

Confidence Inc.

7374

Tokyo Stock Exchange Growth Market

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Summary

Realized all-time highs in sales and profit in FY3/22, expecting higher sales and profit again in FY3/23 with tailwind mainly from a favorable external environment

Confidence Inc. <7374> (hereinafter, the Company) was founded in August 2014 under the vision of envisioning the future together at the frontline of the creative industry. In its mainstay HR Solution business, the Company recruits and hires creators and provides staffing, recruitment, and outsourcing services to the gaming industry. In Media business, the Company operates its own media sites and offers assistance service for media operation. Despite being a latecomer to the industry, the Company has roughly 120 corporate clients and has cumulatively delivered services to approximately 190 companies since its founding. It has business transactions with the majority of medium-sized and larger gaming companies, including large firms such as Bandai Namco Studios Inc., Cygames, Inc., and GREE, Inc. <3632>.

The Company's competitive advantage is personnel matching capabilities supported by robust hiring and sales capabilities. To maximize total matching volume through the maximization of job seeker volume and job opening volume, the Company implements efficient organizational operation by designing the organization based on division of labor and standardization and simplifying operations as much as possible. As a result, it has realized high business growth rates and profitability since August 2014, with a compound annual growth rate (CAGR) of 62.5% in net sales and 72.0% in operating profit from FY3/17 to FY3/21. According to the Company, success in maintaining operating profit margin at a high level of 16.8% in FY3/22, in contrast to 10% or less at a majority of other companies in the HR industry, also demonstrates that the Company's strengths contributing to a high business growth rate and profitability.

1. Overview of FY3/22 results

In the FY3/22 consolidated results, the Company reported all-time high sales and profit at each level with net sales increasing 24.0% year on year (YoY) to ¥4,425mn, operating profit increasing 23.3% to ¥745mn, ordinary profit rising 22.3% to ¥737mn, and profit attributable to owners of parent up 32.9% to ¥530mn. Additionally, compared to the forecast announced in June 2021, it overshot all indicators with an increase of 0.9% in net sales, 3.8% in gross profit, 3.5% in operating profit, 2.9% in ordinary profit, and 6.6% in profit attributable to owners of parent. Mainstay HR Solutions business was steady due to efforts to deepen client relationships aimed at maximizing the number of people dispatched per client as set forth in the medium-term growth strategy. Among important KPI, the number of creator staffing assignments, which serves as the foundation of the Company's recurring income model, steadily increased by 120 people to 740, compared to the initial forecast of 700, and the creator utilization rate remained at a high level.

2. FY3/23 forecast

For the FY3/23 consolidated results, the Company is forecasting net sales of ¥5,200mn (up 17.5% YoY), operating profit of ¥850mn (up 14.0%), ordinary profit of ¥848mn (up 14.9%), and profit attributable to owners of parent of ¥585mn (up 10.3%). Management hopes to achieve future growth through continued pursuit of maximizing the number of people dispatched per client set forth in the medium-term growth strategy in consideration of steady trends at major gaming companies even during the COVID-19 pandemic. In Media business, the Company presents a policy of changing its primary source of revenue from advertising network income to outsourced promotional services.

Summary

3. Growth strategy

The Company aims to achieve net sales of ¥10bn over the next three to five years with a medium-term growth strategy of business expansion by establishing a virtuous cycle (ecosystem) of deeper client relationships and business collaboration through the promotion of (1) broader and deeper client relationships, (2) diversified services, and (3) establishment of an ecosystem. Furthermore, as a long-term growth strategy, it advocates expansion of target markets and development in the digital entertainment field* through matching solutions and intends to develop business in the digital entertainment field through promotion of (1) expansion of target markets, (2) knowledge accumulation through expansion of outsourcing business, and (3) expansion and enhancement of matching scope.

* This refers to a field that provides digitalized entertainment, including gaming, digital live events, digital broadcasts, social media, and e-sports. It also includes services delivered in the metaverse.

As a medium-term growth strategy, the Company aims to maximize the number of people dispatched per client by deepening client relationships and to further expand income with cross-selling of recruitment and outsourcing business by utilizing the network built in HR Solution business. It aims to improve management efficiency by establishing and reinforcing a virtuous cycle through mutual collaboration of staffing, recruitment, and outsourced media businesses.

As a long-term growth strategy, the Company intends to accumulate knowledge through expansion of target markets and outsourcing business and develop business in the digital entertainment field. Since the metaverse, which has been rapidly becoming widespread in recent years, and skills in the gaming industry have a high affinity, FISCO thinks it is highly likely that the Company can succeed at entering the digital entertainment field that leverages the knowhow possessed by the Company and creators. This is certainly a diversification strategy that utilizes existing business assets and one that can be evaluated as an attractive growth strategy with a realistic future vision as well.

