

CAREERLINK CO., LTD.6070 Tokyo Stock Exchange
First Section

17-Nov.-16

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Yuzuru Sato**■ Sales to local governments of services to implement Japan's personal identification number system were brisk in 1H FY2/17**

Careerlink Co., Ltd. (6070) provides comprehensive human resource services, primarily business process outsourcing. Its main strength is know-how in operating projects that need to be launched quickly and require large amounts of labor. Having completed many projects for the public sector, the Company is now receiving an increasing number of large business process outsourcing contracts from the private sector.

On September 30, 2016, Careerlink announced its non-consolidated business results for the first half of the fiscal year through February 2017, i.e., for 1H FY2/17. Sales grew 19.9% year-on-year (y-o-y) to ¥9,489mn and operating income advanced 42.3% to ¥558mn, a double-digit increase in both sales and profit. This growth was led by a 29.8% y-o-y rise in sales in the mainstay business process outsourcing division, reflecting strong operation from the beginning of the fiscal year to implement Japan's personal identification number system, introduced in 3Q FY2/16, in local government offices and increases in new orders to the private sector, mainly the financial industry and providers of electricity accompanying the liberalization of the electric power industry. Operating income in 1H FY2/17 exceeded the Company's forecast by ¥120mn, mainly because the Company hired fewer people than planned and incurred fewer operating expenses than planned. However, the Company expects these factors to be offset by larger increases in personnel and operating expenses in 2H FY2/17 than originally planned.

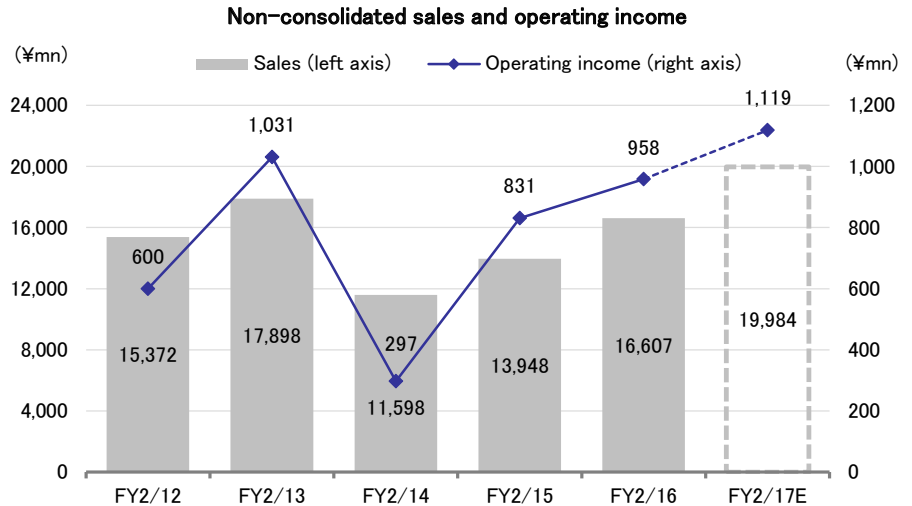
For FY2/17, the Company projects a 20.3% y-o-y upturn in non-consolidated sales to ¥19,984mn and a 16.8% rise in operating income to ¥1,119mn, both record highs. The Company continues to increase its order receipts, so it appears likely to achieve its full-year sales projection. In terms of profit, the Company plans to increase the number of its employees engaged in business development and sales in FY2/17 to support business growth in FY2/18 and future years. Thus, it foresees an increase in its costs related to personnel, contributing to a slight downturn in profit margins. However, if the Company's market conditions do not change notably, FISCO believes that the Company's profits in FY2/17 are likely to exceed its forecasts slightly.

The Company's medium-term business plan for FY2/17–FY2/19 aims to achieve non-consolidated sales of ¥30,000mn and non-consolidated operating income of ¥1,850mn in FY2/19. By taking advantage of its ability to make proposals to simultaneously improve administrative efficiency and product quality and its ability to implement proposed plans quickly, the Company intends to expedite its business growth, relying on its business process outsourcing division as its growth engine. In particular, there's the potential for personal identification numbers to be connected to bank deposit accounts beyond 2018 and the Company sees this as an opportunity to expand its business. M&A is also part of the Company's growth strategy, with a view to acquire IT companies that would strengthen the Company's business process outsourcing business.

