



## SMS / 2175

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## Executive summary

### Business

- SMS is involved in staffing, job advertisements, management support platform, community sites, and pharmaceutical information services for businesses, employees, and users in the fields of nursing care, medical care, healthcare, and senior life. In FY03/19, the company's Career segment accounted for 66.1% of consolidated sales, Nursing Care Operators 12.7%, Overseas 17.7%, and Business Development 3.4%. The nursing care career and medical care career businesses, which together make up the Career segment, respectively generated 25.9% and 40.3% of sales.
- In the nursing care career business (25.9% of FY03/19 sales), SMS mainly provides staffing services, job information media services, temporary staff and training schools for nursing care workers. The company has indicated that nearly 70% of the annual number of nursing care workers who change jobs are registered for its job-change services, and that it commands a leading share in nursing care job information services (SMS estimate). Nursing care career sales reached JPY8.0bn in FY03/19 (+36.6% YoY), supported by higher sales in staffing services for nursing care workers.
- In the medical care career business (40.3% of FY03/19 sales), SMS mainly provides staffing services and job information media services for nurses and paramedics. The company is the largest staffing service for licensed nurses with a market share of roughly 25–30% (SMS estimate) and deals with 70% of the approximately 8,400 hospitals in Japan. With the number of registered nurses employed on the rise and nurses in short supply, the company sees the market for staffing services for nurses continuing to grow over the medium to long term. Medical care career sales reached JPY12.4bn in FY03/19 (+12.7% YoY).
- In the Nursing Care Operators segment (12.7% of FY03/19 sales), SMS operates the Kaipoke business support platform for nursing care operators. As of April 2019, Kaipoke was serving 16,800 member locations (24,250 nursing care facilities), accounting for roughly 10% of all nursing care facilities (SMS estimate). Kaipoke was launched in 2006 as a low-cost software service to handle nursing care insurance billing. As SMS expanded into other management support services in 2014, it moved to a new pricing structure in October 2014. According to the company, if management support services other than its nursing care insurance billing software are taken into consideration, the new pricing structure makes its services less expensive than those offered by competitors. Segment sales reached JPY3.9bn in FY03/19 (+18.1% YoY).
- In the MIMS Group, which generates the bulk of the sales in the Overseas segment (17.7% of FY03/19 sales), SMS provides marketing support for medical and healthcare companies and a database of drug information for medical institutions in 15 countries and regions in Asia-Oceania, with a registered user base of 2.5 million healthcare professionals. In Singapore and Hong Kong, over 90% of doctors are registered users. Segment sales reached JPY5.5bn in FY03/19 (+6.9% YoY). Although the MIMS Group is highly profitable, SMS will book goodwill amortization and has positioned FY03/20 as another investment period for medium-term growth in the Overseas segment, and as such expects to report losses due to rising costs.

### Trends and outlook

- For FY03/19, the company reported sales of JPY30.8bn (+15.9% YoY), operating profit of JPY4.7bn (+18.0% YoY), recurring profit of JPY6.0bn (+19.4% YoY), and net income attributable to parent company shareholders of JPY4.2bn (+25.4% YoY). Sales and profits increased due to growth of career-related businesses and an increase in the number of Kaipoke member locations.
- For FY03/20, the company forecasts sales of JPY37.6bn (+21.8% YoY), operating profit of JPY5.6bn (+18.6% YoY), recurring profit of JPY6.9bn (+14.6% YoY), and net income attributable to parent company shareholders of JPY5.1bn (+20.1% YoY).
- Shared Research sees earnings growing about 15–20% per annum over the medium term, driven by the Career segment as well as the continued expansion of Kaipoke business support platform for nursing business operators. With the company's acquisition of a 60% stake in Medica Asia in October 2015 (making Medica Asia a consolidated subsidiary) and its network of businesses in Asia-Oceania targeting medical institutions, healthcare professionals, and pharmaceutical companies, Shared Research believes SMS has added another growth driver. In September 2018, SMS completed the acquisition of Medica Asia (Holdco) Limited, making it a wholly owned subsidiary. With the addition of Medica Asia to the SMS group, the company aims to speed up decision-making and accelerate growth overseas.

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## Strengths and weaknesses

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Shared Research believes the three main strengths of SMS are its high market share in the staffing market for nurses and other healthcare professionals, its focus on growth markets, and its strong management team. The company's main weaknesses are its cost/benefit analysis for new businesses and limited contribution to earnings relative to investments made in the Overseas segment. (For further details, see Strengths and weaknesses section.)

## Key financial data

Income statement (JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Par.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Est.
<b>Sales</b>	<b>7,172</b>	<b>7,618</b>	<b>8,692</b>	<b>10,181</b>	<b>12,046</b>	<b>15,056</b>	<b>19,069</b>	<b>23,055</b>	<b>26,611</b>	<b>30,836</b>	<b>37,557</b>
YoY	38.5%	-	14.1%	17.1%	18.3%	25.0%	26.7%	20.9%	15.4%	15.9%	21.8%
<b>Gross profit</b>	<b>6,796</b>	<b>7,299</b>	<b>8,261</b>	<b>9,481</b>	<b>11,094</b>	<b>13,724</b>	<b>16,865</b>	<b>19,328</b>	<b>23,322</b>	<b>27,301</b>	
YoY	35.2%	-	13.2%	14.8%	17.0%	23.7%	22.9%	14.6%	20.7%	17.1%	
GPM	94.8%	95.8%	95.0%	93.1%	92.1%	91.1%	88.4%	83.8%	87.6%	88.5%	
<b>Operating profit</b>	<b>1,262</b>	<b>1,481</b>	<b>1,520</b>	<b>1,571</b>	<b>1,730</b>	<b>2,079</b>	<b>2,757</b>	<b>3,646</b>	<b>4,021</b>	<b>4,743</b>	<b>5,623</b>
YoY	2.5%	-	2.6%	3.3%	10.2%	20.2%	32.6%	32.3%	10.3%	18.0%	18.6%
OPM	17.6%	19.4%	17.5%	15.4%	14.4%	13.8%	14.5%	15.8%	15.1%	15.4%	15.0%
<b>Recurring profit</b>	<b>1,266</b>	<b>1,530</b>	<b>1,735</b>	<b>1,990</b>	<b>2,340</b>	<b>2,693</b>	<b>3,510</b>	<b>4,431</b>	<b>5,007</b>	<b>5,979</b>	<b>6,854</b>
YoY	2.3%	-	13.4%	14.7%	17.6%	15.1%	30.3%	26.2%	13.0%	19.4%	14.6%
RPM	17.7%	20.1%	20.0%	19.5%	19.4%	17.9%	18.4%	19.2%	18.8%	19.4%	18.2%
<b>Net income</b>	<b>717</b>	<b>876</b>	<b>1,005</b>	<b>1,227</b>	<b>1,380</b>	<b>1,824</b>	<b>2,266</b>	<b>2,801</b>	<b>3,361</b>	<b>4,216</b>	<b>5,065</b>
YoY	-0.3%	-	14.7%	22.1%	12.5%	32.2%	24.2%	23.6%	20.0%	25.4%	20.1%
Net margin	10.0%	11.5%	11.6%	12.1%	11.5%	12.1%	11.9%	12.1%	12.6%	13.7%	13.5%
Shares issued (year-end; '000)	77,928	81,614	82,853	83,741	83,741	83,774	83,774	86,765	86,842	86,999	
EPS	9.2	11.1	12.2	14.9	16.8	22.4	27.9	33.7	38.7	48.5	58.3
EPS (fully diluted)	8.6	10.5	12.0	14.7	16.8	22.3	27.8	33.6	38.6	48.2	
Dividend per share	0.6	1.3	1.5	2.0	2.5	3.5	3.5	5.5	6.5	7.5	
Book value per share	30.5	39.6	49.9	61.9	73.4	84.0	105.5	197.4	221.7	176.6	
Cash and cash equivalents	391	1,450	1,768	2,219	1,899	2,709	5,292	7,830	9,515	10,703	
<b>Total current assets</b>	<b>1,717</b>	<b>2,871</b>	<b>3,736</b>	<b>4,849</b>	<b>5,430</b>	<b>7,363</b>	<b>12,176</b>	<b>15,235</b>	<b>18,113</b>	<b>20,123</b>	
Tangible fixed assets	100	90	82	67	192	256	428	368	405	447	
Investments and other assets	418	422	542	1,076	1,750	1,753	1,782	2,521	2,865	3,814	
Intangible fixed assets	1,411	1,289	1,357	955	1,034	2,049	27,304	25,107	24,703	23,083	
<b>Total assets</b>	<b>3,645</b>	<b>4,672</b>	<b>5,717</b>	<b>6,948</b>	<b>8,407</b>	<b>11,421</b>	<b>41,690</b>	<b>43,232</b>	<b>46,087</b>	<b>47,467</b>	
Accounts payable	-	-	48	44	99	132	451	312	292	353	
Short-term debt	-	-	-	-	-	0	19,003	1,201	1,403	2,487	
<b>Total current liabilities</b>	<b>1,205</b>	<b>1,352</b>	<b>1,485</b>	<b>1,676</b>	<b>2,188</b>	<b>4,394</b>	<b>25,914</b>	<b>8,911</b>	<b>10,400</b>	<b>11,891</b>	
Long-term debt	-	-	-	-	-	-	45	10,210	9,690	17,632	
<b>Total fixed liabilities</b>	<b>61</b>	<b>78</b>	<b>94</b>	<b>119</b>	<b>144</b>	<b>104</b>	<b>2,618</b>	<b>12,738</b>	<b>12,046</b>	<b>20,037</b>	
<b>Total liabilities</b>	<b>1,266</b>	<b>1,430</b>	<b>1,580</b>	<b>1,795</b>	<b>2,332</b>	<b>4,498</b>	<b>28,532</b>	<b>21,648</b>	<b>22,446</b>	<b>31,928</b>	
<b>Net assets</b>	<b>2,379</b>	<b>3,242</b>	<b>4,137</b>	<b>5,154</b>	<b>6,075</b>	<b>6,923</b>	<b>13,158</b>	<b>21,583</b>	<b>23,641</b>	<b>15,539</b>	
Total interest-bearing debt	-	-	-	-	-	-	19,047	11,411	11,093	20,119	
<b>Cash flow statement (JPYmn)</b>											
Cash flows from operating activities	160	1,249	956	1,009	1,595	3,103	2,244	3,920	4,811	5,156	
Cash flows from investing activities	-1,744	-245	-1,358	428	-1,324	-1,050	-18,402	-1,034	-2,095	-1,066	
Cash flows from financing activities	-49	14	-84	-191	-571	-1,272	18,656	-875	-1,107	-2,943	
ROA (RP-based)	37.4%	36.8%	33.4%	31.4%	30.5%	27.2%	13.2%	10.4%	11.2%	12.8%	
ROE	35.1%	31.2%	27.3%	26.4%	24.7%	28.4%	29.5%	21.8%	18.5%	24.4%	
Equity ratio	65.3%	69.4%	72.4%	74.2%	72.3%	60.6%	31.6%	49.9%	51.3%	32.7%	

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Consolidated results from FY03/11

Note: Net income reflects net income attributable to parent company shareholders from FY03/16.

Note: The company enacted a 2-for-1 stock split on July 1, 2018.

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## Recent updates

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### Highlights

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On **July 30, 2019**, SMS Co., Ltd., announced earnings results for Q1 FY03/20; see the results section for details.

On **July 11, 2019**, Shared Research updated the report following interviews with the company.

**For previous releases and developments, please refer to the News and topics section.**

## Trends and outlook

### Quarterly performance

Cumulative (JPYmn)	FY03/19				FY03/20				FY03/20		FY03/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of 1H	1H Est.	% of FY	FY Est.
Sales	8,067	15,040	22,024	30,836	9,379				51.1%	18,358	25.0%	37,557
YoY	14.1%	14.3%	14.5%	15.9%	16.3%					22.1%		21.8%
Gross profit	7,244	13,398	19,491	27,301	8,544							
YoY	14.8%	14.8%	15.4%	17.1%	17.9%							
GPM	89.8%	89.1%	88.5%	88.5%	91.1%							
SG&A expenses	5,867	11,445	17,209	22,558	7,110							
YoY	24.1%	20.2%	18.0%	16.9%	21.2%							
SG&A ratio	72.7%	76.1%	78.1%	73.2%	75.8%							
Operating profit	1,376	1,953	2,282	4,743	1,433				55.4%	2,586	25.5%	5,623
YoY	-13.1%	-9.0%	-1.0%	18.0%	4.1%					32.4%		18.6%
OPM	17.1%	13.0%	10.4%	15.4%	15.3%					14.1%		15.0%
Recurring profit	2,090	2,905	3,363	5,979	2,321				65.8%	3,529	33.9%	6,854
YoY	3.7%	8.0%	11.6%	19.4%	11.1%					21.5%		14.6%
RPM	25.9%	19.3%	15.3%	19.4%	24.7%					19.2%		18.2%
Net income	1,644	2,157	2,390	4,216	1,799				69.8%	2,577	35.5%	5,065
YoY	13.9%	16.0%	17.2%	25.4%	9.4%					19.5%		20.1%
Net margin	20.4%	14.3%	10.9%	13.7%	19.2%					14.0%		13.5%

Quarterly (JPYmn)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	8,067	6,973	6,984	8,812	9,379			
YoY	14.1%	14.5%	15.1%	19.4%	16.3%			
Gross profit	7,244	6,154	6,093	7,810	8,544			
YoY	14.8%	14.8%	16.8%	21.4%	17.9%			
GPM	89.8%	88.3%	87.2%	88.6%	91.1%			
SG&A expenses	5,867	5,578	5,764	5,349	7,110			
YoY	24.1%	16.3%	14.0%	13.4%	21.2%			
SG&A ratio	72.7%	80.0%	82.5%	60.7%	75.8%			
Operating profit	1,376	577	329	2,461	1,433			
YoY	-13.1%	2.7%	105.6%	43.5%	4.1%			
OPM	17.1%	8.3%	4.7%	27.9%	15.3%			
Recurring profit	2,090	815	458	2,616	2,321			
YoY	3.7%	20.7%	41.4%	31.3%	11.1%			
RPM	25.9%	11.7%	6.6%	29.7%	24.7%			
Net income	1,644	513	233	1,826	1,799			
YoY	13.9%	23.6%	28.7%	38.2%	9.4%			
Net margin	20.4%	7.4%	3.3%	20.7%	19.2%			

Source: Shared Research, based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Net income is net income attributable to parent company shareholders.

**Sales by segment and business**

Cumulative (JPYmn)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	8,067	15,040	22,024	30,836	9,379			
YoY	14.1%	14.3%	14.5%	15.9%	16.3%			
Career	6,041	10,534	14,762	20,398	7,226			
YoY	17.8%	19.1%	19.4%	21.0%	19.6%			
Nursing care career	1,988	3,802	5,643	7,974	2,862			
YoY	39.5%	37.2%	34.9%	36.6%	44.0%			
Medical care career	4,053	6,732	9,118	12,423	4,364			
YoY	9.5%	10.8%	11.5%	12.7%	7.7%			
Nursing Care Operators	905	1,866	2,873	3,930	1,109			
YoY	16.0%	17.1%	17.6%	18.1%	22.5%			
Overseas	872	2,127	3,611	5,464	807			
YoY	10.5%	5.8%	5.7%	6.9%	-7.5%			
Business Development	247	511	777	1,041	235			
YoY	-33.8%	-28.1%	-23.1%	-20.5%	-4.9%			

Quarterly (JPYmn)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	8,067	6,973	6,984	8,812	9,379			
YoY	14.1%	14.5%	15.1%	19.4%	16.3%			
Career	6,041	4,493	4,228	5,636	7,226			
YoY	17.8%	20.8%	20.4%	25.1%	19.6%			
Nursing care career	1,988	1,814	1,841	2,331	2,862			
YoY	16.0%	34.8%	30.3%	41.1%	22.5%			
Medical care career	4,053	2,679	2,386	3,305	4,364			
YoY	9.5%	12.8%	13.7%	15.9%	7.7%			
Nursing Care Operators	905	961	1,007	1,057	1,109			
YoY	16.0%	18.2%	18.6%	19.3%	22.5%			
Overseas	872	1,255	1,484	1,853	807			
YoY	10.5%	2.7%	5.7%	9.4%	-7.5%			
Business Development	247	264	266	264	235			
YoY	-33.8%	-21.9%	-11.0%	-11.7%	-4.9%			

Source: Shared Research based on company data  
 Note: Figures may differ from company materials due to differences in rounding methods.

**Trends in Kaipoke member locations**

	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
No. of member locations	15,500	15,950	16,300	16,800	17,250			
YoY change	1,550	1,650	1,650	1,750	1,750			
YoY	11.1%	11.5%	11.3%	11.6%	11.3%			
QoQ change	450	450	350	500	450			
QoQ	3.0%	2.9%	2.2%	3.1%	2.7%			

Source: Shared Research based on company data  
 Note: Figures may differ from company materials due to differences in rounding methods.

**Q1 FY03/20 results**

- ▷ Sales: JPY9.4bn (+16.3% YoY).
- ▷ Operating profit: JPY1.4bn (+4.1% YoY).
- ▷ Recurring profit: JPY2.3bn (+11.1% YoY).
- ▷ Net income\*: JPY1.8bn (+9.4% YoY).

\*Net income attributable to parent company shareholders

Sales were up on expansion in career-related businesses and an increase in Kaipoke members. The growth rate for operating profit was lower than for sales in part because of an increase in career partners. The growth rate for recurring profit was higher than for operating profit because there were gains in equity-method investment of JPY919mn (+27.8% YoY).

**Career**

Sales: JPY7.2bn (+19.6% YoY)



Nursing care career sales were JPY2.9bn (+44.0% YoY). Kaigo Job Agent nursing care staffing services showed strong growth through an increase in career partners.

Medical care career sales were JPY4.4bn (+7.7% YoY). Nurse Personnel Bank recruitment services for nurses among others saw brisk earnings. There was also growth in recruitment services for dietitians, judo-orthopedists, masseuses, acupuncturists, and moxibustion therapists. Furthermore, Childcare Personnel Bank recruitment services for childcare workers, launched in October 2018, began operating smoothly.

### **Nursing Care Operators**

Sales: JPY1.1bn (+22.5% YoY)

In business management support, the Kaipoke management support service for nursing care providers posted solid results due to an increase in Kaipoke member locations, smartphone and tablet additions, and more usage of Kaipoke factoring service and other paid optional services.

As of July 1, 2019, Kaipoke had 17,250 member locations (+450 versus end FY03/19) and 25,000 nursing care facilities.

### **Overseas**

Sales: JPY807mn (-7.5% YoY)

In March 2019, Medilabs (formerly Senior Marketing System Korea), which develops career services for nurses in Korea, became a subsidiary of MIMS. MIMS group's income statement is reflected in the consolidated results after a three month delay, so Medilabs' income will be consolidated from Q2. As a result, Q1 sales were down YoY. However, progress at MIMS' existing businesses and the global career business was in line with plan.

**For previous quarterly and full-year earnings, please see the Historical financial statements section for details.**

## Full-year company forecasts

(JPYmn)	FY03/19			FY03/20			YoY		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.	1H Act.	2H Est.	FY Est.
<b>Sales</b>	<b>15,040</b>	<b>15,796</b>	<b>30,836</b>	<b>18,358</b>	<b>19,199</b>	<b>37,557</b>	22.1%	21.5%	21.8%
Cost of sales	1,641	1,894	3,535						
<b>Gross profit</b>	<b>13,398</b>	<b>13,903</b>	<b>27,301</b>						
GPM	89.1%	88.0%	88.5%						
SG&A expenses	11,445	11,113	22,558						
SG&A ratio	76.1%	70.4%	73.2%						
<b>Operating profit</b>	<b>1,953</b>	<b>2,790</b>	<b>4,743</b>	<b>2,586</b>	<b>3,037</b>	<b>5,623</b>	32.4%	8.9%	18.6%
OPM	13.0%	17.7%	15.4%	14.1%	15.8%	15.0%			
<b>Recurring profit</b>	<b>2,905</b>	<b>3,074</b>	<b>5,979</b>	<b>3,529</b>	<b>3,325</b>	<b>6,854</b>	21.5%	8.2%	14.6%
RPM	19.3%	19.5%	19.4%	19.2%	17.3%	18.2%			
<b>Net income</b>	<b>2,157</b>	<b>2,059</b>	<b>4,216</b>	<b>2,577</b>	<b>2,488</b>	<b>5,065</b>	19.5%	20.8%	20.1%
Net margin	14.3%	13.0%	13.7%	14.0%	13.0%	13.5%			

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Net income reflects net income attributable to parent company shareholders.

### Forecasts by segment and business

FY03/20 forecasts by segment (JPYmn)	FY03/19	FY03/20	YoY
	Act.	FY Est.	
Sales	30,836	37,557	21.8%
Career	20,398	25,623	25.6%
Nursing care career	7,974	11,615	45.7%
Medical care career	12,423	14,008	12.8%
Nursing Care Operators	3,930	4,630	17.8%
Overseas	5,464	5,992	9.7%
Other	1,044	1,312	25.7%
Operating profit	4,743	5,623	18.6%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

For FY03/20, SMS forecasts sales of JPY37.6bn (+21.8% YoY), operating profit of JPY5.6bn (+18.6% YoY), recurring profit of JPY6.9bn (+14.6% YoY), and net income attributable to parent company shareholders of JPY5.1bn (+20.1% YoY).

