

## Company Report

August 15, 2025

### The Cumulative Results for the Q3 were Driven by the Wholesale Sector and the Airport Sector, Marking A Turnaround and Offensive Strategy

HITO-Communications Holdings reported a 7.1% increase in revenue and a 27.5% increase in operating profit for Q3 cumulative period of FY8/2025. This marks a significant turnaround, as the company has overcome the challenging circumstances of deteriorating performance in FY8/23 and FY8/24, and has now embarked on a full-scale offensive. While the revised performance forecast for FY8/25, which was revised upward in April, remained unchanged, the dividend per share was increased from the initial forecast of ¥36.0 to ¥37.0, taking into account the performance results up to Q3.

The main factors contributing to the increase in revenue include: 1) Strong sales of products utilizing IP licenses in the Wholesale Sector, 2) In-house production of ramp services and expansion of operational bases in the Airport Sector, and 3) Orders received for the Osaka-Kansai Expo project in the Sports & Entertainment Sector. The main factors contributing to the increase in operating income are: 1) the revenue growth effect in the Wholesale Sector (although the gross profit margin decreased due to the weak yen), 2) the revenue growth effect in the Airport Sector and the improvement in the gross profit margin due to the in-house production of ramp operations, and 3) the improvement in the selling, general, and administrative expense ratio due to revenue growth, cost reduction, and a decrease in the provision for bad debts.

When examining the revenue of the Wholesale Sector and Airport Sector, which drove performance growth on a quarterly basis, the Wholesale Sector achieved revenue growth of over 25% YoY in all quarters, while the Airport Sector's quarterly revenue decreased in Q3 compared to Q1 due to special factors and seasonal factors. However, by continuing to secure aircraft and recruit and train staff, demand from overseas airlines is expected to increase in the ramp and passenger businesses, so the long-term growth outlook for the airport sector remains unchanged.

The medium-term management plan targets sales of ¥71 billion (3.9% annual growth rate from FY8/24) and operating income of ¥4 billion (20.6% growth rate) for FY8/29. Based on the cumulative results for Q3 of FY8/25, the targets are conservative, particularly for the wholesale sector.

The company's stock price remained weak until October 2024, but it turned upward in November following the announcement of a new medium-term business plan that outlined a growth scenario centered on the airport sector. The stock price rose further after the airport and wholesale sectors expanded rapidly in Q1 results and the company revised its FY8/25 plan upward in April. It is currently trading at around ¥1,200.

If investor expectations strengthen that the growth rates of both the airport and wholesale sectors will significantly exceed the figures outlined in the mid-term business plan, the stock price could rise, reflecting expectations of medium- to long-term profit growth, with the expected P/E ratio exceeding 20 times.

Strategy Advisors, Inc.  
Atsushi Ohmachi



### Stock Price & Volumes (1 Year)



Source: Strategy Advisors

### Key Indicators

|                                |       |
|--------------------------------|-------|
| Stock Price (8/14/25)          | 1,151 |
| 52-Week High (8/5/25)          | 1,175 |
| 52-Week Low (10/25/24)         | 789   |
| All-Time High (12/14/21)       | 2,789 |
| All-Time Low (3/19/20)         | 603   |
| # of Shares Issued (mn)        | 17.8  |
| Market Capitalization (¥bn)    | 20.5  |
| EV (¥bn)                       | 19.6  |
| Equity Ratio (FY8/24, %)       | 43.0  |
| ROE (FY8/25 CoE, %)            | 6.2   |
| PER (FY8/25 CoE, Times)        | 19.1  |
| PBR (FY8/24 Actual, Times)     | 1.2   |
| Dividend Yield (FY8/25 CoE, %) | 3.2   |

Source: Strategy Advisors

## Japanese GAAP - Consolidated

| FY                  | Sales<br>(¥ mn) | YoY<br>(%)  | Operating<br>(¥ mn) | YoY<br>(%)   | Ordinary<br>(¥ mn) | YoY<br>(%)   | Net Profit<br>(¥ mn) | YoY<br>(%)    | EPS<br>(¥)  | DPS<br>(¥) |
|---------------------|-----------------|-------------|---------------------|--------------|--------------------|--------------|----------------------|---------------|-------------|------------|
| FY8/24 Q1-Q3        | 44,537          | -9.6%       | 1,464               | -59.8%       | 1,442              | -60.9%       | 416                  | -79.4%        | 23.4        | -          |
| <b>FY8/25 Q1-Q3</b> | <b>47,691</b>   | <b>7.1%</b> | <b>1,867</b>        | <b>27.5%</b> | <b>1,871</b>       | <b>29.7%</b> | <b>841</b>           | <b>101.9%</b> | <b>47.2</b> | <b>-</b>   |
| FY8/21              | 84,225          | 17.8%       | 4,787               | 52.0%        | 5,125              | 52.5%        | 2,774                | 102.4%        | 155.5       | 24.5       |
| FY8/22              | 64,130          | -23.9%      | 5,739               | 19.9%        | 5,759              | 12.4%        | 3,227                | 16.3%         | 180.9       | 30.0       |
| FY8/23              | 63,980          | -0.2%       | 4,198               | -26.8%       | 4,300              | -25.3%       | 1,885                | -41.6%        | 105.7       | 31.0       |
| FY8/24              | 58,547          | -8.5%       | 1,568               | -62.6%       | 1,536              | -64.3%       | -43                  | -             | -2.4        | 35.0       |
| FY8/25 CoE          | 62,333          | 6.5%        | 2,200               | 40.2%        | 2,205              | 43.5%        | 1,073                | -             | 60.1        | 37.0       |

Source: Strategy Advisors, based on company data.

## 1. Cumulative Results for FY8/2025 Q3

**Cumulative Results for FY8/2025 Q3, Excluding Coronavirus-Related Business, Showed a 13% Increase in Revenue and a 74% Increase in Operating Income**

Cumulative results for FY8/2025 Q3 showed revenue of ¥47,691 million, up 7.1% YoY, operating profit of ¥1,867 million, up 27.5% YoY, and net income attributable to parent company shareholders of ¥841 million, up 101.9% YoY. In the same period of the previous year, COVID-19 countermeasure-related business contributed ¥2,200 million in revenue and ¥390 million in operating profit. Excluding COVID-19 countermeasure-related business, revenue increased by 12.7% and operating profit increased by 73.8% YoY.

**Figure1. Interim Results for FY8/2025 Q3 (¥ mn)**

| FY  | 8/24   |        |        |        |        | 8/25   |        |        |        |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|   | Q1     | Q2     | Q3     | Q1-Q3  | Q4     | Q1     | Q2     | Q3     | Q1-Q3  |
| Sales   | 15,826 | 13,984 | 14,727 | 44,537 | 14,010 | 16,428 | 14,499 | 16,764 | 47,691 |
| Gross Margin  | 3,520  | 2,806  | 2,941  | 9,267  | 2,830  | 3,327  | 2,985  | 3,206  | 9,518  |
| Gross Margin Ratio                                  | 22.2%  | 20.1%  | 20.0%  | 20.8%  | 20.2%  | 20.3%  | 20.6%  | 19.1%  | 20.0%  |
| SG&A Expenses                                       | 2,592  | 2,459  | 2,751  | 7,802  | 2,726  | 2,590  | 2,443  | 2,617  | 7,650  |
| SG&A Ratio  | 16.4%  | 17.6%  | 18.7%  | 17.5%  | 19.5%  | 15.8%  | 16.8%  | 15.6%  | 16.0%  |
| Operating Income                                    | 928    | 346    | 190    | 1,464  | 104    | 737    | 541    | 589    | 1,867  |
| Operating Income Ratio                              | 5.9%   | 2.5%   | 1.3%   | 3.3%   | 0.7%   | 4.5%   | 3.7%   | 3.5%   | 3.9%   |
| Ordinary Profit                                     | 932    | 329    | 181    | 1,442  | 94     | 748    | 531    | 592    | 1,871  |
| Extraordinary Income/Loss                           | —      | —      | —      | —      | -249   | -3     | 72     | -3     | 66     |
| Income Before Income Taxes and Minority Interests   | 932    | 329    | 181    | 1,442  | -155   | 744    | 603    | 591    | 1,938  |
| (Interim) Net Income                                | 404    | 189    | 259    | 852    | 275    | 403    | 278    | 264    | 945    |
| Income Taxes  | 527    | 140    | -77    | 590    | -430   | 341    | 325    | 326    | 992    |
| Net Income  | 79     | 45     | 49     | 173    | 31     | 66     | 34     | 51     | 151    |
| Net Income Attributable to Noncontrolling Interests | 448    | 95     | -127   | 416    | -459   | 274    | 291    | 276    | 841    |

Source: Company Data. Created by Strategy Advisors.

