HITO-Communications Holdings | 4433 (TSE Prime)

Company Report
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Strategy Advisors Co., Ltd.
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Q1 FY 8/2026 Earnings Were In-Line with Company Expectations. Stock Price Rise Expected, Driven by Airport Sector Takeoff.

HITO-Communications Holdings reported Q1 FY8/2026 results showing a 1.3% YoY decline in revenue and a 53.7% decline in operating profits. While profits fell significantly, both sales and operating profit were largely in line with company expectations overall.

The main factors contributing to the decline in revenue and profit were: 1) the termination of a contract with a major customer in the EC/TC support business within the Digital Sales Support Sector, and 2) the impact of a change in the fiscal year-end for FMG in the Airport Sector during the same period last year (impact amount: ¥411 million). Furthermore, increased expenses due to upfront investments for securing large-scale projects in the Airport Sector during 2H affected the operating profit.

The Company's FY8/2026 plan remains unchanged at sales of ¥66.28 billion (+4.2% YoY) and operating profit of ¥2.8 billion (+12.2% YoY). While the Wholesale Business Sector, which prioritizes strengthening production and logistics systems while curbing orders, expects a decline in revenue; the Airport Sector and others anticipate increased revenue in 2H, including the expected award of bundled ground handling contracts at major airports nationwide from a leading overseas airline.

The mid-term management plan targets sales of ¥71 billion (3.9% CAGR from FY8/2024) and operating profit of ¥4 billion (20.6% CAGR) by FY8/2029. Driven by the Wholesale Business Sector, the Company appears to be considering upward revisions to its plan following the strong FY8/2025 results (compared to initial forecasts: sales +7.8%, operating profit +24.7%).

The Company's stock price experienced a period of sustained appreciation following the November 2024 announcement of its mid-term management plan, which was centered on the Airport Sector. The stock price, which had been on an upward trend until early August 2025, has entered a phase of consolidation and is currently trading slightly below ¥1,000.

The Airport Sector is poised for dramatic growth as it resolves national ground-handling shortages to support the 2030 target of 60 million inbound tourists. Having completed its nationwide base network, the Company is entering a transformative "takeoff phase" for its revenue profile. As the market bakes in these long-term profit expectations, we anticipate potential multiple expansion, with the PER likely to surpass its historical 20x resistance level.

Stock Price & Volumes (1 Year)

Source: Strategy Advisors

Key Indicators

Stock Price (1/29/26)	952
52-Week High (8/5/25)	1,175
52-Week Low (4/7/25)	823
All-Time High (12/14/21)	2,789
All-Time Low (3/19/20)	603
# of Shares Issued (mn)	17.8
Market Capitalization (¥bn)	17.0
EV (¥bn)	17.6
Equity Ratio (FY8/25, %)	42.6
ROE (FY8/25 Actual, %)	4.9
PER (FY8/26 CoE, x)	13.1
PBR (FY8/25 Actual, x)	1.0
Dividend Yield (FY8/26 CoE, %)	3.9

Source: Strategy Advisors

Japanese GAAP - Consolidated

FY	Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net Profit	YoY	EPS	DPS
	(¥ million)	(%)	(¥mn)	(%)	(¥mn)	(%)	(¥mn)	(%)	(¥)	(¥)
FY8/25 Q1	16,428	3.8%	737	-20.5%	748	-19.7%	274	-38.7%	15.4	—
FY8/26 Q1	16,211	-1.3%	341	-53.7%	316	-57.7%	71	-74.2%	4.0	—
FY8/21	84,225	17.8%	4,787	52.0%	5,125	52.5%	2,774	102.4%	155.5	24.5
FY8/22	64,130	-23.9%	5,739	19.9%	5,759	12.4%	3,227	16.3%	180.9	30.0
FY8/23	63,980	-0.2%	4,198	-26.8%	4,300	-25.3%	1,885	-41.6%	105.7	31.0
FY8/24	58,547	-8.5%	1,568	-62.6%	1,536	-64.3%	-43	—	-2.4	35.0
FY8/25	63,596	8.6%	2,495	59.1%	2,504	63.0%	853	—	47.9	37.0
FY8/26 CoE	66,280	4.2%	2,800	12.2%	2,810	12.2%	1,295	51.7%	72.6	37.5

Source: Company Data. Compiled by Strategy Advisors.

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1. Q1 FY8/2026 Financial Results

Q1 FY8/26 Results: 1% Decline in Sales, 54% Drop in Operating Profit

Q1 FY8/2026Results: Sales decreased to ¥16.211 billion (-1.3% YoY), operating profit decreased to ¥341 million (-53.7% YoY) and net profit decreased to ¥71 million (-74.2% YoY).

Figure 1. FY8/26 Q1 Results Overview (¥mn)

FY	8/24				8/25					8/26	
	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	YoY
Net Sales	13,984	14,727	14,010	58,547	16,428	14,499	16,764	15,905	63,596	16,211	-1.3%
Gross Profit	2,806	2,941	2,830	12,097	3,327	2,985	3,206	3,394	12,912	3,092	-7.1%
Gross Profit Margin	20.1%	20.0%	20.2%	20.7%	20.3%	20.6%	19.1%	21.3%	20.3%	19.1%	–
SG&A Expenses	2,459	2,751	2,726	10,528	2,590	2,443	2,617	2,766	10,416	2,750	6.2%
SG&A Ratio	17.6%	18.7%	19.5%	18.0%	15.8%	16.8%	15.6%	17.4%	16.4%	17.0%	–
Operating Profit	346	190	104	1,568	737	541	589	628	2,495	341	-53.7%
OP Margin	2.5%	1.3%	0.7%	2.7%	4.5%	3.7%	3.5%	3.9%	3.9%	2.1%	–
Ordinary Profit	329	181	94	1,536	748	531	592	633	2,504	316	-57.7%
Extraordinary Income/Loss	–	–	-249	-249	-3	72	-3	-499	-433	-5	–
Income Before Income Taxes	329	181	-155	1,287	744	603	591	132	2,070	311	-58.2%
Income Taxes	189	259	275	1,127	403	278	264	66	1,011	188	-53.3%
Profit	140	-77	-430	160	341	325	326	67	1,059	122	-64.2%
Profit Attributable to Non-controlling Interests	45	49	31	204	66	34	51	54	205	51	-22.7%
Profit Attributable to Owners of the Parent	95	-127	-459	-43	274	291	276	12	853	71	-74.2%

Source: Company Data. Compiled by Strategy Advisors.

Sales and Operating Profit Were Largely In-Line with Company Plans

In the same period last year, sales included an additional month's worth of revenue (impact amount: ¥411 million) due to a change in the fiscal year-end for FMG, which handles ground handling operations in the Airport Sector. Additionally, sales to a major customer whose contract had already ended were recorded in the Digital Sales Support Sector. However, the loss of these sales was factored into the plan, so overall sales were largely in line with the Company's expectations.

Operating profit was also largely in line with the Company's expectations overall. This was due to the impact of the fiscal year-end change, the termination of the major customer contract and the impact of increased expenses associated with upfront investments in the Airport Sector (discussed later), which were factored into the plan.

While the Wholesale Business Sector, which had a conservative plan, exceeded the Company's expectations, the Inbound Tourism Sector and others appear to have slightly underperformed compared to the Company's expectations.

The Progress Rate for Q1 Results Against the H1 Plan

The progress rate of Q1 results against H1 plan announced in October 2025 was 52.4% for sales, 50.1% for gross profit, 52.2% for SG&A expenses and 37.9% for operating profit.

The Main Factors Contributing to the Profit Decline

The main factors contributing to the revenue decline were: 1) the termination of a major customer contract in the EC/TC Support Business within the Digital Sales Support Sector, 2) the impact of FMG's fiscal year-end change compared to the same period last year (impact amount: ¥411 million) and 3) reduced revenue in the airport sector (including partial flight reductions on China routes and switches to smaller aircraft) due to deteriorating Japan-China relations.

The main factors contributing to the decline in profit were: 1) the termination of a contract with a major customer in the EC/TC support business, 2) the change in the fiscal year-end for FMG, 3) increased expenses such as personnel costs, rent, and depreciation due to upfront investments in the Airport Sector for securing large projects in the second half and 4) reduced profits from decreased revenue in the Airport Sector and other areas due to the deterioration of Japan-China relations. Among these, the decline in revenue and profit due to the deterioration of Japan-China relations was not factored into the Company's plan. However, as the impact began in mid-November, it appears to have had a smaller effect on Q1 results relative to the other factors.

Contributions From the Osaka/Kansai Expo Project and Expanded Contributions from New Ramp Bases Increased Revenue and Profit

On the other hand, the main revenue growth factors were: 1) the contribution from the Osaka-Kansai Expo project in the Sports & Entertainment Sector (contribution amount: ¥305 million), 2) the expanded contribution from new ramp bases such as Kansai Airport and New Chitose Airport in the Airport Sector and 3) increased revenue in the communications field within the Store Sales Support Sector.

The main profit growth factors were: 1) the contribution from the Osaka/Kansai Expo project, 2) the expanded contribution from new ramp bases such as Kansai and New Chitose and 3) increased profits driven by higher revenue from the profitable overseas escort dispatch business in the Inbound Tourism Sector.

