

17 years of sales growth due to recurring revenue business model; Payout ratio of 50% + through FY27/3

Summary

■ Construction technician dispatching company aiming to become an “Technician Support Platform company”

COPRO-HOLDINGS Co., Ltd., (COPRO) boasts numerous customers, primarily major general contractors including top 5 players. By continuing to recruit employees that it can dispatch, the company has recorded net sales growth for seventeen years since its establishment on account of its recurring revenue business model. COPRO aims to become a company that supports the various workstyles of technicians by expanding its share of the construction technician dispatching market, promoting the dispatch of mechanical design engineers, expanding the SES engineer dispatching market, and promoting new businesses through an M&A strategy.

■ Projected double-digit growth in both net sales and profit for FY24/3

COPRO forecasts that net sales will grow 29.3% year on year and operating profit increase 36.2% year on year. The company aims to further accelerate its expansion by continuing to make growth investments, including recruiting expenses, primarily those related to construction technician dispatching. On a consolidated basis, its number of technicians rose 40.7% year on year to a historic high of 4,271.

■ Firm financial position

COPRO continues to be debt free with no interest-bearing debt since FY21/3. The company also boasts an extremely high equity ratio of over 70% for the past three years. To establish a capital structure that limits capital increases, the company is moving forward with expanding earnings through the optimal use of financial leverage, reducing taxes, and implementing a capital policy to improve ROE.

■ Medium-Term Management Plan (FY23/3–FY27/3)

Through its Medium-Term Management Plan “COPRO Group Build the Future 2027,” COPRO aims to post net sales of ¥40,000 mn and non-GAAP operating profit of ¥5,000 mn in FY27/3, the final year of the plan. In addition to growing its current business portfolio, the company will move forward with its entry into new temporary staff dispatching fields through M&As and other measures. Having announced a dividend policy with a target dividend payout ratio of at least 50%, the company has adopted an aggressive shareholder return policy.

FY	Net Sales (¥mn)	YoY (%)	Oper. profit (¥mn)	YoY (%)	Ordin. Profit (¥mn)	YoY (%)	Net profit (¥mn)	YoY (%)	EPS ⁽²⁾ (yen)	DPS ⁽²⁾ (yen)
2019/3	10,819	20.7	1,344	50.3	1,336	51.1	938	54.4	113.8	21.0
2020/3	13,122	21.3	1,592	18.4	1,585	18.6	1,084	15.5	115.1	30.0
2021/3	14,836	13.1	1,437	-9.7	1,439	-9.2	1,009	-6.9	53.4	37.5
2022/3	15,589	5.1	1,621	12.8	1,619	12.5	962	-4.6	51.1	20.0
2023/3	18,791	20.5	1,321	18.5	1,324	18.2	864	-10.2	46.5	25.0
2024/3 CE ⁽¹⁾	24,298	29.3	1,800	36.2	1,870	41.2	1,167	35	62.3	40.0

Source: Compiled by SIR from TANSWIN financial statements.

⁽¹⁾The Company plans to conduct a 2-for-1 stock split of shares of common stock with a record date of October 1, 2023.

⁽²⁾Retroactive adjustments were made to take into account the impact of the stock split.

INITIATION



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 on aggressive shareholder return policy. 2-for-1 stock split is scheduled for October 1, 2023.

Key Indicators

Share price (23/8/16 cp)	2,457
YH (23/8/16 cp)	2,457
YL (23/1/5 cp)	985
10YH (23/8/15)	2,520
10YL (20/4/22)	591
Shrs out. (mn shrs)	10.00
Mkt cap (¥ bn)	24.57
CAP ratio (23/3)	70.4%
24.03 P/E (CE)	19.7x
23.03 P/B (act)	3.2x
23.03 ROE (act)	12.6%
24.03 DY (CE)	3.3%

*The above figures are before stock split (23/10/1)

1Y stock price



Source: Tradingview

Team coverage

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■ Valuation, stock split

COPRO's expected dividend payout ratio and expected dividend yield greatly exceed peers, and thus, its share price valuation is expected to rise in line with its progress in implementing its medium-term management plan. On August 10, the company announced a 1-for-2 stock split of its common shares with a record date of September 29, 2023. This is expected to expand the its investor base and increase liquidity.

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Company profile



Representative, CEO
Mr. Kosuke Kiyokawa

Background for founding and history

After graduating from Nagoya Kogakuin College of Technology in 1998, Kosuke Kiyokawa joined a local construction company with an eye toward some day taking over the family business, his father’s construction business. His initial goal was to move up from site supervisor; and after working on sales for five years at a major construction-related outsourcing company, he took up the position of president of a group subsidiary.

Kiyokawa quickly acquired experience and knowledge of sales, which he initially had none of, and at the age of 26, he was promoted to president of a subsidiary of the company as mentioned above. Kiyokawa humbly says that his success was because of not only the skilled team and good teachers who supported him but also his father, who taught him to value discipline and respect others.

Unsatisfied with what he had accomplished, Kiyokawa considered it important to increase the quality of the company’s work force by lowering the turnover rate and improving in-house training and to increase efficiency by raising the retention rate and reducing hours not utilized in order to further increase growth. To achieve all of that, it was important to take control of administration operations, marketing, and the human resources department, but Kiyokawa noticed that even though he was president, from the perspective of the parent company, he appeared to be only one division’s sales department manager.

Therefore, Kiyokawa established COPRO-ENGINEERD Co., Ltd., in 2006. His goal was to create an outstanding human resources service company by taking charge of recruiting, training, matching, and retention rate, the four pillars considered indispensable to complete in regard to the temporary staff dispatching business.

Company History		
2006	Oct	Trusty-Crew. Co., Ltd. is established in Naka-ku, Nagoya, as dispatches and provides job introductions business
2006	Oct	Nagoya Branch is opened
2007	Feb	Yokohama Branch is opened
2008	Mar	Company name change to COPRO-ENGINEERD. Co., Ltd.
2008	Mar	Nagoya Branch is relocated
2008	Aug	Tokyo Branch is opened
2009	Oct	Sapporo Branch is opened
2011	Jul	Osaka Branch is opened
2012	Oct	Fukuoka Branch is opened
2013	Apr	Sendai Branch is opened
2014	Jun	Hiroshima Branch is opened
2015	May	Changed the company name to COPRO-HOLDINGS Co., Ltd. (currently name) for the purpose of transitioning to a holding company. At the same time, COPRO-ENGINEERD. Co., Ltd.(currently a consolidated subsidiary) was established as a wholly owned subsidiary through a corporate split-off, and transferred the Group's main business, temporary staffing and placement services, to the new company
2015	Sep	Revision of the Worker Dispatching Act
2016	May	Head office is relocated to Nakamura-ku, Nagoya
2017	Apr	COPRO-ENGINEERD. Co., Ltd. Omiya Branch is opened
2019	Mar	The company’s stock is listed for public trading on the Mothers section of the Tokyo Stock Exchange and the Centrex section of the Nagoya Stock Exchange
2020	Apr	COPRO GLOBALS PTE.LTD. is established in Singapore
2020	Sep	Listed to the First Section of the Tokyo Stock Exchange and the First Section of the Nagoya Stock Exchange
2020	Nov	COPRO VIETNAM CO., LTD. is established in Vietnam
2021	Apr	Acquired all shares of ATOMOS Co., Ltd. and made it a subsidiary
2021	Sep	Acquired all shares of VALUE ARK CONSULTING Co., Ltd. and made it a subsidiary
2022	Apr	Listed in the Prime Market of the Tokyo Stock Exchange and the Premier Market of the Nagoya Stock Exchange
2022	Apr	COPRO-ENGINEERD Co., Ltd. took over Hucoss Co., Ltd. ‘s worker dispatching and Fee-charging employment placement business by the absorption-type split.



At COPRO, he established a system that makes it possible to provide the construction industry, which faces chronic labor shortages and extreme fluctuations in demand, a large number of well-trained temporary staff. For both staff retention rate and contract renewal rate, the company has maintained the highest level for the industry. Because of strong demand for temporary staff dispatching, employing and retaining human sources are important factors for growth. Therefore, the company tries to achieve a high retention rate for temporary staff technicians through various activities, such as training to improve skills, which includes an extensive new employee training program; making career development visible; and conducting follow-up sales to companies workers are dispatched to. A high retention rate creates a virtuous cycle of reducing recruiting costs. This is because the high employee retention rate makes it possible to cut recruiting costs, and the extensive training program leads to high productivity. Furthermore, the low non-working time contributes to greater net sales per employee.

Management did not initially plan on taking the company public because its business model does not require a large amount of capital, but in order to raise funds to expand its sales area and enter new markets, the company debuted on the Tokyo Stock Exchange's MOTHERS market and the Nagoya Stock Market in March 2019.

Although some of its plans were delayed due to the COVID-19 pandemic, in April 2021, COPRO acquired ATMOS Co. Ltd., which dispatches technical engineers to and undertakes contracted work from product development departments of both Japanese and overseas customers in the manufacturing industry. Because ATMOS's and COPRO's business models are similar, the company can expand into a completely new market. To mitigate the labor shortage in Japan, COPRO also established COPRO VIETNAM Ltd., creating a foothold in the growing temporary staff dispatching market in Southeast Asia.

In September 2021, COPRO also acquired VALUE ARK CONSULTING Co., Ltd., in order to enter the system engineer dispatching market. Forecasting a shortage of 800,000 IT workers for Japanese companies through 2030, COPRO then acquired Hucoss Co., Ltd., which provides various services, including those related to technician outsourcing, operation support, and administration operations, in April 2022. The company took over the business through a spin-off of the construction technician dispatching business of Hucoss, a Takasago Thermal Engineering group company.

In the same month, the company debuted on the Tokyo Stock Exchange's Prime Market and Nagoya Stock Exchange's Premier market.

Recent material disclosure news: Stock split

At its Board of Directors meeting held on August 10, COPRO decided to implement a stock split and announced it the same day. This will be the company's second stock split, two years and six months after its first one on April 1, 2021. The following is a summary of the stock split.

The company is aiming to lower the unit investment amount, expand its investor base, and increase liquidity. It will conduct a 2-for-1 stock split of its common shares with a record day of September 29, 2023. The stock split will be effective as of October 1, 2023. This will increase the number of issued shares by 10,000,000, which will result in a total of 20,000,000 issued shares after the stock split. The total number of authorized shares after the stock split will double in number to 80,000,000.

