Company Report

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Strategy Advisors, Inc.
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The Growth Story Begins with the Airport Business, Which Expanded Through M&A in Response to Changing Times and the Wholesale Business Leveraging IP Licenses

HITO-Communications Holdings was originally a staffing company established as a subsidiary for a major electronics retailer. In 2005, Mr. Toyomi Yasui, a former megabank employee who had moved to a major electronics retailer, conducted an MBO of the predecessor company. The new company was re-launched as an independent human resource service company and at the same time, it shifted its focus to the outsourcing business, which aims to solve clients' problems.

As a result of the expansion of business areas aimed at solving customer issues, the current target industries are classified as Airports, Wholesale, Digital Sales Support, Inbound Tourism, Public, Works, Sports and Entertainment, Store Sales Support assistance and Others. The company group has evolved into a group of companies that solve social issues through their on-the-ground ability to solve problems as a team while accompanying clients utilizing proactive M&A.

The company's corporate DNA includes "a team-oriented culture based on the rugby spirit in pursuit of results," as well as a "focus on expertise", "scalability" and "ability to adapt to change" in order to solve clients' issues. The company's ability to adapt to change is its "human resource management approach to recruit, train and place the right people in the right positions to meet the needs of clients in a variety of industries; and its on-site capabilities to solve problems as a team while running with clients, which it has refined over the past 20 years by utilizing its nationwide network of offices.

The equity stories include "Contributing to the rapid growth of the airport sector by addressing the national social issue of insufficient ground handling capacity at major domestic airports" and “Contributing to solving issues in the domestic apparel retail industry and accelerating growth in the wholesale sector by expanding overseas sales of products utilizing IP licenses”.

The mid-term management plan calls for sales of ¥71 billion (3.9% annual growth rate from FY8/24) and operating income of ¥4 billion (20.6% from FY8/24) for FY8/29; based on the results of 1H FY8/25, the targets are conservative, especially in the wholesale sector.

If investors gain a stronger perspective that the growth rates in the Airports and Wholesale sectors will significantly exceed the figures indicated in the medium-term management plan, the share price will incorporate expectations for profit growth over the medium to long term, rather than the expected profit for the current year, and so the expected PER may rise above 20x.

Stock Price & Volumes (1 Year)

Source: Strategy Advisors

Key Indicators

Stock Price (6/12/2025)	925
52-Week High (3/24/2025)	1,019
52-Week Low (10/25/2024)	789
Historical High (12/14/2021)	2,789
Historical Low (3/19/2020)	603
Number of Shares Issued (mn)	17.8
Market Capitalization (¥ bn)	16.5
EV (¥ bn)	14.6
Equity Ratio (FY8/24, %)	43.0
ROE (FY8/25 CoE, %)	6.2
PER (FY8/25 CoE, Times)	15.4
PBR (FY8/24 Actual, Times)	1.0
Dividend Yield (FY8/25 CoE, %)	3.9

Source: Strategy Advisors

Japanese GAAP - Consolidated

FY	Net Sales	YoY	Operating income	YoY	Ordinary Profit	YoY	Net income	YoY	EPS	DPS
	(¥ mn)	(%)	(¥ mn)	(%)	(¥ mn)	(%)	(¥ mn)	(%)	(¥)	(¥)
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
FY8/23	63,980	-0.2%	4,198	-26.8%	4,300	-25.3%	1,885	-41.6%	105.7	31
FY8/24	58,547	-8.5%	1,568	-62.6%	1,536	-64.3%	-43	-	-2.4	35
FY8/25 CoE	62,333	6.5%	2,200	40.2%	2,205	43.5%	1,073	-	60.1	36

Source: Company Data. Created by Strategy Advisors.

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Executive Summary

Started Out as a Human Resources Service Company

HITO-Communications Holdings was originally a staffing company established as a subsidiary of a major electronics retailer. In 2005, Mr. Toyomi Yasui, a former mega-banker and then a major electronics retailer, conducted an MBO of the predecessor company and the new company was re-launched as an independent staffing service company. Realizing that it would be difficult to differentiate the company from other staffing agencies, and that staff would not grow and the business would not reproduce if they simply worked as instructed by clients; Mr. Yasui began by taking on contracts from telecommunications carriers to sell fiber optic lines.

Expansion of Business Areas Beyond Human Resource Services in 2017

In June 2017, the company made BBF and BRANCH OUT subsidiaries. In addition to Store Sales Support in stores, the company acquired BBF, which provides e-commerce sales support (the Digital Sales Support sector) for which customer needs have been increasing, to create an omni-channel sales support system. In addition, through BRANCH OUT, the company expanded its business domain to include planning, manufacturing, and wholesaling of apparel utilizing IP licenses (the Wholesale sector).

2023 Acquisitions will Greatly Enhance Growth Potential

In July 2023, the company acquired FMG, which provides ground handling services at airports, as a subsidiary. Through M&A, the company has established a one-of-a-kind business model that can provide a full range of services both inside and outside restricted areas of airports, which will greatly enhance the group's future growth potential.

Evolving into a Corporate Group that Solves Social Issues

As a result of the expansion of business areas aimed at solving customer issues, the current target industries are classified into nine sectors: Airports, Wholesale, Digital Sales Support, Inbound Tourism, Public, Works, Sports and Entertainment, Store Sales Support and Others. The company has evolved into a corporate group that solves social issues through its ability to solve problems as a team while accompanying clients and through proactive M&A activities.

“Human Resource Management Methods Capable of Responding to Various Customer Needs with Field Capabilities Honed Over 20 Years by Leveraging Their Nationwide Network of Offices, Enabling HITO to Work Alongside Their Customers as a Team to Solve Problems”

The corporate DNA of the company group includes "a team-based, results-oriented corporate culture based on the rugby spirit" as well as being a firm with "a focus on expertise", "scalability" and "responsiveness to change". The difficulties the firm solves are "human resource management methods to recruit, train and place the right people in the right positions to meet the needs of customers in various industries, and providing on-site capabilities to solve problems as a team while running with customers, which have been honed over 20 years by utilizing offices nationwide".

Target Annual Growth Rate in the Medium-Term Management Plan: 4% for Sales & 21% for Operating Income

The mid-term management plan, which ends on FY8/29, calls for sales of ¥71.0 billion (3.9% annual growth rate from FY8/24), operating income of ¥4.0 billion (20.6%) and EBITDA of ¥5.02 billion (13.8%). Based on the results of 1H FY8/25, the targets of the medium-term management plan are conservative, especially in the Wholesale sector.

Twin Equity Stories

Equity stories include "Contributing to the rapid growth of the airport sector by addressing the national social issue of insufficient ground handling capacity at major domestic airports"; and "Contributing to solving issues in the domestic apparel retail industry and accelerating growth in the wholesale sector by expanding overseas sales of products utilizing IP licenses".

Forecast PER May Rise Due to Expectations for Profit Growth in the Medium to Long Term

If investors gain a better understanding of the growth rates in the Airport and Wholesale sectors, which will significantly exceed the figures indicated in the medium-term management plan, the share price will incorporate expectations for profit growth over the medium to long term, rather than the expected profit for the current year, and as such the expected PER may rise above 20x.

1.Profile of President Toyomi Yasui & Efforts to Strengthen Business and Sectors

Inheriting the Entrepreneurial Gene

President Toyomi Yasui (born in 1965, age 59) was raised in Oita Prefecture by parents who ran a business. His parents were busy with their business, so he never went on family trips as a child and longed for a life as a salaryman. However, living with his parents who struggled in their business, he naturally inherited the entrepreneurial gene.

High School and College Life Devoted to Rugby

Mr. Yasui has always loved sports and as a child he was obsessed with baseball and swimming. In junior high school, he was a member of the volleyball club, but the rugby boom at the time led him to Oita Maizuru High School, a strong local school with a strong liberal arts and martial arts culture, where he admired the "black tracksuit."

The school's rugby team, which won the 1975 National High School Rugby Tournament, had a large number of members practicing hard. Although Mr. Yasui was inexperienced in rugby, he was able to compete in the game as a flanker after winning a fierce competition for the position. However, Mr. Yasui's generation was known as the "valley generation" and he experienced setbacks, including a loss in the spring of his junior year at the Kyushu Tournament to Koza High School in Okinawa, which at the time was a backward prefecture in rugby. At the last summer training camp in high school, the team received enthusiastic coaching from alumni who had been active at universities around the country and the team rapidly improved. In the 63rd National High School Rugby Tournament in 1984, the team lost in the final match to Tenri High School of Nara, and regrettably finished runner-up.

President Yasui says he has learned a great deal from rugby. He repeatedly tells his employees, "People cannot go beyond their own experience. He repeatedly tells his employees" & "People cannot surpass their own experience and knowing something is not the same as being able to do it". "Even if you can tackle in practice, it is meaningless if you can't do it on the field. This is the same in the business world". By telling this to his employee he has created a corporate culture in which they later pursue results as a team.

After graduating high school, Mr. Yasui entered Fukuoka University and continued to play rugby but could not decide whether to take over his family's business as the eldest son or become a teacher in his hometown. After his junior year, his experience of traveling in the U.S. strengthened his desire to "work on a big stage" and after graduating from university, he joined Fuji Bank in 1988.

Moved from Finance to Human Resource Services via Retail

At Fuji Bank, he was assigned to branch sales and the marketing department at the head office, where he learned business practices in depth. He also experienced the financial bubble and its collapse, as well as the management integration of 3 banks. However, when he gradually began to feel the limitations of the banking business he was invited to join a major electronics retailer in May 2001.

At the major electronics retailer, he was in charge of store planning, M&A, etc. One day, fate intervened. In addition to his regular duties, his boss asked him to manage a Personnel staffing subsidiary, initially two to three times a week for about an hour each time. At the time, the subsidiary was having problems with employee training and business management and he felt that considerable effort was needed to rebuild its management.

However, Mr. Yasui's experience in the sport of rugby, which requires onsite control of the game in a variety of situations, led him to change his mindset and believe that his mission was to turn the company around by training his employees to become fully-fledged professionals. In addition, as he interacted with the employees at Big Staff, he felt a growing desire to do something and became more involved in the management of the subsidiary.

He was greatly disturbed by the sudden resignation of several senior management members, but after words of encouragement from employees who had high expectations for Mr. Yasui, he decided to take over the management of the subsidiary. With such experiences, Mr. Yasui was considered to have a "cool head and warm heart.”

Became President and Executed a MBO (First Major Decision)

Mr. Yasui assumed the position of President and Representative Director of the subsidiary in September 2004 at the age of 39. In addition to rebuilding the company's creed and business model from scratch, he began a thorough training program in which employees ate and slept together. The training was so rigorous, based on a training curriculum he had developed himself, that many employees had to leave the company, but he succeeded in solidifying the framework of the organization.

In December 2005, President Yasui led a capital separation from the parent company through an MBO and the new company made a fresh start as an independent human resource services firm. And he decided to make a stock listing the banner of the company's revitalization in order to point the organization in a single direction.

The following year, the company changed its name to HITO-Communications and became an independent company in both name and reality. From his encounter with the subsidiary to date, Mr. Yasui has made three major management decisions, but from his appointment as president to independence, the MBO was his first major decision.

At that time, HITO-Communications' main service was Personnel staffing for customer service and sales of consumer electronics and cell phones at electronics mass merchandisers, etc. Today, these fields are included in the Store Sales Support sector.

Transforming from Personnel staffing to Outsourcing

Mr. Yasui felt that he could no longer rely on the former parent company as a result of his independence, as it was difficult to differentiate himself in the temp agency business and also, that his staff would not grow if they simply worked as instructed by clients and that the business was not reproducible.

While downsizing the temp agency business he set the goal of transforming the company into an outsourcing company that shares issues with clients and works with them to solve them. The company's goal was to become an outsourcing company that shared and worked with clients to solve their problems. This is how the company changed to put emphasis into solving problems.

The outsourcing business is characterized not only by the ability to increase profitability by achieving results with a small number of people, but also by the accumulation of know-how in the company organization. The accumulation of know-how has increased the reproducibility of the business, leading to longer-term transactions with clients and an increase in the number of clients. Later, HITO-Communications began to seek contracts in the form of outsourcing for clients in other areas, such as cell phone sales support, the sports and entertainment sector and the inbound tourism sector, which will be discussed later in this report.

Commonalities Between Rugby and the Outsourcing Business

At the time, HITO-Communications was struggling to recruit and retain talented people, but the human resource development techniques and teamwork learned from the rugby spirit represented by the phrase "One for all, All for one" helped to solve the problem.

Rugby is a sport in which teams are composed of as many as 15 players, and positions and roles are differentiated. Once the game begins, the captain on the field, not the head coach, must become the leader and systematically direct the offense and defense.

The opposite team sport in terms of the importance of the field captain is baseball. In baseball, when attacking, the manager's signs are passed on to the batter via the coach and the batter is expected to follow the coach's instructions. In defense, the role of the baseball captain in the game is relatively small, since the position of defense is usually dictated in detail by the opposing batter or friendly pitcher.

Outsourcing business, the core business of the company group, requires that the right people with different roles be placed in the right positions to produce results as a team under the decision of the on-site leader; and has much in common with rugby, in which players with different abilities play as one team under the leadership of a player.

Achieved Target Listing 6 Years after MBO

HITO-Communications listed its shares on the Osaka Securities Exchange JASDAQ (Standard) in August 2011, achieving the listing that President Yasui set as a goal at the time of the MBO in about 6 years.

Aspiration to Solve Social Issues

After the company was listed on the stock exchange, President Yasui, from the perspective of emphasizing long-term growth, promoted the diversification of industries (sectors) to be supported, including mergers and acquisitions. This is thought to be due to his aspiration to evolve into a company that solves not only the problems of customers in various industries, but also those of society. Rather than building a company that simply provides limited value to customers in specific industries and does not take on challenges.

In 2011, the Company Entered the Tourism Business, Which Requires Specialized Knowledge. It Began to Diversify the Industries (Sectors) it Supports

In 2011, HITO-Communications was a sales, service, and marketing company that supported its clients in three areas: broadband (optical fiber), mobile and consumer electronics, where the market was growing and the company had a lot of experience. President Yasui was looking ahead to the economic shift from consumption of goods to consumption of services and he believed that HITO-Communications' ability to solve problems while working closely with customers could be utilized in the area of consumption of goods and services.

President Yasui decided to establish a Tourism and Human Resource Services Department to strengthen the service sector, which had a low percentage of sales and also to enter the tourism business (now the Inbound tourism sector), which requires specialized knowledge such as that required by electronics retailers. Thus began the diversification of the industries (sectors) supported by the company group. At that time, the tourism business mainly consisted of dispatching travel administrative staff, interpreter guides, interpreters/translators, tour guides (domestic and overseas) and bus guides.

Embarked on an Aggressive M&A Program in 2012

President Yasui also embarked on an aggressive M&A program in conjunction with the listing. In April 2012, HITO-Communications acquired Voice

Enterprise as a subsidiary to strengthen its overseas tour operator dispatch business in the tourism sector (merged with HITO-Communications in 2016).

In 2014, to strengthen its tour guide dispatch business for both domestic and international tourism, the company acquired TCA, which covers the Western Japan region, and JATS, which covers the Kanto and Tohoku regions, as subsidiaries. Additionally, in the same year, the company acquired WSS Staffing (now WSS) as a subsidiary to expand its operations in the Chubu region. In 2015, TCA established Japan Limousine Service as a subsidiary to launch a new limousine service targeting affluent visitors to Japan, thereby entering the inbound tourism sector (now the Inbound Tourism Sector). During this time, he developed a strong desire to make a difference after interacting with employees of Big Staff, leading him to become more involved in the management of the subsidiary.

From the mid-2010's, HITO-Communications saw an opportunity to expand into the e-commerce field, as customers increasingly requested not only in-store sales support, but also e-commerce sales support. At this time, customers increasingly requested EC sales support in addition to in-store sales support and President Yasui saw an opportunity to expand into the EC field.

M&A in 2017 Expanded the Business Area into E-Commerce Sales Support & Clothing Wholesale, Giving the Company A Pillar of Revenue and Sales Growth (The Second Major Decision)

In June 2017, HITO-Communications acquired BBF and its subsidiaries BRANCH OUT and BRANCH OUT-Shanghai. President Yasui became Chairman of the Board of BBF. In addition to its mainstay business of providing store sales support in real stores, the company has also incorporated the EC sales support (currently the Digital Sales Support sector) handled by BBF into the group, creating an omni-channel sales support system.

The ability to provide not only face-to-face sales support but also EC sales support as a group is one of the company's strengths that distinguishes it from most human resource service companies. For a company that aims to solve a variety of issues facing society and its corporate clients, it was inevitable that the company would enter the growing e-commerce market. BBF is the most profitable of the company's main subsidiaries and has become a pillar of the company's earnings.

Through BRANCH OUT, the company has expanded into the design, manufacture and wholesaling of clothing (now in the Wholesale sector). BRANCH OUT is unique in its use of IP licensing and influencer-based marketing. The company has earned the trust of its blue-chip clients, which is likely to be a driver of future sales growth for the group.

Strengthening Business Portfolio through Mergers & Acquisitions Even After the Transition to Holding Company in 2019

In March 2019, Mr. Yasui was appointed President Group CEO of HITO-Communications Holdings upon the company's transformation into a holding company. In May of the same year, HITO-Communications made SALES ROBOTICS, which operates an inside sales business (currently in the Digital Sales Support sector), a subsidiary in order to execute full-scale entry into the digital marketing field. President Yasui was appointed Chairman of the Board and Representative Director of SALES ROBOTICS.

In June 2019, HITO-Communications strengthened its inbound business (inbound tourism sector) by acquiring Triangle Japan DMC, which provides land operating services for foreign visitors to Japan, as a subsidiary.

Strengthening the Digital Sales Support Sector in 2021

In June 2021, HITO-Communications strengthened its Digital Sales Support sector by acquiring UsideU, an online customer service business that was in increasing demand due to the Covid-19 disaster.

Strengthening the Airport Business in 2023 and Significantly Increase its Growth Potential (Third Major Decision)

In July 2023, HITO-Communications acquired FMG, which operates ground handling and other businesses in airports, as a subsidiary in order to strengthen its business portfolio, significantly enhancing its airport business (now Airport Sector), which it has been participating in since the mid-2010s.

Since around 2011, President Yasui had wanted to enter the airport related business, the largest touchpoint for inbound demand, making it a pillar of his future business. However, the facility operation support and sales support provided outside the restricted areas of airports, where he first started providing services, was not generating sufficient revenue. The ground handling business is conducted within restricted areas of airports and requires a high level of expertise, limiting opportunities for new entrants. The establishment of a one-of-a-kind business model that can provide a full range of services both inside and outside airport zones has greatly enhanced the growth potential of the company group.

EY Entrepreneur of the Year in 2011

Here, we would like to mention a personal milestone for President Yasui and his involvement with the company and Rugby. President Yasui won the grand prize in the Accelerating category for entrepreneurs of growth-stage companies at the 2011 EY Entrepreneur of the Year Japan (EOY). The company's business model is based on the pursuit of results. The company's business model, "results-oriented sales support," was selected from among 16 semi-finalists for its superiority, high growth potential and differentiation from competitors in the human resource service area, where differentiation is generally considered difficult. In 2014, he also became the "Toyonokuni Kabosu Special Mission Ambassador," a position to which celebrities associated with his home prefecture of Oita are appointed.

Official Sponsor of the Sunwolves

HITO-Communications was an official sponsor of the Sunwolves, the Japanese team that participated in Super Rugby, the international rugby union tournament, from 2016 to 2020. The formation of the Sunwolves was a pillar of Japan's plan to strengthen its national team in preparation for the Rugby World Cup in Japan and President Yasui took on the sponsorship because he wanted to give back to rugby and contribute to the strengthening of the Japanese national team. HITO-Communications, which is not a large corporation, provided support, and as a result, the company's visibility was greatly enhanced across industries, regions and generations.

Official Sponsor of the Rugby World Cup in Japan

President Yasui's rugby experience has been utilized not only in the development of the company's internal organization, but also in the development of this business. Paralympic Games and the management and support of other professional sports teams have also been utilized in the development of the sports and entertainment sector within the firm.

2. History (Excluding Post-MBO Business & Sector-Related Information)

Established as a Personnel Staffing Subsidiary of a Major Electronics Retailer and Began Providing Store Sales Support

HITO-Communications Holdings was originally established in February 1998 as a staffing agency in Toshima-Ku, Tokyo, as a subsidiary of a major electronics retail store. In May of the same year, the company obtained a general worker dispatch business license and began its Personnel Staffing business, focusing on providing sales and sales support (currently the Store Sales Support sector) to electronics retailers. In 2004, the company established a Mobile Division and entered the mobile business in earnest, providing sales support for cell phones and smartphones, which were rapidly expanding in the market.

Independence from the Parent Company

In December 2005, in order to further expand its business, the subsidiary separated its capital from the parent company through an MBO and became an independent human resource services company. In February 2006, the subsidiary changed its name to HITO-Communications.

Established Offices in Major Cities Throughout Japan and Gained the Trust of Major Clients

HITO-Communications also opened branches in Sapporo (in 2006, Hokkaido Branch) and Sendai (in 2007, Tohoku Branch, creating a structure covering all major cities in Japan. Because it was soon after becoming independent, the company faced severe financial difficulties when it first opened its new offices; but it succeeded in receiving projects from major clients on a nationwide scale because of its reputation for being different from other companies with a more localized approach. Since then, the company has built up a deep relationship of trust with major clients as it has accumulated nearly 20 years of operational experience at each of its locations. Today, the number of the group's locations has expanded to 48 nationwide.

Listed Stock in 2011

In August 2011, the company listed its shares on the Osaka Securities Exchange JASDAQ (Standard). After listing on the Second Section of the Tokyo Stock Exchange (TSE) in 2012, it was designated a First Section stock on the TSE in 2013.

Transition to Pure Holding Company in March 2019

HITO-Communications established HITO-Communications Holdings, a pure holding company, in March 2019 through a sole-share transfer for the purpose of strengthening group governance, accelerating decision-making, and maximizing business synergies among the group's operating companies, and the company listed its shares on the First Section of the Tokyo Stock Exchange.

