

Holistic Company Report

Prestige International

4290 TSE First Section

Update Report
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The Stock Research Center
(General Incorporated Association)



証券リサーチセンター
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Independent BPO company providing the outsourcing of non-core business for client corporations. Increased prospects for medium-term profit growth with the completion of large-scale capital investment and favorable business environment.

> Summary

Analyst: Jyusaku Matsuo
+81 (0) 3-6858-3216
matsuo@stock-r.org

◆ Independent BPO-Specialized Company

- As an independent BPO-specialized company, Prestige International (the Company, hereafter) has grown by taking in the demand for the outsourcing of the non-core businesses of client corporations.

◆ Performance for the March 2015 Term

- For the March 2015 term, sales increased by 9.1% and operating profit increased by 12.2% yoy. The achievement rate with respect to the Company's prior estimate is 101.0% for sales and 105.0% for operating profit.
- Profit exceeded the estimate because it was pushed up by improved business efficiency and the further yen depreciation, in addition to unspent expenses due to the hiring of call center staffs falling behind the original plan.

◆ Estimates for the March 2016 Term

- For the March 2016 term, the Company estimates a yoy increase of 11.4% in sales, 3.1% in operating profit, 6.8% in recurring profit, and 7.3% in net profit. The increase in operating profit lags behind the increase in sales because expenses are expected to rise due to upfront investment and such.
- The Stock Research Center's forecast of the performance for the March 2016 term has been slightly revised from the previous forecast and is mostly in line with the Company's forecast. Revisions to our forecast reflect the currently favorable business condition in roadside assistance and take into consideration the expected cost price reduction due to IT utilization and such.

◆ Points to Consider in Investment

- In the new medium-term business plan, the Company clarified its target dividend payout ratio on a consolidated basis as 20%, the upper limit of the previously stated range of 15-20%.
- In the medium term, growth is expected to accelerate, reflecting the cultivation of existing clients and the development of new clients, as well as the corresponding reinforcement of call center staffs. Consideration should be made, however, on the impact of the client corporations' business strategies on the Company's business performance.

【Major Indicators】

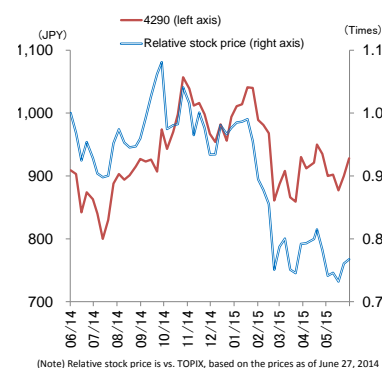
	6/26/2015
Stock price (JPY)	928
Shares outstanding	31,131,200
Market capitalization (JPY mil)	28,890

	3/2015	3/2016 E	3/2017E
P/E	14.6	13.6	12.0
P/B	1.8	1.6	1.5
Dividend Yield (%)	1.2	1.3	1.4

【Stock Price Performance】

	1 month	3 months	12 months
Return (%)	3.1	5.6	0.5
vs. TOPIX (%)	3.5	-2.3	-23.9

【Stock Chart】



【4290 Prestige International Sector : Services】

Term	Sales	Change	O.P.	Change	R.P.	Change	N.P.	Change	EPS	BPS	Dividend
	(Y mil)	(yoy, %)	(Y mil)	(yoy, %)	(Y mil)	(yoy, %)	(Y mil)	(yoy, %)	(Y)	(Y)	(Y)
3/2013	24,225	3.6	2,380	-9.2	2,158	-18.6	1,409	-8.7	47.6	376.2	7.5
3/2014	22,223	-8.3	2,809	18.0	2,704	25.3	1,981	40.6	65.6	435.9	10.0
3/2015	24,236	9.1	3,151	12.2	3,182	17.7	1,957	-1.2	63.4	514.6	11.0
3/2016 CE	27,000	11.4	3,250	3.1	3,400	6.8	2,100	7.3	67.5	—	12.0
3/2016 E	27,000	11.4	3,300	4.7	3,450	8.4	2,130	8.8	68.4	572.0	12.0
3/2017 E	30,000	11.1	3,700	12.1	3,900	13.0	2,400	12.7	77.1	637.0	13.0
3/2018 E	33,500	11.7	4,350	17.6	4,600	17.9	2,800	16.7	89.9	714.0	15.0

(Note) CE: the Company's estimate, E: estimate by The Stock Research Center. The Company effected a 2-for-1 stock split on October 1, 2013. Indicators per share were calculated based on the assumption that the split occurred at the beginning of the term.

