COMPANY RESEARCH AND ANALYSIS REPORT

Management Solutions co., ltd.

7033

Tokyo Stock Exchange Prime Market

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Index

Summary

With strong latent demand for PMO support services, a high level of growth is expected to continue going forward

Management Solutions co., ltd. <7033> (hereafter, also "the Company" or "MSOL") is a consulting firm whose business is focused on supporting project management office execution (hereafter, PMO support). In the field of strategy execution-type project management support, it provides PMO support services for a wide range of corporate organizational levels, from the management level through to worksites, including for IT projects and operations and organizational improvement projects. The Company has strengths in its ability to develop PMO personnel, and has been maintaining a high level of growth utilizing its strengths as an expert in PMO support, while proactively recruiting and developing people without experience. As of the end of FY10/23, there were 967 consultants on a consolidated basis.

1. Achieved a significant increase in sales and profit in FY10/23 on a backdrop of robust PMO support demand

Consolidated financial results for FY10/23 saw significant increases in sales and profits, with net sales increasing 41.1% YoY to ¥16,931mn and operating profit rising 200.6% to ¥2,207mn. Demand for PMO support remained robust, including organizational reforms on the theme of DX (digital transformation), and by proactively recruiting and developing consultants, including mid-career hires, this led to capturing this demand and a high level of sales. In particular, through referrals from super-large companies (sales of several trillion yen) that are existing customers, there was an increase in the Company receiving new orders from group companies. Among customer companies, the ratio of group companies of super-large companies increased significantly from 17% in the previous fiscal year to 45%, which can be seen as evidence that the Company's PMO support services are highly valued by customers. In addition to the increase in sales, the rise in the operating profit margin was due to the reduction in recruitment and training costs resulting from the bolstering of referral-based recruitment.

2. Forecasts high growth to continue in FY12/24

Looking at the forecasts for FY12/24, the Company is forecasting net sales of ¥25,000mn and operating profit of ¥3,500mn. It will be an irregular fiscal period of 14 months, but with respect to the 12-month forecast through October 2024, the Company is expecting net sales to increase 24.0% YoY to ¥21,000mn, and operating profit to rise 35.9% to ¥3,000mn, as high growth is forecast to continue. The Company is receiving many inquiries for PMO support from companies that are considering or introducing company-wide project management, and the Company will capture this demand by continuing to actively recruit and train personnel and cultivate new customers by strengthening its sales system. Regarding recruitment (non-consolidated), the Company plans to hire 117 new graduates in spring 2024 (65 in the previous fiscal year), and 250 to 300 mid-career hires (241 in the previous fiscal year).

3. Aiming for a 30% share of the PMO market which will exceed ¥1tn

The Company is currently formulating a medium- to long-term management plan running to 2030, and plans to announce specific management numerical targets and business strategies around the middle of 2024. As its basic strategy, the Company plans to focus on: 1) increasing the sales price per customer by strengthening the sales system and expanding the PMO business by cultivating new customers, 2) accelerating growth in the DX domain by spinning off the Digital business, and 3) expanding the overseas business, including M&A and alliance strategies. In particular, the domestic PMO support services market is expected to exceed ¥1tn yen in 2030 (including the latent market), and the Company plans to bolster its sales system and aims to acquire a 30% market share in the long term. In the Digital business, the Company will develop the business centered on MSOL Digital, which it newly established through a business spin-off in January 2024. The plan is to accelerate growth with proactive business development by specializing in the IT domain. Regarding the overseas business, the Company will aim to further grow the business by solidifying its business foundation by providing PMO support for existing customers' overseas subsidiaries, and then by building networks through M&A and alliances with local PMO-related companies.

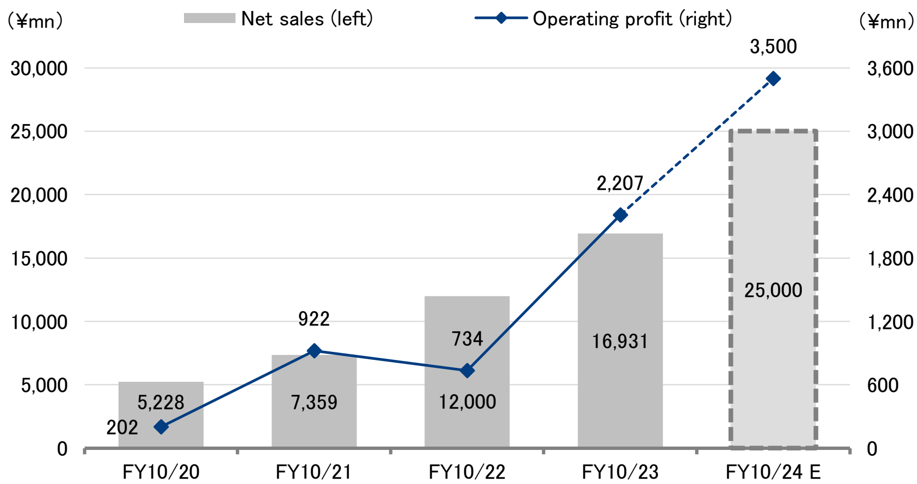
4. Intends to pay a stable and continuous dividend based on free cash flow

The Company began paying shareholder dividends from FY10/22, and the dividend per share for FY10/23 was ¥18.0, an increase of ¥16.0 from the previous fiscal year, due to steady growth in earnings and progress in strengthening the financial position. For FY12/24, the Company is planning to pay a dividend amount the same as the previous fiscal year, at ¥18.0 per share. The Company's dividend policy is to use surplus funds (free cash flow) obtained by subtracting investment funds from cash from operating activities to pay stable and continuous dividends.

Key Points

- Captured robust PMO support demand with proactive personnel recruitment and development, and achieved a significant increase in sales and profit in FY10/23
- FY12/24 will be an irregular 14-month fiscal period, and the Company expects effective double-digit growth in sales and profit as a high level of growth will continue
- The Company is currently formulating a medium- to long-term management plan with a growth strategy of further expanding the PMO business and developing the Digital business and overseas business

Results trends



* FY3/24 is an irregular, 14-month accounting period
Source: Prepared by FISCO from the Company's financial results

Company overview

Established in 2005 to provide project management consulting

1. History

The Company was established in July 2005 in Naka Ward, Yokohama City, by Mr. Shinya Takahashi, the current President, CEO, and Representative Director. Mr. Takahashi had previously worked in several global consulting firms, starting with Andersen Consulting (currently, Accenture Japan Ltd.), and then Ernst & Young Consulting (subsequently Capgemini, currently QUNIE CORPORATION), where he acquired experience in performance management consulting, including implementing KPI. Subsequently, at Sony Global Solutions, he accumulated a wide range of experiences, such as being a PMO*leader for global systems development and involvement in offshore development in India. In particular, his experience on both the order receiving side and the ordering side became the foundation for the Company's current business model. Based on this experience, he decided that there were tremendous growth opportunities in Japan based on the fact that the introductions of project management and PMO have been lagging behind those in the United States and other countries, which led him to establish the Company with the mission of "Contribute to society's happiness through management."

* PMO: Abbreviation of Project Management Office. It refers to a specialist organization and role to support the decision-making of the project manager and project owner, with the aim of facilitating the smooth execution of the project.