Business model

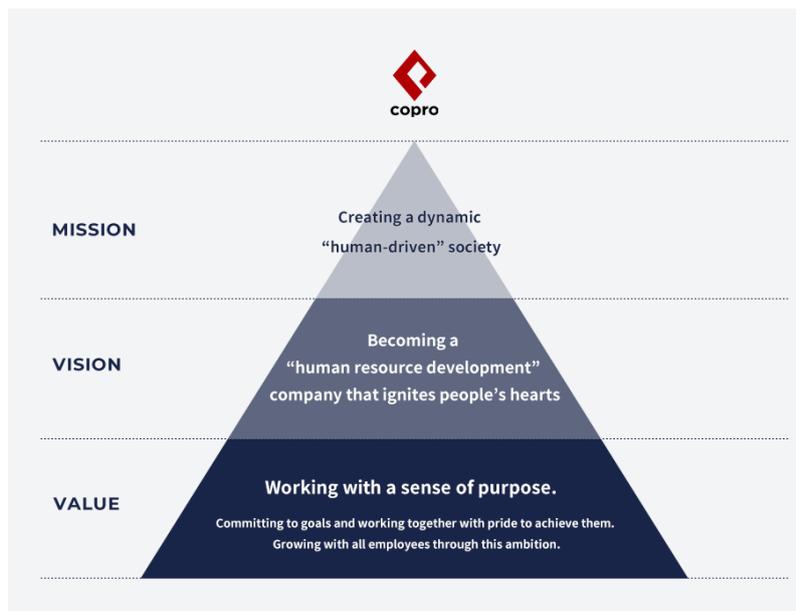
Corporate Philosophy

COPRO views the temporary staff dispatching business as “human resource development”. Facing changing times, the group is working to increase productivity and demonstrate its true value by introducing technology in addition to face-to-face communication. Even so, President Kiyokawa has positioned the idea that regardless of technology progress, only people can do work that requires consideration of other people as the core of the group’s corporate philosophy.

Believing in the limitless potential of people, the Group touts the vision of "becoming a "Human Resource Development Company" that ignites the spirit of individuals." To excite each person’s passion, rouse them to action, continually inspire them, and create a dynamic "Human Driven Society", the company focuses on the interactive human and business skills of employees.

Furthermore, the company thinks that undertaking thorough “education” and “matching”and creating an environment in which employees can work with excitement makes it possible to retain employees, and it is exactly this that makes it possible to provide the best services to customers.

COPRO’s corporate philosophy system chart



Source: The company website

Business Outline

COPRO consists of COPRO-HOLDINGS and five consolidated subsidiaries (COPRO-ENGINEERD Co., Ltd., COPRO GLOBALS Pte. Ltd., COPRO VIETNAM CO., LTD., ATMOS Co. Ltd., and VALUE ARK CONSULTING Co., Ltd.). As a holding company, the parent company COPRO-HOLDINGS handles such operations as group management and incidental and related operations. Moreover, COPRO-ENGINEERD plans to change its name to COPRO CONSTRUCTION as of October 1, 2023. The company says that this is to raise awareness of the company as the core Group company and create a new corporate image. At the same time, the company will merge ATMOS and VALUE ARK CONSULTING and change the name of the resulting company to COPRO-TECHNOLOGY. The company is trying to increase competitiveness by unifying the mechatronics and IT fields to expand employment opportunities for engineers and reinforce support for career development.

Temporary staff dispatched by the group conclude an employment contract with the group company (dispatching company), and at the client company (companies employees are dispatched to), they serve as an intermediary between various workers, including scaffolding workers, plastering workers, painters, assembly workers, and plumbers, and at locations such as construction sites, they are involved in managing the overall construction project, including schedule management, safety management, and cost management. Dispatching temporary staff to do work handled by craftsmen is prohibited by the Act on Securing the Proper Operation of Worker Dispatching Businesses and Protecting Dispatched Workers, but the company does not do that.

While COPRO has only a single segment, the technician dispatching business, the following is a breakdown for **technician dispatching business service**, which is similar to the so-called general business segment, and the company provides services through group consolidated subsidiaries.

(1) Construction technician dispatching business (COPRO-ENGINEERD Co., Ltd.)

COPRO-ENGINEERD dispatches and provides job introductions only for construction and plant technicians. As for the type of company employees are dispatched to and operations handled, these include site supervision for construction, civil engineering, installation, and plant sites and operating CAD equipment.

(2) Mechanical design and development engineer dispatching and contracting (ATMOS Co., Ltd.)

ATMOS dispatches mechanical design and development engineers and provides related contracting services. Workers are dispatched to the development and design departments of major manufacturers of various types of machinery, such as transportation machinery, industrial machinery, home appliances, and agricultural machinery, and the company also handles contracted design and development of machinery.

(3) SES (VALUE ARK CONSULTING Co., Ltd.)

The System Engineering Service (SES) business consists of engineer dispatching services related to system development. The company operates the BS Career IT website, which provides information on projects for freelance IT engineers, and offers such services as system development for client companies, including listed companies.

Value Provided by COPRO Group

Training and dispatching outstanding engineers who provide high value added

Problems faced by the construction industry



Value that Copro provides



Aim to increase value added of engineers

Construct **"engineer support platform"**



Purpose (reason for existing)

Achieving the Best "Work Style" and the Best "Workers."

Source: compiled by SIR from company's IR material

Net sales for the most recent fiscal years, FY22/3 and FY23/3, which are based on a breakdown of technician dispatching business services, are as follows. In FY23/3, the company changed the categories used to break down group net sales to “dispatching” (construction, plant, and mechanical design and development), “introduction” (construction and plant), “contracting” (mechanical design and development), and “SES services.” For FY22/3, provided information is based on post-change categories.

Breakdown of technician dispatching services

Services		FY22/3	FY23/3	YoY
Dispatching	construction, plant	14,761	17,473	18.4%
	mechanical design and development	216	512	137.0%
Introduction	construction, plant	70	77	10.0%
Contracting	mechanical design and development	447	509	13.9%
SES services		95	220	131.6%
Total Sales		15,589	18,791	20.5%

Source: compiled by SIR from the company’s IR material

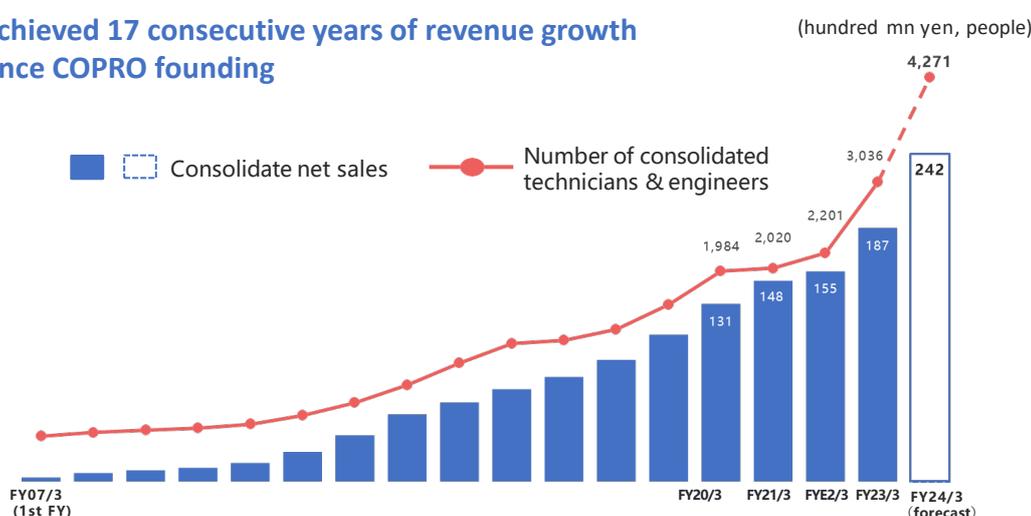
Recurring revenue model

A recurring revenue business model is one for which net sales increase in proportion to the number of temporary staff dispatched. Net sales are determined by the number of temporary staff technicians and contract unit price per employee.

The number of temporary staff technicians is calculated by multiplying the number of temporary staff technicians by the utilization rate, and the contract unit price is determined by the skills and years of experience of the temporary staff technician, and grows proportionally to the years of experience. Therefore, capturing employees who can become high value-added engineers (outstanding skills and years of experience) drives growth, and figures such as recruiting power, retention rate, and human resource training are important factors that impact value added.

Correlation Between Net Sales and Number of Technicians

Achieved 17 consecutive years of revenue growth since COPRO founding



Source: Compiled by SIR from the company IR material.

*The number of consolidated technical employees is the number of employees at the end of the FY, including IT freelancers in the SES business.



Mascot of COPRO
Mr. COP-RO

Creating human resources

COPRO's business model is based on generating earnings by dispatching temporary staff to construction and plant sites, and thus, human capital is the most important asset for the company. For construction/plant technician dispatching and introduction, its core services, the company's efforts to create human resources are focused on the following four activities.

(1) Securing human resources

In terms of recruiting, in addition to the internet, COPRO operates its own job search site Gen-Kyari, a site specialized for the construction and plant industry, and provides the full range of support from posting job opening information for all of Japan to providing consulting services related to hiring and post-hiring. The company is focused on recruiting not only young, inexperienced workers but also new graduates, which are vital to secure the human resources that will drive its medium- to long-term business growth.

(2) Providing thorough education when joining the company

COPRO holds new employee explanatory and training sessions for dispatched technical employees and thoroughly confirms points regarding their awareness and attitude of being dispatched technical employees. The company thoroughly provides new employee education so that they can handle the various problems that may arise at the company they will work at, and these topics include attendance management, employee rules, information security, support systems, operations dispatched workers cannot do, harassment, work safety, response in the case of a work emergency, and hazard prediction, all of which are issues that the Group's dispatched technical employees must know.

(3) Building a meticulous follow-up system for dispatched technical employees

For dispatched technical employees, COPRO offers high-quality support, such as follow-up health management after dispatch and mental health management, and this is done to spread the group's corporate philosophy and raise the retention rate by increasing the satisfaction of dispatched technical employees. In this way, the company is tackling various issues, such as increasing customer satisfaction.

(4) Providing learning venues

Turning to human resource development, COPRO has established a training facility in Nagoya, called "Supervisor Seed", and staffed them with full-time instructors in order to offer career development support appropriate for the experience of the participant. By expanding the training environment through remote training, the company is promoting career development for more people, regardless of where the dispatched technical employee lives. Courses that the company offers start with basic ones on such topics as the industry, the work that dispatched technical employees do, safety management, industry terminology, and production designs, but also include detailed lectures to check the level of understanding, which makes it possible for even beginners and people with no experience to improve their skills steadily.