The company expects double-digit YoY sales growth in both 1H and 2H. It anticipates sales growth due to an increase in the number of career partners in Career, membership growth in Nursing Care Operators, and wider use of optional services.

The company expects double-digit full-year growth from the operating profit line downward due to sales growth, with double-digit growth in 1H and single-digit growth in 2H. In 1H, SMS plans to concentrate hiring of career partners following on from the previous year, but the contribution to sales from the large number of career partners it hired in FY03/19 should kick in and offset hiring expenses, for sharp profit growth from Q2 onward. In 2H, it expects profit growth to return to single digits on plans to increase advertising spend in Q4 with a view to growth in FY03/21.

### Career: Sales JPY25.6bn (+25.6% YoY)

The company expects higher headcount of career partners in nursing care career and medical care career to drive staffing services and sales growth.

In addition to anticipating continued significant increases to the number of career partners in staffing services for nursing care professionals, SMS expects to improve performance by developing and fostering services such as preparatory schools for obtaining qualifications, temporary staffing, and settlement support. As well as anticipating growth in staffing services for nurses, in which the company has established itself as the industry-leader, staffing services for judo-orthopedists, masseuses, acupuncturists, and moxibustion therapists, and staffing services for childcare workers and health professionals other than physicians (such as nursing assistants, counselors, occupational/physical therapists) will contribute.

Nursing care career: Sales JPY11.6bn (+45.7% YoY)

The company expects to drive sales growth with the hiring of about 135 nursing care career partners in 1H (240 staffing career partners for nursing at end FY03/19).

Medical care career: Sales JPY12.9bn (+17.0% YoY)

The company expects to drive sales growth with the hiring of about 150 medical care career partners in 1H (350 at end FY03/19).

**Nursing Care Operators: Sales JPY4.6bn (+17.8% YoY)**

SMS anticipates continued growth through increases in the number of member locations for Kaipoke, the business support platform for nursing care business operators, as well as in the use of add-on paid optional services including factoring services. It remains committed to M&A matching for nursing care business operators, and developing and providing new services aimed at improving management efficiency of nursing care operators.

The company expects a net increase of 1,750 Kaipoke member locations, in line with the previous year.

**Overseas: Sales JPY6.0bn (+9.7% YoY)**

SMS expects sales growth to be driven by the Pharma Marketing business in the MIMS group following the construction of the organization and sales team through FY03/19, and growth in the Global Career business.

The company plans for steady growth in the existing MIMS business (Pharma Marketing and Healthcare Data) by promoting the development of its drug database business for medical institutions into Asian countries, as well as expanding accounts for medical and healthcare related businesses and strengthening marketing support in response to client needs. Pharma Marketing has traditionally focused on strengthening relationships with doctors and other healthcare professionals. From FY03/19 it also unrolled a strategy to strengthen relationships with medical and healthcare companies, and said results are starting to show. The previous focus on deepening ties with healthcare professionals was based on the idea that doctors were the ones who prescribed drugs. However, those choosing which drugs or medical equipment to use differ from country to country. In some hospitals management decides which drugs to use and may procure them in bulk, or may only prescribe drugs on an official list. SMS has come up with effective marketing strategies at the country level, and aims to strengthen relationships with medical and healthcare operators as well. It expects continued sales growth in FY03/20 under its strategy to forge closer ties with medical and healthcare operators.

In the global career business, the company will also expand the countries and regions from which it recruits and into which it introduces healthcare professionals, as well as expanding the placement of healthcare professionals from Malaysia and the Philippines in and outside of Asia.

Margins at the MIMS group are high, but the company will book goodwill amortization for both MIMS group and Melorita, and plans to continue investing aggressively overseas in FY03/20. Shared Research expects the overseas business to book a loss, albeit smaller than the previous year.

## Outlook

SMS provides information services for the aging society. The market for aging related services was estimated to be JPY57tn in Japan and JPY115tn in the Asia-Oceania region in 2015, which total about JPY170tn. The company expects that the size will expand to roughly JPY100tn in Japan and JPY250tn in the Asia-Oceania region in 2025, totaling JPY350tn.

The major factor behind the forecast is that healthcare-related spending in a developed country was about 10% of GDP in 2015, and the forecast is based on assumptions that the nursing care, medical care, and healthcare markets in Asia-Oceania will expand to a similar level as those in advanced countries.

### Market for healthcare services in Japan and Asia-Oceania

	2005	2015	2025
Japan: nursing care/medical care expenditure	JPY41tn (Medical: JPY28tn; nursing: JPY6tn; healthcare (uninsured) JPY7tn)	JPY57tn (Medical: JPY38tn; nursing: JPY9tn; healthcare (uninsured) JPY10tn)	JPY96tn (Medical: JPY49tn; nursing: JPY15tn; healthcare (uninsured) JPY33tn)
Other Asia and Oceania: healthcare expenditure	JPY30tn	JPY115tn	JPY250tn

Source: Shared Research based on company data

SMS does not release a medium-term business plan, but it plans to grow the Career business, the Kaipoke business (support platform for nursing care providers), and the Overseas businesses led by MIMS, as the target markets are expected to expand.

Shared Research estimates that profit growth for the company could average around 20% in the medium term, driven mainly by the Career business and Kaipoke. With the company's acquisition of a 60% stake in Medica Asia in October 2015 (making Medica Asia a consolidated subsidiary, and wholly owned subsidiary in September 2018) to acquire the MIMS Group and its network of businesses in Asia-Oceania targeting medical institutions, healthcare professionals, and pharmaceutical companies, Shared Research believes SMS has added another growth driver in the Overseas segment.

Shared Research understands that SMS is developing many new businesses, but that some of them are unlikely to generate significant revenues. We think reinvesting profits gained from existing businesses to expand new businesses could restrain profit growth in the near term.

### Career segment growth

With increasing elderly population, nursing care and medical care operators are facing a labor shortage. Job opening-to-application ratios (ratio of job openings to one jobseeker; the higher the ratio, the greater the shortage) for care workers and nurses are about 3.3 and 2.5 (average ratio for all occupations combined is about 1.4). As elderly population is expected to further increase, the labor shortage may continue or become more serious. For example, the Ministry of Health, Labour and Welfare and the company estimated the shortage of care workers at 100,000 in 2017, but expect that number to expand to 340,000 in 2025. According to the company, it has already established an overwhelming position in the market for nursing care/medical care personnel, and this will allow the Career business to expand in tandem with market growth for the medium- to long-term.

In FY03/19, sales in the company's Career business were JPY20.4bn, up 21.0% YoY.

The company plans to drive performance in the Career business by boosting market share in existing services, expanding its service menu, and moving into other occupational sectors.

- ▶ Expanding market share in existing services: SMS plans to leverage its position as the company with the highest number of jobseekers in the medical and nursing care staffing business to grow market share

- ▶ Expanding service menu: The company plans to move beyond mere recruitment support to develop services to attract workers from other industries, educate, and encourage employee retention, leveraging its knowledge of workers and operators in the nursing and medical care industries
- ▶ Moving into other occupational sectors: SMS plans to develop new growth businesses by entering new job categories ancillary to nursing and nursing care. In November 2017, SMS consolidated Will One, which provides career-related services targeting judo-orthopedists, massage, acupuncture, and combustion therapists. In October 2018, the company started Childcare Personnel Bank recruitment services for childcare workers. In FY03/20 onward, it aims to continue growing the Career segment by expanding into related occupations.

### **Medical care career: Sales growth possible through expanding market share**

The medical care career business, one of the key businesses of the Career segment, mainly focuses on staffing services for nurses. In FY03/19, the business accounted for 40.3% of consolidated sales and 60.9% of sales for the Career segment.

According to the company, some 170,000 nurses are looking to change jobs each year. Of this number, 40,000 use recruiting services and just over 10,000 sign contracts through SMS. While the company holds a roughly 30% share of the nurse staffing market, its share of the market for nurses looking to change jobs mid-career is only 7%. The company could maintain sales growth over the medium term because of an increase in the number of nurses (average annual growth in the past five years: 2%) due to aging of population, a gradual increase in use of the staffing service, expansion of market share, and a rise in the number of career partners.

### **Nursing care career: Aiming for sales growth through wider service lineup and increased market share in existing services**

The nursing care career business mainly provides nursing staff and help-wanted information. In FY03/19, it accounted for 25.9% of consolidated sales and 39.1% of sales in the Career business.

According to data from the MHLW and SMS, a nursing staff shortfall of 100,000 in 2017 will grow to 340,000 by 2025. The company plans to develop services to attract workers from other industries, educate, and encourage employee retention in addition to its existing businesses of helping workers find new jobs. It hopes this will help alleviate the labor shortage and expand profit opportunities.

The company also plans to increase its staffing market share by leveraging its dominant member platform. In nurse staffing and help-wanted information, the company is acquiring roughly 250,000 members annually or about 70% of those changing jobs in the nursing profession every year.

Roughly 850,000 people, or 45% of the nation's nursing care workers, were registered with the company's job information services for nursing care workers Kaigo Job. According to the company, competition in the staffing market for nursing care workers is less intense than that for nurses. As such, SMS believes that its share of the nursing care staffing market could exceed the roughly 30% it holds in the staffing market for nurses.

### **Growth of Kaipoke, business support platform for nursing care operators**

As an external environment, the number of nursing care facilities is increasing continuously along with increasing elderly population (average annual growth in the past five years: 4%), and this is increasing the potential demand for Kaipoke (management support platform for nursing care operators). In the Kaipoke business, the company provides over 40 services while most rival companies provide insurance claim services only. It is also the only company in the industry providing a management support platform. As Kaipoke services are often more reasonably priced than rivals' services, member locations are increasing.

### **Started as insurance claim software in 2006**

Kaipoke was launched in July 2006 as a software for processing insurance claims. By September 2014, the company had provided the services at low prices (average monthly fee: JPY3,000) which were about 1/10 of rival companies' services in order to

maintain customer loyalty. There has been a steady increase in the number of member locations to 13,600 (across 17,500 locations [care facilities]) as of FY03/14.

**Added functions, increased price in 2014**

In February 2014, the company added new services to the Kaipoke lineup including job ads for nursing professionals, equipment purchasing feature, sales support, bank transfers for nursing fees, and document transfer support between offices. According to the company, most rival companies only provide insurance claim software, and SMS is the only company providing a comprehensive management support platform.

In October 2014, the company changed the Kaipoke pricing structure to reflect the expanded lineup of services. As a result, the average monthly spend per user increased from JPY3,000, to almost JPY20,000 as of October 2014. The company assumed that the increase in service fees could be sufficiently recouped through the effects of improved management enjoyed by small and medium-size nursing care service providers.

However, after the price hike the number of member locations declined to 10,500 (as of January 2015) and 10,400 (as of April 2015), as it lost members for which low-price was a priority. That said, fallout from the price revisions subsided from the second half of Q4 FY03/15 (January–March), and the number of new members obtained by sales visits and other measures started to outpace the number of members dropping out. The number of member locations rose to 16,800 in April 2019.

**Growth strategy for Kaipoke**

Market share gains and increases in member locations and users are expected because the company was the only provider of a business support platform for nursing care operators as of May 2019; competitors provided only the insurance claim service. The company also believes that it will be able to accelerate market share growth by expanding coverage to different types of operators and boosting its services lineup.

**Expanding coverage to different types of operators**

As measures to expand the range of nursing care services it covers, the company began offering its management support platform to operators of home-visit nursing services in June 2015, to outpatient rehab center operators and operators of assisted living facilities for the elderly in November 2015, and to operators of afterschool day care services in September 2016. The target market for these new Kaipoke services are the existing 31,000 home care support operators, the 34,000 day care operators, and 26,000 operators of home-visit care services. In addition to these 91,000 existing businesses, Kaipoke is able to target the 6,000 new home-visit nursing service operators, 7,000 new outpatient rehab center operators, and 7,000 new afterschool day care service operators. SMS plans to increase the bases of possible users by expanding nursing care services covered by Kaipoke.

Home-visit nursing: Nursing care rendered at the patient’s home at the direction of the attending physician.

Outpatient rehab centers (day care centers): To help the elderly live as independently as possible at their own home, outpatient rehab centers (including rehabilitation facilities for the elderly, hospitals, and clinics) provide support services for daily tasks such as cooking and bathing, as well as therapeutic services to help patients live their life more fully. These services are provided on an outpatient basis, with the patients commuting from their homes on a regular basis.

In FY03/16 SMS made functional enhancements to the software that allowed Kaipoke to meet the demands of nursing service businesses that operate in three or more locations.

**Boosting services lineup**

Kaipoke started as software for processing health insurance claims. In August 2013, SMS started a factoring service for nursing care compensation, as a first major addition to the package, and in February 2014, it launched a management support platform for small and medium-size nursing care providers on top of the software for nursing care insurance billing. The new service offers additional functions, such as sales support, recruitment support (e.g. job advertisements for nursing care facilities), and improvement of operational efficiency including purchasing functions for workplace equipment, bank transfers to handle fees

paid by users of nursing care services, and support for coordinating documentation between different workplaces (see the “Main businesses” section).

Among the added services, the company aims to develop those that generate sales other than basic fees to raise the unit price. In April 2014, it started Kaipoke Tablet, a service that allows customers to use one tablet for free, but requires payment under optional services from the second tablet onward. In February 2018, it launched Kaipoke Mobile, a mobile phone rental service.

### Acquisition of MIMS Group

In October 2015, SMS acquired a 60% stake in Medica Asia (Holdco) Limited, the holding company of the MIMS Group, making it a consolidated subsidiary (Mitsui & Co., Ltd. holds the remaining 40%). In September 2018, SMS completed the acquisition of Medica Asia (Holdco) Limited, making it a wholly owned subsidiary. With the addition of Medica Asia to the SMS group, the company aims to speed up decision-making and accelerate growth overseas.

The MIMS Group is a provider of drug information services to healthcare professionals in the Asia-Oceania region, operating in Singapore, China, Hong Kong, Taiwan, South Korea, India, Indonesia, Malaysia, the Philippines, Thailand, Myanmar, Vietnam, Australia, New Zealand, and the UAE. Registered healthcare professional users in the region have reached 2.5mn (including 500,000 doctors). In Singapore and Hong Kong, over 90% of healthcare professionals are registered users of the MIMS Group.

### Overview of MIMS Group businesses

The MIMS Group operates three main businesses: Pharma Marketing, Healthcare Data, and Global Career. In FY03/19, Pharma Marketing accounted for roughly 65% of overseas sales, Healthcare Data around 25%, and Global Career about 10% of overseas sales.

#### Pharma Marketing business

Pharma Marketing accounts for roughly 70% of the sales of the MIMS Group. The Pharma Marketing business provides healthcare professionals (doctors, nurses, pharmacists) with a uniform drug database that sorts and summarizes drug information provided by pharmaceutical companies, and can be accessed through various print media and online. In return for being included in this drug database, pharmaceutical companies pay a posting fee. The Pharma Marketing business also provides marketing support to healthcare professionals at pharmaceutical companies and healthcare operators by delivering medical news and educational content, and managing industry events.

According to management, the MIMS drug database is the de facto industry standard in those countries where the company operates. The MIMS Group has business relations with almost all makers of new drugs, from major companies to small and medium-size ones and its database posts information on almost all new drugs.

#### Healthcare Data business

The Healthcare Data business provides a drug database to medical institutions (hospitals, clinics, and pharmacies), charging a fee for database use. In addition to being offered as a stand-alone system, the database can also be integrated into core systems such as hospital information systems, clinic prescription systems, and pharmacy dispensing systems.

According to the company, the database has become the standard means of checking to ensure no unfavorable drug interactions occur when patients are prescribed multiple medications and to prevent drug misuse, and is currently used at over 50% of all hospitals, clinics, and pharmacies in Australia and New Zealand.

#### Global Career business

In June 2017, the MIMS Group converted Melorita, a Malaysian recruitment agency for nursing professionals with orders from hospitals in Saudi Arabia and Asia, into a subsidiary, thus strengthening the Global Career business.

Saudi Arabia is a host to many foreign healthcare professionals, with 60% of its nurses being foreign nationals. Like their European and American counterparts, Malaysian nurses enjoy a strong reputation in Saudi Arabia by virtue of Malaysia's advanced medical

education and technology. Their shared Islam background as well as their high level of English proficiency has led them to be accepted in large numbers by Saudi Arabia and other countries in the Middle East.

Thanks to its successful 40-year track record of placing Malaysian nurses in Saudi Arabia and Asia, Melorita receives many orders for staff from hospitals in Saudi Arabia. In addition, it has accumulated expertise in how to apply for a work permit and to find suitable accommodations in Saudi Arabia.

The MIMS Group converted Melorita into a subsidiary and thus acquired that company's cross-border operational capabilities. By combining the MIMS Group's membership base of medical care professionals and SMS' expertise in managing the Career segment, SMS intends to expand the number of companies and regions from where it can recruit medical practitioners through partner medical institutions, and accelerate growth in the Global Career business. In conjunction with this effort, in May 2018 the company acquired MSR, a nurse referral company in the Philippines, to help expand its access to countries that supply medical professionals.

#### Post-acquisition strategy

With its acquisition of the MIMS Group, SMS is looking to use the MIMS Group as its standard for growing its business across the Asia-Oceania region. As contributions to consolidated sales and earnings at SMS, the company expects there will be improvements in the profitability of the existing business of the MIMS Group and plans to take steps to generate additional growth by developing new businesses to take advantage of synergies with the MIMS Group. SMS positions the time-frame through FY03/20 as an investment period for medium-term growth of the MIMS Group and expects to report losses due to rising costs, before turning profitable in FY03/21. The company plans to realize growth at the acquired company by expanding marketing targets in the existing mainstay Pharma Marketing business and offering optimal marketing methods to suit its customers, and getting the Global Career business up and running.

#### Expanding marketing targets in MIMS Group's Pharma Marketing business

MIMS Group's Pharma Marketing business has traditionally focused on strengthening relationships with doctors and other healthcare professionals. From FY03/19 it also unrolled a strategy to strengthen relationships with medical and healthcare companies such as pharma companies, medical equipment manufacturers, and healthcare service operators, and said results are starting to show. The previous focus on deepening ties with medical professionals was based on the idea that doctors were the ones who prescribed drugs. However, those choosing which drugs or medical equipment to use differ from country to country. In some hospitals, management decides which drugs to use and may procure them in bulk, or may only prescribe drugs on an official list. SMS has come up with effective marketing strategies at the country level, and aims to strengthen relationships with medical and healthcare operators as well.

#### Adding to earnings with Global Career business

The company has been aggressively expanding the Career business, which is its specialty in Japan, to Asian countries since FY03/18. In June 2017, it converted Melorita, a Malaysian recruitment agency for nursing professionals with orders from hospitals in Saudi Arabia and Asia, into a subsidiary, thus strengthening the Career segment. It looks to not only operate the job search service in Japan but also support global career change in Asian and non-Asian countries and in turn establish its position as a platform for supplying medical staff in Asia. It expects the combination of MIMS' large number of registered members, SMS' knowledge of the Career business in Japan, and Melorita's cross-border operational capabilities will allow the business to take off at an early stage.

### Long-term initiatives

The company is developing businesses that will be long-term growth drivers in the fields of healthcare and senior living.

In healthcare, SMS has initiatives in remote health guidance and remote occupational health. These new businesses leverage the company's network of healthcare professionals, expertise in information, communications, and technology, and pilot projects it has run with government bodies.



**Remote specific health guidance**

The company offers specific health guidance via chat services with its registered dietitians. It offers specific health checkups to eligible persons in the insurance system (those with metabolic syndrome or at high risk). The dietitians offer advice on improving daily habits using smartphones' camera to check on meals. SMS receives fees from health insurance associations depending on how many insured members it advises. The company says communication is more frequent than in a normal interview process, and the lifestyle interventions have proved effective. It launched the service in October 2017, and had contracts with about 50 companies as of May 2019.

**Remote Occupational Health**

Remote Occupational Health is a full package service offering occupational health support for employees using a combination of visits and remote services. Base fees are from JPY30,000 per month. Industrial physicians and industrial nurses provide occupational health support through means such as interviews with employees. The company leverages its track record in specific health guidance using remote chat to offer services remotely using communications and by visits. In Remote Occupational Health, SMS said it could help companies build systems to respond to the work style reform bill enacted in April 2019.

The MHLW has mandated that an industrial physician must be appointed to every workplace with 50 or more employees. The April 2019 work style reform bill clarifies and mandates "strengthening functions of industrial physicians and occupational health," and requires enterprises to provide information necessary for industrial physicians to properly perform their duties and report healthcare recommendations to a health committee.

## Business

In its core businesses, the company provides staffing services, job advertisements, a management support platform, community sites, and information services in the fields of nursing care, medical care, health-care, and senior life.

### Business model

#### Staffing services

SMS introduces prospective employees (nurses, care workers) who have registered on its web site to employers (hospitals, nursing care and service providers). The company screens the applicants by experience, certifications, technology skills, knowledge, reason for changing jobs, and other factors. If an applicant is successfully placed, SMS receives a commission equivalent to 20% to 30% of the estimated annual salary for the position from the hiring company. For the most part, applicants find their way to the SMS web site through search ads.