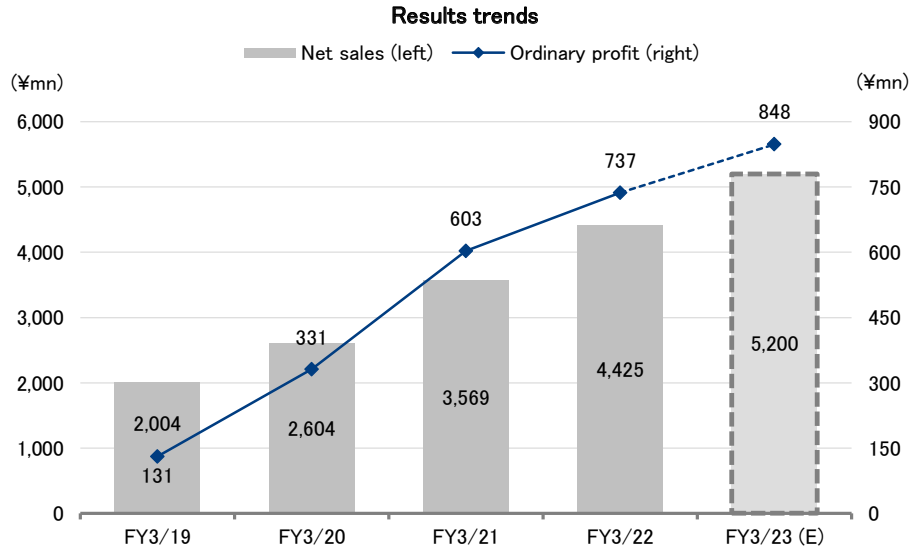
4. Shareholder return policy

The Company has adopted a basic policy of paying continuous and stable dividends while retaining necessary internal reserves for future business expansion and bolstering its financial standing, and targets a dividend payout ratio of over 30% and DOE (dividend of equity ratio) of over 10%. In accordance with this basic policy, in FY3/22, it paid a dividend per share of ¥40.0 (no dividend in the previous fiscal year), and positioned the dividend payout ratio at 33.8% and DOE at 15.7%. In FY3/23, it plans to pay a dividend per share of ¥45.0 (an increase of ¥5.0 YoY) and expects a 35.2% dividend payout ratio and 11.6% DOE.

Key Points

- Realized all-time high results in FY3/22 led by mainstay HR Solution business
- Targets higher sales and profit again in FY3/23 mainly on tailwind from a favorable external environment
- Aims to reach ¥10bn in net sales over the next three to five years through deeper client relationships and establishment of an ecosystem and plans to develop business in the digital entertainment field over the long term
- Adopted goals of a dividend payout ratio of over 30% and DOE of over 10% and paid a dividend per share of ¥40.0 in FY3/22

Summary



Source: Prepared by FISCO from the Company's financial statements and securities report

Business overview

Mainly provides staffing and recruitment business that specializes in the gaming industry

The Company, which was founded in August 2014 under a vision of envisioning the future together at the frontline of the creative industry, provides staffing, recruitment, and outsourcing services to the gaming and entertainment industries and assistance service for media operations. Despite being a latecomer to the industry, the Company has roughly 120 corporate clients and has cumulatively delivered services to approximately 190 companies since its founding. It has business transactions with the majority of medium-sized and larger gaming companies, including large firms such as Bandai Namco Studios, Cygames, and GREE.

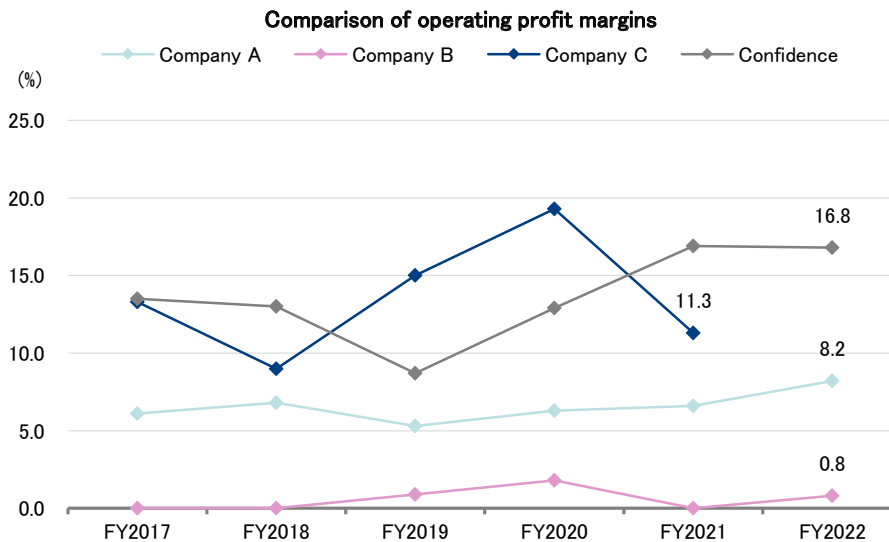
1. Market trends

The gaming industry, which is where the Company mainly provides services, has been trending upward and growing. Content scale in the domestic gaming market* climbed by US\$9,886mn in 2014 to US\$16,586mn in 2018 and is forecast to reach US\$21,249mn in 2023. Content scale in the global gaming market* is similarly achieving growth from US\$75,592mn in 2014 to US\$124,427mn in 2018 and a projected US\$172,663mn in 2023. As for gaming devices, meanwhile, the mobile gaming market is growing in scale. These expansion trends in the gaming market are supporting steady growth in results at gaming companies, the Company's main clients. Since the Company has set its sights on future overseas development in this environment, in addition to the domestic market where steady growth is expected, FISCO expects further increases to its results.