Retention rate

One of COPRO’s important KPIs is the retention rate for employees who have concluded an employment contract. There are substantial benefits to a high retention rate. First of all, job seekers have greater trust in temporary staffing companies with a high retention rate, which makes it easier to secure human resources, and thus increases the percentage of highly skilled employees. This also raises the trust and evaluation of customers, the companies employees are dispatched to, and leads to higher contract unit price. This has a positive impact on attracting customers, such as developing new companies employees can be dispatched to. Of course, this also restrains recruiting costs.

To raise the retention rate, COPRO strives to quickly resolve problem points and concerns by creating numerous opportunities for training and individual meetings, setting career path into the future, and holding regular follow-up meetings in cooperation with dispatched employees and customers, company employees are dispatched to. One reason temporary staff contracts are terminated and employees leave their jobs is a mismatch in skills and other items between the dispatched employee and company that the employee is dispatched to. The company conducts highly precise matching by ascertaining and responding when there is a mismatch regarding what skills are necessary for what operation, and this leads to higher retention rate.

COPRO was also the first company in the industry to loan out smartphones installed with an attendance management system to dispatched employees, which makes it possible for the company to daily ascertain hours worked at companies employees are dispatched to and creates an environment in which it is easy for dispatched employees to contact follow-up staff at the company regarding concerns about such issues as measures related to physical well-being and stress, work environment, and worries.

Retention Rate (Construction Technician Dispatching Business)

	FY22/3				FY23/3			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Retention Rate (Cumulative total for this term)^{*1}	84.8%	79.3%	74.6%	69.4%	89.7%	84.2%	79.0%	74.4%
Retention Rate (LTM)^{*2}	68.0%	69.5%	69.2%	69.4%	71.8%	72.3%	72.7%	74.4%

Source: compiled by SIR from company’s results explanatory material

* Retention rate (cumulative for current fiscal period): Percentage of registered at the end of the previous 4Q still registered at the end of the corresponding

* Retention rate (LTM): Percentage of registered at the end of the previous corresponding quarter still registered at the end of the corresponding quarter one year later.

Retention Rate (Mechanical Design and Development Engineer Dispatching and Contracting)

	FY22/3				FY23/3			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Retention Rate (Cumulative total for this term)^{*1}	-	95.4%	91.7%	88.9%	93.1%	89.7%	85.3%	81.0%
Retention Rate (LTM)^{*2}	-	92.7%	90.8%	88.9%	84.7%	85.2%	84.9%	81.0%

Source: compiled by SIR from company’s results explanatory material

1 Retention rate (cumulative for current fiscal period): Percentage of registered at the end of the previous 4Q still registered at the end of the corresponding

2 Retention rate (LTM): Percentage of registered at the end of the previous corresponding quarter still registered at the end of the corresponding quarter one year later.

3. 4Q FY22/4 is the four months from Dec. 2021 through March 2022 because of a change in relevant subsidiaries accounting period.

Sales strategy and customer portfolio—Concentrating resources to customers

COPRO's sales strategy consists of selecting customers to target for sales, concentrating on multi-approach sales, and dispatching technicians. By conducting deep sales that target a more focused group of companies, the company ascertains new needs of existing client companies and increases the number of deals. A key performance indicator for the construction technician dispatching business is the target company assignment rate, and for FY23/3, 89% of all technicians were assigned to a customer, a year-on-year increase of 1.6 ppt. Prioritizing assignment of technicians to target customers leads to higher retention rates, which has a major positive impact on profitability by constraining recruiting costs and increasing contract unit prices.

COPRO is also working to reinforce its sales capabilities from a human resource training perspective through such initiatives as expanding in-house education for employees via proactive alliances with other companies and operational tie-ups and assigning technicians with greater value added to customers. In November 2022, COPRO added, to its training curriculum, the DX service SPIDERPLUS, which increases the productivity of SpiderPlus's construction operations through an operation tie-up with SpiderPlus, a company working to implement DX for construction operations. By training technicians who can immediately make contributions and handle actual construction site DX, COPRO is working to reinforce sales of temporary staff dispatching for construction sites, where there is a greater need for DX. The company is also working to strengthen its training of human resources who can handle inspections of buildings and plants that use drones and robots and expand sales appropriate for customers' construction DX through an operational tie-up with Blue Innovation Co., Ltd., which touted in February 2023 that it has increased productivity through the use of drones and robots.

Target customers are primarily the five main general contractors (Obayashi Corporation, Kajima Corporation, Shimizu Corporation, Taisei Corporation, and Takenaka Corporation) but also include such companies as large general contractors and subcontractors. The percentage of dispatched construction technicians assigned to major general contracts increased to 22.2% in FY23/3 from 21.4% for FY22/3. However, COPRO assigns customers to one of three ranks (A rank–C rank) depending on the size and importance of factors such as sales to the customer, and the assignment rate for rank A companies rose to 41.1% in FY23/3 from 34.9% FY22/3. The company has achieved high sales efficiency by increasing assignment of human resources to valuable customers.

Percentage of Dispatched Construction Technicians Assigned to Major General Contractors for the Construction Technician Dispatching Business

	FY	FY22/3	FY23/3
Percentage of Dispatched Construction Technicians Assigned to Major General Contractors		21.4%	22.2%
The assignment rate for rank A companies		34.9%	41.5%

Source: compiled by SIR from the interview with the company

As for the number of job posting requests, an important KPI for the construction technician dispatching business, the number for FY23/3 rose 89.4% year on year. On the other hand, the number of customers fell 31.4% to 415 in FY23/3 from 605 in FY22/3. This also reflects COPRO's sales efficiency strategy, and the company is selecting and concentrating human resources. As a result, sales per company rose to the ¥4 mn level from the former ¥2 million level.

Construction Technician Dispatching Business (net sales / customers)

	FY20/3	FY21/3	FY22/3	FY23/3
Net sales (¥ mn)	13,122	14,836	14,831	17,550
Customers (companies)	544	622	605	415
Net sales per customer (¥ mn)	24.1	23.9	24.5	42.3
Job posting requests (requests)	-	-	18,994	35,978

* The data is for the consolidated subsidiary COPRO-ENGINEERD, which conducts construction technician dispatching business. Figures for FY20/3–FY21/3 are not available.

Main Customers (Construction technician dispatching business)

20 Construction related companies	Obayashi Corporation, Kajima Corporation, Shimizu Corporation, Taisei Corporation, and Takenaka Corporation, Kanden Co., Ltd., Kyudenko Corporation, Kumagai Gumi Co.,Ltd., Konoike Construction Co., Ltd., Taikisha Ltd., Dai-Dan Co., Ltd., Daiwa House Industry Co., Ltd., Takasago Thermal Engineering Co., Ltd., Tokyu Construction Co., Ltd., Toda Corporation, Nishimatsu Construction Co., Ltd., Nippo Corporation, Fujita Corporation, Maeda Corporation, Sumitomo Mitsui Construction Company, Ltd.
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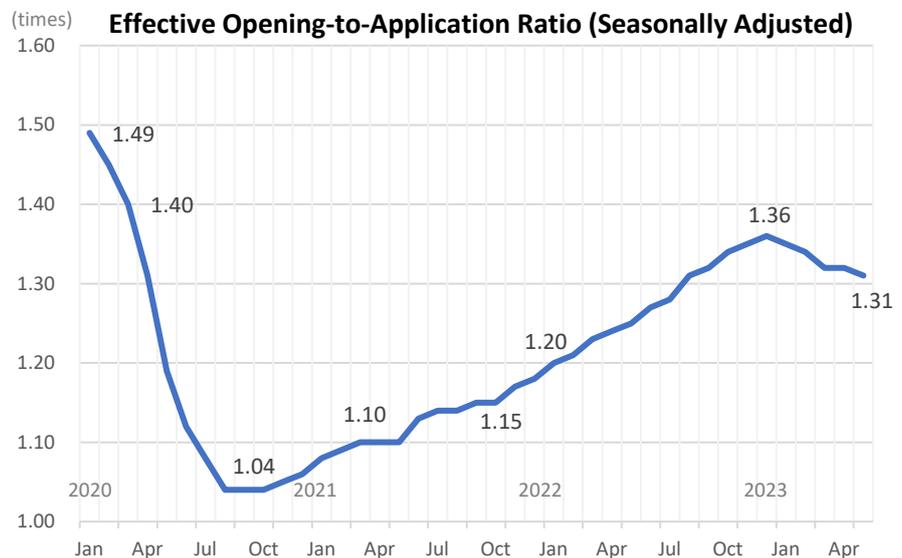
Source: compiled by SIR from list of COPRO-ENGINEERD main customers on the company's website

M&A strategy

COPRO acquired the mechanical design and development engineer dispatching company ATMOS Co., Ltd., in April 2021 and the system engineering business VALUE ARK CONSULTING Co., Ltd., in September of the same year. In addition to strong organic growth of its existing businesses, primarily for its core business, the company has position M&As as an important management strategy to achieve discontinuous growth. It is also aiming to achieve the earnings targets in its Medium-Term Management Plan earlier than given through the active use of M&As. Its basic M&A strategy is to target the field of human resources services for high value-added engineers, which offers strong growth potential. The company will also target companies with outstanding engineers and companies with the resources necessary to build a Technician Support Platform. Having set a WACC hurdle rate of 8%–9%, the company only considers M&As that offer a rate that surpasses this rate.

Market environment

Japan continues to face a labor shortage, and recruiting by companies to ensure human resources has picked up. In the temporary staffing industry, which COPRO is part of, demand has trended upward because of this labor shortage. Furthermore, the “2024 problem,” which will require changes to systems for supplying goods and services in various industries, has provided a tail wind for temporary staffing companies. On the other hand, securing employees has grown even important in the temporary staffing industry, and measures to change and strengthen the human resources supply system, such as aggressively investing in recruiting, raising the retention rate, educating employees, providing a wider range of employment contracts, and reviewing companies that employees are dispatched, are important to increase earnings.