##### Business model of staffing services

**Receive a certain percentage of an annual salary from a hiring business operator as a fee when an applicant joins it.**



Source: Company data

Revenues from staffing services are calculated by multiplying the number of jobseekers signing contracts to change jobs by the average commission (calculated by multiplying the annual income of the jobseeker by the commission for staffing services). In addition, the number of jobseekers signing contracts to change jobs can be analyzed in terms of the number of career partners and productivity (number of jobseekers signing contracts per career partner).

##### Revenues for the company's staffing services

Sales = Number of Consultants x Productivity x Commission - pre-cancellations – refunds

Sales: recorded on the day the applicant starts the job

Commission: average referral commission

Pre-cancellations: agreements that fail before the applicant starts the job; these commissions are booked as orders, but later subtracted

Refunds: SMS refunds a client if applicants leave it within a certain period after starting the job.

SMS acts as a staffing agency for medical nurses, care workers, care managers, and medical/nursing care professionals such as clinical technologists, radiologists, and clinical engineers as well as massage, acupuncture, and combustion therapists. According to data from the Ministry of Health, Labour and Welfare's 2018 Basic Survey of Wage Structure, the average annual salaries for the jobs that make large contributions to SMS sales in the staffing service business are: for nurses JPY4.92mn (JPY4.78mn in 2017), for care managers JPY4.22mn (JPY3.77mn), and for physical and occupational therapists JPY4.17mn (JPY4.05mn). SMS receives a commission equivalent to 20% to 30% of the estimated annual salary for the position.

Shared Research understands that in general, by placing a high-income specialist with an average annual salary of over JPY6mn, a recruiting agency receives a 30% commission or over JPY1.8mn for an arrangement, while the average commission is around JPY700,000 to JPY800,000mn for nurses and care managers going through the company's staffing services. According to the

company, the barriers to entry are not high in the staffing services business in this field, but average commission is low. Therefore, highly productive career partners and reducing advertisement costs used to attract customers are key to make a profit.

When hiring a nurse, hospitals usually use a staffing agency, and rarely use a job board. This is because hospitals, many of them not having HR departments, prefer agencies that can take over most of the hiring processes.

Staffing services for medical and nursing care practitioners generate lower revenue per contract than those for high-income specialists, but time and effort that career partners must expend for each successful contract is also lower. In most cases, it can be determined whether medical and nursing care practitioners fulfill the basic requirements that employers are seeking in terms of certifications and experience. In addition, the time given to job decision-making is short, given that there is a standard ratio of seven patients per nurse\*, and there is a need for a certain minimum number of care managers per site. Also, in staffing services for high-income professionals, career partners must usually interview applicants in person. However, for the medical and nursing care practitioners targeted by SMS, telephone interviews suffice.

\*Seven per nurse: the more nurses, the greater the benefits paid by health insurance to hospitals. Hospitals are grouped into four categories based on the ratio of patients to nurses: 15-to-one, 13-to-one, 10-to-one and seven-to-one. In 2006, seven-to-one was established as part of diagnostic compensation reform. The more nurses a patient requires the higher the compensation.

The main costs in the staffing services business are personnel costs for career partners and advertising costs to attract customers. As described, in staffing services for medical and nursing care practitioners, revenues per contract signed may be low, but by increasing productivity it is possible to keep down the ratio of personnel costs per unit of sales. In SMS' case, personnel costs as a percentage of sales are about 30%.

Advertising costs associated with the registration of a single vendor are little different in staffing services for nurses and care managers than they are for high-income professionals, so keeping these costs down is important. The company was engaging in its own SEM (search engine marketing) since its foundation, and by building up expertise in this area, it has succeeded in securing registrants while keeping advertising costs down to about 15–20% of sales, establishing a model for profitability in this business.

SEM: A marketing technique used with the objective of increasing the number of visitors to a company's web site via search engines. It includes SEO (Search Engine Optimization), which involves optimizing the web site's content to increase the ranking the site receives in keyword search results, as well as the use of pay-per-click keyword advertising and paid listings.

## Job information services

### Business model of Job information services

**Receive a fee for each application for a job via our Recruiting Ads website.**



Source: Company data

In job information services, clients place ads on SMS-operated web sites to seek out prospective job applicants. The company earns job-ad revenues, equal to the number of applicants who respond to an ad, times a set amount per applicant.

While the company earns a 20–30% commission per placement (based on the projected annual salary of the candidate) in staffing services, it only earns tens of thousands of yen per one application in the job information services. The significant difference in the fee structure stems from the fact that staffing services are completely success fee based, whereas the role of job information is the collection of potential candidates and the service only covers a portion of the overall recruiting process.

Unlike staffing services, job information services do not require career partners and tend to be used for the hiring of regular workers (as opposed to high-earners) who fit certain conditions.

The use of recruiting ads has traditionally been the standard practice for finding and hiring nursing care workers. Nursing care operators need to minimize per head hiring costs as it is important to secure ample resources due to this job's labor-intensive nature. As a result, the company has developed the business for nursing care operators mainly through job information services. (As stated above, however, a shortage of nursing care workers is becoming a serious issue and demand for success fee-based staffing services is increasing despite the high cost. As such, in FY03/17 the company launched in earnest a staffing service for nursing care workers. The service is rapidly expanding in scale, and SMS expects its sales of these and other nursing related services to outstrip those from staffing services for nurses in three to five years.

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## Community websites

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The community websites that SMS operates are intended to provide a platform for professionals (nurses, care managers) and end users (users of medical and nursing care services) to exchange information about the industry and related news. The websites also provide tools for business improvement, such as electronic forms, to professionals.

The company's main aim in operating these community sites is not only earning advertising revenues but by keeping in touch with workers on an everyday basis, utilizing their influence in developing new businesses and speeding up inception of new businesses by conducting sales promotion to community site workers (For example, care managers have an influence on nursing care providers because of their position to choose providers and on end users because they are consulted by patients and their family members. With their influence on end users, care managers also have an influence on nursing care-related companies such as diaper makers, whose customers are end users). Other key aims in operating the community sites include building a network of quality medical practitioners essential in new healthcare related services and other businesses and lowering advertising costs in its staffing services business over the long run.

In staffing services for medical and nursing care practitioners, the amount of revenue per contract signed is limited to a certain ratio of annual revenues of successful applicants, and it costs to advertise to attract job applicants. The company realizes that it is important to keep those costs down, in order to maintain or increase profitability. It hopes that job applicants and prospective job applicants will develop a habit of using its community sites regularly, to create an avenue so that when it comes time for them to switch jobs they will move naturally from the community site to registration with the staffing services that the company operates. This helps to keep down advertising costs it incurs in registering job applicants. SMS aims to continue boosting the value of these assets.

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## Business support platform for nursing care operators: Kaipoke

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Kaipoke is a business support platform for nursing care operators. It provides software for nursing care insurance billing via ASP for nursing care providers. The software assists nursing care providers to create care plans and transmit requests for compensation to the National Health Insurance Organization, and provides services for total management support including sales support, staffing support, and improvement of operational efficiency, financing, and purchasing assistance.

Sales for this business are calculated as the number of nursing care provider member locations using Kaipoke x average user fees per month x number of months used. Sales for the service itself and optional services came to JPY3.9bn in FY03/19 (+18.1% YoY) with 16,800 member locations (as of April 1, 2019), average user fees per month were roughly JPY21,000 (average monthly fee was JPY3,000 before September 2014, but just under JPY20,000 since October 2014).

The providers are to pay monthly usage fees when they continue to use the software beyond the period for free trial. Prior to changes to the pricing structure in October 2014, monthly usage fees depended on the services and the number of service units, such as JPY1,980 for at-home nursing care support service providers, JPY3,980 for home-visit care service providers or service providers of nursing care services at day care service centers, and when there are multiple services, JPY3,000 per service unit. In October 2014, the company began providing various new Kaipoke services in addition to its nursing care insurance billing service. These included sales support, recruitment support (such as job advertisements for nursing care providers), improvement of operational efficiency including purchasing functions for workplace equipment, bank transfers to handle fees paid by users of nursing care services, and support for coordinating documentation between workplaces. Following changes to the pricing structure in October 2014, at-home nursing care support service providers paid JPY5,000 per month and providers of home-visit care services or nursing day care services paid JPY25,000 per month, plus fees for any additional services.

According to the company, the monthly fees for Kaipoke are low compared with competitors' fees when considering the management support services provided in addition to the nursing care insurance billing software.

Expenses are mainly fixed expenses such as personnel, system development, software depreciation and advertising. This results in an earnings structure whereby profits expand when sales top the break-even point. However, the company has indicated it is maintaining a profit margin of roughly 20% for Kaipoke (before allocation of corporate overhead) to facilitate ongoing investment in the development of systems and services to support continued growth in the future.

## Main businesses

SMS operates in nursing, medical, healthcare, and senior life sectors. The company offers staffing services, job postings, information on certification courses, management support platform for nursing business operators, and community websites.

In FY03/19, approximately 66.1% of total sales came from the Career segment, which provides staffing services and job posting/search services for nursing and medical care personnel. The company's Kaipoke management support platform for nursing care operators accounted for 12.7% of revenues.

## Sales breakdown

In FY03/19, the Career segment accounted for 66.1% of total sales, Nursing Care Operators 12.7%, Overseas 17.7%, and Business Development segment 3.4%.

The company does not disclose detailed earnings data by segment, but it does release sales figures for each business segment. Until FY03/10, the company disclosed its breakdown of sales for staffing services, media and new businesses in three areas: nursing care, medical care, and active seniors. From FY03/11 to FY03/15, it divided its nursing care, medical care and overseas businesses into daily use and non-daily use business, and disclosed its sales data on that basis. From FY03/16 to FY03/17, it disclosed sales data for the redefined business segments of Career, Nursing Care, Medical Care, Healthcare, and Overseas. From FY03/18, it changed its segment structure as follows: Career, Nursing Care Operators (previously Management Support for Service Operators), Overseas, and Business Development (previously Nursing Care, New Businesses, Medical Care, and Health Care).

### FY03/19 sales breakdown by segment and business

Segments	Details	Sales (JPYmn)	YoY	% of total	Main service
Career	Nursing care career	7,974	36.6%	25.9%	Personnel referral for nursing care workers
	Medical care career	12,423	12.7%	40.3%	Personnel referral for nurses
Nursing Care Operators	Kaipoke	3,930	18.1%	12.7%	Kaipoke sales
Overseas		5,464	6.9%	17.7%	Majority of sales from MIMS sales
Business development	former "Nursing Care: New businesses" Medical Care Healthcare	1,041	-20.5%	3.4%	

Source: Shared Research based on company data

### Sales by segment and business (new segmentation)

(JPYmn)	FY03/17	FY03/18	FY03/19
Total sales	23,055	26,611	30,836
YoY	20.9%	15.4%	15.9%
Career	13,972	16,863	20,398
YoY	-	20.7%	21.0%
% of total sales	60.6%	63.4%	66.1%
Nursing care career	4,025	5,836	7,974
YoY	-	45.0%	36.6%
% of total sales	17.5%	21.9%	25.9%
Medical care career	9,946	11,027	12,423
YoY	-	10.9%	12.7%
% of total sales	43.1%	41.4%	40.3%
Nursing Care Operators	2,782	3,328	3,930
YoY	-	19.6%	18.1%
% of total sales	12.1%	12.5%	12.7%
Overseas	4,786	5,109	5,464
YoY	-	6.7%	6.9%
% of total sales	20.8%	19.2%	17.7%
Business Development	1,512	1,309	1,041
YoY	-	-13.4%	-20.5%
% of total sales	6.6%	4.9%	3.4%

Source: Shared Research based on company data

**Sales breakdown through FY03/17 (old segments)**

	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17
<b>Sales</b>	5,177	7,172	7,618	8,655	10,181	12,046	15,056	19,069	23,055
YoY	90.7%	38.5%	6.2%	13.6%	17.6%	18.3%	25.0%	26.7%	20.9%
<b>Career</b>	5,121	7,078	7,495	8,140	9,009	10,271	11,603	12,726	13,972
YoY	93.0%	38.2%	5.9%	8.6%	10.7%	14.0%	13.0%	9.7%	9.8%
% of sales	98.9%	98.7%	98.4%	94.0%	88.5%	85.3%	77.1%	66.7%	60.6%
<b>Staffing (nursing)</b>	392	451	431	495	578	839	1,090	1,439	1,791
YoY	39.5%	15.0%	-4.3%	14.7%	16.8%	45.0%	30.0%	32.0%	24.5%
% of sales	7.6%	6.3%	5.7%	5.7%	5.7%	7.0%	7.2%	7.5%	7.8%
<b>Media (nursing)</b>	1,078	704	705	752	955	1,243	1,592	1,834	2,235
YoY	29.2%	-34.7%	0.2%	6.7%	26.9%	30.1%	28.1%	15.2%	21.9%
% of sales	20.8%	9.8%	9.3%	8.7%	9.4%	10.3%	10.6%	9.6%	9.7%
<b>Staffing (medical)</b>	3,238	4,927	5,155	5,921	6,265	6,727	7,451	8,230	8,759
YoY	159.2%	52.2%	4.6%	14.9%	5.8%	7.4%	10.8%	10.5%	6.4%
% of sales	62.5%	68.7%	67.7%	68.4%	61.5%	55.8%	49.5%	43.2%	38.0%
<b>Media (medical)</b>	413	997	1,204	972	1,211	1,463	1,563	1,223	1,187
YoY	42.6%	141.2%	20.7%	-19.3%	24.6%	20.8%	6.9%	-21.8%	-2.9%
% of sales	8.0%	13.9%	15.8%	11.2%	11.9%	12.1%	10.4%	6.4%	5.2%
<b>Nursing Care</b>	-	-	-	-	-	-	1,885	2,972	3,528
YoY	-	-	-	-	-	-	-	57.7%	18.7%
% of sales	-	-	-	-	-	-	12.5%	15.6%	15.3%
<b>Business management support</b>	49	87	110	211	406	757	1,537	2,551	3,040
YoY	2.5%	77.1%	26.3%	92.2%	92.2%	86.2%	103.1%	66.0%	19.2%
% of sales	-	-	-	-	-	-	10.2%	13.4%	13.2%
<b>New businesses</b>	-	-	-	-	-	-	348	421	488
YoY	-	-	-	-	-	-	-	21.1%	15.8%
% of sales	-	-	-	-	-	-	2.3%	2.2%	2.1%
<b>Medical Care</b>	-	-	-	-	-	-	784	652	592
YoY	-	-	-	-	-	-	-	-16.9%	-9.3%
% of sales	-	-	-	-	-	-	5.2%	3.4%	2.6%
<b>Overseas</b>	-	-	0	37	106	270	741	2,601	4,787
YoY	-	-	-	-	185.0%	155.1%	174.3%	250.8%	84.0%
% of sales	-	-	-	-	-	-	4.9%	13.6%	20.8%
<b>Healthcare</b>	-	-	-	-	-	-	43	118	176
YoY	-	-	-	-	-	-	-	174.1%	49.6%
% of sales	-	-	-	-	-	-	0.3%	0.6%	0.8%

Source: Shared Research based on company data  
 Note: Sales before FY03/14 are based on former segmentation.

**Career segment (66.1% of FY03/19 consolidated sales)**

The Career segment comprises the nursing care career and medical care career businesses. In FY03/19, the nursing care career business accounted for 25.9% of consolidated sales, and the medical care career business for 40.3%.

**Career segment business portfolio**

Career		
Nursing care career	Care Personnel Bank	Personnel referral services for care managers
	PT/OT Personnel Bank	Personnel referral services for physical therapists, occupational therapists and speech therapists
	Kaigo Job Agent	Personnel referral services for nursing care workers
	Shikatoru	Qualification courses information services
	Kaigo Job	Job information services and career fairs for nurses and social workers
	Kaigo Job Partners	Temporary staffing services for nursing care workers
	Kaigo Job Academy	Nursing care qualification courses
	Care-mane.com	Community for care managers
Medical care career	Nurse Personnel Bank	Personnel referral service for nurses
	Laboratory Technician Bank	Personnel referral service for clinical laboratory technicians
	Radiologist Personnel Bank	Personnel referral service for radiologists
	Clinical Engineer Personnel Bank	Personnel referral service for clinical engineers
	Dietitian Personnel Bank	Personnel referral service for dietitians
	SOL Solution	Human resources solutions
	Nurse Senka [Kyujin Navi]	Job information services and career fairs for nurses
	Nurse Senka [Shushoku Navi]	Job information services, magazines, and career fairs for nursing students
	Kango Shogakukin NAVI	Scholarship information for high school and nursing care students
	Nurse Senka Community	Online community for nurses and nursing students
	WILL ONE	Referral of personnel for judo therapists and massagers
	Jimcom	Managerial information for office managers
	Childcare Worker Personnel Bank	Personnel referral service for childcare workers

Source: Shared Research based on company data

**Nursing care career (25.9% of FY03/19 Career segment sales)**

As of end FY03/19, the nursing care career business offered eight services. Shared Research believes services that make large earnings contributions are Kaigo Job, Kaigo Job Agent, Care Personnel Bank, and PT/OT Personnel Bank. Other services include Kaigo Job Academy (nursing care qualification courses) and Shikatoru (information service for certification courses).

**Kaigo Job**

Kaigo Job is a job information service (job posting and search) specializing in the fields of nursing care and social work; it targets home helpers, care takers, care managers, managers at service providers, and counselors.

The company earns a commission each time a job applicant responds to an advertisement.

Most of the firms offering jobs through this service are large nursing care operators. In FY03/19, the company did business with approximately 60% of all large operators. The company focuses mainly on large clients for efficiency as customers for this segment require direct contact with the salesperson in charge.

In February 2014, SMS introduced new functionality to the Kaipoke business support platform for providers of nursing care called Kaipoke Saiyo (hiring) that allowing these providers to post job ads using Kaigo Job. The new service is offered in a package with the other features of the Kaipoke service.

**Kaigo Job Agent**

The company has been in full-scale operation of Kaigo Job Agent (staffing service for nursing care workers) since FY03/17. There are about 1.98mn nursing care workers in the country, and 380,000 of them change jobs every year, according to the company. Assuming that 10% of these people use staffing services, there will be about 40,000 potential customers in the medium term, making the market equivalent in size to that of staffing services for nurses. Workers at care facilities earn an average of JPY3.40mn a year, according to the Ministry of Health, Labour and Welfare’s 2018 Basic Survey of Wage Structure. Assuming that commissions for staffing services are between 20% and 30% of the worker’s wages, the market would be worth between JPY25bn and JPY40bn in the medium term. In nurse staffing and help-wanted information, SMS acquires roughly 250,000 members annually or about 70% of those changing jobs in the nursing profession. The company plans to increase its staffing market share by leveraging its dominant member platform.



### Care Personnel Bank and PT/OT Personnel Bank

The Care Personnel Bank is a staffing service specialized in care managers. The company has offered this service since its inception in 2003. The company has also operated PT/OT Personnel Bank for physical therapists, occupational therapists and speech therapists in the nursing care segment since 2008.

As in the staffing service business for nurses, sales in this business are the number of contracts signed, multiplied by the commission per contract. When a referral leads to an employment contract, the company receives a commission of about 20–30% of the estimated annual salary for the position from the hired company. According to the Ministry of Health, Labor and Welfare's 2018 Basic Survey of Wage Structure, average annual income was JPY3.86mn for care managers (JPY3.77mn in 2017), and about JPY4.09mn for physical and occupational therapists (JPY4.04mn in 2017).

### Kaigo Job Academy

Kaigo Job Academy runs preparatory courses for those seeking nursing/medical care qualifications. In this service, the company offers self-operated free qualification courses to participants and introduces those who pass the qualification exams to care operators. The company has indicated that by having in place this support system, it is helping to increase the number of nursing care workers who are in high societal demand, while meeting the needs of care operators willing to hire beginners.

### Shikatoru

Shikatoru is an information service regarding certification courses in the nursing care and medical fields. There is an abundance of information about specific certifications, and preparation courses, and users can compare the various offerings. The company earns advertising revenues based on the number of brochure requests at a specified rate per request.

### Medical care career (40.3% of FY03/19 Career segment sales)

The medical care career business primarily offers the nurse staffing service Nurse Personnel Bank (launched in September 2005). However, the company has been expanding the range of medical care professions covered by its staffing services to include dietitians (May 2012), clinical technologists (September 2013), radiologists (June 2014), clinical engineers (July 2014), judo-orthopedists, massage, acupuncture, and combustion therapists (November 2017), and childcare workers (October 2018). Other services include the job information service Nurse Senka Kyujin Navi, and the community website for nurses/nursing students Nurse Senka Community.

### Nurse Personnel Bank

The company's Nurse Personnel Bank is a staffing service specializing in nurses, and started in 2005. This service supports the matching of job applicants with job opportunities, using the consulting services of specialized career partners.

The company's main customers in this field are hospitals. As of May 2018, the company did business with about 6,000 hospitals, 70% of the approximately 8,400 hospitals in Japan.

Sales earned in this segment correspond to the number of contracts signed multiplied by the commission per contract. When an applicant is placed, the company receives a commission of about 20% of the estimated annual salary for the position from the hospital. According to the Ministry of Health, Labour and Welfare's 2018 Basic Survey of Wage Structure, the average gross annual income for nurses is JPY4.80mn (JPY4.78mn in 2017).

