

## FY24/3 2Q achieved significant increases in both sales and profits Profits soundly beat initial forecasts and the firm increased the 2H dividend

### ■ Earnings Summary

COPRO-HOLDINGS Co., Ltd., (COPRO) announced its 2Q FY24/3 results after market close on Tuesday, November 14, 2023. Key consolidated figures included net sales of ¥11,137 mn (+28.5% YoY), operating profit of ¥737 mn (+56.9% YoY), ordinary profit of ¥810 mn (+71.8% YoY), and net income attributable to the parent company of ¥510 mn (+81.9% YoY). Sales were largely in line with initial forecasts, while profits were 61.4% higher than initial forecasts, mainly due to lower back-office-related labor costs. The company's full-year forecast for FY24/3 was also revised up from the initial forecast, reflecting 2Q upswing.

### ■ 2Q Trends by Business Segment

COPRO-ENGINEERED, which operates the company's core business of construction technician dispatching, saw a significant increase in sales due to record numbers of recruits. Operating profit increased by ¥169 mn year-on-year, absorbing an increase in standby labor costs during the training period, recruitment fees and labor costs due to the 1Q increase in the number of new graduate engineers. ATMOS, which provides mechanical design and development engineer dispatching and contracting services, recorded a significant increase in net sales and gross profit owing to improved unit sales prices and a lower cost of sales ratio, while a lower SG&A ratio also contributed to a ¥29 mn increase in operating profit YoY. Value Ark Consulting, a system engineering services (SES) company, reported an operating profit decline of ¥20 mn YoY, due to prior expenses from aggressive advertising and promotional spending. In head office costs, although SG&A expenses increased by 10.2% YoY in 2Q, they were significantly lower than the increase in sales. This was due to lower personnel and stock-based compensation costs as a result of streamlining back-office operations. Thus, the SG&A-to-sales ratio was 20.9%, down significantly from 24.4% in the previous 2Q.

### ■ FY24/3 full-year forecasts

The FY24/3 full-year forecast was revised up from the initial forecast due to exceeded 2Q results. Although demand for human resources will remain strong from 3Q onwards and administrative costs will continue to be controlled, the company cites its policy of flexibly investing in recruitment and other costs to ensure that it can capture growing demand in line with the application of overtime caps to the construction industry in April 2024. Further, it needs to secure as many engineers as possible, who are the foundation of business growth. These are the reasons that the firm left its 2H forecasts unchanged. Also, the Company decided to increase 2H DPS by 5 yen, resulting in 45 yen for full-year DPS.

FY	Net Sales (¥mn)	YoY (%)	Oper. profit (¥mn)	YoY (%)	Ordin. Profit (¥mn)	YoY (%)	Net profit (¥mn)	YoY (%)	EPS <sup>*(2)</sup> (yen)	DPS <sup>*(2)</sup> (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 <sup>(1)</sup>	15,589	5.1	1,621	12.8	1,619	12.5	962	(4.6)	51.1	20.0
FY2023/3 <sup>(2)</sup>	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 2Q	8,670	17.1	469	-25.7	472	(25.2)	280	(14.6)	14.9	5.0
FY2024/3 2Q	11,137	28.5	737	56.9	810	71.8	510	81.9	26.2	15.0

Source: Compiled by SIR from TANSHIN financial statements.

\* (1) The percentage change from the previous year is not shown due to the adoption of the "Accounting Standard for Revenue Recognition" from the beginning of 1Q FY2022/3. Note\*(2) : A two-for-one stock split of common stock was conducted on October 1, 2023. EPS and DPS are retroactively adjusted to reflect a 1-for-2 stock split.

