April 11, 2023

Script and Q&A regarding Today's Timely Disclosure

■ Brief summary of today's announcement (Mr. Junji Tokunaga, Chief Financial Officer) over the presentation materials

P2. Today, we disclosed two matters.

(1) One is the revision of full-year financial forecast for FY2022. We have revised net profit in our full-year financial forecast for FY2022 from 30.5 billion yen, which we announced in November 2022, to 20.4 billion yen, due to impairment losses both in domestic and overseas businesses. On the other hand, we have revised up adjusted net profit which is an indicator for dividend payment, from 39.1 billion yen to 41.0 billion yen.

(2) We also announced our intention to change in dividend policy and forecast of dividend increase. We have decided to set a target payout ratio of approx. 50% under the new mid-term management plan for April 2023 to March 2026, so as to strengthen shareholder returns based on a basic management policy of growth and capital efficiency. In line with this policy and the strong current business performance, we have decided to increase the target of FY2022 payout ratio from approx. 25% to approx. 35%, with 2nd half dividend hike from 21 yen to 40 yen per share.

P4. First, I will explain details of the impairment loss and others. Regarding the mid-term management plan of APAC SBU, which was announced in August 2022, steady progress is made to achieve the target ROIC of 10% and target operating profit of 10.0 billion yen. We have reviewed the business portfolio of Programmed. Specifically, while focusing our efforts on Facility Management in the maintenance business, we reviewed CGUs from the end of last year to the spring of this year, positioning Property Services as a non-priority area. As a result, while the overall maintenance business was not hit by impairment previously, an impairment loss was recognized for Property Services, which we classified as a non-focus business this time, in the impairment test. We therefore posted 8.3 billion yen. We also posted 4.0 billion yen in an impairment loss on MIIDAS and other domestic businesses. In addition, there was an increase that reflected the employment promotion tax. As a result, we revised our net profit forecast from 30.5 billion yen to 20.4 billion yen. On the other hand, regarding adjusted net profit as an indicator for dividend payment, our policy is to reflect the non-cash extraordinary income/losses, impairment loss, and others in determining the value as the base for dividend. The amount of the adjustment was 20.6 billion yen this time, so we revised it up from 39.1 billion yen to 41.0 billion yen.

P5. Among the forecast values that we announced in November 2022, operating profit and EBITDA remain unchanged, at 53.0 billion yen and 75.2 billion yen, respectively. We have revised net profit and adjusted net profit as I explained earlier. As a result, we have revised adjusted EPS from 169.95 yen to 178.36 yen.

P6. This page shows details of the adjustment that I explained earlier. To profit attributable to owners of parent at right, which is 20.4 billion yen, adjusted items (extraordinary income of 13.1 billion yen and goodwill amortization of 9.0 billion yen) has been reflected while tax reconciliation related to certain adjusted items, which is -1.5 billion yen, has also been posted. Consequently, adjusted net profit is 41.0 billion yen.

P7. I will move on to explain the change in dividend policy and dividend increase.

P8. Based on our basic management policy of growth and capital efficiency, we have changed our dividend policy to increase the payout ratio under the new mid-term management plan, from approx. 25% to approx. 50%, so as to strengthen shareholder return.

P9. Reflecting this, regarding the dividend forecast for FY2022, we will increase our year-end dividend from 21 yen to 40 yen, while we have already paid an interim dividend of 21 yen. This will result in an annual dividend of 61 yen. Consequently, the annual payout ratio has been increased from approx. 25% to approx. 35%.

This concludes my explanation of (1) revision of financial forecast for FY2022 and (2) change in dividend policy and dividend increase.

■ Q&A

Questioner 1:
I have two questions. One is about the impairment in Australia. Regarding properties in what you call non-focus area, while the method of evaluating the performance and the direction remain completely unchanged, you have changed the classification and you have also considered the current interest-rate hike. Is that all? I would ask you to explain these points a little further.

CFO Tokunaga:

Thank you for your question. First, our answer to your question is Yes. To start with, the Staffing business, the Facility Management business, and the Property Services business that was subject to impairment this time are all making progress as planned. I will explain about the Property Services business in some detail. Its gross profit is about 100 million AUD and the bottom line is around 20 million AUD. Specifically, the Painting business is a business of painting buildings and other public structures for preventing rust and checking them. In addition, because Australia is large, the business includes the maintenance of parks and the similar facilities. The third segment is electrical work. In the Japanese classification, these services are rather close to the construction business, classified as so-called painting, landscaping, and electrical construction. Actually, these services are not very susceptible to the economic climate. I think it is a highly stable business in this sense. On the other hand, if we are asked if this business is likely to see substantial double-digit growth in the future, our answer is No. Therefore, we do not mean that this Property Services business has declined in performance this time. From the viewpoint of future market expansion, Staffing service and Facility Management service will grow significantly. We therefore intend to focus more efforts on these services. This is why we have separated the CGU, for which we recognized an impairment loss this time. It is for this technical reason that we have posted an impairment loss for the Property Services business. There is no impact on the business performance itself at all.

