

Striking expansion of business performance; An increase in dividend payment since the listing is to continue

FY2024/3 Earnings Result Summary: COPRO-HOLDINGS. Co., Ltd., (hereafter, the Company) announced the full year results for FY2024/3 after the market close on Tuesday, May 14, 2024. The key consolidated figures include net sales of ¥24,098 mn (+28.2% YoY), operating profit of ¥2,141 mn (+62.0% YoY), ordinary profit of ¥2,211 mn (+67.0% YoY), and profit attributable to owners of parent (hereafter, net profit) of ¥1,463 mn (+69.3% YoY). Having posted a dramatic increase in net sales due to record hiring, COPRO CONSTRUCTION. Co., Ltd., which operates the Company's core construction technician dispatching business, made substantial contributions to increased earnings.

FY2025/3 Earnings Forecast: The demand from the construction industry, major client of the Company, is expected to remain strong due to urban development project related works, renovation works of aging infrastructure facilities, construction works of new semiconductor factories, and the like. Furthermore, there is still strong demand as a result of the construction industry's structural labor shortage and the so-called "2024 problem" due to amended Labor Standards Act. Because of this, the Company projects double-digit growth in both net sales and profit for the current fiscal year. Dividend per share will be increasing by ¥10 on a retroactive revision basis for FY2025/3, meaning a consecutive increase since the listing in March 2019.

Medium-term Management Plan: For FY2025/3, the third fiscal year of the Medium-term Management Plan (FY2023/3–FY2027/3), the Company's initial net sales and Non-GAAP operating profit forecasts will surpass Mid-term Management Plan targets by 11.9% and 17.1%, respectively. For the final fiscal year of the Mid-term Management Plan, the Company has set targets of ¥40.0 bn in net sales, ¥5.0 bn in Non-GAAP operating profit, and 6,200 temporary technicians and engineers (number of technicians and engineers throughout the Group at the end of the fiscal year).

FY	Net Sales (¥mn)	YoY (%)	Oper. profit (¥mn)	YoY (%)	Ordin. Profit (¥mn)	YoY (%)	Net profit (¥mn)	YoY (%)	EPS ⁽⁴⁾ (yen)	DPS ⁽⁴⁾ (yen)
FY2020/3	13,122	21.3	1,592	18.4	1,585	18.6	1,084	15.5	56.4	15.0
FY2021/3 ⁽¹⁾	14,836	13.1	1,437	(9.7)	1,439	-9.2	1,009	(6.9)	52.4	18.8
FY2022/3 ⁽²⁾	15,589	5.1	1,621	12.8	1,619	12.5	962	(4.6)	50.4	20.0
FY2023/3	18,791	20.5	1,321	(18.5)	1,324	-18.2	864	(10.2)	46.1	25.0
FY2024/3 ⁽³⁾	24,098	28.2	2,141	62.0	2,211	67.0	1,463	69.3	74.4	50.0
FY2025/3 CE	30,000	24.5	2,700	26.1	2,714	22.7	1,755	19.9	92.0	60.0
FY2024/3 2Q	11,137	28.5	737	56.9	810	71.8	510	81.9	26.2	15.0
FY2025/3 2Q CE	13,948	25.2	1,032	40.0	1,046	29.0	675	32.3	35.4	20.0

Source: Compiled by SIR from TANSBIN financial statements.

Note: 1) A two-for-one stock split of common stock was conducted on April 1, 2021. (2): For 2022/3, "the account standard for revenue recognition" and the like were adopted, but the effect was negligible. Therefore, SIR showed the percentage change from the previous year. 3) A two-for-one stock split of common stock was conducted on October 1, 2023. 4) EPS and DPS are retroactively adjusted to reflect a 2-for-1 stock split. EPS – diluted shares adjusted.

4Q Follow-up



Focus Point

Strength is the construction technician dispatching business. Has extremely strong financial position and active shareholder return policy and has increased its dividend in every financial year since listing. The client construction industry continues to have a strong and important use of temporary staffing due to structural labour shortages.