**Strong Performance in the Wholesale Sector and Airport Sector Contributed to Increased Revenue and Profits**

The main factors contributing to the increase in revenue were: 1) Strong sales of planned products utilizing IP licenses in the wholesale sector, 2) In-house production of ramp operations and expansion of bases in the airport sector, and 3) Orders received for the Osaka-Kansai Expo project in the sports and entertainment sector. The main factors contributing to increased profits include: 1) the revenue growth effect in the Wholesale Sector (however, the gross profit margin decreased due to the weakening of the yen), 2) the revenue growth effect in the Airport Sector and the improvement in the gross profit margin due to the in-house production of ramp operations, and 3) the improvement in the selling, general, and administrative expense ratio due to revenue growth, cost control, and a decrease in provisions for bad debts.

## The Main Factors Contributing to the Decline in Profits were the Completion of Coronavirus-Related Operations and the Sluggish Performance of the Sales Support Sector and the EC/TC Support Business

On the other hand, the main factors contributing to the decrease in revenue were 1) a decline in demand in the home appliance sector of the sales support sector, and 2) the completion of COVID-19 countermeasure-related operations. The main factors contributing to the decrease in profit were 1) the termination of contracts with major customers in the EC and TC support business of the digital sales support sector, and 2) the completion of COVID-19 countermeasure-related operations.

## Launched a Full-Scale Counterattack

The company experienced a significant deterioration in the business environment of sectors such as the tourism sector and sales support services during FY8/21 and FY8/22 due to the impact of the novel coronavirus pandemic. However, the company achieved a substantial increase in profits due to the significant contribution of coronavirus countermeasure-related business.

However, during FY8/23 and FY8/24, the company was forced to report a deterioration in performance due to a decline in coronavirus countermeasure-related business and other factors.

In the cumulative results for Q3 of FY8/25, the company achieved a significant increase in profits by offsetting the impact of the decline in COVID-19 countermeasure-related business, marking a turning point and the start of a full-scale turnaround.

## Extraordinary Gains and Losses were Recorded

Extraordinary gains included a gain on the sale of investment securities of ¥87 million. On the other hand, extraordinary losses included a loss on the valuation of investment securities of ¥21 million.

## Net Income Attributable to Non-Controlling Interests Decreased

The Group's ownership 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 ¥173 million in the same period of the previous year to ¥151 million.

**Figure2. Sales by Sector for Q3 FY8/2025 (¥ mn)**

| FY                     | 8/24   |        |        |        |        | 8/25   |        |        |        |        |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                        | Q1     | Q2     | Q3     | Q1-Q3  | Q4     | Q1     | Q2     | Q3     | Q1-Q3  | YoY    |
| Wholesale              | 3,346  | 2,734  | 3,465  | 9,545  | 3,227  | 4,580  | 3,418  | 4,505  | 12,503 | 31.0%  |
| Store Sales Support    | 3,964  | 3,920  | 3,796  | 11,680 | 3,057  | 3,588  | 3,727  | 3,751  | 11,066 | -5.3%  |
| Digital Sales Support  | 3,298  | 3,231  | 3,210  | 9,739  | 2,923  | 3,555  | 2,835  | 2,852  | 9,242  | -5.1%  |
| Airport                | 967    | 1,178  | 1,237  | 3,382  | 1,554  | 2,048  | 1,960  | 1,878  | 5,886  | 74.0%  |
| Inbound Tourism        | 1,801  | 1,270  | 1,541  | 4,612  | 2,099  | 1,500  | 1,396  | 1,721  | 4,617  | 0.1%   |
| Sports & Entertainment | 618    | 526    | 905    | 2,049  | 805    | 742    | 755    | 1,581  | 3,078  | 50.2%  |
| Public                 | 279    | 348    | 208    | 835    | 119    | 227    | 200    | 253    | 680    | -18.5% |
| Works                  | 138    | 156    | 176    | 470    | 223    | 184    | 207    | 225    | 616    | 31.0%  |
| Covid-19 Services      | 1,410  | 622    | 188    | 2,220  | 4      | —      | —      | —      | —      | —      |
| Total Amount           | 15,826 | 13,984 | 14,727 | 44,537 | 14,010 | 16,428 | 14,499 | 16,764 | 47,691 | 7.1%   |

Source: Company Data. Created by Strategy Advisors.

## **Wholesale, Airport, Sports and Entertainment Sectors are sectors with Increased Revenue**

Sectors with increased revenue include the wholesale sector (up ¥2,958 million YoY), the airport sector (up ¥2,503 million), the sports and entertainment sector (up ¥1,028 million), the works sector (up ¥145 million), and the inbound tourism sector (up ¥5 million).

## **Wholesale Sector Revenue Up 31%, Profit Up 35%**

The wholesale sector, which is handled by BRANCH OUT and others, saw a 31.0% increase YoY due to strong sales of products utilizing IP licenses and collaboration products with influencers for major mass retailers. The decline in gross profit margin due to the weak yen was offset by an improvement in the selling, general and administrative expense ratio due to higher sales, resulting in an operating profit growth rate of 34.8%, which exceeded the sales growth rate.

## **Wholesale Business Sales Continued to Grow by more than 25% in all Q1-Q3**

Looking at wholesale business quarterly sales, they decreased from ¥4,580 million in Q1 to ¥3,418 million in Q2 but rebounded sharply to ¥4,505 million in Q3. This is because Q1 and Q3 are peak demand periods corresponding to the launch of autumn and spring collections. In terms of YoY revenue growth rates, not only Q1 (36.9%) and Q3 (30.0%), but also Q2 maintained a high growth rate of 25.0%, indicating that the strong performance of wholesale sales is not due to temporary hit products.

## **Wholesale Gross Profit Margin, which had been Declining Due to the Weak Yen, Recovered Slightly in Q3 of FY8/25**

The gross profit margin for wholesale sales also exhibits seasonal fluctuations, with Q1 and Q3 showing higher levels than Q2 and Q4 due to the tendency for sales to expand during these periods. However, when examining the long-term trend of the gross profit margin, it reached nearly 25% in Q1 of FY8/21 but subsequently declined toward around 20% due to the ongoing weakening of the yen. It fell below 20% in Q4 of FY8/24, but in Q3 of FY8/25, it recovered to around 20%, due to seasonal factors and a slight appreciation of the yen compared to Q2.

## **Airport Sector Revenue Up 74%**

The Airport Sector saw a 74.0% increase in YoY. The ground handling business saw a significant increase due to new orders resulting from the in-house production of ramp operations and the expansion 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 increased sales at major airports across the country.

## **Special Factors and Seasonal Factors were also Included in Q1 and Q2 Sales at the Airport**

Although the cumulative revenue growth rate for Q3 was high, quarterly sales decreased from ¥2,048 million in Q1 to ¥1,878 million in Q3. This was due to a special factor in Q1, where the fiscal year-end change of fmg resulted in the recognition of four months' worth of fmg's sales, and in Q2, seasonal factors related to the ground handling business, including increased demand from temporary flights during the winter season at New Chitose Airport.

## **The Long-Term Growth Outlook for the Airport Remains Unchanged**

Strategy Advisors believe that the airport's long-term growth outlook remains unchanged, as continued efforts to secure equipment and recruit and train staff are expected to lead to increased demand from overseas airlines for both the ramp and passenger businesses.

## **The Gross Profit Margin of Airport Improved Due to Increased Sales and In-House Production of Lamps**

The gross profit margin for the airport ground handling business was generally between 5% and 10% in 1H of FY8/24, but rose to between 10% and 15% in 2H due to the acquisition of new customers and the in-house production of ramp services at Narita Airport. In January 2025, when both ramp services and passenger services expanded rapidly, the margin exceeded 20%. Even in February and March, when revenue slightly decreased, the margin remained between 15% and 20%, indicating an overall improving trend. However, due to a decline in revenue from the withdrawal of winter charter flights and increased staffing costs and labor expenses in preparation for future new contracts, the margin fell below 10% in April and May.