Source: Compiled by SIR from Ministry of Health, Labor and Welfare statistics

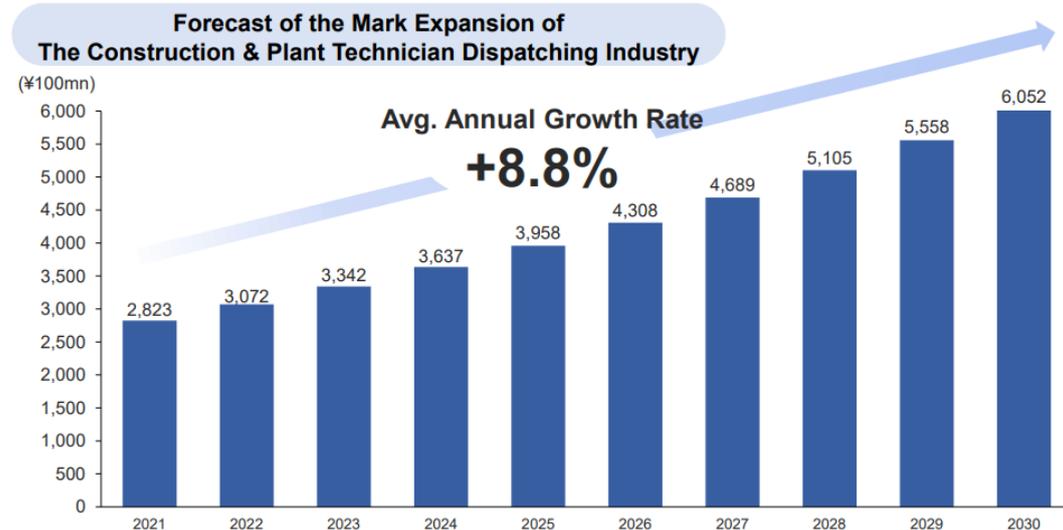
As for the construction industry, COPRO’s business field, construction investment in Japan will probably continue to grow for the time being for various reasons, including active redevelopment in major cities, construction of hotels due to the strong tourism industry, strengthening of infrastructure to respond to disasters, the Osaka World Expo, and construction of the Linear Chuo Shinkansen. In this environment, the construction industry is expected to face more serious labor shortages and tighter labor supply because of chronic labor shortages and restrictions on overtime work in the Labor Standards Act coming into effect for the construction industry in April 2024.

Construction Investment in Japan (¥100 mn)



Source: compiled by SIR from Ministry of Land, Infrastructure, Transport and Tourism and Research Institute of Construction and Economy data.

Therefore, COPRO projects that the market for construction and plant technician dispatching, its core business, will grow at an average annual rate of 8.8%. As noted above, while the construction industry faces a prominent labor shortage compared to other industries, the construction market is expected to grow, albeit at a gradual pace, for various reasons, including urban redevelopment. Therefore, it is COPRO’s opinion that general contractors, the company’s customers, will continue to make greater use of dispatched workers as outsourcing becomes even more common.



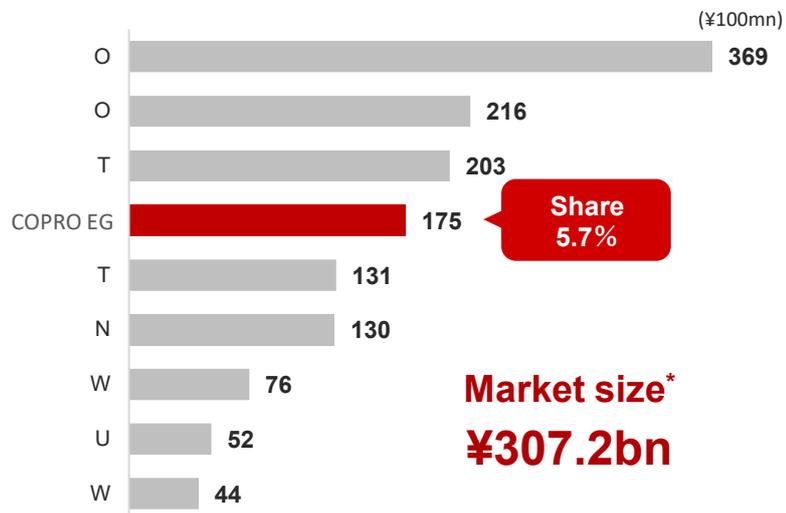
Source: Excerpted from the company’s Medium-Term Management Plan (FY23/3–FY27/3)

Competitive environment

Japan will tend to continue to face labor shortages, as discussed in the market environment section, and therefore, companies are working harder to secure human resources because of increased movement of both people and things as the COVID-19 pandemic subsides. In this environment, the construction industry is seeing an increase in construction investment in Japan, which includes infrastructure construction and redevelopment projects in major cities; therefore, the construction technician dispatching market will likely grow for the time being, but competition to recruit temporary staff will probably grow fiercer.

Therefore, COPRO thinks that the market share of major construction technician dispatching companies, including itself, will grow. This is based on the fact that the market share for the nine listed companies that dispatch temporary staff to the construction industry, including COPRO, account for only 45% of the market, and there are numerous small and medium-sized companies. In the future, as competition to secure temporary staff technicians intensifies, investment in recruiting is expected to increase, and it is COPRO’s view that small and medium-sized companies will struggle to grow on their own. As a result, it expects that major companies with the high market share will steal share from small and medium-sized enterprises in various ways, including M&As. That is, it can be argued that it is highly likely that the industry structure will shift, albeit at a slow pace, from the current one with many market players to one in which a few companies dominate the market.

The market share of major construction technician dispatching companies (Comparison of nine listed companies)



Source: Compiled by SIR from the company IR material.

Note*:

Market size is based on company estimates (FY2022/3)

Figures applicable to the dispatch of construction technicians from the most recent financial data of each company.

Strengths and weaknesses

Strength (1) Human resource education with an extensive company-wide network and high retention rate

COPRO boasts numerous strengths, including its ability to capture customers through its network of offices throughout Japan; highly flexible human resource foundation that meets broad human resource needs through aggressive recruiting; high retention rate of technical employees due to its extensive education, training, mental health care, and support; and high utilization rate based on trust between high-quality technical staff and customer companies. Its country-wide network of offices and aggressive recruitment make it possible for the company to meet a broad range of human resource needs from anywhere in Japan and expand business with companies that employees are dispatched to (customers) throughout Japan. This also establishes a virtuous cycle in which raising the retention rate of technical employee by expanding the support system and increasing the matching rate makes it possible to expand business with existing customers on account of having dispatched quality technical employees and capture new customers. Furthermore, the retention and contract renewal rates for the construction technician dispatching business are extremely high at 74.4% and 82.4%, respectively, making it possible to flexibly respond to the demands of companies employees are dispatched to.

Strength (2) Growing demand for temporary staff technicians for various reasons, including the “2024 problem” and graying of society

Demand for temporary staff by companies will likely grow stronger and stronger for such reasons as shortage of technicians due to the graying of society and changing values regarding such issues as workstyles that are not constrained by time and environment. In addition, in terms of the “2024 problem,” the construction industry, the industry that the company’s main customers belong to, will face stricter regulations on the upper limit on overtime work starting in April 2024. In the construction industry, workers are growing fewer in number and older, and when regulations on overtime work grow stricter, the amount of work that each worker does will decrease, and this will further exacerbate the labor shortage.

Weakness (1) Building an overseas-related business

Compared to other major companies in the same industry, COPRO has been slow to expand overseas. At the current time, they have no overseas-related sales. However, the company established COPRO VIETNAM CO., LTD., in April 2021, with an eye toward building a human resource training and temporary staff dispatching and introduction business in Vietnam, a country that many Japanese general contractors and Japanese plant companies are entering.

Weakness (2) Potential upward trend in recruiting and education costs

Growing demand for temporary staff on account of the “2024 problem” and graying of society will create a seller’s market for temporary staff dispatching companies like COPRO. On the other hand, there are a limited number of experienced workers in the industry, and continually recruiting and educating new graduates and inexperienced workers is important to expand the universe of temporary staff technicians and maintain high quality worksites. There will likely be a growing number of cases of other companies headhunting temporary staff technicians, which could increase the cost of recruiting costs and education costs.

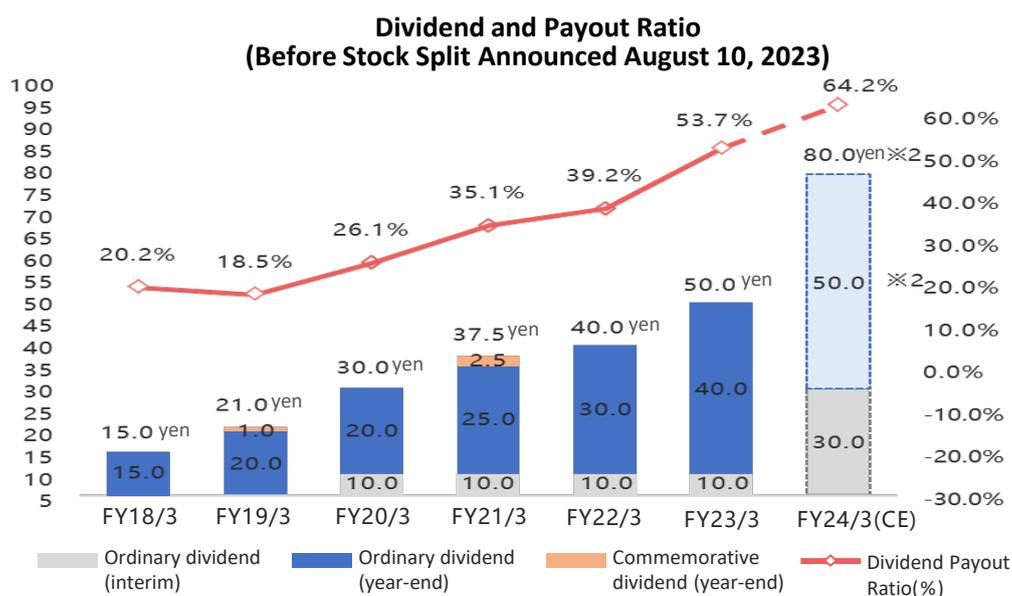
Shareholder return

Dividend policy

COPRO has positioned shareholder return as an important management issue, and its shareholder return is primarily through dividends. For the period of the Medium-Term Management Plan “COPRO Group Build the Future 2027” (FY23/3–FY27/3), the company has set a basic policy of continuing to pay a stable dividend proportional to profit growth based on aggressive investments, not to reduce dividends. Furthermore, when announcing its FY23/3 financial results on August 10, the company added a new dividend payout ratio target to the previous policy. Therefore, the basic dividend policy was changed to paying a stable dividend proportional to profit growth generated through aggressive investments to achieve a consolidated dividend payout ratio of at least 50%, which exceeds that appearing in the medium-term management plan. Additionally, on the same day, COPRO announced a 2-for-1 stock split with a record date of September 29, 2023, as discussed above.

The pre-stock split FY24/3 expected annual dividend and the August 10 revised expected annual dividend, which reflects the stock split, are as follows.

The company made public a pre-stock split announcement increase in its FY24/3 annual dividend per share of ¥30, resulting in an annual dividend per share of ¥80. As shown in the following figure (Dividend and Payout Ratio), the FY24/3 dividend payout ratio based on profit is 64.2%, surpassing the 53.7% for FY23/3.



* Dividend per share was retroactively revised to reflect impact of 1-2 stock split conducted on April 1, 2021.