In the first six to seven years following its establishment, the Company worked to expand its business scale with PMO support as the core business in the construction period. Starting with a large project for Hitachi Software Engineering Co., Ltd., it received a series of orders for large-scale PMO projects from customers including major auditing corporations and NEC Corp. <6701>, and thereby expanded its business scale. From May 2007, Mr. Takahashi began the serialized publication of “Utilizing PMO” articles in ITPro, published by Nikkei Business Publications, Inc. These serialized articles have attracted attention, and have been accessed thousands of times since they were first published. The serialization continued until January 2013 (100 times), helping to improve the Company’s name recognition and expand its business.

From 2012, the Company started working to expand its PMO support services, including through overseas business development, new businesses, and M&A. Overseas, it successively established subsidiaries in the United States in 2013, Taiwan in 2015, and China in 2018. The United States subsidiary was temporarily liquidated in 2017, but was once again established in order to restart operations in the region in February 2022. Also, as a new business, it launched sales of the ProViz5*project management tool in May 2012. For M&A, in November 2021, it made a subsidiary of TETRA communications Inc. (an investment ratio of 80.0%), which provides IT consulting, systems development and more to life insurance companies. During this period, the Company actively recruited consultants responsible for providing the PMO support, and at the end of October 2023, the number of consultants had rapidly grown to 967 people, which is over 7 times the number of people at the end of October 2017 (130). On the stock market, it was listed on the Tokyo Stock Exchange (TSE) Mothers Market in July 2018, and then roughly one year later in October 2019, its listing was upgraded to the TSE 1st Section. It is currently listed on the Prime Market following the TSE’s reorganization of its market categories in April 2022.

* The Company subsequently worked to expand the functions of ProViz5 and in September 2019, it relaunched it under the name PROEVER as PM comprehensive support software.

At the general shareholders meeting held at the end of January 2024, the Company announced that founder Shinya Takahashi will become Chairman of the Board, and that director Akira Kaneko will be promoted to President and CEO. Since joining the Company in 2007, Akira Kaneko has demonstrated strong leadership as the General Manager of the Project Management Department, driving expansion of the Company’s results. In addition, he has worked in the majority of the Group’s businesses, including being involved in the launch of the software business as well as the expansion of sales by the Chinese subsidiary. The Company determined that he would be the appropriate leader to advance the Company’s initiatives even more forcefully targeting the Company’s vision and improving its corporate value over the medium to long term. As Chairman of the Board, Shinya Takahashi will support the new President and CEO, as well as work on developing the management organization post-2025 and on alliances, M&A and IR activities. He has also expressed his desire to leverage his extensive experience as a consultant to work on issues beyond the scope of the Company itself, including solving social issues in East Asia and Japan (educational gaps and social welfare, etc.)

History

July 2005	Management Solutions co., ltd., established in Naka Ward, Yokohama City, to provide project management consulting
December 2006	Established Ocean Medical Solutions to provide consulting to medical facilities (liquidation completed in May 2008)
June 2007	Established iSakura Technologies Japan in Minato Ward, Tokyo, to conduct systems development (liquidation completed in September 2016)
September 2008	Entered into a business tie-up with Intelligence (currently, Persol Career Co., Ltd.)
March 2010	Started sales of e-learning for project management
April 2011	Entered into a capital tie-up with Intelligence
May 2012	Started sales of the ProViz5 project management tool
November 2013	Established MSOL Inc. as its U.S. subsidiary (liquidation completed in October 2017)
November 2015	Established MSOL-TW in Taiwan to provide support for the execution of project management (currently a consolidated subsidiary)
November 2015	Established ProEver, Inc., in Minato Ward, Tokyo, to develop ProEver, a knowledge and talent management system (merger by absorption in October 2017)
October 2016	Acquired all the shares of Kitazoe & Co. and made it a wholly owned subsidiary (sold all shares in October 2017)
February 2017	Started sales of the ProEver knowledge and talent management system
February 2018	Headquarters relocated to Minato Ward, Tokyo
July 2018	Listed on Tokyo Stock Exchange Mothers market
November 2018	Established Management Solutions (Shanghai) Co., Ltd.
September 2019	Launched sales of the PROEVER PMO comprehensive support software
October 2019	Listing was upgraded to the TSE 1st Section
November 2021	Acquired shares of TETRA communications Inc. and made it a consolidated subsidiary
February 2022	Established MSOL Inc. in the United States
April 2022	Listing was changed to the TSE Prime Market

Source: Prepared by FISCO from the Company's securities report and results briefing materials

Provides services with high customer satisfaction as a PMO support specialist, mainly deals with major companies, realizing stable and efficient business management

2. Business description

(1) Support services for project management execution

The Management Solutions Group as of October 2023 is comprised of five companies: the Company and its consolidated subsidiaries of TETRA communications, Management Solutions (Shanghai) Co., Ltd. in China, MSOL-TW in Taiwan and MSOL Inc. in the U.S., and its main business is providing PMO support services. These are support services in which consultants are dispatched to companies that are working on various in-house projects so that they can make smooth progress and achieve their initial objectives.

Its targeted areas include IT projects, work and organization improvement projects and new business and management reform projects, and so on. Also, the scale of the projects it supports are varied, ranging from company-wide horizontally implemented projects to projects within business departments and at worksites. In order to understand the Company's PMO support services, it is necessary to have an image of a project and the specific way it is advanced in a company (the Company's main customers are major companies with thousands to tens of thousands of regular employees). In addition to their day-to-day work duties (such as production activities for the main products if in factories or other production sites, or human resources management and accounting operations if in the administrative departments), companies launch various projects to respond to environmental changes or in the pursuit of further growth, and they work to execute these projects

For example, a project usually has a project manager as the responsible person and leader. The size of the project depends on the setting of the level in which the project is placed (the level within the company, such as the company-wide level, the business division level, or the department and section level) and its goal, and it is not unusual for a project to have 50 to 100 project members. Assuming a project has 50 members, the project manager is like the president of a company with 50 employees and annual sales of ¥500mn to ¥1bn. In such a company, it is unlikely that the president alone will conduct the various operations, such as sales, human resources affairs, general affairs, and accounting. So, just as there are various departments within a company, within a project, an organization will be established to support the project manager. This organization is what is called PMO.

PMO is an organization installed under the supervision of a project manager that visualizes the progress made and the issues for the project as a whole and provides support for the project manager's decision making, and the Company provides consulting and execution support services for PMO. Services are provided by various companies, such as by systems development companies in the case of IT projects and consulting firms in the case of management and business strategy projects, but the Company's approach is to take the position of the ordering party (a company) and guide the project to success by making sure that the project progresses smoothly overall, such as through progress management and risk analysis.

Business description

Source: Materials provided by the Company

Data on PMO shows that 95% of U.S. major companies have established PMO within their company to execute projects. In Japan as well, an increasing number of companies have been establishing PMO and using PMO support services in the last few years, but results still lagging compared to overseas, so there is no doubt still plenty of room for the Company to grow.

