

Construction technician dispatching business, mainstream of the Company, saw a significant surge in sales and profit in FY2024/3 3Q The demand for the business is expected to be strong for the time being

■ Earnings Result Summary

COPRO-HOLDINGS Co., Ltd., (COPRO) announced its 3Q FY24/3 (9 months) results. Key consolidated figures included net sales of ¥17,496 mn (+28.8% YoY), operating profit of ¥1,406 mn (+63.0% YoY), ordinary profit of ¥1,480 mn (+70.8% YoY), and profit attributable to owners of parent of ¥936 mn (+79.7% YoY). **COPRO-CONSTRUCTION Co., Ltd.**, (formerly COPRO-ENGINEERED), which operates the Company's core business of construction technician dispatching, proactively increased the number of recruits amid the chronically serious shortage of labor against the backdrop of regulations capping overtime work to start in April 2024 and big construction projects. Sharp expansion of construction technician dispatching business drove the COPRO's entire earnings growth. The number of construction technicians increased by 803 (+31.2% YoY) to 3,373 (2,570 at the end of 3Q 23/3).

■ FY24/3 full-year forecasts

The Company did not change the full-year forecasts for FY24/3, which had been revised upward at the time of the announcement of the business results for 1H FY24/3. The forecasts consist of net sales of ¥24,298 mn (+29.3% YoY), operating profit of ¥2,042 mn (+54.5% YoY), ordinary profit of ¥2,115 mn (59.7% YoY) and profit attributable to owners of parent of ¥1,361 (+57.4% YoY). DPS per year is expected to reach ¥45, a sharp growth from ¥25 for FY23/3. The Company estimates that the demand for temporary staff dispatching will remain strong in 4Q FY24/3, and will continue to control SG&A expenses flexibly. The Company has continued to recruit many technicians and engineers and the number of them is expected to reach 4,271 as of the end of FY24/3, a record high.

■ Share price insight

The share price shot up approximately 3.2 times over the last one year. As of February 22, PER is 25.5x against the Company's FY24/3 forecasts and PBR is 4.89x. The favorable business performance supported by the strong demand for the temp staff dispatching in the construction industry, which has been faced with labor shortage, and its active shareholder return policy have increased the Company's valuation. In terms of operating profit growth rate and dividend payment ratio for FY24/3, the Company is expected to surpass the peers in the same industry. This is because the Company's sales exposure to construction industry, which has been in a serious shortage of labor, is even higher than peers.

FY	Net Sales (¥mn)	YoY (%)	Oper. profit (¥mn)	YoY (%)	Ordin. Profit (¥mn)	YoY (%)	Net profit (¥mn)	YoY (%)	EPS* (yen)	DPS* (yen)
FY2019/3	10,819	20.7	1,344	50.3	1,336	51.1	938	54.4	113.8	21.0
FY2020/3	13,122	21.3	1,592	18.4	1,585	18.6	1,084	15.5	115.1	30.0
FY2021/3	14,836	13.1	1,437	-9.7	1,439	-9.2	1,009	-6.9	53.4	37.5
FY2022/3	15,589	5.1	1,621	12.8	1,619	12.5	962	-4.6	51.1	20.0
FY2023/3	18,791	20.5	1,321	-18.5	1,324	-18.2	864	-10.2	46.5	25.0
FY2024/3 CE	24,298	29.3	2,042	54.5	2,115	59.7	1,361	57.4	72.3	45.0
FY2023/3 3Q	13,584	18.7	862	-23.1	866	-22.6	521	-15.9	28.1	-
FY2024/3 3Q	17,496	28.8	1,406	63.0	1,480	70.8	936	79.7	49.9	-

Source: Compiled by SIR from TANSWIN financial statements.

Note: A two-for-one stock split of common stock was conducted on September 30, 2023.

*EPS and DPS are retroactively adjusted to reflect a 1-for-2 stock split.

3Q Follow-up



Focus Point

Strength is the construction technician dispatching business. Has continued to generate net sales growth for 17 years since its establishment due to extremely strong financial position. Focus is on aggressive shareholder return policy.

Key Indicators

Share price (2/26)	1,795
YH (2/22)	1,879
YL (2/14)	1,495
10YH (24/2/22)	1,879
10YL (20/4/22)	365
Shrs out. (mn shrs)	20.00
Mkt cap (¥ bn)	36.6
CAP ratio (23/3)	71.2%
24.03 P/E (CE)	25.5
23.03 P/B (act)	4.89x
23.03 ROE (act)	12.6%
24.03 DY (CE)	2.5%



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3Q FY24/3 Results

The core business of construction technician dispatching expanded with a record high in the number of recruits.

For a rise in the number of recruits, active advance use of expenses such as advertising spending and the like was made.