* Source: "Overview of Global and Japanese Content Markets (February 2020)" by Ministry of Economy, Trade and Industry.

Business overview

From the standpoint of staffing business in the gaming industry, the Company's operating profit margin is higher than its competitors. For example, while the Company's operating profit margin was 16.8% in FY3/22, its competitors had operating profit margins of 8.2%, 0.8%, and 11.3%, respectively. This disparity indicates that the Company is effectively leveraging its competitive advantage (details to follow).



Note: Fiscal years end in February for Company A, November for Company B, and March for Company C
 Source: Prepared by FISCO from each company's financial statements and results briefing materials

Operates HR Solution business and Media business under a vision of envisioning the future together at the frontline of the creative industry

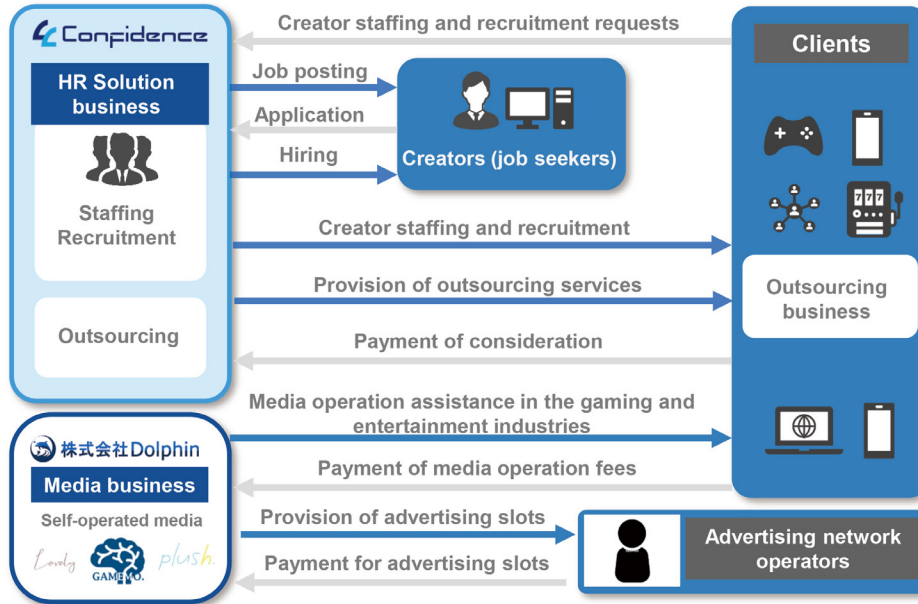
2. Business description

The Company presents a vision of envisioning the future together at the frontline of the creative industry and aims to jointly create a future in which creators achieve their dreams of career enhancement, the products in which they were involved are well-received, which leads to the advancement of client organizations, the industry, and society. Specifically, it supports creators in being involved in the entertainment industry and improving their careers to achieve their dreams and supports client companies by providing information and core personnel who create entertainment content.

HR Solution business, the Company's main business, recruits and hires creators and delivers staffing, recruitment, and outsourcing services to the gaming industry. It consists of staffing business, recruitment business, and outsourcing business. In Media business, the Company generates advertising income from running its own media sites and also provides media operation assistance services via its subsidiary Dolphin.

Business overview

Business diagram



Source: From "Disclosure of a business plan and matters related to high growth potential"

(1) HR Solution business

a) Staffing business, recruitment business

The mainstay staffing business dispatches human resources who have extensive knowledge of the gaming and entertainment industries and are ready to work on projects to gaming companies in accordance with client needs. The Company hires creators from among job seekers on a wide range of levels from entry level employees to people with substantial industry experience to address client requirements and has been expanding the number of hired creators by matching the needs of clients and the skills of creators. The number of creators reached 740 at the end of March 2022. The Company strives to enhance the careers of creators with business skill training, programs on knowledge and skills required in game development, and other training activities. In recruitment business, meanwhile, the Company provides assistance throughout the entire process from initial research until offer acceptance related to the recruitment of highly skilled personnel who take a central business role for gaming companies and the IT and web industries. It also offers freelance service that offers access to professionals with extensive industry experience and advanced skills on a project basis.

Examples of creators at gaming companies cover a wide range of roles, including game producers overseeing the entire project including the budget, schedule, and personnel composition, game directors managing the production sites including schedule management, game planners designing the game, game programmers handling programming for game development, scenario writers, and client support staff. Examples of creators for the IT/web industry are broad as well, and include web producers overseeing the entire project such as the delivery date, budget, and personnel composition, web directors controlling the production site, and web designers handling the design.

