Consolidated Business Results for the First Half of the Fiscal Year Ending December 2020 (Jan.–Jun. 2020)

August 7, 2020
FULLCAST HOLDINGS CO., LTD. (4848)

Agenda

1. Impacts of the COVID-19 Pandemic

Impacts of the COVID-19 Pandemic

We offer our condolences to those who have lost their lives during the recent COVID-19 pandemic and we offer our sympathies to those who have contracted COVID-19 and those whose life has been made difficult by the pandemic. The following presents the impacts that the COVID-19 pandemic is having on the Group.

➢ Current situation and response of the Group

With employee safety a top priority, the Group has organized a business continuity system focused on the new normal following the end of Japan’s state of emergency. The Group is carrying out the following infection preventive measures:

- ✓ Avoid the three C's (confined spaces, crowded places, and close-contact settings) by working from home and utilizing staggered working hours.
- ✓ Utilize online communication, such as telephone meetings and teleconferences.
- ✓ If an employee or any of their family members were to test positive, ensure they do not come into work (standby at home).

➢ Impacts on the Group’s businesses

In the Group's mainstay “Short-Term Operational Support Business”, we do business with customers in a multitude of different industries and sectors. As a result, the Group is being affected by fluctuating demand from individual client companies caused by the COVID-19 pandemic, beyond a particular industry and sector.

- ✓ There has been a contraction in overall demand among client companies caused by the voluntary restraint or cessation of corporate activities following Japan’s state of emergency declaration announced on April 7, 2020 which was later expanded nationwide. Amidst these conditions, consolidated operating profit fell year-over-year in the second quarter of the fiscal year ending December 2020 due to the impacts of COVID-19 on the “Short-Term Operational Support Business”, but since June, following the lifting of the state of emergency declaration, the “Short-Term Operational Support Business” has been recovering.
- ✓ “Outsourcing” in the “Short-Term Operational Support Business” along with the “Security, Other Businesses” are being affected due to the postponement and cancellation of various events.
- ✓ Meanwhile, we have determined that the impacts on business performance from COVID-19 were mitigated to some extent because the “Short-Term Operational Support Business” is moving from the domain of providing necessary human resources in response to the gaps in the conventional busy period and off-period of clients, driven by the declining labor force population in Japan, to business domains for part-time workers directly hired by companies to maintain the minimum necessary workforce.
- ✓ The “Sales Support Business” acquired a telework demand under Japan’s state of emergency as special demand in the sale of Internet access, which is its mainstay business.

➢ The Group’s cash situation

The Group’s cash and deposits as of June 30, 2020 totaled 11,294 million yen, equivalent to 3.2 months of average sales during the first half of the fiscal year ending December 2020. At the same point in time, the current ratio stood at 365%, which ensures the Company has ample liquidity.

2. Revisions to FY12/20 Business Forecast, Dividend of Surplus (Interim Dividend), and Year-End Dividend Forecast

FY12/20 Revisions to Business Forecast

- The Company will now release a full-year consolidated business forecast for the fiscal year ending December 2020, which was withdrawn on May 15, 2020.
- The business forecasts for the fiscal year ending December 2020 assume that the Group will see a moderate recovery in the second half heading into the final month of the fiscal year, after bottoming out in the third quarter. This is based on the results from the first half of the fiscal year ending December 2020 and expectations that demand will recover in the second half among client companies in the logistics and manufacturing industries, both mainstay industries of the Company services, following the lifting of the state of emergency. However, there are concerns about a second wave of the virus and nearly no sales can be expected from stadium-, event- and tourism-related sources, which typically see peak demand in the third quarter.
- The Company assumes that Japan will not re-issue a state of emergency. Note that actual earnings could differ largely from forecasts due to various factors.