> Business Description

◆ BPO-Specialized Company

Prestige International (the Company, hereafter) is a major provider of BPO (Business Process Outsourcing) that has grown by taking in the outsourcing demand of mainly Japanese client corporations. As the outsourcing of the non-core businesses of client corporations, the Company offers a wide range of services such as roadside assistance, accident assistance during overseas travel, customer contact, credit card issuance, and property assistance to the end users (general consumers) of the client corporations (Chart 1). The Company is also keen on global business development, having 18 offices in 14 countries worldwide (as of April 1, 2015).

†1 Prime Assistance

A joint company that the Company established with NKSJ Holdings in April 2012, to which a part of the Company's roadside assistance operation was transferred in October 2012.

As of the end of March 2015, the Company has 25 consolidated subsidiaries and one equity method company (Prime Assistance^{†1}). These include subsidiaries specialized in field works that are limited in area and business, such as roadside assistance, and overseas local companies. Overall, the Company's business consists of seven business segments (Chart 1).

【 Chart 1 】 Business Description

Segment	Business Content
Roadside Assistance	Roadside assistance for casualty insurance companies and automakers
Property Assistance	Various value-added solutions pertaining to real estate (including the trouble-shooting of housing and coin-based parking lot problems)
Insurance BPO	Overseas travel claim handling, healthcare program, BPO services for small-amount and short-term insurance
Warranty	Automobile extended warranty, rent guarantee, housing facilities extended warranty
IT Solutions	Infrastructure construction and system development, SCM (Supply Chain Management) solution, application development for mobile terminals
Customer Support	Contact center outsourcing, issuance and management of foreign currency based credit cards (USA and China)
Temporary Worker/Other	Temporary staffing and training, nursing care

(Note) SCM (Supply Chain Management) : the management method and the information system for the total optimization of the distribution of raw materials, components, and products by sharing information on orders, inventory, sales, and material flow within a company or with clients

(Source) Prepared by The Stock Research Center based on the Securities Report

> Business Model**◆ Fee-Based Business with High Continuity**

The Company has clients among major corporations including those in casualty insurance, automobile manufacturing, and real estate. In order for BPO companies to meet the outsourcing demand of these corporations, adequate reliability, performance, and continuity are required. The Company has won deep trust from its clients with its know-how accumulated over the years and experience as a BPO provider. It has established a solid business foundation with high contract continuity with its clients.

◆ Development Based on a Solution-Based Business Model

The Company generally does not participate in competitive bids with tough price competition such as those in receiving orders for the outsourcing of simple operations. The Company has instead developed a solution-based business model, in which solutions are offered to clients who value service content, quality, and added value. It is also considered advantageous that the Company has its own IT division in its group and develops BPO-related systems on its own or jointly with major system integrators. Thereby, the Company has high profitability (operating profit margin) and good management efficiency.

◆ Labor-Intensive Business Model with Advantage of Scale

The BPO business is labor-intensive, as it requires on-site operators and administrative staffs in accordance with the number of customers, operation volume, and difficulty. At the same time, improvement of profitability and advantage of scale could be expected as the number of clients increases, know-how for contact center management accumulates, and the operation proficiency of operators improves.

> Analysis of Strength/Weakness**◆ SWOT Analysis**

The Company's internal resources (strength/weakness) and external environment (opportunity/threat) are summarized below (Chart 2). The current issue (weakness) is the securing of staffs, while the main strength is considered to lie in the excellent client base and reliability. Business internalization by the client companies would be a threat, but the risk is sufficiently diversified with no single client exceeding 5% of the total sales. In addition, we judge that the potential (opportunity) for business expansion by the cultivation of existing clients and the acquisition of new clients is enormous.

