



SMS / 2175

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Research Coverage Report by Shared Research Inc.

INDEX

How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

Executive summary	3
Key financial data	5
Recent updates	6
Highlights	6
Trends and outlook	7
Business	19
Business model	19
Main businesses	23
Group companies	32
Strengths and weaknesses	33
Market and value chain	34
Strategy	39
Historical financial statements	40
Income statement	52
Balance sheet	54
Statement of cash flows	56
Other information	58
History	58
News and topics	60
Major shareholders	60
Shareholder returns	60
Other	61
Terminology	61
Company profile	63

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 elderly care, medical care, healthcare, and senior life. In FY03/20, the company's Career segment accounted for 67.8% of consolidated sales, Elderly Care Operators 13.9%, Overseas 15.0%, and Business Development 3.2%. The elderly care career and medical care career businesses, which together make up the Career segment, respectively generated 30.2% and 37.6% of sales.
- In the elderly care career business (30.2% of FY03/20 sales), SMS mainly provides staffing services, job information media services, temporary staff and training schools for elderly care workers. The company has captured an extremely high market share in this business, with nearly 70% of the annual number of elderly care workers who change jobs being registered for its job-change services, according to the company. Elderly care career sales reached JPY10.6bn in FY03/20 (+33.2% YoY), supported by higher sales in staffing services for elderly care workers.
- In the medical care career business (37.6% of FY03/20 sales), SMS mainly provides staffing 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 JPY13.2bn in FY03/20 (+6.4% YoY).
- In the Elderly Care Operators segment (13.9% of FY03/20 sales), SMS operates the Kaipoke business support platform for elderly care operators. As of April 2020, Kaipoke was serving 18,850 member locations (27,400 elderly care facilities), accounting for roughly 14% of all elderly care facilities (Shared Research estimate), the primary customers for Kaipoke. Kaipoke was launched in 2006 as a low-cost software service to handle elderly 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 elderly 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 JPY4.9bn in FY03/20 (+24.5% YoY).
- In the MIMS Group, which generates the bulk of the sales in the Overseas segment (15.0% of FY03/20 sales), SMS provides marketing support for medical and healthcare companies, a database of drug information for medical institutions, and career services in 17 countries and regions in Asia–Oceania, with a registered user base of 2.7 million healthcare professionals. In Singapore and Hong Kong, over 90% of doctors are registered users. Segment sales reached JPY5.3bn in FY03/20 (-3.4% YoY). Although the MIMS Group is highly profitable, SMS booked goodwill amortization, positioned FY03/20 as another investment period for medium-term growth in the Overseas segment, and appears to have recorded losses in the segment.

Trends and outlook

- In FY03/20, the company reported sales of JPY35.1bn (+14.0% YoY), operating profit of JPY4.9bn (+4.0% YoY), recurring profit of JPY6.4bn (+6.3% YoY), and net income attributable to owners of the parent of JPY4.8bn (+12.9% YoY). Sales and profits increased due to growth of career-related businesses and an increase in the number of Kaipoke member locations.
- For FY03/21, SMS forecasts sales of JPY37.4bn (+6.5% YoY), operating profit of JPY5.0bn (+1.9% YoY), recurring profit of JPY6.5bn (+1.6% YoY), and net income attributable to owners of the parent of JPY4.8bn (+0.5% YoY). The company assumes the impact from the COVID-19 pandemic will continue to affect operations through end-September 2020, and looks for negative impact of JPY3.1bn on sales and JPY2.0bn on operating profit. Excluding this impact, the company thinks it can achieve sales growth of 15% YoY and operating profit growth of 42% YoY.
- Shared Research sees earnings growing at a CAGR of about 15–20% 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.

Strengths and weaknesses

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)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Est.
Sales	7,618	8,692	10,181	12,046	15,056	19,069	23,055	26,611	30,836	35,140	37,436
YoY	-	14.1%	17.1%	18.3%	25.0%	26.7%	20.9%	15.4%	15.9%	14.0%	6.5%
Gross profit	7,299	8,261	9,481	11,094	13,724	16,865	19,328	23,322	27,301	31,091	
YoY	-	13.2%	14.8%	17.0%	23.7%	22.9%	14.6%	20.7%	17.1%	13.9%	
GPM	95.8%	95.0%	93.1%	92.1%	91.1%	88.4%	83.8%	87.6%	88.5%	88.5%	
Operating profit	1,481	1,520	1,571	1,730	2,079	2,757	3,646	4,021	4,743	4,935	5,028
YoY	-	2.6%	3.3%	10.2%	20.2%	32.6%	32.3%	10.3%	18.0%	4.0%	1.9%
OPM	19.4%	17.5%	15.4%	14.4%	13.8%	14.5%	15.8%	15.1%	15.4%	14.0%	13.4%
Recurring profit	1,530	1,735	1,990	2,340	2,693	3,510	4,431	5,007	5,979	6,355	6,459
YoY	-	13.4%	14.7%	17.6%	15.1%	30.3%	26.2%	13.0%	19.4%	6.3%	1.6%
RPM	20.1%	20.0%	19.5%	19.4%	17.9%	18.4%	19.2%	18.8%	19.4%	18.1%	17.3%
Net income	876	1,005	1,227	1,380	1,824	2,266	2,801	3,361	4,216	4,760	4,785
YoY	-	14.7%	22.1%	12.5%	32.2%	24.2%	23.6%	20.0%	25.4%	12.9%	0.5%
Net margin	11.5%	11.6%	12.1%	11.5%	12.1%	11.9%	12.1%	12.6%	13.7%	13.5%	12.8%
Shares issued (year-end; '000)	81,614	82,853	83,741	83,741	83,774	83,774	86,765	86,842	86,999	87,058	
EPS	11.1	12.2	14.9	16.8	22.4	27.9	33.7	38.7	48.5	54.7	55.0
EPS (fully diluted)	10.5	12.0	14.7	16.8	22.3	27.8	33.6	38.6	48.2	54.5	
Dividend per share	1.3	1.5	2.0	2.5	3.5	3.5	5.5	6.5	7.5	8.5	
Book value per share	39.6	49.9	61.9	73.4	84.0	105.5	197.4	221.7	176.6	220.9	
Cash and cash equivalents	1,450	1,768	2,219	1,899	2,709	5,292	7,830	9,515	10,703	11,091	
Total current assets	2,871	3,736	4,849	5,430	7,363	12,176	15,235	18,113	20,123	23,102	
Tangible fixed assets	90	82	67	192	256	428	368	405	447	1,006	
Investments and other assets	422	542	1,076	1,750	1,753	1,782	2,521	2,865	3,814	4,149	
Intangible fixed assets	1,289	1,357	955	1,034	2,049	27,304	25,107	24,703	23,083	22,738	
Total assets	4,672	5,717	6,948	8,407	11,421	41,690	43,232	46,087	47,467	50,996	
Accounts payable	-	48	44	99	132	451	312	292	353	314	
Short-term debt	-	-	-	-	0	19,003	1,201	1,403	2,487	2,487	
Total current liabilities	1,352	1,485	1,676	2,188	4,394	25,914	8,911	10,400	11,891	13,831	
Long-term debt	-	-	-	-	-	45	10,210	9,690	17,632	15,144	
Total fixed liabilities	78	94	119	144	104	2,618	12,738	12,046	20,037	17,766	
Total liabilities	1,430	1,580	1,795	2,332	4,498	28,532	21,648	22,446	31,928	31,597	
Net assets	3,242	4,137	5,154	6,075	6,923	13,158	21,583	23,641	15,539	19,398	
Total interest-bearing debt	-	-	-	-	-	19,047	11,411	11,093	20,119	17,631	
Cash flow statement (JPYmn)											
Cash flows from operating activities	1,249	956	1,009	1,595	3,103	2,244	3,920	4,811	5,156	5,591	
Cash flows from investing activities	-245	-1,358	428	-1,324	-1,050	-18,402	-1,034	-2,095	-1,066	-2,127	
Cash flows from financing activities	14	-84	-191	-571	-1,272	18,656	-875	-1,107	-2,943	-3,132	
ROA (RP-based)	36.8%	33.4%	31.4%	30.5%	27.2%	13.2%	10.4%	11.2%	12.8%	12.9%	
ROE	31.2%	27.3%	26.4%	24.7%	28.4%	29.5%	21.8%	18.5%	24.4%	27.5%	
Equity ratio	69.4%	72.4%	74.2%	72.3%	60.6%	31.6%	49.9%	51.3%	32.7%	38.0%	

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 owners of the parent from FY03/16.

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

Recent updates

Highlights

On January 29, 2021, SMS Co., Ltd. announced earnings results for Q3 FY03/21; see the results section for details.

On December 11, 2020, 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)	FY03/20				FY03/21				FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	9,379	17,628	25,300	35,140	10,539	18,638	26,366		70.4%	37,436
YoY	16.3%	17.2%	14.9%	14.0%	12.4%	5.7%	4.2%			6.5%
Gross profit	8,544	15,824	22,426	31,091	9,607	16,806	23,564			
YoY	17.9%	18.1%	15.1%	13.9%	12.4%	6.2%	5.1%			
GPM	91.1%	89.8%	88.6%	88.5%	91.2%	90.2%	89.4%			
SG&A expenses	7,110	13,750	20,337	26,156	7,376	13,857	20,344			
YoY	21.2%	20.1%	18.2%	15.9%	3.7%	0.8%	0.0%			
SG&A ratio	75.8%	78.0%	80.4%	74.4%	70.0%	74.3%	77.2%			
Operating profit	1,433	2,074	2,088	4,935	2,230	2,949	3,220		64.0%	5,028
YoY	4.1%	6.2%	-8.5%	4.0%	55.6%	42.2%	54.2%			1.9%
OPM	15.3%	11.8%	8.3%	14.0%	21.2%	15.8%	12.2%			13.4%
Recurring profit	2,321	3,119	3,410	6,355	3,018	3,852	4,245		65.7%	6,459
YoY	11.1%	7.4%	1.4%	6.3%	30.0%	23.5%	24.5%			1.6%
RPM	24.7%	17.7%	13.5%	18.1%	28.6%	20.7%	16.1%			17.3%
Net income	1,799	2,319	2,516	4,760	2,201	2,775	2,868		59.9%	4,785
YoY	9.4%	7.5%	5.3%	12.9%	22.3%	19.7%	14.0%			0.5%
Net margin	19.2%	13.2%	9.9%	13.5%	20.9%	14.9%	10.9%			12.8%

Quarterly (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	9,379	8,249	7,672	9,840	10,539	8,099	7,728	
YoY	16.3%	18.3%	9.9%	11.7%	12.4%	-1.8%	0.7%	
Gross profit	8,544	7,280	6,602	8,665	9,607	7,199	6,758	
YoY	17.9%	18.3%	8.4%	10.9%	12.4%	-1.1%	2.4%	
GPM	91.1%	88.3%	86.1%	88.1%	91.2%	88.9%	87.4%	
SG&A expenses	7,110	6,640	6,587	5,819	7,376	6,481	6,487	
YoY	21.2%	19.0%	14.3%	8.8%	3.7%	-2.4%	-1.5%	
SG&A ratio	75.8%	80.5%	85.9%	59.1%	70.0%	80.0%	83.9%	
Operating profit	1,433	641	14	2,847	2,230	719	271	
YoY	4.1%	11.1%	-95.7%	15.7%	55.6%	12.2%	-	
OPM	15.3%	7.8%	0.2%	28.9%	21.2%	8.9%	3.5%	
Recurring profit	2,321	798	291	2,945	3,018	834	393	
YoY	11.1%	-2.1%	-36.5%	12.6%	30.0%	4.5%	35.1%	
RPM	24.7%	9.7%	3.8%	29.9%	28.6%	10.3%	5.1%	
Net income	1,799	520	197	2,244	2,201	574	93	
YoY	9.4%	1.4%	-15.5%	22.9%	22.3%	10.4%	-52.8%	
Net margin	19.2%	6.3%	2.6%	22.8%	20.9%	7.1%	1.2%	

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 owners of the parent.