## 2Q 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 (23/11/28 cp)	1,532
YH (23/11/28 cp)	1,532
YL (23/1/5 cp)	504.5
10YH (23/11/16)	1,577
10YL (20/4/22)	295.5
Shrs out. (mn shrs)	20.00
Mkt cap (¥ bn)	30.64
EV(¥ bn)	25.65
CAP ratio (23/3)	71.2%
24.03 P/E (CE)	21.2x
23.03 P/B (act)	2.0x
23.03 ROE (act)	12.6%
24.03 DY (CE)	2.9%

### 1Y stock price



Source: TradingView

### Team coverage

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## 2Q FY24/3 Results

Profits rise as recruits for the construction technician dispatch business, the core business, hit historic high

SES business actively spends on advertising

### Summary

COPRO-HOLDINGS Co., Ltd., (COPRO) recorded consolidated net sales of ¥11,137 mn (+28.5% YoY), operating profit of ¥737 mn (+56.9% YoY), ordinary profit of ¥810 mn (+71.8% YoY), and consolidated net profit of ¥510 mn (+81.9% YoY). Although net sales were generally in line with initial projections, profit exceeded initial forecasts by 61.4% primarily because of a decline in back-office-related labor costs. The group has only one segment, the technician dispatching business, and the following subsidiaries handle the dispatching of technician in for the particular fields.

### Construction technician dispatching business

Having stated that building a system to secure technicians, the foundation of business growth, is a priority issue, **COPRO-ENGINEERD** (COPRO EG), which undertakes construction technician dispatching, the group's core service, moved forward with initiatives related to strengthening its recruiting activities to ensure that it captures growing demand as the introduction of regulations on maximum overtime work approaches in April 2024. In terms of recruiting, the company not only efficiently spent on recruiting as it did in the previous fiscal year with a focus on cost effectiveness, but also introduced an application management system, and worked to reinforce recruiting activities, such as reducing lead time by automatically setting interviews to increase the number of interviews, the first step in the recruiting process. In April 2023, 154 new graduate engineers joined COPRO EG, which was 100 more than those who joined the company in FY23/3, and the company also moved forward with building recruiting channels other than mid-career hires. Therefore, the number of recruits rose 464 to 1,072 in 2Q FY24/3, an historic high, resulting in COPRO EG having 3,205 registered engineers at the end of Q2 FY24/3 (compared to 2,777 at the end of FY23/3, and 2,344 at the end of 2Q FY23/3). Because of the aggressive recruitment of technicians, COPRO EG recorded strong growth in net sales of 26.4% YoY. Furthermore, operating profit increased by 15.1% YoY as the company was able to absorb not only the increase in standby labor costs during the training period, which was due to a larger number of new graduate engineers, but also greater recruitment fees and labor costs.

### Mechanical design and development engineer dispatching and contracting

**ATMOS**, which provides mechanical design and development engineer dispatching and contracting services, increased the number of sales and recruiting staff, which led to a larger number of projects from customer companies and recruits. There was also growth in the dispatch of technicians that work on industrial equipment for semiconductors, software, and similar products, priority fields that the company worked to reinforce. As a result, the number of engineers as of the end of 2Q FY24/3 was 193 (compared to 159 at the end of FY23/3, and 134 at the end of 2Q FY23/3). ATMOS posted a year-on-year increase in operating profit of ¥29 mn, as a result of not only a dramatic increase in net sales and gross profit due to an improvement in unit sales prices and decline in cost of sales ratio but also a decline in the SG&A expense ratio.

### SES (System Engineering Service)

**VALUE ARK CONSULTING**, which conducts the SES, focused on operating the BS Career IT website, a project posting website for IT engineers that opened in March 2023, and strategically spent on advertising when it launched the site. Because of this, the number of utilized engineers at the end of 2Q FY24/3 totaled 117 (compare to 100 at the end of FY23/3, and 97 at the end of 2Q FY23/3). Operating profit fell ¥20 mn YoY as a result of aggressive upfront spending on advertising.

In addition to earnings from the above three main subsidiaries, COPRO recorded a decline in labor costs, which was due to streamlining back-office operations at related head offices, stock-based compensation expenses, and other expenses, and although 2Q FY24/3 SG&A expenses grew 10.2% YoY, this was substantially less than the increase in net sales of 28.5%. Furthermore, the SG&A expense ratio was 20.9%, a substantial decline from the 24.4% for 2Q FY23/3, because of a decline in stock-based compensation expenses and other expenses. Therefore, operating profit rose 56.9% YoY to ¥737 mn. Moreover, COPRO posted 2Q (Jul.–Sept.) operating profit of ¥501 mn, which surpassed its 4Q (Jan-Mar) FY22/3 operating profit of ¥499 mn.