Cost of sales is mainly personnel expenses for career partners and advertising costs. Advertising costs are the costs the company incurs to place search-linked ads on the internet aimed at prompting prospective job applicants to register. Its advertising costs tend to rise in parallel with the growth of the personnel staffing services market. The company strives to keep down such advertising costs by optimizing search engine keywords and using the community sites it operates to attract applicants. Shared Research estimates that the company's operating margin in this segment is around 30%.

According to the company, each year about 10% of the 1.7mn nurses in Japan (168,000) change jobs. Of this number, presumably about 25%, or 40,000 people use recruiters. As just above 10,000 nurses use SMS' services, it is the leading player

with a market share of about 30% (SMS estimate). However, the company's share of employment contracts for all nurses who change jobs is only about 7%, and therefore, it thinks it has potential to increase market share. Japan has a shortage of nurses. Average annual growth in the number of nurses between 2012 and 2017 was 2%. Demand for nurses is likely to grow for the medium term as the average age of Japan's population rises. Therefore, demand for the staffing services for nurses is expected to rise.

#### **HR solutions for hospitals**

The company offers hospitals management-related solutions such as assistance in hiring activities. The services provided depend on the needs of individual hospitals; the wide range of service offerings in this area include collective hiring of nurses (over 10 nurses at a time), and consulting services to improve overall hiring process (from job posting to interviews), or to strengthen efficiency of various hospital operations.

In the Medical care staffing business, SMS has dealing with 70% or about 6,000 of the existing 8,400 hospitals in Japan. For the medium term, the company intends to leverage this customer base and develop solutions that could help it establish closer and more sustainable relationships with client hospitals.

#### **Job information services and community website for nurses/nursing students**

Nurse Senka Kyujin Navi is a job information service for nurses, operating online and through job fairs and handling about 100,000 job ads for nurses as of May 2019.

Nurse Senka Shushoku Navi is a job information service for nursing students, operating via the internet, job fairs, and promotional publications.

Nurse Senka Community for nurses/nursing students is a membership community site for nurses, providing a bulletin board, news, and various articles. It also provides apps for qualifying examinations. As of March 31, 2019 the site, which opened in 2006, had 770,000 registered users or over 40% of all nurses in Japan. To support continuous use of the site, it provides nursing-related news on top of the bulletin board, a standard for a community site. SMS operates its community sites as well as information and search sites to encourage nurses to access to and use them on a daily basis, so that they register with its career services and finally the company can reduce advertisement costs associated with the staffing services for nurses and personnel media. Another aim is to guide nurses to the company's other related services, such as online shopping.

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## **Nursing Care Operators segment (12.7% of FY03/19 consolidated sales)**

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This segment consists of the Kaipoke business support platform for nursing care operators.

#### **Kaipoke, business support platform for nursing care operators**

Kaipoke provides software for nursing care insurance billing via ASP for nursing care operators, mainly in the form of assistance in creating care plans, and transmitting requests for compensation to the National Health Insurance Organization. It receives usage fees from the nursing care services providers that use these services. This service was launched in July 2006.

Under the nursing care insurance system in Japan, the patients bear a co-pay of 10% of the costs of the care service received and the national government pays the remaining 90% in form of insurance benefits. Nursing care service providers calculate the 90% amount to be invoiced to the national government based on the Nursing Care Benefit Cost Unit Table and then submit their compensation requests using the standard Detailed Receipt of Nursing Care Benefits. The Nursing Care Benefit Cost Unit Table differs by region. In addition, the amount of benefit money differs depending on the level of care required. Claiming compensation benefits therefore requires cumbersome calculations and paperwork by care providers who tend to be small and understaffed.

Providers normally use specialized software to calculate claims. According to SMS, most vendors charge about JPY30,000 per month in usage fees for such software. However, prior to September 2014, SMS' price for its Kaipoke service was JPY3,000 per month and the company insists its software had similar functionality.

### Expanding the Kaipoke service

Kaipoke started as software for processing health insurance claims. In August 2013, SMS started a factoring service for nursing care compensation (Kaipoke Biz Factoring Service), a first major addition to the package, and in February 2014, it launched a management Support Service for small and medium-sized nursing care providers, on top of the software for nursing care insurance billing. The new platform offers additional functions, such as sales support, staffing support (e.g. job advertisements for recruiters for nursing care facilities), and improvement of operational efficiency including purchasing functions for workplace equipment, bank transfers to handle fees paid by users of nursing care services, and support for coordinating documentation between different workplaces. As of May 2019, the company offered all of the services shown in the table below and plans to gradually expand these services.

Name of service	Content
Kaipoke Health Insurance Claims	A system for nursing care insurance billing.
Kaipoke Care Cooperation	A service that allows providers of home nursing care services to send documents using the Kaipoke Business Support service, replacing conventional fax transmission.
Kaipoke Employment	A service that facilitates the posting of job advertisements on Kaigo Job, the company's job advertisement service for nursing care workers.
Kaipoke Attendance Management	A service that facilitates management of work sign-in/sign-off times and employee attendance, and is operated in conjunction with Kaipoke Payroll Accounting.
Kaipoke Payroll Accounting	A service that facilitates payroll calculation, including income tax and social insurance deductions, based on daily attendance.
Helper Attendance Management and Payroll Accounting	A service that facilitates the creation of work shifts in accordance with health insurance claims. It can also automatically calculate payroll amounts.
Kaipoke Payroll Transfer	A service that facilitates payroll transfer for employees.
Kaipoke Business	A service that allows nursing care operators to create flyers and send direct mail by fax as marketing to providers of home nursing care services. Make a list of homes and send batch of promotional faxes to offices
Kaipoke Design	Create designs such as logos, business cards, flyers, and signs
Homepage Setup	A service that facilitates the creation of a company homepage.
Kaipoke Printing Support	Deliver high-quality, low-price consumables such as flyers and business cards
Kaipoke Business Administration	A service that provides management analysis tools based on data entered through the Kaipoke Business Support service.
Kaipoke Accounting/Tax Accounting	A service that provides cloud-based accounting software (provided in association with Money Forward, Inc.).
Home-Visit Nursing Care Tablet (nursing care managers, day care, home visit nursing care, outpatients, after school care)	A service that facilitates creation of work diaries. management of nursing records and schedules for home-visit nursing by using tablets. Tablet and data fees are included in monthly usage fees (provided in association with KDDI Corporation).
Transportation Management	A service that facilitates the search for transportation routes and management of transportation schedules.
Kaipoke Calendar	A service that facilitates calendar (schedule) creation for recreation, menus, and transportation.
Recreation Support	A service that facilitates the acquisition of materials and ideas for recreational activities.

Kaipoke Home-Visit Record	A service that facilitates the entry of attendance data at home-visit locations using a smartphone. The recorded data is uploaded to Kaipoke in real time.
Kaipoke Mobile	A service that facilitates the renting of low-cost smartphones with unlimited calls.
Kaipoke Shopping	A service that facilitates bulk purchases of equipment necessary to operate a nursing care business.
Kaipoke Bank Withdrawals	A service that facilitates withdrawal of the portion of nursing care compensation borne by the user.
Kaipoke Early Payment	A service that enables early payment of nursing care compensation (which is generally paid after 1.5 months).
My Number Management	A service that securely stores My Number information for employees (provided in association with Money Forward, Inc.).
Kaipoke Car Leasing	A service that provides low-cost leasing of cars required for transportation or other operations (provided in association with ORIX Auto Corporation).
Kaipoke Insurance	A service that provides automatic coverage for basic indemnification. Also sells more extensive indemnification (provided in association with Mitsui Sumitomo Insurance Co., Ltd.).
Kaipoke Telegram	A service that enables the sending of low-cost telegrams.
Kaipoke Tax Accountant	A service that refers tax accountants (starts from JPY9,000/month).
Kaipoke Coupons	A service that allows employees of nursing care operators to use welfare services.
Kaipoke News	News for SME nursing care operators
Kaipoke Magazine	Easy-to-understand explanations of latest system reforms
Kaipoke Document Templates	A service that facilitates download and usage of various business document templates.
Facility Opening Support	Task management in categories of company establishment, property, equipment, operating systems, applications, sales, and employment
Kaipoke Business Establishment Management	A service that provides support necessary to open a nursing care facility, such as applications for the designation of nursing care facility, property searches, and research on commercial areas. Service that supports nursing care facility opening in areas including finance, tax, and property search.
Kaipoke Market Survey	Report on elderly population, nursing requirements, and local competitors in a region
Kaipoke Equipment Introduction Support	A service that helps introduce necessary equipment for the establishment and operation of a nursing care facility.
Kaipoke Startup Financing Support	A service that provides consulting related to fundraising for nursing care startups.
Kaipoke Legal Entity Establishment	A service that provides support for the registration as a legal entity.
Kaipoke Property Research	A service that supports the search for properties that are suitable for opening a nursing care facility.
Hapisumu	A service that supports the selection of renovation service providers
Kaipoke Application for Nursing Care Facility Designation	Information and telephone consulting services to ensure that applications for the designation of nursing care facility prior to opening proceed smoothly.
M&A matching	Matching service for M&A deals for nursing care facility operators

Source: Shared Research based on company data

### New pricing structure

In October 2014, the company moved to a new pricing structure for Kaipoke, to reflect the expanded service lineup. Prices were changed as follows:

- ▀ **At-home nursing care support service providers:** prices raised from JPY1,980 to JPY5,000 per month;
- ▀ **Home-visit care and nursing day care service providers:** prices raised from JPY3,980 to JPY25,000 per month;
- ▀ **Multiple accounts in one location:** prices raised from JPY4,980 to JPY30,000 per month, for providers of at-home nursing care support, home-visit care services, and nursing day care services.

The company also set prices for each additional service, although most of these are offered free of charge.

### Number of member locations

Kaipoke used to attract users mainly by search ads on the internet. The number of member locations continued growing through Q1 FY03/15 on its popularity as an affordable, high-quality service.

The number of member locations declined in Q3–Q4 FY03/15, as some members cancelled their contracts after the October 2014 price hikes. However, this trend reversed and net membership increases were seen on a monthly basis from the latter half of Q4 FY03/15. As of April 2019, there were 16,800 member locations (24,250 care facilities), equivalent to roughly 13% of the facilities that provide nursing care services where Kaipoke services are available (Shared Research estimate).

### Number of Kaipoke member companies and sales

	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Nursing care operator locations ('000)	129	135	143	153	162	172	179	186	189
YoY	-	4.7%	5.9%	7.0%	5.9%	6.2%	4.1%	3.9%	1.6%
Number of member offices	4,200	7,600	13,000	17,500	13,600	15,400	-	21,400	24,250
YoY	110.0%	81.0%	71.1%	34.6%	-22.3%	13.2%	-	-	13.3%
Share	3.3%	5.6%	9.1%	11.4%	8.4%	9.0%	-	11.5%	12.8%
Sales (JPYmn)	110	211	406	757	1,537	2,551	3,040	3,328	3,930
YoY	26.3%	92.2%	92.2%	86.2%	103.1%	66.0%	19.2%	-	18.1%

Source: Shared Research based on company data

Note: Number of Kaipoke nursing care operator locations: company estimate based on Health, Labour and Welfare Ministry statistics

Note: Sales through FY03/17 reflect sales in the former Management Support for Service Operators segment. Due to modification to disclosure classification, in FY03/18, the nursing care business in the former Management Support for Service Operators was moved to Business Development. In the purchasing service of Kaipoke, the company only books commission fees as sales.

## Overseas business (17.7% of FY03/19 consolidated sales)

In April 2009, SMS established a system development base in Vietnam. Since then, SMS has expanded its presence in the Asia-Oceania region by establishing subsidiaries and completing capital alliances. In October 2015, SMS acquired 60% of shares in Medica Asia (Holdco) Limited, which holds the MIMS Group, a provider of a medicine information database in Asia-Oceania, and made Medica Asia a consolidated subsidiary. (In September 2018, SMS acquired the remaining shares of Medica Asia, making it a wholly owned subsidiary.) Since FY03/16, the MIMS Group has been the key driver in the Overseas segment. In FY03/18, the group converted Melorita, a Malaysian recruitment agency for nursing professionals with orders from hospitals in Saudi Arabia and Asia, into a subsidiary, and thus started operations in the Global Career business in earnest.

SMS estimates that other Asian countries will follow the aging society patterns of Japan in roughly 30 years. The Asian countries will need to develop their own comprehensive systems of caring for the elderly. SMS wants to be prepared once that starts happening and have a service solution suitable for each particular country. It has set a medium and long-term goal of building a powerful pan-Asian—albeit localized—platform for medical and nursing care information services infrastructure in the region. As of 2015, Asian countries' expenditure for nursing/medical care and healthcare was JPY115tn. The company forecasts the expenditure to rise to JPY250tn in 2025. Assuming that 1% of this expenditure will be directed to information infrastructure, one of the company's business domains, it estimates that the market size for information infrastructure in 2025 will be JPY2.5tn.

### MIMS Group

In October 2015, SMS acquired 60% of shares in Medica Asia (Holdco) Limited, the holding company of the MIMS Group, making it a consolidated subsidiary (Mitsui & Co. held the remaining 40%, made wholly owned subsidiary in September 2018).

Under Medica Asia as its holding company, the MIMS Group is a provider of drug information services to healthcare professionals in the Asia-Oceania region, operating in Singapore, China, Hong Kong, South Korea, India, Indonesia, Malaysia, the Philippines, Thailand, Myanmar, Vietnam, Australia, and New Zealand. Registered healthcare professional users in the region have reached 2.5mn (including 500,000 doctors). In Singapore and Hong Kong, over 90% of healthcare professionals are registered users of the MIMS Group.

The MIMS Group operates three main businesses: Pharma Marketing, Global Career, and Healthcare Data.

### **Pharma Marketing business**

Pharma Marketing accounts for roughly 60% of overseas sales. The Pharma Marketing business provides healthcare professionals (doctors, nurses, pharmacists) with a uniform drug database which sorts and summarizes drug information provided by pharmaceutical companies, and can be accessed through various media, both print and digital (including mobile apps). In return for being included in this drug database, pharmaceutical companies pay a posting fee. The Pharma Marketing business also provides marketing support to healthcare professionals at pharmaceutical companies by delivering medical news and educational contents, and offering industry events. In the Pharma Marketing business, the MIMS Group has business relations with almost all pharmaceutical companies, from major to small and medium-size companies, and posts almost all information on drugs on the database.

According to SMS, the MIMS drug database is the de facto industry standard for healthcare professionals in those countries where the company operates.

### **Global Career business**

In June 2017, the MIMS Group converted Melorita, a Malaysian recruitment agency for nursing professionals with orders from hospitals in Saudi Arabia and Asia, into a subsidiary, and thus strengthened the Global Career business.

Saudi Arabia is a host to many foreign healthcare professionals, with 60% of its nurses being foreign nationals. Like their European and American counterparts, Malaysian nurses enjoy a strong reputation in Saudi Arabia by virtue of Malaysia's advanced medical education and technology. Their shared Islam background as well as their high level of English proficiency has led them to be accepted in large numbers by Saudi Arabia and other countries in the Middle East.

Thanks to its successful 40-year track record of placing Malaysian nurses in Saudi Arabia and Asia, Melorita receives many orders for staff from hospitals in Saudi Arabia. In addition, it has accumulated expertise in how to apply for a work permit and to find suitable accommodations in Saudi Arabia.

The MIMS Group converted Melorita into a subsidiary and thus acquired that company's cross-border operational capabilities. By combining the MIMS Group's membership base of medical care professionals and SMS' expertise in managing the Career segment, SMS intends to expand the number of companies and regions from where it can recruit medical practitioners through partner medical institutions, and accelerate growth in the Global Career business. As part of these initiatives, in May 2018 the company acquired MSR, a nurse referral company in the Philippines, to help expand its access to countries that supply medical professionals.

### **Healthcare Data business**

The Healthcare Data business provides a drug database to medical institutions (hospitals, clinics, and pharmacies), charging a fee for database use. In addition to being offered as a stand-alone system, the database can also be integrated into core systems such as hospital information systems, clinic prescription systems, and pharmacy dispensing systems.

According to management, the database has become the standard means of checking to confirm that there is no unfavorable drug interaction when patients are prescribed multiple medications, and is currently used at over 50% of all hospitals, clinics, and pharmacies in Australia and New Zealand.

**Effects of consolidating MIMS Group**

Below were the MIMS Group’s business results before the consolidation into SMS

**MIMS Group’s business performance for FY12/12 to FY12/14**

(USD’000)	FY12/12	FY12/13	FY12/14
Consolidated sales	46,951	47,605	47,354
Consolidated operating profit	9,479	12,193	13,377

SMS posted the MIMS Group’s earnings for January–December 2016 in its consolidated results for FY03/17; sales amounted to JPY4.8bn. In FY03/18, the MIMS Group delivered the bulk of the earnings in the Overseas segment. Shared Research estimates it contributed sales of JPY5.1bn (+6.7% YoY) and reported a loss.

## Group companies

As of May 2019, 42 companies were included in consolidated earnings: the parent company, 39 consolidated subsidiaries, and three equity-method affiliates. The subsidiaries making the largest contribution to earnings are SMS Career Co., Ltd., MIMS Group (see the Main businesses section), and an equity-method affiliate M3 Career Inc.

### SMS Career Co., Ltd.

In January 2015 the company spun off some operations to establish the wholly owned subsidiary SMS Career Co., Ltd. This subsidiary provides recruiting and job information services in the nursing care and medical care fields.

### M3 Career Inc.

SMS holds a 49% stake of this equity-method affiliate. M3 Inc. (TSE1: 2413) owns the remaining 51%. M3 Career was established in December 2009, combining M3's physician and pharmacist job ads business with SMS' physician and pharmacist staffing agency business.

#### M3 Career performance

	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	1,433	2,191	3,235	4,594	5,712	6,925	8,630	10,880	13,710
YoY	-	52.9%	47.6%	42.0%	24.3%	21.2%	24.6%	26.1%	26.0%
Recurring profit	177	437	749	1,070	1,714	2,292	2,554	2,871	3,847
YoY	-	146.9%	71.4%	42.9%	60.2%	33.7%	11.4%	12.4%	34.0%

Source: Shared Research based on M3 Career Inc. data



## Strengths and weaknesses

### Strengths

- **Strong market share in medical and nursing care staffing services:** In staffing services and job information services, brand name recognition is an important factor for an agency's efficiency in attracting applicants. Particularly in online job ads, the staffing agencies with the highest market share are the best in attracting job applicant registrations and job information. This makes their sites easier to use, which leads to further gains in market share. The company was one of the pioneers in the market for staffing services and job information in the nursing and nursing care segment. It was successful in keeping costs down and achieving profits, allowing it to surpass its competitors and increase share in this growth market. This in turn helped further boosted its brand name recognition. Top providers of online based staffing service able to attract a large number of registered jobseekers and offer abundant job information are able to increase their market share by enhancing the convenience of web-based staffing services.
- **Specializing in growth fields:** SMS does business in the medical and nursing care markets, which are expected to grow as Japan's demographics continue to age. As of May 2019, the company does business mainly in staffing services, job information, and business support platform, but its medium to long-term strategy is to increase sales in other peripheral businesses by attracting more customers (employees, agencies, users) in the medical and nursing care services segment. Shared Research thinks that the company has significant opportunity to increase profits in the medium to long term from the enormous markets for medical and nursing care services in Japan and abroad.
- **Outstanding management:** Shared Research thinks that President Shuhei Morofuji and the rest of SMS management have a good grasp of logical decision-making in business, taking in the current environment and planning ahead for the medium to long term, seeing what they need to do now to be where they want to be further down the road. For example, concerning the Kaipoke Biz business platform for small and medium-size nursing care providers, management predicted that regional nursing care providers would be the mainstream in the medium term. They determined what tools was necessary to reach such vendors, and developed appropriate services such as nursing care invoicing application service provider (ASP), within a short span of time after the company's founding. It is no coincidence that the company found its way into these growth markets. Shared Research thinks that this was a result of management's vision and capabilities.

### Weaknesses

- **Costs vs. benefits in new businesses:** In its new businesses, the company appears to lack clear standards for profitability, or costs vs. benefits. This may be what makes it possible for the company to speedily implement new businesses, and invest for the long term, but still its analysis of costs vs. effects seems unclear.
- **Limited contribution to earnings by overseas investment:** In October 2015, the company spent JPY18.4bn (goodwill: JPY11.9bn) to acquire a 60% stake in Medica Asia, the holding company of the MIMS Group which provides a medicine information service in Asia-Oceania, making Medica Asia its consolidated subsidiary. This acquisition amount exceeded the company's total assets in FY03/15: JPY11.4bn. Since FY03/16, the MIMS Group has been a key driver in the Overseas segment. However, the Overseas segment only contributed sales of JPY5.5bn (+6.9% YoY) in FY03/19, and appears to have posted a loss. As SMS positioned FY03/17 to FY03/20 as an investment period for medium-term growth of the MIMS Group, it expected to book a loss due to higher expenses. For FY03/19 onward, it aims at earnings growth by expanding the existing Pharma Marketing business and getting the Global Career business up and running, expecting to turn profitable in FY03/21.

## Market and value chain

### Market overview

The company thinks that its core market—catering to the needs of an aging society—will post multi-year growth.