(Million yen)

	FY12/19	Revised full-year FY12/20 forecast	Difference	Rate of change
Net sales	44,479	41,600	(2,879)	(6.5)%
Gross profit	18,814	17,279	(1,535)	(8.2)%
Operating profit	7,224	5,700	(1,524)	(21.1)%
Ordinary profit	7,064	5,680	(1,384)	(19.6)%
Profit attributable to owners of parent	4,644	3,845	(799)	(17.2)%
Basic earnings per share (yen)	124.6	104.4	(20.2)	(16.2)%
(Reference)				
ROE	33.3%	23.8%	(9.4) PT	—

FY12/20 Revisions to Business Forecast (By Segment)

- Despite the expected recovery after the lifting of Japan's state of emergency, we assume that mainstay "Placement," "BPO" and "Dispatch" services in the "Short-Term Operational Support Business" will see a moderate recovery heading into the final month of the fiscal year, after bottoming out in the third quarter, given concerns about the second wave of the virus. We assume the following trends and forecasts by sector and quarter:
  - The logistics industry was temporarily busy in the second quarter with shipments of pharmaceuticals, daily essentials and foods, and we worked on capturing this demand. We assume that this activity will slow to the normal number of orders heading into the final month of the fiscal year from the third quarter.
  - We assume that in addition to the above general logistics and manufacturing will see a moderate recovery from the third quarter.
  - We assume event- and service-related (restaurant, retail and accommodation) demand will bottom out in the third quarter and see a moderate recovery from the fourth quarter.
- We have for the most part not included the sales of stadium- and event-related clients, the principal clients of "Outsourcing" services within the "Short-Term Operational Support Business". We expect housekeeping services in "Outsourcing" to see a moderate recovery.
- Sales of the "Sales Support Business" segment were prepared based on the assumption that in the second half sales will trend generally according to the initial business forecast, after determining that the increase in revenue in the second quarter can be attributed to special demand.
- We have for the most part not included event-related net sales from temporary security projects, which account for about 30% of in net sales in the "Security, Other Businesses".

(Million yen)

		FY12/19	Revised full-year FY12/20 forecast	Difference	Rate of change
Short-Term Operational Support Business	Net sales	38,662	35,333	(3,329)	(8.6)%
Sales Support Business	Net sales	3,473	4,275	803	23.1%
Security, Other Businesses	Net sales	2,344	1,992	(352)	(15.0)%
Consolidated	Net sales	44,479	41,600	(2,879)	(6.5)%

FY12/20 Dividend from Surplus (Interim Dividend) and Revised Year-End Dividend Forecast

- At the Board of Directors' Meeting held on August 7, 2020, we passed a resolution to pay a dividend (interim dividend) from retained earnings of 19 yen per share.
- The year-end dividend forecast, which had been withdrawn, has been set as 22 yen per share, up 1 yen per share over the previous year on a full-year basis, based on revisions to the business forecast.

Dividend details (Interim dividend)

	Amount determined for interim dividend	Previous term results (Interim dividend for FY 12/19)
Record date	June 30, 2020	June 30, 2019
Dividend per share	19 yen	19 yen
Total amount of dividend	697 million yen	706 million yen
Effective date	September 1, 2020	September 2, 2019
Resources for dividend	Retained earnings	Retained earnings

Revised year-end dividend forecast

	Interim dividend results	Revised year-end dividend forecast	Revised forecast of annual dividend per share
Dividend paid per share (yen)	19 yen	**22 yen** (Previous year: 21 yen)	41 yen (Previous year: 40 yen)

3. 1H FY12/20 Consolidated Business Highlights (Jan.–Jun. 2020)

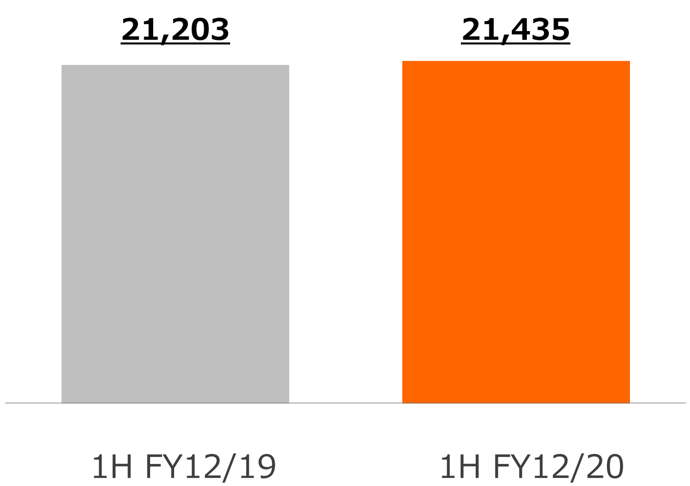
Consolidated: 1H FY12/20 Year-on-Year Comparison

