

Q&A at the Briefing of the Nine-month Results ended December 2020
(held on February 12, 2021)

Questioner 1:

I would like to ask two questions. First, let me get it straight with regard to the statement of Staffing SBU described on page 9 of the presentation material. The number of active temporary staffs in Q3 was decreased by 5.4% Year-on-Year, which was larger than the decrease by 2.9% YoY in Q2. I think that this is an important point to foresee the beginning of the next fiscal year. Have you taken any measures to increase the number of active temporary staffs in Q4 and toward the beginning of the next fiscal year?

In addition, an operating profit margin of Staffing SBU in Q3 was very strong mainly due to the contribution of BPO according to the presentation material. It seems that there are many spot contracts in BPO, and I would like to know about BPO situation, together with spot contracts.

Wada, Deputy President and Executive Officer:

It is true that a decreasing ratio YoY in the number of active temporary staffs was larger in Q3. To improve it, we are taking measures in Q4, especially from December 2020 to strengthen sales activities. I carefully watch what effects will be seen in March and April this year as a result of partial stagnation of business activities that has been caused after the declaration of the state of emergency issued in January 2021.

Although OP margin of BPO remains at a very high level, we predict that its sales growth rate in Q4 will be weaker because many spot contracts have been terminated in Q3. However, we are currently addressing sales activities in BPO for the next fiscal year. We also established a plan to receive orders at the same level of this fiscal year and now strive to achieve it, so I hope you can expect positive results of our efforts.

Questioner 1:

You said “to receive orders at the same level of this fiscal year” in your answer regarding BPO. Do you mean that you plan to achieve sales at the same level as this fiscal year, or that you plan to grow business as a base to the same extent as this fiscal year?

Wada:

The ratio of demand for spot contracts is relatively large in this fiscal year, but we plan

to achieve growth at the same level as this fiscal year by our effort that we should recover any decline that may be caused when demand for spot contracts dwindles.

Questioner 1:

Next, I would like to ask my second question. You explained that the full-year financial forecast would stay as is because the declaration of the state of emergency was issued. Do you experience any actual effects as a result of the declaration?

Wada:

As a result of the declaration of the state of emergency, business activities become sluggish. Not only in Staffing SBU, but also in Career SBU, business negotiations are delayed because our client companies shift to remote work system. Actually, there are cases where longer time is required to conclude or conclusion is postponed. Under these circumstances, however, I have my gut feeling that effects will not be so serious compared to the last year's declaration of the state of emergency because client companies have experienced the same situation, and because our sales staff are taking various measures such as changing the method of sales activity to increase the number of cases of approach to client companies.

Questioner 2:

Let me ask more about BPO in detail. It is reported that BPO business sales continued increasing at a high rate of 20% YoY up until to Q3. What percentage of the sales did spot contracts accounted for?

Wada:

It is difficult to answer that question because the term "spot" is not clearly defined in the company, but I can say that, of the entire annual sales of BPO which was approx. JPY 60 billion, the spot contracts that were and will be terminated within this fiscal year account for approx. JPY 8 billion. We are currently working to recover those contracts.

Questioner 2:

Second question is about overseas business. As you explained that business circumstances have bottomed out, I would like to ask what time frame you are thinking about for the business to generate profit?

Seki, Executive officer CFO:

The pace and degree of recovery from the effects due to COVID-19 are different from country to country. In this situation, I foresee that overseas business may be turning to profitability in around the second half of the next fiscal year.

Questioner 3:

Firstly, could you explain about the growth plan toward the next fiscal year? According to your plan, I understand that growth potential of Career SBU and Professional Outsourcing SBU will be increased and Staffing SBU will increase its profitability steadily. If you look at current status, profitability of both Career SBU and Professional Outsourcing SBU seems increasing more than original forecasts. Is it right to understand that the Mid-term Management Plan is therefore progressing well? I would also like to know if there are any concerns other than the declaration of the state of emergency such as some kind of cost arising in the next fiscal year and on.