Dividend forecast for FY24/3 (After stock split)

	Interim	Year-end	Annual dividend
FY23/3 (act)	10.0 yen	40.0 yen	50.0 yen
FY24/3 (Initial forecast) Before stock split	30.0 yen	50.0 yen	80.0 yen
FY24/3 (Revised forecast) After stock split	30.0 yen	25.0 yen After stock split	30.0 yen

Source: Compiled by SIR from the company IR material.

* Dividend per share was retroactively revised to reflect impact of 1-2 stock split conducted on April 1, 2021.

Recent earnings and forecasts

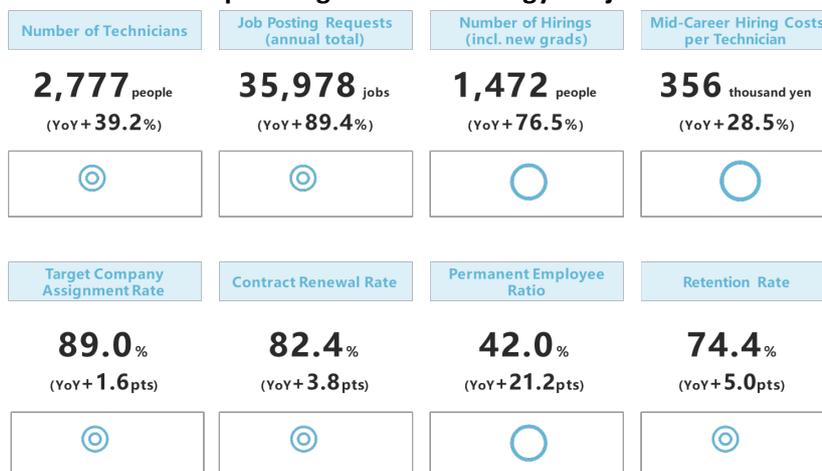
FY23/3 results summary

The main consolidated financial results for FY23/3, the first year of the current Medium-Term Management Plan (FY23/3–FY27/3), are as follows. COPRO recorded net sales of ¥18,791 mn (+20.5% YoY), operating profit of ¥1,321 mn (-18.5% YoY), recurring profit of ¥1,324 mn (-18.2% YoY), and net profit of ¥864 mn (-10.2% YoY). Its operating profit margin fell 3.4 ppt to 7.0%. Non-GAAP operating profit was ¥1,606 mn (-12.8% YoY).

Profit at all levels below operating profit fell year on year because of an increase in SG&A expenses as gross profit rose 15.1% year on year to ¥5,575 mn. SG&A expenses increased 32.0% year on year, resulting in the SG&A expense ratio rising 1.9 ppt to 22.6% for FY23/3 from 20.7% for FY22/3. The SG&A expense ratio of 22.6% was the highest for the past five years. This was for various reasons, including an increase in both recruiting expenses due to active upfront investments and labor costs on account of efforts to reinforce the sales division, which is necessary to expand business.

As for main KPI for the construction technician dispatching business, the company’s core business, the number of new recruits rose 76.5% to 1,472 while the number of technicians throughout the Group grew 835 year on year to 3,036, a record high. The retention rate for employees who concluded an employment agreement was 74.4%, substantially surpassing the 69.4% for the previous fiscal year. A high retention rate is valuable in that it tends to increase trust from job seekers, making it easy to secure human resources. This also increases trust and evaluations from companies employees are dispatched to, the company’s customers, and results in higher contract unit prices, which holds down recruiting costs.

Construction Technician Dispatching Business Strategy: Major KPIs



Source: compiled by SIR from the company FY23/3 IR material

*◎ indicates better than expected or better than the previous FY’s performance, ○ indicates the performance is on par with the forecast or the previous FY’s performance, △ indicates an improving trend, and × indicates the performance is below the forecast or the previous FY’s performance.

As for other businesses, the number of engineers for the mechanical design and development engineer dispatching business grew to 159 from 116. The retention rate for these engineers fell to 81% from the 88.9% for the previous fiscal year. On the other, the utilization rate continues to be extremely high at 97.5%. As for the system engineering support business, the number of recruits rose to 21 from 16 for the previous year, and the number of technicians at the end of the fiscal year increased to 100 in FY23/3 from 90 in FY22/3.

In addition to a dividend per share at the end of the 2Q of ¥10, the company decided to pay an end-of-the-year dividend per share of ¥40, resulting in an annual dividend per share of ¥50. The company raised its dividend ¥10 from an annual dividend per share for FY22/3 of ¥40. Because of that, the company’s dividend payout ratio largely rose to 53.7% from 39.2% for the previous fiscal year.

FY24/3 earnings forecasts

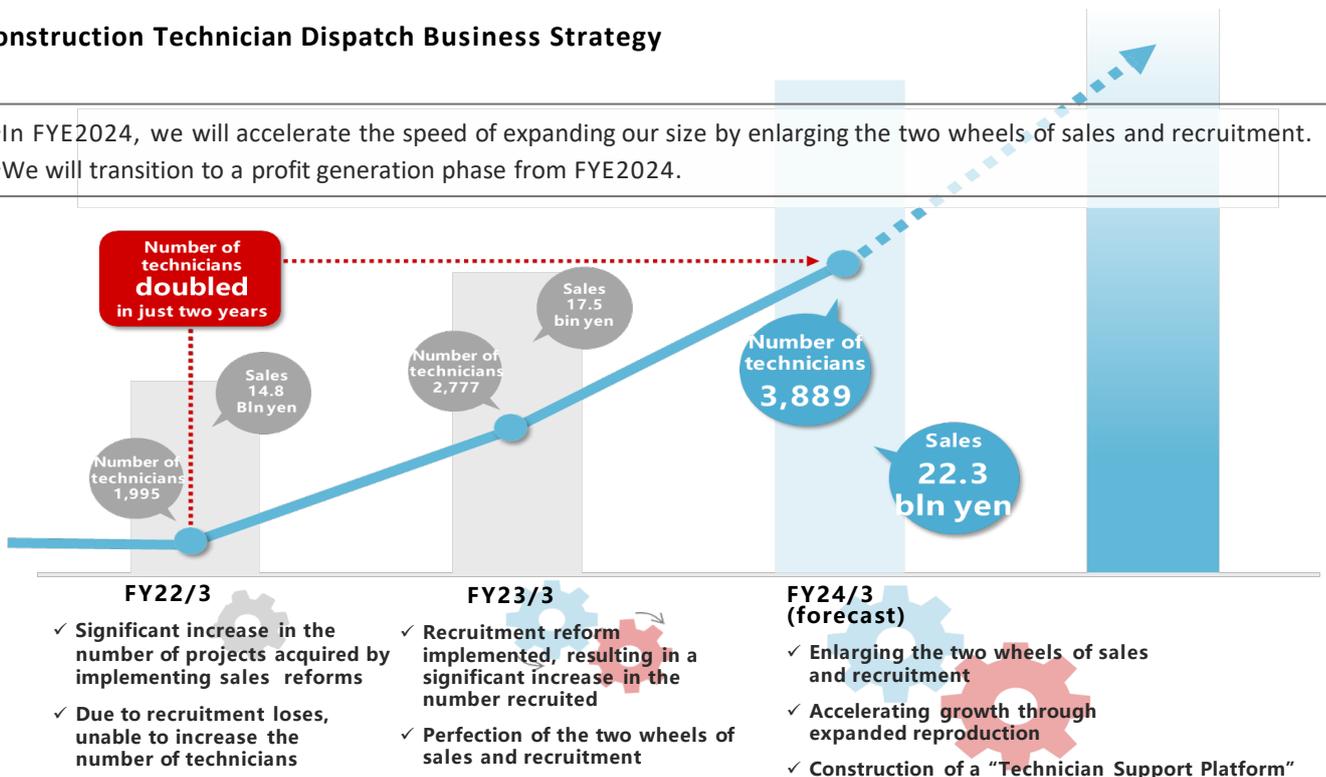
For FY24/3, COPRO forecasts net sales of ¥24,298 mn (+29.3% YoY), operating profit of ¥1,800 mn (+36.2% YoY), recurring profit of ¥1,800 mn (+41.2% YoY), net profit of ¥1,167 mn (+35.0% YoY), and non-GAAP operating profit of ¥2,140 mn (+33.2% YoY). This would be record net sales and profit. As noted above, the company announced a substantial increase of ¥30 in the annual dividend per share, resulting in an annual dividend of ¥80. Therefore, the dividend payout ratio would be 64.2%, which surpasses the FY23/3 payout ratio of 53.7%. In addition to the interim dividend of ¥30 per share, the company is expected to pay a year-end dividend of ¥25, which reflects the stock split.

Along with the dividend increase, the company announced 2Q cumulative earnings forecasts—net sales of ¥11,203 mn (+29.3% YoY), operating profit of ¥495 mn (+5.3% YoY), recurring profit of ¥565 mn (+19.7%), and net profit of ¥316 mn (+12.7% YoY). The increase in 2Q net sales and profit compared to 1Q is primarily because new graduate technicians and administrative staff join the company in 1Q and receive about one month of in-house training, and for technicians, only the cost of sales, no net sales, are recorded. That is the reason that 1Q net sales and profit fail to increase. New graduate technicians are assigned starting in the first part of May, which is when they are expected to begin to contribute to earnings.

The number of technicians on a consolidated basis, the driving force of net sales growth, are forecast grow 40.7% compared to FY23/3, hitting an historic high of 4,271. Of those 4,271, it appears that the number of technicians for the construction technician dispatching business, the company’s core business, will grow a substantial 1,112 to 3,889 from 2,777 in FY23/3. FY24/3 net sales for the construction technician dispatching business are expected to hit ¥22,300 mn (+27.3%) due to the increase in number of employees. As for the mechanical design and development engineer dispatching and contracting business, the company plans to increase the number of recruits 44.7%, 123 people, by pouring personnel and recruiting expenses into the new priority fields of software and semiconductors.

Construction Technician Dispatch Business Strategy

- In FYE2024, we will accelerate the speed of expanding our size by enlarging the two wheels of sales and recruitment.
- We will transition to a profit generation phase from FYE2024.



Source: Compiled by SIR from the company FY23/3 IR material

Key financial indicators

Features of the main PL/BS indicators

In addition to being interest-bearing debt free, COPRO has remained debt free since FY22/3. While cash (including cash equivalents) as a percentage of net assets has trended downward over the past five years, it remains high at 62% for FY23/3. With an extremely high equity ratio, which has exceeded 70% over the past three years, the company boasts strong resilience and flexibility even if it were to take a hit. Through FY23/3, there has been a downward trend in several indicators including sales per employee, operating profit margin, EBITDA margin, ROE, and ROA, which are indicators of profitability and efficiency. This is primarily because profitability has temporarily deteriorated as a result of the SG&A expense ratio hitting a record high for the past five years of 22.6% for various reasons, including an increase in recruiting expenses due to aggressive upfront investments and an increase in labor costs due to efforts to strengthen the sales division, which is necessary to expand the business. The number of employees in FY23/3 grew a substantial 38.9% year on year to 3,301.