Sales by segment and business

Cumulative (JPYmn)	FY03/20				FY03/21				FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Total sales	9,379	17,628	25,300	35,140	10,539	18,638	26,366		70.4%	37,436
YoY	16.3%	17.2%	14.9%	14.0%	12.4%	5.7%	4.2%			6.5%
Career	7,226	12,797	17,599	23,836	8,093	13,419	17,993		70.1%	25,684
YoY	19.6%	21.5%	19.2%	16.9%	12.0%	4.9%	2.2%			7.8%
Elderly care career	2,862	5,426	7,701	10,618	3,400	5,992	8,252		67.1%	12,294
YoY	44.0%	42.7%	36.5%	33.2%	18.8%	10.4%	7.2%			15.8%
Medical care career	4,364	7,371	9,898	13,218	4,692	7,427	9,741		72.7%	13,390
YoY	7.7%	9.5%	8.6%	6.4%	7.5%	0.8%	-1.6%			1.3%
Elderly Care Operators	1,109	2,282	3,533	4,894	1,358	2,775	4,302		75.1%	5,728
YoY	22.5%	22.3%	23.0%	24.5%	22.5%	21.6%	21.8%			17.0%
Overseas	807	2,046	3,377	5,276	826	1,885	3,196		66.4%	4,811
YoY	-7.5%	-3.8%	-6.5%	-3.4%	2.4%	-7.9%	-5.4%			-8.8%
Business Development	235	501	790	1,133	261	557	874		72.1%	1,213
YoY	-4.9%	-2.0%	1.7%	8.8%	11.1%	11.2%	10.6%			7.1%

Quarterly (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total sales	9,379	8,249	7,672	9,840	10,539	8,099	7,728	
YoY	16.3%	18.3%	9.9%	11.7%	12.4%	-1.8%	0.7%	
Career	7,226	5,571	4,802	6,237	8,093	5,326	4,574	
YoY	19.6%	24.0%	13.6%	10.7%	12.0%	-4.4%	-4.7%	
Elderly care career	2,862	2,564	2,275	2,917	3,400	2,592	2,260	
YoY	22.5%	41.3%	23.6%	25.1%	22.5%	1.1%	-0.7%	
Medical care career	4,364	3,007	2,527	3,320	4,692	2,735	2,314	
YoY	7.7%	12.2%	5.9%	0.5%	7.5%	-9.0%	-8.4%	
Elderly Care Operators	1,109	1,173	1,251	1,361	1,358	1,417	1,527	
YoY	22.5%	22.1%	24.2%	28.8%	22.5%	20.8%	22.1%	
Overseas	807	1,239	1,331	1,899	826	1,059	1,311	
YoY	-7.5%	-1.3%	-10.3%	2.5%	2.4%	-14.5%	-1.5%	
Business Development	235	266	289	343	261	296	317	
YoY	-4.9%	0.8%	8.6%	29.9%	11.1%	11.3%	9.7%	

Source: Shared Research based on company data

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

SG&A expenses

Cumulative (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SG&A expenses	7,110	13,750	20,337	26,156	7,376	13,857		
YoY	21.2%	20.1%	18.2%	15.9%	3.7%	0.8%		
Personnel	3,161	6,109	9,069	11,957	3,537	6,632		
YoY	26.6%	25.5%	24.8%	24.5%	11.9%	8.6%		
Advertising	1,227	2,586	3,878	4,714	1,351	2,610		
YoY	23.7%	26.3%	19.9%	14.8%	10.1%	0.9%		
Outsourcing	648	1,310	1,936	2,543	659	1,285		
YoY	3.3%	6.2%	1.8%	-0.1%	1.7%	-1.9%		
Goodwill amortization	192	393	594	809	205	407		
YoY	-2.5%	-1.0%	-1.0%	0.2%	6.8%	3.6%		

Quarterly (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SG&A expenses	7,110	6,640	6,587	5,819	7,376	6,481		
YoY	21.2%	19.0%	14.3%	8.8%	3.7%	-2.4%		
Personnel	3,161	2,948	2,960	2,888	3,537	3,095		
YoY	26.6%	24.4%	23.4%	23.7%	11.9%	5.0%		
Advertising	1,227	1,359	1,292	836	1,351	1,259		
YoY	23.7%	28.8%	8.8%	-4.1%	10.1%	-7.4%		
Outsourcing	648	662	626	607	659	626		
YoY	3.3%	9.2%	-6.4%	-5.6%	1.7%	-5.4%		
Goodwill amortization	192	201	201	215	205	202		
YoY	-2.5%	0.5%	-1.0%	3.9%	6.8%	0.5%		

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

	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
No. of member locations	17,250	17,850	18,300	18,850	19,300	19,950	20,550	
YoY change	1,750	1,900	2,000	2,050	2,050	2,100	2,250	
YoY	11.3%	11.9%	12.3%	12.2%	11.9%	11.8%	12.3%	
QoQ change	450	600	450	550	450	650	600	
QoQ	2.7%	3.5%	2.5%	3.0%	2.4%	3.4%	3.0%	

Source: Shared Research based on company data

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

Cumulative Q3 FY03/21 results

- ▷ Sales: JPY26.4bn (+4.2% YoY)
- ▷ Operating profit: JPY3.2bn (+54.2% YoY)
- ▷ Recurring profit: JPY4.2bn (+24.5% YoY)
- ▷ Net income*: JPY2.9bn (+14.0% YoY)

*Net income attributable to owners of the parent

Sales increased YoY primarily thanks to business expansion in the Career segment and a rise in the number of Kaipoke members. Gross profit increased 5.1% YoY to JPY23.6bn. With SG&A expenses staying flat YoY at JPY20.3bn as the company refrained from hiring, all profit categories from the operating profit line down posted double-digit growth.

Career

Sales: JPY18.0bn (+2.2% YoY)

Elderly care career sales were JPY8.3bn (+7.2% YoY). Kaigo Job Agent, an elderly care staffing service, showed strong growth.

Medical care career sales were JPY9.7bn (-1.6% YoY). Nurse Personnel Bank, a recruitment service for nurses, saw brisk earnings.

In the Career segment, the COVID-19 pandemic temporarily had a negative impact on sales activities to win orders for staffing services.

Elderly Care Operators

Sales: JPY4.3bn (+21.8% YoY)

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 January 1, 2021, Kaipoke had 20,550 member locations (+2,250 versus end-Q3 FY03/20) and 30,100 elderly care facilities (+3,500 YoY).

Overseas

Sales: JPY3.2bn (-5.4% YoY)

The spread of COVID-19 has led to the cancellation and postponement of pharmaceutical company events, and delays in the travel of healthcare professionals in the Global Career business. On the other hand, due to continued progress in digital transformation, online events and digital products performed strong.

Business Development

Sales: JPY874mn (+10.6% YoY)

The company proceeded with the development and promotion of new businesses, focusing on the provision of remote specific health guidance and occupational healthcare utilizing ICT in the healthcare area, and on information services centered on meal catering for the elderly and on home renovation in the senior life space.

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

Full-year company forecast

(JPYmn)	FY03/20			FY03/21			YoY		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.	1H Act.	2H Est.	FY Est.
Sales	17,628	17,512	35,140	18,638	18,798	37,436	5.7%	7.3%	6.5%
Cost of sales	1,804	2,244	4,048	1,831					
Gross profit	15,824	15,267	31,091	16,806			6.2%		
GPM	89.8%	87.2%	88.5%	90.2%					
SG&A expenses	13,750	12,406	26,156	13,857					
SG&A ratio	78.0%	70.8%	74.4%	74.3%					
Operating profit	2,074	2,861	4,935	2,949	2,079	5,028	42.2%	-27.3%	1.9%
OPM	11.8%	16.3%	14.0%	15.8%	11.1%	13.4%			
Recurring profit	3,119	3,236	6,355	3,852	2,607	6,459	23.5%	-19.4%	1.6%
RPM	17.7%	18.5%	18.1%	20.7%	13.9%	17.3%			
Net income	2,319	2,441	4,760	2,775	2,010	4,785	19.7%	-17.7%	0.5%
Net margin	13.2%	13.9%	13.5%	14.9%	10.7%	12.8%			

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 owners of the parent.

Forecasts by segment and business

FY03/21 forecasts by segment		FY03/20	FY03/21	
(JPYmn)		FY Act.	FY Est.	YoY
Sales		35,140	37,436	6.5%
Career		23,836	25,684	7.8%
Elderly care career		10,618	12,294	15.8%
Medical care career		13,218	13,390	1.3%
Elderly Care Operators		4,894	5,728	17.0%
Overseas		5,276	4,811	-8.8%
Other		1,133	1,213	7.1%
Operating profit		4,935	5,028	1.9%

Source: Shared Research based on company data

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

For FY03/21, SMS forecasts sales of JPY37.4bn (+6.5% YoY), operating profit of JPY5.0bn (+1.9% YoY), recurring profit of JPY6.5bn (+1.6% YoY), and net income attributable to owners of the parent of JPY4.8bn (+0.5% YoY). As discussed below, the company expects the spread of COVID-19 will affect operations, but it forecasts YoY growth in sales and all profit lines.

Impact of the spread of COVID-19

Every segment of the company has been affected by the spread of COVID-19, with the Career segment in Japan and the Overseas segment affected in particular. SMS assumes the impact of the COVID-19 pandemic will linger through end-September 2020. It looks for a corresponding negative impact of JPY3.1bn on sales and JPY2.0bn on operating profit compared to its forecast, which factored in cutbacks on career partners hiring and in investment. Excluding these factors, the company sees sales rising 15% YoY and operating profit 42% YoY.

SMS expects the COVID-19 pandemic to have a negative impact of JPY3.1bn on sales compared to its forecast, which factors in cutbacks on career partners hiring and in investment. By segment, the impact breaks down as follows.

- ▷ Elderly care career: SMS expects a negative impact of JPY600mn on sales as some staffing service offices temporarily suspend job interviews, schools offering qualifications for elderly care practitioners temporarily shut down, and job fairs for elderly care workers are cancelled.
- ▷ Medical care career: The company forecasts a negative impact of JPY800mn on sales as some staffing service offices temporarily suspend job interviews, and joint company information sessions for nursing students are cancelled.
- ▷ Elderly Care Operators: The company looks for a negative impact of JPY100mn on sales due to a slowdown in the pace of new member acquisitions and in the sales of optional services.

- ▷ Overseas: SMS expects a negative impact of JPY1.4bn on sales due to cancelled and postponed events by pharmaceutical companies, postponed travel of healthcare professionals in the Global Career business, and sluggish business progress due to lockdowns in various countries.
- ▷ Business Development: The company forecasts a negative impact of JPY200mn on sales due to postponed facility tours in the elderly housing information business, and delays in sales activities in other businesses.

SMS also anticipates a JPY1.4bn negative impact on operating profit compared to its forecast, which factors in cutbacks on career partners hiring and in investment. Although lower expenses driven by cuts in recruitment and investment should boost operating profit by JPY600mn, the company looks for a total negative impact of JPY2.0bn from the spread of COVID-19.

Career: Sales JPY25.7bn (+7.8% YoY)

The long-term market environment remains strong in terms of the demand for recruitment of elderly care and healthcare professionals, and the company expects growth in both the elderly care career and medical care career businesses. In response to the uncertainty surrounding the impact of the COVID-19 pandemic, the company will scale back hiring of career partners, but this should boost productivity per career partner as the share of first-year career partners drops.

Elderly care career

The company forecasts sales of JPY12.3bn (+15.8%, +1.7bn YoY) in the elderly care career business. It expects a return to the usual growth trajectory in the business, having already resolved operational issues relating to staffing services for elderly care workers which had arisen in FY03/20. Excluding the impact of cuts in hiring of career partners and the impact of the COVID-19 pandemic, the company expects sales to rise 33% or JPY3.5bn YoY. However, it looks for a negative impact of JPY1.3bn on sales as it plans to scale back hiring of career partners from 160 (original target) to 70, and JPY600mn from a temporary suspension of interviews at some staffing service offices and from cancelled recruiting events due to spread of COVID-19.

Medical care career

The company forecasts sales of JPY13.4bn (+1.3%, +172mn YoY) in the medical care career business. It looks for steady growth driven by staffing services for nurses. Excluding the impact of cuts in hiring of career partners and the impact of the COVID-19 pandemic, the company expects sales to rise 10% or JPY1.3bn YoY. However, it looks for a negative impact of JPY400mn as it plans to scale back hiring of career partners from 90 (original target) to 60, and JPY800mn from a temporary suspension of interviews at staffing service offices and cancelled joint company information sessions due to spread of COVID-19. SMS sold its orthopedic school business in January 2020. After factoring out the sales contributions from the orthopedic school business in FY03/20, and excluding the impact of cuts in hiring of career partners and the impact of the COVID-19 pandemic, the company expects sales to increase 12% YoY.

Elderly Care Operators: Sales JPY5.7bn (+17.0% YoY)

The company maintains that the long-term market environment remains robust, against a background of increased elderly care facility numbers.

SMS anticipates continued growth through increases in the number of member locations for Kaipoke, which provides business support services for elderly care business operators, as well as in the use of add-on paid optional services including factoring services. On the other hand, the company predicts that the COVID-19 pandemic will have an impact on new member acquisition and the sale of paid optional services.

Overseas: Sales JPY4.8bn (-8.8% YoY)

The company holds that there is room for significant long-term growth, against the background of expansion of the healthcare market in the Asia–Oceania region, and global demand for medical staffing.

In the existing MIMS Group businesses, the company restructured its sales organization to promote cross-selling in FY03/20. MIMS Group sales staff previously specialized in sales of distinct products and services such as medical databases, medical news, distribution of educational content, or management of industry events. Under the new organization, sales staff can cross-sell products and services in various combinations (e.g., incorporating medical news in managed industry events to attract visitors). In FY03/21, the company will continue to push cross-selling, and work to strengthen sales through the operation of online events and provision of digital products and services.

In the Global Career business, the company expects sales contributions from CCM (headquartered in Ireland), which became a subsidiary in August 2019. The conversion of CCM into a subsidiary has increased the number of countries in which the company operates, adding Europe and Oceania as new regions, and this has driven growth in cross-border projects with existing business regions such as Malaysia and the Philippines. In addition, SMS expects factors such as the change to the timing of consolidation of its South Korean subsidiary and changes to the process for travel of Malaysian healthcare professionals to Saudi Arabia that pushed down sales by JPY150mn in FY03/20, to wind down in FY03/21.

On the other hand, the company predicts the COVID-19 pandemic to cause a delay in the progress of the existing MIMS business, as a result of the postponement and cancellation of pharmaceuticals company events and lockdowns in the countries in which it is developing the business. Travel of healthcare professionals recruited on a cross-border basis has also been suspended in the Global Career business. The company expects sales to temporarily decline in the Overseas segment as a result.