- **Net sales inched up by 1.1% year-on-year** due to the impacts from the contraction in overall demand among client companies in our mainstay "Short-Term Operational Support Business" caused by the voluntary restraint or cessation of corporate activities following requests from local governments to voluntarily refrain from going out and Japan's state of emergency declaration as a result of the spread of COVID-19.
- **Operating profit declined by 5.0% year-on-year** and **operating profit ratio dropped by 1.0 PT** due to the drop in revenue from the mainstay "Short-Term Operational Support Business".

Net Sales

(Million yen)

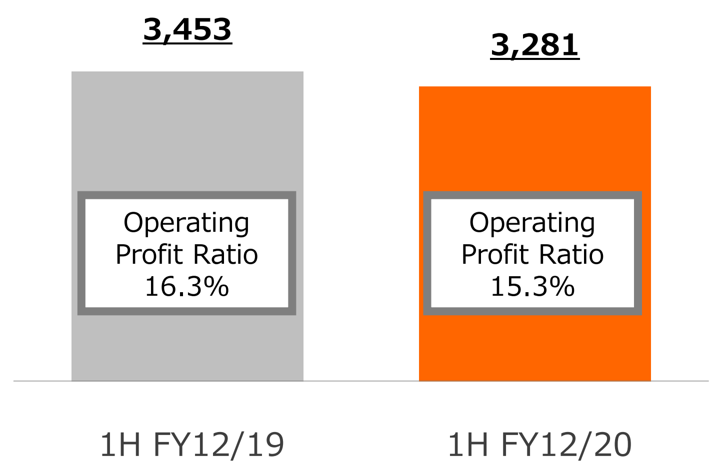
+1.1%



Operating Profit

(Million yen)

(5.0)%



Consolidated: 1H FY12/20 Year-on-Year Comparison

- **SG&A expenses rose by 2.3% year-on-year**, mainly following 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. However, excluding both companies, **SG&A expenses declined by 1.0% year-on-year**.
- **Ordinary profit declined by 5.6% year-on-year** due to the impacts of the COVID-19 pandemic.
- **Profit attributable to owners of parent inched down by 2.9% year-on-year**, because loss on COVID-19 of 17 million yen was booked as an extraordinary loss, and in spite of gain on sales of investment securities of 250 million yen was booked as an extraordinary income following the partial sale of investment securities, among other factors.

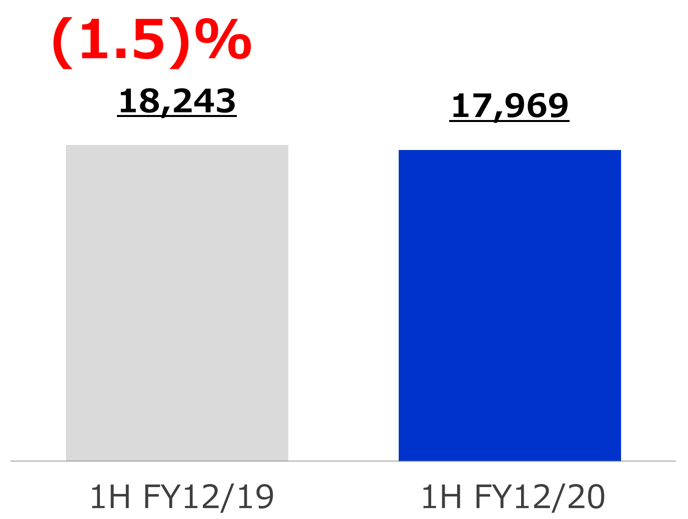
(Million yen)