## **The Target Gross Profit Margin for the Airport Ground Handling Business is 23%**

The company aims to increase its gross profit margin to 23% by expanding ramp operations to major airports where it does not currently operate, such as Naha Airport, increasing sales by acquiring new customers, and reducing outsourcing costs associated with hiring and training staff. It appears that the company has been approved to begin operations at Naha Airport.

## **Sports and Entertainment Sector Revenue Up 50%**

The Sports and Entertainment Sector saw a 50.2% increase YoY due to the acquisition of business to support the operation of new professional teams such as basketball teams, and the receipt of various business orders from organizers, participating countries, and companies for the Osaka-Kansai Expo (April 13 to October 13).

## **Sports And Entertainment Sales Grew in Q3 Due to Seasonal Factors and the Contribution of the Osaka-Kansai Expo**

Looking at quarterly sales for Sports & Entertainment, Q1 was ¥742 million (up 20% YoY), Q2 was ¥755 million (up 44% YoY), and Q3 was ¥1,581 million (up 75% YoY). The increase in sales in Q3 was due to the seasonal trend where Q3 and Q4, which coincide with the professional baseball season, see higher sales than Q2, as well as the significant contribution from the Osaka-Kansai Expo. Additionally, the number of company staff working on the Osaka-Kansai Expo increased from approximately 700 in April to approximately 800 in July.

## **Inbound Tourism Sector Sees Slight Increase in Revenue**

The inbound tourism sector increased by 0.1% YoY.

Looking at the situation on a quarterly basis, Q1 saw a 17% decrease in revenue YoY, due to the impact of the Chinese government's visa exemption policy for foreign visitors, which led to a decline in land operating business, and poor performance in the main service of tour guiding. However, the recovery in tour guided business resulted in a 10% increase in revenue in Q2 and a 12% increase in Q3, offsetting the poor performance in Q1.

## **Sectors Experiencing Revenue Declines Include Coronavirus Countermeasure-Related Operations and Sales Support**

Sectors experiencing revenue declines include coronavirus countermeasure-related operations (down ¥2,220 million YoY), sales support operations (down ¥614 million YoY), digital sales support operations (down ¥497 million YoY), and the public sector (down 154 million YoY).

## **Revenue from Coronavirus Countermeasure-Related Operations, which had been Recorded Up to the Previous Fiscal Year, disappeared from FY8/25, Resulting in a Significant Decrease in Revenue and Profit**

COVID-19 countermeasure-related business operations ceased to be recognized as revenue from FY8/25, but in 1H of FY8/24, revenue reached ¥2,032 million and operating profit reached ¥356 million, significantly contributing to the company's performance. In 2H of FY8/24, revenue decreased to ¥192 million and operating profit to ¥36 million, with the impact significantly reduced. However, on a cumulative basis for Q3, this represented a revenue decrease of ¥2,200 million YoY and an operating profit decrease of ¥390 million YoY.

## **Sales Support Sector Down 5%**

In the sales support sector, although sales in the main communications field exceeded the same period of the previous year, sales in the home appliance and store fields and sales support declined, resulting in a 5.3% decrease YoY.

Looking at the situation on a quarterly basis, Q1 saw a 10% decrease YoY, but Q2 saw a 5% decrease and Q3 saw a 1% decrease, indicating a trend toward a smaller decline in revenue.

## **Digital Sales Support Sector Down 5%**

The digital sales support sector, which includes BBF, performed well in inside sales handled by SALES ROBOTICS, but revenue decreased 5.1% YoY due to the termination of contracts with major customers in the EC/TC support business. Looking at the EC/TC support business, which accounts for the majority of digital sales support, revenue decreased 11.5% YoY and operating income decreased 49.8% YoY.

## **Public Sector Revenue Down 19%**

The public sector saw an 18.5% YoY decrease due to a decline in My Number card issuance-related work contracted from local governments.

Looking at the situation by quarter, Q1 saw a 19% decrease YoY, and Q2 saw a 43% decrease, both showing poor performance. However, Q3 saw a 22% increase YoY. This is due to the contribution of multiple general competitive bidding projects commissioned by local governments, as well as the designated management services for the "Space Interaction Hall Sora-Mir" (Sora-Mir) in Kushimoto Town, Wakayama Prefecture, which began in April.

## 2.Business Outlook

### 1) Company Plan for FY8/2025

**No Revision of Full-Year Plan**

**The Initial Plan for FY8/25 was for a 1% Increase in Revenue and a 28% Increase in Operating Income**

The situation up to Q3 appears to be slightly above the level assumed in the revised plan for FY8/25, but no revisions have been made to the full-year plan.

For the initial plan for FY8/25, net sales were projected to be ¥59,000 million (up 0.8% YoY), operating income was projected to be ¥2,000 million (up 27.5% YoY), ordinary income was projected to be ¥2,000 million (up 30.2% YoY), and net income attributable to parent company shareholders was projected to be ¥943 million (a loss of ¥43 million in the previous fiscal year).

**Figure 3. Initial Plan for Sales by Sector for FY8/2025 (¥ mn)**

| FY                     | 8/24   | 8/25<br>Initial Plan | YoY     |
|------------------------|--------|----------------------|---------|
| Wholesale              | 12,772 | 13,000               | 1.80%   |
| Store Sales Support    | 14,737 | 14,215               | -3.50%  |
| Digital Sales Support  | 12,662 | 10,677               | -15.70% |
| Airport                | 4,936  | 8,522                | 72.60%  |
| Inbound Tourism        | 6,711  | 6,411                | -4.50%  |
| Sports & Entertainment | 2,854  | 4,278                | 49.90%  |
| Public                 | 954    | 1,025                | 7.40%   |
| Works                  | 693    | 869                  | 25.40%  |
| Covid-19 Services      | 2,224  | —                    | —       |
| Total Amount           | 58,547 | 59,000               | 0.80%   |

Source: Company Data. Created by Strategy Advisors.

By sector, the Airport Sector saw an increase of ¥3,586 million YoY, the Sports & Entertainment sector increased by ¥1,424 million, while the Digital Business Support sector decreased by ¥1,985 million, the Sales-related Business Support sector decreased by ¥522 million, and the Inbound Tourism sector decreased by ¥300 million, all of which were expected to see a decrease in revenue.

**At the Interim Settlement, The Full-Year Plan was Revised Upward to a 7% Increase in Revenue and a 40% Increase in Operating Income**

On April 14, 2025, when it announced its interim financial results, the company reported net sales of ¥62,333 million (up 6.5% YoY), operating income of ¥2,200 million (up 40.2% YoY), ordinary profit of ¥2,205 million (up 43.5% YoY), and net profit attributable to parent company shareholders of ¥1,073 million, revising its full-year plan upward.

**Figure 4. Revised Plan for FY8/2025 (¥ mn)**

| FY   | 8/24<br>Actual | Initial<br>Plan | 8/25<br>Revised<br>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<br>Owners of Parent | -43            | 943             | 1,073                   | —     |

Source: Company Data. Created by Strategy Advisors.

### Wholesale Sector Plan Upgrades Expected to be the Main Focus of Upward Revisions to Company Plans

Although the sales forecasts revised by sector have not been disclosed, it is estimated that the upward revision of the company's plan is mainly due to the wholesale sector. Regarding the airport sector, which exceeded the plan in the interim period, considering the current situation where shortages of aviation fuel and operational personnel at major airports are bottlenecks for new orders, it appears that no major revisions have been made to the full-year plan.

### The Sports and Entertainment Sector is Expecting a Significant Increase in Revenue Thanks to the Contribution of the Osaka-Kansai Expo

The Sports & Entertainment sector is expected to see a significant increase in revenue compared to the initial plan. This is due to the Osaka-Kansai Expo, which will be held from April 13 to October 13, 2025, where the company expects to be entrusted with the operation of national pavilions and corporate booths, as well as visitor services.