Gross Profit Margin Declined Due to Upfront Investment Burdens in the Airport Sector	Gross profit margin decreased to 19.1% from 20.3% in the same period of the previous year. This was primarily due to a temporary decline in the FMG profit margin in the Airport Sector associated with upfront investment burdens and the termination of a contract with a major customer in the EC/TC Support Business Operations.
SG&A Expenses Increased by 6% YoY	SG&A expenses increased by 6.2% YoY. This increase was primarily due to higher logistics costs in the Wholesale Business Sector and increased personnel expenses associated with strengthening the organizational structure in the Airport Sector.
Non-Operating Income/Expenses Deteriorated	Non-operating income decreased from ¥35 million in the same period of the previous year to ¥14 million overall, primarily due to a decrease in "Other" income from ¥30 million to ¥8 million. On the other hand, in non-operating expenses, interest expenses increased from ¥14 million in the same period of the previous year to ¥27 million due to an increase in borrowings and rising interest rates. Consequently, non-operating expenses increased from ¥24 million in the same period of the previous year to ¥39 million. As a result, the non-operating income/expense balance deteriorated from a surplus of ¥11 million in the same period of the previous year to a deficit of ¥25 million.
Corporate Tax Burden Rate Increased Due to Significant Profit Decline	Although the amount of goodwill amortization not recognized as a tax expense decreased from ¥218 million in the same period of the previous year to ¥198 million, the tax burden rate increased from 54.2% in the same period of the previous year to 60.5% due to the significant decrease in quarterly net income before taxes and other adjustments.
Net Income Attributable to Non-Controlling Interests Decreased	The Company's ownership ratio in both BBF (EC/TC Support Business) and Branch Out (Wholesale Business Sector) is 83.5%. As both Branch Out and BBF recorded lower profits, net income attributable to non-controlling interests decreased from ¥66 million in the same period of the previous year to ¥51 million.
Conversion of Non-Consolidated Subsidiaries to Consolidated Subsidiaries	The company consolidated the following previously non-consolidated subsidiaries as consolidated subsidiaries from Q1 due to their increased significance: Squad (Sports & Entertainment Sector), Iga City Nigiwai Partners (Public Sector), Chisato Tsumori Design Studio and TC. Subsequently, TC was dissolved through an absorption-type merger with Chisato Tsumori Design Studio as the surviving company.
No Change in Financial Soundness	Total assets at the end of Q1 FY8/2026 increased to ¥42.316 billion (+¥1.493 billion). This increase was primarily due to the consolidation of non-consolidated subsidiaries, resulting in a decrease of ¥849 million in shares of affiliated companies and a decrease of ¥350 million in long-term loans to affiliated companies compared to the previous fiscal year-end. Conversely, notes receivable, accounts receivable, and contract assets increased by ¥1.687 billion.

On the funding side, total liabilities increased by ¥1.796 billion to ¥23.711 billion. This was primarily due to an increase of ¥1.197 billion in accounts payable, an increase of ¥1.750 billion in short-term borrowings and an increase of ¥599 million in long-term borrowings. Equity decreased by ¥292 million to ¥17.081 billion, primarily due to dividend payments. Consequently, the equity ratio declined from 42.6% at the end of the previous fiscal year to 40.4%. However, the net debt-to-equity ratio (net DE ratio) remained negative at -0.05, indicating no change in the soundness of the Company's financial position.

Business Classified into 9 Sectors

The company discloses sales by classifying its business into 9 sectors.

Figure 2. Sales by Sector for FY8/26 Q1 (¥mn)

FY	8/24				8/25					8/26	
	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	YoY
Wholesale	2,734	3,465	3,227	12,772	4,580	3,418	4,505	4,176	16,679	4,613	0.7%
Store Sales Support	3,920	3,796	3,057	14,737	3,588	3,727	3,751	3,701	14,767	3,698	3.1%
Digital Sales Support	3,231	3,210	2,923	12,662	3,555	2,835	2,852	2,756	11,998	2,978	-16.2%
Airport	1,178	1,237	1,554	4,936	2,048	1,960	1,878	2,057	7,943	1,824	-11.0%
Inbound Tourism	1,270	1,541	2,099	6,711	1,500	1,396	1,721	1,161	5,778	1,484	-1.1%
Sports & Entertainment	526	905	805	2,854	742	755	1,581	1,560	4,638	1,131	52.3%
Public	348	208	119	954	227	200	253	267	947	263	16.0%
Works	156	176	223	693	184	207	225	230	846	216	17.6%
Covid-19 Services	622	188	4	2,224	—	—	—	—	—	—	—
Total	13,984	14,727	14,010	58,547	16,428	14,499	16,764	15,905	63,596	16,211	-1.3%

Source: Company Data. Compiled by Strategy Advisors.

The Revenue Growth Sectors

Sectors showing revenue growth include Sports & Entertainment (+¥388 million YoY), Store Sales Support (+¥109 million YoY), Public (+¥36 million YoY), Wholesale Business (+¥32 million) and Works (+¥32 million).

Sports & Entertainment Sector Revenue Increased by 52%

The Sports & Entertainment Sector saw a 52.3% YoY increase in revenue. This growth was driven by securing various contracts from organizers, exhibiting countries and companies at the Osaka-Kansai Expo (April 13 to October 13) (sales: ¥305 million); with increased sales of Operational Support Services for professional sports teams such as basketball and soccer, and contributions from Squad, a newly consolidated subsidiary engaged in Sports Information Business.

Excluding the contribution from the Osaka-Kansai Expo projects, sales increased from ¥742 million in the same period last year to ¥826 million, marking a solid start. Furthermore, various international events are scheduled to be held in Japan next fiscal year, which could positively impact the company.

Sales Expansion in the Sports & Entertainment Sector Driven by Seasonality and Contributions from the Osaka-Kansai Expo

The Sports & Entertainment Sector is characterized by significant quarterly sales fluctuations due to the presence or absence of events and the seasonality of professional sports leagues. In FY8/2025, Q1 sales were ¥742 million (+20% YoY), Q2 sales were ¥755 million (+44% YoY), Q3 sales were ¥1,581 million (+75% YoY) and Q4 at ¥1.560 billion (+94% YoY), showing a pronounced expansion in sales during H2 of the fiscal year. The sales growth in Q3 was driven by the seasonal pattern where Q3 and Q4 (coinciding with the professional baseball season) typically see higher sales than Q2, combined with a significant contribution from the Osaka/Kansai Expo (sales from this project in the latter half totaled ¥1.073 billion).

Regarding Q4, while the revenue growth rate was the highest among all quarters in FY8/2025, sales fell slightly short of Q3. Sales related to the Osaka/Kansai Expo likely expanded compared to Q3 due to the number of event days, but this was offset by a decrease in sales related to League One (rugby), which was in its off-season compared to Q3.

Store Sales Support Sector: 3% Revenue Increase

The Store Sales Support Sector saw a 3.1% YoY increase in sales. This growth was driven by continued strength in the mainstay communications field, despite ongoing weakness in the store sector. However, the increase in sales was insufficient to fully offset rising costs of sales, including staff labor expenses, resulting in a decline in profit.

While Q1's revenue growth rate appears slightly below expectations compared to the full-year plan (+4.6% YoY), it seems to be in line with company plans, given anticipated expansion in the communications field from Q2 onwards and the planned launch of multiple new services.

Public Sector: 16% Revenue Growth

The Public Sector recorded a 16% YoY revenue increase. Contributions came from the Iga NINJA Experience Facility ''Bansenshukai'', which opened at the end of August 2025 and the "Space Interaction Hall Sora-Miru" in Kushimoto-Town, Wakayama Prefecture, which began operations in April 2025.

Although Q1's revenue growth rate was lower than the full-year plan (+32.7% YoY), recovery is expected going forward. This is because the Public Sector's new fiscal year budget execution begins in April and Q1 lacks extended school vacations, whereas Q4, with its summer holidays, is the peak season for facilities.

Wholesale Business Sector: 1% Revenue Increase, 13% Profit Decrease

The Wholesale Business Sector, managed by Branch Out, etc., saw a 0.7% increase in revenue compared to the same period last year. Revenue growth was driven by strong performance comparable to the previous year, particularly in apparel and fan merchandise utilizing IP licenses, as well as collaborative products with influencers, which saw significant increases in sales to major retailers, mainly for autumn/winter items. Additionally, new initiatives launched since the latter half of the previous fiscal year, such as concept cafes and pop-up shops (temporary stores) utilizing popular IP, and character lottery games, also contributed to the revenue increase.

Although the exchange rate appears to have weakened slightly against the yen YoY, the gross profit margin seems to have increased slightly compared to Q1, likely due to the new high-margin initiatives such as the concept cafes. However, the segment profit for this sector decreased by 12.6% YoY due to a deterioration in the SG&A ratio caused by rising logistics costs overseas.

Wholesale Business Sector Exceeded Conservative Company Forecasts

However, while the Wholesale Business Sector's full-year sales were expected to decline 5.3% YoY under a conservative plan, Q1 sales and segment profit exceeded company expectations. Although the policy for Q1 FY8/2026 is to prioritize strengthening production and logistics systems by restraining orders, the contributions from "character lottery tickets" and other items exceeding plans without overburdening existing production and logistics systems and corporate efforts to meet strong demand has yielded results surpassing expectations. Furthermore, initiatives have begun regarding the expansion of inspection systems, which have been a particularly urgent issue within the supply chain.

Branch Out Entered the Character Lottery Market

Branch Out has entered the expanding "character lottery" market. Character lotteries are scratch-off tickets where every ticket wins a prize featuring popular character goods. Although Branch Out is a late entrant in this market, it aims to leverage its strength in IP licensing and planning capabilities to strengthen its non-apparel product initiatives and drive further growth in its Wholesales Business Sector.

The Peak Demand Periods for the Wholesale Business Sector Are Q1 and Q3

Wholesale Business Sector Q1 FY8/2026 sales (¥4,613 million) increased significantly from FY8/2025 Q4 sales (¥4,176 million). This is because Q1 and Q3, which coincide with the launch periods for autumn and spring collections, are peak demand periods.