	1H FY12/19	1H FY12/20	Difference	Rate of change
Net sales	21,203	21,435	232	1.1%
Gross profit	9,107	9,062	(44)	(0.5)%
SG&A expenses	5,654	5,781	127	2.3%
Operating profit	3,453	3,281	(172)	(5.0)%
Operating profit ratio	16.3%	15.3%	—	(1.0) PT
Ordinary profit	3,498	3,303	(195)	(5.6)%
Profit attributable to owners of parent	2,323	2,256	(67)	(2.9)%

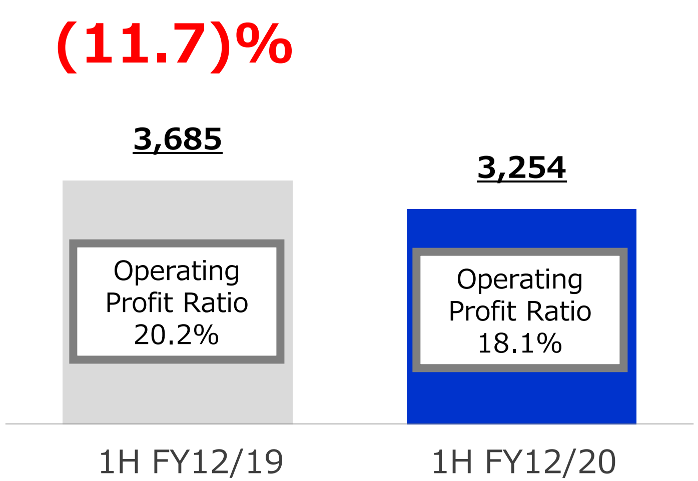
4. 1H FY12/20 Segment Highlights (Jan.–Jun. 2020)

Short-Term: 1H FY12/20 Year-on-Year Comparison

Net Sales (Million yen)



Operating Profit (Million yen)



Net Sales

- **Net sales inched down by only 1.5% year-on-year, similar to last year's level, despite the impacts from the contraction in overall demand among client companies in event- and service-related sectors (restaurants, retail, accommodations) caused by the COVID-19 pandemic.**

Operating Profit

- **Operating profit decreased by 11.7% year-on-year and operating profit ratio declined by 2.1 PT, due mainly to the decline in gross profit from the drop in net sales.**

Short-Term: 1H FY12/20 Year-on-Year Comparison (By Service Category)

(Million yen)

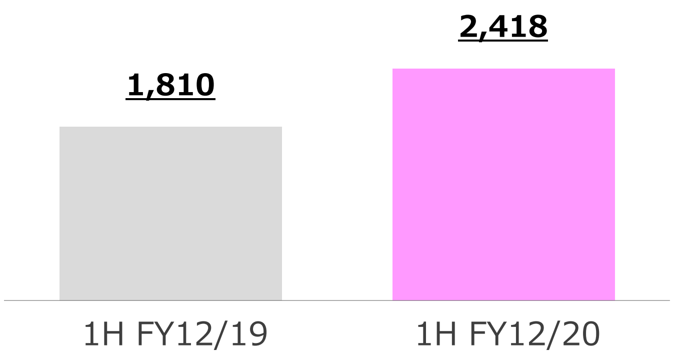
	1H FY12/19	1H FY12/20	Difference	Rate of change
Net sales	18,243	17,969	(274)	(1.5)%
Placement	2,961	2,206	(755)	(25.5)%
BPO	3,243	3,375	132	4.1%
Dispatching	9,997	11,343	1,346	13.5%
Outsourcing	2,043	1,045	(998)	(48.8)%
Gross profit	8,127	7,715	(413)	(5.1)%
Placement	2,863	2,160	(704)	(24.6)%
BPO	3,090	3,180	90	2.9%
Dispatching	1,660	1,992	332	20.0%
Outsourcing	514	383	(131)	(25.5)%

