

Term Ending June 2020

Financial Results for 3Q

BeNEXT Group Inc.

May 15, 2020

【Payment of Special Allowance for the new Corona Virus damage】

<From HP release>

The image shows a screenshot of a news article from BeNEXT. The article title is '派遣従業員らにコロナ対策特別手当、全員に一律3万円、総額3.15億円支給～生活維持を最優先に'. The main text states that a special allowance of ¥30,000 will be paid to all Group employees in Japan during June. The article also mentions that the allowance is intended to support employees and their families during these difficult times and to maintain their livelihoods. The payment period is June 2020, and the amount is ¥30,000 per person.

**派遣従業員らにコロナ対策特別手当、全員に一律3万円
、総額3.15億円支給～生活維持を最優先に**

A special allowance of ¥30,000 will be paid to all Group employees in Japan during June, as shown bellow

株式会社ビーネックスグループ(以下、当社)では、取引先企業で派遣社員として活躍するなどの、国内グループ全社の全従業員約1万5000人を対象に、一律3万円の特別手当を支給することにいたしました。

新型コロナウイルス感染対策の影響を受け、当社グループ従業員においては「残業時間減少による手取り給与減」と「生活防衛による想定外の支出増」に見舞われています。

そのような状況を鑑み、従業員及びご家族の生活維持を最優先に微小ながらの支えとして、またこれからの活躍を期待して今回の支給を決定しました。

今後とも臨機応変に対応し、従業員を最優先にして事業を進めて参ります。

[支給時期]
2020年6月

[支給額]
一律3万円/人

FY2020 3Q

I Consolidated Results

II Segment Performance

III Earnings and Dividend

Forecast

IV Next Term and Medium-Term Management Plan

Group Philosophy

Slogan

Everyone becomes the "next" of the age.

Vision

Each and every one of us will pursue his or her own career and become the driving force for change.

Mission

Continue to create opportunities to take on the "next" challenge.

Medium-Term Management Plan

- Further growth in the engineering field
Particularly in the IT field
- Achievement of FY22 EBITDA 100 billion yen
CAGR: Approx. 15% growth
- Sustainable Enhancement of Shareholder Value
EPS growth and share buybacks in sight

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■ 3Q results showed year-on-year increase in sales but decrease in profits

- Sales 62.6 billion yen (YoY+1.9%)
Operating income: 4.2 billion yen (YoY ▲: 5.6%); EBITDA 51 billion yen (YoY ▲: 2.6%)
- Expansion of the IT field in the engineer dispatching field
 - ✓ Contributions from the newly consolidated subsidiary Axis Create in 3Q, which joined the Group in November 2019
 - ✓ In addition, sales expanded in the IT field, resulting in a substantial increase in sales for IT (YoY+67.6%)

■ Full-year earnings forecasts revised; outlook for earnings to bottom out in the fiscal year under review

- Adjustment to reflect the impact of the new coronavirus, including impairment of goodwill for U.K. operations
- Sales 82.2 billion yen (initial 87 billion yen)
Operating income 4.5 billion yen (initial 6.5 billion yen) EBITDA 56 billion yen (initial 7.5 billion yen)
- The dividend forecast is as planned, with a year-end dividend of 25 yen and an annual dividend of 40 yen.

Income Statement

Net sales

¥62.6 bil

YoY +1.9%

EBITDA

¥5.15 bil

YoY ▲ 2.6%

- Engineer dispatching field drove earnings, but performance in other segments fell below the previous year
- Axis Create has contributed to consolidated results since 3Q (Net sales 510 million yen, Operating income 60 million yen)
- Influence of new coronavirus was limited in 3Q

Millions of yen

	FY19		FY20			
	3Q	Composition ratio	3Q	Composition ratio	Increase/Decrease	YoY
Net sales	61,447	100.0%	62,605	100.0%	+1,158	+1.9%
Operating income	4,429	7.2%	4,183	6.7%	▲246	▲5.6%
EBITDA (※1)	5,285	8.6%	5,149	8.2%	▲136	▲2.6%
Net profit	2,900	4.7%	1,057	1.7%	▲1,842	▲63.5%
EPS (yen)	68.46	-	24.86	-	▲43.60	▲63.7%

※ 1 EBITDA = Operating income + Amortization of goodwill + Depreciation + Acquisition temporary expenses

Extraordinary losses (1)

- Extraordinary loss of 1.465 billion yen was recorded in 3Q
- The impairment loss of 1.162 billion yen and loss on devaluation of investment securities of 301 million yen were as follows:

① Impairment losses of MTrec and Gap 1.162 billion yen

■ About M&As in the UK

While focusing on expanding the dispatch of engineers in Japan, we aim to achieve sustained growth over the medium to long term by conducting M&A in the global market in parallel with the aim of becoming a path for corporate growth after the saturation of the domestic market and increasing market share in the future.

Since the U.K. has a long history of human resource dispatch operations and has penetrated the society, as one of the targets for its overseas expansion, we acquired MTrec in 2016, Gap in 2017, and Quattro in 2018.

■ Impairment loss

In addition to the progress of the Brexit, the Group will carefully consider the outlook for the U.K. market and consider estimates of future profitability in light of the social impact of the lockdown caused by the new coronavirus.

In 3Q of the fiscal year under review, the Company did not determine the amount of impairment loss, but recorded the estimated amount of impact as an extraordinary loss.

In the future, we will inform you as soon as the details are finalized.

Extraordinary losses (2)

- The entire scope of goodwill and the recording of impairment loss for 3Q are as follows
- Goodwill after impairment will be 5 billion yen, which will result in a decrease in annual amortization of approximately 140 million yen when converted into yen.

		Initial goodwill		Prior to 3Q impairment	Estimated impairment loss	Announcement of current term 3Q	
		Converted to yen (Millions of yen)		Goodwill balance		Goodwill balance	
				Converted to yen (Millions of yen)		Converted to yen (Millions of yen)	
Overseas	MTrec	Obtained on August 2016	1,381	10-year amortization: 6 years and 5 months	765	-265	500
	Gap	Obtained on Dec. 2017	2,501	10-year amortization: 7 years and 8 months remaining	1,846	-898	948
	Quattro	August 2018 Made Gap a subsidiary	579	10-year amortization: 8 years and 5 months remaining	472		472
Domestic	Benex Solutions (Multiple Mergers)		3,104	10-year depreciation: about 5 years	1,702		1,702
	Axis Create Co., Ltd. and two other companies		1,355	10-year amortization: 9 years and 9 months remaining	1,322		1,322
	Others				7		7
				Total	6,114	Impairment loss -1,162	4,903
						+ Exchange Adjustment -48	
				Approximately ¥800 million per annum for depreciation			Approximately ¥650 million per annum for depreciation

Two companies covered in this case

MTrec situation

Profitability has been improving steadily since joining the Group, but sales have been declining with a decline in demand from manufacturers in the European supply chain due to Brexit. However, the impact of the new coronavirus will necessitate a review of customer development in the future, and we are considering the possibility of future profitability. No loss is expected on an annual basis.

Gap situation

The impact of the Brexit was minor because of its clients belonging to the food and logistics industries targeting domestic demand, the profit margin was slightly lower than expected. However, due to the impact of the new coronavirus, it will be difficult to recoup and expand the business and improve the profit margin thereafter, so we are considering the future profitability. No loss is expected on an annual basis.

② Loss on devaluation of investment securities 300 million yen

■ About our investment securities

We invest in and support venture companies and state-of-the-art technologies.

Even if there is no direct contact with the human resources service industry at this point, we believe that it will contribute to the development of society and the expansion and creation of fields in which engineers can play an active role.

■ Loss on devaluation of stocks

As a result of the evaluation of the value of the shares held for investment purposes by Dot meter network Polytron Technologies Inc. (which has a cutting edge field of HR Tech in China), the difference from the acquisition price (¥400 million) was large, and the Company recorded an impairment loss of ¥300 million.