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 elderly 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: elderly 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 elderly care providers), and the Overseas businesses led by MIMS, as the target markets are expected to expand. As of May 2020, earnings for FY03/20 and FY03/21 had been adversely affected by the spread of COVID-19. However, the company has made no changes to its medium-term strategy as it continues to operate in growth markets.

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

Elderly care and medical care operators continue to face labor shortages due to growth in the elderly population. In FY2019, the standard job opening-to-application ratios (ratio of job openings to one job seeker; excludes part-time jobs; the higher the ratio, the greater the shortage) for elderly care workers and nurses were about 3.6 and 2.5 (average ratio for all occupations combined was 1.4). As the 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 elderly 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 FY03/20, sales in the company's Career business were JPY23.8bn, up 16.9% 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 job seekers in the medical and elderly 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 elderly 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. From FY03/21 onward, it aims to continue growing the Career segment by expanding into related occupations.

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

The elderly care career business mainly provides nursing staff and help-wanted information. In FY03/20, it accounted for 30.2% of consolidated sales and 44.5% 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.

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 FY03/20, the business accounted for 37.6% of consolidated sales and 55.5% 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 25 to 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 (CAGR of 2% in the past five years) 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.

Growth of Kaipoke, business support platform for elderly care operators

As an external environment, the number of elderly care facilities is increasing continuously along with increasing elderly population (CAGR of 4% in the past five years), and this is increasing the potential demand for Kaipoke (management support platform for elderly 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 elderly 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 18,850 in April 2020.

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 elderly care operators as of May 2020; 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 elderly 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 elderly care services covered by Kaipoke.

Home-visit nursing: Elderly 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 elderly 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 elderly care providers on top of the software for elderly care insurance billing. The new service offers additional functions, such as sales support, recruitment support (e.g., job advertisements for elderly care facilities), and improvement of operational efficiency including purchasing functions for workplace equipment, bank transfers to handle fees paid by users of elderly 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. In September 2018, SMS completed the acquisition of Medica Asia (Holdco) Limited, making it a wholly owned subsidiary.

With Medica Asia as the holding company, the MIMS Group provides marketing support to medical and healthcare professionals, medical databases to medical institutions, and career services in South Korea, China, Hong Kong, Taiwan, Singapore, Malaysia, Indonesia, Thailand, Vietnam, the Philippines, Myanmar, India, Australia, New Zealand, the UAE, and Ireland. Registered healthcare professional users in these regions have reached 2.7mn. In Singapore and Hong Kong, over 90% of doctors are registered users of the MIMS Group.

Overview of MIMS Group businesses

The MIMS Group operates the existing MIMS businesses (chiefly Pharma Marketing and Healthcare Data) and the Global Career business. In FY03/20, the existing MIMS businesses accounted for roughly 90% of overseas sales, and Global Career for over 10% of overseas sales.

Pharma Marketing business

Pharma Marketing accounts for roughly 70% of the sales of the MIMS Group, which 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 including such information in its drug database, the group collects posting fees from pharmaceutical companies. 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.

Medium-term strategy for 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 FY03/21 as an investment period for medium-term growth of the MIMS Group and forecasts losses due to rising costs. From FY03/21, the company plans to realize growth at the acquired company by promoting cross-selling in the existing Pharma Marketing business, and by getting the Global Career business up and running.

Promoting cross-selling in MIMS Group's Pharma Marketing business

In FY03/20, SMS restructured its sales organization for existing MIMS Group businesses to promote cross-selling. Sales staff in the Pharma Marketing business previously specialized in sales of distinct products and services such as medical databases, medical news, distribution of educational content, or management of industry events. Under the new organization, sales staff can cross-sell products and services in various combinations (e.g., incorporating medical news in managed industry events to attract visitors). In FY03/21 and beyond, it will continue to push cross-selling, and aim to improve productivity per salesperson.

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. The company has since increased the number of countries it operates in, aiming to not only support career changes in individual countries but also globally by establishing a position as a platform that supplies healthcare professionals. It made MSR (a nurse referral company in the Philippines) and CCM (a company that refers healthcare professionals from Europe and Oceania to medical institutions in the Middle East) subsidiaries in May 2018 and August 2019, respectively.

As of March 2020, the MIMS Group had a membership base of healthcare professionals in Ireland, England, Australia, New Zealand, Malaysia, the Philippines, and South Korea. It receives staffing orders for such practitioners from medical institutions in countries and regions such as Saudi Arabia, the UAE, Qatar, North America, England, Australia, Ireland, and South Korea.

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 elderly care, medical care, health-care, and senior life.

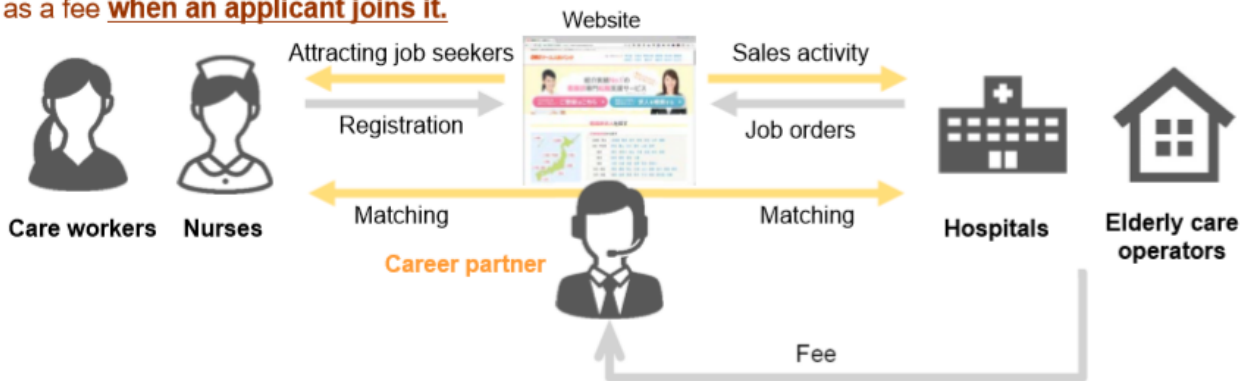
Business model

Staffing services

SMS introduces prospective employees (nurses, care workers) who have registered on its web site to employers (hospitals, elderly 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 job seekers signing contracts to change jobs by the average commission (calculated by multiplying the annual income of the job seeker by the commission for staffing services). In addition, the number of job seekers signing contracts to change jobs can be analyzed in terms of the number of career partners and productivity (number of job seekers 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/elderly 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 2019 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 JPY4.83mn (JPY4.80mn in 2018), for care managers JPY3.93mn (JPY3.85mn), and for physical and occupational therapists JPY4.10mn (JPY4.09mn). 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 elderly 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 elderly 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 elderly 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 elderly 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 elderly care workers. Elderly 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 elderly care operators mainly through job information services. (As stated above, however, a shortage of elderly care workers is becoming a serious issue and demand for success fee-based staffing services is increasing despite the high cost. As such, the company launched a staffing service for elderly care workers in earnest in FY03/17. The service is rapidly expanding in scale, and the company’s sales of staffing and other elderly care related services have expanded at a CAGR of 38.2% from FY03/17 through FY03/20.

Community websites

The community websites that SMS operates are intended to provide a platform for professionals (nurses, care managers) and end users (users of medical and elderly 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 elderly 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 elderly 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 elderly 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.

Business support platform for elderly care operators: Kaipoke

Kaipoke is a business support platform for elderly care operators. It provides software for elderly care insurance billing via ASP for elderly care providers. The software assists elderly 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 elderly 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 JPY4.9bn in FY03/20 (+24.5% YoY) with 18,850 member locations (as of April 1, 2020), average user fees per month (calculated by Shared Research based on average number of member locations during the fiscal year and sales) were roughly JPY23,000 (+ approximately 10% YoY). According to the company, the average user fees per month were JPY3,000 through September 2014, and has tracked at 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 elderly care support service providers, JPY3,980 for home-visit care service providers or service providers of elderly 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 elderly care insurance billing service. These included sales support, recruitment support (such as job advertisements for elderly care providers), improvement of operational efficiency including purchasing functions for workplace equipment, bank transfers to handle fees paid by users of elderly care services, and support for coordinating documentation between workplaces. Following changes to the pricing structure in October 2014, at-home elderly 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 elderly 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 FY03/20, approximately 67.8% 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 elderly care operators accounted for 13.9% of revenues.

Sales breakdown

In FY03/20, the Career segment accounted for 67.8% of total sales, Elderly Care Operators 13.9%, Overseas 15.0%, and Business Development segment 3.2%.

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: elderly care, medical care, and active seniors. From FY03/11 to FY03/15, it divided its elderly 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, Elderly care, Medical Care, Healthcare, and Overseas. From FY03/18, it changed its segment structure as follows: Career, Elderly Care Operators (previously Management Support for Service Operators), Overseas, and Business Development (previously Elderly care, New Businesses, Medical Care, and Health Care).

FY03/20 sales breakdown by segment and business

Segment	Details	Sales (JPYmn)	YoY	% of total	Main service
Career	Elderly care career	10,618	33.2%	30.2%	Personnel referral for nursing care workers
	Medical care career	13,218	6.4%	37.6%	Personnel referral for nurses
Elderly Care Operators	Kaipoke	4,894	24.5%	13.9%	Kaipoke sales
Overseas		5,276	-3.4%	15.0%	Majority of sales from MIMS sales
Business development	former "Elderly care: new businesses" Medical care Healthcare	1,133	8.8%	3.2%	

Source: Shared Research based on company data

Sales by segment and business (new segmentation)

(JPYmn)	FY03/17	FY03/18	FY03/19	FY03/20
Total sales	23,055	26,611	30,836	35,140
YoY	20.9%	15.4%	15.9%	14.0%
Career	13,972	16,863	20,398	23,836
YoY	-	20.7%	21.0%	16.9%
% of total sales	60.6%	63.4%	66.1%	67.8%
Elderly care career	4,025	5,836	7,974	10,618
YoY	-	45.0%	36.6%	33.2%
% of total sales	17.5%	21.9%	25.9%	30.2%
Medical care career	9,946	11,027	12,423	13,218
YoY	-	10.9%	12.7%	6.4%
% of total sales	43.1%	41.4%	40.3%	37.6%
Elderly Care Operators	2,782	3,328	3,930	4,894
YoY	-	19.6%	18.1%	24.5%
% of total sales	12.1%	12.5%	12.7%	13.9%
Overseas	4,786	5,109	5,464	5,276
YoY	-	6.7%	6.9%	-3.4%
% of total sales	20.8%	19.2%	17.7%	15.0%
Business Development	1,512	1,309	1,041	1,133
YoY	-	-13.4%	-20.5%	8.8%
% of total sales	6.6%	4.9%	3.4%	3.2%

Source: Shared Research based on company data

Sales breakdown through FY03/17 (old segments)

(JPYmn)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17
Sales	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%
Career	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%
Staffing (elderly care)	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%
Media (elderly care)	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%
Staffing (medical)	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%
Media (medical)	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%
Elderly Care	-	-	-	-	-	-	1,885	2,972	3,528
YoY	-	-	-	-	-	-	-	57.7%	18.7%
% of sales	-	-	-	-	-	-	12.5%	15.6%	15.3%
Business management support	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%
New businesses	-	-	-	-	-	-	348	421	488
YoY	-	-	-	-	-	-	-	21.1%	15.8%
% of sales	-	-	-	-	-	-	2.3%	2.2%	2.1%
Medical Care	-	-	-	-	-	-	784	652	592
YoY	-	-	-	-	-	-	-	-16.9%	-9.3%
% of sales	-	-	-	-	-	-	5.2%	3.4%	2.6%
Overseas	-	-	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%
Healthcare	-	-	-	-	-	-	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 (67.8% of FY03/20 consolidated sales)

The Career segment comprises the elderly care career and medical care career businesses. In FY03/20, the elderly care career business accounted for 30.2% of consolidated sales, and the medical care career business for 37.6%.

Career segment business portfolio

Career		
Elderly care career	Kaigo Job	Job information services and career fairs for nurses and social workers
	Kaigo Job Agent	Personnel referral services for elderly care workers
	Kaigo Job Partners	Temporary staffing services for elderly care workers
	Kaigo Job Academy	Elderly care qualification courses
	Shikatoru	Qualification courses information services
	PT/OT Personnel Bank	Personnel referral services for physical therapists, occupational therapists and speech therapists
	Care Personnel Bank	Personnel referral services for care managers
	Care-mane.com	Community for care managers
Medical care career	Nurse Personnel Bank	Personnel referral service for nurses
	Dietitian Personnel Bank	Personnel referral service for dietitians
	Radiologist Personnel Bank	Personnel referral service for radiologists
	Laboratory Technician Bank	Personnel referral service for clinical laboratory technicians
	Clinical Engineer Personnel Bank	Personnel referral service for clinical engineers
	Childcare Worker Personnel Bank	Personnel referral service for childcare workers
	WILL ONE	Referral of personnel for judo therapists and massagers
	Nurse Senka [Kyuujin 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 elderly care students
	Nurse Senka Community	Online community for nurses and nursing students
	JOB NOTE	Job board for judo therapists and massagers
	Kokushi Kurohon	Reference book on national qualifications on judo therapists and massagers
	SOL Solution	Human resources solutions

Source: Shared Research based on company data

Elderly care career (30.2% of FY03/20 Career segment sales)

As of end FY03/20, the elderly 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 (elderly 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 elderly 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 elderly care operators. In FY03/20, 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 elderly 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 elderly care workers) since FY03/17. There are about 1.98mn elderly 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 JPY3.47mn a year, according to the Ministry of Health, Labour and Welfare's 2019 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 elderly 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 2019 Basic Survey of Wage Structure, average annual income was JPY3.93mn for care managers (JPY3.85mn in 2018), and about JPY4.10mn for physical and occupational therapists (JPY4.09mn in 2018).