- **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, the increase in gross profit of “Dispatching” was not able to cover the drop in gross profit of “Placement” due to the COVID-19 impacts.**
- **Both net sales from “Outsourcing” and gross profit declined due to the COVID-19 impacts of various stadium- and event-related postponements and cancellations.**
- **Among our "BPO" services, the "Part-Time Worker Payroll Management" services posted smaller declines in sales and gross profit than the "Placement" services. In addition, HR Management Co., Ltd. was newly added as a consolidated subsidiary and BOD Co., Ltd. grew, which also led to higher sales and gross profit in the "BPO" services.**

Sales Support: 1H FY12/20 Year-on-Year Comparison

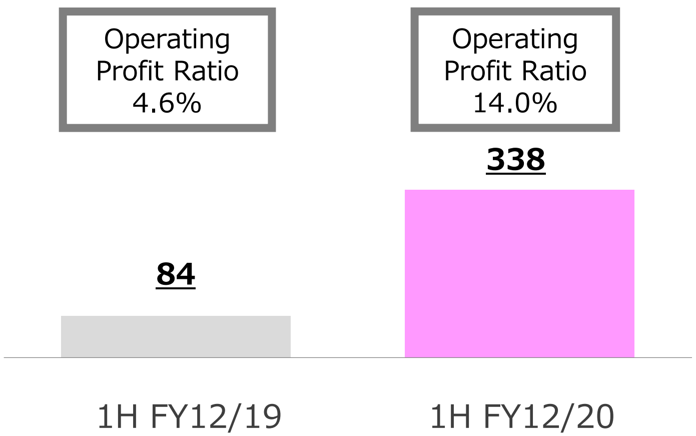
Net Sales (Million yen)

+33.6%



Operating Profit (Million yen)

+302.9%



Net Sales

- **Net sales increased by 33.6% year-on-year, driven mainly by the inclusion of the earnings of NIHON DENKI SERVICE Co., Ltd., a newly consolidated subsidiary from this fiscal year, and the acquisition of telework demand under Japan's state of emergency as special demand in the sale of Internet access, which is its mainstay business.**

Operating Profit

- **Operating profit increased by 302.9% year-on-year due to the increase in net sales.**

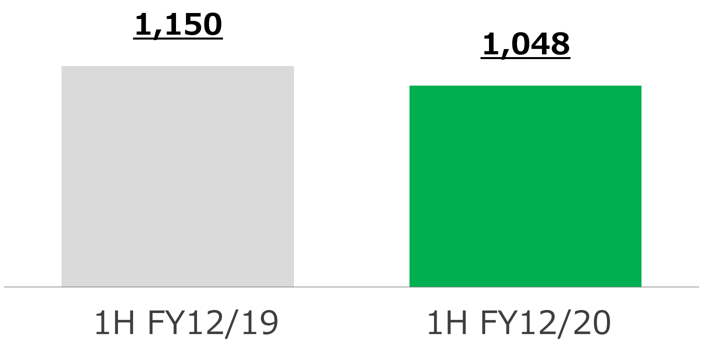
✓ NIHON DENKI SERVICE Co., Ltd., which was an unconsolidated subsidiary equity method affiliate, has been included in the scope of consolidation from the first quarter of the fiscal year ending December 2020.

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

Security, Other: 1H FY12/20 Year-on-Year Comparison

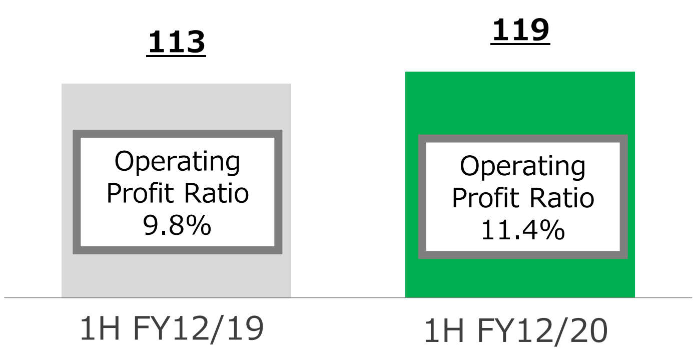
Net Sales (Million yen)