In April of the same year, HITO-Communications Holdings made BBF, a sub-subsidiary of HITO-Communications, into a direct subsidiary. HITO-Communications is in charge of the Human Sales Support platform and BBF is in charge of the EC support platform.

Covid-19 Countermeasure-Related Operations Made a Significant Contribution to Earnings from FY8/21 Onward

As the spread of the Covid-19 infection spread from spring 2020 onward, the business environment in the Tourism sector and Store Sales Support sector, among others, deteriorated significantly. On the other hand, the company group responded to the demands of society by leveraging its broad business portfolio and its ability to mobilize staff with a variety of experience and capabilities, and was commissioned to provide large-scale Covid-19 countermeasure-related services nationwide; including airport waterfront countermeasures support, operational support for vaccination centers, support for vaccination reception call centers and support for hotels receiving people with mild illnesses. As a result, they were commissioned on a large scale to provide Covid-19 countermeasure-related services. As a result, Covid-19 countermeasure-related operations contributed significantly to the company group's performance from FY8/21 to FY8/24.

Figure 1: Impact of Covid-19

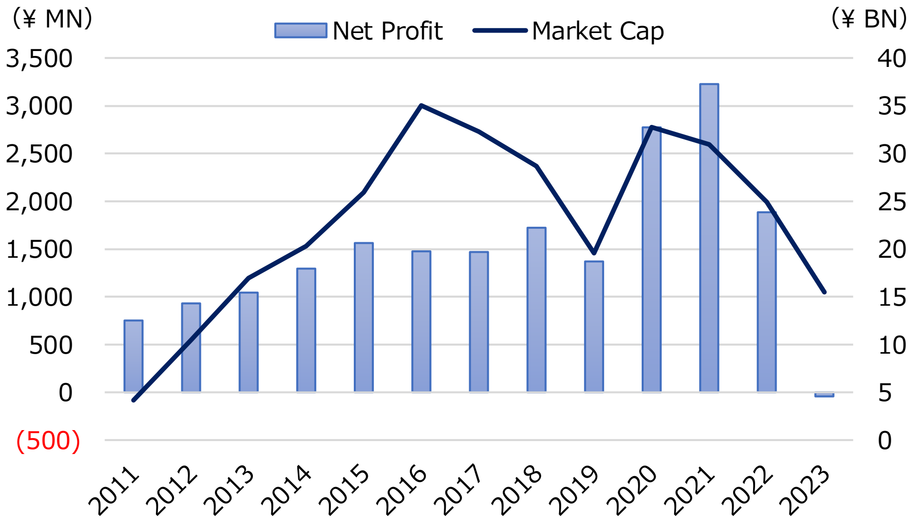
(¥ bn)	FY8/20	FY8/21	FY8/22	FY8/23	FY8/24
Ex. Impact of Covid-19					
Sales	49.3	50.6	48.3	51.1	56.3
Operating Income	3.08	3.52	2.57	2.04	1.17
Impact of Covid-19					
Sales	0.48	5.83	15.82	12.79	2.22
Operating Income	0.06	1.26	3.16	2.15	0.39

Note: Sales before FY8/21 are estimates based on the retroactive application of the accounting standard for revenue recognition effective from FY8/22.

Source: Company Data. Created by Strategy Advisors.

In April 2022, HITO-Communications Holdings moved to the prime market, following the revision of the market classifications of the Tokyo Stock Exchange.

Figure 2: Long-Term Trends in Net Income & Market Capitalization



Source: Company Data. Created by Strategy Advisors.

Figure 3: Performance of Major Subsidiaries

(¥ mn)	21/8	22/8	23/8	24/8
HITO-Communications				
Sales	29,492	36,011	32,271	23,733
Ordinary Income	3,298	4,276	2,238	811
Ordinary Income Margin	11.2%	11.9%	6.9%	3.4%
Net Income	1,866	2,742	994	-501
BBF				
Sales	38,595	9,813	10,147	10,976
Ordinary Income	855	1,002	1,036	1,040
Ordinary Income Margin	2.2%	10.2%	10.2%	9.5%
Net Income	558	662	677	632
BRANCH OUT				
Sales	9,564	8,966	10,597	12,614
Ordinary Income	774	244	622	598
Ordinary Income Margin	8.1%	2.7%	5.9%	4.7%
Net Income	517	163	401	400

Source: Company Data. Created by Strategy Advisors.

3. Corporate DNA & Difficulty of Imitation

(1) Positioning Theory

How to Differentiate the Company from Competitors

The positioning theory proposed by renowned management scholar Michael E. Porter is an approach that emphasizes how to position one's own products and services in comparison to those of competitors. The three basic strategies for companies to establish competitive advantage are: (1) cost leadership strategy, (2) differentiation strategy and (3) concentration strategy.

Adopt a Differentiation Strategy

Of these strategies, the strategy adopted by HITO-Communications Holdings can be described as (2) differentiation strategy. Differentiation strategy is a strategy to secure competitive advantage by providing customers with value that is different from the products and services of competitors in the same industry.

Implement Differentiation Strategy with Store Sales Support, Wholesale etc.

Examples of the group's differentiation strategy include the Store Sales Support, Wholesale and Airport sectors.

In the Store Sales Support Sector, the company's core business, it quickly shifted its business model from Personnel staffing, which did not differentiate it much from its competitors, to outsourcing, which leads to the growth of employees and staff and contributes to solving clients' problems. As a result, the sector's performance expanded rapidly in FY8/20 as it gained the trust of customers.

In the Wholesale sector, the company succeeded in expanding business with major mass retailers by leveraging its product planning and development capabilities utilizing IP licenses and its ability to disseminate information via SNS and other means through collaboration with influencers.

In the Airport Sector, by integrating ground handling operations with facility operation support and sales support operations, the company has an advantage over other companies in that it can flexibly assign personnel to special locations such as airports.

(2) Corporate DNA

Business Strategy that Leverages Corporate DNA is the Key to Success

Corporate DNA is the values, philosophy, and corporate culture unique to an organization that have been cultivated through the thoughts of its founders and the history of the company. It is believed that formulating and executing business strategies that make the most of corporate DNA will increase the probability of success over the competition. For this reason, Strategy Advisors focuses on corporate DNA.

Four Part Corporate DNA

The corporate DNA of the company group includes "a team-oriented corporate culture based on the rugby spirit in pursuit of results", as well as a "focus on expertise", "scalability" and "ability to adapt to change" in order to solve clients' problems.

A Corporate Culture of Pursuing Results as a Team Based on the Spirit of Rugby

HITO-Communications was founded as a Personnel staffing agency affiliated with a major electronics retailer and initially lacked a team-oriented approach to business. In September 2004, Mr. Yasui took the initiative to change the contractual structure with clients from Personnel staffing to outsourcing in order to proactively solve clients' problems. He recruited and trained people with different abilities and placed them in the right positions to solve the client's problems as a team while accompanying the client in pursuit of results.

The rugby spirit is represented by the phrase "One for all, All for one," a value for sacrificing oneself for the benefit of others. These values are essential not only for rugby, but also for HITO-Communications, which pursues results as a team in its outsourcing business. As a result of the gradual development of a team-based, results-oriented corporate culture based on the rugby spirit, HITO-Communications' Outsourcing business accounted for 76.0% of sales in FY8/11, the year the company went public.

Since then, HITO-Communications has been developing its business mainly through outsourcing, not only in the store sales support sector, but also in the sports and entertainment and facility management support in the airport sectors. The focus on outsourcing business has led to the company's corporate DNA of "a team-oriented, results-oriented corporate culture based on the rugby spirit", which is unusual for a company with its origins in the personal staffing business.

Emphasis on Expertise

The company group has developed its business by selecting highly specialized operations, such as focusing on the cell phone field, which requires particularly detailed product and service knowledge in Store Sales Support. This is due to President Yasui's sense of crisis from the beginning of his tenure that the company could not survive on simple human resource services alone, and his recognition of expertise as an indispensable capability for solving client issues. When the company entered the travel business to reduce its dependence on the telecommunications industry, it also focused on the fact that tour operators for overseas travel require in-depth expertise, and acquired T.C.A. and JATS, both of which provide tour operator dispatch services for overseas travel.

In addition, the ground handling business at airports, which the company will enter in 2023, was also a decisive factor in its decision to acquire FMG, as this business requires a high level of expertise and is expected to generate synergies with its support for the operation and sales of commercial facilities at airports. Given these factors, the emphasis on expertise in the selection of business areas is considered to be part of the company group's DNA.

Expandability

The company group has adopted a business strategy based on the concept of “points, lines and planes.” Taking the example of the arena facility operation support business in the sports and entertainment sector, the company offers individual business support services (“points”) such as venue setup, ticketing, food and beverage support, kids' academy support, fan club management, and EC/web operation outsourcing. By combining multiple services according to customer needs, the company provides customized solutions ("lines"). For example, the company packages venue setup support, ticketing and food and beverage sales support into a single offering for customers.

By integrating multiple solutions, the company provides comprehensive business support, which constitutes the "area." This business strategy allows the company to flexibly adjust service content to meet customer needs and also enables scalability to add new services in response to emerging requests.

The company is not limited to providing solutions by combining the services of a single business, but is also engaged in a "point, line and area" strategy of expanding its business portfolio to peripheral areas where synergies with its existing businesses can be expected. This is because President Yasui learned the importance of business portfolios during his tenure at the bank; and with the acquisition of BBF, the company has entered the digital sales support business, focusing on e-commerce support, in addition to store sales support in real stores. The acquisition of FMG strengthened the company's airport business. The company intends to use the development of the airport sector to expand its business in the inbound tourism sector, which has a strong affinity with the airport sector.

In addition, the group has a nationwide network of 48 offices, and the ability to simultaneously offer a diverse menu of services is a strength unique to the group.

Customers face a variety of issues, and the company has expanded its business portfolio as a result of successively working with customers to solve their problems. Therefore, the ability to expand business domains to solve customers' problems is also a component of the corporate DNA.

Ability to Adapt to Change

HITO-Communications has never been satisfied with the status quo but has always sought to solve its clients' problems by leveraging its diverse business support resources in response to changes in the business environment and social conditions. The group aims to become a "social problem-solving platform" under the action policy of "looking 10 years ahead" and taking a half-step forward. By "taking a half-step forward," the company means entering the market as quickly as possible when it can be profitable.

In the 2010s, when the need for e-commerce support increased, the company acquired BBF to create an omni-channel sales support platform that combines human sales support and digital sales support. This ability to respond to change in order to solve client issues is part of the group's corporate DNA.

(3) Difficulty of Imitation

Focus on Difficulty of Imitation

The resource-based view proposed by Jay B. Barney et al. is a concept that focuses on a company's internal resources and capabilities rather than its competitive environment. The VRIO framework is a concrete example of this approach, and it suggests that Value, Rarity, Imitability and Organization should be considered. Strategy Advisors pay particular attention to the difficulty of imitation.

On-Site Capabilities to Solve Problems as a Team while Accompanying Customers. Based on THE Corporate DNA and Refined over the Past 20 Years.

The group has a highly specialized and extensive business portfolio as a result of its focus on specialization and scalability. The group has been providing services to clients in a variety of industries for almost 20 years since the implementation of the MBO, utilizing the extensive capabilities of the group's companies. In the process, the company has cultivated a human resource management approach to recruiting, training and placing the right people in the right positions for a large number of employees (both permanent and contract employees). In addition, as a result of having developed a corporate culture of pursuing results as a team based on the rugby spirit, the company has refined its on-site capabilities to solve problems as a team while accompanying clients not only in a wide range of industries but also into unknown areas.

Performed Tasks Related to Covid-19 Countermeasures, in Which it Had No Experience

An example of how these capabilities were put to use was in the efforts in projects related to measures to prevent the spread of the Covid-19 virus. The reason why the firm was able to carry out a variety of inexperienced tasks related to measures against new-type Covid-19s, such as the operation of a call center for vaccination reception, support for the operation of large-scale vaccination centers, support for airport border control measures and support for hotels that receive people with minor illnesses; was because they applied their nationwide network of offices and know-how in the operation of large-scale events.

In addition, they had a corporate culture of pursuing results as a team based on the spirit of rugby and were able to demonstrate their ability to respond to change. The company culture of pursuing results in a team based on the rugby spirit and their ability to respond to change were also factors that contributed to their success.

In particular, the fact that they were able to implement on a large scale the Covid-19 countermeasure-related work, which required a high level of on-site problem-solving skills, was probably due in large part to the fact that the concept of rugby as a team sport, which requires onsite control of the game in response to ever-changing situations from time to time, was deeply rooted within the company. From this perspective, it can be said that by learning from the spirit of rugby, the company has built on-site capabilities that enable it to solve problems as a team while accompanying its clients.

Accumulated Experience Working on Large-Scale Projects Utilizing Multiple HITO-Communications Locations

In addition to Covid-19 countermeasure-related work, another advantage HITO-Communications has over its competitors is that it excels at large-scale projects in which work is performed simultaneously at multiple locations throughout Japan. Even if a competitor were to significantly expand its number of offices, HITO-Communications' advantage is unlikely to diminish in the meantime, as the company will have accumulated experience and expertise in large-scale projects that utilize multiple offices.

The Team-Oriented Corporate Culture and Emphasis on Professionalism that had Taken Root at BRANCH OUT were Further Strengthened after Joining the Group

Regarding the competitive advantages of subsidiaries other than HITO-Communications, we would like to highlight BRANCH OUT, a clothing planning, manufacturing and wholesale company specializing in the wholesale sector. Founded in 1997 and joining the group in 2017, BRANCH OUT is known for its products utilizing IP licenses and has received high acclaim, including an award for excellence from a major licensor. This is because its ability to quickly incorporate overseas fashion trends while offering products at affordable prices has been recognized by major apparel retail chains and comprehensive retail chains that also handle apparel, which are facing the challenge of declining customer numbers.

One of the key factors supporting its planning and development capabilities is the design proposal strength of its specialized department for two-dimensional character content. While many companies also offer clothing printed with two-dimensional animation characters, Branch Out explains that the charm of the characters printed on clothing often fails to resonate with consumers.

The company's specialized personnel collaborate with graphic designers who have graduated from art universities or fashion schools to propose designs that meticulously focus on the expressions of characters when printed on clothing, enabling BRANCH OUT to continue producing products that can only be created by the company. The company's culture of pursuing results as a team and its emphasis on specialization, which have been deeply rooted in BRANCH OUT, are believed to have been further strengthened since the company joined the group in 2017.

From the Predicament Caused by the Covid-19 Disaster, BRANCH OUT has also Learned to be Scalable and Responsive to Change

BRANCH OUT suffered a significant profit decline in FY8/22 due to the stagnation of production at its outsourced manufacturing partner's Chinese factory caused by the Covid-19 disaster. At the time, the company was unable to respond quickly because it was only engaged in the business of manufacturing garments in China using IP licenses and importing and selling them.

At a group management meeting held at the time, President Yasui and other members of the HITO-Communications Holdings management team suggested that BRANCH OUT strengthen its product lineup by leveraging its strengths in planning and development. BRANCH OUT took the opportunity to expand outside of China, where BRANCH OUT overcame its difficulties by taking on the challenge of selling low-cost acrylic stands and other "push-activated" merchandise outside of China. In this way, BRANCH OUT gained the group's DNA of scalability and adaptability to change by joining the group. This episode is also a testament to the company's PMI capabilities.

BRANCH OUT has also been Working to Solve Problems for 28 Years

The company's main customer, Don Quijote, has been actively developing a collaborative sales floor with BRANCH OUT, which has survived in a tough industry for 28 years through friendly competition among professionals from different fields working together as one team toward a common goal. The on-site ability to solve problems as a team while accompanying clients, which has been steadily refined in this way, is considered difficult to imitate.

In addition, by acting as a partner to its clients and undertaking the entire process from planning to staff labor management and handling problems and irregularities, the company group has built deep relationships of trust with its clients as a result of providing higher results to its clients than competitors that provide partial outsourcing functions. As a result, the company has built a deep relationship of trust with its clients.

Although there are several competitors in individual industries that can perform some of the same tasks as the company group, most of these companies are generally cautious about expanding their target industries, scope of operations and geographic coverage from the standpoint of efficiency. Even if a competitor in one industry were to enter another industry targeted by the company's group, it would take a great deal of time, money and effort to establish a position that would pose a threat to the group.

Human Resource Management Techniques that Recruit and Train Personnel According to the Needs of Customers in Various Industries and Assign Them to the Right Positions

The company's human resource management methods and its ability to solve problems as a team while working closely with clients have spread throughout the company's offices and group companies nationwide. In particular, in an environment of labor shortages, the group's strength in being able to train inexperienced workers and turn them into a competitive force in a short period of time is expected to become increasingly valuable in the future.

Combined with Field Capabilities Honed over 20 Years by Leveraging Locations Nationwide to Work Alongside Customers as a Team to Solve Problems

The company's ability to recruit, train, and place the right people in the right jobs to meet the needs of clients in a variety of industries and its on-site capabilities, honed over the past 20 years by utilizing its nationwide network of offices and working with clients to solve problems as a team, make the group difficult to imitate.

(4) Twin Equity Stories

Twin Equity Stories

Strategy Advisors believe there are two equity stories. The first is one of "dramatic growth in the airport sector by contributing to addressing a national social issue: the lack of capacity in the ground handling industry at major airports in Japan". The second is to "accelerate the growth of the Wholesale sector by contributing to solving issues in the domestic apparel retail industry and expanding overseas sales". If one of the two stories comes to fruition, investors who see the company as just a human resources services company will change their minds and expect the company's value to rise in addition to its earnings growth.

Lack of Capacity in the Ground Handling Industry is One of the National Social Challenges

The Japanese government has set a target of 60 million foreign tourists visiting Japan by 2030. On the other hand, airports nationwide have insufficient capacity to receive such visitors due to a lack of personnel to perform ground handling operations and specialized equipment known as GSE. The Ministry of Land, Infrastructure, Transport, and Tourism (MLIT) held the "Study Group on Airport Operations for Sustainable Development" 11 times from February 2023 to March 2025 to support the development of ground handling operations. However, the problem has not yet been resolved, and the lack of capacity in the ground handling industry at major airports in Japan has become one major national social issue.

The Goal of becoming "an Indispensable Presence at Major Airports Across the Country" is Not a Pipe Dream

Since becoming a part of HITO-Communications Holdings, the FMG Group has greatly improved its human and financial resources, which had been an issue, and has opened bases for ramp operations (one of the ground handling businesses) at Narita, Kansai International and Shin-Chitose airports in 2024. At the other remaining major airports, Haneda, Fukuoka, Chubu International, and Naha, the company aims to open bases as soon as possible, aiming to become "an indispensable presence at all major airports in Japan. Of these, Naha Airport is currently under consideration for opening as of April 2025.

Through M&A, the company group has established a rare business model that enables it to provide a full range of services both inside and outside the restricted areas of major airports nationwide, and its goal of becoming "an indispensable presence at major airports nationwide" is not a pipe dream.

Average Annual Growth Rate of Airport Sector Sales in the Mid-Term Management Plan is 21%

In its medium-term management plan, the company plans high growth in Airport Sector sales, from ¥4.9 billion in FY8/24 to ¥12.8 billion in FY8/29 (average annual growth rate of 21.1%). However, given that the company expects sales of ¥8.5 billion in FY8/25 due to the effect of the opening of the ramp business base in 2024, its plan for FY8/26 and beyond is not a high target.

Expect to Increase Market Share at Airports Where They Have Already Opened Offices and to Open New Offices in the Future

The market share of the group's ramp business at the three airports is currently estimated to be less than 10% for all three. However, Strategy Advisors believes that one of the company's difficulties in imitating its competitors is that FMG Group has successfully adopted a personnel management method that involves recruiting, training and placing the right people in the right positions to meet the needs of customers in various industries. The company expects to increase its market share at the airports where it has already established bases by increasing the number of staff and aircraft.

Second, we believe that there is momentum for the public and private sectors to work together to solve the social problem of a lack of capacity in the ground handling industry; and that another difficulty to imitate is the "on-site ability to solve problems as a team, honed over the past 20 years by utilizing bases nationwide", which the company group will be able to use to open ramp bases at the remaining major airports in the future. The company believes that there is a strong possibility that the group will be able to open a series of ramp bases at the remaining major airports in the future.

Target Figures in the Medium-Term Management Plan Appear to Have Been

On the other hand, since the company's medium-term management plan appears to be based on generally cautious assumptions, it is assumed that in the Airport Sector, the company plans sales mainly from the gradual expansion of the ground handling market at airports where it has already opened bases. The company is not expected to increase its market share at

Formulated Based on Cautious Assumptions

airports where it has already opened bases, nor is it expected to make much of a contribution from the opening of new bases in the future.

"Breakthrough Growth of the Airport Sector by Contributing to a National Social Challenge: The Lack of Capacity in the Ground Handling Industry at the Country's Major Airports"

If the company group's goal of becoming "an indispensable presence at major airports nationwide" is achieved, FY8/29 sales in the Airport Sector are expected to grow dramatically, far exceeding the numerical targets in the mid-term management plan, on the back of market expansion and rising market share. If the company's airport sector sales are expected to be the largest among the company's sectors through its contribution to addressing a national social issue, i.e. the lack of capacity in the ground handling industry at major airports in Japan; the company will quickly attract the attention of investors, who may view the company as just a human resource service company and the possibility of higher valuations can be expected. This could lead to an increase in the company's valuation.

Wholesale Sector's Initial Plan for FY8/25 and Target Figures in the Medium-Term Management Plan are for Low Growth

For the Wholesale sector, which is the other equity story, the annual growth rate during the mid-term management plan was 3.3% and the initial plan for FY8/25 sales was only 1.8% growth over the previous year. These forecasts were due to the difficult environment of the domestic apparel market as a result of the declining population and the fact that the average annual growth rate of the Wholesale sector sales of the company group was only 9.2% from FY8/21 to FY8/24.