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 elderly 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 elderly 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 (37.6% of FY03/20 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 2019 Basic Survey of Wage Structure, the average gross annual income for nurses was JPY4.83mn (JPY4.80mn in 2018).

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. CAGR 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 80,000 job ads for nurses as of May 2020.

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.

Elderly Care Operators segment (13.9% of FY03/20 consolidated sales)

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

Kaipoke, business support platform for elderly care operators

Kaipoke provides software for elderly care insurance billing via ASP for elderly 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 elderly care services providers that use these services. This service was launched in July 2006.

Under the elderly 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. Elderly care service providers calculate the 90% amount to be invoiced to the national government based on the Elderly Care Benefit Cost Unit Table and then submit their compensation requests using the standard Detailed Receipt of Elderly Care Benefits. The Elderly 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 elderly 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 elderly care providers, on top of the software for elderly care insurance billing. The new platform offers additional functions, such as sales support, staffing support (e.g., job advertisements for recruiters for elderly care facilities), and improvement of operational efficiency including purchasing functions for workplace equipment, bank transfers to handle fees paid by users of elderly care services, and support for coordinating documentation between different workplaces. As of May 2019, the company provided over 40 services. It plans to gradually expand these going forward. Its core services are shown in the table below.

Name of service	Content
Insurance claims	Manages past and future usage of insurance claims, and utilizes related information to create nursing care insurance billing documents.
Job information services	Operates the job information service Kaigo Job (usage is free). Also provides contracted job ad creation services.
Sales support	Supports the creation of sales flyers and elderly care manager lists at customers. Allows users to create a website for no charge that automatically incorporates their registered business information.
Business improvement	Rents out one iPad device at no cost to facilitate on-site document creation.
Facility opening support	Supports the necessary procedures and preparations for facility openings, including the application specified by the Long-Term Care Insurance Act, capital procurement, property search, and research on commercial areas.
Financial improvement	Provides factoring services and helps improve cash flow.
Purchasing support	Facilitates procurement of necessary equipment for operation of elderly care facilities at affordable prices. Also provides affordable smartphone rental and other services.
M&A support	Supports the succession of elderly care facilities

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 elderly 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 elderly 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.

Shares Research estimates average user fees per month totaled about JPY23,000 in FY03/20 (+10% YoY), calculated based on the average number of member locations during the fiscal year and sales.

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 2020, there were 18,850 member locations (27,400 care facilities), equivalent to roughly 14% of the facilities that provide elderly 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	FY03/20
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Elderly care operator locations ('000)	129	135	143	153	162	172	179	186	189	192
YoY	-	4.7%	5.9%	7.0%	5.9%	6.2%	4.1%	3.9%	1.6%	1.6%
Number of member locations	-	-	-	13,600	10,400	12,000	13,500	15,050	16,800	18,850
YoY	-	-	-	-	-23.5%	15.4%	12.5%	11.5%	11.6%	12.2%
Number of member offices	4,200	7,600	13,000	17,500	13,600	15,400	-	21,400	24,250	27,400
YoY	110.0%	81.0%	71.1%	34.6%	-22.3%	13.2%	-	-	13.3%	13.0%
Share	3.3%	5.6%	9.1%	11.4%	8.4%	9.0%	-	11.5%	12.8%	14.3%
Sales (JPYmn)	110	211	406	757	1,537	2,551	3,040	3,328	3,930	4,894
YoY	26.3%	92.2%	92.2%	86.2%	103.1%	66.0%	19.2%	-	18.1%	24.5%

Source: Shared Research based on company data

Note: Number of Kaipoke elderly 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 elderly 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 (15.0% of FY03/20 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 elderly 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).

With Medica Asia as its holding company, the MIMS Group provides marketing support to medical and healthcare professionals, drug information databases to medical institutions, and career services in South Korea, China, Hong Kong, Taiwan, Singapore, Malaysia, Indonesia, Thailand, Vietnam, the Philippines, Myanmar, India, Australia, New Zealand, the UAE, and Ireland. Registered healthcare professional users in these regions have reached 2.7mn. In Singapore and Hong Kong, over 90% of doctors are registered users of the MIMS Group. Registered healthcare professional users in these regions have reached 2.7mn (including 500,000 doctors). In Singapore and Hong Kong, over 90% of doctors are registered users of the MIMS Group.

The MIMS Group operates the existing MIMS businesses (chiefly Pharma Marketing and Healthcare Data) and the Global Career business.

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.

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.

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, the company made MSR (a nurse referral company in the Philippines) and CCM (a company that refers healthcare professionals from Europe and Oceania to medical institutions in the Middle East) subsidiaries in May 2018 and August 2019, respectively.

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 FY03/20, the MIMS Group delivered the bulk of the earnings in the Overseas segment. Shared Research estimates the Overseas segment contributed sales of JPY5.3bn (-3.4% YoY) and booked a loss.

Group companies

As of May 2020, 46 companies were included in consolidated earnings: the parent company, 43 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 elderly 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	FY03/20
(JPYmn)	Act.	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	15,388
YoY	-	52.9%	47.6%	42.0%	24.3%	21.2%	24.6%	26.1%	26.0%	12.2%
Recurring profit	177	437	749	1,070	1,714	2,292	2,554	2,871	3,847	4,125
YoY	-	146.9%	71.4%	42.9%	60.2%	33.7%	11.4%	12.4%	34.0%	7.2%

Source: Shared Research based on M3 Career Inc. data

Strengths and weaknesses

Strengths

- **Strong market share in medical and elderly 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 elderly 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 job seekers 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 elderly care markets, which are expected to grow as Japan's demographics continue to age. As of May 2020, 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 elderly 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 elderly 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 elderly care providers, management predicted that regional elderly 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 elderly 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 JPY5.3bn (-3.4% YoY) in FY03/20, and appears to have posted a loss.

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.

Elderly 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 35.9mn as of October 2019 (+0.9% YoY). At 28.4% of the total population (28.1% 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	0.1%	0.0%	-0.2%	-0.3%	-0.4%	-0.6%	-0.7%	-0.8%
Population aged 65 or older	25.7	29.5	33.9	36.2	36.8	37.2	37.8	39.2
5-year CAGR	3.1%	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	1.6%	1.7%	2.8%	-0.1%	-3.0%	-0.9%	1.3%	2.0%
75 or older	11.6	14.2	16.3	18.7	21.8	22.9	22.6	22.4
5-year CAGR	5.2%	4.1%	2.8%	2.8%	3.1%	1.0%	-0.3%	-0.2%

Source: Population Census, Ministry of Internal Affairs and Communications

Note: April 2019 Population Projections for Japan, National Institute of Population and Social Security Research

As of March 31, 2019, people recognized as needing long-term elderly care reached 6.58mn. Of them, 5.56mn people or more than 80% of the total, used services provided by elderly care insurance.

In the past 10 years, population aged 65 and above increased at a CAGR of 2.2%. In this period, people needing long-term elderly care increased at a CAGR of 3.5% and people using insured long-term care service increased at a CAGR of 3.8%, which exceeded the growth rate of elderly population. This is because over 80% of people needing long-term elderly 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 elderly care and population covered by elderly care insurance (at end of March; unit: 10,000 people)

(mn)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Population (aged 65 or older)	29.48	29.75	30.79	31.90	33.00	33.87	34.59	35.15	35.58	35.89
YoY	1.7%	0.9%	3.5%	3.6%	3.5%	2.6%	2.1%	1.6%	1.2%	0.9%
People certified for long-term care need	4.85	5.06	5.30	5.61	5.84	6.06	6.20	6.32	6.41	6.58
YoY	3.7%	4.4%	4.8%	5.8%	4.0%	3.8%	2.4%	1.9%	1.5%	2.6%
% of population aged 65 or older	16.4%	17.0%	17.2%	17.6%	17.7%	17.9%	17.9%	18.0%	18.0%	18.3%
Certified people aged 75 or older	4.05	4.26	4.49	4.77	4.97	5.17	5.31	5.44	5.55	5.72
YoY	4.4%	5.2%	5.4%	6.2%	4.1%	4.0%	2.9%	2.4%	1.9%	3.2%
% of total people certified	83.6%	84.3%	84.7%	85.0%	85.1%	85.3%	85.6%	86.1%	86.5%	86.9%
Service recipients	3.97	4.18	4.40	4.64	4.87	5.07	5.24	5.61	5.44	5.56
YoY	4.5%	5.1%	5.3%	5.4%	4.9%	4.2%	3.4%	7.0%	-3.0%	2.1%
Recipients as % of certified people	81.9%	82.5%	83.0%	82.7%	83.3%	83.7%	84.5%	88.8%	84.9%	84.4%
In-home services	2.89	3.06	3.24	3.42	3.61	3.78	3.91	3.89	3.67	3.75
YoY	5.1%	6.0%	5.7%	5.7%	5.5%	4.6%	3.6%	-0.6%	-5.5%	2.1%
Community services	0.25	0.27	0.30	0.34	0.36	0.39	0.42	0.80	0.84	0.86
YoY	10.1%	10.3%	11.3%	11.0%	7.0%	8.9%	6.3%	92.7%	4.4%	3.2%
Institution services	0.84	0.84	0.86	0.88	0.90	0.90	0.92	0.92	0.93	0.94
YoY	1.0%	0.6%	2.0%	2.4%	1.9%	0.7%	1.5%	0.9%	0.8%	1.2%

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 elderly care and population using insured long-term care service are compiled every March.

Monetary value of elderly care insurance costs

With the ageing of Japan's population, the number of people making use of elderly care insurance services rose to about 5.6mn in March 2019 from about 1.5mn in April 2000, according to the Ministry of Health, Labour and Welfare. This increased elderly care benefit expenses every year from JPY3.6tn in 2000, JPY9.2tn in 2013, and JPY11.7tn in 2019. According to an MHLW estimate ("Outlook and future prospects of the Japanese social security system 2040"), elderly care insurance costs will rise to about JPY24.6tn in 2040, based on mechanical projections from current conditions.

Trends among elderly care professionals

In 2000, when the elderly care insurance system was introduced, there were 550,000 elderly care workers in Japan. As more people became aware of the elderly 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 elderly 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 elderly care field by 50%.

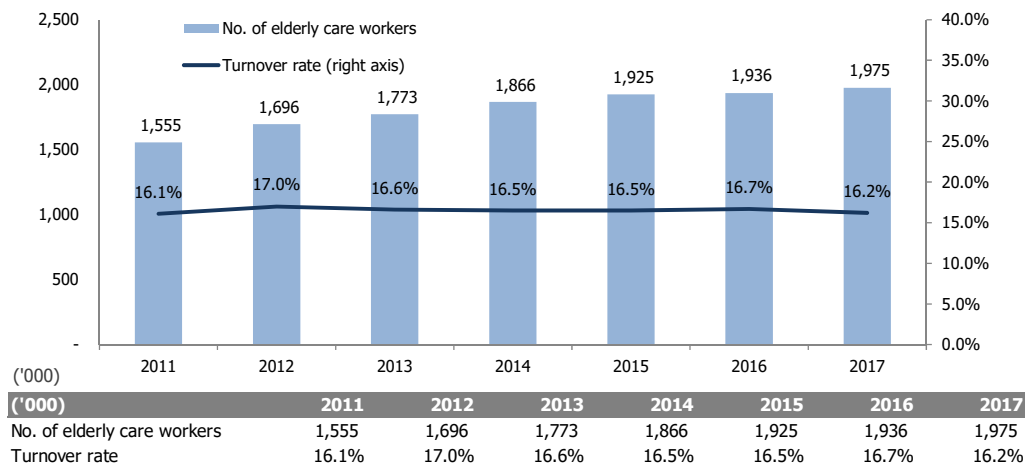
Elderly care workers statistics and outlook ('000 people)

(000 people)	2000	2012	2015	2025
Elderly 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 elderly care workers and turnover ratio that largely affect the number of elderly care workers who change jobs, according to the company, the number of care workers increased at a CAGR of 4% in the past seven years and turnover ratio fluctuated between 16.0% and 17.0%.

Number of elderly 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.