The Gross Profit Margin for the Wholesale Business Sector in Q1 Declined from the Level Seen in Q4 FY8/25

Historically, the quarterly gross profit margin for the Wholesale Business Sector also exhibited seasonality, with Q1 and Q3 levels being slightly higher than Q2 and Q4, as sales tended to expand during these periods. However, in FY8/2025, the gross profit margin in Q4 was around 22%, the highest compared to Q1-Q3, which is estimated to have been around 17-18%. This is likely because the contribution from concepts such as concept cafes and pop-up shops, which are presumed to have higher profit margins, became fully operational from Q4, outweighing the negative impact of seasonal deterioration.

Conversely, the gross profit margin for Q1 FY8/2026 remained around 19-20%, declining from the level seen in Q4 FY8/2025. This is likely due to a weaker yen compared to Q4 FY8/2025 and a higher sales mix share of apparel products, which have relatively lower profit margins. Attention should be paid to whether the seasonal fluctuations in profit margins change going forward.

Digital Sales Support, Airport & Inbound Tourism Were Revenue-Declining Sectors

Sectors experiencing revenue decline include Digital Sales Support (-¥576 million YoY), Airport (-¥224 million YoY) and Inbound Tourism (-¥15 million YoY).

Digital Sales Support Sector Was Down 16%

The Digital Sales Support Sector saw a 5% YoY increase in revenue for all segments except the EC/TC Support Business handled by SALES ROBOTICS (which includes inside sales). However, the EC/TC Support Business handled by BBF experienced a 21% YoY decrease in revenue due to the termination of a contract with a major client. Consequently, the overall sector recorded a 16.2% YoY decrease in revenue. Furthermore, segment profit for the EC/TC Support Business decreased by 39.1% YoY, indicating a significant overall profit decline for the Digital Sales Support Sector.

The Airport Sector Consists of Airport Facility Operation Support, Sales Support Services and Ground Handling Services

The Airport Sector comprises Airport Facility Operation Support and Sales Support Services handled by Hito Communications, a core subsidiary operating across multiple sectors, and ground handling services handled by FMG and its group companies, which belong exclusively to this sector.

Furthermore, the Ground Handling Business, which provides ground support for aircraft operations at airports, is broadly categorized into passenger services supporting passenger boarding, ramp services loading and unloading baggage/cargo onto aircraft plus maintenance services performing aircraft maintenance and cleaning.

Airport Sector Revenue Down 11%, but Actual Revenue up 11%

The Airport Sector recorded an 11% decrease in revenue compared to the same period last year. This decrease was due to a special factor: the previous year's period included 4-months (August to November) of FMG sales, reflecting FMG's fiscal year-end change. On a comparable basis, excluding FMG's August 2024 sales of ¥411 million from the prior-year period's sales, revenue increased by 11.4%.

The increase in revenue for the ground handling business, driven by the expansion of new orders due to the in-house production of ramp operations and the addition of new bases (Kansai International Airport in September 2024 and New Chitose Airport in October), led to an increase in revenue on a real basis.

The Airport Sector Also Includes Seasonal Demand in Q2 and Q4

Q1 FY8/2026 sales for the Airport Sector (¥1.824 billion) decreased from FY8/2025 Q4 sales (¥2.057 billion). This is likely because Q4 sales included seasonal demand for summer charter flights at various airports, like the winter charter flight demand centered on New Chitose Airport in Q2.

The Airport Sector Saw a Significant Profit Decline Due to the Impact of the Fiscal Year-End Change and Upfront Investments

The Airport Sector also appears to have suffered a significant profit decline in Q1. Factors contributing to this decline include reduced profits due to lower sales resulting from FMG's fiscal year change, coupled with substantial increases in expenses such as personnel costs (primarily for ground handling staff), rent (for warehouses and offices storing Ground Support Equipment (GSE)) and finally depreciation expenses. These increases stem from upfront investments made in anticipation of securing large-scale projects in the latter half of the fiscal year. Furthermore, the Company's Q1 depreciation and amortization expenses increased by ¥74 million compared to the same period last year, with the core of this increase stemming from GSE equipment within the Airport Sector.

The Gross Profit Margin for the Ground Handling Business Showed Trending Up

The gross profit margin for the Airport Sector's ground handling business generally ranged between 5% and 10% in H1 FY8/2024. However, it rose to roughly 10% to 15% in the H2 due to factors such as acquiring new customers and in-sourcing ramp operations at Narita Airport. It exceeded 20% in January 2025, when both ramp and passenger operations expanded rapidly. Even during February and March, when sales declined slightly, it maintained 15-20%, indicating an underlying trend of improvement in the gross profit margin.

Gross Profit Margin, Which Declined Through May 2025, Recovered Through August

Subsequently, the gross profit margin for this business dipped below 10% in April and May due to reduced sales from the decline in winter charter demand and increased staff recruitment and labor costs in preparation for future new contracts. However, it exceeded 15% in August as sales recovered and outsourcing costs were reduced.

Gross Profit Margin Declined in FY8/26 Q1 as Upfront Investments Intensified

However, as upfront investments for securing large-scale projects in the second half intensified, the gross profit margin for Q1 FY8/2026 appears to have declined to below 5%.

Target Gross Profit Margin for the Ground Handling Business is 23%

The Company aims to raise the gross profit margin to 23% by expanding ramp operations to major airports where it currently has no presence, increasing sales through new customer acquisition and reducing outsourcing costs through staff recruitment and training.

Expectations for Upward Revision of Airport Sector Sales Targets in Mid-Term Management Plan

The Company clarified that the commencement of ground handling operations for a major overseas airline, which it had previously stated would begin in H2 FY8/2026, will now start in April. It is also confirmed that personnel recruitment and training for these operations, along with the procurement of ground support equipment (GSE), are progressing smoothly. Additionally, the Company announced that its Chubu Centrair International Airport base, previously under construction, will be opened by the start of H2 FY8/2026.

Similarly, the Fukuoka Airport base, which was also in preparation, will commence operations in partnership with a local ground handling company. Furthermore, cabin cleaning services, which start date was previously undecided, began operations at some airports in January 2026.

Consequently, including Naha Airport, which was already scheduled to open in H1 FY8/2026, the Company will establish a system to handle ground handling operations at all seven major airports nationwide, including Narita and Haneda, by the H2 FY8/2026.Going forward, securing new contracts at Naha, Chubu Centrair and Fukuoka airports, along with winning bundled ground handling contracts at additional major airports nationwide, is expected to lead to upward revisions of the sales targets outlined in the mid-term management plan (¥10.5 billion for FY8/2027, ¥12.8 billion for FY8/2029).

Inbound Tourism Sector: 1% Decrease in Revenue

The Inbound Tourism Sector saw a 1.1% YoY decrease in revenue. Factors contributing to the decline appear to be the continued sluggishness in the land operating business due to the impact of the Chinese government's visa exemption policy for foreign nationals, as well as weak performance in domestic tour escort services. On the other hand, the decline rate for this sector remained modest. This was because overseas tour escort services, which had fallen significantly in recent years due to the weakening yen and the COVID-19 pandemic, recovered, particularly in the high-end tour business, driven by an increase in the number of Japanese travelers departing the country.

Personnel Staffing Business Posted Increased Profits, While Outsourcing Business Recorded Losses

The Company discloses performance not only by sector but also by business segment. In the reporting segments excluding the EC/TC Support Business mentioned in the Digital Sales Support Sector explanation and the Wholesales Business Sector, the Outsourcing Business Segment recorded sales of ¥6.266 billion (+3.9% YoY) and a segment loss of ¥180 million (-¥40 million YoY). The Personnel Staffing Business recorded sales of ¥2.258 billion (+2.2% YoY) and segment profit of ¥176 million (+43.6% YoY).

The Burden of Upfront Investments in the Airport Sector Contributed to the Loss in the Outsourcing Business

The Outsourcing Business recorded a loss, primarily due to increased upfront investment burdens in the Airport Sector, which had a greater impact than the rise in personnel costs for Store Sales Support. Meanwhile, the improved profit margin in the Personnel Staffing Business is mainly attributed to increased revenue from tour escort services for overseas travel.

2. Business Outlook

1) FY8/2026 Company Plan

FY8/26 Company Plan: 4% Sales Growth, 12% Operating Profit Increase

The FY8/2026 company plan expects sales of ¥66.28 billion (+4.2% YoY), operating profit of ¥2.8 billion (+12.2% YoY), ordinary profit of ¥2.81 billion (+12.2% YoY) and profit attributable to owners of the parent of ¥1.295 billion (+51.7% YoY). Although Q1 results showed a significant YoY decline in profit, this was in line with company expectations, so the full-year plan remains unchanged.

The Operating Profit Margin is Expected to Improve by 0.3ppt

Due to increased revenue and other factors, the gross profit margin is expected to improve by 0.1ppt. YoY, while the SG&A ratio is expected to improve by 0.2ppt YoY. Consequently, the operating profit margin is planned to improve by 0.3ppt. to 4.2%.

Despite the anticipated revenue growth, the modest improvement in gross profit margin is likely due to a significant impact of increased depreciation expenses associated with investments in GSE equipment in the Airport Sector, as well as rising labor costs.

Figure 3. Company Plan for FY8/26 (¥mn)

FY	8/25	8/26	
	Actual	Company Plan	Actual
Net Sales	63,596	66,280	4.2%
Gross Profit	12,912	13,527	4.8%
Gross Profit Margin	20.3%	20.4%	—
SG&A Expenses	10,416	10,727	3.0%
SG&A Ratio	16.4%	16.2%	—
Operating Profit	2,495	2,800	12.2%
OP Margin	3.9%	4.2%	—
Ordinary Profit	2,504	2,810	12.2%
Profit Attributable to Owners of Parent	853	1,295	51.7%

Source: Company Data. Compiled by Strategy Advisors.