### Progressive Dividends and a Dividend Payout Ratio of 30% Are the Basic Dividend Policy

The company's basic dividend policy is to pay dividends steadily and continuously, taking into consideration the results and financial condition of each fiscal year, while maintaining a balance with the internal reserves necessary for future business expansion. In line with the expansion of its business, the company has increased its dividend from ¥15.0 per share in FY8/18 to ¥35.0 per share in FY8/24.

### 14 Consecutive Years of Dividend Increases

The company has been increasing its dividends for 14 consecutive terms since its listing in 2011, based on President Yasui's desire to "increase the number of HITO-Com fans." In fact, the number of shareholders with voting rights has increased significantly from 3,065 at the end of FY8/17 to 13,978 at the end of FY8/24.

### Dividend Forecast for FY8/25 Revised Upward

The dividend per share for FY8/25 has been raised from the initial forecast of ¥36.0 to ¥37.0, taking into account the performance results through Q3. Against the backdrop of sound financial position and favorable performance outlook, there is a high possibility that dividend increases will continue in the future.

## 2) Medium-Term Management Plan

**The Target Annual Growth Rate is 4% for Net Sales and 21% for Operating Income, But Excluding Coronavirus-Related Business, The Target is 5% for Net Sales and 28% for Operating Income**

The five-year medium-term business plan announced in November 2024 sets the following performance targets for FY8/2029: revenue of ¥71 billion (CAGR +3.9% from FY8/24), operating profit of ¥4 billion (20.6% increase), and EBITDA of ¥50.2 billion (13.8% increase). The FY2024/8 performance figures included ¥22.2 billion in revenue, ¥3.9 billion in operating profit, and ¥3.9 billion in EBITDA from COVID-19-related business activities. Excluding COVID-19-related business activities, the annual growth rate calculated from FY8/24 is 4.7% for revenue, 27.9% for operating profit, and 17.5% for EBITDA.

**Target Figures Appear Conservative**

Based on cumulative results for Q3 of FY8/25, the targets set in the medium-term business plan appear to be conservative, particularly in the wholesale sector. Other sectors are also expected to fall short of their targets, as few large-scale projects are anticipated. However, the company has indicated its intention to review the medium-term business plan at an appropriate time.

**Key Areas of Focus: Airport, Wholesale, Digital Sales Support, and Inbound Tourism**

Human Communications Holdings categorizes nine sectors into four areas based on two criteria: annual sales growth rate and value-added ratio (gross profit margin). The sectors classified as “priority areas,” where both growth rate and value-added ratio are high, include airports, wholesale, digital sales support, and inbound tourism. The company plans to concentrate its management resources on these four sectors.

The “Deepening Area” includes the sales support sector, which has a low projected growth rate but aims to increase profits by improving the value-added ratio (gross profit margin). The company plans to focus on improving cost efficiency and operational processes.

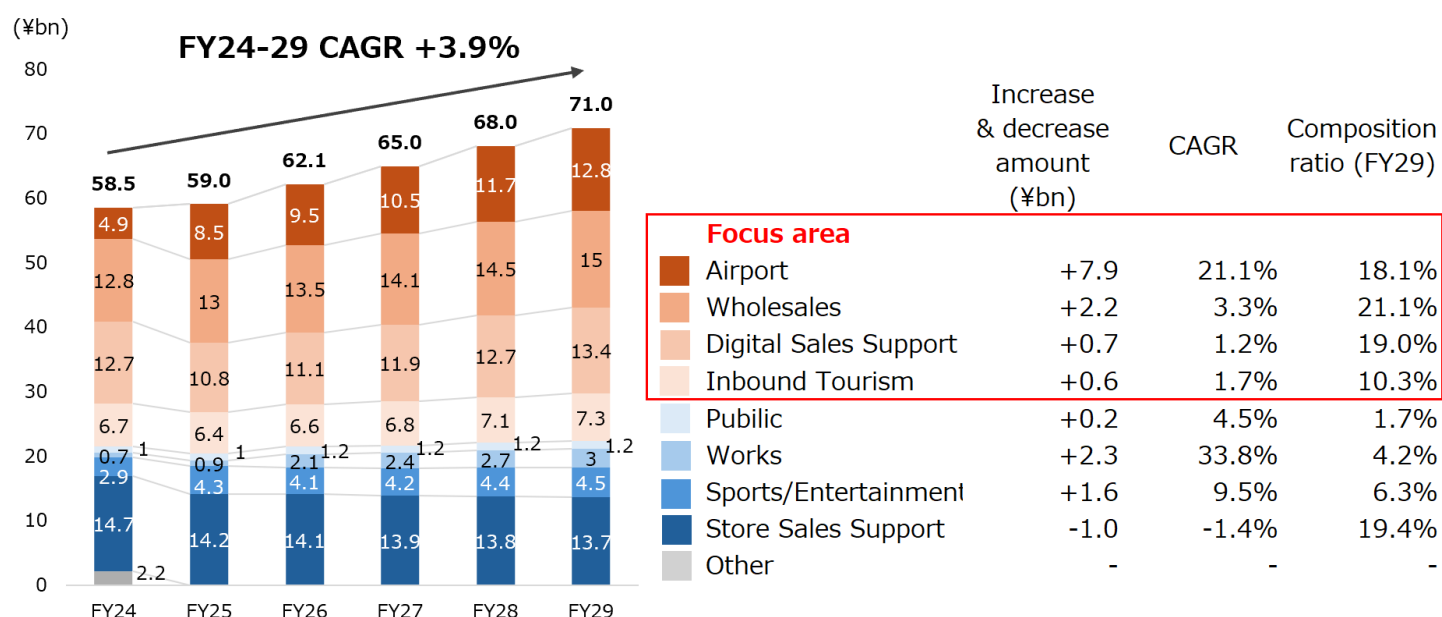
The “growth areas” with high expected growth rates but low value-added rates include public, works, and sports/entertainment, and the company plans to nurture these businesses while exploring new business models and market development opportunities. Businesses related to COVID-19 countermeasures and other social needs are classified as “restructuring areas” with low expected growth rates and value-added rates.

The company aims to allocate management resources strategically across the four areas, establish a robust revenue base, and build a business portfolio capable of sustainable growth.

**Sales Composition Ratio of Key Sectors for FY8/2029 is Close to 70%**

The sales forecast by sector is shown in Figure 5. The main drivers of sales growth are expected to be the airport, works, wholesale, and sports and entertainment sectors. The sales composition ratio of key sectors is expected to increase from 65.9% in FY8/24 (excluding COVID-19 measures) to 68.5% in FY8/29.

**Figure 5. Sales Planned by Sector**



Source: Company Data. Created by Strategy Advisors.

The projected gross profit margin for each sector in FY8/29 is as follows: Airport, Wholesale, Digital Sales Support, and Public Services are expected to exceed 20%, Inbound Tourism and Sales Support are projected to be around 20%, and Works and Sports & Entertainment are anticipated to be below 20%. As mentioned earlier, the current gross profit margin stands at approximately 10% for Airport and around 20% for Wholesale. If the gross profit margins of these two sectors, which are the key drivers of revenue growth, rise above 20%, the company's profit growth potential is expected to significantly improve.

### 3) Topics for FY8/2026

#### The Sports and Entertainment Sector is Expected to Benefit from Multiple Events and Arena-Related Services in FY8/26

The Osaka-Kansai Expo is currently recording strong visitor numbers and is expected to contribute to performance for FY8/25. However, due to a reduction in the number of contracted months from 4.5 months in FY8/25 to 1.5 months, a decline in Expo-related sales is anticipated for FY8/26. In response, the company has indicated its intention to provide employment opportunities for the approximately 800 Expo staff members it has trained at multiple entertainment and sports events scheduled for FY8/26, suggesting that a significant decline in overall event-related revenue can be avoided.

Additionally, regarding arena-related services, where numerous new projects are underway across the country, business negotiations are active, leading the company to express confidence in the overall business environment of the sports and entertainment sector.