【 Chart 2 】 SWOT Analysis

Strength	<ul style="list-style-type: none"> ● Client base mainly consisting of market leaders ● Long history in the industry, credibility/name recognition ● Systematically accumulated industry-specific know-how, rich education/training system ● On-site, real service provided by a network of field staffs
Weakness	<ul style="list-style-type: none"> ● High dependency of sales on a specific business (roadside assistance) ● Securing of appropriate staffs at the call centers
Opportunity	<ul style="list-style-type: none"> ● BPO's potential to expand in Japan ● Globalization and diversification of business, stimulation of new demand ● Alliance with other companies, JV
Threat	<ul style="list-style-type: none"> ● Internalization of operation by client corporations ● Large-scale natural disasters, epidemic of infectious diseases ● Leakage of information ● Market shrink due to an economic downturn, demand for discount

(Source) Prepared by The Stock Research Center

> Industry Trends

◆ Expanding Trend for the BPO Market Size

Although the growth rate of the domestic BPO market had temporarily slowed down in the economic downturn and confusion after the Tohoku Earthquake, it has finally recovered, and the market is now on a steadily expanding trend. The outsourcing of non-core businesses has been increasing for the purpose of cost reduction and improvement of management efficiency, as companies have become strongly focused on the expansion of their core businesses due to the progress of globalization.

As Japanese companies are lagging behind the US and European companies in the usage of BPO services, the growth potential of the BPO market in Japan is expected to be high.

According to a research conducted by the Yano Research Institute, the BPO market is projected to grow annually by 2.9% on average from FY2012 to FY2018 and reach Y4.0206 bil in FY2018 (based on the sales of business providers). In the future, the dependency of companies on outside resources (BPO) is expected to continue to increase in response to the new social security and tax number system, business expansion for the Tokyo Olympics, and labor shortage due to an aging population with declining birthrate.

> Analysis of ESG Activities

◆ Corporate Governance

In April 2014, the Company changed its organization and introduced the executive officer system, in an aim to clarify responsibilities and authorities.

The Company is aiming to reinforce its corporate governance, with the board of directors currently consisting of four directors, including one external director (lawyer), and the board of auditors consisting of four auditors, including two external auditors of which one is a lawyer.

◆ Environment

The Company continues the saving of electricity in using air-conditioners and PCs and the recycling of PET bottle caps. The Akita BPO Campus is managed with an environmental consideration, such as by using gas (co-generated using a private electrical power facility) instead of buying electricity in an aim toward CO₂ reduction.

◆ Society

The Company is engaged in the outsourcing business with an aspiration to “contribute to the society through business creation,” in addition to the concept of “resolving end-user inconveniences.” It has call centers in Akita, Toyama, and Yamagata and helps to revitalize the local communities in these areas by creating employment (including the proactive hiring of region-limited full-time employees). It promotes the social participation of women by offering a comfortable working environment for women employees, such as by supporting the return of women employees to work after childcare leave and enhancing benefit programs in the BPO locations. The Company also formed corporate sport teams at the BPO locations (women’s basketball team in Akita and women’s volleyball team in Yamagata), as a part of its effort to contribute to the society.

> Performance Overview

◆ Results for the March 2015 Term

For the March 2015 term, sales were Y24.236 bil (up 9.1% yoy; the Company’s prior estimate was Y24 bil), operating profit was Y3.151 bil (up 12.2% yoy; Y3 bil), recurring profit was Y3.182 bil (up 17.7% yoy; Y3.1 bil), and net profit was Y1.957 bil (down 1.2% yoy; Y2.05 bil) (Chart 3).

The achievement rate with respect to the Company’s revised estimate announced in October 2014 is 101.0% for sales, 105.0% for operating profit, 102.6% for recurring profit, and 95.5% for net profit.

The high achievement rate for operating profit reflects improved operation efficiency and the increased yen-denominated profit in the overseas offices due to the yen depreciation from the Y103.2/USD estimated at the beginning of the term to an average of Y120.17/USD. In addition, the Company seems to not have been able to hire the originally planned number of staffs at each call center (short of approximately 30-50 staffs each), so that training and labor costs were not fully spent.

【Chart 3】 Overview of Business Performance for the March 2015 Term (Y mil)

	Estimates by Prestige International	Estimates by The Stock Research Center	Actual	Change (yoy)	Achievement Rate	Deviation
	A	B	C		C/A	C/B-1
Sales	24,000	24,050	24,236	9.1%	101.0%	0.8%
Operating Prof	3,000	3,050	3,151	12.2%	105.0%	3.3%
Recurring Prof	3,100	3,150	3,182	17.7%	102.6%	1.0%
Net Profit	2,050	2,080	1,957	-1.2%	95.5%	-5.9%

(Note) Estimates by Prestige International are based on the revised estimates announced on October 30, 2014.