Business overview

Supported positions and results

GAME	MOBILE, WEB
<p>Game producer, game director, game planner, game programmer, art director, 3D CG designer, 2D CG designer, project manager, script writer, debugging leader, debug engineer, scenario writer, customer support, sound creator, localization and translation, etc.</p>	<p>Web producer, web director, web designer, UI/UX designer, web content planning, front-end engineer and coder, application development engineer, server engineer, programmer, project manager, test engineer, etc.</p>

Source: From the Company's website

b) Outsourcing business

Outsourcing business handles game development and operational tasks that can be outsourced, and the Company primarily receives consignments for debugging* game titles. Due to the high level of confidentiality in game title debugging, the Company established a dedicated office in the Shinjuku-ku in April 2020. It strives to enhance sales and management operations while making preparations to expand the scope of the business. Furthermore, the Company is working to increase the number of new project leads acquired through collaboration with the staffing business. Aside from debugging, it handles multilingual localization service in a variety of languages, including English, Chinese, and Korean, and customer support.

* Refers to the task of finding and revising computer program bugs and defects and making changes to ensure operation in accordance with specifications.

(2) Media business

The Company obtains advertising income from operating media sites, such as Lovely, which is geared toward women, Plush, for a fortune-telling, and GAMEMO, for gaming. Based on operational knowhow of media sites, it handles promotion assistance, such as social media operation service, and accommodates not only the gaming industry but a wide range of other industries. Although advertising income generates the majority of revenue in the current income structure, the Company advocates a policy of pursuing sales expansion by focusing on promotional assistance outsourcing.

Personnel matching capabilities supported by robust hiring and sales capabilities

3. Strengths

The Company's competitive advantage is personnel matching capabilities supported by robust hiring and sales capabilities. To maximize total matching volume through the maximization of job seeker volume and job opening volume, the Company implements efficient organizational operation by designing the organization based on division of labor and standardization and simplifying operations as much as possible. As a result, it has realized high business growth rates and profitability since August 2014, despite being a latecomer to the industry.

Business overview

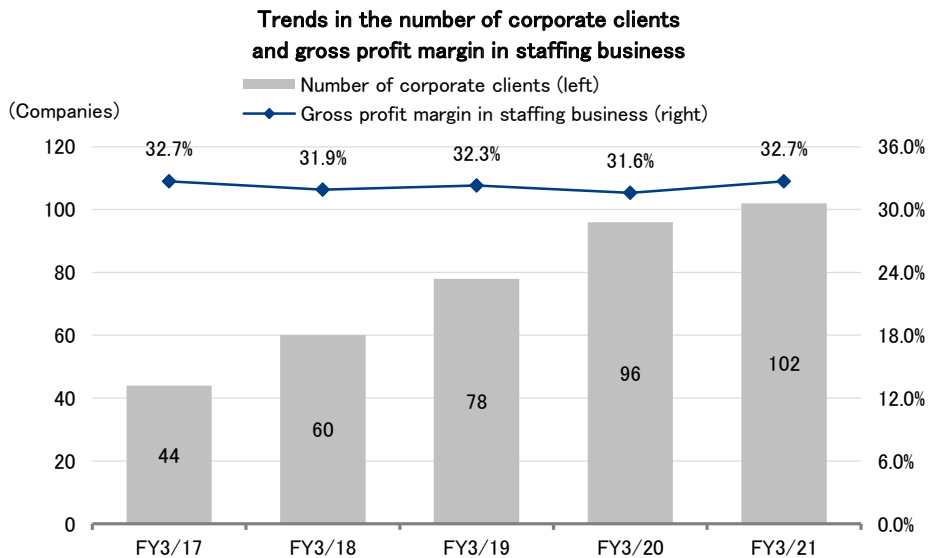
(1) Hiring capabilities

The Company efficiently attracts clients by specializing in the gaming industry and achieves stable hiring. While it has many active entries due to the popularity of the gaming industry, the Company also maintains referral hiring (people hired through introductions from acquaintances) at a certain percentage and therefore receives roughly 10,000 applicants every year. Strong employee satisfaction contributes to hiring capabilities as well. The Company introduces work from a wide range of industries even to unexperienced people and provides opportunities to enhance skills through actual jobs. It also limits the turnover rate and supports longer employment periods by conducting monthly interviews and other forms of communication that resolve the concerns and frustrations expressed by creators at an early stage. Meanwhile, since the Company is familiar with the gaming industry, it places job opening advertisements in response to changes in the human resources market environment and continually analyzes the cost performance of advertising media and suitably adjusts advertisement allocations. As a result, the Company has built a framework that efficiently generates profits with hiring LTV * at roughly 19-fold.

* Hiring LTV (Life Time Value) refers to the amount of gross profit acquired per person from their entry into the company to leaving versus the hiring cost per person.