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Breakdown of net sales by reportable segment

Net sales

Engineer dispatching

¥32.9 bil

YoY +9.9%

Overseas

British Pound basis

£165.0 mn

YoY +0.4%

[Important] As the transition in FY20 3Q to a holding company structure increases the amount of internal transactions, net sales by each segment are recorded “sales to clients” from now

- Continuous growth in engineer dispatching due to expansion of IT field. Demand in the IT field is expected to remain strong.
- Overseas sales increased on a local currency basis

Millions of yen

	FY19		FY20			
	3Q	Composition ratio	3Q	Composition ratio	Increase/Decrease	YoY
Engineer	29,901	48.7%	32,855	52.5%	+2,954	+9.9%
Manufacturing worker	7,455	12.1%	7,016	11.2%	▲472	▲6.3%
Overseas	24,088	39.2%	22,732	36.3%	▲1,356	▲5.6%
UK business (millions of pounds)	164.4	-	165.0	-	+0.6	+0.4%
Others	2	0.0%	1	0.0%	▲1	▲53.3%
Total	61,447	100.0%	62,605	100.0%	+1,158	+1.9%

※ Average exchange rates during the period: (FY19 3Q) 1GBP = ¥146.3, (FY20 3Q) 1GBP = ¥137.8

Segmented EBITDA

EBITDA

Engineer dispatching

¥4.34 bil

YoY +2.0%

EBITDA totals

¥5.15 bil

YoY ▲ 2.6%

- Due to a decline in the utilization rate until 2Q and a decline in overtime working hours in the engineer dispatching field
Profits declined YoY, but 3Q sales increased YoY due to an increase in employees and a recovery in utilization rates.
- Domestic demand for dispatch in the U.K. is strong.
Profit margin improved due to the absence of one-time expenses in the previous fiscal year.

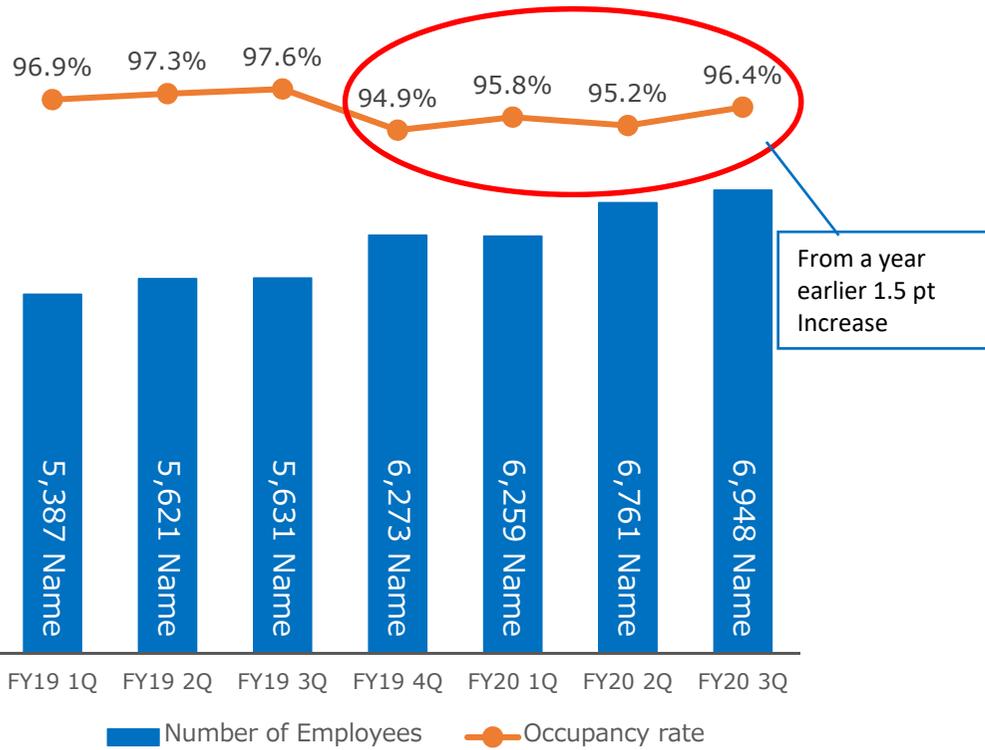
Millions of yen

	FY19		FY20			
	3Q	Composition ratio	3Q	Composition ratio	Increase/Decrease	YoY
Engineer	4,251	80.4%	4,335	84.2%	+84	+2.0%
Profit ratio	14.2%		13.2%		▲ 1.0pt	
Manufacturing worker	371	7.0%	269	5.2%	▲ 102	▲ 27.4%
Profit ratio	4.9%		3.8%		▲ 1.1pt	
Overseas	731	13.8%	717	13.9%	▲ 14	▲ 2.0%
Profit ratio	3.0%		3.2%		▲ 0.2pt	
UK business (mn of pounds)	4.1		4.9		+0.8	+20.7%
Others	▲ 121	▲ 2.3%	▲ 142	▲ 2.8%	▲ 21	-
Adjustments	53	1.0%	▲ 30	▲ 0.6%	▲ 83	-
Total	5,285	100.0%	5,149	100.0%	▲ 136	▲ 2.6%
Profit ratio	8.6%		8.2%		▲ 0.4pt	

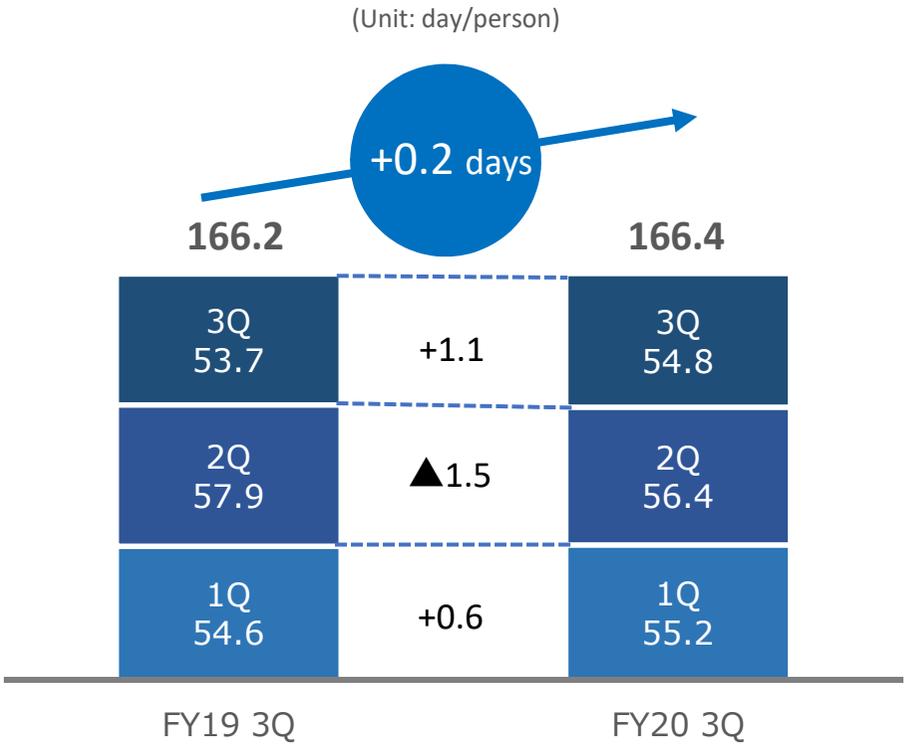
Number of Employees in the Engineer dispatching segment and their operating

- Increased by 675 employees from the end of the previous fiscal year due to continued growth in the number of engineers assigned to the IT field, where demand is high
- Utilization rates improved from the beginning of the fiscal year, but remained at an average level of about 1.5 points lower than at the end of the previous fiscal year.

Number of Employees/Utilization Rates



Operating days (*)

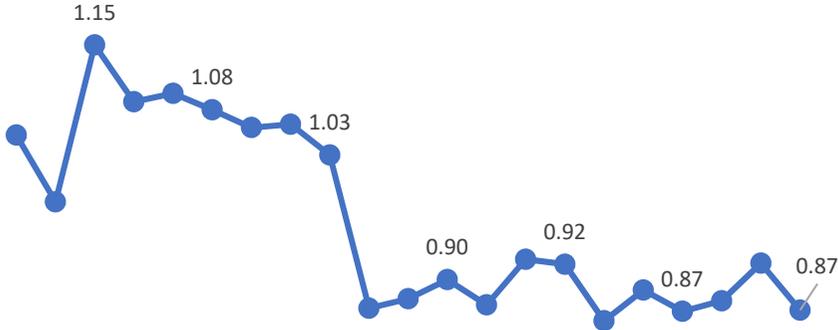


※ Average number of operating days per employee at Benext Technologies ("BNT")

- Since April 2019, overtime hours have remained unchanged declining year-on-year.
- The unit price of contracts does not decline due to the renewal of the same work contract, but the ratio of assignments with relatively low unit prices, such as new grads and inexperienced engineers, will increase and push down the average value

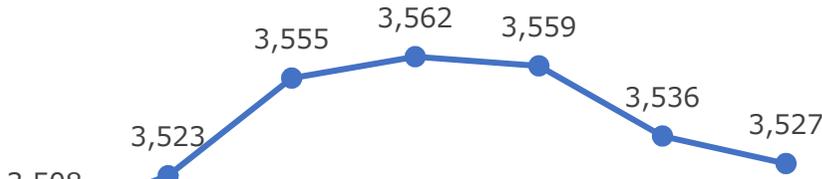
Overtime (*)

(Unit: Time/Day/Person)



Contract unit price of engineers

(Unit: yen/hour/person)



FY19 1Q FY19 2Q FY19 3Q FY19 4Q FY20 1Q FY20 2Q FY20 3Q

※ Average overtime per person in BNT

※ Average contract price per person in BNT

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Revision of Financial Results Forecast (1)

- Effects of the new coronavirus will become apparent in 4Q. We assume that profits decline in the short term due to a substantial slowdown in new hiring, lost work time at client companies, and lower utilization rates.
- From the perspective of maintaining employment and providing lifestyle support, we plan to pay 30,000 yen per person as a special allowance to all over 10,000 employees in Japan to support the response to the new coronavirus. As a result, in 4Q, labor costs will increase more than usual and profits will decline, but we believe this will be necessary.
- All expected impacts are factored in at this point, and the Company is aiming to recover profits in line with the accumulation of earnings in the next fiscal year.