(Source) Prepared by The Stock Research Center based on the summary of financial statements

†2 Change of business names and classifications and of services

Even in the business with the same name as before, continuity is not necessarily retained, as individual operations have been integrated and/or transferred.

◆ Performance by Business Segment

The Company's sales consist of 7 business segments (Chart 4). In the March 2015 term, the Company changed the services and the names and classifications of businesses^{†2}, and applied new segments that are in line with the actual condition of the businesses. As the main changes, insurance was divided into insurance BPO (including the overseas travel claim handling and the healthcare program) and warranty (the extended warranty service and the rent guarantee program), while CRM and credit card were integrated into customer support.

Looking at performance by business segment, both sales and profit in roadside assistance made a significant contribution to growth, thanks to the improved recognition, increased service usage (increased activity), and systemized cost management. In insurance BPO, customer support, and temporary worker/other, profit increased due to the yen depreciation, cost management, and increased sales, respectively. These offset the decrease in profit from the termination of a part of the outsourcing businesses in warranty and the upfront investment in IT solutions.

【 Chart 4 】 Overview of Business Performance by Segment for the March 2015 Term (Y mil)

	3/2014	3/2015	Change (yoy)		Composition Ratio for 3/2015
			Amount	%	
Sales (total)	22,223	24,236	2,013	11.0	100.0
Roadside Assistance	7,615	8,587	971	12.8	35.4
Property Assistance	2,496	2,783	287	11.5	11.5
Insurance BPO	2,425	2,929	504	20.8	12.1
Warranty	3,519	2,972	-547	-15.5	12.3
IT Solutions	833	924	91	10.9	3.8
Customer Support	4,569	5,102	533	11.7	21.1
Temporary Worker/Other	763	935	172	22.5	3.9
Operating Profit (total)	2,809	3,151	342	12.2	100.0
Roadside Assistance	753	1,186	433	57.5	37.6
Property Assistance	171	153	-18	-10.9	4.9
Insurance BPO	376	398	22	5.9	12.6
Warranty	349	231	-118	-33.9	7.3
IT Solutions	129	75	-54	-41.4	2.4
Customer Support	942	968	26	2.7	30.7
Temporary Worker/Other	86	146	60	70.0	4.6

(Source) Prepared by The Stock Research Center based on the financial results presentation materials of Prestige International

> Performance Outlook

◆ The Company's Forecast for the March 2016 Term

For the March 2016 term, the Company estimates sales at Y27 bil (up 11.4% yoy), operating profit at Y3.25 bil (up 3.1% yoy), recurring profit at Y3.4 bil (up 6.8% yoy), and net profit at Y2.1 bil (up 7.3% yoy). The increase in operating profit lags behind the increase in sales because the upfront investment is expected to cause an increase in expenses, for instance, the planned rise in the depreciation costs to Y924 mil (up Y225 mil yoy) from the operation of the new facilities. In the estimates, the Company conservatively assumes the exchange rate to be Y119.96/USD (the TTM as of April 1, 2015).

Looking at performance by business segment, in roadside assistance, the business for the new clients acquired in the preceding term will make a contribution for the full term. However, the Company expects that profit will decrease despite the increase in sales due to the

increase in expenses arising from the upfront investment in the core system and the field works subsidiaries. In customer support, both sales and profit are predicted to decrease due to the termination of the overseas CRM services. In IT solutions, profit is expected to decrease, reflecting the increased expenses from upfront investment.

Meanwhile, in insurance BPO, both sales and profit are expected to grow, thanks to the acquisition of clients for the healthcare program and the overseas subsidiaries getting on track. In property assistance, sales and profit are also expected to rise due to the increased number of contracts for home assistance.

Based on these outlooks, the Company expects that business performance will continue to be favorable, as the decrease in profit will be offset as a whole.