Summary

COPRO recorded consolidated net sales of ¥17,496 mn (+28.8% YoY), operating profit of ¥1,406 mn (+63.0% YoY), ordinary profit of ¥1,480 mn (+70.8% YoY), and consolidated net profit of ¥936 mn (+79.7% YoY). The Company actively recruited a great many construction technicians to meet the stronger demand for temporary staff dispatching along with a serious shortage of labor caused by regulations capping overtime work to start in April 2024 and big construction projects. Consequently, the business of construction technician dispatching expanded, achieving an impressive increase in sales and profits. The number of registered technicians and engineers increased by 883 to 3,709 (+31.2% YoY).

COPRO-ENGINEERED, which had engaged in the Company's core business, changed its name to **COPRO CONSTRUCTION. Co., Ltd.** in 3Q FY24/3. ATMOS and VALUE ARK CONSULTING merged and changed the name to **COPRO TECHNOLOGY. Co., Ltd.** as of October 1, 2023, which provides mechanical design and development engineer dispatching and contracting services and SES (system engineering service). The business results by segment and of the consolidated subsidiaries for 3Q FY24/3 are shown below.

Construction technician dispatching business

COPRO CONSTRUCTION. Co., Ltd. (hereafter, COPRO CN), which thought it the most important to establish the system to get hold of the technicians, a driving force for the business expansion of the Company, to well satisfy the stronger demand caused by regulations capping overtime work to start this coming April, kept strengthening recruiting activities. In recruitment, COPRO CN not only actively but cost-efficiently used recruiting expenses as it did in the previous fiscal year. Besides, COPRO CN introduced a job application management system for reinforcement of recruiting activities. The system aims to mainly help reduce lead time by automatically setting interviews and to increase the number of interviews, the first step in the recruiting process. In April 2023, COPRO CN was able to employ 154 new graduate technicians, up by 100 YoY, establishing another strong channel for recruiting other than mid-career employment.

Recruiting technicians very independently and very adroitly brought in a sharper increase in the number of technicians recruited than the average increase in the same industry. The number came to 1,539, up by 514 (+50.1% YoY), including the 154 new graduate technicians. The net increase after reducing the number of retirees was +596. The total number of construction technicians registered at the end of 3Q FY24/3 strikingly increased by 803 (+31.2% YoY) to 3,373 from 2,570 in 3Q FY23/3. The average utilization rate during the period of 3Q FY24/3 was 94.5%, remarkably high.

COPRO CN's sales in 3Q FY24/3 rose notably to ¥15,991 mn (+25.6% YoY) supported by a record high in the number of recruits, while operating profit increased by 15.5% YoY, absorbing a hike in training and personnel expenses resulting from active recruitment of the technicians.

Mechanical design and development engineer dispatching and contracting and SES (System Engineering Service) business

COPRO TECHNOLOGY. Co., Ltd. (hereafter, COPRO TC), established by the merger of ATMOS and VALUE ARK CONSULTING, unified its sales and recruiting structures, and consolidated its administrative divisions into the pure holding company. Especially in recruitment, COPRO TC strengthened its independent recruiting sites by opening "Bscareer Mechanical and Electrical" in November 2023 after opening "Bscareer IT", IT project introduction site, in March 2023.

As of November 30, 2023, COPRO TC took over SES business (with the dispatching business and quasi-assignment contracts) from PIC, which operates the web/software development and system consulting business. Thus, COPRO TC was able to make progress in building a foundation for business expansion as it was able to take over not merely the client network, such as main system integrators, but also highly skilled IT engineers. Therefore, the number of engineers at the end of 3Q FY24/3 increased by 80 (+31.3% YoY) to 336 (256 in 3Q FY23/3).

Taking over the business above mentioned from PIC, COPRO TC was able to strengthen SES business and its sales reached ¥1,505 mn (+76.7% YoY). Gross profit rose sharply as well. Operating profit, which recorded ¥-20 mn (¥-3 mn 3Q FY23/3), was affected by the intentionally upfront expenses such as advertising spending to increase the number of recruits.

The table below shows financial results by subsidiaries. Concerning the results of COPRO CN and COPRO TC, the details are mentioned above, while COPRO-HD showed +¥156 mn YoY in profit contribution by streamlining back-office operations along with lower personnel and stock-based compensation costs in the head office.