Key Indicators

Share price (6/5 CP)	1,430
YH (3/14)	1,919
YL (5/22)	1,481
10YH (24/3/14)	1,919
10YL (20/4/22)	365
Shrs out. (mn shrs)	20.00
Mkt cap (¥ bn)	28.6
CAP ratio (2024/3)	66.8%
25.03 P/E (CE)	15.5
24.03 P/B (act)	4.31
24.03 ROE (act)	19.2%
25.03 DY (CE)	4.2%

1Y stock price



Source: TradingView

Team coverage

research@sessapartners.co.jp



Share price insights: COPRO-HOLDINGS's shares are currently trading at ¥1,430 (June 5 closing price), which is 25.5% down from their high for the year of ¥1,919 (Mar. 14, 2024). COPRO-HOLDINGS has often underperformed the TOPIX since March. This is consistent with the general trend of small and mid-cap stocks underperforming large-cap stocks, and primarily because of demand and supply factors. From a fundamentals perspective, it is difficult to find a reason for the weakness in the Company's share price as its earnings are extremely strong. The Company's shares are trading at a PER of 15.5x based on the Company's forward EPS for FY2025/3, surpassing the average for the six companies in the same industry of 13.4x. This is probably because the market positively responded to the Company's forecast of operating profit growth of 26.1% and expected dividend payout ratio of 65.2%, which exceeds the average for the six peers of operating profit growth of 23.9% and expected dividend payout ratio of 53.5%. (see the "Share price insights" on the last page for the six peers).

FY2024/3 Results

Achieving an impressive increase in sales and profits

Summary

The Company announced the full-year results for FY2024/3 after the market close on Tuesday, May 14, 2024. The key consolidated figures including net sales of ¥24,098 mn (+28.2% YoY), operating profit of ¥2,141 mn (+62.0% YoY), ordinary profit of ¥2,211 mn (+67.0% YoY), and net profit of ¥1,463 mn (+69.3% YoY). The Company actively recruited a great many construction technicians to meet the stronger demand for temporary staff dispatching along with a serious shortage of labor caused by regulations capping overtime work started in April 2024 and big construction projects. Consequently, the business of construction technician dispatching expanded, achieving an impressive increase in sales and profits.

Financial Results by Subsidiaries (¥mn)*1

	FY2023/3					FY2024/3				
	FY act	YoY	CHG	%*4	%*5	FY act	YoY	CHG	%*4	%*5
Net sales	18,791	20.5%	3,202	100.0%	-	24,098	28.2%	5,306	100.0%	-
COPRO CN*2	17,550	18.3%	2,718	93.4%	100.0%	21,883	24.7%	4,333	90.8%	100.0%
COPRO TC*3	1,241	63.8%	483	6.6%	100.0%	2,214	78.4%	973	9.2%	100.0%
Gross profit	5,575	15.1%	730	29.7%	-	6,774	21.5%	1,199	28.1%	-
COPRO CN	5,136	10.5%	487	-	29.3%	6,204	20.8%	1,068	-	28.4%
COPRO TC	438	124.5%	243	-	35.3%	569	29.9%	131	-	25.7%
SG&A expenses	4,253	32.0%	1,030	22.6%	-	4,632	8.9%	379	19.2%	-
COPRO CN	2,584	43.9%	788	-	14.7%	2,906	12.4%	321	-	13.3%
COPRO TC	414	61.5%	157	-	33.4%	580	40.1%	166	-	26.2%
HD/ Other	1,254	7.2%	84	-	-	1,144	-8.7%	(108)	-	-
Operating profit	1,321	-18.5%	(299)	7.0%	-	2,141	62.0%	820	8.9%	-
COPRO CN	2,551	-10.6%	(301)	-	14.5%	3,298	29.3%	746	-	15.1%
COPRO TC	24	-	85	-	1.9%	(10)	-	(35)	-	-0.5%
HD/ Other	(1,254)	-	-84	-	-	(1,145)	-	108	-	-

Source: Compiled by SIR from the Company IR material.