(2) Sales capabilities

The Company realizes robust sales capabilities from management’s knowhow in the HR industry and early accumulation of knowledge through specialization in the gaming industry. With salespeople occupying a high percentage of all employees at roughly 40%, it is evident that the Company emphasizes the ability to develop clients and job recruitments. In client development, the Company’s policy is to expand the number of client companies to avoid reliance on certain clients. It distributes risk by having many clients and secures a certain level of gross profit margin (in FY3/21, it had 102 corporate clients and the gross profit margin of staffing business was 32.7%). By continuously deepening client relationships, the Company has been raising the number of dispatched personnel per client and successfully expanded volume per client from 2.36 people in FY3/17 to 5.77 in FY3/21.



Source: Prepared by FISCO from “Disclosure of a business plan and matters related to high growth potential”

Business overview

(3) Matching capabilities

The Company achieves high-precision matching through a process that factors in client needs and creator skills based on knowledge of the gaming industry. Its abundant volume of job openings and creator volume also contribute to high-precision matching. The Company has also built operations that finalize contracts in a short period, and about 70% of job seekers are given assignments within a month of their interviews. As a result, the average annual utilization rate for its creators stands at an impressive 98.8% (April 2020 to March 2021).

(4) Efficient organizational operation

The Company realizes high business growth rates and profitability, despite being a latecomer to the industry, through efficient organizational operation by designing the organization based on division of labor and standardization and simplifying operations as much as possible. Through standardization, it implements process management with defined business KPIs. In this way, the Company works to enhance productivity while discovering risks that may decrease earnings at an early stage and minimizing losses.

The Company has realized rapid growth, with a compound annual growth rate (CAGR) of 62.5% in net sales from FY3/17 to FY3/21, a compound annual growth rate of 72.0% in operating profit, because of a business strategy based on its competitive advantage and efficient organizational management. According to the Company, success in maintaining the operating profit margin at a high level of 16.8% in FY3/22, in contrast to a margin of 10% or less at a majority of other companies in the HR industry (according to the Company), also demonstrates that the Company's strengths help it to achieve a high business growth rate and profitability.

Results trends

Realized all-time high results in FY3/22 led by mainstay HR Solution business

1. Overview of FY3/22 results

In the FY3/22 consolidated results, the Company reported all-time high sales and profit at each level with net sales increasing 24.0% YoY to ¥4,425mn, operating profit increasing 23.3% to ¥745mn, ordinary profit rising 22.3% to ¥737mn, and profit attributable to owners of parent up 32.9% to ¥530mn. Additionally, compared to the forecast announced in June 2021, it overshot all indicators with an increase of 0.9% in net sales, 3.8% in gross profit, 3.5% in operating profit, 2.9% in ordinary profit, and 6.6% in profit attributable to owners of parent. Mainstay HR Solution business was steady due to efforts to deepen client relationships aimed at maximizing the number of people dispatched per client as set forth in the medium-term growth strategy.

Results trends

Outline of consolidated results for FY3/22

(¥mn)

	FY3/21		FY3/22		YoY		Versus forecast	
	Results	% of net sales	Forecast	Results	% of net sales	Change		Change (%)
Net sales	3,569	-	4,386	4,425	-	855	24.0%	0.9%
Gross profit	1,236	34.6%	1,473	1,528	34.5%	292	23.6%	3.8%
Operating profit	604	16.9%	720	745	16.8%	140	23.3%	3.5%
Ordinary profit	603	16.9%	717	737	16.7%	134	22.3%	2.9%
Profit attributable to owners of parent	399	11.2%	498	530	12.0%	131	32.9%	6.6%

Note: FY3/22 forecasts are figures announced in June 2021

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

Below is an outline by business segments.

Outline of FY3/22 results by segment

(¥mn)

	FY3/21		FY3/22		YoY	Versus forecast	
	Results	Composition ratio	Forecast	Results			Composition ratio
Net sales	3,569	-	4,386	4,425	-	24.0%	0.9%
HR Solution business	3,496	98.0%	4,253	4,353	98.4%	24.5%	2.4%
Media business	72	2.0%	132	77	1.7%	6.6%	-41.5%
Adjustments	-	-	-	-6	-0.1%	-	-
Gross profit	1,236	34.6%	1,473	1,528	34.5%	23.6%	3.8%
HR Solution business	1,186	33.9%	-	1,481	34.0%	24.9%	-
Media business	49	68.9%	-	46	60.4%	-6.5%	-
Operating profit	604	16.9%	720	745	16.8%	23.3%	3.5%
HR Solution business	937	26.8%	-	1,166	26.8%	24.4%	-
Media business	13	18.1%	-	13	17.5%	3.1%	-

Note: FY3/22 forecasts are figures announced in June 2021

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

(1) HR Solution business

In HR Solution business, results were ¥4,353mn in net sales (up 24.5% YoY), ¥1,481mn in gross profit (up 24.9%), and ¥1,166mn in segment profit (up 24.4%). The segment sustained steady momentum while maintaining a high level of profits. Staffing business performed well thanks to not only emphasis on deepening relationships with existing clients but establishing transactions with new clients as well, with the aim of expanding the number of assigned personnel in the mainstay staffing business for gaming companies.