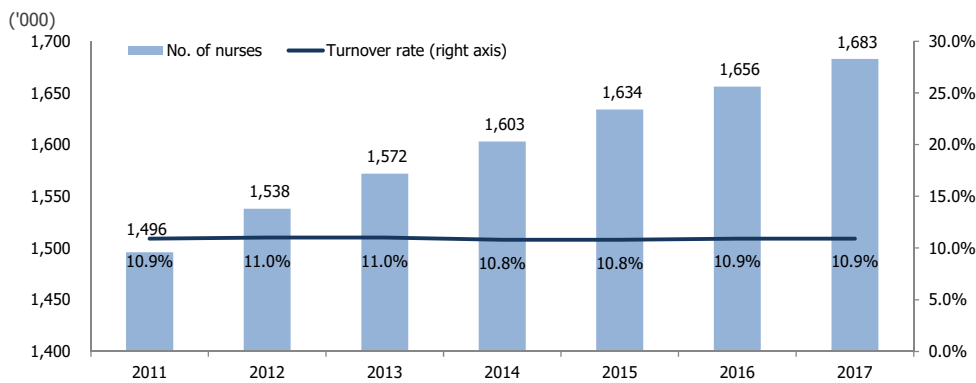
Number of nurses in service and jobs-to-applicants ratio

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Nurses in service ('000)	1,470	1,496	1,538	1,572	1,603	1,634	1,660	1,683	-	-
YoY	2.6%	1.7%	2.8%	2.2%	2.0%	1.9%	1.6%	1.4%	-	-
Jobs-to-applicants ratio (public health nurses, midwives, nurses)	2.7	3.0	3.1	3.0	2.9	2.8	2.7	2.6	2.5	2.5
Jobs-to-applicants ratio (all occupations)	0.4	0.5	0.6	0.7	0.9	1.0	1.1	1.3	1.4	1.4

Source: Shared Research based on Japanese Nursing Association (number of nurses in service) and Ministry of Health, Labour and Welfare (jobs-to-applicants ratio)

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 a CAGR 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 2018 were JPY42.6tn (+0.8% 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 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 FY03/20, 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 elderly care providers

Kaipoke—business support platform for elderly care providers—provides the service for elderly care insurance billing and other services, such as support for enhancing operational efficiency and for sales and recruitment. Main competitors in the elderly care insurance billing service are ND Software Co., Ltd. (TSE2: 3794, delisted in June 2019 following MBO), WISEMAN Co., Ltd. (JASDAQ: 3752. The stock was delisted in January 2014 as a result of a management buyout in 2013), and Kanamic Network Co. Ltd. (TSE1: 3939).

Strategy

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: elderly 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 elderly care workers, for business operators, hospitals and elderly care facilities, and for users, hospital inpatients/outpatients and senior citizens receiving elderly 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

1H FY03/21 results

- ▷ Sales: JPY18.6bn (+5.7% YoY)
- ▷ Operating profit: JPY2.9bn (+42.2% YoY)
- ▷ Recurring profit: JPY3.9bn (+23.5% YoY)
- ▷ Net income*: JPY2.8bn (+19.7% YoY)

*Net income attributable to owners of the parent

Sales increased YoY primarily thanks to business expansion in the Career segment and a rise in the number of Kaipoke members in the Elderly Care Operators segment. In Q1 (April–June 2020), sales were JPY10.5bn (+12.4% YoY), and sales in Q2 (July–September 2020) came to JPY8.1bn (-1.8% YoY).

- ▷ In Q1, the company recorded sales from successful recruitment matches made during Q4 FY03/20 in the Career segment. Meanwhile, sales were strong in the Elderly Care Operators segment, which was nearly unaffected by the spread of the COVID-19.
- ▷ Sales fell YoY in Q2 as the Career segment and Overseas segment incurred impact from the COVID-19 pandemic.

During 1H, the COVID-19 pandemic held back sales by about JPY2.0bn. The pandemic had negative impacts on sales of about JPY1.2bn in the Career segment (downward impact of about JPY500mn on elderly care career sales and approximately JPY700mn on medical care career sales), roughly JPY700mn in the Overseas segment, and around JPY100mn in the Elderly Care Operators segment and the New Business segment. The 1H impact of the pandemic was consistent with the company's projections. The company's full-year forecast for FY03/21 assumed that impact from the pandemic's spread would abate by September 2020. However, as of November 2020, the pandemic was still affecting earnings, delaying recovery in recruitment of nurses and other professionals in the Career segment and giving rise to travel restrictions and other obstacles in the Overseas segment.

Gross profit was JPY16.8bn (+6.2% YoY). SG&A expenses were only JPY13.9bn (+0.8% YoY) because of a decline in recruitment expenses as the cut back on hiring. As a result, the company recorded double-digit growth on all profit lines.

1H sales achieved 49.8% of the full-year forecast (in 1H FY03/20, progress was 50.2% of eventual full-year results), while operating profit reached 58.7% (42.0%), recurring profit 59.6% (49.1%), and net income 58.0% (48.7%). Sales and results on all profit lines exceeded the company's projections in 1H. However, the conclusion of the COVID-19 pandemic has not occurred as early as the company assumed, so results have apparently been consistent with the company's full-year projections overall.

Impact of COVID-19 by segment

Segment	1H conditions	2H forecast and planned response
Elderly Care Career	<ul style="list-style-type: none"> ▷ Recruiting Agent service (RAG) matching activities have been recovering more slowly than expected since impact from the COVID-19 pandemic peaked during May–June 2020. 	<ul style="list-style-type: none"> ▷ COVID-19 will continue to have an impact for the time being. ▷ Cultivate new job orders from elderly care operators who are less affected by the pandemic
Medical Care Career	<ul style="list-style-type: none"> ▷ Recruiting Agent service (RAG) matching activities have been recovering more slowly than expected since impact from the COVID-19 pandemic peaked during May–June 2020. 	<ul style="list-style-type: none"> ▷ COVID-19 will continue to have an impact for the time being. ▷ Cultivate new job orders from hospitals and clinics that are less affected by the pandemic and promote transition from on-site job fairs to online job fairs
Kaipoke	<ul style="list-style-type: none"> ▷ As projected 	<ul style="list-style-type: none"> ▷ Impact from COVID-19 will be limited. ▷ Promote new member acquisition through web marketing and online seminars

Overseas	<ul style="list-style-type: none"> ➤ As projected 	<ul style="list-style-type: none"> ➤ COVID-19's impact on the pharma marketing business will continue to be consistent with initial projections ➤ Promote digital services such as online events and eDMs, taking advantage of opportunities created by the shift toward digital technology amid the COVID-19 pandemic ➤ The global career business will continue to incur impact from October onward due to travel restrictions
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Career

Sales: JPY13.4bn (+4.9% YoY)

- Elderly care career: JPY6.0bn (+10.4% YoY)
- Medical care career: JPY7.4bn (+0.8% YoY)

Elderly care career

In the elderly care career business, staffing services sales expanded, driving growth in the Career segment. The COVID-19 pandemic had a negative impact of about JPY500mn on sales, causing obstacles such as matching delays within staffing services. According to the company, long-term demand for care workers has not changed and any effect on business performance will be limited to impact associated decrease in job orders from elderly care operators who incurred temporary operational impact from the pandemic. In Q1, sales were JPY3.4bn (+22.5% YoY) and sales in Q2 were JPY2.6bn (+1.1% YoY).

- ▷ The company recorded a double-digit YoY increase in Q1 segment sales thanks to its recording of sales generated from successful matches produced by staffing services during Q4 FY03/20 and contribution from career partners added in FY03/20. The COVID-19 pandemic had a negative impact of about JPY200mn on sales.
- ▷ In Q2, the company recorded sales from successful matches achieved during Q1, and the company achieved a YoY increase in sales despite a negative impact of about JPY300mn from the COVID-19 pandemic. The company launched successful efforts aimed at adjusting its sales structure in Q3 FY03/20 and was able to reduce the pandemic's impact on business performance. In 1H FY03/20, the company encountered a temporary decline in the productivity of its career partners. As a countermeasure, it strengthened its management of job applicant attributes (years of experience, qualifications, willingness to change occupation, etc.) and job offer requirements while defining smaller areas of responsibility for region-specific management of job offer acceptance. As a result, the company was able to strengthen sales in areas with relatively abundant opportunity for market share improvement and successfully curbed decreases in the number of job offers accepted in 1H FY03/21. During the same period, the company also adjusted PR methods for applicants responding to job offers that have not been filled for a certain period of time and strengthened sales targeting elderly care operators that have maintained their demand for home-visit care workers and other human resources.

SMS began providing its staffing services for care workers in earnest in FY03/17 and had traditionally focused on raising its number of career partners. At the start of FY03/21, the business impact of the COVID-19 pandemic was uncertain, so the company cut back on hiring. However, the company is currently targeting growth in FY03/22 and onward as it hires at a faster pace than it had initially projected.

There are about 2.0mn elderly care workers in Japan, out of which roughly 380,000 change jobs each year, according to the company. Assuming that 10% of these people use staffing services, the market can be estimated at 40,000 potential customers over the medium term, making it equivalent in size to that of staffing services for nurses. Workers at care facilities earn an average of JPY3.47mn a year, according to the Ministry of Health, Labour and Welfare's 2019 Basic Survey of Wage Structure. Assuming

that commissions for staffing services are between 20% and 30% of the worker's annual wages, the market is worth between JPY25.0bn and JPY40.0bn in the medium term.

Medical care career

The Nurse Personnel Bank, a staffing service for nurses, performed well. In 1H FY03/21, the COVID-19 pandemic had a negative impact of about JPY700mn on sales. Demand for radiological technicians and clinical engineers was favorable while demand for nurses and other human resources decreased. According to the company, nurse recruitment is rebounding more slowly than expected due to a decline in outpatient visits to medical institutions caused by the COVID-19 pandemic and deterioration in the financial performance of clinics and other small- to medium-sized medical facilities. The company plans to strengthen its acquisition of job offers from home-visit nursing stations and other medical facilities with relatively robust hiring interest.

In Q1, sales were JPY4.7bn (+7.5% YoY), and sales in Q2 amounted to JPY2.7bn (-9.0% YoY).

- ▷ Sales in Q1 increased YoY because the company recorded sales from successful matches achieved during the previous quarter and received contribution from career partners added during FY03/20.
- ▷ In Q2, sales declined YoY due the aforementioned delays impacting recovery in terms of recruitment.

As was the case in the elderly care career business, the company cut back on hiring at the beginning of FY03/21 due to uncertainty surrounding the potential impact of the COVID-19 pandemic. Currently, the company is aiming for growth in FY03/22 and onward as it hires at a faster pace than it initially projected.

Elderly Care Operators

Sales: JPY2.8bn (+21.6% YoY)

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

As of October 1, 2020, Kaipoke had 19,950 member locations (+2,100 versus October 1, 2019) and 29,150 elderly care facilities (+3,300).

Member locations are counted by physical location, while offices are counted by the type of elderly 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. Kaipoke charges fees per location rather than per office.

Overseas

Sales: JPY1.9bn (-7.9% YoY)

The Overseas segment consists of the existing MIMS Group (Pharma Marketing and Healthcare Data) and Global Career businesses. The MIMS Group's income statement is reflected in consolidated results with a three-month lag. As a result, the COVID-19 pandemic had a negative impact of about JPY700mn on 1H sales. Within existing MIMS Group businesses, cancellations of pharmaceutical company events and other disadvantageous circumstances impacted results in China starting in January, and results in Singapore and Hong Kong starting in February. The Global Career business was not affected by travel restrictions during January–February 2020 but began to incur impact in March.

Sales fell due to impact from the COVID-19 pandemic but exceeded the company's projections due to favorable sales generated by cross-selling focused on online events and other services that was conducted through existing MIMS Group businesses. In Q1, sales were JPY826mn (+2.4% YoY), and sales in Q2 amounted to JPY1.1bn (-14.5% YoY).

- ▷ Sales in Q1 rose YoY. Two primary factors contributed to the increase in sales: The first was the dissolution of temporary impact from the March 2019 reorganization of Medilabs (a company providing career-related services for nurses in South Korea), which placed Medilabs underneath the umbrella of the MIMS Group and altered the period during which its business results are consolidated. The second was contribution from CCM, which became a subsidiary in August 2019 and introduces medical professionals from Europe and Oceania to medical institutions in the Middle East. If not for these two factors, sales would have declined YoY.
- ▷ Sales in Q2 declined YoY. As projected, cross-border introductions within the Global Career business generated nearly no sales due to travel restrictions and other factors. Obstacles such as event cancellations and postponements in the Pharma Marketing business brought down sales, but sales did turn out higher than the company had projected as it ramped up its online event services and performed cross-selling involving essay preparation, the publication of medical articles in journals, and the distribution of these articles through digital media. As can be seen from these results, adjustments the company made to its sales structure in FY03/20 with the goal of strengthening its cross-selling proved successful.

Business Development

Sales: JPY557mn (+11.2% YoY)

The company proceeded with the development and promotion of new businesses, focusing on the provision of remote specific health guidance and occupational healthcare utilizing ICT in the healthcare area, and on information services centered on meal catering for the elderly and on home renovation in the senior life space.

Q1 FY03/21 results

- ▷ Sales: JPY10.5bn (+12.4% YoY)
- ▷ Operating profit: JPY2.2bn (+55.6% YoY)
- ▷ Recurring profit: JPY3.0bn (+30.0% YoY)
- ▷ Net income*: JPY2.2bn (+22.3% YoY)

*Net income attributable to owners of the parent

Sales increased YoY primarily thanks to business expansion in the Career segment and a rise in the number of Kaipoke members in the Elderly Care Operators segment. The company recorded sales from successful recruitment matches made during Q4 FY03/20 in the Career segment. Meanwhile, sales were strong in the Elderly Care Operators segment, which was nearly unaffected by the spread of the COVID-19. Operating profit increased YoY due to restrictions on the hiring of new personnel and other measures. Higher gross profit accompanied sales growth, despite a rise in SG&A expenses. The spread of COVID-19 had an impact on business progress, primarily in the Career and Overseas segments, but the company maintains that this impact was generally in line with its expectations.