Millions of yen

	FY20				FY19		
	Revised plan	Initial plan	Increase/ Decrease	Vs. forecast	Actual	Increase/ Decrease	YoY
Net sales	82,200	87,000	▲4,800	▲5.5%	81,596	+604	+0.7%
Operating income	4,500	6,500	▲2,000	▲30.8%	5,719	▲1,219	▲21.3%
EBITDA	5,600	7,533	▲1,933	▲25.7%	6,843	▲1,243	▲18.2%
Net income	1,200	3,840	▲2,640	▲68.8%	3,706	▲2,506	▲67.6%
EPS	28.2	90.6	▲62.4	▲68.9%	68.5	▲40.3	▲58.8%

Revision of Financial Results Forecast (Segment)

- Estimate the impact of the new coronavirus as much as possible
- Although existing contracts include some requests for leave and a decrease in overtime, including teleworking, there are hardly any cancellations or terminations.
- Large restrictions on new assignments, the biggest impact being the lack of progress in new hiring and utilization rates in the short term

Millions of yen

		1Q	2Q	3Q	4Q		
		Actual	Actual	Actual	Forecast	Total	Total
Net sales	Engineers	10,703	10,850	11,304	Around 11,400	Around 44,260	82,200
	Manufacturing workers	2,389	2,391	2,237	Around 2,100	Around 9,120	
	Overseas	7,226	7,277	8,190	Around 6,100	Around 28,800	
Operating income	Engineers	1,216	1,346	1,335	Around 400	Around 4,300	4,500
	Manufacturing workers	65	118	72	Slight deficit	200	
	Overseas	27	103	127	Slight surplus	300	
	Others	▲ 34	▲ 101	▲ 78	Same level	▲ 300	
EBITDA	Engineers	1,342	1,471	1,521	466	4,800	5,600
	Manufacturing workers	69	122	77	▲ 28	240	
	Overseas	198	283	272	47	800	
	Others	▲ 35	▲ 47	▲ 89	▲ 69	▲ 240	

The prevention of the spread of the new coronavirus has resulted in a decline in employee salaries due to a decline in operating hours, and unexpected expenditures to maintain or defend livelihoods.

In response to this situation, we have approximately 10,500 domestic employees (as of March 2020).

The Company plans to pay a special allowance of ¥30,000.

It provides micro-support for maintaining employment and maintaining the livelihoods of employees and their families, and helps them to play an active role in the future.

To be paid in June 2020

Full-time employees, contract employees (including outside-time technical employees, skilled employees, in-house employees, and disabled employees)

Target company

BeNEXT Technologies Inc.

BeNEXT Solutions Inc.

Axis Create Inc.

Axis Human Development Inc.

BeNEXT Partners Inc.

BeNEXT With Inc.

(We look forward to the understanding of our shareholders.)

■ Engineer's field: 4Q KPI, etc.

- The number of new graduates hired is expected to be 590, and the number of employees at the end of the fiscal year is expected to be approximately 7,400.
- The utilization rate is expected to be around 94% at the end of the fiscal year, 1.0% lower than at the end of the previous fiscal year. Impact of postponement of new contracts for assignment (including new graduate occupancy)
- Estimated operating days are about 1.5 days less than planned (55.6 days).
- Contract unit prices have been revised in April and tend to be recharged up.
- A special allowance is expected to result in a one-time expense of about 280 million yen.

■ Manufacturing worker's field: 4Q KPI, etc.

- Due to the absence of remote work, sales decrease, but costs are absorbed by compensation for absence of work.
- No sudden retirement has occurred, and the number of employees at the end of the fiscal year is expected to be about 2,200.
- Estimated operating days are expected to have a negative impact of around 3 days on the plan (about 55 days). However, depending on the movement after the lifting of the declaration of the state of emergency.
- Contract unit price expected to remain unchanged
- The special allowance is expected to result in a one-time expense of about 70 million yen (profit can be posted if the special allowance is excluded).

■ Overseas business: 4Q

- UK business earnings are accounted for 3 months late(Jan to Mar. 2020)
- During the three months following the start of the Christmas season, personnel needs declined, and Brexit was decided. Lower labor mobility has been affected by the new coronavirus after March

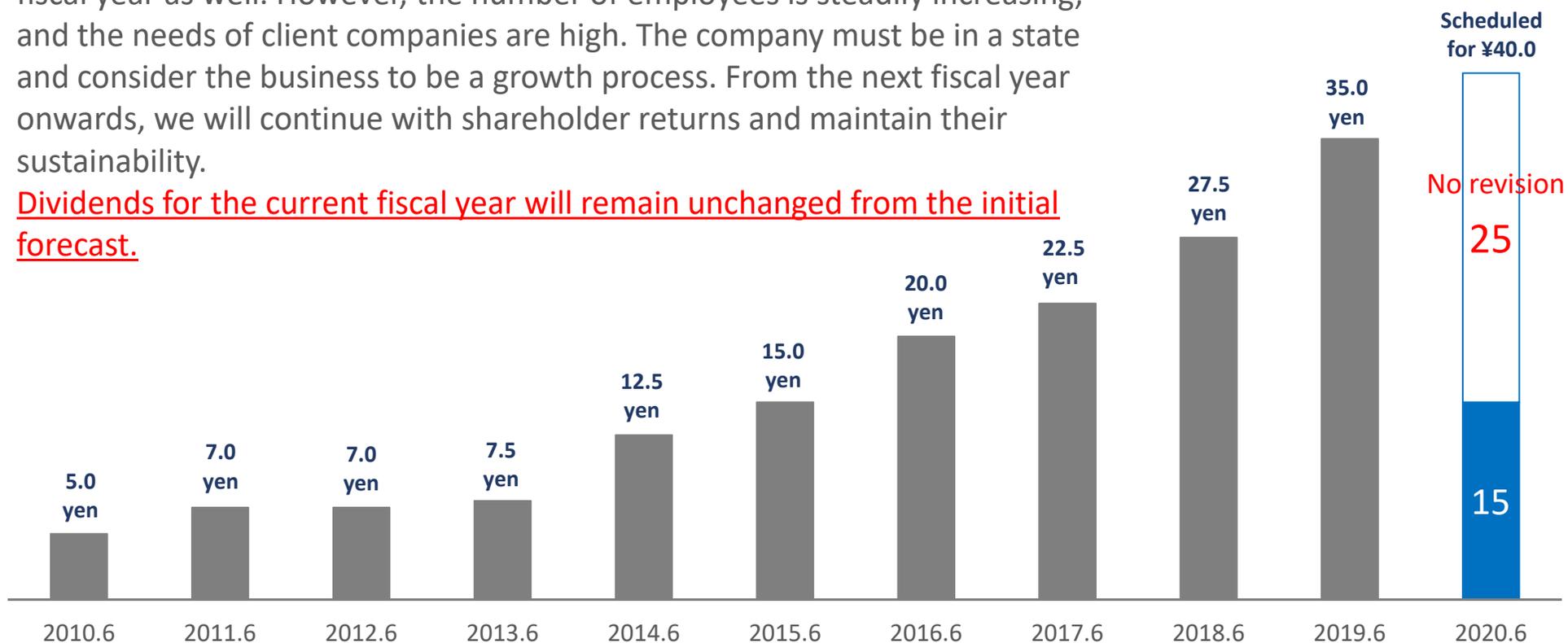
Dividend forecast

- Plan to pay a year-end dividend of 25 yen (YoY+5 yen) and an annual dividend of 40 yen (YoY+5 yen)

Our policy on dividends has not been to set a dividend payout ratio.
We aim for stable dividends.

The impact of the new coronavirus is expected to be considerable in the next fiscal year as well. However, the number of employees is steadily increasing, and the needs of client companies are high. The company must be in a state and consider the business to be a growth process. From the next fiscal year onwards, we will continue with shareholder returns and maintain their sustainability.