Among important KPI, the number of creator staffing assignments, which serve as the foundation of the Company's recurring income model, steadily increased by 120 people to 740, compared to the initial forecast of 700, and the creator utilization rate remained at a high level throughout the fiscal year at 99.4% in 1Q, 99.9% in 2Q, 99.7% in 3Q, and 99.6% in 4Q.

(2) Media business

Net sales were ¥77mn (up 6.6% YoY), gross profit was ¥46mn (down 6.5%), and segment profit was ¥13mn (up 3.1%). Although page views (PVs), an important KPI, was roughly unchanged YoY at a slight 0.4% increase to 137,787,000 PVs, average price per PV declined YoY, and net sales decreased in the advertising network business. To address this situation, the Company advocates a policy of changing its primary source of revenue from advertising network income to outsourced promotional services.

Results trends

No concerns about financial soundness

2. Financial condition and management indicators

Total assets at the end of FY3/22 increased ¥884mn from the end of the previous fiscal year to ¥2,437mn. Current assets rose by ¥849mn to ¥2,268mn mainly due to increases of ¥784mn in cash and deposits and ¥69mn in accounts receivable – trade. Non-current assets increased ¥34mn to ¥169mn.

Total liabilities at the end of FY3/22 decreased ¥133mn from the end of the previous fiscal year to ¥782mn. The main factors were decreases of ¥90mn in borrowings and ¥56mn in income taxes payable. Total net assets increased ¥1,018mn to ¥1,655mn due to the recording of ¥530mn of profit attributable to owners of parent.

Looking at management indicators, the equity ratio, which reflects management stability, increased 26.6pt compared to the end of the previous fiscal year to 67.6% and additionally, the Company also has ¥1,724mn in cash and deposits, so FISCO does not have any concerns about its financial soundness.

Consolidated balance sheet and management indicators

	(¥mn)		
	End FY3/21	End FY3/22	Change
Current assets	1,418	2,268	849
Cash and deposits	940	1,724	784
Accounts receivable – trade	445	515	69
Non-current assets	134	169	34
Property, plant and equipment	39	24	-15
Intangible assets	8	11	3
Investments and other assets	86	132	46
Total assets	1,553	2,437	884
Current liabilities	802	759	-42
Non-current liabilities	113	22	-91
Total liabilities	915	782	-133
Retained earnings	230	761	530
Total net assets	637	1,655	1,018
Management indicators			
Equity ratio	41.0%	67.6%	26.6pt
Profitability			
Return on assets (ROA)	46.0%	37.0%	-9.0pt
Return on equity (ROE)	89.5%	46.5%	-43.0pt

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

In FY3/22, net cash provided by operating activities was ¥461mn, with ¥733mn in profit before income taxes and ¥267mn in income taxes paid as the main items. Net cash used in investing activities was ¥64mn with the main factors being ¥10mn in purchase of intangible assets and ¥47mn in payments of leasehold and guarantee deposits. Net cash provided by financing activities was ¥387mn, with the main factor being ¥473mn in proceeds from issuance of shares. As a result, cash and cash equivalents rose by ¥784mn during the period to a balance of ¥1,724mn at the end of the period. FISCO thinks the Company's financial condition is sound, even with the negative cash flow from investing activities, because this amount can be offset by cash flow from operating activities.

Results trends

Consolidated statement of cash flows

	FY3/21	FY3/22
	(¥mn)	
Cash flow from operating activities	486	461
Cash flow from investing activities	-9	-64
Cash flow from financing activities	-146	387
Net increase (decrease) in cash and cash equivalents	330	784
Cash and cash equivalents at end of period	940	1,724

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

Outlook

Forecasts higher sales and profit again in FY3/23 mainly on tailwind from a favorable external environment

For the FY3/23 consolidated results, the Company forecasts net sales of ¥5,200mn (up 17.5% YoY), operating profit of ¥850mn (up 14.0%), ordinary profit of ¥848mn (up 14.9%), and profit attributable to owners of parent of ¥585mn (up 10.3%). In consideration of medium- to long-term growth, the Company formulated a business plan with 15-20% net sales growth, gross profit margin of over 30%, and operating profit margin of over 15% for FY3/23 financial targets. It will aim for further growth by continually maximizing the number of people dispatched per client advocated in the medium-term growth strategy considering the steady trends at major gaming companies even during the COVID-19 pandemic.

Consolidated results forecast for FY3/23

	FY3/22		FY3/23		YoY	
	Results	% of net sales	Forecast	% of net sales	Change	Change (%)
Net sales	4,425	-	5,200	-	774	17.5%
HR Solution business	4,347	98.3%	5,070	97.5%	722	16.6%
Media business	77	1.7%	130	2.5%	52	68.5%
Gross profit	1,528	34.5%	1,787	34.4%	258	16.9%
Operating profit	745	16.8%	850	16.3%	104	14.0%
Ordinary profit	737	16.7%	848	16.3%	110	14.9%
Profit attributable to owners of parent	530	12.0%	585	11.3%	54	10.3%

Note: Figures do not include internal sales among segments.

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

Outlook

Forecasts for each business segment are as follows.