【 Chart 5 】 Business Performance for the March 2015 Term Estimated by Prestige International (Y mil)

	3/2015	3/2016E	Change (yoy)		Composition Ratio for 3/2016E
			Amount	%	
Sales (total)	24,236	27,000	2,764	11.4	100.0
Roadside Assistance	8,587	9,754	971	13.7	36.1
Property Assistance	2,783	3,424	641	23.0	12.7
Insurance BPO	2,929	3,670	741	25.3	13.6
Warranty	2,972	3,365	393	13.2	12.5
IT Solutions	924	966	42	4.5	3.6
Customer Support	5,102	4,844	-258	-5.1	17.9
Temporary Worker/Other	935	977	42	4.5	3.6
Operating Profit (total)	3,151	3,250	99	3.1	100.0
Roadside Assistance	1,186	1,089	-97	-8.5	33.5
Property Assistance	153	266	113	74.0	8.2
Insurance BPO	398	507	109	27.5	15.6
Warranty	231	367	136	58.8	11.3
IT Solutions	75	64	-11	-14.3	2.0
Customer Support	968	821	-147	-15.2	25.3
Temporary Worker/Other	146	136	-10	-6.6	4.2

(Note) 3/2016E is the estimate made by Prestige International.

(Source) Prepared by The Stock Research Center based on the financial results presentation materials of Prestige International

◆ The Center's Forecast for the March 2016 Term

The forecast for the March 2016 term by The Stock Research Center (the Center, hereafter) is mostly in line with the previous forecast as of January 2015 and also with the Company's forecast. We estimate sales at Y27 bil (up 11.4% yoy; previously estimated at Y26 bil), operating profit at Y3.3 bil (up 4.7% yoy; Y3.27 bil), recurring profit at Y3.45 bil (up 8.4% yoy; Y3.45 bil), and net profit at Y2.13 bil (up 8.8% yoy; Y2.35 bil).

We made changes to the forecast to reflect the revision in the assumed value for the foreign exchange (from Y118/USD to Y122/USD), the currently favorable business condition in roadside assistance, and such. We revised the estimate for operating profit upward, considering the yen depreciation and the favorable business condition in roadside assistance, but left the estimate for recurring profit unchanged because we conservatively reviewed the equity-method profit from investment. Net profit was revised down as the tax rate was taken into consideration. As a note, in the past, one yen depreciation against USD presumably pushed up operating profit by approximately Y8-10 mil for the full term.

> Medium-Term Outlook**◆ Medium-Term Numerical Targets Announced, Aiming at Double-Digit Profit Growth**

The Company did not disclose the numerical targets in the medium-term business plan announced in May 2012, considering that announcing such numerical targets may mislead the investors. In the recently announced new medium-term business plan for the three years ending in the March 2018 term, the Company disclosed the numerical targets in accordance with the end of the large-scale capital investment and the stabilization of business (Chart 6).

In the new medium-term business plan, the main goals are to 1) attain sustainable and stable growth, 2) create services that only the Company can provide, 3) create and continue employment in the regional cities, and 4) create job opportunities for women. The Company strategically plans to expand its business domain by, for instance, offering value-added services (IT development and service packaging), and thus differentiate itself from others by taking advantage of its uniqueness.

The ROA and the ROE are expected to improve, thanks to the stable operation of the Toyama BPO Town and the Yamagata BPO Garden,

the renewal of the Akita BPO Campus, and such, with no more new investment in the call centers.

【 Chart 6 】 Numerical Targets in the Medium-Term Business Plan

	3/2018 Target	3/2015 Actual	3/2016 Estimate by Prestige International
Sales	Y 35 bil	Y24.2 bil	Y 27 bil
Operating Profit Margin	13%	13.0%	12.0%
ROA	10%	9.3%	—
ROE	15%	13.3%	—
Dividend Payout Ratio (Consolidated Basis)	20%	17.3%	17.8%

(Note) ROA is calculated by dividing the net profit for the year by the average of the total assets at the beginning and the end of the term.

(Source) Prepared by The Stock Research Center based on the financial results presentation materials of Prestige International

◆ The Center's Medium-Term Outlook for the Company

As the operation in the Yamagata BPO Garden has gotten on track and the Toyama BPO Town (1,000 seats) started operation in April 2015, the three-major-centers system is becoming established. Together with the other call centers, the total number of seats is planned to increase from 2,170 as of the end of March 2015 to 3,170 as of the end of March 2016.

We judge that a stable business expansion is achievable as expected by the Company, since the needs of client corporations for BPO continue to be strong and could be met with increased contract operation capacity in the Toyama BPO Garden if the necessary number of staffs can be secured.