(8.9)%



Operating Profit (Million yen)

+5.6%



Net Sales

- **Net sales declined by 8.9% year-on-year due mainly to a decrease in temporary security projects caused by the impacts of COVID-19 pandemic.**

Operating Profit

- **Operating profit remained largely unchanged year-on-year, up 5.6%, due to an increase in operating profit ratio of 1.6 PT through curtailing SG&A expenses, mainly recruitment expenses and personnel costs, despite the drop in net sales.**

5. FY12/20 Progress of Strategy Implementation and Ongoing Initiatives

Business Targets and Strategy for the Fiscal Year Ending December 2020

Business Targets for the Fiscal Year Ending 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 Ending 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

Progress of Business Strategies for the Fiscal Year Ending December 2020

During the first half of the fiscal year, each strategy was limited due to the impacts of the COVID-19 pandemic.

Progress of Strategy 1

- We opened 5 new sales offices in the first half as initially planned, and closed 3 registration centers following the penetration of “online registration services” in an effort to rationalize operations. In the second half, we plan to open 5 new sales offices.

	New office openings in 1H	New office openings in 2H (planned)
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)

- The strategy “Capture short-term demand from the Tokyo Olympics” will be carried over to the next fiscal year and beyond due to the postponement of the Tokyo Olympics. Note that the initial business forecast for the fiscal year ending December 2020 did not take into account the effects of the celebration of the Olympics.

Progress of Strategy 2

- We continued with initiatives to improve usability by enhancing convenience of Cast Portal, the website exclusive for registered staff.
- We commenced 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

- There are no actual results for strategy “Promote placement services for foreign nationals with specified skills and host assistance services of foreign workers” due to the restriction on entries from other countries following the impacts of COVID-19 pandemic, but we will continue with sales activities to explore potential client demand.
- 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.

With the recognition that each strategy is a medium- to long-term issue, rather than transient in nature, we will continue to prepare, review and implement strategies to realize the effects in this fiscal year and subsequent fiscal years.

Ongoing Initiatives

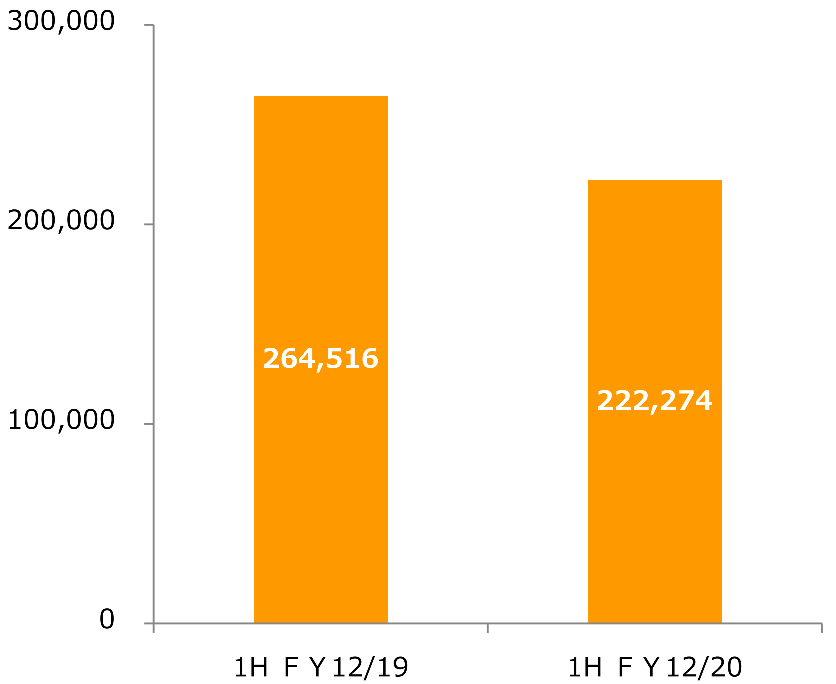
Initiative 1: Strengthen Hiring Capability

- 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 222,274 persons (down 16.0% year-on-year).