(2) Earnings model

A typical case of project management support operations involves the outsourcing of PMO operations. Even if a company intends to launch a project and establish PMO, in many cases, it will not have the human resources in-house who are able to execute it (particularly in the IT field), especially because employees have their own daily work duties to take care of. The Company was quick to recognize the trend toward outsourcing such indirect costs, and has expanded its business by creating a PMO support service business model that differs from the traditional consulting model. Specifically, the service model for PMO support has been structured, and fees based on the level of service have been clarified. In the Company's case, the job type is divided into four levels* according to the role, and the unit price is different for each level, but currently the average for the Company as a whole is ¥1.6 million per consultant a month. One of the major features of the Company is that it conducts transparent billing in which it clarifies the unit price of its consultants.

> * PMC (carrying out planning for the future as PM staff, reports for management, inter-organizational adjustments, PM human resources development, etc.), PMA (carrying out PM consultations, consulting with team leaders, promoting project planning, visualization of projects, analyses, report creation, and risk management), PJC (carrying out PM process formulation, introductions-establishments-improvements, progressing problem solving, facilitating various meetings, etc.), and PJA (systems diagrams, master schedules, meeting preparations, management of various documents, establishing an environment including PCs, etc.)

Normally, a consultant is dedicated to a single project that they take charge of. (In exceptional cases, senior management level employees may be in charge of multiple projects simultaneously). Therefore, the Company's sales are based on "number of consultants x average unit price x utilization ratio," and the number of consultant employees is a significant factor in the Company's growth strategy (see below for details). When the number of project members is on a scale of 100 people, the Company usually sends about three consultants for the PMO. The project period differs depending on the project, but it appears to take approximately one year on average. It is common within many major companies for multiple projects to be executed at the same time, and also when one project finishes, for the next one to be started straight away. Based on this situation, in many cases a single consultant will be transferred to a separately contracted project within the same customer company. The percentage of this is called the repeat rate, and it has been trending at a high rate above 90%. It is closely related to the sales system and sales efficiency described below.

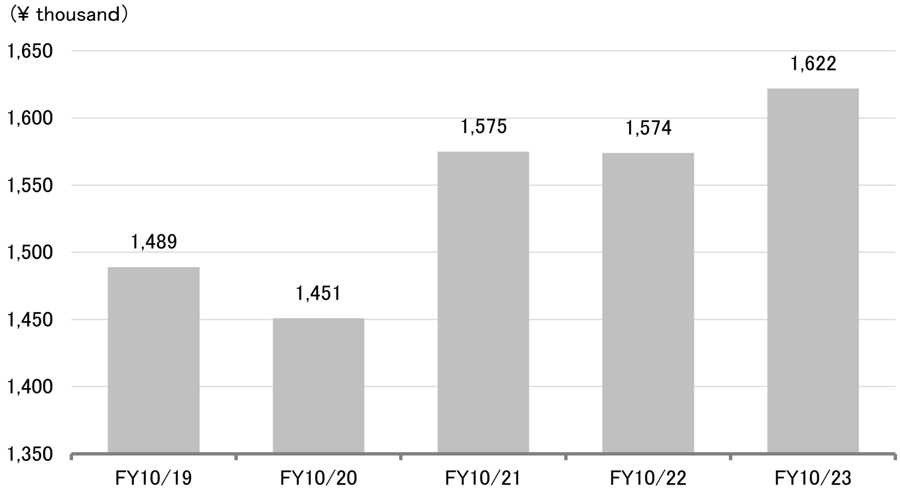
(3) Sales system

It is necessary to look at sales from two perspectives; acquiring new customers as well as maintaining and strengthening relations with existing customers. The Company has a strength in common for both new customers and existing customers; namely, its positioning of being a specialist PMO support company. The players for PMO support operations are currently mainly consulting firms, and they provide post-process PMO support as an ancillary service to their pre-process consulting (planning and proposals, such as for business strategies). In contrast to this, as a specialist in PMO, the Company provides PMO support services that are fully focused on the customer-company side. Customer satisfaction with the Company's PMO support services is high in terms of both service content and fees, and this has led to a high repeat rate.

For this reason, it appears that many of the Company's acquisitions of new customers are through referrals from existing major customers, and in FY10/23, the number of new transactions with group companies of ultra-major companies increased. Additionally, the number of inquiries from the Company's website is on the rise. The Company historically has acquired new customers using a pull-type sales style, but targeting further growth, in 2021 it established a sales department to cultivate new customers, and this department has started push-type sales.

After a new customer concludes a contract, an important point is how long it will maintain a relationship with the Company. Major companies are normally advancing multiple projects simultaneously and always have needs for PMO support. Capturing these needs and maintaining long relationships is extremely important in order to increase sales efficiency and contributes greatly to the stabilization of management. One indicator that clearly expresses this situation is the repeat rate, and the Company is achieving an extremely high repeat rate of over 90%. One factor behind this is providing services with high levels of customer satisfaction, while another factor is the fact the Company is in a position where it can quickly obtain information such as the conclusion or contraction of individual projects, and when it receives such information, it is able to quickly start moving approaching the next sales. In addition, as a measure to deepen business relationships with existing business partners, in 2022 the Company established an account manager (AM) Unit, a specialized group that conducts business negotiations with customers. Previously, consultants held concurrent positions in business negotiations, but by assigning a full-time AM, negotiations such as cross-selling and up-selling are now easier to conduct smoothly, which is one reason why the average PMO unit price increased in FY10/23.

PMO average unit price



*Monthly unit price per consultant
Source: Prepared by FISCO based on Fact Book 2023

On receiving an order, the basic work form is a direct contract with the customer companies and it does not handle subcontracting work. As the stage prior to support for PMO execution, which is the Company's business domain, there exists consulting, including for business strategy and IT strategy. It is conceivable that (in the future) the Company will form a business alliance with a management consulting company and IT consulting company in which they will handle the pre-process part, while the Company will be responsible for the post-process PMO support work. However, even in such a case, it is the Company's policy to stick to direct contracts with client companies rather than subcontracting from consulting companies.

In many cases, the target customers are listed companies or major companies equivalent to them. The main reason for this is that major companies will normally be proceeding with multiple projects at the same time, so will have many needs for PMO support. In general, there is also a more pragmatic issue in the background, in which utilizing a consulting firm generally costs a significant amount of fees, thus it is necessary for companies to be capable of bearing those costs as much as possible. At the end of October 2023, the Company had over customer companies for its PMO support services (of these, 53% are major companies with net sales exceeding ¥100bn), and it was involved in over 300 projects. This is a steady expansion since April 2022 (when it had about 130 customer companies and about 250 projects).

Growing from its strengths, which are its abundance of knowledge, expertise, and human resources cultivated as a PMO support specialist company

3. Status of competition and strengths and features

A feature and strength of the Company is its strategic positioning established by leveraging its unique business model, of being a specialist PMO support company.

