale of investment securities in the second quarter.
- In BPO services, personnel expenses equivalent to the cost of sales will be booked in cost of sales instead of SG&A expenses from the fiscal year ending December 2021 to ensure more appropriate cost price management. Therefore, gross profit is forecast to be less than the previous year.

(Million yen)

	FY12/21 business forecasts for 1H	FY12/21 full-year business forecasts	FY12/20 results	Rate of change
Net sales	21,280	45,400	43,226	5.0%
Gross profit	7,886	16,810	17,718	(5.1)%
Operating profit	2,750	6,200	6,131	1.1%
Ordinary profit	2,760	6,230	6,180	0.8%
Profit attributable to owners of parent	1,826	4,117	4,113	0.1%
Basic earnings per share (yen)	–	112.5	111.7	0.7%
(Reference)				
ROE	–	23.5%	25.7%	(2.2)PT

FY12/21 Business Forecasts by Segment and Service Category

- We plan to focus on restoring the performance of placement and BPO services, both mainstay services of the “Short-Term Operational Support Business”.
- Our forecast for net sales of outsourcing services of the “Short-Term Operational Support Business” assumes that the frequency of professional baseball games and other professional sports events will be around the same as the second half of the fiscal year ended December 2020. In addition, the acquisition of demand for short-term staffing related to the Tokyo Olympics has not been included.
- Our forecast for net sales of the “Sales Support Business” considers the acquisition of telework demand under Japan’s state of emergency as special demand in the sale of Internet subscriptions, its mainstay business, during the second quarter of the fiscal year ended December 2020, and NIHON DENKI SERVICE Co., Ltd., which was included in the “Sales Support Business”, is removed from the scope of consolidation from the fiscal year ending December 2021 following the partial sale of its shares owned.

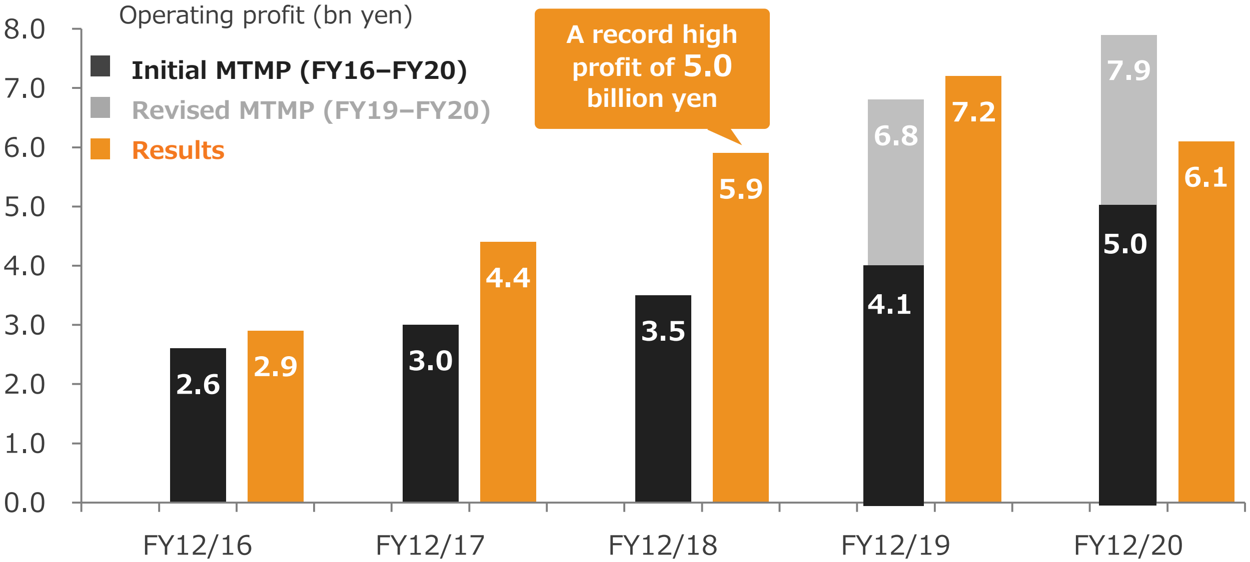
(Million yen)

		FY12/21 full-year business forecasts	FY12/20 results	Rate of change
Short-Term Operational Support Business	Net sales	39,291	36,700	7.1%
	Placement	4,927	4,420	11.5%
	BPO	6,464	6,232	3.7%
	Dispatching	25,099	23,477	6.9%
	Outsourcing	2,802	2,571	9.0%
Sales Support Business	Net sales	3,896	4,377	(11.0)%
Security, Other Businesses	Net sales	2,213	2,149	3.0%