Features of cash flows

As for cash flows from operating activities over the past five years, net profit after taxes has remained positive. Cash flows from investing activities have primarily been used to acquire tangible fixed assets such as new offices. Cash flows from investing activities for FY22/3 rose to ¥1,264 million primarily because of a payment of ¥920 million to acquire shares of the subsidiaries ATMOS Co. Ltd., and VALUE ARK CONSULTING Co., Ltd. through a M&A. Cash flows from financing activities were primarily the repayment of long-term loans, payment to redeem bonds, and payment of dividends. Because the FY22/3 payments to repay long-term loan and redeem bonds were the last, the company had no payments for interest-bearing debt since then. The payment of dividends for FY23/3, which is recorded as a cash flow for financing activities, totaled ¥371 mn, around three times the ¥123 mn paid for FY19/3, which means the company is very aggressive in regard to shareholder return.

Main Financial Indicators (FY19/3–FY23/3)

FY	FY19/3	FY20/3	FY21/3	FY22/3	FY23/3
Sales per capita (¥mn)	6.1	5.9	6.5	6.6	5.7
SG&A to sales ratio (%)	21.1	21.2	19.3	20.7	22.6
Operating Profit Margin (%)	12.4	12.1	9.7	10.4	7
EBITDA Margin (%)	13.2	12.8	10.3	11.6	8.4
ROE (%)	25.4	21.3	17.2	15	12.6
ROA (%)	14.6	14	12.2	11.1	9.2
ROIC (%)	20.2	19.6	16.6	15.9	12.7
Total Asset Turnover (turn)	1.68	1.69	1.79	1.8	2
Financial Leverage(X)	1.59	1.46	1.36	1.34	1.41
Current interest rate (%)	8.7	8.3	6.8	6.2	4.6
Equity Ratio(%)	62.8%	68.3%	73.7%	74.0%	70.4%
Current ratio(%)	308.1	289.8	342.5	311.5	285.3
Interest-bearing debt (¥mn)	869	273	89	0	0
Net interest-bearing debt (¥mn)	(3,892)	(4,559)	(5,232)	(4,058)	(4,407)
D/E Ratio (X)	0.19	0.05	0.01	-	-
Net D/E Ratio (X)	(0.83)	(0.83)	(0.83)	(0.62)	(0.62)
Cash and deposits/Net assets (%)	101.4%	88.0%	84.8%	61.7%	62.0%
Cash & Cash Equivalents / Market Capitalization (%)	44.5%	61.4%	36.7%	38.4%	31.3%
Cash Flows from Operating Activities (1)	1,165	1,126	989	825	1,011
Cash Flows from Investing Activities(2)	(123)	(145)	(83)	(1,264)	(292)
Cash Flows from Financial Activities	761	-885	-417	-825	-372
Free Cash Flow (FCF) (1)+(2)	1,042	981	906	(439)	719

Source: created by SIR from SPEEDA data. Note: For detailed cash flows see financial data (pg. 30)

Medium-term management plan

Summary

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 group, which dispatches temporary staff, is working to build a platform to flexibly 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). Furthermore, COPRO changed its dividend policy when it announced this plan, adopting a basic policy during the plan period of paying a stable dividend proportional to profit growth achieved through aggressive investments, not reducing dividends. The company incorporated a consolidated dividend payout ratio of 50% or more as a quantitative target in its FY23/3 results. 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.

In its plan, the company forecasts annual growth in net sales of 20.8% between FY23/3 and FY27/3, and aims to increase the number of temporary staff technicians, which support growth in net sales, 19.5% annually. Non-GAAP operating growth is forecast to grow at an annualized rate of 33.0%.

Medium-Term Management Plan (FY23/3–FY27/3)

Key Target Figures	FY23/3	FY27/3	CAGR
Net Sales (¥ bn)	18.8	40.0	20.8%
Non-GAAP Operating Profit (¥ bn)	1.6	5.0	33.0%
Temporary staff technicians (Persons)	3,036	6,200	19.5%

Source: Compiled by SIR from the company IR material

* FY23/3 net sales and non-GAAP operating profit are rounded down off to the nearest 100 million yen.

External environment and assumption

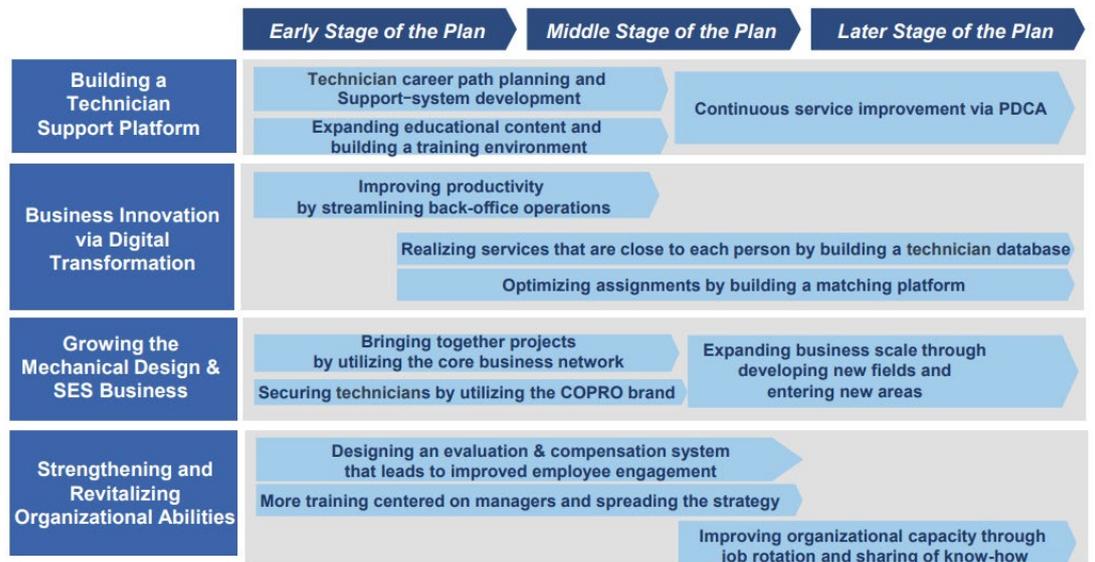
From both a macro and semi-micro perspective, the good business environment will probably continue. Demand for temporary staff by companies will likely grow stronger and stronger for such reasons as shortage of technicians accompanying the graying of society and changing values regarding workstyles unbound by time and environment. In addition, in terms of the so-called “2024 problem,” the construction industry, the industry that the company’s main customers belong to, will face stricter regulations on the upper limit of overtime work starting in April 2024. In the construction industry, workers are growing fewer in number and older, and when the regulations on overtime work become stricter, the amount of work that each worker does will decrease, and this will probably exacerbate the labor shortage. For not only the construction industry but all industries, securing human resources is expected to grow more difficult, but it can be argued that COPRO possesses the ability to recruit workers, boasts a high retention rate, and is implementing extremely good measures in response to growing demand for top temporary staff, including starting to build a thorough education system for new recruits and “Technician Support Platform.”

Furthermore, in its medium-term management plan, the company projects that the construction/plant technician dispatching market will grow at an annualized rate of 8.8% through 2030 as noted in the business model market environment section (page 13). This assumes that the construction industry continues to grow at a gradual pace and there continues to be a chronic labor shortage, forcing construction companies to regularly outsource work.

Growth strategy and road map

Construction of the Technician Support Platform is the core COPRO’s medium-term management plan. The company will actively provide support for developing a career path that until now has been the responsibility of temporary staff technician. During the first half of the plan period, the company aims to build a foundation so that even new graduates and workers with no industry experience can grow as technicians with peace of mind by refining the career path system and building a training system.

As for the construction technician dispatching, the company’s main business, the sales and recruiting reforms implemented through last year are bearing fruit, and starting in FY24/3, the company will likely harvest those fruits. The company is also actively working to innovate its operations through DX, expand the mechanical design and SES businesses, reinforce organization capabilities, and invigorate the organization. To generate not only strong organic growth for the existing business that surpasses plans but also discontinuous growth, the company will accelerate growth to achieve its earnings targets in the plan earlier than forecast by aggressively moving forward with M&As.