The Company pays stable dividends and awards gifts to its shareholders. It also aims to increase its annual dividends as its profits grow. For FY2/17, the Company plans to pay full-year dividends of ¥10.0 per share (a dividend payout ratio of 17.3%), which would be ¥1.0 more than the dividends it paid for FY2/16, marking the third straight year of increases in dividends and further increases are anticipated as the Company continues to expand its profit going forward. Every year, the Company presents to its shareholders at the end of August QUO cards worth ¥500–2,000 each, depending on the number of shares held.

Check Point

- The Company possesses knowledge in the operation of large projects and has its own system to match personnel to jobs
- Management forecasts y-o-y rises in sales and profits to record highs for FY2/17
- There appears to be large potential demand for services for applying personal identification numbers to bank deposit accounts

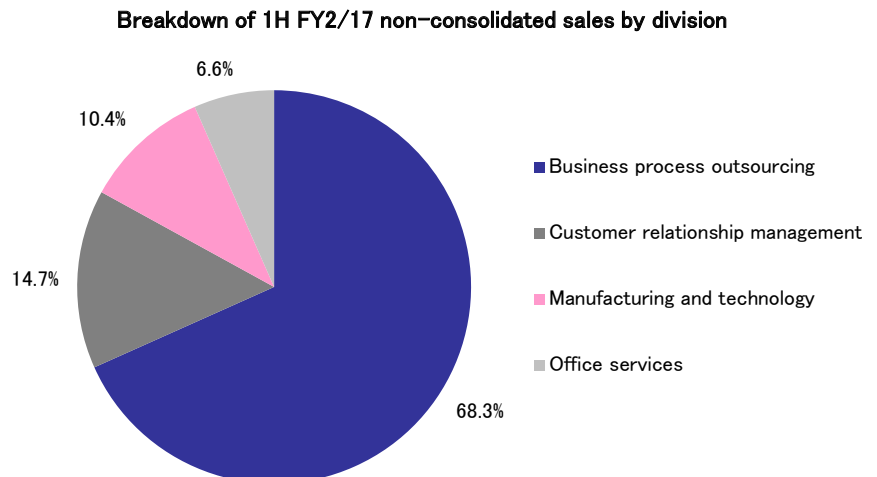


Business Outline

The Company possesses knowledge in the operation of large projects and has its own system to match personnel to jobs

Founded in 1996, Careerlink initially just dispatched temporary workers. Now, it has four divisions: business process outsourcing, customer relationship management, manufacturing and technology, and office services.

In 1H FY2/17, the mainstay business process outsourcing division supplied 68.3% of sales, the customer relationship management division 14.7%, the manufacturing and technology division 10.4%, and the office services division 6.6%. These divisions are described below.



Source: Company's presentation material



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(1) Business process outsourcing

To increase operational efficiency, lower costs, and improve the quality of their services, businesses and government organizations rely on outside companies to provide some of their business processes. Careerlink's business process outsourcing division contributes to this subcontracting process in several ways. It dispatches temporary personnel to subcontractors for projects under contract. It also presents proposals for improving operational efficiency to subcontractors and dispatches temporary personnel to the subcontractors under incentive contracts. It facilitates the subcontracting of business processes by companies and government organizations, and it contracts directly with these entities to provide temporary personnel.

By outsourcing some of their business processes, companies and government organizations can reduce their fixed costs, since they do not have to use full-time employees for the outsourced work, and lower their administrative costs. Subcontractors providing direct services to their client's customers and call centers can improve the quality of their services by outsourcing some of their business processes. The Public Services Reform Act implemented in 2006 requires public agencies and other organizations affiliated with the government to use competitive bidding by the private sector for projects that meet a marketability test.

Careerlink's main strength is its ability to supply even more than 1,000 workers to launch a large project in about one month. Using its proprietary system for matching workers with jobs (a web-based system that tests the abilities of workers and confirms their desired work schedules), the company can quickly assemble a competitive work force. It can handle all administrative tasks required for its dispatched personnel at their work sites, and it can rapidly propose and implement policies to improve operational efficiency by providing its regular, full-time employees (about 70% of its regular employees are now assigned to client projects).