Mainstay roadside assistance, insurance BPO, and currently focused property assistance are expected to fare well, thanks to the new client acquisition and business expansion. Business performance of the joint corporation, Prime Assistance, is also expected to remain favorable and make a stable contribution to the equity-method profit. Benefit will begin to emerge from the cost reduction, including the reduction of man-hours for arrangements by IT utilization. Taking all these into account, we made revisions to the sales and profit estimates for the March 2016 and March 2017 terms, and made a new forecast for the March 2018 term.

【 Chart 7 】 Overview of the Major BPO Contact Centers

Name of BPO Center	Maximum Capacity (seats)	Opened Date	Ground Area (tsubo)	Invested Amount (Y100 mil)
Akita BPO Campus (Akita, Akita Prefecture)	1,500		14,000	40
West Building	650	October 2003		
East Building	550	April 2007		
Satellite Building	300	April 2012		
Yamagata BPO Garden (Sakata, Yamagata Prefecture)	500	November 2013	12,000	11.8
Toyama BPO Town (Imizu, Toyama Prefecture)	1,000	April 2015	20,000	30

(Source) Prepared by The Stock Research Center based on various materials and interview

In the future, the Toyama BPO Town, which opened in April 2015, and the Yamagata BPO Garden will be reinforced in phases (each year, a total of 250 staffs with 200 in Toyama and 50 in Yamagata will be newly employed, targeting normal operation in three to five years). This reinforcement is expected to become a driving force for the Company's business growth. As the expenses from the depreciation of facilities and the upfront investment have leveled off, the Company seems to have entered a phase in which increased sales are likely to generate increased profit. We expect that the likelihood of the upward trend in profit and sales continuing into the March 2018 term has increased.

Regarding the Company's medium-term business plan, the targets seem to be generally achievable, but somewhat aggressive regarding the numerical target for sales, considering the current staff hiring environment. Meanwhile, the numerical target for the operating profit margin for the last fiscal year is set conservatively at 13%, the same level as the preceding term. This target, along with the 20% target for the dividend payout ratio, is considered slightly unsatisfactory. We continue to hold the expectation that, in the long term, annual sales will double to Y40-50 bil and the operating profit margin will be maintained at over 13%, based on the prospects for an increase in the number of seats, mainly at the three major call centers.

【 Chart 8 】 Medium-Term Outlook

(Y mil)

	3/2015 E (original)	3/2015 (actual)	3/2016 E (original)	3/2016 E	3/2017 E (original)	3/2017 E	3/2018 E
Sales	24,000	24,236	26,000	27,000	28,000	30,000	33,500
Roadside Assistance	8,610	8,587	9,500	9,790	10,500	10,800	12,300
Property Assistance	2,830	2,783	3,050	3,425	3,350	4,000	4,700
Insurance BPO	3,020	2,929	3,350	3,670	3,600	4,250	5,000
Warranty	3,070	2,972	3,170	3,350	3,300	3,700	4,000
IT Solutions	890	924	1,000	960	1,100	1,050	1,050
Customer Support	4,700	5,102	4,900	4,825	5,050	5,150	5,300
Temporary Worker/Other	880	935	1,000	980	1,100	1,050	1,150
Operating Profit	3,000	3,151	3,270	3,300	3,620	3,700	4,350
(% of Sales)	12.5%	13.0%	12.6%	12.2%	13.0%	12.3%	13.0%
Roadside Assistance	1,080	1,186	1,190	1,110	1,350	1,250	1,450
Property Assistance	180	153	210	270	250	340	420
Insurance BPO	410	398	450	510	500	580	700
Warranty	270	231	290	370	320	380	450
IT Solutions	60	75	80	70	100	100	110
Customer Support	900	968	950	830	1,000	900	1,050
Temporary Worker/Other	100	146	100	140	100	150	170
Recurring Profit	3,150	3,182	3,450	3,450	3,770	3,900	4,600
(% of Sales)	4.6%	13.1%	4.6%	12.8%	13.5%	13.0%	13.7%
Net Profit	2,100	1,957	2,350	2,130	2,570	2,400	2,800
(% of Sales)	8.8%	8.1%	9.0%	7.9%	9.2%	8.0%	8.4%