Dividends for the current fiscal year will remain unchanged from the initial forecast.



※ The Company conducted a 5-for-1 stock split on July 1, 2010, a 100-for-1 stock split on July 1, 2013, a 2-for-1 stock split on April 1, 2016, and a 2-for-1 stock split on July 1, 2019. The previously stated dividends have been adjusted retroactively.

I Consolidated Results

II Segment Performance

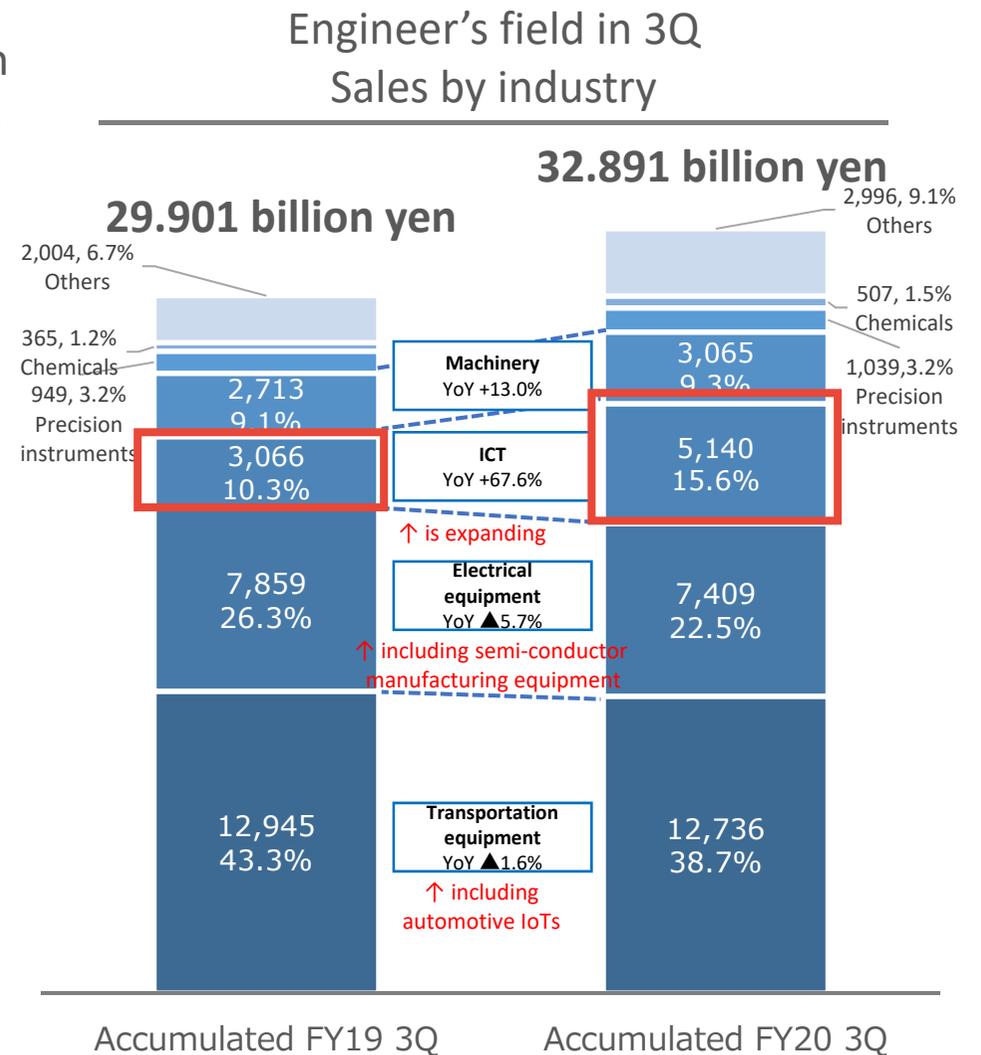
III Earnings and Dividend Forecast

IV Next Term and Medium-Term Management Plan

Approach to business and business results for the next fiscal year (1)

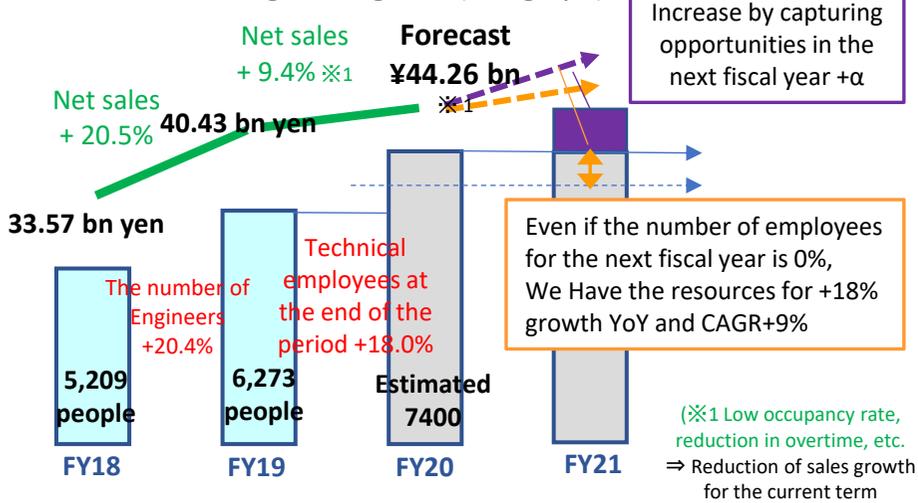
- One-time charges and write-offs that will disappear in the next fiscal year
 - Special allowance: Approx. 350 million yen
 - Temporary M&A expenses: Approx. 80 million yen
 - Amortization of goodwill: Approx. 140 million yen

■ The engineers' needs for IT software and IoT, which we are focusing on, require continuous social responses to the new coronavirus. In a "new normal" environment And we expect this to increase. In addition to networks, security and IoT, Demand for semiconductors can also be captured.

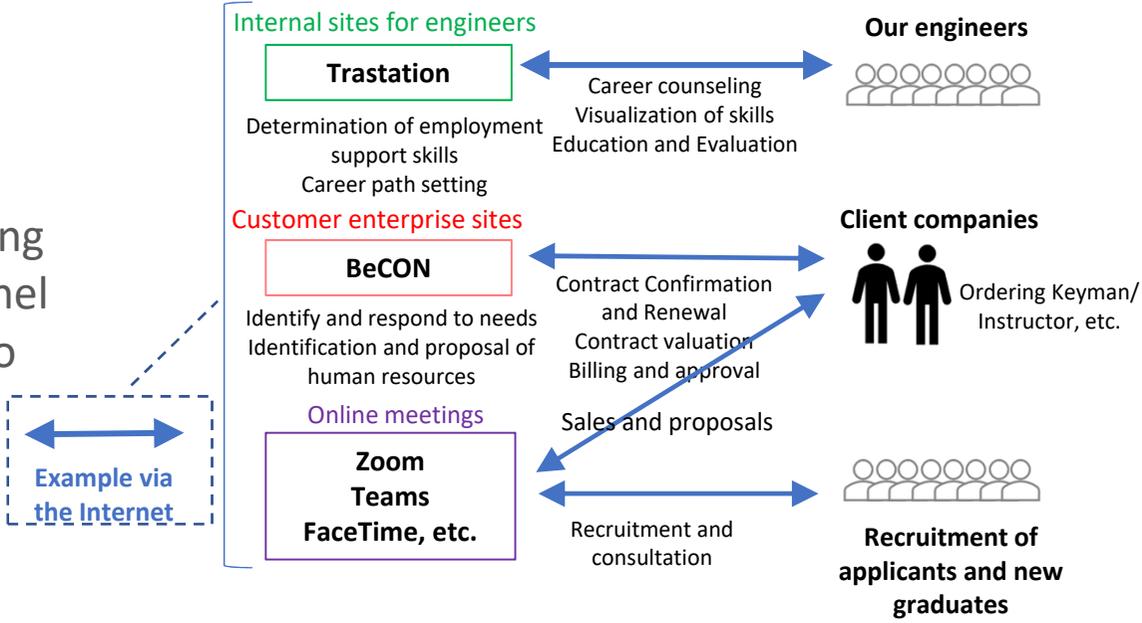


- The number of engineers at the end of the fiscal year is expected to increase by 18% from the previous fiscal year. In addition, we are cultivating new customers and grasping new technology needs. We believe that by capturing future opportunities appropriately, we can respond swiftly to business expansion opportunities.

Correlation between number of technical employees (bar graph) and sales in engineering field (line graph)



- New business styles are starting to move smoothly with the epidemic of the new coronavirus, such as promoting recruitment and interviews fully online, and communicating with engineers' internal sites and key personnel of client companies on a website dedicated to client companies.