To execute business process outsourcing work, Careerlink assembles teams of about 10 people, including a supervisor with extensive experience, and dispatches these teams to its customers. The supervisors instruct dispatched employees about the business processes of the clients and standardize the work shifts of these employees, enabling the rapid start-up of the projects and a smooth increase in productivity. This system is ideal for large projects requiring many workers. Many large projects use several employee dispatching companies for each process, but this practice often impedes the smooth connection of different processes and prevents an improvement of operational efficiency. Because Careerlink can provide personnel to perform all the processes of a project, the processes can be connected smoothly, raising efficiency. This ability allows the Company to expand its share of the transactions in a given project.

(2) Customer relationship management

Customer relationship management tries to develop good relationships between a provider of goods or services and its customers, thereby improving customer satisfaction. Careerlink's customer relationship management division dispatches temporary workers or introduces full-time personnel to telemarketing subcontractors or to the contact centers of companies and other organizations. It also undertakes telemarketing business as a subcontractor.

For telemarketing companies, the customer relationship management division dispatches teams of personnel like the BPO division does. In addition, Careerlink's own contact center subcontracts telemarketing business.

(3) Manufacturing and technology

The manufacturing and technology division dispatches temporary workers to corporate plants and warehouses to perform all kinds of manufacturing, assembly and distribution work. It also undertakes this work as a subcontractor. Most of the division's work is done in Hyogo Prefecture.

(4) Office services

The office services division dispatches temporary workers, including those who may eventually become regular employees of client companies, and introduces office workers as regular employees. It also provides office services as a subcontractor.

The dispatching of temporary workers by the customer relationship management division, manufacturing and technology division, and the office services division is under pressure from leading companies engaged in the same business, including Temp Holdings Co., Ltd. (2168) and Pasona Group Inc. (2168). However, Careerlink retains these businesses as a means to gain more customers for its business process outsourcing division.

■ Business Trends

Sales and profits grew notably y-o-y in 1H FY2/17, as sales to local public organizations and the private sector increased briskly

(1) 1H FY2/17 results

In 1H FY2/17, non-consolidated sales rose 19.9% y-o-y to ¥9,489mn, operating income grew 42.3% to ¥558mn, ordinary income advanced 44.3% to ¥554mn, and net income climbed 49.0% to ¥355mn. Sales in the mainstay business process outsourcing division grew 29.8% y-o-y, reflecting brisk sales to local public organizations and the private sector.

The operating income margin rose 0.9ppt y-o-y to 5.9% in 1H FY2/17. Reflecting an increase in the contribution to sales by the business process outsourcing division, the cost of sales ratio declined by 0.2ppt y-o-y. The SG&A costs ratio fell 0.7ppt y-o-y due to the increase in overall sales.

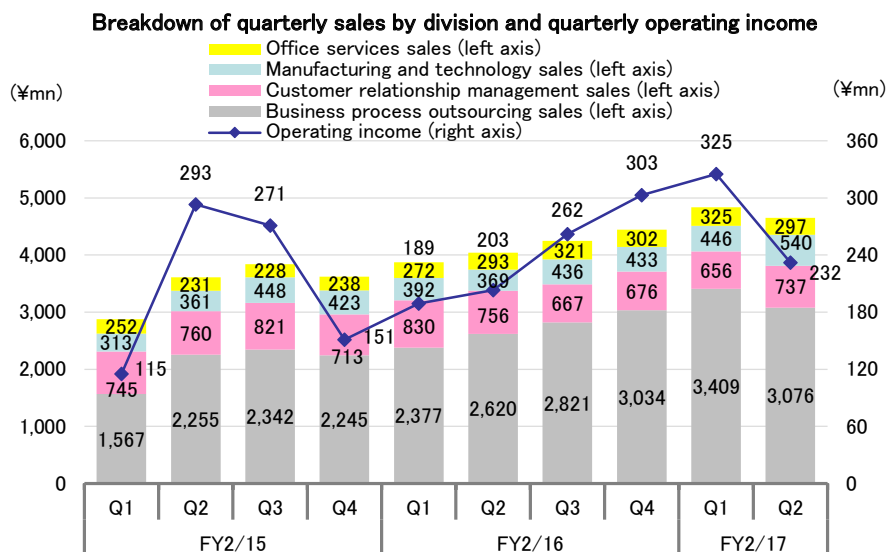
Sales in 1H FY2/17 were generally in line with the Company's forecast, but operating income surpassed the Company's forecast by ¥120mn. SG&A costs were ¥115mn below the Company's projection, reflecting a ¥57mn shortfall in personnel costs, a ¥35mn shortfall in employee recruitment costs, and a ¥23mn shortfall in other SG&A costs. The Company has been promoting to hire employees, mainly those involved in business development and sales. In 1H FY2/17, however, it hired fewer employees than planned, which accounts for the smaller SG&A costs than had been forecast. The Company expects the costs it avoided in 1H to be incurred in 2H FY2/17.