Sales in Q1 FY03/21 achieved 28.2% of the full-year forecast (versus 26.7% of full-year results in Q1 FY03/20), while operating profit reached 44.4% (29.0%), recurring profit 46.7% (36.5%), and net income 46.0% (37.8%). Progress versus forecast was higher YoY for sales and all profit lines, but apparently was mostly in accordance with expectations. The number of successful recruitment matches in the Career segment was in line with projections, but the company recorded more sales from successful matches in Q1 than it had anticipated. Meanwhile, costs were slightly higher than forecast.

The company expects Q2 performance to be temporarily sluggish. The total amount of time required for the job seeker who is successfully matched through the staffing services in the Career segment to join his or her company, and for SMS to record corresponding sales, varies depending on business type and the time of the matching, but is typically one to three months. The spread of COVID-19 limited sales activities within the Career segment in Q1, and recruitment matchings were sluggish as a result.

SMS projects that the slowdown in matchings will be reflected in Q2 results. It believes that matchings reached a nadir sometime in May or June 2020 and are currently in a recovery phase.

Career

Sales: JPY8.1bn (+12.0% YoY)

- Elderly care career: JPY3.4bn (+18.8% YoY)
- Medical care career: JPY4.7bn (+7.5% YoY)

Elderly care career

In the elderly care career business, staffing services sales expanded, driving growth in the Career segment. Sales from the staffing services received a boost from the recording of sales from matches that were completed in Q4 FY03/20 and contribution from career partners added in FY03/20. In Q1 FY03/21, factors such as stagnation in the number of matches made through the staffing services amid the COVID-19 outbreak held back sales by about JPY200mn. If not for this impact, sales in the elderly care career business would have been up 26–27% YoY. The company indicates that the level of demand for care workers remains unchanged and matching numbers are currently recovering in line with its forecast.

Growth in the elderly care career business was driven by Kaigo Job Agent, a staffing service for elderly care workers. SMS began providing its staffing services for care workers in earnest in FY03/17 and had traditionally focused on raising its number of career partners. However, the company cut back on its recruitment of career partners in Q1.

There are about 2.0mn elderly care workers in Japan, out of which roughly 380,000 change jobs each year, according to the company. Assuming that 10% of these people use staffing services, the market can be estimated at 40,000 potential customers over the medium term, making it equivalent in size to that of staffing services for nurses. Workers at care facilities earn an average of JPY3.47mn a year, according to the Ministry of Health, Labour and Welfare's 2019 Basic Survey of Wage Structure. Assuming that commissions for staffing services are between 20% and 30% of the worker's annual wages, the market is worth between JPY25.0bn and JPY40.0bn in the medium term.

Medical care career

The Nurse Personnel Bank, a staffing service for nurses, performed well. Sales in the medical care career business received a boost from the recording of sales from matches completed in Q4 FY03/20 and contribution from career partners added in FY03/20. The spread of COVID-19 caused interviews and other procedures at hospitals and clinics to be postponed, resulting in stagnation in recruitment matches during Q1. Despite this sluggishness, the company indicates that matches reached a nadir in May or June 2020 and entered a recovery phase afterward. The company notes, however, that this recovery was slower than it expected. According to SMS, the spread of COVID-19 has caused a decrease in outpatient numbers, leading to a decline in business performance at clinics and other small and medium-sized medical institutions. The company maintains that this downward trend has led to a decrease in manpower demand for nurses. Starting in Q2, the company plans to strengthen its acquisition of job orders from home-visit nursing stations and other organizations where manpower demand has not declined.

Elderly Care Operators

Sales: JPY1.4bn (+22.5% YoY)

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 anticipated in the company's full-year forecast, the spread of COVID-19 had nearly no impact on results in Q1.

As of July 1, 2020, Kaipoke had 19,300 member locations (+450 versus March 31, 2020) and 28,200 elderly care facilities (+800 versus March 31, 2020).

Member locations are counted by physical location, while offices are counted by the type of elderly 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. Kaipoke charges fees per location rather than per office.

Overseas

Sales: JPY826mn (+2.4% YoY)

The Overseas segment consists of the existing MIMS Group (Pharma Marketing and Healthcare Data) and Global Career businesses. The MIMS Group's income statement is reflected in consolidated results with a three-month lag. For this reason, the spread of COVID-19 had an impact on existing MIMS Group businesses in Q1, as cancellations of pharmaceutical company events and other disadvantageous circumstances affected results in China starting in January, and in Shanghai and Hong Kong starting in February. Travel restrictions were implemented in the Global Career business, but, generally speaking, they only had an impact during March 2020.

Sales rose YoY, despite impact from the spread of COVID-19. Two primary factors contributed to the increase in sales: The first was the dissolution of temporary impact from the March 2019 reorganization of Medilabs (a company providing career-related services for nurses in South Korea), which placed Medilabs underneath the umbrella of the MIMS Group and altered the period during which its business results are consolidated. The second was contribution from CCM, which became a subsidiary in August 2019 and introduces medical professionals from Europe and Oceania to medical institutions in the Middle East. If not for these two factors, sales would have declined YoY.

- ▷ In March 2019, Medilabs (formerly Senior Marketing System Korea) became a subsidiary of MIMS. Since MIMS Group's income statement is reflected in consolidated results after a three-month delay, Medilabs' results were not reflected in Q1 FY03/20 results (reflected from Q2 FY03/20).
- ▷ In August 2019, CCM (headquartered in Ireland), a recruitment service for healthcare professionals from Europe and Oceania taking jobs in hospitals in the Middle East, became a subsidiary. CCM's annual sales are less than JPY300mn, and the company commented that CCM's contribution to profit is negligible after goodwill amortization.

Business Development

Sales were JPY261mn (+11.1% YoY).

The company proceeded with the development and promotion of new businesses, focusing on the provision of remote specific health guidance and occupational healthcare utilizing ICT in the healthcare area, and on information services centered on meal catering for the elderly and on home renovation in the senior life space.

Full-year FY03/20 results

- ▷ Sales: JPY35.1bn (+14.0% YoY)
- ▷ Operating profit: JPY4.9bn (+4.0% YoY)
- ▷ Recurring profit: JPY6.4bn (+6.3% YoY)
- ▷ Net income*: JPY4.8bn (+12.9% YoY)

*Net income attributable to owners of the parent

- ▷ Sales were up YoY on expansion in career-related businesses and an increase in Kaipoke members.
- ▷ All profit items from the operating profit line down increased YoY. Higher SG&A expenses were offset by an increase in gross profit driven by sales growth. SG&A expenses totaled JPY26.2bn (+15.9% YoY). Quarterly SG&A expenses came to JPY7.1bn in Q1 (April–June 2019; +21.2% YoY), JPY6.6bn in Q2 (+19.0% YoY), JPY6.6bn in Q3 (+14.3% YoY), and JPY5.8bn in Q4 (+8.8% YoY). SG&A expenses fell below JPY6.0bn in Q4 due to cuts in advertising expenses amid the spread of COVID-19.

Sales reached 93.6% of the full-year FY03/20 company forecast, operating profit 87.8%, recurring profit 92.7%, and net income attributable to owners of the parent 94.0%. Sales and all profit lines missed their respective targets, due mainly to impact of the spread of COVID-19 in Q4 (January–March 2020), which pushed down sales by roughly JPY350mn and operating profit by roughly JPY250mn. The Career segment was affected by cancellations of recruiting events and a temporary suspension of job interviews at some staffing service offices due to the spread of COVID-19.

Career

Sales: JPY10.6bn (+16.9% YoY)

- Elderly care career: JPY10.6bn (+33.2% YoY)
- Medical care career: JPY13.2bn (+6.4% YoY)

Elderly care career

In the elderly care career business, staffing services sales expanded due to an increase in career partners, and this drove growth in the Career segment. In Q4 (January–March 2020), the spread of COVID-19 had a JPY150mn negative impact on sales as the cancellation of job fairs for elderly care workers led to a decline in fee revenue from participating companies, and because some staffing service offices temporarily suspended job interviews.

Growth in the business was also supported by an increase in career partners for Kaigo Job Agent, a staffing service for elderly care workers. The company launched its staffing services for elderly care workers in earnest in FY03/17, and it focused on increasing career partners in FY03/20.

Quarterly sales came to JPY2.9bn in Q1 (April–June 2019; +22.5% YoY), JPY2.6bn in Q2 (+41.3% YoY), JPY2.3bn in Q3 (+23.6% YoY), and JPY2.9bn in Q4 (+25.1% YoY).

In Q3, sales dropped below JPY2.5bn as staffing services for elderly care workers and the company's job information site for elderly care workers were lackluster for the reasons outlined below. Despite the aforementioned impact of the spread of COVID-19, sales recovered to above JPY2.5bn in Q4 as measures carried out by the company proved successful.

- ▷ Staffing services for elderly care workers in Q3: The company launched Kaigo Job Agent—its staffing service for elderly care workers—in earnest in FY03/17. Since then, it has achieved rapid earnings growth by increasing career partners, expanding sales areas, and growing the number of job seekers. In Q3, the total number of job seekers remained in an uptrend, but the productivity of career partners did not improve as expected mainly due to a mismatch between job seeker attributes (experience, qualifications, willingness to switch jobs) and recruitment requirements of elderly care operators. The company switched to a system under which career partners are optimally placed based on job opening and applicant conditions in each sales area. It also sought to identify job seeker profiles that are easier to match, and aimed to improve the quality of attracting customers. As a result, the order-based productivity of career partners recovered to forecast levels in January 2020, and surpassed expectations in February 2020.
- ▷ Job information site for elderly care workers in Q3: The company revamped its Kaigo Job information site for elderly care workers in September 2019. Although it had anticipated a decline in website traffic following the renewal, the number of visitors from September 2019 fell below its expectations. The application rate (rate of applicants to website visitors) also declined. The company has been strengthening search engine optimization (SEO), user interface (UI), and user experience (UX) improvement efforts for the site, and continued to implement measures to boost traffic as of May 2020.

Search Engine Optimization (SEO): The process of adjusting the structure or content of a website to ensure higher rankings in search engine results.
 User interface (UI): The product or service interface with which users interact. It includes design elements and fonts displayed on a PC or smartphone.
 User experience (UX): The experience gained by a user from a product or service. It includes the quality of experience or service gained from a UI.

There are about 2.0mn elderly care workers in Japan, out of which roughly 380,000 change jobs each year, according to the company. Assuming that 10% of these people use staffing services, the market can be estimated at 40,000 potential customers over the medium term, making it equivalent in size to that of staffing services for nurses. Workers at care facilities earn an average of JPY3.47mn a year, according to the Ministry of Health, Labour and Welfare's 2019 Basic Survey of Wage Structure. Assuming that commissions for staffing services are between 20% and 30% of the worker's annual wages, the market is worth between JPY25.0bn and JPY40.0bn in the medium term.

Medical care career

The Nurse Personnel Bank staffing service for nurses performed well, staffing services for dieticians, judo-orthopedists, masseuses, acupuncturists, and moxibustion therapists grew, and the Childcare Personnel Bank staffing service for childcare workers—which was launched in October 2018—steadily got off the ground. In Q4 (January–March 2020), the spread of COVID-19 had a JPY200mn negative impact on sales. This reflected a decline in fee revenue from job fair participating companies as joint company information sessions for nursing students were cancelled, and job interviews were temporarily suspended at some staffing service offices.

Elderly Care Operators

Sales: JPY4.9bn (+24.5% 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. Of the add-on services, the smartphone rental service “Kaipoke Mobile” (launched February 2018) drove sales growth. Kaipoke Mobile subscriptions stood at about 5,000 in April 2019 but grew to over 10,000 as of March 2020.

Kaipoke Mobile rents toll-free smartphones to elderly care facility operators for a monthly fee of JPY2,500 for Kaipoke members and JPY3,000 for non-members. SMS notes demand is strong because personal mobile devices are generally prohibited in accordance with Guidelines for the Secure Management of Medical Information Systems published by MHLW in 2017. SMS is able to reduce costs and generate a profit by getting orders from businesses and procuring large volumes.

As of April 1, 2020, Kaipoke had 18,850 member locations (+2,050 versus end FY03/19) and 27,400 nursing care facilities (+3,150 versus end FY03/19).

Member locations are counted by physical location, while offices are counted by the type of elderly 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. Kaipoke charges fees per location rather than per office.

Overseas

Sales: JPY5.3bn (-3.4% YoY)

The Overseas segment consists of the existing MIMS Group (Pharma Marketing and Healthcare Data) and Global Career businesses. The MIMS Group accounts for around 90% of segment sales and the Global Career business for over 10%. Since the MIMS Group's income statement is reflected in consolidated results with a three-month lag, the impact of the spread of COVID-19 on overseas operations was not seen in consolidated earnings for Q4 FY03/20 (January–March 2020).

Sales for existing MIMS Group and Global Career businesses declined. Additionally, the yen appreciated against other currencies, resulting in about a JPY150mn decline in sales.

- ▷ Sales declined YoY for the existing MIMS Group business due to the Hong Kong protests and unfavorable exchange rates. According to the company, excluding the roughly JPY200mn negative impact from fluctuations in exchange rates, sales were in line with cumulative Q3 FY03/19.