※ Each tool continually expands the range and adds functions.

- The medium-term management plan was set for the three-year period starting from July 2019 to June 2022.

Although the first year is in progress, major changes in the business environment, such as the new coronavirus, are unexpected.

- We will closely monitor the business environment until August, the timing of the announcement of full-year financial results for the fiscal year under review.

There is the possibility that the medium-term management plan will be revised.

Supplementary Materials

Financial status Balance table for 3Q

■ Financial position is good. In addition to future M&A, we have secured cash flow to respond flexibly to emergencies.

	FY20 3Q
Current assets	21,666
Cash and deposits	7,848
Of which, receivables	11,930
Fixed assets	9,189
Goodwill	4,903
Total assets	30,855
Liabilities	15,183
Interest-bearing debt	3,548
Current liabilities	13,672
Long-term liabilities	1,511
Net assets	15,672
Shareholders' equity	15,195
Retained earnings	7,400
Total Liabilities & Net Assets	30,855

Liquidity ratio: 158%
 the majority of interest-bearing debt risk hedge by linking factoring (overseas business) to accounts receivable

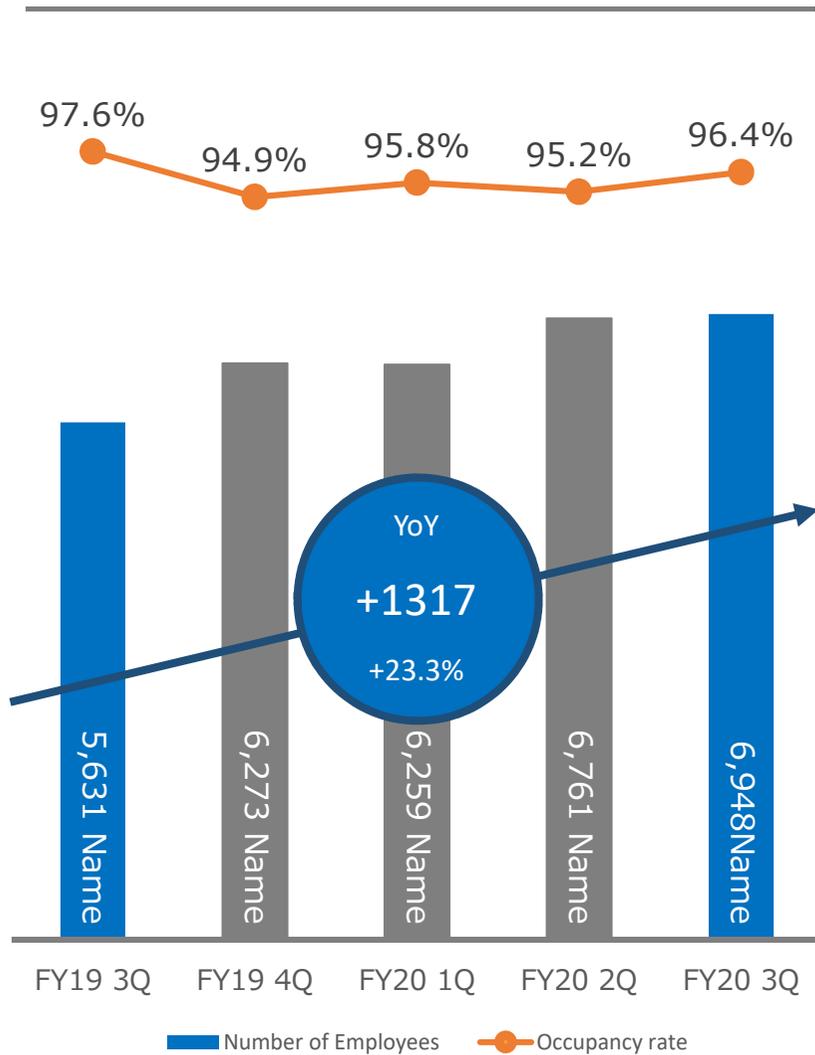
Equity Ratio :49.2%
 With borrowing capacity due to financial soundness

Borrowing limit: ¥7 billion
 • Overdraft limit: ¥4 billion
 • Commitment line: ¥3 billion
 Flexibly utilize demand for funds in a short period of time

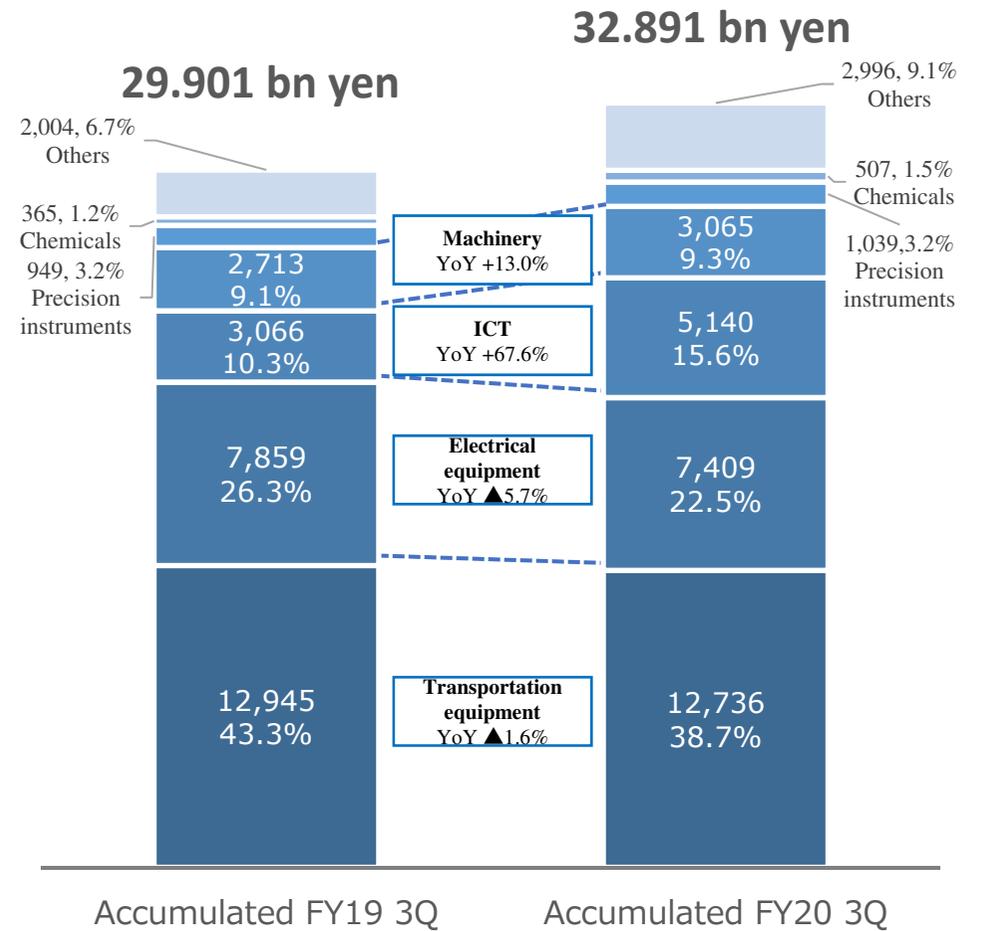
Shareholder Returns
 Stable dividends of ¥7.4 bn are available from retained earnings

