

Six Months FY2025/3 Earnings Conference Q&A Summary

Date & Time : 16:00-17:00 Thursday, October 31, 2024

Presenters : Masaaki Muta, Representative Director, Co-president
Takeshi Kamiya, Representative Director, Co-president
Kenichi Ooya, Corporate Senior Office

[Q]: Despite solid growth achieved by both domestic and overseas affiliate segments, profit dropped in the parent company segment. With regard to sales, while you commented that you have made progress in price revisions, there seems to be little difference in sales growth rate between Q1 and Q2. Please explain the disconnect between your comment and actual performance.

[A]: In the parent company segment, although personnel expenses have risen by about 2% to 3% on an annual basis, we have maintained, or slightly improved the gross profit margin, which means that we have succeeded in pricing changes sufficiently to offset the increase in labor costs.

Looking at the results by service, digital integration and the BPO services as a whole have made steady growth. Amid the situation where we cannot expect much growth in the Contact Center market itself, we have achieved a certain level of growth in our contact center business. So, we believe the overall performance of the segment is not that negative.

[Q]: I understand that the increase in the parent company segment's SG&A expenses from around H2 of the last fiscal year is due to upfront investments. How do these investments contribute to sales going forward in your view?

[A]: These investments include ones that do not necessarily translate directly to sales, such as investments for establishing a solid governance base amid the situation where our overseas business and group companies continue to grow significantly. We will absorb such costs as we expand sales.

[Q]: It has been a year since H2 of last year when you increased SG&A expenses in the parent company segment. Will these expenses continue to rise in H2 this year, or will they level off somewhat? And as a result, can we expect an improvement in the operating profit margin in the segment from Q3 onwards compared to the same period last year?

[A]: We have been increasing the size of investments in indirect costs since H2 of last year, and that have remained roughly at the same level in H1 this year. More specifically, there was a slight decrease from Q1 to Q2 this year, but as H1, it was still roughly at the same level as H2 of last year. The size of investments will not change much for this H2, so the base will be about the same. However, due to the seasonality factors of H2, such as marketing activities, forums, etc., we may see a slight increase.

[Q]: In your presentation, you mentioned that you plan to increase the number of clients using combined CX services from the current 70 to 100. I have the impression that you are making steady progress with this combined CX service. In terms of profitability, how does it compare with other CX services? I also think that there is another benefit to this service, which is less likelihood of cancellation. What is your view on the contribution this combined CX service would make on profits?

[A]: Combining multiple CX services is our strategy for increasing revenues. Just to give you an example, when we present a call center service proposal to a client, we recommend the client to shift to chat from call and to take measures to enhance website. While call volume will drop by promoting the shift to chat and enhancing website, or online customer support, chat productivity is four times higher than that of call service; and our digital integration service, a service for enhancing website, has very high profitability. As a result, we can increase profitability even though sales drop due to lower call volume. We aim to grow our share in client's call center business that is currently handled by multiple players by making clients fully understand the benefit of this model. I appreciate your comment that we are making solid progress with this, but I personally think we are still behind, and I want to expand scale as well as accelerate the move.

[Q]: I find your strategy very interesting, that you aim to expand share by capturing all call center business currently handled by others, even though call center sales will decrease. How do you rate the progress you made with your 70 clients so far?

[A]: Our share in the call center industry is about 20% and our coverage in existing clients is still less than 50%. We are delivering combined CX services as a strategy to achieve 100% share within a client. It is still a work in progress, in other words, there is still room for growth.

[Q]: In terms of overseas sales trends, China is struggling a little, but other regions are doing well. How is China's profitability compared to the previous year?

[A]: Sales in China are struggling on a local currency basis. The e-commerce business

began to shrink from H2 of last year, and has been affecting the results up to this H1. On the other hand, in terms of profitability, we have been making significant progress in reducing fixed costs and other expenses in line with the decline in top-line sales, and as a result, we have significantly improved profits compared to the previous year through Q1 and Q2, and we continue to generate operating profits as well.

[Q]: In terms of H2 profits, what is the level of potential growth we can expect from overseas business as a whole?

[A]: We believe China's profits continue to grow year-over-year in H2 of this year, resulting in the year-over-year profitability improvement in the overseas business as a whole.

[Q]: I understand that you no longer track COVID-19-related sales and profits. What would be the size of sales and profits, roughly, from COVID-19-related jobs if you were to measure them?

[A]: We no longer track numbers focusing on the COVID-19-related projects internally, but it would be roughly several hundred million yen in terms of sales.

[Q]: I would like you to consider disclosing future corporate plans, dividend forecasts, etc. as well as providing a more detailed breakdown of profit related information.

[A]: Thank you for your valuable opinion. We will work positively where we can.

[Q]: You do not disclose capital allocation and cash allocation. Should we understand that your ideal balance sheet is to control it to make the net cash to monthly sales ratio at 1.5, as shown on your presentation material page 17 "Consolidated Balance Sheet Summary?" If so, what is the logic behind this 1.5?

[A]: Since personnel expense is a very large element in our business model, the payment of salaries inevitably comes first, so we need to have about 2.0 cash on hand in terms of monthly sales ratio, and we are running business with this ratio while optimizing various aspects. I believe this 1.5 is fairly good at this point.

[Document Note]

Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.

[Disclaimer]

The information contained in this document is the Company's view based on the question-and-answer sessions at the earnings conference. The Company makes no representations, warranties, or guarantees that the information contained in this material is accurate or complete. Forward-looking statements such as forecast and future business performance contained in this document are based on information available on the date of the announcement and estimates based on reasonable assumptions, and the Company does not represent any guarantee of future performance. Actual future results may differ materially from these forecasts due to various factors.