Airport Sector and Other Sectors Plan to Increase Revenue

By sector, the Wholesale Sector revenue is expected to decrease by ¥879 million compared to the previous period and the Sports & Entertainment Sector revenue is expected to decrease by ¥547 million. However, many sectors are expected to see increases in revenue, with the Airport Sector increasing by ¥1.490 billion, the Digital Sales Support Sector increasing by ¥905 million, the Store Sales Support Sector increasing by ¥680 million, the Works Sector increasing by ¥394 million, the Inbound Tourism Sector increasing by ¥330 million and the Public Sector increasing by ¥309 million.

Wholesale Sector Revenue Are Expected to Fall 5% YoY

The Wholesale Sector revenue is expected to be ¥15.8 billion for FY8/2026, significantly exceeding the medium-term management plan target of ¥13.5 billion due to strong FY8/2025 results. However, this represents a 5.3% YoY decrease. This is because, while demand remains robust, significant strain exists on the supply side, including production and logistics systems. Consequently, the Company decided to prioritize strengthening production and logistics systems by limiting orders during H1 FY8/2026.

The FY8/2026 target exceeds the FY8/2029 target of ¥15 billion outlined in the medium-term management plan. The Company group has initiated efforts to build a robust supply chain system at this juncture, including developing production bases capable of handling further order growth and enhancing its logistics network. Strengthening production and logistics systems should enhance growth potential from FY8/2027 onwards, raising expectations for a significant upward revision of the FY8/2029 target.

Figure 4. Company Plan for Sales by Sector for FY8/26 (¥mn)

FY		8/25 Actual	8/26 Company Plan	8/26 YoY
Wholesale		16,679	15,800	-5.3%
Store Sales Support		14,767	15,447	4.6%
Digital Sales Support		11,998	12,903	7.5%
Airport		7,943	9,433	18.8%
Inbound Tourism		5,778	6,108	5.7%
Sports & Entertainment		4,638	4,091	-11.8%
	Excl. EXPO	3,565	3,746	5.1%
	EXPO	1,073	345	-67.8%
Public		947	1,256	32.7%
Works		846	1,240	46.6%
Wholesale		63,596	66,280	4.2%

Source: Company Data. Compiled by Strategy Advisors.

Sports & Entertainment Sector Revenue is Expected to Fall 12% as the Osaka World Expo Ends

The Sports & Entertainment Sector revenue is expected to be ¥4.1 billion (-11.8% YoY), the same as the planned figure of ¥4.1 billion in the medium-term management plan. Although sales from non-Expo related activities, such as operational support services for professional sports teams, are expected to increase to ¥3.75 billion (+5.1% YoY), sales from the Expo are expected to decrease from ¥1.07 billion (4.5 months' worth) in the previous year to ¥350 million (1.5 months' worth).

Furthermore, it appears that the effects of the Expo in terms of recruitment are continuing even after the event has ended, as some of the personnel employed at the Expo have been rehired at theme parks in other regions and international events that are involved in facility management.

The Airport Sector Plans to Increase Revenue by 19%

The Airport Sector revenue is expected to achieve ¥9.4 billion (+18.8% YoY), aligning with the medium-term management plan target of ¥9.5 billion. Factors contributing to the sales increase include the opening of a ground handling business base at Naha Airport (H1 FY8/2026), the simultaneous start of handling operations at major airports nationwide after under a bundled contract from a major overseas airline (H2 FY8/2026) and entry into cabin cleaning services.

The FY8/2026 plan appears to have been formulated conservatively, as there is a risk that the start dates for each revenue-increasing factor may be delayed. However, as sales are expected to grow significantly in the H2 FY8/2026 compared to H1, it is likely that investor expectations for the Airport Sector, which had been weak at the time, will regain momentum.

Digital Sales Support Sector Revenue Expected to Increase by 8%

The Digital Sales Support Sector is expected to achieve ¥12.9 billion (+7.5% YoY), exceeding the medium-term management plan target of ¥11.1 billion. Although sales of the core EC/TC Support business are expected to be ¥9 billion (-2.3% YoY) due to the lingering impact of the termination of a contract with a major customer, sales outside the EC/TC Support business, such as inside sales are planned to expand to ¥3.9 billion (+40.5% YoY).

The Company group has identified its key action plans for the sector in FY8/2026 as strengthening support for existing customers to open stores on mall-style e-commerce sites such as Amazon and Rakuten Ichiba and enhancing inside sales through the use of AI.

Inbound Tourism Sector Plans 6% Revenue Growth Through Expansion of Limousine Services, Etc.

The Inbound Tourism Sector revenue is expected to be ¥6.1 billion (+5.7% YoY), which is lower than the planned figure of ¥6.6 billion in the medium-term management plan. Factors contributing to the increase in sales include the expansion of limousine services for wealthy inbound tourists, which were strong in the previous year and an increase in business outsourcing at accommodation facilities for inbound tourists.

Store Sales Support Sector Plans to Increase Revenue by 5%

In the Store Sales Support Sector, the company is expecting revenue of ¥15.4 billion (+4.6% YoY), exceeding the ¥14.1 billion target in the medium-term management plan. This is due to an expected increase in sales to the communications field (particularly foreign manufacturers), which has been recovering since FY8/2025 H2.

Public Sector Revenue is Expected to Increase by 33%

The Public Sector revenue is expected to be ¥1.3 billion (+32.7% YoY), exceeding the planned figure of ¥1.2 billion in the medium-term management plan. In addition to the contribution of the Iga NINJA Experience Facility "Bansenshukai" operations began in April 2025. A significant revenue increase is anticipated due to the full-year contribution of "Space Interaction Hall Sora-Miru" in Kushimoto-Town, Wakayama Prefecture. The Company group plans to continue supporting its customers in the Public Sector as well as in the Sports and Entertainment Sector, through support for professional sports teams across the country, they are also working towards realizing sustainable local communities (regional revitalization).

Progressive Dividends Are the Basic Dividend Policy

The company's basic dividend policy is to provide a stable and continuous progressive dividend, considering each fiscal year's performance and financial situation while balancing it with the internal reserves necessary for future business expansion. The Company also aims for a stable dividend payout ratio of 30%. In line with business expansion, the Company has raised its DPS from ¥15 in FY8/2018 to ¥37 in FY8/2025.

Dividends Increased for 15 Consecutive Years

Driven by President Yasui's vision to "increase the number of Hito-Com fans" the company has increased its dividend for 15 consecutive fiscal years since its listing in 2011. Consequently, the number of shareholders holding voting rights in the Company has increased significantly from 3,065 in FY8/2017 to 15,964 at the end of FY8/2025.

FY8/26 DPS is Expected to Be ¥37.5 (+¥0.5 YoY)

The company forecasts DPS of ¥37.5 for FY8/2026 (+¥0.5 YoY with a payout ratio of 51.7%). Given its sound financial position and favorable business outlook, it is highly likely that dividend increases will continue in the future.

2) Medium-Term Management Plan

The Target CAGR Are 4% for Sales and 21% for Operating Profit

The 5-year medium-term management plan announced in November 2024 sets numerical targets for FY8/2029: with sales of ¥71 billion (expected CAGR of 3.9% from FY8/2024), operating profit of ¥4 billion (+20.6%) and EBITDA of ¥5.02 billion (+13.8%). FY8/2024 results include Covid-19 Services, which delivered sales of ¥2.22 billion, operating profit of ¥390 million and EBITDA of ¥390 million. Calculating annual growth rates from FY8/2024 excluding Covid-19 Services results in sales growth of 4.7%, operating profit growth of 27.9% and EBITDA growth of 17.5%.

Considering Upward Revision of Medium-Term Management Plan

Based on FY8/2025 results, the targets in the medium-term management plan, particularly for the Wholesale Sector, appear conservative. In other sectors as well, it is assumed the company does not anticipate many large-scale projects and it is expected the company will exceed its targets.

Although the company did not revise its medium-term management plan at this time, given the favorable results for FY8/2025 (sales +7.8% and operating profit +24.7% compared to the initial plan), driven by the Wholesale Sector, the Company appears to be considering an upward revision of its plans soon.

Airport, Wholesale, Digital Sales Support and Inbound Tourism Are Key Sectors

The 9 sectors are grouped into 4 areas based on 2 factors: expected annual sales growth rate and gross profit margin. The Company has identified Airport, Wholesale, Digital Sales Support and Inbound Tourism as "priority areas" due to their high expected growth rates and high added value rates. It plans to concentrate management resources on these 4 sectors, which require a high level of expertise. Within these priority sectors, the Company will further strengthen its "difficulty of imitation". This is defined as "a personnel management method that hires, trains and places the right person in the right position in response to the needs of customers in various industries; and the on-site capabilities that can solve problems as a team while supporting customers, honed over 20 years by utilizing its nationwide bases".

Although the expected sales growth rate is low, the Store Sales Support Sector is listed as a "deepening area" where the Company aims to increase profits by raising the added value rate (gross profit margin) and will work to improve cost efficiency and operations.

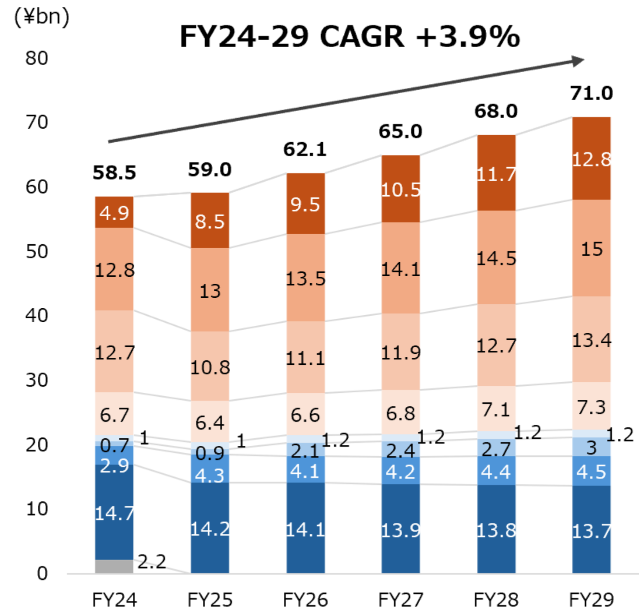
The Public, Work, and Sports & Entertainment Sectors are cited as "growth areas" with high expected sales growth rates but low added value rates. The company plans to develop these businesses while exploring new business models and market development opportunities. Businesses driven by social demand, such as COVID-19 countermeasures, are positioned as "restructuring areas" with low expected sales growth rates and low added value rates.