Technical field KPI

Number of Employees and Utilization Rate

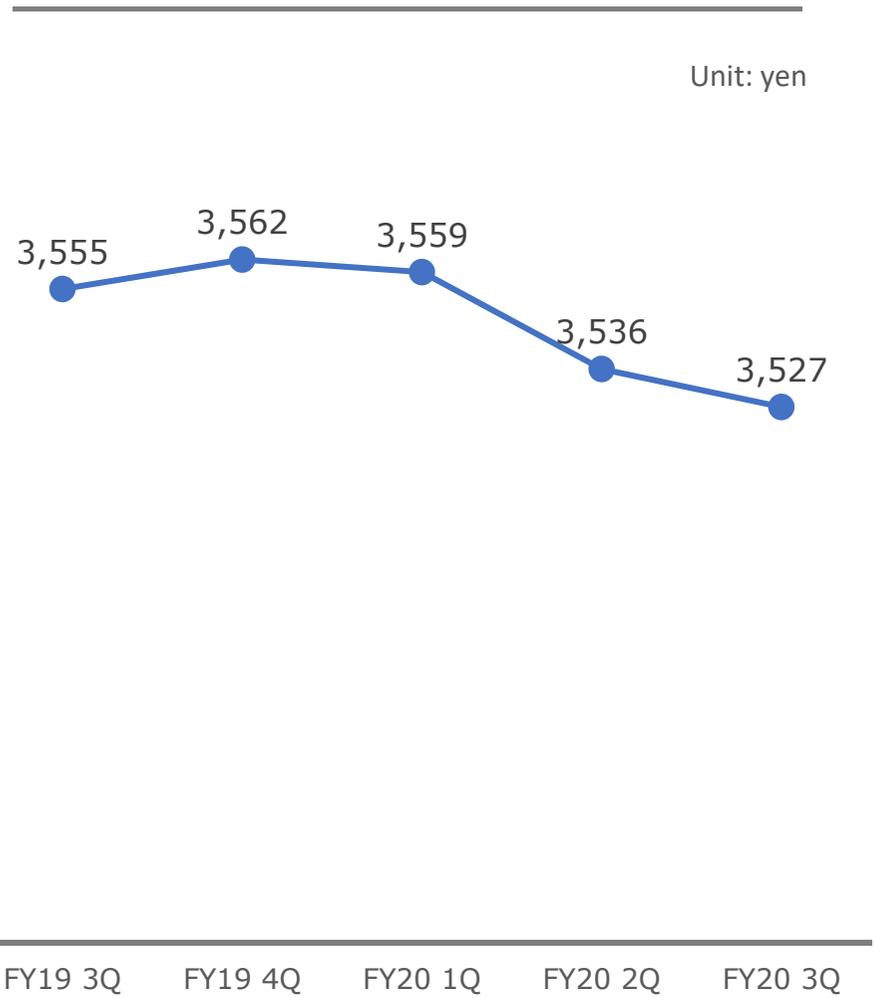


Sales by industry

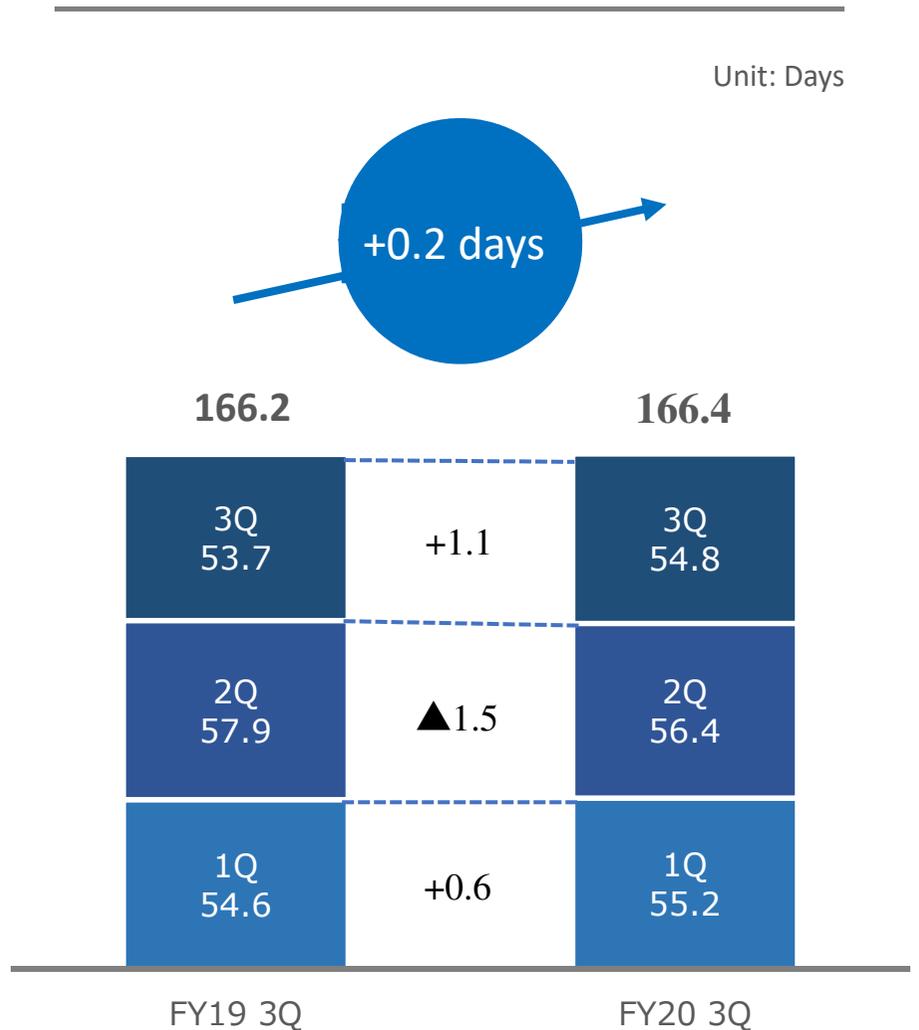


Technical field KPI (Benex Technologies)

Contract unit price(*)