Financial Results by Subsidiaries (¥mn)

	FY23/3			FY24/3		
	3Q	YoY	CHG	3Q	YoY	CHG
Net sales	13,584	18.7%	2,144	17,496	28.8%	3,912
COPRO CN	12,732	15.4%	1,699	15,991	25.6%	3,258
COPRO TC	852	109.1%	444	1,505	76.7%	653
Gross profit	4,054	14.8%	524	4,880	20.4%	826
COPRO CN	3,754	8.9%	307	4,459	18.8%	705
COPRO TC	299	261.0%	216	420	40.4%	121
SG&A expenses	3,191	32.5%	782	3,474	8.9%	282
COPRO CN	1,940	42.6%	579	2,240	15.5%	300
COPRO TC	303	71.7%	126	441	45.5%	138
COPRO-HD and others	947	8.8%	76	791	-16.5%	-156
Operating profit	862	-23.1%	(258)	1,406	63.0%	543
COPRO CN	1,814	-13.0%	(271)	2,219	22.3%	404
COPRO TC	(3)	-	89	(20)	-	(16)
COPRO-HD and others	(947)	-	(76)	(791)	-	156

Source: Compiled by SIR from the Company IR material.

*Figures for subsidiaries are adjusted for consolidation after eliminating intra-group transactions.

The favorable business environment is to continue

The number of construction workers declined by 30.1% to 4.79 million in 2022 from the peak of 6.85 million in 1997. Under circumstances like this, according to the Company's research, the market for human resource services for the construction industry is expected to grow from ¥530 bn in FY2021 to ¥650 bn in FY2026.

According to the Company, there are two reasons why the market for human resource services for the construction industry is to grow. Firstly, considering restrictions on overtime work to come into effect this coming April and the resulting shortage of labor, the construction industry, which has suffered from a decrease in the number of workers, is forced to depend on the temporary staff dispatching service. Secondly, the need in the construction industry for use of the temporary staff dispatching services will get much

Really favorable business environment for the Company both on a macro and a semi-macro levels.

Net sales and profits will hit a record high

(continued)

stronger due to many large projects to be continued such as redevelopment work in the Tokyo metropolitan area, the Osaka-Kansai Expo and Integrated Resort development plan, both to be held in Osaka Bay, new construction work of some semiconductor production plants, and new construction/renovation projects of social infrastructure through Japan.

FY24/3 Full-year Earnings Forecasts

COPRO's full-year consolidated earnings forecasts for FY24/3 are as follows: net sales of ¥24,298 mn (+29.3% YoY), operating profit of ¥2,042 mn (+54.5% YoY), ordinary profit of ¥2,115 mn (+59.7% YoY), and net profit of ¥1,361 mn (+57.4% YoY). The Company sticks to these forecasts, which are based on the upward revision at the time of announcement of financial result of 1H 24/3. The annual DPS is expected to sharply increase to ¥45 from ¥25 for FY23/3. ¥25 reflects the stock split on October 1, 2023, retroactively.

The Company expects that the demand for the temporary staff dispatching service will remain strong in 4Q, supporting the Company's forecasts, but that it will keep an eye on controlling SG&A expenses. The Company considers it very important to establish a system to increase sales steadily while carefully controlling costs. In addition, it will keep preferably capturing many technicians by actively using recruiting expenses and the like, as planned to make a good preparation for the expectedly stronger demand caused by restrictions on overtime work for the construction industry to start this coming April. The number of technicians and engineers is expected to reach 4,271 at the end of 4Q FY24/3.

FY24/3 Company Earnings Forecasts (¥mn)

	FY2023/3	YoY	2024/3(Forecast)	YoY
Net sales	18,791	20.5%	24,298	29.3%
Gross profit	5,575	15.1%	7,065	26.7%
SG&A expenses	4,253	32.0%	5,023	18.1%
Operating profit	1,321	-18.5%	2,042	54.5%
Non-GAAP OP	1,606	-12.8%	2,342	45.7%
Ordinary profit	1,324	-18.2%	2,115	59.7%
Profit attributable to owners of parent	864	-10.2%	1,361	57.4%
EPS (¥)	46.6	-8.8%	72.3	55.2%
No. of consolidated technicians (person as of FY end)	3,036	37.9%	4,271	40.7%

Source: Compiled by SIR from the Company IR material.

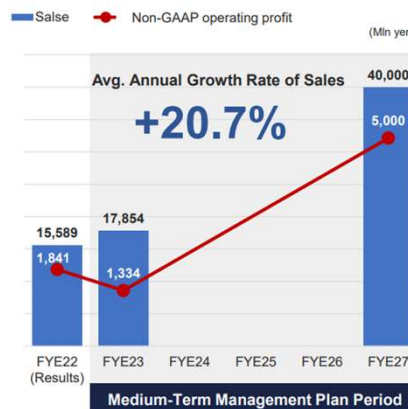
Medium-Term Management Plan

Currently, the Company has been implementing the Medium-Term Management Plan "COPRO Group Build the Future 2027," which was announced in May 2022 and covers the five-year period from FY23/3 through FY27/3. Over those five years, the COPRO Group, which dispatches temporary staff, is working to build "Technician Support Platform" to proactively support career development for technicians and engineers. The Company believes that this platform will create its new business model that can make it possible for both the experienced workers in the industry and the new graduates/workers with no industry experience to work long without worrying about the future, gaining experience as technicians or engineers. The Company also believes that this platform will be able to help the Company's business expand as the customers can enjoy the greater enterprise value provided by this business model.