Business results

	1H FY2/16		1H FY2/17				
	Results	vs. sales	Initial plan				
				Results	vs. sales	y-o-y	vs. plan
Sales	7,914	-	9,519	9,489	-	+19.9%	-0.3%
Business process outsourcing	4,997	63.2%	6,465	6,485	68.3%	+29.8%	+0.3%
Customer relationship management	1,587	20.1%	1,448	1,393	14.7%	-12.2%	-3.8%
Manufacturing and technology	762	9.6%	950	987	10.4%	+29.5%	+3.9%
Office services	566	7.2%	655	622	6.6%	+9.9%	-4.9%
Cost of sales	6,323	79.9%	7,596	7,560	79.7%	+19.6%	-0.5%
SG&A costs	1,198	15.1%	1,484	1,369	14.4%	+14.3%	-7.8%
Operating income	392	5.0%	438	558	5.9%	+42.3%	+27.5%
Ordinary income	384	4.9%	430	554	5.8%	+44.3%	+28.8%
Net income	238	3.0%	280	355	3.7%	+49.0%	+26.9%
No. of employees	628	-	-	736	-	+17.2%	-

Source: Company's presentation materials

Sales in 2Q FY2/17 fell slightly relative to 1Q sales, for the first q-o-q decline in six quarters. This was due to the inclusion of ¥200mn in 1Q sales from the business process outsourcing division based on the project completion standard. Overall, sales continued to expand.



Source: Company's financial results material

(2) Division sales

a) Business process outsourcing

In the business process outsourcing division, sales grew 29.8% y-o-y in 1H FY2/17 to ¥6,485mn, which was 0.3% more than the Company had projected. The business process outsourcing division's sales to the public sector increased fourfold y-o-y in 1H FY2/17, reflecting a strong operation from the beginning of the fiscal year to implement Japan's personal identification number system, introduced in 3Q FY2/16, to local public organizations as well as acquiring new orders such as from public pension companies. Division sales to the private sector increased 10% y-o-y in 1H FY2/17, reflecting sales rises to the financial sector and to companies offering electricity following the liberalization of Japan's electric power industry. The division increased its share of transactions with existing customers and increased sales related to the implementation of the personal identification number system. The Company is acquiring new orders with its increased recognition in service quality.

b) Customer relationship management

In the customer relationship management division, sales declined 12.2% y-o-y in 1H FY2/17 to ¥1,393mn, which was 3.8% below the Company's forecast. This sales drop was due to two main factors. First, the absence of some spot contracts the division had in 1H FY2/16. Second, a portion of sales was transferred to the business process outsourcing division as the division newly acquired clerical tasks for some financial companies, in addition to the call center business it was performing for them.

c) Manufacturing and technology

In the manufacturing and technology division, sales rose 29.5% y-o-y in 1H FY2/17 to ¥987mn, which was 3.9% more than the Company had foreseen. Most of the sales increase was due to an increase in the division's share of business ordered by existing customers as customers in the electric appliance, medical equipment, and food processing industries increased their orders to the division. The division also expanded its area of operation into Shikoku and the Tokai region, where its existing customers have plants.

d) Office services

In the office services division, sales advanced 9.9% y-o-y in 1H FY2/17 to ¥622mn, which was 4.9% less than the Company had projected. This sales rise reflected an increase in the amount of work for existing customers, such as business centers.

■ Business Outlook

Management forecasts y-o-y rises in sales and profits to record highs for FY2/17

(1) Company forecasts for FY2/17

For FY2/17, the company maintained its original projections of a 20.3% y-o-y rise in non-consolidated sales to ¥19,984mn, a 16.8% increase in operating income to ¥1,119mn, a 17.2% upturn in ordinary income to ¥1,106mn, and a 22.1% advance in net income to ¥722mn. All these forecasts would be record highs. Although profits in 1H FY2/17 exceeded the Company's forecasts, the Company expects greater increases in personnel costs and recruitment costs in 2H than it had originally foreseen as the Company is promoting to hire more employees.