- ▷ Sales in the Global Career business were down a total of JPY150mn YoY due to (1) a change in the timing of consolidation of Medilabs (which develops career services for nurses in Korea), (2) a longer procedure required to complete travel formalities for Malaysian healthcare professionals employed in Saudi Arabia, and (3) ongoing yen appreciation. Excluding the impact of these factors, Global Career sales grew over 20% YoY, according to the company.
- ▷ In March 2019, Medilabs (formerly Senior Marketing System Korea) became a subsidiary of MIMS. Since MIMS Group's income statement is reflected in consolidated results after a three-month delay, Medilabs' results were not reflected in Q1 results (reflected from Q2). The time required to complete travel formalities for Malaysian healthcare professionals destined for hospitals in Saudi Arabia has been extended by two to three months due to a change in visa procedures. However, progress at MIMS' existing businesses such as marketing support for medical and healthcare-related businesses and the global career business was in line with plan.
- ▷ The time required to complete travel formalities for Malaysian healthcare professionals working in Saudi Arabia (i.e., the time required from receiving an order to booking sales) increased from 6–9 months to 9–12 months due to a change in visa procedures.

In the Overseas segment, SMS has restructured its sales organization for existing MIMS Group businesses to promote cross-selling. MIMS sales staff previously specialized in distinct products and services such as medical databases, medical news, distribution of educational content, or management of industry events. Under the new organization, sales staff can cross-sell products and services in various combinations (e.g., incorporating medical news in managed industry events to attract visitors).

The global career business is being expanded to healthcare providers both inside and outside of Asia such as in Malaysia and the Philippines. In August 2019, CCM (headquartered in Ireland), a recruitment service for healthcare professionals from Europe and Oceania taking jobs in hospitals in the Middle East, became a subsidiary. Although the needs for, and salary levels of healthcare professionals in hospitals in the Middle East depends on the country where they were trained, making CCM a subsidiary enables the company to win high-value orders which were previously out of reach. The company also plans to cross-sell Asian healthcare professionals to hospital accounts in the Middle East held by CCM and pioneer markets in Europe and North America. CCM's annual sales are less than JPY300mn, of which a four-month contribution will be consolidated in FY03/20 results. The company commented that CCM's contribution to profit is negligible after goodwill amortization.

Cumulative Q3 FY03/20 results

- ▷ Sales: JPY25.3bn (+14.9% YoY)
- ▷ Operating profit: JPY2.1bn (+8.5% YoY)
- ▷ Recurring profit: JPY3.4bn (+1.4% YoY)
- ▷ Net income*: JPY2.5bn (+5.3% YoY)

*Net income attributable to owners of the parent

- ▷ Sales were up YoY on expansion in career-related businesses and an increase in Kaipoke members.
- ▷ Profit items below operating profits declined. While sales growth resulted in higher gross profits, it was more than offset by an increase in SG&A expenses. The company booked JPY20.3bn (+18.2% YoY) in SG&A expenses. The breakdown includes personnel costs of JPY9.1bn (+24.8% YoY) triggered by an increase in employee headcount to 3,036 (+23.6% YoY) as of end-Q3, and advertising expenses of JPY3.9bn (+19.9% YoY).

Q3 progress rate versus company forecasts: Compared to full-year FY03/20 forecasts, the progress rate was 67.4% for sales (Q3 FY03/19 progress versus full-year FY03/19 results was 71.4%), 37.1% for operating profit (48.1%), 49.8% for recurring profit (56.2%), and 49.7% for net income attributable to owners of the parent (56.7%). Progress rates for sales and profits lagged YoY. For the elderly care career business, sales and profits for the elderly care recruitment website and recruitment services for elderly

care operators came in below expectations. For the medical care business, sales were lower than expected, but profits were in line with forecasts.

- ▷ Elderly care recruitment website: In September 2019, the company renewed its elderly care recruitment website “Kaigo Job”. The company expected website traffic to decrease following the renewal, but website traffic after September 2019 came in lower than expectations. Additionally, the application rate (number of applicants to website visitor ratio) declined. The company is strengthening SEO, UI, and UX improvement efforts, and expects to see results starting around February 2020.
- ▷ Recruitment services for elderly care operators: In FY03/17, the company started full-scale operations of “Kaigo Job Agent”, a recruitment service for elderly care operators. Since then, it has achieved strong business growth by increasing the number of career partners, expanding sales areas, and growing the number of job seekers. Despite an increase in the total number of job seekers in cumulative Q3 FY03/20, the productivity of career partners did not improve as expected as there was a mismatch between job seeker attributes (experience, certifications, willingness to change jobs, etc.) and recruitment requirements of elderly care operators. After analyzing job seeker attributes that affect matchmaking success, the company optimally placed career partners by sales area based on the number of job seekers gathered. In January 2020, the order-based productivity of career partners gradually recovered to near-forecast levels.
- ▷ Medical care career: For the recruitment solution business, the company previously performed matchmaking services by outsourcing to other recruitment service companies, however, it started promoting the use of high-margin internal recruitment services. As a result, sales were lower than expected, but profits were in line with company forecasts.

SEO (Search Engine Optimization): The process of changing a website’s content and structure so that it is ranked higher in search engine results.

UI (User Interface): The screen where users interact with a product or service. Includes designs and fonts displayed on computers and smartphones.

UX (User Experience): The user’s experience when interacting with a product or service. Includes the user’s experience gained through the UI as well as the quality of the service itself.

Career

Sales: JPY17.6bn (+19.2% YoY)

- Elderly care career: JPY7.7bn (+36.5% YoY)
- Medical care career: JPY9.9bn (+8.6% YoY)

Elderly care career

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

Elderly care career showed strong growth through increasing its career partners for its staffing services for elderly care staff, Kaigo Job Agent. The company began offering staffing services for elderly care workers in earnest from FY03/17 and focused on increasing its career partners in cumulative Q3 FY03/20. The newly hired career partners are expected to contribute to profits from 2H onward, accelerating the pace of growth in this area.

According to SMS, roughly 380,000 of the 1.98mn elderly 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 sales were JPY9.9bn (+8.6% 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.

Elderly Care Operators

Sales: JPY3.5bn (+23.0% YoY)

In business management support, the Kaipoke management support platform for elderly 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. Of the 23.0% YoY sales increase, an increase in member locations and expanded use of add-on services contributed equally to the increase in unit prices. Of the add-on services, the smartphone rental service “Kaipoke Mobile” (launched February 2018) contributed to sales growth. Kaipoke Mobile subscriptions stood at about 5,000 in April 2019 but grew to over 9,000 as of November 2019.

Kaipoke Mobile rents toll-free smartphones to elderly care facility operators for a monthly fee of JPY2,500 for Kaipoke members and JPY3,000 for non-members. SMS notes demand is strong because personal mobile devices are generally prohibited in accordance with Guidelines for the Secure Management of Medical Information Systems published by MHLW in 2017. SMS is able to reduce costs and generate a profit by getting orders from businesses and procuring large volumes.

As of January 1, 2020, Kaipoke had 18,300 member locations (+1,500 versus end FY03/19) and 26,600 nursing care facilities.

Member locations are counted by physical location, while offices are counted by the type of elderly 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. Kaipoke charges fees per location rather than per office.

Overseas

Sales: JPY3.3bn (-6.5% YoY)

The Overseas segment consists of the existing MIMS Group (Pharma Marketing and Healthcare Data) and Global Career businesses. The MIMS Group accounts for around 90% of segment sales and the Global Career business for 10%.

Sales for existing MIMS Group and Global Career businesses declined. Additionally, the yen appreciated against other currencies, resulting in about a JPY150mn decline in sales.

- ▷ Sales declined YoY for the existing MIMS Group business due to the Hong Kong protests and unfavorable exchange rates. According to the company, excluding the impact of lower sales due to unfavorable exchange rates, sales would have been in line with cumulative Q3 FY03/19.
- ▷ Sales were down YoY in the Global Career business because of a change in the timing of consolidation of Medilabs, which develops career services for nurses in Korea, and extended period required to complete travel formalities for Malaysian healthcare professionals employed in Saudi Arabia. Excluding the impact of these two factors, Global Career sales grew by double-digits, according to the company.
- ▷ In March 2019, Medilabs (formerly Senior Marketing System Korea) became a subsidiary of MIMS. Since MIMS Group’s income statement is reflected in consolidated results after a three-month delay, Medilabs’ results were not reflected in Q1 results (reflected from Q2). The time required to complete travel formalities for Malaysian healthcare professionals destined for hospitals in Saudi Arabia has been extended by two to three months due to a change in visa procedures. However, progress at MIMS’ existing businesses such as marketing support for medical and healthcare-related businesses and the global career business was in line with plan.

- ▷ The time required to complete travel formalities for Malaysian healthcare professionals working in Saudi Arabia (i.e., the time required from receiving an order to booking sales) increased from 6–9 months to 9–12 months due to a change in visa procedures.

In the Overseas segment, SMS has come up with effective marketing strategies on the country level for existing MIMS businesses and aims to strengthen marketing support that meets the needs of customers while advancing the pharmaceutical data base business for medical institutions in Asian countries. The global career business is being expanded to healthcare providers both inside and outside of Asia such as in Malaysia and the Philippines.

In August 2019, CCM (headquartered in Ireland), a recruitment service for healthcare professionals from Europe and Oceania taking jobs in hospitals in the Middle East, became a subsidiary. Although the needs for, and salary levels of healthcare professionals in hospitals in the Middle East depends on the country where they were trained, making CCM a subsidiary enables the company to win high-value orders which were previously out of reach. The company also plans to cross-sell Asian healthcare professionals to hospital accounts in the Middle East held by CCM and pioneer markets in Europe and North America. CCM's annual sales are less than JPY300mn, of which a four-month contribution will be consolidated in FY03/20 results and a one-month contribution will be consolidated in Q3. The company commented that CCM's contribution to profit is negligible after goodwill amortization.

Income statement

Income statement (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	7,618	8,692	10,181	12,046	15,056	19,069	23,055	26,611	30,836	35,140
YoY	6.2%	14.1%	17.1%	18.3%	25.0%	26.7%	20.9%	15.4%	15.9%	14.0%
Cost of sales	319	431	700	953	1,333	2,204	3,727	3,289	3,535	4,048
Gross profit	7,299	8,261	9,481	11,094	13,724	16,865	19,328	23,322	27,301	31,091
GPM	95.8%	95.0%	93.1%	92.1%	91.1%	88.4%	83.8%	87.6%	88.5%	88.5%
SG&A expenses	5,818	6,741	7,911	9,363	11,644	14,108	15,681	19,300	22,558	26,156
SG&A ratio	76.4%	77.6%	77.7%	77.7%	77.3%	74.0%	68.0%	72.5%	73.2%	74.4%
Operating profit	1,481	1,520	1,571	1,730	2,079	2,757	3,646	4,021	4,743	4,935
YoY	17.4%	2.6%	3.3%	10.2%	20.2%	32.6%	32.3%	10.3%	18.0%	4.0%
OPM	19.4%	17.5%	15.4%	14.4%	13.8%	14.5%	15.8%	15.1%	15.4%	14.0%
Non-operating income	49	235	420	629	622	832	905	1,047	1,430	1,573
Equity in earnings of affiliates	42	116	241	310	414	782	864	950	1,352	1,486
Non-operating expenses	-	21	0	19	8	79	120	61	164	152
Recurring profit	1,530	1,735	1,990	2,340	2,693	3,510	4,431	5,007	5,979	6,355
YoY	20.8%	13.4%	14.7%	17.6%	15.1%	30.3%	26.2%	13.0%	19.4%	6.3%
RPM	20.1%	20.0%	19.5%	19.4%	17.9%	18.4%	19.2%	18.8%	19.4%	18.1%
Extraordinary gains	-	1	-	5	187	240	56	5	8	57
Extraordinary losses	38	-	34	122	55	174	192	98	453	37
Tax charges	616	731	722	853	993	1,167	1,291	1,408	1,342	1,615
Ir Implied tax rate	41.3%	42.1%	36.9%	38.4%	35.2%	32.6%	30.1%	28.7%	24.3%	25.3%
Net income attributable to non-controlling interests	-1	0	7	-9	7	144	203	145	-25	-
Net income	876	1,005	1,227	1,380	1,824	2,266	2,801	3,361	4,216	4,760
YoY	22.1%	14.7%	22.1%	12.5%	32.2%	24.2%	23.6%	20.0%	25.4%	12.9%
Net margin	11.5%	11.6%	12.1%	11.5%	12.1%	11.9%	12.1%	12.6%	13.7%	13.5%

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 owners of the parent from FY03/16.

SMS maintained double-digit sales growth over the past 10 years and we list the main variable factors below.

- ▷ The primary driver of sales growth in FY03/10–FY03/12 within the Career segment was elderly care staffing services.
- ▷ In FY03/13–FY03/15, sales of elderly care staffing services continued to expand while rising sales in other areas of the Career segment such as medical care media and elderly care media began to contribute to earnings. Another contributor to earnings from FY03/15 was the October 2014 hike (2–6 times) in monthly Kaipoke fees in the Elderly Care Operators segment.
- ▷ In FY03/16–FY03/17, the October 2015 consolidation of the MIMS Group boosted sales, as did the Career segment and the Elderly Care Operators segment.
- ▷ Staffing services for elderly care professionals within the Career segment has been a growth driver boosting sales since FY03/18. Sales have also been rising across all other segments.

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.

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.