#### Nursing care

##### Estimates of population age 65 and older

According to the population projection released by the Ministry of Internal Affairs and Communications, the elderly population in Japan (65 years or above) reached approximately 35.2mn as of October 2017 (+1.6% YoY). At 27.7% of the total population (27.3% a year before), this was among the highest in the world. According to estimates by the National Social Security Population Studies Association, the elderly population in Japan (65 years or above) will continue to rise due to longer average life expectancy and shrinking birthrate and is forecast to account for over 30% of the total population in 2025.

##### Japan population statistics and outlook (mn people)

(mn)	2005	2010	2015	2020	2025	2030	2035	2040
Total population	127.8	128.1	127.1	125.3	122.5	119.1	115.2	110.9
5-year CAGR	-60.1%	0.0%	-0.2%	-0.3%	-0.4%	-0.6%	-0.7%	-0.8%
Population over 65	25.7	29.5	33.9	36.2	36.8	37.2	37.8	39.2
5-year CAGR	-58.9%	2.8%	2.8%	1.3%	0.3%	0.2%	0.4%	0.7%
% of total	20.1%	23.0%	26.6%	28.9%	30.0%	31.2%	32.8%	35.3%
Aged 65-74	14.1	15.3	17.5	17.5	15.0	14.3	15.2	16.8
5-year CAGR	-59.6%	1.7%	2.8%	-0.1%	-3.0%	-0.9%	1.3%	2.0%
Over 75	11.6	14.2	16.3	18.7	21.8	22.9	22.6	22.4
5-year CAGR	-58.1%	4.1%	2.8%	2.8%	3.1%	1.0%	-0.3%	-0.2%

Source: Population Census, Ministry of Internal Affairs and Communications

Note: January 2012 Population Projections for Japan, National Institute of Population and Social Security Research

As of March 31, 2017, people recognized as needing long-term nursing care reached 6.32mn. Of them, 5.61mn people or more than 80% of the total, used services provided by nursing care insurance.

In the past 10 years, population aged 65 and above increased at an average annual growth rate of 2.2%. In this period, people needing long-term nursing care increased at a rate of 3.4% and people using insured long-term care service increased at a rate of 4.4%, which exceeded the growth rate of elderly population. This is because over 80% of people needing long-term nursing care were aged 75 and above and the population growth rate of a population group aged 75 and above was higher than that of a population group aged 65 to 74. According to the population projections shown in the table above, population aged 75 and above is predicted to keep growing until 2030.

**Population needing long-term nursing care and population covered by nursing care insurance (at end of March; unit: 10,000 people)**

(mn)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Population (aged over 65)	28.22	29.01	29.48	29.75	30.79	31.90	33.00	33.87	34.59	35.15
YoY	2.7%	2.8%	1.7%	0.9%	3.5%	3.6%	3.5%	2.6%	2.1%	1.6%
People certified for long-term care need	4.53	4.67	4.85	5.06	5.30	5.61	5.84	6.06	6.20	6.32
YoY	2.9%	3.2%	3.7%	4.4%	4.8%	5.8%	4.0%	3.8%	2.4%	1.9%
% of population over 65	16.0%	16.1%	16.4%	17.0%	17.2%	17.6%	17.7%	17.9%	17.9%	18.0%
Certified people over 75	3.73	3.88	4.05	4.26	4.49	4.77	4.97	5.17	5.31	5.44
YoY	3.9%	4.1%	4.4%	5.2%	5.4%	6.2%	4.1%	4.0%	2.9%	2.4%
% of total people certified	82.4%	83.1%	83.6%	84.3%	84.7%	85.0%	85.1%	85.3%	85.6%	86.1%
Service recipients	3.66	3.80	3.97	4.18	4.40	4.64	4.87	5.07	5.24	5.61
YoY	3.8%	3.9%	4.5%	5.1%	5.3%	5.4%	4.9%	4.2%	3.4%	7.0%
Recipients as % of certified people	80.8%	81.4%	81.9%	82.5%	83.0%	82.7%	83.3%	83.7%	84.5%	88.8%
In-home services	2.64	2.75	2.89	3.06	3.24	3.42	3.61	3.78	3.91	3.89
YoY	3.6%	4.1%	5.1%	6.0%	5.7%	5.7%	5.5%	4.6%	3.6%	-0.6%
Community services	0.20	0.22	0.25	0.27	0.30	0.34	0.36	0.39	0.42	0.80
YoY	18.3%	14.1%	10.1%	10.3%	11.3%	11.0%	7.0%	8.9%	6.3%	92.7%
Institution services	0.82	0.83	0.84	0.84	0.86	0.88	0.90	0.90	0.92	0.92
YoY	1.6%	0.7%	1.0%	0.6%	2.0%	2.4%	1.9%	0.7%	1.5%	0.9%

Source: Shared Research based on population projections (Ministry of Internal Affairs and Communications) and reports on insured long-term care service (Ministry of Health, Labour and Welfare)

Note: Data on population aged 65 is compiled every October; data on population needing long-term nursing care and population using insured long-term care service are compiled every March.

**Monetary value of nursing care insurance costs**

With the ageing of Japan's population, the number of people making use of nursing care insurance services rose to about 5.6mn in March 2017 from about 1.5mn in April 2000, according to the Ministry of Health, Labour and Welfare. This increased nursing care benefit expenses every year from JPY3.6tn in 2000, JPY9.2tn in 2013, and JPY10.7tn in 2018. According to an MHLW estimate ("Outlook and future prospects of the Japanese social security system 2040"), nursing care insurance costs will rise to about JPY24.6tn in 2040, based on mechanical projections from current conditions.

**Trends among nursing care professionals**

In 2000, when the nursing care insurance system was introduced, there were 550,000 nursing care workers in Japan. As more people became aware of the nursing care insurance system, and the population of senior citizens continued to grow, the number of professionals working in this field (nurses and others) more than doubled in 10 years. As 2025 approaches, there will be calls to strengthen Japan's insurance system for medical and nursing care services, with the nation being called upon to build a comprehensive regional care system. According to the Ministry of Health, Labour and Welfare, between 2015 and 2025 Japan will need to increase the number of professionals working in the nursing care field by 50%.

**Nursing care workers statistics and outlook ('000 people)**

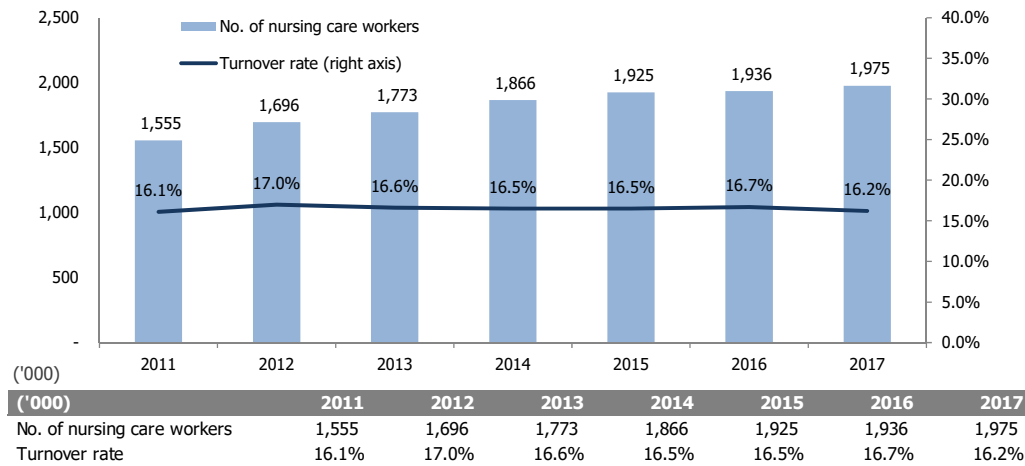
	2000	2012	2015	2025
Nursing care workers	550	1,490	1,670-1,760	2,370-2,490
Related workers	260	700	810-850	1,280-1,340

Source: Ministry of Health, Labour and Welfare

Note: 2015 & 2025 figures based on a service system reform scenario under the Integrated Reform of Social Security and Tax Systems Related workers include such healthcare providers as nursing assistants, counselors, occupational/physical therapists (OT, PT)

With respect to the number of nursing care workers and turnover ratio that largely affect the number of nursing care workers who change jobs, according to the company, the number of care workers increased at an average annual growth rate of 4% in the past six years and turnover ratio fluctuated between 16.0% and 17.0%.

### Number of nursing care workers and turnover ratio



Source: Shared Research based on company data

## Medical care

### Ratio of nursing job offers to number of nurses

When standardized compensation for diagnostic procedures was reformed in 2006, the new system built in incentives by increasing basic hospitalization fees based on the number of nurses per patient (see Business model section regarding the seven-to-one rule for base hospitalization fees). This sparked competition to hire more nurses, leading to a nationwide shortage of nurses. As a result, nurses remain in chronic short supply. The job opening-to-application ratio for nurses has been exceeding the same ratio for all professions.

In 2014, the government revised the medical payment system with changes to standards for the number of days in hospital and nurses required. The new system—implemented from October 2014—maintains a focus on the seven-to-one rule (patient-to-nurse ratio), and on defining hospital features appropriate to the care of acute conditions. However, according to the company, the new regulations have not caused hospitals’ recruitment of nurses to fall. The company expects their effect will be limited over the medium term, as hospitals continue recruiting nurses to fill existing requirements.

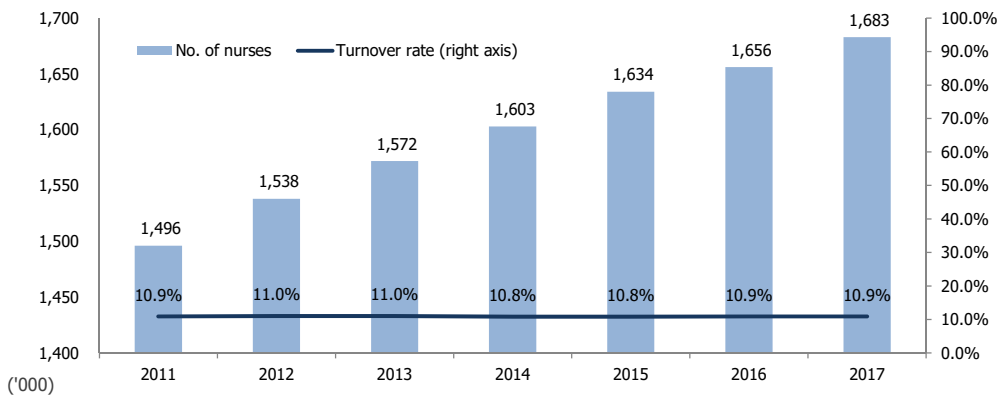
### Number of nurses in service and jobs-to-applicants ratio

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nurses in service ('000)	1,316	1,349	1,384	1,407	1,446	1,477	1,506	1,535	1,558	-	-
YoY	1.7%	2.6%	2.5%	1.7%	2.8%	2.2%	2.0%	1.9%	1.5%	-	-
Jobs-to-applicants ratio (public health nurses, midwives, nurses)	2.6	2.6	2.7	3.0	3.1	3.0	2.9	2.8	2.7	2.6	2.5
Jobs-to-applicants ratio (all occupations)	0.7	0.4	0.4	0.5	0.6	0.7	0.9	1.0	1.1	1.3	1.4

Source: Shared Research based on Japanese Nursing Association, Ministry of Health, Labour and Welfare

Looking ahead, Shared Research thinks that Japan’s demographics will continue to age rapidly, and the number of nurses in Japan is likely to continue to grow. According to a report by the Ministry of Health, Labour and Welfare’s Seventh Nursing Supply and Demand Outlook Study Committee, demand for nurses in 2025 will be in the range of 1.8bn to 2.0bn nurses. This implies that annual growth rate of about 2% per year will be needed.

With respect to the number of nurses and turnover rate that largely affect the number of nurses who change jobs, according to the company, the number of nurses increased at an average annual growth rate of 2% in the past five years and turnover rate fluctuated between 10.0% and 11.0%.

**Number of nurses and turnover ratio**


('000)	2011	2012	2013	2014	2015	2016	2017
No. of nurses	1,496	1,538	1,572	1,603	1,634	1,656	1,683
Turnover rate	10.9%	11.0%	11.0%	10.8%	10.8%	10.9%	10.9%

Source: Shared Research based on company data

**Medical costs**

According to the Ministry of Health, Labour and Welfare, medical costs in 2017 were JPY42.2tn (+2.3% YoY). Medical costs are likely to increase an average of one trillion yen annually, reaching JPY52.3tn in 2025, attributable a growing number of elderly falling ill, or getting injured and requiring medication (particularly increasing for those aged 75 years and older), as well as rising medical costs due to the increasing sophistication of medical care.

**Future outlook for medical costs**
**Medical Fee Statistics (JPYtn)**

	2010	2013	2015	2020	2025
National medical expenses	37.5	40.4	42.3	47.2	52.3
NHI coverage	35.1	37.9	39.7	44.2	49.0
Younger than 65	15.9	16.0	15.9	16.3	17.3
Age 65-74	6.4	7.1	7.7	8.2	7.6
74 or older	12.8	14.8	16.1	19.7	24.1

Source: Shared Research based on Ministry of Health, Labour and Welfare

**Competition**

SMS operates its businesses based on a corporate philosophy of “creating values and continuing contribution to society by establishing information infrastructure fitted for an aging society.” According to the company, there is no other company that operates businesses on the same idea of building information infrastructure in an aging society and there is essentially no company that SMS finds to be a competitor. However, its businesses cover broad areas and there is competition in each business area.

**Nursing staffing services**

In the nursing staffing services business, the company’s main competitors are major players in the human resources services industry, such as Nurseful (a service of Recruit Medical Career Co., Ltd.), Nurse de Hatarako (Dip Corp., Mothers: 2379), Kango-roo (Quick Co., Ltd., JASDAQ: 4318), and Iryou-Worker (TS Koken Co., Ltd.). According to the company, sales for its competitors offering nursing recruiting services are estimated to be only around a third of SMS’ sales, and their profit margins are not as high.

When the company entered the nursing staffing services business in 2006, most companies active in this sector were small and medium-sized companies, closely tied to certain regions, which they dominated. SMS became successful and profitable by utilizing its own expertise in nursing staffing services, and expanded its market share.

In FY03/19, the company commanded a roughly 30% market share (SMS estimate) as more than 10,000 nurses changed their positions through its services out of a total of 40,000 who used any recruiting services in finding or changing jobs. As the market for nursing staffing services grows, even this top market share will only be around 7% of the total market for staffing services (170,000 nurses who change jobs a year), and consequently, Shared Research thinks that the company has plenty of potential to increase its market share further. Major companies that operate personnel services have been entering the nursing-related subsector since 2010, but the overall market is growing, Shared Research thinks that the market is not too competitive.

As the competitive environment grows more intense, however, players may increase their advertising spending aimed at attracting job applicants to register. Larger companies could use their financial clout to increase market share. The company's strategy is to set itself apart from the competition by using advertising skills to attract customers and maintaining contact with nurses on a daily basis.

**Kaipoke, business support platform for nursing care providers**

Kaipoke—business support platform for nursing care providers—provides the service for nursing care insurance billing and other services, such as support for enhancing operational efficiency and for sales and recruitment. Main competitors in the nursing care insurance billing service are ND Software Co., Ltd. (TSE2: 3794, delisted in June 2019 following MBO) and WISEMAN Co., Ltd. (JASDAQ: 3752. The stock was delisted in January 2014 as a result of a management buyout in 2013).

## Strategy

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Shared Research understands that fundamentally, the core of SMS' strategy is to estimate as precisely as possible future trends in social infrastructure and demographics related to elderly and medical care, and focus on future sources of value early on, when the trend has not been fully recognized by the mainstream players, and capturing such sources is inexpensive, and then erect barriers to entry and develop various services.

The company operates in four areas: nursing care, medical care, healthcare, and senior life. It plans on developing various businesses to target practitioners (nurses, doctors, and pharmacists). For practitioners, it specifically targets nurses and nursing care workers, for business operators, hospitals and nursing care facilities, and for users, hospital inpatients/outpatients and senior citizens receiving nursing care.

The company's key management priority is to achieve sustainable growth and build long-term corporate value. It is looking for further growth in its existing core Career, Kaipoke, and Overseas businesses and is proactively pursuing new undertakings to create the next core business. The company thus plans to expand the current businesses and continue investments for actively developing and nurturing new businesses. Regarding the allocation of funds to new businesses, the company plans to conduct active investments for sustainable growth and long-term improvement in corporate value after securing certain profit levels, such as double-digit growth of net income.

## Historical financial statements

### Cumulative full-year FY03/19 results

- ▷ Sales rose to JPY30.8bn (+15.9% YoY) due to growth in career-related businesses and an increase in the number of Kaipoke member locations.
- ▷ Operating profit rose to JPY4.7bn (+18.0% YoY) on increased sales.
- ▷ Recurring profit rose to JPY6.0bn (+19.4% YoY), thanks to higher operating profit and gains in equity-method investment of JPY1.4bn (+42.3%).
- ▷ Net income attributable to parent company shareholders increased to JPY4.2bn (+25.4% YoY) owing to higher recurring profit.

### Career

Sales: JPY20.4bn (+21.0% YoY)

- Nursing care career: JPY8.0bn (+36.6% YoY)
- Medical care career: JPY12.4bn (+12.7% YoY)

#### Nursing care career

Higher sales from staffing services due to increased number of career partners drove growth in the Career segment.

Nursing care career showed strong growth through increasing its career partners for its staffing services for nursing care staff, Kaigo Job Agent. The company began offering staffing services for nursing care workers in earnest from FY03/17 and focused on increasing its career partners in 1H FY03/19. There were 240 career partners in the nursing care business at end FY03/19 (145 at end FY03/18). The new personnel, especially those recruited in Q1 FY03/19 (Apr–Jun 2018), added to sales growth as they gradually became deployed in the field.

According to SMS, roughly 380,000 of the 1.93mn nursing care workers in Japan change jobs in a year. Assuming that 10% use staffing services to do so, there are about 40,000 potential customers in the medium term, about the same size as the market for staffing services for nurses. Workers at care facilities earn an average of JPY3.4mn a year, according to the Ministry of Health, Labour and Welfare's (MHLW) 2018 Basic Survey of Wage Structure. Assuming commissions of 20% to 30% of annual wages, the market could be worth between JPY25bn and JPY40bn in the medium term.

#### Medical care career

Medical care career saw brisk earnings in its Nurse Personnel Bank recruitment services for nurses among others. Furthermore, subsidiary Will One Co., Ltd.—a provider of career-related services for judo-orthopedists, masseuses, acupuncturists, and moxibustion therapists (acquired by SMS in November 2017)—contributed to earnings growth. The company said that Will One contributed 3–4pp of the 12.7% YoY growth in this business.

The company also started Childcare Personnel Bank recruitment services for childcare workers in October 2018. This entails recruiting childcare workers online, who are introduced to childcare center operators following telephone interviews with its career partners. The company said that recruiting customers via online marketing was proceeding well. Because the company already has business relationships with childcare facilities and other employers due to its recruitment services for nurses and dietitians there are potential synergies with its customer base. Of the occupations the company targets in its career business, childcare workers are the third most plentiful (roughly 500,000 including part-time) after nursing care workers and nurses. According to the MHLW's wage survey, the average annual salary for childcare workers is JPY3.6mn (full-time only). The company said that the market for childcare worker staffing services was JPY10.0bn as of March 2019, and had promising medium-term growth potential. SMS said it aimed to win market share by transferring career partners experienced in nursing to childcare worker staffing services and by strengthening its efforts to recruit customers.

The company had 350 medical career partners at end FY03/19 (325 at end FY03/18).



## Nursing Care Operators

Sales: JPY3.9bn (+18.1% YoY)

In business management support, the Kaipoke management support platform for nursing care providers posted solid results due to an increase in Kaipoke member locations, smartphone and tablet additions, and more usage of Kaipoke factoring service and other paid optional services. The company's Kaipoke Tablet service provides members one tablet at no cost but charges for any additional tablets as optional services. More and more members are using these optional services. Also, the number of facilities using its factoring service and amounts being factored increased. SMS also reported continued strong growth at Kaipoke Mobile, the mobile phone rental service it launched in February 2018, with more than 5,000 applications for handsets as of April 2019.

As of April 1, 2019, Kaipoke had 16,800 member locations (+1,750 versus end FY03/18) and 24,250 nursing care facilities.

Member locations are counted by physical location, while offices are counted by the type of nursing care service provided. For example, if home-visit care and care management are conducted from the same location (= single address), this is counted as one member location, but two offices. However, Kaipoke charges fees per location rather than per office.

## Overseas

Sales: JPY5.5bn (+6.9% YoY)

Steady growth in existing businesses providing marketing support for healthcare companies in the MIMS Group (Pharma Marketing and Healthcare Data) and the Global Career business drove sales. The consolidation of Melorita under the Global Career business from Q3 FY03/18 also contributed to sales growth. Pharma Marketing accounted for roughly 65% of overseas sales, Healthcare Data around 25%, and Global Career business about 10%.

The MIMS Group's Pharma Marketing business provides healthcare professionals (doctors, nurses, pharmacists) free access to a database of drug information provided by pharmaceutical companies in print media and online. Pharmaceutical companies pay a posting fee to the company to be included in this database. SMS also provides other services to pharmaceutical and healthcare companies by publishing magazines with information on drugs and diseases for healthcare professionals and supporting events they hold. Pharma Marketing has traditionally focused on strengthening relationships with doctors and other medical professionals. From FY03/19 it also unrolled a strategy to strengthen relationships with sector companies such as pharma companies, medical equipment manufacturers, and healthcare service operators, and said results are starting to show. The previous focus on deepening ties with medical professionals was based on the idea that doctors were the ones who prescribed drugs. However, those choosing which drugs or medical equipment to use differ from country to country. In some hospitals management decides which drugs to use and may procure them in bulk, or may only prescribe drugs on an official list. SMS has come up with effective marketing strategies at the country level, and aims to strengthen relationships with medical and healthcare operators as well.