Note 1: Figures for subsidiaries are adjusted for consolidation after eliminating intra-group transactions.

2. COPRO CN=COPRO CONSTRUCTION

3. COPRO TC=COPRO TECHNOLOGY

4. As the percentage of consolidated net sales

5. As the percentage of COPRO CN and COPRO TC, respectively

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

Construction technician dispatching business

COPRO CONSTRUCTION. Co., Ltd. (hereafter, COPRO CN), which operates the Company's core business of construction technician dispatching and thought it the most important to establish the system to get hold of the technicians, a driving force for the business expansion, to well satisfy the stronger demand caused by regulations capping overtime work started this April, kept strengthening recruiting activities.

In addition to continuing to aggressively but efficiently spend on recruiting with a focus on cost effectiveness, COPRO CN launched its own job-search website Bscareer Construction in March 2024, introduced an application management system, and worked to reinforce recruiting activities, such as reducing lead time by automatically setting interviews. Furthermore, in April 2024, 154 new graduate engineers (+100 persons, YoY) joined the Company, and COPRO CN moved forward with building recruiting channels other than mid-career hires. As a result, the number of technicians rose by 791 (+28.5% YoY) to 3,568. The Company maintained a high average utilization rate during FY2024/3 of 94.6%, compared to 96.3% in FY2023/3, despite a dramatic increase in the number of new hires. COPRO CN posted operating profit of ¥3,298 mn (+29.3% YoY) because of strong growth in net sales due to record recruiting and high utilization rate that compensated for the increase in recruiting and personnel expenses.

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

Entered engineer dispatching business in semiconductor-related field

The significant decrease in the SG&A-to-sales ratio of 3.6 ppt also contributed to the increase in operating profit

Business Environment

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

The business is handled by **COPRO TECHNOLOGY Co., Ltd.** (hereafter, COPRO TC), established by the merger of ATMOS Co., Ltd. and VALUE ARK CONSULTING Co., Ltd. This was an opportunity to unify its sales and recruiting structures, as well as to consolidate its administrative divisions.

In recruitment, COPRO TC strengthened its independent recruiting sites by opening “Bscareer Mechanical and Electrical” in November 2023 after opening “Bscareer IT”, IT project introduction site, in March 2023. As of November 30, 2023, COPRO TC took over SES business (with the dispatching business and quasi-assignment contracts) from Pacific Information Consultants Co., Ltd., which operates the web/software development and system consulting business.

Thus, COPRO TC is making progress in building a foundation for business expansion as it was able to take over not merely the client network, such as main system integrators, but also highly skilled IT engineers. In addition, COPRO TC started to expand into new business fields by opening the semiconductor engineer training center Semicon Techno Lab, which specializes in training engineers responsible for semiconductor manufacturing equipments maintenance and inspections, in February 2024. As Japan works to increase domestic production of semiconductors for such reasons as concerns about economic security risks, a shortage of engineers for semiconductor device manufacturers and semiconductor manufacturing equipment manufacturers has developed. Therefore, COPRO TC is moving forward with training human resources who handle such work as semiconductor manufacturing equipment maintenance and field engineer operations.

Therefore, the number of engineers at the end of FY2024/3 increased by 102 (+39.4% YoY) to 361. As for profit, COPRO TC posted a slight operating loss of ¥10 mn due to upfront advertising-related expenses in order to increase the number of new recruits.

Profit

In addition to the increase in the number of COPRO CN technicians, COPRO TC has seen the number of its engineers, the group as a whole increased by 893 persons (+29.4% YoY) to 3,929 as of the end of FY2024/3, compared to 3,036 of FY2023/3. As a result, its consolidated sales increased by 28.2% YoY.