## The Public Sector is Expected to See a Significant Increase in Revenue in FY8/26

The company announced that it will open a complex facility combining tourism, culture, experiences, and accommodation called “Iga-ryu Ninja Experience Facility ~Mansen Shukai~” in Iga City, Mie Prefecture, on August 27, 2025, through “Iga City Nigiwai Partners Co., Ltd.,” in which HITO-communications is participating as the representative company of SPC. The facility will be operated as a PFI project for a period ending in March 2043, following the completion of the preparatory period starting in September 2022, and will serve as a hub for promoting the history and culture of “Iga-ryu ninja” to the world. It aims to attract 120,000 visitors annually, including domestic tourists on school trips and foreign tourists.

In the public sector for FY8/26, in addition to the contribution from “Mansen Shukai,” the “Space Interaction Hall Sora-Miru” in Kushimoto Town, Wakayama Prefecture, which began operations in April 2025, is expected to contribute significantly throughout the fiscal year, leading to a substantial increase in revenue. The company group plans to continue supporting the sustainable development of regional communities (regional revitalization) by accompanying its customers through initiatives in the public sector, as well as in the sports and entertainment sector, including support for professional sports teams across the country.

## 3. Stock Price Trends and Valuation

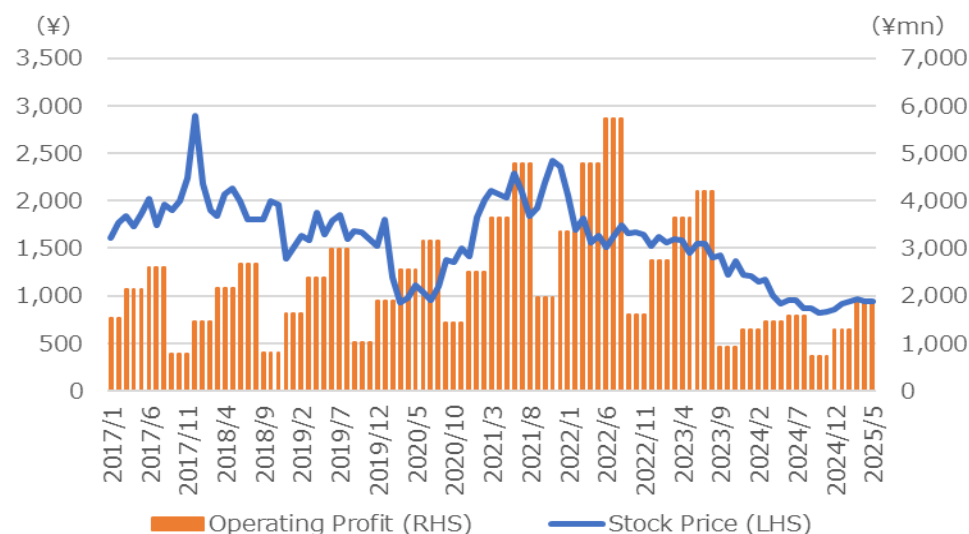
### Stock Prices from 2020 to 1H of 2024 Rose and then Fell, Reflecting the Impact of COVID-19 on Business Performance

The company's stock price fluctuated in a range of ¥1,600 to ¥1,900 in 2019, but fell sharply in spring 2020, when the COVID-19 pandemic broke out in Japan, in line with the overall market, and shifted to a range of around ¥900 to ¥1,200. However, due to strong performance in areas such as EC/TC support and sales support in the communications sector, the company's performance for FY8/20 remained robust, leading to an upturn in the company's stock price starting in September of the same year.

Driven by performance expansion in COVID-19 countermeasure-related businesses, the digital sales support sector, and the wholesale sector, operating profit for FY8/21 reached ¥4,787 million, a 52.0% increase YoY, causing the company's stock price to temporarily exceed ¥2,800 in December 2021. However, in 2022, concerns grew over the sluggish performance of sales support services in the telecommunications sector and the outlook for COVID-19 countermeasure-related businesses, which had been expanding. As a result, the company's stock price shifted to a range centered around ¥1,400 to ¥1,700 starting in March 2022. Although operating profit for FY8/22 increased by 19.9% YoY to ¥5,739 million, it did not have a significant impact on the stock price.

In FY8/23, the company's stock price continued to decline as market concerns about the outlook for performance persisted. Following the release of Q2 results for FY8/24, which showed a significant decline in operating profit, the company's stock price fell below ¥1,000.

**Figure 6. HITO-Communications Holdings Share Price and Operating Income**



Note: Stock prices from January 2017 to February 2019 and operating income from the fiscal year provided by HITO-Com HD.

Source: Strategy Advisors.

**Stock Prices, which Began to Rise Following the Announcement of the Medium-Term Management Plan in November 2024, Rose Further After the Announcement of the Q1 And Q2 Results for FY8/25**

In the financial results for FY8/24, which were announced in October 2024, the company presented its outlook for a recovery in performance for FY8/25. However, by the end of October, the stock price had dropped to a low of ¥770. On November 5 of the same year, a new mid-term business plan was announced, outlining a growth scenario centered on key areas such as the airport sector, which raised expectations for a performance recovery, leading to an increase in the company's stock price.

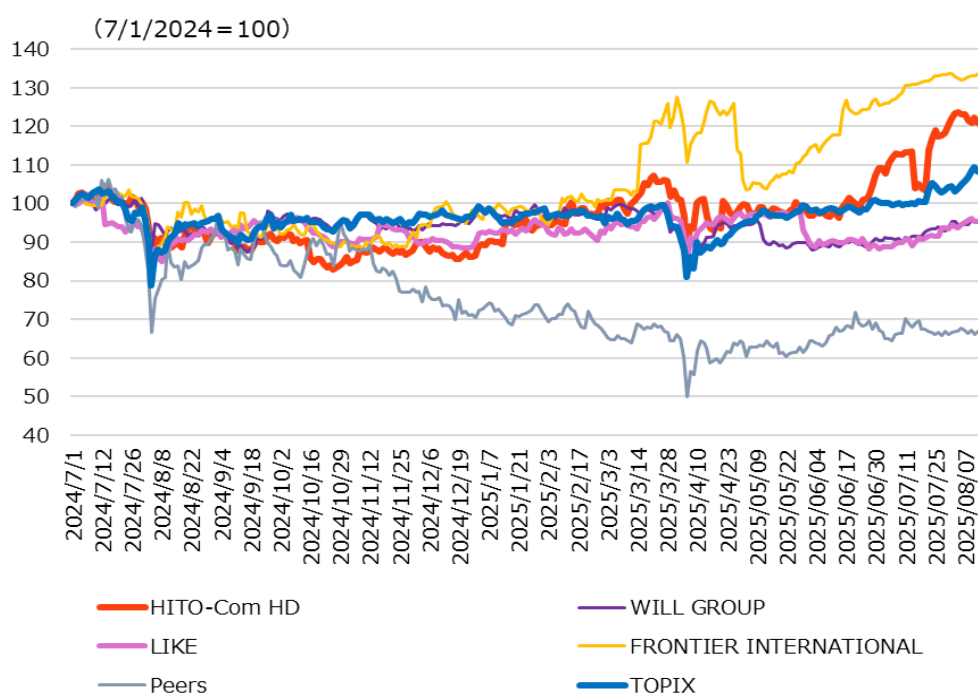
In the Q1 results for FY8/25 announced in January 2025, overall performance was largely in line with plans, but strong performance in the airport sector and wholesale sector, which are key areas, was confirmed, leading to a rise in the stock price, which recovered to ¥1,000 by late March. However, following adjustments in the stock market, the stock price temporarily fell below ¥900 in April.

On April 15, when the second quarter results were announced and the full-year forecast was revised upward, the stock price moved into the ¥900 to ¥950 range. By late June, the stock price was trading above ¥950, and on June 30, it broke through the ¥1,000 mark again, reaching a high of ¥1,080 on July 15.

The Q3 cumulative results announced on July 15 showed a 7% increase in revenue and a 28% increase in operating profit YoY, indicating strong performance. However, the stock price fell below ¥1,000 on the following day, July 16, due to factors such as the absence of an upward revision to the full-year plan, which had been anticipated by some market participants. Nevertheless, the stock price quickly recovered to the ¥1,000 level and is currently trading near ¥1,200.

The comparison of stock prices with similar companies and the TOPIX from July 2024 is shown in Figure 7. Due to concerns about deteriorating performance, the company's stock price underperformed the TOPIX and similar companies' stock prices until the announcement of the results of FY8/24. However, since the announcement of the mid-term management plan in November 2024, expectations for a recovery in performance have gradually increased, and the company's stock price has been relatively stable.