Overseas business saw healthy growth in existing areas, such as marketing assistance for medical care and healthcare-related business operators at MIMS, and global career business. In the Global Career business, sales increased thanks in part to contributions from its main constituent, Melorita, a staffing agency for Malaysian nurses (consolidated from Q3 FY03/18). Further, the company acquired MSR, a nurse referral company in the Philippines, in May 2018 and thereby launched full-scale global recruitment services for nurses in the country.

To speed up decision making at MIMS and create synergies within the group, the company acquired a 40% stake in Medica Asia (Holdco) Limited, MIMS' holding company, from Mitsui & Co., Ltd. in September 2018 for about JPY11.5bn, making Medica Asia a wholly owned subsidiary. The company will continue to maintain its collaborative relationship with Mitsui & Co., offering medical information and staffing services to the hospital groups owned by Mitsui & Co.

## Business development

Sales were JPY1.0bn (-20.5% YoY).

Sales declined YoY due to the termination of the Pure Nurse catalog sales business at the end of December 2017. In terms of new business areas, the group focused on developing services that use ICT in the healthcare space, such as remote specific health guidance and industrial healthcare. In the senior life space, it worked to cultivate opportunities in information services centering on food delivery and home renovation for seniors.

#### **Other: Accounting treatment for purchase of additional shares in Medica Asia (Holdco) Limited**

As mentioned, SMS acquired additional shares in Medica Asia (Holdco) for about JPY11.5bn. This reduced the capital surplus and retained earnings by an amount equivalent to the goodwill in the additional purchase. Following this, the capital surplus was JPY13mn (JPY4.0bn at end FY03/19) and retained earnings were JPY15.0bn (JPY14.5bn), for a shareholders' equity ratio of 32.4% (41.8%).

### **Cumulative Q3 FY03/19 results**

- ▷ Sales rose to JPY22.0bn (+14.5% YoY), aided by growth in career-related businesses and an increase in the number of Kaipoke member locations.
- ▷ Operating profit was JPY2.3bn (-1.0% YoY). The lower profit reflected active hiring of career partners in 1H FY 03/19, increased hiring due to strong staffing service performance, and the launch of recruitment services for childcare workers in Q3 (October to December 2018).
- ▷ Recurring profit came to JPY3.4bn (+11.6% YoY), due to an increase in gains in equity-method investments.
- ▷ Net income attributable to parent company shareholders increased 17.2% YoY to JPY2.4bn, as a result of higher recurring profit and reduction in corporate taxes versus the previous year.

#### **Progress toward full-year FY03/19 targets**

Sales were 68.2% of the company's full-year FY03/19 target (versus 72.3% in cumulative Q3 FY03/18 against FY03/18 result), operating profit was 47.3% (57.3%), recurring profit was 58.0% (60.2%) and net income attributable to parent company shareholders was 61.2% (60.7%).

Sales and operating profit trended behind forecasts largely because of a shortfall in the Career segment caused by the below factors. Nevertheless, SMS has not made any changes to its full-year targets as, according to the company, staffing orders are increasing favorably alongside the increase in career partners.

- ▷ In the medical care career business, sales lagged the forecast by approximately JPY300mn. The main factors for this are given below.
  - The delay of booking sales in HR solutions for hospitals business until Q4 (January–March 2019) detracted by approximately JPY100mn.
  - A greater than expected decline in advertising by medical staffing agencies in job information services detracted by approximately JPY100mn.
  - Sales in staffing services for nurses were approximately JPY100mn lower than forecast due to the transfer of career partners experienced in staffing services for nurses to staffing services for childcare workers, launched in October 2018.
- ▷ In the nursing care career business, sales lagged the forecast by approximately JPY400mn. The main factors for this are given below.
  - Approximately JPY150mn was not booked as planned in 1H due to higher than expected demand from nursing care practitioners and operators for staffing services for which the lead-time between order and recognition of gains is longer than for job information services. While sales were in line with forecasts in Q3 (October–December 2018), the shortfall in 1H continued to impact in cumulative Q3 results.

- Lower than forecast sales in staffing services for care managers and nursing care workers detracted by approximately JPY200mn. According to the company, this is because lower productivity following the increase in career partners was not factored into forecasts drafted at the start of the financial year.
- ▷ Profit fell short of the forecast due to employing 20 more people than planned in Q3 (October–December 2018) in staffing services for nursing care workers and judo-orthopedists, masseuses, acupuncturists, and moxibustion therapists on the basis of projected earnings contributions over FY03/19. Another negative factor was spending on advertising upon the launch of staffing services for child care workers.

## Career

- ▷ Sales: JPY14.8bn (+19.4% YoY)
  - Nursing care career: JPY5.6bn (+34.9% YoY)
  - Medical care career: JPY9.1bn (+11.5% YoY)

### Nursing care career

Sales of staffing services for nursing care workers rose due to an increase in career partners and drove growth in the Career segment.

Nursing care career showed strong growth through increasing its career partners for its staffing services for nursing care staff, Kaigo Job Agent. The company began offering staffing services for nursing care workers in earnest from FY03/17 and focused on increasing its career partners in 1H FY03/19, which it continued to do in Q3. The number of career partners in the nursing care business increased from 145 at end FY03/18 to 250 at the end Q3 FY03/19, an increase of 72.4%. Growth is expected to accelerate in Q4 (January–March 2019) as newly recruited career partners start contributing. The increase in career partners also contributed to the amount in orders roughly doubling YoY in Q3 (October–December 2018).

There are about 1.93mn nursing care workers in Japan, out of which roughly 380,000 change jobs each year, according to the company. Assuming that 10% of them use staffing services when they change jobs, that means about 40,000 potential customers in the medium term, making the market equivalent in size to that of staffing services for nurses. Workers at care facilities earn an average of JPY3.3mn a year, according to the Ministry of Health, Labour and Welfare's 2017 Basic Survey of Wage Structure. Assuming that commissions for staffing services are between 20% and 30% of the worker's annual wages, the market would be worth between JPY25bn and JPY40bn in the medium term.

### Medical care career

Medical care career saw brisk earnings in its Nurse Personnel Bank recruitment services for nurses. The number of career partners at the medical care career business increased from 325 at end Q3 FY03/18 to 355 at end Q3 FY03/19. Furthermore, subsidiary Will One Co., Ltd.—a provider of career-related services for judo-orthopedists, masseuses, acupuncturists, and moxibustion therapists (acquired by SMS in November 2017)—contributed to earnings growth.

The company also started Childcare Personnel Bank recruitment services for childcare workers in October 2018. Childcare Personnel Bank recruits childcare workers through its website and recommends these workers to childcare providers after career partners have conducted interviews with them, whether over the phone or by other means. According to the company, recruitment of childcare workers is progressing steadily thanks to the company having deployed job information media services for childcare workers before staffing services. The company already has business relations with nursery schools through its existing staffing services for nurses and nutritionists, so synergy can be expected between customer bases. Furthermore, of the markets in which SMS operates, childcare workers are the third largest after nursing care workers and nurses, with approximately 500,000 workers, and their average annual salary is JPY3.4mn, according to the 2017 Basic Survey on Wage Structure. According to SMS, the childcare workers staffing market was worth JPY10.0bn as of March 2019 and this figure is projected to grow over the

medium-term. SMS plans to win market share by transferring career partners experienced in staffing services for nurses to staffing services for childcare workers, and strengthening recruitment of workers.

### Nursing Care Operators

Sales: JPY2.9bn (+17.6% YoY)

Earnings steadily increased in management support service for nursing care operators, Kaipoke, to the point that growth in sales overtook growth in members. Contributing to the growth in sales were additions to the number of smartphones and tablets in use and increased usage of its factoring service and other optional premium services. The company's Kaipoke Tablet service provides members one tablet at no cost but charges for any additional tablets as optional services. More and more members are using these optional services. SMS also saw increases in the number of facilities using its factoring service as well as increases in the amounts being factored. Further, it reported continued strong growth at Kaipoke Mobile, the mobile phone rental service it launched in February 2018.

As of January 1, 2019, Kaipoke had 16,300 member locations (+1,250 versus end FY03/18) and 23,600 nursing care facilities.

Member locations are counted by physical location, while offices are counted by the type of nursing care service provided. For example, if home-visit care and care management are conducted from the same location (= single address), this is counted as one member location, but two offices. However, Kaipoke charges fees per location rather than per office.

### Overseas

Sales: JPY3.6bn (+5.7% YoY)

The rise in sales was attributable to steady growth in existing businesses providing marketing support for pharmaceutical companies under the MIMS Group (Pharma Marketing and Healthcare Data) and the Global Career Business. The consolidation of Melorita under the Global Career Business in Q3 also contributed to the rise in sales.

The MIMS Group's Pharma Marketing business provides healthcare professionals (doctors, nurses, pharmacists) with a uniform drug database (made available in print media and online) that contains drug information obtained from pharmaceutical companies. In return for being included in this drug database, pharmaceutical companies pay a posting fee. The business also provides a variety of other services aimed at healthcare professionals, including the publication of magazines (containing drug and disease information) and support for events held by pharmaceutical companies. In FY03/18, the MIMS Group hired personnel to strengthen services in the Pharma Marketing business and replaced regional supervisors. As a result, sales are increasing due in part to expanding orders for event support and selling of advertising space to companies outside of the pharmaceutical industry. The company indicates that it will continue to conduct personnel recruitment and establish a foundation for growth in FY03/19.

In the Global Career business, sales increased thanks in part to contributions from its main constituent, Melorita, a staffing agency for Malaysian nurses that was consolidated in Q3 FY03/18. Additionally, the company launched its global nurse referral service in the Philippines in earnest after acquiring MSR, a nurse referral company in the Philippines, in May 2018. It also steadily increased the number of countries and regions in which it provides services to medical institutions.

To speed up decision making at MIMS and create synergies within the group, the company acquired a 40% stake in Medica Asia (Holdco) Limited, MIMS' holding company, from Mitsui & Co., Ltd. in September 2018 for about JPY11.5bn, making Medica Asia a wholly owned subsidiary. The company will continue to maintain its collaborative relationship with Mitsui & Co., offering medical information and staffing services to the hospital groups owned by Mitsui & Co.

### Business development

Sales were JPY777mn (-23.1% YoY).

Sales declined YoY due to the termination of the Pure Nurse catalog sales business at the end of December 2017. In terms of new business areas, the group focused on developing services that use ICT in the healthcare space, such as health guidance, health consultation, and prevention of diseases. In the senior life space, it worked to cultivate opportunities in information services centering on food delivery and home renovation for seniors.

### 1H FY03/19 results

1H sales rose to JPY15.0bn (+14.3% YoY), aided by growth of career-related businesses, increases in the number of Kaipoke member locations, and a growing user base of optional premium services and the company's factoring service. Operating profit was JPY2.0bn (-9.0% YoY), dropping on an increase in career partners as planned. Recurring profit came to JPY2.9bn (+8.0% YoY) due to an increase in gains in equity-method investments. Net income attributable to parent company shareholders increased 16.0% YoY to JPY2.2bn on higher recurring profit and reduction in corporate taxes versus 1H FY03/18. According to the company, it takes six months to a year before career partners begin contributing to earnings, so contributions from the career partners hired during the course of 1H are expected to start kicking in during 2H (Q3 and Q4), and this will help keep sales and earnings on an upward trajectory.

#### Versus company forecast

Sales reached 95.9% of 1H company forecast while operating profit reached 101.8%, recurring profit 111.3%, and net income attributable to parent company shareholders 116.5%.

On the sales front, Career segment sales came in roughly JPY450mn below plan while the sales at the Overseas segment and Business Development segment both came in about JPY100mn below plan. Within the Career segment, nursing care career sales came in roughly JPY250mn below plan and medical care career sales about JPY200mn below plan. The shortfall in nursing care career sales reflected a longer-than-expected lag time between order receipt and the booking orders to sales for its staffing service compared with its job opening information service. The shortfall in medical care career sales reflected delays in the booking of sales from personnel solutions services for hospitals and lower-than-expected spending on advertising and promotion by client companies that sponsor help-wanted ads for medical personnel through its job information service. The shortfall in Overseas segment sales reflected delays in the booking of earnings from existing business within the MIMS Group.

The shortfall in 1H sales notwithstanding, SMS was able to report above-plan earnings at the operating, recurring, and net profit level thanks in large part to lower-than-expected spending on new hiring and personnel. The company added that career partner hiring was on plan but hiring in other areas (such as planning positions) was slower than expected.

#### Career

Career segment sales of JPY10.5bn (+19.1% YoY) include nursing care career sales of JPY3.8bn (+37.2% YoY) and medical care career sales of JPY6.7bn (+10.8% YoY). Sales of staffing services for nursing care workers rose due to an increase in career partners and drove growth in the Career segment.

Nursing care career showed strong growth through increasing its career partners for its staffing services for nursing care staff, Kaigo Job Agent. The company began offering staffing services for nursing care workers in earnest from FY03/17 and focused on increasing its career partners in 1H FY03/19. The number of career partners in the nursing care business increased from 145 at end FY03/18 to 230 at the end 1H FY03/19, an increase of 58.6%. The company sees growth accelerating in 2H as newly hired career partners begin contributing in earnest.

There are about 1.93mn nursing care workers in Japan, out of which roughly 380,000 change jobs each year, according to the company. Assuming that 10% of them use staffing services when they change jobs, that means about 40,000 potential customers in the medium term, making the market equivalent in size to that of staffing services for nurses. Workers at care facilities earn an average of JPY3.3mn a year, according to the Ministry of Health, Labour and Welfare's 2017 Basic Survey of Wage Structure. Assuming that commissions for staffing services are between 20% and 30% of the worker's annual wages, the market would be worth between JPY25bn and JPY40bn in the medium term.

Medical care career saw brisk earnings in its Nurse Personnel Bank recruitment services for nurses. The number of career partners at the medical care career business increased from 325 at end FY03/18 to 380 at the end 1H FY03/19, an increase of 16.9%. SMS forecasts accelerated growth starting in 2H as these newly recruited career partners develop into a significant part of the work force. Additional contributions to earnings growth came from subsidiary Will One Co., Ltd., a provider of career-related services for judo-orthopedists, masseuses, acupuncturists, and moxibustion therapists that were consolidated in October 2017.

### Nursing Care Operators

Sales: JPY1.9bn (+17.1% YoY)

In business management support, growth in sales from Kaipoke management support service for nursing care providers outpaced growth in the number of member facilities. Also contributing to sales were additions to the number of Kaipoke smartphone and tablets in use and increased usage of its factoring service and other optional premium services. The company's Kaipoke Tablet service provides members one tablet at no cost but charges for any additional tablets as optional services. More and more members are using these optional services. SMS also saw increases in the number of facilities using its factoring service as well as increases in the amounts being factored. Further, it reported continued strong growth at Kaipoke Mobile, the mobile phone rental service it launched in February 2018.

As of October 1, 2018, Kaipoke had 15,950 member locations (+900 versus end FY03/18) and 23,000 nursing care facilities. The number of new member acquisitions dropped temporarily in Q2 and Q3 FY03/18. This slide occurred because the company stopped sales activities aimed at new member acquisition in September in response to a system failure resulting from an increase in server burden that spanned from the end of August 2017 to the beginning of September. The impact of the system failure has not been a factor since Q1 and the pace of member acquisitions recovered to where it had been before the system failure occurred. Progress toward its goal of adding 1,800 new member locations by end FY03/19 was on track at 50%.

Member locations are counted by physical location, while offices are counted by the type of nursing care service provided. For example, if home-visit care and care management are conducted from the same location (= single address), this is counted as one member location, but two offices. However, Kaipoke charges fees per location rather than per office.

### Overseas

Sales: JPY2.1bn (+5.8% YoY)

Overseas business saw healthy growth in existing areas, such as marketing assistance for pharmaceutical companies (the Pharma Marketing and Healthcare Data businesses) and Global Career business at MIMS. The growth in 1H sales at the Global Career business was due in large part to the addition of subsidiary Melorita to consolidated results in Q3 FY03/18. 1H sales at existing business were sluggish due to delays by ad sponsors that pushed the publication of pharmaceutical information publications and related ads into 2H, but the company sees full-year sales finishing higher thanks to the progress made on putting its new sales organization in place (as detailed later in this report).

The MIMS Group's Pharma Marketing business provides healthcare professionals (doctors, nurses, pharmacists) with a uniform drug database (made available in print media and online) that contains drug information obtained from pharmaceutical companies. In return for being included in this drug database, pharmaceutical companies pay a posting fee. The business also provides a variety of other services aimed at pharmaceutical companies, including the publication of magazines (containing drug and disease information) and support for events held by pharmaceutical companies. In FY03/18, the MIMS Group hired personnel to strengthen services in the Pharma Marketing business and replaced regional supervisors. As a result, sales are increasing due in part to expanding orders for event support and selling of advertising space to companies outside of the pharmaceutical industry. The company indicates that it will continue to conduct personnel recruitment and establish a foundation for growth in FY03/19.

In the Global Career business, sales increased thanks in part to contributions from its main constituent, Melorita, a staffing agency for Malaysian nurses that was consolidated in Q3 FY03/18. The company also acquired MSR, a nurse referral company in the

Philippines, in May 2018 to expand its access to countries that supply medical professionals, and thereby accelerate global initiatives in the career business. The company reported steady growth in the number of medical facilities using its placement services and expanded its reach into new countries and geographic regions.

To speed up decision making at MIMS and create intra-group synergies, the company acquired a 40% stake in Medica Asia (Holdco) Limited, MIMS' holding company, from Mitsui & Co., Ltd. in September 2018 for about JPY11.5bn, making Medica Asia a wholly owned subsidiary. The company will continue to maintain its collaborative relationship with Mitsui & Co., offering medical information and staffing services to the hospital groups owned by Mitsui. Because Medica Asia was already a consolidated subsidiary, this transaction will have only a small impact at the net profit level (by reducing non-controlling interests) and will not change related goodwill amortization charges.

### Business development

Sales were JPY511mn (-28.1% YoY).

Sales declined YoY due to the termination of the Pure Nurse catalog sales business at the end of December 2017. In terms of new business areas, the group focused on developing services that use ICT in the healthcare space, such as health guidance, health consultation, and prevention of diseases. In the senior life space, it worked to cultivate opportunities in information services centering on food delivery and home renovation for seniors.

### Q1 FY03/19 results

Q1 sales rose to JPY8.1bn (+14.1% YoY) aided by growth of career-related businesses, an increase in the number of Kaipoke member locations, and higher utilization of add-on paid optional services and factoring services. Operating profit was JPY1.4bn (-13.1% YoY) due to an increase in career partners as forecasted, which resulted in rising sales and falling profits. Recurring profit came to JPY2.1bn (+3.7% YoY) due to an increase in gains in equity-method investments. Net income attributable to parent company shareholders increased 13.9% YoY to JPY1.6bn on higher recurring profit and reduction in corporate taxes versus Q1 FY03/18. According to the company, career partners require at least six months to one year before they contribute to profits. Career partners recruited in Q1 are expected to begin affecting profit in Q3 (2H) so the company forecasts higher sales and profit in 2H.

Q1 FY03/19 sales had a progress rate of 51.4% versus the company's 1H forecasts (sales for Q1 FY03/18 had a progress rate of 53.7% versus 1H FY03/18 results). The progress rate for operating profit was 71.7% (73.8%), 80.1% for recurring profit (74.9%), and 88.8% for net income attributable to parent company shareholders (77.7%). Sales performance was in line with company forecasts. Profit exceeded company forecasts due to delays in expected Q1 recruitment for planning and marketing positions.

### Career

Sales were JPY6.0bn (+17.8% YoY) and comprised nursing care career sales of JPY2.0bn (+39.5% YoY) and medical care career sales of JPY4.1bn (+9.5% YoY). Sales of staffing services for nursing care workers rose due to an increase in career partners and drove growth in the Career segment.

Nursing care career showed strong growth through increasing its career partners for its staffing services for nursing care staff, Kaigo Job Agent. The company began offering staffing services for nursing care workers in earnest from FY03/17 and focused on increasing its career partners in FY03/19. The number of career partners in the nursing care business increased by 70 from 145 at end FY03/18 to 215 at end Q1 FY03/19 (125 at end Q1 FY03/18). The company forecasts accelerated growth as they develop into a substantial part of the work force starting in Q3.

There are about 1.93mn nursing care workers in Japan, out of which roughly 380,000 change jobs each year, according to the company. Assuming that 10% of them use staffing services when they change jobs, that means about 40,000 potential customers in the medium term, making the market equivalent in size to that of staffing services for nurses. Workers at care facilities earn an average of JPY3.3mn a year, according to the Ministry of Health, Labour and Welfare's 2017 Basic Survey of Wage Structure.

Assuming that commissions for staffing services are between 20% and 30% of the worker's annual wages, the market would be worth between JPY25bn and JPY40bn in the medium term.