The company aims to allocate management resources to each of the 4 areas in a well-defined manner, establishing a solid revenue base and building a business portfolio that will enable sustainable growth.

Sales Composition Ratio of Priority Sectors to Just Under 70% in FY8/29

Sales plans by sector are as shown in Figure 5. Airport, Works, Wholesale, and Sports & Entertainment are cited as drivers of sales growth. The sales composition ratio of priority sectors is expected to increase from 65.9% in FY8/2024 (excluding COVID-19 countermeasures-related sales) to 68.5% in FY8/2029.

Figure 5. Medium-Term Management Plan: Sales Planned by Sector



	Increase & decrease amount (¥bn)	CAGR	Composition ratio (FY29)
Focus area			
Airport	+7.9	21.1%	18.1%
Wholesales	+2.2	3.3%	21.1%
Digital Sales Support	+0.7	1.2%	19.0%
Inbound Tourism	+0.6	1.7%	10.3%
Pubilic	+0.2	4.5%	1.7%
Works	+2.3	33.8%	4.2%
Sports/Entertainment	+1.6	9.5%	6.3%
Store Sales Support	-1.0	-1.4%	19.4%
Other	-	-	-

Source: Company Data.

The gross profit margins for each sector in the FY8/2029 company plan are expected to be over 20% for Airport, Wholesale, Digital Sales Support and Public; around 20% for Inbound Tourism and Store Sales Support and less than 20% for Works and Sports & Entertainment. As mentioned above, the current gross profit margins are around 10% for Airport and around 20% for Wholesale. If the gross profit margins of these two sectors, which are driving sales growth, can rise above 20%, the Company's profit growth potential is expected to improve dramatically.

3. Stock Price Trends and Valuations

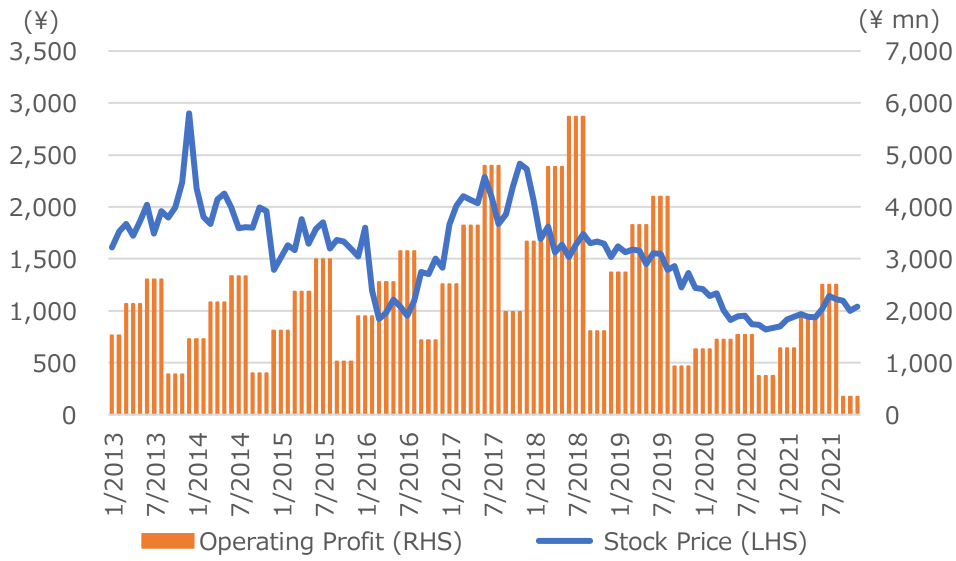
From 2020 to H1 of 2024, Stock Prices Rose and Then Fell as the Impact of Covid-19 on Business Performance Was Factored in

The Company's share price fluctuated within a range of approximately ¥1,600 to ¥1,900 in 2019. However, in the spring of 2020, when the COVID-19 outbreak occurred in Japan, it fell sharply along with the overall market, moving to a range of roughly ¥900 to ¥1,200. However, thanks to strong performance in the EC/TC Support business and Store Sales Support in the communications field, the Company's performance in FY8/2020 was solid and so the Company's share price began to rise from September of the same year.

Thanks to expanded performance in the Covid-19 Service, Digital Sales Support and Wholesale Sectors, operating profit for FY8/2021 to ¥4.787 billion (+52% YoY) and the Company's stock price temporarily exceeded ¥2,800 in December 2021. However, as 2022 began, sluggish performance in Store Sales Support within the communications field and concerns about the future of the expanding Covid-19 Services grew. From March 2022, the Company's stock price shifted to a range centered around ¥1,400 to ¥1,700. Operating profit for FY8/2022 was strong, increasing to ¥5.739 billion (+19.9% YoY), but this did not have a significant impact on the stock price.

Even after the FY8/2023 financial results were announced in October 2023, market concerns about future business performance remained, and the company's stock price continued to decline. Following the Q2 FY8/2024 financial results, which showed a significant decrease in profits, the company's stock price fell below ¥1,000.

Figure 6. HITO-Communications Holdings Stock Price & Operating Profit



Note: Stock prices from January 2017 to February 2019 and operating profit from FY8/17 to FY8/19 H1 are figures provided by HITO-Com HD.
Source: Strategy Advisors.

Following the Announcement of its Mid-Term Management Plan in November 2024, the Stock Price Began to Rise and Maintained an Upward Trend Until Early August 2025

In its FY8/2024 financial results announced in October 2024, the Company forecasted a recovery in business performance for FY8/2025, but the stock price hit a low of ¥770 at the end of October. When a new medium-term management plan was announced on November 5, 2024, which presented a growth scenario centered on priority areas such as the Airport Sector, expectations for a recovery in business performance rose and the Company's stock price began to rise.

The Q1 FY8/2025 financial results announced in January 2025 showed overall results largely in line with the plan, but confirmed strong performance in the priority Airport and Wholesale Sectors. This caused the stock price to rise and recover to ¥1,000 in the latter half of March. However, following a subsequent stock market correction, the stock price temporarily fell below ¥900 in April.

Following the announcement of FY8/2025 Q2 earnings on April 15th, the full-year FY8/2025 plan was revised upward, causing the stock price to move into the ¥900-¥950 range. By late June, the stock price was trading above ¥950, breaking through ¥1,000 again on June 30th and reached a high of ¥1,080 on July 15th.

The FY8/2025 Q3 cumulative results announced on July 15 showed robust performance with a 7% YoY revenue increase and a 28% rise in operating profit. However, the stock price dipped below ¥1,000 on the following day, July 16, partly due to the absence of the full-year plan upward revision some market participants had anticipated. The stock price quickly recovered to the ¥1,000 level, reaching an intraday high of ¥1,175 on August 5. Subsequently, ahead of the FY8/2025 earnings announcement, the stock faced resistance at higher levels and moved into a range between ¥1,000 and ¥1,150 starting in September.

Stock Prices Have Generally Moved Sideways Since November 2025

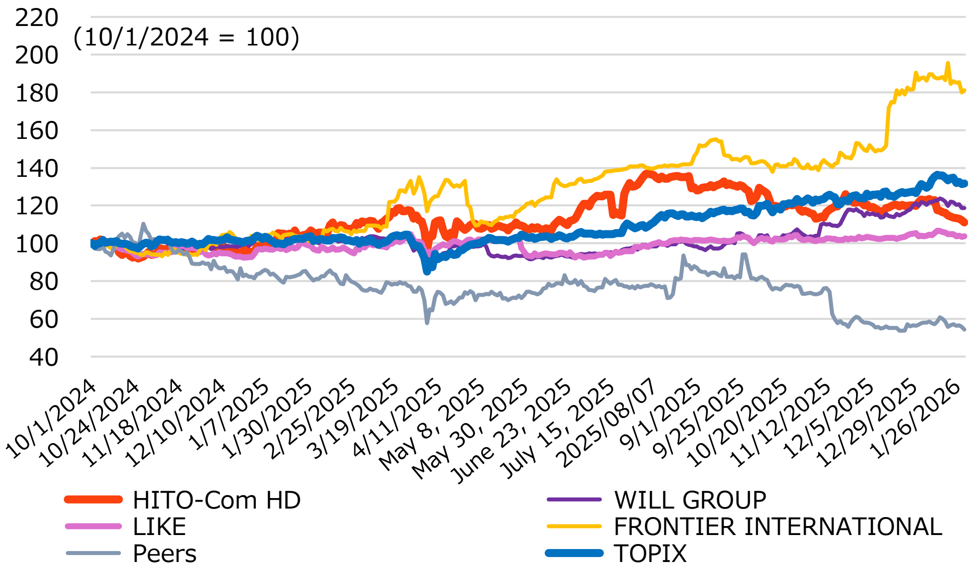
Following the FY8/2025 earnings announcement on October 14, while operating profit exceeded company plans with a 59% increase, profit attributable to owners of the parent fell short of forecasts due to extraordinary losses. Additionally, the outlook for FY8/2026 operating profit, expected to grow only 12%, represented a significant slowdown from the previous period's growth, leading to the stock price temporarily dipping below ¥1,000. Subsequently, bargain hunting by investors expecting medium-to-long-term growth pushed the stock price back into the ¥1,000-¥1,100 range from mid-November onward.