Company forecasts for FY2/17 versus results in FY2/16

	FY2/16		FY2/17			
	Results	vs. sales	Full-year plan	vs. sales	y-o-y	1H progress rate
Sales	16,607	-	19,984	-	+20.3%	47.5%
Business process outsourcing	10,853	65.4%	13,000	65.0%	+19.8%	49.9%
Customer relationship management	2,931	17.6%	3,100	15.7%	+5.8%	44.9%
Technology and manufacturing	1,632	9.8%	2,300	11.6%	+41.0%	42.9%
Office services	1,189	7.2%	1,500	7.7%	+26.2%	41.5%
Operating income	958	5.8%	1,119	5.6%	+16.8%	49.9%
Ordinary income	944	5.7%	1,106	5.5%	+17.2%	50.1%
Net income	591	3.6%	722	3.6%	+22.1%	49.2%

Source: Company's presentation material

Careerlink expects to achieve its sales forecast for FY2/17 as its order receipts continue to grow, led by firm orders for the business process outsourcing division. The Company projects a 19.8% rise in sales for the business process outsourcing division in FY2/17, a 5.8% increase in sales for the customer relationship management division, a 41.0% jump in sales for the manufacturing and technology division, and a 26.2% upturn in sales for the office services division.

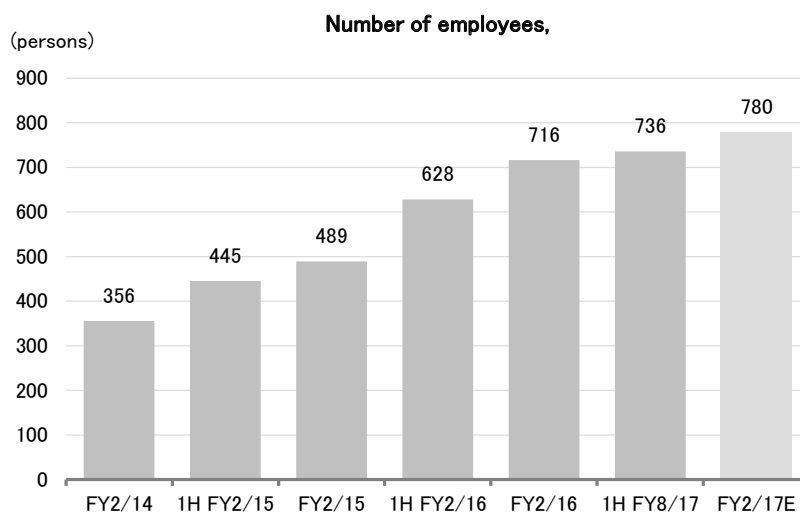
For the business process outsourcing division, the Company projects a doubling of sales to the public sector in FY2/17 as contracts concluded by the division in FY2/16 for services related to the personal identification number and to temporary government benefits remain in effect, while the division is receiving new orders. Division sales to the private sector are growing as projected by the Company at the start of the fiscal year, and the Company foresees a steady single-digit increase in these sales in FY2/17.

Careerlink intends to increase sales y-o-y at its customer relationship management division in FY2/17 and is concentrating on obtaining more high-margin projects for the division. The division has been receiving many inquiries for the contact centers of securities companies and other facilities needed by qualified securities broker representatives and plans to send more temporary workers to these facilities. The division is also thinking about expanding the floor space of its own call center to respond to new orders.

In the manufacturing and technology division, the Company plans to increase sales to existing customers by expanding the transaction share and to boost sales from new orders by winning more orders for clerical business.

Profits in FY2/17 are likely to depend on the Company's success in hiring more personnel. To support sales and profit growth in FY2/18 and beyond, the Company is trying to hire more people to engage in business development and sales. To obtain new orders, the Company has to hire new employees with experience in business process outsourcing. However, it has not been able to hire as many employees as targeted.

The Company plans to increase the number of its employees, including those posted to projects. Thus, it aims to employ 780 people by the end of FY2/17, which would be an increase of 64 from the end of FY2/16.