**Financial Results by Subsidiaries(¥mn)**

	FY23/3			FY24/3		
	2Q	YoY	CHG	2Q	YoY	CHG
<b>Net sales</b>	8,670	17.1%	1,268	<b>11,137</b>	28.5%	2,467
COPRO EG	8,149	12.6%	911	<b>10,299</b>	26.4%	2,149
ATMOS	428	162.0%	264	<b>664</b>	55.1%	236
VALUE ARK	92	-	92	<b>173</b>	88.2%	81
<b>Gross profit</b>	2,583	15.7%	349	<b>3,065</b>	18.7%	481
COPRO EG	2,406	8.0%	178	<b>2,799</b>	16.3	392
ATMOS	92	-	86	<b>170</b>	84.9	78
VALUE ARK	84	-	84	<b>95</b>	12.6%	10
<b>SG&amp;A expenses</b>	2,113	32.0%	512	<b>2,328</b>	10.2%	214
COPRO EG	1,282	40.1%	367	<b>1,506</b>	17.4%	223
ATMOS	112	74.9%	48	<b>161</b>	43.2%	48
VALUE ARK	83	101.7%	42	<b>115</b>	37.1%	31
COPRO-HD and others	634	9.4%	54	<b>545</b>	-14.0%	-88
<b>Operating profit</b>	469	-25.7%	(162)	<b>737</b>	56.9%	267
COPRO EG	1,123	-14.4%	(189)	<b>1,293</b>	15.1%	169
ATMOS	(20)	-	38	<b>8</b>	-	29
VALUE ARK	1	-102.4%	42	<b>(19)</b>	-	(20)
COPRO-HD and others	(634)	-	(54)	<b>(545)</b>	-	88

Source: Compiled by SIR from the company IR material.

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

**FY24/3  
Full-year Earnings  
Forecasts**

**Full-fiscal-year  
forecasts revised  
upward by the amount  
that 1H earnings  
exceeded 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 raised its end of the year DPS ¥5, increasing the expected DPS for the full fiscal year to ¥45 from ¥40.

Because 2Q results were greater than initially forecast, COPRO revised its full-year forecasts upward by the amount that actual earnings exceeded forecasts. Earnings forecasts for the 3Q and 4Q were left unchanged from initial forecasts. According to COPRO, this was because it still expects to aggressively and flexibly spend on recruiting and capture even more technicians, who are the foundation for business growth, in the second half in order to meet growing demand for technicians as regulations on maximum overtime work come into effect in April 2024.

**FY24/3 Company Earnings Forecasts Before and After Revision (¥mn)**

	FY23/3	FY24/3		YoY
	FY	Initial CE	Full-year forecast after upward revision	
Net sales	18,791	24,298	<b>24,298</b>	29.3%
Gross profit	5,575	7,065	<b>7,065</b>	26.7%
SG&A expenses	4,253	5,265	<b>5,023</b>	18.1%
Operating profit	1,321	1,800	<b>2,042</b>	54.5%
Non-GAAP OP	1,606	2,140	<b>2,342</b>	45.7%
Ordinary profit	1,324	1,870	<b>2,115</b>	59.7%
Profit attributable to owners of parent	864	1,167	<b>1,361</b>	57.4%
EPS (¥)	46.5	62.3	<b>72.3</b>	55.5%
No. of consolidated technicians (person as of FY end)	3,036	4,271	<b>4,271</b>	40.7%

Source: Compiled by SIR from the company IR material.