Stock Prices Trended Slightly Lower After the Q1 FY8/26 Earnings Announcement

The Q1 FY8/2026 earnings announced on January 14, 2026, met company expectations. However, operating profit declined 53.7% YoY, causing the stock price to fall slightly. It is currently trading slightly below ¥1,000.

Figure 7 shows a comparison of the company's stock price with similar companies and TOPIX from October 2024. Due to concerns about deteriorating business performance, the Company's stock price underperformed TOPIX and those of similar companies until the announcement of its FY8/2024 financial results. However, since the announcement of the medium-term management plan in November 2024, expectations for a recovery in business performance have gradually increased, and the Company's stock price has remained relatively strong.

Figure 7. Comparison of Stock Prices of HITO-Communications Holdings and Similar Companies



Source: Strategy Advisors.

The Current Expected PER Has Declined to 13x, Near the Lower End of the Range Over the Past 18 Months

The Company's forecast PER has generally fluctuated within a range of 8x to 20x since September 2019. The highest expected PER was 21.7x in June 2021, driven by expectations of upward revisions to earnings forecasts as the EC/TC Support Business and Covid-19 Services expanded during the pandemic. Indeed, when an upward revision to the FY8/2021 earnings forecast was announced in July of that year, the expected PER temporarily declined, reaching 13.3x in August.

In October 2021, robust FY8/2022 earnings forecasts were released. Following the subsequent stock price rise, the PER also increased slightly, reaching 14.4x in November of that year. However, when FY8/2022 earnings forecasts were revised upward in April 2022, concerns about the potential contraction of Covid-19 Services in FY8/2023 and the loss of Tokyo Olympic/Paralympic-related business weighed on sentiment, causing the forward PER to fall below 10x.

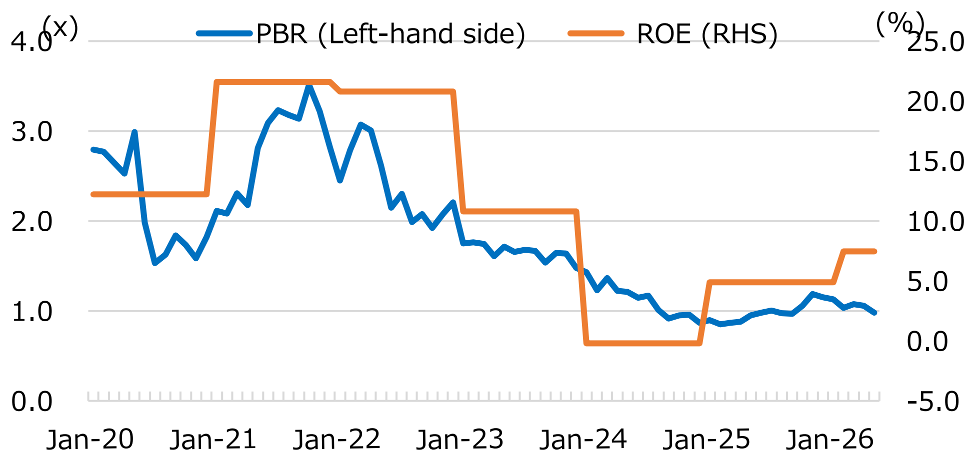
From October 2022 to March 2024, the stock price declined due to deteriorating performance, causing the forward PER to fluctuate between 8x and 12x. In April 2024, the Company significantly revised down its FY8/2024 earnings forecast, causing the stock price to fall further. However, as the PBR declined to around 1x and growth expectations rose, the forward PER has since climbed into a range of 13 to 20x over the past 18 Months.

Although a forecast for FY8/2026 profit attributable to owners of the parent to increase 52% YoY was announced in October 2025, the stock price reaction was muted. Consequently, the current forecast PER has declined to 13x, the lower end of the range seen over the past year and a half.

Figure 8. HITO-Communications Holdings Forecast PER Trends

Source: Strategy Advisors.

Figure 9. HITO-Communications Holdings ROE & PBR Trends



Note: ROE for FY8/25 is an estimate calculated using HITO-Communications HD estimated profits and the average shareholders' equity at the end of each quarter for FY8/24 and FY8/25
Source: Strategy Advisors.

The Targets Set in the Medium-Term Management Plan Appear Achievable

Figure 10 and Figure 11 compare the profitability and valuation of the company with that of affiliated companies in Store Sales Support, one of the core sectors of the group.

Although the Company's most recent ROE improved significantly compared to the previous fiscal year, it had the lowest figure among the comparable companies due to a heavier burden than other companies of goodwill amortization, which is not tax-deductible, as well they recorded a high level of extraordinary losses. Even when examining the expected ROE for FY8/2026, which anticipates an increase in ordinary profit and a decrease in extraordinary losses, it is expected to remain low compared to other companies. Consequently, the Company's PBR is the lowest among the comparable companies.

The Company's operating profit margin for the most recent fiscal year was 3.9%, the second lowest among the 5 companies. This is mainly due to the Airport Sector is still in the upfront investment stage and that it has goodwill amortization expenses. However, these factors are expected to improve in the long term, so there is room for improvement in both operating profit margin and ROE.

The Company's medium-term management plan is expected to have a 5.6% operating profit margin for FY8/2029. Assuming the revenue recognition accounting standards, adopted in FY8/2022, were applied from FY8/2021 and excluding Covid-19 Services), operating profit margin ranged between 6% and 7% from FY8/2019 to FY8/2021. Therefore, the expected operating profit margin of 5.6% for FY8/2029 appears to be at a very achievable level.

In a valuation comparison with related companies, the Company's expected PER ranks third lowest amongst the 5 companies, and at 13x, it is not highly valued in absolute terms. For the expected PER to exceed the current range's upper limit of 20x going forward, the realization of the following equity story will likely be required.

Figure 10. Profitability Comparison with Peers

Company Name	Code	FY	Sales (¥mn)	OP (¥mn)	OPM (%)	ROE (%)	Equity Ratio (%)	Number of Employees (Person)
HITO-Com Holdings	**4433**	**8/25**	**63,596**	**2,495**	**3.9**	**4.9**	**42.6**	**1,411**
WILL GROUP	6089	3/25	139,705	2,338	1.7	6.6	34.8	7,929
LIKE	2462	5/25	62,336	2,951	4.7	12.1	44.0	5,367
FRONTIER INTERNATIONAL	7050	4/25	20,335	1,278	6.3	10.2	61.4	432
Peers	7066	9/25	6,103	559	9.2	15.4	61.9	413

Source: Company Data. Compiled by Strategy Advisors.

Figure 11. Valuation Comparison with Peers

Company Name	Code	Fiscal Year	Stock Price (1/29) (¥)	Market Cap. (1/29) (¥mn)	PER CoE (x)	PBR Actual (x)	ROE CoE (%)	Dividend Yield CoE (%)	1-Year Return (1/29/25) (%)	3-Year Return (1/30/23) (%)
HITO-Com Holdings	**4433**	**8/25**	**952**	**16,986**	**13.1**	**1.0**	**7.6**	**3.9**	**6.1**	**-43.3**
WILL GROUP	6089	3/25	1,172	26,854	13.4	1.5	11.1	3.8	16.0	-4.6
LIKE	2462	5/25	1,520	29,169	10.6	1.6	15.4	3.9	4.2	-30.1
FRONTIER INTERNATIONAL	7050	4/25	1,448	12,887	11.6	1.4	12.1	4.4	73.6	31.0
Peers	7066	9/25	444	4,006	20.0	1.5	7.3	-	-36.5	69.8

Note: ROE (company forecast) is calculated by dividing the net income forecast for the current fiscal year by the shareholders' equity at the end of the most recent quarter
Source: Company Data. Compiled by Strategy Advisors.

4. Equity Story

2 Equity Stories

Strategy Advisors envisions 2 equity stories. The first is "the Airport Sector's dramatic growth through solving the national social challenge of ground handling capacity shortages at major domestic airports, aiming to achieve the 2030 target of 60 million inbound tourists". The second is "accelerating growth in the Wholesales Business Sector, which possesses the know-how to consistently generate 'marketable concepts' within the IP business market, where further expansion is anticipated". Both sectors are designated as key focus areas in the mid-term management plan. If the feasibility of these 2 stories increases, investors who currently view the company merely as a staffing service provider may change their assessment, potentially leading to an upward revision in its valuation.

The Airport Sector is Poised for Takeoff

Regarding the Wholesales Business Sector, FY8/2025 sales reached ¥16.7 billion, making an upward revision of the mid-term management plan target (FY8/2029 sales: ¥15.0 billion) increasingly likely. Conversely, for the Airport Sector, FY8/2025 results slightly missed company plans, so expectations for an upward revision of the mid-term plan target (¥12.8 billion) are not high at this stage.

However, Strategy Advisors believe it is noteworthy that following the previously announced Naha Airport (scheduled to open in FY8/2026 Q2), bases will now also open at Chubu Centrair International Airport and Fukuoka Airport in FY8/2026 H2. This development enables the Company to undertake ground handling operations nationwide.

Following the major overseas airline project commencing in April, if the Company can secure bundled contracts for ground handling operations at a second and third major national airport in the near future, an upward revision of the sales targets set in the mid-term management plan for the airport sector could come into view.

Furthermore, securing large-scale, bundled contracts is expected to drive significant improvements in personnel and equipment efficiency. This could lead to a sharp increase in profitability for the airport sector, which is currently expected to post a loss in Q1 FY8/2026. From this perspective, the airport sector is now entering a takeoff phase that could dramatically transform the Company's revenue structure.