(1) Status of competition

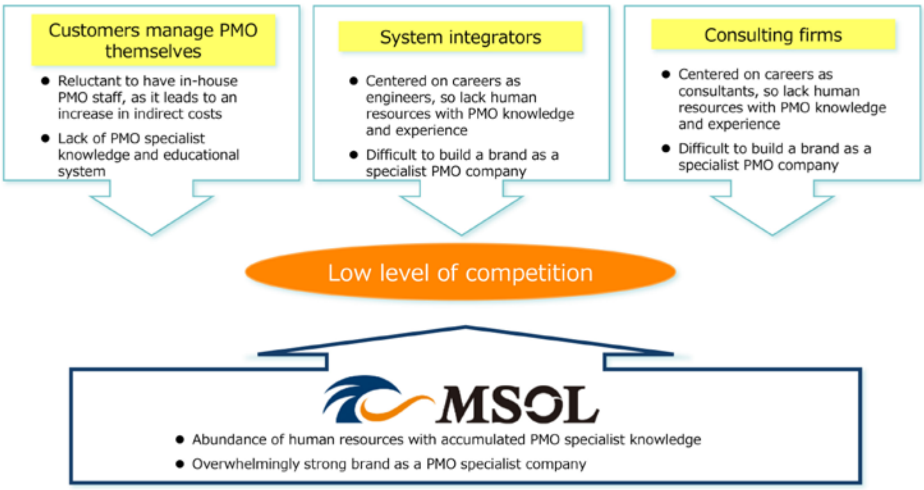
In Japan, companies that are exclusively developing a PMO support business have appeared in recent years, such as unlisted companies, but none are a threat to the Company. Also, listed companies conducting a PMO support business include SHIFT <3697> and SIGMAXYZ Holdings <6088>, but they are not currently considered competitors at the worksite level. It appears that this situation is largely due to the Company's solid brand power that it has constructed through its abundant track record using its highly unique business model that it has developed since the popularization period of PMO. Potential competitors also include consulting firms, system integrators, and customer companies themselves, but whatever the case, there is a major difference between a specialist business and a business conducting such work concurrently with other work, and at FISCO, we think the risk of them becoming a threat is low.

Consulting firms, which are one of the Company's main competitors, are centered on careers as consultants, and it is not necessarily the case that they have an abundance of experience in the area of support for PMO execution. The attributes and skills required of consultants and PMO professionals are different. As a result, there is a lack (or insufficient) PMO support human resources in consulting firms. Also, as stated in the sales system section, the Company's operations as a specialist PMO support company focus solely on performing those tasks for the customer company, while consulting firms tend to position it at the back-end of the consulting process. Therefore, it is quite possible that this could easily bring about a difference in perception for PMO support, which will no doubt be a strength to a company that specializes in PMO support.

There are many projects in companies relating to the development and introduction of IT systems. Competitors in this field are system integrators. This is because in many cases, it makes sense to obtain consulting for an IT system not just for the proposal, but also for when the system actually begins operating. On this point, competition is the same as with consulting firms. In the system integrator industry, careers are mainly as engineers, and human resources with an abundance of knowledge and experience in PMO are limited. MSOL Digital, a subsidiary newly incorporated through a business split in January 2024, will develop the IT area to accelerate growth.

Cases in which the customer companies themselves manage PMO can be competitive relations, on the point that they reduce opportunities for the Company's business. If customer companies manage PMO in-house, this would seem to lead directly to cost reductions, so it can be sufficiently expected that this trend is increasing. But in general, as human resources equivalent to the head of a department or the head of a section are assigned to the position of a project manager, it is not hard to imagine that members of departments and sections will be placed in the position of the secretariat that plays the PMO role. However, these employees also have daily work duties and cannot devote themselves to PMO, and there are many cases in which their knowledge and skills for PMO are low compared to those of a PMO professional dispatched from a specialist PMO business. Therefore, from an overall perspective, outsourcing to a specialized company such as the Company would be a more efficient way to manage the project, and the risk of threat is considered low. In the United States, the market for PMO outsourcing is trending toward expansion.

The Company's strategic positioning

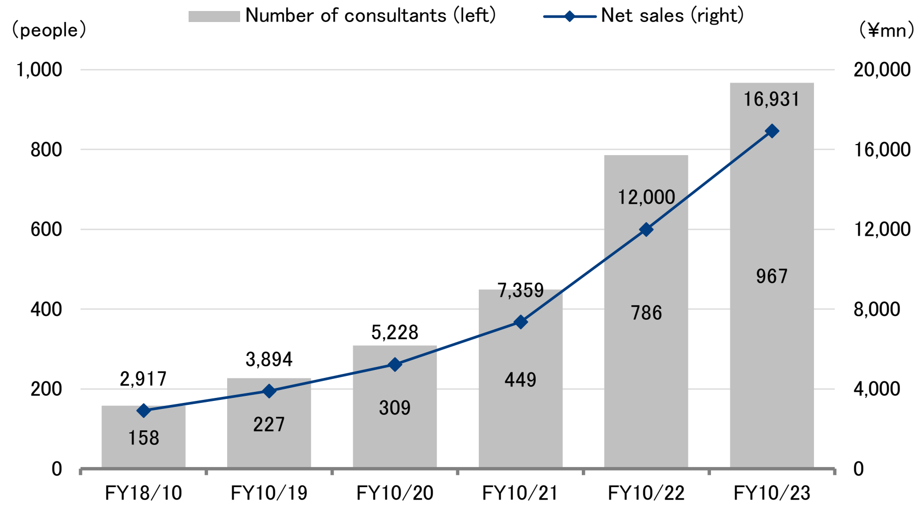


Source: The Company's results briefing materials

(2) Ability to develop personnel

The Company has achieved annual sales growth of 42% over the past five fiscal years. One of the reasons for the high growth is that the Company has been proactively recruiting and training PMO consultants in anticipation of growing demand for PMO in the Japanese market. As the Company has been proactive in hiring personnel, there was a time when hiring and training costs increased in the short term, which affected profits, but the Company has been able to strategically invest in personnel without fixating on short-term profits, and this has led to high growth. Looking at the trends in the number of PMO consultants, the number increased 6.1 times from 158 at the end of FY10/18 to 967 at the end of FY10/23, and sales grew 5.8 times during this period.

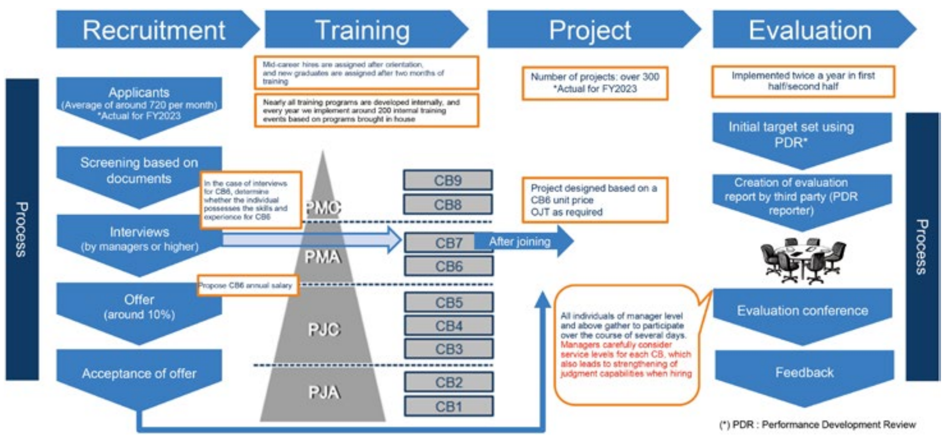
Trends in net sales and the number of consultants



* Number of consultants is as of the fiscal year-end
Source: Prepared by FISCO from the Company's results briefing materials

One of the Company's strengths is that it has established a training program to develop these hired personnel as PMO consultants. Most of the training programs are proprietarily developed, and the Company conducts around 200 in-house training sessions a year to improve the skills of individual employees. New graduates are assigned to projects after two months of training, and mid-career hires are assigned to projects after about a week of orientation, allowing them to contribute quickly. In addition, regarding the Company's personnel evaluation system, the four job categories are further classified into nine job classes, and the skills required for each job class are defined in detail. Individuals set goals and managers evaluate them once every six months. The personnel evaluations are convincing, and include manager feedback. Furthermore, the Company has enhanced various systems to support career diversity and skills improvement, and one of its strengths is its low turnover rate of 9.7% (figure for 8/23).