Source: Company's securities reports

There appears to be large potential demand for services for applying personal identification numbers to bank deposit accounts

(2) Medium-term business plan

At the start of FY2/17, Careerlink announced its business plan for FY2/17–FY2/19. This plan targets non-consolidated sales of ¥30,000mn and operating income of ¥1,850mn for FY2/19. If these targets are met, sales will have increased at a compound annual growth rate of 21.8% from FY2/16 to FY2/19, while operating income will have advanced by 24.5%. By taking advantage of its ability to make proposals to simultaneously improve administrative efficiency and product quality and its ability to implement proposed plans quickly, the Company intends to expedite its business growth, relying on its business process outsourcing division as its growth engine.

Medium-term business plan

	(¥mn)				
	FY2/16	FY2/17E	FY2/18E	FY2/19E	Compound annual growth rate (FY2/16–FY2/19)
Sales	16,607	19,984	25,000	30,000	21.8%
Business process outsourcing	10,853	13,000	17,000	21,000	24.6%
Customer relationship management	2,931	3,100	3,600	3,900	10.0%
Technology and manufacturing	1,632	2,300	3,100	3,800	32.5%
Office services	1,189	1,500	1,300	1,300	3.0%
Operating income	958	1,119	1,510	1,850	24.5%
(Operating income margin)	5.8%	5.6%	6.0%	6.2%	
Ordinary income	944	1,106	1,500	1,840	24.9%
Net income	591	722	970	1,200	26.6%

Source: Company's presentation material

The Company's operational strategy will emphasize sales expansion, strengthening the abilities to propose and execute plans, and conducting M&A



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a) Sales expansion

Careerlink expects its sales growth in coming years to be driven by demand from Japan's private sector for services related to the implementation of the country's personal identification number system. It estimates that its work on this system for the public sector should peak in the current fiscal year, but it foresees much greater potential demand from the private sector hereafter. In particular, there's the potential for personal identification numbers to be connected with bank deposit accounts beyond 2018 and the Company anticipates substantial demand for its services as a result. There are about 800 million bank deposit accounts for individuals in Japan. Simple arithmetic shows this is about six times the 120 million individuals currently covered by the personal identification number system for local public organizations. It is estimated that three years will be given until the personal identification numbers connecting bank deposit accounts are made compulsory, however, the Company will have an opportunity to expand its business significantly. Having completed many projects for local public organizations and for the opening of individual savings accounts (NISAs) at banks, Careerlink has earned a reputation for high-quality services, which should enable it to win a certain number of contracts to connect the personal identification numbers to bank deposit accounts. FISCO projects annual sales of several billion yen from this business. The Company is aiming to receive large orders for business process outsourcing work from both the public and private sectors. Consequently, Careerlink is projecting sales of ¥21.0bn from its business process outsourcing division in FY2/19, which would be 93% more than in FY2/16.

The customer relationship management division will aim to acquire high-margin projects and projects that contribute to more orders for the business process outsourcing division. It will also improve the quality of its staff through measures such as supporting staff in acquiring professional qualifications, thereby increasing the acquisition of high-priced projects. For FY2/19, the Company targets sales of ¥3,900mn for the customer relationship management division, which would be 34% more than in FY2/16.

The manufacturing and technology division will expand its work for manufacturers and distributors while targeting mainly high-margin production technology projects. The Company's FY2/19 sales target for this division is ¥3,800mn, which would be 133% more than in FY2/16.

The office services division will promote a business model that combines the dispatch of clerical workers for fixed periods of time, the dispatch of irregular workers for indefinite periods, and the dispatch of temporary workers who may be offered regular employment in the future. It will strategically place workers for indefinite periods and aim to win contracts for peripheral high-margin office services. The Company's FY2/19 sales target for this division is ¥1,300mn, which would be only 12% more than in FY2/16. This is the lowest rate of growth projected for any of the four divisions, reflecting two factors: 1) this division operates in areas where competition from leading personnel dispatch companies is intense, and 2) Careerlink stresses overall profitability over sales growth.

b) Strengthening abilities to propose and execute projects

To strengthen its abilities to propose and execute projects, Careerlink will continue to hire more employees to engage in business development and sales who excel at making proposals and develop more employees to lead teams assigned to projects. It will also improve the in-house training of its employees.

c) Conducting M&A

The Company is also considering undertaking mergers and acquisitions. The acquisition of technology companies engaged in upstream IT processes would probably lead to an improvement of the information systems used by the business process outsourcing division, enabling the division to submit proposals for projects upstream from its current range of business. In other words, it would further strengthen the ability to propose plans to improve operational efficiency.