Rise in the Expected PER Slightly More Likely Than Before

While the recent Airport Sector base openings involve upfront investment burdens and are unlikely to contribute significantly to FY8/2026 profits, they do raise expectations for upward revisions to FY8/2029 profit targets. Consequently, the stock price may now more readily reflect expectations for medium-to-long-term profit growth rather than just this fiscal year's expected earnings. This slightly increases the likelihood that the expected PER could rise above the upper limit of 20x seen over the past year and a half.

Improving ROE is Essential to Increasing PBR

Additionally, there appears to be significant upside potential for the PBR through ROE improvement. The Company's low PBR is likely attributable to its low ROE (4.9% for FY8/2025 actual). During the period from FY8/2019 to FY8/2022, when the Company's ROE ranged between 12% and 22%, its PBR fluctuated between 1.5x and 3.5x. Based on the Company's forecast net income, ROE for FY8/2026 is estimated to be around 7.5%. The Company's target for ROE for FY8/2029, as outlined in its medium-term management plan, is 10% or higher. A substantial increase in PBR will require an ROE improvement of more than 10%.

ROE Improvement Scenario: (1) EBITDA Margin Improvement

The following 3 scenarios could potentially improve ROE.

The first is improving EBITDA margins through sales expansion, cost reductions as well as expanding high-value-added services across each business and sector. The sectors focused on this scenario are the Wholesale Sector, Store Sales Support and Digital Sales Support, which significantly impact consolidated results.

ROE Improvement Scenario: (2) Improved Profit Margins Due to Reduced Depreciation and Goodwill Amortization

Secondly, operating profit margins and net profit margins will increase as upfront investments are completed and goodwill amortization is finalized. The Airport Sector is currently strengthening in-house production of ramps, which is straining not only personnel costs but also depreciation costs. Once capital investments are completed, the sector can expect an improvement in operating profit margins as depreciation costs are reduced.

Furthermore, goodwill amortization for BBF, Inc., BRANCH OUT and SALES ROBOTICS are scheduled to be completed in 2029, which will be a factor in increasing operating profit through FY8/2030. It should be noted that goodwill amortization is not recognized as an expense under tax law, so a decrease in goodwill amortization will result in an increase in net income of the same amount. For the Company, the improvement in net income margin due to the decrease in goodwill amortization is not negligible, so it is possible that the stock price will incorporate an increase in ROE toward FY8/2030 ahead of schedule.

ROE Improvement Scenario: (3) Potential for Additional Shareholder Returns

Thirdly, controlling the increase in equity capital through increased shareholder returns. The Company's net D/E ratio is at a healthy level of -0.23, while the basic policy for shareholder returns outlined in its medium-term management plan ending in FY8/2029 calls for a return of at least ¥3 billion, a dividend payout ratio of at least 30% and a progressive dividend. If the Company can control the increase in equity capital through further shareholder returns, an increase in net income for the period is likely to contribute significantly to improving ROE.

Figure 12. Segment Trends (Qtly Basis)

(¥mn)	8/24 Q2	8/24 Q3	8/24 Q4	8/25 Q1	8/25 Q2	8/25 Q3	8/25 Q4	8/26 Q1
Sales								
Outsourcing	**5,574**	**5,565**	**5,501**	**6,032**	**6,032**	**6,922**	**6,845**	**6,266**
(YoY)	-34.6%	-24.3%	-15.6%	-8.1%	8.2%	24.2%	24.4%	3.9%
Temporary Employee Placement	**2,178**	**2,180**	**2,147**	**2,208**	**2,060**	**2,269**	**2,249**	**2,258**
(YoY)	-7.4%	-4.6%	-11.7%	-6.6%	-5.4%	4.1%	4.8%	2.2%
EC/TC Support	**2,700**	**2,699**	**2,633**	**2,926**	**2,125**	**2,153**	**2,049**	**2,319**
(YoY)	16.1%	20.2%	1.0%	6.6%	-21.3%	-20.2%	-22.2%	-20.8%
Wholesale	**2,734**	**3,465**	**3,227**	**4,580**	**3,418**	**4,505**	**4,176**	**4,613**
(YoY)	18.0%	11.5%	28.7%	36.9%	25.0%	30.0%	29.4%	0.7%
Other Businesses	**798**	**818**	**501**	**680**	**864**	**916**	**586**	**754**
(YoY)	9.8%	1.9%	-24.0%	-15.4%	8.3%	12.0%	16.6%	10.9%
Total Amount	**13,984**	**14,727**	**14,010**	**16,428**	**14,499**	**16,764**	**15,905**	**16,211**
(YoY)	-13.9%	-6.8%	-4.8%	3.8%	3.7%	13.8%	13.5%	-1.3%
Operating Profit								
Outsourcing	**-52**	**-273**	**-76**	**140**	**225**	**112**	**170**	**-180**
(OP Margin)	-0.9%	-4.9%	-1.4%	2.3%	3.7%	1.6%	2.5%	-2.9%
Temporary Employee Placement	**26**	**93**	**29**	**122**	**47**	**145**	**178**	**176**
(OP Margin)	1.2%	4.3%	1.4%	5.5%	2.3%	6.4%	7.9%	7.8%
EC/TC Support	**234**	**141**	**198**	**205**	**154**	**-7**	**-24**	**124**
(OP Margin)	8.7%	5.2%	7.5%	7.0%	7.2%	-0.3%	-1.2%	5.3%
Wholesale	**81**	**195**	**39**	**299**	**70**	**306**	**308**	**261**
(OP Margin)	3.0%	5.6%	1.2%	6.5%	2.0%	6.8%	7.4%	5.7%
Other Businesses	**63**	**39**	**-81**	**-25**	**48**	**39**	**0**	**-33**
(OP Margin)	7.9%	4.8%	-16.2%	-3.7%	5.6%	4.3%	0.0%	-4.4%
Adjustment	**-5**	**-5**	**-4**	**-4**	**-5**	**-5**	**-4**	**-7**
Total Amount	**347**	**190**	**104**	**737**	**541**	**589**	**628**	**341**
(YoY)	-69.2%	-79.1%	-81.2%	-20.5%	55.9%	210.0%	6.0x	-53.7%
(OP Margin)	2.5%	1.3%	0.7%	4.5%	3.7%	3.5%	3.9%	2.1%

Source: Company Data. Compiled by Strategy Advisors.

Figure 13. Consolidated Statement of Income (¥mn)

FY	8/18	8/19	8/20	8/21	8/22	8/23	8/24	8/25	8/26 CoE
Net Sales	**62,322**	**63,819**	**71,499**	**84,225**	**64,130**	**63,980**	**58,547**	**63,596**	**66,280**
(YoY)	79.2%	—	12.0%	17.8%	-23.9%	-0.2%	-8.5%	8.6%	4.2%
Cost of Sales	51,759	52,619	58,891	69,507	48,902	49,742	46,449	50,684	52,753
Gross Profit	10,563	11,200	12,607	14,718	15,227	14,238	12,097	12,912	13,527
(Gross Profit Margin)	16.9%	17.5%	17.6%	17.5%	23.7%	22.3%	20.7%	20.3%	20.4%
SG&A Expenses	7,900	8,209	9,457	9,931	9,487	10,039	10,528	10,416	10,727
Operating Profit	**2,663**	**2,991**	**3,149**	**4,787**	**5,739**	**4,198**	**1,568**	**2,495**	**2,800**
(YoY)	2.4%	—	5.3%	52.0%	19.9%	-26.9%	-62.6%	59.1%	12.2%
(OP Margin)	4.3%	4.7%	4.4%	5.7%	9.0%	6.6%	2.7%	3.9%	4.2%
Non-Operating Income	26	29	699	691	108	229	42	98	
Interest and Dividends Income	11	7	7	6	9	9	14	23	
Non-Operating Expenses	10	15	487	353	88	127	75	89	
Interest Expenses	7	11	16	12	10	10	38	69	
Ordinary Income	**2,679**	**3,004**	**3,361**	**5,125**	**5,759**	**4,300**	**1,536**	**2,504**	**2,810**
(YoY)	5.6%	—	11.9%	52.5%	12.4%	-25.3%	-64.3%	63.0%	12.2%
(Ordinary Income Margin)	4.3%	4.7%	4.7%	6.1%	9.0%	6.7%	2.6%	3.9%	4.2%
Extraordinary Income	24	0	0	0	0	4	6	107	
Extraordinary Loss	5	4	419	321	99	537	255	540	
Profit before Income Taxes	2,698	3,000	2,941	4,803	5,660	3,767	1,287	2,070	
(YoY)	6.3%	11.2%	-2.0%	63.3%	17.8%	-33.4%	-65.8%	60.8%	
(Profit before Tax Ratio)	4.3%	4.7%	4.1%	5.7%	8.8%	5.9%	2.2%	3.3%	
Total Income Taxes	1,036	1,150	1,450	1,808	2,245	1,629	1,127	1,011	
(Effective Tax Rate)	38.4%	38.4%	49.3%	37.7%	39.7%	43.2%	87.6%	95.7%	
Profit	1,661	1,849	1,490	2,995	3,415	2,137	160	1,059	
Profit Attributable to Non-Controlling Interests	193	125	119	220	187	251	204	205	
Profit Attributable to Owners of the Parent	**1,468**	**1,723**	**1,370**	**2,774**	**3,227**	**1,885**	**-43**	**853**	**1,295**
(YoY)	-0.5%	—	-20.5%	102.4%	16.3%	-41.6%	—	—	51.7%
(Net Profit Margin)	2.4%	2.7%	1.9%	3.3%	5.0%	2.9%	-0.1%	1.3%	2.0%
EPS (¥)	**82.1**	**96.3**	**76.7**	**155.5**	**180.9**	**105.7**	**-2.4**	**47.9**	**72.6**

Source: Company Data. Compiled by Strategy Advisors.