Continued to Grow by Increasing Market Share by Helping Customers Solve Their Problems, Even in a Difficult Environment

BRANCH OUT, the main subsidiary in the Wholesale sector, has strength in planning and developing apparel products utilizing IP licenses that are popular among young people. As a result, the company has become an indispensable supplier of products to major apparel retailers as a solution to the problem of declining customer traffic and continues to grow by increasing its market share even as the domestic apparel market declines.

Wholesale Sector Significantly Outperformed the Plan in 1H FY8/25

In 1H FY8/25, the Wholesale sector's revenue growth rate was 31.6% YoY. Contrary to the company's initial plan, growth in this sector was rather accelerated and it is clear that the plan for this sector was based on conservative assumptions. In fact, the company's FY8/25 plan was revised upward in April 2025, mainly due to the rapid expansion of the Wholesale sector. Eight years have passed since the acquisition of BRANCH OUT and Strategy Advisors imagines that the group's on-the-ground ability to solve problems as a team while accompanying clients has become even more prevalent here at BRANCH OUT.

Although BRANCH OUT products are becoming a mainstay to attract customers at major clothing retailers, the Wholesale sector's sales (FY8/24 ¥12.7 billion) are still small, suggesting that there is still ample room for growth in the domestic market.

Potential for BRANCH OUT to Expand Overseas Sales

BRANCH OUT's overseas sales are currently small because most of the IP licenses it uses are limited to domestic sales. However, the company intends to enter into licensing agreements that will allow it to sell its products overseas; and it is eager to play a role in expanding Japan's world-class animation, character and other IP around the world through the expansion of its commercial distribution through exports. Since the company's licensed products are so highly regarded that they have received commendations from major licensees, it is expected that the number of contracts enabling overseas sales will increase. Therefore, we expect the company to successfully capture the popularity of Japanese animation and characters and expand sales overseas.

"Accelerate Growth into the Wholesale Sector by Helping to Solve issues in the Domestic Apparel Retail Industry and Expanding Overseas Sales of Products through IP Licensing"

Increasing market share in Japan by solving the problems of domestic apparel retailers and expanding overseas sales of products through IP licensing will support the acceleration of growth of the smaller BRANCH OUT over the long term. One of the triggers for share price valuation improvement is a significant change in investors' perception of a company's business image. In other words, it is the discovery of a sense of surprise in the business portfolio. Thus, for those investors who see the group as just a human resource services company, the Wholesale sector's ability to drive growth could be a factor in their re-evaluation of the company's stock.

Policy to Develop Exports in the Airport & Wholesale Sectors, both of which are Foreign Demand-Oriented, into Core Businesses

The company group, which focuses on domestic demand-oriented businesses, positions exports from the airport sector and wholesale sector, which fall under the category of foreign demand, as a bridgehead for future overseas expansion and intends to invest group resources to develop them into core businesses.

(5) Vision and Existence Value

The company aims to be "a company that creates unlimited connections through sales support by addressing issues that need to be resolved in the world". The company's group mission is to “create and contribute to a society of bonds where no one is left behind”. This is appropriate for a company with a team-oriented corporate culture that pursues results.

4. Company Profile

Pure Holding Company

HITO-Communications Holdings is a pure holding company established in March 2019 as the wholly owning parent company of HITO-Communications. As of the end of February 2025, the group consists of HITO-Communications Holdings, its core subsidiaries HITO-Communications and BBF and 19 other related companies (including 14 consolidated subsidiaries and 5 non-consolidated subsidiaries). The company's goal is to strengthen its business portfolio by aggressively pursuing M&A to strengthen its business portfolio.

Largest Stockholder

The company's top major shareholders are shown in Figure 4. The No. 1 shareholder ranking, Nomura Trust & Banking Co. trust account, Mizuho Trust & Banking Co. securities administration trust, the No. 3 shareholder ranking, SMBC Trust & Banking Co. trustee for the administration trust (A001), and Sumitomo Mitsui Trust Bank, Limited, the No. 9 shareholder ranking, are all former parent company founders, Mr. Ryuji Arai. The trusts were established by him.

Figure 4: HITO-Communications Holdings' Major Shareholders (as of February 28, 2025)

	Name of Shareholder	Number of shares held (shares)	Shareholding Ratio (%)
1	Nomura Trust and Banking Co.	5,535,000	30.9%
2	Dutch Partners Co.	2,120,000	11.8
3	Mizuho Trust & Banking Co. Securities Custodian Trust 0700026	1,748,000	9.8%
4	Administrative Trust (A001) Trustee SMBC Trust & Banking Co.	1,428,400	8.0%
5	BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) (Standing proxy: Director, President and Chief Executive Officer, The Bank of Mitsubishi UFJ, Ltd.)	747,187	4.2%
6	The Master Trust Bank of Japan, Ltd.	690,700	3.9%
7	The Custody Bank of Japan, Ltd.	546,883	3.1%
8	GOLDMAN SACHS INTAERNATIONAL (Standing Proxy: Goldman Sachs Japan Co.)	519,384	2.9%
9	Sumitomo Mitsui Trust Bank, Limited (Trust Account No. A1)	400,000	2.2%
10	SMBC Nikko Securities Inc.	293,200	1.6%
	Total amount	14,028,754	78.4%

Note: Shareholding ratios exclude treasury stock.
Source: Company Data. Created by Strategy Advisors.

Businesses are Classified in Two Systems: Segments & Sectors

Since the company is engaged in a wide range of businesses, its operations are described in two categories: Segments, which are based on the characteristics of its business activities and legal regulations; and Sectors, which are based on its business targets. In Chapter 4, Strategy Advisors briefly describes the relationship between each subsidiary and its segment or sector, as well as the Outsourcing business and the Personal Staffing business, which include multiple sectors. The sectors are described in more detail in Chapters 5 through 10.

Business Segments Composed of Outsourcing, etc.

The business segments are Outsourcing, Personnel staffing, EC/TC Support, Wholesale and Others. In the Personnel Staffing business, the company dispatches staff to manufacturers, telecommunications carriers, supermarkets, GMS's and other customers according to their needs. Wholesale businesses mainly manufacture and Wholesale clothing.

Figure 5: HITO-Communications Holdings' Performance by Segment

(¥ mn)

Sales	FY8/22	FY8/23	FY8/24	
	Amount	Amount	Amount	Composition ratio
Outsourcing Business	35,021	30,877	23,205	39.6%
Personnel Staffing Business	8,771	9,538	8,870	15.2%
EC/TC Support Business	9,747	9,968	10,776	18.4%
Wholesale Business	9,367	10,917	12,772	21.8%
Others	1,222	2,678	2,921	5.0%
Total	64,130	63,980	58,547	100.0%

Segment Operating Income	Amount	Amount	Amount	Composition ratio
Outsourcing Business	3,955	1,370	-258	-16.5%
Personnel Staffing Business	972	1,157	373	23.8%
EC/TC Support Business	818	860	898	57.3%
Wholesale Business	137	549	54	3.4%
Others	-125	280	33	2.1%
Adjustment	-18	-18	-18	-1.1%
Total	5,739	4,198	1,568	100.0%

Note: Sales are based on external customers.
Source: Company Data. Created by Strategy Advisors.

Personnel Staffing Business was below 20% of Sales

In FY8/24, the sales composition by segment (external client basis) was 39.6% for Outsourcing, 15.2% for Personnel staffing, 18.4% for EC/TC support, 21.8% for Wholesale and 5.0% for Others. The Outsourcing business, which expanded through organic business enhancement and M&A, accounted for about 40% of sales, while the sales composition of the Personnel Staffing business, the company's ancestor, was below 20%. As a result, the company should not be viewed as a Personnel staffing company.

The businesses of the consolidated subsidiaries and the segments they belong to can be summarized as shown in Figure 6.

Figure 6: Principal Businesses of Consolidated Subsidiaries and Segments to Which They Belong

Company Name	Subsidiary Establishment Date	Main Business	Segment				
			EC/TC Support	Wholesale	Outsourcing	Personnel Staffing	Others
HITO-Communications	Feb. 1998	Store Sales Support, etc.			○	○	○
WSS	Aug. 2014	Store Sales Support, etc.			○	○	
TCA	Apr. 2014	Dispatch of tour operators for domestic and overseas destinations				○	
JATS	Oct. 2014	Dispatch of tour operators for domestic and overseas destinations				○	
Japan Limousine Service	Nov. 2015	Limousine service for the wealthy					○
Triangle	Jun. 2019	land operation					○
FMG	Jul. 2023	Airport passenger, ramps, maintenance			○		
fmg	Jul. 2023	Airport passenger, ramps, maintenance			○		
FMG Ramp Solutions	Jun. 2024	Airport ramps			○		
BRANCH OUT	Jun. 2017	Planning, manufacture and wholesale of apparel and sundry goods		○			
BRANCH OUT-Shanghai	Jun. 2017	Planning, manufacture and wholesale of apparel and sundry goods		○			
BBF	Jun. 2017	E-commerce sales support	○				
LOWCAL	Dec. 2018	System development					○
SALES ROBOTICS	Apr. 2019	Inside sales			○		
UsideU	Jun. 2021	Online customer service					○
Fignny	FY8/23	VR/AR Development					○

Note: Segments belonging to each subsidiary cover its main business
Source: Company Data. Created by Strategy Advisors.

Transitioning into a Corporate Services Company that is Not Limited to the Human Resources Field

As for sectors, in FY8/24, the company was divided into 9 sectors: Airports, Wholesale, Digital Sales Support, Inbound Tourism, Public, Works, Sports/Entertainment, Store Sales Support and Others (social needs services such as Covid-19 countermeasure services). The company has evolved into a corporate group that solves social issues through its ability to solve problems as a team and its proactive M&A activities.

The Largest Sector in Terms of Revenue in FY8/24 was Store Sales Support

FY8/24 sales by sector (composition): Store Sales Support ¥14.737 billion (25.2%), Wholesale ¥12.772 billion (21.8%), Digital Sales Support ¥12.662 billion (21.6%), Inbound Tourism ¥6.711 billion (11.5%), Airports ¥4.936 billion (8.4%), Sports/Entertainment ¥2.854 billion (4.9%), Public ¥954 million (1.6%), Works ¥693 million (1.2%) and Others at ¥2.224 billion (3.8%).

The sectors to which the consolidated subsidiaries belong can be summarized as shown in Figure 7.

Figure 7: Sectors to which Consolidated Subsidiaries

	Sectors								
	Digital Sales Support	Whole-sale	Store Sales Support	Airport	Inbound Tourism	Public	Works	Sports/ E'tainment	Others
Start Year	2017	2017	1998	2023	2011	2021	2023	2013	2020
HITO-Communications			○	○	○	○	○	○	○
WSS			○				○		
TCA					○				
JATS					○				
Japan Limousine Service					○				
Triangle					○				
FMG				○					
fmg				○					
FMG Ramp Solutions				○					
BRANCH OUT		○							
BRANCH OUT-Shanghai		○							
BBF	○								
LOWCAL	○								
SALES ROBOTICS	○		○						
UsideU	○								
Fignny	○								

Note: The sector to which each subsidiary belongs is the core business. The start year is the start date for the group, not the company.
Source: Company Data. Created by Strategy Advisors.

(1) Outsourcing Business

Business Contracting Based on Outsourcing Agreements

In the outsourcing business, the outsourcing company concludes an outsourcing contract with a client company and performs contracted work as specified in the contract (outsourced contracting). The difference between this type of outsourcing business and Personnel staffing, which will be discussed later, is that there is no command and order relationship between the outsourcing company and the workers (staff).

HITO-Communications and other affiliated companies in the outsourcing business offer outsourcing companies an estimated amount of money based on estimated person-hours under outsourcing contracts and receive contract fees determined through negotiations. The main costs are personnel expenses paid to staff based on employment contracts, subcontracting expenses, depreciation, etc.

Oriented Toward Results-Oriented Sales Support that Accompanies the Customer

In the outsourcing business, the company primarily supports the sales, service and marketing operations of telecommunications carriers, telecommunications equipment manufacturers, consumer electronics manufacturers, airport facility operators, airlines, travel agencies and others. The company does not just aim to fulfill its obligations under the contract, but rather supports the sales operations of its clients with the goal of contributing to their business performance while accompanying them.

In the results-oriented sales support, in addition to a series of sales support services ranging from sales planning to the establishment of a sales structure and post-sales feedback for consumer needs, the company also provides customer service sales operations by staff with specialized knowledge through training.

Establishment of a "Business Operation Office" for Each Client

The system supporting results-oriented sales support includes the establishment of a "business operation secretariat" and a well-developed education and training system.

HITO-Communications and its affiliated companies have established a "business operation secretariat" for each client to share and resolve client issues and measures when providing sales and other services in the outsourcing business. The secretariat is composed of staff members who are well versed in providing sales and other services, with a director who gives instructions and orders to staff members at each work site under the supervision of the office manager, who is in charge of negotiations with customers and planning of measures for sales and other services.

The team operation of the Outsourcing business, in which staff are placed in the right places with the Secretary General at the center and can run on their own on site, is similar to rugby, in which players of different abilities, led by the captain, think and play by themselves without asking for instructions from the coaches.

Building Win-Win Relationships with Customers

Each operations office is responsible for a range of tasks related to the sale of products and provision of services, including staff recruitment, development of training programs, creation of sales curricula, on-site rounds (inspections), and feedback on service provision to customers. By outsourcing many of these tasks to the operations offices, customers such as manufacturers and telecommunications carriers are relieved of the burden of managing and training staff. The company believes that the establishment of customer operations offices contributes to improving the performance of its customers.

Unlike staffing services, outsourcing services have the characteristic that the know-how required to materialize customer needs, operational expertise and human resource development is accumulated within the company that undertakes the business. This enables sustainable expansion beyond differences in customers, products and services. Through its outsourcing services that accompany customers, the company group has established a win-win relationship with its customers.

Well-Developed Education & Training System

HITO-Communications and its affiliates are working to enhance their education and training programs for staff by creating original sales curricula and conducting sales training programs. Through standardized pre-employment training, personnel with no sales or marketing experience are able to gain near-practical experience. Follow-up training is also provided in the first and third months after employment, when sales are likely to be sluggish, thereby reducing the turnover rate. As a result, the company believes that this has contributed to stabilizing sales and business performance for its clients.

(2) Personnel Staffing Business

Dispatch of Staff Based on Staffing Contracts

In the Personnel Staffing business, the company enters into staffing contracts with telecommunications carriers, telecommunications equipment manufacturers, home appliance manufacturers, supermarkets/GMSs, travel agencies and other clients. They dispatch staff according to the needs of the client. The difference with outsourcing is that a command and order relationship is created between the client and the worker (staff).

HITO-Communications and other affiliated companies in the outsourcing business receive Personnel staffing fees from clients based on Personnel staffing contracts, which are calculated by multiplying the unit cost of Personnel staffing based on staff experience and abilities by the staff's operating hours. The main expenses are the personnel costs paid to staff based on employment contracts.

Wholesale business is identical to the Wholesale sector. EC/TC Support business is the core business of the Digital Sales Support sector. Therefore, the business content of Wholesale business and EC/TC Support business is explained in the Business Content by Sector chapter.

5. Airport Sector

Airport Sector Expected to be a Growth Driver

The Airport Sector was recently separated from the Inbound, Airports and Tourism Sector in FY8/24 and accounts for only 8.4% of total sales, but it is an important sector that will drive the group's growth in the medium-term management plan discussed below. This sector consists of the passenger, ramp and maintenance businesses (as of FY8/12) conducted by FMG (established in 1996), fmg (established in 2020) and FMG Ramp Solutions (established in June 2024, to be consolidated in FY8/25) in the restricted areas after passing through airport security checkpoints (70%-80% of total sector sales in FY8/24). Facility operation and sales support are conducted by HITO-Communications outside restricted areas (20%-30% in FY8/24).

Acquiring FMG and Fmg in July 2023 to Strengthen Business Foundation

FMG, fmg and FMG Ramp Solutions (hereinafter referred to as FMG Group) operate various airport-related businesses at Narita, Haneda, Shin-Chitose, Kansai International and Naha. fmg had many staff retire due to the Covid-19 disaster that started in 2020. As a result, the company struggled to secure employment due to a shortage of staff as inbound demand recovered rapidly from 2022 onward.

On the other hand, the company's group had been engaged in airport peripheral services such as overseas tour operator dispatch services (TCA, JATS) and limousine service business (Japan Limousine Service), as well as facility operation and sales support at airports (HITO-Communications). During the Covid-19 disaster, the company also operated quarantine services at airports and other facilities for the treatment of infected people. However, many of the operations conducted in restricted areas were virtually untouchable, making it difficult for new entrants to enter the market.

HITO-Communications, which is strong in hiring and training human resources and aims to expand its airport-related business; and FMG, which had been struggling to secure human resources, have positioned the airport sector as a growth driver for the group, given the high synergy expected in terms of employment and the Japanese government's target of 60 million foreign visitors to Japan by 2030. HITO-Communications made FMG and fmg its wholly owned subsidiaries in July 2023, as the group positioned the airport sector as a growth driver.

Evaluating this M&A from the perspective of the company's "point, line and plane strategy," which is its business strategy, the dots are connected: FMG Group, which operates within the restricted area of the airport; HITO-Communications, which operates outside the restricted area; and TCA and JATS, which operate in the airport vicinity, The airport sector and the inbound tourism sector can now operate in an integrated plane. In other words, the entry into the ground handling business, which the company had long been looking for an opportunity to enter, was the moment when the final pieces of the group's airport business and inbound tourism business came together.

When evaluating an M&A, an important question is the extent to which synergies with the existing subsidiary can be expected. In other words, to what extent will the acquisition contribute to improving the company's ability to solve problems? When the company acquired FMG, which operates a ground handling business at airports, the synergy effect in terms of employment with HITO-Communications' airport facility operation support and sales support business was immediately realized, leading directly to solutions to the airlines' problems and expanding the FMG Group's business performance. This then led to the expansion of the FMG Group's business performance.

Passenger and Ramp Business Revenues are Linked to the Number of Departures and Arrivals of the Airlines Contracted to Provide Services

Passenger business and ramp business fall under the revenue model of Outsourcing business. Their revenues are calculated by multiplying the unit price per flight based on the scope of the contract by the number of departures and arrivals. On the other hand, the company's main costs are labor, outsourcing, and depreciation. The company's unit cost is estimated to be lower than that of its peers, but for the time being, it is expected to focus on increasing the number of contracted flights. As for costs, labor and depreciation expenses are expected to increase as the company expands the number of contracted flights and brings operations in-house, as discussed below, but the company aims to improve its profit margin by improving the ratio of outsourcing costs to sales.

Goodwill of ¥4.6 Billion Generated at the Time of Acquisition of FMG and Other Companies; Amortization of Goodwill is ¥260 Million Per Year

The acquisition cost of the shares in the acquisition of FMG and other companies was ¥7.5 billion. The goodwill generated at the time of acquisition was ¥4.597 billion and since the amortization period is 18 years, the amount of goodwill amortization is ¥255 million per year.

(1) Passenger Business

FMG Group's Main Service is Passenger Business

The main service of the FMG Group is the passenger business. The ramp business was not a major source of revenue until FY8/24, although the company now has a policy of strengthening this business. The maintenance business also has small revenues due to problems with equipment and qualified personnel.

The passenger business is one of the core operations of ground handling, which is related to the handling of aircraft and their cargo. It includes baggage check-in at the passenger terminal, baggage sorting and loading of baggage into containers in the form of outsourcing. The ramp business, another core business of ground handling, consists of guiding aircraft to the parking area, fueling aircraft and cleaning the floor inside the aircraft.

Swissport Japan, whose Main Customer is an Overseas Airline, is the Largest Competitor

Because ground handling operations conducted in restricted areas require a license and a high level of expertise, there are only about 400 ground handling companies with offices at airports throughout Japan. Most of them are regional group companies of Japan Airlines (9201 TSE Prime) and ANA Holdings (9202 TSE Prime), but there are also companies that focus on specific regions and local transportation companies. Since airlines are the customers of ground handling companies, JAL and ANA Holdings Group have a high share of the domestic ground handling market in terms of number of flights. However, FMG Group and ANA Holdings have a partial cooperative relationship.

Other than the Japan Airlines Group and ANA Holdings Group, major ground handling companies include Konoike Transport (9025 TSE Prime) Group and Swissport Japan, a joint venture between Swissport International and Marubeni Corporation (8002 TSE Prime), one of the largest independent ground handling companies in the world. Of these, Swissport Japan is the largest competitor of the FMG Group, providing a comprehensive range of ground handling services to many overseas airlines with offices in Narita, Haneda, Central Japan International, Kansai International, Fukuoka and Naha.

FMG Group's Main Customers are ASEAN Airlines

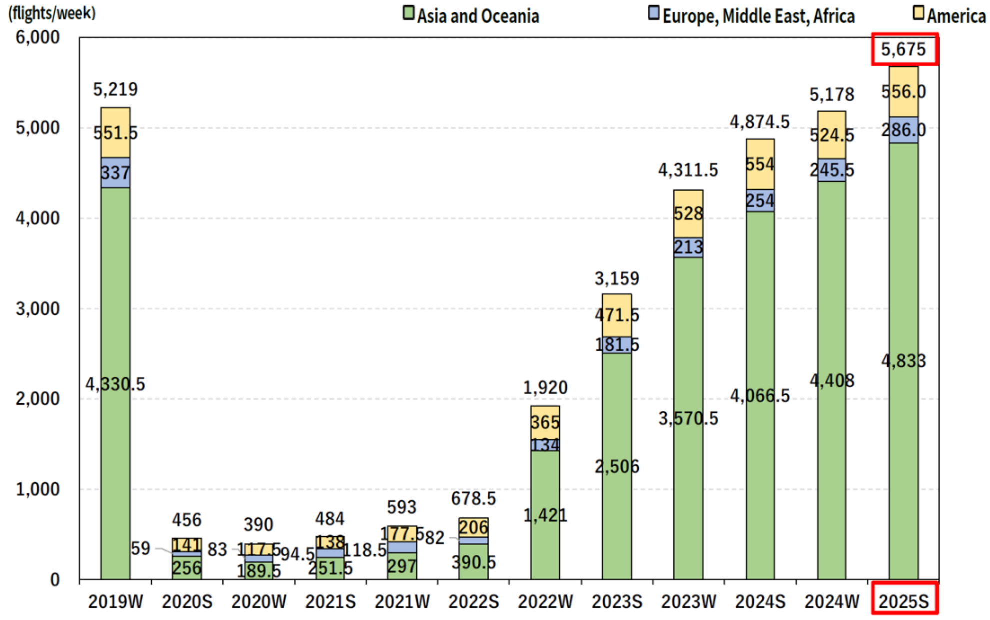
Approximately 85% of international scheduled passenger flights to and from Japan are on Asia-Oceania routes and the FMG Group's main customers are ASEAN carriers such as Asia Atlantic (Thailand), Cebu Pacific (Philippines) and Thai VietJet Air. ASEAN airlines lack group strength compared to their Japanese, European and U.S. counterparts, and are faced with the challenge of securing outsourcing partners for flights to Japan, so there is significant room for the FMG Group to expand its market share.