■ Financial Condition and Shareholder Return Policy

As Careerlink grows, the Company is steadily strengthening its financial condition

(1) Financial condition

At the end of 1H FY2/17, Careerlink's assets totaled ¥5,750mn, which was ¥129mn more than the Company's total assets at the end of FY2/16. The balance of cash and deposits increased by ¥235mn from the end of FY2/16, while accounts receivable grew by ¥17mn. On the other hand, investments and other assets decreased by ¥68mn and work in progress fell by ¥53mn.

Total liabilities decreased by ¥129mn at the end of 1H FY2/17 to ¥2,832mn. Interest-bearing debt contracted by ¥100mn and other current liabilities, including accrued consumption taxes, dropped by ¥146mn. In contrast, income taxes payable increased by ¥43mn, and accounts payable grew by ¥39mn. Net assets increased by ¥258mn to ¥2,917mn. With the addition of 1H FY2/17 net profit, retained earnings increased by ¥355mn, while there was a decrease of ¥113mn in cash dividends paid.

Looking at key performance indicators, the equity ratio, a measure of financial safety, increased to 50.5% at the end of 1H FY2/17 from 47.3% at the end of FY2/16, while the interest-bearing debt ratio fell to 26.6% from 32.9%. Thus, the Company's financial position continues to improve as it grows.

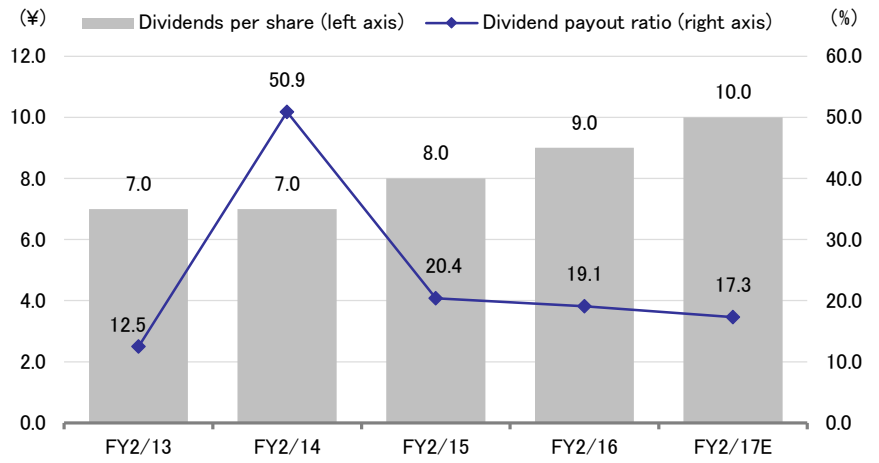
Balance sheet

	End of FY2/14	End of FY2/15	End of FY2/16	End of FY8/16	Change
	(¥mn)				
Current assets	3,027	4,902	4,900	5,088	188
(Cash and deposits)	1,579	3,173	2,617	2,853	235
Fixed assets	362	412	719	661	-58
Total assets	3,389	5,314	5,620	5,750	129
Current liabilities	1,108	2,635	2,476	2,414	-62
Fixed liabilities	495	484	484	417	-66
(Interest-bearing debt)	785	768	875	775	-100
Total liabilities	1,603	3,119	2,961	2,832	-129
Net assets	1,786	2,194	2,658	2,917	258
Key performance indicators (Financial stability)					
Equity ratio	52.7%	41.3%	47.3%	50.5%	
Interest-bearing debt ratio	44.0%	35.0%	32.9%	26.6%	

(2) Shareholder return policy

Careerlink intends to pay steady dividends to its shareholders reflecting its profit growth while retaining enough funds for conducting M&A, investing in IT, and other measures as the Company places enhancing corporate value a top priority. For FY2/17, it plans to pay a dividend of ¥10.0 per share (a dividend payout ratio of 17.3%), an increase of ¥1.0 from FY2/16. This would be its third straight year of dividend increases and further increases are anticipated as the Company continues to expand its profit going forward. The Company also presents original QUO cards worth ¥500-2,000, depending on the holdings, to all shareholders as of the end of August. Holders of 100-199 shares receive a card worth ¥500, 200-499 shares a card worth ¥1,000, and 500 shares or more a card worth ¥2,000.

Dividends per share and the dividend payout ratio



Note: Dividends per share have been adjusted for a 2-for-1 stock split implemented on June 1, 2016
Source: Company's financial results materials

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