(Source) Prepared by The Stock Research Center

➤ Points to Consider in Investment

◆ Higher Likelihood of a Trend for Dividend Hike in the Medium Term

The Company generally follows the stable dividend policy, although it decides the dividend payout by considering the level of profit and cash flow while enhancing the internal reserves for future growth, including upfront and capital investment for business expansion. The Company had been targeting 15-20% as the dividend payout ratio on a consolidated basis, but in the new medium-term business plan, it clarified its target as 20%, the maximum of the range. In the future, an upward trend for profit is expected to occur with the end of the upfront investment, leading to an increased demand from the shareholders for a return of profit. Such demand is predicted to prompt an increase in the dividend payout ratio, causing a further dividend hike. We also believe that the Company may possibly buy back its shares.

◆ Consideration of the Staff Hiring Situation, Foreign Exchange, and Client Trend

The Company's performance will be affected by the clients' performance and business strategies, given the nature of the

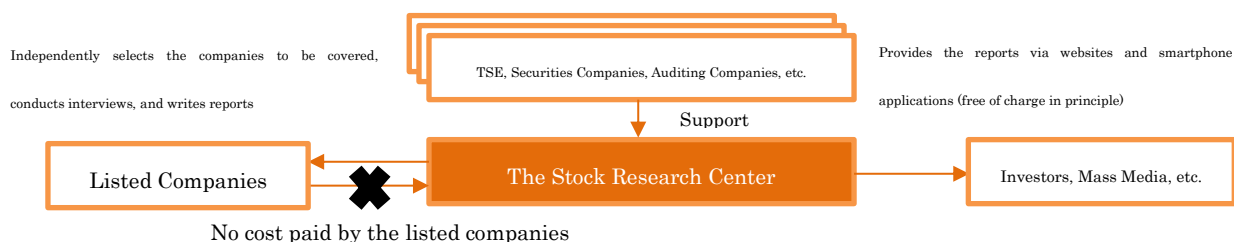
outsourcing business. While the physical bottleneck has been solved through the facilities reinforcement, the supply and demand in the local labor markets around the call centers is getting tight, and the training and the increase in the number of staffs are considered crucial to future business expansion. The Company is a small-cap mainly oriented toward domestic demand, but since the overseas business accounts for approximately 20% of the consolidated profit, the yen depreciation has a positive effect on its performance.

◆ **Decrease in the Number of Shares Owned by Major Shareholders**

Mr. Yasuyuki Nambu, the founder of the Company, and Nambu Enterprise, Inc., a company that he manages, have sold their shares several times since November 2013. According to the information on major shareholders stated in the Securities Report, the shares owned by Mr. Nambu and Nambu Enterprise, Inc., decreased from 2,750 thousand shares (8.9% of total) as of the end of September 2014 to 900 thousand shares (2.89%) as of the end of March 2015. In the future, there will be less concern regarding the supply and demand of shares.

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Characteristics of this Report

What is a Holistic Company Report?

Holistic Company Reports are the company research reports issued by The Stock Research Center. They provide the results of integrated analysis on the sustainability of corporate value creation activities in the medium and long term, stock price valuation, etc., based on information such as the disclosure materials of the companies and interviews with the companies.

■ Discovery of Promising Listed Companies

We attempt to discover distinctive companies, mainly in the growing markets, that have not been covered by analysts and yet own unique technology and products.

■ Evaluation of Hidden Strengths and Growth Potential

We attempt to evaluate the companies' strengths based on the analysis of intellectual capital in addition to financial analysis and report their growth potentials. Moreover, by presenting the KPIs, which are important in measuring the future growth of companies, we offer a variety of information for investment judgment.

■ Neutral and Objective Analysis from the Third Party's Viewpoint

Analysts in neutral positions conduct the company research and write the reports. We make sure to provide high-quality and objective corporate information.