- Following the curtailment of hiring activities, recruitment expenses declined by 119 million yen year-on-year, and the recruitment expense to gross profit ratio declined by 1.30 PT.

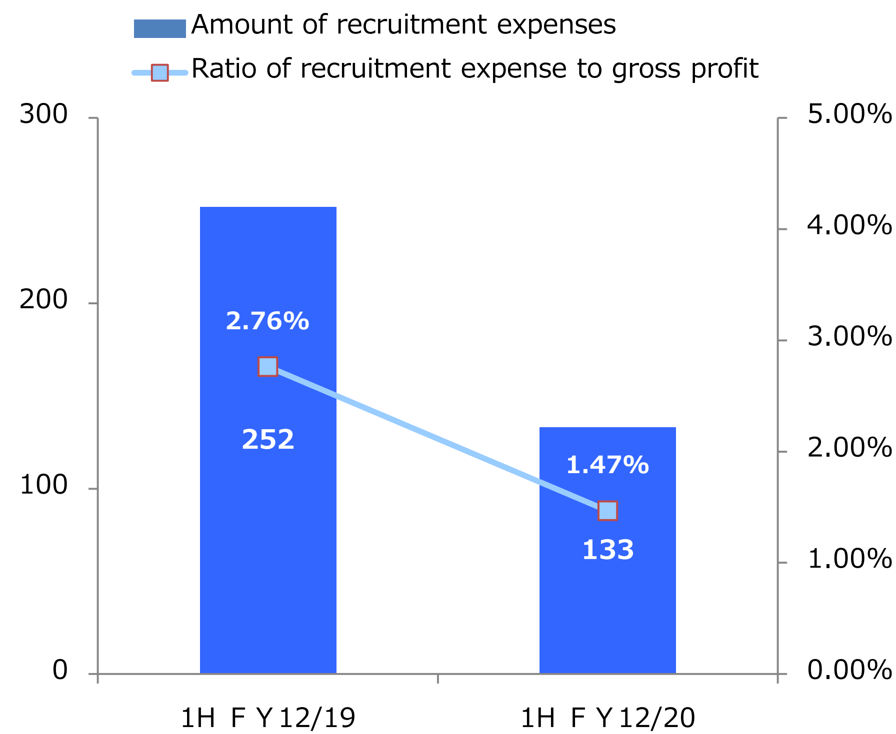
Number of hires

(Persons)



Recruitment expenses

(Million yen)



Ongoing Initiatives

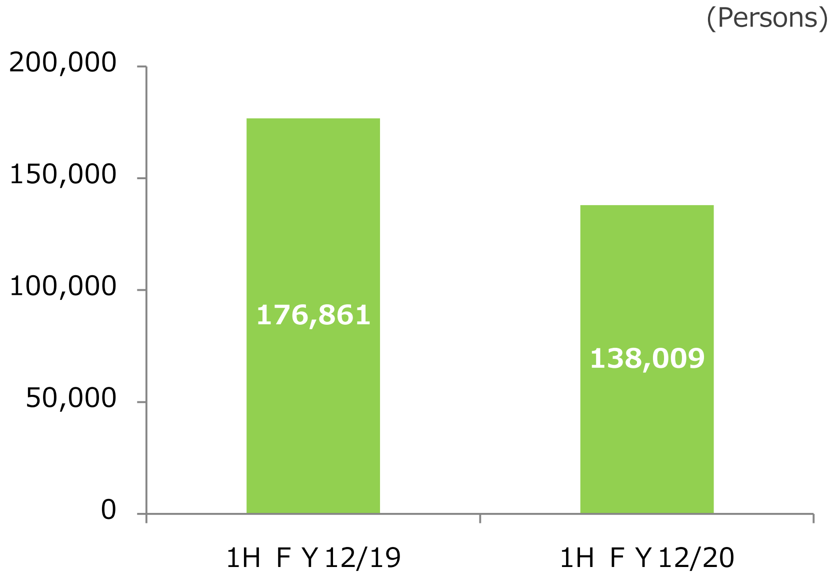
Initiative 2: Increase Number of Operating Workers

- The number of operating workers declined by 22.0% year-on-year, due to the contraction in demand among client companies because of the impacts of COVID-19 pandemic.