Figure 8 shows the number of scheduled international flights to and from Japan by direction for each half-year period.

The Number of Scheduled International Flights in Summer 2025 Exceeded the Level of Winter 2019

Due to the spread of the Covid-19 infection, the number of regular international flights serving Japan declined sharply from summer 2020 and remained at a low level until Summer 2022. However, it has been recovering rapidly since winter 2022 and in the Summer 2025 it exceeded the level of winter 2019. Among these, the Asia and Oceania routes are the strongest performing, with 4,833 weekly flights in Summer 2025, up from 4,330.5 in 2019, which is a level well above that of 2019. In the airport sector, the market is expected to continue to grow, despite the high risk of infectious disease, as inbound demand growth is seen as a long-term trend.

Figure 8: Number of Scheduled International Flights by Direction



Note: W stands for winter schedule (end of October to end of March the following year) and S stands for summer schedule (end of March to end of October). All figures are the number of scheduled international flights in the first week at the beginning of each period.

Source: Ministry of Land, Infrastructure, Transport and Tourism, "Summer Schedule 2025: Overview of International Scheduled Flights".

(2) Ramp Business

Upon Joining the Group, the Company Began to Bring the Ramp Business In-House and to Undertake the Passenger Business & Ramp Business Together Under a Single Contract

A ramp is an area in an airport where airplanes are parked, towed and cargo and other items are brought into the cargo hold. Ramp operations are highly specialized operations requiring aircraft ground support vehicles called GSE (Ground Support Equipment) and vehicle operators.

FMG originally used outsourcing for much of its ramp business, as it did not have enough GSE equipment and vehicle operators, even though it was contracted by its clients to perform the work in an outsourcing format. The company's own group company, BLUE HANDLING, established in August 2018, only performed this work on a small scale at Narita Airport.

When the number of foreign visitors to Japan began to recover sharply with the conclusion of the Covid-19 problem, foreign airlines considered establishing new or increasing flights to Japan. But many domestic ground handling companies, not limited to the FMG Group, were unable to respond to the requests due to bottlenecks in human resources and GSE aircraft for the ramp business.

Figure 9 shows the number of scheduled international flights to Japan by airport on a semiannual basis.

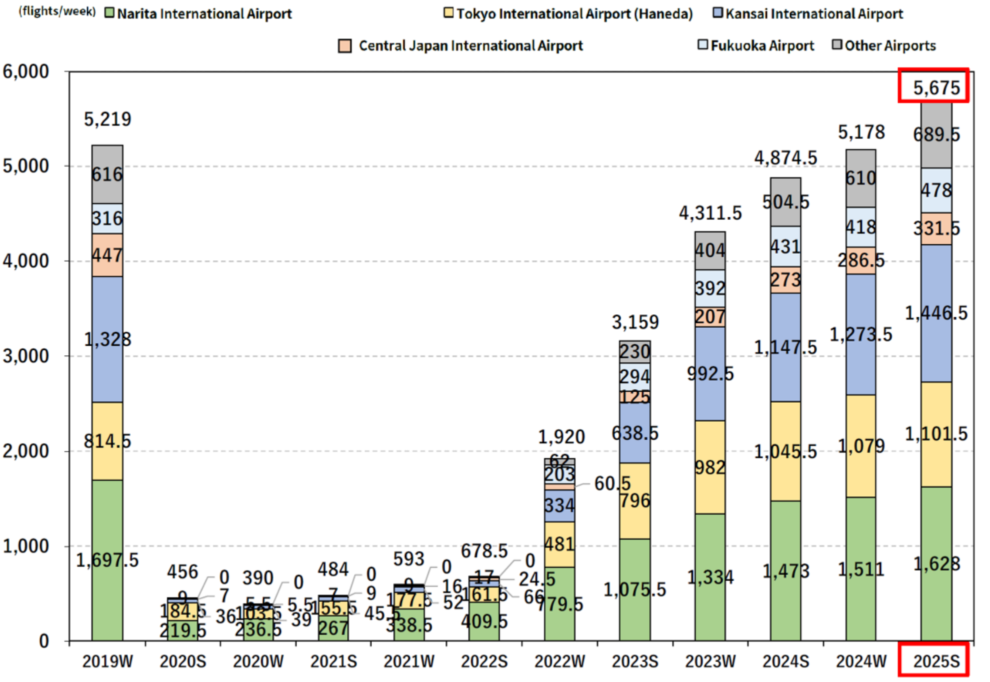
Embarked on a Lump-Sum Contract for Passenger and Ramp Business

With FMG joining the group, the group established FMG Ramp Solutions in June 2024 to bring the ramp business in-house and opened a ramp business base at Narita Airport to expand the airport sector through the integrated contracting of the passenger and ramp businesses. In September of the same year, FMG opened a ramp business base at Kansai International Airport and in October at New Chitose Airport, and began operations at 3 of the 7 major airports in Japan (Haneda, Fukuoka, Chubu International and Naha).

Major examples of passenger and ramp operations outsourced collectively include Cebu Pacific (Narita Airport, starting August 2024; Kansai International Airport, starting October 2024), Aero K at New Chitose Airport (Korea, starting November 2024) and VietJet Air (Thailand, starting December 2024).

As for major capital expenditures for the Outsourcing business in FY8/25, the company plans to purchase ¥1.162 billion for GSE equipment such as pushback tractors and belt rollers for the ramp business.

Figure 9: Number of Scheduled International Passenger Flights by Airport



Note: W stands for winter schedule (end of October to end of March the following year) and S stands for summer schedule (end of March to end of October). All figures are the number of scheduled international flights in the first week at the beginning of each period.

Source: Ministry of Land, Infrastructure, Transport and Tourism, "Summer Schedule 2025: Overview of International Scheduled Flights".

Lack of Capacity in the Ground Handling Industry is One National Social Challenge

The Japanese government has set a target of 60 million foreign visitors to Japan by 2030 and Prime Minister Ishiba has said that "the tourism industry is the trump card for 'regional development 2.0' in which both young people and women can play an active role. On the other hand, airports across Japan have insufficient capacity to receive passengers due to a shortage of human resources for ground handling operations and GSE equipment. The Ministry of Land, Infrastructure, Transport, and Tourism (MLIT) has been supporting the development of ground handling operations by holding 11 meetings of the "Study Group on Airport Operations for Sustainable Development" between February 2023 to March 2025. However, the problem has not been resolved, and the lack of capacity in the ground handling industry at major airports in Japan has become one of the national social issues.

Aiming to Become an Indispensable Presence at Major Airports Nationwide

Since becoming a part of HITO-Communications Holdings, FMG Group has greatly improved its human and financial resources, which has been a challenge and has opened ramp business bases at major airports in rapid succession. The company is aiming to open new locations at Haneda, Fukuoka, Chubu International and Naha, and aims to become "an indispensable presence at all major airports in Japan".

Entered the Ground Handling Business at Kobe Airport

HITO-Communications established a new company in March 2025 with CKTS, a Kansai Airport group company that operates ground handling business mainly at Kansai International Airport. The new company, Kobe Airport Aviation Service (investment ratio: CKTS 80%, HITO-Communications 20%), started ground handling operations at Kobe Airport in April of 2025.

(3) Facility Operation Support and Sales Support

Strength in Facility Operation Support and Sales Support is Results from the Ability to Supply Human Resources

Since the mid-2010’s, HITO-Communications has been providing airport facility management companies and tenant companies such as Japan Airport Building Corporation (9706 TSE Prime) with services such as lounge management, recruitment of staff for retail stores and restaurants and rental and wifi counter management in airport passenger terminals and other areas outside restricted areas. Currently, the company is also involved in information counter operations, pick-up and drop-off counter operations, sales support for retailers and manufacturers and outsourced restaurant operations. The barriers to entry in the facility operation support and sales support business are low and there are many competitors; but HITO-Communications' strength lies in its ability to supply the staff it needs, including non-Japanese personnel, from early morning to late at night, even in an environment of labor shortages. The acquisition of the FMG Group has increased the number of options for the company's group to have the right people in the right places working at airports and this has resulted in synergies in terms of employment.

Sales of Facility Operation Support and Sales Support Tend to be Linked to the Number of Passengers Using the Airport

Sales of facility operation support and sales support remained steady through 2019 on the back of the increase in foreign visitors to Japan, but declined sharply in the wake of the Covid-19 disaster. Sales began to recover in FY8/23 as the Covid-19 problem subsided.

Sales of facility operation support and sales support are not directly linked to changes in the number of scheduled international flights, as the client is not an airline company. However, since the number of outsourcing projects, scope of work and number of dispatched staff fluctuate depending on the number of passengers at the airports for which outsourcing is responsible, it is assumed that sales for facility operation support and sales support are also affected by the number of scheduled international flights.

6.Wholesale Sector

Wholesale Sector is One of the Pillars of Revenue

The Wholesale sector is the second largest sector after the Store Sales Support sector with 21.8% of sales in FY8/24 and is an important sector with 34.4% of segment profit (the largest segment profit is EC/TC Support business with 57.3%).

The Wholesale sector is handled by BRANCH OUT (established in 1997) and BRANCH OUT-Shanghai (established in 1997 by BRANCH OUT) became a subsidiary of BBF in 2012. In June 2017, HITO-Communications acquired 60.0% of BBF's shares, making BRANCH OUT and BRANCH OUT-Shanghai consolidated subsidiaries of HITO-Communications.

Indirectly Holds 83.5% of Shares in BRANCH OUT & BRANCH OUT-Shanghai

HITO-Communications acquired an additional 23.5% of BBF shares in December 2017 and July 2018 combined, so the company currently indirectly owns 83.5% of BRANCH OUT and BRANCH OUT-Shanghai shares. In addition, 16.5% of BBF shares are owned by Mitsui & Co. (8031 TSE Prime).

Performance is Generally on an Expansionary Trend, but Profits have Fluctuated to Some Extent Due to the Impact of Overseas Production

The Wholesale Sector's performance has generally been on an expansionary trend since joining the company's group. However, while sales and profits rose sharply in FY8/21, when consumption of Covid-19 disaster nest eggs was booming, profits declined sharply in FY8/22, affected by a drop in demand and stagnant production in China, a major manufacturing site. However, income decreased slightly due to higher manufacturing costs in overseas production resulting from the weak yen.

More than 90% of Wholesale Sector Sales are Clothing

More than 90% of the Wholesale sector's sales are in clothing, but it does not engage in outerwear such as coats and down jackets. The main products are lightweight cut-and-sew garments, etc., and sales are seasonal, with the first and third quarters being the biggest sales periods for spring and fall garments. Sales in Q2, which is the winter season, are lower than in Q4, so on a half-year basis, sales are slightly more weighted towards the second half of the year than the first half.

EBITDA Margin is Good

Since FY8/20, EBITDA margins in the Wholesale sector have ranged from 5.2% to 8.3%, except for FY8/22. The company's good profitability is probably supported by BRANCH OUT's planning and development capabilities, which have been refined over the past 28 years.

Figure 10: Wholesale Sector Earnings Trends

(¥ mn)

FY	8/20	8/21	8/22	8/23	8/24	8/25CoE
Sales	**7,706**	**9,795**	**9,367**	**10,917**	**12,772**	**13,000**
Operating income	**319**	**691**	**137**	**549**	**540**	**-**
Operating income ratio	**4.1%**	**7.1%**	**1.5%**	**5.0%**	**4.2%**	**-**
Depreciation and amortization	8	9	9	9	10	-
Amortization of goodwill	115	115	115	115	115	-
EBITDA	442	815	261	673	665	-
EBITDA Margin	5.7%	8.3%	2.8%	6.2%	5.2%	-

EBITDA is calculated by adding depreciation and amortization to operating income.
Source: Company Data. Created by Strategy Advisors.

Strengths include Superior Product Planning and Development Capabilities, Supply Chain Optimization Know-How and the Ability to Disseminate Information Through SNS and Other Means

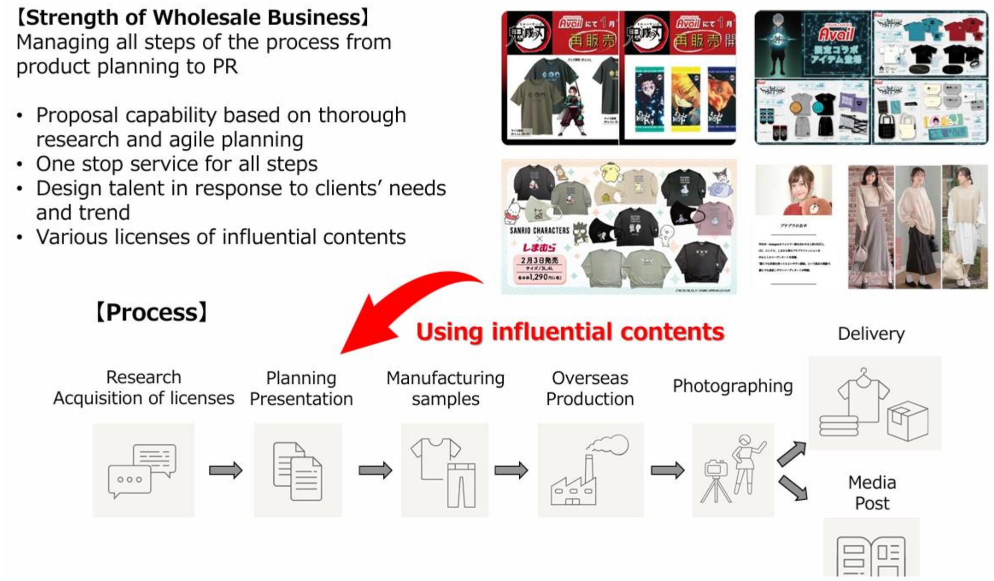
Many of its products are planned and developed in-house, utilizing subculture IP licenses. The planning and development of licensed products has been in full swing since 2008, when the company signed a licensing agreement with Sanrio (8136 TSE Prime) for "Hello Kitty". Currently, the company has licensed products for "Disney", "Batman", " Jujutsu Kaisen", "Haikyu!!", "Demon Slayer" and "Touken Ranbu".

Once a product plan is proposed to the client company and the product is ordered, it is manufactured at partner factories in China and Bangladesh; and BRANCH OUT optimizes the supply chain, including production plants and logistics, taking into account the balance between price, quality and delivery times. In terms of sales, the company collaborates with influencers to disseminate information through social networking services, etc., and has accumulated the know-how to create products that SELL.

Major Customers are Major Mass Retailers

BRANCH OUT's major clients include Shimamura (8227 TSE Prime) and Pan Pacific International Holdings (7532 TSE Prime), which owns Don Quijote, among others. The company's ability to provide not just character goods, but products that incorporate overseas fashion trends at low prices is highly valued by its customers, and it is sometimes asked to do product planning alone. In terms of business size, Cross Plus (3320 TSE Prime) is the largest company in the Brands sector. While Cross Plus is far larger than BRANCH OUT in terms of business scale, BRANCH OUT intends to further refine its strengths in planning and development to meet customers' expectations.

Figure 11: Product Development Scheme Using IP Licensing



Source: Company Data.

Also Working to Expand Sales Channels through Their Own E-Commerce Site and Exports to Overseas Markets

BRANCH OUT also began operating HICUL, a fashion online site specializing in anime, manga and game copyrights, in 2021. Through BRANCH OUT-Shanghai, the company also supplies products to its clients' overseas stores.

7. Digital Sales Support Sector

The Digital Sales Support Sector is Categorized into ET/TC Support, Inside Sales and Others

The Digital Sales Support sector is the third largest sector with 21.6% of total sales in FY8/24. The sector includes EC and TC support by BBF (approximately 86% of the sector's sales in FY8/24), inside sales by SALES ROBOTICS (made a subsidiary in April 2019) (9% in FY8/24), LOWCAL (made a subsidiary in December 2018) and U side U (made a subsidiary in June 2021) The Digital Sales Support sector was newly established in FY8/17 following the consolidation of BBF as a subsidiary in June 2017. However, the sales figures are not continuous due to the recombination of the businesses that made up the Digital Sales Support segment in the past.

(1) EC/TC Support Business

Provides Outsourced

E-Commerce Site Management and TV Shopping Support

EC/TC Support business is the collective name for e-commerce (EC) website management and TV shopping (TC) support services and has been commissioned to manage more than 130 official EC websites, mainly for sporting goods, apparel and food brands. The company is unique in that it not only plans and develops websites; but also provides a platform as a fulfillment service for the entire series of business operations required for EC, including order management, product arrangement, packaging, delivery and payment collection. In order to continuously increase the EC sales of each brand, the company responds flexibly to customer requests to express the brand's unique world view and builds strong partnerships by adopting a success-based business model based on revenue sharing.

In the TV shopping support business, the company acts as a liaison between TV shopping companies such as QVC Japan and apparel manufacturers, providing a series of support services related to TV shopping, ranging from brand building, product planning, production management, talent arrangement and on-air presentation. The company's strength lies in its staff with extensive experience in branding and studio recording for TV shopping.

The sales composition by EC and TC support in FY8/24 was approximately 70% for EC support and 30% for TC support.

Adopted Accounting Standard for Revenue Recognition from FY8/22

In accordance with the adoption of the accounting standard for revenue recognition, EC/TC support sales were gross sales of merchandise on EC sites until FY8/21, but from FY8/22, the company shifted to a method of recording Sales of merchandise less purchases (the commission portion) (or a different form in some cases, depending on the customer and the contract).

EC/TC Support is One of THE Pillars of Revenue

Looking at the performance trend of EC and TC support, the company continued to increase sales and profits, albeit slightly. In FY8/23 and FY8/24, with an operating margin of 8.3%-8.6% and EBITDA margin of 11.5%-12.3% from FY8/22 to FY8/24, the highest among the group's sectors. The EBITDA margin was 11.5%-12.3%, the highest among the Group's sectors, making it a pillar of earnings.

Cost of sales consists mainly of labor costs related to site operation and subcontracting costs related to site development, but also includes advertising costs for clients with advertising contracts. SG&A expenses consist mainly of distribution costs and settlement fees.

Figure 12: EC/TC Support Business Revenue Trends

(¥ mn)

FY	8/22	8/23	8/24
Sales	**9,749**	**9,968**	**10,776**
Operating Income	**818**	**860**	**898**
Operating Income Ratio	**8.4%**	**8.6%**	**8.3%**
Depreciation and Amortization	176	235	249
Amortization of Goodwill	129	129	129
EBITDA	1,123	1,224	1,276
EBITDA Margin	11.5%	12.3%	11.8%

Note: Based on segment information; EBITDA is calculated by adding depreciation and amortization to operating income.
Source: Company Data. Created by Strategy Advisors.

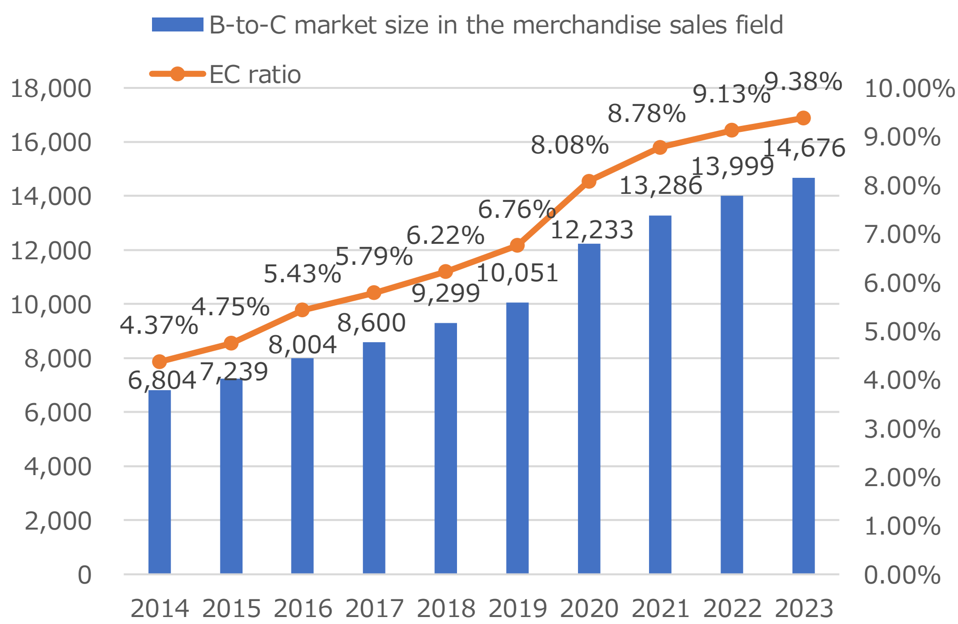
Quarterly Sales are Seasonal, Peaking in Q2

In terms of quarterly sales, there is a seasonality with a peak in the second quarter and a bottom in the third quarter due to Christmas sale demand for sporting goods and apparel brands. However, the period from FY8/20 to FY8/21, when the Covid-19 virus infection caused nest egg demand, was an exception to the rule, with Q3 FY8/20 sales increasing quarter-over-quarter and subsequent quarterly sales continuing to increase through Q2 FY8/21.