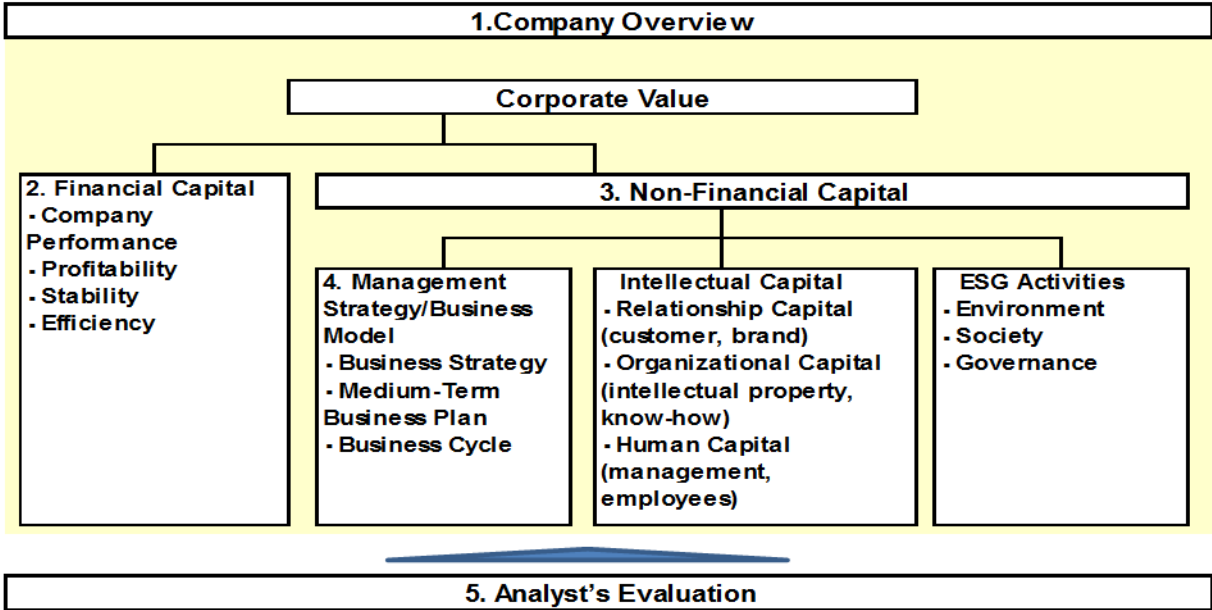
This report comprehensively analyzes and evaluates the corporate value from the perspectives of both the financial capital and the non-financial capital.

Composition of this Report

Corporate value consists of the financial capital and the non-financial capital. The financial capital is the visible corporate value such as the performance generated through corporate activities or, in other words,

the past results stated in the financial statements. On the other hand, the non-financial capital is the invisible corporate value. For instance, the non-financial capital includes the management strategy/business model which forms the core of corporate activities, organizational capital such as the intellectual property and the operation processes involved in the management infrastructure and the IT system, human capital such as the corporate culture and highly-motivated management and employees, relationship capital that pertains to the relationship with clients and the company's brands, and ESG activities such as social responsibility and the responsiveness to the environment in coexistence with the society.

We comprehensively analyze and evaluate the true growth potential of a company, focusing on both the visible financial capital and the invisible non-financial capital.



Explanation of Indicators and Analysis Terms

■ P/E (Price-Earnings Ratio)

The ratio is calculated by dividing current share price by earnings per share (EPS). It shows how much a stock is traded in terms of EPS.

■ P/B (Price-To-Book Ratio)

The ratio is calculated by dividing stock price by book value per share. It shows how much a stock is traded in terms of book value per share.

■ Dividend Yield

The ratio is calculated by dividing annual dividends per share by price per share. It shows how much dividend an investor will receive for the invested money.

■ ESG

Information on Environment, Society, and Governance. Recently, this information is being used in investment judgment, mainly for overseas pension funds, given the rising interests in environmental issues and the growing importance of corporate social responsibility.

■ SWOT Analysis

Comprehensive analysis of a company in terms of four aspects: Strength, Weakness, Opportunity, and Threat.

■ KPI (Key Performance Indicator)

An evaluation indicator for measuring the achievement of a company's strategic target.

■ Intellectual Capital

Hidden management resources such as the relationship with clients, operation scheme, and human resources that are not stated in the financial statements, but generate financial performance.

■ Relationship Capital

Relationship with outside parties, including the relationship with clients and business connections and the power of brand.

■ Organizational Capital

Internally retained intellectual capital, know-how, operation process, organization, and culture.

■ Human Capital

Human resources skills of the management and employees.

Disclaimers

- This report has been prepared by the analysts of The Stock Research Center (General Incorporated Association) for the investors to refer to as general information on equity investment, and is not to be construed as recommendation or solicitation of trades of any particular securities or financial products.
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