PMO business model



Source: The Company's results briefing materials

Results trends

Achieved a significant increase in both sales and profits in FY10/23 due to capturing robust PMO support demand with proactive recruitment and development of personnel

1. Summary of FY10/23 results

Consolidated financial results for FY10/23 saw significant increases in sales and profits, with net sales increasing 41.1% YoY to ¥16,931mn, operating profit rising 200.6% to ¥2,207mn, ordinary profit increasing 201.3% to ¥2,246mn and profit attributable to owners of parent increasing 213.3% to ¥1,620mn. Net sales and each profit line exceeded the Company's initial forecast.

FY10/23 results

(¥mn)

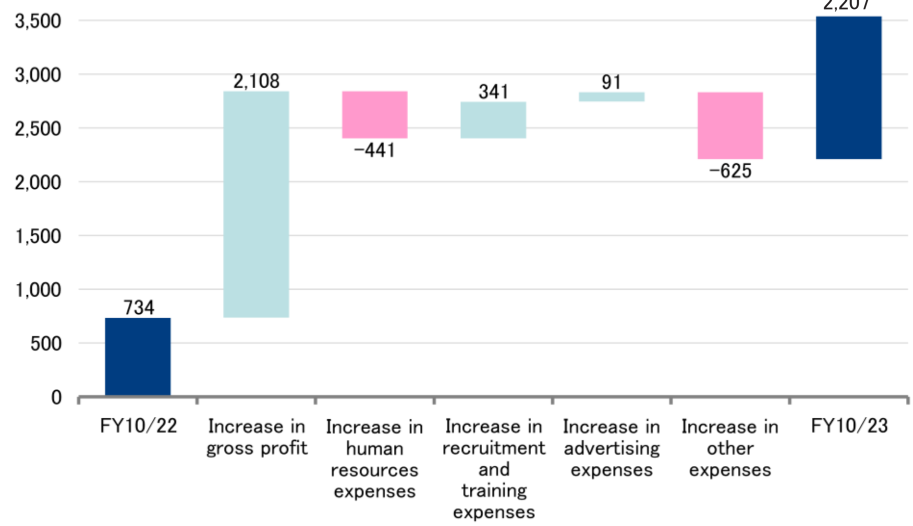
	FY10/22		FY10/23				
	results	vs. sales	Company forecast	results	vs. sales	YoY	vs. forecast
Net sales	12,000	-	16,600	16,931	-	41.1%	2.0%
Gross profit	4,229	35.2%	-	6,337	37.4%	49.9%	-
SG&A expenses	3,494	29.1%	-	4,130	24.4%	18.2%	-
Operating profit	734	6.1%	1,900	2,207	13.0%	200.6%	16.2%
Ordinary profit	745	6.2%	1,900	2,246	13.3%	201.3%	18.2%
Profit attributable to owners of parent	517	4.3%	1,290	1,620	9.6%	213.3%	25.6%
Number of consultants (fiscal year-end, people)	786		-	967		23.0%	-

Source: Prepared by FISCO from the Company's financial results and results briefing materials

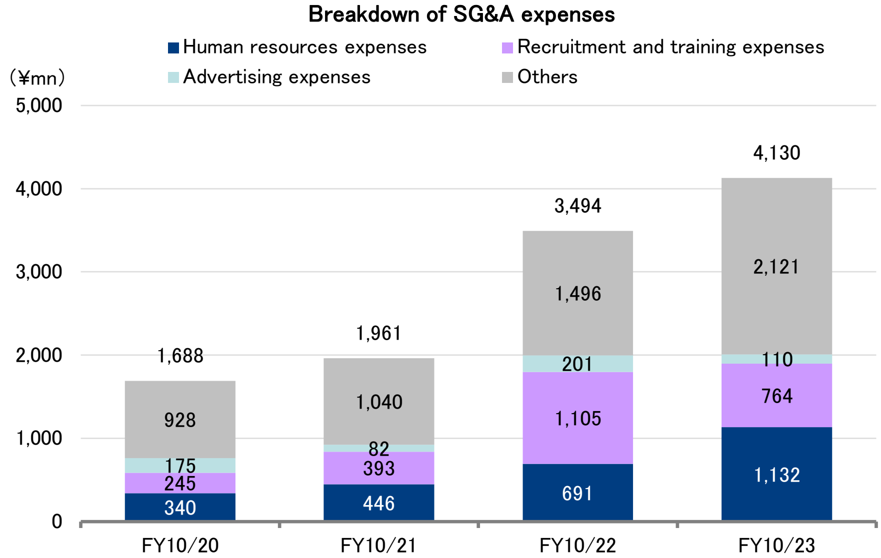
Regarding net sales, in the project management field, the Company continued to receive a robust level of inquiries for implementation support, including management DX and organizational reforms, and efforts to secure a stable number of consultants through active recruitment and training of personnel led to a significant increase in sales. In addition to expanding transactions with existing major customers, the Company also widened its customer base by starting new transactions with their group companies. Additionally, the PMO average unit price (per person, per month) increased by 3.0% from the previous quarter to ¥1,622,000. The establishment of an AM Unit in 2022 and the promotion of upselling initiatives by account managers appear to have contributed to the rise in unit prices. Looking at the average salary by job type for men, PMC remained at the same level as the previous fiscal year, but PMA increased by 3.1% and PJC/PJA increased by 4.8%. At the end of the fiscal year, the number of consultants increased by 23.0% from the end of the previous fiscal year to 967, with new graduate and mid-career recruitment progressing smoothly, generally as planned.

Due to the effect of increased sales, the gross profit margin rose from 35.2% in the previous fiscal year to 37.4%, and on a monetary basis it increased by 49.9% year on year to ¥6,337mn. Meanwhile, SG&A expenses increased 24.4% YoY to ¥4,130mn, which was lower than the rate of increase in sales, and the operating profit margin rose from 6.1% in the previous fiscal year to 13.0%. Looking at the breakdown of factors contributing to the change in operating profit, the increase in gross profit resulted in an increase of ¥2,108mn, the decrease in recruitment and training expenses resulted in an increase of ¥341mn, and the decrease in advertising expenses resulted in an increase of ¥91mn. All of these factors absorbed the increase of ¥441mn in personnel costs and the increase of ¥625mn in other SG&A expenses. The decrease in recruitment and training expenses was due to a decrease in the number of mid-career hires compared to the previous fiscal year, as well as an increase in referral hiring and direct hiring through the Company's website, which resulted in lower recruitment costs per person. The number of mid-career hires (on a non-consolidated basis) decreased from 326 in the previous fiscal year to 241, and the average cost of mid-career hires dropped from ¥2,764,000 to ¥2,213,000. In terms of monetary impact, the decrease in the number of hires resulted in a reduction of approximately ¥200mn, and the reduction in the unit cost of recruitment resulted in a reduction of approximately ¥150mn. On the other hand, the number of new graduate hires increased steadily to 65, an increase of 19 from the previous fiscal year. The decline in advertising expenses was partially due to the increase in the Company's brand strength in PMO support services.