EC Conversion Rate in the Domestic B-to-C EC Market is 9.38% in 2023

According to the Ministry of Economy, Trade and Industry's market research on e-commerce, the B-to-C EC market for goods sales expanded from ¥6.8 trillion in 2014 to ¥14.6 trillion in 2023 and the EC adoption rate rose from 4.37% to 9.38% over the same period. Although the rate of EC adoption has been on a downward trend since then, the domestic EC adoption rate remains low among major countries and further market expansion is anticipated.

Figure 13: B-to-C EC Market Size and EC Conversion Rate in the Goods Sales Sector (¥100 mn)



Source: "FY2023 Market Research Report on Electronic Commerce", Ministry of Economy, Trade and Industry

In 2023, the B-to-C EC market for apparel and accessories grew 4.8% YoY to ¥2.6 trillion (EC rate: 22.88%), focusing on the main fields handled by BBF. Although the EC rate for clothing and accessories has been relatively high, the growth rate of this market has remained at the same level as the average for the entire goods sales sector due to the increase in the EC rate.

Figure 14: B-to-C EC Market Size and EC Conversion Rate by Product in the Goods Sales Field

Classification		2022 Market scale (100 million yen) * Below Y/Y change	2022 EC ratio	2023 Market scale (100 million yen) * Below Y/Y change	2023 EC ratio
(1)	Food, drink, and liquor	27,505 (up by 9.15%)	4.16%	29,299 (up by 6.52%)	4.29%
(2)	Domestic electrical appliances, AV equipment, and PCs and peripherals	25,528 (up by 3.84%)	42.01%	26,838 (up by 5.13%)	42.88%
(3)	Books and visual and music software	18,222 (up by 4.02%)	52.16%	18,867 (up by 3.54%)	53.45%
(4)	Cosmetics and pharmaceuticals	9,191 (up by 7.48%)	8.24%	9,709 (up by 5.64%)	8.57%
(5)	Household goods, furniture, and interiors	23,541 (up by 3.47%)	29.59%	24,721 (up by 5.01%)	31.54%
(6)	Clothes and apparel goods	25,499 (up by 5.02%)	21.56%	26,712 (up by 4.76%)	22.88%
(7)	Automobiles, motorcycles, and parts	3,183 (up by 5.55%)	3.98%	3,223 (up by 1.26%)	3.64%
(8)	Other	7,327 (up by 5.22%)	1.89%	7,391 (up by 0.87%)	1.91%
Total		139,997 (up by 5.37 %)	9.13%	146,760 (up by 4.83 %)	9.38%

Source: "FY2023 Market Research Report on Electronic Commerce," Ministry of Economy, Trade and Industry

For food, beverages and alcoholic beverages at the other end of the spectrum, the B-to-C EC market size in 2023 was ¥2.9 trillion, up 6.5% YoY (EC conversion rate: 4.29%). Although the EC conversion rate for food, beverages and types of EC is at a relatively low level, the EC conversion rate in 2023 will only increase slightly, indicating that the pace of expansion of this market is proceeding at a slow pace.

Competitors for EC/TC support include JADE GROUP (3558 TSE Growth), which offers its own EC platform "BOEM3.0" and ecbeing, a consolidated subsidiary of SOFTCREATE Holdings (3371 TSE Prime).

(2) Inside Sales

Generate Prospective Customers by Phone, etc.

Inside sales is a sales service for corporate clients that creates a target list of companies that match the client's criteria from the data of approximately 4 million companies accumulated in the company's proprietary database software and then professional staff from the company's contact center contacts prospective customers by telephone or other means to generate business opportunities. The service is a sales service for corporate clients.

Favorable in 1H FY8/25

Inside Sales is classified as an Outsourcing business within the Digital Sales Support sector. Sales were slightly sluggish at ¥1.048 billion in FY8/22, ¥1.195 billion in FY8/23, and ¥1.158 billion in FY8/24. However, for 1H FY8/25, sales were strong at ¥744 million (+29.8% YoY). The company group has been working to strengthen its services by combining Sales Business Support, an off-site sales support service provided by HITO-Communications, and inside sales to clients.

For SALES ROBOTICS, the Amortization Period for the Goodwill is 10 Years. The Estimated Annual Amortization Expense is Approximately ¥200 Million

The purchase price of the shares of SALES ROBOTICS acquired in April 2019 was ¥2.250 billion and the goodwill generated on acquisition was ¥2.008 billion. The amortization period of the goodwill was not disclosed. However, based on the amount of goodwill and amortization of goodwill in the Outsourcing business, it is estimated that the amortization period is 10 years and the amount of amortization of goodwill is approximately ¥200 million per year.

Inside sales competitors include BRIDGE International (7039 TSE Growth) and Aidma Holdings (7373 TSE Growth).

(3) Others (Avatar Online Customer Service, System Development, Others)

Avatar Online Customer Service

The avatar online customer service handled by UseideU is a cloud service for businesses that provides non-face-to-face, non-contact customer service through collaboration between staff and AI avatars. Major examples of applications include window services at local public offices, unmanned showrooms for automobile manufacturers and information counters at airports, hospitals and other locations. Since multilingual support is also available, business negotiations for inbound services are also increasing.

Avatar online customer service sales were not disclosed, but appear to be stagnant at this time, although they expanded with the Covid-19 disaster.

System Development, etc.

System development is mainly provided by LOWCAL to BBF and external customers. The breakdown of LOWCAL's sales by customer is approximately 60% for external customers and approximately 40% for BBF, which is eliminated in the consolidated financial statements.

8. Inbound Tourism Sector

One of the Priority Areas

The Inbound Tourism sector was created in FY8/24 when Airports was separated from the Inbound, Airports and Tourism sector. It is the fourth largest sector in terms of revenue, accounting for 11.5% of total revenue. Although the growth rate is not expected to be high, the sector is listed as a priority area along with Airports, Wholesale and Digital Sales Support in the mid-term management plan discussed below.

This sector consists of the following businesses: Land operating business handled by Triangle; tour escort business handled by TCA, JATS and HITO-Communications; commercial facility services (including duty-free counter operations) and hotel and other accommodation facility services handled by HITO-Communications and luxury limousine services for high-net-worth individuals handled by Japan Limousine Service.

The group has established a system through its many subsidiaries in the airport sector and Inbound Tourism Sector to provide services to foreign visitors to Japan in all areas, from arrival to departure, including transportation, accommodation, shopping and dining.

The Name and Scope of the Inbound Tourism Sector Has Changed Several Times

HITO-Communications entered the Tourism Sector in FY8/11, the Sports Sector in FY8/13 and the Inbound Tourism Sector in FY8/16. The Inbound Tourism Sector originated from the Tourism Sector, which was disclosed separately from FY8/14 following the April 2014 acquisition of TCA as a subsidiary. Subsequently, it was renamed the Inbound Tourism Sector in FY8/19, expanding its scope of coverage against the backdrop of strengthening efforts in the sports and MICE (corporate meetings, training trips, international conferences, exhibitions and events, etc.) business and the Inbound business.

Expanded Until FY8/20

The sales for the same sector disclosed retrospectively were ¥4.2 billion for FY8/2017 and ¥4.6 billion for FY/2018. FY8/19 sales were ¥5.2 billion due to strong sales for overseas and domestic tour operators such as cruising, as well as expansion in sports support and inbound sales support at airports, duty free stores, etc. As for sales in FY8/20, when the company was renamed Tourism & Sports, 1H saw an expansion of sports business due to the Rugby World Cup 2019 and other events, as well as strong performance in Outsourcing business and Land Operating business for foreign visitors to Japan, such as airports and hotels, to ¥4.4 billion (up 79.1% YoY). However, due to the Covid-19 disaster, 2H sales fell to ¥1.1 billion (-59.1% YoY), and for the full year sales were only ¥5.6 billion (+6.6% YoY).

Sluggish in FY8/21 and FY8/22

FY8/21 sales were only ¥4.4 billion (-21.3% YoY) due to continued weakness in airport operations, domestic and international travel and inbound travel. Sales in FY8/22, due to the continued impact of the Covid-19 disaster, although the Olympic and Paralympic Games, whose scale of business was much smaller than expected due to its implementation without spectators, contributed in the first half. As a result, sales declined slightly to ¥3.8 billion (¥2.5 billion in 1H, ¥1.3 billion in 2H) from ¥3.9 billion in the previous year.

Re-Expansion from FY8/23

Sales of Tourism & Sports in FY8/23, which separated the inbound sector from the target, increased slightly to ¥3.6 billion from ¥3.5 billion in the previous year. Sales in the Inbound Sector increased to ¥3.6 billion from ¥0.3 billion in FY8/22 due to a sharp recovery in the airport and land operating businesses.

In FY8/24, the Tourism sector was added to the Inbound sector and renamed the Inbound, Airport, and Tourism sector and the Tourism & Sports sector, from which Tourism was separated, was renamed the Sports and Entertainment sector. Inbound, Airport & Tourism sales jumped to ¥11.6 billion from ¥5.4 billion in the previous year, following the acquisition of FMG Group as a subsidiary, while sales as the Inbound & Tourism Sector with the Airport Sector separated from the Airport Sector amounted to ¥6.7 billion.

Tour Escorting and Land Operating are the Main Services

In terms of sales by business within the inbound tourism sector, the largest sales are in tour escort services, which mainly fall under the Personal Staffing business, and the second largest sales are in the Land Operating business, which falls under the Other business. The third largest business is commercial facilities and outsourcing services for hotels and other accommodation facilities, which mainly fall under the Outsourcing business, and the smallest is limousine services, which fall under the Other business.

Tour Escorting is Facing Headwinds from the Weak Yen

Tour escort services, which serve domestic and overseas travel for Japanese travelers to domestic travel agencies, experienced a sharp decline in sales after the Covid-19 disaster. Although sales have been recovering since FY8/23, domestic travel has not returned to pre-pandemic levels, and overseas travel continues to be sluggish due to the weak yen and other factors.

Rand Operating is Driven by a Weak Yen

The Land Operating Business plans domestic tours and arranges accommodations and transportation mainly for travel agencies in Singapore and other ASEAN countries. Sales declined sharply in the Covid-19 disaster but recovered sharply in FY8/23 and FY8/24, reflecting a recovery in inbound demand due to the weaker yen.

9. Sales Support Sector

Shift from Personnel Staffing Business to Outsourcing Business

The Sales and Marketing Support Sector is the ancestral business of the company's group and with 25.2% of sales on FY8/24, it is the largest sector of the company's group. The majority of sales are generated by HITO-Communications, but SALES ROBOTICS (call center operations) and WSS are also responsible for a portion of the sector. Sales support includes sales support services for telecommunications, home electronics and other products, such as rounders (i.e., staff who visit customers' stores and follow up with customers and sales representatives in place of sales representatives from manufacturers) at sports-related facilities, GMS, drugstores and other stores. Additionally, there are push-type sales support (Sales Business Support) services through external visits. Sales support operations account for the majority of sales, with lounge operations accounting for a smaller percentage. By business type, Outsourcing and Personnel staffing account for approximately 70% and 30%, respectively.

HITO-Communications started out in 1998 as a Personnel staffing agency, but in the mid-2000's it shifted its business focus to outsourcing, where profitability can be improved by using fewer people to produce results, starting with outsourcing contracts from telecommunications companies to sell fiber optic lines. Around FY8/07, the outsourcing business accounted for the majority of the company's sales.

Results-Oriented Sales Support

Taking sales support services for manufacturers as an example, the company aims to provide clients with results and increase its own profits by undertaking all the tasks previously handled by manufacturers, such as sales planning, negotiations with distributors and mass retailers, event and sales planning, training for sales staff, contracts with Personnel staffing agencies, labor management for sales staff and handling problems and fraud. The company aims to provide results to its clients and increase its own profits. The company group calls this approach "results-oriented sales support".

To support this results-oriented sales support system, the company group has introduced a "business operation secretariat" and an "education and training system through virtual stores, etc.". The Business Operations Office is an organizational structure for staff that performs a series of tasks, including hiring staff, establishing training programs, creating sales and other curricula, patrolling work sites, providing feedback to clients, selling products and providing services. The organization is made up of general staff, supervisors, directors and the office manager. It has a system in place to promote the best staff to higher levels. A system has been established to train inexperienced staff as a team through advanced practical training that takes advantage of the company group's unique know-how.

Expansion from FY8/06 to FY8/20

The performance of the Sales and Marketing Support Sector expanded steadily from FY8/06 through FY8/20; in FY8/20, sales grew 6.1% YoY to

¥22.1 billion due to Rakuten Mobile's new entry into the market and rising demand for 5G.

Sluggish After FY8/21

However, with the Covid-19 disaster requiring non-personal sales activities, the scale of OTC activities was reduced at some clients, such as those in the telecommunications sector, and sales in FY8/21 declined by 6.3% YoY.

Slightly Increasing Trend from Q2 FY8/24 Onward

After FY8/22, sales to telecom carriers continued to decline as they shifted their focus to cost reduction rather than sales expansion, and in FY8/24 sales fell 12.2% YoY to ¥14.7 billion. However, sales in the telecommunications sector bottomed out in Q2 FY8/24 and have been on a slight upward trend through Q2 FY8/25.

Figure 15: Sales of the Sales Support Sector

(¥ mn)

FY	8/19	8/20	8/21	8/22	8/23	8/24	8/25CoE
Sales	**20,865**	**22,140**	**20,743**	**18,834**	**16,788**	**14,737**	**14,215**
Outsourcing	-	-	-	15,017	12,494	10,232	-
Personnel staffing	-	-	-	3,674	3,806	4,288	-

Note: Based on the revenue recognition relationship in the financial results presentation materials and annual securities report.

Source: Company Data. Created by Strategy Advisors.

Aiming to Improve the Deteriorating Gross Margin Ratio

The gross margin ratio for Store Sales Support was over 20% in FY8/20, higher than the company average (17.6%), but in FY8/24 it was below the company average (20.7%) and appears to have fallen below 20%. HITO-Communications plans to improve its performance by negotiating unit prices and bringing staff in-house.

Telecommunications Accounts for Approx. 60% of Sales

The company's main customers in the telecommunications field are telecommunications carriers and foreign-affiliated handset manufacturers and it provides services in the form of outsourcing mainly at the sales counters of electronics mass retailers. The company provides services in the form of outsourcing, mainly at electronics mass retailers.

In addition to Will Group (6089 TSE Prime) and Like (2462 TSE Prime), competitors in the sales and marketing support business include Recruit Holdings (6098 TSE Prime) and a group company of Persol Holdings (2181 TSE Prime). The company intends to use its strengths in outsourcing business operations to compete with its competitors.

10. Public, Works, Sports & Entertainment Sector

3 Sectors in Growth Areas

The Public, Works and Sports/Entertainment sectors, with FY8/24 sales of less than ¥3 billion each, are positioned as growth areas in the medium-term management plan because of expected market expansion.

(1) Public Sector

Mainly for Local Governments

The Public Sector, of which HITO-Communications is in charge, is a new sector that began disclosing its sales in FY8/21. The company's main business is outsourcing tourist facilities and other services, which are mainly obtained from local governments through bidding and its business structure generally corresponds to an outsourcing business. Sales were ¥122 million in FY8/21, ¥691 million in FY8/22, ¥1.648 billion in FY8/23, and ¥954 million in FY8/24.

Aiming to Win Sustainable Regional Development Contracts

In the public sector, the company aims to obtain "sustainable local development contracts" in which it is entrusted with the entire process of attracting tourists and educational travelers, developing related products and operating facilities, utilizing the tourism resources of local governments across the country under negotiated contracts. The company intends to leverage its accumulated expertise in facility and event management, human resource services, e-commerce site outsourcing and wholesale of clothing and sundries to meet the needs of local governments and solve their problems.

“Iga City Lively Ninja Corridor" & " Space Interaction Hall Sora-Miru" Management Services are Commissioned

HITO-Communications entered into private finance initiative (PFI) projects implemented by the government and local governments in 2022. In September of the same year, HITO-Communications became the lead manager of the "PFI Project for the Iga City Lively Ninja Corridor" (Mie Prefecture), the first of the "Sustainable Local Development Projects". The ninja experience facility, the centerpiece of the project, is scheduled to open at the end of August 2025.

In March 2024, the company was commissioned by the Kushimoto-town, Wakayama Prefecture, to provide designated management services for the Space Interaction Hall Sora-Mir”, the second of the "Sustainable Local Development Commissioned Projects" through a public call for proposals Sora-Miru opened in April 2025.

(2) Works Sector

Meeting the Human Resource Needs of the Logistics Industry

The Works Sector, which HITO-Communications and WSS are in charge of, is a new sector that began disclosing its sales in FY8/23; the group entered this sector in FY8/21 in order to respond to the logistics industry's growing need for human resources as e-commerce becomes more widespread. In this sector, the company provides warehouse operations at distribution centers and product centers for shipper-manufacturers, warehouse and transportation companies, as well as delivery services to stores, either through personnel staffing or outsourcing.

Work to Strengthen Intersectoral Collaboration

Sales increased from ¥569 million in FY8/23 to ¥693 million in FY8/24. At present, the degree of collaboration with other sectors is small, but the company aims to increase sales by strengthening collaboration among sectors, such as by incorporating fulfillment services for EC and TC support and logistics operations for customers who do business with Wholesale.

Aim to Improve Gross Margin Ratio

In FY8/24, the sector's gross margin ratio was well below the company average. The company's core business format is currently personnel staffing business, but it plans to shift its focus to outsourcing in order to improve profitability.

(3) Sports and Entertainment Sector

Professional Sports Team Management Support is Our Main Service

The sports and entertainment sector, of which HITO-Communications is in charge, is entrusted with the operation of international sports events, support for the operation of professional sports teams such as professional baseball, J-League (soccer) and League One (rugby), arena operations for the B-League (basketball) and the operation of various types of arena events. The company is also entrusted with the operation of arenas for the B-League (basketball) and one-off events related to sports and music at various arenas. Unless the company is contracted to operate large international events, the sports business accounts for the majority of the sector's sales. Additionally, unless the company is contracted to manage major international sporting events, the sector's core business is to support the management of professional sports teams, which generates continuous revenues.

Rugby World Cup Japan and Tokyo Olympics, Paralympics Contributed Significantly to Business Performance

HITO-Communications entered the sports business in FY8/13, but sales from the sports business were recorded as part of the Tourism Sector and the subsequently renamed Inbound Tourism Sector and Tourism & Sports Sector, the transition up to FY8/22 is not known. In FY8/20, the outsourced operation of the Rugby World Cup 2019 made a significant contribution to sales; in FY8/22, sales from the operation of the Tokyo Olympics and Paralympics reached ¥1.196 billion.

Sales for FY8/23, which was changed to the current Sports & Entertainment sector, were ¥2.4 billion. Sales for FY8/24 were ¥2.8 billion.

Hard to Expect Improvement in Profit Margins

In the same sector, the percentage of outsourcing for facility security and other services is high and the gross profit margin for the 8/24 period was significantly lower than the company average.

The number of HITO-Communications' customers is expected to increase in line with the reconstruction and new construction of arenas planned throughout Japan. However, the company has taken a cautious view on improving profit margins in this sector, given the business characteristics that make it difficult to expect an increase in profit margins from sales growth.

11. Financial Strategy

Total Assets Expanded Significantly Over the Past Six Fiscal Years Due to Business Expansion and M&A, but Financial Soundness was Maintained

The company's total assets, mainly cash and deposits and trade receivables, have been growing along with the expansion of its business. The company's total assets have increased significantly.

Another asset category that increased significantly was goodwill associated with M&A, which jumped from ¥2.89 billion at the end of FY8/18 to ¥6.81 billion at the end of FY8/24. Although interest-bearing debt increased as a result of M&A, the net debt-to-equity ratio at the end of FY8/24 was -0.27, maintaining the company's financially sound base.

Progressive Dividend, Payout Ratio of 30% is Basic Dividend Policy

The company's basic dividend policy is to pay a stable and continuous progressive dividend, taking into account each fiscal year's performance and financial situation, while balancing the dividend with the retained earnings needed for future business expansion. In line with business expansion, the company raised its dividend from ¥15.0 per share in FY8/18 to ¥35.0 per share in FY8/24.

14 Consecutive Fiscal Years of Dividend Increases

The company has increased its dividend for 14 consecutive fiscal years since it was listed in 2011, thanks to President Yasui's desire to "increase HITO-Com's fan base. With its sound financial position and favorable earnings outlook, there is a strong likelihood that the company will continue to increase its dividend.

Figure 16: Financial Indicators

(¥ mn)

FY	8/18	8/19	8/20	8/21	8/22	8/23	8/24
[Cash Flows]							
Net Profit	1,469	1,723	1,370	2,774	3,227	1,885	-43
Depreciation	130	194	334	376	399	493	473
Amortization of Goodwill	304	335	586	519	519	519	779
Capital Outlay	-216	-1,151	-465	-1,055	-721	-1,385	-1,105
Purchase of Shares of Subsidiaries Resulting in Change in Scope of Consolidation	0	-2,148	0	0	0	-3,603	0
Dividends Paid	-250	-286	-362	-375	-470	-590	-590
[B/S]							
Cash And Deposits	6,131	6,888	8,890	9,815	13,430	16,462	14,251
Accounts Receivable	6,243	6,916	8,875	10,760	10,594	10,877	10,355
Goodwill	2,889	4,562	4,611	3,984	3,465	7,543	6,841
Total Assets	19,391	24,529	27,475	31,177	34,225	42,554	40,103
Interest-Bearing Debt	3,623	6,051	5,388	4,792	4,150	10,889	9,530
Net Worth	9,333	10,767	11,638	14,081	16,920	17,869	17,236
[Key Indicators]							
EBITDA	3,097	3,520	4,069	5,682	6,657	5,210	2,820
ROE	15.8	17.2%	12.2%	21.6	20.8	10.8	-0.2
ROIC (Capital Invested)	12.4%	10.5%	9.6%	15.9%	16.7%	9.9%	1.5%
Capital Adequacy Ratio	48.1%	43.9%	42.4%	45.2%	49.4%	42.0%	43.0%
D/E Ratio	0.39	0.56	0.46	0.34	0.25	0.61	0.55
Net D/E Ratio	-0.27	-0.08	-0.30	-0.36	-0.55	-0.31	-0.27
Dividend Per Share (¥)	15	18.5	20.5	24.5	30	31	35
Dividend Payout Ratio	18.3%	19.2%	26.7%	15.8%	16.6%	29.3%	-

Source: Company Data. Created by Strategy Advisors.