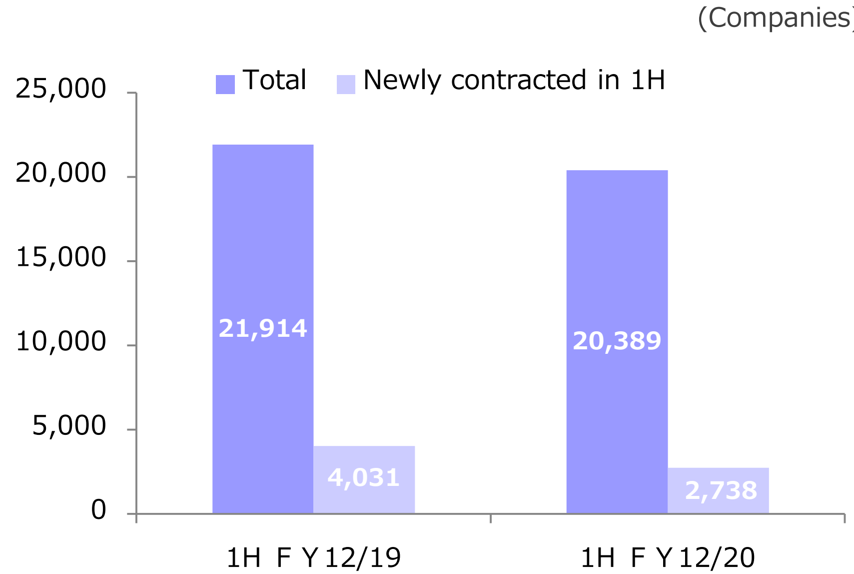
Initiative 3: Increase Number of Customers

- The number of customers also declined by 7.0% year-on-year, due mainly to the decrease in new customers of 32.1% year-on-year following the curtailment of new sales activities under Japan's state of emergency.

Number of operating workers



Number of Customers



Initiative 4: Gross profit per 1 yen of personnel costs

	1H FY12/19	1H FY12/20	Rate of change
Gross profit per 1 yen of personnel costs (yen)	2.7	2.5	(4.6)%

- "Gross profit per 1 yen of personnel costs" declined by 4.6% year-on-year to 2.5 yen due to a decline in gross profit.

6. 1H FY12/20 Progress Relative to Business Forecast

1H FY12/20 Progress Relative to Business Forecast

- Results for the first half of the fiscal year ending December 2020 indicate a rate of progress of 51.5% for net sales, 57.6% for operating profit, 58.1% for ordinary profit, and 58.7% for profit attributable to owners of parent, in comparison to the full-year business forecast released today. As a result, each rate of progress exceeds 50%.

(Million yen)

		1H FY12/20	Revised full-year FY12/20 forecast	Rate of progress
Net sales		21,435	41,600	51.5%
Gross profit		9,062	17,279	52.4%
Operating profit		3,281	5,700	57.6%
Ordinary profit		3,303	5,680	58.1%
Profit attributable to owners of parent		2,256	3,845	58.7%
Short-Term Operational Support Business	Net sales	17,969	35,333	50.9%
Sales Support Business	Net sales	2,418	4,275	56.6%
Security, Other Businesses	Net sales	1,048	1,992	52.6%

(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 0.5x 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 ending 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., which was an unconsolidated subsidiary equity method affiliate, has been included in the scope of consolidation from the first quarter of the fiscal year ending December 2020.
  - The “Sales Support Business” segment is mainly comprised of the “call center”, “online”, “alliance”, “entertainment” and “electricity charge reduction service” businesses.
  - The “call center”, “online” and “alliance” businesses each involve the sale of Internet access.

Providing the best place for people to bring out their best.

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