Questioner 1:

Thank you for the in-depth explanation. Next, my second question is about the MIIDAS business. Quarterly values in the fiscal year show that it was clearly slowing down, which I believe is why you have impaired it this time. First, you now make considerable investments in solutions, which are not limited to MIIDAS. I would like to know whether your policy, investment, and the strategic position of MIIDAS will change in the future or not. The other is my request for you. When you explain quarterly results, you mostly explain the Solution SBU part nicely. This time, however, you said that MIIDAS has been impaired. I think this is out of the blue for some people. Regarding communications about these points, I know that you cannot say "We will post an impairment loss," but there should have been more communications about them. That's just my feeling.

CFO Tokunaga:

Regarding MIIDAS, customer acquisition and sales activities have been going well. I think that the values we have disclosed are also favorable. On the other hand, while we would have made a plan to turn a profit next fiscal year or the fiscal year after next and return cash under normal circumstances, we have chosen a strategy to expand our customer base, and there was a suggestion that we should impair it this time. This is why we impaired it. We ask you to understand that, in this sense, our policy of continuing customer expansion and sales expansion has remained unchanged.

Questioner 1:

I really understand it. That is all from me. Thank you very much.

Questioner 2:

Aren't you considering a withdrawal from the Property Services of Programmed, MIIDAS, and Meetscare? For the former Solution SBU, investment rather than operating expenses has somehow remained untouched while the performance of the overall Group has been enhanced. Is the exit in sight? Can you show the position of each and the balance between future new investments and their recovery in the next mid-term management plan? Please explain your policy on discipline about the exit. In addition, here is a point that I am concerned about regarding the bloated investment of the former Solution SBU. Are POS+ and Shareful all right?

CFO Tokunaga:

First, I will explain about the Australian business and then about the former Solution SBU. First, in the Australian business, cost reduction and review of the business portfolio are making steady progress toward the achievement of ROIC at 10% and operating profit at 10.0 billion yen as the FY2025 targets that we disclosed in August 2022. At the management team, we expect these targets to be achieved. We would like to move forward to achieve the targets without changing the strategy significantly. Of course, we would like to expand or downsize each one of the small businesses and services included in it in a flexible manner, but the target ROIC of 10%, which we aim to achieve in three years, has not changed at all. I understand that your second question is about what strategies we will take in the future for various services of the former Solution SBU. On April 1, we have changed the position of the former Solution SBU to the R&D Function Unit. I will explain the purpose. The former Solution SBU has many services, and we changed it to the R&D Function Unit for the purpose of considering and checking whether to exit from the services or develop them, one by one, every year. This is the background to the change. Regarding MIIDAS, POS+, and Shareful as major services, we are not planning a major strategy change for any of them. While we posted an impairment loss for MIIDAS, sales activities themselves have been going well, and we would like to continue differentiating the services. POS+ has a certain level of competitiveness in Japan from the viewpoint of Cloud POS, so we will continue customer expansion. Shareful has a major competitor, but we would like to continue customer expansion as the No.2 in the industry. On the other hand, regarding services other than these three, we would like to exit from whichever we should by evaluating the performance and market value of each.

Questioner 2:

Regarding the new R&D Function Unit, can we expect that the mid-term management plan will clarify what investment discipline you will follow, when you will give up if you do so, and what indexes you will use?

CFO Tokunaga:
Yes, you can. We would like to explain about them, too.

Questioner 3:

I took it that you recognized impairment for Programmed and MIIDAS, a domestic business, in a fairly preliminary manner. Am I correct in understanding that you have done what you should do as immediate measures associated with the shift to IFRS, thus having become fully compliant with it? In addition, the presentation materials say that you have advanced your financial policy considerably to strengthen shareholder returns. Can I expect that, in the mid-term management plan, you will also disclose how to make investments for increasing the return, or investment cost efficiency such as ROIC in particular?

CFO Tokunaga:
Let me start by answering your first question. It was not because of the change to IFRS but because we followed the accounting principle that we posted the impairment loss. However, while the plan for Programmed remains unchanged from the one announced in August 2022, in consideration of the new mid-term management plan starting in April, we revised the business plan for MIIDAS and other domestic businesses of the former Solution SBU in line with the new mid-term plan. I think this was one of our conclusions. Regarding the second question about shareholder return and others, we are planning to explain the content of the new mid-term management plan at the time of the announcement of financial results on May 15. We plan to announce financial indexes, including financial discipline, cash allocation, and our approach to investment, as well on that occasion. I have refrained from referring to them today because we have yet to announce them.