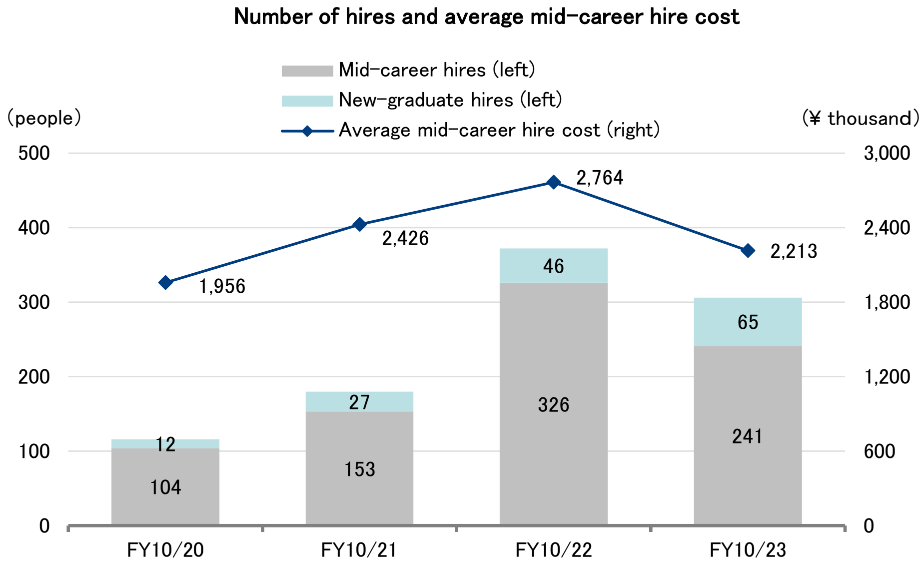
Analysis of factors for change in operating profit



Source: Prepared by FISCO from the Company's results briefing materials



Source: Prepared by FISCO from the Company's results briefing materials



Source: Prepared by FISCO from the Company's Fact Book 2023

Financial base continues to strengthen due to expansion of earnings

2. Financial condition

Total assets in FY10/23 increased ¥975mn from the end of the previous period to ¥7,032mn. The main factors behind this increase include respective increases of ¥334mn in cash and deposits and ¥336mn in accounts receivable - trade among current assets. In non-current assets, there was a decrease in intangible assets such as goodwill of ¥104mn and increases in property, plant and equipment of ¥348mn, and investments and other assets of ¥38mn.

Total liabilities decreased ¥648mn from the end of the previous fiscal year to ¥2,730mn. Income taxes payable increased ¥404mn and accrued consumption taxes payable increased ¥207mn, but interest-bearing debt declined ¥1,403mn. Net assets rose ¥1,623mn from the end of the previous fiscal year to ¥4,302mn. Retained earnings grew ¥1,587mn, while capital stock and the capital surplus both increased ¥17mn.

Looking at management indicators, the equity ratio rose from 42.7% at the end of the previous year to 59.8%, while the interest-bearing debt ratio fell from 79.5% to 15.5%, as the financial condition significantly improved. In FY10/22, in addition to implementing long-term borrowings for the purpose of funding M&A, etc., interest-bearing debt temporarily increased due to the addition of Tetra communications' interest-bearing debt. However, it appears that most of the ¥1,890mn in free cash generated by the increase in profits during the period were allocated to the repayment of interest-bearing debt. The Company has no plans for any major investment projects in FY10/24, so the financial position is expected to improve further. In terms of profitability, the Company's ROE increased from 21.3% in the previous fiscal year to 47.7%, the operating profit margin increased from 6.1% to 13.0%, and the operating profit margin hit a record high for the first time in two fiscal years. The effects of the Company's investment in personnel that it has been proactively engaging in for the past several years have now become apparent.

Balance sheet

(¥mn)

	FY10/20	FY10/21	FY10/22	FY10/23	Change amount
Current assets	2,040	3,082	4,282	4,976	693
(Cash and deposits)	1,313	1,917	2,306	2,640	334
Non-current assets	755	725	1,774	2,056	281
(Goodwill)	-	-	398	334	-64
Total assets	2,795	3,807	6,057	7,032	975
Current liabilities	722	1,199	1,666	2,061	394
Non-current liabilities	496	304	1,711	668	-1,042
Total liabilities	1,218	1,504	3,378	2,730	-648
(Interest-bearing debt)	686	495	2,053	650	-1,403
Total net assets	1,577	2,303	2,678	4,302	1,623
(Stability)					
Equity ratio	56.1%	60.0%	42.7%	59.8%	17.1pt
Interest-bearing debt ratio	43.8%	21.7%	79.5%	15.5%	-64.0pt
(Profitability)					
ROA	8.0%	28.2%	15.1%	34.3%	19.2pt
ROE	-0.8%	35.2%	21.3%	47.7%	26.4pt
Operating profit margin	3.9%	12.5%	6.1%	13.0%	6.9pt

Source: Prepared by FISCO from the Company's financial results

Statement of cash flows

(¥mn)

	FY10/19	FY10/20	FY10/21	FY10/22	FY10/23
Operating cash flows	149	312	878	150	2,334
Investing cash flows	-662	-246	-80	-612	-444
Free cash flows	-512	66	797	-461	1,890
Financing cash flows	-69	300	-188	807	-1,435
Balance of cash and cash equivalents	844	1,211	1,827	2,185	2,640

Source: Prepared by FISCO from the Company's financial results

FY12/24 will be a 14-month irregular fiscal year, but the Company is projecting strong growth to continue with effectively double-digit increases in both sales and profits

3. Forecast for FY12/24

The Company changed its fiscal year-end from October to December. In addition to improving work efficiency by unifying the fiscal period with those of its subsidiaries, the decision to make the change was based on the fact that a fiscal year-end in December will enhance IR activities. As a result, the FY12/24 fiscal year will be a 14-month irregular fiscal year. For the FY12/24 consolidated results, the Company is forecasting net sales of ¥25,000mn, operating profit and ordinary profit of ¥3,500mn, and profit attributable to owners of parent of ¥2,430mn.