New Medium-Term Management Plan Announced in November 2024

In its new medium-term management plan from FY8/25 to FY8/29, announced in November 2024, the company set the following financial criteria to achieve sustainable growth, improve capital efficiency and increase shareholder returns.

We Aim to Grow with Efficiency and Soundness in Mind

- Growth: EBITDA ¥5.02 billion (FY8/29)
- Efficiency: ROE 10% or more (FY8/25-FY8/29)

  ROIC 10% or more (FY8/25-FY8/29)

  WACC Strive to understand through dialogue with investors as well as the company itself
- Soundness: Net D/E Ratio less than 1x (FY8/25-FY8/29)

In October 2023, the company announced its "Medium-Term Management Plan 2024-2028"; but while it disclosed ROE targets for the final year, it did not disclose targets for the entire period or for ROIC and net debt-to-equity ratio. The new standard improves on these points and clarifies the company's financial strategy by showing that it is aiming for growth that also takes into account efficiency and soundness.

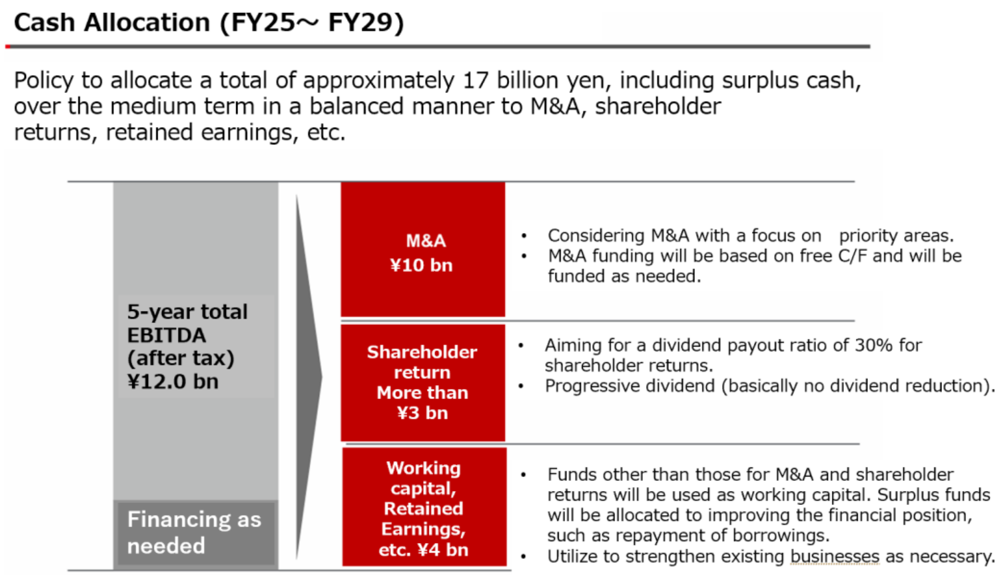
Achievable Targets have been Set for ROE, ROIC, and Net D/E Ratio

The company's net debt-to-equity ratio has remained in the negative range of -0.27 to -0.55 since the end of FY8/20, and there is no danger of violating the standard of less than 1x. ROIC also fell below 10% in FY8/24, but has remained in the negative range from -0.27 to -0.55 since the end of FY8/20, and is not expected to violate the criterion of less than 1x. ROIC was below 10% in FY8/24, but has generally been in the range of 10% to 20% from FY8/18 to FY8/23, making it a realistic target.

Plan to Allocate ¥10 Billion for M&A

The new medium-term management plan also discloses the company's cash allocation policy. The company expects EBITDA after tax of ¥12 billion for the 5-year period from FY8/25 to FY8/29, and plans to allocate approximately ¥17 billion; broken down in the following way, ¥5 billion in excess cash, M&A of ¥10 billion, shareholder returns (mainly dividends) of at least ¥3 billion and others (working capital, capital expenditures, retained earnings, etc.) of ¥4 billion. The company plans to allocate ¥4.0 billion for other purposes, including working capital, capital expenditures and retained earnings.

Figure 17: Cash Allocation Policy in the Medium-Term Management Plan



Source: Company data

Contribution of M&A to Business Performance is Not Incorporated in the Mid-Term Management Plan

The company intends to continue to aggressively pursue M&A to ensure business expansion, particularly in the four sectors (Airport, Wholesale, Digital Sales Support, and Inbound Tourism) identified as priority areas in the medium-term management plan. The company aims to generate sales of ¥10 billion within the period of the medium-term management plan using the ¥10 billion investment framework, but the sales figures in the medium-term management plan do not include contributions from M&A.

Expect to Increase Corporate Value Through M&A with High Synergy Effects

A key factor when evaluating M&A is the extent to which synergies can be expected within the group. When HITO acquired FMG, which operates an airport ground handling business, synergies in terms of employment were immediately realized because HITO-Communications was engaged in the airport facility operation support and sales support business, leading to an expansion of the FMG Group's business performance. If M&A with such high synergy effects can be implemented, it is expected not only to expand the scale of sales, but also to increase corporate value through improved profitability overall.

The judgment on the feasibility of M&A and PMI know-how acquired through the acquisitions of BBF, BRANCH OUT, FMG and others will be put to significant use in future large-scale M&A.

12. Business Performance Trends

(1) Results For FY8/2024

FY8/24: Significantly Lower Operating Income. Mainly Due to Lower Income from Covid-19 Countermeasure-Related Operations & One-Time Expenses

For FY8/24 results, sales declined 8.5% YoY to ¥58.5 billion, operating income fell 62.6% to ¥1.5 billion and net loss attributable to owners of the parent was ¥43 million (vs. ¥1.8 billion profits in the previous year). The primary cause of the deterioration in performance was a decrease in sales related to COVID-19 countermeasures from ¥12.7 billion in the previous fiscal year to ¥2.2 billion, and a decrease in operating profit from ¥2.1 billion to ¥392 million. Excluding COVID-19 countermeasure-related business, revenue increased by 10.0% to ¥56.3 billion, while operating profit decreased by 43.4% to ¥1.1 billion.

Figure 18: Business Results for FY8/24 (¥ mn)

FY	8/23	8/24	
	Amount	Amount	YoY
Sales	63,980	58,547	-8.5%
Gross Margin	14,238	12,097	-15.0%
Gross Margin Ratio	22.3%	20.7%	-
SG&A Expenses	10,039	10,528	4.9%
SG&A Ratio	15.7%	18.0%	-
Operating Income	4,198	1,568	-62.6%
Operating Income Ratio	6.6%	2.7%	-
Ordinary Profit	4,300	1,536	-64.3%
Extraordinary Income/Loss	-533	-249	-53.3%
Income Before Income Taxes and Minority Interests	3,767	1,287	-65.8%
Income Taxes	1,629	1,127	-30.8%
Net Income	2,137	160	-92.5%
Net Income Attributable to Noncontrolling Interests	251	204	-18.7%
Net Income Attributable to Owners of The Parent	1,885	-43	-

Source: Company Data. Created by Strategy Advisors.

Excluding Covid-19 countermeasure-related operations, one-time factors contributing to the decline in profit include: 1) inventory write-downs in the company's e-commerce business in the sports and entertainment sector (cost of sales: ¥56 million), 2) provision of allowance for doubtful accounts for long-term uncollectible receivables (SG&A expenses: ¥303 million) and 3) determination of PPA (purchase price allocation) at the time of the FMG acquisition (SG&A expenses: ¥80 million), totaling ¥440 million. Other than one-time items there were other factors including, 1) a decrease in the gross margin ratio in the overall human resource services sector due to a time lag before wage increases are passed on to clients, 2) a decrease in the gross margin ratio in the Wholesale sector due to the impact of a weaker yen and 3) a decrease in the gross margin ratio in the newly consolidated Wholesale Sector due to the impact of a weaker yen. The newly consolidated FMG incurred upfront costs to secure equipment and human resources and Amortization of FMG's goodwill (¥255 million per year) was recorded from the beginning of the fiscal year.

Extraordinary losses included a ¥170 million impairment loss on fixed assets related to the new restaurant business and an ¥84 million loss on valuation of investment securities of unlisted stocks. In addition, ¥223 million in income taxes-deferred was recorded due to a partial reversal of deferred tax assets following a change in the tax effect accounting classification of a subsidiary. Including the one-time expense treatment recorded in cost of sales and SG&A expenses, the company has eliminated financial risks in its FY8/24 results.

(2) Interim Results for FY8/2025

Sales Increased by 11% and Operating Income by 39% in 1H FY8/25, Excluding Covid-19 Countermeasure-Related Operations.

For 1H FY8/25, sales grew 3.7% YoY to ¥30.927 billion, operating income increased 0.3% YoY to ¥1.278 billion, and net income attributable to parent company shareholders increased 4.0% YoY to ¥565 million. In the same period of the previous year, sales of ¥29.8 billion and operating income of ¥356 million were recorded for Covid-19 countermeasure-related operations. Excluding Covid-19 countermeasure-related operations, sales were up 11.3% YoY and operating income was up 39.2% YoY.

Figure 19: Interim Results for 1H FY8/ 2025 (¥ mn)

FY	8/24					8/25		
	Q1	Q2	1H	Q3	Q4	Q1	Q2	1H
Sales	15,826	13,984	29,810	14,727	14,010	16,428	14,499	30,927
Gross Margin	3,520	2,806	6,326	2,941	2,830	3,327	2,985	6,312
Gross Margin Ratio	22.2%	20.1%	21.2%	20.0%	20.2%	20.3%	20.6%	20.4%
SG&A Expenses	2,592	2,459	5,051	2,751	2,726	2,590	2,443	5,033
SG&A Ratio	16.4%	17.6%	16.9%	18.7%	19.5%	15.8%	16.8%	16.3%
Operating Income	928	346	1,274	190	104	737	541	1,278
Operating Income Ratio	5.9%	2.5%	4.3%	1.3%	0.7%	4.5%	3.7%	4.1%
Ordinary Profit	932	329	1,261	181	94	748	531	1,279
Extraordinary Income/Loss	–	–	–	–	-249	-3	72	69
Income Before Income Taxes and Minority Interests (Interim) Net Income	932	329	1,261	181	-155	744	603	1,347
Income Taxes	404	189	593	259	275	403	278	681
Net Income	527	140	667	-77	-430	341	325	666
Net Income Attributable to Noncontrolling Interests	79	45	124	49	31	66	34	100
Net Income Attributable to Owners of The Parent	448	95	543	-127	-459	274	291	565

Source: Company Data. Created by Strategy Advisors.

Strong Performance in the Wholesale and Airports Sectors was a Factor in the Increase in Revenues and Income

The main factors for the increase in revenue were: 1) strong sales of planned products utilizing IP licenses and autumn/winter products in the Wholesale sector and 2) the in-house production of ramp operations for the ground handling business and an increase in the number of bases for deployment in the Airport sector. The main factors for the increase in income were, 1) the effect of increased sales in the Wholesale Sector (however, the gross profit margin declined due to the weaker yen), 2) the effect of increased sales in the Airport Sector and an increase in the gross margin ratio due to in-house production of ramp operations) and 3) an improvement in the SG&A ratio due to the effect of increased sales and efforts to curb fixed costs. The following are the main reasons for the improvement.

The End of Covid-19 Countermeasure-Related Operations and the Underperformance of the Store Sales Support Sector and EC/TC Support Business Dragged Down Results

On the other hand, the main reasons for the decrease in sales were 1) a decline in demand in the consumer electronics field in the Store Sales Support sector and 2) the termination of the Covid-19 countermeasure-related business. The main reasons for the decrease in income were 1) the termination of a contract with a large customer in the EC/TC Support business in the Digital Sales Support sector and 2) the termination of Covid-19 countermeasure-related operations.

Figure 20: Sales by Sector for 1H FY8/2025 (¥ mn)

FY	8/24				8/25			
	Q1	Q2	1H	2H	Q1	Q2	1H	YoY
Wholesale	3,346	2,734	6,080	6,692	4,580	3,418	7,998	31.6%
Store Sales Support	3,964	3,920	7,884	6,853	3,588	3,727	7,315	-7.2%
Digital Sales Support	3,298	3,231	6,529	6,133	3,555	2,835	6,390	-2.1%
Airport	967	1,178	2,145	2,791	2,048	1,960	4,008	86.8%
Inbound Tourism	1,801	1,270	3,071	3,640	1,500	1,396	2,896	-5.7%
Sports & Entertainment	618	526	1,144	1,710	742	755	1,497	30.9%
Public	279	348	627	327	227	200	427	-31.8%
Works	138	156	294	399	184	207	391	33.2%
Covid-19 Services	1,410	622	2,032	192	—	—	—	—
Total Amount	15,826	13,984	29,810	28,737	16,428	14,499	30,927	3.7%

Source: Company Data. Created by Strategy Advisors.

Wholesale, Airports, Sports/Entertainment, etc. are Sectors with Increasing Revenues

Sectors with higher revenues include Wholesale (+¥1.918 billion YoY), Airports (+¥1.862 billion YoY), Sports/Entertainment (+¥353 million YoY), and Works (+¥97 million YoY).

Wholesale Increased Revenues by 32% and Profits by 21%

The Wholesale sector, handled by BRANCH OUT and others, grew 31.6% YoY due to strong sales of products utilizing IP licenses and collaborations with influencers to major mass retailers. Operating income growth rate was 20.8%, lower than the revenue growth rate, due to the lower Gross Margin ratio caused by the weaker yen.

Airports Increased Revenues by 87%

The Airport Sector grew 86.8% YoY. The ground handling business saw a significant increase in sales due to the in-house production of ramp operations and an increase in new orders following the increase of bases (Narita Airport in June 2024, Kansai International Airport in September and New Chitose Airport in October); while the airport facility operation and sales support business also saw sales increase at major airports throughout Japan.

Sports and Entertainment Increased 31%

The sports and entertainment sector grew by 30.9% YoY, mainly due to the expansion of support for the operation of professional basketball teams.

The Works Sector grew 33.2% YoY due to the expansion of logistics operations.

Covid-19-Related and Store Sales Support. Sectors with Lower Revenues

Sectors with declining revenues include Covid-19 Countermeasures (-¥2.032 billion YoY), Store Sales Support (-¥568 million YoY), Public (-¥199 million YoY), Inbound Tourism (-¥174 million YoY), and Digital Sales Support (-¥139 million YoY). Inbound tourism (-¥174 million YoY) and Digital Sales Support (-¥139 million YoY).

Store Sales Support Sales Declined 7%

The Store Sales Support sector declined 7.2% YoY due to declines in consumer electronics sales support and Sales Business Support, although the core area of mail-order sales support was flat YoY.

Public Sales Declined 32%

The Public Sector saw a 31.8% YoY decline due to a decrease in work related to the issuance of My Number Cards, which is contracted by local governments.

Inbound Tourism Sales Declined 6%

The inbound tourism sector declined 5.7% YoY due to a drop in land operating business affected by the Chinese government's visa waiver policy for foreigners entering the country, as well as sluggish tour operator business.

Digital Sales Support Sales Declined 2%

In the Digital Sales Support sector, handled by BBF and others, sales were -2.1% YoY due to the end of a contract with a large client in EC/TC SUPPORT BUSINESS, although inside sales and other services handled by SALES ROBOTICS were strong. In terms of EC/TC SUPPORT BUSINESS alone, sales were down 7.2% YoY and operating income was -35.7%.

Extraordinary Gains and Losses were Recorded

Extraordinary income included an ¥87 million gain on sales of investment securities. Extraordinary losses included an ¥18 million loss on valuation of investment securities.

Interim Net Income Attributable to Noncontrolling Interests Decreased

The Group's equity ratio in BBF and Branch Out is 83.5% in both cases. As the decrease in BBF's profits exceeded the increase in Branch Out's profits, net income attributable to non-controlling interests decreased from ¥124 million in the same period of the previous year to ¥100 million.

(3) Outlook For FY8/2025

The initial Plan for FY25/8 was 1% Increase in Sales and 28% Increase in Operating Income

Initial forecasts for FY8/25 call for sales of ¥59.0 billion (+0.8% YoY), operating income of ¥2.0 billion (+27.5% YoY), ordinary profit of ¥2.0 billion (+30.2% YoY) and net income attributable to owners of the parent of ¥943 million (-¥43 million YoY).

In terms of sales by sector, the Airport Sector and the Sports/Entertainment Sector were expected to post large increases in sales (+¥3.586 billion YoY, +¥1.424 billion YoY), while the Digital Sales Support Sector was expected to decline by ¥1.985 billion, Digital Sales Support sector was expected to be -¥1.9 billion YoY, the Store Sales Support sector -¥522 million YoY and the Inbound Tourism sector -¥300 million YoY.

Figure 21: Initial Plan for Sales by Sector for FY8/25 (¥ mn)

FY	8/24	8/25 Initial Plan	YoY
Wholesale	12,772	13,000	1.8%
Store Sales Support	14,737	14,215	-3.5%
Digital Sales Support	12,662	10,677	-15.7%
Airport	4,936	8,522	72.6%
Inbound Tourism	6,711	6,411	-4.5%
Sports & Entertainment	2,854	4,278	49.9%
Public	954	1,025	7.4%
Works	693	869	25.4%
Covid-19 Services	2,224	—	—
Total Amount	58,547	59,000	0.8%

Prepared by Strategy Advisors from company data.

Full-Year Plan Revised Upward to 7% Increase in Revenue & 40% Increase in Operating Income

On April 14, 2025, when the company announced its interim results, it revised upward its full-year forecasts to ¥62.333 billion in sales (+6.5% YoY), ¥2.200 billion in operating income (+40.2% YoY), ¥2.205 billion in ordinary profit (+43.5% YoY) and ¥1.073 billion in net income attributable to parent company shareholders for the year. The company upwardly revised its full-year forecasts.

Figure 22: Revised Plan for FY8/2025 (¥ mn)

FY	8/24 Actual	8/25 Initial Plan	8/25 Revised Plan	YoY
Sales	58,547	59,000	62,333	6.5%
Gross Margin	12,097	12,410	12,171	0.6%
Gross Margin Ratio	20.7%	21.0%	19.5%	—
SG&A Expenses	10,528	10,410	9,971	-5.3%
SG&A Ratio	18.0%	17.6%	16.0%	—
Operating Income	1,568	2,000	2,200	40.2%
Operating Income Ratio	2.7%	3.4%	3.5%	—
Ordinary Profit	1,536	2,000	2,205	43.5%
Profit Attributable to Owners of Parent	-43	943	1,073	—

Source: Company Data. Created by Strategy Advisors.

Wholesale Sector's Plan Increase is Estimated to be the Centerpiece of the Upward Revision to the Company's Plan

Although the revised sales plan by sector has not been disclosed, it is assumed that the upward revision of the company's plan is mainly for the Wholesale sector. The company has not revised its full-year plan for the Airport Sector, which exceeded its interim plan, as the shortage of aviation fuel and operational personnel at major airports continues to be a bottleneck for new orders.

Sports and Entertainment Sector Expects Contribution from Osaka/Kansai Expo, Plans Large Revenue Growth

In the Sports/Entertainment Sector, the company expects a significant increase in revenues in its initial plan. As of April, the company had about 700 staff working at the Expo.

(4) Medium-Term Management Plan

Target Annual Growth Rates are 4% for Sales & 21% for Operating Income. But 5% for Sales and 28% for Operating Income if Covid-19 Measures Related Items are Excluded

The 5-year medium-term management plan announced in November 2024 targets numerical performance figures for FY8/29: Sales of ¥71 billion (projected annual growth rate of 3.9% starting from FY8/24), operating income of ¥4 billion (20.6%) and EBITDA of ¥5.02 billion (13.8%). FY8/24 The results included sales of ¥2.22 billion, operating income of ¥0.39 billion, and EBITDA of ¥0.39 billion for Covid-19 countermeasure-related items. Calculating the annual growth rate starting from FY8/24 on a basis excluding Covid-19 countermeasure-related items, sales, operating income and EBITDA were calculated to be 4.7%, 27.9% and 17.5% respectively.

Target Figures seem Conservative

Based on the results of 1H FY8/25, the targets of the medium-term management plan are conservative, especially in the Wholesale sector. In other sectors, the company does not expect to win many large projects and is therefore expected to exceed its targets.

Airports, Wholesale, Digital Sales Support and Inbound Tourism are the Focus Areas

HITO-Communications Holdings divides its 9 sectors into four areas based on two axes: expected annual growth rate of sales and value-added rate (Gross Margin rate). The company intends to concentrate its management resources in the four sectors of Airports, Wholesale, Digital Sales Support and Inbound Tourism.

Store Sales Support is one of the sectors in the deepening area where the company aims to increase profits by increasing the value-added rate (Gross Margin rate), although the expected growth rate is low and the company will work to improve cost efficiency and operations.

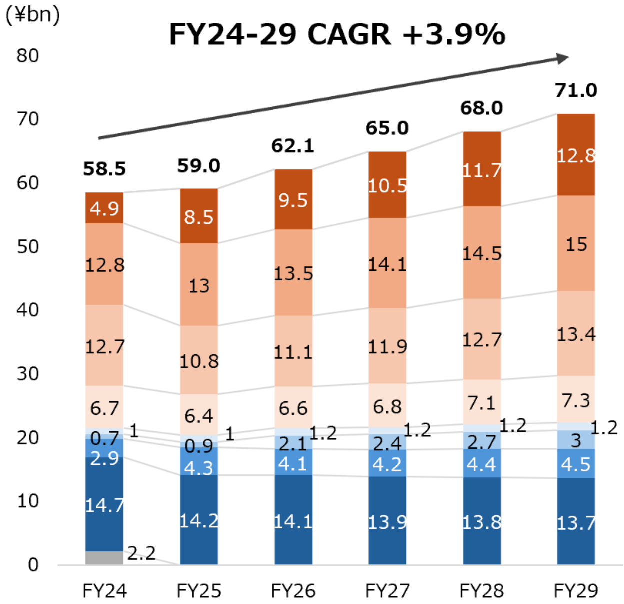
Sectors in the growth area with high expected growth rates but low value-added rates include Public, Works and Sports/Entertainment. The company intends to nurture these businesses while exploring new business models and market development possibilities. Businesses that are driven by social needs, such as the Covid-19 countermeasure business, are positioned as sectors in the restructuring area where both expected growth and value-added rates are low.