Recruiting expenses increased due to aggressive recruiting. Furthermore, personnel and other expenses increased as a result of efforts to reinforce the sales and recruiting departments in preparation for even greater demand for construction technician dispatching starting this fiscal year. On the other hand, SG&A expenses rose 8.9% YoY, primarily because of a decline in not only personnel expenses due to streamlined head office back-office operations but also stock-based compensation expenses. The increase in SG&A expense was less than the growth in net sales of 28.2%. The SG&A-to-sales ratio fell 3.4 percentage points YoY to 19.2% from 22.6%.

Therefore, operating profit rose a substantial 62.0% YoY. Ordinary profit increased 67.0% YoY due to the posting of a refund from a cancelled insurance policy.

Background for continuing strong business environment

According to Ministry of Internal Affairs and Communications’ Labour Force Survey, the number of people employed in the construction industry fell 30.1% to 4.79 million in 2022 from its peak of 6.85 million in 1997. Under these conditions, the Company’s research estimates that the market size for human resources services for the construction industry will grow to ¥650.0 bn in FY2026, a 22.6% increase from ¥530.0 bn in FY2021.

FY2025/3 Earnings Forecasts

Operating profit and Non-GAAP operating profit for the current financial year is growing faster than the target figures in the medium-term management plan

*Non-GAAP operating profit is calculated by adding depreciation costs, goodwill amortization and stock-based compensation expenses back to operating profit.

The following two reasons are given for the growth in the market. First, there is a shortage of workers due to a cap on overtime that came into effect in April 2024, forcing the construction industry, which is also impacted by the shrinking labor force, to rely on temporary staff dispatching.

The second reason is that there continues to be large-scale projects related to the construction of new and maintenance of existing social infrastructure throughout Japan, including redevelopment projects in the Greater Tokyo area, construction of the Expo 2025 Osaka, Kansai venue and integrated resorts with casino in the Osaka Bay Area, and construction of new semiconductor manufacturing plants. The Company expects to see even greater need for human resources services in the construction industry.

Full-year Earnings Forecasts

The Company's full-year consolidated earnings forecasts for FY2025/3 are as follows: net sales of ¥30.0 bn (+24.5% YoY), operating profit of ¥2,700 mn (+26.1% YoY), Non-GAAP operating profit* of ¥3,162 mn(+29.7%YoY), ordinary profit of ¥2,714 mn (+22.7% YoY), and net profit of ¥1,755 mn (+19.9% YoY).

The Company announced its five-year Medium-term Management Plan (FY2023/3–FY2027/3) on May 13, 2022. In the plan, the Company set FY2025/3 targets of ¥26.8 bn in net sales and ¥2.7 bn in Non-GAAP operating profit. Therefore, the Company's recently announced forecasts for FY2025/3 net sales and Non-GAAP operating profit are 11.9% and 17.1% greater than Medium-term Management Plan targets.

As demand for temporary technicians and engineers remains strong, the Company plans to aggressively recruit 2,776 technicians and engineers (+24.9% YoY). Because the Company expects 1,537 technicians and engineers to resign (+15.7%), it looks like the number of technicians and engineers throughout the Group will grow to 5,168 (+31.5% YoY) by the end of FY2025/3.

FY2025/3 KPIs by Business (unit: persons)

(people, thousand of yen)

	FYE2024			FYE2025		
	1H	2H	Full-Year	Full-Year (Forecast)	YoY	
					Pct Change	Amount of Change
Total recruited	1,166	1,056	2,222	2,776	+24.9%	+554
Construction technician dispatch	1,072	952	2,024	2,299	+13.6%	+275
Mechanical design engineer	56	62	118	207	+75.4%	+89
SES	38	34	72	270	+275.0%	+198
Increase due to M&A, etc.	0	8	8	-	-	-8
Turnover total	687	642	1,329	1,537	+15.7%	+208
Construction technician dispatch	644	589	1,233	1,438	+16.6%	+205
Mechanical design engineer	22	32	54	49	-9.3%	-5
SES	21	21	42	50	+19.0%	+8
No. of technicians and engineers	3,515	3,929	3,929	5,168	+31.5%	+1,239
Construction technician dispatch	3,205	3,568	3,568	4,429	+24.1%	+861
Mechanical design engineer	193	223	223	381	+70.9%	+158
SES	117	138	138	358	+159.4%	+220
Retention rate	83.7%	85.8%	74.7%	76.6%	-	+1.9pt
Construction technician dispatch	83.3%	85.8%	74.3%	75.5%	-	+1.2pt
Mechanical design engineer	89.8%	87.5%	80.5%	88.6%	-	+8.1pt
SES	91.7%	79.4%	75.8%	87.9%	-	+12.1pt