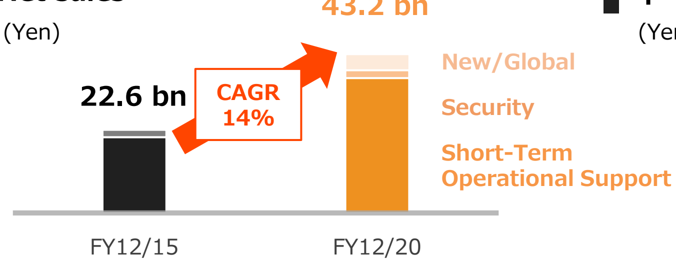
6. Review of Medium-Term Management Plan (FY16–FY20)

Review of Medium-Term Management Plan (FY16-FY20)

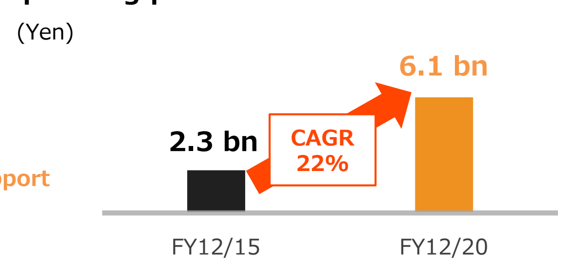
Operating profit



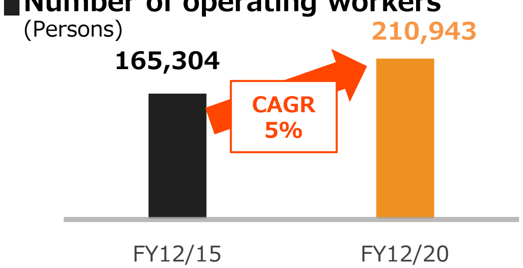
Net sales



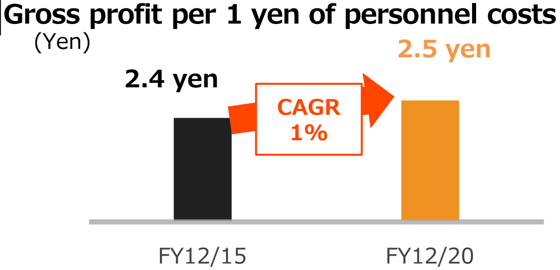
Operating profit



Number of operating workers



Gross profit per 1 yen of personnel costs



- We achieved the target of a record high 5.0 billion yen in operating profit ahead of plan in FY12/18.
- We revised our Medium-Term Management Plan targets from FY12/19.
- Performance for FY12/20 fell short of the target due to the impacts of COVID-19.
- All KPIs grew from FY12/15 to FY12/20, led by operating profit.
- While we plan to grow the mainstay “Short-Term Operational Support Business” without changing basic management strategies, however, COVID-19 infections continue to spread as before, and it is still impossible to predict when the COVID-19 pandemic will end. We have thus decided to postpone the announcement of our new Medium-Term Management Plan, judging that it is not appropriate to release medium- to long-term forecasts given the uncertainties at the current point in time.

7. Shareholder Returns for FY12/20 and FY12/21

Dividend of Surplus, and Acquisition & Cancellation of Treasury Shares

- At the Board of Directors' Meeting held on February 12, 2021, we passed a resolution to pay a 22 yen per share dividend from retained earnings, which is the same as the year-end dividend forecast announced on August 7, 2020.

Dividend details

	Amount determined	Latest dividend forecast (Announced on Aug. 7, 2020)	Current term results (FY12/20)	Previous term results (FY12/19)
Record date	December 31, 2020	December 31, 2020	–	–
Dividend per share	22 yen	22 yen	41 yen	40 yen
Total amount of dividend	808 million yen	–	1,505 million yen	1,486 million yen
Effective date	March 12, 2021	–	–	–
Resource for dividend	Retained earnings	–	Retained earnings	Retained earnings

Dividend of Surplus, and Acquisition & Cancellation of Treasury Shares

- **At the Board of Directors' Meeting held on February 12, 2021, we passed a resolution regarding the acquisition of our own shares on the open market and the cancellation of 1,000,000 treasury shares.**

Share Repurchase

Type of shares	Total of acquirable shares	Total value of repurchases	Period
Ordinary shares	331,700 shares (max.)	552 million yen (max.)	Feb. 15, 2021–Mar. 24, 2021

Total Return Ratio

	FY12/20	FY12/19 results
[FY12/19] Total return ratio versus profit attributable to owners of parent excluding an impairment loss associated with a decline in share value of AGL	–	50.0%
Total Return Ratio	50.02%	53.4%