Medical care career saw brisk earnings in its Nurse Personnel Bank recruitment services for nurses. The number of career partners in the medical care career business increased by 70 from 325 at end FY03/18 to 395 at end Q1 FY03/19 (330 at end Q1 FY03/18). SMS forecasts accelerated growth starting in Q3 as these newly recruited career partners develop into a significant part of the work force. SMS acquired Will One Co., Ltd.—a provider of career-related services for judo-orthopedists, masseuses, acupuncturists, and moxibustion therapists—in November 2017, which factored into a sales increase of about JPY150mn.

### Nursing Care Operators

Sales: JPY905mn (+16.0% YoY)

In business management support, the Kaipoke management support service for nursing care providers posted solid results due to an increase in Kaipoke member locations, smartphone and tablet additions, and more usage of Kaipoke factoring service and other paid optional services.

As of July 1, 2018, Kaipoke had 15,500 member locations (+450 versus end FY03/18) and 22,200 nursing care facilities. The number of new member acquisitions dropped temporarily in Q2 and Q3 FY03/18. This slide occurred because the company stopped sales activities aimed at new member acquisition in September in response to a system failure resulting from an increase in server burden that spanned from the end of August 2017 to the beginning of September. In Q1 FY03/19, the impact of the system failure ceased to be a factor and the pace of member acquisitions recovered to what it had been before the system failure occurred.

Member locations are counted by physical location, while offices are counted by the type of nursing care service provided. For example, if home-visit care and care management are conducted from the same location (= single address), this is counted as one member location, but two offices. However, Kaipoke charges fees per location rather than per office.

The rate of growth in sales exceeded the rate of expansion in the number of member locations, which the company attributes to an increase in the utilization of add-on paid optional services and factoring services. With Kaipoke, members can use one tablet for free, but would have to pay to borrow the second tablet on as optional services. More and more members are using these optional services. Both the number of offices using the factoring service and the usage fees they are paying have increased.

The performance for Kaipoke Mobile, a smartphone rental service started in February 2018, was favorable. The service rents out smartphones with unlimited calls to nursing care operators for a monthly fee of JPY2,500 per device. SMS says the service has attracted a large number of inquiries as a measure to comply with the Security Guidelines for Medical Information Systems, and applications for devices exceeded 1,500 devices as of August 2018. On the profit front, the company is able to procure the devices in bulk by bundling orders for nursing care operators. As a result, it is able to keep costs down and secure a profit.

The Security Guidelines for Medical Information Systems released by the Ministry of Health, Labour, and Welfare in 2017 strictly prohibits the use of a privately owned mobile phones at nursing care work premises, and requires nursing care operators to provide mobile phones for use on such premises.

### Overseas

Sales: JPY872mn (+10.5% YoY)

Existing businesses in the MIMS Group that provide services such as marketing assistance to pharmaceutical companies (the Pharma Marketing and Healthcare Data businesses) and the Global Career business grew steadily. Existing businesses and the Global Career business each appear to have contributed to about half of the JPY83mn increase in sales. SMS does not disclose profit or loss conditions by segment, but the Overseas segment appears to have booked a loss in Q1 on an increase in upfront spending.



The MIMS Group's Pharma Marketing business provides healthcare professionals (doctors, nurses, pharmacists) with a uniform drug database (made available in print media and online) that contains drug information obtained from pharmaceutical companies. In return for being included in this drug database, pharmaceutical companies pay a posting fee. The business also provides a variety of other services aimed at pharmaceutical companies, including the publication of magazines (containing drug and disease information) and support for events held by pharmaceutical companies. In FY03/18, the MIMS Group hired personnel to strengthen services in the Pharma Marketing business and replaced regional supervisors. As a result, sales are increasing due in part to expanding orders for event support and selling of advertising space to companies outside of the pharmaceutical industry. The company indicates that it will continue to conduct personnel recruitment and establish a foundation for growth in FY03/19.

In the Global Career business, sales increased thanks in part to contributions from its main constituent, Melorita, a staffing agency for Malaysian nurses that was consolidated in Q3 FY03/18. Additionally, the company acquired MSR, a nurse referral company in the Philippines, in May 2018 to expand its access to countries that supply medical professionals, and thereby accelerate global initiatives in the career business.

### Business development

Sales were JPY247mn (-33.8% YoY).

Sales declined YoY due to the termination of the Pure Nurse catalog sales business at the end of December 2017. In terms of new business areas, the group focused on developing services that use ICT in the healthcare space, such as health guidance, health consultation, and prevention of diseases. In the senior life space, it worked to cultivate opportunities in information services centering on food delivery and home renovation for seniors.

## Income statement

Income statement (JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
	Par.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
<b>Sales</b>	<b>7,172</b>	<b>7,618</b>	<b>8,692</b>	<b>10,181</b>	<b>12,046</b>	<b>15,056</b>	<b>19,069</b>	<b>23,055</b>	<b>26,611</b>	<b>30,836</b>
YoY	38.5%	6.2%	14.1%	17.1%	18.3%	25.0%	26.7%	20.9%	15.4%	15.9%
Cost of sales	376	319	431	700	953	1,333	2,204	3,727	3,289	3,535
<b>Gross profit</b>	<b>6,796</b>	<b>7,299</b>	<b>8,261</b>	<b>9,481</b>	<b>11,094</b>	<b>13,724</b>	<b>16,865</b>	<b>19,328</b>	<b>23,322</b>	<b>27,301</b>
GPM	94.8%	95.8%	95.0%	93.1%	92.1%	91.1%	88.4%	83.8%	87.6%	88.5%
SG&A expenses	5,534	5,818	6,741	7,911	9,363	11,644	14,108	15,681	19,300	22,558
SG&A ratio	77.2%	76.4%	77.6%	77.7%	77.7%	77.3%	74.0%	68.0%	72.5%	73.2%
<b>Operating profit</b>	<b>1,262</b>	<b>1,481</b>	<b>1,520</b>	<b>1,571</b>	<b>1,730</b>	<b>2,079</b>	<b>2,757</b>	<b>3,646</b>	<b>4,021</b>	<b>4,743</b>
YoY	2.5%	17.4%	2.6%	3.3%	10.2%	20.2%	32.6%	32.3%	10.3%	18.0%
OPM	17.6%	19.4%	17.5%	15.4%	14.4%	13.8%	14.5%	15.8%	15.1%	15.4%
Non-operating income	5	49	235	420	629	622	832	905	1,047	1,430
Equity in earnings of affiliates	-	42	116	241	310	414	782	864	950	1,352
Non-operating expenses	-	-	21	0	19	8	79	120	61	164
<b>Recurring profit</b>	<b>1,266</b>	<b>1,530</b>	<b>1,735</b>	<b>1,990</b>	<b>2,340</b>	<b>2,693</b>	<b>3,510</b>	<b>4,431</b>	<b>5,007</b>	<b>5,979</b>
YoY	2.3%	20.8%	13.4%	14.7%	17.6%	15.1%	30.3%	26.2%	13.0%	19.4%
RPM	17.7%	20.1%	20.0%	19.5%	19.4%	17.9%	18.4%	19.2%	18.8%	19.4%
Extraordinary gains	-	-	1	-	5	187	240	56	5	8
Extraordinary losses	22	38	-	34	122	55	174	192	98	453
Tax charges	527	616	731	722	853	993	1,167	1,291	1,408	1,342
Implied tax rate	42.4%	41.3%	42.1%	36.9%	38.4%	35.2%	32.6%	30.1%	28.7%	24.3%
Net income attributable to non-controlling interest	-	-1	0	7	-9	7	144	203	145	-25
<b>Net income</b>	<b>717</b>	<b>876</b>	<b>1,005</b>	<b>1,227</b>	<b>1,380</b>	<b>1,824</b>	<b>2,266</b>	<b>2,801</b>	<b>3,361</b>	<b>4,216</b>
YoY	-0.3%	22.1%	14.7%	22.1%	12.5%	32.2%	24.2%	23.6%	20.0%	25.4%
Net margin	10.0%	11.5%	11.6%	12.1%	11.5%	12.1%	11.9%	12.1%	12.6%	13.7%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Consolidated figures from FY03/11

Note: Net income reflects net income attributable to parent company shareholders from FY03/16.

For results from FY03/16 to FY03/18, see the Historical financial statements section. See below for results in FY03/17 or before.

SMS achieved double-digit growth in sales fairly consistently from FY03/10 to FY03/17. While operating profit has grown continuously, the rate of growth has varied widely. The company continues to invest actively in new businesses while securing profits, but some of the expansion comes through acquisitions that involve goodwill.

The following are the main causes of the volatility in the company's operating profit from FY03/10 to FY03/17.

- ▶ Operating profit in FY03/10 was JPY1.3bn (+2.5% YoY). Sales increased a brisk 38.5% YoY, but advertising expenses increased due to severe competition in the staffing services for nurses, as well as a rise in adverting ratio related to registrations and business expansion required to achieve sales growth. Goodwill also increased due to the acquisition of the medical business of Infirmiere.
- ▶ Operating profit in FY03/11 was JPY1.5bn (+17.4% YoY). Sales rose 6.2% YoY, but the company improved its operating margin by reducing costs, achieving a reduction in SG&A expenses.
- ▶ Operating profit in FY03/12 was JPY1.5bn (+2.6% YoY). Sales grew 14.1% YoY, but growth in operating margin was restrained by investments in the Kaipoke Biz business portal for small and medium-size nursing care services providers and acquisition of the Pure Nurse catalogue service for nurses.
- ▶ Operating profit in FY03/13 was JPY1.6bn (+3.3% YoY). Sales rose 17.1% YoY, but expenses related to a service acquired in September 2011 and for new businesses in and outside Japan also increased.
- ▶ Operating profit in FY03/14 was JPY1.7bn (+10.2% YoY). Sales rose 18.3% YoY, but spending on existing and new businesses also rose.
- ▶ Operating profit in FY03/15 was JPY2.1bn (+20.2% YoY). Sales rose 25.0% YoY supported by expansion in existing businesses and price revisions for Kaipoke, and this contributed to profit growth.
- ▶ Operating profit in FY03/16 was JPY2.8bn (+32.6% YoY). Sales rose 26.7% YoY due to Kaipoke price hikes and the contribution of the MIMS Group acquired in October 2015.
- ▶ Operating profit in FY03/17 was JPY3.6bn (+32.3% YoY). Sales rose 15.4% YoY due to growth in career-related businesses and a higher number of Kaipoke member locations in existing businesses, and a full-year contribution from the MIMS Group. A 0.6pp decline in the SG&A ratio to 68.0% also contributed to profit growth.

There was a big difference in operating profit and recurring profit growth rates, mainly due to investment returns from equity-method affiliates, and consulting revenues. In investment returns from equity-method affiliates, the contribution from M3 Carrier was particularly significant.

### Differences between company's past projections and actual results

Results vs. Initial Est. (JPYmn)	FY03/10 Par.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.
Sales (Initial Est.)	7,548	8,977	8,242	10,991	12,475	15,553	18,881	24,051	27,804	32,273
Sales (Results)	7,172	7,618	8,692	10,181	12,046	15,056	19,069	23,055	26,611	30,836
<b>Results vs. Initial Est.</b>	<b>-5.0%</b>	<b>-15.1%</b>	<b>5.5%</b>	<b>-7.4%</b>	<b>-3.4%</b>	<b>-3.2%</b>	<b>1.0%</b>	<b>-4.1%</b>	<b>-4.3%</b>	<b>-4.5%</b>
Operating profit (Initial Est.)	1,574	1,724	1,575	1,758	1,780	1,904	2,702	3,432	4,378	4,827
Operating profit (Results)	1,262	1,481	1,520	1,571	1,730	2,079	2,757	3,646	4,021	4,743
<b>Results vs. Initial Est.</b>	<b>-19.8%</b>	<b>-14.1%</b>	<b>-3.5%</b>	<b>-10.7%</b>	<b>-2.8%</b>	<b>9.2%</b>	<b>2.0%</b>	<b>6.2%</b>	<b>-8.2%</b>	<b>-1.7%</b>
Recurring profit (Initial Est.)	1,583	1,740	1,635	2,056	2,263	2,549	3,403	4,215	5,137	5,803
Recurring profit (Results)	1,266	1,530	1,735	1,990	2,340	2,693	3,510	4,431	5,007	5,979
<b>Results vs. Initial Est.</b>	<b>-20.0%</b>	<b>-12.1%</b>	<b>6.1%</b>	<b>-3.2%</b>	<b>3.4%</b>	<b>5.7%</b>	<b>3.1%</b>	<b>5.1%</b>	<b>-2.5%</b>	<b>3.0%</b>
Net income (Initial Est.)	919	1,013	925	1,287	1,369	1,589	2,306	2,718	3,396	3,905
Net income (Results)	717	876	1,005	1,227	1,380	1,824	2,266	2,801	3,361	4,216
<b>Results vs. Initial Est.</b>	<b>-22.0%</b>	<b>-13.5%</b>	<b>8.6%</b>	<b>-4.7%</b>	<b>0.8%</b>	<b>14.8%</b>	<b>-1.8%</b>	<b>3.1%</b>	<b>-1.0%</b>	<b>8.0%</b>

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Consolidated figures from FY03/11 Note: Net income reflects net income attributable to parent company shareholders from FY03/16.

## Balance sheet

Balance sheet (JPYmn)	FY03/10 Par.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.
<b>Assets</b>										
Cash and deposits	391	1,450	1,768	2,219	1,899	2,709	5,292	7,830	9,515	10,703
Accounts receivable	950	1,040	1,315	1,601	1,917	2,486	3,983	3,933	4,308	4,323
Inventories	46	33	93	133	170	130	134	137	99	50
Accounts receivable—other	-	-	-	143	653	1,306	1,892	2,491	3,474	4,478
Allowance for doubtful accounts	-38	-32	-33	-37	-50	-94	-218	-128	-224	-114
Other	367	380	593	789	841	826	1,093	717	493	683
<b>Total current assets</b>	<b>1,717</b>	<b>2,871</b>	<b>3,736</b>	<b>4,849</b>	<b>5,430</b>	<b>7,363</b>	<b>12,176</b>	<b>15,235</b>	<b>18,113</b>	<b>20,123</b>
Buildings (net)	68	57	47	9	119	136	232	190	160	183
Tools, furniture and fixtures (net)	32	33	35	58	64	111	149	154	233	251
Other	-	-	-	-	9	9	48	24	12	13
<b>Total tangible fixed assets</b>	<b>100</b>	<b>90</b>	<b>82</b>	<b>67</b>	<b>192</b>	<b>256</b>	<b>428</b>	<b>368</b>	<b>405</b>	<b>447</b>
Software	155	283	186	103	259	731	1,336	1,545	1,382	1,174
Goodwill	1,256	1,006	1,171	852	775	1,318	12,874	11,167	11,539	10,574
Trademark rights	-	-	-	-	-	-	10,047	9,704	9,412	9,246
Customer-related intangible assets	-	-	-	-	-	-	3,047	2,692	2,368	2,088
<b>Total intangible fixed assets</b>	<b>1,411</b>	<b>1,289</b>	<b>1,357</b>	<b>955</b>	<b>1,034</b>	<b>2,049</b>	<b>27,304</b>	<b>25,107</b>	<b>24,703</b>	<b>23,083</b>
Investment securities	22	101	196	632	1,283	1,240	1,026	1,666	1,721	2,048
Deferred tax assets	39	77	101	115	123	101	211	210	377	855
Lease and guarantee deposits										
Other	115	13	12	22	18	29	29	33	20	30
<b>Investments and other assets</b>	<b>418</b>	<b>422</b>	<b>542</b>	<b>1,076</b>	<b>1,750</b>	<b>1,753</b>	<b>1,782</b>	<b>2,521</b>	<b>2,865</b>	<b>3,814</b>
<b>Total fixed assets</b>	<b>1,928</b>	<b>1,801</b>	<b>1,981</b>	<b>2,099</b>	<b>2,976</b>	<b>4,058</b>	<b>29,514</b>	<b>27,997</b>	<b>27,974</b>	<b>27,344</b>
<b>Total assets</b>	<b>3,645</b>	<b>4,672</b>	<b>5,717</b>	<b>6,948</b>	<b>8,407</b>	<b>11,421</b>	<b>41,690</b>	<b>43,232</b>	<b>46,087</b>	<b>47,467</b>
<b>Liabilities</b>										
Accounts payable—trade	-	-	48	44	99	132	451	312	292	353
Short-term debt	-	-	-	-	-	0	19,003	1,201	1,403	2,487
Accounts payable—other	490	466	525	711	1,037	2,604	3,443	4,236	5,061	6,064
Other	715	886	913	920	1,052	1,658	3,018	3,162	3,644	2,987
<b>Total current liabilities</b>	<b>1,205</b>	<b>1,352</b>	<b>1,485</b>	<b>1,676</b>	<b>2,188</b>	<b>4,394</b>	<b>25,914</b>	<b>8,911</b>	<b>10,400</b>	<b>11,891</b>
Long-term debt	-	-	-	-	-	-	45	10,210	9,690	17,632
Deferred tax assets									2,175	2,078
Other	61	78	94	119	144	104	131	153	181	327
<b>Total fixed liabilities</b>	<b>61</b>	<b>78</b>	<b>94</b>	<b>119</b>	<b>144</b>	<b>104</b>	<b>2,618</b>	<b>12,738</b>	<b>12,046</b>	<b>20,037</b>
<b>Total Liabilities</b>	<b>1,266</b>	<b>1,430</b>	<b>1,580</b>	<b>1,795</b>	<b>2,332</b>	<b>4,498</b>	<b>28,532</b>	<b>21,648</b>	<b>22,446</b>	<b>31,928</b>
<b>Total net assets</b>										
Capital stock	262	288	297	304	304	304	304	2,153	2,167	2,208
Capital surplus	237	263	272	279	279	-	-	4,148	3,965	13
Retained earnings	1,879	2,690	3,593	4,696	5,910	7,249	9,146	11,663	14,545	14,971
Treasury shares	-	-	-	-81	-502	-1,036	-1,036	-0	-	-
Accum. other comprehensive income	2	-8	-30	-50	21	298	145	-838	-1,423	-1,833
Share subscription rights	-	-	1	6	20	47	80	110	135	179
Non-controlling interests	-	8	2	0	44	61	4,519	4,348	4,252	-
<b>Total net assets</b>	<b>2,379</b>	<b>3,242</b>	<b>4,137</b>	<b>5,154</b>	<b>6,075</b>	<b>6,923</b>	<b>13,158</b>	<b>21,583</b>	<b>23,641</b>	<b>15,539</b>
Working capital	996	1,074	1,360	1,690	1,989	2,484	3,665	3,758	4,115	4,020
Total interest-bearing debt	-	-	-	-	-	-	19,047	11,411	11,093	20,119
Net debt (net cash)	-391	-1,450	-1,768	-2,219	-1,899	-2,709	13,756	3,582	1,578	9,416

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Consolidated figures from FY03/11.

## Assets

The company's diverse range of businesses are mostly service-oriented, so its needs for equipment are not particularly large. As such, its assets were mostly liquid until FY03/15.

Following the acquisition of the MIMS Group in FY03/16, the amount of intangible fixed assets, mainly comprised of goodwill, trademarks, and customer-related assets, totaled JPY23.1bn (against JPY24.7bn in FY03/18 and JPY2.0bn in FY03/15, before the MIMS Group was turned into a subsidiary). The ratio of intangible assets to total assets stood at 48.6% (versus 53.6% in FY03/18 and 17.9% in FY03/15). In FY03/19, excluding intangible fixed assets, main asset items were cash and deposits and accounts receivable.

## Liabilities

The company was debt-free and virtually had no interest-bearing debt until FY03/15. Its main liabilities are accounts payable, accrued expenses, unpaid income taxes, and current liabilities associated with reserves.

In acquiring the MIMS Group in FY03/16, the company procured the acquisition amount by short-term loans and short-term debt totaled JPY19bn.

In FY03/17, the company repaid a short-term debt of JPY19.0bn with a cash gains of JPY7.0bn on issuance of 1.5mn shares and sale of 1.3mn treasury shares and a new long-term borrowing of JPY12.0bn. As a result, long-term debt increased while short-term debt was eliminated.

In FY03/19, the company spent roughly JPY11.5bn to buy additional shares in the MIMS Group and make it a wholly owned subsidiary. Long-term borrowings were down JPY7.9bn YoY to JPY17.6bn as the acquisition was financed with debt.

### Net assets

Net assets are mainly retained earnings, which have been increasing due to the net profit growth. The increase in capital and capital surplus reflect the exercise of stock options.

In FY03/17, the sum of capital and capital reserve increased by JPY3.7bn on issuance of 1.5mn shares.

In FY03/17, non-controlling interests of JPY4.3bn are mainly from Mitsui & Co. acquiring 40% of the MIMS Group in FY03/16.