Source: Compiled by SIR from the Company IR material.

* The above figures, excluding retention rate of SES, include IT freelance engineers. The retention rate is for dispatched technical employees only, excluding IT freelancers.

* Retention rate = Number of technicians at the end of the current fiscal year (current quarter) ÷ (Number of technicians at the end of the previous fiscal year (previous quarter) + Number of technicians at the end of the current fiscal year (current quarter)) × 100

Reinforcing the semiconductor engineer dispatching business, a new business field

Medium-Term Management Plan

FY2025/3 earnings growing at pace to exceed Medium-term Management Plan targets

The outlook for FY2025/3 earnings by business are as follows.

Construction technician dispatching business

For construction technician dispatching, COPRO CN is improving the accuracy of its sales and recruiting process and strengthening its ability to supply customer companies with human resources by further reinforcing its own recruiting, one of its strengths. COPRO CN will expand its recruiting channel from its existing recruiting medium to include its job-search website Bscareer Construction, referral recruiting based on introductions by parties such as its own employees, and similar channels. Furthermore, to promote the retention of workers with no experience in the industry, which it is hiring more of, the Company will implement such measures as holding training, follow-up meetings, and career meetings to raise the retention rate. COPRO CN is trying to increase the number of its technicians who earn a high unit price and expand net sales by improving the retention rate for technicians with 1-2 years of experience in the industry. COPRO CN plans to hire 2,299 construction technicians (+13.6% YoY) in FY2025/3.

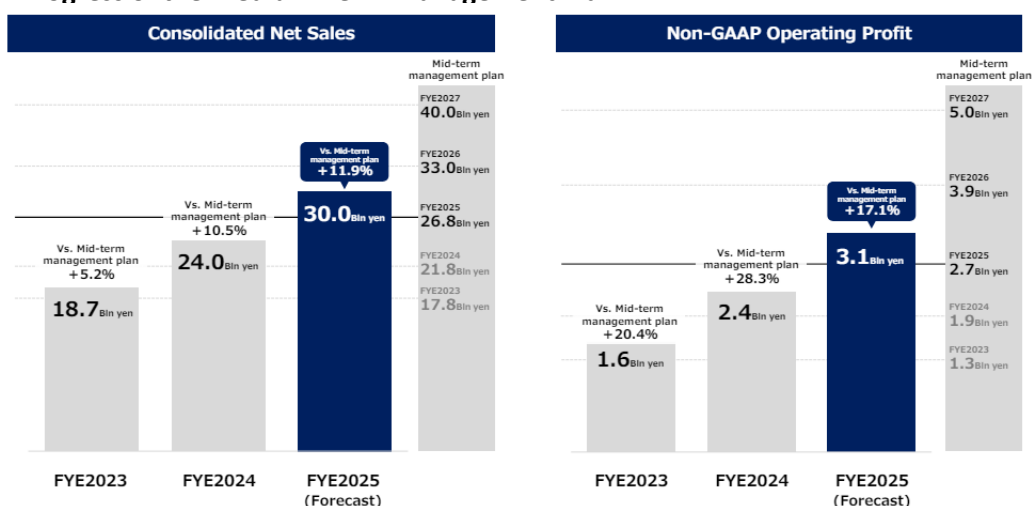
Mechanical design and development engineer dispatching and contracting and SES (System Engineering Service) business

For this business, COPRO TC is working to increase the number of engineers by continuing to make growth investments this fiscal year and expects to hire 207 mechanical design and development engineers (+75.4% YoY) and 270 SESs (+275.0 YoY). Furthermore, it has plans to expand into the semiconductor engineer dispatching business, a new business field, and the first step in this plan was the February 2024 opening of the semiconductor engineer training center Semicon Techno Lab.