Cancellation of Treasury Shares

Type of shares to be canceled	Total of shares to be canceled	Total of issued shares after cancellation	Planned cancellation date
Ordinary shares	1,000,000 shares (percentage of total number of issued shares prior to cancellation [incl. treasury shares]: 2.60%)	37,486,400 shares	February 16, 2021

Dividends in the Coming Fiscal Year

Dividend Forecast

	End of 1H (Interim dividend)	Year-end (Year-end dividend)	Total
Record date	June 30, 2021	December 31, 2021	—
Dividend per share	21 yen	21 yen	42 yen
FY12/20	19 yen	22 yen	41 yen

Policy for Next-Term Dividends

- **In order to continue to realize an ROE of over 20%, we will firmly maintain our target of a total return ratio of 50% as part of our policy on returns of profits to shareholders. For a flexible return of profits to shareholders, we have the options of offering a dividend or share buyback, or both at the current point in time. We forecast a dividend range that includes an interim dividend of 21 yen per share and a year-end dividend of 21 yen per share, for a total annual dividend of 42 yen per share, with an increase of 1 yen from the previous year.**

(Reference) Basic Stance on Capital Policy

■ Basic Stance on Capital Policy

The Fullcast Group maintains a basic policy of maximizing capital efficiency and securing financial soundness to achieve sustained improvement in corporate value.

- **Maintaining a total return ratio of 50% relative to shareholders as an indicator to support sustained improvement in corporate value and to maximize capital efficiency.**
- **Our goal of enhancing corporate value is to maintain an ROE of 20% or greater.**
- **We will maintain a maximum D/E ratio of 1.0x in order to enhance corporate value and to maintain financial soundness.**

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Notes

• About this Document

- In this document, the "Short-Term Operational Support Business" is referred to as "Short-Term", and the "Sales Support Business" is referred to as "Sales" in some parts.
- In this document, names of services are written in an abbreviated form; "Part-Time Worker Placement" service is referred to as "Placement"; and "Part-Time Worker Payroll Management", "My Number Management", "Year-End Tax Adjustment Management" etc, and BPO services by BOD Co., Ltd. are referred to as "BPO" in the "Short-Term Operational Support Business", which were launched along with the implementation of the Revised Worker Dispatching Act on October 1, 2012. In addition, "Long-Term Dispatching" services with a contract period of 31 days or longer, which has been conducted after the implementation of the Revised Worker Dispatching Act, is referred to as "Dispatching."
- "Gross profit per 1 yen of personnel costs" appears rounded off to the second decimal place.
- The "number of hires" is the sum total of the number of hires at Fullcast Co., Ltd., Top Spot Co., Ltd., Work & Smile Co., Ltd., Fullcast Senior Works Co., Ltd., Fullcast Porter Co., Ltd. and Fullcast Global Co., Ltd. as well as the number of hires in the "Short-Term Operational Support Business" at Fullcast Advance Co., Ltd.
- The "number of operating workers" is the total number of unique individuals working at Fullcast Co., Ltd., Top Spot Co., Ltd., Work & Smile Co., Ltd., Fullcast Senior Works co., Ltd., Fullcast Porter Co., Ltd. and Fullcast Global Co., Ltd. as well as in the "Short-Term Operational Support Business" at Fullcast Advance Co., Ltd., excluding those working in the "BPO" service area.

• Short-Term Operational Support Business

- The earnings of HR Management Co., Ltd., which became a consolidated subsidiary on January 1, 2020, have been included in "BPO" services since the first quarter of the fiscal year ended December 2020.
- "BPO" services represent the aggregated total of "Part-Time Worker Payroll Management", "My Number Management", "Year-End Tax Adjustment Management", and BPO services conducted by BOD Co., Ltd.
- The figures for each service category of the "Short-Term Operational Support Business" segment represent reference figures and have not been audited by our accounting auditor.

• Sales Support Business

- NIHON DENKI SERVICE Co., Ltd. is excluded from the scope of consolidation from the start of the fiscal year ending December 2021 following the partial sale of the share we owned.
- The "Sales Support Business" segment was mainly comprised of the "call center", "online", "alliance", "entertainment" and "electricity charge reduction service" businesses up to the fiscal year ended December 2020. In the fiscal year ending December 2021 and beyond, it will mainly comprise the "call center," "online," "alliance" and "entertainment" businesses.
- The "call center", "online" and "alliance" businesses each involve the sale of Internet access.

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[Inquiries]

IR: +81-3-4530-4830
URL: https://www.fullcastholdings.co.jp/ir
e-mail: IR@fullcast.co.jp