Non-operating income trends

Non-operating income (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Non-operating income	49	235	420	629	622	832	905	1,047	1,430	1,573
YoY	945.1%	377.4%	78.5%	49.8%	-1.1%	33.8%	8.7%	15.7%	36.6%	10.0%
Equity in earnings of affiliates	42	116	241	310	414	782	864	950	1,352	1,486
YoY	-	177.4%	107.4%	28.5%	33.5%	89.0%	10.5%	10.0%	42.3%	9.9%
Interest income	1	2	2	2	5	11	10	8	11	24
YoY	-71.3%	134.1%	55.0%	-33.3%	230.0%	101.8%	-10.2%	-18.2%	37.5%	118.2%
Consulting income	3	85	116	273	158	-	-	-	-	-
YoY	19.8%	-	36.3%	136.0%	-42.1%	-	-	-	-	-

Source: Shared Research based on company data

*Consulting income is revenues derived from the management guidance agreement with M3 Career, Inc.

Differences between company's past projections and actual results

Results vs. Initial Est. (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales (Initial Est.)	8,977	8,242	10,991	12,475	15,553	18,881	24,051	27,804	32,273	37,557
Sales (Results)	7,618	8,692	10,181	12,046	15,056	19,069	23,055	26,611	30,836	35,140
Results vs. Initial Est.	-15.1%	5.5%	-7.4%	-3.4%	-3.2%	1.0%	-4.1%	-4.3%	-4.5%	-6.4%
Operating profit (Initial Est.)	1,724	1,575	1,758	1,780	1,904	2,702	3,432	4,378	4,827	5,623
Operating profit (Results)	1,481	1,520	1,571	1,730	2,079	2,757	3,646	4,021	4,743	4,935
Results vs. Initial Est.	-14.1%	-3.5%	-10.7%	-2.8%	9.2%	2.0%	6.2%	-8.2%	-1.7%	-12.2%
Recurring profit (Initial Est.)	1,740	1,635	2,056	2,263	2,549	3,403	4,215	5,137	5,803	6,854
Recurring profit (Results)	1,530	1,735	1,990	2,340	2,693	3,510	4,431	5,007	5,979	6,355
Results vs. Initial Est.	-12.1%	6.1%	-3.2%	3.4%	5.7%	3.1%	5.1%	-2.5%	3.0%	-7.3%
Net income (Initial Est.)	1,013	925	1,287	1,369	1,589	2,306	2,718	3,396	3,905	5,065
Net income (Results)	876	1,005	1,227	1,380	1,824	2,266	2,801	3,361	4,216	4,760
Results vs. Initial Est.	-13.5%	8.6%	-4.7%	0.8%	14.8%	-1.8%	3.1%	-1.0%	8.0%	-6.0%

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 owners of the parent from FY03/16.

Balance sheet

Balance sheet (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
ASSETS										
Cash and deposits	1,450	1,768	2,219	1,899	2,709	5,292	7,830	9,515	10,703	11,091
Accounts receivable	1,040	1,315	1,601	1,917	2,486	3,983	3,933	4,308	4,323	5,213
Inventories	33	93	133	170	130	134	137	99	50	44
Accounts receivable–other	-	-	143	653	1,306	1,892	2,491	3,474	4,478	6,183
Allowance for doubtful accounts	-32	-33	-37	-50	-94	-218	-128	-224	-114	-113
Other	380	593	789	841	826	1,093	717	493	683	684
Total current assets	2,871	3,736	4,849	5,430	7,363	12,176	15,235	18,113	20,123	23,102
Buildings (net)	57	47	9	119	136	232	190	160	183	335
Tools, furniture and fixtures (net)	33	35	58	64	111	149	154	233	251	261
Other	-	-	-	9	9	48	24	12	13	410
Total tangible fixed assets	90	82	67	192	256	428	368	405	447	1,006
Software	283	186	103	259	731	1,336	1,545	1,382	1,174	1,637
Goodwill	1,006	1,171	852	775	1,318	12,874	11,167	11,539	10,574	10,148
Trademark rights	-	-	-	-	-	10,047	9,704	9,412	9,246	9,126
Customer-related intangible assets	-	-	-	-	-	3,047	2,692	2,368	2,088	1,825
Total intangible fixed assets	1,289	1,357	955	1,034	2,049	27,304	25,107	24,703	23,083	22,738
Investment securities	101	196	632	1,283	1,240	1,026	1,666	1,721	2,048	2,225
Deferred tax assets	77	101	115	123	101	211	210	377	855	873
Lease and guarantee deposits	-	-	-	-	-	-	-	-	-	-
Other	13	12	22	18	29	29	33	20	30	11
Investments and other assets	422	542	1,076	1,750	1,753	1,782	2,521	2,865	3,814	4,149
Total fixed assets	1,801	1,981	2,099	2,976	4,058	29,514	27,997	27,974	27,344	27,893
Total assets	4,672	5,717	6,948	8,407	11,421	41,690	43,232	46,087	47,467	50,996
LIABILITIES										
Accounts payable–trade	-	48	44	99	132	451	312	292	353	314
Short-term debt	-	-	-	-	0	19,003	1,201	1,403	2,487	2,487
Accounts payable–other	466	525	711	1,037	2,604	3,443	4,236	5,061	6,064	7,711
Other	886	913	920	1,052	1,658	3,018	3,162	3,644	2,987	3,319
Total current liabilities	1,352	1,485	1,676	2,188	4,394	25,914	8,911	10,400	11,891	13,831
Long-term debt	-	-	-	-	-	45	10,210	9,690	17,632	15,144
Deferred tax assets	-	-	-	-	-	-	-	2,175	2,078	1,994
Other	78	94	119	144	104	131	153	181	327	628
Total fixed liabilities	78	94	119	144	104	2,618	12,738	12,046	20,037	17,766
Total Liabilities	1,430	1,580	1,795	2,332	4,498	28,532	21,648	22,446	31,928	31,597
Total net assets										
Capital stock	288	297	304	304	304	304	2,153	2,167	2,208	2,246
Capital surplus	263	272	279	279	-	-	4,148	3,965	13	51
Retained earnings	2,690	3,593	4,696	5,910	7,249	9,146	11,663	14,545	14,971	19,079
Treasury shares	-	-	-81	-502	-1,036	-1,036	-0	-	-	-
Accum. other comprehensive income	-8	-30	-50	21	298	145	-838	-1,423	-1,833	-2,149
Share subscription rights	-	1	6	20	47	80	110	135	179	171
Non-controlling interests	8	2	0	44	61	4,519	4,348	4,252	-	-
Total net assets	3,242	4,137	5,154	6,075	6,923	13,158	21,583	23,641	15,539	19,398
Working capital	1,074	1,360	1,690	1,989	2,484	3,665	3,758	4,115	4,020	4,943
Total interest-bearing debt	-	-	-	-	-	19,047	11,411	11,093	20,119	17,631
Net debt	-1,450	-1,768	-2,219	-1,899	-2,709	13,756	3,582	1,578	9,416	6,540

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 JPY22.7bn (against JPY23.1bn in FY03/19 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 44.6% (versus 48.6% in FY03/19 and 17.9% in FY03/15). In FY03/20, 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 income 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)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash flows from operating activities (1)	1,249	956	1,009	1,595	3,103	2,244	3,920	4,811	5,156	5,591
Cash flows from investing activities (2)	-245	-1,358	428	-1,324	-1,050	-18,402	-1,034	-2,095	-1,066	-2,127
Free cash flow (1+2)	1,004	-402	1,437	271	2,054	-16,157	2,886	2,716	4,090	3,464
Cash flows from financing activities	14	-84	-191	-571	-1,272	18,656	-875	-1,107	-2,943	-3,132
Depreciation and amortization (A)	365	469	503	467	607	983	1,517	1,706	1,868	2,020
Capital expenditures (B)	-222	-104	-110	-455	-746	-903	-882	-921	-947	-1,605
Change in working capital (C)	78	287	330	298	496	1,181	92	357	-95	923
Simple FCF (NI + A + B - C)	941	1,083	1,290	1,093	1,190	1,165	3,343	3,789	5,232	4,252

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 Elderly 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 Elderly 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 Morofuji 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 elderly 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 elderly 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 elderly 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 elderly 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 Machida, Tokyo
May 2003	Care Personnel Bank (Career), a staffing service for care managers, begins operations
November 2003	Shikatoru (Career), an information service for certification courses in the elderly 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 service for nurses, begins operations
July 2006	Kaipoke Biz (Elderly Care Operators), software for processing health insurance claims for small and medium-size providers of elderly 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 elderly 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 elderly 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 elderly care payments, is renovated and renamed Kaipoke as a business support platform (Elderly Care Operators) to provide operational support for elderly 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 elderly 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 elderly 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 elderly 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 elderly 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, is converted into a 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
August 2019	CCM International Limited (Overseas), an employment agency for medical professionals based in Ireland, is converted into a subsidiary

News and topics

March 2020

On March 18, 2020, the company announced a revision to its dividend forecast (dividend increase).

The company had not disclosed the FY03/20 dividend forecast because of its intention to make a decision based on FY03/20 results. The company, however, decided to increase an annual dividend forecast to JPY8.50 per share (JPY7.50 per share in FY03/19), after concluding that its financial condition would allow it to pay dividends as a way of shareholder returns.

Major shareholders

Top shareholders	Shares held	Shareholding ratio
MORO G.K.	15,727,318	18.06%
Japan Trustee Services Bank, Ltd. (Trust account)	6,940,400	7.97%
The Master Trust Bank of Japan, Ltd. (Trust account)	6,345,400	7.28%
AS ONE Corporation	2,404,000	2.76%
The Dai-ichi Life Insurance Company, Ltd. (Standing proxy: Trust & Custody Services Bank)	2,366,200	2.71%
BNYM AS AGT/CLTS NON TREATY JASDEC (Standing proxy: MUFG Bank, Ltd.)	2,243,307	2.57%
Japan Trustee Services Bank, Ltd. (Trust account 9)	2,001,800	2.29%
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)	1,814,320	2.08%
State Street Bank and Trust Company 505001 (Standing proxy: Mizuho Bank, Ltd., Settlement Department)	1,539,040	1.76%
J.P. MORGAN BANK LUXEMBOURG S.A. 381572 (Standing proxy: Mizuho Bank, Ltd. Settlement Department)	1,525,700	1.75%
SUM	42,907,485	49.28%

Source: Shared Research based on company data
Note: As of end-March 2020

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 FY03/20, it paid a dividend of JPY8.5 per share, for a dividend payout ratio of 15.5%.

Dividends	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Net income (JPYmn)	876	1,005	1,227	1,380	1,824	2,266	2,801	3,361	4,216	4,760
Total dividends (JPYmn)	102	124	166	204	283	283	477	564	652	739
Dividend per share (JPY)	1.3	1.5	2.0	2.5	3.5	3.5	5.5	6.5	7.5	8.5
Payout ratio (%)	11.6	12.3	13.6	14.8	15.6	12.5	16.3	16.8	15.5	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 elderly care insurance system

In April 2000, the elderly care insurance system was introduced as a new system in which the whole society supports people who require elderly care, based on the idea of joint national solidarity to provide health, medical, and welfare services to those who require elderly 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 elderly care insurance system

Under the elderly 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 elderly care insurance system. Financial resources to the elderly 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 elderly care need required to use insurance

In order to use the elderly care insurance, people are required to receive municipal certification for long-term elderly 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 “elderly care needed 1 to 5.” Support needed 1 to 2 indicate that life functions are low, but they are likely to recover. Elderly care needed 1 to 5 indicate that elderly 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 an elderly care insurance identification card with a coverage limit specified. The card will allow patients to receive elderly care insurance services after contacting service providers with elderly care specialists who can do care planning.

Terminology

Care managers

Care managers are licensed elderly care professionals. They confer with consumers of elderly care insurance services and make care plans (elderly 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 Elderly Care Insurance Law stipulates minimums for the number of care managers, by facility and category. For example, elderly 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.

Elderly care service providers

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

The Ministry of Health, Labour and Welfare sets standards for elderly care service providers, which must be certified by prefectural governments. Elderly 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.

Elderly 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 elderly 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 Elderly Care Insurance Law.

Welfare centers provide daily elderly 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 elderly 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

Company Name	Head Office
SMS Co., Ltd.	Sumitomo Fudosan Shibakoen Tower 2-11-1, Shiba Koen Minato-ku, Tokyo 105-0011 Japan
Phone	Listed On
+81-3-6721-2400	Tokyo Stock Exchange 1st Section
Established	Exchange Listing
April 4, 2003	March 13, 2008
Website	Financial Year-End
https://www.bm-sms.co.jp/eng/	March
IR Contact	IR Phone
Miyamoto, Corporate Planning	+81-3-6721-2403
IR Mail	
irinfo@bm-sms.co.jp	

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AS ONE CORPORATION	FreeBit Co., Ltd.	Mercuria Investment Co., Ltd.	Snow Peak, Inc.
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Aucfan Co., Ltd.	Gamecard-Joyco Holdings, Inc.	Micronics Japan Co., Ltd.	SOURCENEXT Corporation
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BEENOS Inc.	Happinet Corporation	NAIGAI TRANS LINE LTD.	Take and Give Needs Co., Ltd.
Bell-Park Co., Ltd.	Harmonic Drive Systems Inc.	NanoCarrier Co., Ltd.	TEAR Corporation
Benefit One Inc.	HENNGE K.K.	Net Marketing Co., Ltd.	Tenpo Innovation Inc.
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