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



Source: Created by Strategy Advisors.

**The Estimated PER is Expected to Remain at Around 8 to 20 Times**

The company's forecast P/E ratio has generally remained in the range of 8 to 20 times since September 2019. The highest forecast P/E ratio was 21.7 times in June 2021, when the COVID-19 pandemic led to an expansion of EC/TC support businesses and COVID-19 countermeasure-related operations, raising expectations for upward revisions to earnings forecasts. In fact, when the upward revision of FY8/21 performance forecast was announced in July of the same year, the expected PER temporarily declined, reaching 13.3 times in August.

In October 2021, following the announcement of a robust FY8/22 performance forecast, the expected PER rose slightly in response to the stock price increase, reaching 14.4 times in November of the same year. However, when the upward revision of FY8/22 performance forecast was announced in April 2022, concerns over the reduction of COVID-19 countermeasure-related business and the decline of Tokyo Olympics and Paralympics-related business in FY8/23 led the expected PER to fall below 10 times.

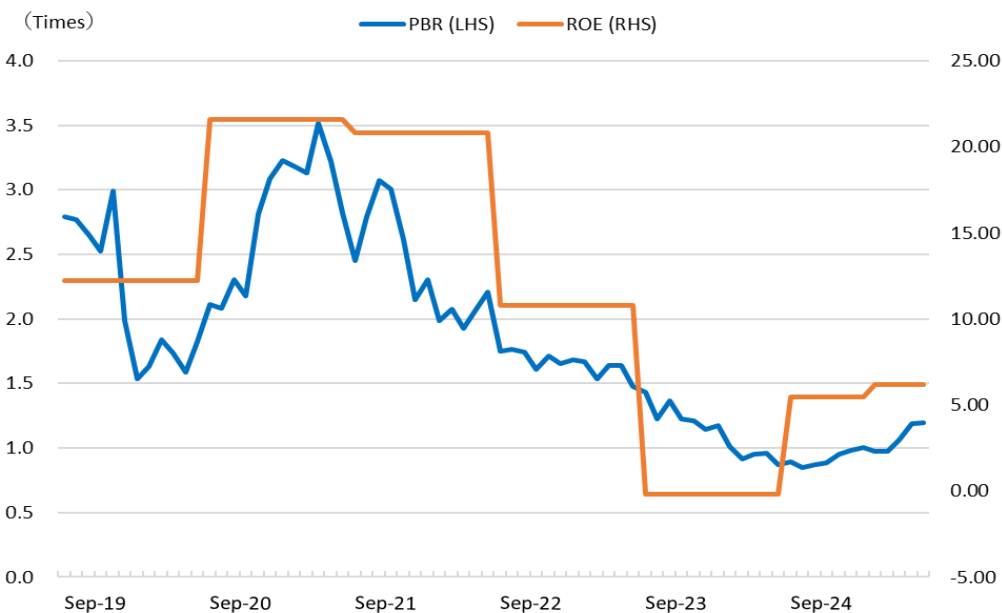
From October 2022 to March 2024, the company's stock price declined due to deteriorating performance, resulting in an expected P/E ratio ranging from 8 to 12 times. In April 2024, when the performance forecast for FY8/24 was significantly revised downward, the stock price fell further. However, due to the PBR declining to around 1 times and heightened growth expectations, the expected PER has since risen to a range of 14 to 20 times over the past year.

Figure 8. HITO-Communications Holdings Forecast P/E Trends



Source: Created by Strategy Advisors.

Figure 9. HITO-Communications Holdings ROE & P/B ratio



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

Source: Created by Strategy Advisors.

**Although Improving Profitability is an Issue, the Targets Set in the Medium-Term Business Plan are Considered Achievable**

The figures 10 and 11 compare the profitability and valuation of the company with those of a related company in the sales support sector, which is one of the core sectors of the group.

The latest ROE was the worst among the peer group due to a decline in operating profit and the recognition of extraordinary losses. Even when looking at the projected ROE for FY8/25, when a recovery in profits is expected, it remains low compared to its peers. As a result, the company's PBR is at a low level, second only to Frontier International, which has a lower profit level compared to its past peak profits.

Regarding the operating profit margin, the company's latest actual figure is 2.7%, the second lowest among the five companies. The main factors contributing to this low operating profit margin include a high proportion of sales from the low-margin wholesale business, the airport sector being in the initial investment phase, and goodwill amortization expenses. Regarding the second and third factors, improvements are expected in the long term, leaving significant room for improvement in operating profit margin and ROE.

Based on the sales and operating profit figures for FY8/29 outlined in the company's medium-term business plan, the operating profit margin is calculated to be 5.6%. Assuming the application of the revenue recognition accounting standards implemented from FY8/22 retroactively, and excluding COVID-19-related business operations, the operating profit margin has ranged between 6% and 7% from FY8/19 to FY8/21. The operating profit margin of 5.6% (FY8/29) outlined in the mid-term business plan is considered achievable.

In comparison with the valuation of related companies, the expected PER is at a high level, but at this point, it is difficult to say that growth expectations are relatively high. Rather, the decline in the stock price has led to a decrease in the PBR to around 1.2 times and an increase in the dividend yield to a relatively high level of 3.2%, which has contributed to the relatively high expected PER.

Going forward, for the expected P/E ratio to exceed the upper limit of the current range of 20 times, the following equity story must be realized.

**Figure 10. Profitability Comparison with Peers**

| Company Name             | Stock Code  | FY             | Sales<br>(¥ mn) | OP<br>(¥ mn) | OPM<br>(%) | ROE<br>(%)  | Equity Ratio<br>(%) | Employees<br>(Person) |
|--------------------------|-------------|----------------|-----------------|--------------|------------|-------------|---------------------|-----------------------|
| <b>HITO-Com Holdings</b> | <b>4433</b> | <b>08/2024</b> | <b>58,547</b>   | <b>1,568</b> | <b>2.7</b> | <b>-0.2</b> | <b>43.0</b>         | <b>1,405</b>          |
| WILL GROUP               | 6089        | 03/2025        | 139,705         | 2,338        | 1.7        | 6.6         | 34.8                | 7,929                 |
| LIKE                     | 2462        | 05/2025        | 62,336          | 2,951        | 4.7        | 12.1        | 44.0                | 5,367                 |
| FRONTIER INTERNATIONAL   | 7050        | 04/2025        | 20,335          | 1,278        | 6.3        | 10.2        | 61.8                | 432                   |
| Peers                    | 7066        | 09/2024        | 6,209           | 480          | 7.7        | 22.4        | 44.9                | 537                   |

Source: Company Data. Created by Strategy Advisors.

**Figure 11. Comparison of Valuations with Peers**

| Company Name             | Stock code  | FY             | Stock price<br>(Aug.14)<br>(¥) | Mkt cap<br>(Aug.14)<br>(¥ mn) | PER<br>CoE<br>(Times) | PBR<br>Actual<br>(Times) | ROE<br>CoE<br>(%) | Dividend Yield<br>CoE<br>(%) | 1-Year<br>Return<br>(%) | 3-Year<br>Return<br>(%) |
|--------------------------|-------------|----------------|--------------------------------|-------------------------------|-----------------------|--------------------------|-------------------|------------------------------|-------------------------|-------------------------|
| <b>HITO-Com Holdings</b> | <b>4433</b> | <b>08/2024</b> | <b>1,151</b>                   | <b>20,537</b>                 | <b>19.1</b>           | <b>1.2</b>               | <b>6.2</b>        | <b>3.2</b>                   | <b>36.4</b>             | <b>-34.4</b>            |
| WILL GROUP               | 6089        | 03/2025        | 980                            | 22,455                        | 14.4                  | 1.3                      | 9.0               | 4.5                          | 1.8                     | -29.5                   |
| LIKE                     | 2462        | 05/2025        | 1,461                          | 28,037                        | 10.2                  | 1.6                      | 15.5              | 4.1                          | 6.5                     | -32.2                   |
| FRONTIER INTERNATIONAL   | 7050        | 04/2025        | 2,262                          | 10,066                        | 10.0                  | 1.1                      | 11.3              | 5.0                          | 43.2                    | -44.4                   |
| Peers                    | 7066        | 09/2024        | 633                            | 5,807                         | 17.0                  | 2.1                      | 12.4              | 0.0                          | -21.0                   | 56.9                    |

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

Source: Company Data. Created by Strategy Advisors.