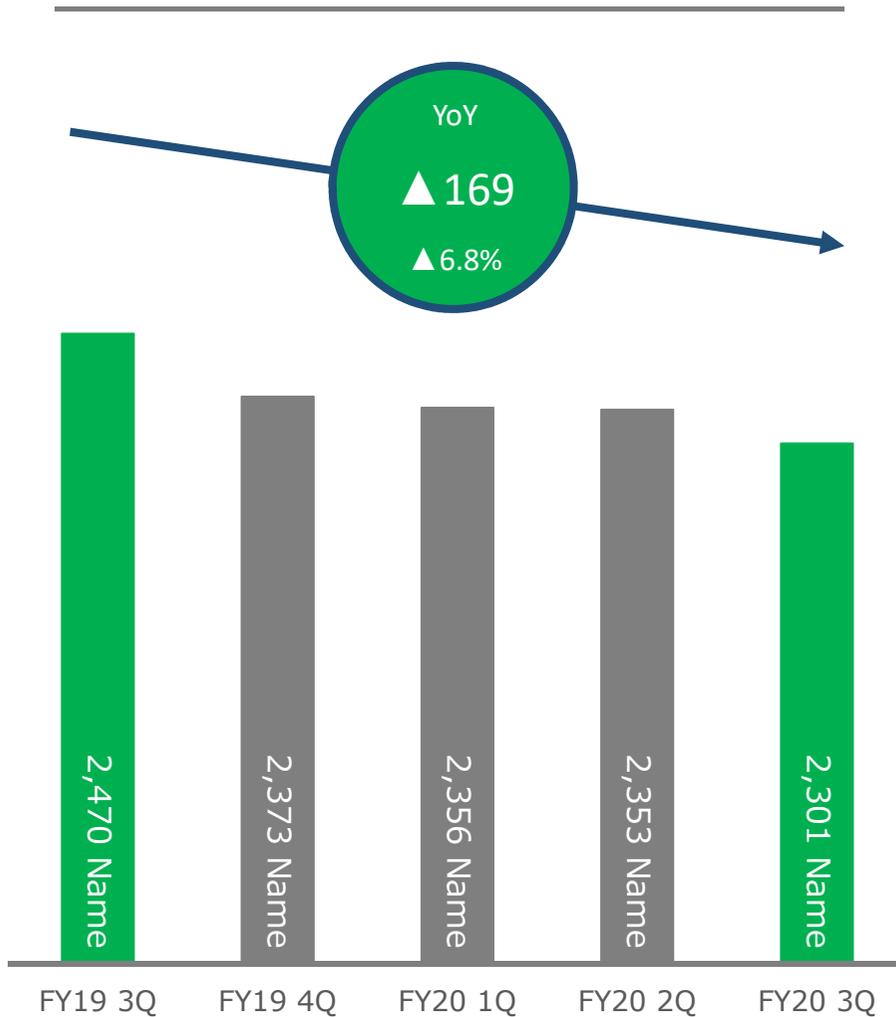
Number of Operating days



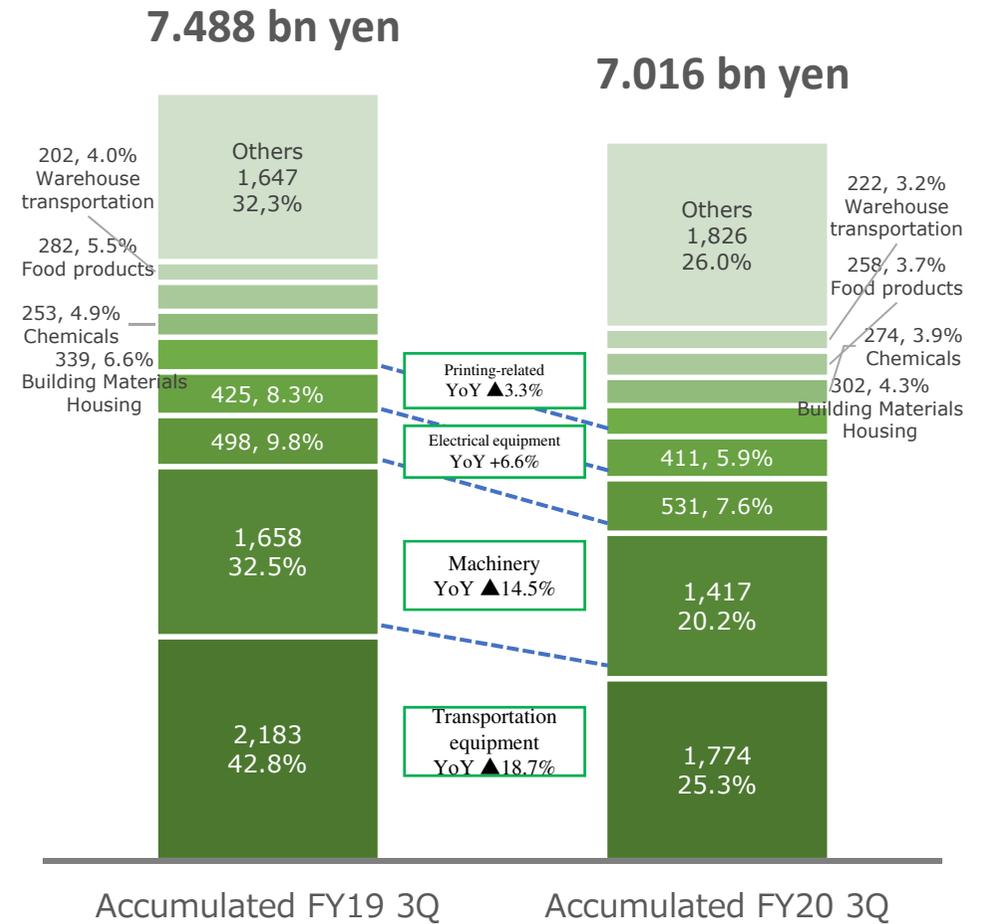
※ Contract sales are not included.

Manufacturing field KPI

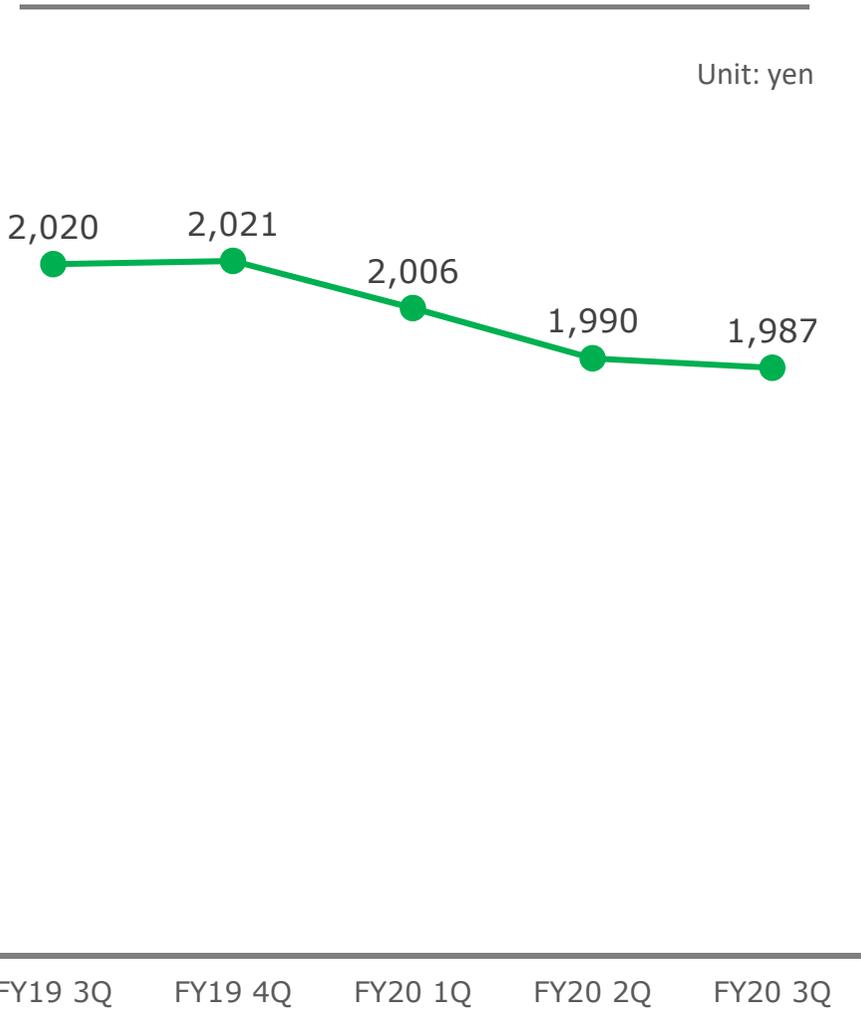
Number of Employees



Sales by industry

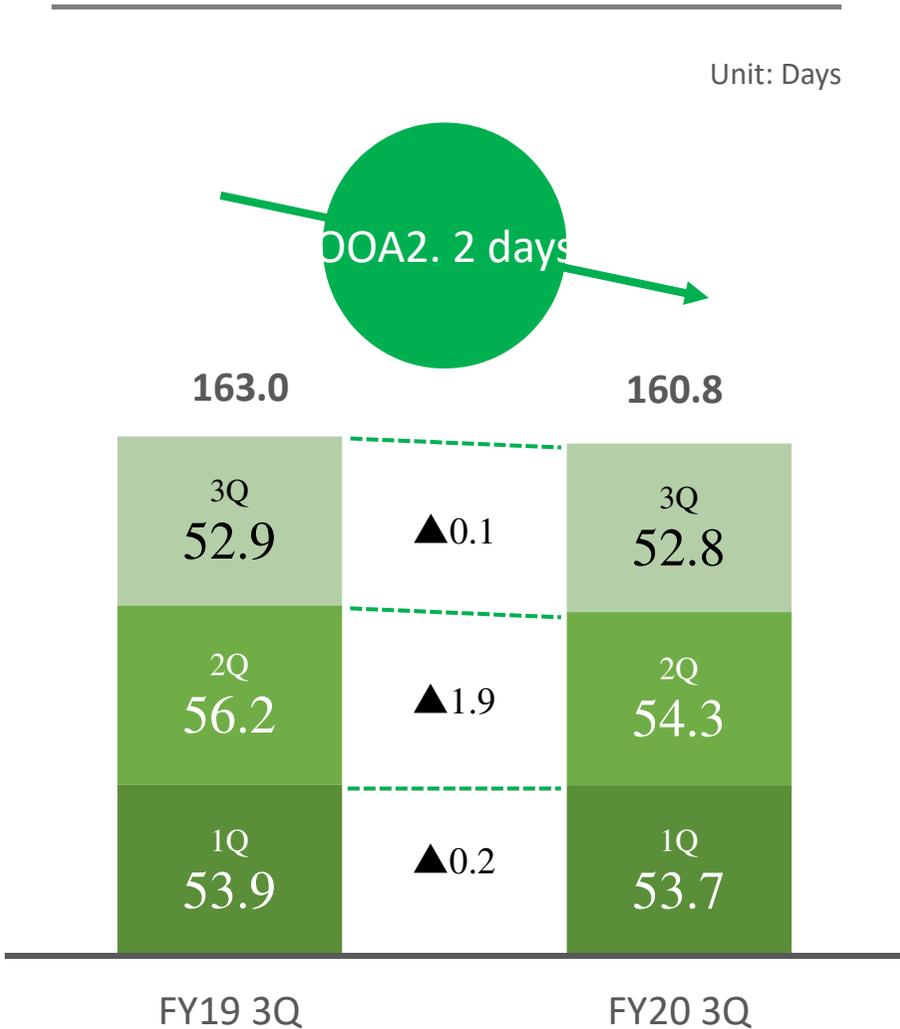


Contract unit price(*)