Progress with “COPRO Group Build the Future 2027” plan

The Company is implementing its Medium-term Management Plan (FY2023/3–FY2027/3), which it announced in May 2022, and this fiscal year is the third fiscal year of the plan. As discussed above, the Company’s forecasts for FY2025/3 net sales and Non-GAAP operating profit are 11.9% and 17.1% greater than the FY2025/3 targets included in Medium-term Management Plan. This is because the external environment for the construction technician dispatching business, the Company’s core business, is better than initially expected. The Company has started to actively hire technicians, who are meeting the demand for temporary staff dispatching which continues to grow for both macro reasons (cap on overtime work since April 2024) and semi-macro reasons (many large-scale projects related to the construction of new and maintenance of existing social infrastructure throughout Japan). SIR thinks this external business environment will continue for the time being.

Progress of the Medium-Term Management Plan



Source: Excerpted from the Company IR material.

Share Price Insights

COPRO-HOLDINGS's shares are currently trading at ¥1,430 (June 5 closing price), which is 25.5% down from their high for the year of ¥1,919 (Mar. 14, 2024). COPRO-HOLDINGS has often underperformed the TOPIX since March. This is consistent with the general trend of small and mid-cap stocks underperforming large-cap stocks, and primarily because of demand and supply factors. From a fundamentals perspective, it is difficult to find a reason for the weakness in the Company's share price as its earnings are extremely strong. The Company's shares are trading at a PER of 15.5x based on the Company's forward EPS for FY2025/3, surpassing the average for the six companies in the same industry of 13.4x. This is probably because the market positively responded to the Company's forecast of operating profit growth of 26.1% and expected dividend payout ratio of 65.2%, which exceeds the average for the six peers of operating profit growth of 23.9% and expected dividend payout ratio of 53.5%.

SIR also believes that this is also due to the Company's easy-to-understand equity story that the Company's sales exposure to the construction industry, which is the Company's client base is in and plagued by structural labor shortages as well as the "2024 problem," is overwhelmingly higher than that of the other six companies. As for peers, SIR selected the following six companies from the eight companies with the greatest net sales in the market for human resources services for the construction industry based on COPRO research: TechnoPro Holdings, Inc. (6028), Open Up Group Inc. (2154), UT Group Co., Ltd. (2146), WILL GROUP, Inc. (6089), Nareru Group Inc. (9163), and WILLTEC Co., Ltd. (7087). OUTSOURCING Inc. (2427) was excluded from the peers because it was delisted following an MBO conducted June 6, 2024. Furthermore, TRYT Inc. (9164) was excluded from valuation comparison because it did not pay a dividend for the previous or current fiscal year.

Relative Chart: COPRO HD vs TOPIX [1 year]



Source: TradingView

LEGAL DISCLAIMER

This report is intended to provide information about the subject company, and it is not intended to solicit or recommend investment. Although the data and information contained in this report have been determined to be reliable, we do not guarantee their authenticity or accuracy.

This report has been prepared by Sessa Partners on behalf of the concerned company for which it has received compensation. Officers and employees of Sessa Partners may be engaged in transactions such as trading in securities issued by the company, or they may have the possibility of doing so in the future. For this reason, the forecasts and information contained in this report may lack objectivity. Sessa Partners assumes no liability for any commercial loss based on use of this report. The copyright of this report belongs to Sessa Partners. Modification, manipulation, distribution or transmission of this report constitutes copyright infringement and is strictly prohibited.



Sessa Partners Inc.

#5a i-o Azabu, 2-8-14
Azabujyuban, Minato-ku, Tokyo
info@sessapartners.co.jp