**Medium-Term Management Plan**

In May 2022, COPRO announced its Medium-Term Management Plan “COPRO Group Build the Future 2027,” which covers the five-year period from FY23/3 through FY27/3. The company aims to build a Technician Support Platform over those five years. In particular, the COPRO Group, which dispatches temporary staff, is working to build a platform to actively support career development for technicians, provide customers with greater corporate value by building a business model that makes it possible for not only workers with experience in the industry but also new graduates and workers with no industry experience to gain experience over many years with peace of mind and an eye toward becoming a technician, and expanding its business. Actual financial earnings targets for FY27/3 include net sales of ¥40,000 mn, non-GAAP operating profit of ¥5,000 mn, and temporary staff technicians of 6,200 (number of workers at the end of the fiscal year). a Non-GAAP operating profit that the company gave as a numerical target adds back in depreciation expense, goodwill amortization, and stock-based compensation expenses, and is often used as an indicator of cash-base earning power.

**Continuing progress that exceeds initial targets**

During FY24/3, the second year of the its current medium-term management plan, COPRO made progress that was greater than initially forecast. FY23/3 consolidated net sales were ¥18.7 bn, which is 5.2% greater than forecast, and at the current pace, FY24/3 net sales will exceed initial forecasts by 11.1%. FY23/3 Non-GAAP operating profit was ¥1.6 bn, 20.4% greater than the initial forecast. COPRO also expects FY24/3 non-GAAP operating profit to exceed initial forecasts by 17.4%.

**Aims to achieve medium-term management targets early through M&A**

For the construction technician dispatching business, its core business, COPRO expects to enter a profit generating phase starting in FY24/3, during which it will reap the benefits of reforms to sales and recruiting implemented through the previous fiscal year. While accelerating organic growth of its existing businesses, the company is also actively examining discontinuous growth through M&As and aims to achieve its medium-term management plan targets earlier than expected.

**Progress of the Medium-Term Management Plan**

	FY23/3 A	FY24/3 CE	FY25/3	FY26/3	FY27/3
<b>Consolidated Net Sales</b>	¥18.7bn	¥24.2bn			
MTP Targets	(¥17.8bn)	(¥21.8bn)	(¥26.8bn)	(¥33.0bn)	(¥40.0bn)
<b>Non-GAAP OP</b>	¥1.6bn	¥2.3bn			
(Initial Target)	(¥1.3bn)	(¥1.9bn)	(¥2.7bn)	(¥3.9bn)	(¥5.0bn)

Source: Compiled by SIR from the company IR material.

**New M&A**

On November 27, COPRO announced that its consolidated subsidiary COPRO TECHNOLOGY would take over the dispatching and system engineering service (SES) business of Pacific Information Consultants (headquarters: Chuo-ku, Tokyo; Representative Director: Hajime Nakayama; hereinafter referred to as PIC), which provides internet and software development and system consulting services, as of November 30. Having positioned the IT field as a promising field, COPRO operates its SES business through its consolidated subsidiary COPRO TECHNOLOGY. The company judged that it would be able to obtain highly skilled IT engineers and PIC’s customer network by taking over the SES business, and that this would contribute to an expansion of COPRO TECHNOLOGY’s business. PIC’s SES business generated net sales of ¥92 mn and operating profit of ¥15 mn in FY23/4, and will have a minor impact on COPRO’s consolidated earnings.

## Valuation

COPRO's closing share price on November 24 was ¥1,495, 5.5% down from its high of ¥1,577 on November 15. The following is a comparison of the COPRO's valuation against those of the 64 other companies in the same industry examined in the initial coverage report (initially, there were 65 companies, but NISSO CORPORATION (6569) was removed because it was delisted on September 28). Based on its expected EPS of ¥72.3, COPRO's PER is 20.7x. On the other hand, the average PER of the 64 other companies in the same industry is 26.2x, which is based on each company's expected EPS. Over the past 52 weeks, COPRO's share price has risen dramatically, but it is not overvalued as its PER is still about 20% less than that of other companies in the same industry. In addition, COPRO's dividend yield is 3% based on its current share price, which exceeds the average of 1.9% for the 64 other companies. Because COPRO has adopted a basic policy of paying a stable dividend proportional to profit growth achieved through aggressive investments with a target consolidated dividend payout ratio of at least 50% in its medium-term management plan, expectations of further increases in dividend will probably grow as earnings continue to track medium-term management plan forecasts.

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