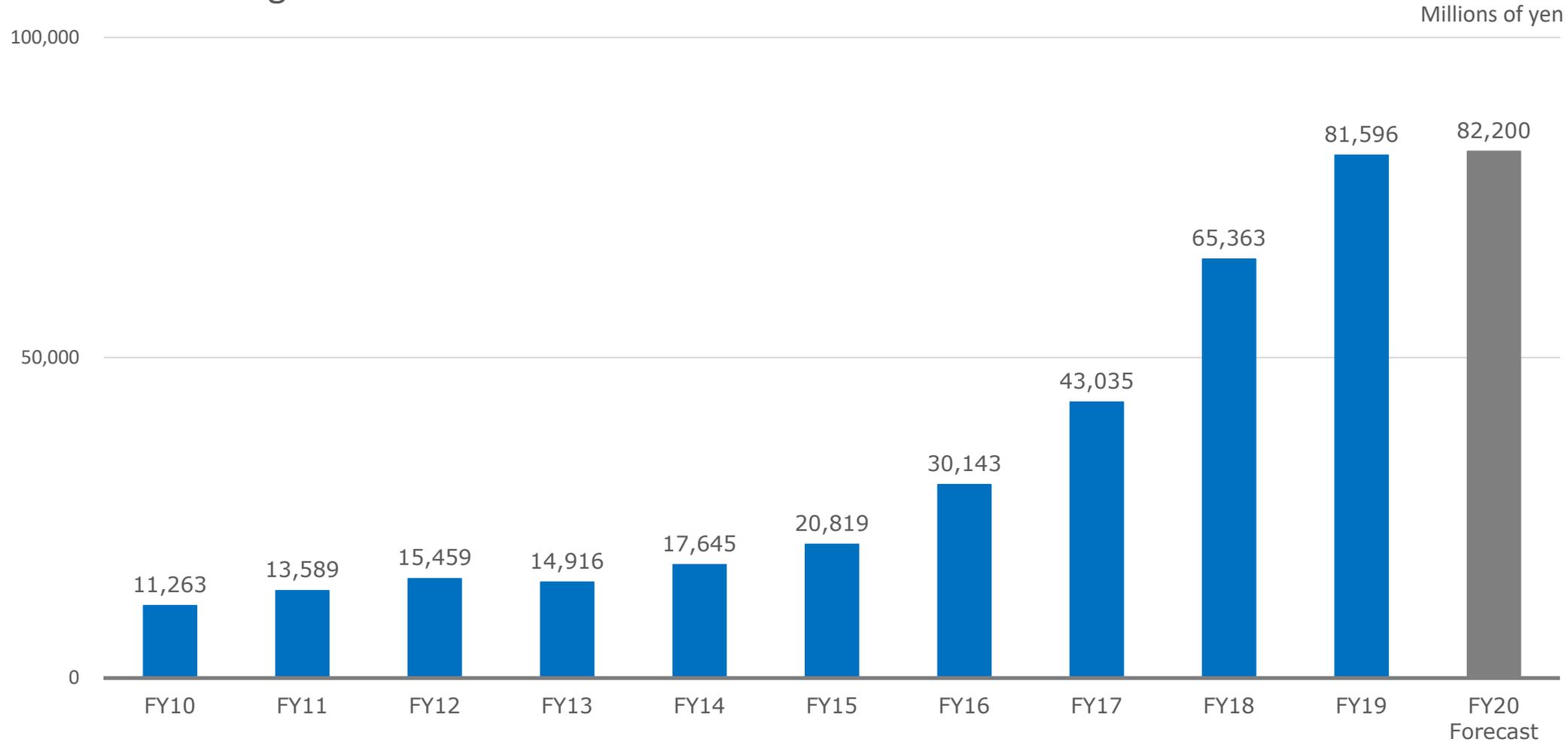
※ Contract sales are not included.

Operating days YoY

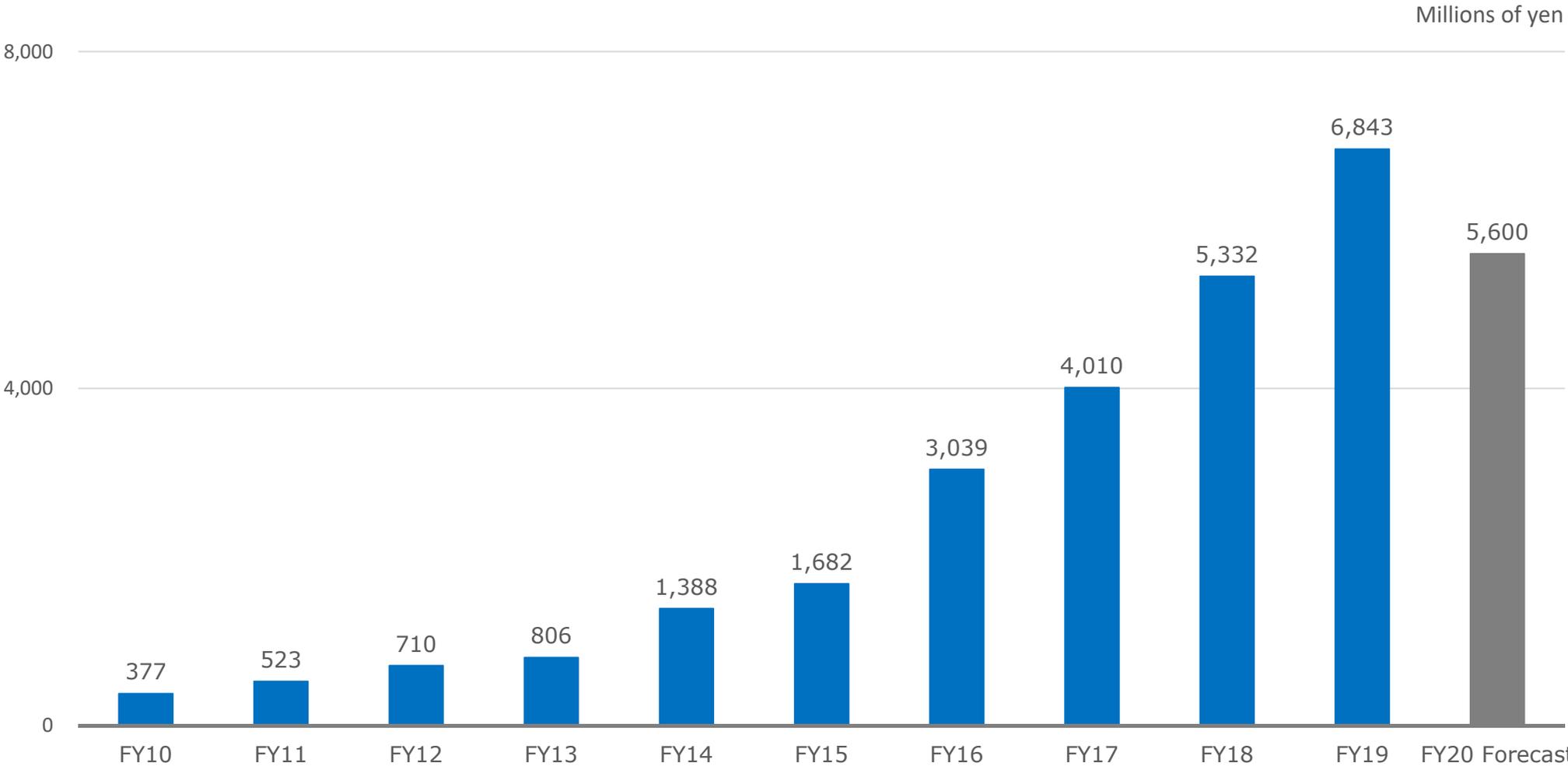


Net sales

- Sales increased for six consecutive years from FY13 to FY19
- Revenue is expected to increase for the seventh consecutive fiscal year even after the revision of the earnings forecast.



- Increased for 10 consecutive years from FY09 to FY19
- Revised from the initial plan of ¥7.5 bn to ¥5.6 bn in consideration of the business environment



Disclaimer

This material is intended to provide an explanation of our business and is not intended to solicit investments in securities issued by us.

The estimates and projections contained in these materials are based on our judgment at the time this materials were prepared, and we do not guarantee the accuracy of the information. The information is subject to change without prior notice.

Please be advised that we and the information provider will not be liable for any damage caused by this information.

Contact: Benex Group Investor Relations Office
TEL:03-5777-7727 E-mail: ir-bnt@benext.jp

【Notice of Appointment as Advisor】

Mr. Hiroshi Sato joined our company (Benext Group, Inc.) on May 15, 2020 as the position of advisor.

Mr. Sato is a former CFO of TechnoPro Holdings and has a background of chief financial officers at several listed companies and is well versed in finance, accounting, management planning, etc.

Through his appointment as advisor, he will engage in enhancing the corporate value of BeNEXT and playing an interface with the capital market.

I believe analysts and fund managers are often acquainted with Mr. Sato. We look forward to doing more business with you.

<Biographies of Mr. Sato>

Apr 1979 Joined NEC Corporation

Dec 2002 NEC Electronics Co., Ltd. (CFO)

Oct 2003 Executive Officer, Head of Financial Headquarters (CFO)

Apr 2010 Executive Officer, CFO and General Manager of Planning Department, NEC Networks & System Integration Corporation

Apr 2013 Executive Officer and CFO

Feb 2014 Representative director, CFO, Managing Executive Officer, TechnoPro Holdings, Inc.

July 2014 Director (in charge of management) and Executive Officer of Techno-Pro Co., Ltd.

May 2020 Advisor of the Company