(1) HR Solution business

The Company forecasts that net sales will increase 16.6% YoY to ¥5,070mn. Since gaming companies' results have remained steady even during the COVID-19 pandemic and gaming companies are continuing to recruit for human resources required in game development, mainstay staffing business will work to expand the number of dispatched creators. Additionally, the recruitment business will seek to expand the number of recruited people against a backdrop of vibrant interest in hiring mainly at gaming companies and IT/web-related clients. In outsourcing business, the Company projects that it will sustain project volume through cross-selling that utilizes the network in staffing business amid the prospect of continuation of a certain amount of demand mainly for debugging projects from gaming companies.

(2) Media business

The Company forecasts that net sales will increase 68.5% YoY to ¥130mn. Meanwhile, the Company states that as a result of the slowdown in the advertising market due to the COVID-19 pandemic and difficulty in forecasting the impact of updates to Google's search algorithm, it is unclear whether or not the average price per PV and number of PVs will continue to be stable. To address these conditions, the Company intends to transform its profit structure by increasing outsourcing projects related to Media business, while striving to enhance the quality of article production and increase the output of manga content.

Growth strategy

Aims to reach ¥10bn in net sales over the next three to five years through deeper client relationships and establishment of an ecosystem and plans to enter the digital entertainment field over the long term

The Company formulated medium-term and long-term growth strategies in June 2021. It aims to reach ¥10bn in net sales over the next three to five years with a medium-term growth strategy of business expansion by establishing a virtuous cycle (ecosystem) of deeper client relationships and business collaboration through promotion of (1) broader and deeper client relationships, (2) diversified service scope, and (3) establishment of an ecosystem. Furthermore, as a long-term growth strategy, it advocates expansion of target markets and initiatives in digital entertainment field through matching solutions and hopes to develop business in the digital entertainment field through promotion of (1) expansion of target markets, (2) knowledge accumulation through expansion of outsourcing business, and (3) expansion and enhancement of matching scope.

Growth strategy

1. Medium-term growth strategy**(1) Broader and deeper client relationships**

The Company intends to acquire new work opportunities for creators and maximize the number of people dispatched per client by further deepening relationships with clients. Specifically, it intends to discover new human resource needs by assessing future demand through hearing of game product development schedules and referrals to other divisions at the same client companies. It aims to become the overwhelmingly No.1 staffing business in the gaming industry by promoting these activities. FISCO believes the Company can fully maximize the number of dispatched people per client through a business expansion by assured and efficient means of deeper client relationships.

(2) Diversified service scope

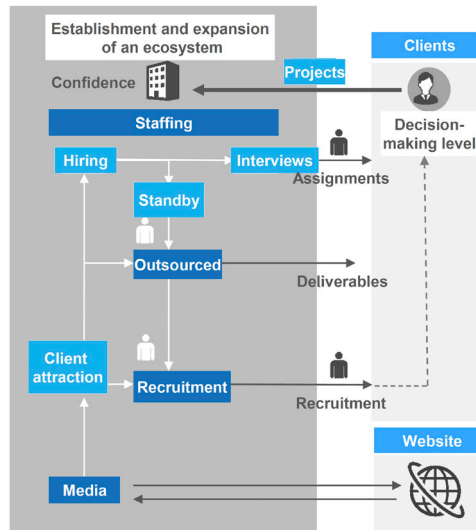
The Company previously was unable to effectively ascertain client needs and incurred latent opportunity losses due to staffing, recruitment, and outsourcing businesses operating separately. For this reason, it aims to expand income further through cross-selling of recruitment and outsourcing services by leveraging the network built in staffing business. This approach will increase client contacts and facilitate acquisition of attractive job openings in the recruitment business and support accurate identification of needs and provide services at suitable timing with increased awareness of the development schedule in outsourcing business. The Company aims to expand income per client by increasing contacts with clients and diversifying service provision.

(3) Establishment of an ecosystem

The Company hopes to improve management efficiency and increase opportunities to provide services to the gaming industry through mutual collaboration of staffing, recruitment, and outsourced media businesses and establishment and expansion of a virtuous cycle. In establishing the ecosystem, it aims to increase client attraction in staffing and recruitment businesses by using operation knowhow from the Media business and also promote opportunities for unemployed creators to work on outsourcing projects, enhance their skills by on-the-job training in outsourcing projects, and raise the average billing price per unit by finding employment for creators with advanced skills. In expanding the ecosystem, the Company expects an increase in outsourcing projects and recruitment results by leveraging the network built in staffing business. Additionally, it will promote increases in staffing opportunities and provision of promotional assistance to gaming companies utilizing client attraction knowhow from the Media business, among other things. It also aims to enhance management efficiency by possessing a virtuous cycle in this manner. FISCO thinks the Company is capable of improving profitability because the utilization of its existing network is expected to reduce costs compared to developing new business.