The company aims to build a business portfolio capable of sustainable growth while establishing a solid revenue base by allocating management resources in a well-structured manner in each of the four quadrants.

Sales Composition Ratio of Priority Areas Sector to be Less than 70% in FY8/29

Planned sales by sector are shown in Figure 23. Driving sales growth are Airports, Works, Wholesale and Sports/Entertainment. The percentage of sales in the focus area sectors is expected to increase from 65.9% in FY8/24 (excluding Covid-19 Measures-related sales) to 68.5% in FY8/29.

Figure 23: Planned Sales 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 estimated gross profit margin for each sector in the company plan for FY8/29 is less than 20% for Works and Sports & Entertainment, around 20% for Inbound Tourism and Sales Support and over 20% for Airport, Wholesale, Digital Sales Support and Public Works.

13. Valuation and Stock Price Outlook

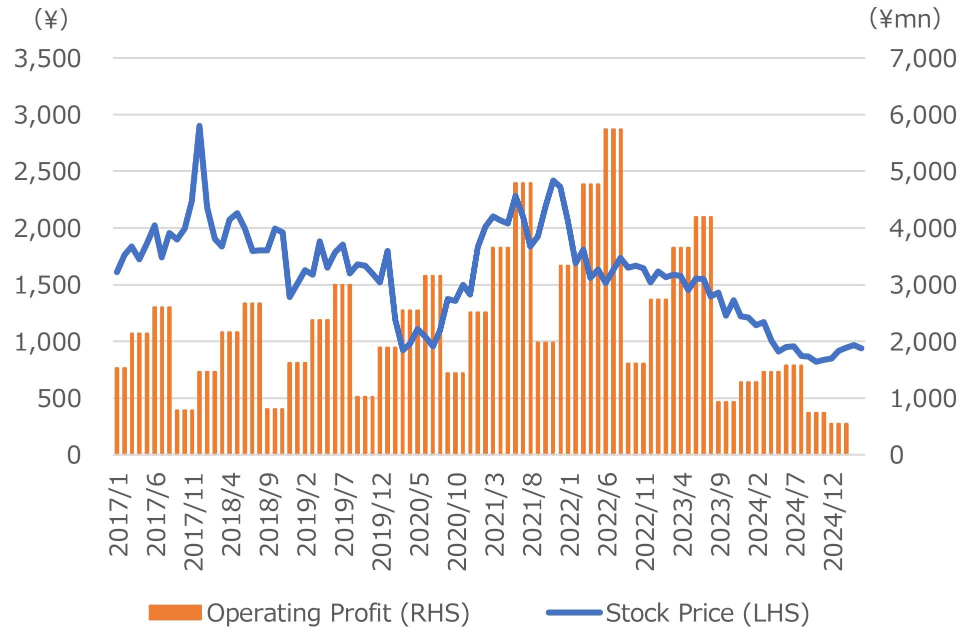
Stock Prices Fluctuate in Anticipation of Future Performance

The company's share price was in a range centered around ¥1,600-¥1,900 in 2019, but fell sharply in conjunction with the overall market in spring 2020 when a new type of Covid-19 Virus infection broke out in Japan, shifting to a range generally centered around ¥900-¥1,200. However, the company's stock began to rise in September of the same year due to strong FY8/20 results, driven by powerful performance in EC/TC support and Store Sales Support in the telecommunications sector, among others.

The company's stock price temporarily topped ¥2,800 in December 2021 as FY8/21 operating income reached ¥4.787 billion, up 52.0% from the previous year, thanks to the expansion of performance by Covid-19 countermeasure-related operations, the Digital Sales Support and the Wholesale sectors. However, as the company entered 2022, the slump in Store Sales Support in the telecommunications sector and growing caution about the future of its expanding Covid-19 countermeasures-related operations caused the company's share price to shift to a range centered around ¥1,400-¥1,700 from March 2022. Operating income was up 19.9% YoY to ¥5.739 billion in FY8/22, but this did not have a significant impact on the company's share price.

The company's FY8/23 results announced in October 2023 did not allay market concerns about its earnings outlook and the company's share price continued to decline. In October 2024, the company announced its FY8/24 results and forecasted a recovery in FY8/25, but by the end of October, the share price had fallen to a low of ¥770. The company's new medium-term management plan was announced on November 5 of the same year and presented a growth scenario centered on the airport sector and other priority areas, raising expectations for a recovery and the company's stock price turned around, The company's first-quarter results for FY25/8, released in January 2025, showed that overall results were largely in line with forecasts, but the strong performance of the company's priority sectors, the Airport and Wholesale Sectors, helped the stock price rise, and it recovered to ¥1,000 in the latter half of March. Since then, however, the share price has been hovering in the range of ¥800-¥1,000 due to a stock market adjustment.

Figure 24: HITO-Communications Holdings Share Price and Operating Income

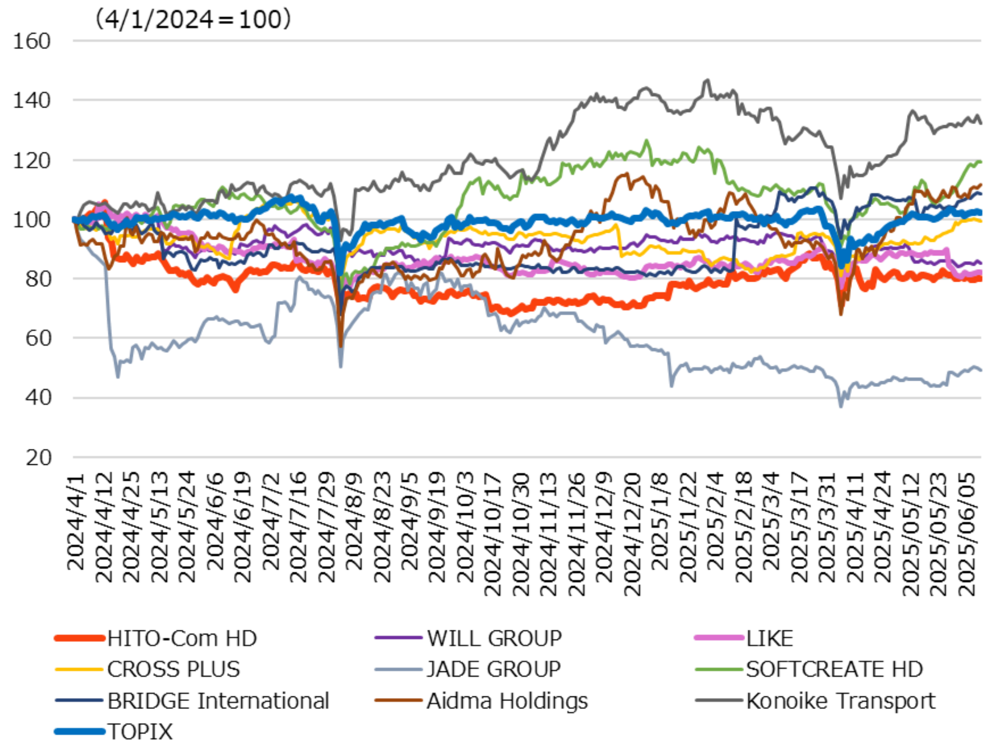


Note: Share price from Jan-17 to Feb-19 and operating income from FY17/8 to FY19/2 are figures from HITO-Communications

Source: Created by Strategy Advisors.

A comparison of the company's stock price with comparable companies and TOPIX from April 2024 is shown in Figure 25. Due to concerns over deteriorating earnings, the company's share price had underperformed TOPIX and comparable companies until the FY8/24 earnings announcement. However, since the announcement of the mid-term management plan, expectations for earnings recovery have gradually increased and the company's share price has been relatively firm.

Figure 25: Comparison of Share Prices of HITO-Communications Holdings and Similar Companies



Source: Created by Strategy Advisors.

Estimated PER Generally Ranging from 8x to 20x

The company's forecast PER has generally ranged between 8x and 20x since September 2019. The highest rise in expected PER was 21.7x in June 2021, when the company's EC/TC SUPPORT BUSINESS and Covid-19 Countermeasures-related business expanded due to the Covid-19 disaster and expectations for upward earnings forecast revisions increased. In fact, when the upward revision of the FY8/21 earnings forecast was announced in July of the same year, the expected PER temporarily declined, reaching 13.3x in August.

In October 2021, when the firm's FY8/22 earnings forecast was announced, the share price rose and the expected PER also rose slightly, hitting 14.4x in November of the same year. However, in April 2022, an upward revision to the FY8/22 earnings forecast was announced, but the P/E ratio fell below 10x due to concerns about the downsizing of Covid-19 countermeasure-related operations and the drop in Tokyo Olympic and Paralympic Games-related operations in FY8/23.

From October 2022 to March 2024, the share price declined as the company's earnings deteriorated and the expected PER ranged between 8x and 12x. When the FY8/24 earnings forecast was revised sharply downward in April 2024, the share price declined further. However, the P/B ratio is now slightly below 1x and over the past year, the expected P/E ratio has rounded up to the 14-18x range.

Profitability Improvement is an Issue, but the Targets of the Medium-Term Management Plan Appear Feasible

Figure 28 and Figure 29 compare the company's profitability and valuations with related companies in the sectors in which the company group operates: Store Sales Support, Wholesale, EC/TC support, Inside Sales and Airports.

The company's most recent ROE was the worst among comparables due to a drop in operating income and extraordinary losses. The company's ROE forecast for FY8/25, when profits are expected to recover, is still low compared to other companies.

The company's FY8/24 figure was 2.7%, the third lowest operating income margin among the nine companies. The second and third factors are expected to improve over the long term, so there is much room for improvement in operating margin and ROE. There is a large room for improvement in operating margin and ROE.

The operating income margin calculated based on FY8/29 sales and operating income as indicated in the company's medium-term management plan is 5.6%, assuming the past application of the accounting standard for revenue recognition that began to be applied from FY8/22 and excluding Covid-19 countermeasure-related operations. The operating income margin of 5.6% (FY8/29), which was set in the medium-term management plan, appears to be a level that is fully achievable.

Forecast PER May Rise Due to Expectations for Profit Growth in the Medium to Long Term

In terms of valuation comparisons with related companies, although the expected PER is at a high level, it is difficult to say that growth expectations are relatively high at this point in time. Rather, the relatively high expected PER is due to the PBR falling to 1.0x and the dividend yield rising to a relatively high level of 3.9% as the share price declines.

However, Strategy Advisors does not see little room for upside in the expected P/E ratio. As pointed out in the equity story, if investors are of the opinion that the growth rates of the Airports and Wholesale sectors will significantly exceed the figures indicated in the medium-term management plan; the stock price will incorporate expectations for profit growth over the medium to long term, rather than current year profit expectations, and the expected PER could rise above 20 The share price may rise above 20 times.

In other words, the key point is how investors will evaluate the company's growth strategy, which is centered on the Airport business and the Wholesale business utilizing IP licenses, expanded through M&A in response to the changing times.

Improvement in ROE is Essential for PBR to Rise

On the other hand, PBR is the second lowest after Cross Plus, which is smaller in size. The current low PBR is likely due to the company's low ROE (-0.2% in FY8/24). In FY8/19～ FY8/22, when the company's ROE was running between 12% and 22%, PBR was running between 1.5x and 3.5x.

Based on the company's net income forecast, ROE for FY8/25 is estimated to be around 6.2%. The company's target for ROE in FY8/29 as indicated in its medium-term management plan is 10% or more and further improvement in ROE will be required for PBR to rise fully.

EBITDA Margin Improvement

The following 3 scenarios for improving ROE can be identified.

One is to improve EBITDA margins through sales expansion, cost reduction, and expansion of high value-added services in each business and sector. In particular, we expect EBITDA margins to improve in the Wholesale sector, Store Sales Support, and Digital Sales Support, which have a large impact on consolidated results.

Improved Profit Margin Due to Lower Depreciation and Amortization of Goodwill

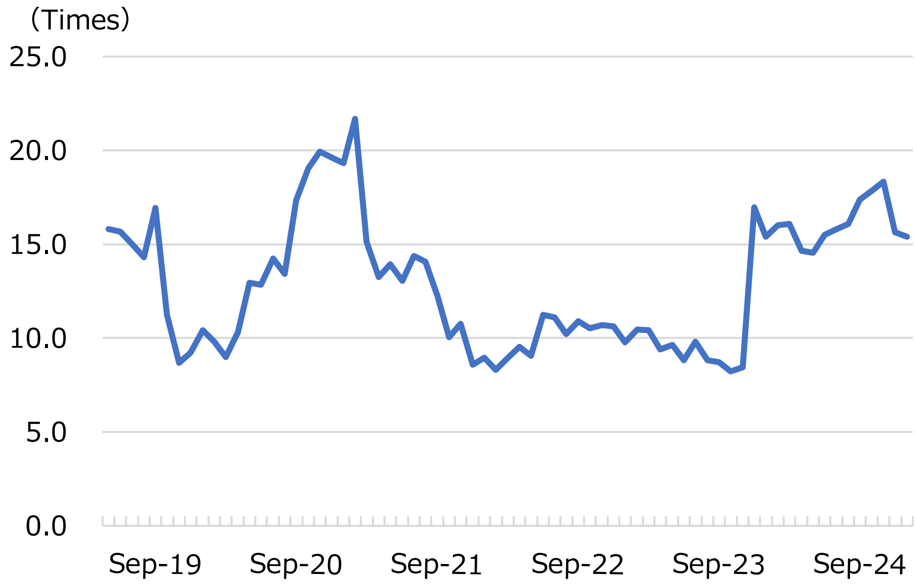
Second is the increase in operating margin and net income margin due to the completion of upfront investment and goodwill amortization. The Airports Sector is currently strengthening in-house production in the ramp business, which is placing a heavy burden not only on labor costs but also on depreciation and amortization expenses. In this sector, as capital expenditures run their course, operating income margin is expected to improve as depreciation and amortization expenses are reduced.

In addition, as mentioned above, amortization of goodwill for BBF, BRANCH OUT and SALES ROBOTICS is scheduled to be completed by the end of 2029, and there is a factor that will increase operating income through FY30/8. It should be noted that amortization of goodwill is not included in expenses under the tax law, so the decrease in goodwill amortization will be a factor in increasing net income by the same amount. The company cannot ignore the improvement in the ratio of net income to sales that will result from the decrease in amortization of goodwill in FY30/8, so there is a possibility that the share price will rise at some point through higher ROE.

Potential for Greater Shareholder Returns

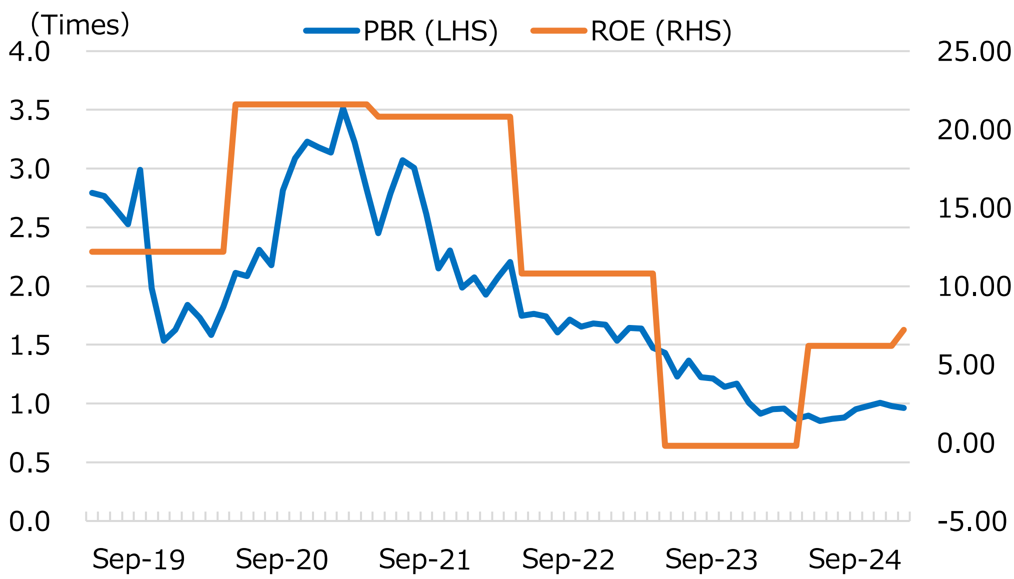
Third, the company is trying to control the increase in shareholders' equity by increasing shareholder returns. As mentioned earlier, the company's net debt-to-equity ratio is at a healthy level of -0.27, while the basic policy for shareholder returns set forth in the medium-term management plan ending in FY8/29 is to return at least ¥3 billion, payout ratio of 30% or more and pay progressive dividends. If the increase in shareholders' equity can be controlled by further shareholder returns, the increase in net income should contribute significantly to the improvement of ROE.

Figure 26: HITO-Communications Holdings Forecast P/E Trends



Source: Created by Strategy Advisors.

Figure 27: HITO-Communications Holdings ROE & P/B ratio



Note: ROE for FY8/25 is calculated based on HITO-Communications Holdings' projected pr

Projected value calculated using the average of the equity capital at the end of the interim

Source: Created by Strategy Advisors.

Figure 28: Profitability Comparison with Peers

Company Name	Stock Code	FY	Sales (¥ mn)	OP (¥ mn)	OPM (%)	ROE (%)	Equity Ratio (%)	Employees (Person)	Comp (Area)
HITO-Com Holdings	**4433**	**08/2024**	**58,547**	**1,568**	**2.7**	**-0.2**	**43.0**	**1,405**	**–**
WILL GROUP	6089	03/2025	139,705	2,338	1.7	6.6	34.8	7,929	SSS
LIKE	2462	05/2024	60,469	3,333	5.5	15.2	43.7	5,334	SSS
CROSS PLUS	3320	01/2025	62,004	1,029	1.7	7.9	61.3	699	WS
JADE GROUP	3558	02/2025	19,231	1,535	8.0	8.8	44.9	241	DSS
SOFTCREATE Holdings	3371	03/2025	30,951	5,497	17.8	18.0	58.5	1,115	DSS
BRIDGE International	7039	12/2024	8,615	950	11.0	15.5	73.0	695	IS
Aidma Holdings	7373	08/2024	10,618	2,468	23.2	23.7	66.7	321	IS
Konoike Transport	9025	03/2025	344,987	21,385	6.2	10.0	50.7	15,807	AP

Note: SSS for the competitive area is Store Sales Support, WS for Wholesale, DSS for Digital Sales Support, IS for Inside Sales, and AP for Airport. The number of employees of SOFTCREATE Holdings is as of April 1, while the number of employees of Konoike Transport is as of the end of FY3/24.

Source: Company Data. Created by Strategy Advisors.

Figure 29: Comparison of Valuations with Peers

Company Name	Stock Code	FY	Stock Price (Jun.12) (¥)	Mkt Cap (Jun.12) (¥ mn)	PER CoE (x)	PBR Actual (x)	ROE CoE (%)	Div Yield (%)	1-Year Return (%)	3-Year Return (%)
HITO-Com Holdings	**4433**	**08/2024**	**925**	**16,504**	**15.4**	**1.0**	**6.2**	**3.9**	**-0.3**	**-41.6**
Will Group	6089	03/2025	915	20,937	13.4	1.2	9.0	4.8	-5.0	-20.6
LIKE	2462	05/2024	1,385	26,578	10.6	1.6	14.9	4.2	-7.9	-34.9
CROSS PLUS	3320	01/2025	1,122	8,301	6.9	0.5	7.1	4.1	14.1	50.6
JADE GROUP	3558	02/2025	1,325	13,056	NA	2.4	NA	0.0	-24.9	17.4
SOFTCREATE Holdings	3371	03/2025	2,226	55,452	14.7	2.7	18.1	2.8	8.8	10.3
BRIDGE International	7039	12/2024	1,885	6,776	10.8	1.6	14.3	4.5	26.9	-4.6
Aidma Holdings	7373	08/2024	2,044	30,881	18.9	4.6	24.5	1.5	19.4	-25.0
Konoike Transport	9025	03/2025	2,854	151,470	10.4	1.0	9.9	3.9	23.1	139.2

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

14. Risk Factors

Risks to HITO-Communications Holdings' performance and stock price trends include the following.

High Reliance on the Telecommunications Sector in the Store Sales Support Sector

The first risk is the high dependence on telecom clients in the Store Sales Support sector. However, the current sales to the telecommunications sector have been declining. However, the significance of this risk has decreased considerably, as sales to the telecommunications sector appear to have bottomed out and the company has expanded its business portfolio over the past few years by strengthening the Wholesale, Digital Sales Support and Airport sectors, among others. The importance of this risk has decreased considerably.

Staffing in Human Resource Services

The second risk is staffing in human resource services. In an environment of labor shortages and rising wages, securing staff is becoming increasingly important for business expansion. The company's group is working to secure staff through various measures, including incentive payments such as refer-a-friend campaigns. Compared to other companies that provide staffing services, the company group has an advantage in that it is more likely to be able to offer jobs that match the requirements of its staff. The company provides services across a wide range of industries and business categories, and is able to offer staff a wide range of options in terms of expertise, customer service, work location, work environment and other job requirements, making recruitment and retention less difficult than for competitors.