Consolidated forecasts for FY12/24

(¥mn)

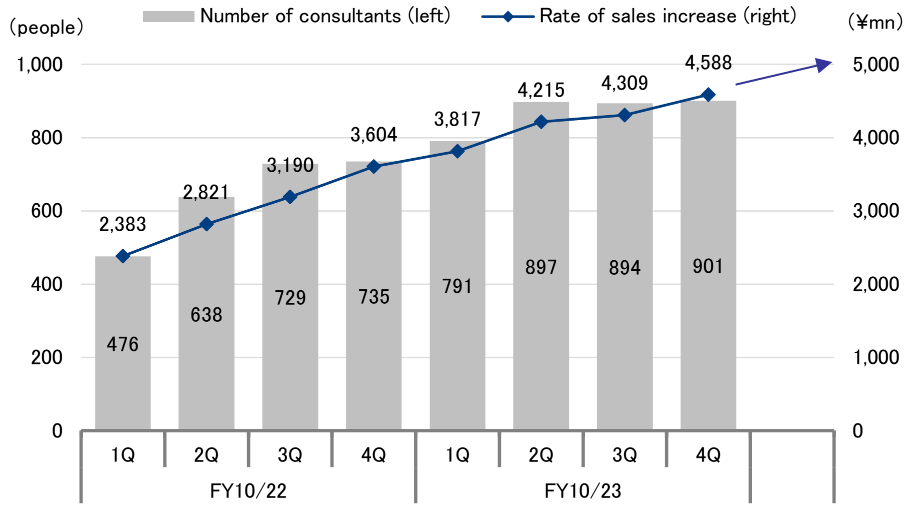
	FY10/23		FY10/24		November 2023 to October 2024		
	Results	vs. sales	Results	vs. sales	Company forecast	vs. sales	YoY
Net sales	16,931	-	25,000	-	21,000	-	24.0%
Gross profit	6,337	37.4%	10,500	42.0%	8,900	42.4%	40.4%
SG&A expenses	4,130	24.4%	7,000	28.0%	5,900	28.1%	42.9%
Operating profit	2,207	13.0%	3,500	14.0%	3,000	14.3%	35.9%
Ordinary profit	2,246	13.3%	3,500	14.0%	3,000	14.3%	33.5%
Profit attributable to owners of parent	1,620	9.6%	2,430	9.7%	2,080	9.9%	28.3%
Earnings per share (¥)	97.74		146.42		125.33		

Source: Prepared by FISCO from the Company's results briefing materials

Looking at the forecasts for the 12-month period ending October 2024, the Company is forecasting high growth to continue, expecting net sales to increase 24.0% YoY to ¥21,000mn, operating profit to rise 35.9% to ¥3,000mn, ordinary profit to grow 33.5% to ¥3,000mn, and profit attributable to owners of parent to increase 28.3% to ¥2,080mn. Demand for PMO support services continues to be strong, especially among large companies and their group companies, and the Company's plan is still to capture this demand while actively recruiting and training personnel. The utilization rate of consultants is expected to remain at a high level, and unit prices are also expected to remain steady, so an increase in the number of consultants will be the main reason for the increase in sales. The Company plans to hire 117 new graduates in spring 2024 (65 in the previous fiscal year), and 250 to 300 mid-career hires (241 in the previous fiscal year). Regarding mid-career recruitment, due to the Company's improved brand strength, the number of applicants is currently around 700 per month, and the Company will select and hire from among them, so if it can hire as planned, it will be able to fully achieve its sales forecast. It is expected that sales will continue to increase steadily on a quarterly basis.

The Company expects SG&A expenses (12-month basis) to increase significantly by 42.9% YoY to ¥5,900mn, but this is due to the impact of the shift of ¥550mn of AM personnel costs (around 50 people) from cost of sales to SG&A expenses. SG&A expenses excluding this impact will increase 29.5% to ¥5,350mn, and the Company expects the SG&A expense ratio to be 25.5%, which is just above 1 ppt higher than the previous fiscal year. It appears that the increase in the SG&A expense ratio was caused by proactive personnel recruitment, as well as an increase in costs related to office expansion (investment of ¥300mn in the new opening of a Kansai branch and the expansion of the Chubu branch), as well as the costs for launching subsidiary MSOL Digital which was incorporated through a business split.

Quarterly trends in net sales and the number of consultants



* Number of consultants includes Chinese and Taiwanese subsidiaries, but excludes TETRA communications
Source: Prepared by FISCO from the Company's results briefing materials

Growth strategy

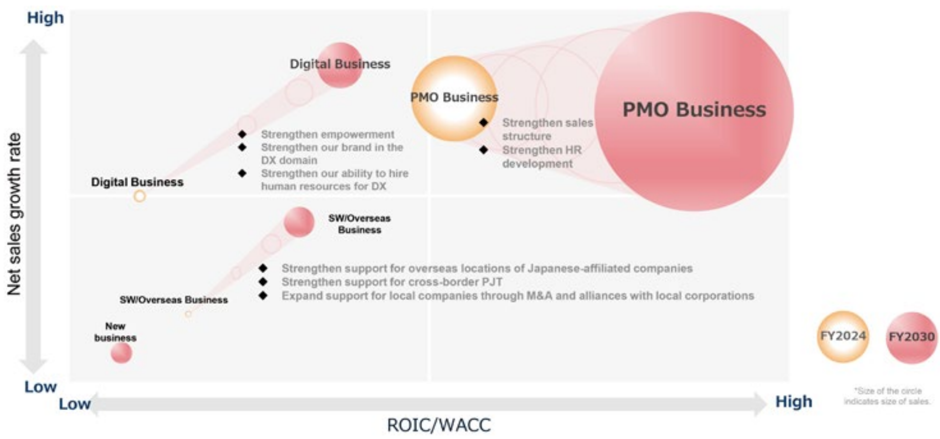
Formulating a medium- to long-term management plan with a growth strategy of further expanding the PMO business as well as developing the Digital business and overseas business

1. Growth strategy toward FY2030

The Company is currently formulating a medium- to long-term management plan running to 2030, and plans to announce specific management numerical targets and business strategies around the middle of 2024. As its growth strategy, the Company plans to focus on: 1) increasing the sales price per customer by strengthening the sales system and expanding the PMO business by cultivating new customers; 2) accelerating growth in the DX domain by spinning off the Digital business; and 3) expanding the overseas business, including M&A and alliance strategies. In particular, with regard to the PMO business, research forecasts* predict that the domestic PMO market will increase from ¥967.6bn in FY2022 to ¥1,393.6bn in FY2030, including latent demand. The Company plans to proactively develop this business as a core business and aims for a 30% market share in the long term.

* Research report prepared by a major research firm based on a request from the Company

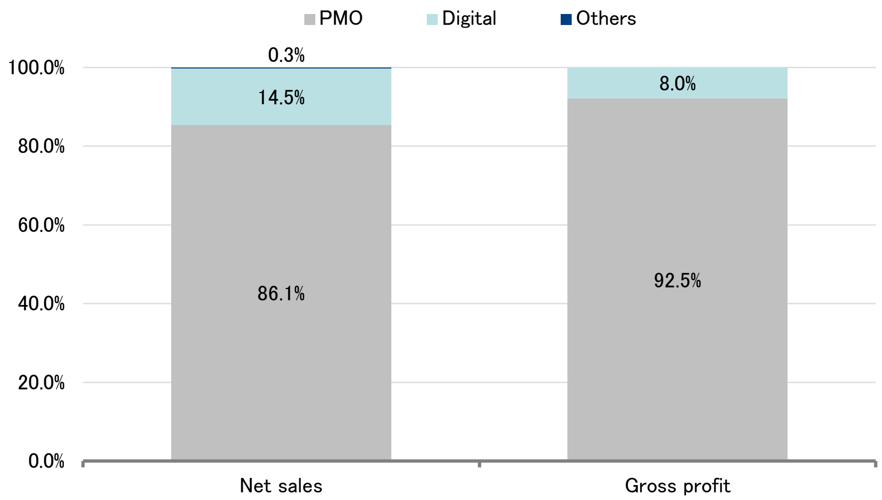
Image of growth targeting FY2030



Source: The Company's results briefing materials

Furthermore, starting from FY12/24, the Company plans to disclose its business results divided into business segments: the PMO business; Digital business; and Others (overseas business, software business). The Digital business includes subsidiary MSOL Digital, which handles IT consulting, agile development, and SES (system engineering services), and TETRA communications' business. In terms of composition by business, in FY10/23 the PMO business accounted for 86.1% of net sales and 92.5% of gross profit, the Digital business accounted for 14.5% and 8.0%, respectively, and the Others accounted for less than 1.0% of each. The gross profit margin was lower at approximately 20% in the Digital business compared to approximately 40% in the PMO business, but in the IT field there are many collaborative projects with business partners, and the outsourcing expense ratio is high. Also, this is due to the low level of profitability of TETRA communications, and this will be an issue to deal with going forward.