In FY03/19, the company spent roughly JPY11.5bn to buy additional shares in the MIMS Group. This reduced the capital surplus and retained earnings by an amount equivalent to the goodwill in the additional purchase. Following this, the capital surplus was JPY13mn (JPY4.0bn at end FY03/18) and retained earnings were JPY15.0bn (JPY14.5bn), and there were no non-controlling interests as the MIMS Group became a wholly owned subsidiary,

## Statement of cash flows

Cash flow statement (JPYmn)	FY03/10 Par.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.
Cash flows from operating activities (1)	160	1,249	956	1,009	1,595	3,103	2,244	3,920	4,811	5,156
Cash flows from investing activities (2)	-1,744	-245	-1,358	428	-1,324	-1,050	-18,402	-1,034	-2,095	-1,066
Free cash flow (1+2)	-1,584	1,004	-402	1,437	271	2,054	-16,157	2,886	2,716	4,090
Cash flows from financing activities	-49	14	-84	-191	-571	-1,272	18,656	-875	-1,107	-2,943
Depreciation and amortization (A)	251	365	469	503	467	607	983	1,517	1,706	1,868
Capital expenditures (B)	-249	-222	-104	-110	-455	-746	-903	-882	-921	-947
Working capital changes (C)	530	78	287	330	298	496	1,181	92	357	-95
Simple FCF (NI + A + B - C)	190	941	1,083	1,290	1,093	1,190	1,165	3,343	3,789	5,232

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Consolidated figures from FY03/11.

### Cash flows from operating activities

Cash flows from operating activities change based on net income, depreciation and amortization, goodwill amortization. By nature of the company's business inventory assets are relatively low, and changes in working capital does not significantly impact cash flows from operating activities.

### Cash flows from investing activities

Cash flows from investing activities are driven by investment in facilities, purchases of intangible fixed assets such as software, and additions and withdrawals of term deposits. Acquisitions of businesses can also have a big impact on cash flows from investing activities.

FY03/10, FY03/12, FY03/14, and FY03/16 all saw significant changes in cash flows from investing activities.

In FY03/10, cash flows from investing activities were an outflow of JPY1.8bn, due mainly to JPY1.2bn in payments for the acquisition of a medical business, Infirmiere. In FY03/12, the main factors affecting cash flows from investing activities, which resulted in an outflow of JPY1.4bn, were JPY415mn in payments for the conversion of Pure Nurse to a subsidiary and SMS Korea Ltd.'s conversion of Nurscape Co., Ltd. to a subsidiary, and JPY803mn in additions to term deposits.

SMS reported an outflow of JPY1.3bn from investments in FY03/14. This was due to the following:

- ▷ The acquisition of fixed tangible assets, accompanying to a change of headquarters (JPY192mn);
- ▷ The acquisition of intangible fixed assets, for system development (JPY263mn);
- ▷ The acquisition of affiliates' shares (JPY471mn);
- ▷ The acquisition of subsidiaries' shares, including eHealthWise Services Pty Ltd (JPY245mn).

SMS reported an outflow of JPY18.4bn from investments in FY03/16 due to payments worth JPY17.9bn mainly for the acquisition of the MIMS Group.

### Cash flows from financing activities

SMS had no debt until FY03/15, so the main factors affecting its cash flows from financing activities were outlays for purchases of treasury stock, and dividend payments.

The company reported an inflow of JPY18.7bn from financial activities in FY03/16 as it procured JPY19.0bn in short-term loans to acquire shares in the MIMS Group.

Main factors for fluctuations of financial cash flows in FY03/17 were: a JPY12.0bn gain from long-term debt owing to conversion of part of short-term debt into long-term debt; a JPY3.7bn gain on issuance of shares in overseas markets and issuance of shares associated with the cancellation of treasury shares; a JPY3.3bn gain on sale of treasury shares; an outlay of JPY19.0bn due to repayment of short-term debt; an outlay of JPY601mn due to repayment of long-term debt; and an outlay of JPY289mn due to payment of dividends.

The main variations in financing cash flows in FY03/19 were outflows of JPY11.5bn for the purchase of shares in a subsidiary not accompanying a change in the scope of consolidation and inflows of JPY11.0bn from long-term borrowings.

## Other information

### History

Japan's Public Nursing Care Insurance Law was passed in December 1997, in response to the rapid aging trend in the country's demographics. Yamaichi Securities filed for bankruptcy in November 1997, and the myth of lifetime employment in Japan crumbled. While at college, SMS founder Shuhei Morofuji felt that expecting a lifelong employment as a large company employee would be increasingly unrealistic and decided to become an entrepreneur after graduating. He was intrigued by the opportunities that could arise with the passing of the Public Nursing Care Insurance Law, a harbinger of the long-term changes in the Japanese public healthcare system. Although he initially joined a large corporation, after around two years as a salaryman, Morofuji started SMS (Senior Marketing System) as a limited partnership in 2002 and transformed it into a stock company in April 2003.

Although Murofujii says that initially his business plan was vague, the business started taking off one year after it was set up. Morofuji realized early on that for nursing care providers, hiring care managers, a relatively low-skilled but legally required staff, was both vital and urgent (a care station would have to suspend operations if it was not fully staffed with a mandated number of care managers). In May 2003, SMS started Care Personnel Bank, a staffing agency for care managers. The business turned a profit in its first month.

Care Personnel Bank was successful from the outset in part because it had no competitors. However, Morofuji had doubts it would continue to be the case and was keen to erect barriers to entry. To attract and retain nursing care practitioners as customers, the company started a wide variety of services in rapid succession. In July 2003, SMS started Care Gaku, (currently Kaigo Job Student Edition) an employment information service for students of nursing and social work; Shikatoru, a service providing nursing care certification information, followed in November of the same year. In March 2004, the company started Kaigo Job, a job information service for nurses.

Through its provision of services in the nursing care field, the company identified strong needs in the medical field, including those relating to nurses. Consequently, in 2005 SMS started a staffing agency service targeting nurses, and later that year entered into a business alliance with M3. Eighty percent of physicians in Japan are registered users of M3's services.

April 2003	SMS Co., Ltd. founded in Tokyo's Machida City
May 2003	Care Personnel Bank (Career), a staffing services business for care managers, begins operations
November 2003	Shikatoru (Career), an information service for certification courses in the nursing care and medical fields, begins operations
February 2004	Head office relocated to Iidabashi, Chiyoda, Tokyo
March 2004	Kaigo Job (Career), a job information service for nurses and social workers, begins operations
February 2005	Head office relocated to Kojimachi, Chiyoda, Tokyo
September 2005	Nurse Personnel Bank (Career), a staffing services business for nurses, begins operations
July 2006	Kaipoke Biz (Nursing Care Operators), software for processing health insurance claims for small and medium-size providers of nursing care services, begins operations
July 2006	Nurse Senka Kyujin Navi (Career), a job ad service for nurses, begins operations
August 2006	Doctor Career Agent (Career, now called M3 Career Agent, operated by M3 Career Inc.), a staffing service for doctors, begins operations
August 2006	Nurse Senka Community (Career), a community site for nurses and nursing students, begins operations
September 2006	Keamane.com (Career), a community site for care managers, begins operations
April 2007	Head office relocated to Mita, Minato, Tokyo
April 2007	Pharma Personnel Bank (Career, now called Pharmacy Career Agent, operated by M3 Career Inc.), a staffing service for pharmacists, begins operations
March 2008	Lists shares on the Mothers market of the Tokyo Stock Exchange
September 2008	PT/OT Personnel Bank (Career), a staffing services site for physical therapists, occupational therapists and speech therapists, begins operations
June 2009	Ansin-Kaigo (Business Development), a community site for families involved in nursing care, begins operations

August 2009	Acquires the medical business of Infirmiere. Nurse Senka Syushoku Navi (Career), a job information for nursing students, begins operations
November 2009	Head office relocated to Kanda Suda-cho, Chiyoda, Tokyo
December 2009	Establishes a M3 Career, a joint venture with M3 Inc. (SMS takes a 49% stake in the equity-method entity), and transfers its staffing services business for physicians and pharmacists to M3 Career.
April 2011	Human Resource Solution Service (Career) begins operations
June 2011	Eichie (Business Development), a community site for registered dietitians and nutritionists begins operations
August 2011	Acquires dementia information portal ninchisho.net (Business Development) from Care-Link
September 2011	Nurscape Co., Ltd. (now Medilabs Co., Ltd.), is converted to a subsidiary. Nurscape, a community site for nurses in South Korea, starts operations
December 2011	Changes listing to TSE First Section
May 2012	Eiyoshi Jinzai Bank (Career), a staffing service for registered dietitians and nutritionists, begins operations
June 2012	SMS Support Service established to operate call center for company services in Sapporo, Hokkaido
July 2012	Acquires shares in Luvina Software Joint Stock Company, in Vietnam
October 2012	Kango Shogakukin Navi (Career), a scholarship information service for high school students and nursing students, begins operations
April 2013	Kaigo DB (Business Development), an information service for nursing-care and housing facilities for elderly people, begins operations
May 2013	Head office functions relocated to Shiba-koen, Minato, Tokyo
July 2013	Establishes Senior Marketing System Asia Pte. Ltd. (Overseas) in Singapore
September 2013	Kensa Gishi Jinzai Bank (Career), a staffing service for medical technologists, begins operations
November 2013	Establishes SMS Philippines Healthcare Solutions Inc. (Overseas) in the Philippines
November 2013	Lifood (Business Development), a search site for food delivery services for the elderly begins operations
December 2013	Establishes PT. Senior Marketing System Indonesia, in Indonesia (Overseas)
December 2013	Health Q&A website Narukara (Business Development) begins operations
January 2014	SMS Financial Service established in Minato, Tokyo to operate factoring business
February 2014	Kaipoke Biz, a factoring service for nursing care payments, is renovated and renamed Kaipoke as a business support platform (Nursing Care Operators) to provide operational support for nursing care providers
June 2014	Hoshasen Gishi Jinzai Bank (Career), a staffing service for radiologists, begins operations
July 2014	Kogaku Gishi Jinzai Bank (Career), a staffing service for clinical engineers, begins operations
August 2014	Kaigo Job Agent (Career), a staffing service for nursing care workers, begins operations
September 2014	Jimcom (Career), an information service for office managers, begins operations
January 2015	Establishes SMS Career Co., Ltd. in Tokyo's Minato Ward through a company split; the company provides staffing and job-information services
February 2015	Launches operations of Kaigo Must (Business Development), an information community portal for operators/managers of nursing care businesses
October 2015	Acquires shares in MIMS Group (Overseas), which operates drug information services in in Southeast Asia and Oceania, and made it a subsidiary
October 2015	Kaigo Job Academy (Career) providing courses for those seeking nursing care qualifications begins operations
April 2016	Starts Hapisumu (Business Development), an information service about home renovation providers
April 2016	Nurse PlaceSenka Plus (Business Development), an academic website for nurses, begins operations
July 2016	Diabetes Net (Business Development), an information portal about diabetes, begins operations
December 2016	Kaigo Job Partners (Career), a staffing service for nursing care workers, begins operations
December 2016	Raises roughly JPY7.0bn through issue of new shares and sale of treasury shares on overseas markets
April 2017	Cognitive Training (Business Development), a service offering solutions to prevent dementia, begins operations
April 2017	Remote Chat Guidance (Business Development), a service offering solutions to prevent lifestyle-related and serious diseases, begins operations
June 2017	Melorita Consultants Sdn. Bhd., a Malaysian recruitment agency for nursing professionals, is converted into a subsidiary. Global Career business (Overseas) begins operations
October 2017	Cognitive Training Challenge (Business Development), a support service for cultivating habits that prevent dementia, begins operations
October 2017	Remote Chat Guidance (Business Development), a service offering specific health guidance solutions, begins operations
November 2017	Will One Co., Ltd. (Career), a provider of career-related services including staffing services, job information, and schools offering certificates targeting judo-orthopedists, massage, acupuncture, and combustion therapists, is converted into a subsidiary



March 2018	Ansin Sougi (Business Development), a funeral director referral service, begins operations
May 2018	Medical Staffing Resources Inc. (Overseas), nurse staffing company in Philippines, made wholly owned subsidiary
September 2018	MIMS Group made wholly owned subsidiary after additional share purchase
October 2018	Childcare Personnel Bank, recruitment services for childcare workers, begins operations
December 2018	Lady to Go (Business Development), support for women's health maintenance and promotion, begins operations
January 2019	Establishes SMS Medical Ad Sdn. Bhd. (Overseas) in Malaysia
April 2019	Remote Occupational Health (Business Development) established to provide occupational health solutions
April 2019	Occupational health information website Sanchie (Business Development) begins operations

## News and topics

### March 2019

On **March 20, 2019**, the company announced a revision to its dividend forecast (dividend increase).

SMS had not disclosed the FY03/19 year-end dividend forecast because of its intention to make a decision based on FY03/19 results. The company, however, decided to pay a year-end dividend of JPY7.5 per share, after concluding that its financial condition would allow it to pay dividends as a way of shareholder returns. The company conducted a 2-for-1 common stock split as of July 1, 2018 and taking into account the stock split, its FY03/18 year-end dividend was JPY6.5 per share. Therefore, its FY03/19 year-end dividend forecast means an increase of JPY1 per share YoY.

### September 2018

On **September 27, 2018**, the company announced additional purchase of shares in subsidiary to make it a wholly owned subsidiary and borrowing of funds.

In October 2015, the company and Mitsui & Co., Ltd. jointly acquired MIMS group, whose holding company is Medica Asia (Holdco) Limited (hereinafter Medica Asia), and made Medica Asia a consolidated subsidiary. SMS has decided to make the consolidated subsidiary a wholly owned subsidiary to accelerate decision-making processes, generate synergies among group companies, and enhance corporate value. The company will continue cooperating with Mitsui & Co. and provide medical information and staffing services to the hospital group owned by Mitsui & Co.

#### Profile of the consolidated subsidiary

Company name	Medica Asia (Holdco) Limited
Shareholders and shareholding ratios	SMS: 60.0% Mitsui & Co.: 40.0%

#### Overview of share purchase

Number of shares owned before the purchase	7,650,000 shares
Additional shares purchased	5,100,000 shares
Purchase price	Approx. JPY11.0bn
Number of shares owned after the purchase	12,750,000 shares
Purchase date	September 28, 2018

#### Borrowing of funds to purchase shares

The company concluded a syndicated loan contract with Sumitomo Mitsui Banking Corp. as the arranger and agent to fund the share purchase.

Lenders	Sumitomo Mitsui Banking Corp. MUFG Bank, Ltd. Mizuho Bank, Ltd.
Fund borrowed	JPY11.0bn

## Major shareholders

Top shareholders	Shares held	Shareholding ratio
MORO G.K.	15,727,318	18.07%
Japan Trustee Services Bank, Ltd. (Trust account)	7,610,400	8.74%
The Master Trust Bank of Japan, Ltd. (Trust account)	7,497,600	8.61%
Japan Trustee Services Bank, Ltd. (Trust account 9)	4,747,700	5.45%
State Street London Care of State Street Bank and Trust, Boston SSBTC A/C UK London Branch Clients-United Kingdom (Standing proxy: The Hongkong and Shanghai Banking Corporation, Ltd., Tokyo Branch)	2,600,200	2.98%
AS ONE Corporation	2,404,000	2.76%
The Dai-ichi Life Insurance Company, Ltd. (Standing proxy: Trust & Custody Services Bank, Ltd.)	2,366,200	2.71%
Northern Trust Co. (AVFC) Re IEDU UCITS Clients Non Lending 15 Pct Treaty Account (Standing proxy: The Hongkong and Shanghai Banking Corporation, Ltd. Tokyo Branch)	2,100,200	2.41%
Trust & Custody Services Bank, Ltd. (Security investment trust account)	2,095,200	2.40%
TMAM-GO JAPAN Engagement Fund (Standing proxy: Mizuho Bank, Ltd. Settlement Department)	1,472,700	1.69%
<b>SUM</b>	<b>48,621,518</b>	<b>55.82%</b>

Source: Shared Research based on company data  
 Note: As of end March 31, 2019

## Shareholder returns

The company's policy is to issue a set amount of dividends based on its financial conditions, while placing priority on investing in growth. The company uses its retained earnings mainly for investment in the development of new businesses. In FY03/19, it paid a dividend of JPY7.5 per share, for a dividend payout ratio of 15.5%.

Dividends	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
Net income (JPYmn)	717	876	1,005	1,227	1,380	1,824	2,266	2,801	3,361	4,216
Total dividends (JPYmn)	48	102	124	166	204	283	283	477	564	652
Dividend per share (JPY)	0.6	1.3	1.5	2.0	2.5	3.5	3.5	5.5	6.5	7.5
Payout ratio (%)	6.8	11.6	12.3	13.6	14.8	15.6	12.5	16.3	16.8	15.5

Source: Shared Research based on company data  
 Note: Figures may differ from company materials due to differences in rounding methods.  
 Note: The company initiated a 200-for-1 stock split on April 1, 2013, a 2-for-1 split on January 1, 2015, and a 2-for-1 split on July 1, 2018.

## Other

### The nursing care insurance system

In April 2000, the nursing care insurance system was introduced as a new system in which the whole society supports people who require nursing care, based on the idea of joint national solidarity to provide health, medical, and welfare services to those who require nursing care, due to physical and mental change in the process of aging, in order for them to live a daily life with dignity.

#### Financial resources to nursing care insurance system

Under the nursing care insurance system, insured persons (citizens aged 40 and above) equally bear 10% (20% for high-income earners) of a fee for a care service that they received. The rest or 90% (80%) is paid by the public nursing care insurance system. Financial resources to the nursing care insurance system are evenly financed with public funds such as tax and insurance premiums. Insurance premiums are collected from insured persons.

#### Municipal certification for long-term nursing care need required to use insurance

In order to use the nursing care insurance, people are required to receive municipal certification for long-term nursing care need. Specifically, people are required to submit an application for the recognition to a local public office that manages National Health Insurance. Generally an application takes one to two months.

In the process of certifying long-term care need, the level of care required by the applicant is checked. The applicant is ranked on a seven-point scale of “support needed 1 to 2” and “nursing care needed 1 to 5.” Support needed 1 to 2 indicate that life functions are low, but they are likely to recover. Nursing care needed 1 to 5 indicate that nursing care services are currently required.

A designated municipal health inspector will interview the applicant to make sure of the need before reporting the committee that consists of doctors and officials in health and welfare services. After the examination for recognition, the committee will issue a nursing care insurance identification card with a coverage limit specified. The card will allow patients to receive nursing care insurance services after contacting service providers with nursing care specialists who can do care planning.

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## Terminology

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### Care managers

Care managers are licensed nursing care professionals. They confer with consumers of nursing care insurance services and make care plans (nursing care service plans) for suitable services, at home or in institutions, based on the requirements and condition of the consumer, and make arrangements with the institutions. The Public Nursing Care Insurance Law stipulates minimums for the number of care managers, by facility and category. For example, nursing care support service providers must employ one full-time care manager for every 50 patients using its services.

Care managers need to pass a care manager course and examination. Once certified, care managers often take internships or seminars for further certifications. Qualified care managers need to pass a higher exam.

### Nursing care service providers

Nursing care service providers are companies that provide the insured medical services and social work services (nursing care services) that people requiring nursing care need to live an independent life.

The Ministry of Health, Labour and Welfare sets standards for nursing care service providers, which must be certified by prefectural governments. Nursing care service providers receive 10% payments from consumers of their services, and they invoice and receive the remaining 90% from the National Health Insurance organizations established in each prefecture. The National Health Insurance organizations receive the 90% from insurers.

Nursing care service providers are mainly classified as home-visit care center, day care center, welfare center for the elderly, and health center for the elderly.

### Home-visit Care Service

Home caretakers (home helpers) visit home to provide daily life support (feeding, excretion, replacing diapers, changing clothes, bedding, taking to a wheelchair, and taking to a hospital) and daily chore support (cooking, laundry, cleaning, and shopping for daily necessities and food)

### Day Care Service Center

People in need for nursing care services go to a day care service center of a welfare center for the elderly by the care provider's car to receive the following services: physical and mental check, measurement of temperature, pulse, and blood pressure, support in excretion, replacement of diapers, bathing, and feeding, and entertainment. The services also aim at maintenance of physical functions, relieving of social isolation, and alleviation of caretaker's burden.

### Welfare Center for the Elderly

Elderly people's facility for special care (with admission capacity of 30 or above) as designated under the Welfare Law for the Aged and also by a municipal governor under the Public Nursing Care Insurance Law.

Welfare centers provide daily nursing care (bathing, excretion, and feeding) and health care (training to maintain physical functions and health check) based on their service planning.

### **Health Center for the Elderly**

Established under the Welfare Law for the Aged, health centers for the elderly provide nursing care, training to maintain physical functions, necessary medical care, and daily life care under the nursing and medical management, based on their service planning.

## Company profile

<b>Company Name</b>	<b>Head Office</b>
SMS Co., Ltd.	Sumitomo Fudosan Shibakoen Tower 2-11-1, Shiba Koen Minato-ku, Tokyo 105-0011 Japan
<b>Phone</b>	<b>Listed On</b>
+81-3-6721-2400	Tokyo Stock Exchange 1st Section
<b>Established</b>	<b>Exchange Listing</b>
April 4, 2003	March 13, 2008
<b>Website</b>	<b>Financial Year-End</b>
<a href="https://www.bm-sms.co.jp/eng/">https://www.bm-sms.co.jp/eng/</a>	March
<b>IR Contact</b>	<b>IR Phone</b>
Miyamoto, Corporate Planning	+81-3-6721-2403
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Carna Biosciences, Inc.	KI-Star Real Estate Co., Ltd.	Star Mica Holdings Co., Ltd.
CARTA HOLDINGS, INC	Kodotec Inc.	Strike Co., Ltd.
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cocokara fine Inc.	MATSUI SECURITIES CO., LTD.	Takashimaya Company, Limited
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