## 4. Equity Story

### Two Equity Stories

Strategy Advisors identifies two equity stories. The first is “the airport sector's dramatic growth through contributions to addressing the national social issue of capacity shortages in the ground handling industry at major domestic airports.” The second is “accelerated growth in the wholesale sector through contributions to solving issues in the domestic apparel retail industry and expanding overseas sales.” Both sectors are key focus areas in the company's mid-term business plan. If either of these two stories is realized, investors who currently view the company as merely a human resources service provider may revise their assessment, leading to not only expanded performance but also an increase in valuation.

### The Expected PER May Rise, Reflecting Expectations for Medium- to Long-Term Profit Growth

Regarding the wholesale sector, based on the situation through Q3, the likelihood of upward revisions to the mid-term business plan targets has increased. However, in the airport sector, delays in resolving bottlenecks related to the launch of new international routes at airports have impacted on new orders for the company group, and as a result, expectations for upward revisions to the mid-term business plan targets are not currently high.

However, if the establishment of bases for ramp operations at Naha Airport and other locations progresses, upward revisions to target figures for the airport sector may come into view in the near future. If investor expectations strengthen that the growth rates of both sectors, which are key areas of focus, will significantly exceed the target figures outlined in the mid-term business plan, the stock price could rise above 20 times the expected PER, reflecting expectations for medium- to long-term profit growth rather than this year's expected profits.

In other words, how investors evaluate the growth strategy centered on the airport sector expanded through M&A in response to changes in the times and the wholesale sector leveraging IP licenses will be a key point moving forward.

### ROE Improvement is Essential for PBR Growth

In addition, there is considerable room for improvement in PBR through ROE improvement. The company's low PBR is thought to be due to its low ROE (FY8/24 actual: -0.2%). During the period from FY8/19 to FY8/22, when the company's ROE ranged from 12% to 22%, PBR ranged from 1.5 times to 3.5 times.

Based on the company's forecast for net income for the current fiscal year, the estimated ROE for FY8/25 is approximately 6.2%. Additionally, the company's target ROE for FY8/29, as outlined in its mid-term business plan, is 10% or higher. A significant increase in PBR is likely to require an improvement in ROE to exceed 10%.

### Improvement in EBITDA Margin

The following three points are listed as scenarios for improving ROE.

The first is to improve EBITDA margins by expanding sales, reducing costs, and expanding high value-added services in each business and sector. In each

## **Improvement in Profit Margin Due to Reduction in Depreciation and Amortization Expenses and Goodwill Amortization**

business and sector. In particular, we expect to see improvements in EBITDA margins in the wholesale sector, sales support, and digital sales support, which have a significant impact on consolidated results.

Second, the increase in operating profit margin and net profit margin is due to the completion of initial investments and the amortization of goodwill. The airport sector is currently strengthening the in-house production of ramp services, resulting in increased labor costs as well as depreciation expenses. In this sector, as capital investments reach a certain level, a reduction in depreciation expenses is expected to lead to an improvement in operating profit margin.

Additionally, the amortization of goodwill related to BBF, BRANCH OUT, and SALES ROBOTICS is scheduled to be completed by the end of 2029, creating a factor contributing to increased operating profit through FY8/30. It is important to note that goodwill amortization is not recognized as an expense under tax law, so the reduction in goodwill amortization amounts directly increases net income by the same amount. For the company, the improvement in the net profit margin due to the reduction in goodwill amortization is significant, so there is a possibility that the stock price may anticipate an increase in ROE ahead of FY8/30.

## **Possibility of Further Shareholder Returns**

Third, it is to suppress an increase in shareholders' equity through the expansion of shareholder returns. The company's net D/E ratio is -0.27, which is at a healthy level. Meanwhile, the basic policy on shareholder returns outlined in the medium-term management plan ending in FY8/29 stipulates a minimum return of ¥3 billion, a dividend payout ratio of 30% or more, and progressive dividends. By implementing further shareholder returns, if we can suppress the increase in equity, it is expected that the increase in net income will significantly contribute to the improvement of ROE.

**Figure 12. Segment Trends (Quarterly Basis)**

| (¥ mn)                              | 8/23 Q4       | 8/24 Q1       | 8/24 Q2       | 8/24 Q3       | 8/24 Q4       | 8/25 Q1       | 8/25 Q2       | 8/25 Q3       |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Sales</b>                        |               |               |               |               |               |               |               |               |
| <b>Outsourcing</b>                  | <b>6,517</b>  | <b>6,565</b>  | <b>5,574</b>  | <b>5,565</b>  | <b>5,501</b>  | <b>6,032</b>  | <b>6,032</b>  | <b>6,922</b>  |
| (YoY)                               | -23.9%        | -22.6%        | -34.6%        | -24.3%        | -15.6%        | -8.1%         | 8.2%          | 24.2%         |
| <b>Temporary Employee Placement</b> | <b>2,432</b>  | <b>2,365</b>  | <b>2,178</b>  | <b>2,180</b>  | <b>2,147</b>  | <b>2,208</b>  | <b>2,060</b>  | <b>2,269</b>  |
| (YoY)                               | 8.2%          | -4.1%         | -7.4%         | -4.6%         | -11.7%        | -6.6%         | -5.4%         | 4.1%          |
| <b>EC/TC Support</b>                | <b>2,607</b>  | <b>2,744</b>  | <b>2,700</b>  | <b>2,699</b>  | <b>2,633</b>  | <b>2,926</b>  | <b>2,125</b>  | <b>2,153</b>  |
| (YoY)                               | 11.0%         | -1.6%         | 16.1%         | 20.2%         | 1.0%          | 6.6%          | -21.3%        | -20.2%        |
| <b>Wholesale</b>                    | <b>2,508</b>  | <b>3,346</b>  | <b>2,734</b>  | <b>3,465</b>  | <b>3,227</b>  | <b>4,580</b>  | <b>3,418</b>  | <b>4,505</b>  |
| (YoY)                               | 6.4%          | 12.1%         | 18.0%         | 11.5%         | 28.7%         | 36.9%         | 25.0%         | 30.0%         |
| <b>Other Businesses</b>             | <b>659</b>    | <b>804</b>    | <b>798</b>    | <b>818</b>    | <b>501</b>    | <b>680</b>    | <b>864</b>    | <b>916</b>    |
| (YoY)                               | 134.5%        | 64.4%         | 9.8%          | 1.9%          | -24.0%        | -15.4%        | 8.3%          | 12.0%         |
| <b>Total Amount</b>                 | <b>14,724</b> | <b>15,826</b> | <b>13,984</b> | <b>14,727</b> | <b>14,010</b> | <b>16,428</b> | <b>14,499</b> | <b>16,764</b> |
| (YoY)                               | -6.8%         | -8.1%         | -13.9%        | -6.8%         | -4.8%         | 3.8%          | 3.7%          | 13.8%         |
| <b>Operating income</b>             |               |               |               |               |               |               |               |               |
| <b>Outsourcing</b>                  | <b>-145</b>   | <b>143</b>    | <b>-52</b>    | <b>-273</b>   | <b>-76</b>    | <b>140</b>    | <b>225</b>    | <b>112</b>    |
| (Operating income ratio)            | -2.2%         | 2.2%          | -0.9%         | -4.9%         | -1.4%         | 2.3%          | 3.7%          | 1.6%          |
| <b>Temporary Employee Placement</b> | <b>335</b>    | <b>225</b>    | <b>26</b>     | <b>93</b>     | <b>29</b>     | <b>122</b>    | <b>47</b>     | <b>145</b>    |
| (Operating income ratio)            | 13.8%         | 9.5%          | 1.2%          | 4.3%          | 1.4%          | 5.5%          | 2.3%          | 6.4%          |
| <b>EC/TC Support</b>                | <b>273</b>    | <b>325</b>    | <b>234</b>    | <b>141</b>    | <b>198</b>    | <b>205</b>    | <b>154</b>    | <b>-7</b>     |
| (Operating income ratio)            | 10.5%         | 11.8%         | 8.7%          | 5.2%          | 7.5%          | 7.0%          | 7.2%          | -0.3%         |
| <b>Wholesale</b>                    | <b>84</b>     | <b>225</b>    | <b>81</b>     | <b>195</b>    | <b>39</b>     | <b>299</b>    | <b>70</b>     | <b>306</b>    |
| (Operating income ratio)            | 3.3%          | 6.7%          | 3.0%          | 5.6%          | 1.2%          | 6.5%          | 2.0%          | 6.8%          |
| <b>Other Businesses</b>             | <b>11</b>     | <b>12</b>     | <b>63</b>     | <b>39</b>     | <b>-81</b>    | <b>-25</b>    | <b>48</b>     | <b>39</b>     |
| (Operating income ratio)            | 1.7%          | 1.5%          | 7.9%          | 4.8%          | -16.2%        | -3.7%         | 5.6%          | 4.3%          |
| <b>Adjustment</b>                   | <b>-4</b>     | <b>-4</b>     | <b>-5</b>     | <b>-5</b>     | <b>-4</b>     | <b>-4</b>     | <b>-5</b>     | <b>-5</b>     |
| <b>Total Amount</b>                 | <b>552</b>    | <b>927</b>    | <b>347</b>    | <b>190</b>    | <b>104</b>    | <b>737</b>    | <b>541</b>    | <b>589</b>    |
| (YoY)                               | -42.9%        | -42.5%        | -69.2%        | -79.1%        | -81.2%        | -20.5%        | 55.9%         | 210.0%        |
| (Operating income ratio)            | 3.7%          | 5.9%          | 2.5%          | 1.3%          | 0.7%          | 4.5%          | 3.7%          | 3.5%          |