Growth strategy

Establishment and expansion of an ecosystem



Source: From "Disclosure of a business plan and matters related to high growth potential"

Aims to accumulate knowledge through expansion of target markets and outsourcing business and enter the digital entertainment field

2. Long-term growth strategy

(1) Expansion of target markets

The Company intends to diversify and broaden industries, areas, and formats and move from specialization in the gaming industry to entry into web and entertainment fields. As a means of industry diversification, in addition to the mainstay gaming industry, it will pursue HR Solution business in web and entertainment industries, which are peripheral fields. As a means of broadening areas, it plans to open sites in Fukuoka and Osaka within the next one to three years with the goal of improving brand recognition and increasing business scale and also is setting its sights on overseas opportunities in the future. As a means of format diversification, it will enter the freelance segment, which uses a different contract format than staffing and recruitment. The Company envisions formation of teams of highly skilled people and provision of a wide range of services by building a network with freelancers. FISCO has high hopes for its entry overseas. While the Company has not decided anything specifically such as the timing of entering overseas markets at this point, FISCO thinks that an overseas entry through M&A is a possibility.

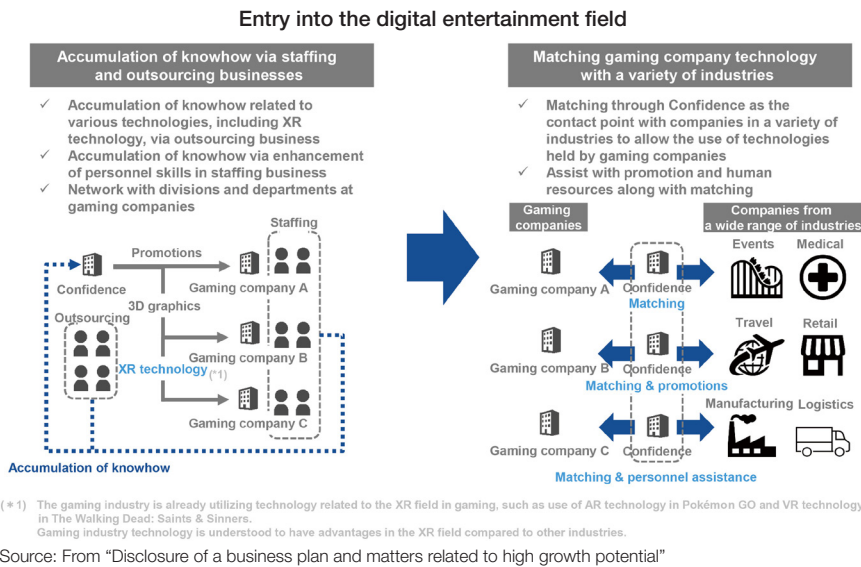
(2) Knowledge accumulation by expanding outsourcing business

Outsourcing business mainly handles game title debugging projects. However, the Company aims to provide a wide range of human resources by expanding media-related outsourcing services and broadening the scale and diversity of its pool of human resources. In terms of media-related outsourcing services, it envisions promotional assistance (attracting clients via social media and influencers) when gaming companies release new titles and development and operation services for owned media targeting gaming companies or game titles. As a means of broadening the scale and diversity of its pool of human resources, the Company will secure a pool of diverse human resources by handling a variety of outsourcing services, such as promotional assistance, debugging, translation, and development. It also intends to create a laboratory that gives employees opportunities to mutually acquire new skills and delivers new services using the skills obtained through this initiative.

Growth strategy

(3) Expansion and enhancement of matching scope

The Company aims to enter the digital entertainment field by broadening its matching solutions. Specifically, it aims to enter the digital entertainment field by utilizing its network with gaming companies to match gaming industry XR technology with companies from a variety of industries while knowledgeable personnel support the companies after matching using knowhow accumulated in staffing and outsourcing businesses. The Company will approach companies in various industries by not only matching gaming companies, its existing clients, and companies from other industries who want to leverage technology from gaming companies in their businesses but also by supplying promotional services and human resource assistance. Due to high affinity between the metaverse, which has been rapidly becoming widespread in recent years, and gaming industry skills, entry into the digital entertainment field leveraging knowhow possessed by the Company and creators, is likely to succeed. FISCO believes the additions of directors with gaming industry knowledge or extensive knowledge of the IT industry announced on May 12, 2022 indicate intent to enter these areas. This is certainly a diversification strategy that utilizes existing business assets and makes use of new personnel channels, and one that can be evaluated as an attractive growth strategy with a realistic future vision as well.



Shareholder return policy

Targets a dividend payout ratio of over 30% and DOE of over 10% and paid a ¥40.0 dividend per share in FY3/22

The Company has adopted a basic policy of paying continuous and stable dividends while retaining necessary internal reserves for future business expansion and bolstering its financial standing and targets a dividend payout ratio of over 30% and DOE of over 10%.

In accordance with the basic policy, in FY3/22, it paid a dividend per share of ¥40.0 (no dividend in the previous fiscal year), positioning the dividend payout ratio at 33.8% and DOE at 15.7%. In FY3/23, it plans to pay a dividend per share of ¥45.0 (an increase of ¥5.0 YoY) and expects a dividend payout ratio of 35.2% and DOE of 11.6%.

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