Risk of Infection

The third risk is the risk of outbreak and global spread of a new type of infectious disease. In the event of such a risk, it is assumed that the Store Sales Support sector, Airports sector, Sports/Entertainment sector and Inbound Tourism sectors will be adversely affected. On the other hand, if nest egg consumption picks up, the Digital Sales Support and Works sectors are expected to be positively impacted. In addition, the company may receive orders for work related to infectious disease control, as it did during the spread of the Covid-19 virus infection. This is not considered a major risk at this time, as the company group has a diversified business portfolio to hedge against infectious disease risk as a group.

Exchange Risk

The fourth risk is currency risk: in the Wholesale sector, a weak yen is a disadvantage because the company imports and sells many of its products. On the other hand, in the Inbound Tourism sector, a strong yen is a disadvantage because of its heavy reliance on inbound travelers. In the Airport Sector, there are originally both advantages and disadvantages when the yen weakens, but currently the advantages of a weaker yen outweigh the disadvantages of a weaker yen. As a result, the yen's depreciation does not appear to be a significant disadvantage for the company's group.

Availability of Large Events

While not a major risk to long-term corporate value, the presence or absence of major events could also be a short-term volatile factor for the group's performance and share price, such as the 2019 Rugby World Cup in Japan and the 2021 Tokyo Olympics and Paralympics. The 2019 Rugby World Cup in Japan and the 2021 Tokyo Olympics and Paralympics are examples.

15. Sustainability Policy and Practices

1) Corporate Governance Structure

Company with a Board of Corporate Auditors

The group consists of HITO-Communications Holdings, core subsidiaries HITO-Communications and BBF, and 19 other affiliated companies (including 14 consolidated subsidiaries and 5 non-consolidated subsidiaries) and is organized as a company with a board of auditors. The Board of Directors consists of six directors (including one female) and three corporate auditors (including one female). All three auditors are outside auditors.

Nominating Committee and Compensation Committee Established

The Nominating Committee and the Compensation Committee have been established as advisory bodies to the Board of Directors. Both committees are voluntary advisory committees with a majority (2 out of 3) of the members being independent outside directors.

Outside Director Ratio is 50%

Of the six directors, three are outside directors, accounting for 50% of the total. Principle 4-8 of the Corporate Governance Code requires companies listed on the prime market to appoint at least one-third of their directors as independent outside directors, and the company meets this criterion. All three outside directors meet the criteria for independence and consist of a former director of H2O Retailing, a consultant in the field of environmental assessment, and a person from the telecommunications industry. In addition, the company has introduced an executive officer system and holds a Group Presidents' Meeting in principle once a month, consisting of President Yasui's and representative directors of subsidiaries.

2) Sustainability Structure

Aiming to Create and Contribute to a "Bonded" Society Where No One is Left Behind

The group positions the realization of "creating and contributing to a “bond” society in which no one is left behind" as the value of the group's existence. The company's approach to sustainability is to create new value beyond the framework of existing businesses and group companies by reviewing its business portfolio and to enhance sustainable corporate value through efforts to address climate change, human capital management and diversity.

Sustainability Committee Established

In addition to oversight by the Board of Directors, the company has established a Sustainability Committee, chaired by President Yasui and composed of members including sustainability officers from major subsidiaries. The committee examines and presents the direction of sustainability for the entire group, compiles efforts related to business subsidiaries and supports the efforts of business subsidiaries in developing new businesses, etc.

3) Climate Change Response

Addressing Climate Change from the Perspective of Business Opportunities

The company recognizes that climate change is one of the most urgent global environmental issues. In addition to the business risk of responding to changes in the business environment due to climate change, the company intends to strengthen the provision of services and solutions that help clients reduce their greenhouse gas (GHG) emissions by utilizing the "Digital Sales Support" capabilities of the company group, thereby promoting business opportunities. The company intends to promote initiatives from the perspective of business opportunities.

Scenario Analysis Based on TCFD Recommendations

The company discloses scenario analysis on climate change based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Regarding transition risks (selecting the 2°C/1.5°C scenarios), as the company is not in the manufacturing industry, the impact of increased costs due to policy and regulatory tightening such as carbon taxes is limited. However, the company assesses that increased costs due to rising energy prices, as well as investment burdens related to energy conservation and the adoption of renewable energy, will affect the financial aspects. On the other hand, regarding physical risks (selecting the 4°C scenario), the company assesses that, in the long term, natural disaster risks could pose significant business impacts for the company group.

Aiming for Virtually Zero GHG Emissions by 2030

The company also aims to achieve "virtually zero GHG emissions and a 100% renewable energy ratio for the entire value chain, including Scope 1, 2 and 3, in FY2030" and "carbon-negative (more GHGs are absorbed than emitted by the company) contribution in FY2050.

4) Human Capital Management & Diversity

Focus on Diversity

The company's human resource development policy is to focus on securing staff who can contribute to strengthening field capabilities, such as those who can make an immediate impact and those who have a high level of expertise, and to hire talented people, regardless of whether they are new graduates or former graduates, who can handle the Digital Sales Support field. The company will also actively implement internal and external training programs and personnel exchanges within the group.

The company's policy for improving the company's internal environment is to respect diversity and to create an environment where each and every employee can work with vitality by continuously improving the work environment to create a better working environment and work style for the company's employees and their stakeholders.

Disclose the Ratio of Women in Management Positions and the Ratio of Full-Time Foreign National Employees

As indicators related to human capital, the company discloses the percentage of women in management positions in the group and the percentage of full-time foreign national employees; at the end of FY8/24, the percentage of women in management positions in the group was 24.4% (including 19.6% in HITO-Communications and 54.0% in fmg), but the percentage of women in leadership positions and positions in pre-management exceeded 50%. The ratio of foreign full-time employees exceeds 10% and the company intends to continue to actively engage in the employment and training of foreign personnel to help solve the social problem of labor shortages.

Gender Wage Gap is Relatively Small

In FY24/8, the wage difference between male and female workers at Human Communications was 90.8% for all workers, 72.0% for full-time employees, and 99.8% for part-time/fixed-term workers, while at fmg 98.3% for all workers, 77.5% for full-time employees, and 95.6% for part-time/fixed-term workers. On the other hand, at fmg, 98.3% of all workers, 77.5% of regular employees and 95.6% of part-time and fixed-term workers were paid the same.

According to PwC's analysis of disclosures on human capital based on the FY3/24 Annual Securities Report, the average difference in wages between men and women in the TSE prime market is 68% for all workers, 72% for regular workers and 68% for part-time and fixed-term workers. Only the figures for full-time employees at Hito-Communications being average level. All other figures for Hito-Communications and fmg are well above the average.

Figure 30: Segment Trends (Quarterly Basis)

(¥ mn)	8/23 Q3	8/23 Q4	8/24 Q1	8/24 Q2	8/24 Q3	8/24 Q4	8/25 Q1	8/25 Q2
Sales								
Outsourcing	**7,354**	**6,517**	**6,565**	**5,574**	**5,565**	**5,501**	**6,032**	**6,032**
(YoY)	-20.1%	-23.9%	-22.6%	-34.6%	-24.3%	-15.6%	-8.1%	8.2%
Temporary Employee Placement	**2,286**	**2,432**	**2,365**	**2,178**	**2,180**	**2,147**	**2,208**	**2,060**
(YoY)	-0.6%	8.2%	-4.1%	-7.4%	-4.6%	-11.7%	-6.6%	-5.4%
EC/TC Support	**2,245**	**2,607**	**2,744**	**2,700**	**2,699**	**2,633**	**2,926**	**2,125**
(YoY)	3.0%	11.0%	-1.6%	16.1%	20.2%	1.0%	6.6%	-21.3%
Wholesale	**3,108**	**2,508**	**3,346**	**2,734**	**3,465**	**3,227**	**4,580**	**3,418**
(YoY)	30.2%	6.4%	12.1%	18.0%	11.5%	28.7%	36.9%	25.0%
Other Businesses	**803**	**659**	**804**	**798**	**818**	**501**	**680**	**864**
(YoY)	154.9%	134.5%	64.4%	9.8%	1.9%	-24.0%	-15.4%	8.3%
Total Amount	**15,795**	**14,724**	**15,826**	**13,984**	**14,727**	**14,010**	**16,428**	**14,499**
(YoY)	-3.6%	-6.8%	-8.1%	-13.9%	-6.8%	-4.8%	3.8%	3.7%
Operating income								
Outsourcing	**224**	**-145**	**143**	**-52**	**-273**	**-76**	**140**	**225**
(Operating income ratio)	3.0%	-2.2%	2.2%	-0.9%	-4.9%	-1.4%	2.3%	3.7%
Temporary Employee Placement	**174**	**335**	**225**	**26**	**93**	**29**	**122**	**47**
(Operating income ratio)	7.6%	13.8%	9.5%	1.2%	4.3%	1.4%	5.5%	2.3%
EC/TC Support	**168**	**273**	**325**	**234**	**141**	**198**	**205**	**154**
(Operating income ratio)	7.5%	10.5%	11.8%	8.7%	5.2%	7.5%	7.0%	7.2%
Wholesale	**250**	**84**	**225**	**81**	**195**	**39**	**299**	**70**
(Operating income ratio)	8.0%	3.3%	6.7%	3.0%	5.6%	1.2%	6.5%	2.0%
Other Businesses	**99**	**11**	**12**	**63**	**39**	**-81**	**-25**	**48**
(Operating income ratio)	12.3%	1.7%	1.5%	7.9%	4.8%	-16.2%	-3.7%	5.6%
Adjustment	**-5**	**-4**	**-4**	**-5**	**-5**	**-4**	**-4**	**-5**
Total Amount	**909**	**552**	**927**	**347**	**190**	**104**	**737**	**541**
(YoY)	-36.7%	-42.9%	-42.5%	-69.2%	-79.1%	-81.2%	-20.5%	55.9%
(Operating income ratio)	5.8%	3.7%	5.9%	2.5%	1.3%	0.7%	4.5%	3.7%

Source: Company Data. Created by Strategy Advisors.

Figure 31: Consolidated Statement of Income (¥ mn)

FY	8/17	8/18	8/19	8/20	8/21	8/22	8/23	8/24	8/25 CoE
Net Sales	**34,779**	**62,322**	**63,819**	**71,499**	**84,225**	**64,130**	**63,980**	**58,547**	**62,333**
(YoY)	20.7%	79.2%	—	12.0%	17.8%	-23.9%	-0.2%	-8.5%	6.5%
Cost of sales	27,251	51,759	52,619	58,891	69,507	48,902	49,742	46,449	
Gross profit	7,527	10,563	11,200	12,607	14,718	15,227	14,238	12,097	
(Gross profit margin)	21.6%	16.9%	17.5%	17.6%	17.5%	23.7%	22.3%	20.7%	
SG&A expenses	4,926	7,900	8,209	9,457	9,931	9,487	10,039	10,528	
Operating Income	**2,601**	**2,663**	**2,991**	**3,149**	**4,787**	**5,739**	**4,198**	**1,568**	**2,200**
(YoY)	-7.2%	2.4%	—	5.3%	52.0%	19.9%	-26.9%	-62.6%	40.2%
(Operating income margin)	7.5%	4.3%	4.7%	4.4%	5.7%	9.0%	6.6%	2.7%	3.5%
Non-operating income	19	26	29	699	691	108	229	42	
Interest and dividends income	6	11	7	7	6	9	9	14	
Non-operating expenses	82	10	15	487	353	88	127	75	
Interest expenses	2	7	11	16	12	10	10	38	
Ordinary Income	**2,537**	**2,679**	**3,004**	**3,361**	**5,125**	**5,759**	**4,300**	**1,536**	**2,205**
(YoY)	-9.7%	5.6%	—	11.9%	52.5%	12.4%	-25.3%	-64.3%	43.5%
(Ordinary income margin)	7.3%	4.3%	4.7%	4.7%	6.1%	9.0%	6.7%	2.6%	3.5%
Extraordinary income	0	24	0	0	0	0	4	6	
Extraordinary loss	0	5	4	419	321	99	537	255	
Profit before income taxes	2,537	2,698	3,000	2,941	4,803	5,660	3,767	1,287	
(YoY)	-5.5%	6.3%	11.2%	-2.0%	63.3%	17.8%	-33.4%	-65.8%	
(Profit before tax ratio)	7.3%	4.3%	4.7%	4.1%	5.7%	8.8%	5.9%	2.2%	
Total income taxes	1,024	1,036	1,150	1,450	1,808	2,245	1,629	1,127	
(Effective tax rate)	40.4%	38.4%	38.4%	49.3%	37.7%	39.7%	43.2%	87.5%	
Profit	1,512	1,661	1,849	1,490	2,995	3,415	2,137	160	
Profit attributable to non-controlling interests	37	193	125	119	220	187	251	204	
Profit Attributable to Owners of Parent	**1,475**	**1,468**	**1,723**	**1,370**	**2,774**	**3,227**	**1,885**	**-43**	**1,073**
(YoY)	-5.6%	-0.5%	—	-20.5%	102.4%	16.3%	-41.6%	—	—
(Net income margin)	4.2%	2.4%	2.7%	1.9%	3.3%	5.0%	2.9%	-0.1%	1.7%
EPS (¥)	**82.4**	**82.1**	**96.3**	**76.7**	**155.5**	**180.9**	**105.7**	**-2.4**	**60.1**

Source: Company Data. Created by Strategy Advisors.

Figure 32: Consolidated Balance Sheet (¥ mn)

FY	8/17	8/18	8/19	8/20	8/21	8/22	8/23	8/24
Current Assets	**12,463**	**13,306**	**14,967**	**18,679**	**22,179**	**25,693**	**29,048**	**27,247**
Cash and deposits	5,521	6,130	6,888	8,890	9,815	13,430	16,462	14,251
Notes and accounts receivable - trade	6,022	6,242	6,916	8,875	10,760	10,594	10,877	10,355
Merchandise	657	605	922	640	1,032	531	589	471
Deferred tax assets - Current	155	159	-	-	-	-	-	-
Allowance for doubtful accounts	-31	-32	-31	-50	-23	-23	-17	-8
Others	137	200	272	324	595	1,161	1,137	2,178
Non-Current Assets	**6,230**	**6,084**	**9,562**	**8,795**	**8,997**	**8,531**	**13,505**	**12,855**
Property, plant and equipment	1,977	2,017	2,045	1,967	2,228	2,205	2,282	2,515
Intangible assets	3,224	3,100	5,355	5,365	4,872	4,286	8,681	7,983
Investments and other assets	1,029	966	2,161	1,462	1,896	2,039	2,541	2,357
Investment securities	526	441	444	655	501	434	675	672
Deferred tax assets	1659	158	289	377	482	525	681	475
Others	342	367	1,428	430	913	1,080	1,185	1,210
Total Assets	**18,694**	**19,391**	**24,529**	**27,475**	**31,177**	**34,225**	**42,554**	**40,103**
Current Liabilities	**6,002**	**6,159**	**7,794**	**10,547**	**11,948**	**12,584**	**13,220**	**12,763**
Accounts payable - trade	2,529	2,635	2,866	4,535	4,619	5,050	5,445	6,246
Accounts payable – other	1,962	2,061	2,477	2,697	3,806	3,581	3,493	3,099
Short-term loans payable	300	522	1,049	1,195	1,040	1,004	1,528	1,792
Others	1,209	939	1,402	2,120	2,483	2,949	2,754	1,626
Non-Current Liabilities	**2,389**	**3,367**	**5,312**	**4,518**	**4,295**	**3,720**	**10,248**	**8,725**
Long-term loans payable	2,150	3,101	5,002	4,193	3,752	3,146	9,361	7,738
Deferred tax liabilities	-	-	29	0	46	12	-	1
Others	229	265	281	325	497	562	887	986
Net Assets	**10,301**	**9,864**	**11,423**	**12,408**	**14,932**	**17,920**	**19,085**	**18,614**
Shareholders' equity	9,300	9,335	10,773	11,653	14,052	16,809	17,778	17,144
Capital stock	737	737	450	450	450	450	450	450
Capital surplus	609	0	287	287	287	287	91	91
Retained earnings	7,952	8,598	10,035	11,016	13,415	16,172	17,336	16,702
Treasury stock	0	0	-	-99	-99	-100	-100	-100
Total accumulated other comprehensive income	4	-2	-6	-15	29	111	91	92
Non-controlling interests	997	531	656	770	850	998	1,216	1,377
Total Liabilities & Net Assets	**18,694**	**19,391**	**24,529**	**27,475**	**31,177**	**34,225**	**42,554**	**40,103**
Equity Capital	**9,304**	**9,333**	**10,766**	**11,638**	**14,082**	**16,921**	**17,869**	**17,237**
BPS (¥)	**519.8**	**521.4**	**601.5**	**652.3**	**789.3**	**948.4**	**1,001.5**	**966.1**

Source: Company Data. Created by Strategy Advisors.

Figure 33: Cash Flow Figures

FY	8/17	8/18	8/19	8/20	8/21	8/22	8/23	8/24
Cash Flows from Operating Activities								
Profit before income taxes	2,537	2,698	3,000	2,941	4,803	5,660	3,767	1,287
Depreciation and amortization of goodwill	189	434	529	920	895	918	1,012	1,252
Increase (Decrease) in trade receivables	1,108	-211	-475	-1,708	-2,095	162	32	525
Increase (Decrease) in notes and accounts payable trade	-903	203	598	1,582	1,122	260	-124	268
Increase/decrease in inventories	19	53	-317	286	-391	149	-57	118
Impairment loss	-	-	-	419	-	92	5	170
Income taxes paid	-1,460	-1,291	-1,019	-1,217	-1,691	-2,135	-2,600	-2,806
Others	124	-285	143	440	422	226	490	166
Total Amount	**1,614**	**1,600**	**2,459**	**3,663**	**3,065**	**5,332**	**2,525**	**980**
Cash Flows from Investing Activities								
Purchase of property, plant and equipment	-21	-61	-67	-71	-364	-127	-184	-507
Purchase of intangible assets	-40	-154	-198	-184	-338	-343	-509	-447
Purchase of investment securities	-200	0	-10	-210	0	-51	-300	-101
Proceeds from sales and redemption of investment securities	0	104	0	0	196	200	34	-
Purchase of shares of subsidiaries and associates	-	-	-876	-	-353	-200	-392	-50
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-2,222	-	-2,148	-	0	0	-3,603	-
Others	-115	-73	-125	-66	-354	-123	-309	-128
Total Amount	**-2,599**	**-184**	**-3,424**	**-531**	**-1,213**	**-644**	**-5,263**	**-1,233**
Cash Flows from Financing Activities								
Increase (Decrease) in Short-term Loans Payable	-100	0	-	265	-200	-	-	-
Increase (decrease) in long-term debt	1,850	1,110	2,085	-1,074	-376	-629	6,538	-1,371
Repayments of treasury Stock	-	-	-	-99	0	0	-	-
Dividends paid	-241	-250	-286	-362	-375	-470	-590	-590
Others	0	-1,758	-18	-27	-54	-56	-245	-63
Total Amount	**1,507**	**-897**	**1,781**	**-1,297**	**-1,005**	**-1,155**	**5,703**	**-2,024**
Effect of exchange rate changes on cash and cash equivalents	2	-2	-6	-8	16	19	-1	15
Increase in cash and cash equivalents	525	516	810	1,825	862	3,552	2,964	-2,261
Cash and cash equivalents at beginning of period	4,910	5,436	5,985	6,796	8,734	9,596	13,149	16,121
Increase in cash and cash equivalents from newly consolidated subsidiaries	-	33	-	112	-	-	7	-
Cash and cash equivalents at end of period	5,436	5,985	6,796	8,734	9,596	13,149	16,121	13,859
Free Cash Flow	-985	1,416	-965	3,132	1,852	4,688	-2,738	-253

Source: Company Data. Created by Strategy Advisors.

Figure 34: Key Indicators

FY	8/17	8/18	8/19	8/20	8/21	8/22	8/23	8/24
EPS (¥)	82.4	82.1	96.3	76.7	155.5	180.9	105.7	-2.4
BPS (¥)	519.8	521.4	601.5	652.3	789.3	948.4	1001.5	966.1
DPS (¥)	13.0	15.0	18.5	20.5	24.5	30.0	31.0	35.0
Dividend payout ratio	15.8%	18.3%	19.2%	26.7%	15.8%	16.6%	29.3%	—
Number of Shares Issued ('000)	17,900	17,900	17,899	17,899	17,899	17,899	17,899	17,899
Number of Treasury Stock ('000)	663	584	—	56,830	56,858	56,933	56,933	56,933
Number of Shares of Treasury Stock Excluded ('000)	17,899	17,899	17,899	17,843	17,842	17,842	17,842	17,842
Ave Number of Shares Issued ('000)	17,899	17,899	17,899	17,866	17,842	17,842	17,842	17,842
Equity Ratio	49.8%	48.1%	43.9%	42.4%	45.2%	49.4%	42.0%	43.0%
Interest-Bearing Debt (¥ mn)	2,450	3,623	6,051	5,388	4,792	4,150	10,889	9,530
Net Interest-Bearing Debt (¥ mn)	-3,071	-2,507	-837	-3,502	-5,023	-9,280	-5,573	-4,721
D/E Ratio	0.26	0.39	0.56	0.46	0.34	0.25	0.61	0.55
Net D/E Ratio	-0.33	-0.27	-0.08	-0.30	-0.36	-0.55	-0.31	-0.27
Operating Income Margin	7.5%	4.3%	4.7%	4.4%	5.7%	9.0%	6.6%	2.7%
EBITDA (¥ mn)	2,790	3,097	3,520	4,069	5,682	6,657	5,210	2,820
EBITDA Margin	8.0%	5.0%	5.5%	5.7%	6.7%	10.4%	8.1%	4.8%
ROE	17.0%	15.8%	17.2%	12.2%	21.6%	20.8%	10.8%	-0.2%
ROIC (Capital Invested)	15.1%	12.4%	10.5%	9.6%	15.9%	16.7%	9.9%	1.5%
ROIC (Business Assets)	20.5%	17.2%	14.9%	13.8%	22.4%	26.0%	17.4%	2.8%
Number of Employees	468	503	704	827	859	821	1,274	1,405

Note: ROIC is calculated as NOPAT/ (average of business assets during the period)

Source: Company Data. Created by Strategy Advisors.

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