Figure 14. Consolidated Balance Sheet (¥mn)

FY	8/18	8/19	8/20	8/21	8/22	8/23	8/24	8/25
Current Assets	**13,306**	**14,967**	**18,679**	**22,179**	**25,693**	**29,048**	**27,247**	**25,939**
Cash and Deposits	6,130	6,888	8,890	9,815	13,430	16,462	14,251	12,133
Notes and Accounts Receivable – Trade	6,242	6,916	8,875	10,760	10,594	10,877	10,355	10,871
Merchandise	605	922	640	1,032	531	589	471	562
Deferred Tax Assets - Current	159	—	—	—	—	—	—	—
Allowance for Doubtful Accounts	-32	-31	-50	-23	-23	-17	-8	-9
Others	200	272	324	595	1,161	1,137	2,176	2,381
Non-Current Assets	**6,084**	**9,562**	**8,795**	**8,997**	**8,531**	**13,505**	**12,855**	**14,883**
Property, Plant and Equipment	2,017	2,045	1,967	2,228	2,205	2,282	2,515	4,712
Intangible Assets	3,100	5,355	5,365	4,872	4,286	8,681	7,983	7,116
Investments and Other Assets	966	2,161	1,462	1,896	2,039	2,541	2,357	3,054
Investment Securities	441	444	655	501	434	675	672	600
Deferred Tax Assets	158	289	377	482	525	681	475	556
Others	367	1,428	430	913	1,080	1,185	1,210	1,898
Total Assets	**19,391**	**24,529**	**27,475**	**31,177**	**34,225**	**42,554**	**40,103**	**40,822**
Current Liabilities	**6,159**	**7,794**	**10,547**	**11,948**	**12,584**	**13,220**	**12,763**	**13,880**
Accounts Payable – Trade	2,635	2,866	4,535	4,619	5,050	5,445	6,246	4,543
Accounts Payable – Other	2,061	2,477	2,697	3,806	3,581	3,493	3,099	4,049
Short-term Loans Payable	522	1,049	1,195	1,040	1,004	1,528	1,792	1,411
Others	939	1,402	2,120	2,483	2,949	2,754	1,626	3,877
Non-Current Liabilities	**3,367**	**5,312**	**4,518**	**4,295**	**3,720**	**10,248**	**8,725**	**8,034**
Long-term Loans Payable	3,101	5,002	4,193	3,752	3,146	9,361	7,738	6,793
Deferred Tax Liabilities	—	29	0	46	12	—	1	5
Others	265	281	325	497	562	887	986	1,236
Net Assets	**9,864**	**11,423**	**12,408**	**14,932**	**17,920**	**19,085**	**18,614**	**18,907**
Shareholders' Equity	9,335	10,773	11,653	14,052	16,809	17,778	17,144	17,344
Capital Stock	737	450	450	450	450	450	450	450
Capital Surplus	0	287	287	287	287	91	91	91
Retained Earnings	8,598	10,035	11,016	13,415	16,172	17,336	16,702	16,903
Treasury Stock	0	—	-99	-99	-100	-100	-100	-100
Total Accumulated Other Comprehensive Income	-2	-6	-15	29	111	91	92	28
Non-controlling Interests	531	656	770	850	998	1,216	1,377	1,533
Total Liabilities & Net Assets	**19,391**	**24,529**	**27,475**	**31,177**	**34,225**	**42,554**	**40,103**	**40,822**
Equity Capital	**9,333**	**10,766**	**11,638**	**14,082**	**16,921**	**17,869**	**17,237**	**17,373**
BPS (¥)	**521.4**	**601.5**	**652.3**	**789.3**	**948.4**	**1,001.5**	**966.1**	**973.7**

Source: Company Data. Compiled by Strategy Advisors.

Figure 15. Consolidated Cash Flow Statement (¥mn)

FY	8/18	8/19	8/20	8/21	8/22	8/23	8/24	8/25
Cash Flows from Operating Activities								
Profit Before Income Taxes	2,698	3,000	2,941	4,803	5,660	3,767	1,287	2,070
Depreciation and Amortization of Goodwill	434	529	920	895	918	1,012	1,252	1,336
Increase (Decrease) in Trade Receivables	-211	-475	-1,708	-2,095	162	32	525	-486
Increase (Decrease) in Notes and Accounts Payable Trade	203	598	1,582	1,122	260	-124	268	-1,988
Increase/Decrease in Inventories	53	-317	286	-391	149	-57	118	-84
Impairment Loss	—	—	419	—	92	5	170	—
Income Taxes Paid	-1,291	-1,019	-1,217	-1,691	-2,135	-2,600	-2,806	87
Others	-285	143	440	422	226	490	166	2,471
Total Amount	**1,600**	**2,459**	**3,663**	**3,065**	**5,332**	**2,525**	**980**	**3,406**
Cash Flows from Investing Activities								
Purchase of Property, Plant and Equipment	-61	-67	-71	-364	-127	-184	-507	-2,027
Purchase of Intangible Assets	-154	-198	-184	-338	-343	-509	-447	-356
Purchase of Investment Securities	0	-10	-210	0	-51	-300	-101	-53
Proceeds From Sales and Redemption of Investment Securities	104	0	0	196	200	34	—	114
Purchase of Shares of Subsidiaries and Associates	—	-876	—	-353	-200	-392	-50	-844
Purchase of Shares of Subsidiaries Resulting in Change in Scope of Consolidation	—	-2,148	—	0	0	-3,603	—	—
Others	-73	-125	-66	-354	-123	-309	-128	-434
Total Amount	**-184**	**-3,424**	**-531**	**-1,213**	**-644**	**-5,263**	**-1,233**	**-3,600**
Cash Flows from Financing Activities								
Increase (Decrease) in Short-term Loans Payable	0	—	265	-200	—	—	—	—
Increase (Decrease) in Long-term Debt	1,110	2,085	-1,074	-376	-629	6,538	-1,371	-1,343
Repayments of Treasury Stock	—	—	-99	0	0	—	—	—
Dividends Paid	-250	-286	-362	-375	-470	-590	-590	-635
Others	-1,758	-18	-27	-54	-56	-245	-63	-55
Total Amount	**-897**	**1,781**	**-1,297**	**-1,005**	**-1,155**	**5,703**	**-2,024**	**-2,033**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	-2	-6	-8	16	19	-1	15	-4
Increase in Cash and Cash Equivalents	516	810	1,825	862	3,552	2,964	-2,261	-2,232
Cash and Cash Equivalents at Beginning of Period	5,436	5,985	6,796	8,734	9,596	13,149	16,121	13,859
Increase in Cash and Cash Equivalents from Newly Consolidated Subsidiaries	33	—	112	—	—	7	—	54
Cash and Cash Equivalents at End of Period	5,985	6,796	8,734	9,596	13,149	16,121	13,859	11,681
Free Cash Flow	1,416	-965	3,132	1,852	4,688	-2,738	-253	-194

Source: Company Data. Compiled by Strategy Advisors.

Figure 16. Key Indicators

FY	8/18	8/19	8/20	8/21	8/22	8/23	8/24	8/25
EPS (¥)	82.1	96.3	76.7	155.5	180.9	105.7	-2.4	47.9
BPS (¥)	521.4	601.5	652.3	789.3	948.4	1,001.5	966.1	973.7
DPS (¥)	15.0	18.5	20.5	24.5	30.0	31.0	35.0	37.0
Dividend Payout Ratio	18.3%	19.2%	26.7%	15.8%	16.6%	29.3%	—	77.3%
# of Shares Issued (‘000)	17,900	17,899	17,899	17,899	17,899	17,899	17,899	17,899
# of Treasury Stock (‘000)	584	—	56,830	56,858	56,933	56,933	56,933	56,933
# of Shares of Treasury Stock Excluded (‘000)	17,899	17,899	17,843	17,842	17,842	17,842	17,842	17,482
Average # of Shares Issued (‘000)	17,899	17,899	17,866	17,842	17,842	17,842	17,842	17,842
Equity Ratio	48.1%	43.9%	42.4%	45.2%	49.4%	42.0%	43.0%	42.6%
Interest-Bearing Debt (¥mn)	3,623	6,051	5,388	4,792	4,150	10,889	9,530	8,204
Net Interest-Bearing Debt (¥mn)	-2,507	-837	-3,502	-5,023	-9,280	-5,573	-4,721	-3,929
D/E Ratio	0.39	0.56	0.46	0.34	0.25	0.61	0.55	0.47
Net D/E Ratio	-0.27	-0.08	-0.30	-0.36	-0.55	-0.31	-0.27	-0.23
OP Margin	4.3%	4.7%	4.4%	5.7%	9.0%	6.6%	2.7%	3.9%
EBITDA (¥mn)	3,097	3,520	4,069	5,682	6,657	5,210	2,820	3,831
EBITDA Margin	5.0%	5.5%	5.7%	6.7%	10.4%	8.1%	4.8%	6.0%
ROE	15.8%	17.2%	12.2%	21.6%	20.8%	10.8%	-0.2%	4.9%
ROIC (Capital Invested)	12.4%	10.5%	9.6%	15.9%	16.7%	9.9%	1.5%	5.4%
ROIC (Business Assets)	17.2%	14.9%	13.8%	22.4%	26.0%	17.4%	2.8%	8.8%
# of Employees	503	704	827	859	821	1,274	1,405	1,411

Note: ROIC (operating assets) is calculated as NOPAT/(average of working capital and total value of tangible and intangible fixed assets during the period)
ROIC (invested capital) is calculated as NOPAT/(average of total value of interest-bearing debt balance and net assets during the period)
Source: Company Data. Compiled by Strategy Advisors.

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