Wada:

As you said, we understand that the things are progressing well as our Plan. Our major concern is about Staffing business. We estimate at this moment that there will be approx. 15,000 staffs for whom the contract will be terminated in March 2021. If that number becomes much larger than the estimate, our plan itself would be hindered. Approx. 40% of active temporary staffs are currently working from home and we think the important key is what evaluation will be given on the performance of those staffs in February and March. Working from home changes the way of working. If it leads to a change in client companies' system of allocating jobs to temporary staffs, we believe that there would be a big change in the business. We are closely watching if and what such change occurs. I would like to have an optimistic outlook, but we know that we need to observe carefully the market for any change.

Questioner 3:

Am I right to understand that you made a remark that you would like to see it optimistically to some extent because sales conditions are improving when you consider one-month prior notice regarding contracts for temporary staffs?

Wada:

Yes, you are right.

Questioner 3:

I have one more question about the change of top management. How should I look at the change to a new management team under the leadership of Mr. Wada from the current team under the leadership of Mr. Mizuta? I have the impression that the company has been growing through aggressive M&A after the 2008 global financial crisis. In current market situation, we can see a change in companies' strategy to increase their market share through M&A activities targeting firms that are weakened due to the effect of COVID-19 pandemic. Could you explain, under these circumstances, what area do you plan to focus the company efforts on?

Wada:

The Mid-term Management Plan has been drawn up mainly by three persons, Mr. Mizuta, Mr. Takahashi and me, Wada, and I think my mission is to implement the Plan firmly. As described in the Mid-term Management Plan, utilization of technology is an important theme for the company to innovate and expand our business. In addition to that, based on the lessons we have learned from the outbreak of COVID-19, we also believe that we need to make the existing business models stronger not only in Staffing but also in Career business. Additionally, overseas business should make money in the next fiscal year and be a driving force for future growth. So, I understand that I must fulfill my role to implement these three challenges are driven effectively. For this purpose, I will work in close cooperation with Mr. Takahashi to address them at double speed.

Mizuta, President and CEO:

Current business circumstances are severe in a way, but we should regard it positively as a really great opportunity for the Group. And I think it is the right time to change to a new president. Japanese style of employment has been changing slowly over the years, but in my opinion, it will be changed drastically by COVID-19 as a trigger. After 10 or 20 years from now, we will be looking back the time around 2020 as a turning point of the conventional system of employment. I estimate that at least approx. 30 to 50% of working people could lose their current jobs unless they change to next jobs. In other words, changing jobs will become a common practice. In addition, remote working will be prevailing, and as a result of it, working on freelance base and side job will be definitely seen commonly which are symbolic styles of working without limitation on the place and way of work. It presents an opportunity for the PERSOL Group to play its role. We aim to become a company that plays an essential role in society by taking this great opportunity to work together within the Group to realize a society where all working

individuals can “Work, and Smile” which is our Group vision even under these difficult circumstances.

Questioner 4:

The number of orders confirmed in Placement business in Career SBU in Q3 was 75% YoY, which improved from 40% YoY in Q1 but remains at the same level of 75% YoY in Q2, showing not much improvement. Could you explain in detail about the status of orders confirmed?

Seki:

The number of new orders received from client companies in Career SBU is increasing, but job matching cannot meet the requirements partly because demand for recruitment from new client companies is increasing. The number of orders confirmed was at a level of approx. 75% YoY in Q2 and Q3, but it is expected to recover gradually by the end of this fiscal year. Forecast for the next fiscal year is also a slow but steady recovery as it does in this fiscal year. Additionally, we expect that the recovery will be further driven by focusing our efforts also on increasing productivity.

Questioner 4:

Could you provide explanations in detail about the reason why job matching cannot meet the requirements even though there is increasing demand. Is it because of a shortage of the number of consultants or matching itself becoming harder?

Seki:

The biggest reason is increasing number of orders received from new client companies. In addition, the number of small-scale orders rather than large-scale mass orders is increasing. In this situation, we think that job matching cannot keep up the pace of increasing orders temporarily. However, we are intensively taking measures on this issue by making efforts to achieve higher performance on matching and we believe that the placement business will surely get on track to recovery.