The specific targets for FY27/3 include net sales of ¥40,000 mn, non-GAAP operating profit of ¥5,000 mn, and the consolidated number of technicians and engineers recruited for dispatching of 6,200. Non-GAAP operating profit is the sum of operating profit, depreciation, goodwill amortization, and stock-based compensation expenses, and is often used as an indicator of cash-base earnings power.

The Company, which is in the second term of the Plan currently, has made greater progress against the targets initiated in 2022 May. The Company's core business of construction technician dispatching has enjoyed a favorable external business environment. The application of overtime caps to start in April 2024 on a macro level and a lot of large construction projects on a semi-macro level have supported the environment. Taking advantage of the environment, where the demand for temporary staff dispatching has been increasingly strong, the Company plans to aggressively recruit technicians and engineers.

**Mid-Term Management Plan
– Financial performance targets**



FYE2027 Targets

- Sales: ¥40 bn
- Non-GAAP Operating Profit: ¥5 bn
- No. of Technicians (Consolidated at FY end): 6,200

Source: The Company IR material

Share price insight

A remarkable change in earnings performance and dividend payout, much surpassing the others in the industry.

The current share price of ¥1,832 as of February 22 is very close to a high of the 52-week price range (between ¥1,879, a high on February 22, 2024 and ¥577, a low on March 13, 2023). SIR believes that the share price increase reflects the expansion of earnings performance appreciating the strong demand for temporary staff dispatching in the construction industry, which has been faced with a shortage of labor, and the Company's active shareholder return policy. Based on the current share price, PER is 25.5x against the Company's forecasted EPS for FY24/3 and PBR is 4.89x, which is higher than the average of 16.3x of PER and 2.91x PBR of the other 5 companies in the same industry, which provides the temporary staff dispatching for construction and plant engineering industries as well as for manufacturing and IT industries. SIR estimates that some of the reasons why the valuation multiples of the Company are higher than those of peers could be the fact that the Company's sales exposure to the construction industry, which is suffering from a shortage of labor, is much higher than that of peers. The impact on the entire earnings, as a whole, becomes huge, compared with the others. In fact, the Company's forecast for FY24/3 shows an increase of 54.5% in operating profit YoY, while the forecast of peers posts a decrease of 16.6% YoY on average. Of the five companies, the two forecast a decrease in profits, while the other three foretell an increase in profits of around 10%. The Company's 12.6% of ROE for FY23/3 is lower than 17.7%, an average of the other 5 companies. However, given that the Company's forecast for net profit growth for FY24/3 is +57.4% YoY, the expected ROE for FY24/3 could be higher than peers. The Company's dividend payout ratio of 62.2% for FY24/3 also indicates its notable activeness in the shareholder return policy.

Comparison of Valuation with Peers

Comparison of Valuation	PER ⁽²⁾ (x)	PBR ⁽³⁾ (x)	DY ⁽⁴⁾ (%)	Payout ratio ⁽⁵⁾ (%)	Expected OP change ratio ⁽⁶⁾ (%)	ROE ⁽⁷⁾ (%)
COPRO	25.5	4.89	2.5	62.2	54.5	12.6
5 comparable companies of temporary staff dispatching for IT and manufacturing, including construction and plants ⁽¹⁾	16.3	2.91	3.2	49.4	-16.6	17.7

Source: Compiled by SIR from SPEEDA data. Share prices are calculated using the closing price on February 22.

Note: (1) TechnoPro Holdings, Inc., Open Up Group Inc., UT Group Co., Ltd., WILL GROUP, INC., and WILLTEC Co., Ltd. OUTSOURCING Inc., a major player in the industry, is excluded as it has announced an MBO and the prospect of delisting. (2)PER= market capitalization based on the most recent share prices/net profits forecasted by the companies, (3) PBR = market cap. based on the most recent share prices/total net assets of the most recent 3Q results, (4) Dividend yield = estimated DPS /the most recent share prices, (5) Dividend Payout Ratio = estimated DPS/EPS forecasted by the companies, (6) Change in operating profit for the current fiscal year forecasted by the companies, (7) ROE = net profit for the previous fiscal year/ the term-average of shareholders' equity and other capital for the previous two fiscal years.

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