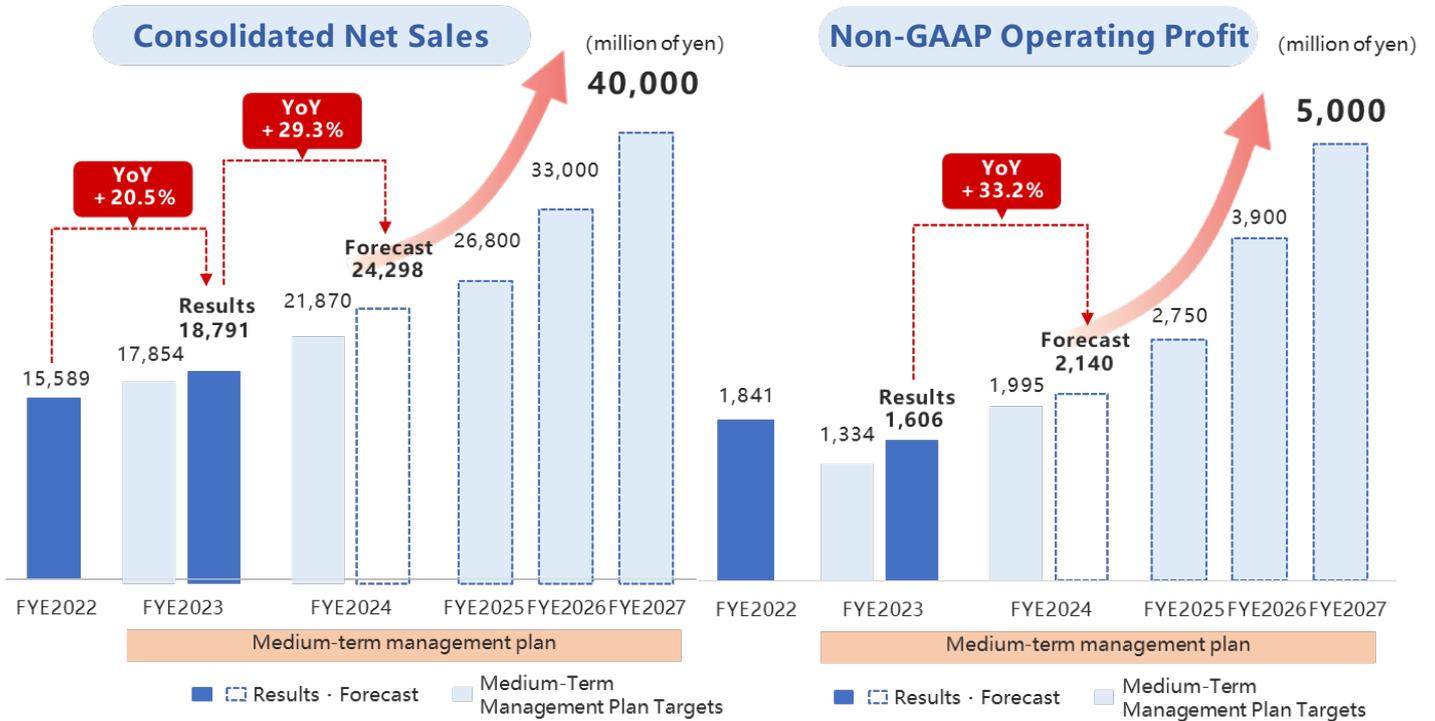


Source: Expert from the company materials of Medium-Term Management Plan

Long-term vision

Although the construction/plant technician dispatching business boasts strong growth potential, it will be difficult for the company to achieve its long-term earnings targets with only this business. Therefore, in the long-term vision, the company considers M&A an important option to achieve its targets. The target of M&As will be construction/plant technician dispatching, mechanical design and development technician dispatching, and SES companies, but even when examining other fields, the company will stay focused on human resource services that specialized in high value-added technicians.

Progress of the Medium-Term Management Plan



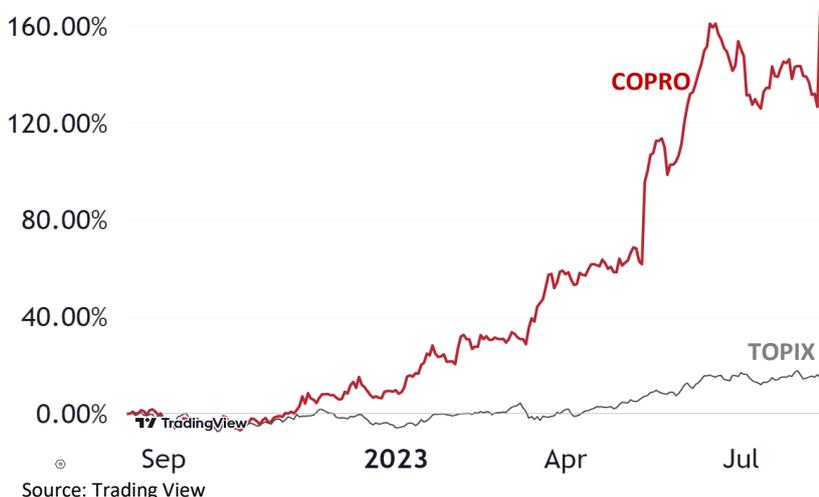
Source: Compiled by SIR from the company IR material

Share price insights

Share price

COPRO’s share price has risen dramatically since the start of the year. On a closing-price basis, its lowest price since the beginning of the year was ¥985 (January 5) and its highest price, ¥2,457 (August 16). The share price rose, along with trading volume, on May 16, the day after the company announced its FY23/3 earnings. This was probably driven by the it announcement in the press release “Notice Regarding Changes to Our Dividend Policy,” which was made public at the same time, that during the period of the Medium-Term Management Plan “COPRO Group Build the Future 2027” (FY23/3–FY27/3), released on May 13, 2022, in addition to its former policy of paying a stable dividend proportional to profit growth generated through aggressive investments, **the company would aim to achieve a consolidated payout ratio of at 50% over the same period.** The announcement was positively received by the market, and there are probably strong expectations for its profit growth to be achieved through aggressive future investments.

Relative Stock Price Chart / TOPIX (Latest 12 months)



Valuation

When calculating the stock price, comparisons of valuations with comparable companies is often used as reference, but a company’s earnings and growth power depend on such factors as business portfolio, which is impacted by the composition of the company’s customers, valuation, and capital structure, making it difficult to compare companies using the same measure. In addition, valuations differ depending on management strategy, financial strategy, shareholder return policy, and other factors. It is also difficult to make adjustments to such factors as dilution, SDGs policy, and governance, which financial indicators cannot easily capture, so that the same valuation axis can be used. In terms of broad industry categories, COPRO belongs to the human resources–related services industry. This industry is broken down into the two subsectors—temporary staff dispatching, like COPRO, and human resources introduction.

Investors must decide which valuation indicators are effective, and because COPRO has a construction technician dispatching business, SIR uses 6 other companies in the same industry to compare valuations. Furthermore, an analysis of the valuation of 21 temporary staff dispatching companies that dispatch staff to other manufacturing and non-manufacturing companies, which includes construction technician dispatching, is also provided. As an additional reference, a comparison of the valuation of and distinctive financial figures for 38 major companies related to human resource introductions, which match job seekers to companies hiring and provide recruiting operation support services but differ from human resource dispatching companies that employ the staff they dispatch.

First of all, the most eye-catching item is the high expected dividend payout ratio. COPRO boasts an expected dividend payout ratio that substantially exceeds the average for not only the six companies that conduct construction technician dispatching (2) but also the representative subsector of the human resources-related sector. This is because of COPRO's dividend policy, which has a target of consolidated dividend payout ratio of at least 50% for FY23/3–FY27/3, the period of the company's current medium-term management plan, as noted above, and its shareholder return policy based on strong earnings. Furthermore, even though COPRO's stock price has risen substantially since the beginning of the year, the expected dividend yield of 3.3% calculated using the recent stock price and a dividend per share of ¥80 (¥30 for FY22/3 → ¥50 for FY23/3 → ¥80 for FY24/3), is extremely high.

The company's share price has been rising since the beginning of August on the back of its shareholder return policy, strong earnings performance, and announcement of a stock split. The company's valuation based on PER and EV/EBITDA multiple is around 50% higher compared to the average for the 6 companies in the same industry (2). Its ROE at 12.6% falls short of the average for companies (2)–(4). Because COPRO continued to be debt free (no interest-bearing debt), its financial leverage was 1.4x for FY23/3, which is only half the average for the 6 companies of 2.7x. Incidentally, its net profit margin was 4.6%, which exceeds the average of 3.6% for those same 6 companies, and its total asset turnover was 2.0x, almost the same as the 2.1x for those 6 companies. COPRO's dividend-on-equity ratio has also risen to the 5% level from the 2% level a couple of years ago. The company has indicated that it will expand its business in new fields, and furthermore, its Medium-Term Management Plan touches on the idea of using debt for investment funds related to entering new growth fields and promoting a financial strategy to increase the financial leverage effect without further increasing capital. The company can be expected to draw the attention of the market through future rise in ROE and growth in new growth fields.

Comparison of Valuation with Comparable Companies

COPRO and Comparable Companies	PER ⁽¹⁾ (x)	PBR (x)	PSR (x)	EV/EBITDA multiple	ROE (%)	Expected payout ratio (%)	Expected dividend yield (%)	Equity ratio (%)	Operating profit margin (%)	Are there outstanding interest-paying liabilities
(1) COPRO	19.7	3.2	1.2	11.8	12.6	64.2	3.3	70.4	7.0	No
(2) 6 companies in the same industry of temporary staff dispatching for IT and manufacturing, including construction and plants ⁽²⁾	12.7	2.5	0.7	7.9	16.6	34.0	3.0	43.5	5.7	Yes
(3) 21 companies dispatching temporary staff to the manufacturing and non-manufacturing industries ⁽²⁾	39.8	5.5	1.0	16.7	19.0	34.7	2.3	48.2	6.1	19 of 21, yes
(4) 38 human resources-introduction companies ⁽²⁾	28.0	4.1	2.4	12.7	17.7	23.0	1.2	60.0	13.0	30 of 38, yes
Average for the 65 companies (excluding COPRO)	30.5	4.4	1.8	13.6	18.0	28.7	2.9	54.7	10.1	55 of 65, yes

Source: Compiled by SIR from SPEEDA data

(1) Recent share price / company's future EPS for the period; (2) (2), (3), and (4), do not include COPRO

Corporate governance

Governance structure

COPRO has introduced auditors. The Board of Directors consists of five internal directors who are knowledgeable of the company's operations and four outside directors who are independent but possess abundant knowledge. Increasing the number of outside directors was an important turning point for the company, and in terms of recruiting and securing outstanding human resources, Mr. Kiyokawa pointed out that this played an extremely important role in building the current human resource management system, a critical system. The company has also established a Board of Auditors, a majority of whose members are outside auditors.

Board members

Of the COPRO's directors, one outside director is a licensed social insurance consultant and another possesses abundant experience and knowledge as a manager. The Audit Committee consists of one inside auditor and two outside auditors (one CPA and one attorney). The company still does not have any female or non-Japanese directors, but the Articles of Incorporation permit one additional director, and an issue is how the company responds to diversity, such as sex, nationality, work experience, and age.

Four of the current directors are independent outside directors, and they account for 44% of the 9 directors. This is high for Japanese companies, and independent outside directors account for a majority of directors at only 12% of Japanese companies. The Board of Directors consists of directors with deep knowledge and strong skills directly related to this business field or the related fields of law, accounting, and personnel. However, the company lacks any female or non-Japanese directors, and currently faces the problem of expertise in technology and ESG. All of the outside directors do not conduct business with the company or other directors, ensuring there are no conflicts of interest with shareholders.

Shareholders

Kosuke Kiyokawa, the founder and current Representative Director, holds 58% of issued shares. The other individual shareholder that holds more than 5% of the company's shares is Mr. Kageyama, but the company does not have a direct relationship with him. Financial institutions hold 6.5% of outstanding shares; overseas companies, 4.0%; other institutions 4.5%; and other individual investors, 21.4%.

The founder's concentrated holding of shares reduces agency costs because it guarantees alignment of the interests of the management team and those of shareholders, but in terms of the Tokyo Stock Exchange's criteria for maintaining listing on Prime Market, there is the issue of protecting minority shareholders if excessive concentration reduces liquidity required by many institutional investors and weakens governance monitoring.