Composition by business (FY10/23)



*Prior to deducting adjustments
Source: Prepared by FISCO from the Company's results briefing materials

Aiming to achieve 30% market share in 2030 in the PMO market which will exceed ¥1tn

2. Strengthening the sales system

In the PMO business, the Company will further strengthen its sales system with the aim of gaining a 30% share (sales of ¥300bn) in a huge market in excess of ¥1tn, including latent demand. Until four years ago, the Company had a pull-type sales system and there was no specialized sales group, and the Company expanded the business while consultants also served as sales staff. However, the Company was acquiring major customers and strengthening its management base, so it established a sales group three years ago, and started working on push-type sales. As mentioned above, in FY10/23 the Company acquired new orders from group companies of super-major company customers, and otherwise the effects of putting in place a specialized sales group have begun to emerge.

Additionally, due to the effects of strengthening branding and marketing activities, the number of inquiries via the Company's website increased significantly by 40% in FY10/23 compared to the previous fiscal year. Inquiries often include themes such as company-wide project management, training for in-house PM personnel, and strengthening IT governance, and in response to these inquiries, sales consultants listen to detailed needs and receive formal orders. The Company will have a sales force of 30 to 40 people to cultivate new customers, and will actively promote the cultivation of new customers. Additionally, AM will proactively propose upselling and cross-selling to existing customers in an effort to raise unit sales prices.

Becoming proactive in business development in the IT domain through the creation of MSOL Digital, and aiming for accelerated growth

3. Spin-off of Digital Business

Regarding the Digital business, the Company has up until now expanded the business through collaboration with business partners, but the brand power of its PMO support services is too strong, making it difficult to expand its appeal and recognition in the IT domain. In order to resolve this issue, the Company decided to develop the business through a business split in January 2024 with the newly incorporated MSOL Digital. By operating as a subsidiary specializing in the IT field, the Company expects benefits such as prompt business decision-making, recruitment activities for consultants specializing in the IT field, and easier promotion of branding and marketing activities. The Company also seems to be considering M&A as one of its growth strategies, and plans to accelerate its growth while also considering an IPO in the future. Furthermore, net sales in the Digital business (excluding Tetra communications) have grown 4.7 times in two years, from ¥380mn in FY10/21 to ¥1.65bn in FY10/23, and the number of inquiries is also on the rise. Based on this, a high level of growth is expected to continue from FY10/24 onward.

Meanwhile, with respect to TETRA communications, sales were around ¥800mn, and sales have continued to struggle to grow since the Company made it a subsidiary in November 2021. Although the IT system development, maintenance, and management business for life insurance companies, which are existing customers, has been steady, new business development and development of new customers has not progressed, and synergies from making it a subsidiary have not been seen at this stage. From FY12/24, the Company plans to strengthen sales activities targeting non-life insurance companies and to cultivate new customers, so future trends will be watched closely.

Solidify the business foundation in PMO support for Japanese subsidiaries and aim to accelerate growth with the M&A/alliance strategy

4. Overseas development

The Project Management Institute, a project management NPO, forecasts that demand for project-management related personnel will grow by 33% between 2017 and 2027, and reports that particularly significant employment opportunities will be generated in China, India, and North America. Under these circumstances, the Company's strategy for overseas business will involve a first phase of building up a track record by providing PMO support for Japanese client companies' overseas subsidiaries as well as cross-border project support between Japan and overseas local offices, and establishing a certain level of business base. Once this is solidified, the second step is to build a network through M&A and alliances targeting local PM-related companies, and expand the scale of the business by providing PMO support to local companies. However, domestic demand remains energized at the moment, so the Company intends to prioritize growth in the domestic business, and is likely to proceed with overseas business development based on a long-term perspective.

Overseas development

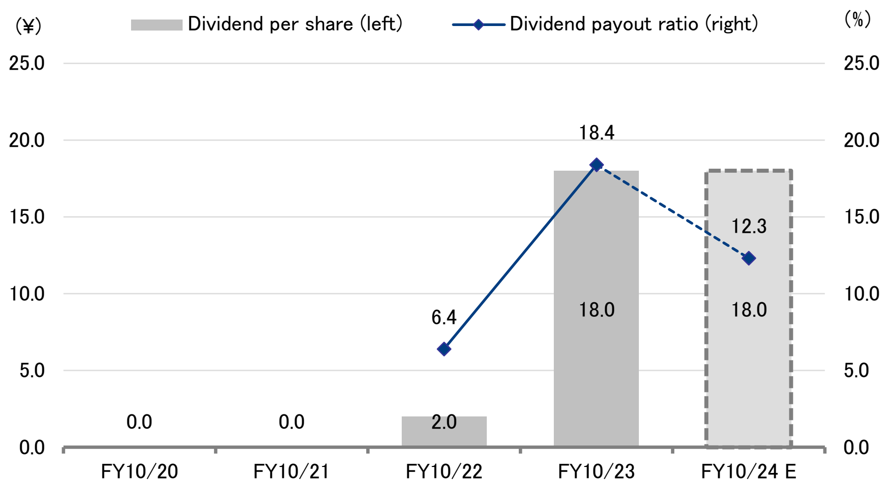
Source: The Company's results briefing materials

Shareholder returns

Policy to pay stable and continuous dividends based on free cash flow

The Company began paying shareholder dividends from FY10/22, and the dividend per share for FY10/23 was ¥18.0, an increase of ¥16.0 from the previous fiscal year, due to steady growth in earnings and progress in strengthening the financial position. For FY12/24, the Company is planning for a dividend amount the same as the previous fiscal year, at ¥18.0 per share. The Company's dividend policy is to use surplus funds (free cash flow) obtained by subtracting investment funds from cash from operating activities to pay stable and continuous dividends. Dividend expenditure will be approximately ¥300mn for FY10/23. This amount is found by subtracting ¥607mn for corporate taxes, etc. from operating profit of ¥2,207mn, and then subtracting expenditures such as working capital for FY12/24 (including consumption tax payment) of ¥1,000mn and ¥300mn for investment in office expansion. This would leave approximately ¥300mn to allocate to dividend payments. There will be no major investment demand in FY12/24, so if business results grow according to the Company's plans, it is expected that the Company's financial base will be further enhanced. Since the Company is considering M&A as a growth strategy, it is thought that the decision to increase dividends will be made based on a comprehensive assessment of factors including investment capital demand, cash on hand, and earnings trends.

Dividend per share and dividend payout ratio



Source: Prepared by FISCO from the Company's financial results

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