Source: Company Data. Created by Strategy Advisors.

**Figure 13. Consolidated Statement of Income (¥ mn)**

| FY   | 8/17          | 8/18          | 8/19          | 8/20          | 8/21          | 8/22          | 8/23          | 8/24          | 8/25<br>CoE   |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net Sales</b>                                 | <b>34,779</b> | <b>62,322</b> | <b>63,819</b> | <b>71,499</b> | <b>84,225</b> | <b>64,130</b> | <b>63,980</b> | <b>58,547</b> | <b>62,333</b> |
| (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        |               |
| <b>Operating Income</b>                          | <b>2,601</b>  | <b>2,663</b>  | <b>2,991</b>  | <b>3,149</b>  | <b>4,787</b>  | <b>5,739</b>  | <b>4,198</b>  | <b>1,568</b>  | <b>2,200</b>  |
| (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            |               |
| <b>Ordinary Income</b>                           | <b>2,537</b>  | <b>2,679</b>  | <b>3,004</b>  | <b>3,361</b>  | <b>5,125</b>  | <b>5,759</b>  | <b>4,300</b>  | <b>1,536</b>  | <b>2,205</b>  |
| (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           |               |
| <b>Profit Attributable to Owners of Parent</b>   | <b>1,475</b>  | <b>1,468</b>  | <b>1,723</b>  | <b>1,370</b>  | <b>2,774</b>  | <b>3,227</b>  | <b>1,885</b>  | <b>-43</b>    | <b>1,073</b>  |
| (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%          |
| <b>EPS (¥)</b>                                   | <b>82.4</b>   | <b>82.1</b>   | <b>96.3</b>   | <b>76.7</b>   | <b>155.5</b>  | <b>180.9</b>  | <b>105.7</b>  | <b>-2.4</b>   | <b>60.1</b>   |

Source: Company Data. Created by Strategy Advisors.

**Figure 14. Consolidated Balance Sheet (¥ mn)**

| FY   | 8/17          | 8/18          | 8/19          | 8/20          | 8/21          | 8/22          | 8/23           | 8/24          |
|--|---------------|---------------|---------------|---------------|---------------|---------------|----------------|---------------|
| <b>Current Assets</b>                        | <b>12,463</b> | <b>13,306</b> | <b>14,967</b> | <b>18,679</b> | <b>22,179</b> | <b>25,693</b> | <b>29,048</b>  | <b>27,247</b> |
| 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         |
| <b>Non-Current Assets</b>                    | <b>6,230</b>  | <b>6,084</b>  | <b>9,562</b>  | <b>8,795</b>  | <b>8,997</b>  | <b>8,531</b>  | <b>13,505</b>  | <b>12,855</b> |
| 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         |
| <b>Total Assets</b>                          | <b>18,694</b> | <b>19,391</b> | <b>24,529</b> | <b>27,475</b> | <b>31,177</b> | <b>34,225</b> | <b>42,554</b>  | <b>40,103</b> |
| <b>Current Liabilities</b>                   | <b>6,002</b>  | <b>6,159</b>  | <b>7,794</b>  | <b>10,547</b> | <b>11,948</b> | <b>12,584</b> | <b>13,220</b>  | <b>12,763</b> |
| 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         |
| <b>Non-Current Liabilities</b>               | <b>2,389</b>  | <b>3,367</b>  | <b>5,312</b>  | <b>4,518</b>  | <b>4,295</b>  | <b>3,720</b>  | <b>10,248</b>  | <b>8,725</b>  |
| 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           |
| <b>Net Assets</b>                            | <b>10,301</b> | <b>9,864</b>  | <b>11,423</b> | <b>12,408</b> | <b>14,932</b> | <b>17,920</b> | <b>19,085</b>  | <b>18,614</b> |
| 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         |
| <b>Total Liabilities &amp; Net Assets</b>    | <b>18,694</b> | <b>19,391</b> | <b>24,529</b> | <b>27,475</b> | <b>31,177</b> | <b>34,225</b> | <b>42,554</b>  | <b>40,103</b> |
| <b>Equity Capital</b>                        | <b>9,304</b>  | <b>9,333</b>  | <b>10,766</b> | <b>11,638</b> | <b>14,082</b> | <b>16,921</b> | <b>17,869</b>  | <b>17,237</b> |
| <b>BPS (¥)</b>                               | <b>519.8</b>  | <b>521.4</b>  | <b>601.5</b>  | <b>652.3</b>  | <b>789.3</b>  | <b>948.4</b>  | <b>1,001.5</b> | <b>966.1</b>  |

Source: Company Data. Created by Strategy Advisors.

**Figure 15. Cash Flow Figures (¥ mn)**

| FY   | 8/17          | 8/18         | 8/19          | 8/20          | 8/21          | 8/22          | 8/23          | 8/24          |
|--|---------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Cash Flows from Operating Activities</b>                                      |               |              |               |               |               |               |               |               |
| 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           |
| <b>Total Amount</b>  | <b>1,614</b>  | <b>1,600</b> | <b>2,459</b>  | <b>3,663</b>  | <b>3,065</b>  | <b>5,332</b>  | <b>2,525</b>  | <b>980</b>    |
| <b>Cash Flows from Investing Activities</b>                                      |               |              |               |               |               |               |               |               |
| 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          |
| <b>Total Amount</b>  | <b>-2,599</b> | <b>-184</b>  | <b>-3,424</b> | <b>-531</b>   | <b>-1,213</b> | <b>-644</b>   | <b>-5,263</b> | <b>-1,233</b> |
| <b>Cash Flows from Financing Activities</b>                                      |               |              |               |               |               |               |               |               |
| 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           |
| <b>Total Amount</b>  | <b>1,507</b>  | <b>-897</b>  | <b>1,781</b>  | <b>-1,297</b> | <b>-1,005</b> | <b>-1,155</b> | <b>5,703</b>  | <b>-2,024</b> |
| 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 16. 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  | 1,001.5 | 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%   | —      |
| # of Shares Issued ('000)                     | 17,900 | 17,900 | 17,899 | 17,899 | 17,899 | 17,899 | 17,899  | 17,899 |
| # of Treasury Stock ('000)                    | 663    | 584    | —      | 56,830 | 56,858 | 56,933 | 56,933  | 56,933 |
| # of Shares of Treasury Stock Excluded ('000) | 17,899 | 17,899 | 17,899 | 17,843 | 17,842 | 17,842 | 17,842  | 17,842 |
| Average # 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%   |
| # 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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