Major Shareholders

As of March 31, 2023

Name	No. of shares held (1,000 shares)	Ratio of shareholding (%)
RITAMEKO. Co., Ltd.	4,200.0	45.19
Kosuke Kiyokawa	1213.5	13.06
Kyoichi Kageyama	500.0	5.38
The Master Trust Bank of Japan, Ltd. (trust account)	261.4	2.81
Custody Bank of Japan, Ltd. (trust account)	156.9	1.69
Atsuhiko Morinuki	150.0	1.61
Seigo Naito	108.5	1.17
Hiroyuki Nomura	90.0	0.97
INTERACTIVE BROKERS LLC	87.7	0.94
GOLDMAN SACHS INTERNATIONAL	80.6	0.87
Treasury shares	706.407	7.06
Number of shares outstanding	10,000.0	100.00

Source: Compiled by SIR from company's securities report

*RITAMEKO is an asset management company of Kosuke Kiyokawa, the Representative Director and President of the COPRO.

Weak oversight raises the issue of minority shareholder protection. As noted above, COPRO has established a governance structure, and in order to further improve governance, President Kiyokawa also recognizes the need to sell off some of his holdings at an appropriate time and using an appropriate method that does not impact the market.

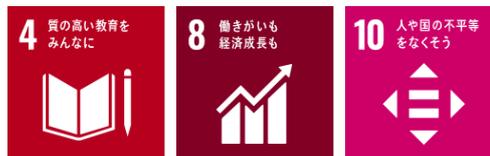
COPRO has set a basic policy of not conducting any type of business with controlling shareholders, but it has a system in which a committee composed only of independent, outside directors and independent and outside auditors, can approve exceptions to this rule. However, in all situations, exceptions must be deliberated on by that committee and then approved by the Board of Directors.

COPRO does not now have a disclosable succession plan, but has established a Nomination and Compensation Committee, and if it becomes necessary, the committee will deliberate on a successor based on experience, abilities, and personality.

Initiatives to achieve the sustainable development goals (SDGs)

COPRO recognizes that five of the seventeen sustainable development goals set by the United Nations are most important for long-term success of its business.

1. Quality education
2. Decent work and economic growth
3. Industry, innovation and infrastructure
4. Reduce inequalities
5. Responsible consumption and production



◆ **Human assets**

For the time being, COPRO’s growth is expected to depend on whether it can hire and train employees, and its retention rate. Therefore, the sustainable goals related to human resource development are probably the most important for the company’s long-term success. These goals fall into three categories—quality education, decent work, and economic growth, and reduce inequalities. The company is expanding the career opportunities and increasing work satisfaction of experienced dispatched employees by providing them with opportunities to acquire more advanced technical and specialized skills. The company also provides OJT to new employees with no or little experience, quickly increasing their productivity and expanding their employment opportunities. In addition, the company is broadening career development opportunities by offering continuing education programs for experienced employees and supporting skill improvements. The management team thinks that the key to long-term success is providing all people, regardless of age, sex, handicap, or nationality, equal opportunities and the same wage for the same job.

It is the opinion of COPRO that the ability to recruit and retain employees by continuing these programs while adjusting costs will make it possible to gain a strong competitive advantage that is sustainable far into the future.

COPRO's flow of human resource creation



Source: The company web site

	FY21/3	FY22/3	FY23/3
Number who have taken inexperienced personnel training (persons)	287	246	1,131
Number of inexperienced personnel hired (persons)	432	108	1,004
Percentage of female employees (%)	30.4	33.2	36.0
Number of foreign employees (persons)	34	59	92
Retention rate (%)	69.1	69.4	74.4

Source: The company web site about sustainability

◆ Industry, technical innovation, and infrastructure

COPRO thinks that in the construction industry plagued with concerns about a shortage of skilled workers, it can contribute to sustainable industrialization by supplying technicians with advanced skills.

◆ Responsible consumption and production

Despite using few natural resources as its main assets are its human resources and temporary staff dispatching know-how, COPRO aggressively works to lessen its environmental burden by preventing or reducing waste it produces and promoting recycling.

	FY21/3	FY22/3	FY23/3
Number of sheets of paper used (million sheets)	2.34	1.84	1.82
Paper use reduction rate (%)	-18.3	-23.5	-0.7

Source: The company web site about sustainability



Financials

◆ Income Statement

FY	2019/03	2020/03	2021/03	2022/03	2023/03	2024/03
¥mn, %	act	act	act	act	act	INIT CE
Total Revenue	10,819	13,123	14,837	15,589	18,791	24,298
Total Cost of Sales	7,194	8,747	10,539	10,744	13,216	
Cost of Sales	7,194	8,747	10,539	10,744	13,216	
Gross Profit	3,625	4,376	4,298	4,845	5,575	
Gross Margin	33.5	33.3	29.0	31.1	29.7	
Selling, General and Administrative Expenses	2,280	2,783	2,860	3,223	4,253	
Operating Profit	1,345	1,593	1,438	1,621	1,322	1,800
Operating Profit Margin	12.4	12.1	9.7	10.4	7.0	7.4
Non-Operating Income	2	2	5	1	4	
Interest and Dividends Income	0	0	0	0	0	
Non-Operating Expenses	10	9	3	3	2	
Interest Expenses	4	2	1	0	0	
Ordinary Profit	1,337	1,585	1,440	1,620	1,324	1,870
Ordinary Profit Margin	12.4	12.1	9.7	10.4	7.0	7.7
Extraordinary Gains/Losses	-2	-18	-1	-64	-5	
Extraordinary Gain		18	91	62	0	
Extraordinary Loss	2	36	92	126	5	
Pretax Profit	1,335	1,567	1,439	1,556	1,319	
Pretax Profit Margin	12.3	11.9	9.7	10.0	7.0	
Income Taxes	396	483	430	593	454	
Income Taxes - Current	366	510	417	583	475	
Income Taxes - Deferred	30	-26	13	10	-21	
Net Profit Attribute to parent company shareholders	939	1,084	1,009	963	865	1,167
Net Profit	939	1,084	1,009	963	865	
Net Profit Margin (Attribute to parent company shareholders)	8.7	8.3	6.8	6.2	4.6	4.8
Other Comprehensive Income			0	2	3	
Foreign Currency Translation Adjustments (CI)			0	2	3	
Comprehensive Income	939	1,084	1,010	965	868	
Comprehensive Income Attributable to Owners of the Parent	939	1,084	1,010	965	868	

Source: Compiled by SIR from SPEEDA data

Note: The last digit of figures may differ from that of figures released by the company because of differences in the method used to round figures off to the nearest million yen.

◆ Balance Sheet

FY	2019/03	2020/03	2021/03	2022/03	2023/03	2024/03
(Assets)						
Current Assets		6,486	6,898	7,408	6,748	7,752
Cash Cash Equivalents And Short-term Investments		4,761	4,832	5,321	4,058	4,407
Cash & Cash Equivalents		4,761	4,832	5,321	4,058	4,407
Accounts Receivables		1,526	1,856	1,880	2,227	2,900
Allowance for Doubtful Accounts - Assets		0	0	0	0	
Non-Current Assets		988	1,133	1,107	2,093	2,243
Property, Plant & Equipment (PPE)		389	372	357	407	584
Construction In Progress		20	41	28		
Intangible Assets		75	113	161	999	988
Goodwill					781	675
Investments and Other Assets		524	648	589	687	672
Deferred Tax Assets - Non-Current		104	130	118	139	171
Total Assets		7,475	8,031	8,514	8,841	9,995
(Liabilities)						
Current Liabilities		2,105	2,380	2,163	2,166	2,717
Accounts Payable - Other and Accrued Expenses		1,057	1,145	1,130	1,328	1,728
Short-Term Debt		270	186	85		
Short-Term Borrowings		0	0	0		
Current Portion of Long-term Debt		270	186	85		
Current Portion of Long-Term Borrowings		26	26	15		
Current Portion of Straight Bonds		244	160	70		
Asset Retirement Obligations - Current		1	8	28	23	1
Non-Current Liabilities		677	163	79	101	166
Long-Term Debt		600	86	4		
Long-Term Borrowings		43	16	4		
Straight Bonds		557	70			
Provision for Retirement Benefits					24	31
Asset Retirement Obligations - Non-Current		78	84	103	98	125
Total Liabilities		2,782	2,543	2,242	2,266	2,883
(Net Assets)						
Total Shareholders' Equity		4,693	5,488	6,272	6,575	7,112
Shareholders' Equity		4,693	5,488	6,272	6,537	7,036
Capital Stock		30	30	30	30	30
Capital Surplus		1,170	1,173	1,231	1,238	1,239
Retained Earnings		3,494	4,287	5,013	5,619	6,112
Treasury Stock		-1	-1	-1	-349	-345
Accumulated Other Comprehensive Income				0	2	5
Foreign Currency Translation Adjustments				0	2	5
Share Warrants					36	71
Total Net Assets		4,693	5,488	6,272	6,575	7,112

Source: Compiled by SIR from SPEEDA data

Note: The last digit of figures may differ from that of figures released by the company because of differences in the method used to round figures off to the nearest million yen.

◆ Cash Flow Statement

FY	2019/03	2020/03	2021/03	2022/03	2023/03	2024/03
Cash Flows from Operating Activities		1,165	1,126	989	825	1,011
Depreciation and Amortization - CF		80	86	93	186	254
Depreciation - CF		80	86	93	121	148
Amortization of Goodwill - CF					65	106
Gain/Loss on Sale of PPE		2	36	4	-1	5
Interest and Dividends Received - Operating CF		0	0	0	0	0
Interest Paid - Operating CF		-4	-2	-1	0	0
Cash Flows from Investing Activities		-123	-145	-83	-1,264	-292
Purchases/Sales of PPE		21				
Payments for Purchases of PPE		21				
Proceeds from Sales of PPE		-75	-47	-130	-216	-214
Purchases/Sales of Intangible Assets		-75	-47	-130	-230	-217
Payments for Purchases of Intangible Assets					14	3
Cash Flows from Financial Activities		-9	-40	-98	-75	-71
Repayments of Long-Term Debt		-9	-40	-98	-75	-71
Cash Flows from Financial Activities		761	-885	-417	-825	-372
Repayments of Long-Term Debt		-244	-571	-160	-110	
Repayments of Long-Term Borrowings					-40	
Redemption of Bonds		-244	-571	-160	-70	
Proceeds from Issuance of Stock		1,171	3	54	6	3
Redemption/Retirement of Stock				0	-350	0
Cash Dividends Paid		-123	-292	-283	-357	-372
Foreign exchange adjustment				0	2	2
Changes in Cash Flow		1,804	96	489	-1,263	349
Cash & Cash Equivalent - Beginning		2,895	4,699	4,795	5,284	4,021
Cash & Cash Equivalent - Ending		4,699	4,795	5,284	4,021	4,370
Free Cash Flow (FCF)		1,042	981	906	-439	719

Source: Compiled by SIR from SPEEDA data

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